ALKANE RESOURCES LTD

ABN 35 000 689 216

INTERIM FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

This interim financial report does not include all the notes of the type normally included in the annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by Alkane Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Alkane Resources Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is at 89 Burswood Road, Burswood, WA 6100. Its shares are listed on the Australian Securities Exchange.

Contents

Directors' report

Your Directors present their report on the consolidated entity consisting of Alkane Resources Ltd and the entities it controlled at the end of, or during, the half-year ended 31 December 2016. Throughout the report, the consolidated entity is referred to as the Group.

Directors
The following persons were Directors of Alkane Resources Ltd during the whole of the half-year and up to the date of this report:
J S F Dunlop (Chairman)
D I Chalmers
I J Gandel
A D Lethlean

Review of operations
The Group continues to be actively involved in mineral exploration and evaluation, development and extraction, focussing on its core projects at Tomingley and Dubbo in New South Wales.

Result for the half-year
The Group's net loss for the period after tax was $27,738,000 (31 December 2015: Profit $6,337,000). The result included a loss before tax of $26,522,000 (31 December 2015: Profit $12,921,000) in relation to the Tomingley Gold Operations which was impacted by a pre-tax impairment expense of $20,475,000 (31 December 2015: nil).

Tomingley Gold Operations
The gold operations at Tomingley are located approximately 50 kilometres south-west of Dubbo in the Central West of NSW. The operations are based on four gold deposits. Wyoming One, Wyoming Three (mining completed), Caloma One and Caloma Two.

Mining occurred in three pits during the year, Caloma One, Caloma Two, and Wyoming One. Mining in Caloma Two commenced during the period with first ore expected to be extracted in the last quarter of the financial year. Persistent heavy rain during the period (656mm vs long term average 223mm) dramatically impacted production by delaying ore releases, particularly at the base of the Wyoming One starter pit, and impacting mining fleet productivity during weather events and in the recovery afterwards.

Total material movements for the period were well below plan at 3,533,680 bcm, comprising 3,333,183 bcm of waste and 200,497 bcm of ore at an average stripping ratio of 16.6. The increase in the stripping ratio from the corresponding period reflects the waste removal in the Wyoming One and Caloma Two pits.

Milling for the period was in line with design capacity at 511,135 tonnes. Gold recovery was impacted by the delay in accessing high grade ore blocks as a result of the adverse wet weather conditions.

Production for the half year was circa 12,000 ounces below plan (or 36%) at 22,191 ounces. Cost control is delivering unit costs per tonne or bcm within the expected ranges during periods unaffected by weather. However, the reduction in production materially increased the all in sustaining cost (AISC) for the period to $1,962 per ounce.

The average sales price achieved for the period of $1,649 per ounce resulted in an average margin deficit of $313 per ounce.

Estimated production guidance for the year ended 30 June 2017 was revised downwards to between 53,000 and 58,000 ounces at an AISC of between $1,600 and $1,750 per ounce.

As a result of the impact of weather on the operational performance and results for the half year, a review of the carrying value of the non-current assets of the gold cash generating unit was performed and a pre-tax impairment expense of $20,475,000 was recorded, refer to note 7 for details.

Directors' report (continued)

Review of operations (continued)
Tomingley Gold Operations (continued)

The table below summarises the key operational information for the operation.

TGO Production	**Unit**	**6 Months Ended 31 December 2016**	**6 Months Ended 31 December 2015**
Ore mined	BCM	200,497	257,984
Waste mined	BCM	3,333,183	3,124,603
Stripping ratio	Ratio	16.6	12.1
Ore mined	Tonnes	539,355	710,805
Grade mined (2)	Grams/tonne	1.43	1.86
Ore milled	Tonnes	511,135	529,979
Head grade	Grams/tonne	1.49	2.19
Gold recovery	%	90.2	92.1
Gold production (3)	Ounces	22,191	35,136
Revenue summary			
Gold sales	Ounces	22,519	35,250
Average sales price realised	A$/ounce	1,649	1,572
Sales revenues	A$ millions	37.1	55.4
AISC (1)	A$/ounce	1,962	1,270
Ore stockpiles	Tonnes	709,148	698,744
Stockpile grade (2)	Grams/tonne	0.79	0.94
Bullion on hand	Ounces	2,572	3,040

(1) All in Sustaining Cost (AISC) comprises all site operating costs, royalties, mine exploration, sustaining capex, mine development and an allocation of corporate costs on the basis of ounces produced. AISC does not include share based payments or net realisable value provision for product inventory.
(2) Based on the resource models.
(3) Represents gold poured at site, not adjusted for refining adjustments which results in minor differences between the movements in bullion on hand and the difference between production and sales.

