

NEWS

July 21, 2010

ALKANE SAYS GOODBYE TO INKY AND HELLO TO A BRIGHT FUTURE

By Our Man in Oz

Ian (Inky) Cornelius was sent off in style last week with a series of obituaries, including one on Minesite which recognised his lifetime contribution to mining in Australia. But even the dour Inky would have loved the irony of what happened to the share price of Alkane Resources, the company he chaired for 20 years, in his final days, and beyond. Over the past three weeks Alkane shares have risen by more than 40 per cent, from A23 cents on July 1st to trades as high as A33 cents at the time of writing (July 21st). Even after Inky died on July 14th Alkane continued to rise, despite bursts of fear and loathing on stock markets around the world, and a gold price which has fallen, not risen. It's a reaction so anomalous that there must be an interesting reason. And there is, in triplicate.

Gold is involved in two of the explanations, rare earths and unusual metals such as zirconia and niobium in the other. Long-term followers of Alkane will be familiar with the drivers behind the company, but they might not be familiar with the latest developments, or the quickening tick of the clock. At Tomingley, in the mid-west of New South Wales, a decision to mine is now less than a month away, and while Tomingley is a relatively small mine, it is just the right size for Alkane to digest comfortably as its bigger deals, both of which are world class, steadily ripen.

Those other two assets are not what you might expect in a company capitalised at less than A\$100 million. First, and best known, is the 100 per cent owned Dubbo Zirconia Project, a project that Minesite has followed closely for a number of years. It promises to be one of the top global suppliers of a range of elements that are used in high-tech industries, including in advanced ceramics and catalysts. Much of the zirconia will go into components for the nuclear power industry, while the niobium will go into speciality steels and superconducting magnets. Rare earths find a place in just about everything we use on a daily basis, from glass to electronics.

Less well-known is the McPhillamys gold deposit in which Alkane has a 25 per cent interest. The balance is held by the American gold giant, Newmont. Until two weeks ago McPhillamys was just an unusual name on the Alkane asset register. On July 5th, though, it was confirmed by Newmont as being a gold project of considerable substance - the maiden resource estimate has come in at 2.96 million ounces. Alkane's notional entitlement to that resource is around 740,000 ounces, slightly more than the 660,000 ounces in the three orebodies which make up the Tomingley project.

For Alkane chief executive, Ian Chalmers, the past few months have been both a difficult and interesting time. The loss of Inky was a deep personal blow. "I promised we'd finish the definitive feasibility study on Tomingley before he died", Ian told Minesite. "I didn't but we did come very close." That comment, made partly as a posthumous apology to Alkane's former chairman, contains a gem of information that astute investors should note. Tomingley, the first of the three pieces of a mining-project jigsaw puzzle on Ian's desk, is fascinatingly close. How close? "We should be in a position to make a decision on the DFS by the middle of August", he said. "Once we're there the next big step is funding and that's something I keep trying to avoid."

He needn't. Interest in funding gold projects is high among banks that still have the capacity to take on Tomingley, in what, for them, should be a bite-sized deal. The

estimated capital cost of Tomingley is A\$90 million. Two production scenarios are being considered. The first is based around a seven year base case which would yield a total of 400,000 ounces of gold at a cost of A\$900 an ounce, a margin of approximately A\$450 an ounce at the current gold price and exchange rate. The other envisages an eight-to-10 year mine life yielding an extra 150,000 ounces, also at around A\$900 an ounce.

Tomingley will keep the company motor ticking over while Newmont firms up its plans for McPhillamys, and while the Dubbo Zirconia project crystallises. The fate of McPhillamys is effectively out of Alkane's hands, which is understandable, given that Newmont is a US\$29 billion golden gorilla, 400 times the size of Alkane which weighs in at A\$82 million (US\$72 million).

Dubbo is different. Like Tomingley, it is subject to a definitive feasibility study (DFS). And there are also the strategic implications to consider. Rare Earths production is fast becoming as political a business as it is economic, thanks to Chinese domination, and US fears that it needs to do something to ensure future supplies. Over the next few years, and with China putting ever-tighter restrictions on the export of certain minerals, interest in locating fresh sources of a range of the products that are on offer at Dubbo will grow. "There is a lot of interest in the product streams we're planning at Dubbo", Ian said. "I'm hoping that we can get memorandums of understanding, or letters of intent, in place by the end of September. If we can't hit that timetable, then certainly by the end of the year, when we finish the DFS."

Maximising shareholder value is the big challenge with Dubbo. Right now interest is so strong that, in Ian's words, "we could sell the rare earths 10-times over, and certain rare earths a zillion times over". Good as that might sound, an easy sale might not capture the full value of the product. "What we're trying to do is make sure we come up with the best deal. We want to have the option to do some downstream processing because that maximises the value." The reason for chasing a processing option is easy to understand - a massive value uplift factor. How big? "It's a factor that could be a 100 times increase in value because the costs and technology are quite staggering as well."

For Alkane followers the next six months promise to be an exciting time. Tomingley is shaping up as a project that will get the company back into the mining business. McPhillamys is a ride on the coat-tails of a gold major. And Dubbo is something completely different again. Little wonder that Ian's latest corporate presentation shows a jigsaw puzzle under the heading: "putting the pieces together".

[Click here to tip a friend about this page!](#)