

7 April 2016



Toll Processing For DZP Rare Earths Secured

DUBBO ZIRCONIA PROJECT (DZP) – zirconium, hafnium, niobium, yttrium, rare earth elements

- **Australian Zirconia Limited (AZL), a wholly owned subsidiary of Alkane Resources Ltd, has signed a Letter of Intent (LOI) with Vietnam Rare Earth JSC (VTRE) to toll process AZL's rare earths concentrate produced by the DZP into individual rare earth products.**
- **VTRE is a specialist Vietnamese chemical and advanced materials company which operates a processing plant to produce separated rare earth oxides from rare earth concentrates and recycled magnet materials. VTRE also produces rare earth alloys for neodymium iron boron (NdFeB) permanent magnets.**
- **Further toll processing of DZP feed to produce rare earth metal alloys is also intended. An AZL/VTRE joint marketing company is planned as the vehicle to market VTRE's currently produced rare earths and associated downstream products.**
- **VTRE's facilities are located near Hanoi and have full regulatory approvals for operations and environmental management. Processing operations commenced in 2012.**
- **The partnership will allow AZL to provide a supply (alternate to that from China) of separated rare earth products, guaranteeing certification and supply chain traceability from ore mined and processed in Australia through to customers' products. It will also allow AZL to participate in downstream markets and capture further value adding for its rare earth products.**
- **The LOI states that AZL will have an exclusive right for 12 months to complete due diligence and for the parties to finalise the terms of the agreements, including the option to purchase equity in VTRE.**
- **The expected agreement with VTRE not only delivers the offsite toll processing facility already identified in the Company's existing business case, but also offers the opportunity to add further value to the rare earth products.**
- **VTRE's rare earths operating costs are similar to or lower than in China, which will ensure that AZL's production costs will be world competitive.**

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ABOUT VIETNAM RARE EARTH JSC (Joint Stock Company)

VTRE is a specialist Vietnamese chemical and advanced materials company which operates a rare earths processing plant to produce separated rare earth oxides from rare earth concentrates as well as from recycled magnets. VTRE also produces rare earth alloys and has been selling products into Asian markets for several years.

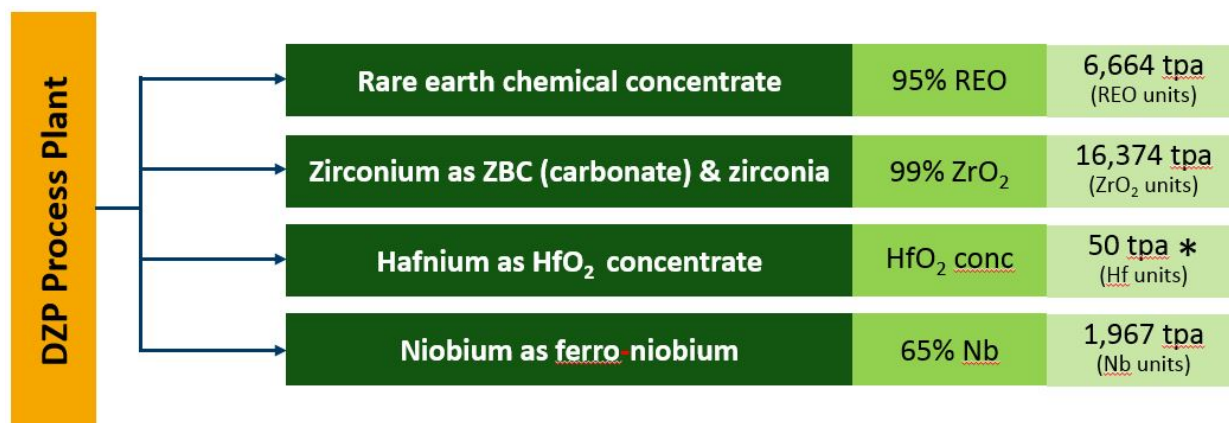
VTRE's rare earths processing facility is located near Phu Ly, Ha Nam Province, south of Hanoi and covers an area of 2.1 hectares. The facility was built in 2011 and commissioned in 2012, and has a processing capacity to produce over 4,000 tonnes per year of separated rare earths.

VTRE's rare earth alloy facilities are located near the port city of Hai Phong east of Hanoi and were built in 2014.

TOLL PROCESSING AGREEMENT

Subject to comprehensive due diligence by AZL, VTRE will toll process a rare earth concentrate from the DZP and produce separated rare earth oxides to agreed customer specifications. Up to 6,664 tonnes of separated rare earth products can be produced per year from the DZP concentrate but initially only the key, high value rare earths of approximately 2,000tpa will be shipped to VTRE for processing, with lanthanum-cerium and yttrium to be recovered at the DZP site. The yttrium oxide will be sold directly from the DZP site while the separated lanthanum and cerium will be stored until their markets improve.

