ALKANE RESOURCES LTD

Company Insight
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Alkane Resources Ltd Date of Lodgement: 6/3/12

Title: "Company Insight – Explains $107 million Capital Raising"

Highlights of Interview

- **Very strong interest from investors in capital raising.**
- **Other options to raise funds and intended use of funds.**
- **Why investors should take up Entitlement Offer.**
- **Why raise the funds now?**
- **General discussion of attractiveness of Alkane's projects.**
- **Options for further fund raisings.**

Record of interview:

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Alkane Resources Ltd (ASX code: ALK; market cap of ~$330m) has just announced that it is to raise approximately $107 million in new capital through a non-renounceable entitlement offer and placements. Up to $30 million will be raised through a partially underwritten 1 for 10 non-renounceable entitlement offer of fully paid ordinary shares in Alkane at $1.10 per new share. $44 million will be raised from a placement within Alkane's 15% placement capacity and $33 million will be raised through a second placement to be approved by shareholders. Both placements will also be at $1.10 per share. Can you comment on the general interest from investors as you went around raising the funds?

Managing Director, Ian Chalmers
In January and February, we conducted road shows in North America, U.K. and Australia, which followed up New York, San Francisco, Singapore and Hong Kong last year. This was to explain what Alkane had achieved and our growth strategy, but also to test the appetite for future capital raisings. The recent visits were very satisfying because of the amount of interest in our projects, particularly in London, New York and Toronto. I was really pleasantly surprised as I thought London would be quite gloomy because of the European debt crisis, however the investors there said they thought the market had bottomed and – in someone's words – was "awash with funds" and that they were specifically looking for undervalued stocks. It was a similar situation in New York and we saw on-market buying after that road show.

While we weren't sure on the timing for the Tomingley Gold development, we knew that Alkane would need to raise funds at some stage early 2012 to maintain the development schedule we had set. After some discussions late February with Petra Capital, who had organized the road shows and were indicating a strong interest from investors, the final arrangements were set late on Monday, 27 February, and Petra were given the mandate to proceed. By Tuesday afternoon it was clear it was being strongly supported. The strength in demand for the stock has been illustrated since we came out of trading halt with the share price well above the issue price.

Overall, the Board decided it was an opportunity that we didn't want to miss.

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Why have you divided the capital raising in this way i.e. the entitlement offer and two placements?

Ian Chalmers
The original concept was a 50/50 split between the shareholder entitlement offer and a placement. We had previously said that we would give all shareholders the opportunity to participate in the next capital raising but once we'd started the process, we could see the chance to expand well above the target level. It then became a decision between the additional dilution and an unusually rare opportunity to raise substantial funds with strong demand. While the markets remain very volatile, and the risk of another downturn is potentially high, we decided to proceed with the 15% placement capacity and to do the second placement to satisfy demand from major funds. These organizations will become very important when we are seeking a larger raising to develop the Dubbo Zirconia Project. The complication with this structure is that the second placement is outside of the 15% placing capacity and is subject to shareholder approval, and therefore those funds would not be available until mid April.

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Were there other ways you considered raising capital that would have resulted in less dilution to current shareholders, such as raising debt?

Ian Chalmers
Yes, there are several other avenues such as convertible notes, convertible bonds and debt. One problem with debt is, the larger it is, the more security is needed and our decision making capability would be reduced because the lenders have some say in what you can and can't do. We wanted to remain fully in control of decisions so that we can achieve maximum outcomes for shareholders. The convertible notes and bonds usually have some seriously large costs and risks attached, and are not really a good option at this stage of Alkane's progress.

Also there was the possibility of an asset sale, such as our interest in McPhillamys (49% of 3Moz resource). Interestingly, there was an article in The Wall Street Journal on 23 February which stated that they believed Newmont had been approached to sell its 51% stake in McPhillamys (Newmont can move to 75% if it completes a Bankable Feasibility Study and presents Alkane with a decision to mine). The article also stated that an analyst had put a value on Alkane's 49% stake of up to $100 million.

While we believe that valuation is too low, sale of our share in the project could have been an option. However we couldn't really do much without Newmont's involvement in such a process and this wasn't appropriate at this time. McPhillamys could be a useful source of funds if we decided to sell it in the future or a useful generator of cash flow to grow our business if it is developed.

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The funds are largely to go towards the construction and commissioning of the Tomingley Gold Project and preparation of the Environmental Impact Statement, and continuing development of, the Dubbo Zirconia Project ('DZP' - ALK 100%). Can you be more specific?

Ian Chalmers
Credit Suisse still have the mandate to provide a debt facility of up to $45 million to fund part of the capital cost of Tomingley which is around $100 million, but that can't be finalized until we have development approval from the NSW Government. In this equity raising we have allocated $70 million towards Tomingley, which is theoretically more than needed with the Credit Suisse facility but there was the opportunity, as previously stated, to raise those additional funds to ensure the project is adequately funded into full production and provide a buffer against possible production delays or cost overruns.

