



ASX Announcement
26 February 2020

APPENDIX 4D: HALF YEAR REPORT FOR THE PERIOD ENDED 31 DECEMBER 2019

Results for the announcement to the market

Half-year ended 31 December 2019

Half-year ended 31 December 2018 (previous corresponding period)

			\$'000
Revenue from ordinary activities	Down	35%	34,098
Profit from ordinary activities after tax attributable to members	Down	39%	7,490
Net profit for the period attributable to members	Down	39%	7,490

Dividends

There were no dividends paid, recommended or declared during the current financial period.

	31 December 2019	31 December 2018
Net tangible asset per security	\$0.29	\$0.20

Explanation of Revenue

Total revenue for the half-year was \$34.09 million, a 35% decrease over the corresponding period.

The revenue reduction was as a result of finalising open cut mining in the preceding period and commencing underground development. The revenue recognised in the current period relates to the processing of low-grade stockpiles.

Explanation of profit from ordinary activities after tax

Net statutory profit after tax attributable to members was \$7.49 million, a decrease of 39% over the corresponding period.

This was as a result of transitioning operations from finalisation of open cut operations at Tomingley Gold Operations to underground mine development. During the current half-year period, low grade stock piles were processed while underground mining development continued to progress. Gold poured for the current half year period was 14,426 ounces compared to 24,745 ounces for the corresponding period.

Explanation of Net profit

Please refer above.

Audit

The report is based on financial statements which have been subject to a review by PricewaterhouseCoopers.

Alkane Resources Ltd

ABN 35 000 689 216

Interim Financial Report

for the half-year ended - 31 December 2019

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 2019 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

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Alkane Resources Ltd
Corporate directory
31 December 2019

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	D Wilkins
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 register	Advanced Share Registry Limited 110 Stirling Highway, Nedlands WA 6009 Telephone: 61 8 9389 8033 Facsimile: 61 8 6370 4203
Auditor	PricewaterhouseCoopers Brookfield Place, 125 St Georges Terrace, Perth WA 6000
Stock exchange listing	Alkane Resources Ltd shares are listed on the Australian Securities Exchange (ASX code: ALK)
Website	http://www.alkane.com.au
E-mail address	mail@alkane.com.au

Alkane Resources Ltd
Directors' report
31 December 2019

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 2019.

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
N Earner
D I Chalmers
A D Lethlean
G Smith

Review of operations

The profit for the consolidated entity after providing for income tax amounted to \$7,490,000 (31 December 2018: \$12,190,000).

This result included a profit before tax of \$15,974,000 (31 December 2018: \$17,437,000) in relation to Tomingley Gold Operations (TGO).

Tomingley Gold Operations

The gold operations at Tomingley are located approximately 50 kilometres south-west of Dubbo in the Central West of NSW. The gold processing plant was commissioned in January 2014 and has been operating at the design capacity of 1Mtpa since late May 2014. Mining is based on four gold deposits (Wyoming One, Wyoming Three, Caloma One and Caloma Two).

Underground development from the base of Wyoming One pit continued and remains on schedule and on budget. TGO processed predominantly low grade stockpiles through the half-year until pausing processing in late December for an extended maintenance shutdown period. The first underground stope material was processed in the half-year with grade and processing recovering performing as expected, processing will restart on underground and low-grade material in mid February 2020.

Gold recovery of 87.9% for the period was in line with the expectations of processing lower grade stockpiles (30 June 2019: 91.7%). Average grade milled declined to 1.07g/t in the current half-year as a result of processing both medium and low grade stockpiles as the operation transitions from open cut to underground.

Production for the period was 14,427 ounces of gold (Dec 2018: 26,745 ounces of gold) with all in sustaining costs of \$1,351 per ounce (Dec 2018: \$1,005 per ounce). The average sales price achieved for the period increased to \$2,113 per ounce (Dec 2018: \$1,717 per ounce). Gold sales of 16,140 ounces (Dec 2018: 30,497 ounces) resulted in sales revenue of \$34,098,000 (Dec 2018: \$52,352,000).

Bullion on hand decreased by 1,717 ounces from 30 June 2019 to 10 ounces.

An extensive exploration program focussed on the immediate area to the south of the Tomingley mine has continued as part of the plan to source additional ore feed, either at surface or underground. On the back of strong results from exploration and resource drilling to the immediate south of Tomingley, the Company is expediting the process to move to mine development.

