

Goldletter INTERNATIONAL

the international independent information and advice bulletin for gold and related investments

Special Situation – May 2011 Update

www.alkane.com.au



Alkane Resources Ltd. (A\$ 1.83)

ASX	: ALK
H+L prices (12 months)	: A\$ 2.73 – 0.23
Net shares issued	: 269.0 million shares
Fully diluted	: 269.0 million shares
Market Capitalization	: A\$ 491.0 million

Next price target: A\$ 2.50

Company profile

Alkane Resources is a multi commodity explorer and miner, focused on the Central West of New South Wales, Australia, about 400 kilometres northwest of Sydney

Over several years, including experience in developing the Peak Hill Gold Mine, Alkane has built a substantial resource base and is proceeding towards several developments.

Alkane's Tomingley Gold Project (TGP) currently has a mineable gold reserve of 209,100 ounces and a recoverable open pit 310,022 ounce gold resource within the Wyoming and Caloma deposits.

The Project is centred on three gold deposits, Wyoming One, Wyoming Three and Caloma, located 14 kilometres north of the Company's Peak Hill Gold Mine.

In December 2010, Alkane completed a Definitive Feasibility Study (DFS), which shows that the TGP can recover 369,260 ounces of gold over a 7.5-year mine life representing A\$ 516 million in revenue.



On April 20, 2011, Alkane announced that it had entered into a mandate to arrange and underwrite a project loan and hedging facility for the Tomingley Gold Project. This financing will indicatively comprise of a Project Loan Facility of up to A\$ 45 million and a Gold Hedging Facility of up to 163,000 ounces. The facility does not impact Alkane's ability to separately finance the DPZ.

Near Orange, Alkane has a joint venture (ODEJV) with Newmont Australia, which resulted in the discovery in 2006 of a potentially significant gold deposit at **McPhillamys** within the **Moorilda Project**.

In July 2010, an initial resource of Indicated plus Inferred resources containing 2.96 million ounces of gold and 60,000 tonnes of copper has been defined for McPhillamys. Newmont is proceeding to complete a Bankable Feasibility Study for the development of the Deposit.

Elsewhere within the region Alkane has defined a shallow Indicated resource of 2 million tonnes grading 0.99% copper and 0.3 g/t gold, which is being reviewed for its development potential at **Galwadgere** within the **Wellington Project**.



Alkane's **Dubbo Zirconia Project (DZP)**, developments located 30 kilometres south of the large regional centre of Dubbo is one of the world's most advanced zirconium, niobium, yttrium and rare earth production areas and is based upon a world class reserve.

A Demonstration Pilot Plant (DPP) has been operating at the laboratory facilities of ANSTO Minerals at Lucas Heights south of Sydney since May 2008 and to date has recovered 1,300 kg of zirconium chemicals and nearly 300 kg of niobium concentrate.

The DPP is currently operating for short periods to trial engineering and process innovations and check specific aspect of the flow sheet for production development. Laboratory scale testing processed to recover yttrium and heavy rare earths (HREE = gadolinium, terbium, dysprosium and erbium) has been operating within the DPP and about 30 kilograms of filter cake recovered to date.

The yttrium and rare earth distribution in the DZP ore deposit is unusual, having about 25% in the "heavy" category, which is very different to the standard distribution of about 95% light and 5% heavy.

The DPP operation has confirmed the process flow sheet and is providing engineering data for capital and operating cost estimates, and continues to generate substantial product for market evaluation. Data from the DPP and Letters of Intent from future customers will be incorporated in the current DFS which should be completed mid 2011.

Depending upon financing and Development Consent from the New South Wales State government, the DZP could be in production late 2013 or early 2014.

In **Western Australia**, Alkane holds a diluting 23% residual interest in a nickel sulphide joint venture with Xstrata Nickel (Jubilee) near Leinster.

On May 16, 2011, Alkane announced that it had signed a non-binding Memorandum of Understanding with a leading chemical company and trading company to produce zirconium oxychloride (ZOC) from a new joint venture facility, using DZP zirconium chemical intermediate feed.

At current prices, the ZOC production is forecast to generate revenues of US\$ 50 to US\$ 70 million per annum.

This would represent 12-17% of projected annual revenue on DZP's 1 million tonnes per annum expanded development case (base case production 400,000 tonnes per annum), with additional MOUs on other components of production currently under consideration.

