

# QUARTERLY REPORT

FOR THE PERIOD ENDED 31 MARCH 2011

31 March 2011

ASX Code: **AGS**

No. of pages: 12

## QUARTERLY REPORT - FOR THE PERIOD ENDED 31 MARCH 2011

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### DETAILS OF ANNOUNCEMENT

- Quarterly Activity Report for the period ending 31 March 2011 (6 pages)
- Appendix 5B for the period ending 31 March 2011 (5 pages)



**Ian Pamensky**  
**Company Secretary**

Further information relating to the Company and its various exploration projects can be found on the Company's website at [www.allianceresources.com.au](http://www.allianceresources.com.au)

29 April 2011

ASX Code: **AGS**

## HIGHLIGHTS

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### FOUR MILE URANIUM PROJECT JOINT VENTURE (Alliance 25%)

#### Optimisation Study

- Post-reporting, Alliance received the final Optimisation Study prepared by Adelaide Control Engineering Pty Ltd for a new 5 million pounds per annum stand alone In-Situ Recovery (ISR) and uranium processing plant for the Four Mile Uranium Project in South Australia.
- Capital and operating costs for a standalone 5 million pound per annum ISR processing plant estimated to be \$210 million and \$21.53 per pound, respectively.
- The undiscounted payback time for the additional capital required for the 5 million pound per annum standalone plant (\$210 million) compared with Quasar's estimate for the 3 million pound per annum satellite plant (\$98 million) based on the difference in operating costs (\$17.27 per pound) is approximately 16 months.
- Alliance considers that by utilising the existing well patterns at Four Mile East there is potential for the capital cost to be reduced to \$181 million with an undiscounted payback time of approximately 12 months. Adelaide Control Engineering has reviewed Alliance's findings and agrees that a capital cost reduction of \$29 million is reasonable.

#### Legal Proceedings

- Access to books, records and agreements pertaining to the Four Mile Joint Venture. Awaiting judgement.
- Native Title Mining Agreement. The next hearing, which will deal with procedural matters, is set for 29 April 2011.
- Misleading and deceptive conduct. The judgement on Alliance Craton Explorer Pty Ltd's application for leave to interrogate is expected to be delivered before the next directions hearing which is set for 12 and 13 May 2011.

### CORPORATE

- Cash reserves of \$36.25 million (unaudited) at 31 March 2011.
  - The sale of Alliance's wholly owned subsidiary, Maldon Resources Pty Ltd, to Octagonal Resources Limited was completed. Alliance now holds 22,000,000 ordinary shares in Octagonal which equates to approximately 22% of Octagonal's issued share capital.
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## **FOUR MILE URANIUM PROJECT JOINT VENTURE (Alliance 25%)**

The Four Mile Uranium Project area is located 550 kilometres north of Adelaide in South Australia. Alliance's 100% owned subsidiary, Alliance Craton Explorer Pty Ltd (**ACE**) is the registered holder of 25% of EL3666. Quasar Resources Pty Ltd (**Quasar**) is the registered holder of the remaining 75% and is the manager of the Project.

### **Legal Proceedings**

These legal proceedings were initiated to protect both Alliance's and ACE's commercial interests. In taking these actions the Board was aware that litigation is complex and time consuming, particularly during the interlocutory stage when production and examination of documents, interviews with potential witnesses and preparation of trial books takes place and other procedural matters leading to trial occur. This stage is managed by the Courts through directions hearings. While the Board has instructed its legal counsel to do all in their power to ensure these actions proceed in a timely manner it will, inevitably, be some time before all preliminary matters are resolved and a trial date is set by the Court.

In addition to the proceedings initiated by ACE, on 30 November 2010 Quasar issued proceedings seeking an order that the Mining Registrar (SA) register the native title mining agreement for Four Mile which was lodged with the Registrar, but rejected by her, on 12 May 2010. ACE is named as a defendant in those proceedings although no orders are sought against it. ACE has applied to have this case managed in common with ACE's action concerning the native title mining agreement. That application will be heard on 29 April 2011.