Development of the underground mine continues with a program of 9 core holes totalling 3,659 metres testing below the Wyoming One open pit and 18 RC holes tested mineralisation at the Caloma pit. The drilling was designed to extend known mineralisation and improve continuity within the ore zones previously identified, with results announced to the ASX on 20 January 2017.

Geological analysis and modelling is ongoing however work performed to date has led to a revision of certain sections of the geological resource model resulting in a reduction in the underground mineral inventory. An update of the detailed underground mine design, scheduling and financials incorporating the revised geological model is in progress. Management remain confident based on the strong geological understanding of the deposit that there is significant value to be unlocked that could lead to a profitable underground mine and is working on the most cost effective means to identify additions to the mineral inventory to offset the recent changes.

Dubbo Project (DP)
Alkane Resources Ltd's subsidiary, Australian Strategic Materials Ltd (ASM) changed company name from Australian Zirconia Ltd in December 2016. The project name has been similarly modified to the Dubbo Project.

The DP remains ready for construction, with the mineral deposit and surrounding land wholly owned, all State and Federal approvals in place, an established flowsheet and a solid business case. Efforts during the period focussed on product development and marketing with potential customers to confirm the suitability of the product suite for their needs. High purity samples of zirconia and hafnia (hafnium oxide) produced from the demonstration pilot plant were dispatched to customers as a condition precedent to further discussions with these customers for the purchase of ASM's future products.

Efforts to secure the financing for the project are being accelerated. The announcement of the MOU with Siemens Ltd showed the significance of the project to one of the major western consumers of rare earths, and a pathway to securing the future revenue for the project.

Directors' report (continued)

Review of operations (continued)
Dubbo Project (DP) (continued)

During the half-year the Group announced the results of its modularisation study. As well as allowing cost savings, this modularisation concept has given rise to the possibility of staging the overall build of the project whilst preserving the project economics. The Group considers the most advantageous option is to build the plant in two stages, each with 500 ktpa, or half capacity. The second stage will be built after the first stage is successfully commissioned and market pricing achieved for the products. Each stage will have the full flowsheet of the overall plant already communicated, although there will be some common infrastructure install in the first stage. The detailed engineering and design is being updated to a bankable level for these changes.

Due diligence of Vietnam Rare Earth JSC (VTRE) and its associated rare earth alloy plant at Haiphong continued during the half-year covering the rare earth separation process, marketing of existing VTRE production of separated rare earths and alloys, as well as potential investment in VTRE.

Exploration
RC drilling contracts for approximately 3,000 metres has been let and drilling commenced to test porphyry gold-copper targets at Dreill Creek, Boda and Duke targets within the Bodangora tenement and at the adjoining Finns Crossing project.

Significant changes in the state of affairs

The financial position and performance of the Group has been impacted by the following specific events or transactions during the six months ended 31 December 2016 when compared to the six months ended 31 December 2015:

- An impairment expense of $20,475,000 was recorded during the period as a result of significant and prolonged impact that weather has had on the operations and performance of the Tomingley Gold Operation during the period. Refer to note 7 for details;
- The group entered into a working capital facility with Macquarie Bank Limited. Refer to note 15 for details; and
- Placement of the shortfall of the entitlements issue with institutional and professional investors in July 2016 raising $4,141,000. Refer to note 17 for details.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Rounding of amounts

The company is of a kind referred to ASIC Legislative Instrument 2016/191 relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with the instrument.

This report has been made in accordance with a resolution of directors.

D I Chalmers
Director
Perth
16 March 2017

Auditor's Independence Declaration

As lead auditor for the review of Alkane Resources Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Alkane Resources Limited and the entities it controlled during the period.

