

Alkane ready to seek government approval amid growing rare earth market optimism

✘ Alkane Resources ('Alkane', ASX: ALK | OTCQX: ANLKY) has continued development at its AUD\$ 1 billion Dubbo Zirconia rare earths project in New South Wales as the Company heads toward the government approval and mine construction phase. Engineering got underway last April when Alkane signed a contract with Hatch Pty Ltd to provide front end and design (FEED) to deliver infrastructure, water and acid plant processing among other aspects on the basis of the Definitive Feasibility Study (DFS) issued in April 2013. The FEED process has given Alkane as accurate an idea as possible about the core costs and ease the necessary funding to bring the project to production. The DFS for the Dubbo Zirconia Project predicted an initial 20 year life with EBITDA of AUD\$5.23 billion and NPV of AUD\$1.23 billion.

Alkane has already managed to secure some very big financial players to arrange the investment banking and product financing support including Credit Suisse, Sumitomo Mitsui Bank and Petra Capital. All the elements are there to get the Project approved in early 2015. The next few week will see Alkane working with foreign governments and project financiers to raise all the capital needed; it should be noted that Alkane will be raising only limited funds from shareholders. While the rare earths market has been sluggish at best in the past few years, highlighted by the production and stock market challenges faced by the two main non-Chinese active producers, Lynas Corp and Molycorp, the current situation is not as dire as expected. Indeed, Alkane chances of reaching the crucial production phase, and ultimate survival, have received a boost

from the Lynas's own experience.

Few would have predicted that Lynas would still be operating independently today. Its challenges with a highly politicized environmental movement in Malaysia, where its Lynas Advanced Materials Processing, 'LAMP', facility is based were only slightly worse than its slow ramp-up phase and constant losses. Recently, Lynas was even able to reassure its investors and the REE market in general that things are not as bad as they appeared less than a year ago. Lynas's shares (ASX: LYC) rose around 9% in the second week of November as the company managed reassure its investors that the market for rare earths is not so bad. Lynas was recently n able to renegotiate the terms of a 225 million USD loan from Japanese lenders as well as securing a less oppressive repayment plan: the bulk of repayment begins in 2016. So far, Lynas would have to make a repayment rate of USD 35 million by next Tuesday and the market has clearly expressed its confidence that the company has the resources to fulfill this obligation. Another condition of the new agreement is that the supply of rare earth oxides in the Japanese market is given priority, although no exact conditions were identified. This request for exclusivity and priority suggests overall REE demand is still high. Indeed, Lynas intended to account for just under a third of the current Japanese demand for rare earths, which is estimated at 32,000 tons per year. Japan has long tried for some time to free itself from its dependence on Chinese REE's.

Molycorp in the United States fared even worse, enduring a massive share price collapse from the heights of a blue-chip to almost penny stock values. Yet both companies are still there, debt burdens and all. Their survival suggests that there is still room for new rare earth entries, especially those able to supply the higher demand critical REE's. Moreover, Alkane carries fewer risks to investors than Lynas because it will be outsourcing its processing, thus avoiding the need to spend at least a billion dollars in its own

facility – the very investment that almost broke Lynas and Molycorp. Meanwhile, even as prices and perceived scarcity of REE's is now far from the heydays of 2010-2011, when industrial powers such as Japan and the United States complained about Chinese rare earth export quotas, higher prices are for these elements are likely.

Alkane has an additional source of funding for its Dubbo Zirconia Project as gold mining is in full swing at its Tomingley gold mine in New South Wales, Australia. Alkane's gold project came on line last February 14 and it was on time and on budget. Alkane announced the first gold pour at Tomingley with the production of an eight kilo bar, containing about 230 ounces of gold. The Tomingley mine started production on schedule and below budget, said Ian. Alkane will soon be ready to produce at close to, or at, design capacity, generating the cash flow that will help fund, and accelerate the development of, the rare earths operation. The mine holds three gold deposits with a resource of about 14.3 million tons (with 921,000 ounces of contained gold) and it is expected to increase production from the current 60,000 ounces/year to 70,000 ounces over the next few years. Alkane expects the Tomingley gold mine to help generate cash return of at least AUD\$ 300-400/oz. of margin and an initial revenue of about AUD\$ 35 million, given a yearly production of over 60,000 ounces.