



Alkane Resources Ltd

Highlights of interview....

- Explains Strength of Prices for Dubbo Zirconium Project
- Update on Major Projects
- Explains Listing Stock in United States
- Explains Exciting Outlook for Company

Record of interview:

companyinsight.net.au

Alkane Resources (ASX code: ALK; market cap of ~\$300m) has enjoyed a good share price run. What is the feedback you've been getting?

Managing Director Ian Chalmers

It's been interesting and very positive that we're finally getting some good recognition of the value of the assets in the Company. I don't believe that we are anywhere near full value despite the strong price performance over recent months.

We're hoping to see some analyst reports coming out in the next few months that could support our view with valuations that are above our current share price.

companyinsight.net.au

You've stated that the Dubbo Zirconium Project could lift the Base Case (400ktpa) to 1 million tonnes per annum. How is that possible? How will that change revenues? What is the funding for that?

Managing Director Ian Chalmers

We've always said the size of the project will be governed by the amount of zirconium products we can sell. We lifted the base case to 400,000tpa of ore throughput early last year and we're very confident we can achieve sales for all the DZP output at that level.

What's happened in the last 5 months though is that the supply of zircon has become very tight and

Date of lodgement:

8 March 2011

Title:

"MD Gives Pricing & Projects Update"

that is already impacting on the downstream zirconium product pricing. We work closely with TZ Minerals International, who are world authorities in the zirconium-titanium industries, and they have published the view that zircon supply would tighten leading to some dramatic changes in the zircon market in the second half of 2010 and early 2011, and that's exactly what we've seen. Supply has got very tight and demand continues to grow strongly, driven by China and its urbanization program. The analysis suggested that the new projects and existing projects were not enough to pick up the shortfall in supply - in fact many of the older projects were decreasing their zircon output.

Our presentations have shown that there will be a widening demand/supply gap, but what has actually happened is that gap has developed earlier than we were forecasting and the price has escalated faster than we anticipated. The zircon price has moved up from around US\$900/t late last year up to around US\$1,500/t and that's just the current contract market; spot prices are as high as US\$2,000/t.

By 2020 we're looking at a shortfall of ~25% in zircon supply, which will have a very big impact on both the zircon and zirconium industries and on China as a major player in the downstream zirconium business. China has historically bought zircon from other countries, turned it into zirconium chemicals and sold it back to the rest of the world. They currently buy about 60% of the world's zircon output and convert about 20% of that into downstream products. They dominate that business to the extent of around 60% to 90% for specific zirconium products. The major catch for China is they have limited domestic zircon and are reliant on external supply.

That differs from their rare earths products where they are not only clearly the largest rare earths producer; they also have the largest in-ground resources. We've heard through industry sources that China simply can't supply the downstream zirconium products at present to countries like Japan and consumers in Europe because they simply can't access enough zircon.

We've seen all zirconium products rise between 50-100% over the last 2-3 months. The DZP can really come into its own and fill a developing and strategically important niche. It can supply those markets for literally 100s of years and the resource is easily open pitable. Although we have only drilled the resource to 100 metre depth, I am confident that it will extend to great depth based upon our knowledge of the geology and it potentially could be open pit mined to 300 metres with current metal prices. That's three times the current resource.

With the large increases in demand and price, coupled with the large resource, we could easily scale up the project to 1 mtpa of ore and this development scenario is becoming more credible.

On the revenues from the project, up until recently, we were forecasting US\$185 million per annum from the 400ktpa case, but at current prices this would be closer to US\$220 million. At the 1mtpa case we think revenues could now be US\$600 million per annum compared with US\$450 million only a few months ago.

On funding, we don't see funding capex of A\$200 million for the low case and A\$400 million for the high case as an issue because it looks as though it will be a very, very good project with strong revenues and cash flows. It's a bit difficult to describe likely funding options at present as there are many alternatives but we could consider a mixture of debt and equity or a direct investment in the

project from off-take partners.

companyinsight.net.au

You've mentioned the zirconium market, what about the rare earths?

Managing Director Ian Chalmers

Again the rare earths market has seen major changes in pricing driven by the well documented actions by China. In our recent quarterly report ending December 2010 we mentioned our basket of light rare earths would attract around US\$57/kg on average and the heavy rare earths would fetch around US\$78/kg, these are now around US\$92/kg and US\$82/kg respectively. That's quite amazing because it's changed in only the space of about 2 months.

I'm not sure how sustainable this is, but we remain quite bullish internally. Once companies such as Molycorp and Lynas start production in a couple of years we expect some stability to return to the light rare earths market. However, we think the heavy rare earths will continue to appreciate because future supply is not as clear.

We've seen reports that China will become net importers of rare earths in coming years and, although I am sceptical of that, such an event can only firm up markets from these current high levels.

companyinsight.net.au |

What about your other two major projects - McPhillamys, Tomingley? How are they going in general?