Craig Heatley
Partner
PricewaterhouseCoopers

Perth
16 March 2017

Consolidated statement of comprehensive income

		Half-year	
		31 Dec 2016	31 Dec 2015
	Notes	**$'000**	$'000
Continuing operations			
Revenue	4	**37,132**	55,421
Cost of sales	5	**(42,744)**	(42,721)
Gross (loss)/profit		**(5,612)**	12,700
Other income	4	**459**	796
Expenses			
Other expenses	5	**(25,130)**	(4,391)
Finance charges		**(519)**	(196)
Total expenses		**(25,649)**	(4,587)
(Loss)/Profit before income tax		**(30,802)**	8,909
Income tax benefit/(expense)		**3,064**	(2,572)
(Loss)/Profit after income tax		**(27,738)**	6,337
Other comprehensive income		**-**	-
Total comprehensive (loss)/income for the half-year, net of tax		**(27,738)**	6,337
Total comprehensive (loss)/income for the half-year is attributable to:			
Owners of Alkane Resources Ltd		**(27,738)**	6,337
(Loss)/Profit is attributable to:			
Owners of Alkane Resources Ltd		**(27,738)**	6,337
(Loss)/Earnings per share attributable to the ordinary equity holders of the company (cents per share):			
Basic (loss)/earnings per share	23	**(5.54)**	1.52
Diluted (loss)/earnings per share	23	**(5.43)**	1.51

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

	Notes	31 Dec 2016 $'000	30 June 2016 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**20,437**	24,455
Receivables		**2,360**	1,720
Inventories	9	**11,952**	12,394
Biological assets	10	**95**	-
Total current assets		**34,844**	38,569
Non-current assets			
Property, plant and equipment	12	**83,552**	102,941
Exploration and evaluation	13	**77,416**	72,553
Other financial assets	11	**7,207**	7,197
Total non-current assets		**168,175**	182,691
Total assets		**203,019**	221,260
LIABILITIES			
Current liabilities			
Trade and other payables	14	**13,262**	8,745
Borrowings	15	**3,533**	-
Provisions	16	**1,876**	1,703
Total current liabilities		**18,671**	10,448
Non-current liabilities			
Provisions	16	**16,162**	15,755
Deferred tax liabilities	6	**1,525**	4,747
Total non-current liabilities		**17,687**	20,502
Total liabilities		**36,358**	30,950
Net assets		**166,661**	190,310
Equity			
Contributed equity	17	**219,991**	213,791
Other reserves		**1,822**	3,933
Accumulated losses		**(55,152)**	(27,414)
Total equity		**166,661**	190,310

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

	Contributed equity $'000	Share based payments reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2015	201,845	714	(32,109)	170,450
Total profit for the half year	-	-	6,337	6,337
Total comprehensive income for the period	-	-	6,337	6,337
Transactions with owners in their capacity as owners:				
Share based payments	-	1,491	-	1,491
Deferred tax credit recognised in equity	(165)	-	-	(165)
Balance at 31 December 2015	201,680	2,205	(25,772)	178,113

	Contributed equity $'000	**Share based payments reserve $'000**	**Accumulated losses $'000**	**Total equity $'000**
Balance at 1 July 2016	**213,791**	**3,933**	**(27,414)**	**190,310**
Total loss for the half year	**-**	**-**	**(27,738)**	**(27,738)**
Total comprehensive loss for the period	**-**	**-**	**(27,738)**	**(27,738)**
Transactions with owners in their capacity as owners:				
Share placement	**4,141**	**-**	**-**	**4,141**
Share issue transaction costs	**(671)**	**-**	**-**	**(671)**
Share based payments	**2,570**	**(2,111)**		**459**
Deferred tax recognised in equity	**160**	**-**	**-**	**160**
Balance at 31 December 2016	**219,991**	**1,822**	**(55,152)**	**166,661**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

	Notes	Half-year 31 Dec 2016 $'000	31 Dec 2015 $'000
Cash flows from operations activities			
Receipts from customers		**37,132**	55,421
Payments to suppliers (inclusive of GST)		**(22,339)**	(35,548)
Finance costs paid		**(546)**	(102)
Royalties		**(1,296)**	(1,502)
Interest received		**216**	211
Other income received		**255**	585
Net cash inflow from operating activities	22	**13,422**	19,065
Cash flows from investing activities			
Exploration and evaluation expenditure		**(4,885)**	(4,067)
Purchase of property, plant and equipment		**(19,541)**	(15,007)
Proceeds from sale of property, plant and equipment		**18**	-
Payments for security deposits		**(10)**	-
Receipt of security deposits		**-**	11
Net cash outflow from investing activities		**(24,418)**	(19,063)
Cash flow from financing activities			
Proceeds from issue of shares		**4,141**	-
Transactions costs on issue of shares		**(671)**	-
Proceeds from borrowings		**7,912**	-
Repayment of borrowings		**(4,404)**	(87)
Net cash inflow/(outflow) from financing activities		**6,978**	(87)
Net decrease in cash and cash equivalents		**(4,018)**	(85)
Cash and cash equivalents at the beginning of the half-year		**24,455**	14,849
Cash and cash equivalents at the end of the half-year		**20,437**	14,764

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the consolidated financial statements

1. Statement of Significant Accounting Policies

Basis of preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Australian Accounting Standards AASB 134 Interim Financial Reporting and the *Corporations Act 2001*.