### **Access to books, records and agreements pertaining to the Four Mile Joint Venture – Jurisdiction – Federal Court of Australia (Adelaide)**

In the matter relating to ACE's application in the Federal Court of Australia for access to books, records and agreements pertaining to the joint venture, the application was heard on 22-23 February 2010 and ACE is still awaiting judgment.

### **Native Title Mining Agreement - Jurisdiction - Supreme Court of South Australia**

On 12 November 2009, ACE issued proceedings against Quasar and Heathgate seeking:

- A declaration that Quasar exceed and breached its authority, acted in breach of its fiduciary obligations and acted in breach of its contractual obligation of good faith in signing the native title mining agreement (9NTMA) for the Four Mile Project in the form negotiated by Quasar;
- A declaration that Heathgate knowingly participated in the breaches referred to above;
- An order requiring Quasar and Heathgate to execute a deed, in a form previously submitted to Quasar, which places Alliance in substantially the position it would have been in had the NTMA related only to the Four Mile Project or, in the alternative, a mandatory injunction requiring Quasar to commence negotiating a new native title agreement which relates only to Four Mile; and
- Damages and costs.

### **Background**

Acting as manager of the joint venture, Quasar purported to sign a NTMA on behalf of ACE and submitted it to Primary Industries and Resources South Australia (PIRSA) for registration on 12

June 2009. As the NTMA purports to subsume the existing native title mining agreement for Heathgate's Beverley mine, it exposes Alliance to potential cross liabilities for matters relating to Beverley. Further, it gave Heathgate the right to make decisions for the Four Mile joint venturers without reference to them.

At the directions hearing on 23 December 2010 ACE foreshadowed an application to amend the proceedings to cover a native title agreement executed by Quasar and lodged with PIRSA on 12 May 2010 (being the agreement the subject of Quasar's application for an order against the Mining Registrar). ACE is also seeking:

- to have the hearing of the substantive issues heard separately, and ahead of, any hearing as to the quantum of damages;
- production of legal advices over which legal professional privilege has been claimed; and
- to have this case and Quasar's action managed in common.

Quasar and Heathgate have indicated that they will oppose both applications.

Neither ACE nor Alliance were consulted or involved in the negotiation of either native title agreement with the native title holders. Alliance contends that Quasar was not duly authorised to execute either NTMA on behalf of ACE and, in doing so, exceeded its authority.

In spite of repeated attempts by Alliance to achieve a mutually satisfactory resolution that would facilitate the timely registration of the NTMA, the parties have been unable to reach agreement.

On 10 March orders were made referring both matters to White J for management to trial.

The next hearing, at which ACE's outstanding applications will be heard, is on 29 April 2011.

## **Misleading and deceptive conduct - Jurisdiction – Federal Court of Australia (Adelaide)**

On 12 July 2010, ACE filed an application in the Federal Court of Australia (Melbourne) seeking damages from Heathgate and damages and restitution of the 75% interest in the exploration licence over Four Mile from Quasar arising from Quasar's and Heathgate's failure to disclose to ACE information concerning the prospectivity of part of that tenement. ACE contends that Quasar engaged in misleading or deceptive conduct in contravention of section 52 of the *Trade Practices Act 1974* (Cth) and section 9 of the *Fair Trading Act 1999* (Vic) and that Heathgate assisted or participated in the contraventions committed by Quasar.

ACE also contends that Quasar, with the assistance or participation of Heathgate, breached its obligations under the joint venture agreement, its fiduciary obligations owed to ACE and misused confidential information when Quasar sought, and obtained, a one-year extension of the earn-in period and, subsequently, the transfer of a 75% interest in the exploration licence.

As the statement of claim contains confidential information which, under the joint venture agreement with Quasar, ACE is obliged not to disclose, by consent, the Court has ordered that the statement of claim and the defences and reply be treated as confidential until further order.

ACE has applied to the Court for:

- leave to interrogate (that is, have questions answered on oath) Heathgate and Quasar,
- an order that Heathgate and Quasar provide complete copies of documents that have been provided to ACE wholly or with certain passages concealed (or redacted),

- an order that Heathgate and Quasar provide ACE with further documents which ACE considers to be relevant to the proceedings.