The Company has commenced consultation with some of the key stakeholders, including landholders and regulators. It has applied for approval to develop an exploration drive, and should exploration and other assessments prove warranted, will seek approval for mining development both underground and open cut.

Purchasing of an additional underground fleet has occurred, as well as farm property to the immediate south of the Tomingley on which a vent rise is planned.

Review of operations (continued)

Tomingley Gold Operations (continued)

The table below summaries the key operational information.

TGO Production	Unit	6 months ended 31 December 2019	6 months ended 31 December 2018
Ore mined	Tonnes	77,004	361,595
Grade mined	g/t	2.14	1.75
Total Ore milled	Tonnes	520,775	480,484
Head grade	g/t	1.07	1.95
Gold recovery	%	87.9	92.7
Gold poured ⁽³⁾	Ounces	14,426	26,745
Revenue summary			
Gold sold	Ounces	16,140	30,497
Average price realised	A\$/Oz	2,113	1,717
Gold revenue	A\$000's	34,098	52,352
All-in Sustaining Cost ⁽¹⁾	A\$/oz	1,351	1,005
Bullion on hand	Ounces	10	1,077
Stockpiles			
Ore for immediate milling	Tonnes	275,733	1,132,562
Stockpile grade ⁽²⁾	g/t	0.75	0.83

- (1) All in Sustaining Cost (AISC) comprises all site operating costs, royalties, mine exploration, sustaining capex, sustaining mine development and an allocation of corporate costs on the basis of ounces produced. AISC does not include share-based payments, production incentives 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.

Dubbo Project

The Dubbo Project remains ready for construction, subject to financing, with the mineral deposit and surrounding land wholly owned, all major State and Federal approvals in place, an established flowsheet and a solid business case.

The continued focus on product development has led to the execution of a binding agreement with Ziron Tech (a South Korean company) to fund the final stage of research and feasibility into a clean process for converting metal oxide, including Dubbo Project metals, to metals of a highly marketable purity. Several conditions precedent that remained outstanding at 30 June 2019 have now been satisfied, and an investment of US\$1.2m has been made for the final stage of research which will include construction of a commercial scale equipment unit for testing. The new technology should allow the company to bypass traditional supply chains and sell products direct to the consumer. The commercial scale pilot plant being constructed is due to be commissioned in the second quarter of 2020.

Chinese authorities continue their war on pollution, with smaller operations being forced to upgrade facilities or close down. This extends to the rare earths industry in China, which has been consolidated in recent years, and to ionic clay mining and processing in southern provinces eliminated. However, the unsustainable discharge of rare earths residues from China's Baotou operations in Inner Mongolia appears to be overlooked by authorities and western companies keen to portray an image of responsible and sustainable sourcing. China's zirconium chemicals industry faces similar issues, where radioactive waste streams and residues contain uranium and thorium extracted from zircon raw materials. On top of this is the chronic shortage of water in northern China, affecting both rare earths and zirconium production. Risks for supply disruption of rare earths and zirconium products continue to grow, with few alternatives outside China at this time.

Review of operations (continued)

Dubbo Project (continued)

Market prices for zirconium and rare earths remained flat or slightly lower during the period, with some small companies reducing prices to reduce stocks. Zircon prices remained weak on the back of slow demand in China, while niobium and hafnium prices remained stable.

Exploration

The company has continued its extensive exploration program focused on securing additional ore feed for the Tomingley Gold Operation. Exploration focused on the immediate area to the south of the existing mine to identify potential ore feed resources either at surface or underground. A 60,000 metre resource definition drilling program on the San Antonio and Roswell prospects to the immediate south of the Tomingley Gold Operations mine and processing facility is in progress.

A program of five diamond core drill holes totalling approximately 5,000 metres commenced in December 2019 to test the mineralisation for the Northern Molong Porphyry Project.

An additional exploration drilling program has been completed this half-year as part of the re-evaluation of the potential for Peak Hill to be developed underground to provide additional ore feed for TGO. The metallurgical test work program using the fresh core samples commenced during the half year and results are anticipated in Q3 2020.

The company has also maintained a focussed multi commodity exploration program in the Central West of NSW.

