Attention : ASX Company Announcements Platform

Lodgement of 'Company Interview'

Alkane Resources Limited

Date of lodgement: 7/10/2014

TITLE: "Company Interview. Updates Valuable Projects"

Highlights:

- **Updates project approval progress at the Dubbo Zirconia Project.**
- **Financing most important item after approval, but confidence strong will achieve.**
- **Taken opportunity to achieve several project improvements at the DZP, adding value.**
- **ALK's view of disconnect between mkt cap ($90m) vs value of DZP ($1 billion) & TGO (up to $250 million).**
- **Advancing funding as much as possible before project approval; limit raising equity.**
- **TGO free cash flow in full year possibly ~$35 million and from 70-80,000 ounces.**
- **TGO outperforming budgets & regarded as excellent project.**
- **Updates other Alkane projects; strong project pipeline.**
- **Longer term strategy focused on Central West of NSW and strong cash flows.**

Introduction

Alkane Resources is an ASX and OTCQX (US) listed multi-commodity mining and exploration company with a focus on gold, zirconium, niobium and rare earths. Its projects are located in the Central West of New South Wales, in eastern Australia.

Record of interview:

Company Interview question:

Alkane Resources Limited (ASX code: ALK; market cap of ~$90m) is now operating the Tomingley Gold Operations (TGO – Alkane 100%) near Dubbo, New South Wales and is close to receiving final approval to proceed with the much larger Dubbo Zirconia Project (DZP – Alkane 100%). The application for project approval and Environmental Impact Statement (EIS) for the DZP has proceeded to the Planning Assessment Commission (PAC) for review or determination. What's the approval process from here and your estimate of timing? Are you kept informed on progress?

Managing Director, Ian Chalmers
The timing is still a little uncertain even though there is a set process in the government system for approving projects of this nature. The PAC will now spend a month or so reviewing all the EIS data. Once the PAC is satisfied that the EIS has met the required standards, they will convene another meeting with the Dubbo community. Following that – and this part of the timing is the most uncertain area – they will submit to the Minister that the project can proceed including any additional conditions. The Minister should then pass the submission back to the PAC who will issue a determination.

We expect the public hearing to be early November. I am concerned about the looming NSW election scheduled for the end of March 2015 and that may impact the timing. Overall, the project could be approved by the end of this year or may go into the March quarter 2015.

Company Interview question:
Assuming you get final approval, what are the next major steps to begin construction and then production? What are the critical paths that may affect the timing of the project?

Managing Director, Ian Chalmers
The most important step after approval is locking in finance. Most of the due diligence will be done by the financiers after the project is approved. In the meantime we've tried to advance the financial discussions as best we can.

We decided several months ago to proceed with the Front End Engineering and Design (FEED). That helps advance the construction of the project and maintain the development schedule, but also helps with the financing with bankable standard capital and operating costs. The FEED covers around 30% of the detailed design for construction of the plant plus project infrastructure.

After project approval we can start on the upgrade of the road from Dubbo to site, put the power supply in place, connect the water supply and any other infrastructure such as offices.

The critical item after approval remains the financing.

Company Interview question:
Have the proposed operating parameters changed at all during the approval process, while you're progressing funding, offtake contracts and observing the markets for your product prices?

Managing Director, Ian Chalmers
The operating parameters include the same output of the main products in zirconium and niobium, but it has given us the opportunity to improve areas in the flow sheet such as rare

earths recoveries. The improvement in heavy rare earths recoveries has offset the downturn in rare earth prices. We've also been able to progress water recycling, waste management and other things which can impact on capital and operating costs.

We're also working on product quality and adapting to our customers' requirements. We've added to our product offering, particularly for zirconium, which gives flexibility and surety to the revenue streams. We monitor product prices and trends in demand virtually on a daily basis by speaking with customers and industry experts. It's also handy to have this database for financiers to review.

Company Interview question:
What do you estimate as the current value of the DZP? Why do you think that is still not factored at all in your market capitalization of ~A$90 million – what feedback are you getting from share market participants?

