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Lodgement of 'Company Interview'



'COMPANY INTERVIEW'-MARKET PROFESSIONALS

Alkane Resources Limited

Date of lodgement: 10/09/2013

TITLE: "Company Interview. Tomingley Gold Construction & DZP"

Highlights:

- Progress on Tomingley Gold Project – on budget & schedule.
- Tomingley to generate \$30 million free cash flow per annum.
- Outlines stages for ALK's biggest project – the Dubbo Zirconia Project (DZP).
- Progress with signing off take agreements for the DZP.
- Latest pricing for the DZP's products.
- Strong funding support for the Dubbo Zirconia Project.
- 12 month outlook for Alkane.

Introduction

Record of interview:

Company Interview question:

Alkane Resources Ltd (ASX code: ALK, market capitalisation of ~\$130 million) is currently constructing its Tomingley Gold Project (TGP - 100%) near Dubbo, NSW. Can you give an update on progress and an update on expectations for total capital expenditure and operating targets, particularly as the cost pressures seemed to have eased a little in the industry? How does the cash operating number compare with gold projects in Australia?

Managing Director, Ian Chalmers

The TGP is going well and is on schedule and budget even though we had to cope with very heavy rain in June. The project is about 65-70% complete in terms of construction. It's

on target for commissioning early in 2014 and for first production in February. The capital cost is close to budget at \$110 million compared with the original \$107 million (excluding contingencies).

The plant throughput is designed at 1mtpa of ore with a little more when we are processing the oxide ore. The average life of mine production should be around 55,000 ounces of gold per year with the first two years being 60-65,000 ounces per annum when we process the upper levels of the Caloma deposit.

We are waiting on some final tender pricing for mining operations, but we are expecting total cash costs of around A\$1000/oz (C3). This is currently a competitive cost for gold production in Australia. With C1 cash costs defined as including mining, haulage, processing and site administration, the C3 cash cost (all in sustaining cash cost) is equal to the C1 cost plus royalties, taxation, sustaining capex, waste development, extensional exploration and corporate overheads.

Company Interview question:

So what would that mean in terms of cash flow generated per annum at Tomingley? What is the longer term production profile for the project and for how many years?

Managing Director, Ian Chalmers

At the current spot gold price of ~A\$1,500/oz, the operation will provide us with operating cash of over \$30 million per annum in the early years.

Investors can choose an appropriate cash flow multiple, but a 4 times multiple would imply a value of \$140 million for the project – equal to our current market capitalisation. On that basis our current market capitalisation doesn't place any value on our cash position (of ~\$100 million which includes our Regis shares), our many exploration projects and of course the Dubbo Zirconia Project (DZP – 100%) – by far our most valuable asset.

The base case model is for a mine life of 7.5 years at an average of 55,000 ounces per annum, but as I've said previously we expect this to be a much longer life – at least 10-12 years. We're currently putting together a resource for Caloma Two and we'll also look at expanding the planned underground at Wyoming One. We'll evaluate potential for underground operations at both Caloma and Caloma Two over the next couple of years.

Company Interview question:

You just announced the appointment of a Chief Operations Officer and a Commercial Manager. Can you explain their respective backgrounds and their intended roles at Alkane? How will that alter your focus as Managing Director?

Managing Director, Ian Chalmers

Nic Earner is our Chief Operations Officer and he is a chemical engineer with 17 years experience in the mining industry. Nic managed Straits Resources' open pit and underground operations in Australia and Indonesia and brings a lot of operational knowledge. He has several years' experience at large diverse processing plants such as at Olympic Dam and he can apply that knowledge to the DZP development.

Brendan Ward is our new Commercial Manager replacing Tony Wright who is retiring at the end of the year and who has been a tremendous help to me in recent years. Brendan is a

lawyer and also has a BA in Politics and International Studies and for the last 9 years has worked for major contracting companies compiling and managing EPC/EPCM contracts within diverse resource industries. Brendan will work on major contracts at both the TGP and the DZP.

Nic and Brendon join Mike Ball (CFO) and Sean Buxton (TGP Operations Manager) who joined last year, and with the existing senior management team, will guide the Company back into production at the TGP and DZP in the next couple of years.

I won't be quite as hands on with the operations as I have been and I will now be able to focus more on the marketing of the DZP products, DZP financing, communicating to the investment community and other corporate issues.

Company Interview question:

On 1 July 2013 you announced that you had submitted the Environmental Impact Statement (EIS) for the DZP to the NSW Department of Planning and Infrastructure. What is the process from here? By when would you like to receive final approvals for the EIS and then clearance to begin construction (mining licence etc) to maintain the anticipated schedule for the project?

Managing Director, Ian Chalmers

The EIS is currently being assessed for 'adequacy', whereby the government agencies check that the EIS complies with requirements that have been previously advised. It is expected to go on public exhibition in the next week or so. Although the exhibition stage usually takes about 4 weeks, we've been advised it will take about 8 weeks for the DZP EIS because of the size of the project and the detail of the EIS. We will then address any submissions we receive and have allowed around 3-4 months to respond. The document then goes back to the Department of Planning and Infrastructure for final approval, which is expected to take around 1 month, assuming no issues. This should take us to June 2014.

While the EIS approval process continues we will lodge the applications for other licences such as the mining lease, and Environment Protection Licences (EPL) for construction and operations. This will expedite the overall project approval and we anticipate it to be a smoother process than that for the TGP.

On this timetable, we'd expect to start construction in the second half of 2014.

Company Interview question:

What is the latest schedule for the project moving towards first production?

Managing Director, Ian Chalmers

The total 'construction to production' period was estimated to take about 24 months, however we can start various tasks at the start of next year such as detailed design and ordering long lead items. We will be doing this prior to final approvals and finalising financing, so it shows our confidence in the project. Production should commence early in 2016.

