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Alkane Resources Limited
129 Edward Street
Perth, Western Australia, 6000

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Alkane Resources Ltd (ASX code: ALK) has three exploration projects at various stages of development within a 120 kilometre radius in the Central West of NSW. At the Tomingley Gold Project (100%) you expect the Definitive Feasibility Study to be completed in the first half of 2009. Have you had preliminary discussions with financiers? What feedback are you getting?

MD Ian Chalmers

Yes, we've spoken to resource banks and investment banks and the feedback has been positive, although I'd like to stress that the discussions have been very general based on the broad parameters of the project.

The main lending criterion for banks at the moment seems to be the sums involved. The total capital we require is about A\$50 million, which is not large and a portion of that will be debt funded. The amount of debt we negotiate will ultimately be determined by the results in our DFS. The impression I'm getting is that banks at this time are willing to lend amounts below A\$100 million, but it starts to get quite difficult above that level.

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At the Tomingley Gold Project, JORC Resources stand at 606,350 ounces before including the Caloma deposit. What is the latest timing and expectations for the JORC resource at Caloma?

MD Ian Chalmers

The timing for the Caloma resource has been pushed out past the end of the year. The reasons are the complexity of the orebody and the deposit is larger than we originally thought. We've taken a lot longer to put together the three dimensional geological models and it has been exacerbated by some software issues in the modelling program we use.

The geological models suggest Caloma could be bigger than the two million tonnes we previously thought, but perhaps not at the 3 g/t grade. Overall, it seems likely to be more than 200,000 ounces of contained gold and maybe as high as 400,000 ounces. It just depends on how it all fits together.

We have also been remodelling the Wyoming One and Three deposits and will most likely adjust those resources to reflect deeper core drilling that has been completed over the last few years. At Wyoming One particularly, the drilling has changed our view of the bulk tonnage and grade relationships in the main porphyry host below the anticipated open pit depth.

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What progress have you made with the Definitive Feasibility Study for Tomingley? With the proviso that you have not completed the DFS, what's the latest on indicative production and cash costs you expect from Tomingley?

MD Ian Chalmers

Our base case for the open pit remains one million tonnes a year of ore to produce about 70,000 ounces of gold per annum using standard CIL gold recovery over a minimum of five years. The underground could then produce 40-50,000 ounces a year over 5 years, but this requires significantly more drilling to prove the resource base. The plan is to focus on the open pit and return to the underground exploration once the operation is up and running.

If the tonnages at Caloma are bigger than the original concept, which is quite possible, the open pit mine life could be seven or eight years, which would be fantastic. The preliminary models we ran a few months ago calculated a cash cost of about A\$550/oz, but that will potentially reduce because there's been a significant drop in the diesel price and other inputs such as labour recently.

The expected operating margin is around A\$600 to 650/oz at the current spot gold price of above A\$1,200/oz and that would generate cash flow of around A\$40 million a year on annual production of 70,000 ounces. If we can achieve that level of cash flow from the open pit for five to eight years it starts to look a very good project indeed. And that's excluding any additional open pit resources we might find nearby or the potential underground development.

Other major activities in the DFS include a detailed metallurgical program on all three orebodies which will have an impact on final costs and plant throughput, as well as all the associated infrastructure issues such as water supply, site access and power supply. Fortunately the area still shows those advantages of a local workforce (no fly-in fly-out) and state grid power, which is significantly lower than diesel generation costs.

Geotechnical and site sterilisation drilling is scheduled to commence in January, and we will include some RC drilling at Caloma in that program to tidy up some loose ends that have emerged from the orebody modelling.

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Alkane has been operating the Demonstration Pilot Plant (DPP) for its 100%-owned Dubbo Zirconia Project (DZP) since April 2008. In late November 2008, you presented at the 4th International Rare Earth Conference held in Hong Kong. What level of interest was there from potential customers? Can you summarise the current market dynamics for your products? How will you engage potential customers going forward?

MD Ian Chalmers

The conference was very interesting and even though there was an amount of conservatism given the world financial situation, everybody is still very positive about the rare earth industry. Those views are primarily driven by legislated environmental issues such as emission controls for vehicles, low energy light bulbs, rechargeable batteries and high temperature magnets etc. Demand for these products will be reflected in demand for rare earths and the general feeling is that, while we may have a flat period for the next six months or so, the long term projections are good.

