

23 July 2010

Alkane Resources

Year End	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/08	2.4	(0.0)	0.0	0.0	N/A	N/A
12/09	4.7	2.3	1.0	0.0	33.0	N/A
12/10e	9.8	0.8	2.0	0.0	16.5	N/A
12/11e	0.2	(6.8)	(3.0)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding goodwill amortisation and exceptional items. 2008-10e revenue figures include rent received, revenue from sale of assets, interest received and government grants.

Investment summary: Alkane shows its metal

With exposure to both near-term gold production and an advanced rare earths project, Alkane is unique among its peers. Mining at its Tomingley Gold Project is planned for 2012, while the Dubbo rare metal and rare earth project is expected to come online by 2013. Capex for these projects has been estimated at A\$90m and A\$150m respectively. In addition, Alkane has a free carried 25% interest on a 2.96Moz gold resource currently being developed by Newmont. Together we value these assets at A\$0.91 per share.

Tomingley moving forward

Alkane's main focus is to start mining its wholly-owned Tomingley Gold Project (TGP). The TGP contains a total resource of around 660koz gold, with initial plans to extract approximately 290koz via open pit in FY12-16, with a further 110koz from blending low grade stockpiled ore with high grade from a short underground mining phase in FY17-18.

Dubbo advancing

A 400ktpa production rate is scheduled for Dubbo, which contains a large 73Mt resource of zirconium, niobium and rare earth metals. Crucially Alkane has advanced the process routes for separating many of the valuable zirconium, niobium and rare earths products beyond that of many of its peers' rare earths projects around the world.

Confidence growing at McPhillamys

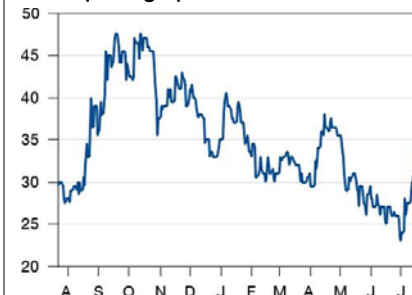
Alkane recently released an initial independent resource estimate for McPhillamys of 2.96Moz at 1g/t Au with gold recoveries between 86% and 91%. Alkane currently has a 49% interest in this project, which is majority held by JV partner Newmont Australia Ltd (51%), which, on completion of a BFS, will earn a further 24% stake.

Valuation: Shares trade at 68% discount to total valuation

Our valuation sees Tomingley come online in 2012 and Dubbo in the following year, with mine lives of seven and 20 years respectively. On this basis our discounted cashflow analysis is worth A\$0.49 per share in current money terms (at a 10% discount rate). To this should be added A\$0.42 for McPhillamys for a total valuation of A\$0.91 per share.

Price 33c
Market Cap A\$82m

Share price graph



Share details

Code ALK
Listing ASX
Sector Mining
Shares in issue 249m

Price

52 week High 47.0c Low 23.0c

Balance Sheet as at 30 June 2010

Debt/Equity (%) N/A
NAV per share (c) 17
Net cash (A\$m) 8.7

Business

Alkane is a multi-commodity explorer, with projects located in the central west region of New South Wales in Australia. Alkane owns the Tomingley Gold (100%) and Dubbo rare metal and rare earths (100%) projects and has a 49% (moving to 25%) stake in the McPhillamys Gold project with JV partner Newmont Australia.

Valuation

	2009	2010e	2011e
P/E relative	239%	133%	N/A
P/CF	N/A	N/A	N/A
EV/Sales	16.2	7.3	N/A
ROE	6%	11%	N/A

Revenues by geography

UK	Europe	US	Other
0%	0%	0%	100%

Analysts

Charles Gibson 020 3077 5724
Michael Starke 020 3077 5727
mining@edisoninvestmentresearch.co.uk

Investment summary: Diversified explorer

Company description: Alkane moves key projects forward

Alkane is headquartered in Perth, Western Australia, with its main project area centred south of the township of Dubbo in New South Wales (NSW). Having been formed in the late 1960s as a coal seam gas exploration company, Alkane has evolved into a mining exploration company with near-term production from gold and rare metal and rare earth projects, an eventual 25% stake in a potentially lucrative joint venture with Newmont Australia Limited, and a number of other exploration targets. A definitive feasibility study is underway at the Tomingley Gold Project to prove up the gold resource and incorporate a potential underground mining phase. Dubbo has a near endless supply of ore, with the project's viability defined not through resource delineation but through process routes and the production of saleable concentrates to market. These latter points are being addressed by Alkane's own pilot processing plant located in Sydney, which has proven successful in producing quality zirconium, niobium and rare earth concentrates such that key letters of intent are being discussed with potential future buyers. These letters of intent are a key inclusion in a definitive feasibility study being completed for the project in H210.

