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Alkane Resources Ltd
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Alkane Resources Ltd (ASX code – ALK) has stated that drilling at the Caloma Prospect continues to confirm potential for open pitable mineralization within the Tomingley Gold Project. What do you estimate as the potential volume of open pitable material from Caloma in view of the recent drilling? What impact could that have on the possible volume of total open pitable resources/reserves at Tomingley?

MD Ian Chalmers
It's still a little early for us to comment on the potential resource size at Caloma, but my feeling is that it will be bigger than the Wyoming Three deposit and exceed 1 million tonnes of open pitable material. That's down to a vertical depth of only 100 metres.

When we ran our pre-feasibility numbers on Wyoming last year we concluded that we needed another 1 million tonnes to give a minimum four years of open pit mining at around 1 million tonnes per annum rate. Excluding Caloma, we had already defined about 3 million tonnes of open pitable ore.

Grade is very important for any mining project, particularly in the early stages of operation, but the grades at Caloma are difficult to predict at this stage as we are waiting for the one metre resplit analyses to check the original composite results. However, I suspect they're higher than the grades at the other Wyoming deposits, which are around 2-2.2g/t.

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What then would be total resources/reserves and mine life at Tomingley including the underground ore? What ore body extensions will you explore once you're underground?

MD Ian Chalmers
Again it is too early to talk reserves. The current total resource base is 7 million tonnes at 2.7g/t gold, with about 3 million tonnes at 2.2g/t open pitable. Initially, we had a minimum of two years of underground mine life, but our expectation now is that we can achieve at least four. If we can extend the open pit to four to five years with Caloma, then the whole project could run for 8-10 years.

We are excited about Caloma as it could make a huge difference to the project scale and economics and it is under only 5 metres of cover. Previously, we have explored in areas of much thicker cover.

We believe we could achieve capital payback for the entire project during the four-year mine life of the open pit. The success at Caloma means that we shouldn't have to raise as much capital and the project economics should look better.

In terms of extensions, we believe that Caloma has the potential for continuation of the high grade structures below 100 metres. These could develop into underground resources. Other than Wyoming One, other potential extensions include Wyoming Three, Wyoming Two and the old Myalls United mine, just to the south of Wyoming. We expect to put some drill holes into that in the next six months and look at its underground potential.

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You recently received advice from ASIC that the name change from Alkane Exploration Ltd to Alkane Resources Ltd became effective on 21 June 2007. Can you explain the change? Does this reflect your confidence of getting potential mining projects into production?

MD Ian Chalmers
Obviously, we are confident about the projects we're developing and we're expecting production to resume over the next 18 months or so. The name change was also to modernise the company. Alkane Exploration has been around since 1969 and was our name even when we began producing gold from Peak Hill in 1996. However, Alkane Resources more accurately reflects our strategy of becoming a multi-commodity producer.

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Taking into account the drill results from Caloma, what is the likely scale of project for Tomingley? What cash flow after capital expenditure do you expect from Tomingley at that scale of project?

MD Ian Chalmers
We expect to mine 1 million tonnes of ore per year from the open pits and that should produce 60,000–70,000 ounces per year. These numbers will obviously improve if the grades at Caloma are better than the other open pits.

That level of production should be generating around $15 million a year before capital expenditure or around $60-75 million over the life of the open pits. The current underground mine model is for around 35,000-40,000 ounces a year with cash flow of around $8-10 million a year. I'm hoping that we'll ultimately come up with a four year minimum life to the underground. After you take out capital expenditure, I believe we can achieve at least $60 million in free cash flow on the project.

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What is the status of the feasibility study at Tomingley? What needs to be done to complete the feasibility? What is the timing for first production?

MD Ian Chalmers
First, we will need to complete the Caloma resource model, which we'll do in a few weeks. Then we'll incorporate that data into our existing pre-feasibility study. We anticipate completing that by the end of July and if it is positive, as we expect, we'll reactivate the Definitive Feasibility Study (DFS). Given that we've already done a lot of work on the DFS we're optimistic that we'll have it completed by the end of the year.

Included in the DFS is an infill drilling program at Caloma where we don't yet have enough detail to establish measured/indicated resources and do a detailed mine plan for the whole project. We also need to do some drilling on other deposits for geotechnical reasons.

Therefore, we're expecting to be in a position to give the go ahead for the project early in the new year. In the December half, in conjunction with the DFS, we'll be compiling our environmental studies and putting the development application together. We anticipate that, by the second quarter of next year, we'll be able to commence construction and that would mean production by early 2009.

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When do you expect to have the demonstration plant at its Dubbo Zirconia Project (DZP) operating? Which aspects of the process flow sheet do you see as the major risks?

MD Ian Chalmers
We're expecting to start up the plant in September 2007. There aren't any major issues concerning us about the flow sheet at this stage. We've certainly learnt a great deal in the last 8 months or so from the work we've done with ANSTO and we understand the processes much better. The key thing now is to produce samples and assess the quality. That might result in some modifications to the flow sheet to improve the key zirconium and niobium products quality, but at the moment we're pretty happy with it.

Also potential customers have shown a lot of interest in the rare earth elements lately, certainly more than they did 5 years ago. We're now paying more attention to the design of the rare earth circuit. We still plan to examine whether it's feasible to produce a crude zirconium and hafnium metal which could open a new and very interesting market for the Project.

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You plan to send large sample packs to potential customers of the DZP from the demonstration plant. What is your current understanding on the potential demand for your products?

