

14 June 2011

Alkane Resources

ALK

\$2.35/share

Site Visit Highlights

BUY

We conducted a site visit last week to ALK's pilot plant (Sydney) and mining projects in the Central West of New South Wales (Figs. 1-10). The visit reinforced the robust nature of the Dubbo Zirconia Project (DZP) and attractive pro-mining location. Infrastructure is excellent and community support for the project appears strong. Further MOUs are expected to be signed in coming weeks followed by completion of the DFS in July. Prices for ALK's products continue to rise, adding significant economic benefits. We recommend buying ALK with 122% upside to our base case NPV of A\$5.21ps.

Attractive multiples

- Valuation – A\$5.21/share at 1.0Mtpa rates.
- Forward PER/PCFR's – 1-3x (spot/Petra prices).
- Capital Payback – less than 2.5 years (Petra forecast).
- Cash \$20M, no debt.

Dubbo Zirconia Project

- Excellent infrastructure with access to road and rail.
- Appealing location to entice skilled labour/workforce.
- Community support appears strong.
- No native title.
- Majority of land (>80%) secured via call options.
- DZP ore is not radioactive – low level Ur & Th.
- ALK management has solid operational experience.
- Plant is modular and designed to be expanded.
- Additional project cost savings have been identified.
- DFS on track for release mid July.

Tomingley Gold

- Production – 50-60kozpa with potential for +80kozpa.
- Reserves / resources – 209koz / 689koz (respectively).
- Mine Life – 7.5 years but up to 12 years potential.
- Strong exploration upside.

Peak Hill

- ALK operated Peak Hill from 2002-2006 for 152koz.
- Sulphide resource of 467koz exists below the pit.
- Potential source of cheap sulphur for DZP.

Newsflow ahead

- Q2/3 2011 – MOUs with customers for DZP.
- Q3 2011 – DZP DFS completion.
- Q4 2011 – Financing.
- Q2/3 2012 – DZP construction.
- Q4 2012 – First production Tomingley Gold.
- Q4 2013 – First production DZP.

Company Data

Shares - ordinary	269.0M
Options	0M
Total (fully diluted)	269.0M
Market Cap	\$632.2M
12 month low/high	\$0.23 / \$2.73
Average monthly turnover	\$42.8M

Financial Summary (fully diluted) – 1Mtpa rates

Year end June	2010A	2011F	2012F	2013F	2014F	2015F
Revenue (\$M)	0.2	0.0	21.5	88.6	323.4	480.5
Costs (\$M)	1.5	2.2	15.8	54.9	128.3	172.1
EBITDA (\$M)	-2.1	-2.2	5.7	33.7	195.2	308.4
NPAT (\$M)	-1.8	-6.3	-17.0	-15.3	97.0	181.4
EPS (¢ps)	-0.7	-2.4	-6.3	-5.7	36.1	67.5
PER (x)	na	na	na	na	6.5	3.5
Cashflow (Gross-\$M)	-1.2	-6.3	-12.3	1.4	162.8	247.5
CFPS (¢/sh)	-0.5	-2.4	-4.6	0.5	60.5	92.0
PCFPS (x)	na	na	na	453.2	3.9	2.6
Enterprise Value (\$M)	244	744	987	1123	971	734
EV / EBITDA (x)	na	na	174	33	5.0	2.4

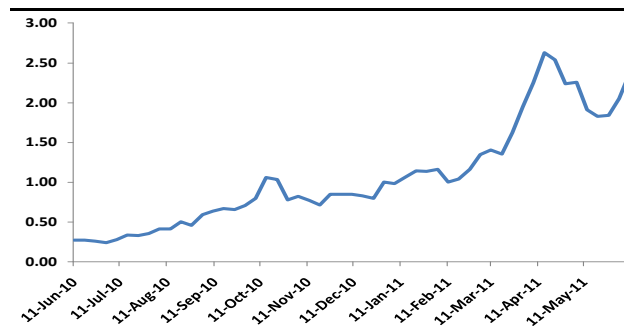
Substantial Shareholders (FPO)

