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Alkane Resources Ltd (ASX code – ALK) has moved to a Definitive Feasibility Study (DFS) on its Tomingley Gold Project (TGP) in the Central West of New South Wales. What is the likelihood of the project proceeding?

MD Ian Chalmers

At this stage the probability of the project proceeding is very high. We've always had a positive view, but the recent drilling results at Caloma have reinforced that view.

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Alkane recently added to the TGP gold potential after recent drilling results at Caloma. Can you describe the outcomes and the success of that recent drilling? Why is it significant for the project?

MD Ian Chalmers

We've previously stated that with the project economics we ran last year, we needed another one million tonnes of open pitable ore at a grade at least the equivalent of the Wyoming deposits for the project to generate an acceptable return. Anything more than 2 g/t gold in open pit grade would have been a real positive. The Caloma open pit grade could be closer to 3 g/t gold and therefore will have a significant impact on the project economics.

The recent drilling at Caloma returned several high grade intersections with very shallow cover of only 2-3 metres. This could be a high quality open pit operation. As noted in our ASX announcement of 29 August 2007, the gold potential was defined as between 120,000 to 190,000 ounces, but that is only in the top 100 metres.

We're certainly very pleased with the results and it should generate significantly better project economics than the numbers we calculated last year.

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When might you classify the gold potential at Caloma as a JORC resource? How might the TGP resource size and quality improve if Caloma is included in resources?

MD Ian Chalmers

We've booked an RC drill rig for early October. If we can only get one rig, it's probably a two to three month program to complete a drill-out. Caloma has doubled in size since we first started looking at it four or five months ago, and it will take us another couple of months after the next drilling program to calculate a resource to JORC standards, so that puts us into early next year.

The current identified measured, indicated and inferred resources at the TGP are about 606,000 ounces, which are contained within the two Wyoming deposits. We think there is a strong chance that Caloma will have a potential of around 200,000 ounces to a depth of just 100 metres. If we extend that to 200 metres deep then we could be looking at a potential of 400,000 ounces at good grades and with little overburden.

All up, the Wyoming system including Caloma is heading towards a +1 million ounce potential with opportunities to extend it further – and that is without looking at the broader TGP exploration potential.

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What are the possible project parameters for the TGP including capital requirements and annual net cash flow generation?

MD Ian Chalmers

The most likely scenario now is to mine about 1 million tonnes per annum from the Wyoming and Caloma open pits over four years, and we'll hopefully extend it to at least five years.

The cash operating cost calculated during the scoping study was about A\$450/oz. At today's gold price of over A\$800/oz that would generate a cash operating margin of at least \$350/oz. On production of around 70,000 ounces per year that works out at plus \$24 million in operating cash flow per year, approaching a total of \$100 million over the possible open pit life.

Conceptually the Wyoming underground could then operate for an additional four years. We also think that Caloma has significant underground potential. We've demonstrated the underground potential at Wyoming One and we believe geologically that we have identified potential at Caloma. It's possible that we could have a combined underground operation mining at about half a million tonnes a year and that would certainly maintain the 70,000 ounces per year in production at similar cash costs to the open pits.

Around 12 months ago we estimated the capital cost for the project to be around \$40 million. We used fairly conservative assumptions and so we don't expect this estimate to have changed significantly even though there have been cost pressures since.

On these assumptions, the project would have a capital payback of about two years.

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What potential is there to extend the Wyoming and Caloma deposits? How and when might you extend the mineralisation at the Wyoming and Caloma prospects?

MD Ian Chalmers

At Caloma, we think there is scope to extend the existing area of mineralisation and we'll begin testing during the drilling program in October. The ore potential we identified during the scoping study focused on the central part of the mineralisation over about 300 metres of strike, whereas we know that the mineralisation extends over 600 metres. Just as importantly, we think that these high grade structures such as Caloma are likely to have depth extensions and potentially Caloma may extend to the same depths as Wyoming One at 350-400 metres. That would certainly enhance the project enormously.