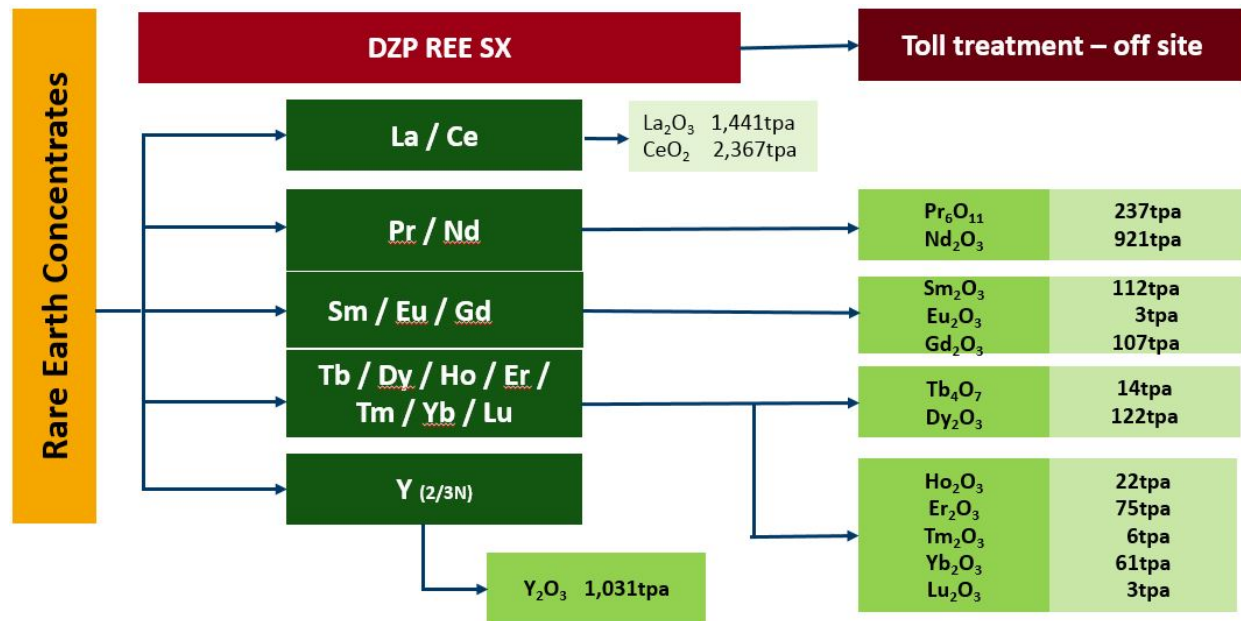
DZP Product Output



* Start up output. 200tpa potential depending upon market demand



DZP Rare Earth Output



The key separated rare earths are the high demand rare earth magnet metals, which include neodymium, praseodymium, didymium (praseodymium-neodymium), dysprosium, and terbium which will account for about 85% of all DZP rare earths revenue (approximately 35% of the total anticipated Project revenue) as detailed in the August 2015 ASX announcement. Lanthanum oxide and cerium oxide, as well as other rare earths contained in the DZP concentrates, may also be processed according to market demand and economics.

The initial term of the agreement is anticipated to run to the end of 2027, with an option to extend.

Importantly the agreement with VTRE gives the Company the opportunity to participate in downstream integrated rare earths processing without the costs of building, commissioning and operating an onsite facility. The use of an offsite toll processing facility was already identified in the Company's existing plans and business case as it minimises potential future technical, process and market risks for the DZP, and subsequent financial risk.

The operating costs of the VTRE rare earths facility are similar to or lower than those in China which will ensure that AZL's toll processing costs will be world competitive. The toll processing costs are lower than those assumed in the operating costs incorporated into the revised DZP financial model released in August 2015.

VTRE will also toll process separated rare earth oxides into value added products including rare earth metal alloys to meet customer specifications. The value added margins from this activity were not included in the Company's August 2015 assessment.

The VTRE sites are fully approved for operations and environmental management of waste streams. Processing of the DZP rare earth concentrate will add little to the existing waste stream at the facility as it is shipped from the DZP as a high purity rare earth (+95% REO) chemical concentrate.



INVESTMENT BY AZL IN VTRE

The LOI provides AZL with an exclusive right for 12 months to complete its due diligence and for the parties to finalise terms and formalise the proposed toll treatment, marketing and investment agreements to a bankable structure. The arrangement allows for investment in VTRE by AZL to secure long term processing of DZP rare earth concentrate, and allow AZL to participate in downstream markets and to capture further value adding for rare earths and potentially for associated zirconium products.