Overview of Projects

➤ Tomingley Gold Project, Central West, New South Wales

The Tomingley Gold Project (TGP) is located in the Central west of New South Wales about 400 kilometres northwest of Sydney.

Over several years, including experience in developing the Peak Hill Gold Mine, Alkane has built a substantial resource base and is proceeding towards several developments.

Alkane's **Tomingley Gold Project (TGP)** currently had a mineable gold reserve of 209,100 ounces within an open pittable 310,022 ounce gold resource within the Wyoming and Caloma deposits.

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Tomingley Gold Project, NSW

ALKANE
RESOURCES LTD

ALKANE RESOURCES: 100%

- **Three deposits under conceptual development:**
 - **Caloma** (3.86Mt @ 1.76g/t Au)
 - **Wyoming One** (6.59Mt @ 1.86g/t Au)
 - **Wyoming Three** (0.84Mt @ 1.75g/t Au)947 AC, RC and core holes totalling 109,114 metres
- **Total current combined resource (dil) +660,000oz**
 - Expansion potential
 - Deposits open at depth
 - Significant regional exploration potential
- **Minimum seven year mine life => +10yr target**
- **Initial open pit +underground operations (Yrs 1-7)**
Additional open pit and ug (Yrs 7 -10)



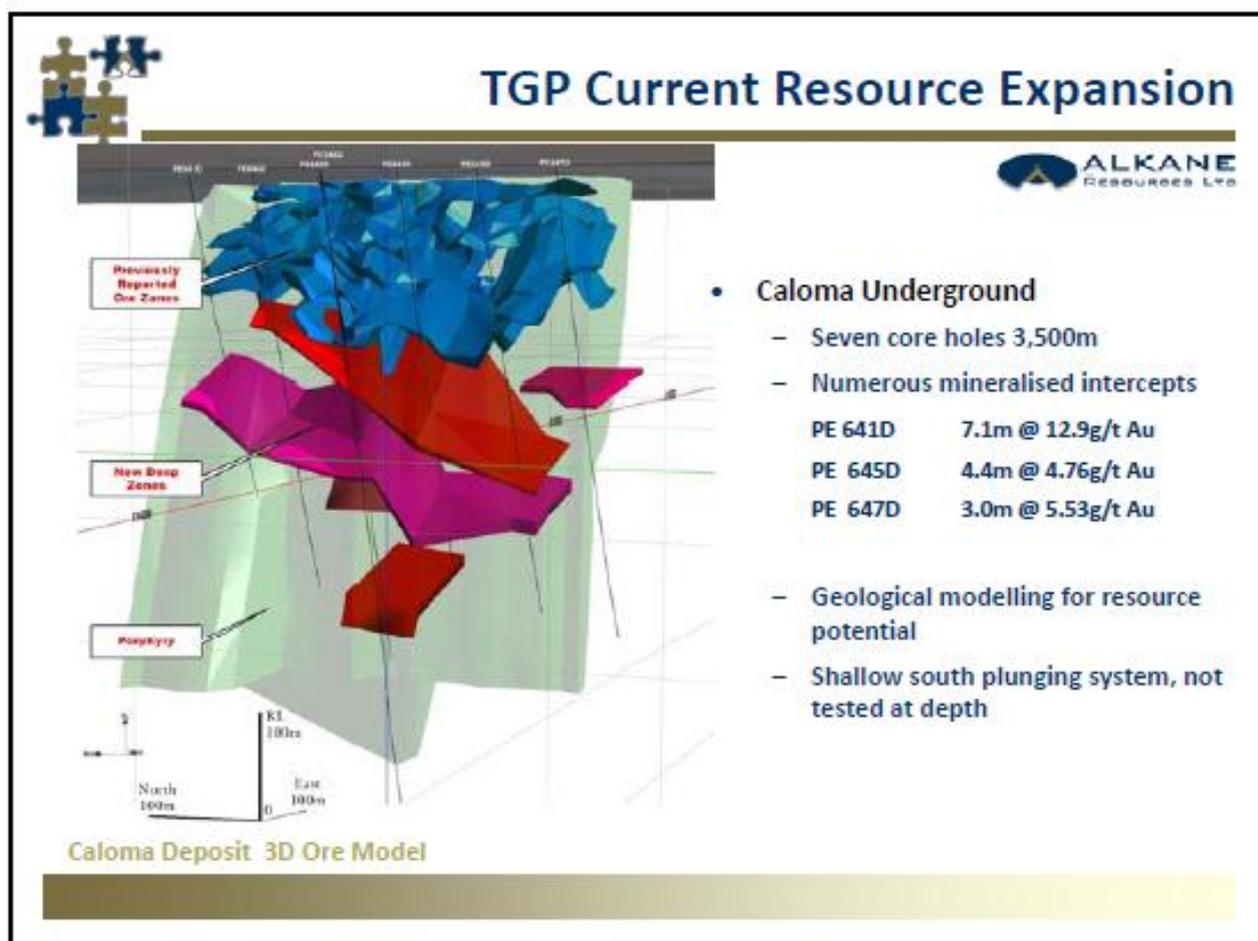
...advanced feasibility study

Summary of Open Pit Ore Inventory

DEPOSIT	MEASURED		INDICATED		INFERRED		TOTAL		
	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Ounces
Wyoming One	1,723,388	1.54	197,731	1.41	413,846	1.28	2,334,965	1.48	111,187
Wyoming Three	536,872	1.59	16,456	1.42	85,457	1.51	638,785	1.57	32,329
Caloma	1,738,740	1.98	321,125	1.70	851,568	1.41	2,909,433	1.78	166,508
Total	3,997,001	1.74	535,312	1.58	1,350,871	1.38	5,883,183	1.64	310,022

Summary of Open Pit Ore Reserves

DEPOSIT	PROVED		PROBABLE		TOTAL		
	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Tonnage (t)	Grade (g/t)	Ounces (minable)
Wyoming One	1,700,000	1.6	200,000	1.3	1,900,000	1.6	94,500
Wyoming Three	500,000	1.6	0	0.0	500,000	1.6	28,100
Caloma	1,100,000	2.3	100,000	1.7	1,200,000	2.2	86,500
Total	3,300,000	1.8	300,000	1.5	3,600,000	1.8	209,100