Managing Director, Ian Chalmers
It's a really interesting question and is the bane of my life at the moment. DZP is a very valuable project but it is hard to convince the equity market. The TGO free cash flow will be up around A$30 million for this financial year. At a market capitalisation of A$90 million, which is around 2.6 times the annual free cash flow of the TGO, you have to think Alkane is cheap based on the TGO alone. In a better market, the TGO could value Alkane at around A$250 million. The TGO has a mine life target of 10 years, is operating very well but normally would not be considered as valuable as the "company maker" DZP. We also have many other potential development projects within about 150 kilometres of Dubbo and we can talk about those later if you wish.

So back to the DZP, the market feedback is that we won't be able to raise the A$1 billion capital required – by the way, we have estimated an NPV of around A$1 billion while using conservative product pricing. The lower A$ to US$ exchange rate will help the value as well. So we can only assume that the equity market actually places a significant negative value on the DZP, which of course doesn't make sense. We have put many years of work into de-risking and optimising the project and we are not only confident we can raise the money, we are also confident of the DZP becoming a world class, strategic asset.

Internally, we believe the DZP is worth over A$1 billion based on a mine life of 20 years and on current product prices. We have that option I've mentioned many times of selling a small strategic stake in the project and that will provide an initial capital injection and a transparent value for the DZP for the market to consider. Then there are options such as Export Credit Agencies (ECAs) and project debt finance. We certainly won't be equity financing the project. There are other alternatives available which won't dilute shareholders and we are very aware of limiting dilution to what is hopefully an 'acceptable' level.

There have been other major projects that have raised quite a deal of equity capital and that has reflected negatively on Alkane and the DZP. We've been included in that 'basket'. However, we are confident we can apply the several options of funding because Alkane, our customers and industry experts think we have a very high quality project.

Company Interview question:
Can you give a summary update on the funding progress? What's the current funding mix envisaged? You mentioned the possibility of selling down a strategic stake in the project and, if so, when could that be achieved?

Managing Director, Ian Chalmers
On the last part of the question first – yes, as mentioned we are very seriously considering selling down a strategic stake in the project and we have had discussions on this. It's a bit hard to gauge the precise value of this sell-down and we'll take each option on its merits, but timing, like the approval, is difficult to be sure at present. Our financial advisors, Sumitomo Mitsui Bank continue to indicate that the potential for finance from ECAs is viable. There are options in many places such as Japan, South Korea or Europe because of the strategic value of the metal outputs. Then there's project finance type debt and equity funding.

A very important point - we believe the equity to be the last phase of overall funding and by that stage we expect the Alkane share price to reflect a much greater value for the DZP. Project risk and financing risk will be a lot lower at that stage.

Company Interview question:
Can you give an update on your product markets (zirconium, niobium, tantalum, hafnium yttrium and rare earth elements)? What about the status and progress regarding firm offtake contracts?

Managing Director, Ian Chalmers
As I said before, we've continued to work on our product mix. For example, our basic zirconium product is currently worth US$5-6/kg and we've been able to tap into some excellent technology which has enabled us to produce yttria stabilised zirconia microspheres which are ceramic beads that have widespread applications in the food and pharmaceutical industries for grinding products. There is small additional cost to produce the microspheres but we believe that product could sell for US$25-30/kg – a nice equation, particularly as we might be able to sell around 10-15% of our zirconia in this way.

Our partner, Treibacher IAG, has advised that they can sell our ferro-niobium into Europe and the niobium price has remained remarkably stable. Interestingly a couple of days ago, the large Canadian company, IAMGOLD, announced the sale of its Niobec niobium business in Quebec. Niobec produces about 4,700tpa of niobium and the company was bought by a consortium for US$530 million. It is interesting to speculate what the DZP's 2,000tpa of niobium would be worth using this valuation.

