Attention : ASX Company Announcements Platform

Lodgement of ‘Company Interview’

Alkane Resources Limited

Date of lodgement: 30/6/2015

TITLE: “Company Interview. Moves to Funding of the DZP”

Highlights:

- **Implications of receiving approval to develop large, world class, strategic DZP.**
- **Can now move to complete four stage funding strategy and offtake contracts.**
- **Overall timetable to production at DZP with production end 2017/early 2018.**
- **Revenue of A$400-450m p.a., but A$500-550m if can produce hafnium as expected.**
- **Explains why the DZP is very different to Molycorp. Can’t be compared.**
- **Tomingley Gold Operation now progressing steadily. Plenty of scope to add to mine life.**
- **Very strong corporate growth strategy based around DZP.**

Introduction

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

Record of interview:

Company Interview question

Alkane Resources Limited (ASX code: ALK; market cap of ~$120m) recently announced it had received final approval to proceed with its large Dubbo Zirconia Project (DZP – Alkane 100%). How important is this milestone in the context of future value-add for shareholders?

Managing Director, Ian Chalmers

It’s obviously very important because without approval we couldn’t proceed to put the finance in place, which we are now progressing. We also couldn’t finalise offtake agreements because no party will sign a binding agreement until the project is approved. Approval allows us to complete the next steps to get the project into production.

Company Interview question

What's next to achieve at the DZP? What remain the major challenges to get it into production?

Managing Director, Ian Chalmers

There are a couple of bureaucratic processes, such as getting the mining lease for which we have to provide a mine operations plan and we will also have to obtain an environmental protection licence. We've allowed around 3 months to get these two licences in place.

The major step is financing and we've been putting a lot of effort into that working with Sumitomo Mitsui Bank and are making progress.

Company Interview question

You expect to complete the Bankable Feasibility Study in the September 2015 quarter. The Definitive Feasibility Study assumes capital expenditure of ~A$1 billion and a 20 year NPV of A$1.2 billion. What is your funding strategy now that you have project approval? In what order would you expect to announce the various types of funding? Do you have a firmer idea of the percentages of total funding that the various types of funding will provide?

Managing Director, Ian Chalmers

We've been working on the funding for around three years and haven't changed the strategy. The funding has four components – a strategic partner which could be one or more parties who would take a direct interest in the project, export credit agency funding, standard project debt and finally some equity market finance.

The concept of a strategic partner would be one who has an offtake contract or other interest in the project. It's a bit hard yet to know the size of equity we would sell down, but I've said previously that our target is 10-20% and it would provide a 'see through' value of the project. We've argued that this price should be based around the NPV of the project which is A$1.2 billion at the base case. We're making progress on this concept.

The export credit agency funding is provided by national governments who have companies involved in a project through offtake agreements or equipment supply for example. The $10 billion Roy Hill iron ore project benefitted from very significant funding from five export credit agencies from Japan, Korea and the USA. I'm not aware of the exact proportion of the $7.2 billion in total debt financing that came from export credit agencies, but believe it was very significant (~50%?). We've been working on export credit agency funding with certain Asian countries for around three years and more recently with European agencies.

The advice we've received is that we could achieve 30 to 50% ($500 million) of our funding through export credit agencies. The reason is the DZP is a very strategic project on a world scale and various companies are very keen to see the project proceed because our products are in high demand. Export credit agencies will provide finance if a commodity is needed, as shown by the Roy Hill example. An advantage of export credit agency debt is that it is generally at lower interest rates than project debt and the payback periods are longer (e.g. can be in excess of 10 years).

Again we're not sure how much project debt we will raise, but that and export credit agency funding might provide 60% or more of the total funding.

That leaves equity market funding which we estimate to be around 20 to 30% of the total, depending on what we achieve with the other funding components.

This is a very important point that I've mentioned before. I would be surprised – shocked – if, at that stage, we won't be raising equity at a share price significantly higher than the current ~$0.30 once we have some of the other funding components in place. We would therefore limit dilution for existing shareholders, which has always been a major priority in our funding strategy.

