

Alkane Resources Ltd

ABN 35 000 689 216

Financial report for the year ended 30 June 2017

Alkane Resources Ltd ABN 35 000 689 216
Financial report - 30 June 2017

Contents

	Page
Corporate directory	1
Directors' report	2
Auditor's independence declaration	22
Financial statements	23
Directors' declaration	70
Independent auditor's report to the members	71

Alkane Resources Ltd Corporate directory

Directors	J S F Dunlop D I Chalmers I J Gandel A D Lethlean
Company secretary	K E Brown
Principal registered office	Ground Floor 89 Burswood Road Burswood WA 6100 61 8 9227 5677
Auditor	PricewaterhouseCoopers Brookfield Place 125 St Georges Terrace Perth WA 6000 61 8 9238 3000
Stock exchange listings	Australian Securities Exchange (ASX) & OTC Markets Group (OTCQX)
Share register	Advanced Share Registry Ltd 110 Stirling Highway Nedlands WA 6009 61 8 9389 8033
Website	www.alkane.com.au
Email	mail@alkane.com.au

Alkane Resources Ltd

Directors' report

30 June 2017

Directors' report

Your Directors present their report on the Consolidated Entity consisting of Alkane Resources Ltd ("the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2017. Throughout the report, the Consolidated Entity is also referred to as the Group.

Directors

The following persons were Directors of Alkane Resources Ltd during the whole of the financial year and up to the date of this report:

J S F Dunlop
D I Chalmers
I J Gandel
A D Lethlean

As of 1 September 2017, Chairman J S F Dunlop will retire and D I Chalmers will step down as Managing Director. Mr Chalmers will continue on the Board as Technical Director. Director I J Gandel will assume the role of Non-Executive Chairman and Chief Operations Officer Nic Earner will assume the role of Managing Director.

The Board continues its efforts to seek to appoint additional independent members who will bring complimentary skill sets and diversity to the Group's leadership.

Information on Directors

John Stuart Ferguson Dunlop - Non-Executive Chairman
BE (Min), MEng SC (Min), PCertArb, FAusIMM (CP), FIMM, MAIME, MCIMM

Appointed Director and Chairman 3 July 2006

Mr Dunlop is a consultant mining engineer with over 46 years surface and underground mining experience both in Australia and overseas. He is a former Director of the Australasian Institute of Mining and Metallurgy (2001 - 2006) and is a Board member and past Chairman of MICA (Mineral Industry Consultants Association).

Mr Dunlop was Non-Executive Chairman of Alliance Resources Ltd (30 November 1994 - 31 May 2016). He has also been a Non-Executive Director of Copper Strike Ltd (9 November 2009 - 6 June 2014) and a Director of Gippsland Ltd (1 July 2005 - 12 July 2013). Mr Dunlop is also a certified arbitrator and mineral asset valuer and consults widely overseas.

Mr Dunlop is a member of the Audit Committee and Chairman of the Remuneration and Nomination Committees.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Information on Directors (continued)

David Ian (Ian) Chalmers - Managing Director
MSc, FAusIMM, FAIG, FIMM, FSEG, MSGA, MGSA, FAICD

Appointed Director 10 June 1986, appointed Managing Director 5 October 2006

Mr Chalmers is a geologist and graduate of the Western Australia Institute of Technology (Curtin University) and has a Master of Science degree from the University of Leicester in the United Kingdom. He has worked in the mining and exploration industry for over 45 years, during which time he has had experience in all facets of exploration and mining through feasibility and development to the production phase.

Mr Chalmers was Technical Director until his appointment as Managing Director in 2006, overseeing the Group's minerals exploration efforts across Australia (New South Wales and Western Australia), Indonesia and New Zealand and the development and operations of the Peak Hill Gold Mine (NSW). Since taking on the role as chief executive he has steered the Company through construction and development of the now fully operational Tomingley Gold Operations and to the threshold of development of the world class Dubbo Project.

Mr Chalmers is a member of the Nomination Committee.

Ian Jeffrey Gandel - Non-Executive Director
LLB, BEc, FCPA, FAICD

Appointed Director 24 July 2006

Mr Gandel is a successful Melbourne based businessman with extensive experience in retail management and retail property. He has been a Director of the Gandel Retail Trust and has had an involvement in the construction and leasing of Gandel shopping centres. He has previously been involved in the Priceline retail chain and the CEO of a chain of serviced offices.

Through his private investment vehicles, Mr Gandel has been an investor in the mining industry since 1994. Mr Gandel is currently a substantial holder in a number of publicly listed Australian companies and, through his private investment vehicles, now holds and explores tenements in his own right in Victoria, Western Australia and New South Wales. Mr Gandel is also a Non-Executive Director of Alliance Resources Ltd (appointed 15 October 2003) and in June 2016 was appointed Non-Executive Chairman of that company. He is also Non-Executive chairman of Octagonal Resources Ltd (appointed 10 November 2010)(this company sought delisting from the ASX in February 2016 and converted to Pty Ltd status in April 2016) and has been a Director and Non-Executive Chairman of Gippsland Ltd (24 June 2009 - 14 April 2015).

Mr Gandel is a member of the Audit, Remuneration and Nomination Committees.

Anthony Dean Lethlean - Non-Executive Director
BAppSc (Geology)

Appointed Director 30 May 2002

Mr Lethlean is a geologist with over 10 years mining experience including 4 years underground on the Golden Mile in Kalgoorlie. Subsequently, Mr Lethlean worked as a resources analyst with various stockbrokers including formerly as a principal of Helmsec Global Capital Ltd. Mr Lethlean is a Non-Executive Director of Alliance Resources Ltd (appointed 15 October 2003).

Mr Lethlean is senior independent Director, Chairman of the Audit Committee and a member of the Remuneration and Nomination Committees.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Company secretary

Karen E V Brown
BEC (hons)

Ms Brown is a Director and Company Secretary of Mineral Administration Services Pty Ltd which provides company secretarial, corporate administration and accounting services to the Group. She has considerable experience in corporate administration of listed companies over a period of some 29 years, primarily in the mineral exploration industry.

Dividends - Alkane Resources Ltd

No dividends have been paid by the Company during the financial year ended 30 June 2017 nor have the Directors recommended that any dividends be paid (2016: nil).

Review of operations

The Group continues to be actively involved in mineral exploration and evaluation, development and extraction with a regional focus in the central west of New South Wales. Exploration and evaluation activities continue on tenements held by the Group, mining operations continue at the Tomingley Gold Operation and evaluation activities continue in relation to the Dubbo Project.

Result for the year

The Group's net loss for the period after tax was \$28,937,000 (30 June 2016: net profit \$4,695,000). The net loss included impairment charges of \$39,975,000 for the gold cash generating unit for the year ended 30 June 2017 (refer to note 9 for details). The result includes a profit before tax and non-recurring items of \$17,129,000 in relation to the Tomingley Gold Operations (30 June 2016: \$14,304,000)

Tomingley Gold Operations

The gold operations at Tomingley are located approximately 50 kilometres south-west of Dubbo in the Central West of NSW. The operations are based on four gold deposits. Wyoming One, Wyoming Three (mining completed), Caloma One (mining completed August 2017) and Caloma Two.

Mining occurred in three pits during the year, Caloma One, Caloma Two and Wyoming One. Persistent heavy rain during the first half of the year (656mm v long term average 223mm) dramatically impacted production by delaying ore releases, particularly at the base of the Wyoming One starter pit, and impacting mining fleet productivity during weather events and in the recovery afterwards. Material movements, and as a result production, were well below plan with production of 22,191 ounces and all in sustaining cost (AISC) well above plan at \$1,959 per ounce for the first half of the year.

The operation recovered strongly in the second half as weather improved. Utilisation of a third digging fleet was extended through the second half of the year to reduce the waste movement deficiency from the first half. Average grade mined increased from 1.43g/t to 2.59g/t as a result of mining ore from the higher grade Caloma Two pit and accessing higher grade zones in the Caloma One pit. As a result, production and AISC for the second half of the year were significantly improved at 46,645 ounces at \$1,038 per ounce.

Total material movements for the period of 8,140,469 bcm comprised 7,679,110 bcm of waste and 461,359 bcm of ore, with 4,606,789 bcm being extracted in the second half. The average stripping ratio of 16.6 represented an increase from the corresponding period reflecting the removal of overburden in the Wyoming One and Caloma Two pits, and will reduce significantly in the 2018 financial year.

Milling for the period was in line with design capacity at 1,087,983 tonnes. Gold recovery increased from 90.9% to 91.5% in line with expectations as increased oxide ore was available for processing from the Wyoming One and Caloma Two pits.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Review of operations (continued)

Tomingley Gold Operations (continued)

Production for the year exceeded the upgraded market guidance on 27 June 2017 at 68,836 ounces, with all in sustaining cost (AISC) within guidance at \$1,335 per ounce.

The average sales price achieved for the period of \$1,678 per ounce represented an increase of \$73 per ounce from the prior year. Gold sales of 69,929 ounces resulted in sales revenue of \$117,338,000, an increase of \$8,204,000 (8%) from the prior period.

Cash flows from Tomingley underpinned the Group's strong operating cash inflow of \$54,748,000, an increase of \$17,262,000 (46%) from the prior year. Investing outflows (which also include exploration and evaluation outflows) were in line with the prior year at \$40,689,000.

The table below summarises the key operational information.

TGO Production		Sept Quarter 2016	Dec Quarter 2016	Mar Quarter 2017	Jun Quarter 2017	FY 2017	FY 2016
Waste mined	BCM's	1,533,279	1,799,904	2,165,717	2,180,211	7,679,110	6,199,820
Ore mined	BCM's	83,356	117,141	94,079	166,782	461,359	507,140
Ore mined	Tonnes	221,139	318,216	249,109	434,404	1,222,868	1,285,454
Stripping Ratio	Ratio	18.4	15.4	23.0	13.1	16.6	12.2
Grade mined ⁽²⁾	g/t	1.51	1.39	2.42	2.69	2.08	1.84
Ore milled	Tonnes	231,797	279,338	281,654	295,194	1,087,983	1,096,105
Head grade	g/t	1.50	1.48	2.36	3.10	2.15	2.08
Gold recovery	%	90.1	90.4	91.1	92.8	91.5	90.9
Gold poured ⁽³⁾	Ounces	10,435	11,756	18,721	27,924	68,836	67,812
Revenue Summary							
Gold sold	Ounces	10,000	12,519	16,303	31,107	69,929	67,983
Average price realised	A\$/Oz	1,627	1,666	1,694	1,690	1,678	1,605
Gold revenue	A\$000's	16,273	20,859	27,623	52,582	117,338	109,134
Cost Summary							
Mining	A\$/Oz	1,188	1,029	721	485	748	736
Processing	A\$/Oz	505	450	269	168	295	292
Site support	A\$/Oz	148	118	80	49	84	96
C1 Cash Cost	A\$/Oz	1,841	1,597	1,070	702	1,127	1,124
Royalties	A\$/Oz	35	40	51	57	49	46
Sustaining capital	A\$/Oz	130	37	8	46	47	31
Rehabilitation	A\$/Oz	68	72	73	71	71	18
Corporate	A\$/Oz	65	57	34	29	41	37
All-in Sustaining Cost ⁽¹⁾	A\$/Oz	2,139	1,803	1,236	905	1,335	1,256
Bullion on hand	Ounces	3,368	2,572	4,986	1,814	1,814	2,971
Stockpiles							
Ore for immediate milling	Tonnes	661,645	709,148	620,271	761,829	761,829	701,047
Grade ⁽²⁾	g/t	0.80	0.79	0.75	0.95	0.95	0.82
Contained gold	Ounces	17,201	18,195	15,126	23,300	23,300	18,480

(1) All in Sustaining Cost (AISC) comprises all site operating costs, royalties, mine exploration, sustaining capex, mine development and an allocation of corporate costs on the basis of ounces produced. AISC does not include share based payments or net realisable value provision for product inventory.

(2) Based on the resource models.

(3) Represents gold poured at site, not adjusted for refining adjustments which results in minor differences between the movements in bullion on hand and the difference between production and sales.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Review of operations (continued)

Tomingley Gold Operations (continued)

Guidance for financial year 2018 provides for expected production of 65,000 to 70,000 ounces and AISC expected to be within the range of \$1,100 to \$1,200 per ounce.

Ore will mainly be sourced from the Wyoming One and Caloma Two pits, with mining finishing in the Caloma One pit in August 2017. The current life of mine plan sees the open cut pits finishing in the September quarter of financial year 2019. A small cut back of the Caloma One pit to the north east utilising smaller equipment has been designed and whilst not scheduled is an option for Tomingley should the economics allow it in the future. Low grade stockpiles of approximately 612,000 tonnes are also available for milling, but are at present not scheduled until the potential underground material is available to be blended with it.

A significant drilling program continues targeting strike extensions and in-fill areas for the potential underground operation below the Wyoming One pit with the aim of lifting the gold ounces per vertical metre in any future designs. The program is expected to be completed around October 2017, at which time the geological models will be updated and a mine plan evaluated for development. A regional air core drilling program commenced during the year on tenements proximate to the Tomingley mining lease for potential open pit or underground ore to be processed at the Tomingley plant. The program is ongoing.

Dubbo Project

Alkane Resources Ltd's subsidiary, Australian Strategic Materials Ltd (ASM) changed its name from Australian Zirconia Ltd in December 2016. The project name has been modified to the Dubbo Project.

The project is proceeding towards development as a potential strategic supply of critical minerals for a range of high-tech and sustainable technologies. It is based on a large resource of zirconium, hafnium, niobium, tantalum, yttrium and rare earth elements, located at Toongi, 30 kilometres south of the large regional centre of Dubbo in the Central West of NSW. The Dubbo Project is a unique, long-life asset with a potential mine life of 70 plus years. Unlike many projects of this kind, it is a polymetallic deposit providing potential revenue from multiple product streams.

The Dubbo Project remains ready for construction, subject to financing, with the mineral deposit and surrounding land wholly owned, all State and Federal approvals in place, an established flowsheet and a solid business case. Efforts during the period focussed on product development and marketing with potential customers to confirm the suitability of the product suite for their needs. High purity samples of zirconia and hafnia (hafnium oxide) produced from the demonstration pilot plant were dispatched to customers as a condition precedent to further discussions with these customers for the purchase of ASM's future products.