Corporate

During the half-year Alkane executed a subscription and an underwriting agreement with Genesis Minerals Ltd to invest up to a further \$6,000,000 in Genesis. Alkane's holding in Genesis Minerals is currently 15% of their share capital. The investment is consistent with Alkane's strategic objective to grow its gold business, both organically through its Tomingley gold operations in NSW, and through investment in junior Australian gold companies with projects that meet Alkane's investment criteria.

A demerger and listing of Australian Strategic Materials is under active consideration by the Alkane Board.

Significant changes in the state of affairs

During November 2019, the Group announced a capital placement and a one for eight share entitlement issue raising \$35,934,000 (before costs) to fund accelerated exploration and development program in the Tomingley Corridor (NSW) in 2020.

During the half-year Alkane executed a subscription and an underwriting agreement with Genesis Minerals Ltd to invest up to a further \$6,000,000 in Genesis.

In June 2019 Australian Strategic Materials Ltd executed of a binding agreement with Ziron Tech (a South Korean company) to fund the final stage of research and feasibility into a clean process for converting metal oxide, including Dubbo Project metals, to metals of a highly marketable purity. Several conditions precedent that remained outstanding at 30 June 2019 were satisfied in July 2019, and an investment of US\$1.2m has been made for the final stage of research which will include construction of a commercial scale equipment unit for testing.

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

Alkane Resources Ltd
Directors' report
31 December 2019

Matters subsequent to the end of the financial half-year

A general meeting was held on 7 January 2020 approving the issue of 8,602,273 shares at an issue price of \$0.55 per share to Abbotsleigh Pty Ltd. Funds were received in January 2020.

The Group executed a contract to purchase land in the Tomingley region in February 2020 with settlement scheduled for March 2020.

No other matter or circumstance has arisen since 31 December 2019 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.

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



N Earner
Managing Director

26 February 2020
Perth



Auditor's Independence Declaration

As lead auditor for the review of Alkane Resources Limited for the half-year ended 31 December 2019, 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.

Helen Bathurst

Helen Bathurst
Partner
PricewaterhouseCoopers

Perth
26 February 2020

Alkane Resources Ltd

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General information

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 February 2020.

Alkane Resources Ltd
Consolidated statement of comprehensive income
For the half-year ended 31 December 2019

	Note	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Continuing operations			
Revenue	3	34,098	52,352
Cost of sales	4	<u>(17,897)</u>	<u>(34,819)</u>
Gross profit/(loss)		<u>16,201</u>	<u>17,533</u>
Other income	3	844	1,759
Expenses			
Other expenses	4	(5,693)	(4,797)
Finance costs		<u>(109)</u>	<u>(258)</u>
Total expenses		<u>(5,802)</u>	<u>(5,055)</u>
Profit before income tax expense		11,243	14,237
Income tax expense	5	<u>(3,753)</u>	<u>(2,047)</u>
Profit after income tax expense for the half-year attributable to the owners of Alkane Resources Ltd		7,490	12,190
Other comprehensive loss			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Changes in fair value of financial assets at fair value through other comprehensive income		<u>(1,602)</u>	<u>(260)</u>
Other comprehensive loss for the half-year, net of tax		<u>(1,602)</u>	<u>(260)</u>
Total comprehensive income for the half-year attributable to the owners of Alkane Resources Ltd		<u><u>5,888</u></u>	<u><u>11,930</u></u>
		Cents	Cents
Basic earnings per share	19	1.46	2.41
Diluted earnings per share	19	1.42	2.36

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 2019

	Note	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Assets			
Current assets			
Cash and cash equivalents		78,420	69,582
Trade and other receivables		2,478	1,998
Inventories	6	5,589	4,816
Derivative financial instruments	7	-	25
Biological assets		37	80
Total current assets		<u>86,524</u>	<u>76,501</u>
Non-current assets			
Exploration and evaluation	8	112,056	103,894
Property, plant and equipment	9	70,332	51,038
Financial assets at fair value through other comprehensive income	10	14,946	7,767
Investments		127	-
Biological assets		268	402
Derivative financial instruments		247	678
Other financial assets		8,388	8,417
Total non-current assets		<u>206,364</u>	<u>172,196</u>
Total assets		<u>292,888</u>	<u>248,697</u>
Liabilities			
Current liabilities			
Trade and other payables	11	7,856	8,007
Provisions		2,241	4,438
Total current liabilities		<u>10,097</u>	<u>12,445</u>
Non-current liabilities			
Provisions	12	14,259	13,059
Deferred tax	5	12,550	9,317
Other		132	-
Total non-current liabilities		<u>26,941</u>	<u>22,376</u>
Total liabilities		<u>37,038</u>	<u>34,821</u>
Net assets		<u>255,850</u>	<u>213,876</u>
Equity			
Issued capital	13	254,371	220,111
Reserves		1,654	2,352
Accumulated losses		(175)	(8,587)
Total equity		<u>255,850</u>	<u>213,876</u>

