ALKANE RESOURCES LTD

Company Insight
the intelligent market update

Alkane Resources Ltd — Date of Lodgement: 2/11/12

Title: "Company Insight – Explains Conservative Feasibility & Financial Advisors for DZP"

Highlights of Interview

- **Explains changes in interim feasibility study for the Dubbo Zirconia Project (DZP).**
- **Deliberately conservative with feasibility study, but project returns remain very good.**
- **Additional revenues for DZP possible from Shin-Etsu JV (US$50 million per annum).**
- **Explains other initiatives to optimise project scope & project returns.**
- **Appoints financial advisors for DZP – explains mandate & capabilities of advisors.**
- **Explains the broad strategy for raising ~$1 billion in funding (debt plus equity).**
- **Updates progress across other projects.**

About Alkane

Alkane is a multi commodity company focussed in the Central West region of NSW Australia. Currently Alkane has two projects heading towards production in 2013/2015 - the Tomingley Gold Project (TGP) and the nearby Dubbo Zirconia Project (DZP). Tomingley recently received project approval for its development. Cash flow from the TGP will provide the funding to maintain the project development pipeline and to contribute to development of the DZP.

The DZP revised feasibility study and environmental impact statement are nearing completion and a development decision is anticipated in the second half of 2013. This project will make Alkane a strategic and significant world producer of zirconium products and heavy rare earths.

Alkane's most advanced gold copper exploration projects are at the 100% Alkane owned Wellington and Bodangora prospects. Wellington has a small Cu-Au resource which can be expanded, while at Bodangora a large $12km^2$ monzonite intrusive complex has been identified with porphyry style Cu-Au mineralisation.

Record of interview:

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Alkane Resources Ltd (ASX code: ALK; market cap of ~$330m) announced, in your September 2012 Quarterly Report, interim feasibility study results for the DZP. Can you explain why capital and operating costs have increased and to what extent? How does that affect the overall financial returns for the project?

Ian Chalmers
Firstly, I'll explain why we have released interim feasibility study results. We started this year thinking we would complete the revised feasibility study by the end of the March quarter. However, it became apparent that there would be some significant changes in the plant design, particularly with improvements to the rare earths circuits and water recycling opportunities. This work is on-going but we also wanted to give our recently appointed financial advisors (see ASX 25 October 2012) something to work with – hence the release of the interim feasibility numbers in the Quarterly Report.

We believe the interim results are conservative, with capital and operating costs going up and revenue decreasing. Consistent with the rest of the mining industry in Australia, capital and operating costs have each increased by 10-15% and price assumptions have fallen. Releasing interim feasibility numbers was an opportunity to use current spot prices and demonstrate what the financial returns would look like if the Project proceeded today.

We anticipate that this is a worst case financial scenario and should be able to improve as we firm up the plant design, optimize the project, find ways of reducing costs and also use higher price assumptions, which we believe should reflect the longer term. We could add US$50 million per annum in revenue if we used long term pricing today.

We actually thought our Quarterly Report was positive with several upside opportunities beginning to crystallise, but clearly we have suffered in the market from our conservative approach. I think investors can get a bit too focused on single issues and not analyse the whole project. As I've repeatedly said, this is a very long life and high quality strategic project which could be worth very considerable value when in production.

These conservative assumptions have reduced the financial returns on the project. However, even if the EBITDA did reduce from $300 million per annum to $200 million per annum, the project still generates very good returns over a 30+ year mine life. As I've said, we believe we can improve the economics - possibly significantly and will be presenting the market with more realisable final feasibility numbers next year.

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The current anticipated annual revenue from the DZP of US$450 million does not account for uplift from the rare earth separation JV with Shin-Etsu of Japan. Why? How confident are you of achieving those additional revenues? Can you guesstimate a number for uplift at this stage?

Ian Chalmers
It's difficult to give accurate assessment at this stage. We've only just started to work with Shin-Etsu in detail on the rare earth recovery circuit, particularly on the types and quality of products that can be produced and then ultimately what products they want to buy. Fortunately we have a lot of interest in the separated products and are not totally reliant on Shin-Etsu's requirements. There is a fair amount of work to do before we know these revenue numbers from the rare earth separation JV, but if you look in a general sense, we think this initiative could add another US$50 million revenue per annum to the rare earth returns.

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How else do you believe you might be able to optimize the project scope and financials from these interim numbers?

Ian Chalmers
There are several issues we're considering in addition to the points we've already discussed. The engineers will review every item of the plant and see if the capital cost can be reduced, or the process improved to reduce both capital and operating costs. One obvious approach here is to get competitive quotes rather than use single vendor estimates. I said earlier that capital and operating costs have each increased by 10-15% but I believe we've seen the peak - costs are stabilising and I think will come down.

