ALKANE RESOURCES LTD

Company Insight
the intelligent market update

Alkane Resources Ltd Date of Lodgement: 19/02/13

Title: "Company Insight – TGP Construction & DZP Update, Investment Value"

Highlights of Interview

- **Confident of meeting 11 month construction for Tomingley Gold Project by end 2013.**
- **Caloma Two drilling, not in current resource.**
- **Revamped mining schedule sees more total ounces, 70koz p.a. production first two years.**
- **Great potential to add to resource & confident 7 yr mine life could extend to at least 10 yr.**
- **Updates activities at DZP – positive for process improvement.**
- **Aim to re-run DFS end February, lodge EIS end March & continue improvement work.**
- **Discusses outlook for product prices at DZP.**
- **Disconnect b/w mkt cap & assets of $80m cash, $80m shares & significant project values.**
- **TGP & DZP expected to generate around $200 to $250m cash per annum from 2016.**
- **Broad thinking is would consider selling 10% of DZP to partially fund development.**
- **Overall a big year expected in 2013.**

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 and a Mining Lease has been granted. 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 is nearing completion and a development decision is anticipated late in 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 properties. 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.

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Alkane Resources Ltd (ASX code: ALK; market cap of ~$250m) has announced that it has been granted the Tomingley Gold Project's ("TGP" – Alkane 100%) Mining Lease. You've stated that first gold output is anticipated late 2013 after an 11 month construction. Is that timing a little ambitious considering it is anticipated it will be producing 380,000 ounces of gold in total over at least a seven year mine life?

Managing Director, Ian Chalmers
Our EPCM contactors Mintrex believe that is achievable. The schedule is well planned although everything has to fall into place over the 11 months. Mintrex have been consultants/managers on many Carbon-in-Leach gold plants, such as the one we're putting in at the TGP, both in Australia and overseas so have a lot of experience in building these operations.

We decided about a year ago to order some of the long lead items such as the ball mill which is on site, apart from its external shell, and get the water pipeline underway. After all it's only a 1 million tonnes of ore per annum CIL plant and it's not a complex project overall.

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While you've been waiting for the Mining Lease to be granted, a bonus has been the ongoing exploration at the Caloma Two deposit, which looks to have returned many significant intersections at very good open pittable grades. How would you compare Caloma Two with the Caloma deposit? Is it shaping as a better deposit?

Ian Chalmers
Caloma Two is returning some very nice intersections although we don't think it has the potential to be bigger than Caloma. The deposit may be higher grade but at this stage we doubt it will have the same contained gold ounces as Caloma. Caloma Two could be roughly the same size as the Wyoming Three deposit at around one million tonnes. Its grade may even be as high as 2.5g/t and still has upside as there is a lot more drilling to do, then we have to compile the geology and do the resource estimate.

It's possible this drilling could allow us to join the two Caloma deposits together to be mined as one larger open pit because they are only 200 metres apart. The mineralisation orientation is different in the two deposits in that Caloma is north-south, while it is east-west at Caloma Two. Obviously there is a change in the mineralisation style somewhere between the two deposits and we're working on understanding the structural model to see if we can fill in the gap and mine them as a single pit.

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How have you revamped the mining schedule? Can you give some updated project parameters and economics?

Ian Chalmers
After drilling on Caloma in late 2011 we identified more ore on the eastern side of the deposit and were able to reclassify the resources, for example some of the Inferred Resources were upgraded to Measured and Indicated Resources. After re-modelling we had more tonnes of ore in the upper levels of the Caloma pit and at better grades than originally estimated. Revamping the mining schedule will now allow us to mine these higher grades in the first two years and therefore increase the production ounces. That of course is important in helping repay the capital cost earlier.

Overall, the operation is still one million tonnes of ore per annum, but we think we can now achieve 70,000 ounces of gold in both of the first two years of operation. The project economics have improved since we did the feasibility study in 2010 as we'll produce more gold over the life of the project which now has a base case of 7 years, rather than 7.5 year mine life. Total gold production is now scheduled to be 380,000 ounces, up from 360,000 ounces. That does not include Caloma Two deposit yet. Producing more gold in a shorter timeframe obviously will result in a lower cash operating cost. The gold price has improved since 2010 as well. Although the cash operating cost is A$980/oz of gold, it provides a good margin with gold prices still around A$1,550 to $1,600/oz and having traded much higher last year.

Discussions with Credit Suisse are continuing regarding the project financing facility and rolling the existing 90,000 ounce forward contract into a production hedge. Forward prices remain strong.

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What is the potential to extend the TGP beyond the planned 380,000 ounces over seven years, for example in finding new open pit resources or extending Caloma One open pit and Wyoming One underground and including Caloma Two in Resources/Reserves?