The condensed consolidated interim financial report does not include all the notes of the type normally included in the annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by Alkane Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act* 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

a) New accounting standards and interpretations

The following applicable Australian Accounting Standards have been issued or amended but are not yet effective and have not been adopted by the Group for the half-year ended 31 December 2016.

<u>AASB 9 Financial Instruments</u>

AASB 9 *Financial Instrument*s addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption.

The Group does not expect any material impact of the new requirements and will continue to review this position prior to the adoption date.

<u>AASB 15 Revenue from contracts with customers</u>

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a fully retrospective or a modified retrospective approach for the adoption. It is effective for the first interim period within annual reporting periods beginning on or after 1 January 2018.

At this stage the Group does not foresee any material impact given revenue is predominantly derived from gold sales.

<u>AASB 16 Leases</u>

Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. It is effective from 1 January 2019 and at this stage the Group does not foresee any material impact given the term and values of current leases.

2. Segment information

The Board of Alkane Resources Ltd has identified two reportable segments, being gold operations and the exploration and evaluation of rare metals. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operation decision maker that are used to make strategic decisions.

Costs that do not relate to either of the operating segments, have been identified as unallocated costs. Corporate assets and liabilities that do not relate to either of the operating segments have been identified as unallocated. The Group has formed a tax consolidation group and therefore deferred tax balances have been allocated to the unallocated grouping.

Notes to the consolidated financial statements (continued)

2. Segment information (continued)

Half year ended 31 December 2016	**Gold operations $'000**	**Rare metals $'000**	**Unallocated $'000**	**Group $'000**
Gold sales to external customers	**37,132**	**-**	**-**	**37,132**
Segment net loss before income tax	**(26,522)**	**(42)**	**(4,238)**	**(30,802)**
Segment net loss includes the following non-cash adjustments				
Depreciation and amortisation	**(18,390)**	**(2)**	**(139)**	**(18,531)**
Impairment expense	**(20,475)**	**-**	**-**	**(20,475)**
Deferred stripping costs capitalised	**14,889**	**-**	**-**	**14,889**
Exploration expenditure written off or provided for	**-**	**(5)**	**(41)**	**(46)**
Inventory product movement and provision	**(438)**	**-**	**-**	**(438)**
Income tax benefit	**1,938**	**13**	**1,113**	**3,064**
Total non-cash adjustments	**(22,476)**	**6**	**933**	**(21,537)**
Total segment assets as at 31 Dec 2016	**86,595**	**104,648**	**11,776**	**203,019**
Total segment liabilities as at 31 Dec 2016	**(32,361)**	**(1,075)**	**(2,922)**	**(36,358)**
Net segment assets as at 31 Dec 2016	**54,234**	**103,573**	**8,854**	**166,661**

Half year ended 31 December 2015	**Gold operations $'000**	**Rare metals $'000**	**Unallocated $'000**	**Group $'000**
Gold sales to external customers	55,421	-	-	55,421
Segment net profit/(loss) before income tax	12,921	1	(4,013)	8,909
Segment net profit/(loss) includes the following non-cash adjustments				
Depreciation and amortisation	(12,454)	-	(131)	(12,585)
Deferred stripping costs capitalised	9,430	-	-	9,430
Exploration expenditure written off or provided for	-	-	(74)	(74)
Inventory product movement and provision	2,438	-	-	2,438
Income tax expense	(3,747)	347	828	(2,572)
Total non-cash adjustments	(4,333)	347	623	(3,363)
Total segment assets as at 30 Jun 2016	110,964	93,207	17,089	221,260
Total segment liabilities as at 30 Jun 2016	(24,194)	(1,014)	(5,742)	(30,950)
Net segment assets as at 30 Jun 2016	86,770	92,193	11,347	190,310

Notes to the consolidated financial statements (continued)

3. Fair value measurement of financial instruments

The Group does not have any financial assets or financial liabilities measured and recognised at fair value at 31 December 2016.