PRODUCTION OUTCOMES	BASE CASE	EXPANDED CASE
Mine Life	7 Years	8 - 10 Years
Throughput		
Open Pit	5.9 Million tonnes	1.5 million tonnes
Underground	0.7 million tonnes	0.5 Million tonnes
Production	370,000oz	150,000oz
Method	conventional CIL circuit	conventional CIL circuit
Recovery	>90%	>90%
Capex (+/- 10%)	A\$90 Million	+A\$10 Million
Estimated cash costs	A\$940/oz	A\$940/oz
Potential LOM cashflow	~A\$170 Million*	A\$250 Million*

Based on A\$1400 per ounce gold price; 1 Mtpa mill throughput

...targeting 10 year mine life

In December 2010, Alkane announced that it had completed the Definitive Feasibility Study (DFS) for its Tomingley Gold Project which was compiled by Mintrex, the consulting division of Perth engineering group Holtfreeters.

The base case development for the TGP will comprise open pit mining from the Coloma, Wyoming One and Wyoming Three pits and underground mining from Wyoming One.

The Caloma pit will be mined first, followed by Wyoming Three and Wyoming One.

On April 20, 2011, Alkane announced that it had entered into a mandate to arrange and underwrite a project loan and hedging facility for the Tomingley Gold Project. This financing will indicatively comprise of a Project Loan Facility of up to A\$ 45 million and a Gold Hedging Facility of up to 163,000 ounces.

The facility does not impact Alkane's ability to separately finance the DPZ.

➤ Orange District Exploration Joint Venture

Near Orange, Alkane (49%) has a joint venture with Newmont Australia (51%), which resulted in the discovery in 2006 of a significant gold deposit at **McPhillamys** within the **Moorilda Project**.

In 2006, reconnaissance drilling at McPhillamys located extensive gold mineralisation associated with altered felsic volcanic rocks with intersections of 123 metres grading 1.96g/t gold and 77 metres at 1.65g/t gold within a 600 metre by 200 metre mineralised zone.

Follow up diamond drilling has confirmed the potential of the project to host a major gold system with an intersection in KPD003 of 366 metres grading 1.85g/t gold.

