Attention : ASX Company Announcements Platform

Lodgement of 'Company Interview'

'COMPANY INTERVIEW'-MARKET PROFESSIONALS

Alkane Resources Ltd

Date of lodgement: 10/2/2016

TITLE: "Company Interview. Updates Tomingley & Funding DZP"

Highlights:

- **Discusses strong cash flow at Tomingley.**
- **Outlines why DZP should be considered very positive value-add for Alkane.**
- **Outlook for production & costs at Tomingley.**
- **General activities & planned exploration at Tomingley.**
- **Mine life, mining sequence.**
- **Progress on funding DZP**
- **Progress on off take agreements & planned construction timetable at DZP.**
- **Summary corporate objectives for 2016.**

Introduction
Alkane Resources is an ASX and OTCQX (US) listed multi-commodity mining and exploration company with a focus on gold, zirconium, niobium and rare earths. Its projects are located in the Central West of New South Wales, in eastern Australia.

Record of interview:

Company Interview question:
Alkane Resources Limited (ASX code: ALK; market cap of ~$80m) has been operating Tomingley Gold Operations (Akane 100%) for over a year and is strongly progressing its Dubbo Zirconia Project (DZP – Alkane 100%). At Tomingley, site cash flow for the December quarter after site operating expenses and development expenditure was only $2.45 million because of pre-strip activities at Wyoming One. What would you consider more 'normal' site cash flow for a quarter at Tomingley - at these gold prices of around A$1,600/oz?

Managing Director, Ian Chalmers
The best way to look at this is to examine the half year to December 2015, given the variability in the mining schedule on a quarter by quarter basis. Over the half we generated around $12.5 million of free cash flow from 35,136 ounces recovered, which is a good result and in line with targets.

The cost per ounce number is affected of course by the number of ounces produced as the absolute cost to run the mine in dollars expended doesn't vary much quarter by quarter. In one quarter we may produce 14-15,000 ounces and in other quarters we may produce 17-18,000 ounces resulting in quite different per ounce cash costs. The December quarter was affected by scheduled lower grade mining blocks and by the waste movements, particularly the pre-strip at Wyoming One.

Tomingley should produce around $20-25 million free cash flow from 70,000 ounce production this financial year despite the lower but predicted December quarter. Wyoming One still has more waste pre-stripping scheduled but is also heading towards producing ore.

Our long term open pit costs should come down to sub A$1,000/oz for All In Sustaining Cost (AISC) and that would be an excellent result as site costs would be lower and margins and free cash flow very healthy, assuming current gold prices. For this financial year, given the pre-stripping activities, our AISC will be A$1,200-1,300/oz and site costs around A$1,100-1,200/oz.

Company Interview question:
How does that reconcile with ALK's market cap of only $80 million? Why do you think the share price is seemingly discounted versus the cash being generated?

Managing Director, Ian Chalmers
That's a good question and I think we've discussed this before. There is no doubt that when I visit brokers and fund managers they still ascribe a significant negative value to the fact that the DZP has to be funded. The DZP is a US$1 billion capital project, but it is also worth US$1 billion in NPV terms after taking into account the capital costs, the initial 20 year life and using the rather weak current spot prices in our financial model.

There is a perception that we will raise a significant portion of the US$1 billion capex through the equity market. That simply is not the case. We have several funding options which are all very much in our plans. We have Export Credit Agencies (ECA) and strategic partners interested in investing, then there will be project debt and finally we will top up the capital requirement with equity. The reason we can fund the project this way is that it is a high quality, strategic asset which will supply products that are at present, predominantly sourced from one region and which have a supply risk, yet are experiencing growing demand. The DZP also has a very wide suite of specialty products and hence its revenue has diversity.

If Alkane was purely a gold producer, I think the market capitalisation would be at least double the current value, given the strong cash flow from the TGO. In other words, despite our NPV valuation of the DZP at US$1 billion, the DZP is actually being viewed by the market as contributing negative value.

It's been an incredibly frustrating time convincing the market and reassuring shareholders of Alkane's overall significant value as we progress the DZP with the good feedback on the project from potential financiers and off-take partners.