During the year the Group announced the results of its modularisation concept study. As well as reducing up front capital requirements, the modularisation concept is expected to provide greater construction flexibility by staging the overall build of the project whilst preserving the project economics. ASM has engaged Outotec to refine the existing engineering and design to provide bankable level costing for the processing section of the project using the modularised build philosophy (ASX announcement 28 October 2016). This comprehensive task should allow ASM to quickly commence the construction phase following financing. Results of the work with Outotec are expected in the last quarter of 2017 calendar year.

Due diligence of Vietnam Rare Earth JSC, the owner of a rare earth separation facility, continued during the year. As part of the extended due diligence, an initial twelve month toll treatment agreement was executed in June 2017 and two shipments of light rare earth concentrates acquired on market totalling 80 tonnes were processed producing approximately 31 tonnes of separated rare earth oxides including cerium, lanthanum, praseodymium and neodymium oxides.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Review of operations (continued)

Dubbo Project (continued)

Minchem Ltd, ASM's sales and marketing agent for zirconium products to be produced from the Dubbo Project, has secured six non-binding letters of intent for the supply of zirconium chemicals that would account for about 60% of the stage 1 development of the 8,150 tpa of zirconia (ZrO₂) equivalent products, supporting about 15% of the anticipated project revenues. Further zirconium chemicals letters of intent are expected in coming months.

Development of value added zirconium and hafnium chemicals, oxides and metals continued during the year with a focus on producing high purity chemical precursors.

Significant price increases have occurred to date in 2017 for zirconium and magnet related rare earths (praseodymium and neodymium). Zirconium oxychloride (ZOC) prices have increased by circa 40% during the year resulting in the highest prices for four to five years. ZOC is the key indicator of the zirconium chemical industry. The increase was due to a combination of increased raw material prices, stricter enforcement of and increased focus on compliance with environmental laws and the imposition of additional regulation by Chinese authorities.

An approximate 25% increase in prices in 2017 for the key magnet rare earths, praseodymium and neodymium, has taken prices to the highest levels in two years. Further price increases are expected on the back of strong demand, with little or no increase in supply expected in the near term. Increased efforts by Chinese government authorities conducting environmental compliance inspections and audits is also likely to impact the level of illegal production, further reducing supply. Growth in demand for high performance rare earth permanent magnets is occurring due to clean energy and transport policies and initiatives by governments worldwide to meet national and international targets for reduced emissions. The rapid growth in demand for electric vehicles is attracting significant media attention worldwide, but there is equally strong demand for other applications for magnets including wind power and industrial robots. Some forward buying and stock building is also being reported for magnet rare earths, as well as producers withholding supply for higher prices.

ASM continues to work with its financial advisors, Sumitomo Mitsui Banking Corporation, to pursue the funding strategy for the project. The changing market dynamics and improved pricing for key products is expected to assist in discussions with customers to secure long term product offtake and investment in the project. The ability of the Dubbo Project to provide long term sustainable security of supply of a diverse range of over 15 critical metals and oxides is one of the strong themes which is being increasingly recognised both in Australia and overseas.

Exploration

The Company maintained a focussed multi commodity exploration program in the Central West of NSW. After the persistent rain events in the first half of the year limiting ground access, an extensive reconnaissance aircore drilling program commenced to test the prospective rock sequence between Tomingley and the Peak Hill gold mine 15km to the south of Tomingley. Over 20,000 metres has been completed and several zones of gold mineralisation defined. Two diamond cores totalling 791 metres tested two target areas to provide detailed geological information for 3D interpretation.

At the Northern Molong Porphyry Project (NMPP), which covers an area of 110 km² located approximately 20 km north of Wellington in the central west of NSW and encompasses three exploration licences; Bodangora, Kaiser and Finns Crossing two core holes tested the down dip extension of the thick low grade gold-copper mineralisation in the Kaiser-Boda areas. The project covers a large portion of the northern Molong Volcanic Belt (MVB) which is host to a number of mineral deposits exemplified by the world class alkalic porphyry deposits within the Cadia Valley Operations of Newcrest Mining Ltd.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Significant changes in the state of affairs

The financial position and performance of the Group has been impacted by the following specific events or transactions during the year ended 30 June 2017 when compared to the year ended 30 June 2016:

- An impairment expense of \$39,975,000 was recorded during the year as a result of significant and prolonged impact that weather has had on operations and performance of the Tomingley Gold Operations and due to revisions to the life of mine plan. Refer note 9 for details; and
- Strong operating cash flows from the Tomingley Gold Operation has led to an increase in the closing cash balance by \$17,514,000 to \$41,969,000.

For a detailed discussion about the Group's performance please refer to the Review of Operations.

Events since the end of the financial year

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected the Group's operations, results or state of affairs, or significantly affect;

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group intends to continue evaluation activities in relation to the Dubbo Project in line with details provided in the Review of Operations. Efforts at the Tomingley Gold Operation continue to be focussed on optimising performance and extending the mine life for both open pit and underground operations. Exploration and evaluation activities will continue on existing tenements and opportunities to expand the Group's tenement portfolio will be pursued with a view to ensuring there is a pipeline of development opportunities to be considered.

Refer to the Review of Operations for further detail on planned developments.

Environmental regulation

The Group is subject to significant environmental regulation in respect of its exploration and evaluation, development and mining activities.

The Group aspires to the highest standards of environmental management and insists its staff and contractors maintain that standard. A significant environmental incident is considered to be one that causes a major impact or impacts to land biodiversity, ecosystem services, water resources or air, with effects lasting greater than one year. There were no significant environmental incidents reported at any of the Group's operations.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2017, and the numbers of meetings attended by each Director were:

	Full meetings of Directors		Meetings of committees					
			Audit		Nomination		Remuneration	
	Attended	Held	Attended	Held	Attended	Held	Attended	Held
J S F Dunlop	15	17	4	4	3	3	5	5
D I Chalmers	17	17	*	*	3	3	*	*
I J Gandel	17	17	4	4	3	3	5	5
A D Lethlean	17	17	4	4	3	3	5	5

* Not a member of the relevant committee

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report

The Directors' are pleased to present Alkane Resources Ltd's remuneration report which sets out remuneration information for the Company's Non-Executive Directors, Executive Director and other Key Management Personnel.

The report contains the following sections:

- (a) Key Management Personnel disclosed in this report
- (b) Remuneration governance
- (c) Use of remuneration consultants
- (d) Executive remuneration policy and framework
- (e) Statutory performance indicators
- (f) Non-Executive Director remuneration policy
- (g) Voting and comments made at the Company's 2016 Annual General Meeting
- (h) Details of remuneration
- (i) Service agreements
- (j) Details of share-based payments and performance against key metrics
- (k) Shareholdings and share rights held by Key Management Personnel

(a) Key Management Personnel disclosed in this report

Non-Executive and Executive Directors	
J S F Dunlop	D I Chalmers
I J Gandel	A D Lethlean

Other Key Management Personnel

Name	Position
N Earner	Chief Operations Officer
M Ball	Chief Financial Officer
A MacDonald	General Manager - Marketing (appointed 1 February 2017)
K E Brown	Company Secretary

There have been no changes to Directors or Key Management Personnel since the end of the reporting period. Refer to the Directors Report for upcoming changes to the Board composition.

(b) Remuneration governance

The Company has established a Remuneration Committee to assist the Board in fulfilling its corporate governance responsibilities with respect to remuneration by reviewing and making appropriate recommendations to the Board on:

- the overall remuneration strategy and framework for the Company;
- the operation of the incentive plans which apply to the Executive team, including the appropriateness of key performance indicators and performance hurdles; and
- the assessment of performance of and remuneration of the Executive director, Non-Executive Directors and other Key Management Personnel.

The Remuneration Committee is a Committee of the Board and at the date of this report the members were independent Non-Executive Directors J S F Dunlop, A D Lethlean and I J Gandel.

Their objective is to ensure that remuneration policies and structures are fair, competitive and aligned with the long-term interests of the Company and its shareholders.

The Company's annual Corporate Governance Statement provides further information on the role of this Committee.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(c) Use of remuneration consultants

No remuneration consultants were engaged in the financial year to provide remuneration advice.

(d) Executive remuneration policy and framework

In determining Executive remuneration, the Board (or the Remuneration Committee as its delegate) aims to ensure that remuneration practices:

- are competitive and reasonable, enabling the Company to attract and retain key talent while building a diverse, sustainable and high achieving workforce;
- are aligned to the Company's strategic and business objectives and the creation of shareholder value;
- promote a high performance culture recognising that leadership at all levels is a critical element in this regard;
- are transparent; and
- are acceptable to shareholders.

The Executive remuneration framework has three components:

- Total Fixed Remuneration (TFR),
- Short-Term Incentives (STI), and
- Long-Term Incentives (LTI).

(i) Executive remuneration mix

The Company has in place Executive incentive programs which provide the mechanism to place a material portion of Executive pay "at risk". No new short term or long term incentives were issued to Executives during the year.

(ii) Total fixed remuneration

Total Fixed Remuneration (TFR) consists of base salary, benefits and superannuation. Benefits may include health insurance, car allowances and salary sacrifice arrangements. TFR levels are assessed against the median level of the resources sector through independent market data. Individual TFR is determined within an appropriate range around the market median by referencing the specific role and associated responsibilities, individual experience and performance.

A review is conducted of remuneration for all employees and Executives on an annual basis, or as required. The Remuneration Committee is responsible for determining Executive TFR.

(iii) Incentive arrangements

The Company uses both short term and long term incentive programs to balance the short and long term aspects of business performance, to reflect market practice, to attract and retain key talent and to ensure a strong alignment between the incentive arrangements of Executives and the creation and delivery of shareholder return.

The Company has used both performance rights and share appreciation rights as the mechanisms for Executive incentives. The performance rights plan was approved by shareholders at the 2016 Annual General Meeting and the share appreciation rights plan was approved by shareholders at the 2014 Annual General Meeting.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(d) Executive remuneration policy and framework (continued)

Long-term incentives

The LTI is designed to focus Executives on delivering long term shareholder returns. Eligibility for the plan is restricted to Executives and nominated Senior Managers, being the employees who are most able to influence shareholder value. Under the plan, participants have an opportunity to earn up to 100% of their total fixed remuneration (calculated at the time of approval by the Remuneration Committee) comprised of part performance rights and part share appreciation rights, provided that predefined targets are met over a three year performance period. Performance rights are the reward vehicle for targets that are milestone based whereas share appreciation rights are the reward vehicle for shareholder return targets as the number of shares to be issued upon vesting is impacted by the quantum of shareholder value created. The LTI vesting period is three years.

The performance rights component of the LTI will be provided in the form of rights to ordinary shares in Alkane Resources Ltd that will vest at the end of the three year vesting period provided the predefined targets are met. On vesting, the rights automatically convert into one ordinary share each. Participants do not receive any dividends and are not entitled to vote in relation to the rights to shares prior to the vesting period. If a participant ceases to be employed by the Group within this period, the rights will be forfeited, except in limited circumstances that are approved by the Board on a case-by-case basis.

Under the share appreciation rights plan, participants are granted rights to receive fully paid ordinary shares in the Company. Rights will only vest if the predefined TSR performance condition is met. If a participant ceases to be employed by the Group within this period, the rights will be forfeited, except in limited circumstances that are approved by the Board on a case-by-case basis.

Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan.

An absolute TSR target, as opposed to a TSR target relative to an index or a peer group, has been used to reflect:

- the developmental stage of the Dubbo Project and the impact that the successful development is expected to have on the market value of the Group; and
- the absence of a sufficient number of comparable companies to benchmark against.

Targets are generally reviewed annually and set for a forward three year period. Targets reflect factors such as the expectations of the Group's business plans, the stage of development of the Group's projects and the industry business cycle. The most appropriate target benchmark (i.e. the use of an absolute or a relative TSR target) will be reviewed each year prior to the granting of rights.

Vesting of the rights is subject to the Group's TSR, including share price growth, dividends and capital returns, exceeding certain growth hurdles over a three-year period.

The Remuneration Committee is responsible for determining the LTI to vest based on an assessment of whether the predefined targets are met. To assist in this assessment, the Committee receives detailed reports on performance from management. The Committee has the discretion to adjust LTI's downwards in light of unexpected or unintended circumstances.

(iv) Clawback policy for incentives

Under the terms and conditions of the Company's incentive plan offer and the plan rules, the Board (or the Remuneration Committee as its delegate) has discretion to determine forfeiture of unvested equity awards in certain circumstances (e.g. unlawful, fraudulent or dishonest behaviour or serious breach of obligations to the Company). All incentive offers and final outcomes are subject to the full discretion of the Board (or the Remuneration Committee as its delegate).

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(d) Executive remuneration policy and framework (continued)

(v) Share trading policy

The trading of shares issued to participants under any of the Company's employee share plans is subject to, and conditional upon, compliance with the Company's employee share trading policy. Executives are prohibited from entering into any hedging arrangements over unvested rights under the Company's employee incentive plans. The Company would consider a breach of this policy as gross misconduct which may lead to disciplinary action and potentially dismissal.

(e) Statutory performance indicators

The Company aims to align Executive remuneration to the Company's strategic and business objectives and the creation of shareholder wealth. The table below shows measures of the Group's financial performance over the last 5 years as required by the *Corporations Act 2001*. However, these are not necessarily consistent with the specific measures in determining the variable amounts of remuneration to be awarded to Key Management Personnel. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration rewarded.

	30 June 2017	30 June 2016	30 June 2015	30 June 2014	30 June 2013 ⁽¹⁾
Revenue (\$'000)	117,792	109,624	102,467	25,264	1,370
Profit/(loss) for the year attributable to owners (\$'000)	(28,937)	4,695	(4,086)	(6,170)	(66,418)
Basic earnings/(loss) per share (cents)	(5.8)	1.1	(1.0)	(1.7)	(17.8)
Dividends payments (\$'000)	-	-	-	-	-
Share price at period end (\$)	0.24	0.20	0.28	0.27	0.31
Total KMP incentives vested as a percentage of profit/(loss) for the year %	0.3%	3.0%	0.0%	0.0%	0.1%

(1) Six month period

(f) Non-Executive Director remuneration policy

On appointment to the Board, all Non-Executive Directors enter into a Service Agreement with the Company in the form of a letter of appointment. The letter summarises the Board policies and terms, including remuneration, relevant to the office of Director.

Non-Executive Directors receive a Board fee and fees for chairing or participating on Board Committees. Non-Executive Directors appointed do not receive retirement allowances. Fees provided are inclusive of superannuation and the Non-Executive Directors do not receive performance-based pay.

