Alkane Resources Ltd

ABN 35 000 689 216

Interim Financial Report

for the half-year ended - 31 December 2018

This interim financial report does not include all the notes of the type normally included in the annual financial report. Accordingly, this report is to be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by Alkane Resources Ltd during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Alkane Resources Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is at 89 Burswood Road, Burswood, WA 6100. Its shares are listed on the Australian Securities Exchange.

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Directors	I J Gandel (Non-Executive Chairman) N Earner (Managing Director) D I Chalmers (Technical Director) A D Lethlean (Non-Executive Director) G Smith (Non-Executive Director)
Company Secretary	D Wilkins
Registered office and principal place of business	Ground Floor, 89 Burswood Road, Burswood WA 6100 Telephone: 61 8 9227 5677 Facsimile: 61 8 9227 8178
Share register	Advanced Share Registry Limited 110 Stirling Highway, Nedlands WA 6009 Telephone: 61 8 9389 8033 Facsimile: 61 8 9262 3723
Auditor	PricewaterhouseCoopers Brookfield Place, 125 St Georges Terrace, Perth WA 6000
Stock exchange listing	Alkane Resources Ltd shares are listed on the Australian Securities Exchange (ASX code: ALK)
Website	http://www.alkane.com.au
E-mail address	mail@alkane.com.au
OTCMarkets - OTCQX International	American Depositary Receipts (ADR) Code: ANLKY
Level 1 ADR Sponsor	The Bank of New York Mellon Depositary Receipts Division 101 Barclay Street, 22W, New York, NY 10286 United States of America

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or the 'Group') consisting of Alkane Resources Ltd (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

Directors
The following persons were directors of Alkane Resources Ltd during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

I J Gandel
N Earner
D I Chalmers
A D Lethlean
G Smith

Review of operations
The profit for the consolidated entity after providing for income tax amounted to $12,190,000 (31 December 2017: $13,456,000).

This result included a profit before tax of $17,437,000 (31 December 2017: $17,812,000) in relation to Tomingley Gold Operations.

Tomingley Gold Operations

The gold operations at Tomingley are located approximately 50 kilometres south-west of Dubbo in the Central West of NSW. The operations are based on four gold deposits - Wyoming One, Wyoming Three (mining completed October 2015), Caloma One (mining completed August 2017) and Caloma Two. Mining occurred in two pits during the half-year period Caloma Two and Wyoming One with mining in Wyoming One completed in December 2018. Underground development commenced from Wyoming One pit during the period.

Total material movements for the period of 702,139 bcm comprised 571,093 bcm of waste and 131,046 bcm of ore. The average stripping ratio of 4.4 represented a decrease from the corresponding period as a result of overburden having been previously removed from the main operating pits Wyoming One and Caloma Two.

Milling for the period was in line with design capacity at 480,484 tonnes. Gold recovery increased from 91.9% for the year ended 30 June 2018 to 92.7% in line with expectations as increased oxide ore was available for processing from the Wyoming One and Caloma Two pits. Average grade milled was 1.95g/t reflecting higher grade ore sourced from the Caloma Two pit. As a result of the lower waste movement requirements, the mining fleet size has been reduced accordingly.

Gold produced for the period was 26,745 ounces with all in sustaining costs of $1,005 per ounce. The average sales price achieved for the period was $1,717 per ounce. Gold sales of 30,497 ounces resulted in sales revenue of $52,352,000.

Bullion on hand decreased by 3,759 ounces from 30 June 2018 to 1,077 ounces (fair value of $1,960,000 at period end).

Review of operations (continued)

Tomingley Gold Operations (continued)

The table below summaries the key operational information.

TGO Production	Unit	6 months ended 31 December 2018	6 months ended 31 December 2017
Waste mined	BCM's	571,093	2,315,043
Ore mined	BCM's	131,046	235,736
Ore mined	Tonnes	361,595	620,240
Stripping Ratio	Ratio	4.4	9.8
Grade mined [(2)]	g/t	1.75	2.23
Ore milled	Tonnes	480,484	545,607
Head grade	g/t	1.95	2.51
Gold recovery	%	92.7	92.8
Gold poured [(3)]	Ounces	26,745	40,764
Revenue summary			
Gold sold	Ounces	30,497	34,794
Average price realised	A$/Oz	1,717	1,688
Gold revenue	A$000's	52,352	58,747
All-in Sustaining Cost [(1)]	A$/oz	**1,005**	**1,013**
Bullion on hand	Ounces	1,077	7,756
Stockpiles			
Ore for immediate milling	Tonnes	1,132,562	829,356
Stockpile grade [(2)]	g/t	0.83	0.87

