



ALKANE EXPLORATION LTD

ABN 35 000 689 216

22 July 2005

Dear Shareholder

Please find attached the latest edition of *RESOURCE STOCKS* magazine, a respected resources industry publication. The magazine contains an article on Alkane and summarises many of the activities in which your Company is involved. The article is aimed at a broad audience and is intended to increase market awareness of the value of Alkane.

Over the last few years Alkane has maintained and developed its focus in the Central West region of NSW, building an enviable inventory of resources in several commodities. The main thrust is now to convert those resources to production and to replace the cash flow previously generated by our Peak Hill mine.

The Dubbo Zirconia Project remains a priority even after the disappointment of the lack of progress in the joint venture with Astron Limited. We are looking again at alternatives for the advancement of the Project to take advantage of the strategic value of its resources, particularly as the envisaged world shortage of zircon is becoming a reality.

Our work several years ago in searching for diamonds at Nullagine in WA has also produced an unusual but valuable result. The diamond exploration identified a substantial channel iron deposit, which with the increase in demand for iron ore, has taken on some significance and we are currently looking at options to maximise the return for this potential resource.

We thank you for your continued support and look forward together to the realisation of Alkane's potential in the next few years.

Yours sincerely

Ian (Inky) Cornelius
Executive Chairman

Perseverance pays for metals finder

Perseverance looks likely to pay off in spades for Alkane Exploration with a gold project close to fruition and a major zirconia play unfolding. **By Noel Dyson**

Over the past two decades Alkane has built up an enviable portfolio of gold and copper prospects in central western New South Wales and some promising iron, nickel and diamond projects in Western Australia.

However, Alkane's trump could still be its Dubbo zirconia project, which also boasts tantalum and niobium.

This is no ordinary mineral sands play. Indeed it could be unique. Zircon is the usual fruit of mineral sands mining and needs to be processed to be turned first into zirconia/zirconium chemicals, with widespread uses in industrial ceramic and electronic applications, and finally into zirconium metal.

Zirconium has a variety of uses, one of those cladding in nuclear power stations. About 90% of the world's production of zirconium metal goes into nuclear energy uses.

Alkane technical director Ian Chalmers said the company's Dubbo project would

be fed by a rock that had been described as "a metaliferous soup".

Over several years the company has developed a process to unbind that "soup". The rock is crushed and treated with sulphuric acid to free the metals and then a sequence of solvent extraction steps separates and refines the various products.

A feasibility study has been conducted on the project and a small pilot plant set up in 2002.

Chalmers said the feasibility study took a couple of years to complete.

"There were certain aspects of the project that we still need to get right," he said.

"One of the things was to produce a sizeable amount of product for distribution to potential end-users.

"The biggest step now is to get a full-scale pilot plant up and running. That's about \$1.5 million to build and about \$1.5 million to run for about 6-12 months."



Alkane Exploration technical director Ian Chalmers: "We're talking up to a \$90 million to \$100 million development for the full scale plant, and with the escalating zircon price, the project takes on strategic significance."

Chalmers said one way to fund the project would be to float off the zirconia company.

"The resource there is very big with an opencut lasting 250 years. And there's a growing market for all of the commodities we want to produce," he said.

"We're talking up to a \$90-100 million development for the full-scale plant, and with the escalating zircon price, the project takes on strategic significance."

Three of Alkane's current crop of stewards came together in 1986, taking over from the company's Sydney-based management. The fact that the core of a junior explorer's board has stuck together for nearly two decades makes the company something of a rarity. Its board is made up of Ian "Inky" Cornelius (chairman), Chalmers, Lindsay Colless (finance director) — all of whom came together in 1986 — David Kennedy (non-executive director who joined about eight years ago), and Anthony Lethlean (non-



Patience and research are the key for Alkane, which is continuing to conduct drilling at Wyoming to make sure it gets everything right.

executive director who came on board about three years ago). Together the three C's (Colless, Chalmers and Cornelius) have guided the company through two stock market crashes.

As its name suggests, Alkane's core business has been exploration. Unusually for a WA-based company, that exploration is largely in NSW, although it does have some ground in its home state.

Chalmers said when the board first came together they could see no point in moving the management to Sydney.

"Then after the stock market crash in 1987 we decided we couldn't keep a Sydney office plus carry out major exploration," he said.

