Alkane Resources Ltd

ABN 35 000 689 216

Interim Financial Report

for the half-year ended 31 December 2017

This interim financial report does not include all the notes of the type normally included in the annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2017 and any public announcements made by Alkane Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Alkane Resources Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is at 89 Burswood Road, Burswood, WA 6100. Its shares are listed on the Australian Securities Exchange.

Alkane Resources Ltd
Corporate directory
31 December 2017

DIRECTORS

I J Gandel	(Non-Executive Chairman)
N Earner	(Managing Director)
D I Chalmers	(Technical Director)
A D Lethlean	(Non-Executive Director)
G Smith	(Non-Executive Director)

COMPANY SECRETARY
K E Brown

REGISTERED OFFICE AND
PRINCIPAL PLACE OF BUSINESS
Ground Floor, 89 Burswood Road, Burswood WA 6100
Telephone: 61 8 9227 5677   Facsimile: 61 8 9227 8178

SHARE REGISTRY
Advanced Share Registry Limited
110 Stirling Highway, Nedlands WA 6009
Telephone: 61 8 9389 8033   Facsimile: 61 8 9262 3723

AUDITOR
PricewaterhouseCoopers
Brookfield Place, 125 St Georges Terrace, Perth WA 6000

SECURITIES EXCHANGE LISTINGS
Australian Securities Exchange (Perth)
Ordinary fully paid shares
Code: ALK

OTCMarkets – OTCQX International
American Depositary Receipts (ADR)
Code: ANLKY

Level 1 ADR Sponsor
The Bank of New York Mellon
Depositary Receipts Division
101 Barclay Street, 22W, New York NY 10286
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General information

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2018.

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or the 'Group') consisting of Alkane Resources Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2017.

Directors
The following persons were directors of Alkane Resources Ltd during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

I J Gandel was appointed Chairman from 1 September 2017
N Earner was appointed as Managing Director from 1 September 2017
D I Chalmers
A D Lethlean
J S F Dunlop was Chairman from the beginning of the financial year until his resignation on 31 August 2017
G Smith was appointed as a Director from 29 November 2017

As of 1 September, Chairman J S F Dunlop retired and D I Chalmers stood down as Managing Director. Mr Chalmers continues on the Board as Technical Director. Director I J Gandel assumed the role of Non-Executive Chairman and Chief Operations Officer Nic Earner assumed the role of Managing Director.

Review of operations
The profit for the consolidated entity after providing for income tax amounted to $13,456,000 (31 December 2016: loss of $27,738,000).

This result included a profit before tax and non-recurring items of $18,254,000 (31 December 2016: Loss $6,047,000) in relation to Tomingley Gold Operations.

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.

Total material movements for the period of 2,550,779 bcm comprised 2,315,043 bcm of waste and 235,736 bcm of ore. The average stripping ratio of 9.8 represented a decrease from the corresponding period as a result of overburden having been previously removed from the main operating pits Wyoming One and Caloma Two.

Milling for the period was in line with design capacity at 545,607 tonnes. Gold recovery increased from 91.5% for the year ended 30 June 2017 to 92.8% in line with expectations as increased oxide ore was available for processing from the Wyoming One and Caloma Two pits. Average grade milled was 2.51g/t reflecting higher grade ore sourced from the Caloma Two pit. As a result of the lower waste movement requirements the mining fleet size has been reduced accordingly.

Production for the period was 40,764 ounces with all in sustaining costs of $1,013 per ounce. An upgraded full year market guidance issued on 24 January 2018 lifted production to 70,000 to 80,000 ounces with all in sustaining cost (AISC) of between $1,000 to $1,100 per ounce.

The average sales price achieved for the period of $1,688 per ounce. Gold sales of 34,794 ounces resulted in sales revenue of $58,747,000.

Bullion on hand increased by 5,942 ounces from 30 June 2017 to 7,756 ounces (fair value of $12,943,000 at period end).

Review of operations (continued)

Tomingley Gold Operations (continued)

The table below summarises the key operational information.