An initial conceptual target of **2 to 4 million ounces of gold** and **50,000 to 100,000 tons of copper** has been assigned to the discovery and it rates as the potentially largest greenfields gold discovery in Australia since the Anglo Gold – Independence Group discovery at Tropicana in Western Australia in 2005.

Regional exploration has discovered several areas with McPhillamys type gold mineralisation, including 78 metres grading 1.04 g/t gold at Kings Plains 2 kilometres to the south of the main deposit. Further drilling and evaluation will be required to raise the conceptual exploration target to Identified Mineral Resource status.

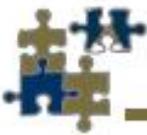
An initial A\$ 2.3 million program was planned for 2010, including a 4 hole, 3,500 metre core program designed to test the depth continuity of the McPhillamys mineralization.

On March 2, 2010, it was announced that Newmont had elected to increase their interest in the joint venture to 75% by completing a Bankable Feasibility Study (BFS).

In July 2010, Alkane released its first resource estimate for the McPhillamys gold discovery which was completed by Lewis Minerals Consulting in Sydney. An initial Indicated and Inferred resource at a 0.3 g/t cut-off defined 9.1.954 million tonnes grading 1.00 g/t gold and 0.07% copper for a cumulative total of 2.96 million ounces of gold and 60,000 tonnes of copper.

The bulk of the resource is located within an Inner Ore Zone with dimensions of 600 metres by 200 metres and extending down to approximately 525 metres below the ground surface and overall higher grades within the Outer Ore Envelope.

The higher density drilling provided a greater level of confidence in the continuity of widths and grade of the mineralization.

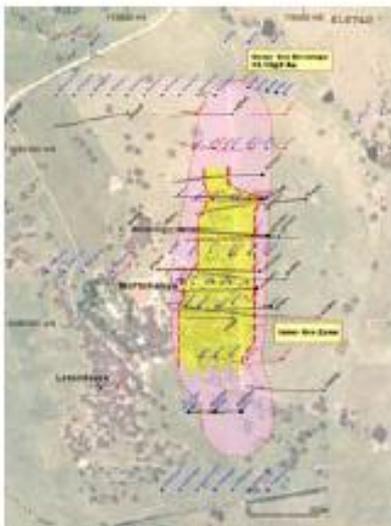


ODEJV Moorilda | McPhillamys



INITIAL RESOURCES

- **Indicated + Inferred** +0.3g/t gold
92 Mt @ 1.00g/t Au 0.07% Cu
2.96 Moz Au & 60,000t Cu
- **Indicated + Inferred** +0.5g/t gold
61 Mt @ 1.32g/t Au 0.08% Cu
2.57 Moz Au & 48,000t Cu
- Mineralisation open at depth
Deep drilling in progress
- Conceptual studies for both open pit and block cave mining
- Preliminary metallurgical scoping indicates +90% gold recovery from CIL
- Likely low waste to ore ratio to significant depth for open pit

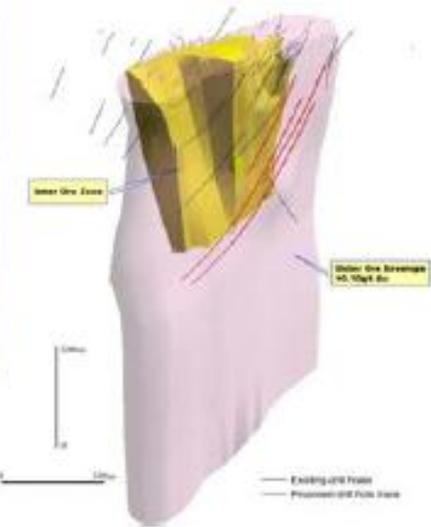


BASE AREAS

- Outer ore envelope 1,000m x 260m 0.1g/t Au
- Inner ore zone 600m x 200m to 450m depth
- Average 2.8 SG

Compare Barricks Cowal Operation

- 64Mt @ 1.22g/t Au at start up
- 2Mt/yr for ~ 250,000ozpa



... potential open cut or block caving operation

In October 2010, Alkane announced that drill results confirmed the continuity of the mineralization envelope. Results include up to 52 metres grading 1.08 g/t gold from 403 metres, including 37 metres grading 1.33 g/t gold from 417 metres (NEWD 009); 94 metres grading 0.77 g/t gold from 449 metres, including 30 metres grading 1.49 g/t gold from 490 metres (NEWD 010); and 119 metres grading 0.82 g/t gold from 416 metres, including 64 metres grading 1.08 g/t gold from 416 metres.

