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Alkane Resources Ltd (ASX code – ALK) has three exploration projects at various stages of development within a 120 kilometre radius in the Central West of NSW. At the Tomingley Gold Project, JORC Resources stand at 606,350 ounces, excluding the Caloma deposit. When do you expect to report a resource at Caloma and what is your current interpretation of the size of the deposit after recently completing resource drilling?

Managing Director Ian Chalmers

We're still working to finalise the Caloma resource in October. The original target was set for September, but the delay is because Caloma is now a bigger orebody than we originally thought. As a result, it has taken longer to complete the drilling and analyse the assay results. We're still waiting on some assay results, which are needed to finalise our geological model.

We're still targeting a resource of around 2 million tonnes at a healthy open pit grade of 3g/t, however, I can't add much more to that until we complete the geological model.

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Can you explain the current project concept for the Tomingley Gold Project? What is the way forward, including detail and timing on the Definitive Feasibility Study (DFS) and first production?

Managing Director Ian Chalmers

The current project concept remains as a one million tonnes of ore a year operation, averaging 70,000 ounces of gold from the open-pit for a minimum of five years. However, we are also considering a slightly smaller operation to stretch it out to over seven or eight years to allow for evaluation and development of an underground operation. The underground could then produce 40 -50,000 ounces a year over 5 years.

Much of the DFS for the project has been completed awaiting input of the Caloma data, and if the orebody is 3 grams per tonne, there's a very good chance that the first two years might yield 100,000 ounces per annum. We will complete the operating cost model and mining plan once we have incorporated Caloma into the final geological model and also finalised the metallurgical test work.

We're still targeting the DFS to be finalised sometime in April 2009. On the back of that and assuming there are no glitches with development consent and environmental impact statements, we expect to be in a position to announce the development of the Project later in 2009, which should see us in production by mid 2010.

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Alkane has reported very significant drilling results at McPhillamys within the Moorilda Project near Orange, NSW (managed by Newmont Australia). In public documents you have indicated McPhillamys could contain 1 million ounces to 2.5 million ounces. How has that conceptual target size been estimated? What known areas of mineralisation are not included in that conceptual target size? What is the possible upside to that estimate?

Managing Director Ian Chalmers

It was estimated from a genuine back of the envelope model. Using the drilling results available a few months ago, we took the 1 gram contour which gives a target length of at least 300 metres and a width of 200 metres in the middle. We've been measuring bulk densities from the core samples going in for assays, and they've come in at around 2.8-2.9. Projecting that 1 gram envelope down to about 300 metres depth, and rounding the width by 85%, we've estimated approximately 50 million tonnes of mineralisation grading somewhere between 1-1.5 g/t and containing around 1.5 to 2.5 million ounces.

Some of the recent drilling has been pushing that envelope out and, when you take a 0.5 gram envelope, it certainly becomes a much bigger target.

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Can you explain what you know about the regional geology around McPhillamys?

Managing Director Ian Chalmers

The area in and around McPhillamys is very interesting and we believe that we see extensions and repeats of the favourable stratigraphy that hosts the gold mineralisation. One of the drill holes we reported recently was from a target called the Kings Plains Prospect, which is about 2 kilometres south-east of McPhillamys and we think it is on a separate, but parallel target zone to McPhillamys. Also, South of Kings Plains, there are a number of historic workings probably stretching over three to five kilometres and that whole target zone is basically untested. We've recently completed an induced polarisation survey covering the northern extensions of McPhillamys and the data clearly shows the area hosting strong chargeability (usually indicative of sulphide mineralisation) extending one kilometre to the north. We also plan to drill the three similar features nearby McPhillamys to the immediate north, south and west which were identified in an earlier IP program.

Over the next few months we'll be drilling these targets to see if they host gold mineralisation similar to McPhillamys. It would be pretty amazing if they did because that would give the area enormous potential, but we are not getting ahead of ourselves because geology is known to come back and bite you if you get too carried away.

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Can you make any relevant comparisons between the McPhillamys deposit and the deposits of mining projects in Central West NSW?

Managing Director Ian Chalmers

The main observation you can make is that most of the other big operations in the Central West of NSW such as Cadia, Ridgeway and Northparkes are Ordovician aged monzonite intrusive associated porphyry copper-gold systems. They have a very distinctive and very well documented style of mineralisation. The gold mineralisation we're seeing at McPhillamys is quite different. It's associated with Silurian aged volcanics and is not related to any obvious intrusives. It's genuinely a different style of mineralisation from other major deposits found in NSW.

Also, unlike those other projects, McPhillamys doesn't contain much base metal mineralisation although it does have some copper and zinc in places. That could be considered a positive as from our metallurgical scoping work it looks as though the gold could be recovered by a standard carbon in leach process. That would be a big advantage ultimately in terms of both capital and operating costs.