TGO Production	**Unit**	**6 months Ended 31 December 2017**	**6 months Ended 31 December 2016**
Ore mined	BCM's	235,736	200,497
Waste mined	BCM's	2,315,043	3,333,183
Stripping Ratio	Ratio	9.8	16.6
Ore mined	Tonnes	620,240	539,355
Grade mined (2)	g/t	2.23	1.43
Ore milled	Tonnes	545,607	511,135
Head grade	g/t	2.51	1.49
Gold recovery	%	92.8	90.2
Gold poured (3)	Ounces	40,764	22,191
Revenue summary			
Gold sold	Ounces	34,794	22,519
Average price realised	A$/Oz	1,688	1,649
Gold revenue	A$M's	58.7	37.1
All-in Sustaining Cost (1)	A$/oz	**1,013**	**1,962**
Bullion on hand	Ounces	7,756	2,572
Stockpiles			
Ore for immediate milling	Tonnes	829,356	709,148
Stockpile grade (2)	g/t	0.87	0.79

(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, production incentive provisions 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.

Ore over the remainder of the year 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 701,000 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 was completed during the period, 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 data is being incorporated into the resource model to form a basis for the underground mining study to be completed in quarter one of calendar year 2018.

Review of operations (continued)
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.

The Dubbo Project has developed high-purity hafnium oxide products tailored to meet market requirements (refer ASX Announcement dated 17 January 2018 Hafnium product breakthrough consolidated DP business case). The new products were produced by a proprietary process at the Group's demonstration pilot plant at the Australian Nuclear Science and Technology Organisation (ANSTO) in Sydney, New South Wales. Subsidiary Australian Strategic Materials Ltd (ASM) continues to work with Outotec and other engineers to refine the existing engineering and design to provide bankable level of accuracy costing for the processing section of the project using the modularised build philosophy. 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. This comprehensive task should allow ASM to quickly commence the construction phase following financing. Results of this engineering work are expected to be released in quarter one of calendar year 2018.

After more than five years of downward pressures, prices for zirconium materials rose rapidly in 2017, with zirconium oxychloride (ZOC) prices increasing by more than 80%. ZOC is the base product for the downstream zirconium industry. The increases in price are primarily driven by reduced ZOC supply from China due to Chinese government environmental inspections and subsequent shutdowns to upgrade processing facilities to reduce pollution, and restricted supply of zircon.

The higher price and uncertain supply of zircon is expected to drive ZOC process up further in 2018. ASM continues to engage with customers looking to convert letters of intent to offtake agreements.

Rare earth permanent magnets (NdFeB) continued to be the main driver for rare earths market in 2017, with even higher growth rates anticipated in 2018 due to the rapid growth in demand for electric vehicles worldwide.

The widespread environmental crackdown across China has also included the rare earths industry putting illegal mining under the spotlight and imposing strict enforcement of the quota system.

The rapid increases in magnet rare earth prices during most of 2017 were followed by a significant retracement in the December quarter. The uptrend in prices has resumed in early 2018 with continued strong magnet demand expected to support prices for neodymium and praseodymium oxides.

The hafnium market experienced tightening supply in 2017, while demand continues to increase for traditional and new applications. Hafnium metal for super alloys used in industrial gas turbines and jet engines remains the main market, while other applications continue to grow for this niche element.

The niobium market continues to be stable with prices increasing marginally over 2017.

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.

Review of operations (continued)
Exploration
The company maintained a focussed multi commodity exploration program in the Central West of NSW. In the area to the south of the Tomingley Gold Operation a major air-core drill program has been completed. The drilling was predominantly reconnaissance in nature, mapping the geology and geochemistry of the covered bedrock with results still pending. This program will continue in an adjacent area of largely untested stratigraphy of approximately 2.5km in strike length.

The company continues to work with a leaseholder regarding the timing of access to follow up the porphyry/epithermal style gold-copper mineralisation identified in the Kaiser-Boda areas. Geological mapping and high resolution ground magnetics have been completed to assist with drilling target definition within the Cudal and Rockley projects.

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the consolidated entity during the financial half-year.

Rounding of amounts
The company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding-off' of amounts in the directors' report and financial report. Amounts in this report have been rounded off in accordance with that ASIC Legislative Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors

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N Earner
Managing Director

27 February 2018
Perth

Auditor's Independence Declaration

As lead auditor for the review of Alkane Resources Limited for the half-year ended 31 December 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Craig Heatley
Partner
PricewaterhouseCoopers