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 2019

	Contributed equity \$'000	Share based payment reserve \$'000	Other reserves \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2018	220,160	2,116	-	(31,880)	190,396
Profit after income tax expense for the half-year	-	-	-	12,190	12,190
Other comprehensive loss for the half-year, net of tax	-	-	(260)	-	(260)
Total comprehensive income/(loss) for the half-year	-	-	(260)	12,190	11,930
Share based payments	-	409	-	-	409
Deferred tax recognised in equity	(24)	-	-	-	(24)
Balance at 31 December 2018	220,136	2,525	(260)	(19,690)	202,711

	Contributed equity \$'000	Share based payment reserve \$'000	Other reserves \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2019	220,111	2,981	(629)	(8,587)	213,876
Adjustment for reclassification	(922)	-	-	922	-
Balance at 1 July 2019 - restated	219,189	2,981	(629)	(7,665)	213,876
Profit after income tax expense for the half-year	-	-	-	7,490	7,490
Other comprehensive loss for the half-year, net of tax	-	-	(1,602)	-	(1,602)
Total comprehensive income/(loss) for the half-year	-	-	(1,602)	7,490	5,888
Share placement	35,934	-	-	-	35,934
Share issue transaction costs	(997)	-	-	-	(997)
Share based payments	-	628	-	-	628
Deferred tax recognised in equity	245	-	276	-	521
Balance at 31 December 2019	254,371	3,609	(1,955)	(175)	255,850

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 2019

	Note	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		34,098	52,352
Payments to suppliers and employees (inclusive of GST)		(25,549)	(32,746)
		<u>8,549</u>	<u>19,606</u>
Interest received		537	668
Other income received		707	903
Finance costs paid		(46)	(52)
Royalties paid		(957)	(1,809)
		<u>8,790</u>	<u>19,316</u>
Net cash from operating activities			
Cash flows from investing activities			
Payments for investments		(127)	-
Payments for property, plant and equipment		(5,453)	(3,003)
Payments for exploration and evaluation		(8,409)	(6,999)
Payments for development		(13,053)	(3,135)
Payments for biological assets		-	(161)
Payments for financial assets at fair value through other comprehensive income		(8,642)	(5,015)
Payments for security deposits		(10)	(20)
Proceeds from other investing activities		126	118
		<u>(35,568)</u>	<u>(18,215)</u>
Net cash used in investing activities			
Cash flows from financing activities			
Proceeds from issue of shares		35,934	-
Share issue transaction costs		(913)	-
Proceeds from borrowings		993	988
Repayment of borrowings		(398)	(392)
		<u>35,616</u>	<u>596</u>
Net cash from financing activities			
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the financial half-year		<u>69,582</u>	<u>72,003</u>
		<u>78,420</u>	<u>73,700</u>
Cash and cash equivalents at the end of the financial half-year			

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
31 December 2019

Note 1. Significant accounting policies

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2019 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 2019 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, except for the policies stated below.

(a) New or amended standards adopted by the group

AASB 16 Leases

The group adopted AASB 16 Leases from 1 July 2019.

The group has elected to use the simplified transition approach as allowed under AASB 16 as well as apply the following practical expedients permitted by the standard:

- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term less than 12 months as at 1 July 2019 as short-term leases;
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group has reviewed its contracts that were in place at 1 July 2019 or have been entered into since and determined that there are no long term operating leases. As a result, there is no impact on the current or prior reporting periods upon adoption of AASB 16.

There are no other standards that are yet effective and that would be expected to have a material impact on the entity in its current or future reporting periods and on foreseeable future transactions.