(1) All in Sustaining Cost (AISC) comprises all site operating costs, royalties, mine exploration, sustaining capex, mine development and an allocation of corporate costs on the basis of ounces produced. AISC does not include share-based payments, production incentives or net realisable value provision for product inventory.
(2) Based on the resource models.
(3) Represents gold poured at site, not adjusted for refining adjustments which results in minor differences between the movements in bullion on hand and the difference between production and sales.

Ore over the year was sourced from the Wyoming One and Caloma Two pits. The current life of mine plan sees the open cut pits finishing in the first period of calendar year 2019. Low grade stockpiles of approximately 770,000 tonnes are also available for milling, but are at present not scheduled until the potential underground material is available to be blended.

A significant drilling program was completed during the period, both targeting strike extensions and in-fill areas for the potential underground operation below the Wyoming One pit as well as exploring for potential resources between Tomingley and Peak Hill. The underground data has been incorporated into an updated resource and reserve which has been published. Exploration drill results between Tomingley and Peak Hill have been released and show significant mineralised intercepts. The decision on proceeding underground was made on 24 September 2018 and development of the underground mine has commenced.

Dubbo Project

The project is waiting for the financing to be assembled that will enable it to proceed towards development as a potential strategic supply of critical minerals for a range of high-tech and sustainable technologies. It is based on a large resource of zirconium, hafnium, niobium, tantalum, yttrium and rare earth elements, located at Toongi, 30 kilometres south of the large regional centre of Dubbo in the Central West of NSW. The Dubbo Project is a unique, long-life asset with a potential mine life of 75 plus years. Unlike many projects of this kind, it is a polymetallic deposit providing potential revenue from multiple product streams.

Review of operations (continued)

Dubbo Project (continued)

The Dubbo Project remains ready for construction, subject to financing, with the mineral deposit and surrounding land wholly owned, all major State and Federal approvals in place, an established flowsheet and a solid business case. Efforts during the period focussed on product development and marketing with potential customers with a focus on signing offtake contracts.

After more than five years of downward pressures, prices for zirconium materials rose rapidly through financial year 2018, with zirconium oxychloride (ZOC) prices increasing by more than 80%. ZOC is the base product for the downstream zirconium industry. The increases in prices are primarily driven by reduced ZOC supply from China due to Chinese government environmental inspections and subsequent shutdowns to upgrade processing facilities to reduce pollution, and restricted supply of zircon.

The higher price and uncertain supply of zircon is expected to give both price volatility and drive ZOC prices up further in financial year 2019. ASM continues to engage with customers looking to convert letters of intent to offtake agreements.

Rare earth permanent magnets (NdFeB) continued to be the main driver for rare earths market in the first half of financial year 2019, with high growth rates anticipated for the remainder of financial year 2019 due to the rapid growth in demand for electric vehicles worldwide. The widespread environmental crackdown across China has also included the rare earths industry, putting illegal mining under the spotlight and imposing strict enforcement of the quota system.

The hafnium market experienced further tightening of supply in the first half of financial year 2019, while demand continues to increase for traditional and new applications. Hafnium metal for super alloys used in industrial gas turbines and jet engines remains the main market, while other applications continue to grow for this niche element.

The niobium market continues to be stable with prices increasing marginally over financial year 2019.

ASM continues to work with its financial advisors to pursue the funding strategy for the project. The changing market dynamics and improved pricing for key products is expected to assist in discussions with customers to secure long term product offtake and investment in the project. The ability of the Dubbo Project to provide long term sustainable security of supply of a diverse range of over 15 critical metals and oxides is one of the strong themes which is being increasingly recognised both in Australia and overseas.

Exploration

The Company maintained a focussed multi commodity exploration program in the Central West of NSW. An extensive exploration program focused on the immediate area to the south of the TGO mine has continued as part of the plan to source additional ore feed, either at surface or underground, in the future for TGO. The exploration target area has a cumulative strike length of 2,500 metres comprising the Roswell, San Antonio and El Paso prospects.