Fees are reviewed annually by the Remuneration Committee taking into account comparable roles and market data obtained from independent data providers. The current base fees for Non-Executive Directors have not changed since 1 January 2013.

The maximum annual aggregate Directors' fee pool limit (inclusive of applicable superannuation) is \$700,000 and was approved by shareholders at the Annual General Meeting on 16 May 2013.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(f) Non-Executive Director remuneration policy (continued)

Details of Non-Executive Director fees in the year ended 30 June 2017 are as follows:

	\$ per annum
Base fees	
Chair	125,000
Other Non-Executive Directors	75,000
Additional fees	
Audit Committee - chair	7,500
Audit Committee - member	5,000
Remuneration Committee - chair	7,500
Remuneration Committee - member	5,000

For services in addition to ordinary services, Non-Executive Directors may charge per diem consulting fees at the rate specified by the Board from time to time for a maximum of 4 days per month over a 12 month rolling basis. Any fees in excess of this limit are to be approved by the Board.

(g) Voting and comments made at the Company's 2016 Annual General Meeting

The Company received more than 91% of "yes" votes on its remuneration report for the last financial period ended 30 June 2016. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

(h) Details of remuneration

The following table shows details of the remuneration expense recognised for the Directors and the Key Management Personnel of the Group for the current and previous financial year measured in accordance with the requirements of the accounting standards.

	Fixed remuneration				Variable remuneration	Total
	Cash salary ⁽¹⁾	Non monetary benefits ⁽¹⁾	Annual and long service leave ⁽²⁾	Post-employment benefits ⁽³⁾	Rights to deferred shares ⁽⁴⁾	
30 June 2017	\$	\$	\$	\$	\$	\$
Executive Director						
D I Chalmers	360,000	36,296	14,571	34,200	117,141	562,208
Other KMP						
N Earner	397,213	-	14,145	36,407	128,856	576,621
M Ball	347,782	-	13,501	29,985	101,523	492,791
A MacDonald	150,000	-	383	13,854	-	164,237
K E Brown ⁽⁵⁾	210,000	-	-	-	-	210,000
Total Executive Director and other KMP	1,464,995	36,296	42,600	114,446	347,520	2,005,857
Total NED remuneration⁽⁶⁾	283,106	-	-	26,894	-	310,000
Total KMP remuneration expense	1,748,101	36,296	42,600	141,340	347,520	2,315,857

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(h) Details of remuneration (continued)

	Fixed remuneration				Variable remuneration	Total
	Cash salary ⁽¹⁾	Non monetary benefits ⁽¹⁾	Annual and long service leave ⁽²⁾	Post-employment benefits ⁽³⁾	Rights to deferred shares ⁽⁴⁾	
30 June 2016	\$	\$	\$	\$	\$	\$
Executive Director						
D I Chalmers	360,000	25,643	7,939	34,200	153,381	581,163
Other KMP						
N Earner	396,000	-	2,321	37,620	168,719	604,660
M Ball	337,177	-	2,438	29,640	132,930	502,185
K E Brown ⁽⁵⁾	302,229	-	-	-	-	302,229
Total Executive Director and other KMP	1,395,406	25,643	12,698	101,460	455,030	1,990,237
Total NED remuneration⁽⁶⁾	283,106	-	-	26,894	-	310,000
Total KMP remuneration expense	1,678,512	25,643	12,698	128,354	455,030	2,300,237

- (1) Short-term benefits as per *Corporations Regulation 2M.3.03(1) Item 6*.
(2) Other long-term benefits as per *Corporations Regulation 2M.3.03(1) Item 8*.
(3) Post employment benefits are provided through superannuation contributions.
(4) Rights to deferred shares granted under the executive STI and LTI schemes are expensed over the performance period, which includes the year to which the incentive relates and the subsequent vesting period of the rights. Rights to deferred shares are equity-settled share based-payments as per the *Corporations Regulation 2M.3.03(1) Item 11*. These include negative amounts for rights forfeited during the year. Details of each grant of share right was provided in the table in section (j). Shareholder approval was received in advance to the grant of share rights where required.
(5) Corporate administration and company secretarial fees paid to Mineral Administration Services Pty Ltd, a Company associated with Ms Brown.
(6) Refer below for details of Non-Executive Directors (NED) remuneration.

30 June 2017

	Cash salary and fees \$	Superannuation \$	Total \$
Non-Executive Directors			
J S F Dunlop	125,571	11,929	137,500
I J Gandel	77,626	7,374	85,000
A D Lethlean	79,909	7,591	87,500
Total Non-Executive Directors	283,106	26,894	310,000

30 June 2016

	Cash salary and fees \$	Superannuation \$	Total \$
Non-Executive Directors			
J S F Dunlop	125,571	11,929	137,500
I J Gandel	77,626	7,374	85,000
A D Lethlean	79,909	7,591	87,500
Total Non-Executive Directors	283,106	26,894	310,000

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(h) Details of remuneration (continued)

The relative proportions of remuneration expense recognised during the year that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
	2017 %	2016 %	2017 %	2016 %	2017 %	2016 %
Executive Director of Alkane Resources Ltd						
I Chalmers	79	74	-	8	21	18
Other Key Management Personnel						
N Earner	78	72	-	9	22	19
M Ball	79	74	-	8	21	18
A MacDonald	100	-	-	-	-	-

Company Secretary K E Brown, is not an employee of the Company and therefore is not eligible to participate in incentive programs. Instead a fixed fee for services rendered is paid as set out previously.

A MacDonald commenced employment on 1 February 2017 and is not yet a participant in the Group's incentive plans.

(i) Service agreements

Remuneration and other terms of employment for the Managing Director and Key Management Personnel are formalised in Service Agreements. The Service Agreements specify the components of remuneration, benefits and notice periods. Participation in the STI and LTI plans is subject to the Board's discretion. Other major provisions of the Agreements relating to remuneration are set out below.

Name and position	Term of agreement	TFR ⁽¹⁾	Termination payment ⁽²⁾
D I Chalmers - Managing Director	Commencing 1 July 2016 - renewable annually	\$394,200	By mutual agreement
N Earner - Chief Operations Officer	On-going commencing 2 September 2013	\$433,620	2 months
M Ball - Chief Financial Officer	On-going commencing 29 October 2012	\$377,767	2 months
A MacDonald - General Manager - Marketing	On-going commencing 1 February 2017	\$394,200	6 months
K E Brown - Company Secretary	Commencing 1 July 2016 - renewable annually	\$210,000	12 months maximum ⁽³⁾

- (1) Total Fixed Remuneration (TFR) is for the year ended 30 June 2017 and is inclusive of superannuation but does not include long service leave accruals. K E Brown is not an employee of the company, therefore superannuation is not required to be paid on her earnings. TFR is reviewed annually by the Remuneration Committee. D I Chalmers' contract includes motor vehicle expenses up to value of \$36,000 plus applicable taxes in addition to the figure in the table above.
- (2) Specified termination payments are within the limits set by the *Corporations Act 2001* and therefore do not require shareholder approval. In the event that the Managing Director's contract was terminated and a termination benefit of longer than twelve months was agreed, shareholder approval would be required.
- (3) Termination by mutual agreement.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(j) Details of share based payments and performance against key metrics

Details of each grant of share rights affecting remuneration in the current or a future reporting period are set out below.

Name	Date of grant	Number of rights granted	Fair value of share rights at date of grant \$	Number of share rights at fair value \$	Performance period end	Share based payment expense current year \$
Executive Director						
I Chalmers						
FY2015 LTI - Performance Rights	5/12/2014	666,667	0.21	140,000	30/06/2017	18,666
FY2015 LTI - Share Appreciation Rights	5/12/2014	1,800,000	0.07	126,000	30/06/2017	42,000
FY2016 LTI - Performance Rights	18/11/2015	562,500	0.25	140,625	30/06/2018	(11,025)
FY2016 LTI - Share Appreciation Rights	18/11/2015	2,250,000	0.09	202,500	30/06/2018	67,500
Other Key Management Personnel						
N Earner						
FY2015 LTI - Performance Rights	5/12/2014	733,333	0.21	154,000	30/06/2017	20,534
FY2015 LTI - Share Appreciation Rights	5/12/2014	1,980,000	0.07	138,600	30/06/2017	46,200
FY2016 LTI - Performance Rights	18/11/2015	618,750	0.25	154,688	30/06/2018	(12,128)
FY2016 LTI - Share Appreciation Rights	18/11/2015	2,475,000	0.09	222,750	30/06/2018	74,250
M Ball						
FY2015 LTI - Performance Rights	5/12/2014	577,777	0.21	121,333	30/06/2017	16,177
FY2015 LTI - Share Appreciation Rights	5/12/2014	1,560,000	0.07	109,200	30/06/2017	36,400
FY2016 LTI - Performance Rights	18/11/2015	487,500	0.25	121,875	30/06/2018	(9,554)
FY2016 LTI - Share Appreciation Rights	18/11/2015	1,950,000	0.09	175,500	30/06/2018	58,500

- (1) The value at grant date for share rights granted during the year as part of remuneration is calculated in accordance with AASB 2 Share Based Payments. Differences will arise between the number of share rights at fair value in the table above and the STI and LTI percentages mentioned in section (d) due to different timing of valuation of rights as approved by the Remuneration Committee and at grant. Refer to note 19 for details of the valuation techniques used for the rights plan.
- (2) Share rights only vest if performance and service targets are achieved. The determination is usually made at the conclusion of the statutory audit.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(j) Details of share based payments and performance against key metrics (continued)

The number and percentage of share rights that vested and the number and percentage of share rights that were forfeited relating to a performance period which ended during the current financial year are set out below:

Name	Vesting date	Number of rights granted	% of share rights vested	Number of share rights vested	% of share rights forfeited	Number of share rights forfeited
Executive Director						
I Chalmers						
FY2015 LTI - Performance Rights	23/08/2017	666,667	20%	133,333	80%	533,334
FY2015 LTI - Share Appreciation Rights	23/08/2017	1,800,000	0%	-	100%	1,800,000
Other Key Management Personnel						
N Earner						
FY2015 LTI - Performance Rights	23/08/2017	733,333	20%	146,666	80%	586,667
FY2015 LTI - Share Appreciation Rights	23/08/2017	1,980,000	0%	-	100%	1,980,000
M Ball						
FY2015 LTI - Performance Rights	23/08/2017	577,777	20%	115,555	80%	462,222
FY2015 LTI - Share Appreciation Rights	23/08/2017	1,560,000	0%	-	100%	1,560,000

The determination of the number of rights that are to vest or be forfeited is made by the Remuneration Committee after the statutory audit has been substantially completed. As such, the actual determination was made after the balance date however details have been included in the current Remuneration Report as the relevant performance period concluded at the end of the current financial year.

Performance against key metrics

No short term incentives were issued to Executives during the year.

The vesting period for the FY2015 LTI ended at 30 June 2017. The LTI consisted of performance rights, being the reward vehicle for targets that are milestone based, and share appreciation rights, being the reward vehicle for shareholder return based targets with the number of shares to be issued upon vesting being impacted by the quantum of shareholder value created.

The table below provides details of the actual performance against the LTI performance metrics.

LTI reward vehicle	Performance metrics	Weighting	Vested	Outcome
Performance Rights	Progress of evaluation and development of Dubbo Project towards production	40%	0%	Performance threshold not met
	Mining costs per bcm achieved >15% below contract mining rates for comparable size operations	10%	10%	Performance threshold exceeded
Share Appreciation Rights	Absolute total shareholder return (TSR)	50%	0%	TSR threshold not met

Vesting of the share appreciation rights was subject to the Company's TSR, including share price growth, dividends and capital returns, exceeding certain growth hurdles over the three year performance period as set out in the table below.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(j) Details of share based payments and performance against key metrics (continued)

TSR compound annual growth rate (CAGR)	% Share appreciation rights vesting
Less than 15% CAGR	Nil
15% CAGR	50% vesting
Above 15% CAGR up to 25% CAGR	Pro rata vesting from 50% - 100%
Above 25% CAGR	100%

(k) Shareholdings and share rights held by Key Management Personnel

The number of shares in the Company and share rights for ordinary shares in the Company held by each Director and Key Management Personnel are set out below.

Share holdings

30 June 2017	Number of ordinary shares			Balance at 30 June 2017
	Balance at 1 July 2016	Purchased / (sold)	Received on vesting of share rights ⁽¹⁾	
Directors of Alkane Resources Ltd				
J S F Dunlop	1,123,200	-	-	1,123,200
A D Lethlean	520,076	-	-	520,076
D I Chalmers	2,827,542	-	191,249	3,018,791
I J Gandel	109,869,451	-	-	109,869,451
Other Key Management Personnel				
K E Brown	854,992	-	-	854,992
N Earner	-	-	210,375	210,375
M Ball	-	-	165,750	165,750
A MacDonald ⁽²⁾	500,000	-	-	500,000

(1) Does not include rights that vested post balance date. Refer to section (j) of the Remuneration Report for details.

(2) A MacDonald was appointed General Manager - Marketing 1 February 2017 however purchased the shares prior to 1 July 2016

30 June 2016	Number of ordinary shares			Balance at 30 June 2016
	Balance at 1 July 2015	Purchased / (sold)	Received on vesting of share rights	
Directors of Alkane Resources Ltd				
J S F Dunlop	936,000	187,200	-	1,123,200
A D Lethlean	433,396	86,680	-	520,076
D I Chalmers	2,356,284	471,258	-	2,827,542
I J Gandel	91,557,875	18,311,576	-	109,869,451
Other Key Management Personnel				
K E Brown	712,492	142,500	-	854,992

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Remuneration report (continued)

(k) *Shareholdings and share rights held by Key Management Personnel (continued)*

Share rights

	Balance at 1 July 2016 unvested	Rights granted	Rights vested	Rights lapsed	Balance at 30 June 2017 unvested
Executive Director					
D I Chalmers					
Performance Rights	1,229,167	-	(133,333)	(533,334)	562,500
Share Appreciation Rights	4,050,000	-	-	(1,800,000)	2,250,000
Other Key Management Personnel					
N Earner					
Performance Rights	1,352,083	-	(146,666)	(586,667)	618,750
Share Appreciation Rights	4,455,000	-	-	(1,980,000)	2,475,000
M Ball					
Performance Rights	1,065,277	-	(115,555)	(462,222)	487,500
Share Appreciation Rights	3,510,000	-	-	(1,560,000)	1,950,000
Total Performance Rights	3,646,527	-	(395,554)	(1,582,223)	1,668,750
Total Share Appreciation Rights	12,015,000	-	-	(5,340,000)	6,675,000
	Balance at 1 July 2015 unvested	Rights granted	Rights vested	Rights lapsed	Balance at 30 June 2016 unvested
Executive Directors					
D I Chalmers					
Performance Rights	666,667	843,749	(191,249)	(90,000)	1,229,167
Share Appreciation Rights	1,800,000	2,250,000	-	-	4,050,000
Other Key Management Personnel					
N Earner					
Performance Rights	733,333	928,125	(210,375)	(99,000)	1,352,083
Share Appreciation Rights	1,980,000	2,475,000	-	-	4,455,000
M Ball					
Performance Rights	577,777	731,250	(165,750)	(78,000)	1,065,277
Share Appreciation Rights	1,560,000	1,950,000	-	-	3,510,000
Total Performance Rights	1,977,777	2,503,124	(567,374)	(267,000)	3,646,527
Total Share Appreciation Rights	5,340,000	6,675,000	-	-	12,015,000

The determination of the number of rights that are to vest or be forfeited is made by the Remuneration Committee after the statutory audit has been substantially completed. As such, the actual determination was made after the balance date however details have been included in the current Remuneration Report as the relevant performance period is the current financial year.