Substantial Shareholders (FPO)	Shares (M)	(%)
Abbotsleigh	70.9	26.4%

Board

Director	Position	Executive	Independent
Ian Chalmers	MD	Executive	-
John Dunlop	Chairman	Non-Exec	Independent
Ian Gandel	Director	Non-Exec	Independent
Tony Lethlean	Director	Non-Exec	Independent

Alkane Resources – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. Petra Capital was a broker to the issue of 20M shares at \$1.05/share in February 2011, raising A\$21.0M. A fee was received.

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Analysis

ALKANE RESOURCES (ALK AU) (ALKNY OTCQX) 14-Jun-11 Year End 31 Dec							Share Price (\$) 2.35 Iss. Shares (M) 269.0 Iss. Options (M) 0.0 Mkt Cap. (\$M) 632.2								
PROFIT & LOSS							RESOURCES								
Sales Revenue	\$M	0.0	0.0	21.5	88.6	323.4	480.5	Tomingley Gold (NSW)							
Other Income	\$M	0.2	0.0	0.0	0.0	0.0	0.0	Tonnes	Mt	11.3	11.3	11.0	10.0	9.0	8.0
Operating Costs	\$M	1.5	2.2	15.8	54.9	128.3	172.1	Grade (gold)	g/t	1.8	1.8	1.8	1.8	1.9	1.9
Exploration	\$M	0.8	0.0	0.0	0.0	0.0	0.0	Contained Gold	oz	661,212	661,212	645,298	592,249	539,200	486,151
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	McPhillamys Gold (NSW)							
EBITDA	\$M	(2.1)	(2.2)	5.7	33.7	195.2	308.4	Tonnes	Mt	91.9	91.9	91.9	91.9	91.9	91.9
Depreciation & Amort.	\$M	0.0	0.0	4.7	16.7	24.2	29.8	Grade (gold)	g/t	1.0	1.0	1.0	1.0	1.0	1.0
EBIT	\$M	(2.1)	(2.2)	0.9	17.0	170.9	278.5	Contained Gold	Moz	2.96	2.96	2.96	2.96	2.96	2.96
Net Interest	\$M	(0.3)	4.1	17.9	32.3	32.3	19.3	Dubbo Zirconia (NSW)							
Pre-Tax Profit	\$M	(1.8)	(6.3)	(17.0)	(15.3)	138.6	259.2	Tonnes	Mt	73.2	73.2	73.2	73.2	72.5	71.5
Tax	\$M	0.0	0.0	0.0	0.0	41.6	77.8	Zirconium (ZrO ₂)	%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Niobium	%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Net Profit	\$M	(1.8)	(6.3)	(17.0)	(15.3)	97.0	181.4	Yt + REE	%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Abnormal	\$M	9.6	0.0	0.0	0.0	0.0	0.0	Contained product	Mt	2.4	2.4	2.4	2.4	2.4	2.4
Reported Profit	\$M	7.8	(6.3)	(17.0)	(15.3)	97.0	181.4	ATTRIBUTABLE PRODUCTION							
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	oz	-	-	14,323	49,335	49,335	49,335
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0	0.0	DZP - ZrO ₂ products	t	0	0	0	755	9,810	15,696
Retained Earnings	\$M	(16.6)	(23.0)	(40.0)	(55.3)	41.7	223.2	DZP - Niobium	t	0	0	0	159	2,070	3,312
CASH FLOW							REVENUE								
Revenue	\$M	0.0	0.0	21.5	88.6	323.4	480.5	Tomingley Gold	\$M	0.0	0.0	21.5	69.6	61.7	61.7
Costs	\$M	(1.5)	(2.2)	(15.8)	(54.9)	(128.3)	(172.1)	Dubbo Zirconia	\$M	0.0	0.0	0.0	19.0	261.8	418.8
Net Interest	\$M	0.3	(4.1)	(17.9)	(32.3)	(32.3)	(19.3)	Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	(41.6)	Total	\$M	0.2	0.0	21.5	88.6	323.4	480.5
Gross Cash Flow	\$M	(1.2)	(6.3)	(12.3)	1.4	162.8	247.5	COSTS							
Net Capex	\$M	(1.0)	(130.0)	(230.7)	(137.0)	(11.1)	(11.1)	Tomingley Gold	A\$/oz	0	0	930	930	930	930
Exploration	\$M	(7.8)	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	\$M	0.0	0.0	13.3	45.9	45.9	45.9
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Dubbo Zirconia	\$M	0.0	0.0	0.0	6.1	78.9	126.2
Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0	Other	\$M	1.5	2.2	2.5	3.0	3.5	0.0