Company Interview question:
Production for the quarter was 15,347 ounces of gold and site operating costs were A$1,166/oz (AISC of A$1,316/oz). What's the general outlook?

Managing Director, Ian Chalmers
Over the next 3-4 years the gold production from the open pits should vary between 60-70,000 ounces per annum. At that higher end of production the costs per ounce and free cash flow would be extremely attractive particularly if the gold price holds around this healthy level of A$1,600/oz. Simply, each A$100/oz increase in the price on an average production of 65,000 ounces, adds A$6.5 million to the annual cash flow.

The TGO is only a medium size gold mine, but it's very important to provide good cash flow to Alkane with the objective of getting the much larger, strategic DZP into production. The TGO being in production serves another important purpose in that when we are talking to potential off-take partners and financiers on the DZP they can see that we are proven operators and not just explorers.

Company Interview question:
Can you describe the general activities at Tomingley? Are you doing much exploration?

Managing Director, Ian Chalmers
The main focus over the last 12 months has been getting the mine to operate as efficiently as possible. For example we're working with our mining equipment supplier, Emeco, on a number of initiatives and we have implemented improvements recently leading to an approximate 10% increase in mining productivity. This is on-going.

We have not been doing much exploration, but the plan is to put a decline portal in the Caloma pit to commence the underground mining development and to do some underground exploration by the end of this calendar year. We haven't done a lot of deeper drilling under Caloma even though we know there are some really good targets there. It's too expensive to drill from the surface but we can schedule underground drilling once the decline has advanced.

Regionally we have many gold targets and we're waiting on the right timing to test those. For example, there was previously a 0.5 million ounce resource defined at Peak Hill, our earlier gold operation, and we will have a look at the economics of going underground there. There is also a lot of untested potential in the very large mineralised system at Peak Hill.

Overall, we believe we have enough targets in and around the TGO to take the mine life to our target of 10 years.

Company Interview question:
You've recently incorporated more ore into the mine plan and Tomingley now has four gold deposits. Can you outline the life of mine, expected mining sequence and the underground development?

Managing Director, Ian Chalmers
Wyoming Three open pit is now depleted and longer term we'll review the underground potential there as part of the broader Tomingley u/g operation. The main open pit ore source currently is Caloma which is about 40% mined. As I said before, we're bringing Wyoming One on stream and we're awaiting approval to bring Caloma Two into production. We expect that to be mining before the end of the year. There are some good grades in the Caloma Two orebody.

The decline in Caloma is scheduled by the end of the year and about another 12 months later to bring the main underground ore at Wyoming One on stream. That will allow us to access the ore but also do that underground exploration I spoke about. Initially we will blend the high grade underground ore with a large stockpile of low grade open pit ore to maintain a 2.00g/t gold mill feed. Longer term it could be possible to have multiple underground ore sources that will allow a reduced ore mill throughput but at the higher grade.

With this mining sequence we can see the TGO producing around current rates until about 2022 without adding to the current reserve base.

Company Interview question:
You took out a gold hedge of 14,500 ounces at A$1,606/oz. Might you do more at these price levels?

Managing Director, Ian Chalmers
Absolutely as we're very keen to protect against the downside on prices and as we've discussed, the gold price is holding above A$1,600/oz which is a great target price. We've actually put more hedging in over the last couple of weeks and will continue to look at opportunities as they arise.

Company Interview question:
Can you update progress with funding the DZP and the current attitude of lenders, particularly given the choppy world economies, debt markets and share markets? Is the intended funding structure the same?

Managing Director, Ian Chalmers
The current funding structure remains as defined for a couple of years. We're making good progress but it takes a lot of time and effort in bringing ECAs, strategic partners and banks up to speed on a project like the DZP. Importantly, we hope to announce a couple of strategic agreements over the next 2-3 months which will certainly assist that funding program. For example rare earth toll treatment and zirconium sales and marketing agreements. We've had very encouraging discussions on these and they will help crystallise the value of the DZP.

Equity markets look pretty awful but there still appears to be a lot of money floating around in other sources and as I've tried to illustrate many times, the DZP is a unique, strategic and therefore attractive project for financiers.