The information in this section has been audited with the rest of the remuneration report.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

Indemnification and insurance of officers

Alkane Resources Ltd has entered into deeds of indemnity, access and insurance with each of the Directors. These deeds remain in effect as at the date of this report. Under the deeds, the Company indemnifies each Director to the maximum extent permitted by law against legal proceedings or claims made against or incurred by the Directors in connection with being a Director of the Company, or breach by the Group of its obligations under the deed.

The liability insured is the indemnification of the Group against any legal liability to third parties arising out of any Directors or officers duties in their capacity as a Director or Officer other than indemnification not permitted by law.

No liability has arisen under this indemnity as at the date of this report.

The Group has not otherwise, during or since the financial year, indemnified nor agreed to indemnify an officer of the Group or of any related body corporate, against a liability incurred as such by an officer.

During the year the Company has paid premiums in respect of Directors' and Executive Officers' Insurance. The contracts contain prohibitions on disclosure of the amount of the premiums and the nature of the liabilities under the policies.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group is important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 20.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

Rounding of amounts

The company has relied on the relief provided by the 'ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191', issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report. Amounts in the Directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Alkane Resources Ltd
Directors' report
30 June 2017
(continued)

This report is made in accordance with a resolution of Directors.



D I Chalmers
Director
Perth
29 August 2017



Auditor's Independence Declaration

As lead auditor for the audit of Alkane Resources Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Alkane Resources Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'C. Heatley', is written over a light grey signature line.

Craig Heatley
Partner
PricewaterhouseCoopers

Perth
29 August 2017

PricewaterhouseCoopers, ABN 52 780 433 757
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

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Alkane Resources Ltd ABN 35 000 689 216
Annual report - 30 June 2017

Contents

	Page
Financial statements	
Consolidated statement of comprehensive income	24
Consolidated balance sheet	25
Consolidated statement of changes in equity	26
Consolidated statement of cash flows	27
Notes to the consolidated financial statements	28
Directors' declaration	70
Independent auditor's report to the members	71

Alkane Resources Ltd
Consolidated statement of comprehensive income
For the year ended 30 June 2017

		Year ended	
		30 June 2017	30 June 2016
	Notes	\$'000	\$'000
Continuing operations			
Revenue	2	117,792	109,624
Cost of sales	3	(99,338)	(95,351)
Gross profit		<u>18,454</u>	<u>14,273</u>
Other net income	4	539	975
Expenses			
Other expenses	3	(51,526)	(8,149)
Finance charges		(1,035)	(436)
Total expenses		<u>(52,561)</u>	<u>(8,585)</u>
(Loss)/Profit before income tax		(33,568)	6,663
Income tax benefit/(expense)	5	4,631	(1,968)
(Loss)/Profit for the period after income tax	8(c)	<u>(28,937)</u>	<u>4,695</u>
Total comprehensive (loss)/profit for the period		<u>(28,937)</u>	<u>4,695</u>
Total comprehensive (loss)/profit for the period is attributable to:			
Owners of Alkane Resources Ltd		<u>(28,937)</u>	4,695
		<u>(28,937)</u>	<u>4,695</u>
(Loss)/Profit is attributable to:			
Owners of Alkane Resources Ltd		<u>(28,937)</u>	4,695
		<u>(28,937)</u>	<u>4,695</u>
		Cents	Cents
(Loss)/Profit per share attributable to the ordinary equity holders of the Company:			
Basic (loss)/profit per share	21	(5.8)	1.1
Diluted (loss)/profit per share	21	<u>(5.7)</u>	<u>1.1</u>

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Alkane Resources Ltd
Consolidated balance sheet
As at 30 June 2017

	Notes	30 June 2017 \$'000	30 June 2016 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	6(a)	41,969	24,455
Receivables	6(b)	2,445	1,720
Inventories	7(a)	9,644	12,394
Biological assets	7(b)	218	-
Total current assets		54,276	38,569
Non-current assets			
Exploration and evaluation	7(c)	83,107	72,553
Property, plant and equipment	7(d)	60,627	102,941
Other financial assets	6(c)	4,233	7,197
Biological assets	7(b)	507	-
Total non-current assets		148,474	182,691
Total assets		202,750	221,260
LIABILITIES			
Current liabilities			
Trade and other payables	6(d)	11,166	8,745
Provisions	7(e)	8,169	1,703
Total current liabilities		19,335	10,448
Non-current liabilities			
Deferred tax liabilities	5(d)	-	4,747
Provisions	7(e)	18,488	15,755
Total non-current liabilities		18,488	20,502
Total liabilities		37,823	30,950
Net assets		164,927	190,310
EQUITY			
Contributed equity	8(a)	219,948	213,791
Reserves	8(b)	1,330	3,933
Accumulated losses	8(c)	(56,351)	(27,414)
Total equity		164,927	190,310

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Alkane Resources Ltd
Consolidated statement of changes in equity
For the year ended 30 June 2017

	Attributable to owners of Alkane Resources Ltd			
	Share capital \$'000	Share- based payments reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2015	201,845	714	(32,109)	170,450
Profit for the year	-	-	4,695	4,695
Total comprehensive profit for the year	-	-	4,695	4,695
Transactions with owners in their capacity as owners:				
Share placement (Note 8(a))	12,388	-	-	12,388
Share issue transaction costs	(147)	-	-	(147)
Deferred tax credit recognised in equity	(295)	-	-	(295)
Share based payments	-	3,219	-	3,219
	11,946	3,219	-	15,165
Balance at 30 June 2016	213,791	3,933	(27,414)	190,310
Balance at 1 July 2016	213,791	3,933	(27,414)	190,310
Loss for the year	-	-	(28,937)	(28,937)
Total comprehensive loss for the year	-	-	(28,937)	(28,937)
Transactions with owners in their capacity as owners:				
Share placement (Note 8(a))	4,141	-	-	4,141
Share based payments	2,570	(2,603)	-	(33)
Share issue transaction costs	(670)	-	-	(670)
Deferred tax credit recognised in equity	116	-	-	116
Balance at 30 June 2017	219,948	1,330	(56,351)	164,927

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Alkane Resources Ltd
Consolidated statement of cash flows
For the year ended 30 June 2017

	Year ended	
	30 June	30 June
	2017	2016
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers	117,338	109,134
Payments to suppliers and employees (inclusive of GST)	(60,250)	(70,051)
Interest received	454	490
Finance costs paid	(719)	(248)
Royalties and selling costs	(2,723)	(2,819)
Other receipts	648	980
Net cash inflow from operating activities	10(a) 54,748	37,486
Cash flows from investing activities		
Payments for property, plant and equipment	(33,551)	(33,634)
Proceeds from sale of property, plant and equipment	53	26
Payments for exploration expenditure	(10,154)	(6,789)
Payments for security deposits	(2,028)	(2,151)
Refund of security deposits	4,991	2,541
Net cash outflow from investing activities	(40,689)	(40,007)
Cash flows from financing activities		
Proceeds from issue of shares	8(a) 4,141	12,388
Cost of share issue	8(a) (670)	(147)
Proceeds from borrowings	7,912	4,000
Repayment of borrowings	(7,928)	(4,114)
Net cash inflow from financing activities	3,455	12,127
Net increase in cash and cash equivalents	17,514	9,606
Cash and cash equivalents at the beginning of the year	24,455	14,849
Cash and cash equivalents at end of year	6(a) 41,969	24,455

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017

Contents of the notes to the consolidated financial statements

	Page
How numbers are calculated	29
1 Segment information	30
2 Revenue	31
3 Expenses	32
4 Other income and expense items	33
5 Income tax	33
6 Financial assets and financial liabilities	37
7 Non-financial assets and liabilities	39
8 Equity	45
9 Impairment of non-current assets	47
10 Cash flow information	49
Risk	50
11 Critical accounting estimates and judgements	51
12 Financial risk management	52
13 Capital risk management	54
Unrecognised items	55
14 Contingent liabilities and contingent assets	56
15 Commitments	56
16 Events occurring after the reporting period	57
Other information	58
17 Interests in other entities	59
18 Related party transactions	59
19 Share-based payments	60
20 Remuneration of auditors	62
21 Earnings per share	63
22 Assets pledged as security	63
23 Parent entity financial information	64
24 Summary of significant accounting policies	65

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

How numbers are calculated

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the activities of the entity, including:

- (a) accounting policies that are relevant for an understanding of the items recognised in the financial statements. These cover situations where the accounting standards either allow a choice or do not deal with a particular type of transaction.
- (b) analysis and sub-totals, including segment information.
- (c) information about estimates and judgements made in relation to particular items.

1	Segment information	30
2	Revenue	31
3	Expenses	32
4	Other income and expense items	33
5	Income tax	33
6	Financial assets and financial liabilities	37
7	Non-financial assets and liabilities	39
8	Equity	45
9	Impairment of non-current assets	47
10	Cash flow information	49

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

1 Segment information

(a) Segment results

The Board of Alkane Resources Ltd has identified two reportable segments, being gold operations and the exploration and evaluation of rare metals.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker that are used to make strategic decisions.

Costs that do not relate to either of the operating segments, have been identified as unallocated costs. Corporate assets and liabilities that do not relate to either of the operating segments have been identified as unallocated. The Group has formed a tax consolidation group and therefore tax balances have been allocated to the unallocated grouping.

The Group utilises a central treasury function and therefore the cash balances have been allocated to the unallocated segment. The prior year total segment assets have been restated to reallocate cash to the unallocated segment.

	Gold operations \$'000	Rare metals \$'000	Unallocated \$'000	Group \$'000
30 June 2017				
Gold sales to external customers	117,338	-	-	117,338
Interest income	175	191	88	454
Total segment revenue	<u>117,513</u>	<u>191</u>	<u>88</u>	<u>117,792</u>
Segment net loss before income tax	<u>(25,811)</u>	<u>(287)</u>	<u>(7,470)</u>	<u>(33,568)</u>
Segment net loss includes the following non-cash adjustments				
Depreciation and amortisation	(42,265)	(3)	(276)	(42,544)
Deferred stripping costs capitalised	26,603	-	-	26,603
Impairment charges	(39,975)	-	-	(39,975)
Exploration expenditure written off or provided for	-	(5)	(160)	(165)
Restructuring provision	(2,965)	-	-	(2,965)
Inventory product movement and provision	(2,660)	-	-	(2,660)
Income tax benefit	-	-	4,631	4,631
Total non-cash adjustments	<u>(61,262)</u>	<u>(8)</u>	<u>4,195</u>	<u>(57,075)</u>
Total segment assets	<u>48,916</u>	<u>101,419</u>	<u>52,415</u>	<u>202,750</u>
Total segment liabilities	<u>(34,297)</u>	<u>(1,505)</u>	<u>(2,021)</u>	<u>(37,823)</u>
Net segment assets	<u>14,619</u>	<u>99,914</u>	<u>50,394</u>	<u>164,927</u>
	Gold operations \$'000	Rare metals \$'000	Unallocated \$'000	Group \$'000
30 June 2016				
Gold sales to external customers	109,134	-	-	109,134
Interest income	257	-	233	490
Total segment revenue	<u>109,391</u>	<u>-</u>	<u>233</u>	<u>109,624</u>

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

1 Segment information (continued)

(a) Segment results (continued)

30 June 2016	Gold operations \$'000	Rare metals \$'000	Unallocated \$'000	Group \$'000
Segment net profit/(loss) before income tax	14,304	(264)	(7,377)	6,663
Segment net profit / (loss) includes the following non-cash adjustments :				
Depreciation and amortisation	(29,929)	-	(260)	(30,189)
Deferred stripping costs capitalised	15,740	-	-	15,740
Exploration expenditure written off or provided for	-	(17)	(99)	(116)
Inventory product movement and provision	424	-	-	424
Income tax expense	-	-	(1,968)	(1,968)
Total non-cash adjustments	(13,765)	(17)	(2,327)	(16,109)
Total segment assets	96,393	93,170	31,697	221,260
Total segment liabilities	(24,194)	(1,014)	(5,742)	(30,950)
Net segment assets	72,199	92,156	25,955	190,310

2 Revenue

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Revenue from continuing operations		
Gold sales	<u>117,338</u>	109,134
Other revenue		
Interest income	<u>454</u>	490
Total revenue	<u>117,792</u>	109,624

(a) Revenue

Revenue is measured at the fair value of the consideration received or receivable. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met where applicable.

(b) Gold Sales

Revenue from gold sales is recognised where there has been a transfer of risks and rewards from the Group to an external party, no further processing is required by the Group, quality and quantity has been determined with reasonable accuracy and collectability is probable.

(c) Interest Income

Interest is recognised as it is accrued using the effective interest method.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

3 Expenses

	Notes	Year ended	
		30 June 2017 \$'000	30 June 2016 \$'000
Cost of sales			
Cash costs of production		77,584	76,236
Deferred stripping costs capitalised		(26,603)	(15,740)
Inventory product movement		4,684	(601)
Inventory product provision for net realisable value		(2,024)	177
Depreciation and amortisation		42,265	29,929
Royalties and selling costs		3,432	3,251
Share based payments		-	2,099
		99,338	95,351
Other expenses			
Impairment charges	9	39,975	-
Restructuring provision	11(g)	2,965	-
Corporate administration		2,098	2,002
Employee remuneration and benefits expensed		2,366	2,019
Share based payments		142	1,120
Professional fees and consulting services		1,229	1,271
Exploration expenditure provided for or written off		165	116
Directors' fees and salaries expensed		588	580
Depreciation		279	260
Dubbo project expenses not capitalised		997	659
Non-core project expenses		722	122
		51,526	8,149

(a) Cash costs of production

Cash costs of production include ore and waste mining costs, processing costs and site administration and support costs. Cash costs of production include \$20,139,000 of employee remuneration and benefits (2016: \$18,238,000).

