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Date of lodgement: 1-Feb-2008

Title: Open Briefing®. Alkane. Implications of Success at Caloma & DZP

Record of interview:

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Alkane Resources Ltd (ASX code – ALK) has had great success from its current resource definition program at Caloma within its Tomingley Gold Project (TGP). Can you summarise the recent results and the implications for the size and grade for the Caloma open pit deposit? To what extent have the results confirmed or exceeded expectations?

MD Ian Chalmers

The results have really been very good. We're about half way through the initial 10,000 metre resource definition program and have decided that as the target size keeps increasing, we expect this program to expand to 20,000 metres. A second RC drill is currently being sourced.

We're getting, on average, a greater proportion of higher grade intercepts than we expected. Grades in gold deposits can be very variable over short distances, but we're seeing a consistent number of high grade results at Caloma. That is very encouraging. It means that Caloma is exceeding our expectations even though we're only drilling in the central part of the porphyry target zone.

We're reasonably confident that an open pit at Caloma will support production of more than a million tonnes of ore at around 3g/t because at this stage we are only drilling the central 200-300 metre zone and we know that the host porphyry extends about 1km north/south. We're focussing on the central zone

because it lies beneath shallow cover of mostly 10 metres or less whereas, as we go south, the cover increases to up to 30 metres.

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What possible development scope and production profile do you now envisage for a gold operation within the TGP based around mining the Wyoming deposits and Caloma?

MD Ian Chalmers

We haven't changed the overall concept at this stage. The target for the operation is still to mine one million tonnes of ore per annum producing around 70,000 ounces of gold per annum - and perhaps up to 100,000 ounces per annum during the first couple of years. The recent drilling gives us greater confidence that we can achieve that level of ore production and it also indicates that the initial grades could be around 3g/t, which is very good for an open pit.

We're still working on the concept of five years for the open pit followed by at least three years from underground.

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What cash flow could that level of production generate both at current spot prices and your longer term pricing assumptions?

MD Ian Chalmers

At today's spot gold price of well over A\$1,000/oz and using 70,000 ounces of gold per annum as the base case, we would generate over A\$70 million a year in revenue. We don't believe our cash costs are going to be greater than A\$500/oz so that would translate to cash flow of around \$35 million a year before possible financing charges. It is a substantial project and there's upside potential in the first couple of years when we could be producing at 100,000 ounces per annum. Cash flow could then be as high as \$50 million per annum based on today's spot prices.

I don't have a strong view on longer term gold prices. Our objective is to have cash costs as low as possible so that the project is robust at possible lower spot prices. However, the gold trading companies are telling us that we can put flat forwards in place today at A\$1200/oz for gold delivered in a couple of years and even A\$1400/oz for gold delivered in four years. At project start-up we would possibly hedge part of the first two years of production using forwards to protect any debt servicing.

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You have appointed Definitive Feasibility Study (DFS) managers for the TGP. What are the major objectives and timing of the TGP? When do you expect to complete it?

MD Ian Chalmers

The main objective of the DFS is to produce a bankable document so that we can fund the project.

A limiting factor on timing is that drilling at Caloma has been slower than we'd hoped because of a problem with persistent heavy rain interrupting drilling for up to two days at a time in the last two months of last year. We're sticking to our original target of completing the DFS by the third quarter this year, but it

will very much depend on drilling progress. In the meantime, we're addressing matters such as infrastructure, power, water, plant design and metallurgy.

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You announced that two deep diamond core holes have been completed to test down dip, down plunge extensions to the known gold mineralisation at McPhillamys within the Moorilda Project near Orange, NSW and managed by Newmont Australia. What did these holes test and where are they situated relative to known mineralisation?

MD Ian Chalmers

The holes are relatively central within the main McPhillamys deposit. This is a zone we identified in 2006 of plus 1g/t gold at least 300 metres long and about 200 metres wide in the shape of an elongated football and dipping steeply to the east. The first of the two core holes was drilled into the centre of the "football" about 200 metres vertically below the previous deepest hole. If it hits economic mineralisation, it will extend the deposit to more than 300 metres vertical depth and certainly add to the resource potential.

The second hole is about 150 metres to the north and, again, is testing the mineralised system at depth. The team on site felt that the ore body might have a northerly plunge and this hole was designed to test that concept. We expect to receive the assay results around mid February, but visually most of the core shows a good sulphide content which could equate to possible gold mineralisation.

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In your December 2007 Quarterly Report, you stated that a detailed Induced Polarisation (IP) survey at McPhillamys defined a substantial chargeability anomaly over an open 1200 metre strike length and 400 metres in width. What does that mean in layman's terms? How significant could this drilling be if they return successful results?

