ALKANE RESOURCES LTD

Company Insight
the intelligent market update

Alkane Resources Ltd   Date of Lodgement: 4/9/12

Title: "Company Insight – MD Gives Company Update"

Highlights of Interview

- **Explains rationale for selling McPhillamys for $73.5 million & reasons for accepting Regis shares.**
- **Remaining approval process for Tomingley Gold Project, construction and first gold production.**
- **Current project parameters for Tomingley.**
- **Importance of MOUs signed for Dubbo Zirconia Project & differences in these MOUs.**
- **Process to convert MOUs to off-take contracts & potential variations for the off-take contracts.**
- **Updates markets for main products – zirconium, niobium and heavy/light rare earths.**
- **Discusses unique, attractive MOU with Shin-Etsu covering heavy/light rare earths.**
- **Strong medium and longer term production growth for Alkane.**

About Alkane
Alkane's strategy is to be focused on a single geographic area, the Central West of New South Wales in Australia, allowing it to apply its geological, exploration and mining expertise across multiple commodities to achieve a spread of risk and return. Currently Alkane has two projects heading towards production in 2013/2015 - the Tomingley Gold Project (TGP) and the nearby Dubbo Zirconia Project (DZP). Tomingley is an 812,000 ounce gold resource which recently received approval for its development. Cash flow from Tomingley will provide the funding to maintain the project development pipeline and to contribute to development of the DZP. The DZP has a completed feasibility study giving it a net present value of A$1.2 billion. This project will make Alkane a significant world producer of zirconium products and heavy rare earths. Both projects are wholly owned by Alkane while at Orange, Alkane recently sold its 49% interest in the Orange District Exploration Joint Venture (containing the McPhillamys resource) for $73.5 million. Alkane's most advanced gold copper exploration projects in the region are at the 100% Alkane owned Wellington and Bodangora properties.

Record of interview:

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Alkane Resources Ltd (ASX code: ALK; market cap of ~$370m) recently announced that Alkane and Newmont had accepted an offer from Regis Resources for their respective interests in the joint venture containing the McPhillamys Resource. Alkane will receive $73.5 million, settled by the issue of 17.5 million Regis shares. Why were you happy accepting this price and not continuing as a direct shareholder in McPhillamys?

Managing Director, Ian Chalmers
We had no idea how long Newmont were going to take to evaluate the project and to complete a bankable feasibility study, as they are a major international gold company and will rate projects around the world against each other for development funding. It may have taken 5 to 15 years. Technically I was

disappointed to consider a sale as I know how difficult it is to find 3 million ounce gold resources, however corporately it was the right thing to do as it freed up the value in this asset. When we were advised that the potential partner was Regis Resources, we were more relaxed about selling our interests to them and receiving Regis shares in return. We thought they were just about the best company to develop a project such as McPhillamys. It was a fair price for the asset and good result overall for all three parties.

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Why have you elected to settle by receiving 17.5 million Regis shares rather than seeking a cash settlement from them or another party?

Ian Chalmers
We've watched what the current Regis team has been doing for many years, and more recently now they've developed their projects around Laverton in Western Australia. I think they are very good at developing gold projects with very competitive capital and operating costs. They were already a substantial producer and with Garden Well coming on line I think they will be something like a 300,000 ounce per annum gold producer. That to me indicates that their share price should appreciate over time and they also may possibly pay dividends in the future.

While we aren't sure how long it will take to get McPhillamys into production we believe that Regis will be as quick as any mining company in doing that and having shares in Regis is a way of maintaining an interest in the project.

I know that Newmont had been approached by other companies, but we consider Regis to be about the best mid-sized gold operator in Australia. Other companies may have taken around 6 months or more to do due diligence on the project and then may not have been able to pay the sort of price we believed was realistic for the project.

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Alkane has received approval for its Tomingley Gold Project ('TGP' - ALK 100%) from the NSW Department of Planning and Infrastructure. Why did approval take so long? Are you now able to proceed to construction? What is the timetable to first gold?