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What is Newmont's plan to progress the project? Is the joint venture talking about possible development scenarios and timetables yet? If so, can you detail that? Can you use any of Alkane's infrastructure at the old Peak Hill operation? Will water be a problem?

Managing Director Ian Chalmers

At this stage, the plan for this year is to complete the drilling program including diamond drilling and RC drilling on McPhillamys Hill and the other numerous new targets in the 2 kilometre zone surrounding that core mineralisation. At the end of the year we'll have a joint venture meeting with

Newmont and discuss their views, including the potential of the project and the next steps. It's difficult to offer much more comment than that.

It is far too early to talk development scenarios. However, it's obviously a very large mineralised system that could support a large, low grade gold operation.

Peak Hill was a heap leach operation mainly using contractor equipment, so there isn't a lot of infrastructure left on site apart from the office, which is now used by our Tomingley exploration team.

Water could be an issue because it is in short supply and is a major problem in the Central West NSW. Newcrest's Cadia operation is a large water consumer in the region, but we can't really do much about securing or finding water until we have defined the size of a potential operation. Water supply will be something that we'll have to look at very closely in the future.

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Alkane has been operating the Demonstration Pilot Plant (DPP) for its 100%-owned Dubbo Zirconia Project (DZP) since April 2008. The plant was due to scale up to 24/7 operation from late July. Can you summarise the results from the current pilot program? What is the latest thinking on the process flow sheet and the likely products?

Managing Director Ian Chalmers

We started operating 24/7 in late July and, as we expected, there have been a few mechanical and process issues. We're now addressing these and have found that, although the issues are not difficult, the process issues require a good understanding of some complex chemistry. We're just working our way through those issues and we hope the DPP will start running 24/7 again by the end of September.

We're comfortable with the results so far and they have been as expected. We've produced zirconium and niobium products, but they're probably not up to final specifications yet and that's part of the process adjustments we're currently looking at. Other than that, the original flow sheet remains intact. We're working on recovery of the rare earths in the laboratory and hopefully we'll be able to add a rare earths circuit into the DPP by the beginning of the new year.

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What is the current status of markets for these products? What role does Chinese demand play? What is the latest timetable to market the samples to potential customers?

Managing Director Ian Chalmers

That's a difficult question to answer in a couple of sentences. We will be producing three or four different products within large and complex markets. Our understanding is that the markets for all the products are improving in both demand and pricing. Zirconium chemicals have certainly jumped price in the last few months. The niobium price is static after a very large jump about two years ago and for yttrium and rare earths there certainly have been steady price

and demand increases over the last 6 to 12 months. In summary, markets for all our products are strengthening in demand and price.

The Chinese interestingly are net exporters of zirconium chemicals and rare earths, making them competitors rather than potential customers. Chinese production is something we've watched closely. The zirconium market dynamics are interesting. China buys significant volumes of zircon from Australian producers and processes some of it into zirconium chemicals. However, the demand for zircon coupled with limited supply increases have driven the price up. More importantly, the Chinese Government is finally cracking down on the environmental practices of some zirconium chemical operations, many of which have been pretty crude and have had to shut down.

The Chinese are now limiting their rare earth exports because they want to produce value-added downstream products such as rechargeable batteries and permanent magnets for electric motors for hybrid cars. That provides opportunities for producers outside China.

Despite the small glitches with the DPP, we're still looking to start sending products to potential end users before the end of the year and I'm hopeful we'll start in November. Again it depends on getting those products up to specifications.

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Alkane is now positioned for strong growth from up to four projects including Galwadgere copper, which we haven't spoken about. Can you summarise your project development pipeline?

Managing Director Ian Chalmers

The Tomingley Gold Project is number one in terms of timing. We're targeting production in 2010 and at this stage I'm pretty comfortable we'll achieve that.

The DZP is a much larger project, but hopefully we can make an investment decision and move to development by the end of next year and that would keep us on track for production in 2011.

It's harder for me to comment on McPhillamys as Newmont is the manager. If Newmont maintains its commitment to the project – and things are looking positive – we could perhaps see an investment decision in two to three years and then production sometime after that.

We've recently completed a review of the geology and the geophysical data for the Bodangora and Galwadgere projects near Wellington. We've identified several new targets and towards the end of the year we'll do some work on the ground, including possible drilling.

The pace of exploration and development has certainly been slower than we had hoped across the projects, but we believe the thorough approach to proving up the viability of each project will benefit us in the long term. In several years we could have as many as four projects in production, including Tomingley producing up to 100,000 ounces of gold per annum in the first few years and two larger scale projects in the DZP and McPhillamys.

We will also maintain our investment in BC Iron, and although like many junior companies its share price has been battered, we still believe the underlying assets have the potential to deliver a substantial return 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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