ALKANE RESOURCES LTD

Company Insight
the intelligent market update

Alkane Resources Ltd Date of Lodgement: 17/2/12

Title: "Company Insight – Feedback on DZP & General Update"

Highlights of Interview

- **Feedback on Toronto rare earth conference.**
- **60% product off take covered by MOUs for Dubbo Zirconia Project.**
- **Update on financials for the Dubbo Zirconia Project.**
- **The importance of Alkane's two Gold growth projects – Tomingley & McPhillamys.**
- **3 other promising exploration targets.**
- **The growth objective with several development projects & discoveries.**

Record of interview:
Alkane Resources Ltd (ASX code: ALK; market cap of ~$310m) is forecasting to be in production from its Dubbo Zirconia Project (ALK 100%) in 2014, which includes zirconium, niobium and LREE and YREE (rare earths) products. You presented last week at the REE World's Technology Metals Summit 2012 in Toronto. What feedback did you receive on your Dubbo Zirconia Project (DZP)?

Managing Director, Ian Chalmers
It was quite an interesting meeting. I thought our message had been accepted by North American investors with the progress we have made at the Dubbo Zirconia Project (DZP), but I may have underestimated the competition from local companies, and it was clear that many people weren't aware of that progress and the scope and quality of the DZP. So it was a very worthwhile trip.

The key differentiation to most other companies in the REE sector was that we've been operating the demonstration plant for 4 years now, we've sent product samples to potential customers around the world and we're now in the final stages of the project leading to development. Few of the other presenting companies were as advanced as that. In fact very few had working process flow sheets for their projects, let alone an economic flow sheet. So it was great that we got that message across and we believe there has, and will be some flow on benefit to the share price from that.

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You mentioned in the December 2011 quarterly report that the DZP remains very viable even with the retreat of rare earth prices and flattening of the zircon-zirconium market in recent months. What is your current estimate of annual revenue at the 1mtpa case? What are the proportional contributions to revenue

from your products? With sales MOUs signed for zirconium and niobium output, when do you expect to sign MOUs for the light and heavy rare earths?

Ian Chalmers
We are currently revamping the revenue numbers for the 1mtpa ore case. Under the initial study roughly 40% comes from zirconium, 20% from niobium, 20% from light rare earths and 20% from heavy rare earths. I think the latest review we're doing will show a fall in the proportion of light rare earths and an increase in the proportion in the heavy rare earths. We may use slightly more conservative numbers for zirconium and niobium to reflect the impact of current market conditions on long term prices. However, the total revenue will be roughly the same as calculated before – US$430 million per annum – but the product proportions will be different.

We have 3 MOUs in place for zirconium covering 100% of output and one MOU for niobium covering 100% of output. We could have sold the rare earths many times over during the last year but we're looking to do something more innovative with that output along the lines of a joint venture or toll treatment at an existing separation plant for example. That will generate higher revenue than we planned because we will be producing a higher quality and a greater number of individual rare earth products. The processing of rare earths won't be in China because it would get caught up in their export quotas and that would limit our flexibility to sell all DZP output.

I'm hoping we will finalise an MOU for the rare earths by the end of March.

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Have these price movements – and further work on the project – caused you to adjust your financial forecasts for the DZP, which is expected to process 1 million tonnes of ore per annum over a minimum of 37 years at current Reserves? How conservative are your price assumptions used in your project modelling compared with current spot prices?

Ian Chalmers
The current base case assumes 1mtpa ore throughput, annual EBITDA of A$300 million per annum over an initial 20 year plus mine life with an IRR of 30% and an NPV of A$1.2 billion. We are revising our financial model but I don't expect significant changes to these bottom line numbers.

As I alluded to before, we originally thought our pricing was conservative. Recent market events have caused us to review those numbers and there will be some adjustments. In the Definitive Feasibility Study from September 2011 we were using US$30/kg for light rare earth concentrate and today that has an equivalent value of US$60/kg, we used US$68/kg for heavy rare earth concentrate in September, but that would now be US$250/kg.

I'm confident our estimate for the heavy rare earth product will rise when we revise our pricing assumptions but with Molycorp's and Lynas's projects coming on-line, prices for specific light rare earths such as lanthanum and cerium may see further downward pressure, hence we may opt for a more conservative light rare earth price.

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A representative of the Australian Conservation Foundation mentioned a potential issue with toxic waste at another project. Will the DZP be producing toxic waste of any significance and if so, how will you neutralize and dispose of that?

Ian Chalmers
It's an interesting question which comes up regularly. All rare earth deposits have some radioactive materials which require specific management – I wouldn't actually refer to them as toxic though. All mining operations produce waste of some sort which requires management.

The DZP contains low levels of uranium and thorium. However, we don't concentrate these at the front end of the process and they are removed in the product refining stage. The products we ship therefore won't contain uranium or thorium. We neutralize and stabilize the waste by the addition of limestone. This decreases the concentration of uranium and thorium so the waste that we dispose of actually has less concentration than the ore which has been sitting there for millions of years. The bulk of the waste is saline water which will go to the tailings pond for evaporation.

We're confident that we won't be creating any hazardous material which will require long term management.

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You have a stake in one of Australia's largest recent gold discoveries at McPhillamys (3 million ounces). Alkane will have a 25% stake now that the operator, Newmont Australia, has elected to proceed towards a Bankable Feasibility Study (providing Newmont completes that study). Will Newmont continue to try to extend the Resource before the BFS? Has Newmont indicated a timeline leading up to and then completing the BFS?