We are examining ways of increasing the amount of water we will recycle because it will bring environmental benefits and it is also a potentially very large area of saving. If we can recycle 60-70% it will lead to cost savings through less overall consumption, but more importantly it will reduce the required storage capacity for the waste water. The waste water is discharged to very large tailings ponds which are expensive to build. We could save $50-60 million in capital by reducing the capacity of the tailings ponds. Then there are expected savings in buying inputs such as chemicals, and being a large buyer, should be able to negotiate good terms.

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Alkane announced that it had appointed Credit Suisse, Sumitomo Mitsui Banking Corporation and Petra Capital as advisors for the Dubbo Zirconia Project (ALK 100%). Can you explain the mandate each has been given? What specific skills does each of the three advisors bring?

Managing Director, Ian Chalmers
The mandate has some flexibility but Credit Suisse and Sumitomo Mitsui are to take us through the first three stages of the financing program. That includes looking at the potential for a strategic sell down in the project, the access to Export Credit Agency (ECA) funding – that is a broad term to mean government agencies – and thirdly any project debt facilities. Credit Suisse is very strong in investment banking so it will be working on the strategic sell down and the debt financing, whereas Sumitomo is particularly strong in the ECA area where they can access government agencies around the world at the high levels. Sumitomo is likely to be involved in the debt facilities as well.

Petra Capital and Credit Suisse will have important roles in any equity raisings. Credit Suisse is a large investment bank with a strong equity raising capability, while Petra Capital also has a great capacity in the equity markets, but would be described as more of a boutique company. Petra has done some very good work for us with equity raisings in the past two years and has established good relationships with a number of large international funds.

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What have they indicated about the task of raising $1 billion in finance? Won't that be difficult under current economic conditions?

Ian Chalmers
It's an interesting question and we have certainly never underestimated the magnitude of the task, hence the tie up with strong financial banks like Credit Suisse and Sumitomo Mitsui Bank. It might be a challenge now but on the other hand there have recently been some very large equity and debt market capital raisings by Australian companies. The money is out there for the right projects.

Investors have been sitting on larger amounts of cash than normal for a couple of years and they are looking at opportunities to invest in the right project and, along with that, we should see finance markets stronger in the next couple of years.

I should emphasis that we are not looking to raise the funds for about 12 months and hope that funding markets will continue to recover throughout 2013 and be in reasonable shape at the end of 2013 or early 2014.

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You've touched on this, but when do you expect to complete all the financing for the DZP under the mandate you've given the advisors?

Ian Chalmers
The mandate we've given is to have it all in place by the end of 2013. Hopefully some of the offers and documentation comes together around the September quarter 2013.

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What would be your preference for the amount of equity you would sell down in the project? What about a potential mix between debt funding and equity funding?

Ian Chalmers
We've previously said we would consider a project level sell down of around 10% - that is not set in stone but it is our initial view and it would depend on what benefits the new party or parties could deliver to the project – and any sell down would of course be dependent on the financial return we would get. We expect this to be quite a flexible negotiation. We may decide that it is not worthwhile selling any part of the project; then again we may be offered a price that is too good to reject. What we can firmly say is that this is a very long life project and when valuing it we won't be taking a 5-10 year view.

Likewise, we can't be definitive on the possible debt and equity mix. It will depend on many factors such as the availability of ECA type funding, the terms we're offered, world financial conditions next year and how Alkane is performing as a whole. However, we are determined to avoid diluting current shareholders as much as possible. So, it will be a balancing act between that objective and debt at appropriate levels in terms of risk to the Company. We will only have a firm idea around the September quarter next year.

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Are any of the three financial advisors likely to be involved in the project in others ways such as taking out off-take contracts?

Ian Chalmers
No, it's not their background. The appointment is to advise on and arrange finance. These advisors have good international industry contacts and having the Japanese bank SMBC involved should be very helpful in Japan and Korea. The connections may also throw up other options that we have not investigated.

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Can you give a brief update on other aspects of your major projects – also referring to the main outcomes over the September Quarterly Report just released?

Ian Chalmers
The most important thing is to get through the final approvals for Tomingley. We received approval from the State Government in early August and we're now awaiting final approval of the mining lease to commence construction, after having received the Environmental Protection License a couple of weeks ago. The process has been very frustrating but there is apparently little we can do to accelerate it.

We have recommenced drilling at Caloma Two (TGP) and we want to define a resource there as soon as possible. There could be as much as an additional 50-100,000 ounces (open pittable) not already within the current resources for the TGP and it would be good to incorporate that into the development schedule.

The sale of our stake in McPhillamys (ODEJV) is close to being finalised and is being put to Regis shareholders for approval on 9 November. Our shares in Regis are now worth ~$95 million, up from ~$75 million when we did the deal. That is a nice 'bank account' although we don't have any plans to sell.

Finally, we are continuing with our exploration on the Bodangora porphyry copper system and Wellington copper deposit, and should have some RC holes completed at Bodangora before the end of the year. We regard both these projects highly but it will need a fair bit more drilling to move them to the next stage.

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Thank you Ian.

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