Wyoming One is still open at depth, but we won't try to extend that until we are underground. It's too expensive to drill from surface.

Wyoming Three remains an underground target and we'd like to look at that again when appropriate.

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What is the broader prospectivity of the TGP? When might you test the broader prospectivity of the project area?

MD Ian Chalmers

There are other targets in the immediate area of Wyoming and Caloma, which we'll drill over time and could easily add to the resource total. We now understand the regional geological setting a lot better and, because of structural and stratigraphic repeats, we think that there's exploration potential east of Wyoming/Caloma in an area we've never previously explored.

Outside the immediate Wyoming/Caloma area, we plan to drill under the old workings of the Myalls United mine. To the south of that is McLean's prospect where we did reconnaissance drilling a couple of years ago and got some interesting hits. These weren't startling, but they gave us enough encouragement to return.

Also, between McLean's and the north end of our Peak Hill Gold Mine, there's a 10 kilometre zone where there has been virtually no recent exploration work. We know there are a number of historic workings in that area. We drilled holes into Smiths earlier this year with some encouragement. There's certainly gold there, but as we found at Caloma, it takes time to understand the geology and orientation of the mineralisation. We think targets like Smiths could prove to be interesting after a more thorough investigation.

Currently we don't plan to be exploring the regional geology in the next 6-12 months because the focus is on getting Wyoming/Caloma into production. After that, we will start looking for more open pit and underground potential.

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How easy will it be to mine the ore bodies given their characteristics? What potential resource to reserve conversion is possible?

MD Ian Chalmers

In terms of the open pits, the only negative is the 30 metres of clay cover at Wyoming One. It's not a difficult ore body, but you have to plan for all the potential issues.

Wyoming Three is a small ore body covered by 9 metres of clay. The initial plan was to only mine that to a shallow level, but we need to optimise that and maybe take it deeper.

At Caloma, we don't see any problems in developing a large open cut. It has only 2 metres of cover but we need to look at the geotechnical issues for this body.

We also don't anticipate any problems in mining underground, but we need to evaluate that more over the next twelve months, and investigate the possible mining techniques more thoroughly.

It's always difficult to try and give an estimate of resources to reserves conversion. Historically in the gold mining industry, a good level is probably 60-70%. We think we may be able to do better than that at the open pits, certainly at Caloma, which appears to have the potential to be a higher grade deposit.

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Given the success of the scoping study, what is the timing and the objectives of the DFS?

MD Ian Chalmers

The timing will be dictated a little by drill rig availability and equally important the availability of consultants and contractors. In the meantime, we'll do as much work as we possibly can to build on our 2006 study and advance the DFS. We are targeting a completion date by the middle of 2008 and give project go-ahead later after financing and statutory approvals.

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Can you briefly update Alkane's other projects?

MD Ian Chalmers

Construction of the demonstration plant is well advanced for the Dubbo Zirconia Project at ANSTO. There are a few major components still to be delivered, but we expect it to be operating in October. We've also commenced a marketing study to update the detailed assessment completed in 2002. The demonstration plant is an important step in advancing the DZP. The project will be extremely valuable for Alkane if we move it into the commercial stage.

We have just started reconnaissance drilling on regional targets near the McPhillamy's prospect within the Orange Joint Venture with Newmont. McPhillamy's is a significant discovery, but Newmont decided to focus the effort on the broader area for additional large discoveries before returning to the main zone at McPhillamy's to drill at least a couple of deep diamond holes. We are very keen to test for depth continuity because we believe that there is a strong chance to expand the mineralisation of that system.

Alkane's other major project is the Galwadgere copper deposit, which has recently taken a back seat to the other developments. However, we still think it has good potential and we're optimistic that we'll drill there before the end of the year, mainly to test the IP targets we generated earlier this year. We want to advance that project to a point where we can judge whether we have a potential mine or not.

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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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