Ian Chalmers
I think the potential is very high to increase the project's overall production ounces above 380,000 ounces. The current 800,000 ounce resource base for the TGP are contained in the Wyoming One, Wyoming Three and Caloma deposits and there will be scope to convert more of these resource ounces into reserves as we proceed into production. As I said, the Caloma Two deposit is not included in that number and a best guess for Caloma Two would be to provide at least up to another 50,000 to 80,000 ounces.

We haven't explored the Wyoming One underground to any great extent. We have a small operation planned there at the end of the open pit life, but want to drill that mineralisation from the underground development as it would be much more cost effective than drilling from the surface now.

It's the same at Caloma. We have some very good deep drill intersections there and think one possibility is to link up the Caloma underground with the Wyoming underground and then further explore Caloma from underground rather than from the surface.

I genuinely believe that we will eventually have at least a ten year project life and I have a belief that we will even push it out beyond that. That doesn't take into account the potential to find regional deposits. The TGP is about 14 kilometres north of our Peak Hill gold mine which was a successful operation. It's obviously a highly prospective location for gold and there has not been much drilling between Peak Hill and the TGP. There are a number of targets in that region as well, which ultimately may add to resources and these are within close trucking distance to the mill.

So, yes the upside potential for the resources is very good.

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Some of the recent activities at your 100%-owned Dubbo Zirconia Project (DZP) include process improvement work, appointment of advisors to assist with Project financing, advancing the Environmental Impact Statement and updating the Definitive Feasibility Study (DFS). Can you give an update on these issues and other issues at the DZP?

Ian Chalmers
The DZP is at a very interesting stage. We're in a bit of a catch-22 situation with the process improvement work we've been doing and that is largely focused on the rare earth recovery circuit and water recycling. Some of this work over the last six months has positively impacted the flow sheet and the capital and operating costs for the project. There is still scope for further improvements, so it's a little difficult to decide when we should 'rule a line' and just run the updated Definitive Feasibility Study, get the financing in place and proceed with permitting approvals.

The current plan is to go with what has been defined as at the end of February and then really get into project planning mode. The target to lodge the Environmental Impact Study is now the end of March due to having been extended by a couple of months to incorporate those changes in the flow sheet.

In any case, while we put the financing in place and wait for the Environmental Impact Study to be approved, we can still work on process improvements. That will mean doing further work with our partners such as Shin-Etsu on the rare earths, developing an improved zirconium marketing strategy and hopefully finalizing our joint venture structure with the European company on the niobium. All these things can continue to evolve through the year.

We have secured options over land surrounding the project that will cater for all infrastructure and advanced with considering rail/road access to the site, power supply and limestone supply (used for waste stream neutralization). Overall, we're very happy with how the project is shaping and the support from various partners. We do however have to rule a line shortly and finalise the scope of the project if we are to be producing by 2016.

This is also necessary to allow our financial advisors, Credit Suisse, Sumitomo Mitsui Bank and Petra Capital to start work on the project financing arrangements.

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Can you give an update on product prices at the DZP? Do you expect these to improve over the next couple of years if the World economies continue to improve as they seem to be doing?

Ian Chalmers
In our December 2012 quarterly report released to ASX on 30 January, we gave an update on prices. Apart from zirconium which is down about 20%, the rare earth prices used in the 2011 DFS are still below the current prices and niobium is about the same. Niobium is very stable because the price is managed by one large Brazilian company. The zirconium industry has really been impacted by the downturn in zircon prices but we believe we have hit the bottom of the zircon price cycle.

The Australian company Iluka is a major producer of zircon and they have stated in the past that they plan to adjust their zircon output to stabilize prices, which is a good sign for the future when they can operate in more 'normal' world economic conditions. The impression we get is things are picking up in China and that should positively drive zircon demand over the next several years. By the time the DZP is operating in 2016 our marketing advisors believe that we could go back into an under-supply situation for zircon.

The rare earths market is very complex because there are so many different types of products. Commentators have sometimes stated over the last year that there is a "major downturn in the rare earths industry". It's not that simple. The price performances of various products have been quite different. The two large volume rare earths consumed, lanthanum and cerium, are seeing prices back at around 2010 levels and we think that will probably be the level for the longer term. There is quite a bit of new supply coming on with these two rare earths – for example from Lynas Corporation and Molycorp. I don't think these prices will go lower because that would mean prices would be below costs of production.