Perth
27 February 2018

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Alkane Resources Ltd
Consolidated statement of comprehensive income
For the half-year ended 31 December 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Continuing operations			
Revenue	3	58,747	37,132
Cost of sales	4	(40,402)	(42,744)
Gross profit/(loss)		18,345	(5,612)
Other income	3	990	459
Expenses			
Other expenses	4	(5,601)	(25,130)
Finance costs		(278)	(519)
Total expenses		(5,879)	(25,649)
Profit/(loss) before income tax benefit		13,456	(30,802)
Income tax benefit	5	-	3,064
Profit/(loss) after income tax benefit for the half-year attributable to the owners of Alkane Resources Ltd		13,456	(27,738)
Other comprehensive income			
Other comprehensive income for the half-year, net of tax		-	-
Total comprehensive income/(loss) for the half-year attributable to the owners of Alkane Resources Ltd		13,456	(27,738)
		Cents	**Cents**
Earnings/(loss) per share attributable to the ordinary equity holders of Alkane Resources Ltd			
Basic earnings per share	21	2.66	(5.54)
Diluted earnings per share	21	2.64	(5.43)

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

Alkane Resources Ltd
Consolidated balance sheet
As at 31 December 2017

	Note	31 Dec 2017 $'000	30 June 2017 $'000
Assets			
Current assets			
Cash and cash equivalents		44,836	41,969
Trade and other receivables		2,373	2,445
Inventories	6	18,173	9,644
Biological assets	7	174	218
Total current assets		65,556	54,276
Non-current assets			
Property, plant and equipment	8	53,630	60,627
Exploration and evaluation	9	89,022	83,107
Biological assets	10	825	507
Other financial assets	11	7,306	4,233
Total non-current assets		150,783	148,474
Total assets		216,339	202,750
Liabilities			
Current liabilities			
Trade and other payables	12	9,166	11,166
Provisions	13	11,401	8,169
Total current liabilities		20,567	19,335
Non-current liabilities			
Provisions	14	16,564	18,488
Total non-current liabilities		16,564	18,488
Total liabilities		37,131	37,823
Net assets		179,208	164,927
Equity			
Issued capital	15	220,244	219,948
Reserves		1,859	1,330
Accumulated losses		(42,895)	(56,351)
Total equity		179,208	164,927

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 half-year ended 31 December 2017

	Contributed equity $'000	Share based payments reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2016	213,791	3,933	(27,414)	190,310
Loss after income tax benefit for the half-year	-	-	(27,738)	(27,738)
Total comprehensive loss for the half-year	-	-	(27,738)	(27,738)
Transactions with owners in their capacity as owners:				
Share placement	4,141	-	-	4,141
Share issue transaction costs	(671)	-	-	(671)
Share based payments	2,570	(2,111)	-	459
Deferred tax recognised in equity	160	-	-	160
Balance at 31 December 2016	219,991	1,822	(55,152)	166,661

	Contributed equity $'000	Share based payment reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2017	219,948	1,330	(56,351)	164,927
Profit after income tax expense for the half-year	-	-	13,456	13,456
Total comprehensive income for the half-year	-	-	13,456	13,456
Transactions with owners in their capacity as owners:				
Share based payments	301	529	-	830
Share issue transaction costs	(5)	-	-	(5)
Balance at 31 December 2017	220,244	1,859	(42,895)	179,208

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 half-year ended 31 December 2017

	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		58,747	37,132
Payments to suppliers and employees (inclusive of GST)		(37,558)	(22,339)
Finance costs paid		(49)	(546)
Royalties paid		(2,902)	(1,296)
Interest received		516	216
Other income received		473	255
Net cash from operating activities	20	19,227	13,422
Cash flows from investing activities			
Payments for property, plant and equipment		(7,732)	(19,446)
Proceeds from disposal of property, plant and equipment		-	18
Payments for exploration and evaluation		(5,943)	(4,885)
Payments for security deposits		(3,073)	(10)
Payments for biological assets		(203)	(95)
Net cash used in investing activities		(16,951)	(24,418)
Cash flows from financing activities			
Proceeds from issue of shares	15	-	4,141
Share issue transaction costs		(4)	(671)
Proceeds from borrowings		993	7,912
Repayment of borrowings		(398)	(4,404)
Net cash from financing activities		591	6,978
Net increase/(decrease) in cash and cash equivalents		2,867	(4,018)
Cash and cash equivalents at the beginning of the financial half-year		41,969	24,455
Cash and cash equivalents at the end of the financial half-year		44,836	20,437

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

Note 1. Significant accounting policies

Basis of preparation
This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2017 has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This condensed consolidated interim financial report does not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

New accounting standards and interpretations
The following applicable Australian Accounting Standards have been issued or amended but are not yet effective and have not been adopted by the Group for the half-year ended 31 December 2017.