MD Ian Chalmers

Basically, the chargeability measures the electrical conductivity of the ground. Usually the higher the sulphide content, the higher the chargeability. The IP survey indicated an anomaly of over 1,200 metres length and 400 metres width and our first reaction was that it's almost too big to believe. There are obviously other subtle features that control the location of gold and the base metal mineralisation within the sulphide envelope, but once we get the results from the two deep diamond holes we can better understand the significance of the chargeability anomaly.

What we do know is that there is a very extensive sulphide system that may host gold and base metal mineralisation.

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Alkane's Dubbo Zirconia Project is based upon a world class resource of the metals zirconium, hafnium, niobium, tantalum, yttrium and rare earth elements. Construction of the Demonstration Pilot Plant (DPP) at ANSTO's facilities south of Sydney is nearing completion and it is expected to be fully operational by early February. What operating objectives have you set for the DPP, particularly in terms of product types and volumes and specifications? How will you judge its success?

MD Ian Chalmers

The plant is designed to process a minimum 100 tonnes of ore, but there's a fair chance we'll expand that. The DPP should confirm the flow sheet and the expected recovery rates. The plant will produce several tonnes of various products which will be distributed around the world to potential end users in parcels of 50kg or 100kg. The end users will determine whether our products are suitable for their manufacturing processes and hopefully they will enter long term supply contracts with us.

The DPP will also enable us to determine how we can adjust the product mix. Our base case product output is three or four zirconium products, a niobium/tantalum concentrate and an yttrium/rare earth concentrate. Having large volumes of loaded solution to work with, we can also look at upgrading the zirconium and niobium products, but it may make sense to also separate some of the higher value rare earth products given the strength in these markets.

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TZ Minerals International completed a major market review of the potential output from the DZP and concluded there was an improved outlook for demand and future pricing for the products. Base case revenues were estimated to be A\$50-60 million per year. To what extent has the outlook for these markets improved? What are the operating assumptions used to calculate those revenue numbers? What potential revenue upside is there above the base case?

MD Ian Chalmers

The results of the market review were a very positive surprise. The zirconium market has been reasonably stable in the last 12 months after a strong rise two or three years ago, but we still see strong growth in zirconium businesses over the next ten years. The biggest surprises were the niobium market and yttrium/rare earths markets which have experienced strong price increases on strong demand recently.

Niobium is predominantly used in specialty steels and 18 months ago the price for the basic niobium product was about US\$18/kg, but around March 2007 it really took off and got as high as US\$65/kg. The current price is around US\$55/kg and we think that US\$25/kg, and maybe up to US\$37/kg, is sustainable in the longer term.

The yttrium/rare earths market has experienced a steep change in demand driven by China which accounts for around 90% of the world's production. China is now aiming to produce a much greater amount of value-added rare earth products rather than exporting the raw materials. China has also introduced an export tax ranging from 10-25% on rare earths, which then reflects itself in prices outside of China. A major use of the specific high value rare earths is in batteries and special magnets for electric motors, which are used in hybrid cars, and the demand from that industry is expected to strongly increase over the next ten years.

Based on the current markets, the rare earth component of the DZP revenue stream has jumped from around 5% three years ago to as high as 30%. In our December 2007 Quarterly Report, we estimated base case revenues of A\$50-60 million per year. That assumed that we would produce intermediate quality products only; with the zirconium chemicals priced at around US\$4-5/kg,

niobium concentrate around US\$25-37/kg and a rare earth concentrate at around US\$10/kg.

However, if we do things a bit smarter, which we know we can, we can produce higher quality zirconium products selling for up to US\$10/kg. We're not sure if we can improve the niobium product very much, but we think we can also add value to the rare earths by, for example, separating the yttrium from a neodymium rich light rare earth product, and a dysprosium and terbium rich heavy rare earth. That might add 20-30% to the rare earth revenue stream.

Technically, we think all these improvements are possible, but one thing we have to be careful of is not getting into competition with our potential customers, at least at start up.

Also of great significance, we think we can scale the DZP from the base case of 200,000 tonnes per year ore throughput to about 400,000 tonnes per year. That would give us a revenue stream of A\$100-120 million - a very substantial project considering the mine life is well above 100 years. That compares very favourably with the TGP where we expect revenues of more than A\$70 million over 8-plus years. Both projects are significant for Alkane considering our market capitalisation is only A\$80 million.

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When do you expect a development decision on the DZP?

MD Ian Chalmers

At this stage, we hope to complete the demonstration plant and feasibility study work by end first quarter 2009. Assuming it doesn't take long to get development consent, we hope to be in construction by the second half of 2009 and in production by the second half of 2010.

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What is Alkane's current funding position and where will you allocate that available funding?

MD Ian Chalmers

As at early January, following the recent Rights Issue, we had about \$14 million cash with no debt. This year we're budgeting \$4-5 million on Tomingley and around \$3 million for our share of expenditure at the DZP. The cost of the feasibility study on Tomingley has increased a bit with the expanded drilling program at Caloma.

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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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