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## Alkane Resources Gets Government Permission For Its Gold Project, And A Major Japanese Partner For Its Rare Earths Project

By Our Man in Oz

"Just another overnight success," is the ironic way Ian Chalmers describes recent developments at the company he leads, Alkane Resources. First came a deal that's been the best part of 20 years in the making, the signing on 16th July of a memorandum of understanding under the terms of which Alkane has agreed to a major Japanese chemical company with a suite of rare earth products from its Dubbo Zirconia project in New South Wales.



Location of Dubbo in NSW

Second was the securing on Tuesday 1st August of formal development approval from the NSW Government for the company's small but well formed Tomingley gold mine not far from the city of Dubbo in the west of the State. That approval came almost a decade after Tomingley was first discovered.

On their own, each is an important development for Alkane. Together they represent a step change for the company which has not been in production since it mothballed its Peak Hill gold mine in 2005.

"By the time we start production at Tomingley around September next year it will be an eight year break", Ian told Minesite in his Perth office. And as a greater understanding of the Dubbo and Tomingley announcements filters through to investors they are likely to see Alkane in a different and far more positive light, although the negative reaction that followed the rare earths deal was a sign that some banging of the drum is still required. On the day the shares slipped from around

A\$1.00 to as low as A77 cents. But the Tomingley approval announcement recouped some of that decline, as the company's share price was lifted back up to around A85 cents.

At any other time in the commodity-market cycle Alkane would have shot ahead on the strength of those two announcements, perhaps even to challenge the A\$2.00 it reached at this time last year. Ian had hoped for a more positive reaction but he recognises the nervous state of global markets.

“In time, what's happened over the past few weeks will sink in, and people will appreciate the significance of the announcements”, he said. And it now looks, to Minesite's man in Oz at least, that Alkane has now moved to within sight of its future as company with multiple cash streams from gold and rare earths.

To achieve that future the next steps are important, although nothing like the mountain that has just been climbed, especially with the rare earths deal. But first Tomingley, because that will reintroduce a “mining culture” into Alkane after a long period spent by the company living off its capital as an explorer and back-room rare earth process developer.

The development approval from the NSW Government's Planning and Infrastructure Department provides Alkane with effectively the final piece of paper, leaving it just to fill in a few more details, such as financing – which will not a problem given the comfortable profit margin of around US\$700 an ounce that's on offer. Credit Suisse, which already holds a mandate for the project, has had its agreement extended to December 31st. The financing is likely to feature a project loan of up to A\$45 million and a gold hedging facility covering 163,000 ounces.

The current estimate is that Tomingley will cost around A\$107 million to develop, which is an increase of around 10 per cent on the last published estimate. The mine will produce between 50,000 and 60,000 ounces of gold a year for a minimum seven-and-a-half years, with a target life of 10 years. Cash flow is expected to be between A\$20 million and A\$30 million a year. Orders for long lead items, including the ball mill, and detailed design work, are already in.

Important as making a return to mining is for Alkane, the deal which deserves even closer attention is the one with Shin-Etsu Chemical Co of Japan (<http://www.shinetsu.co.jp/e/>). Shin-Etsu is one of the world's leading producers of rare earth magnets and also produces a range of other specialist metals and chemicals too. By involving a major Japanese company, Alkane has ensured that it will get the funding and market support needed successfully to develop the Dubbo project, which has the potential to become one of the world's major non-Chinese suppliers of essential elements.

“It has taken a while to secure the ideal partner for Dubbo, but we believe Shin-Etsu has the skills and knowledge the project needs”, Ian said. Essentially, Alkane will carry out the mining, perhaps the easiest part of the project, and early stage processing near the mine. Shin-Etsu will then

process all of the heavy and light rare earths concentrates produced by Alkane either in Japan, or at another agreed location, to produce high-purity, separated, rare earth products.

Shin-Etsu will have a priority agreement to buy the rare earths it needs, on commercial terms, while Alkane will get back toll-treated material it can sell into the world market. "Shin-Etsu operates Japan's only large-scale separation and refining plant for rare earths", Ian said. "It requires some of the rare earths for its own operations, and we expect to have no difficulty selling the remainder of the output to companies keen to secure supplies separate from China."

At Dubbo, Alkane has entered the final stages of feasibility and environmental studies, detailed plant design and financing. Ian declined to say whether Shin-Etsu would be a financing partner, but even if it isn't there are Japanese Government agencies keen to see fresh sources of rare earth supply break the Chinese stranglehold on the industry.

On current planning, construction of the Dubbo plant could start in the second quarter of next year with first production in late 2014, or early 2015. By then Alkane will already be enjoying first cash flow from its Tomingley gold mine, and getting ready for first cash from rare earth production.