Ian Chalmers
The approvals process in NSW over recent years has not been quick. The timing had very little to do with the quality of the work we have done on the environmental assessment of the project, but more the systems in place to deal with the workload of multiple applications. Other mining companies in NSW have made similar comments about the process. We hope that the current Liberal/National Party Government improves the systems as they said they will try to do. Hopefully the Dubbo Zirconia Project will be approved more smoothly when we lodge the Environmental Impact Statement later this year.

For the TGP there are something like 15 or so operational management plans that have to be submitted to various government departments in addition to the formal approval. The final step in the process is for the Division of Resources and Energy to give its approval for the mining lease.

We are still reviewing the costs for the TGP. Capital costs have increased by about 10% in the last 12-18 months and we are looking at all the anticipated operating costs to ensure the Project still generates the returns we require. If we get all the remaining approvals within the next 2 months or so, we should be in production in the December quarter 2013.

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Alkane has waited many months to receive approval from the NSW Department of Planning and Infrastructure. During that time, have you adjusted the scope of the project, including physical and financial parameters, to any degree?

Ian Chalmers
We may be able to reduce the capital costs from the revised level I just spoke about and we're looking at options to minimize increases to the operating costs. However, the physical characteristics of the project haven't changed – it's still a 1 million tonne per annum open pit and ultimately an underground operation. It will be a carbon-in-leach plant which is very standard and should mean a simple process of extracting the gold.

The JORC Resource was expanded after we completed additional drilling in the Caloma deposit last year, and drilling at Caloma Two this year indicated further resource potential. There is a good chance that we could add at least a year to the open pit life. That would make it around an 8.5 year mine life and a 10-12 year overall project life including the potential for additional underground ore and we think the project has more exploration upside.

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Alkane recently signed a Memorandum of Understanding (MOU) with Shin-Etsu for 100% of the heavy and light rare earth concentrates to be produced from Alkane's Dubbo Zirconia Project ('DZP' – ALK 100%). MOUs have previously been signed for zirconium and niobium, meaning that 100% of proposed production is now subject to signed MOUs. How important are the MOUs amongst the other various milestones you have to achieve in order to get the DZP into production?

Ian Chalmers
Signing MOUs is a very important part of moving towards having a project in production. The MOUs outline the framework for the final off-take agreements which governs revenues and the financial result the project can generate. However you still need to maintain some flexibility as markets are prone to change over time. For example we're continuing to look at new product development with zirconium as the retreat of oxychloride prices in China impacts on anticipated revenues and are looking more closely at the options in the zirconia markets again.

We've seen both Molycorp and Lynas modify MOU/LOIs to reflect changes in market conditions and demand.

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What are the major differences in the types of MOUs you've signed for each of the main products (zirconium, niobium and the rare earths)?

Ian Chalmers
All the MOUs are subtly different, but in general take our mine outputs for sale or convert them to a higher value product. This can be done via joint venture with the partner participating directly in production or using technology transfer to produce the partner's required product. The niobium MOU with a European metal alloy company is an example of the first, while the zirconium ZOC MOU is an example of the technology transfer off-take agreement. The other option is a marketing partnership such as we have with the European zirconium trading company which will take existing output and sell to end users.

The rare earth MOU is different again. The deal with Shin-Etsu was extremely important and it took a year longer than the other MOUs to finalise and sign, as it was framed to be very specific for what we are going to produce from the DZP and the end result we wanted to achieve. The plan was to produce a heavy rare earth concentrate and a light rare earth concentrate at the mine site. We could easily sell those concentrates, but decided that the Shin-Etsu joint venture type concept provided a better opportunity in producing individual separated high purity rare earths.

Shin-Etsu will charge us a toll treatment rate to do the separations at their existing facilities and they will have first right to buy the final products. Shin-Etsu may not be interested in taking all products, so they will deliver certain finished products back to Alkane. An example might be yttrium which we can sell into other markets such as phosphors for energy efficient lighting. So this arrangement is best for both companies and it means we won't carry the capital risk or technical risk of building our own separation facility and that should provide the Project with an overall better financial return.

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Can you explain the process of converting the MOUs into binding off-take agreements? To what extent could terms change between the MOUs and the binding off-take agreements? What is the broad timing?