➤ **Wellington Copper Project, Central West region, New South Wales**

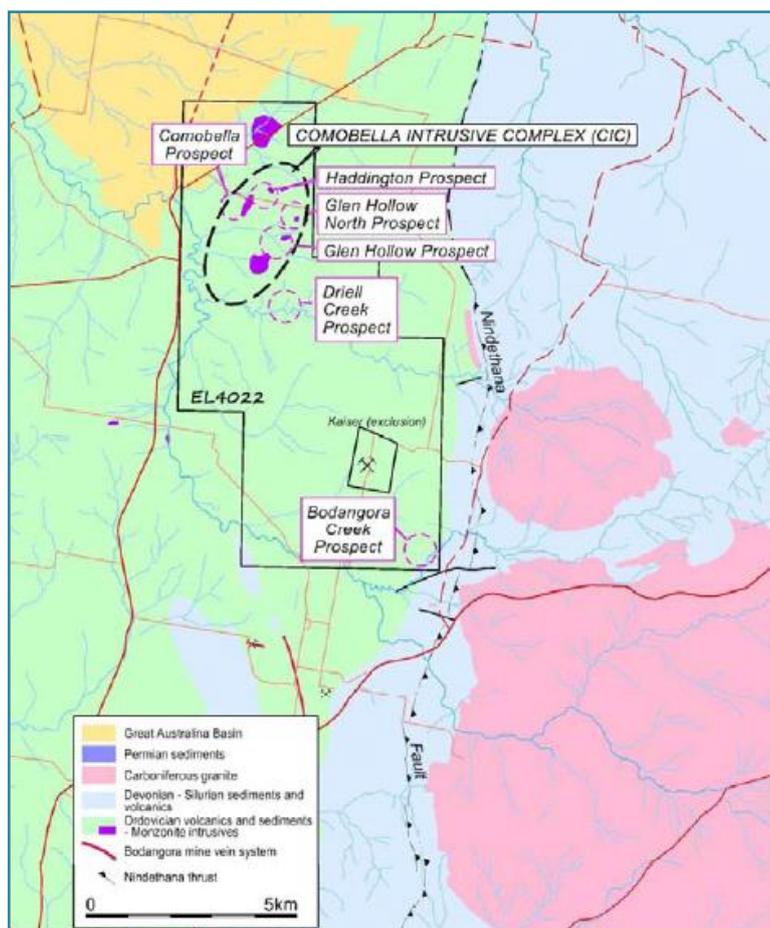
Alkane has defined a shallow Indicated resource of 2 million tonnes grading 0.99% copper and 0.3 g/t gold, which is being reviewed for its development potential at **Galwadgere** within the **Wellington Project** and several other advanced exploration projects with encouraging drill intercepts. New exploration targets have been identified at several other locations.

On May 6, 2011 Alkane announced that a diamond core drill hole (GAL 032) has been completed to test the down plunge extensions to the known mineralization with results from 363 metres down hole, which intersected 14 metres grading 1.13 g/t gold, 0.94% copper and 0.89% zinc, including 4 metres grading 0.94 g/t gold, 1.69% copper and 2.98% zinc.

These results have extended the mineralization 200 metres down plunge and add to the resource potential. Further drilling will be scheduled to evaluate this extended resource potential.

➤ **Bodangora Gold- Copper Project, Central West region, New South Wales**

On April 19, 2011, Alkane announced the discovery of porphyry style gold/copper mineralization at the Bodangora Project located 15 kilometres north/east of Wellington in the Central West region of New south Wales and about 25 km north of the Company’s Wellington (Galwadgere) Project.



Previous exploration had identified a number of geochemical anomalies associated with monzonitic intrusives which were interpreted to be similar to the well documented porphyry gold-copper system at Cadia-Ridgeway and Northpark-es in the region.

The exploration had defined several zones of low grade copper-gold mineralization, however Alkane’s initial target in the area was structurally controlled gold deposits, exemplified by the historic 200,000 ounce producing Bodangora.

Test drilling of targets near the historic mine failed to locate any potential economic mineralization.

To the north of the Bodangora mine area, several other targets which include skarn mineralization and extensive zones of alteration at Comobella has been identified. RC drilling had indicated broad intercepts of gold-copper, with narrower high-grade values.