Core drilling has commenced early this year as part of the re-evaluation of the potential for Peak Hill to be developed underground to provide additional ore feed for TGO.

Significant changes in the state of affairs

On 24 September 2018, the board approved the commencement of underground mine at Tomingley Gold Operations. Development has commenced with both the main decline and vent portals established.

In December 2018, Alkane entered into a gold forward sales contract for 15,000oz at A$1,770.81/z for maturity, in January 2019. Prior to maturity In January 2019 Alkane finalised a term hedging facility with Macquarie Bank Limited and rolled the positions so that the following forward sale contracts were executed:

Quarter ending	Forward price A$/oz	Delivery ounces
March 2019	1,777	1,500
June 2019	1,777	1,000
December 2019	1,777	1,250
March 2020	1,777	2,250
June 2020	1,777	3,000
September 2020	1,777	2,750
December 2020	1,777	3,000
March 2021	1,777	250
Total	1,777	15,000

Alkane completed the strategic placement into ASX listed gold developer Calidus Resources Ltd (ASX: CAI). Further information on the strategic investment can be found in the ASX announcement "Strategic Investment in Calidus Resources" dated 17 October 2018.

Alkane did not progress with its proposed investment into gold exploration company Explaurum Limited (ASX:EXU) with the deposit and a break fee of $400,000 paid to Alkane.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

Rounding of amounts

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding-off' of amounts in the directors' report and financial report. Amounts in this report have been rounded off in accordance with that ASIC Legislative Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors

Nicholas Earner

N Earner
Managing Director

27 February 2019
Perth

Auditor's Independence Declaration

As lead auditor for the review of Alkane Resources Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Alkane Resources Limited and the entities it controlled during the period.

Helen Bathurst

Helen Bathurst
Partner
PricewaterhouseCoopers

Perth
27 February 2019

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General information

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 February 2019.

Alkane Resources Ltd
Consolidated statement of comprehensive income
For the half-year ended 31 December 2018

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Continuing operations			
Revenue	3	52,352	58,747
Cost of sales	4	(34,819)	(40,402)
Gross profit/(loss)		17,533	18,345
Other income	3	1,759	990
Expenses			
Other expenses	4	(4,797)	(5,601)
Finance costs		(258)	(278)
Total expenses		(5,055)	(5,879)
Profit before income tax expense		14,237	13,456
Income tax expense	5	(2,047)	-
Profit after income tax expense for the half-year attributable to the owners of Alkane Resources Ltd		12,190	13,456
Other comprehensive loss			
Items that will not be reclassified subsequently to profit or loss			
Changes in fair value of financial assets at fair value through other comprehensive income		(260)	-
Other comprehensive loss for the half-year, net of tax		(260)	-
Total comprehensive income for the half-year attributable to the owners of Alkane Resources Ltd		11,930	13,456
		Cents	**Cents**
Basic earnings per share	23	2.41	2.66
Diluted earnings per share	23	2.36	2.64

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes

Alkane Resources Ltd
Consolidated balance sheet
As at 31 December 2018

	Note	31 Dec 2018 $'000	30 Jun 2018 $'000
Assets			
Current assets			
Cash and cash equivalents		73,700	72,003
Trade and other receivables		1,864	2,030
Inventories	6	12,895	19,153
Biological assets	7	301	12
Total current assets		88,760	93,198
Non-current assets			
Exploration and evaluation	8	99,771	93,136
Property, plant and equipment	9	39,414	36,266
Financial assets at fair value through other comprehensive income	10	4,755	-
Biological assets	11	453	526
Other financial assets	12	8,356	8,347
Total non-current assets		152,749	138,275
Total assets		241,509	231,473
Liabilities			
Current liabilities			
Trade and other payables	13	8,255	9,299
Income tax provision	5	6,929	6,929
Provisions		6,399	11,202
Total current liabilities		21,583	27,430
Non-current liabilities			
Provisions	14	15,144	13,647
Income tax provision	5	2,071	-
Total non-current liabilities		17,215	13,647
Total liabilities		38,798	41,077
Net assets		202,711	190,396
Equity			
Issued capital	15	220,136	220,160
Reserves		2,265	2,116
Accumulated losses		(19,690)	(31,880)
Total equity		202,711	190,396

The above consolidated balance sheet should be read in conjunction with the accompanying notes

Alkane Resources Ltd
Consolidated statement of changes in equity
For the half-year ended 31 December 2018