MD Ian Chalmers
Over the 5 years since our major study in 2002, our assessment is that the markets for virtually all the products we expect to produce at DZP have really improved. We've seen an increase in prices as well and the interest in the rare earth elements has been a pleasant surprise.

In 2002, we didn't put much credence or value on the rare earth output, but if you throw them into the sales mix as well as uranium, and the NSW Government allows us to recover the uranium, everything has been very positive in terms of the demand for the products.

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Have you made any adjustments on the likely scale of the project? What revenue does that imply at current product prices? What is the latest capex estimate?

MD Ian Chalmers
We are already starting to look at doubling the throughput because of the strong demand for the products. The original base model was 200,000 tonnes per annum, but we now think it will be closer to 400-500,000 tonnes per annum when we run the final model next year.

500,000 tonnes of ore per year should generate revenue in excess of $100 million a year, based on product pricing that we had assumed from the 2002 study. We're currently doing another, more in-depth study of the products and their pricing structure as we have noticed some fairly dramatic increases in the last few months.

We haven't thoroughly revised our capex estimate, but we think a 500,000 tonne a year operation would probably cost around $180 million. That scale of project could generate $30-40 million in annual cash flow. At that point, it starts to become a pretty serious project with a lot of upside and there's also the possibility we can scale it up again from there. The ultimate size of the project will really be determined by how much product we can sell.

We've defined the resource down to 100 metres only and it's a really big ore body. There would be almost no strip ratio down to that depth and the current resource would support a mine life of 160 years or so mining 500,000 tonnes per annum.

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Newmont has been drilling recently at the Orange District Exploration Joint Venture (Newmont earning 51%) which includes the Moorilda Project and the Molong Project. What are the latest activities and results?

MD Ian Chalmers
We've been doing some diamond core drilling on the Molong property and particularly in the Borenore area. We generated a large IP anomaly there earlier in the year, and have drilled two core holes. We're examining those core holes now and logging them in detail and getting some areas sampled. It's still a bit early to comment, but I don't expect there to be a major discovery coming out of that although geologically it's quite interesting again.

At the McPhillamy's prospect, within the Moorilda Project, where we reported a significant gold discovery last year we've been doing a lot of geological work including mapping, geochemical sampling and following up IP targets. We're hoping that we'll be able to do some drilling in August/September 2007, including both regional exploration and some more holes into McPhillamy's prospect itself.

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In October 2006, Alkane and its partner in the Nullagine Project, the Randolph Syndicate, combined their tenements in the East Pilbara with those of Consolidated Minerals to float BC Iron Limited (BCI). Alkane retains 16.7% of BCI. Since then the BCI share price has moved from an IPO price of 25 cents to around $1.70. What has driven that? What's the way forward?

MD Ian Chalmers
The share price has been driven by some very good drilling results from the initial part of the Bonnie Creek programme. We understand that only about half the potential target channels have been drilled so far. They still haven't even touched the Shaw River system, so we remain very confident that the project has the capacity to come up with some substantial resources.

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So what's the way forward drilling wise?

MD Ian Chalmers
There's still a lot of drilling to do. The basic reconnaissance drilling is only around 50% complete. These are holes spaced on kilometre-wide traverses. That testing was designed to highlight areas that BCI would return to and drill out a resource. One particular area, the Outcamp prospect, was one of the first drilled and we think there is scope to take it to resource status. As far as I understand, that's still the schedule for this year.

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What are the total resources across your projects and the greatest potential to extend those? Which is the most valuable in-situ?

MD Ian Chalmers
We've never stated much in the past about our aggregate resource base. Within the TGP, including Wyoming and Peak Hill, we already have a +1 million ounce resource identified. However, Peak Hill is a moderately refractory ore which we'll only look at mining once Wyoming is up and running in maybe 3-4 years time.

Within the Orange joint venture with Newmont, my view on the potential of McPhillamy's Prospect is that it's a half million to one million ounce system. We still have to quantify that, but it's potentially a substantial resource. I'm hoping that the work we're doing now will throw up more McPhillamy's type deposits in the region and we'll build on that resource base.

Our DZP is a very big resource and in terms of in-situ value it is clearly our most valuable project. It is a world class resource, but it's just going to take us time to go through the feasibility and to make sure the products are saleable. We still have a target of 2010 production.

As a potential short term development project, the Galwadgere copper-gold prospect has two million tonnes at 1% copper. We did the IP work earlier in the year which has thrown up some very good targets, and we need to get back and drill those. We have scheduled that in the second half of the year.

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What is the summary corporate growth strategy for Alkane?

MD Ian Chalmers
Building on our experience at Peak Hill, our view was that Central West NSW is an incredibly under explored region with the potential for large multi-commodity deposits. We've decided to use our exploration and operating experience to focus on that region, to build up a series of advanced projects, develop the resources and then get into production. I think we've demonstrated the exploration and resource development successfully over the last 4-5 years and now need to advance to production.

We're now closer to production at Wyoming with the Caloma discovery, we've made the exciting McPhillamy's discovery with Newmont, we proved up Galwadgere and of course we're advancing Dubbo to the point where we can make a decision to go ahead with that.

Alkane's strategy, therefore, has been very much focussed on multi-commodities, but within a well confined region with a substantial existing infrastructure and favourable legislative framework. We have also considered other regions and countries, but after weighing them up, we just keep coming back to this attractive area of NSW. Overall nothing has really stood out as being a better option than the organic and focussed growth strategy we've chosen.

We will build on our current projects and turn Alkane into a substantial resource company over the next few years.

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Thank you Ian.

For further information on Alkane please call Ian Chalmers on (08) 9328 9411 or email ichalmers@alkane.com.au

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