Company Insight
the intelligent market update

Alkane Resources Ltd **Date of Lodgement: 13/5/13**

Title: "Company Insight – MD on Momentum With Developing Projects"

Highlights of Interview

- **Very strong economics for Dubbo Zirconia Project – NPV of $1,235 million.**
- **Project moving ahead with no reason why it won't be developed; financing by mid 2014.**
- **Explains why the DZP is a strategic & alternate source of zirconium and heavy rare earths with very long term supply.**
- **Reviews the strategic partnerships established for the DZP.**
- **Current funding of $65m cash and $70m in liquid investments with no debt & Tomingley Gold Project in construction for forecast $20-25m per annum free cash flow for up to 10 years.**
- **Is still considering selling a minority stake in the DZP at multiples of the NPV.**

Record of interview:

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Alkane Resources Ltd (ASX code: ALK, market capitalization of ~$210 million) recently announced an updated Definitive Feasibility Study (DFS) for its 100%-owned Dubbo Zirconia Project (DZP). Can you outline the updated project economics and scope of the project?

Managing Director, Ian Chalmers
The capital cost has decreased to $996 million and this includes a 20% contingency so we think we're still being conservative. The annual revenue is just over $500 million with annual operating costs of $214 million and that provides a very healthy operating margin. The summary financial numbers are an annual EBITDA of $290 million, an investment rate of return on capital of 19.3% per annum and a very attractive NPV of $1,235 million using an 8% discount rate. EBITDA over a 20 year mine life is $5.23 billion, but the mine life could be considerably longer based on the current resource alone.

It is a very robust project and we can't see any reason why it wouldn't proceed. We have strong interest in the project from potential customers, strategic partners and financiers – all key players in making the project successful.

Rather than outline the scope of the project here again, readers can refer to our various ASX announcements on the DZP which refer to issues such as the process, product output, market strategy and assumed prices. The DZP will process 1 million tonnes of ore in the base case and the revenue streams will be in the following proportions: zirconium 31%, heavy rare earths 30%, light rare earths 24% and niobium 16%.

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Can you explain why you have updated the Definitive Feasibility Study (DFS)? Was it in any way related to its commercial viability?

Managing Director, Ian Chalmers
The DFS in 2011 assumed a smaller base case of 400,000 tonnes of ore per annum throughput. At that stage, we believed that not only could we sell more products, but we believed the larger project at 1 million tonnes per annum would be the more robust project.

Since 2011 we have undertaken substantial process development work which led to improvements in capital and operating costs and revenues. This development work is continuing, however we reached a point where we thought it was important to finalise the DFS so that we can progress other objectives, such as the financing program and the Environmental Impact Statement, in order to achieve development approvals early next year.

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You've described the DZP as a strategic and alternate source of zirconium and heavy rare earth products with a resource capable of very long term supply. How does it stack up on a world scale of projects producing similar products?

Managing Director, Ian Chalmers
The DZP is not a rare earth project but is the only advanced polymetallic project of its kind in the world today that has proven its flow sheet through pilot plant operations. Polymetallic in that it will produce zirconium, niobium and rare earths. While there are a few other similar projects elsewhere these currently appear to be a fair way behind in terms of development.

The downstream zirconium industry is dominated by China with 90% of the world's zirconium products being produced there. China uses zircon as the raw material and supply of zircon is linked to mineral sand operations and the recovery of titanium minerals, so the DZP would be a very important and substantial supply of zirconium products not linked to that industry and not relying on Chinese supply. That's a message that doesn't get across as well as it probably should.

The DZP will be a significant heavy rare earths producer, certainly in the early years of the project. There is limited competition at present and most are several years behind us in terms of getting into production. Outside China we will be a major supplier of heavy rare earths, which are important for many industrial applications.

I think for both these products, zirconium and heavy rare earths, the DZP would be classified as a strategic and alternate source.

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Can you outline the strategic partnerships you have formed and the nature of these partnerships?