Due to their short-term nature, the carrying amount of the current receivables, current payables and other financial assets is considered to approximate their fair value.

4. Revenue

	Half-year	
	31 Dec 2016	31 Dec 2015
	$'000	$'000
Revenue from continuing operations		
Gold sales	**37,132**	55,421
Other income		
Interest income	**216**	211
Other income	**243**	585
Total other income	**459**	796

5. Expenses

	Half-year	
	31 Dec 2016	31 Dec 2015
	$'000	$'000
Cost of sales		
Cash costs of production	**37,941**	40,511
Deferred stripping costs capitalised	**(14,889)**	(9,430)
Inventory product movement	**664**	(643)
Inventory product net realisable value provision	**(226)**	(1,795)
Depreciation and amortisation	**18,390**	12,454
Royalties and selling costs	**864**	1,624
	42,744	42,721
Other expenses		
Impairment expense (Refer note 7)	**20,475**	-
Corporate administration	**1,330**	1,252
Employee remuneration and benefits	**1,277**	1,090
Professional fees and consulting services	**802**	819
Share based payments	**633**	727
Directors' fees and salaries expensed	**309**	252
Depreciation	**141**	131
Exploration expenditure provided for or written off	**46**	74
Peak hill site maintenance and rehabilitation	**42**	40
Loss from disposal of fixed assets	**75**	6
	25,130	4,391

Cash costs of production
Cash costs of production include ore and waste mining costs, processing costs and site administration and support costs. Cash costs of production include $10,100,000 of employee remuneration and benefits (31 December 2015: $9,631,000).

Deferred stripping costs capitalised
Stripping costs capitalised represents costs incurred in the development and production phase of a mine and are capitalised as part of the cost of constructing the mine and subsequently amortised over the useful life of the ore body that access is provided to on a units-of-production basis.

Inventory movement
Inventory movement represents the movement in the balance sheet inventory ore stockpile, gold in circuit and bullion on hand.

Provision for inventory
Inventory must be carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs to complete processing and to make a sale. The net realisable value provision equals the decrement between the net realisable value and the carrying value before provision.

Notes to the consolidated financial statements (continued)

6. Deferred tax liability

The net deferred tax liability has decreased from $4,747,000 at 30 June 2016 to $1,525,000 at 31 December 2016. The decrease in deferred tax liability is predominantly caused by an increase in the deferred tax asset relating to current period loss. The deferred tax asset relating to the impairment expense was not recognised. Refer to note 7 for details.

7. Impairment of non-current assets

As a result of the significant and prolonged impact that weather has had on the operations and performance of the Tomingley Gold Operation during the half year, Management have undertaken a review of the carrying value of the non-current assets relating to the gold cash generating unit. The review was further impacted by drilling performed during the period on the proposed underground mine which has led to a revision of certain sections of the geological resource model resulting in a reduction in the underground mineral inventory. An update of the detailed mine design, scheduling and financials incorporating the revised geological model is in progress. Management estimates that the impact of this reduction in mineral inventory means that the value of the proposed underground operation should be reduced. Resources and reserves are updated annually, around August. Management remain confident based on the strong geological understanding of the deposit that there is significant value to be unlocked that could lead to a profitable underground mine and is working on the most cost effective means to identify additions to the mineral inventory to offset the recent changes.

The gold cash generating unit comprises the Tomingley Gold Operation and associated gold exploration tenements.

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment charge is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's estimated fair value less costs of disposal and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment charge is recognised immediately in the statement of comprehensive income.

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. Where an impairment charge subsequently reverses, the carrying amount of the asset or cash generating unit is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount that would have been determined had no impairment charge been recognised for the asset or cash generating unit in prior years. A reversal of an impairment charge is recognised immediately in the statement of comprehensive income.

The recoverable amount of a cash generating unit is the higher of its fair value less costs of disposal (FVLCD) and its value in use (VIU). FVLCD is the best estimate of the amount obtainable from the sale of a cash generating unit in an arm's length transaction between knowledgeable willing parties, less the costs of disposal. This estimate is determined on the basis of best available market information taking into account specific conditions.

