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Date of lodgement: 15-Nov-2006

Title: Open Briefing®. Alkane. Significance of McPhillamys Discovery

Record of interview:

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Alkane Exploration Ltd (ASX code – ALK) recently announced the latest drilling results from its McPhillamys prospect within the Newmont joint ventured Moorilda Project in the Central West of New South Wales. Can you sum up the amount of drilling you've done so far, the drill spacing and the results so far?

Managing Director Ian Chalmers

We've drilled a little under 3,200 metres so far and generally it has been very wide spaced. We've drilled five sections roughly 150 metres apart over a north-south strike length of about 600 metres.

We've barely scratched the surface regarding the potential of the discovery, but it is certainly very promising. The results so far indicate that McPhillamys hosts a major system of alteration and mineralisation extending over a 600 metre strike length with at least two distinct gold zones and two separate and discrete zinc zones.

We've drilled thirty initial reconnaissance air-core holes, but the follow up eight RC holes and one diamond hole have been the most important. Some of the better drill results include 123 metres at 1.96 g/t gold from the surface, 77 metres at 1.65 g/t gold from 140 metres and several wide intersections of greater than 1% zinc.

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What are the dimensions, orientation and depth of the zones of mineralization you've discovered so far?

Managing Director Ian Chalmers

It's actually a very interesting ore body. In the main part we have three distinct mineralised zones. There is the Western Gold Zone which is probably 300 metres long and a maximum 50 metres wide at a 1 g/t cut-off. To the east of that there is a discrete zinc zone which is about 250 metres long, using a 1% zinc cut-off, and between 10 and 20 metres wide. Then there is the Eastern Gold Zone which is also probably 300 metres long, using a 1 g/t cut-off, and in the middle is certainly in excess of 100 metres wide. The Eastern Zone looks like a flattened football shape, while the Western Zone looks to be more linear. There is also a second, lower grade zinc zone to the east. The zones extend from the surface to at least 150 metres in vertical depth.

At this stage we don't see any evidence that the zones are connected and importantly there is no zinc in the gold zones and only minor amounts of gold in the zinc zones.

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Have you closed off the zones in any direction? What could be the total extent of the areas of mineralization taking into account pre-drilling work? Can you describe the grade continuity?

Managing Director Ian Chalmers

We've closed off that central area containing the two gold zones in terms of the extent of the material that is greater than 1 g/t. Certainly the mineralisation of greater than 0.25 g/t extends a lot further and we haven't closed that off to the north and south. However, an economic ore body is likely to be calculated using a 1 g/t cut-off.

There is good grade continuity in terms of that plus 1 g/t material, but we haven't got a good handle on the extent of the higher grade zones within that 1 g/t material because we have only done broad drill spacing. We'd have to close down to 50 metre or even 25 metre drill spacing for actual resource assessment.

We've only recently commenced further soil geochemistry aimed at identifying extensions to the McPhillamys zone and believe that there is some evidence of historical prospecting pits over a much larger area than we have currently explored. We also need to look again at the McPhillamys East zone, where the very wide spaced RC drilling identified alteration like the main zone but with low grade gold results. The regional but detailed geophysical survey flown by Alkane in 2004 has indicated several other targets with a similar expression to McPhillamys.

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Can you translate some of the base metal drill results into a gold equivalent grade? How important could the zinc content be for the economics of the project?

Managing Director Ian Chalmers

I'm not a great fan of 'equivalent grade' reporting as I think it's misleading when you take into account recoveries and metal price fluctuations. However, today the zinc zone at 1% would be equivalent to about 2 g/t gold. We've got zinc grades around 1.5% over reasonable widths and that becomes pretty significant as part of a larger gold ore body that begins at surface. The zinc zone would add to the overall resource and value of the project and importantly

it would be mined and processed separately from the gold. The zones would not contaminate each other.

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What mining method could you use, presumably it would be open pit? What tonnes (or amount of gold/zinc) per vertical metre might be possible to mine?

Managing Director Ian Chalmers

The system does look to be amenable to open-cut mining. It's a big broad system with very little surface cover. It's too early to give a guide to tonnes per vertical metre, but it would be substantial. That's about as much as I can say at this stage.

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Can you describe the ore metallurgy and the possible gold and zinc recovery routes you'll use if the project is commercial?

Managing Director Ian Chalmers

We've done some quick tests on the gold mineralisation in the Western Zone, which returned standard carbon in leach cyanide recoveries of about 87%. This would indicate that you're going to get plus 90% from a full scale, commercial circuit. That was very encouraging because there doesn't appear to be any sulphide or refractory issues. The material used in the test was taken from the diamond core at deeper than 100 metres, so it's not oxidised and indicative of the bulk of the mineralisation.

The zinc would be mined as a separate zone and we could see that being run through a small flotation plant to produce a zinc concentrate. We haven't done any metallurgical work on the zinc yet, but looking at the drill core, the zinc is actually moderately coarse sphalerite and I'd be expecting pretty good recoveries because of that.

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Where is McPhillamys located in relation to Alkane's other projects in NSW? How do the drilling results compare with some of your other projects such as Wyoming?

Managing Director Ian Chalmers

It's about 35kms south-east of Orange. We have the Molong and Cudal exploration projects near Orange. McPhillamys is about 150km south-east of Wyoming, a similar distance from the Dubbo Zirconia Project and our Galwadgere copper project is probably about 90km to the north.

McPhillamys is only about 30km east of the Cadia Ridgeway operations owned by Newcrest and the town of Blayney is about 10kms away which has a population of about 2,000 people. Orange has about 40,000 people and obviously with Cadia now a strong mining region, we should be able to tap into the appropriate infrastructure and workforce.

The main differences between Wyoming and McPhillamys is that we are seeing much broader intersections at McPhillamys, albeit at lower grades, and Wyoming is under about 30 metres of transported clay while McPhillamys has no surface cover.

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Again, it's early days, but where would you rank McPhillamys in your stable of projects?

Managing Director Ian Chalmers

That's an interesting question. As I said, we've really only just scratched the surface, but it does look very promising. It's a fair way behind Wyoming in terms of development timetable, but we would have to say that it's certainly up there with Wyoming and Dubbo in terms of potential long term and valuable projects for Alkane.

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Newmont Australia Limited is farming into the project and providing the initial exploration funds for the project. Can you reiterate the major joint venture terms? When will Alkane be required to contribute its share of expenditure on the project?

Managing Director Ian Chalmers

The basic terms of the farm-in are that Newmont is required to spend \$5 million over a five year period to earn an initial 51%. We're a bit over a year into the agreement and we think they've spent somewhere around \$1.7 million. Newmont then have the right to move to 75% by carrying all expenditures through to the completion of a bankable feasibility study. It means Alkane has no expenditure exposure at any stage until we're presented with a bankable feasibility study.

Then we have the option to ask Newmont to provide as loan funds our share of the capital expenditure requirement for the project and for that we'll give them another 5%. The attractive point for Alkane is that we don't have any financial exposure until the project is actually in production.

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In summary, how confident are you about McPhillamys project moving forward? What is the forward plan?

Managing Director Ian Chalmers

It's obviously a very good project and it's certainly another very exciting discovery for Alkane. It ranks up there with Wyoming as a grass roots discovery and it looks at this stage as though it potentially could be bigger than Wyoming. We are in joint venture with Newmont and they are the project managers so we need to discuss the plans for the next 12 months. That meeting should probably take place later this month.

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Thank you Ian.

For further information on Alkane please call Ian Chalmers on (08) 9328 9411 or email ichalmers@alkane.com.au

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