Free Cashflow	\$M	(9.9)	(136.3)	(243.0)	(135.6)	151.7	236.4	Total	\$M	1.5	2.2	15.8	54.9	128.3	172.1
Equity Issues	\$M	0.0	20.0	0.0	0.0	0.0	0.0	CAPEX							
Net Borrowings	\$M	0.0	130.0	245.0	145.0	(100.0)	(150.0)	Tomingley Gold	\$M	2.0	60.0	30.7	2.0	2.0	2.0
Net Investments	\$M	9.6	0.0	0.0	0.0	0.0	0.0	Dubbo Zirconia	\$M	0.0	70.0	200.0	135.0	9.1	9.1
Surplus Cash Flow	\$M	(0.3)	13.6	2.0	9.4	51.7	86.4	Other	\$M	-1.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							DEPRECIATION								
Cash	\$M	4.6	18.2	20.2	29.6	81.3	167.7	Tomingley Gold	\$M	0.0	0.0	4.7	16.1	16.6	17.1
Other Current	\$M	0.4	18.0	22.0	44.3	58.2	96.1	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.6	7.7	12.7
Total Current	\$M	5.0	36.2	42.2	73.9	139.5	263.8	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0
Fixed Assets	\$M	2.1	132.1	358.1	478.3	465.2	446.4	Total	\$M	0.0	0.0	4.7	16.7	24.2	29.8
Exploration	\$M	39.3	36.0	38.0	38.0	36.0	0.0	EBITDA							
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	\$M	0.0	0.0	8.2	23.8	15.8	15.8
Other	\$M	0.5	0.5	0.5	0.5	0.5	0.5	Dubbo Zirconia	\$M	0.0	0.0	0.0	12.9	182.9	292.6
Total NC Assets	\$M	41.8	168.6	396.6	516.8	501.7	446.9	Other	\$M	-2.1	0.0	0.0	0.0	0.0	0.0
TOTAL ASSETS	\$M	46.8	204.7	438.7	590.7	641.2	710.7	Total	\$M	-2.1	0.0	8.2	36.7	198.7	308.4
Total Debt	\$M	0.0	130.0	375.0	520.0	420.0	270.0	HEDGING							
Current Liab	\$M	1.1	1.1	1.1	1.1	42.7	78.9	Gold hedged	oz	0	0	0	0	0	0
Non Current Liab	\$M	0.2	14.5	20.5	42.8	54.7	56.6	Hedged price	US\$/oz	0	0	0	0	0	0
TOTAL LIAB	\$M	1.3	145.6	396.6	563.9	517.4	405.4	Hedged price	A\$/oz	0	0	0	0	0	0
NET ASSETS	\$M	45.6	59.2	42.2	26.9	123.9	305.3	Sales hedged	%	0%	0%	0%	0%	0%	0%
SH/HLDRS FUNDS	\$M	45.6	59.2	42.2	26.9	123.9	305.3	Ave. deliverable price	US\$/oz	1226	1458	1350	1200	1000	1000
RATIO ANALYSIS							ASSUMPTIONS								
EPS	¢	(0.7)	(2.4)	(6.3)	(5.7)	36.1	67.5	Exchange Rate	A\$/US\$	0.92	1.02	0.90	0.85	0.80	0.80
PER	x	na	na	na	na	6.5	3.5	Gold Price	US\$/oz	1226	1458	1350	1200	1000	1000
EPS Growth	%	0.8	224.8	167.8	(10.0)	(733.9)	87.1	Gold Price	A\$/oz	1333	1432	1500	1412	1250	1250
EBITDA per share	¢	-0.8	-0.8	2.1	12.5	72.6	114.6	Zirconia price	US\$/kg	6.00	7.00	6.50	6.00	6.00	6.00
EBITDA Multiple	x	-119.3	-287.3	111.6	18.8	3.2	2.0	LREE Price	US\$/kg	35.00	65.00	55.00	35.00	35.00	35.00
EV/EBITDA	x	-117.1	-338.2	174.2	33.4	5.0	2.4	YHREE Price	US\$/kg	50.00	75.00	65.00	50.00	50.00	50.00
CFPS	¢	(0.5)	(2.4)	(4.6)	0.5	60.5	92.0	90 day Bank Bills	%	4.68	4.97	5.25	5.25	5.25	5.25
PCFR	x	na	na	na	453.2	3.9	2.6	10 Yr Bond rate	%	5.38	5.75	6.00	6.00	6.00	6.00
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	Interest Rate Charged	%	5.88	6.25	6.50	6.50	6.50	6.50
Yield	%	0.0	0.0	0.0	0.0	0.0	0.0	VALUATION							
Franking	%	0	0	0	0	0	0	Tomingley Gold							
Payout Ratio	%	0%	0%	0%	0%	0%	0%	Dubbo Zirconia							
Gearing D/E	%	na	189.0	841.4	1,825.1	273.4	33.5	McPhillamys							
Interest Cover	x	6.5	na	0.1	0.5	5.3	14.4	Other							
EBITDA Margin	%	na	na	26.4	38.0	60.3	64.2	Net Cash (Debt)							
EBIT Margin	%	na	na	4.3	19.1	52.8	58.0	Total							
Return On Assets	%	(4.6)	(1.1)	0.2	2.9	26.7	39.2								
Return On Equity	%	(4.0)	(10.7)	(40.3)	(57.0)	78.3	59.4								
Eff Tax rate	%	0	0	0	0	30	30								