Note 2. Operating segments

The consolidated entity is organised into two operating segments: gold operations and the exploration, evaluation and development 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.

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 are disclosed under the unallocated grouping. The group utilises a central treasury function resulting in cash balances being included in the unallocated segment.

	Gold Operations \$'000	Rare Metals \$'000	Unallocated \$'000	Total \$'000
Half-year ended 31 December 2019				
Gold sales to external customers	34,098	-	-	34,098
Segment profit before income tax expense	15,974	364	(5,094)	11,244

Alkane Resources Ltd
Notes to the consolidated financial statements
31 December 2019

Note 2. Operating segments (continued)

	Gold Operations \$'000	Rare Metals \$'000	Unallocated \$'000	Total \$'000
Segment profit includes the following non-cash adjustments:				
Depreciation and amortisation	(1,397)	(11)	(60)	(1,468)
Inventory product movement and provision	216	-	-	216
Restructuring provision	(103)	-	-	(103)
Total adjustments	<u>(1,284)</u>	<u>(11)</u>	<u>(60)</u>	<u>(1,355)</u>
As at 31 December 2019				
Total segment assets	57,398	118,550	116,940	292,888
Total segment liabilities	<u>(21,500)</u>	<u>(203)</u>	<u>(15,335)</u>	<u>(37,038)</u>
Net segment assets	<u>35,898</u>	<u>118,347</u>	<u>101,605</u>	<u>255,850</u>
Half- year ended 31 December 2018				
Gold sales to external customers	<u>52,352</u>	-	-	<u>52,352</u>
Segment profit before income tax expense	<u>17,437</u>	<u>231</u>	<u>(3,431)</u>	<u>14,237</u>
Segment net profit includes the following non-cash adjustments				
Depreciation and amortisation	(5,990)	(3)	(64)	(6,057)
Inventory product movement	(6,218)	-	-	(6,218)
Restructuring provision	(138)	-	-	(138)
Total adjustments	<u>(12,346)</u>	<u>(3)</u>	<u>(64)</u>	<u>(12,413)</u>
As at 30 June 2019				
Segment assets	38,035	115,478	95,184	248,697
Segment liabilities	<u>(22,982)</u>	<u>(262)</u>	<u>(11,577)</u>	<u>(34,821)</u>
Net segment assets	<u>15,053</u>	<u>115,216</u>	<u>83,607</u>	<u>213,876</u>

Note 3. Revenue

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Revenue from continuing operations		
Gold sales	<u>34,098</u>	<u>52,352</u>
Other income		
Net foreign exchange gain/(loss)	-	(5)
Realised gain/(loss) on disposal on derivatives	(317)	-
Other income	640	1,034
Interest received	<u>521</u>	<u>730</u>
Total other income	<u>844</u>	<u>1,759</u>

Alkane Resources Ltd
Notes to the consolidated financial statements
31 December 2019

Note 3. Revenue (continued)

(a) Other income

Other income includes sale of water available under certain owned water licences of \$335,000 (2018: \$320,000) and agistment and livestock sales \$133,000 (2018:\$119,000).

(b) Interest income

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

Note 4. Expenses

	31 Dec 2019	31 Dec 2018
	\$'000	\$'000
Cost of sales		
Cash costs of production	16,079	21,330
Inventory product movement	(216)	6,218
Depreciation and amortisation	1,397	5,990
Royalties and selling costs	637	1,281
	<u>17,897</u>	<u>34,819</u>

(a) Cash costs of production

Cash costs of production include mining costs, processing costs and site administration and support costs. Cash costs of production include \$3,418,000 of employee remuneration benefits (31 December 2018: \$5,534,000).

(b) Inventory product 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 2019	31 Dec 2018
	\$'000	\$'000
Other expenses		
Corporate administration	1,578	1,126
Employee remuneration and benefits	1,100	742
Professional fees and consulting services	1,031	817
Share based payments	627	409
Directors' fees and salaries expensed	343	309
Depreciation	71	67
Dubbo project expenses	295	517
Pastoral company operating expenses	545	672
Restructuring provision	103	138
	<u>5,693</u>	<u>4,797</u>

Alkane Resources Ltd
Notes to the consolidated financial statements
31 December 2019

Note 5. Income tax

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.

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. 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 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.