Valuation: First cashflow forecast FY12

We have valued Alkane on a 'base case' scenario, with 2012 seeing the commencement of mining at Tomingley and Dubbo entering production in 2013. Tomingley is due to be mined over a seven-year period and we have notionally valued Dubbo on a 20-year mine life, even though the current resource estimate indicates at least 200 years of ore, based on a 400,000tpa production rate. On this basis we estimate that the dividend stream to investors from 2010 to 2032 will be worth A\$0.49 in current money terms (using a 10% discount rate to reflect general equity risk). This then rises to A\$0.59 in 2012 as Dubbo comes online and complements the TGP's revenue stream. In addition to Tomingley and Dubbo an initial resource estimate has been completed for the McPhillamys deposit, which we have valued using derived figures for measured, indicated and inferred gold ounces. On this basis Alkane's interest in the JV is worth A\$0.42 per share resulting in a total valuation for the company of A\$0.91.

Sensitivities

Our valuation assumes a long-term gold price of US\$1,177/oz and that prices and contracts have been agreed for Dubbo's zirconium, niobium and rare earths products. We have used a median price figure based on a price range for each saleable product as provided by Alkane. Actual prices for the various zirconium, niobium and rare earths metals will be subject to revision once contracts have been signed and the information becomes public. This will inevitably affect Dubbo's economics.

Financials

The end-June 2010 balance sheet showed net cash of A\$8.7m (mainly from the April 2010 A\$9.7m disposal of Alkane's substantial holding in BC Iron Ltd). We forecast exploration expenditure of A\$6m in FY10, on which basis Alkane has a cash pile equivalent to approximately 17 months of expenditures or approximately 145% of the annual cash burn rate. With regards to bringing the Tomingley Gold and Dubbo Zirconia projects online in 2012 and 2013 respectively, Alkane has, based on our valuation, a funding requirement of A\$80m in 2011 to satisfy a A\$90m capital expenditure programme in the same year. This equates to a leverage ratio (net debt/net debt plus

equity) of 65% or a gearing ratio (net debt/equity) of 191%. NB revenues from 2008 to 2010e include; rent received, revenue from sale of assets, interest received and government grants.

Gold, zirconium, niobium and rare earths

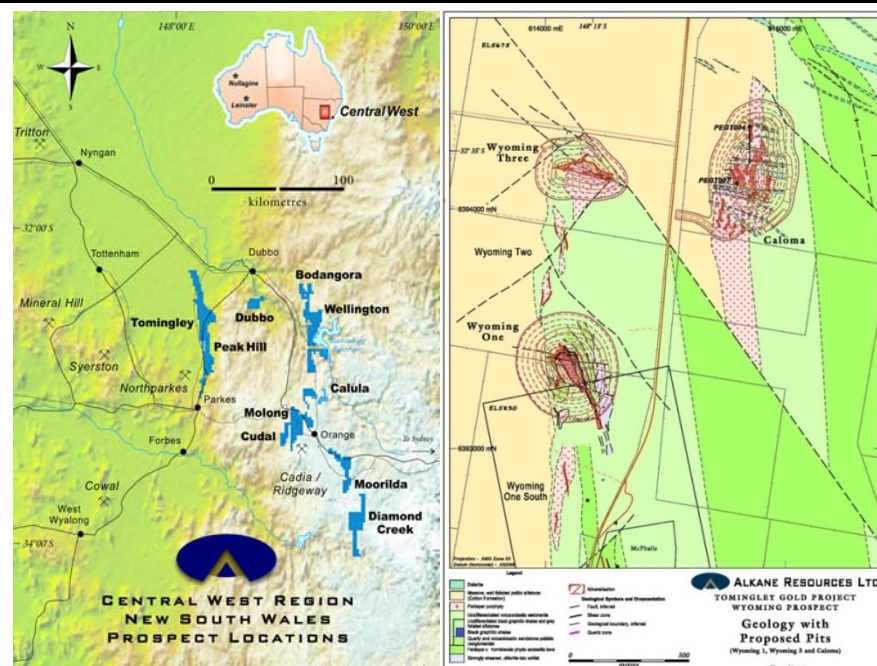
As a diversified commodity explorer with previous experience by management in mining and exploration in the Central West region of New South Wales, Alkane believes its knowledge base will bring success in turning Tomingley and Dubbo into producing mines.

Tight geographical footprint

Alkane has a tight geographical footprint for its near-term production projects with both the Tomingley Gold (TGP) and Dubbo Zirconia (DZP) projects located in the Central West region of NSW, Australia.