(b) Deferred stripping costs capitalised

Stripping costs capitalised represent the costs incurred in the development and production phase of a mine and are capitalised as part of the cost of constructing the mine and subsequently amortised over the useful life of the ore body that access is provided to on a units-of-production basis.

Refer to note 7(d)(i) for further detail on the Group's accounting policy for deferred stripping costs.

(c) Inventory product movement

Inventory product movement represents the movement in balance sheet inventory of ore stockpiles, gold in circuit and bullion on hand.

Refer to note 7(a)(i) for further details on the Group's accounting policy for inventory.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

3 Expenses (continued)

(d) Inventory product provision for net realisable value

Inventories must be carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs to complete processing and to make a sale. The net realisable value provision equals the decrement between the net realisable value and the carrying value before provision.

Refer to note 7(a)(i) for further details on the Group's accounting policy for inventory.

4 Other income and expense items

(a) Other net income

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Net foreign exchange gains	39	8
Loss on disposal of non-current assets	(146)	(13)
Other income	646	980
	539	975

The other income includes the sale of water available under certain owned water licences of \$169,000 (2016: \$211,000) as well as NSW government payroll tax rebate under the Job Actions Plan of \$28,000 (2016: \$587,000). For for first time this year, income was recognised from the farming activity which started up in May 2016 for agistment and livestock sales of \$290,000.

5 Income tax

(a) Income tax (benefit)/expense

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Deferred tax (benefit)/expense	(4,631)	1,968
Total income tax (benefit)/expense	(4,631)	1,968

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

5 Income tax (continued)

(b) Reconciliation of income tax (benefit)/expense to prima facie tax payable

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
(Loss)/Profit before income tax expense	(33,568)	6,663
Tax at the Australian tax rate of 30.0% (2016 - 30.0%)	(10,070)	1,999
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Tax benefits of deductible equity raising costs	(85)	(339)
Research and development tax incentive	(363)	(526)
Non-deductible share based payments	32	966
Other items	3	37
Subtotal	(10,483)	2,137
Non-recognition of deferred tax asset on temporary differences	7,565	-
Adjustments for current tax of prior periods	(24)	-
Utilisation of previously unrecognised tax losses	(1,689)	(169)
Income tax (benefit)/expense	(4,631)	1,968

(c) Deferred tax assets

	30 June 2017 \$'000	30 June 2016 \$'000
The balance comprises temporary differences attributable to:		
Tax losses	1,066	705
Research and development tax incentive	3,870	3,506
Rehabilitation provisions and assets	4,114	870
Property, plant and equipment	21,587	10,828
Other	2,162	1,112
Total deferred tax assets	32,799	17,021
Set-off of deferred tax liabilities pursuant to set-off provisions	(25,234)	(17,021)
Net deferred tax assets	7,565	-
De-recognition of deferred tax assets	(7,565)	-
Net recognised deferred tax assets	-	-

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

5 Income tax (continued)

(c) Deferred tax assets (continued)

Movements	Tax losses \$'000	Rehabilitation provision and assets \$'000	Property, plant and equipment \$'000	R&D tax incentive credits \$'000	Other \$'000	Total \$'000
At 1 July 2015	2,898	844	10,148	1,919	1,302	17,111
Charged/(credited)						
- to profit or loss	(2,193)	26	680	1,587	105	205
- directly to equity	-	-	-	-	(295)	(295)
At 30 June 2016	<u>705</u>	<u>870</u>	<u>10,828</u>	<u>3,506</u>	<u>1,112</u>	<u>17,021</u>
At 1 July 2016	705	870	10,828	3,506	1,112	17,021
Charged/(credited)						
- to profit or loss	361	3,244	10,759	364	934	15,662
- directly to equity	-	-	-	-	116	116
At 30 June 2017	<u>1,066</u>	<u>4,114</u>	<u>21,587</u>	<u>3,870</u>	<u>2,162</u>	<u>32,799</u>
De-recognition of deferred tax asset charged to profit or loss						(7,565)
Net recognised deferred tax assets available for offset against deferred tax liabilities						<u>25,234</u>

(d) Deferred tax liabilities

	30 June 2017 \$'000	30 June 2016 \$'000
The balance comprises temporary differences attributable to:		
Exploration expenditure	(24,932)	(21,766)
Other	(302)	(2)
Total deferred tax liabilities	<u>(25,234)</u>	<u>(21,768)</u>
Set-off of deferred tax assets	25,234	17,021
Net recognised deferred tax liabilities	<u>-</u>	<u>(4,747)</u>

Movements	Exploration expenditure \$'000	Other \$'000	Total \$'000
At 1 July 2015	19,575	20	19,595
Charged/(credited)			
- to profit or loss	2,191	(18)	2,173
At 30 June 2016	<u>21,766</u>	<u>2</u>	<u>21,768</u>
At 1 July 2016	21,766	2	21,768
Charged/(credited)			
- to profit or loss	3,166	300	3,466
At 30 June 2017	<u>24,932</u>	<u>302</u>	<u>25,234</u>

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

5 Income tax (continued)

(e) Deferred tax recognised directly in equity

	30 June 2017 \$'000	30 June 2016 \$'000
Relating to equity raising costs	<u>(116)</u>	295

(f) Unrecognised temporary differences and tax losses

Unrecognised tax losses	<u>19,618</u>	20,602
Potential tax benefit at 30% (2016: 30%)	<u>5,885</u>	6,181

The potential benefit of carried forward tax losses will only be obtained if taxable income is derived of a nature and amount sufficient to enable the benefit from the deductions to be realised. In accordance with the Group's policies for deferred taxes, a deferred tax asset is recognised only if it is probable that sufficient future taxable income will be generated to offset against the asset.

Determination of future taxable profits requires estimates and assumptions as to future events and circumstances including commodity prices, ore resources, exchange rates, future capital requirements, future operational performance, the timing of estimated cash flows, the ability to successfully develop and commercially exploit resources.

Tax legislation prescribes the rate at which tax losses transferred from entities joining a tax consolidation group can be applied to taxable incomes and this rate is diluted by changes in ownership, including capital raisings. As a result the reduction in the rate at which the losses can be applied to future taxable incomes, the period of time over which it is forecast that these losses may be utilised has extended beyond that which management considers prudent to support their continued recognition for accounting purposes. Accordingly no deferred tax asset has been recognised for certain tax losses. Recognition for accounting purposes does not impact the ability of the Group to utilise the losses to reduce future taxable profits.

Alkane Resources Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

	30 June 2017 \$'000	30 June 2016 \$'000
Unrecognised temporary differences	<u>25,217</u>	147
Potential tax benefit at 30% (2016: 30%)	<u>7,565</u>	44

Deferred tax assets relating to deductible temporary differences can only be recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary difference can be utilised. The deferred tax asset relating to impairment expense has not been recognised at this time as it is not probable that sufficient future taxable profits will be available against which to offset the deductible temporary differences. Recognition for accounting purposes does not impact the ability of the Group to utilise the deductible temporary differences to reduce future taxable profits.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

6 Financial assets and financial liabilities

This note provides information about the Group's financial instruments, including:

- an overview of all financial instruments held by the Group;
- specific information about each type of financial instrument;
- accounting policies; and
- information about determining the fair value of the instruments, including judgements and estimation uncertainty involved.

	30 Jun 2017	30 June 2016
Notes	\$'000	\$'000
Financial assets at amortised cost		
Cash and cash equivalents	6(a) 41,969	24,455
Receivables	358	24
Other financial assets	4,233	7,197
	<u>46,560</u>	<u>31,676</u>

The receivables balance above excludes prepayments and tax receivable balances which do not meet the definition of financial assets. Refer to note 6(b) for total receivables balance.

The financial assets are presented as current assets as management intends to dispose of them within 12 months of the end of the reporting period. Other financial assets are not expected to be disposed of within 12 months and are presented as non current assets.

	30 June 2017	30 June 2016
Notes	\$'000	\$'000
Financial liabilities at amortised cost		
Trade and other payables	6(d) 11,166	8,745

(a) Cash and cash equivalents

	30 June 2017	30 June 2016
	\$'000	\$'000
Cash at bank and on hand	38,969	24,455
Deposits at call	3,000	-
	<u>41,969</u>	<u>24,455</u>

Cash at bank at balance date weighted average interest rate was 2.0% (2016: 0.9%).

(i) Classification as cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

6 Financial assets and financial liabilities (continued)

(b) Receivables

	30 June 2017 \$'000	30 June 2016 \$'000
Prepayments	692	849
GST and fuel tax credit receivable	1,395	847
Other receivables	358	24
	2,445	1,720

(i) Classification as receivables

Other receivables generally arise from transactions outside the usual operating activities of the Group. Collateral is not normally obtained.

Receivables are recognised initially at fair value and then subsequently measured at amortised cost, less provision for impairment. If collection of the amounts is expected in one year or less they are classified as current assets, if not, they are presented as non-current assets.

Collectability of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the statement of comprehensive income.

(ii) Fair value of receivables

Due to the short-term nature of the current receivables, their carrying amount is assumed to be the same as their fair value.

(iii) Impairment and risk exposure

Information about the impairment of receivables, their credit quality and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in note 12.

(c) Other financial assets

	30 June 2017 \$'000	30 June 2016 \$'000
Non-current assets		
Interest bearing security deposits	4,233	7,197

The above deposits are held by financial institutions or regulatory bodies as security for rehabilitation obligations as required under the respective exploration and mining leases or as required under agreement. The Group utilised a short term performance bond facility during the year resulting in the return of some of the existing security deposits totalling \$4,991,000. At balance date \$2,000,000 of this new facility was backed by security deposits, with the remainder to be backed by 29 September 2017. Refer to note 22 for details of assets pledged as security.

All interest bearing security deposits are held in Australian dollars and therefore there is no exposure to foreign currency risk. Please refer to note 12(a) for the Group's exposure to interest rate risk. The fair value of other financial assets is equal to its carrying value.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

6 Financial assets and financial liabilities (continued)

(d) Trade and other payables

	30 June 2017 \$'000	30 June 2016 \$'000
Current liabilities		
Trade payables	5,629	2,647
Other payables	5,537	6,098
	<u>11,166</u>	<u>8,745</u>

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. Current trade and other payables are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented in current liabilities unless payment is not due within 12 months from the reporting date.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

7 Non-financial assets and liabilities

This note provides information about the Group's non-financial assets and liabilities, including:

- specific information about each type of non-financial asset and non-financial liability
 - inventories (note 7(a))
 - biological assets (note 7(b))
 - exploration and evaluation (note 7(c))
 - property, plant and equipment (note 7(d))
 - provisions (note 7(e))
- accounting policies for the above assets and liabilities
- information about determining the fair value of the assets and liabilities, including judgements and estimation uncertainty involved.

(a) Inventories

	30 June 2017 \$'000	30 June 2016 \$'000
Current assets		
Ore stockpiles	4,545	3,450
Gold in circuit	1,581	2,359
Bullion on hand	1,736	4,713
Consumable stores	1,782	1,872
	<u>9,644</u>	<u>12,394</u>

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

7 Non-financial assets and liabilities (continued)

(a) Inventories (continued)

(i) Assigning costs to inventories

The cost of individual items of inventory are determined using weighted average costs. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to ore stockpiles, gold in circuit and bullion on hand on the basis of weighted average costs. Inventories must be carried at the lower of cost and net realisable value. At balance date ore stockpiles, gold in circuit, bullion on hand and consumable stores were carried at cost (2016: ore stockpiles, gold in circuit and bullion on hand were carried at net realisable value, with consumable stores carried at cost).

No provision was recorded at 30 June 2017 to write down inventories to their recoverable value (2016: \$2,024,000). The movement in the provision of \$2,024,000 (2016: \$177,000) was recognised as a credit or reversal expense during the year and included in cost of sales in the statement of comprehensive income.

Consumable stores include diesel, explosives and other consumables items.

(b) Biological assets

	30 June 2017 \$'000	30 June 2016 \$'000
Current assets	<u>218</u>	-
Non-current assets	<u>507</u>	-

Biological assets comprise sheep and cattle which were acquired during the year by Toongi Pastoral Company Pty Ltd as part of the ramp up of farming operations on the surrounding land to the Dubbo Project mining lease.

(c) Exploration and evaluation

	30 June 2017 \$'000	30 June 2016 \$'000
Opening balance	72,553	65,251
Expenditure during the year	10,719	7,418
Amounts provided for or written off	(165)	(116)
Closing balance	<u>83,107</u>	<u>72,553</u>

Exploration and evaluation costs are carried forward on an area of interest basis. Costs are recognised and carried forward where rights to tenure of the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest; or
- activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant exploration and evaluation activities in, or in relation to, the area of interest are continuing.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

7 Non-financial assets and liabilities (continued)

(c) Exploration and evaluation (continued)

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets, or whenever facts or circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets fair value less costs of disposal and their value in use.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine properties under development. No amortisation is charged during the exploration and evaluation phase.

Recoverability of the carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

There may exist, on the Group's exploration properties, areas subject to claim under native title or containing sacred sites or sites of significance to Aboriginal people. As a result, exploration properties or areas within tenements may be subject to exploration or mining restrictions.