Prices for other critical rare earths such as neodymium, terbium, dysprosium and yttrium have definitely bottomed in my opinion. Moving forward I think the prices for these could move back upwards quite solidly. We won't see the silly heights we saw in mid 2011, but they will move back up to levels which will mean it's appropriate for suppliers and consumers to support a long term industry. Shin-Etsu for example has a very confident outlook. There has been talk of recycling and substitution, but in Japan the view is that this talk was driven by the very high prices in 2011. While some recycling is taking place, the actual volumes are quite small. Again, by the time the DZP is operating we believe prices for these rare earths will be stronger and sustainable.

We will put in variable prices for all output in the DFS to reflect the current situation and how these will evolve over the initial 20 year life of the Project.

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Alkane's market capitalization has fallen to just over $250 million when not too far back it was probably trading at around $500 million. Why do you think that is the case when you are seemingly making good progress at your two development projects and you held $80 million cash with no debt as at 31 December 2012 and 17.5 million shares in Regis Resources (currently valued at roughly $80 million)?

Ian Chalmers
Our current share price is surprising and frustrating, but I think it's the volatility of the share market and the fact that smaller resource companies fell out of favour over the last year or two. This was aggravated in Alkane's case because we are thought to be exposed to the zircon and rare earth industries and the facts on the Company's two major projects seemed to have been ignored.

Together, the cash and shares add up to around $160 million which equates to 65% of our market capitalization. Sure, that money will be destined for project development, but it's an excellent position to be in with that amount of cash and no debt. It means though that there is very little value factored for the TGP or the DZP at our current market capitalization.

In addition, Tomingley will provide an attractive level of free cash flow as we move into 2014. For example, in the first two years of production when we aim to produce 70,000 ounces per annum it could generate cash flow of around $40 million per year assuming an operating margin of $600 per ounce.

Clearly our most valuable project is the DZP and we hope that with the progress we're making there to de-risk this development plus the recent announcement of the Mining Lease and construction commencement at the TGP that our share price will move back towards fair value – which we believe is well above current levels.

In 2016 with the DZP in operation we should be a major cash flow company generating in the order of $200 to $250 million per annum from the two development projects.

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You've also mentioned you would be prepared to sell a stake in the DZP to help fund it. What's your current thinking on that and can you give an indication of the sort of price you might accept for a given percentage share?

Ian Chalmers
It's difficult to give a precise answer because any sale will obviously be subject to negotiation. We have previously said we would be prepared to sell a strategic 10%, maybe 15% of the DZP to help fund its development.

Broadly, our thinking is we could sell 10% equity for a significant contribution to the development funding that is fair given the very long mine life, the quality of the project and its cash generating capacity. However it would depend on the type of partner and also what they would want to get out of taking a share in the project.

We're also exploring sourcing other funding such as from Export Credit Agencies (ECAs) in countries such as the U.S., Japan, South Korea and Europe where they will assist in project financing where it will benefit that particular country. For example, Japan would like to be self-sufficient in the supply of rare earths and the DZP is an important cog in this process.

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Can you give a brief update on your main exploration projects – the 100%-owned Wellington and Bodangora properties?

Ian Chalmers
We didn't put a major effort into these two projects last year because of our other priorities. We do believe they are excellent prospects though. We drilled at Bodangora (ALK 100%) late last year and that gave us some interesting geological information although no grades of note. It's a very large monzonite intrusive complex and will take some time to evaluate. At Wellington (100%) we want to see how we can extend the existing resource at depth so that it gets close to being a mineable deposit.

Then there's Cudal (100%) and Calula (80%). Some drilling is planned for Cudal in the next few months. It's a very interesting geological target and has some similarities to the Carlin style deposit in Nevada, which has been an important region in establishing Newmont as a world class gold company. Calula is closer to a McPhillamys-type target (3Moz sold to Regis Resources for 17.5 million shares).

If any of these projects return good results we can ramp up exploration. They are all part of our longer term strategy of having a project development pipeline in the Central West of NSW.

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In summary, what can investors look forward to in 2013?

Ian Chalmers
A big year. The major issues of course are to construct Tomingley on time and budget, get it into production and generate positive cash flow in 2014. Complete the near mine site drilling and also calculate a resource on Caloma Two and look at the underground potential of the whole project.

At the DZP we will soon submit the EIS to the State Government and have the financing in place hopefully late this year. By early 2014 be ready to hit the button on constructing the DZP.

Alkane is building up its operations and management team as we are aware of the large tasks ahead of us this year. It's all about de-risking the TGP and the DZP and adding value to the Company. We're in a very strong financial position and we should not need to go to the equity market until we are ready to raise that portion of funding for the DZP. At that time we believe will have a significant portion of debt finance, funds raised from a strategic sell-down and also possible funds from the ECAs I mentioned previously. It's an exciting time for Alkane.

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Thank you Ian.

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