On rare earths we are still working to commercialise the MOU signed with Shin-Etsu of Japan and we'd like to have that finalised by year's-end. This is dealing with multiple, fairly complex products, but also with different languages and it takes a little longer to understand each other's position. It's moving in the right direction, and the rare earth market is showing some signs of life – not uniformly but in some individual product lines.

Company Interview question:
Tomingley Gold Operations (TGO) produced 15,398 ounces of gold in total in July/August at an 'all in sustaining cost' of $849/oz. Do those meet or exceed expectations – operating

costs seem to be lower than in your feasibility studies? What cash flow is the TGO generating? What do you expect in the future for production and operating costs?

Managing Director, Ian Chalmers
Now that we're in steady-state operation the project has been going very well. We're continuing to get a significant gold overcall compared with our resource models and the plant is working well after the initial bottlenecks. In June, July and August the numbers exceeded our budgets. We're very pleased and in the immediate future we expect an 'all in sustaining cost' of less than $1,000/oz at an annualised rate of around 70,000 ounces. At the higher production, that would generate over $35 million in free cash flow at spot gold prices. We're not budgeting for the overcall to continue in the future, but it's an interesting possibility.

Importantly, we're going through the oxide zone and transitioning in to fresh ore. We don't believe there will be significant changes in production but we're monitoring this from a throughput and grade perspective. Overall, if the operation continues in the same way it has over the last 3-4 months, it will be a very successful project.

Company Interview question:
You've said previously that you might be able to improve the TGO once it was closer to steady-state production. Have you and can you achieve improvements? Are you still getting very significant mine to mill positive reconciliations?

Managing Director, Ian Chalmers
We can still make improvements at the operations, both in mining and processing. As I said, we are getting the very positive mine to mill reconciliations but will continue to monitor this and possibly adjust our budgets. We are a conservative company and would only make that change with substantial and consistent supporting data.

Company Interview question:
Total Resources stand at 829,800 ounces (grading 1.90 g/t) and Reserves at 294,700 ounces (2.00 g/t). Are Reserves included in Resources? Have you adjusted mine life after Reserves recently increased by 35%? Can you outline ongoing exploration to lift mine life further?

Managing Director, Ian Chalmers
Reserves are included in Resources. We haven't adjusted the mine life yet as this is part of a current strategic review to be completed over the next 6 months or so. Reserves are only based on open pit ore but will eventually include the underground mining operation.

As part of the review we will be conducting exploration mainly in the deeper parts of Caloma and Caloma Two. This might seem a strange thing to say but we haven't built the mine purely around Reserves, which I'm sure is typical of most gold operations today – for example while we can't include our Inferred Resources as Reserves, the Inferred Resources are contributing a reasonable amount to current production and are giving confidence about these being upgraded as the operation progresses.

Company Interview question:
Can you update Alkane's other projects? Has much work has been undertaken with all the activity at the two main projects?

Managing Director, Ian Chalmers
We've cut back on exploration expenditure on the other projects although we remain active. We will increase expenditure once we have more clarity on funding and construction for the DZP.

We still regard at least 3 projects as very good commercial targets. We want to do more drilling at the Bodangora copper-gold project early in the New Year. There is a very interesting 3D geological interpretation to justify that drilling. There is the smaller, but encouraging Wellington copper-gold project close by.

We also very much like the Elsienora Project south of Bathurst, with geology similar to the McPhillamys deposit, which we sold as a multimillion ounce gold project. Then there is zinc-gold mineralisation at Cudal.

We won't do any high risk high cost exploration until we see a clearer path for the DZP.

Company Interview question:
Can you summarise Alkane's long term growth strategy and potential project pipeline?

Managing Director, Ian Chalmers
It's very much as it has been for several years and that is to grow Alkane into a substantial cash flow mining company producing from several projects. We will maintain our focus on the Central West of NSW where we believe there are many possibilities to add to our project pipeline, a few of which we have just discussed. Ultimately we'd like to return capital to shareholders through dividends. We would also look at acquiring other resources in our area of operation – but that's for the future as we have more than enough good projects to work with at present.

Company Interview
Thanks Ian.