The Orange District Exploration Joint Venture (ODEJV) with Newmont Australia Limited, which includes the McPhillamys gold discovery as part of the Moorilda Project area, is located 35km south-east of the city of Orange in the Central West of NSW. The project covers an area of 175km² close to Newcrest Mining's Cadia Valley project.

Exhibit 1 Alkane project locations, New South Wales (left) and open pit outlines at Tomingley (right):



Source: Alkane Resources

Tomingley Gold Project (100%)

The TGP will be mined over seven years on current resources to extract approximately 300koz for five years from open pit, and a further 100koz from blending low grade stockpiled with higher grade ore derived from underground mining in years six and seven. Further work is being completed as part of the project's definitive feasibility study to define a base case scenario by end-July 2010.

Geology

The TGP is hosted within Ordovician-Silurian volcanics and sedimentary rocks associated with the eastern Lachlan Orogeny in south-eastern Australia, which is noted for its major porphyry epithermal skarn-type copper-gold deposits. The TGP deposits have been interpreted from

aeromagnetic surveys as lying within a north-south trending linear belt of Ordovician andesitic volcanics and pelitic sediments.

Gold mineralisation in the deposits is closely associated with feldspar porphyritic rocks. Gold within Wyoming is distributed proximal to, and constrained by, a sub-vertical south plunging, feldspar porphyric sill. Wyoming Three mineralisation is contained within structurally controlled quartz-carbonate pyritic veining on the margin of a porphyry body, while Caloma mineralisation forms a series of shallow west dipping lenses also within a porphyry body.

Resource

With a total resource of approximately 660koz gold from the Tomingley Gold Project, Exhibit 2 gives a breakdown of these resources per sector and resource category:

Exhibit 2: Tomingley Gold Project resource for Wyoming One, Three and Caloma pits

Deposit	Measured tonnages (Mt)	Grade (g/t)	Gold (koz)	Indicated Tonnage (t)	Grade (g/t)	Gold (koz)	Inferred Tonnage (t)	Grade (g/t)	Gold (koz)	Total tonnage(t)	Grade (g/t)	Gold (koz)
Wyoming	2.2	2.07	148	0.88	2.25	64	3.48	1.62	181	6.59	1.86	393
Three	0.6	1.87	38	0.06	1.73	3	0.15	1.25	6	0.84	1.75	47
Caloma	2.0	2.04	134	0.44	1.71	24	1.37	1.36	60	3.86	1.76	219
Totals	4.9	2.03	320	1.38	2.06	91	5.00	1.54	247	11.29	1.82	659

Source: Alkane Resources

Three conceptual open pits

The TGP will be centred on three open pits (see right hand figure of Exhibit 1), Caloma, Wyoming One and Wyoming Three. The Caloma pit is situated on the other side of a public highway and will require the construction of an underpass to allow haulage to the mill. The ore will go through traditional screening processes involving a primary crusher, secondary crusher and ball mill, before passing to a carbon in leach (CIL) plant for processing.

Further potential underground at Wyoming One and Caloma

Alkane commissioned Glastonbury Mining Consultants Pty Ltd to undertake a preliminary feasibility study (PFS) on the Wyoming One resource model, to assess the potential for further mining below the design outline for the open pit. This study specifically targeted two of the main gold bearing structures and a satellite hanging wall deposit, resulting in the potential for extraction of a further 80,000oz gold over a 30-month period from cessation of open pit activities. Additionally, Alkane have drilled beneath the Caloma pit to undertake a similar assessment for potential mining as Wyoming One and have also recently completed an initial drilling test of the new South Caloma deposit to try and expand the TGP's current resource base. Mining would consist of sub-level long-hole open stope methods and trackless machinery hauling to surface via a 5m x 5m decline. Additional studies are underway to further define aspects of this PFS to enable this conceptual underground development to be included in the TGP definitive feasibility study due for completion by end July 2010.

Orange District Exploration Joint Venture (49%)

Joint venture agreement

Newmont Mining Australia Ltd (NAL) recently advised Alkane that it is to proceed with the McPhillamys deposit, part of the Orange District Exploration Joint Venture (ODEJV), to bankable feasibility study. This will increase NAL's interest in the joint venture to 75%. NAL may earn a further 5% interest by securing funding for Alkane's share of any capital costs for development in the ODEJV. Regional exploration has identified McPhillamys-type rocks over a six kilometre strike length. This, along with favourable initial drilling results, has spurred NAL to progress resource definition to what it believes will turn into a multi-million ounce gold deposit. Due to conditions as set out in the ODEJV, NAL did not have to complete a detailed resource for Alkane to release to the market, and therefore Alkane employed an independent company to undertake a resource calculation on McPhillamys using identical drill data (see Exhibit 3 below).