Once we have secured the initial funding, we will be able to start construction work, which we hope to be before end of calendar 2015. As the construction ramps up through 2016, we will put the other funding components in place. We think it will be about a 12 month period to get all the funding finalised but that should not impact on the schedule.

Company Interview question
What then is the overall timetable to get to production for the DZP? The project will provide multiplier economic benefits to the local community in particular. Do you have a very rough idea on the number of full time workers and contractors that will be employed during construction and then steady state production?

Managing Director, Ian Chalmers
I've mentioned the mining and environmental protection licences. The major priority is to get the first tranche of financing in the next few months. The construction priorities will be predominately infrastructure such as roads, power and water supply and the target is to complete the overall project construction in 2017 with start-up hopefully by the end 2017 and first production early 2018. We've also allowed a three year production ramp up whereby we might operate at 60% capacity in year 1, 80% in year 2 and 90-100% in year 3. Internally we're confident we can do better than that, but we're being typically conservative.

You mentioned the multiplier economic benefits. These will be substantial and it has been estimated that the Project will inject about A$50 million p.a. into the local economy, A$10 million p.a. in state royalties and A$30 million in other infrastructure improvements. Once in production the project will have 250-300 full time workers on site, most of whom we expect to reside in Dubbo or close by. It's a bit harder to predict the number of people who will be involved during construction as it depends on our final approach to the construction. It depends on if we choose an Engineer Procure Construct and Manage (EPCM) or just an EPC which would involve a 'lump sum' contract. We're leaning strongly towards the second option. It will also depend on the construction timetable agreed with the contractor. Clearly the shorter the timetable, the larger the number of people on site at any particular time – but overall it could be 400-500 people as a guess. The local towns of Dubbo, Parkes, Wellington and Orange are large enough to provide that level of work force.

Company Interview question
You've stated that expected product output is light rare earth concentrate of 4,665 tonnes per annum, heavy rare earth concentrate of 1,309 tpa, zirconium carbonate and zirconia of 15,827 tpa, hafnium (as HfO_2) of 200 tpa, ferro-niobium of 1,967 tpa, and potentially tantalum longer term. What revenue do you currently expect at these levels at your relevant pricing assumptions? You've mentioned that there is strong demand for the products - which in particular and can you update the situation with firm offtake agreements?

Managing Director, Ian Chalmers
At current Chinese domestic spot prices for rare earths, we would be generating annual revenue of around A$400 - A$450 million per annum from the base case model of light and heavy rare earths, niobium and zirconium carbonate/zirconia – i.e. the base revenue does not include the HfO_2. The revenue would be roughly evenly split across the four base case products. We do

anticipate a recovery in both rare earth and zirconium prices in 2016 as the world economies move forward. If we included hafnium production the annual revenue could increase to A$500-550 million.

With the revenue derived fairly evenly from each metal group, the project won't be exposed to movements in any one particular commodity market. That's an excellent position to be in.

We've been working very hard over the last two to three years on the various offtake agreements, and apart from the existing arrangement on niobium with Treibacher, are focussed on zirconium and specific rare earths. The biggest issue for us is we can't publicly discuss the progress and detail of the offtake agreements because of confidentiality and commercial sensitivities until they are finalised. Even then there are often remaining confidentiality issues. All I can say is we are putting an enormous amount of work into the offtake. The other point to note is that the offtake contracts for these type of products are usually of a fairly short period. One year would be an unusual length for example, but we are trying to use the strategic nature of some of the metals to get longer life offtake.

Company Interview question

Hafnium continues to be a developing growth product from the project. Have you proved that you can produce (HfO_2)? Where would you sell the planned 200 tpa output? Do prices remain strong and at what level?

Managing Director, Ian Chalmers

We've developed a flow sheet for hafnium and will test it soon at ANSTO where our demonstration pilot plant is operating and we'll be able to say by about September that we've confirmed the flow sheet for production of a hafnia (HfO_2) product. Technically, we're very confident it will be successful and just can't see any major impediments at the moment.

The planned 200 tpa output is substantial in the current reported world market – in fact we'd be the largest producer of HfO_2. All our discussions with the aerospace industry indicate that even that additional 200 tpa is not adequate to meet potential demand. The demand will grow once it's clear that there is a guaranteed long term supply. It sounds strange, but with a specialty product such as hafnium demand is really governed by supply. The reality is that organisations won't start commercial production of a new product containing hafnium until they can see a guaranteed long term supply.