Market conditions have also moved in favour of our zirconium and niobium businesses. Most of the world's downstream zirconium output comes from zircon supplied by mineral sands operations. However, supply from that source is not keeping up with demand, resulting in upward price pressure and flow-on benefits for the downstream zirconium business. Niobium demand has been driven by the special steel industry and although we can expect some flattening in the next six months, our discussions in Hong Kong suggest that there shouldn't be much impact on niobium demand or price longer term.

The only way to properly engage potential customers is to produce sample products. We anticipate delivering zirconium and niobium samples early in the New Year and rare earths possibly around March. Hopefully we can then move on to discussions on sales terms including volume and price. I was pleasantly surprised on the number of positive responses in Hong Kong about the Project. We have sized the DZP in a way that should cause the least amount of impact to the market and they seemed to appreciate that approach, particularly when you consider the size of the DZP resource could support a much larger project. Our base case model remains at 200,000 tonnes per annum of ore throughput with an upside case of 400,000 tonnes per annum. At the base case rate, the open pit has a life in excess of 400 years, so it's a very big resource.

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You recently conducted the second 24/7 operating campaign for the DPP including the yttrium-rare earth recovery. What were the results? Have any problematic issues emerged?

MD Ian Chalmers

The plant is working well. In a mechanical sense, the second 24/7 campaign of approximately 30 days went smoothly with no major issues. We've been progressively resolving some chemistry issues, which were apparent in the previous campaign and we're now producing quality zirconium and niobium

products. To date, we've produced nearly half a tonne of zirconium product and about 100kg of niobium product, but the early output is not what we would call our standard specifications.

The next campaign will be undertaken in February and will be a more definitive run. The light rare earth laboratory work is producing some good results and work is continuing on the yttrium and heavy rare earth recovery. We are quite excited because we could become the biggest yttrium and heavy rare earth producer outside China if we can get this part of the project incorporated into the output.

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Alkane is a joint venture partner in the Moorilda Project near Orange, NSW (managed by Newmont Australia) which contains the McPhillamys discovery. In public documents you have indicated McPhillamys could contain 1 million ounces to 2.5 million ounces. Drilling has been ongoing to help define the extent of the mineralisation. What is the strategy to progress McPhillamys? When do you expect to announce a firmer indication of size and grade?

MD Ian Chalmers

It has been a slow process in compiling the geological data and generating an exploration model, but we have learnt a lot about McPhillamys in the last six months. The results recently released to the ASX are part of that process of understanding the geology, such as the controls on the gold mineralisation, and the structural and stratigraphic features of the deposit. We're also starting to test some of the regional targets. Kings Plains Prospect, for example, is about 2 kilometres from McPhillamys and looks very interesting. To the south of that there's another approximately 4 kilometres of the same stratigraphy with historic gold workings scattered along and there has been almost no ground work done on that at all.

The drilling results so far have confirmed that McPhillamys is a large gold system. It's at least 500 metres long and up to 200 metres wide in the middle. It's certainly large enough to contain the ounces we've spoken about previously. The forward strategy really depends on Newmont. We will continue to drill virtually up until Christmas and the plan is to wait until all the drilling results are in and then determine how we should proceed. By the end of 2009 we should at least have a feel for the broad potential of the project and the regional area.

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What approach to cash preservation and expenditure is Alkane taking during the world financial crisis? Do you expect the crisis to impact your longer term growth objectives?

MD Ian Chalmers

Obviously, McPhillamys costs us nothing at the moment because it is funded by Newmont and whilst we have other exploration projects in the pipeline, the short term plan is to limit expenditure on exploration by doing little other than building up the technical database through geological mapping and sampling.

However, it's very important that our two key projects, particularly Tomingley, are progressed as much as possible in the next six months to a completed DFS and then to go into production if the results are positive. Once we are in

production, the cash flows generated will largely protect us from the impact of future financial crises, assuming the gold price maintains its current levels.

We are also strongly committed to the DZP and are aiming to complete the DFS by late next year. As such, we will intermittently run the demonstration plant until the middle of the year and gather information on product quality, pricing, costings, demand and the engineering data from the demonstration plant.

Fortunately, our cash balance is strong with over \$8 million in the bank and no debt. The next major financial decision will be whether we have a capital raising as part of the debt/equity funding to develop Tomingley.

At this stage, we don't see any major change in our long term strategy, which is to define a number of resource positions in the Central West of NSW and develop those into production. The prices for our commodities remain strong and, as long as they do, we have no reason to change our strategy.

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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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