Geologically promising

The basement rocks of the Orange district are that of Palaeozoic volcanics and sediments of the Lachlan fold belt, which is a major geological structural province within south-eastern Australia. The McPhillamys gold discovery, which is the main focus of exploration activity by Newmont as part of the ODEJV, straddles the structural boundary between the Ordovician aged andesitic volcanic and monzonitic intrusive complexes, and Silurian felsic volcanic and sedimentary sequences.

Gold mineralisation is hosted within the Silurian aged sequences by steep easterly-dipping coarse grained felsic-intermediate volcanics and intrusive rocks. Sulphide content is used as a visual aid for possible gold mineralisation and is present in variable quantities of up to 10% of the rock mass. Overlying the prospective sequences lays intensely structurally-deformed sediments with further volcanics present to the west. Drilling has identified a plus 0.1g/t mineralised envelope around drill hole intercepts over a strike of 1000m by up to 260m in width, containing a conceptual 2-4Moz gold and 50-100kt copper.

Initial resource for McPhillamys

Alkane sought the services of an independent consulting geologist to undertake a resource estimate on McPhillamys. This estimate delineates the deposit into the inferred and indicated categories at a cut-off grade of 0.3g/t gold giving a total of 2.96Moz of gold. Alkane's attributable ounces are shown in Exhibit 3:

Exhibit 3: McPhillamys resource estimate

Deposit McPhillamys (0.3 g/t)	Indicated tonnes (Mt)	Grade g/t Au	Grade % Cu	Inferred tonnes (Mt)	Grade g/t	Grade % Cu	Total tonnes (Mt)	Grade g/t Au	Grade % Cu	Attributable gold ounces	Attributable Cu tonnes
Inner ore zone	51.65	1.10	0.07	23.50	1.19	0.07	75.15	1.13	0.07	681,550	13,773
Outer ore envelope	9.62	0.44	0.04	7.17	0.43	0.03	16.79	0.43	0.03	58,813	1,432
Total	61.27	0.99	0.07	30.67	1.01	0.06	91.94	1.00	0.07	740,363	15,205

Source: Alkane Resources Ltd.

With Newmont to increase its interest in the ODEJV to 75% by progressing to bankable feasibility stage it looks promising for McPhillamys to reach production, although a timeline to develop the project and start mining has yet to be set out. A bulk tonnage mining option will be required to take full advantage of the project with its low gold grade, with obvious open pit and even underground block caving methods being looked at. In regard to the latter, four deep drill holes are being completed to test the suitability of this mining method. Further exploratory drilling is also being

undertaken along the known strike length of the McPhillamys trend and regionally within similar rock types, to assess the economics of this mineralised system and potentially expand the resource.

Dubbo Zirconia Project (100%)

Dubbo mineralisation is hosted within a Jurassic aged, sub-volcanic trachyte. The deposit is volumetrically large with current dimensions of 900m by 600m by 100m deep. However, the vertical extent of the orebody is only limited by the current depth of drilling. With the current resource indicating a mine life of over 200 years at current projected mining rates, no risk is posed by a lack of ore.

The elevated levels of zirconium, hafnium, niobium, tantalum, yttrium and rare earth elements (REEs) are largely uniform across the intrusion and are very fine grained (less than 100 microns).

Only minor amounts of refractory zirconium and niobium are seen, with the majority of the mineralisation soluble in sulphuric acid, lending itself to the processing and extraction of the metals.

Resource

Exhibit 4: Dubbo Zirconia Project resource

Compound (%) Toongi Prospect	Tonnage (Mt)	ZrO ₂	HfO ₂	Nb ₂ O ₅	Ta ₂ O ₅	Y ₂ O ₃	REO	U ₃ O ₈
Measured	35.7	1.96	0.04	0.46	0.03	0.14	0.75	0.014
Inferred	37.5	1.96	0.04	0.46	0.03	0.14	0.75	0.014
Total	73.2	1.96	0.04	0.46	0.03	0.14	0.75	0.014

Source: Alkane Resources

Mining zirconia and rare earths

The DZP is deemed mineable by open pit methods of extraction and has a low stripping ratio and uniform grade distribution; this latter point considerably lowers the risk of unexpected variations in run of mine grades and allows for the complex process routes to receive a homogenised ore feed with little double handling and blending being required.

Complex process routes being finalised

The stages of processing and extraction are complex and unique for each individual zirconium and rare earth deposit being studied. This has resulted in much time and resource being spent on perfecting a process route for each element or compound at Alkane's Demonstration Pilot Plant (DPP) near Sydney. Since starting in May 2008, this DPP has produced 1,300kg of zirconium chemicals and nearly 300kg of niobium concentrate. After refinement down to the saleable product stage, samples were sent to potential buyers around the world, from which industrial uses were identified, including advanced ceramics, metal pre-treatment and production of nuclear grade zirconia metal for nuclear power plants for the zirconia products and various high-end technology uses for the niobium, tantalum and rare earths concentrates.