The key assumptions used in the FVLCD calculations include:
- commercially recoverable mineral inventories
- production volumes and efficiencies which can include potential future expansions and improvements in efficiency
- the cash costs of production adjusted for the effects of taxation
- the forecast AUD/USD foreign exchange rate
- the forecast USD gold price
- cash flows include the effects of taxation
- a post-tax discount rate reflecting the time value of money, the price for bearing the uncertainty inherent in the asset and other relevant factors

Notes to the consolidated financial statements (continued)

7. Impairment of non-current assets (continued)

VIU is the present value of the estimated future cash flows expected to be derived from the cash generating unit or group of cash generating units. Cash flow projections are based on economic and regulatory assumptions and forecast trading conditions prepared by management.

The key assumptions used in the VIU calculations include:

- commercially recoverable mineral inventories
- production volumes and efficiencies based on the assets current operating capacity and efficiency
- the cash costs of production
- the balance date AUD/USD foreign exchange rate
- cash flows are not adjusted for the effects of taxation
- the balance date USD gold price
- a pre-tax discount rate was used, which equated to a post-tax rate of 8%, reflecting the time value of money, the price for bearing the uncertainty inherent in the asset and other relevant factors

The VIU valuation methodology provided for the higher recoverable amount and therefore the gold cash generating unit has been valued on that basis. An impairment expense of $20,475,000 (2015: Nil) has been recorded against the property, plant and equipment of the gold cash generating unit.

The deferred tax asset relating to the impairment expense has not been recorded as at this time it is not probable that sufficient future taxable profits will be available to utilise all of the Group’s available deferred tax assets. The Group will reassess at each reporting date whether the unrecognised deferred tax asset can subsequently be recognised.

8. Cash and cash equivalents

Cash and cash equivalents includes a term deposit of $5,000,000 which matures in February 2017.

9. Inventories

	31 Dec 2016 $’000	30 June 2016 $’000
Current assets		
Ore stockpiles	**3,505**	3,450
Gold in circuit	**2,289**	2,359
Bullion on hand	**4,290**	4,713
Consumable stores	**1,868**	1,872
	11,952	12,394

Inventories must be carried at the lower of cost and net realisable value. At balance data ore stockpiles, gold in circuit and bullion on hand were carried at net realisable value, with consumable stores carried at cost (31 December 2015: gold in circuit was carried at net realisable value with ore stockpiles, bullion on hand and consumable stores all carried at cost).

10. Biological assets

Biological assets comprise sheep which were acquired during the year by Toongi Pastoral Company Pty Ltd as part of the ramp up of farming operations on the surrounding land to the Dubbo Project mining lease.

11. Other financial assets

	31 Dec 2016 $’000	30 June 2016 $’000
Non-current assets		
Interest bearing security deposits	**7,207**	7,197

The above non-current deposits are held with financial institutions as securities for regulatory bodies’ rehabilitation obligations as required under the respective exploration and mining leases or as required under agreement.

All interest bearing deposits are held in Australian dollars and therefore have no exposure to foreign currency risk.

Notes to the consolidated financial statements (continued)

12. Property, plant and equipment

Half-year ended 31 December 2016	**Land and buildings $'000**	**Plant and equipment $'000**	**Capital WIP $'000**	**Mine properties $'000**	**Total $'000**
Cost					
Opening balance	**39,616**	**72,204**	**708**	**110,282**	**222,810**
Additions	**-**	**-**	**2,049**	**17,661**	**19,710**
Transfers between classes	**88**	**783**	**(2,554)**	**1,683**	**-**
Disposals	**(16)**	**(256)**	**-**	**-**	**(272)**
Closing cost	**39,688**	**72,731**	**203**	**129,626**	**242,248**
Accumulated depreciation and impairment					
Opening balance	**(7,661)**	**(45,676)**	**-**	**(66,532)**	**(119,869)**
Depreciation	**(499)**	**(3,457)**	**-**	**(14,575)**	**(18,531)**
Disposals	**-**	**179**	**-**	**-**	**179**
Impairment expense (Note 7)	**(1,340)**	**(6,199)**	**-**	**(12,936)**	**(20,475)**
Closing balance	**(9,500)**	**(55,153)**	**-**	**(94,043)**	**(158,696)**
Closing net carrying value	**30,188**	**17,578**	**203**	**35,583**	**83,552**

30 June 2016	**Land and buildings $'000**	**Plant and equipment $'000**	**Capital WIP $'000**	**Mine properties $'000**	**Total $'000**
Cost	39,616	72,204	708	110,282	222,810
Accumulated depreciation	(7,661)	(45,676)	-	(66,532)	(119,869)
Closing net carrying value	31,955	26,528	708	43,750	102,941

