Attention : ASX Company Announcements Platform

Lodgement of 'Company Interview'

Alkane Resources Limited

Date of lodgement: 30/5/2014

TITLE: "Company Interview. TGO Performance & Outlook for DZP"

Highlights:

- **TGO mill achieves design capacity; grade overcall.**
- **TGO to generate cash flows to fund corporate costs, exploration & other project development.**
- **Current anticipated revenues for DZP within a range assumed in 2013 Study.**
- **Milestones towards production for DZP are approval, financing & commercialising strategic partnerships for marketing and offtake, and awarding FEED contract.**
- **Many longer term growth options around core area of Central West of NSW.**

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) poured first gold in mid February at its Tomingley Gold Operations (TGO – Alkane 100%) near Dubbo, New South Wales. You recently stated that the project was completed on time and budget and that you expect initial gold production to 30 June 2014 to be 22,000 – 27,000 ounces. When do you expect to reach processing design capacity of 1mtpa of ore? What production do you expect in the next couple of full financial years? Are you seeing any ways you can improve the operation at this early stage?

Managing Director, Ian Chalmers
At production start-up, capital expenditure was within budget of $116 million including contingencies. The project is operating well and has reached design capacity of 1mtpa this month. In FY2015, we expect

production of about 60-70,000 ounces of gold and then a little less in FY2016, although additional work is required on the schedule beyond FY15 to further optimise. At current spot prices, we expect to generate reasonable cash flows from the operation.

Importantly, mine to mill reconciliations have been positive for both grade and tonnes and we believe the plant could be capable of processing at greater than design capacity. We will monitor the overcall on grade and tonnes until the end of September before we can be confident that this will be a long term attribute. It is looking encouraging.

There will always be ways to improve both the operation of the processing plant and the mine. Now that the plant has reached design capacity we are now in a position to focus on opportunities to improve returns.

Company Interview question:

You have also spent several years advancing your major project, the Dubbo Zirconia Project DZP – Alkane 100%), to the point that a project financing strategy is now underway. What dollar value does Alkane place on the TGO and the DZP, particularly now the Tomingley is operating and the DZP continues to be de-risked?

Managing Director, Ian Chalmers

The Definitive Feasibility Study (DFS) on the DZP in April 2013 gave a pre-tax NPV of $1.2 billion based on a 20 year mine life. We are happy with the assumptions used in that DFS and the fact the project will operate for significantly longer than 20 years. Having said that, we still have to undertake a large financing for the project, and even halving our base case NPV due to perceived development risk factors, it still has very considerable value, far in excess of Alkane's current market capitalisation. It's a little difficult to value the TGO at present as it has just gone through the transition from construction to production. The capital spend and the anticipated cash flow over the current projected mine life should give a reasonable indication, and this will be considered for the end of year financials which will be prepared after 30 June.

Company Interview question:

Can you explain the product price assumptions used in your internal valuation for the DZP and where they sit compared with current prices?

Managing Director, Ian Chalmers

At the time of the DFS in April last year, we hadn't seen the floor of the rare earth prices which probably occurred early this year. Some rare earth prices are a bit lower today, most are similar and some have even increased. The lower current prices were largely offset by the higher heavy rare earth recoveries achieved in October 2013 such that overall rare earth revenues have not materially changed. Niobium remains stable while zirconium has drifted down with zircon prices but we can see some signs that consumer inventories are slowly being drawn down and expect the zirconium market to stabilise through 2015. Importantly we have also improved the zirconium product suite in the last 12 months, which should see higher prices for specific materials, offsetting the current basic lower prices.

In the DFS, we tried to use our best estimate of long term, sustainable prices after considerable analysis and consultation with industry experts. The project will not be in production until 2016 and if metal markets return to normality, then we are confident of achieving the conservative prices similar to those used in the DFS.

Company Interview question:

You recently held a number of meetings with potential customers for DZP products. How satisfied were you with the outcome of these discussions, particularly when the prices for some of your products are a little weak at present?