We have also allocated around $20 million for the Dubbo project to ensure that all the EIS (Environmental Impact Statement) work is completed this year, to continue the product development and process optimization, and to work on getting all the project financing arrangements in place so that the DZP is ready to go as soon as approval is received.

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All Directors and key management personnel who own shares have indicated that they will take up their full entitlements. Can you put the case forward as to why existing shareholders should take up the entitlement offer?

Ian Chalmers
We tried to set the price at a reasonable level to encourage the smaller shareholders to participate. At $1.10 the price was an 8% discount to the volume weighted average price over the 20 trading days since 31 January. Perhaps we could have set it higher, given the demand and the surprising jump in the price in the few days leading up to the decision to proceed but you just don't know which direction the market will trend in the three weeks that an issue is open.

We think the upside remains very high for Alkane's share price with a lot of positive news to flow over the next 12 months and beyond as we develop Tomingley and Dubbo, and continue to explore at several other projects. As we advance and de-risk each project, we believe that progress should be reflected in the share price. More importantly when we get Tomingley and the DZP into production the cash flows in to Alkane will be very significant. I would hope to see a share price that reflects this cash flow at that time

We think the smaller shareholders should take this opportunity while they can as there may not be too many in the future – we would like them to have those opportunities but we don't know yet how our future fund raisings will pan out.

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Why have you raised the funds now? Was it essential to raise this amount when Alkane seemingly has strong value accretion ahead - as per your previous response?

Ian Chalmers
This was a very difficult decision for the Board to make. Do we raise some money now or do we wait? But the driver was the need for funding in the short term. We have some quality assets which need funding in order to develop them and generate more value for shareholders. It's a hard decision because who can predict the market in one month or two months? And the financial situation could get worse in Europe, or on the other hand the share price may increase if the market is buoyant.

The Board and management don't like to dilute shareholders as we are shareholders too, and we've historically run Alkane on "the smell of an oily rag" and managed to keep the issued capital fairly tight. For example, we've only spent $23 million on the DZP since day one including building and operating the demonstration plant, whereas other companies have spent multiple times that amount and still don't have a demonstrable flow sheet - let alone a proven demonstration pilot plant and sample products that have been accepted by customers, and certainly don't have a completed feasibility study.

If Alkane is to evolve over the next two years, it is time to inject some serious money without having to return to the market in 6 months or so with all the inherent risks with that timetable. We all dislike dilution and we believe the share price will increase over time. But when? On balance we believed this capital raising was the best option.

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Can you explain the involvement of Ian Gandel's (Alkane non-Executive Director) companies in the underwriting? Will his companies receive a fee? Why is the entitlement offer partially underwritten?

Ian Chalmers
As a Director and 26% shareholder, Ian is clearly committed to the Company. He believes in the growth story and how we're going about achieving that. He therefore likes to participate in fund raisings where he can. He will receive a fee of 4% from Regal Funds Management (the underwriter) for sub-underwriting the entitlement offer. These are normal commercial terms which are disclosed in the Entitlement Offer Booklet which can be viewed on Alkane's web site at www.alkane.com.au.

The entitlement offer was partially underwritten because we know that Ian Gandel, the other Directors, senior management and some major shareholders will be taking up their entitlement. We considered that there were around 30-40% of shareholdings where we didn't know the intention and that is the amount we decided to have underwritten despite expecting a large take-up by those shareholders.

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Tomingley and the DZP are expected to have a combined capital expenditure of approximately $1 billion. You've mentioned that Alkane is considering various funding alternatives in addition to the $107 million discussed today. What range of options do you have to raise the further capital requirements?

Ian Chalmers
Tomingley is now fully funded and our exploration and working capital is now funded through this year with this capital injection. In addition, the DZP should now be adequately funded until the development decision around the middle of next year. As for the DZP development funding, we've stated this publicly before but as a start we believe we could sell a small equity in the DZP, maybe

10%, for an amount higher than that percentage of the project's current Net Present Value ($1.207 billion). We believe we can sell at a premium to the NPV because the DZP is a world class project with strategic products and at least a 100 year mine life. That makes it an extremely attractive asset to customers and investors.

Then there are a number of international government agencies who have publicly stated their desire to invest in projects that can guarantee supply of strategic materials for the industries in their countries. They have indicated the availability of equity and/or debt funds for these projects.

Finally there are the more standard options of raising further equity and debt facilities, although we will continue to try to keep Alkane's share structure as tight as we possibly can post this raising.

If the economics of the DZP stack up in the way we believe they will, we shouldn't have any difficulty raising the required funds. We're aiming to have funding in place at least on paper by the end of 2012 so we're ready to proceed to development in mid 2013 with production later in 2014.

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Thank you Ian.