Work is ongoing at the DPP site to determine suitable process routes for the yttrium and other rare earth components of the ore. The current processing flow sheet naturally separates the light and heavy rare earth elements, and current analyses of the produced concentrates indicate favourable distribution of important rare earth elements. However, additional process circuits to further assess the commercial viability are being installed at the plant in Q210 to allow for samples of the rare earth products to be tested by potential client customers. Furthermore it is considered that the processing of these more problematic elements will evolve and change dependent on market conditions. For example Alkane believes that the tantalum fraction, while presently low in

concentrate, could be enhanced, but only if supply tightens and the resultant hike in prices make it economic to do so.

A worthwhile point to consider on rare earths

It is worthwhile noting that many say rare earths 'aren't rare'. In fact, this generalisation is not entirely true. For example cerium, the most common of the REEs, is 200 times more abundant than gold in the earth's crust. However, there is a little talked about split down the middle of the REE group of elements. Any elements between atomic numbers 57 (lanthanum) and 62 (samarium) are termed light rare earths (LREE) and are relatively abundant. Elements with atomic numbers 63 (europium) to 71 (lutetium) are termed heavy rare earths (HREE). The latter group contains the most valuable elements as they are indeed rare and constitute the minor fraction of the rare earth oxide grade of a deposit. For example, regardless of the rare earth oxide grade, most REE deposits have a split around 95:5 (LREE:HREE). The ionic clays of China (the largest supplier of REEs at present) are about 50:50, and an approximate split for Alkane's Dubbo deposit is 75:25.

Other exploration projects

A preliminary shallow resource at Alkane's wholly-owned Wellington, gold-copper project, also in New South Wales, was completed in 2005 stating approximately 2Mt at 0.99% Cu (for 19,800t contained copper at 100% recovery) and 0.3 g/t Au (for 6,000 ounces at 100% recovery) in the indicated category. Alkane does not intend to make Wellington a key focus of its near-term development plans, but the prospect will be reviewed again in 2011.

Also located within the Central West region of NSW are the Cudal, Badongora, Calula and Diamond Creek exploration licences, which consist of gold-silver and base metal exploration targets. These are at a very early stage of assessment with only data collation and initial phases of field reconnaissance being undertaken. No resource estimates are available to indicate economic viability.

Assumptions, 'base case' valuation and sensitivities

Our valuation assumes that Tomingley will operate from early 2012, over a seven-year life of mine, with five of these years extracting ore from open pit and the final two blending low grade stockpiled material with higher grade ore sourced from underground. A start to production at Dubbo has been given for early 2013 and a notional 20-year mine life has been used to value the project (in light of the large available resource), with capital expenditure programmes for Tomingley and Dubbo being estimated at A\$90m in 2011 and A\$150m in 2012 respectively. Key assumptions for both projects are given in Exhibit 5.

Exhibit 5: Assumptions for Tomingley and Dubbo projects for year ending 2014

TGP Tonnes mined		Mt	8
DZP Tonnes mined		Mt	0.52
Strip ratio TGP (waste:ore)		t	7:1
Strip ratio DZP (waste:ore)		t	0.3:1
TGP Tonnes processed		Mt	1
DZP Tonnes processed		Mt	0.4
TGP grade		g/t	1.9
DZP grades	ZrO2	%	1.96
	REO	%	0.75
	Nb/Ta	%	0.48
	Y2O3	%	0.14
TGP ounces produced		koz	57.4
DZP concentrates produced	ZrO2	t	6000
	Nb	t	1400
	LREE	t	1980
	YHREE	t	600
TGP mining cost		A\$/t	32
DZP mining cost		A\$/t	6
TGP processing cost		A\$/t	16
DZP processing cost		A\$/t	131.25
TGP unit cost		A\$/oz gold	853
DZP unit cost		A\$/t concentrate.	6,237

Source: Alkane Resources/Edison Investment Research

Scoping economics

On the basis of the assumptions above, scoping economics for the company based on the company taking the Tomingley and Dubbo projects into production in early 2012 and 2013 respectively are as follows:

Exhibit 6: Scoping economics for year ending 2014

Total revenue	A\$m	184.4
Total mining costs	A\$m	111.3
All other costs	A\$m	2.1
EBITDA	A\$m	71.0
Profit before tax	A\$m	33.9
Tax	A\$m	10.2
Marginal tax rate	%	30
Profit after tax	A\$m	23.7
Free cash flow	A\$m	36.3