(d) Property, plant and equipment

Year ended 30 June 2017	Land and buildings \$'000	Plant and equipment \$'000	Capital WIP \$'000	Mine properties \$'000	Total \$'000
Opening cost	39,616	72,204	708	110,282	222,810
Additions	-	-	3,548	36,855	40,403
Transfers between classes	113	1,172	(3,860)	2,575	-
Disposals	(16)	(513)	-	-	(529)
Net movement	97	659	(312)	39,430	39,874
Closing cost	39,713	72,863	396	149,712	262,684
Opening accumulated depreciation and impairment	(7,661)	(45,676)	-	(66,532)	(119,869)
Depreciation charge	(1,570)	(9,969)	-	(31,005)	(42,544)
Disposals	-	332	-	-	332
Impairment charge	(2,317)	(10,219)	-	(27,439)	(39,975)
Net movement	(3,887)	(19,856)	-	(58,444)	(82,187)
Closing accumulated depreciation and impairment	(11,549)	(65,532)	-	(124,976)	(202,057)
Closing net carrying value	28,164	7,331	396	24,736	60,627

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

7 Non-financial assets and liabilities (continued)

(d) Property, plant and equipment (continued)

Year ended 30 June 2016	Land and buildings \$'000	Plant and equipment \$'000	Capital WIP \$'000	Mine properties \$'000	Total \$'000
Opening cost	25,660	70,006	819	83,011	179,496
Additions	-	-	17,196	26,186	43,382
Disposals	-	(68)	-	-	(68)
Transfers between classes	13,956	2,266	(17,307)	1,085	-
Net movement	13,956	2,198	(111)	27,271	43,314
Closing cost	39,616	72,204	708	110,282	222,810
Opening accumulated depreciation and impairment	(6,072)	(35,752)	-	(47,885)	(89,709)
Depreciation charge	(1,589)	(9,953)	-	(18,647)	(30,189)
Disposals	-	29	-	-	29
Net movement	(1,589)	(9,924)	-	(18,647)	(30,160)
Closing accumulated depreciation and impairment	(7,661)	(45,676)	-	(66,532)	(119,869)
Closing net carrying value	31,955	26,528	708	43,750	102,941

All property, plant and equipment is stated at historical cost less accumulated depreciation and impairment charges. Historical cost includes:

- expenditure that is directly attributable to the acquisition of the items;
- direct costs associated with the commissioning of plant and equipment including pre-commissioning costs in testing the processing plant;
- where the asset has been constructed by the Group, the cost of all materials used in construction, direct labour on the project and project management costs associated with the asset; and
- the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance is charged to profit or loss during the reporting period in which they are incurred. Depreciation is calculated using the straight-line method to allocate their cost over their estimated useful lives as follows:

Buildings	units of production
Plant and equipment	units of production
Mining properties	units of production
Office equipment	3 - 5 years
Furniture and fittings	4 years
Motor vehicles	4 - 5 years
Software	2 - 3 years

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

7 Non-financial assets and liabilities (continued)

(d) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the statement of comprehensive income.

(i) Deferred stripping costs capitalised

Overburden and other mine waste materials removed during the initial development of an open pit mine in order to access the mineral deposit is referred to as development stripping. Costs directly attributable to development stripping inclusive of an allocation of relevant overhead expenditure, are capitalised as a non-current asset in mine properties. Capitalisation of development stripping costs cease at the time that ore begins to be extracted from the mine. Development stripping costs are amortised over the useful life of the ore body that access has been provided to on a units of production basis.

Production stripping commences at the time that ore begins to be extracted from the mine and normally continues throughout the life of a mine. The costs of production stripping are charged to the income statement as operating costs, when the current ratio of waste material to ore extracted for a component of the ore body is below the expected stripping ratio of that component. When the ratio of waste to ore is not expected to be constant, production stripping costs are accounted for as follows:

- all costs are initially charged to profit or loss and classified as operating costs;
- when the current ratio of waste to ore is greater than the estimated ratio of a component of the ore body, a portion of the stripping costs, inclusive of an allocation of relevant overhead expenditure, is capitalised to mine properties; and
- the capitalised stripping asset is amortised over the useful life of the ore body to which access has been improved.

The amount of production stripping costs capitalised or charged in a reporting period is determined so that the stripping expense for the period reflects the estimated strip ratio of the ore component. Changes to the estimated waste to ore ratio of a component of the ore body are accounted for prospectively from the date of change. Deferred stripping capitalised is included in mine properties.

(ii) Mine properties

Mine properties represent the accumulation of all exploration, evaluation and development expenditure incurred by the Group in relation to areas of interest for which the technical feasibility and commercial viability of the extraction of mineral resources are demonstrable.

When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the mine property only when it is probable that the additional future economic benefits associated with the expenditure will flow to the Group. Otherwise such expenditure is classified as part of the cost of production. Mine properties are amortised on a units of production basis over the economically recoverable resources of the mine concerned. The unit of production was changed from tonnes milled for mine properties other than deferred stripping to ounces produced (refer note 11).

Refer to note 9 for the Group's accounting policy in relation to impairment of non-current assets.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

7 Non-financial assets and liabilities (continued)

(e) Provisions

	30 June 2017			30 June 2016		
	Current \$'000	Non-current \$'000	Total \$'000	Current \$'000	Non-current \$'000	Total \$'000
Employee benefits	1,993	617	2,610	1,703	422	2,125
Rehabilitation	5,571	15,464	21,035	-	15,333	15,333
Restructuring	558	2,407	2,965	-	-	-
Other provisions	47	-	47	-	-	-
	8,169	18,488	26,657	1,703	15,755	17,458

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised in finance charges.

(ii) Information about individual provisions and significant estimates

Employee benefits

The provision for employee benefits relates to the Group's liability for long service leave and annual leave.

The current provision represents amounts for annual leave that are expected to be settled within 12 months of the end of the period in which the employees render the related service in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for long service leave not expected to vest within 12 months after the end of the period in which the employees render the related service is recognised in the non-current provision for employee benefits and measured at the present value of expected future payments to be made in respect of services provided up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms and currencies that match as closely as possible, the estimated future cash outflows. Where the Group does not have an unconditional right to defer settlement for any annual or long service leave owed, it is classified as a current provision regardless of when the Group expects to realise the provision.

Restructuring provision

The provision for restructuring relates to the Group's liability for severance payments for the current open cut gold mining operations.

The current provision represents restructuring amounts that are expected to be settled within 12 months of the end of the period in which the employees render the related service in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

The liability for restructuring benefits not expected to vest within 12 months after the end of the period is recognised in the non-current provision. Consideration is given to the expected employee turnover and other factors in determining the value of the restructuring benefits. The non-current provision has not been discounted to present value as the impact of discounting is not material.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

7 Non-financial assets and liabilities (continued)

(e) Provisions (continued)

Rehabilitation and mine closure

The Group has obligations to dismantle and remove certain items of property, plant and equipment and to restore and rehabilitate the land on which they sit.

A provision is raised for the estimated cost of settling the rehabilitation and restoration obligations existing at balance date, discounted to present value using an appropriate pre-tax discount rate.

Where the obligation is related to an item of property, plant and equipment, its cost includes the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located. Costs that relate to obligations arising from waste created by the production process are recognised as production costs in the period in which they arise.

The discounted value reflects a combination of management's assessment of the nature and extent of the work required, the future cost of performing the work required, the timing of cash flows and the discount rate. The increase in the provision due to the passage of time of \$367,000 (2016: \$188,000) was recognised in finance charges in the statement of comprehensive income.

The provisions are reassessed at least annually. A change in any of the assumptions used to determine the provisions could have a material impact on the carrying value of the provision.

(iii) Movements in provision

Movements in rehabilitation and mine closure provision during the financial year are set out below:

	30 June 2017 \$'000	30 June 2016 \$'000
Rehabilitation and mine closure		
Opening balance	15,333	6,552
Additional provision incurred	4,539	8,011
Expenditure during the year	(1,454)	(1,113)
Unwinding of discount	367	188
Change in estimate	2,250	1,695
Closing balance	<u>21,035</u>	<u>15,333</u>

8 Equity

(a) Contributed equity

	30 June 2017 Shares	30 June 2016 Shares	30 June 2017 \$'000	30 June 2016 \$'000
Notes				
Ordinary shares - fully paid	8(a)(ii) <u>505,215,669</u>	476,159,490	<u>219,948</u>	213,791

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

8 Equity (continued)

(a) Contributed equity (continued)

(ii) Movements in ordinary share capital

Details	Number of shares	\$'000
Opening balance 1 July 2015	414,218,670	201,845
Share placement	61,940,820	12,388
	<hr/>	<hr/>
	476,159,490	214,233
Less: Transaction costs arising on share issues	-	(147)
Deferred tax credit recognised directly in equity	-	(295)
Balance 30 June 2016	<hr/>	<hr/>
	476,159,490	213,791
Opening balance 1 July 2016	476,159,490	213,791
Employee share scheme issue	8,348,983	2,570
Share placement	20,707,196	4,141
	<hr/>	<hr/>
	505,215,669	220,502
Less: Transaction costs arising on share issues	-	(670)
Deferred tax credit recognised directly in equity	-	116
Balance 30 June 2017	<hr/>	<hr/>
	505,215,669	219,948

During the 2016 financial year the Company undertook a one for five non-renounceable entitlement issue at an issue price of \$0.20 per new share. The offer closed on 23 May 2016 raising \$12,388,000 (before costs) and resulting in the issue of 61,940,820 new shares. The shortfall of 20,707,196 shares was placed to a number of institutional and professional investors on 7 July 2016 raising \$4,141,000 (before costs).

(iii) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value.

(b) Reserves

Share-based payments

The share-based payments reserve is used to recognise:

- the grant date fair value of shares issued to employees
- the grant date fair value of deferred rights granted to employees but not yet vested

(c) Accumulated losses

Movements in accumulated losses were as follows:

	30 June 2017 \$'000	30 June 2016 \$'000
Opening balance	(27,414)	(32,109)
Net (loss)/profit for the year	(28,937)	4,695
Closing balance	<hr/>	<hr/>
	(56,351)	(27,414)

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

9 Impairment of non-current assets

30 June 2017 \$'000	30 June 2016 \$'000
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Impairment of non-current assets

Gold cash generating unit	39,975	-
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At each balance date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have been subject to an impairment charge or reversal of impairment charge. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent if any, of the impairment charge or reversal. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit (CGU) to which the asset belongs.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment charge is recognised immediately in the statement of comprehensive income.

Where an impairment charge subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment charge been recognised for the asset or CGU in prior years. A reversal of an impairment charge is recognised immediately in the statement of comprehensive income.

The recoverable amount of a CGU is the higher of its fair value less costs of disposing (FVLCD) and its value in use (VIU). FVLCD is the best estimate of the amount obtainable from the sale of a CGU in an arm's length transaction between knowledgeable willing parties, less the costs of disposal. This estimate is determined on the basis of best available market information taking into account specific conditions.

VIU is the present value of the future cash flows expected to be derived from the CGU or group of CGU's. Cash flow projections are based on economic and regulatory assumptions and forecast trading conditions prepared by management.

As a result of the significant and prolonged impact that weather has had on the operations and performance of the Tomingley Gold Operation during the first half financial year, management have undertaken a review of the carrying value of the non-current assets relating to the gold cash generating unit. The review was further impacted by drilling performed during the period on the proposed underground mine which has led to a revision of certain sections of the geological resource model resulting in a reduction in the underground mineral inventory. An update of the detailed mine design, scheduling and financials incorporating the revised geological model is in progress. Management estimates that the impact of this reduction in mineral inventory means that the value of the proposed underground operation should be reduced. Resources and reserves are updated annually, around August. Management remain confident based on the strong geological understanding of the deposit that there is significant value to be unlocked that could lead to a profitable underground mine and is working on the most cost effective means to identify additions to the mineral inventory to offset the recent changes.

A further impairment was recorded after completion of the annual business planning process for financial year 2018 which saw the removal of a scheduled cutback in the Caloma One pit. The cutback requires the use of smaller equipment than currently utilised at the operation and whilst being designed and able to be executed was removed from the mining schedule until other ore sources are available concurrently to manage the execution risk. Management will continue to review the economics and timing of the cutback for possible inclusion in future mining schedules.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

9 Impairment of non-current assets (continued)

The key assumptions used in the FVLCD calculations include:

- commercially recoverable mineral inventories
- production volumes and efficiencies which can include potential future expansions and improvements in efficiency
- the cash costs of production adjusted for the effects of taxation
- the forecast AUD/USD foreign exchange rate
- the forecast USD gold price
- cash flows include the effects of taxation
- a post-tax discount rate reflecting the time value of money, the price for bearing the uncertainty inherent in the asset and other relevant factors

VIU is the present value of the estimated future cash flows expected to be derived from the cash generating unit or group of cash generating unit's in its current condition. Cash flow projections are based on economic and regulatory assumptions and forecast trading conditions prepared by management.

The key assumptions used in the VIU calculations include:

- commercially recoverable mineral inventories
- production volumes and efficiencies based on the assets current operating capacity and efficiency
- the cash costs of production
- the balance date AUD/USD foreign exchange rate
- cash flows are not adjusted for the effects of taxation
- the balance date USD gold price
- a pre-tax discount rate was used, which equated to a post-tax rate of 8%, reflecting the time value of money, the price for bearing the uncertainty inherent in the asset and other relevant factors

The VIU valuation methodology provided the higher recoverable amount and therefore the gold cash generating unit has been valued on that basis. A total impairment expense of \$39,975,000 (2016: Nil) has been recorded against the property, plant and equipment of the gold cash generating unit.

The deferred tax asset relating to the impairment expense has not been recorded as at this time it is not probable that sufficient future taxable profits will be available to utilise all of the Group's available deferred tax assets. The Group will reassess at each reporting date whether the unrecognised deferred tax asset can subsequently be recognised. Refer to note 5 for details.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

10 Cash flow information

(a) Reconciliation of (loss)/profit after income tax to net cash inflow from operating activities

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
(Loss)/profit after tax	<u>(28,937)</u>	4,695
Non-cash adjustments		
Depreciation and amortisation	42,544	30,189
Non-cash finance charges	367	188
Impairment charges	39,975	-
Share-based payments	(32)	3,219
Net loss on disposal of non-current assets	146	13
Exploration costs provided for or written off	165	116
Change in operating assets and liabilities:		
Increase in trade and other receivables	(577)	(130)
Decrease/(increase) in inventories	2,004	(889)
Increase/(decrease) in trade and other payables	226	(2,253)
(Decrease)/increase in deferred tax balances	(4,631)	1,968
Increase in provisions	3,498	370
Net cash inflow from operating activities	<u>54,748</u>	<u>37,486</u>

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

Risk

This section of the notes discusses the Group's exposure to various risks and shows how these could affect the Group's financial position and performance.

11	Critical accounting estimates and judgements	51
12	Financial risk management	52
13	Capital risk management	54

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

11 Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

(a) Carrying value of non-current assets

Non-current assets include capitalised exploration and evaluation expenditures and mine properties. The Group has capitalised significant exploration and evaluation expenditure on the basis either that such expenditure is expected to be recouped through future successful development (or alternatively sale) of the areas of interest concerned or on the basis that it is not yet possible to assess whether it will be recouped and activities are planned to enable that determination.