Intervals included 18 metres at 0.95 g/t hold and 0.15% copper from 64 metres in NKRC003, with 2 metre grading 5.7 g/t gold and 0.44% copper.

Following an Indicated Polarisation survey completed by Alkane early in 2010 and soil sampling later in the year, the Company recently completed a scattered reconnaissance 11 hole RC drilling program totalling 2,431 metres to test geophysical, geochemical and geology targets at the Bodangora Creek, Drill Creek, Glen Hollow North, Comobella and Haddington project areas.

The latter four targets are within the area now defined as the very prospective Comobella Intrusive Complex (CIC), which is currently interpreted to cover an area of approximately 4 kilometres by 3 kilometres.

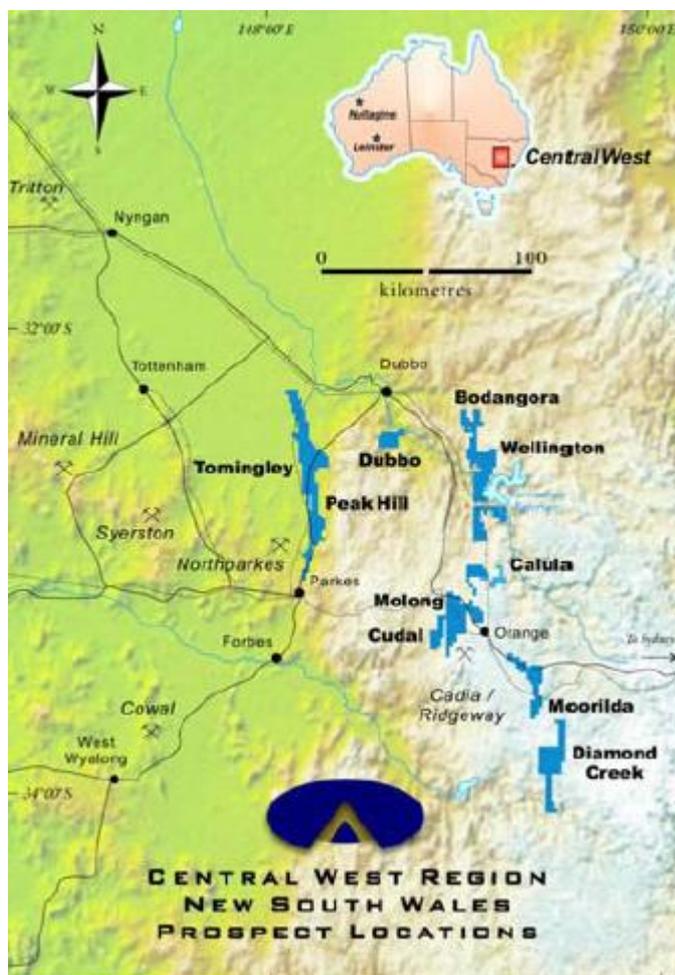
Several areas of extensive alteration with weak copper-gold values were intersected however, significant results were returned from the Glen Hollow prospect with 45 metres grading 0.9 g/t gold, 0.24% copper from 50 metres, including a zone of 21 metres grading 1.5 g/t gold, 0.41% copper from 84 metres (COMRC C009).

Geology and alteration features identified elsewhere within the CIV are currently being integrated to develop vectors to copper-gold mineralization with many targets remaining to be tested.

A detailed review of all the data will be scheduled to confirm the controls to the mineralization and plan further drilling.

➤ **Nickel sulphide joint venture with Xstrata Nickel – 23% interest**

In **Western Australia**, Alkane holds a diluting 23% residual interest in a nickel sulphide joint venture with Xstrata Nickel (Jubilee) near Leinster.



Finance

On February 10, 2011, Alkane announced that it had completed a placement for 20 million shares at A\$ 1.05 per share to raise gross proceeds of A\$ 21 million.

The funds raised under the placement will be used for completion of the Definitive Feasibility Study on the Dubbo Zirconia Project and for ongoing marketing development, preliminary development costs of the Tomingley Gold Project and further resource evaluations and continuing evaluation of the Company's other existing gold and copper exploration projects.