Processing by VTRE from rare earth concentrates to rare earth alloys and other products, will create significant value adding across the supply chain and provide a firm foundation for AZL and the DZP to build upon.

JOINT MARKETING AGREEMENT

AZL and VTRE will form a joint marketing company to promote and develop current and new applications for VTRE's products. The marketing company will leverage AZL's existing international business development processes and support VTRE to expand its exposure into non-Asian markets. This will also enable AZL to undertake value added product development and commence servicing customers prior to production commencing from DZP.

RARE EARTHS MARKET

China dominates the rare earths industry and industry experts, IMCOA, estimate that China contributes more than 85% of global production, while currently consuming more than 65% of global rare earths output in 2015. Demand for rare earths for magnet manufacture, particularly NdFeB magnets, is the main driver for the rare earths industry, where IMCOA forecasts the growth rate is 6-10% per annum. Global rare earths demand for magnets in 2020 is forecast by IMCOA to reach 65,000 tpa, or one third of the total market of 200,000 tpa of rare earths. Demand for magnet rare earths outside China is forecast to be 15,000 tonnes per annum.

The partnership with VTRE will allow AZL to supply separated rare earths, metals and alloys for permanent magnets, independent of China, guaranteeing certification and supply chain traceability from processing of ore in Australia through to customers' products.

Finalising the agreements proposed in the LOI with VTRE will position AZL as a world competitive producer of separated rare earths and downstream value added products for key end markets such as energy, automotive, consumer applications, defence and aerospace.

DZP FINANCING

AZL has continued to advance the financing options for the DZP through discussion with potential strategic partners, off-take partners and Export Credit Agencies with the assistance of the Project's financial advisors, Sumitomo Mitsui Banking Corporation. The VTRE arrangement advances this process by providing the products required by major global industrial and aerospace corporations.

The Project is currently construction ready, subject to financing to enable detailed design and site works to commence.



VIETNAM

The Socialist Republic of Vietnam covers an area of approximately 310,000km², has a population of nearly 95 million people and current per capita GDP of US\$2,100. It has a mixed agricultural, mining and industrial economy, with substantial government effort directed toward expanding its industrial base. Vietnam is part of the Trans-Pacific Partnership (TPP) regional free trade agreement with Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, Peru, New Zealand, Singapore and the US. The TPP will establish a more seamless trade and investment environment across these 12 countries by setting commonly-agreed rules and promoting transparency of laws and regulations.

“I commended Vietnam for its macroeconomic stabilization gains since early 2011 and its achievements over the past two and half decades, including a remarkable economic transformation, high growth rates, integration into the global economy, higher living standards, lower poverty, and for reaching almost all of the Millennium Development Goals.” IMF Deputy Managing Director Mitsuhiro Furusawa (13 June 2015).

Vietnam is a signatory to a number of international environmental agreements.

Disclaimer

This report contains certain forward looking statements and forecasts, including possible or assumed reserves and resources, production levels and rates, costs, prices, future performance or potential growth of Alkane Resources Ltd, industry growth or other trend projections. Such statements are not a guarantee of future performance and involve unknown risks and uncertainties, as well as other factors which are beyond the control of Alkane Resources Ltd. Actual results and developments may differ materially from those expressed or implied by these forward looking statements depending on a variety of factors. Nothing in this report should be construed as either an offer to sell or a solicitation of an offer to buy or sell securities.

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ABOUT ALKANE - www.alkane.com.au - ASX: ALK and OTCQX: ANLKY

Alkane is a multi-commodity company focused in the Central West region of NSW, Australia. Currently Alkane has two advanced projects - the Tomingley Gold Operations (TGO) and the nearby Dubbo Zirconia Project (DZP). Tomingley commenced production early 2014. Cash flow from the TGO has provided the funding to maintain the project development pipeline and will assist with the pre-construction development of the DZP.

The NSW Planning Assessment Commission granted development approval for the DZP on 28 May 2015 and on 24 August 2015 the Company received notification that the federal Department of the Environment gave its approval for the development. Mining Lease 1724 was granted on 18 December 2015 and the Environment Protection Licence was approved on 14 March 2016. Financing is in progress and this project will make Alkane a strategic and significant world producer of zirconium, hafnium and rare earth products when it commences production in 2018.

Alkane's most advanced gold copper exploration projects are at the 100% Alkane owned Wellington and Bodangora prospects, and Elsenora farm-in. Wellington has a small copper-gold deposit which can be expanded, while at Bodangora a large 12km² monzonite intrusive complex has been identified with porphyry style gold copper mineralisation. Encouraging gold mineralisation was drilled at Elsenora early in 2015.