The application for leave to interrogate was heard by the Court on 4 March and judgment has been reserved but is expected to be delivered before the next directions hearing which is set for 12 and 13 May 2011 (at which the remaining applications will be heard).

## **Exploration & Development**

As the issues surrounding the registration of a native title mining agreement are yet to be resolved, a mining lease has not been issued and work on the Project has been scaled down.

During the reporting period, a high resolution seismic survey over the Four Mile Mining Lease application area, including the Four Mile deposits, was initiated to support further resource delineation. There were no well-field or engineering activities reported by Quasar in its Manager's monthly joint venture reports for January to March 2011.

## **Optimisation Study**

Post-reporting period Alliance received the final Optimisation Study prepared by Adelaide Control Engineering Pty Ltd (**ACEng**) for a new 5 million pounds per annum stand alone In-Situ Recovery (**ISR**) and uranium processing plant for the Four Mile Uranium Project in South Australia.

The study was based on criteria and assumptions supplied by Alliance Resources Ltd and prepared using data sourced from freely available information from the Primary Industries and Resources South Australia web site, standard industry information, data generated by the Four Mile Scoping Study Report and other ISR mine experience.

The key findings of the study are:

- the capital cost for a complete standalone 5 million pound per annum In-situ Recovery (ISR) processing plant, including all direct and indirect costs, is estimated to be \$210.1 million to an accuracy of +/- 25%;
- the operating costs for a 5 million pound per annum In-situ Recovery (ISR) process plant are estimated to be \$21.53 AUD/lb.

Alliance considers that by utilising existing field well patterns at Four Mile East there is potential for the capital cost to be reduced to \$181 million with an undiscounted payback time of approximately 12 months. ACEng has reviewed Alliance's findings and agrees that a capital cost reduction of \$29 million is reasonable.

Battery Limits for the Optimisation Study standalone plant capital cost estimate were included in the announcement dated 18 April 2011:

The increase in the estimated capital cost of the Optimisation Study compared with the previous Scoping Study estimate for the 5 million pounds per annum processing plant is \$42 million, due to increases in the estimates for well fields, equipment, EPCM and electrical works.

The undiscounted payback time for the additional capital required for the 5 million pound per annum standalone plant (\$210 million) compared with Quasar's estimate for the 3 million pound

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pound per annum satellite plant (\$98 million) based on the difference in operating costs (\$17.27 per pound) is approximately 16 months.

A comparison of the Scoping Study and Optimisation Study capital and operating<sup>(1)</sup> costs as estimated by Como-ACEng and those estimated by Quasar<sup>(2)</sup> is shown in the following table:

ISR Case		ACEng Estimate		Quasar Estimate	
	Study Type	Capital (A\$M)	Operating (A\$/lb U <sub>3</sub> O <sub>8</sub> )	Capital (A\$M)	Operating (A\$/lb U <sub>3</sub> O <sub>8</sub> )
Satellite Plant <sup>(3)</sup> @ 3Mlbpa	Scoping	96	31.33 <sup>(4)</sup>	98 <sup>(5)</sup>	38.80 <sup>(6)</sup>
Standalone Plant @ 5Mlbpa	Scoping	168	21.73		
<b>Standalone Plant @ 5Mlbpa</b>	<b>Optimisation</b>	<b>210</b>	<b>21.53</b>		

1. Operating costs include royalties (State, Native Title and third party).
2. Feasibility Study for Four Mile Mine Development Area In-Situ Recovery Project Report dated 22 September 2008, commissioned by Quasar Resources Pty Ltd (Quasar) and prepared by Heathgate Resources Pty Ltd (Heathgate) and compiled by URS Australia Pty Ltd.
3. Quasar's feasibility study proposed construction of a satellite pre-processing plant close to the Four Mile deposits, to capture uranium onto resin beads, with the loaded resin being trucked to Heathgate's Beverley plant for elution, filtration, drying and packaging.
4. The ACE operating cost includes an estimate of an appropriate fee to Heathgate for use of the Beverley plant & infrastructure and an estimate of Heathgate's corporate expenses in Adelaide.
5. Quasar's feasibility study estimated a \$90 million capital cost, however Quasar advised Alliance of a proposed change in scope of the budget in May 2009 to \$98 million with input from GRD Minproc (\$112 million less \$14 million for capital at Four Mile West).
6. A component of Quasar's estimated operating cost is a fee for use of the Beverley plant and infrastructure, and a management fee, both paid to Heathgate. The feasibility study stated that the (joint venture) use of the Beverley plant is subject to an appropriate agreement on commercial terms with the owner/operator of that plant, Heathgate, an affiliate company of Quasar. To date, Quasar has not provided Alliance with any proposed terms and conditions for use of the Beverley plant. Alliance does not therefore know if the terms and conditions are commercial and at arm's length.