If we do become the world's largest producer of HfO_2 this could impact the market price. We have no intention of unsettling the market by over supplying, but we can provide a degree of certainty to companies requiring HfO_2.

In the meantime the hafnium metal price keeps on escalating. Mid 2014 it was US$800/kg, it went to US$1,000/kg by end 2014 and currently is US$1,200/kg. We use a highly discounted price for the hafnium oxide in our financial modelling.

It's a very exciting and fairly recent development for us – a couple of years ago we knew we could produce HfO_2, but we didn't know where demand was headed. We have a much clearer understanding now.

Company Interview question

Last week, Molycorp applied for bankruptcy protection (Chapter 11). Will that affect Alkane in any way?

Managing Director, Ian Chalmers
Although their application is recent, the market has been aware of Molycorp's problems for some time.

The short answer to the effect on Alkane is, it should be 'very little' - even though our market perception has suffered to some extent over the last two years or so because of Molycorp's situation with its operations at Mountain Pass in California. Mountain Pass is primarily a producer of light rare earths and has been hampered by some process issues and large debt. Unfortunately the prices of rare earths, and particularly the large volume REs lanthanum and cerium, have suffered to such a degree that even the dominant producer China is struggling to generate cash returns.

At Alkane, we go out of our way to differentiate from companies/projects such as Molycorp and Lynas. We will produce some light rare earths such as neodymium and praseodymium, but as I've explained earlier we have three other proven products and a likely fourth in HfO_2. The DZP is a true polymetallic project which does not rely on any one of our potential five revenue streams. In addition, we will be producing a wide range of heavy rare earths such as terbium, dysprosium and yttrium, such that the Project is capable of supplying all the rare earths necessary for production of the high demand permanent rare earth magnets which still have strong growth.

Early on in the DZP feasibility we decided not to take on the high technical and financial risk of separating the rare earths on site. That will be done off-site in a toll treating arrangement.

I know some of the Molycorp people well and I hope they can get through the current situation.

Company Interview question
How is the Tomingley Gold Operations (ALK – 100%) performing? What are your current production, cost and free operating cash flow expectations?

Managing Director, Ian Chalmers
The project is now progressing steadily after a below par March quarter as we transitioned from the oxide to fresh ore, which we could have handled better. Grades and production were down and hence cost per ounce produced was up in that quarter. We now believe the operation is stabilised and the current June quarter numbers should be as expected in terms of budget production and costs after allowing for additional capital costs incurred with the uplift of the residue storage facility and commencement of pre-stripping of the Wyoming One deposit. A normal quarter should be within the annualised rate of 65-70,000 ounces of gold.

After the exceptional December half 2014 when TGO produced over 41,000 ounces, free cash flow is strong at around A$21 million over the three quarters to 31 March 2015.

Company Interview question
The TGP has a 7.5 year mine life and you are targeting +10 years. When will you try to lift current mine life and how?

Managing Director, Ian Chalmers
We're in the middle of a strategic review at Tomingley. This involves bringing the Caloma Two open pit and the underground developments into the mine plan. The underground work is ongoing and we don't know the results yet, but that has the potential to add 2-3 years in mine life and go above the start-up mine life of 7.5 years. Then there is the 14 kilometres of strike length outside the mine lease with the same host rocks which we can explore in the future and hopefully further add to mine life.

Company Interview question
Can you summarise Alkane's overall corporate growth strategy?

Managing Director, Ian Chalmers
It's based very much around maximising the return from the projects already identified. We maintain a small exploration program at present, particularly at Bodangora and Elsienora, which we believe have substantial upside.

The DZP is our primary focus as it's the really large, strategic project for us. We want to make sure it generates the returns we've outlined and ultimately start paying dividends to shareholders on top of the significant capital growth in share price we'd expect from successfully developing the DZP. We have no debt, which is a pretty remarkable feat for a company of Alkane's size and we have always been conscious of trying to avoid diluting existing shareholders.

Company Interview
Thanks Ian.