<u>AASB 9 Financial Instruments</u>

AASB 9 *Financial Instruments* address the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and new impairment model for financial assets. The standard does not need to be applied until 1 July 2018 but is available for early adopting.

The Group does not expect any material impact of the new requirements and will continue to review this position prior to the adoption date.

<u>AASB 15 Revenue from Contracts with Customers</u>

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 a 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 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. Expected date of adoption by the Group is 1 July 2018.

<u>AASB 16 Leases</u>
The AASB requires a lessee to recognise assets and liabilities for all terms with a term of more than twelve months, unless the underlying asset is of low value.

At this stage Group does not expect any material impact given the term and values of current leases as there are no material long term operating leases. Expected date of adoption by the Group is 1 July 2019.

Note 2. Operating segments

The consolidated entity is organised into two operating segments: gold operations and the exploration and evaluation of rare metals. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

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 unallocated grouping.

The Group utilises a central treasury function and therefore the cash balances have been included in the unallocated segment.

Operating segment information

Half–year ended 31 Dec 2017	**Gold operations $'000**	**Rare metals $'000**	**Unallocated $'000**	**Total $'000**
Gold sales to external customers	58,747	-	-	58,747
Segment profit/(loss) before income tax expense	17,947	109	(4,600)	13,456
Segment profit/(loss) includes the following adjustments:				
Depreciation and amortisation	(19,055)	(1)	(141)	(19,197)
Deferred stripping costs capitalised	4,280	-	-	4,280
Exploration expenditure written off or provided for	-	(8)	(124)	(132)
Inventory product movement	8,685	-	-	8,685
Restructuring provision	(307)	-	-	(307)
Total adjustments	(6,397)	(9)	(265)	(6,671)
As at 31 December 2017				
Segment assets	53,068	106,588	56,683	216,339
Segment liabilities	33,378	1,662	2,091	37,131
Net segment assets	19,690	104,926	54,592	179,208

Note 2. Operating segments (continued)

Half-year ended 31 Dec 2016	Gold operations $'000	Rare metals $'000	Unallocated $'000	Total $'000
Gold sales to external customers	37,132	-	-	37,132
Segment loss before income tax expense	(26,522)	(42)	(4,238)	(30,802)
Segment loss includes the following adjustments:				
Depreciation and amortisation	(18,390)	(2)	(139)	(18,531)
Impairment charges	(20,475)	-	-	(20,475)
Deferred stripping costs capitalised	14,889	-	-	14,889
Exploration expenditure written off or provided for	-	(5)	(41)	(46)
Inventory product movement and provision	(438)	-	-	(438)
Total adjustments	(24,414)	(7)	(180)	(24,601)
As at 30 June 2017				
Segment assets	48,916	101,419	52,415	202,750
Segment liabilities	34,297	1,505	2,021	37,823
Net segment assets	14,619	99,914	50,394	164,927

Note 3. Revenue

	31 Dec 2017 $'000	31 Dec 2016 $'000
Revenue from continuing operations		
Gold sales	58,747	37,132

	31 Dec 2017 $’000	31 Dec 2016 $’000
Other income		
Net foreign exchange gain/(loss)	12	(11)
Other revenue	462	254
Interest received	516	216
Total other income	990	459

(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 when there has been a transfer of risk 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.

Note 4. Expenses

	31 Dec 2017 $'000	31 Dec 2016 $'000
Cost of sales		
Cash costs of production	32,137	37,941
Deferred stripping costs capitalised	(4,280)	(14,889)
Inventory product movement	(8,685)	664
Inventory product net realisable value provision	-	(226)
Depreciation and amortisation	19,055	18,390
Royalties and selling costs	2,175	864
	40,402	42,744

(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 $8,158,000 of employee remuneration benefits (31 December 2016: $10,100,000).

(b) Deferred stripping costs capitalised
Stripping costs capitalised represents costs incurred in the development and production phase of a mine and are capitalised as part of mine properties and subsequently amortised over the useful life of the ore body that access is provided to on a units-of-production basis.

(c) Inventory movement
Inventory movement represents movement in the balance sheet inventory ore stockpile, gold in circuit and bullion on hand.

(d) Provision for inventory
Inventory must be carried at the lower of cost and net realisable value. Net realisable value is estimated selling price in the ordinary course of business less 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.