Note 6. Current assets - inventories

	31 Dec 2019	30 Jun 2019
	\$'000	\$'000
Ore stockpiles	564	704
Gold in circuit	2,718	834
Bullion on hand	11	1,539
Consumable stores	2,296	1,739
	<u>5,589</u>	<u>4,816</u>

Inventories must be carried at the lower of cost and net realisable value. At balance date inventory was carried at cost (30 June 2019: inventories were carried at cost).

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Notes to the consolidated financial statements
31 December 2019

Note 7. Current assets - derivative financial instruments

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Commodity put options - cash flow hedges	-	25

Refer to note 14 for further information on fair value measurement.

During the 2019 financial year subsidiary company Tomingley Gold Operations Pty Ltd ('TGO') entered into several commodity put option contracts to hedge a portion of its future gold sales. Movements in the options' fair value are reflected through other comprehensive income.

Note 8. Non-current assets - exploration and evaluation

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Opening balance at beginning of period	103,894	93,136
Expenditure during the period	8,162	11,166
Amounts provided for or written off	-	(408)
Closing balance end of period	112,056	103,894

Note 9. Non-current assets - property, plant and equipment

	Land and Buildings \$'000	Plant and Equipment \$'000	Capital WIP \$'000	Mine Properties \$'000	Total \$'000
Half-year ended 31 December 2019					
Opening cost	40,379	80,448	3,728	174,479	299,034
Additions	-	-	7,741	13,929	21,670
Transfers between classes	518	4,052	(5,386)	816	-
Disposals	-	(137)	-	-	(137)
Net movement	518	3,915	2,355	14,745	21,533
Closing balance	40,897	84,363	6,083	189,224	320,567
Opening accumulated depreciation and impairment	(12,674)	(73,322)	-	(162,000)	(247,996)
Depreciation charge	(62)	(1,337)	-	(977)	(2,376)
Disposals	-	137	-	-	137
Net movement	(62)	(1,200)	-	(977)	(2,239)
Closing balance	(12,736)	(74,522)	-	(162,977)	(250,235)
Closing net carrying value	28,161	9,841	6,083	26,247	70,332

Note 9. Non-current assets - property, plant and equipment (continued)

	Land and buildings \$'000	Plant and equipment \$'000	Capital WIP \$'000	Mine properties \$'000	Total \$'000
Year ended 30 June 2019					
Cost	40,379	80,448	3,728	174,479	299,034
Accumulated depreciation	(12,674)	(73,322)	-	(162,000)	(247,996)
Closing net carrying value	<u>27,705</u>	<u>7,126</u>	<u>3,728</u>	<u>12,479</u>	<u>51,038</u>

Note 10. Non-current assets - financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprises equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the group considers this classification to be more relevant.

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Unlisted securities	1,730	-
Listed securities	<u>13,216</u>	<u>7,767</u>
	<u>14,946</u>	<u>7,767</u>

Reconciliation

Reconciliation of the fair values at the beginning and end of the current and previous financial half-year are set out below:

Opening fair value	7,767	-
Additions	8,642	7,616
Revaluation increments	-	151
Revaluation decrements	<u>(1,463)</u>	<u>-</u>
Closing fair value	<u>14,946</u>	<u>7,767</u>

Refer to note 14 for further information on fair value measurement.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. There were no disposals during the current period.

During the period the company secured a substantial investment in Genesis Minerals Ltd (ASX: GMD) and further increased its investment in Calidus Resources Ltd (ASX: CAL) as part of the company's growth strategy of investing in junior gold mining companies and projects that have high exploration potential and/or require near term development funding.

Unlisted securities represents and investment by Australian Strategic Materials Ltd (a subsidiary company of Alkane Resources Ltd) in a South Korean company, RMR Tech Corp, The investment will fund the final stage of research and feasibility into an environmentally superior and cost effective method of producing high purity metals compared to existing methods.

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Notes to the consolidated financial statements
31 December 2019

Note 11. Current liabilities - trade and other payables

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Trade payables	2,388	3,710
Other payables	5,468	4,297
	<u>7,856</u>	<u>8,007</u>

Note 12. Non-current liabilities - provisions

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Employee benefits	134	194
Rehabilitation	14,125	12,865
	<u>14,259</u>	<u>13,059</u>

Note 13. Equity - issued capital

	31 Dec 2019 Shares	30 Jun 2019 Shares	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Ordinary shares - fully paid	<u>571,431,034</u>	<u>506,096,222</u>	<u>254,371</u>	<u>220,111</u>

During November 2019, the Group announced a capital placement and a one for eight share entitlement issue at an issue price of \$0.55 resulting in the issue of 65,334,812 new shares and raising \$35,934,000 (before costs).

