



Alkane Resources Ltd

Date of Lodgement: 18/6/12

Title: “Company Insight – Progress After Capital Raising”

Highlights of Interview

- All projects progressing well after capital raising earlier this year.
- Explains final approvals process for Tomingley Gold Project (TGP).
- Hoping for mining lease for TGP by July 2012. Explains potential upside in mine life.
- Activities & objectives at Dubbo Zirconia; product development & recovery optimisation.
- Progress and strategies for signing remaining MoUs (rare earths) at DZP.
- Progress at McPhillamys & Alkane’s emerging exploration projects.

Record of interview:

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Alkane Resources Ltd (ASX code: ALK; market cap of ~\$350m) announced a \$107 million capital raising earlier this year which was strongly supported. Can you briefly outline events at Alkane since that capital raising? Have you encountered any significant recent issues as you advance the projects?

Managing Director, Ian Chalmers

No, we haven’t encountered any significant issues since we raised the capital. It’s really been a period of focused activity and everything has been moving along well. The one issue we have been dealing with since last year is getting the approvals through for the Tomingley Gold Project (‘TGP’ - ALK 100%). However, we don’t believe there are issues associated with the project and it appears to us that it’s more to do with a lack of the available resources required within the various NSW Government Departments.

With the Dubbo Zirconia Project (DZP) we have a dual focus of preparing the EIS for lodgment as well as advancing the feasibility study to revamp the capital and operating costs and finalise the off-take agreements (revenues). We have made some important improvements to the flowsheet in the last six months which will positively impact on costs and revenues, and rather than rush out the results without taking in to account these improvements, we will try to release an update that informs shareholders and the market in general with this progress. The overall timetable to production remains unchanged at this stage.

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Part of the capital raised is for the construction and commissioning of the TGP. What has to be achieved before construction commences? What is the overall timing to commissioning?

Ian Chalmers

Once we receive approval from the State Government, there are other operational requirements to put in place before we can get approval for our mining lease from the Division of Resources and Energy (Dept of Trade & Industry, Regional Infrastructure & Services). These include getting approval for our mine operations plans and our environmental management plans and several other site management plans. We've done most of the work needed on these, but it still requires a final sign-off from various departments. We hope the whole process will result in the grant of the mining lease by end of July 2012.

Once we have the mining lease, we have around a 12 month construction period and that would mean commissioning around mid calendar 2013. That's about 6 months later than we originally planned, but a significant amount of that delay has been out of our hands.

In the meantime we've tried to advance the project in as many areas as we can without going overboard on expenditure. For example, we ordered the ball mill in September 2011 and it should be on site by around November 2012. Ball mills can normally take around 60 weeks to be delivered from the time of ordering. We've put in the production water bore and purchased around one third of the pipe for the pipeline. We've triggered the options to purchase the required surrounding land and we've bought the Compass Resources royalty covering the TGP.

So once the mining lease is approved, we'll be able to start construction work reasonably quickly.

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A recent increase in the Caloma resource within the TGP resulted in a 24% increase in the total resource at the TGP to 811,700 ounces. How significant is that for the project?

Ian Chalmers

It's very significant. It added over 100,000 ounces to the total resource base. At this stage we haven't optimized the Caloma pit to see what additional ounces could be recovered from that mine. It might be around 50,000 ounces or another year in mine life – making 8.5 years in total mine life - and that is equivalent to around A\$80 million in additional revenue.

The drilling at Caloma was intended to upgrade the resource classifications, which it did as well as add to the total resource but it also gave us further confidence about the geology around the project. Not only did the drilling confirm what we expected from our geological model, but it also confirmed the presence of several additional zones of mineralization to the east of the current pit design.

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The mandate for a project finance and hedging facility for the TGP has been extended. Why was it extended? What is the likely size of the debt facility? How much might you draw down to get the TGP into production? When do you think you will take out more hedging?

Ian Chalmers

We've extended the mandate simply because we haven't yet received project approval and you can't finalise a facility like this until you have regulatory go-ahead. The current mandate is to provide up to \$45 million, but we won't know the final debt figure until we have completed the current financial review of the project. At present we are revisiting capital and operating cost estimates and will also look to include the increased Caloma resource in the extended final economic analysis.

We will firstly use our available equity to fund the project and then draw down on any debt as required.

We've already taken out 90,000 ounces of hedging at A\$1,447/oz as floor price protection. Forward A\$ gold prices are looking quite healthy with as much as A\$2,000/oz available if we sold forward to December

2017 and we set a goal of achieving an average return of around A\$1,600/oz for the initial three or four years. We'll look at any requirement for additional hedging when there is more certainty on first production.

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Part of the capital raising has been allocated to preparing an Environmental Impact Statement (EIS) and continuing development of the Dubbo Zirconia Project (DZP 100%). What do these entail? What has been recent progress?