	31 Dec 2017 $’000	31 Dec 2016 $’000
Other expenses		
Impairment expense	-	20,475
Corporate administration	1,254	1,068
Employee remuneration and benefits	968	1,090
Professional fees and consulting services	774	802
Share based payments	830	633
Directors' fees and salaries expensed	403	309
Depreciation	142	141
Dubbo project expenses	554	224
Pastoral company operating expenses	183	226
Restructuring provision	307	-
Exploration expenditure provided for or written off	131	46
Loss from disposal of fixed assets	-	75
Pastoral company operating expenses	55	41
	5,601	25,130

Note 5. Income tax

Deferred tax assets relating to tax losses and deductible temporary differences can only be recognised to the extent that it is probable that future taxable profits will be available against which the tax losses and deductible temporary difference can be utilised. Deferred tax assets have been recognised only to the extent that they offset deferred tax liabilities as at this time it is not probable that sufficient future taxable profits will be available against which to offset the tax losses and deductible temporary differences. No tax expense has been recognised in the half-year ended 31 December 2017 due to utilisation of previous unrecognised tax losses and temporary deductible differences. Recognition for accounting purposes does not impact the ability of the Group to utilise the deductible temporary differences to reduce future taxable profits.

Note 6. Current assets - inventories

	31 Dec 2017 $'000	30 June 2017 $'000
Ore stockpiles	4,777	4,545
Gold in circuit	2,167	1,581
Bullion on hand	9,603	1,736
Consumable stores	1,626	1,782
	18,173	9,644

Inventories must be carried at the lower of cost and net realisable value. At balance date all inventories were carried at cost (30 June 2017: inventories were carried at cost).

Note 7. Current assets - biological assets

Biological assets comprise livestock which were acquired by Toongi Pastoral Company Pty Ltd as part of farming operations on the surrounding land to the Dubbo Project mining lease.

	31 Dec 2017 $'000	30 June 2017 $'000
Biological assets	174	218

Note 8. Non-current assets - property, plant and equipment

Half-year ended 31 December 2017	Land and buildings $'000	Plant and equipment $'000	Capital WIP $'000	Mine properties $'000	Total $'000
Cost					
Opening balance	39,713	72,863	396	149,712	262,684
Additions	-	-	1,673	10,528	12,201
Disposals	-	-	-	-	-
Transfers between classes	16	132	(1,103)	955	-
Closing balance	39,729	72,995	966	161,195	274,885
Accumulated depreciation					
Opening balance	(11,549)	(65,532)	-	(124,976)	(202,057)
Disposals	-	-	-	-	-
Depreciation expense	(595)	(3,747)	-	(14,856)	(19,198)
Closing balance	(12,144)	(69,279)	-	(139,832)	(221,255)
Closing net carrying value	27,585	3,716	966	21,363	53,630

Note 8. Non-current assets - property, plant and equipment (continued)

30 June 2017	Land and buildings $'000	Plant and equipment $'000	Capital WIP $'000	Mine properties $'000	Total $'000
Cost	39,713	72,863	396	149,712	262,684
Accumulated depreciations	(11,549)	(65,532)	-	(124,976)	(202,057)
Closing net carrying value	28,164	7,331	396	24,736	60,627

Note 9. Non-current assets - exploration and evaluation

	31 Dec 2017 $'000	30 June 2017 $'000
Opening balance at beginning of period	83,107	72,553
Expenditure during the period	6,046	10,719
Amounts provided for or written off	(131)	(165)
Closing balance end of period	89,022	83,107

Note 10. Non-current assets - biological assets

Biological assets comprise livestock which were acquired by Toongi Pastoral Company Pty Ltd as part of farming operations on the surrounding land to the Dubbo Project mining lease.

	31 Dec 2017 $'000	30 June 2017 $'000
Biological assets	825	507

Note 11. Non-current assets - other financial assets

	31 Dec 2017 $'000	30 June 2017 $'000
Security deposits	7,306	4,233

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 until expiration on 29 September 2017, at this time all bonding requirements were cash backed.

All interest bearing deposits are held in Australian dollars and therefore there is no exposure to foreign currency risk. The fair value of other financial assets is equal to its carrying value.