Company Interview question:

On 17 July 2013 you announced a 'joint venture framework agreement' with Treibacher Industrie AG of Austria for DZP's production of ferro-niobium. Is this now a binding offtake agreement? What are the main terms?

Managing Director, Ian Chalmers

Yes, it is an agreement to produce ferro-niobium from DZP niobium concentrate and to sell the product. Treibacher will take the product and on-sell any it doesn't use. Many of the terms are commercially confidential as is often the case in these specialty metals markets.

Treibacher will provide the technology to produce a high quality ferro-niobium; the engineering design for that section of the plant; and a detailed market study on where they believe they can sell the material surplus to their requirements. We will do a final feasibility check on all aspects of the planned ferro-niobium production.

Company Interview question:

What amount of total revenue for the DZP is expected to be covered by the agreement with Treibacher? When do you expect to convert the several other MoUs covering production of other products to firm agreements?

Managing Director, Ian Chalmers

The ferro-niobium would contribute a total of around US\$90 million revenue to the DZP which equates to 16% of the Project's expected total revenue.

Treibacher will not initially participate in a share of production, but they have an option to purchase 50% ownership of the joint venture and in this case, our total revenue from the joint venture will drop to A\$80 million. This was the revenue number used in the recent definitive feasibility study.

We're working with Shin-Etsu to convert the MOU covering the rare earths into a toll treatment-offtake agreement by the end of the year. The zirconium offtake agreements are a bit more complex to finalise because of the structure of the market and we're likely to eventually sign up to around 10 individual offtake agreements. There's a lot of interest though and we're confident we can sell all output. We may put in interim Letters of Intent for some of these which should be sufficient to satisfy the financiers prior to final project go-ahead.

Company Interview question:

Can you give an update on the recent main movements in product prices for the DZP?

Managing Director, Ian Chalmers

Niobium is always pretty stable because of the dominant production by CBMM, the large Brazilian company, and the price is around \$40-45/kg for ferro-niobium. Zirconium and rare earths markets have been fairly tough in the last 18 months, but there are signs of recovery for zircon and some rare earths.

Over the last couple of years many consumers had compiled large inventories of zircon and zirconium chemicals and with the downturn in the world economy it has taken much longer to consume these stockpiles. In the first half of this year, we believe the stockpiles have

reduced to a size that requires some re-stocking. Demand for zircon and zirconium chemicals is slowly improving and is starting to be reflected in prices.

The rare earths market has had a similar overstocking scenario as zircon and is complicated because of the imbalance in output with a potential over-supply of lanthanum and cerium, but an under-supply of critical elements such as neodymium, dysprosium, terbium and yttrium. The neodymium price has stabilized and praseodymium (used in magnets and ceramics), terbium and dysprosium have definitely turned around and we're starting to see a little recovery in the yttrium price. We expect a slow, but consistent increase in prices through 2013 and into 2014.

Company Interview question:

What remaining cash do you think is required to payout for Tomingley's total capital expenditure? What is Alkane's updated financial position including cash and Regis shares?

Managing Director, Ian Chalmers

We have spent around \$50-60 million on the TGP and have an additional \$50-60 million required to meet the expected final capital expenditure amount of \$110 million to get us into production. We can easily fund that from our existing cash and Regis shares balance of around \$100 million.

Company Interview question:

To what extent will your two projects benefit from the lower Australian dollar – looking at revenue and capital expenditure?

Managing Director, Ian Chalmers

The TGP will greatly benefit from a lower Australian dollar and we're hoping that we'll continue to see a lower Australian dollar and an increase in the A\$ gold price. We will also be selling much of the products from the DZP in US dollars and will therefore benefit from a lower Australian dollar when we convert that revenue to Australian dollars.

About 10-20% of the capital items for the DZP may be sourced from overseas and so we will pay a higher Australian dollar price for these if the dollar continues to weaken. We'll look very closely at alternate supply sources if necessary.

Company Interview question:

It has been notoriously difficult for smaller resources companies to raise equity during 2013. Can you give an update on your financing program for the DZP? What is your recent experience on the debt market side? Is the team you've assembled for the financing task proving to be successful so far?

Managing Director, Ian Chalmers

The financing program is moving along and the team comprising the two major banks is working well. It's difficult to give investors a simple answer because so much is happening behind the scenes, but there have been no hiccups.

The debt market appears quite strong and facilities are available in London, Middle East, North America and Asia for quality projects such as the DZP. So we don't see any issues at present in raising the funds, it is more just a matter of how we demonstrate the viability of the project and then how we structure the total funding package.

Company Interview question:

Can you summarise the major milestones for Alkane over the next 12 months?

Managing Director, Ian Chalmers

We want to complete the process plant and commence mining at the TGP, and start the cash flow. We expect to announce the Caloma Two resource by end October, which will be important to extend the mine life. We hope that the EIS process for the DZP goes smoothly, put the financing in place and that we can then begin construction in the second half of 2014. We will continue with our DZP marketing work and aim to finalise offtake agreements. Advancing long lead items early next year will help to achieve the construction timetable.

We will maintain our relatively low expenditure but targeted exploration effort on our tenements around Dubbo. We recently acquired two properties south of Orange which we believe could host McPhillamys-style mineralisation. We worked for 5 years on proving up the 3 million ounce resource at McPhillamys and this knowledge will be invaluable in potentially finding a similar deposit. We expect exploration results to continue to flow over the next 12 months from the several projects we hold in the region.

There's a lot to do in the next 12 months and Alkane will continue to grow on the back of our two main projects.

Company Interview

Thanks Ian.

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