Ian Chalmers

One of the main objectives for the DZP this year is to get all the information required for the EIS and which remains on schedule to be lodged in October. There's actually a large amount of detail involved in all the assessments and they do take a lot of time to compile to the highest standards. We thought we had covered everything well when we lodged the Environmental Assessment for the TGP in May last year, but there are always minor issues to tidy up. We're making sure we have as close as possible to 100% of issues covered by the time we lodge the EIS for the DZP.

The ongoing development of the DZP is also very important. As mentioned earlier we are striving to complete the update of the definitive feasibility study for the 1Mtpa project. This involves vendor pricing of all capital items and compiling operating costs, as well as determining the revenues. At the same time we have continued to make flowsheet improvements and optimizations using the demonstration pilot plant at ANSTO. We're continuing to work on ways to improve metal recoveries, particularly for the important heavy rare earths, water recycling and also in finalizing the outstanding MOUs for off-take.

All of these impact on the project's financial results.

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Further to that, can you explain why it is important to conduct further product development and recovery circuit optimisation at the DZP? What are the ultimate aims of these programs – when will you be satisfied with the outcomes of this work?

Ian Chalmers

I'll answer the last part first. I doubt we'll ever be satisfied with recovery levels or product quality even if they are very positive. We will always strive to improve the operation and this will continue into the production phase.

We're very comfortable with the products and recoveries we've achieved with the testing of the zirconium and niobium flow sheets, although we are continuing to work on improving those products. The rare earths are the last products recovered in the circuit and therefore we have been testing the rare earths flow sheet for less time. So rare earths production and quality is a current major focus.

We've already produced saleable heavy and light rare earth concentrates. However, we were a little disappointed with the recovery level of heavy rare earths and have recently modified the chemistry of the flow sheet and tested that on a laboratory scale. We're now getting higher recoveries and we'll continue to work on that development. Over the next two or three months we'll test those recoveries in the demonstration plant which will give us a better indication on whether we can achieve them on a commercial basis, but the potential for higher output of the very important heavy rare earths, dysprosium and terbium, can have a big impact on project revenues.

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You've signed MOUs for all output at the DZP, other than for the rare earths products. Why has there been a fair amount of time between signing MOUs for the output for all zirconium and niobium (announced in

May through to Oct 2011) and impending signing of MOUs for the rare earths output? When do you expect to sign MOUs for the rare earths output?

Ian Chalmers

We haven't rushed into signing MOUs for the rare earths because of where we see the market moving over the next 5-8 years. We could have very easily signed MOUs for both the heavy and light rare earth concentrate to sell them outright to consumers, but we felt there were opportunities to increase revenue beyond that basic scenario.

For example, we've been examining the possibility of having the heavy and light rare earth concentrates processed through a joint venture facility. That would entail our joint venture partner processing the concentrates through an existing or expanded separation facility. The partner would then have a priority opportunity to purchase products it wanted and return the other separated high purity products to us for sale. We have had many other discussions regarding the rare earth output and the opportunity to sell high purity separated products is a big advantage.

That would give us an opportunity to participate further along the value-add chain without the additional technical and capital risk. There are obviously relatively few consumers with separation capacity outside China and very few with the capacity to do large scale heavy rare earth separation, and the process of constructing an MoU to cover both parties' requirements is complex. Hence it has taken longer to complete than we thought, but I hope that this can be done by the end of July and that everyone will agree on the benefit of this approach once it is announced.

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What is happening at McPhillamys within the Orange District Exploration Joint Venture (ALK currently 49%, reducing to 25% & Newmont Australia currently 51%, increasing to 75%)?

Ian Chalmers

It's progressing in that Newmont is considering options on how they might proceed with a development. We're happy for Newmont to progress it at their pace as we are busy with the other two projects and I'm not sure we would have much influence anyway if we wanted to change things. Newmont is a large multinational mining company with many projects at different stages of development and it allocates resources according to priority. Perhaps McPhillamys is currently not in their top ten?

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With so much happening at your two managed development projects (DZP & TGP), plus the Newmont-managed McPhillamys, what focus will be given to longer term growth projects such as Bodangora, Wellington and Cudal (all ALK 100%)?

Ian Chalmers

We've always said that, despite the developments at Tomingley, the DZP and possibly McPhillamys, we would always keep the pipeline of other growth projects moving ahead. We're currently not spending a large amount on these exploration projects, but it's enough to further our technical understanding of them to position ourselves well before we commence more intense drilling programs. Typically we allocate around \$2 million per annum for exploration on these pipeline projects.

We've been very encouraged by the results from Bodangora (Comobella), Wellington (Galwadgere) and Cudal (Bowen Park) that we've seen over the last 18 months or so. Bodangora is particularly interesting geologically with all the right attributes for a large scale porphyry gold-copper system and we'll do some more drilling in the second half of the year.

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Thank you Ian.

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