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.

Alkane Resources Ltd
Notes to the consolidated financial statements
31 December 2019

Note 14. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

- 31 Dec 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Equity securities - mining sector	13,216	-	-	13,216
Equity securities - private international sector	-	-	1,730	1,730
Total assets	<u>13,216</u>	<u>-</u>	<u>1,730</u>	<u>14,946</u>
- 30 Jun 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Financial assets at fair value through other comprehensive income (FVOCI):				
Equity securities - mining sector	7,767	-	-	7,767
Total assets	<u>7,767</u>	<u>-</u>	<u>-</u>	<u>7,767</u>

There were no transfers between levels during the financial half-year.

Note 15. Contingent liabilities

The Group has contingent liabilities estimated up to the value of \$5,650,000 for the potential acquisition of several parcels of land surrounding the Dubbo Project (30 June 2019: \$5,650,000). 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.

The group has entered into an option agreement with landholders over a section of the Tomingley Corridor as part of potential project life extension for the Tomingley Gold Operations. The Group has contingent liabilities estimated up to the value of \$2,750,000 for the potential acquisition of land (30 June 2019: nil).

The group has entered into forward gold sales contracts which are not accounted for on the balance sheet. A contingent liability of \$8,199,000 (30 June 2019: contingent liability of \$4,939,000) existed at the balance date in the event the contracts are not settled by the physical delivery of gold.

Note 16. 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.

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Within one year	<u>1,953</u>	<u>2,377</u>

Note 16. Commitments (continued)

(b) Physical gold delivery commitments

The gold forward sales 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.

	Gold for physical delivery Ounces	Contracted gold sale price per ounce (\$)	Value of committed sales \$'000
31 December 2019			
Fixed forward contracts			
Within one year	19,760	1,840	36,373
One to five years	5,000	1,890	9,450

Physical gold delivery commitments (continued)

30 June 2019			
Fixed forward contracts			
Within one year	12,980	1,854	24,065
One to five years	14,770	1,853	27,374

(c) Capital commitments

Capital commitments for the period at the end of the reporting period but not recognised as liabilities amounted to \$2,333,000 (June 2019: \$833,000).

Note 17. Assets pledged as security

As at the date of this report \$8,347,000 (June 2019: \$8,347,000) in deposits have been provided as security.

On 21 December 2018, security for a term hedging facility for 15,000oz with Macquarie Bank Ltd was established with a guarantee for payment under the facility provided by Alkane Resources Ltd and Tomingley Holdings Pty Ltd.

Note 18. Events after the reporting period

A general meeting was held on 7 January 2020 approving the issue of 8,602,273 shares at an issue price of \$0.55 per share to Abbotsleigh Pty Ltd. Funds were received in January 2020.

The Group executed a contract to purchase land in the Tomingley region in February 2020 with settlement scheduled for March 2020.

No other matter or circumstance has arisen since 31 December 2019 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.

Alkane Resources Ltd
Notes to the consolidated financial statements
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Note 19. Earnings per share

	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Profit after income tax attributable to the owners of Alkane Resources Ltd	7,490	12,190
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	511,683,015	506,096,222
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	17,634,804	10,736,228
Weighted average number of ordinary shares used in calculating diluted earnings per share	529,317,819	516,832,450
	Cents	Cents
Basic earnings per share	1.46	2.41
Diluted earnings per share	1.42	2.36

Alkane Resources Ltd
Directors' declaration
31 December 2019

In the directors' opinion:

- the financial statements and notes set out on pages 10 to 24 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 2019 and of its performance for the half-year ended on that date and
- 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

26 February 2020
Perth



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) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, 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, selected other explanatory notes and the directors' declaration.

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 gives a true and fair view and 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 Group's financial position as at 31 December 2019 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*.



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 Group's financial position as at 31 December 2019 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

Helen Bathurst

Helen Bathurst
Partner

Perth
26 February 2020