Managing Director Ian Chalmers

Firstly on Tomingley, it's progressing. We completed the DFS late last year and although it was never to be an earth shattering project we recognized that and that's reflected in our financing options where we will do some form of price hedging to secure funding packages and its viability. We believe there is upside to the project because we've carried out our study very conservatively. In fact we believe the mine life could stretch to 10 to 12 years rather the current 7.5 years base case.

With McPhillamys it's slightly more complex. Newmont decided to do some regional drilling last year to see if they could locate additional resource potential. This was a very limited program and didn't turn up any mineralisation that we weren't aware of, however, there's no doubt this is still a large, quality gold project. Newmont have to review development options; whether it could be an open cut or block caving operation for example. We haven't seen any of the results of that work yet.

companyinsight.net.au

Are there any problematic issues in the Company?

Managing Director Ian Chalmers

Not really. The main concern we have is having the resources to cope with Tomingley and the DZP

going into production with a potential overlapping timeframe. That will create great shareholder value, but it gives us some logistical issues to ponder.

companyinsight.net.au

You've made a statement about "Cudal - "a New Gold and Base Metal Discovery". It's early days, but can you estimate the dimensions or scope of the project?

Managing Director Ian Chalmers

It's early as you say, so it's difficult to make any comments on its potential. Just making the discovery from wide spaced drilling was very positive. It is in a very interesting area with geological evidence to suggest it might be a distal hydrothermal fluid outflow from an epithermal, porphyry system. That's why we've always been very positive about the Cudal area. The Bowen Park One discovery itself is gold/zinc mineralisation extending over a few hundred metres, but there are many other targets like that which are yet to be tested.

It's an early stage conceptual idea that we will progress over the remainder of 2011.

companyinsight.net.au

You've just listed Alkane on the OTCQX in the United States. Can you explain this market? What benefits do you expect? Do you plan to eventually list on the New York Stock Exchange?

Managing Director Ian Chalmers

We went live on the OTCQX recently. It's an interesting market. It's quite a large and high quality market with many international companies being listed, despite it being nowhere near as large as the NYSE of course.

The goal for us was to increase our exposure in North America. We examined listing on the Toronto Stock Exchange, but found this would take much more time and be much more expensive with more maintenance of the listing required. The OTCQX enables a broader investor spectrum to invest during New York trading hours.

In terms of benefits, we're expecting greater liquidity, a broader shareholder base and more large institutions coming on board. With the value inherent in the business, we can only see these things as positive for the share price.

We don't have any particular plan to list on NYSE at this stage but might consider that when we are a high profit company. It's a possibility, but not something we're considering in the short term.

companyinsight.net.au

In summary, what do you plan next across the main projects?

Managing Director Ian Chalmers

Tomingley is very much about getting the financing and approvals bedded down and then we can push forward with the project.

The focus at the DZP is currently to get some off-take Memorandum of Understandings in place. It's hard to describe this process because there's a lot of activity behind the scenes in finalizing an MoU. We hope to have 3-4 in place over the next couple of months, which demonstrates both how confident we are in the project, but also how confident the end users are. These MoUs will put in place the framework for off-take contracts, including product volumes, pricing and price increase structures, without being fixed at this time.

We need to have a discussion with Newmont to see where we take McPhillamys, while with Cudal we will further assess the geology and recent drilling before we proceed during 2011.

companyinsight.net.au

Also, in general, how do you see the exploration opportunities in your tenements around Dubbo, New South Wales?

Managing Director Ian Chalmers

Very, very high. We've always had a very high opinion of the Wellington Project which contains the Galwagere copper resource. We're currently drilling at Wellington and then we'll take the drill rig to the Bodangora property. The Comobella prospect, within Bodangora, has some impressive porphyry copper/gold type mineralisation exposed on surface and we're looking forward to exploring these more. All these projects would be regarded as a lead project in smaller exploration companies, but as we are progressing towards being a mid tier company on the back of the DZP, McPhillamys and Tomingley, these exploration projects have taken a back seat.

Following the development of our Peak Hill Gold Mine in 1996, we put in place a strategy to focus in the Central West of NSW and to develop a multi mine, multi commodity company based around Dubbo-Orange and we think it is coming together well with plenty of value to add for shareholders from here.

It really is an exciting time for Alkane with many potential commercial projects on the go.

companyinsight.net.au

Thank you Ian.

DISCLAIMER: Gryphon Management Australia Pty Ltd trading as Company Insight has taken reasonable care in publishing the information contained in this Company Insight. It is information given in a summary form and does not purport to be complete. This is not advice. The information contained herein should not be used as the basis for making any investment decision. You are solely responsible for any use you choose to make of the information. You should seek independent professional advice before making any investment decisions. To the fullest extent permitted by applicable law, Company Insight is not responsible or liable for any consequences (including, without limitation, consequences caused by negligence) of any use whatsoever you make of the information, including without limitation any loss or damage (including any loss of profits or consequential loss) suffered by you or a third party as a result of the use.