	Contributed equity $'000	Share based payments reserve $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2017	219,948	1,330	(56,351)	164,927
Profit after income tax expense for the half-year	-	-	13,456	13,456
Other comprehensive income for the half-year, net of tax	-	-	-	-
Total comprehensive income for the half-year	-	-	13,456	13,456
Share based payments	301	529	-	830
Share issue transaction costs	(5)	-	-	(5)
Balance at 31 December 2017	220,244	1,859	(42,895)	179,208

	Contributed equity $'000	Share based payment reserve $'000	Other reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 July 2018	220,160	2,116	-	(31,880)	190,396
Profit after income tax expense for the half-year	-	-	-	12,190	12,190
Other comprehensive loss for the half-year, net of tax	-	-	(260)	-	(260)
Total comprehensive income/(loss) for the half-year	-	-	(260)	12,190	11,930
Share based payments	-	409	-	-	409
Deferred tax recognised in equity	(24)	-	-	-	(24)
Balance at 31 December 2018	220,136	2,525	(260)	(19,690)	202,711

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

Alkane Resources Ltd
Consolidated statement of cash flows
For the half-year ended 31 December 2018

	Note	31 Dec 2018 $'000	31 Dec 2017 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		52,352	58,747
Payments to suppliers and employees (inclusive of GST)		(32,746)	(37,558)
		19,606	21,189
Interest received		668	516
Other income received		903	473
Finance costs paid		(52)	(49)
Royalties paid		(1,809)	(2,902)
Net cash from operating activities	22	19,316	19,227
Cash flows from investing activities			
Payments for property, plant and equipment		(3,003)	(7,732)
Payments for exploration and evaluation		(6,999)	(5,943)
Payment for development		(3,135)	-
Payments for security deposits		(20)	(3,073)
Payments for biological assets		(161)	(203)
Payments for financial assets at fair value through other comprehensive income		(5,015)	-
Proceeds from release of security deposits		10	-
Proceeds from sale of biological assets		108	-
Net cash used in investing activities		(18,215)	(16,951)
Cash flows from financing activities			
Share issue transaction costs		-	(4)
Proceeds from borrowings		988	993
Repayment of borrowings		(392)	(398)
Net cash from financing activities		596	591
Net increase in cash and cash equivalents		1,697	2,867
Cash and cash equivalents at the beginning of the financial half-year		72,003	41,969
Cash and cash equivalents at the end of the financial half-year		73,700	44,836

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes

Note 1. Significant accounting policies

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

This condensed consolidated interim financial report does not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

(a) New or amended standards adopted by the group

AASB 9 Financial Instruments - impact of adoption
AASB 9 Financial Instruments address the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and new impairment model for financial assets. The standard applies from 1 July 2018.

The Group has entered into gold forward contracts to manage the gold price of a proportion of anticipated sales of gold, which do not meet the criteria of financial instruments for accounting purposes on the basis that they met the normal purchase/sale exemption because physical gold would be delivered into the contract.

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through other comprehensive income, or through profit or loss), and
- Those to be measured at amortised cost.

The classification depends on the Group's business model for managing financial assets and the contractual terms of the cash flows. For investments in equity instruments that are not held for trading, the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

The Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and fair value through other comprehensive income (FVOCI). The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Trade receivables

The group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Other current receivables and prepayments were previously presented together with trade receivables but are now presented as other financial assets at amortised cost (receivables) and other current assets (prepayments) in the balance sheet, to reflect their different nature.

The Group completed a detailed assessment of its financial assets as at 1 July 2018. Most of the requirements in AASB 139 for classification and measurement of the Group's financial assets were carried forward in AASB 9. Hence, the Group's accounting policy for financial assets did not change except for the application of new impairment rules.

In determining the recoverability of a trade or other receivable using the expected credit loss model, the Group performs a risk analysis considering the type and age of the outstanding receivables, the creditworthiness of the counterparty, contract provisions, letter of credit and timing of payment.

The Group has determined that the expected provision for credit losses is not material.

Note 1. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers - impact of adoption
The AASB has issued a new standard for the recognition of revenue. This replaces AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so a notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of application (1 July 2018) without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

Adoption of the new standard has had neither an impact on the timing of recognition, nor on the measurement of revenue in respect of the sale of goods.