13. Exploration and evaluation

	31 Dec 2016 $'000	30 June 2016 $'000
Opening balance at beginning of period	**72,553**	65,251
Expenditure during the period	**4,909**	7,418
Amounts provided for or written off	**(46)**	(116)
Closing balance end of period	**77,416**	72,553

14. Trade and other payables

	31 Dec 2016 $'000	30 June 2016 $'000
Current liabilities		
Trade payables	**9,257**	2,647
Other payables	**4,005**	6,098
	13,262	8,745

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial period which are unpaid. Current trade and other payables are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented in current liabilities unless payment is not due within 12 months from the reporting date. The carrying amounts of trade and other payables are assumed to be the same as their fair values, due to their short-term nature.

Notes to the consolidated financial statements (continued)

15. Borrowings

During the period the Group entered into a working capital facility with Macquarie Bank Limited comprising the following:

- a performance bond facility of $5,053,000 which has not yet been drawn on as at the 31 December 2016;
- a project loan facility which was fully drawn to $7,000,000 during the period and $4,000,000 repaid as at 31 December 2016 with the remaining balance fully repayable by June 2017; and
- a hedging facility.

The Group provided the following securities for the working capital facility:

- a combination security agreement providing security over all of the assets of Tomingley Holdings Pty Ltd and Tomingley Gold Operations Pty Ltd;
- a first ranking registered mining mortgage over the Tomingley Mining Lease in accordance with the *Mining Act 1992 (NSW);*
- land mortgages and a water rights mortgage over the holdings of Tomingley Gold Operations Pty Ltd; and
- a guarantee provided by Alkane Resources Ltd and Tomingley Holdings Pty Ltd.

The Australian-dollar denominated project loan is subject to a floating rate that is fixed each quarter and loan which is carried at amortised cost. The facility did not have any impact on the entity's exposure to foreign exchange and is subject to interest rate risk. The remainder of the borrowings relate to the insurance premium funding facility which is a fixed interest rate Australian-dollar denominated loan.'

The Group's borrowings comprised:

	31 Dec 2016 $'000	30 June 2016 $'000
Project loan facility	**3,000**	-
Other external financial liabilities	**533**	-
	3,533	-

The Group's undrawn borrowing facilities were as follows:

	31 Dec 2016 $'000	30 June 2016 $'000
Floating rate – Expiring within one year	**5,053**	-

16. Provisions

	31 Dec 2016 $'000	30 June 2016 $'000
Current provisions		
Provision for employee benefits	**1,876**	1,703
Non-current provisions		
Provision for rehabilitation and mine closure	**15,653**	15,333
Provision for employee benefits	**509**	422
	16,162	15,755

Notes to the consolidated financial statements (continued)

17. Contributed equity

	Parent entity			
	31 December 2016		**30 June 2016**	
	Number	**$'000**	**Number**	**$'000**
Share capital				
Ordinary shares – fully paid	**505,215,669**	**219,991**	476,159,490	213,791
Movement in ordinary share capital				
Opening balance at 1 July	**476,159,490**	**213,791**	414,218,670	201,845
Share placement	**20,707,196**	**4,141**	61,940,820	12,388
Employee share scheme issue	**8,348,983**	**2,570**	-	-
Closing balance at end of period	**505,215,669**	**220,502**	476,159,490	214,233
Less: transactions costs arising on share placement		**(671)**	-	(147)
Less: deferred tax recognised directly in equity		**160**	-	(295)
Balance per balance sheet	**505,215,669**	**219,991**	476,159,490	213,791

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of amounts paid on the shares held. Every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value.

On 7 July 2016 the shortfall of the one for five non-renounceable entitlement issue undertaken during May 2016 was placed at an issue price of $0.20 per new share to a number of institutional and professional investors raising $4,141,000 (before costs).

18. Contingent liabilities and contingent assets

(a) Contingent liabilities

The Group has contingent liabilities estimated at up to $4,400,000 for the potential acquisition of several parcels of land surrounding the Dubbo Project (30 June 2016: $3,400,000). The landholders have the right to require subsidiary Australian Strategic Materials Ltd to acquire their property as provided for in the development consent conditions for the Dubbo Project or under agreement with Australian Strategic Materials Ltd.

At balance date the Group has issued gold call options for 12,000 ounces of gold at an average strike price of $1,771 per ounce expiring in equal portions in December 2017 and March 2018. The options were out of the money at balance date so no contingent liability exists at 31 December 2016 (30 June 2016: $2,230,000).