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself, or, if not, whether it successfully recovers the related exploration asset through sale. The future recoverability of mine properties is dependent on the generation of sufficient future cash flows from operations (or alternately sale). Factors that could impact the future recoverability of exploration and evaluation and mine properties include the level of reserves and resources, future technological changes, costs of drilling and production, production rates, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices and exchange rates.

Estimates of recoverable quantities of resources and reserves also include assumptions requiring significant judgment as detailed in the resource and reserve statements.

The Group has recorded an impairment against the gold cash generating unit in the financial year. The preparation of valuations to support the carrying value of non-current assets requires significant judgement by management. Refer to note 9 for details.

(b) Depreciation of property, plant and equipment

Non-current assets include property, plant and equipment. The Group reviews the useful lives of depreciable asset at each reporting date or when there is a change in the pattern in which the asset's future economic benefits are expected to be consumed, based on the expected utilisation of the assets. Depreciation and amortisation are calculated using units of production for mine development, rehabilitation asset and mining plant and equipment. Up to 31 December 2016, tonnes milled was the unit of production. From 1 January 2017 the unit of production was changed to ounces produced. The change was made as a result of the greater variability in ore grades in the remaining scheduled mine life leading to ounces produced better matching with the recognition of revenues. The impact of the change was to bring forward the recognition of \$6,284,000 in depreciation and amortisation charges into the current financial year.

(c) Rehabilitation and mine closure provisions

These provisions represent the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment and to rehabilitate exploration and mining leases. The discounted value reflects a combination of management's assessment of the nature and extent of the work required, the future cost of performing the work required, the timing of cash flows and the discount rate. Changes to one or more of these assumptions is likely to result in a change to the carrying value of the provision and the related asset or a change to profit and loss in accordance with the Group's accounting policy stated in note 7(e)(ii).

(d) Net realisable value and classification of inventory

The Group's assessment of the net realisable value and classification of its inventory requires the use of estimates, including the estimation of the relevant future commodity or product price, future processing costs and the likely timing of sale.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

11 Critical accounting estimates and judgements (continued)

(e) Income taxes

The Group is subject to income taxes in Australia. Significant judgement is required in determining the provision for income taxes. There are certain transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group estimates its tax liabilities based on the Group's understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

In addition, the Group has recognised deferred tax assets relating to carried forward tax losses to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority against which the unused tax losses can be utilised. Utilisation of the tax losses also depends on the ability of the entity to satisfy certain tests at the time the losses are recouped. Refer to note 5(c) and 5(f) for the current recognition of tax losses.

The deferred tax asset relating to impairment expense has not been recorded at this time as it is not probable that sufficient future taxable profits will be available to utilise the Group's available deferred tax assets. Refer to note 5(f) for details.

(f) Share based payments

The Group measures the cost of equity settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value for share appreciation rights is determined with the assistance of an external valuer. The number of performance rights issued under the long term incentive plan are adjusted to reflect management's assessment of the probability of meeting the targets and service condition. The related assumptions are set out in note 19. The accounting estimates and assumptions relating to equity settled share based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(g) Provision for restructuring costs

Restructuring costs are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises restructuring costs when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Significant judgement is required in determining the probability of retention of employees. Refer note 7(e).

12 Financial risk management

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, equity price risk, commodity price risk and interest risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as gold forward contracts to mitigate certain risk exposures.

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors' has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the Group through regular reviews of the risks and mitigating strategies.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

12 Financial risk management (continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, equity prices, commodity prices and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) Foreign exchange risk

The Group's sales revenue for gold is denominated in US dollars and the majority of operating costs are denominated in Australian dollars, hence the Group's cash flow is significantly exposed to movement in the A\$:US\$ exchange rate. The Group mitigates this risk through the use of derivative instruments, including but not limited to Australian dollar denominated gold forward contracts.

These Australian dollar denominated gold forward contracts are entered into and continue to be held for the purpose of physical delivery of gold bullion. As a result, the contracts are not recorded in the financial statements. Refer to notes 14(a) and 15(c) for further information.

(ii) Commodity price risk

The Group's sales revenues are generated from the sale of gold. Accordingly, the Group's revenues are exposed to commodity price fluctuations, primarily gold. The Group mitigates this risk through the use of derivative instruments, including but not limited to Australian dollar denominated gold forward contracts.

(iii) Interest rate risk

The Group's main interest rate risk arises through its cash and cash equivalents and other financial assets held within financial institutions. The Group minimises this risk by utilising fixed rate instruments where appropriate.

Summarised market risk sensitivity analysis

	Interest rate risk Impact on (loss)/profit after tax					
	30 June 2017			30 June 2016		
	Carrying amount \$'000	+100BP \$'000	-100BP \$'000	Carrying Amount \$'000	+100BP \$'000	-100BP \$'000
Financial assets						
Cash and cash equivalents	41,969	294	(294)	24,455	171	(171)
Receivables *	358	-	-	273	-	-
Other financial assets	4,233	30	(30)	7,197	50	(50)
Financial liabilities						
Trade and other payables	(11,165)	-	-	(8,745)	-	-
Total increase / (decrease) in profit		324	(324)		221	(221)

* The receivables balance excludes prepayments and tax balances which do not meet the definition of financial assets or liabilities.

There is no exposure to foreign exchange risk or commodity price risk for the above financial assets and liabilities.

(b) Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposure to customers, including outstanding receivables and committed transactions.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

12 Financial risk management (continued)

(b) Credit risk (continued)

(i) Risk management

The Group limits its exposure to credit risk in relation to cash and cash equivalents and other financial assets by only utilising banks and financial institutions with acceptable credit ratings.

(ii) Credit quality

Tax receivables and prepayments do not meet the definition of financial assets. None of the Group's receivables were past due or impaired at balance date.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial liabilities as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Board of Directors' monitors liquidity levels on an ongoing basis.

The Group's financial liabilities generally mature within 3 months, therefore the carrying amount equals the cash flow required to settle the liability.

13 Capital risk management

The Group's objectives when managing capital are to safeguard the ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may return capital to shareholders, pay dividends to shareholders, issue new shares or sell assets.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

Unrecognised items

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

14	Contingent liabilities and contingent assets	56
15	Commitments	56
16	Events occurring after the reporting period	57

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

14 Contingent liabilities and contingent assets

(a) Contingent liabilities

The Group has contingent liabilities estimated at up to \$5,100,000 for the potential acquisition of several parcels of land surrounding the Dubbo Project (2016: \$3,400,000). The landholders have the right to require subsidiary Australian Strategic Materials Ltd to acquire their property as provided for in the development consent conditions for the Dubbo Project or under agreement with Australia Strategic Materials Ltd.

(b) Contingent assets

The Group has entered into forward gold sales contracts which are not accounted for on the balance sheet. A contingent asset of \$1,601,000 (2016: contingent liability \$7,074,000) existed at the balance date in the event that the contracts are not settled by the physical delivery of gold.

15 Commitments

(a) Exploration and mining lease commitments

In order to maintain current rights of tenure to exploration and mining tenements, the Group will be required to outlay the amounts disclosed in the below table. These costs are discretionary, however if the expenditure commitments are not met then the associated exploration and mining leases may be relinquished.

	30 June 2017 \$'000	30 June 2016 \$'000
Within one year	<u>1,175</u>	1,373

(b) Non-cancellable operating leases

The Group leases various offices under operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	30 June 2017 \$'000	30 June 2016 \$'000
Within one year	381	358
Later than one year but not later than five years	321	-
	<u>702</u>	<u>358</u>

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

15 Commitments (continued)

(c) Physical gold delivery commitments

As part of its risk management policy, the Group enters into gold forward contracts to manage the gold price of a proportion of anticipated sales of gold. During the year as part of the financing arrangement with Macquarie Bank Ltd, the Group entered into two gold call option contracts totalling 12,000 ounces.

The gold forward and option contracts disclosed below did not meet the criteria of financial instruments for accounting purposes on the basis that they met the normal purchase / sale exemption because physical gold would be delivered into the contract. Accordingly, the contracts were accounted for as sale contracts with revenue recognised in the period in which the gold commitment was met.

	Gold for physical delivery Ounces	Contracted gold sale price per ounce (\$)	Value of committed sales \$'000
30 June 2017			
Fixed forward contracts			
Within one year	17,500	1,716	30,030
Gold call options			
Within one year	12,000	1,771	21,252
30 June 2016			
Fixed forward contracts			
Within one year	50,900	1,683	85,680
Later than one year but not later than five years	13,000	1,715	22,300
Total	63,900		107,980
Gold call options			
Later than one year but not later than five years	12,000	1,771	21,252

(d) Capital commitments

Capital expenditure committed for at the end of the reporting period but not recognised as liabilities amounted to \$858,000 (2016: \$1,435,000).

16 Events occurring after the reporting period

No other matter or circumstance has occurred subsequent to period end that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

Other information

This section of the notes includes other information that must be disclosed to comply with the accounting standards and other pronouncements, but that is not immediately related to individual line items in the financial statements.

17	Interests in other entities	59
18	Related party transactions	59
19	Share-based payments	60
20	Remuneration of auditors	62
21	Earnings per share	63
22	Assets pledged as security	63
23	Parent entity financial information	64
24	Summary of significant accounting policies	65

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

17 Interests in other entities

The Group's subsidiaries at 30 June 2017 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The state of incorporation or registration is also their principal place of business.

Name of entity	State of incorporation	Ownership interest held by the group	
		2017 %	2016 %
Australian Zirconia Holdings Pty Ltd	Western Australia	100	100
Australian Strategic Materials Ltd	Western Australia	100	100
Tomingley Holdings Pty Ltd	New South Wales	100	100
Tomingley Gold Operations Pty Ltd	New South Wales	100	100
Toongi Pastoral Company Pty Ltd	New South Wales	100	100

18 Related party transactions

(a) Parent entities

The Parent Entity within the Group is Alkane Resources Ltd.

(b) Subsidiaries

Interests in subsidiaries are set out in note 17.

(c) Key Management Personnel compensation

	Year ended	
	30 June 2017 \$	30 June 2016 \$
Short-term employee benefits	1,784,397	1,704,154
Post-employment benefits	141,340	128,355
Long-term benefits	42,600	12,698
Share-based payments	347,520	455,030
	2,315,857	2,300,237

Disclosures relating to Key Management Personnel are set out in the Remuneration Report.

Ms K E Brown is associated with Mineral Administration Services Pty Ltd, a Company which provides corporate administration and company secretarial services to the Group. This fee is disclosed as short term employee benefits in the remuneration report.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

18 Related party transactions (continued)

(d) Transactions with other related parties

The following transactions occurred with related parties:

Nuclear IT, a Director related entity, provides information technology consulting services to the Group which includes the coordination of the purchase of information technology hardware and software for the current year of \$94,000 (2016: \$89,000). The terms are documented in a Service Level Agreement and represent normal commercial terms and conditions.

During the period fees amounting to \$210,000 (2016: \$302,229) were paid to Mineral Administration Services (MAS) in which the company secretary of the Group, Ms K E Brown has a substantial financial interest. MAS provides administration and company secretarial services to the Group.

(e) Related party payables

There were no invoices outstanding at the end of the reporting period in relation to transactions with related parties (2016: \$29,643).

19 Share-based payments

Share-based compensation benefits are provided to employees via the Group's incentive plans. The incentive plans consist of the short term and long term incentive plans for Executive Directors and other Executives and the employee share scheme for all other employees. Information relating to these plans is set out in the remuneration report and below.

The fair value of rights granted under the short term and long term incentive plans is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions and the impact of service conditions are included in assumptions about the number of rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of rights that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in statement of comprehensive income, with a corresponding adjustment to equity.

The initial estimate of fair value for market based and non-vesting conditions is not subsequently adjusted for differences between the number of rights granted and number of rights that vest.

When the rights are exercised, the appropriate amount of shares are transferred to the employee. The proceeds received net of any directly attributable transaction costs are credited directly to equity.

Under the employee share scheme, shares issued by the Group to employees for no cash consideration vest immediately on grant date. On this date, the market value of the shares issued is recognised as an employee benefits expense with a corresponding increase in equity.

The fair value of deferred shares granted to employees for nil consideration under the employee share scheme is recognised as an expense over the relevant service period, being the year to which the incentive relates and the vesting period of the shares. The fair value is measured at the grant date of the shares and is recognised in equity in the share-based payment reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

19 Share-based payments (continued)

Executive Directors and other Executives

The Company's remuneration framework is set out in the remuneration report, including all details of the performance rights and share appreciation rights plans, the associated performance hurdles and vesting criteria.

Participation in the plans is at the discretion of the Board of Directors and no individual has a contractual right to participate in the plans or to receive any guaranteed benefits. Participation is currently restricted to senior Executives within the Group.

The determination of the number of rights that are to vest or be forfeited is made by the Remuneration Committee after the statutory audit has been substantially completed. As such, the actual determination was made after the balance date however details have been included in the tables below as the relevant performance period is the current financial year.

The following tables illustrate the number and weighted average fair value of, and movements in, share rights during the year.

	2017		2016	
	Number of shares rights	Weighted average fair value \$	Number of share rights	Weighted average fair value \$
Performance Rights				
Outstanding at the beginning of the year	7,204,278	0.23	3,907,405	0.21
Issued during the year	-	-	4,945,307	0.25
Vested during the year	(570,553)	0.23	(1,232,047)	0.25
Lapsed during the year	(3,766,930)	0.23	(416,387)	0.25
Outstanding at the end of the year	<u>2,866,795</u>	<u>0.23</u>	<u>7,204,278</u>	<u>0.23</u>

The number of Performance Rights to be granted is determined by the Remuneration Committee with reference to the fair value of each Performance Right which is generally the volume weighted average price for the month preceding the start of the performance period. This will differ from the fair value reported in the table above which is determined at the time of grant.

	2017		2016	
	Number of shares rights	Weighted average fair value \$	Number of share rights	Weighted average fair value \$
Share Appreciation Rights				
Outstanding at the beginning of the year	23,737,499	0.08	10,550,000	0.07
Issued during the year	-	-	13,187,499	0.09
Lapsed during the year	(12,270,312)	0.08	-	-
Outstanding at the end of the year	<u>11,467,187</u>	<u>0.08</u>	<u>23,737,499</u>	<u>0.08</u>

The number of Share Appreciation Rights to be granted is determined by the Remuneration Committee with reference to the fair value of each Share Appreciation Right at the time performance targets are set. This will differ from the fair value reported in the table above which is determined at the time of grant.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

19 Share-based payments (continued)

The Performance Rights, which have non-market based hurdle conditions, have been valued using the Black-Scholes-Merton model to estimate the fair value at valuation date.