Revenue from the sale of goods is recognised when the Group satisfies its performance obligations under its contract with the customer, by transferring such goods to the customers control. Control is generally determined to be when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good.

Bullion revenue is recognised at a point in time upon transfer of control to the customer.

The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. Accordingly, the group does not adjust transaction prices for the time value of money.

(b) Impact of standards issued but not yet applied by the entity

AASB 16 Leases
AASB 16 requires a lessee to recognise assets and liabilities for all terms with a term of more than twelve months, unless the underlying asset is of low value.

At this stage Group does not expect any material impact given the term and values of current leases as there are no material long term operating leases.

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

Note 2. Operating segments

The consolidated entity is organised into two operating segments: gold operations and the exploration and evaluation of rare metals. These operating segments are based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

Costs that do not relate to either of the operating segments have been identified as unallocated costs. Corporate assets and liabilities that do not relate to either of the operating segments have been identified as unallocated. The Group has formed a tax consolidation group and therefore tax balances have been allocated to unallocated grouping. The Group utilises a central treasury function and therefore the cash balances have been allocated to the unallocated segment.

Note 2. Operating segments (continued)

	Gold Operations $'000	Rare Metals $'000	Unallocated $'000	Total $'000
Half-year ended 31 December 2018				
Gold sales to external customers	52,352	-	-	52,352
Segment profit before income tax	17,437	231	(3,431)	14,237
Segment profit includes the following non-cash adjustments:				
Depreciation and amortisation	(5,990)	(3)	(64)	(6,057)
Inventory product movement and provision	(6,218)	-	-	(6,218)
Restructuring provision	(138)	-	-	(138)
Total adjustments	(12,346)	(3)	(64)	(12,413)
As at 31 December 2018				
Total segment assets	33,769	114,559	93,181	241,509
Total segment liabilities	(26,430)	(1,069)	(11,299)	(38,798)
Net segment assets	7,339	113,490	81,882	202,711

	Gold Operations $'000	Rare Metals $'000	Unallocated $'000	Total $'000
Half- year ended 31 December 2017				
Gold sales to external customers	58,747	-	-	58,747
Segment profit before income tax expense	17,812	(228)	(4,128)	13,456
Segment net profit includes the following non-cash adjustments				
Depreciation and amortisation	(19,055)	(1)	(141)	(19,197)
Deferred stripping costs capitalised	4,280	-	-	4,280
Exploration expenditure written off or provided for	-	(8)	(124)	(132)
Inventory product movement	8,685	-	-	8,685
Restructuring provision	(307)	-	-	(307)
Total adjustments	(6,397)	(9)	(265)	(6,671)
As at 30 June 2018				
Segment assets	37,180	109,902	84,391	231,473
Segment liabilities	(31,120)	(1,268)	(8,689)	(41,077)
Net segment assets	6,060	108,634	75,702	190,396

Note 3. Revenue

	31 Dec 2018 $'000	31 Dec 2017 $'000
Revenue from continuing operations		
Gold sales	52,352	58,747

Other income		
Net foreign exchange gain/(loss)	(5)	12
Other income	1,034	462
Interest received	730	516
Total other income	1,759	990

(a) Other income

Other income includes $400,000 break fee from the Explaurum strategic investment that did not proceed, sale of water available under certain owned water licences of $320,000 (2017: $192,000) and agistment and livestock sales $119,000 (2017: $180,000) from farming activity.

(b) Interest income

Interest is recognised as it is accrued using the effective interest method.

Note 4. Expenses

	31 Dec 2018 $'000	31 Dec 2017 $'000
Cost of sales		
Cash costs of production	21,330	32,137
Deferred stripping costs capitalised	-	(4,280)
Inventory product movement	6,218	(8,685)
Depreciation and amortisation	5,990	19,055
Royalties and selling costs	1,281	2,175
	34,819	40,402

Note 4. Expenses (continued)

(a) Cash costs of production

Cash costs of production include ore and waste mining costs, processing costs and site administration and support costs. Cash costs of production include $5,534,000 of employee remuneration benefits (31 December 2017: $8,158,000).

(b) Deferred stripping costs capitalised

Stripping costs capitalised represents costs incurred in the development and production phase of a mine and are capitalised as part of the cost of constructing the mine and subsequently amortised over the useful life of the ore body that access is provided to on a units-of-production basis.