Managing Director, Ian Chalmers
Discussions with potential customers are on-going but we were very encouraged by the recent contacts. The DZP products remain marketable because of the project's strategic value and it is seen as a long term alternate supply to products exported out of China, such as rare earths and zirconium. We always promote the DZP as a strategically important alternate source and we get a good hearing internationally.

Company Interview question:
I understand that you hosted site visits for fund managers, broking analysts and media to both the TGO and the DZP earlier this year. Can you summarise those visits in terms of the issues focused on and the general reaction – good or bad – from the participants?

Managing Director, Ian Chalmers
It was all quite positive. At the TGO, we demonstrated that we had built the project on time and budget, and it was successfully ramping up. In recent years mining companies have struggled to meet these targets and there had been a degree of scepticism in the financial community about Alkane's ability to deliver.

The DZP is obviously still a conceptual project at the moment, but we were able to explain all the work that had gone into the project to develop the flowsheet, deliver test products to the markets, complete the DFS and EIS, and advance towards development. We also emphasised the strategic nature of the project when viewed from a Japanese, Korean, European or US perspective.

Company Interview question:
You drilled two diamond holes into the DZP deposits (Toongi and Railway), which confirmed additional resource potential. Can you explain the purpose of that drilling when the DZP is already known to be very long life?

Managing Director, Ian Chalmers
It's a question I've been asked a few times. We had decided that at some stage due diligence by potential financiers would be required for the resource and the project. Most of the drilling has been RC to date and the core hole drilled near the centre of the deposit last year gave us some geological surprises. So we now have diamond drill holes on the eastern and western side of the deposit just to confirm the dimensions and shape of the body as well as the mineralogy and grades through to its full depth of 100 metres to 140 metres. It was a good opportunity to also drill a hole into the nearby Railway deposit as that was cost effective with the drill rig already there. Again, that is to add to the geological understanding of the deposits and the broader resource potential.

Company Interview question:
In April you announced that Hatch Pty Ltd had been awarded the Front End Engineering Design (FEED) contract. What are the main tasks for Hatch in the lead up to production? How significant is this in advancing the project?

Managing Director, Ian Chalmers
Hatch will review all the engineering work in our DFS. They will then present us with revised capital and operating cost estimates for the project with an accuracy of around +/- 10%. We can use this data to start sourcing cost competitive components for the plant and advance the financing program.

Awarding the FEED contract is essentially the start of the construction phase, which we said would commence in 2014, and will enable the development to keep as close as possible to the current schedule.

Company Interview question:
Can you give an update to future major milestones leading to production at the DZP?

Managing Director, Ian Chalmers
The number one priority is project approval and we have been advised that the timing may push out past the end of the September Quarter. The potential delay has been caused by the requirement for the project to be reviewed by the Planning Assessment Commission. All State Significant Projects in NSW now go

through the PAC and it adds another level of uncertainly. We do not see any remaining environmental hurdles to approval but need to go through the process.

Other major milestones such as financing and strategic equity partners are dependent on gaining project approval. We are continuing with the discussions on financing and strategic partners, and I would like to see some positive outcomes by the first Quarter of 2015.

The plan remains to target a sale of around 10-15% of the DZP at a value reflecting the NPV. That will certainly be an important milestone for Alkane and demonstrate an attributable value of the project to investors. Commercialisation of the toll processing and off-take MoU with the large Japanese company, Shin-Etsu, for the rare earth output is also very important, and I hope we can get that done by the end of September. The larger financing would follow but the complexity of Export Credit Agency (ECA) type funding could mean the timetable gets extended. The strategic sale will allow certain construction activities to commence in advance of the main funding streams

We'll continue to review all options for funding so that construction can commence by the end of the year, at least for all the site infrastructure such as roads, power, water and gas so that plant commissioning can be in the first half of 2016 with production ramp-up over that year.

Company Interview question:

You've mentioned that you responded to 70 submissions from the Environmental Impact Statement (EIS) public exhibition and that the approval process will proceed to the Planning Assessment Commission. Do you see any 'show-stoppers' amongst those submissions and what is the process now with the Planning Assessment Commission? Can you continue to advance all aspects of the DZP in parallel with that process?