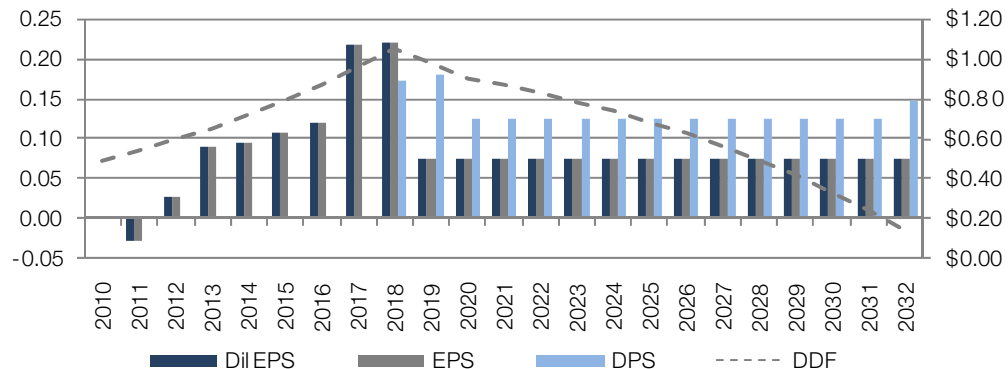
Source: Alkane Resources/Edison Investment Research

Valuation

If Alkane executes its TGP and DZP projects by conventional debt funding routes and pays out all its spare cash in the form of dividends, we estimate that a hypothetical dividend stream to investors from 2013 to 2032 will be worth A\$0.49 in current money terms (using a 10% discount rate to reflect general equity risk). This then rises to A\$1.05 in 2018 in the year the maiden dividend is paid, as depicted in Exhibit 7.

Exhibit 7: Edison estimate of 'base case' fully diluted EPS and theoretical DPS, FY11-FY32:

Note: DDF = Dividend Forecast



Source: Alkane Resources

While the board has yet to agree on a formal dividend policy, such a variable dividend stream as that shown above is unlikely to be adopted. Assuming the company pursues a more conventional dividend policy, then the same overall distribution to investors may instead be effected via the distribution of a flat A\$0.12 per share dividend to shareholders per year between 2019 and 2032, assuming exploration expenditure of A\$6m per year to 2018 (year TGP is forecast to stop mining). Due to the size of the resource at the DZP, assumptions on exploration success are irrelevant. However, if exploration success translates to increased longevity at the TGP, then applying a (relatively conservative) 5% dividend yield to the distribution suggests a potential future share price as high as A\$2.40.

McPhillamys

With only an initial resource estimate (see Exhibit 3) to use in valuing this asset we have applied derived values for measured, indicated and inferred resource ounces of US\$339.9, US\$158.55 and US\$33.65 respectively as per our sector report 'Gold: valuation benchmarks are obsolete' published in January 2010. This results in the total current resource being worth US\$334.8m. Assuming Alkane retains a 25% interest in the project, its share is therefore worth US\$86.2m or A\$0.42 per share.

Sensitivities: MRRT and zirconium, niobium and REE's outlook

As with all exploration companies, there are risks pertaining to the geological, geotechnical, financial and execution aspects of project development. However, the following aspects and parameters are seen as particularly relevant to Alkane and its projects.

Mineral Resources Rent Tax

The Resource Super Profit Tax has been revised so that now only profits on coal and iron ore are subject to additional taxation from 1 July 2012. Alkane is therefore exempt from the MRRT and any additional taxation on any future profits received from its gold, zirconia and rare earths projects.

The following exhibits show the sensitivity of our base case valuation to certain parameters:

Exhibit 8: Sensitivity to gold price

US\$/oz	800	900	1177	1300	1400	1500
DDF A\$	0.21	0.29	0.49	0.58	0.65	0.73

Source: Edison Investment Research

Exhibit 9: Sensitivity to discount rate

%	5	7.5	10	12.5	15	17.5
DDF A\$	0.96	0.68	0.49	0.36	0.27	0.20

Source: Edison Investment Research

Exhibit 10: Sensitivity to zirconia (ZrO₂) selling price (A\$/t)

%	4,000	5,000	6,000	7,000	8,000	9,000
DDF A\$	0.28	0.39	0.49	0.59	0.70	0.80

Source: Edison Investment Research

Exhibit 11: Sensitivity to niobium concentrate selling cost (A\$/t)

%	15,000	19,000	22,500	26,000	30,000	34,000
DDF A\$	0.31	0.41	0.49	0.57	0.67	0.77

Source: Edison Investment Research

Exhibit 12: Sensitivity to LREE concentrate selling cost (A\$/t)

%	7,000	9,000	11,000	13,000	15,000	17,000
DDF A\$	0.35	0.42	0.49	0.56	0.63	0.70

Source: Edison Investment Research

Exhibit 13: Sensitivity to Yttrium-HREE concentrate selling cost (A\$/t)