(c) Inventory movement

Inventory movement represents movement in the balance sheet inventory ore stockpile, gold in circuit and bullion on hand.

(d) Provision for inventory

Inventory must be carried at the lower of cost and net realisable value. Net realisable value is estimated selling price in the ordinary course of business less estimated costs to complete processing and to make a sale. The net realisable value provision equals the decrement between the net realisable value and the carrying value before provision.

	31 Dec 2018 $'000	31 Dec 2017 $'000
Other expenses		
Corporate administration	1,126	1,254
Employee remuneration and benefits	742	968
Professional fees and consulting services	817	774
Share based payments	409	830
Directors' fees and salaries expensed	309	403
Depreciation	67	142
Dubbo project expenses	517	554
Pastoral company operating expenses	672	238
Restructuring provision	138	307
Exploration expenditure provided for or written off	-	131
	4,797	5,601

Note 5. Income tax

The potential benefit of carried forward tax losses will only be obtained if taxable income is derived of a nature and amount sufficient to enable the benefit from the deductions to be realised. In accordance with the Group's policies for deferred taxes, a deferred tax asset is recognised only if it is probable that sufficient future taxable income will be generated to offset against the asset.

Determination of future taxable profits requires estimates and assumptions as to future events and circumstances including commodity prices, ore resources, exchange rates, future capital requirements, future operational performance, the timing of estimated cash flows, the ability to successfully develop and commercially exploit resources.

Tax legislation prescribes the rate at which tax losses transferred from entities joining a tax consolidation group can be applied to taxable incomes and this rate is diluted by changes in ownership, including capital raisings. As a result the reduction in the rate at which the losses can be applied to future taxable incomes, the period of time over which it is forecast that these losses may be utilised has extended beyond that which management considers prudent to support their continued recognition for accounting purposes. Accordingly no deferred tax asset has been recognised for certain tax losses. Recognition for accounting purposes does not impact the ability of the Group to utilise the losses to reduce future taxable profits.

Note 5. Income tax (continued)

Deferred tax assets relating to tax losses and deductible temporary differences can only be recognised to the extent that it is probable that future taxable profits will be available against which the tax losses and deductible temporary difference can be utilised. Deferred tax assets have been recognised only to the extent that they offset deferred tax liabilities as at this time it is not probable that sufficient future taxable profits will be available against which to offset the tax losses and deductible temporary differences. No tax expense has been recognised in the half-year ended 31 December 2018 due to utilisation of previous unrecognised tax losses and temporary deductible differences. Recognition for accounting purposes does not impact the ability of the Group to utilise the deductible temporary differences to reduce future taxable profits.

Alkane Resources Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Note 6. Current assets - inventories

	31 Dec 2018 $'000	30 Jun 2018 $'000
Ore stockpiles	7,397	11,229
Gold in circuit	2,866	1,184
Bullion on hand	1,264	5,333
Consumable stores	1,368	1,407
	12,895	19,153

Inventories must be carried at the lower of cost and net realisable value. At balance date inventory was carried at cost (30 June 2018: inventories were carried at cost).

Note 7. Current assets - biological assets

Biological assets comprise livestock which were acquired by Toongi Pastoral Company Pty Ltd as part of farming operations on the surrounding land to the Dubbo Project mining lease.

	31 Dec 2018 $'000	30 Jun 2018 $'000
Biological assets	301	12

Note 8. Non-current assets - exploration and evaluation

	31 Dec 2018 $'000	30 Jun 2018 $'000
Opening balance at beginning of period	93,136	83,107
Expenditure during the period	6,635	10,210
Amounts provided for or written off	-	(181)
Closing balance end of period	99,771	93,136

Note 9. Non-current assets - property, plant and equipment

	Land and Buildings $'000	Plant and Equipment $'000	Capital WIP $'000	Mine Properties $'000	Total $'000
Half-year ended 31 December 2018					
Opening cost	39,743	73,590	630	162,518	276,481
Additions	-	-	6,855	2,360	9,215
Transfers between classes	37	888	(1,517)	592	-
Disposals	-	(415)	-	-	(415)
Net movement	37	473	5,338	2,952	8,800
Closing balance	39,780	74,063	5,968	165,470	285,281
Opening accumulated depreciation and impairment	(12,483)	(71,651)	-	(156,081)	(240,215)
Depreciation charge	(116)	(921)	-	(5,020)	(6,057)
Disposals	-	405	-	-	405
Net movement	(116)	(516)	-	(5,020)	(5,652)
Closing balance	(12,599)	(72,168)	-	(161,100)	(245,867)
Closing net carrying value	27,181	1,895	5,968	4,370	39,414