Ian Chalmers
As I mentioned, the MOUs set the framework for binding off-take contracts, but there is detailed negotiation to set the product volumes, quality and pricing structure, and delivery timing. This can take several months and may differ from the original MOU in content. To use the zirconium example again, the overall market for zirconium oxychloride has changed to some extent so any binding off-take agreements will have to be adjusted to allow for that and may ultimately be totally different to the original MOU concept.

The plan was to have binding off-take contracts in place by the end of this calendar year, but the current world financial stress may result in this being extended. I would think that most would need to be completed by mid next year if we are to raise the finance required to fit in with our development timetable.

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Can you give a (current and forecast) market update for zirconium, niobium and heavy/light rare earths?

Ian Chalmers
That's a big topic and I'll try and condense my answer. In the first instance, the prices for the zirconium products are dictated by the price of zircon. The demand for zircon in China dropped off late last year because of the reduction in growth of its economy and world economies in general. The drop in demand has only partially been reflected in the zircon price because large producers such as Iluka and Richards Bay Minerals have adjusted their zircon supply to match falling demand. Companies won't make any money unless they adjust supply to protect a floor price. While the short term price for zircon has been under pressure, most industry experts are confident about prices because there are not many quality projects in the world coming on line to match expected long term increases in demand. We expect a shortage in supply to return by about 2018. Recent events will govern the current zirconium product prices, say until about 2016, but then they should resume their upward growth.

The niobium market is very different because it is controlled by the large Brazilian company, Companhia Brasileira de Metalurgia e Mineração (CBMM). Their strategy has not changed in terms of pricing and we therefore don't expect major changes as long as they maintain that strategy.

Rare earths prices have reduced from those peaks we saw last year, the "Matterhorn" effect as I call it, but are still good in historical terms. Some of the bulk rare earths products such as lanthanum and cerium have come back to near long term sustainable pricing levels. However, we won't see the very low prices experienced in 2010 because most of the world rare earths industry would go out of business. That would be a similar scenario for zircon. In summary, prices for some rare earths have fallen considerably, but others remain historically very strong and should continue to be because supply is restricted (e.g. dysprosium, terbium and yttrium).

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It is expected that Shin-Etsu will produce over 1,120 tpa of heavy rare earth oxides and over 3,050 tpa light rare earth oxides from the concentrate supplied by the DZP. Where would that put Alkane in the context of world production of heavy and light rare earths? In broad terms, what amount do you expect Shin-Etsu to purchase from you and where will you sell the remainder?

Ian Chalmers
The specific detail of the Shin-Etsu off-take will remain commercially confidential, at least in the medium term. Cerium and lanthanum are examples of the light, bulk rare earths that companies such as Lynas and Molycorp will produce in large quantities. Alkane will be a very modest producer of these types of rare earths – maybe about 3% of world output and we think niche markets exist for this volume where we are not trying to compete with Lynas and Molycorp. Our neodymium and praseodymium output is also modest, but important for rare earth magnet manufacture. However, it's a very different scenario for heavy rare earths such as dysprosium, terbium and yttrium because we will be a significant and strategic producer outside China. We will supply around 10% of world production of heavy rare earths and that's probably not well understood in the market. In addition, many other forecast projects are a long way from production compared with the DZP.

Shin-Etsu is a very large rare earth magnet manufacturer so their focus will be securing products from us such as neodymium and dysprosium.

As I've said, we are confident about selling all our rare earths production, particularly having the full suite of high purity separated products to be able to deal.

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In general, are you satisfied with the longer term outlook and growth strategy for Alkane taking into account the progress of all core projects?

Ian Chalmers
Yes, we are. We're a little behind where we'd like to have been with the timetable for the projects. However, that's the nature of the mining industry and some of it is out of our control. The decision to sell McPhillamys was a tough one, but we are satisfied with the fact we will receive a sizeable shareholding in Regis Resources as compensation.

We believe our other exploration projects such as Wellington, Bodangora and Cudal will provide further upside to our mining portfolio, and our geological and exploration knowledge in the Central West of NSW will deliver us additional development projects.

We are looking forward to Tomingley coming on-stream in 2013 and the DZP sometime in 2015. The other projects could be developed in the following years. I think we are very well placed to continue to add value for shareholders, deliver returns and have an excellent balance sheet to achieve that growth.

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Thank you Ian.

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