Project Development Pipeline



		2010	2011	2012	2013	2014
TOMINGLEY GOLD	Definitive Feasibility Study (DFS)	█	█	█		
	Environmental Assessment / DC	█	█	█	█	
	Project Financing @ \$A90m		█	█	█	
	Construction			█	█	█
	Production				█	█
DUBBO ZIRCONIA	Definitive Feasibility Study (DFS)		█	█	█	
	Environmental Assessment / DA		█	█	█	
	Project Financing @ ~A\$2/400m		█	█	█	
	Construction			█	█	█
	Production				█	█
McPHILLAMYS	Exploration/Pre-feasibility	█	█	█		
	Bankable Feasibility Study (BFS)		█	█	█	
	Construction				?	?
	Production					?
Galwagere	Exploration/Pre-feasibility	█	█	█	?	?
Bodangora	Exploration/Pre-feasibility	█	█	█	?	?
Cudal	Exploration/Pre-feasibility	█	█	█	?	?

Management

John Stuart Ferguson Dunlop, Chairman, BE(Min), MEngSc(Min), FAusIMM(CP), FIMMM, MAIME, CIMM is a consultant mining engineer with close to 40 years surface and underground mining experience both in Australia and overseas. He is a former director of the Australian Institute of Mining and Metallurgy but remains Chairman of their affiliate, the Mineral Industry Consultants Association. Mr. Stuart is Chairman of Alliance Resources and Drummond Gold and non-executive director of Gippsland.

David Ian Chalmers, Managing Director, MSc, FAusIMM, FAIG, FIMMM, FSEG, MSGA, MGSA, FAICD, is a geologist and graduate of the Western Australian Institute of Technology (Curtin University). He also has a Master of Science degree from the University of Leicester in the United Kingdom. Mr. Chalmers has worked in the mining and exploration industry for over 40 years, during which time he has had experience in all facets of exploration through feasibility and development to the production phase. Mr. Chalmers is also a principal in Multi Metal Consultants.

Ian Jeffrey Gandel, LLB, BEc, FCPA, FAICD, is a successful Melbourne businessman with extensive experience in retail management and retail property. He has been a director of the Gandel Retail Trust and has had an involvement in the construction and leasing of Gandel shopping centres. Through his private investment vehicles, Mr Gandel has been an investor in the mining industry since 1994. Gandel Metals Pty Ltd is currently a substantial holder in a number of publicly listed Australian companies and now holds and explores tenements in its own right in Victoria and Western Australia. Mr. Gandel is also a non-executive director of Alliance Resources and Chairman of Gippsland.

Anthony Dean Lethlean, BAppSc, is a geologist with 10 years mining experience including 4 years underground on the Golden Mile in Kalgoorlie. In later years he has been working as a resources analyst with various stockbrokers and currently consults to Cartesian Capital. Mr. Lethlean is a non-executive director of Alliance Resources.

Investment recommendation:

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A Demonstration Pilot Plant (DPP) has been operating at the laboratory facilities of ANSTO Minerals since May 2008 and to date has recovered 1,300 kg of zirconium chemicals and nearly 300 kg of niobium concentrate. Initial light rare earth and yttrium heavy rare earth products have recently been recovered.

The yttrium and rare earth distribution in the DPZ ore deposit has about 25% in the "heavy" category compared with a standard distribution of about 95% light and 5% heavy.

Data from DPP and Letters of Intent from future customers will be incorporated in the current Definitive Feasibility Study.

A development decision is anticipated in the second half of 2011, with production possible late 2013 or early 2014.

Alkane's current cash position is approximately A\$21 million. Anticipated non-development expenditure is A\$ 5.0 million to June 30, 2011.

Since our first update in June 2010 at A\$ 0.26, the Company's share price eightfolded due to the upgrade of resources to reserves on the TGP, supported by strong market performance of gold, as well a skyrocketing rare earth prices, the latter enhanced by China curtailing REE export, and Alkane's DPZ distribution of yttrium and rare earth oxides focused on the heavy category.

With production possible late 2013 or early 2014, supported by having signed a first MOU to produce ZOC, the DPZ Project could emerge to one of the world's major REE producers, as a result of which in conjunction with a potential gold production of 400,000 ounces of gold, representing a current market valuation of more than US\$ 500 million alone, in our view, the shares of Alkane still remain substantially undervalued.

Consequently, we have increased our next price objective to A\$ 2.50.