Managing Director, Ian Chalmers

We don't see any show stoppers and in fact we've already committed to some improvements at the site based on the various submissions. As you could imagine, the EIS is a large and complex document and many of the submissions from the public related to people wanting clarification on some of the information in the EIS. One of the main areas of concern was the transport of reagents into the site and the increase in traffic on the main access road from Dubbo. We committed to undertake a significant upgrade of that road to minimise the impact of that increased traffic.

The Department of Planning and Environment (DPE – replaces the DPI) manage the PAC stage and after that review, the development application is submitted back to the Minister for Planning and Environment for final determination.

As I said before, we will proceed as usual with other aspects of the project while we await approval.

Company Interview question:

You mentioned funding before, how will you utilize the excess cash flow generated from the TGP and what approximate level are you now expecting in a full year of production? Over how many years of production will that be, now that you have the new Caloma Two Resource figure?

Managing Director, Ian Chalmers

The cash flow from the TGO will be significant but was never intended to fund the DZP. However, having a project generating cash flow does open up additional financing opportunities for Alkane. The TGO will also allow us to fund the day to day activities of the Company such as exploration, other project development work and administration. It will help us to build up our pipeline of projects.

We expect the TGO to average $20-25 million cash flow per year at current spot prices on a pre-tax basis, however this will vary each year according to waste stripping and production volumes. The base case is 7.5 years mine life, but now that we have the Caloma Two Resource we expect that to go to 9 years including the potential for further underground development than is currently planned. With further work developing our knowledge of existing deposits we believe we can extend the mine life beyond 10 years and possibly further over time with additional discoveries in the area.

Company Interview question:

You earlier reported what seemed like very solid drill results from a core hole testing the down plunge extension of the Galwadgere deposit at the Wellington Project, also near Dubbo. What was your interpretation? Do we take it that Galwadgere is your next project of priority? How will you take Galwadgere from here?

Managing Director, Ian Chalmers

We continue to regard Galwadgere as a valuable project. The deposit needs to be about double its current size in order to come up with an economic reserve. We had previously drilled two deep holes below the existing deposit, but in retrospect think they went under the plunge of the orebody which is shallow at about 45 degrees. These holes hit lower grade mineralisation peripheral to the main zone. The latest hole was more specifically targeted using an Induced Polarisation chargeability anomaly and it hit what we believe is the centre of the ore body producing a series of good copper, gold and zinc intersections. There's still a long way to go and we will work on Galwadgere when appropriate while it is not our priority.

However we have three other projects which we regard highly including Bodangora. This covers the recently acquired Kaiser prospect, where promising copper-gold drill results were reported last month – it exhibits evidence of porphyry copper-gold system with higher grades like the Ridgeway deposit within Newcrest's Cadia Valley Operations. There is a lot of alteration in the rock sequence around the Bodangora area, but we plan to review all the data for a while before we drill again. We also picked up two properties last year, Elsienora and Rockley, which was driven by the knowledge of our McPhillamys discovery – a 3 million ounce gold resource which was sold to Regis Resources. These two prospects show many similarities to McPhillamys and we will try to schedule drilling there later this year

Company Interview question:

Finally, on that subject, with the TGO at production stage and the DZP at the financing negotiation stage, where will you concentrate on longer term growth for Alkane? All current projects are within 100 kilometres of Dubbo, how important will your other tenements in the area be for discovering the next commercial projects?

Managing Director, Ian Chalmers

Several years ago we decided to concentrate our exploration on the Central West of New South Wales as it was underexplored, but showed great potential. With so much good ground to work over we have been happy to keep our focus in the region that has obvious logistical benefits. We always intended to look for several commodities to diversify our revenue base – anything that will generate cash flows and increasing value to shareholders.

We will continue to take this approach because there are many prospective targets on our tenements which are all within about 150 kilometres of Dubbo. We want to add to the project pipeline just as we are and to continue with a staged and methodical approach to developments.

Company Interview

Thanks Ian.