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Alkane Resources Ltd (ASX code – ALK) has three exploration projects at various stages of development within a 120 kilometre diameter circle in the Central West of NSW. At the Tomingley Gold Project (100%) you have just announced a maiden JORC Resource at the Caloma deposit and updated the total project Resources. Can you explain why you have reported two case scenarios for total Resources? Why has the Wyoming One Resource changed from the number released in 2005?

MD Ian Chalmers

Resource numbers by their very nature are estimates and we developed several models to compare and validate the geological concepts. We've calculated a range from the "no top-cut" case to the "top-cut" case. The range for total project Resources (above a 0.75g/t gold cut off) is the upside case of 11.4 million tonnes at 2.3 g/t for 849,000 ounces, through to 11.3 million tonnes at 1.8 g/t for 667,000 ounces.

When it came to reporting the results to ASX, we decided to use the two extreme estimates to give an indication of the upside and downside cases. The upside case for Caloma is 4.1 million tonnes at 2.1 g/t for 272,000 ounces. The

grade of this model was below what we had originally thought, but had twice the tonnage and contained about the right number of ounces.

The Wyoming One Resource has reduced by probably less than 30,000 ounces compared with the one we reported in 2005. In 2006 we drilled into the Hangingwall Zone and the deeper part of the Porphyry Zone which indicated that the mineralisation of the Porphyry changed with depth, and instead of hosting a broad low grade zone, the mineralisation became more focussed in smaller, but higher grade structures. These would be more feasible as underground targets anyway. The detail in the Hangingwall Zone lowered the average grade, but did not detract from its underground potential. We had been concentrating on Caloma and decided to leave the review of the Wyoming deposits until Caloma had been completed.

We now have a significant Resource at the TGP on which we believe we can develop a quality project and there is certainly potential to extend the Resources throughout the region and at depth.

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What are the numbers on which you will base your mine planning for the TGP?
What is the potential for underground mining?

MD Ian Chalmers

We'll design the pits based on the most conservative Resource figure, which is 11.3 million tonnes at 1.8 g/t for 667,000 ounces. Depending upon the A\$ gold price, we're confident the economics will be attractive even at this low-end scenario. Anything above that will be upside and of course there are significant exploration opportunities.

We still believe strongly in the underground potential of Wyoming One and we have now demonstrated that there's a lot of potential at Caloma. We've only drilled Caloma to about 150 metres vertical depth, but there is strong mineralisation and good widths at those depths. We will have to do more drilling to understand the underground potential.

The geometry of the mineralisation is such that underground mining will probably be restricted to around 200-250,000 tonnes a year from each deposit. We've got to keep that in mind as we progress the broader development scenarios for the whole project.

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You've stated that the grade-tonnage models demonstrate potential to vary grade cut offs to provide variable mining and treatment rates to optimise the project economics. What ranges will be considered?

MD Ian Chalmers

We've just started the basic pit models, but one scenario could be to use a 1g/t mining cut off which might increase the head grade by 0.2-0.4 g/t depending on the section of the deposit. It means that the initial feed grade would be higher and it would generate stronger cash flows and project returns. It's one way to maximise the returns up-front and to pay back capital early when the risks are greatest.

This model would lead to a stockpile of ore of less than 1g/t which could have considerable tonnages in the 0.7-0.8 g/t range to process at the end of the project. This material could be treated at an incremental cost and make reasonable money, or be blended with underground ore.

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At this stage, what is your best estimate for throughput, production, operating costs and mine life for the TGP? What operating cash flow would that generate?

MD Ian Chalmers

We're still concentrating on two primary options; 750,000 tonnes a year throughput to produce 50,000 ounces a year and one million tonnes a year to produce 70,000 ounces a year.

The operating costs don't vary too much for each production scenario. At the current grade and indicated recoveries, that should translate to a cash operating cost of A\$600-700/oz depending upon which throughput scenario is used.

Operating cash flow at today's gold prices would be around \$30 million a year for the lower production case and up to \$50 million for the higher case.

The Resource should underpin an open pit mine life of at least five years at one million tonnes a year and 7-8 years at 750,000 tonnes a year. The balance of opinion right now is leaning to the 750,000 tonne a year case. Although it would generate slightly lower cash flow in the early years, the cash generated over the longer term is similar to the higher production scenario. However, the lower throughput case would give us more time to define the underground options and it is also more compatible with the underground mining rates we think we can achieve.

At this point, it's hard to accurately predict possible underground mine life. We feel that Wyoming One could support four to five years of underground production and we obviously haven't drilled deep enough at Caloma to be able to comment other than it looks promising and remains open.

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What is your assessment of the recoveries returned from the metallurgical test work?