Normally explorers struggle for funding until they discover a deposit they can bring into production and generate a cash flow. Alkane has been no different. Its cash flow has come from its Peak Hill gold mine in NSW, a project it first reviewed with Peko in 1986 before another major became involved in a joint venture. However, by 1991 the red tape tying down Alkane's bigger partners was taking its toll on the project and the junior explorer decided to go it alone.

"We bit the bullet in 1993 and said we would develop it ourselves," Chalmers said.

"Then we ran into a small native title problem, and that cost us three years."

The Peak Hill perseverance paid off, though, with the mine producing 153,000 ounces of gold to date. That mine is close to the end of its life after generating \$15 million in cash flow.

That money was ploughed back into Alkane's exploration efforts around NSW.

One thing that exploration turned up was the Wyoming gold deposit. The company announced in June it had made some further high-grade intercepts on the project.

Wyoming is close to being turned into a working mine.

Chalmers said Wyoming would probably be "one of the best greenfields gold discoveries in Australia in the past few years".

"We've turned up a 600,000 ounce gold system to date, and I think in time it will probably turn out to be bigger than that," he said.

"We first started drilling there in 2001 and beefed up that effort in 2003."

In what is a common theme for Alkane, the company is taking a slowly-slowly approach developing Wyoming.

"We'd rather take our time and get it right, not rush a development and spend the next few years rescuing it," Chalmers said.

"We have to understand the geometry of the underground ore shoots so we can come up with the optimal mine plan."

Chalmers said the company hoped to have a bankable feasibility study for Wyoming ready by the end of the year.



The spoils emerging from Alkane's Dubbo Zirconia project.

The company also has the Galwadgere copper-gold project, which boasts a two million tonne resource at 1% copper.

"It's a small open pittable resource," Chalmers said.

"We're just going through the process of seeing whether that's worth developing in the near future and take advantage of the current copper prices.

"We're also looking at ways we can advance the exploration of the several other major porphyry copper-gold targets we have in the area around Newcrest's Cadia Valley Operations, and others to the north of Galwadgere."

Alkane's operations in NSW have also won the company some awards. It was named the inaugural NSW Explorer of the Year last year at the NSW Miners and Explorers Conference and the company has also been recognised for its approach to community consultation in regard to its Peak Hill project.

In WA, Alkane's ground includes a nickel sulphide project near Leinster it is working in partnership with Jubilee (51%) and a diamond play turned iron ore find at Nullagine.

Chalmers said despite the company's previous difficulties in dealing with major companies (Peak Hill), its dealings with Jubilee had been positive.

"They (Jubilee) have been great partners to have," he said.

"If we end up with a minority position in a development for that project we'll be very happy. And we'll be particularly happy if they find another Prospero on our ground."

Chalmers said the Nullagine iron find had been an accident, given the company's main interest had been diamonds.

"Alluvial diamonds had been known around Nullagine since the 1890s. With our partner, the Randolph Resources Syndicate, we had an idea where the primary source for those alluvial diamonds may be, but after four years of fairly extensive exploration decided to put it on ice as we were having limited success and the next phase would have been expensive," he said.

"As part of the diamond exploration, we drilled the old river channels because it's at the bottom of those channels

where kimberlitic indicator minerals and diamonds are found. We ended up discovering channel iron deposits that are like those out at Robe River, but at the time couldn't see any real value.

"Given the recent interest in iron ore, we decided we should have another look at it. We've found it has a potential resource of 150-200Mt, but we don't have any grade data on it."

Chalmers said Alkane had no interest in becoming an iron ore miner.

"We took the approach a couple of months ago that we would talk to a number of people who would be interested in exploring and developing the potential resource. There could be a sale or joint venture in the next couple of months," he said.

RS

alkane exploration
... at a glance

Source: Patersons Securities Limited

HEAD OFFICE
129 Edward Street
Perth, WA 6000
Ph: (08) 9227 5677
Fax: (08) 9227 8178
Email: mail@alkane.com.au
Website: www.alkane.com.au

DIRECTORS:
Ian "Inky" Cornelius, Ian Chalmers,
David Kennedy, Anthony Lethlean,
Lindsay Colless

MARKET CAPITALISATION
\$22.6 million (at press time)

MAJOR SHAREHOLDERS
National Nominees (15.8%)
HSBC Custody Nominees (6.3%)
ANZ Nominees (6.1%)