(b) Contingent assets

The Group has entered into forward gold sales contracts which are not accounted for on the balance sheet. A contingent asset of $4,332,000 (30 June 2016: contingent liability of $7,074,000) existed at the balance date in the event that the contracts are not settled by the physical delivery of gold.

19. Related parties

(a) Parent entity

The parent entity within the group is Alkane Resources Ltd.

(b) Transactions with other related parties

Nuclear IT, a director related entity, provides information technology consulting services to the Group which includes the coordination of the purchase of information technology hardware and software for the current period of $14,450 (December 2015: $25,565). The terms are documented in a service level agreement and represent normal commercial terms.

During the period fees amounting to $112,170 (December 2015: $139,000) were paid to Mineral Administration Services (MAS) in which the company secretary of the Group, Ms K E Brown has a substantial financial interest. MAS provides administration, accounting and company secretarial services to the Group.

Notes to the consolidated financial statements (continued)

20. Commitments

(a) Exploration and mining lease commitments

In order to maintain current rights of tenure to exploration and mining tenements, the Group will be required to outlay in 2017 amounts of approximately $899,000 (June 2016: $1,373,000). These obligations will be fulfilled in the normal course of operations.

(b) Non-cancellable operating leases

The Group leases various offices under operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	31 Dec 2016 $'000	30 June 2016 $'000
Within one year	**201**	358

(c) Physical gold delivery commitments

As part of its risk management policy, the Group enters into gold forward contracts to manage the gold price of a proportion of anticipated sales of gold.

The gold forward and option contracts disclosed below did not meet the criteria of financial instrument for accounting purposes on the basis that they meet the normal purchase/sale exemption because physical gold would be delivered into the contract. Accordingly, the contracts were accounted for as sale contracts with revenue recognised in the period in which the gold commitment was met.

	Gold for physical delivery (Ounces)	**Contracted gold sale price per ounce ($)**	**Value of committed sales ($'000)**
31 December 2016			
Fixed forward contracts			
Within one year	**43,000**	**1,715**	**73,726**
Total	**43,000**		**73,726**
Gold call options			
Within one year	**6,000**	**1,768**	**10,611**
Later than one year but not later than five years	**6,000**	**1,774**	**10,641**
Total	**12,000**		**21,252**
30 June 2016			
Fixed forward contracts			
Within one year	50,900	1,683	85,680
Later than one year but not later than five years	13,000	1,715	22,300
Total	63,900		107,980
Gold call options			
Later than on year but not later than five years	12,000	1,771	21,252
Total	12,000		21,252

(d) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities amount to $999,000 (June 2016: $1,435,000).

21. Subsequent events

Since 31 December 2016 the Macquarie performance bond facility has been drawn down to replace existing cash backed bonds totalling $5,053,000.

Notes to the consolidated financial statements (continued)

22. Reconciliation of (loss)/profit after income tax to net cash inflow from operating activities

	Half-year	
	31 Dec 2016	31 Dec 2015
	$'000	$'000
(Loss)/Profit after tax	**(27,738)**	6,337
Depreciation and amortisation	**18,531**	12,585
Impairment expense	**20,475**	-
Non-cash finance charges	**252**	94
Share-based payments	**460**	1,491
Net loss on disposal of non-current assets	**75**	6
Exploration costs provided for or written off	**46**	74
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	**347**	91
Increase in inventories	**(513)**	(2,815)
Increase/(decrease) in trade and other payables	**4,290**	(1,532)
(Decrease)/increase in deferred tax balances	**(3,064)**	162
Increase in provisions	**261**	2,572
Net cash inflow from operating activities	**13,422**	19,065

23. Earnings per share

	Half-year	
	31 Dec 2016	31 Dec 2015
	Number	Number
Weighted average number of ordinary shares used in denominator in calculating basic (loss)/profit per share	**500,704,424**	417,623,207
Weighted average number of ordinary shares used in denominator in calculating diluted (loss)/profit per share	**510,652,635**	419,572,008

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 5 to 18 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date and

(b) there are reasonable grounds to believe that Alkane Resources Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

D I Chalmers
Director
Perth
16 March 2017

pwc

Independent auditor's review report to the members of Alkane Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alkane Resources Limited (the company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Alkane Resources Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alkane Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Alkane Resources Limited is not in accordance with the *Corporations Act 2001* including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Craig Heatley
Partner

Perth
16 March 2017