Alliance, in considering the study's findings, estimates there is potential for the capital cost to be reduced by approximately \$29 million to \$181 million by making use of existing well field patterns at Four Mile East and deducting this cost from the AEng well fields. Under this scenario, the undiscounted payback time for the additional capital required for the 5 million pound per annum standalone plant and utilizing existing well field patterns at Four Mile East (\$181 million) compared with Quasar's estimate for the 3 million pound per annum satellite plant (\$98 million) based on the difference in operating costs (\$17.27 per pound) is approximately 12 months. AEng has reviewed Alliance's findings and agrees that a capital cost reduction of \$29 million is reasonable.

The Board will consider the findings of the Optimisation Study as part of the company's longer term strategy to maximise the potential of Four Mile.

## **Contributions to Development**

Alliance paid \$15,889 towards the cost of development of the Four Mile project during the quarter (\$14,524,952 project-to-date)<sup>1</sup>.

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## **EAST FROME COPPER-BASE METALS PROJECT (Alliance Resources 100%)**

The East Frome Project is located approximately 30 km to the northwest of Broken Hill, New South Wales. The project is prospective for copper-gold mineralisation and Broken Hill style lead-zinc-silver mineralisation.

Gravity and MIMDAS (electrical geophysics) surveys were planned for January 2011, however heavy rain throughout the Broken Hill region in December-January has resulted in this work being delayed. Field work will commence as soon as possible pending improvement of local ground conditions.

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## **CORPORATE**

Alliance has cash reserves of \$36.25 million (unaudited) at 31 March 2011 and has 341,172,309 ordinary shares on issue.

During the quarter, the sale of Alliance's subsidiary, Maldon Resources Pty Ltd, to Octagonal Resources Limited (**Octagonal**) was completed. Alliance now holds 22,000,000 ordinary shares in Octagonal which equates to approximately 22% of Octagonal's issued share capital.

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Further information relating to the Company and its various exploration projects can be found on the Company's website at [www.allianceresources.com.au](http://www.allianceresources.com.au)

**Steve Johnston**  
**Chief Executive Officer**

## **Reference to Joint Ore Reserves Committee (JORC) Code**

The information in this report that relates to Exploration Results for copper, gold and base metals is based on information compiled by Mr Stephen Johnston who is a Corporate Member of the Australasian Institute of Mining & Metallurgy. Mr Johnston is a full-time employee of the Company and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Johnston consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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<sup>1</sup> Alliance disputes the validity of the cash calls made by Quasar and, in making these payments, has reserved all of its rights. The payments are made to preserve Alliance's participatory rights in the Four Mile project.

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**ALLIANCE RESOURCES LIMITED**

ABN

**38 063 293 336**

Quarter ended ("current quarter")

**31 March 2011**

### Consolidated statement of cash flows

		Current quarter	Year to date (9 Months)
		\$A'000	\$A'000
<b>Cash flows related to operating activities</b>			
1.1	Receipts from product sales and related debtors	-	-
1.2	Payments for (a) exploration and evaluation	(71)	(239)
	(b) development <sup>(1)</sup>	(16)	(550)
	(c) production	(11)	(580)
	(d) administration	(994)	(3,808)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	489	1,503
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other (GST paid/recouped)	254	553
<b>Net Operating Cash Flows</b>		<b>(349)</b>	<b>(3,121)</b>
<b>Cash flows related to investing activities</b>			
1.8	Payment for purchases of: (a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(44)
1.9	Proceeds from sale of: (a) prospects	-	-
	(b) equity investments	-	275
	(c) other fixed assets	-	-
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (Transfer to deposit)	734	714)
<b>Net investing cash flows</b>		<b>734</b>	<b>945</b>
1.13	<b>Total operating and investing cash flows (carried forward)</b>	<b>385</b>	<b>(2,176)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