%	15,000	19,000	22,500	26,000	30,000	34,000
DDF A\$	0.41	0.45	0.49	0.53	0.57	0.61

Source: Edison Investment Research

Rare earths market outlook

There is growing concern over the potential supply restrictions of rare earth metals by the world's largest producer, China, which controls over 95% of the world's current supply. China is tightening its supply to the world markets due to a projected supply shortfall to its domestic market. With the uses of rare earths expected to broaden, and demand to increase due to the expanding green-technology sectors, with critical needs for some heavy rare earth elements in the hybrid auto-industry, potential exists to exploit western deposits in this China-focused mining sector.

Trading zirconium, niobium and rare earths

The trading of zirconium chemicals, niobium and rare earths, whether as elemental, or light or heavy rare earths concentrates, requires the producer to send sample batches of the saleable product to potential customers who then analyse the samples to meet very specific manufacturing criteria. As such, a risk exists relating to the trading of these products on the private market and retaining contracts throughout the life of mine. To mitigate this risk in part, Alkane is to include letters of intent received from potential customers in the development feasibility study due to be completed in late 2010.

Financials

The end-June 2010 balance sheet showed net cash of A\$8.7m (mainly from the April 2010 A\$9.7m disposal of Alkane's substantial holding in BC Iron Ltd). We forecast exploration expenditure of A\$6m in FY10, on which basis Alkane has a cash pile equivalent to approximately 17 months of expenditures or approximately 145% of the annual cash burn rate. With regards to bringing the Tomingley Gold and Dubbo Zirconia projects online in 2012 and 2013 respectively, Alkane has, based on our valuation, a funding requirement of A\$80m in 2011 to satisfy a A\$90m capital expenditure programme in the same year. This equates to a leverage ratio (net debt/net debt + equity) of 65% or a gearing ratio (net debt/equity) of 191%. NB revenues from 2008 to 2010e include; rent received, revenue from sale of assets, interest received and government grants.

Exhibit 14: Financials

Note: Revenue figures for years 2008-10e include rent received, revenue from sale of assets, interest received and government grants.

Year end 31 December	A\$'000s	2008 IFRS	2009 IFRS	2010e IFRS	2011e IFRS	2012e IFRS
PROFIT & LOSS						
Revenue		2,402	4,714	9,772	162	8 1,58 4
Cost of Sales		0	0	0	0	(49,000)
Gross Profit		2,402	4,714	9,772	162	32,58 4
EBITDA		(570)	2,249	7,560	(2,140)	30,444
Operating Profit (before GW and except.)		(619)	2,200	6,780	(6,920)	18,997
Intangible Amortisation		0	0	0	0	0
Exceptionals/discontinued		(122)	(130)	(100)	0	0
Other		0	0	0	0	0
Operating Profit		(741)	2,071	6,680	(6,920)	18,997
Net Interest		0	723	227	72	162
Profit Before Tax (norm)		104	2,427	6,852	(6,758)	9,390
Profit Before Tax (FRS 3)		(18)	2,298	6,752	(6,758)	9,390
Tax		0	0	(2,026)	0	(2,817)
Profit After Tax (norm)		104	2,427	4,827	(6,758)	6,573
Profit After Tax (FRS 3)		(18)	2,298	4,727	(6,758)	6,573
Average Number of Shares Outstanding (m)		244.6	245.8	249.0	249.0	249.0
EPS - normalised (c)		0.04	0.99	1.94	(2.71)	2.64
EPS - FRS 3 (c)		0.02	0.49	0.97	(1.36)	1.32
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	100.0	100.0	100.0	39.9
EBITDA Margin (%)		N/A	47.7	77.4	N/A	37.3
Operating Margin (before GW and except.) (%)		N/A	46.7	69.4	N/A	23.3
BALANCE SHEET						
Fixed Assets		28,230	33,574	31,994	116,214	253,767
Intangible Assets		25,035	31,994	30,994	29,994	28,994
Tangible Assets		1,015	1,084	504	85,724	224,278
Investments		2,180	496	496	496	496
Current Assets		9,082	10,980	10,821	0	13,504
Stocks		0	0	0	0	6,799
Debtors		756	221	0	0	6,706
Cash		8,324	4,832	10,821	0	0
Other available for sale financial assets		1	5,928	0	0	0
Current Liabilities		(1,303)	(710)	(72)	(72)	3,955
Creditors		(1,242)	(638)	0	0	4,027
Short term borrowings		(61)	(72)	(72)	(72)	(72)
Long Term Liabilities		(137)	(146)	(146)	(80,202)	(228,614)
Long term borrowings		0	0	0	(80,056)	(228,468)
Other long term liabilities		(137)	(146)	(146)	(146)	(146)
Net Assets		35,871	43,699	42,598	35,940	42,613
CASH FLOW						
Operating Cash Flow		(483)	(325)	(1,485)	(878)	4,406
Net Interest		0	0	0	0	0
Tax		0	0	(2,026)	0	(2,817)
Capex		(8,045)	(8,903)	(200)	(90,000)	(150,000)
Acquisitions/disposals		(29)	4,071	9,700	0	0
Financing		10,175	1,665	0	0	0
Dividends		0	0	0	0	0
Net Cash Flow		1,617	(3,492)	5,990	(90,878)	(148,412)
Opening net debt/(cash)		(6,707)	(8,324)	(4,832)	(10,821)	80,056
HP finance leases initiated		0	0	0	0	0
Other		0	0	0	0	0
Closing net debt/(cash)		(8,324)	(4,832)	(10,821)	80,056	228,468