Note 12. Current liabilities - trade and other payables

	31 Dec 2017 $'000	30 June 2017 $'000
Trade payables	7,531	5,629
Other payables	1,635	5,537
	9,166	11,166

Note 13. Current liabilities - provisions

	31 Dec 2017 $'000	30 June 2017 $'000
Employee benefits	2,550	1,993
Rehabilitation	6,136	5,571
Restructuring	2,715	558
Other provisions	-	47
	11,401	8,169

Note 14. Non-current liabilities - provisions

	31 Dec 2017 $'000	30 June 2017 $'000
Employee benefits	422	617
Rehabilitation	16,142	15,464
Restructuring	-	2,407
	16,564	18,488

Note 15. Equity - issued capital

	31 Dec 2017 Shares	30 June 2017 Shares	31 Dec 2017 $'000	30 June 2017 $'000
Ordinary shares - fully paid	506,096,222	505,215,669	220,244	219,948

Movements in ordinary share capital

Details	Shares	$'000
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
	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	505,215,669	219,948
Opening balance 1 July 2017	505,215,669	219,948
Share based payments	880,553	296
Balance 31 December 2017	506,096,222	220,244

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 16. Contingent liabilities

The Group has contingent liabilities estimated up to the value of $5,100,000 for the potential acquisition of several parcels of land surrounding the Dubbo Project (30 June 2017: $5,100,000). 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 Australian Strategic Materials Ltd.

Note 17. Related parties

(a) Parent entity
The parent entity within the group is Alkane Resources Ltd.

(b) Transactions with other 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 totalling $3,767 for the current period (December 2016: $14,450). These terms are documented in a service level agreement and represent normal commercial terms.

During the period fees amounting to $92,500 (December 2016: $112,170) 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 secretarial services to the Group.

100,000 ordinary shares were issued to MAS during the period as well as 210,000 shares to Technical Marketing Ceramic Services Pty Ltd which A MacDonald, the General Manager of Marketing and key management person has a substantial financial interest.

Note 18. 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 amounts are discretionary, however if the expenditure commitments are not met then the associated exploration and mining leases may be relinquished.

(b) Non-cancellable operating leases
The Group leases various premises under operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

(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. In the previous year, as part of the financing arrangement with Macquarie Bank Ltd, the Group entered into two gold options contracts totalling 12,000 ounces, of which 6,000 ounces were not exercised and have lapsed.

The gold forward sales contracts 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. The balances in the table below relate to the value of the contracts to be delivered into by transfer of physical gold.

	31 Dec 2017 $'000	30 June 2017 $'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Land	982	-
Property, plant and equipment	125	858
Exploration and evaluation	1,281	1,175
	2,388	2,033
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	380	381
One to five years	174	321
	554	702
Gold call options		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	10,641	21,252
Gold forward sales contracts		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	-	30,030

Note 19. Events after the reporting period

No matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 20. Reconciliation of profit/(loss) after income tax to net cash from operating activities

	31 Dec 2017 $'000	31 Dec 2016 $'000
Profit/(loss) after income tax benefit for the half-year	13,456	(27,738)
Adjustments for:		
Depreciation and amortisation	19,197	18,531
Impairment of non-current assets	-	20,475
Net loss on disposal of property, plant and equipment	-	75
Share-based payments	830	460
Non-cash finance charges	188	252
Exploration costs provided for or written off	131	46
Change in operating assets and liabilities:		
Increase in trade and other receivables	(145)	347
Decrease/(increase) in inventories	(8,802)	(513)
(Decrease)/increase in trade and other payables	(5,896)	4,290
Decrease in deferred tax liabilities	-	(3,064)
Increase in other provisions	65	261
Increase in fair value of biological assets	203	95
Net cash from operating activities	19,227	13,422

Note 21. Earnings per share

	31 Dec 2017 $'000	31 Dec 2016 $'000
Profit/(loss) after income tax attributable to the owners of Alkane Resources Ltd	13,456	(27,738)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	505,739,740	500,704,424
Weighted average number of ordinary shares used in calculating diluted earnings per share	510,245,454	510,652,635
	Cents	**Cents**
Basic earnings per share	2.66	(5.54)
Diluted earnings per share	2.64	(5.43)

Alkane Resources Ltd
Directors' declaration
31 December 2017

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 21 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 31 December 2017 and of its performance for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the Alkane Resources Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

N Earner
Managing Director

27 February 2018
Perth

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Independent auditor's review report to the members of Alkane Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alkane Resources Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Alkane Resources Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alkane Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Alkane Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Heatley
Partner

Perth
27 February 2018