Source: Petra Capital

Figure 1: Project Location Map – Central West New South Wales

Assets are located ~400km northwest of Sydney with the following projects in the region:

- Cadia (Newcrest)
- Northparkes (Rio)
- Cowal (Barrick)



Source: Petra Capital

Figure 2: Dubbo Zirconia Project (DZP)

The DZP orebody outcrops on a hill and contains one of the world's largest known, in-ground resources of zirconium, niobium, yttrium and rare earth elements.

Power lines run through the tenements.



Source: Petra Capital

Strip ratio is extremely low at 0.1:1 reflecting the existence of ore from surface.

Figure 3: Outcropping DZP ore



Source: Petra Capital

Figure 4: Traversing the DZP orebody



Source: Petra Capital

Figure 5: Stockpiled DZP ore

Around 500t of ore was crushed and stockpiled. The picture shows the remaining 400t after 100t has been processed through the pilot plant.



Source: Petra Capital

Figure 6: Core Shed

Drill core from the DZP, Tomingley and Peak Hill projects are stored at a central core shed.



Source: Petra Capital

Analysing a
Tomingley drillhole.

Figure 7: Core Shed



Source: Petra Capital

MD Ian Chalmers
(left) and General
Manager Mike
Sutherland revealing
plans for the
Tomingley gold
project.

Figure 8: Tomingley Gold Project



Source: Petra Capital

Figure 9: Drilling at Tomingley

One RC rig is currently drilling at the Caloma 2 gold deposit.



Source: Petra Capital

Figure 10: Peak Hill Mine

ALK operated the Peak Hill gold mine from 2002-2006. A sulphide resource of 467koz exists below the pit.



Source: Petra Capital

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