Source: Alkane Resources, Edison Investment Research

Growth	Profitability	Balance sheet strength	Sensitivities evaluation	
N/A	N/A	N/A	Litigation/regulatory	●
			Pensions	○
			Currency	◐
			Stock overhang	○
			Interest rates	◐
			Oil/commodity prices	●

Growth metrics	%	Profitability metrics	%	Balance sheet metrics		Company details	
EPS CAGR 07-11e	N/A	ROCE 10e	13.6	Gearing 10e	N/A	Address:	
EPS CAGR 09-11e	N/A	Avg ROCE 07-11e	N/A	Interest cover 10e	N/A	129 Edward Street	
EBITDA CAGR 07-11e	N/A	ROE 10e	11.4	CA/CL 10e	149.9	Perth, WA 6000	
EBITDA CAGR 09-11e	N/A	Gross margin 10e	100	Stock turn 10e	N/A	Phone	+61 8 92275677
Sales CAGR 07-11e	N/A	Operating margin 10e	69.4	Debtor days 10e	N/A	Fax	+61 8 92278178
Sales CAGR 09-11e	N/A	Gr mgn / Op mgn 10e	1.4	Creditor days 10e	N/A	www.alkane.com.au	

Principal shareholders		%	Management team	
Abbotsleigh Pty. Ltd.		28.8	MD: David Ian Chalmers	
Sydney Equities Pty. Ltd.		2.41	Mr Chalmers is a geologist and graduate of the Western Australian Institute of Technology (Curtin University). He has worked in the mining and exploration industry for over 40 years, during which time he has had experience in all facets of exploration from feasibility to the production phase.	
Lampsac Pty. Ltd.		1.09		
Chalmers (David Ian)		0.79		
Choice Investments (Dubbo) Pty. Ltd.		0.57	Chairman: John Stuart Ferguson Dunlop	
Spacebull Pty. Ltd.		0.57	Mr Dunlop is a consultant mining engineer with close to 40 years' surface and underground mining experience both in Australia and overseas. Mr Dunlop is chairman of Alliance Resources Ltd and Drummond Gold Ltd and non-executive director of Gippsland Ltd.	
RM Dimond & Associates Pty. Ltd.		0.56		
Forthcoming announcements/catalysts		Date *	Non-executive director: Ian Jeffrey Gandel	
AGM		May 2011		
Interim results		August 2010	Through his private investment vehicles, Mr Gandel has been an investor in the mining industry since 1994. Gandel Metals Pty Ltd is currently a substantial holder in a number of publicly listed Australian companies.	
<i>Note: * = estimated</i>				
			Non-executive director: Mr Anthony Dean Lethlean	
			Mr Lethlean is a geologist with 10 years mining experience and has worked as a resources analyst with various stockbrokers and also consults to Helmsec Global Capital Pty Ltd.	
Companies named in this report				
Newmont Australia Limited, BC Iron Limited				

EDISON INVESTMENT RESEARCH LIMITED

Edison is Europe's leading investment research company. It has won industry recognition, with awards in both the UK and internationally. The team of more than 50 includes over 30 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 250 companies across every sector and works directly with corporates, investment banks, brokers and fund managers. Edison's research is read by major institutional investors in the UK and abroad, as well as by the private client broker and international investor communities. Edison was founded in 2003 and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584).

DISCLAIMER

Copyright 2010 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Alkane Resources and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).

Edison Investment Research

Lincoln House, 296-302 High Holborn, London, WC1V 7JH ■ tel: +44 (0)20 3077 5700 ■ fax: +44 (0)20 3077 5750 ■ www.edisoninvestmentresearch.co.uk
Registered in England, number 4794244. Edison Investment Research is authorised and regulated by the Financial Services Authority.