The Share Appreciation Rights, which have market based hurdle conditions, have been valued using a Monte Carlo simulation based model to test the likelihood of attaining the Total Shareholder Return hurdle. The Monte Carlo model incorporates the impact of this market based condition on the fair value of the rights.

The following table lists the inputs to the models used.

Grant date	Performance Hurdle	Dividend yield %	Expected stock volatility %	Risk free rate %	Expected life years	Weighted average share price at grant date \$
5/12/2014	TSR and Non-Market	-	65	2.60	2.57	0.07
18/11/2015	TSR and Non-Market	-	70	2.25	2.62	0.09

Expenses arising from share based payments transactions

	Year ended	
	30 June 2017 \$	30 June 2016 \$
Performance rights	(119,322)	267,165
Employee share scheme	(180,913)	2,309,173
Share appreciation rights	442,235	641,792
	142,000	3,218,130

20 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Parent Entity, its related practices and non-related audit firms:

PricewaterhouseCoopers

(i) Audit and other assurance services

	Year ended	
	30 June 2017 \$	30 June 2016 \$
Audit of annual financial statements	120,800	115,600
Review of half year financial statements	61,145	35,950
Other assurance services	-	42,875
Total remuneration for audit and other assurance services	181,945	194,425

(ii) Other services

Other advisory services	166,810	3,500
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Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

21 Earnings per share

(a) Weighted average number of shares used as the denominator

	Year ended	
	2017 Number	2016 Number
Weighted average number of ordinary shares used in denominator in calculating basic profit/(loss) per share	<u>502,874,260</u>	420,783,944
Weighted average number of ordinary shares used as the denominator in calculating diluted profit/(loss) per share	<u>506,617,269</u>	424,809,827

22 Assets pledged as security

As at the date of this report \$4,233,000 (2016: \$7,197,000) in deposits has been provided as security. Refer to note 6(c) for details.

During the period the Group entered into a working capital facility with Macquarie Bank Ltd comprising the following:

- a performance bond facility of \$5,053,000 which of which \$2,000,000 was cash backed at balance date with the balance due to be cash backed by 29 September 2017; and
- a project loan facility which was fully drawn to \$7,000,000 during the period and repaid in full as at balance date; and
- a hedging facility.

The Group provided the following securities for the working capital facility:

- a combination security agreement providing security over all of the assets of Tomingley Holdings Pty Ltd and Tomingley Gold Operations Pty Ltd;
- a first ranking registered mining mortgage over the Tomingley Mining Lease in accordance with the *Mining Act 1992 (NSW)*;
- land mortgages and a water rights mortgage over the holdings of Tomingley Gold Operations Pty Ltd; and
- a guarantee provided by Alkane Resources Ltd and Tomingley Holdings Pty Ltd.

The Australian-dollar denominated project loan is subject to a floating rate that is fixed each quarter and loan which is carried at amortised cost. The facility did not have any impact on the entity's exposure to foreign exchange and is subject to interest rate risk. The remainder of the borrowings relate to the insurance premium funding facility which is a fixed interest rate Australian-dollar denominated loan.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

22 Assets pledged as security (continued)

The table below represents the carrying value of the assets pledged as security:

	30 June 2017 \$'000	30 June 2016 \$'000
Current		
Cash and cash equivalents	7,080	14,571
Receivables	1,987	972
Inventories	9,630	12,394
Total current assets pledged as security	<u>18,697</u>	<u>27,937</u>
Non-current		
Plant and equipment	33,608	75,939
Total non-current assets pledged as security	<u>33,608</u>	<u>75,939</u>
Total assets pledged as security	<u>52,305</u>	<u>103,876</u>

23 Parent entity financial information

(a) Summary financial information

The individual financial statements for the Parent Entity show the following aggregate amounts:

	30 June 2017 \$'000	30 June 2016 \$'000
Balance sheet		
Current assets	3,517	10,086
Non-current assets	162,339	181,679
Total assets	<u>165,856</u>	<u>191,765</u>
Current liabilities	(1,514)	(807)
Non-current liabilities	(345)	(181)
Total liabilities	<u>(1,859)</u>	<u>(988)</u>
Shareholders' equity		
Issued capital	219,948	213,791
Reserves	1,330	1,582
Accumulated losses	(57,281)	(24,596)
Total equity	<u>163,997</u>	<u>190,777</u>
Statement of Comprehensive Income		
(Loss)/profit for the period after income tax	<u>(32,685)</u>	7,559
Total comprehensive (loss)/income	<u>(32,685)</u>	7,559

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

23 Parent entity financial information (continued)

(a) Summary financial information (continued)

The parent entity provided a guarantee in respect of the working capital facilities entered into by subsidiary Tomingley Gold Operations Pty Ltd. Refer to note 22 for details.

(b) Determining the parent entity financial information

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Tax consolidation legislation

Alkane Resources Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. Refer to note 24 for further details.

(ii) Share-based payments rights

The grant by the company of rights to equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

24 Summary of significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of the consolidated financial statements that have not been disclosed previously. The policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Alkane Resources Ltd and its subsidiaries. Comparatives presented are for the 12 month period to 30 June 2016.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Alkane Resources Ltd is considered a for-profit entity for the purpose of preparing the financial statements.

(i) Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) Historical cost convention

The financial statements have been prepared under the historical cost basis, except for certain financial assets and liabilities which are measured at fair value.

(b) Principles of consolidation

Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

24 Summary of significant accounting policies (continued)

(b) Principles of consolidation (continued)

Subsidiaries (continued)

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars, which is Alkane Resources Ltd's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in statement of comprehensive income.

All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income on a net basis within other income or other expenses.

(d) Investments and other financial assets

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(e) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the profit attributable to owners of the Company, excluding any costs of servicing equity, by
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

24 Summary of significant accounting policies (continued)

(f) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

(g) Parent entity financial information

The financial information for the Parent Entity, Alkane Resources Ltd, disclosed in note 23 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Tax consolidation legislation

Alkane Resources Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Alkane Resources Ltd, and the controlled entities in the Tax Consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the Tax Consolidated Group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Alkane Resources Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the Tax Consolidated Group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Alkane Resources Ltd for any current tax payable assumed and are compensated by Alkane Resources Ltd for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Alkane Resources Ltd under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities financial statements.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

24 Summary of significant accounting policies (continued)

(h) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

Title of standard	Nature of change	Impact	Mandatory application date/Date of adoption by Group
<i>AASB 15 Revenue from Contracts with Customers</i>	The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application (eg 1 July 2018), ie without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.	At this stage, the Group does not foresee any material impact based on its current revenue sources.	Mandatory for financial years commencing on or after 1 January 2018. Expected date of adoption by the Group: 1 July 2018.
<i>AASB 16 Leases</i>	The AASB requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.	At this stage, the Group does not foresee any material impact given the term and values of current leases as there are no material long term operating leases.	Mandatory for financial years commencing on or after 1 January 2019. Expected date of adoption by the Group: 1 July 2019.

Alkane Resources Ltd
Notes to the consolidated financial statements
30 June 2017
(continued)

24 Summary of significant accounting policies (continued)

(h) New accounting standards and interpretations (continued)

Title of standard	Nature of change	Impact	Mandatory application date/Date of adoption by Group
<i>AASB 9 Financial Instruments</i>	AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and new impairment model for financial assets.	The Group does not expect any impact from the new classification, measurement and derecognition rules on the Group's financial assets and financial liabilities. There will also be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The new hedging rules align hedge accounting more closely with the Group's risk management practices. As a general rule it will be easier to apply hedge accounting going forward as the standard introduces a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation.	Must be applied for financial years commencing on or after 1 July 2018.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

**Alkane Resources Ltd
Directors' declaration
30 June 2017**

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 23 to 69 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the year ended on that date, and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 24(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors' have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of Directors.



D I Chalmers
Director
Perth
29 August 2017



Independent auditor's report

To the shareholders of Alkane Resources Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Alkane Resources Limited (the Company) and its controlled entities (together, the Group) is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group's financial report comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

PricewaterhouseCoopers, ABN 52 780 433 757

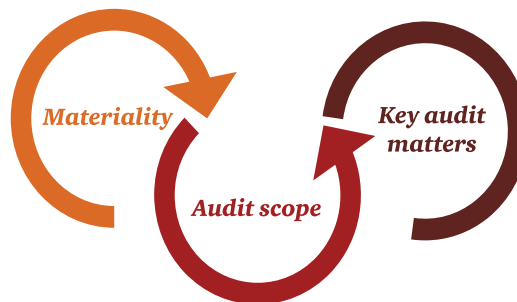
Brookfield Place, 125 St Georges Terrace, PERTH WA 6000, GPO Box D198, PERTH WA 6840
T: +61 8 9238 3000, F: +61 8 9238 3999, www.pwc.com.au

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We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group produces gold from its Tomingley Gold operations, located in New South Wales. The Group is also currently undertaking exploration and evaluation activities at its Dubbo Project in New South Wales, and other smaller exploration projects outside of Tomingley Gold and Dubbo operations. The accounting processes are structured around a group finance function at its head office in Perth. Our audit procedures were mostly performed at Group head office, along with visiting the Tomingley Gold operations.



<i>Materiality</i>	<i>Audit scope</i>	<i>Key audit matters</i>
<ul style="list-style-type: none"> • For the purpose of our audit we used overall group materiality of \$2,000,000, which represents approximately 1% of the Group's total assets as at 30 June 2017. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose total assets because, in our view, it is the metric against which the performance of the Group is most commonly measured. • We selected 1% based on our professional judgement noting that it is also within the range of commonly acceptable asset related thresholds. 	<ul style="list-style-type: none"> • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • During the audit the engagement team undertook the majority of its audit work at the Group's head office in Perth as well as visiting the Tomingley Gold operations. 	<ul style="list-style-type: none"> • Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: <ul style="list-style-type: none"> – Estimate of rehabilitation and mine closure provision – Assessment of impairment for property, plant and equipment • They are further described in the <i>Key audit matters</i> section of our report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
<p><i>Estimate of rehabilitation and mine closure provision</i></p> <p><i>Refer to Rehabilitation and mine closure provision in note 7 (e) and Critical accounting estimates and judgements in note 11 (c) to the financial statements</i></p> <p>As a result of its mining and processing activities at Tomingley Gold, the Group incurs obligations to restore and rehabilitate the environment disturbed by its operations. Rehabilitation activities are governed by a combination of legislative requirements and the Group's policies. At 30 June 2017 the balance sheet includes a provision for such obligations of \$21,035,000.</p> <p>We focussed on this matter as determining the provision for rehabilitation and mine closure requires the use of significant estimates and judgements in assessing the nature and extent of rehabilitation work to be performed, and in determining:</p> <ul style="list-style-type: none"> the expected future cost of performing the work, the timing of when the rehabilitation activities are expected to take place, and economic assumptions such as the discount rate used to discount this estimate to net present value. 	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> Obtained and evaluated the Group's estimate of the provision and tested the mathematical accuracy of the calculation of the discounted cash flows prepared by the Group Compared the estimated costs for rehabilitation activities to guidance issued by local New South Wales state government Obtained relevant correspondence on rehabilitation costs between the Group and the New South Wales state government Evaluated the competence of experts used by the Group in calculating the nature and extent of rehabilitation work required Compared prior year budgeted expenditure for rehabilitation work against the current year actual expenditure and investigated significant differences Compared the estimated timing of rehabilitation work to the prior year's rehabilitation estimate. We challenged the timing of planned rehabilitation work in the light of the current Tomingley mine plan Discussed the basis for cost estimation with management, in the light of budgets and forecasts approved by the Board.
<p><i>Assessment of impairment for property, plant and equipment</i></p> <p><i>Refer to Impairment of non-current assets in note 9 to the financial statements</i></p> <p>The Group identified indicators of impairment for property, plant and equipment due to persistent heavy rain during the first half of the</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> Tested the logical integrity and mathematical accuracy of the models used for calculation of value of the CGU Considered whether the valuation method adopted by management was appropriate in the circumstances



Key audit matter	How our audit addressed the key audit matter
<p>financial year, negatively impacting gold production and profitability in the Tomingley Gold cash generating unit (CGU).</p> <p>The Group has two CGUs, with impairment indicators existing at the Tomingley Gold CGU. An impairment assessment was therefore performed for this CGU.</p> <p>The Group concluded that assets of the Tomingley Gold CGU were impaired and an impairment charge of \$39,975,000 was recorded for the year ended 30 June 2017.</p> <p>We focused on this matter because:</p> <ul style="list-style-type: none"> • the valuation techniques used to assess impairment are complex, and involve a large number of inputs into the valuation models • calculating the value of the CGU involves significant judgement in estimating: <ul style="list-style-type: none"> – forecast gold prices, production quantities and production costs, and – the discount rate used. 	<ul style="list-style-type: none"> • Considered whether there were sufficient comparable market transactions to enable a reliable estimate of the CGU to be made • Compared forecast production, operating and capital cash outflows used in the valuation model to the most up-to-date budgets and business plans formally approved by the Board • Evaluated the reasonableness of the Group's forecasts by comparing the prior year's budgeted production and expenditure to actual results for the current year and obtained explanations and support for differences identified • Compared total forecast production quantities over the remaining life of the mine to the Group's latest published mineral reserves and resources statement • Evaluated the competence and independence of experts engaged to determine mineral reserves and resources of the Group. We also performed a reconciliation of reserves and resources from 30 June 2016 to 30 June 2017 taking into account production in the period • Compared the forecast gold price and discount rates used by the Group to those based on independent market data • Evaluated the adequacy of the disclosures made in note 9, including those regarding the key estimates/assumptions, in light of the requirements of Australian Accounting Standards.



Other information

The directors are responsible for the other information. The other information included in the Group's annual report for the year ended 30 June 2017 comprises the Director's Report (but does not include the financial report and our auditor's report thereon), which we obtained prior to the date of this auditor's report. We also expect other information to be made available to us after the date of this auditor's report, including the Chairman's Report, Major Projects and Operations, and Exploration.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgment to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.



Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 9 to 19 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Alkane Resources Limited, for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Group are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that appears to read 'Craig Heatley'.

Craig Heatley
Partner

Perth
29 August 2017