	Land and buildings $'000	Plant and equipment $'000	Capital WIP $'000	Mine properties $'000	Total $'000
Year ended 30 June 2018					
Cost	39,743	73,590	630	162,518	276,481
Accumulated depreciation	(12,483)	(71,651)	-	(156,081)	(240,215)
Closing net carrying value	27,260	1,939	630	6,437	36,266

Note 10. Non-current assets - financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income (FVOCI) comprises equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

	31 Dec 2018 $'000	30 Jun 2018 $'000
Ordinary shares	4,755	-

Reconciliation
Reconciliation of the fair values at the beginning and end of the current and previous financial half-year are set out below:

Opening fair value	-	-
Additions	5,015	-
Revaluation decrements	(260)	-
Closing fair value	4,755	-

Refer to note 16 for further information on fair value measurement.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. There were no disposals during the current period.

Note 11. Non-current assets - biological assets

Biological assets comprise livestock which were acquired by Toongi Pastoral Company Pty Ltd as part of farming operations on the surrounding land to the Dubbo Project mining lease.

	31 Dec 2018 $'000	30 Jun 2018 $'000
Biological assets	453	526

Note 12. Non-current assets - other financial assets

	31 Dec 2018 $'000	30 Jun 2018 $'000
Security deposits	8,356	8,347

The above deposits are held by financial institutions or regulatory bodies as security for rehabilitation obligations as required under the respective exploration and mining leases or as required under agreement. All bonding requirements are cash backed.

All interest bearing deposits are held in Australian dollars and therefore there is no exposure to foreign currency risk. The fair value of other financial assets is equal to its carrying value.

Note 13. Current liabilities - trade and other payables

	31 Dec 2018 $'000	30 Jun 2018 $'000
Trade payables	3,583	3,953
Other payables	4,672	5,346
	8,255	9,299

Note 14. Non-current liabilities - provisions

	31 Dec 2018 $'000	30 Jun 2018 $'000
Employee benefits	383	417
Rehabilitation	14,761	13,187
Restructuring	-	43
	15,144	13,647

Note 15. Equity - issued capital

	31 Dec 2018 Shares	30 Jun 2018 Shares	31 Dec 2018 $'000	30 Jun 2018 $'000
Ordinary shares - fully paid	506,096,222	506,096,222	220,136	220,160

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 16. Fair value measurement

Fair value hierarchy

The following tables detail the consolidated entity's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

- 31 Dec 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Financial assets at fair value through other comprehensive income (FVOCI):				
Equity securities - mining sector	4,755	-	-	4,755
Total assets	4,755	-	-	4,755

There were no transfers between levels during the financial half-year.

Note 17. Contingent liabilities

The Group has contingent liabilities estimated up to the value of $5,650,000 for the potential acquisition of several parcels of land surrounding the Dubbo Project (30 June 2018: $5,650,000). The landholders have the right to require subsidiary Australian Strategic Materials Ltd to acquire their property as provided for in the development consent conditions for the Dubbo Project or under agreement with Australian Strategic Materials Ltd.

Note 18. Commitments

(a) Exploration and mining lease commitments

In order to maintain current rights of tenure to exploration and mining tenements, the Group will be required to outlay the amounts disclosed in the below table. These amounts are discretionary, however if the expenditure commitments are not met then the associated exploration and mining leases may be relinquished.

	31 Dec 2018 $'000	30 Jun 2018 $'000
Within one year	2,086	1,677

(b) Non-cancellable operating leases

The Group leases various premises under operating leases. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

	31 Dec 2018 $'000	30 Jun 2018 $'000
Within one year	256	413

Note 18. Commitments (continued)

(c) Physical gold delivery commitments

In December 2018, Alkane entered into a gold forward sales contract for 15,000oz at A$1,770.81/z for maturity in January 2019. Prior to maturity in January 2019 Alkane finalised a term hedging facility with Macquarie Bank Limited and rolled the positions so that the following forward sale contracts were executed:

Quarter ending	Forward price A$/oz	Delivery oz
March 2019	1,777	1,500
June 2019	1,777	1,000
December 2019	1,777	1,250
March 2020	1,777	2,250
June 2020	1,777	3,000
September 2020	1,777	2,750
December 2020	1,777	3,000
March 2021	1,777	250
Total	1,777	15,000

The gold forward sales contracts disclosed below did not meet the criteria of financial instruments for accounting purposes on the basis that they met the normal purchase/sale exemption because physical gold would be delivered into the contract. Accordingly, the contracts were accounted for as sale contracts with revenue recognised in the period in which the gold commitment was met. The balances in the table below relate to the value of the contracts to be delivered into by transfer of physical gold.