Ian Chalmers
Firstly, there is no timeline for completing a BFS. At this stage Newmont have not been doing any more drilling at McPhillamys but they have been drilling on other joint venture prospects. From what we understand, they have been running development models on the current deposit. Newmont have many projects to assess around the world and McPhillamys is probably not a high priority at present, however we retain 49% until they present us with a BFS and a decision to mine at which point they will move to 75%. We have quite a high value internally for that 49% and at some stage may seek to monetise that value if Newmont don't have a development timetable.

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Development at the Tomingley Gold Project (660,000 ounces) is expected to commence in 2013. Can you give an update there? What about current expected annual free cash flow and mine life?

Ian Chalmers
We're working through the final approvals process with the NSW Government. The Environmental Assessment went on public display mid November until mid December. We had around 7 submissions mainly from Government departments and we've submitted a response to the Department of Planning and Infrastructure to cover those issues. It is now in the hands of the Department to consider the report. I believe they will have a response by the end of March although it is always hard to predict timing.

In the meantime we're doing as much as we can to advance the project without having final approval. We've appointed the project manager, Henry Kaye, to manage the construction and will slowly gear up our staffing over the next few months. Henry has been in the business for around 40 years and built many projects throughout Australia and overseas, with up to $1 billion value, so it's a great appointment. We're confident the project will go ahead as it is no more contentious than any other mining project, so we ordered the ball mill last September and it is expected to be on site around September 2012. The production water bore is in place and we just have to build a pipeline for the supply of water. We have sent the tender documentation for civil works and we're well advanced with financing negotiations.

At current gold prices the TGP should produce free cash flow of around $35 million per annum with a base case mine life of 7.5 years but we are confident we can increase this to at least 10 years with near mine site exploration.

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What was your interpretation of the results of the reconnaissance core drilling at Bodangora, Central West Region of New South Wales (ALK 100%)? Can you explain why you believe there is further encouragement for a new porphyry copper-gold complex at Bodangora? What do you plan next?

Ian Chalmers
We were really encouraged by the geology and the drill results we encountered during the recent drilling. We reported the two diamond drill holes on 1 February 2012 and these have added to our knowledge from the original drilling we conducted in April 2011. The drill results were not earth shattering but more importantly each time we drill we are very encouraged by the geology uncovered.

We're seeing all the geological attributes of a porphyry system particularly at our main target, Glen Hollow, including monzonite intrusives, breccias and skarns that have similar geology to Newcrest's Cadia region. We're also seeing native copper at about 400 metres vertical depth disseminated in the monzonite intrusives and I've never seen that before.

The aim now is to zero in on the prime concentration of metals. We have explored only a very small area of what looks to be a large intrusive complex and it will take a bit of time.

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With at least three projects – two world class – approaching crucial stages of development or feasibility studies, how will you approach funding? What support are you seeing after last year's world debt turmoil?

Ian Chalmers
We have an offer from Credit Suisse pending Government approval for the TGP which could get us nearly half the capital requirement. We have also just been on a road show to London, New York, Toronto, Melbourne and Sydney to explain all the planned developments for the Company. The reaction in London and New York was very positive. I thought it might be subdued because of the European debt crisis but there is a fair bit of money available for quality projects. We're currently looking at the funding options for the TGP and we hope to announce something in the next few weeks. We will secure enough funds to build Tomingley and to put in place sufficient working capital to ensure we complete all the pre-development work for the DZP. We hope to be in the same position with regard to funding the DZP development at this time next year.

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With 1/ a world class zirconia project; 2/ a possible world class gold project at McPhillamys; 3/ Tomingley; and 4/ at least three exploration projects with interesting drill results, how will you juggle the growth pipeline? These are all within 100 kilometres of Dubbo, NSW – will you continue to explore for new discoveries when you have all these projects to advance?

Ian Chalmers
Yes we will continue our exploration effort, although we're mindful of managing our financial and technical resources. The number one short term focus is to get Tomingley into production and that will then provide us with significant cash flow to advance the other projects. DZP will follow on and although that is 2-3 years from commercial production it will be a very big cash flow generator in a different league to Tomingley. As I said before with McPhillamys, that's in the hands of Newmont.

The three primary exploration projects are Bodangora, Galwadgere (Wellington) and Cudal. All are very important to add the next developments to the growth pipeline. Galwadgere is the most advanced as it has a defined copper-gold resource. It's not a large resource, but has good upside. We've just completed two more deep diamond drill holes there. Bodangora looks the most exciting geologically as it has all the right attributes to turn into a large porphyry copper-gold complex. Cudal is different again in that it has unusual gold-zinc mineralization. It is our intention to add these to our project pipeline and continue to advance them over the next five years.

We believe there is so much potential in the Central West of NSW and we will continue to concentrate on developing projects in that region, advancing recent discoveries and generating more discoveries rather than using our cash flow to buy something in a completely different region. We have enough excellent exploration prospects around Dubbo to build a very significant mining company and generate returns to shareholders.

We don't believe the current market capitalization of Alkane remotely reflects our development projects, our exploration projects, the potential for more discoveries around Dubbo and our overall anticipated strong growth in the near future.

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Thank you Ian.

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