Managing Director, Ian Chalmers
We have several MOUs signed and we are in the process of converting these into operating joint ventures and off-take agreements with our partners. The one I consider most important at this stage is with Shin-Etsu, the large Japanese chemical company, because that joint venture will process our two rare earth concentrates. Shin-Etsu will produce individual rare earth products and charge us a toll treatment fee to do that. They will then have first right to buy any of those rare earth products and we're confident that we can sell anything they don't take to other markets. That is a very important partnership because it removes a substantial technical and financial risk if we carry out that final processing step ourselves.

For niobium, we've been working with a European alloy manufacturer for around two years on the MOU and the plan is to form a joint venture to produce ferro-niobium. Niobium supply is dominated by Brazil with around 90% of the market and we will supply a small alternative supply to the Brazilian product. We hope to convert the MOU into a genuine joint venture and off take agreement in the near future.

Zirconium is a bit more complicated. We decided not to produce zirconium oxychloride because of the dominance of China in that market and the current potential over supply. We will now produce several high quality, high purity zirconia products with many different end use applications. This could require several off take agreements instead of the 2 or 3 if we produced zirconium oxychloride and that will take a little more time to put together. However, I'm confident that these agreements will crystalize as we progress the development and will improve the revenue potential over time.

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What is your current net cash position and current holding in Regis Resources? Can you give a brief update on the 100%-owned Tomingley Gold Project (TGP), also near Dubbo New South Wales, which is currently in construction? What mine life and annual operating cash flow is expected?

Managing Director, Ian Chalmers
As at 31 March 2013 we had $65 million cash and around $70 million in Regis Resources shares. Interestingly as a result of the sale of Alkane's equity in the Orange District Exploration Joint Venture with Newmont for the Regis shares we were able to report a $66.5 million profit for the 12 months to 31 December which equates to $0.19 earnings per share value.

Construction of the TGP is advancing and is currently on time and within budget. The water pipeline to site is complete and a number of major contracts have been let. We're on target to commission the plant by the end of the year and expect gold production and cash flow early in the New Year. While the price of gold has fallen recently, at current spot prices we will still generate about A$20-25 million per annum in free cash flow. That is very handy and will support our exploration and development programs, and corporate expenses while the DZP comes on line.

The base case mine life is 7.5 years but we are getting more and more confident we can extend that to over 10 years and perhaps up to 12 years and beyond with the recent drilling at Caloma Two and by going underground at Caloma and Wyoming One. We recently closed out our existing 90,000 ounce hedge book at a $6.8 million profit as we believe that will allow more flexible financing arrangements. We are able to reset any forward contracts when and if the price allows such that overall returns are improved.

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Back to the DZP, you've mentioned that the project remains on track for development anticipated early in 2014. Can you outline the major milestones to achieve before development?

Managing Director, Ian Chalmers
We hope to have everything in place in terms of financing and permitting by the end of the March Quarter 2014 with construction start up as soon as practical after that. Clearly the two main steps are getting all required approvals and securing the financing. We expect to have lodged the EIS within the next few weeks and the financing negotiations will become more serious now that the DFS is complete.

We are in a very strong financial position and are not actively seeking equity funding through Alkane at the moment. There are many other forms of funding we have to consider first and we have previously outlined some of the options. Although it is quite a difficult market for raising funds in general, we have found that there is still a good appetite to fund quality projects such as the DZP.

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Where are you at with potentially bringing a partner in as a direct equity holder in the project? What's your current thinking on the value that move may bring?

Managing Director, Ian Chalmers
We're still proceeding down that path, but like the financing, these negotiations have been dependent on completing the DFS and we can now advance these discussions to another level. Fortunately there are parties interested in taking direct equity in the project because the DZP has strategic significance. As we have publicly stated, we would look at selling a minority stake to one or more parties at multiples to the NPV if it is advantageous to the Project and Alkane shareholders. The target for completion of these negotiations is the end of this year.

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Thank you Ian.

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