	Gold for physical delivery Ounces	Contracted gold sale price per ounce ($)	Value of committed sales $'000
31 December 2018			
Fixed forward contracts			
Within one year	15,000	1,771	26,562
30 June 2018			
Fixed forward contracts			
Within one year	4,000	1,750	6,999

(d) Capital commitments

Capital commitments for the period at the end of the reporting period but not recognised as liabilities amounted to $4,050,000 (June 2018: $281,000)

Note 19. Related party transactions

Parent entity
Alkane Resources Ltd is the parent entity.

Transactions with related parties
Nuclear IT, a director related entity, provides information technology consulting services to the Group which includes the coordination of the purchase of information technology hardware and software totalling $420 for the current period (December 2017: $3,767). These terms are documented in a service level agreement and represent normal commercial terms.

Ms K E Brown resigned as company secretary on 29 March 2017 so no fees were paid during the period (December 2017: $92,500) to Mineral Administration Services (MAS)in which Ms K E Brown has a substantial financial interest. MAS provided administration and secretarial services to the Group.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 20. Assets pledged as security

As at the date of this report $8,356,000 (June 2018: $8,347,000) in deposits have been provided as security. Refer note 12 for details.

On 21 December 2018, security for a term hedging facility for 15,000oz with Macquarie Bank Ltd was established with a guarantee for payment under the facility provided by Alkane Resources Ltd and Tomingley Holdings Pty Ltd.

Note 21. Events after the reporting period

In December 2018, Alkane entered into a gold forward sales contract for 15,000oz at A$1,770.81/oz for maturity in January 2019. Prior to maturity in January 2019 Alkane finalised a term hedging facility with Macquarie Bank Limited and rolled the positions as outlined in Note 18.

In February 2019, Alkane entered into a further gold forward sales contract for 13,500oz at A$1,849.10/oz for delivery throughout the period March 2019 to March 2021.

Open cut mining finalised in January 2019. Refer to Directors’ report for more detail.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 22. Reconciliation of profit after income tax to net cash from operating activities

	31 Dec 2018 $'000	31 Dec 2017 $'000
Profit after income tax expense for the half-year	12,166	13,456
Adjustments for:		
Depreciation and amortisation	6,057	19,197
Net loss on disposal of non-current assets	10	-
Share-based payments	409	830
Non-cash finance charges	206	188
Exploration costs provided for or written off	-	131
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	330	(145)
Decrease/(increase) in inventories	6,041	(8,802)
Increase in provision for income tax	2,047	-
(Decrease)/increase in trade and other payables	(3,174)	(5,896)
Increase in other provisions	(4,853)	65
Increase in fair value of biological assets	53	203
Net cash from operating activities	19,316	19,227

Note 23. Earnings per share

	31 Dec 2018 $'000	31 Dec 2017 $'000
Profit after income tax attributable to the owners of Alkane Resources Ltd	12,190	13,456
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	506,096,222	505,739,740
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	10,736,228	4,505,714
Weighted average number of ordinary shares used in calculating diluted earnings per share	516,832,450	510,245,454
	Cents	**Cents**
Basic earnings per share	2.41	2.66
Diluted earnings per share	2.36	2.64

Alkane Resources Ltd
Directors' declaration
31 December 2018

In the directors' opinion:

- the financial statements and notes set out on pages 8 to 24 are in accordance with the *Corporations Act 2001* including:
  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date and

- there are reasonable grounds to believe that the Alkane Resources Limited will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Nicholas Earner

____
N Earner
Managing Director

27 February 2019
Perth

Independent auditor's review report to the members of Alkane Resources Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alkane Resources Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Alkane Resources Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alkane Resources Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Alkane Resources Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Helen Bathurst

Helen Bathurst
Partner

Perth
27 February 2019