<b>1.13</b>	<b>Total operating and investing cash flows (brought forward)</b>	<b>385</b>	<b>(2,176)</b>
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (Cost of Capital Raising/Prospectus)	-	-
	<b>Net financing cash flows</b>	<b>-</b>	<b>-</b>
	<b>Net (decrease) increase in cash held</b>	<b>385</b>	<b>(2,176)</b>
1.20	Cash at beginning of quarter/year to date	<b>35,868</b>	<b>38,429</b>
1.21	Exchange rate adjustments to item 1.20	-	-
<b>1.22</b>	<b>Cash at end of quarter</b>	<b>36,253</b>	<b>36,253</b>

**Notes:**

1. Includes

- a. cash calls for the Four Mile Project based on an updated programme and budget received from Quasar Resources Pty Ltd (Quasar), in May 2009 (which has never been presented to or approved by the joint venture management committee). Quasar is registered as the holder of 75% of EL3666 and manages the Project. In the period from 1 July 2010 to 31 March 2011 Alliance continued to make payments in order to preserve its participatory rights in the Four Mile Project. Alliance disputes the validity of the Programme and Budget and the cash calls made by Quasar based on that Programme and Budget (as scaled back pending the issue of a mining licence) and in making the payments has reserved all of its rights ; and
- b. payments to contractors for maintaining the underground decline in Maldon while on care and maintenance.

**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		<b>Current quarter \$A'000</b>
1.23	Aggregate amount of payments to the parties included in item 1.2	151
1.24	Aggregate amount of loans to the parties included in item 1.10	NIL

1.25 Explanation necessary for an understanding of the transactions

*All transactions involving Directors and associates were on normal commercial terms. These payments represent Director fees, Director consulting fees, re-imbursments of expenses and payments in terms of a management service agreement with a Director related entity.*

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

NIL

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

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- 2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

NIL

**Financing facilities available**

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	NIL	NIL
3.2 Credit standby arrangements	NIL	NIL

**Estimated cash outflows for next quarter**

	\$A'000
4.1 Exploration and evaluation	144
4.2 Development <sup>(2)</sup>	276
4.3 Production	-
4.4 Administration	1,047
<b>Total</b>	<b>1,467</b>

**Notes:**

2. Includes:

- a. estimated cash calls for the Four Mile Project based on an updated programme and budget received from Quasar Resources Pty Ltd (Quasar), in May 2009 (which has not been presented to or approved by the joint venture management committee) as scaled back pending the issue of a mining licence. In making these payments Alliance will reserve its rights as it has done in previous quarters.

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	148	336
5.2 Deposits at call	8,045	7,472
5.3 Bank overdraft	-	-
5.4 Other (provide details) – Term Deposit	28,060	28,060
<b>Total: cash at end of quarter (item 1.22)</b>	<b>36,253</b>	<b>35,868</b>

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+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Changes in interests in mining tenements**

	<b>Tenement reference</b>	<b>Nature of interest (Note 2 - Below)</b>	<b>Interest at beginning of quarter</b>	<b>Interest at end of quarter</b>
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	<b>Total number</b>	<b>Number quoted</b>	<b>Issue price per security (see note 3) (cents)</b>	<b>Amount paid up per security (see note 3) (cents)</b>
7.1	<b>Preference securities</b> <i>(description)</i>			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	341,172,309	341,172,309	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs			
7.5	<b>+Convertible debt securities</b> <i>(description)</i>			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted			
7.7	<b>Options</b> <i>(description and conversion factor)</i>	<i>(Unlisted Options)</i>	<b>Exercise price A\$</b>	<b>Expiry date</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

**Compliance statement**

- 1 This statement has been prepared under accounting policies, which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:   
**Company Secretary**

Date: 29 April 2011

Print name: **IAN PAMENSKY**

**Notes**

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedents, which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** the issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.