MD Ian Chalmers

We were very pleasantly surprised. They really came back a lot better than we'd anticipated. To consistently get well above 90% recovery for both the oxide ore and the fresh ore was very encouraging and reagent consumption was normal. We were also very surprised about the gravity recoveries which came in at plus 50%. I've never seen numbers like that before and I initially questioned the results. Recoveries have a big impact on total gold output, and hence costs per ounce of production.

The other interesting observation relates to the assay composite samples versus the metallurgical calculated head grades. In virtually all samples, the gold

assay of the composite core samples was less than the metallurgical data indicated. This could mean that our drilling has been under-calling the gold content of the deposits. This is not a concept that you can use in a financial analysis, but it does give some credibility to the “un-cut” resource models.

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What capital cost is likely for the operating scenarios discussed? Can you give more detail on the operating costs and inputs in the context of the physical characteristics of the ore?

MD Ian Chalmers

We haven't reviewed the capital estimate recently, which is still at \$50 million - plus or minus 20%, depending on the throughput and new versus second-hand gear.

The fresh ore is slightly harder than we expected and the grinding will therefore require slightly above average energy consumption. Offsetting that is the grind size required to maximise recoveries is coarser than we expected.

One major positive from the metallurgical test work is the fact that we should be able to recover 40-50% of the gold up-front through a standard gravity circuit with the rest recovered through the leach circuit. This means that we could recover 50% of the gold much cheaper than the gold that will be recovered in the rest of the standard CIL circuit, and reduce overall processing costs.

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The drill program to determine the Caloma Resource was focussed on a 400 metre long central section of the 1,000 metre north-south trending porphyry host. You have stated that the mineralised structures appear to extend across the full width of the porphyry host. Can you summarise the areas you will be targeting to increase Resources at the appropriate time? Does the regional geology support the possibility of more gold deposits in the area?

MD Ian Chalmers

At Caloma we have very much focused on the core 400 metre strike length as we wanted to define the central resource and then factor that into the project economics to ensure the TGP was profitable. We know the porphyry extends several hundred metres to the north and south, and obviously to depth. We have some interesting drill hits in that wider area, but we haven't had a chance to follow them up.

We've learned a lot about the geology at Caloma in the last two years. It has been interesting because Caloma is a very different style of deposit to Wyoming. They have the same host rocks, but are quite different geologically and structurally. If you don't drill these targets the right way, you can actually miss them and that was the case with our first past drilling at Caloma. In the region between Tomingley and Peak Hill, there is around 14 kilometres of the same stratigraphy with a lot of clay cover and we think there's a lot of potential to find Wyoming and Caloma style deposits along that belt.

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What is the forward timetable for the TGP including remaining objectives for the Definitive Feasibility Study, the expected completion of the DFS and possible first gold production?

MD Ian Chalmers

The main priority is the mine planning. We are handing over the Resource models to the consulting mining engineer who will design and optimise the open pits. Once that is finalised, we can determine the appropriate plant size and start on equipment selection. We expect to complete the DFS during the September quarter. In the meantime we are continuing with the site layout, preliminary plant design, infrastructure such as power and water, geotechnical and environmental work, and we will prepare the development application. We will also progress our funding options and we hope to announce project go ahead by the end of this year, with first production late in 2010.

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Can you update the status of your other major projects including the McPhillamys Prospect and the Dubbo Zirconia Project (DZP)? Given the current financial climate, have you altered your plans for your pipeline of growth projects?

MD Ian Chalmers

The strategy for McPhillamys is very much in the hands of Newmont who became operator at the start of the year. We're waiting on the 2009 program and budget. Potentially we are free carried until the completion of a Bankable Feasibility Study, but again, need Newmont to advise their preferred option going forward. We've previously reported that McPhillamys has the potential to contain around 2.5 million ounces of gold at this point in the drilling. This potential does not include the regional targets.

The DZP is charging along. The demonstration plant has been operating since the middle of February and it will run through to just before Easter. The plant is operating very well and we are producing niobium and zirconium products at specification, which are looking very good. We hope to have the rare earth circuit added to the plant by about May and then to run the demonstration plant through to the middle of the year.

We will start sending sample products around the world over the next couple of months. There is a lot of interest in our products from potential customers and we will be keen to hear the feedback. The operating program for the second half of the year will be somewhat dependent on that feedback, but at this stage, we expect to start on some of the engineering and costing for the commercial project in early 2010. It has been a good few months for the DZP, but there's still a lot of work to do.

We decided that we wouldn't conduct any significant exploration this year outside the core areas of our advanced projects. That has reduced our exploration expenditure however, we have several really promising, drill-ready exploration targets that we can move onto when financial conditions improve sufficiently.

In terms of our advanced projects such as TGP, DZP and McPhillamys we really haven't changed our focus as a result of the global financial crisis. We are confident that these projects will generate strong returns for shareholders and we want to maintain the momentum. Our broader growth strategy is continuing as planned.

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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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