In summary we're happy with progress on funding, though I appreciate from an outside perspective it may look as though we're not making much head way. These discussions are very commercially sensitive and we have to be careful what we can disclose at this stage. We hope to have at least some financing in place by mid-year.

Company Interview question:
What is the progress with signing firm off takes, which will be crucial in order to secure funding?

Managing Director, Ian Chalmers
They're all progressing and of course we've had the niobium deal signed for two years. Hopefully before the end of the quarter we'll sign the zirconium marketing agreement with a partner that will put together a suite of individual off take agreements for zirconium on our behalf. The nature of these contracts is that they won't be large volume and should range from a few hundred and possibly up to 1,000 tonnes per annum. Critical to marketing the rare earths is signing a toll treatment agreement because we can then go to our potential off take partners and say that we can now produce certified, individual rare earth oxides. We hope an agreement can be signed by the end of this quarter also.

Company Interview question:
Last year, you added a significant product to the flow sheet with hafnium. Do you envisage further changes to the flow sheet?

Managing Director, Ian Chalmers
No. The engineers are keen to get on with the current well proved design. Niobium and rare earth circuits are very robust. Hafnium is the latest bonus and including that in the flow sheet adds good value in itself but actually also helps us to produce a very high purity zirconium product which has a lot of very important applications, which I can't talk much about at this stage. We now have enough different products to have significantly de-risked the project.

We will run the demonstration plant again in the next couple of months as part of the final due diligence of proving recent changes and product mix for the flow sheet.

Company Interview question:
What is the current timetable to production at the DZP?

Managing Director, Ian Chalmers
It's all really linked to financing and we've discussed the various agreements we hope to sign leading into securing the first stage of financing, whether that first stage be an agreement with an ECA or a strategic partner. Apart from finalising the acquisition of some additional land at the project site, signing the marketing and toll treatment agreements and running the demonstration plant, there is not a lot more we can do before securing financing and then commencing construction.

We hope to have some of the financing arrangements in place by the middle of the year. If so, we will start producing in the middle of 2018. One of the ECAs is considering an involvement and has indicated interest subject to meeting of their investment criteria and due diligence. If 2 or 3 of the potential strategic partners buy into the project that will also be a huge value-add for Alkane. As I've said before, the birth of the iron ore industry in Western Australia was supported by Japanese steel mills buying small strategic stakes in Tom Price and Mt Newman operations. In our case 5-20% or so of the DZP valued at an NPV of US$1 billion is not a huge financial exposure for incoming partners to participate in this strategic investment. That NPV value, which is using today's metal prices, is what we are basing discussions around with the investors and ECAs.

In September 2015 we signed an agreement with Outotec, a global minerals and metals processing technology supplier, to conduct an Early Contractor Involvement (ECI) process in to find further value in the project design produced by the extensive Front End Engineering Design (FEED) completed in August. After the initial phase of the ECI, Outotec will move to provide EPC basis (Engineering, Procurement & Construction) fixed price contract with the advantages of developing a key technology and support relationship and capping the execution risk for the project.

Following that it's about a two year construction period, including all the detailed design which was not covered by the FEED work. We're working very hard to achieve that timeframe.

Company Interview question:
What are the main corporate objectives for Alkane in 2016?

Managing Director, Ian Chalmers
Clearly financing the DZP is our number one objective. We will continue to operate TGO as efficiently as possible, add to mine life and generate good cash flow. Once the DZP is financed we can ramp up exploration both regionally and at the TGO site.

We will continue low level regional exploration external to the two main projects, and plan drilling of 5 or 6 RC holes on the Bodangora project which is an interesting porphyry copper-gold system, and at Elsienora which is a McPhillamys style target in the next couple of months. We've just farmed into a new project, Orange East, also for McPhillamys type mineralisation.   All up these programs will cost around $0.5 million in this financial year.

We really do expect to have a very successful year if we can pin down the first stages of finance for the DZP and I believe we are on track to do this. Naturally shareholders do ask if anything is wrong to cause the weakness in the share price, but we are just another victim of the very volatile markets and the time frames involved to de-risk and be successful. We anticipate being re-rated quite strongly when we achieve a few of our objectives.

Company Interview
Thanks Ian.