

5 December 2011

Alkane Resources

ALK

\$1.02/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. 1-6). 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. We recommend buying ALK with 372% upside to NPV of A\$4.82/share.

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 has low level Ur (100ppm) & Th (400ppm).
- ALK management has solid operational experience.
- Plant is modular and designed to be expanded.
- Additional project cost savings have been identified.

Funding – several options exist

- Strong interest from offtakers to acquire project equity.
- ALK believe 10% sell-down could provide \$300M cash.
- Strong interest from govt agencies to provide debt.
- Up to \$700M in funding likely from offtakers and debt.
- Newmont reviewing options for McPhillamys (Mar qtr).
- ALK's 49% stake could attract >\$100M.

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

- Q1 2012 – Resource/reserve upgrade Tomingley.
- Q1 2012 – Drilling at Dubbo and Bodangora.
- Q1 2012 – Rare earth MOUs.
- Q1 2012 – Tomingley project approval.
- Q2/3 2012 – Dubbo financing.
- Q1/2 2013 – First production Tomingley.
- Q2/3 2014 – First production Dubbo.

Company Data

Shares - ordinary	269.0M
Options	0M
Total (fully diluted)	269.0M
Market Cap	\$274.4M
12 month low/high	\$0.79 / \$2.73
Average monthly turnover	\$54.8M

Financial Summary (fully diluted) – 1Mtpa rates

Year end June	2010A	2011F	2012F	2013F	2014F	2015F
Revenue (\$M)	0.2	0.0	0.0	58.2	341.9	617.4
Costs (\$M)	1.5	2.2	2.5	35.1	147.4	253.3
EBITDA (\$M)	-2.1	-2.2	-2.5	23.0	194.5	364.1
NPAT (\$M)	-1.8	-2.3	-14.2	-30.0	74.4	188.9
EPS (¢ps)	-0.7	-0.9	-5.3	-11.2	27.7	70.2
PER (x)	na	na	na	na	3.7	1.5
Cashflow (Gross-\$M)	-1.2	-2.3	-14.2	-19.9	133.5	280.1
CFPS (¢/sh)	-0.5	-0.9	-5.3	-7.4	49.6	104.1
PCFPS (x)	na	na	na	na	2.1	1.0
Enterprise Value (\$M)	244	277	621	1143	1132	873
EV / EBITDA (x)	na	na	na	49.6	5.8	2.4

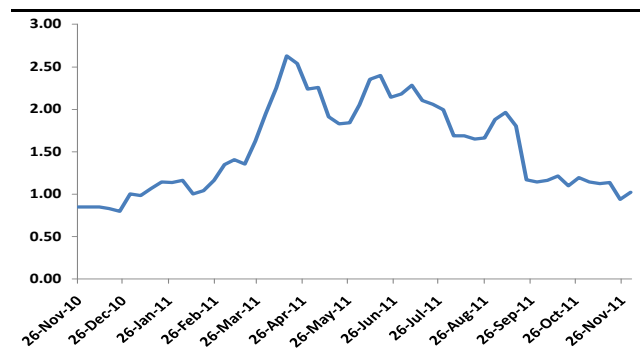
Substantial Shareholders (FPO)

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) 5-Dec-11 Year End 31 Dec							RESOURCES								
PROFIT & LOSS	2010A	2011F	2012F	2013F	2014F	2015F	2010A	2011F	2012F	2013F	2014F	2015F			
Sales Revenue	\$M	0.0	0.0	0.0	58.2	341.9	617.4	Tomingley Gold (NSW)							
Other Income	\$M	0.2	0.0	0.0	0.0	0.0	0.0	Tonnes	Mt	11.3	11.3	11.3	10.6	9.6	8.6
Operating Costs	\$M	1.5	2.2	2.5	35.1	147.4	253.3	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	661,212	624,078	571,029	517,981
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	McPhillamys Gold (NSW)							
EBITDA	\$M	(2.1)	(2.2)	(2.5)	23.0	194.5	364.1	Tonnes	Mt	91.9	91.9	91.9	91.9	91.9	91.9
Depreciation & Amort.	\$M	0.0	0.0	0.0	10.1	27.2	42.1	Grade (gold)	g/t	42.1	42.1	42.1	42.1	42.1	42.1
EBIT	\$M	(2.1)	(2.2)	(2.5)	13.0	167.3	322.0	Contained Gold	Moz	2.96	2.96	2.96	2.96	2.96	2.96
Net Interest	\$M	(0.3)	0.1	11.7	43.0	61.0	52.1	Dubbo Zirconia (NSW)							
Pre-Tax Profit	\$M	(1.8)	(2.3)	(14.2)	(30.0)	106.3	269.9	Tonnes	Mt	73.2	73.2	73.2	73.2	72.7	71.7
Tax	\$M	0.0	0.0	0.0	0.0	31.9	81.0	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)	(2.3)	(14.2)	(30.0)	74.4	188.9	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	(2.3)	(14.2)	(30.0)	74.4	188.9	ATTRIBUTABLE PRODUCTION							
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	oz	-	-	-	34,535	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	0	8,036	16,715
Retained Earnings	\$M	(16.6)	(19.0)	(33.1)	(63.1)	11.3	200.2	DZP - Niobium	t	0	0	0	0	1,617	3,363
CASH FLOW							REVENUE								
Revenue	\$M	0.0	0.0	0.0	58.2	341.9	617.4	Tomingley Gold	\$M	0.0	0.0	0.0	58.2	79.5	75.5
Costs	\$M	(1.5)	(2.2)	(2.5)	(35.1)	(147.4)	(253.3)	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.0	262.4	541.9
Net Interest	\$M	0.3	(0.1)	(11.7)	(43.0)	(61.0)	(52.1)	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	(31.9)	Total	\$M	0.2	0.0	0.0	58.2	341.9	617.4
Gross Cash Flow	\$M	(1.2)	(2.3)	(14.2)	(19.9)	133.5	280.1	COSTS							
Net Capex	\$M	(1.0)	(25.0)	(330.0)	(501.3)	(122.6)	(21.9)	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	0.0	32.1	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	0.0	98.0	203.9
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	3.5
Free Cashflow	\$M	(9.9)	(27.3)	(344.2)	(521.2)	11.0	258.2	Total	\$M	1.5	2.2	2.5	35.1	147.4	253.3
Equity Issues	\$M	0.0	20.0	0.0	0.0	0.0	0.0	CAPEX							
Net Borrowings	\$M	0.0	20.0	350.0	525.0	0.0	(200.0)	Tomingley Gold	\$M	2.0	10.0	80.0	1.3	1.3	1.3
Net Investments	\$M	9.6	0.0	0.0	0.0	0.0	0.0	Dubbo Zirconia	\$M	0.0	15.0	250.0	500.0	121.3	20.6
Surplus Cash Flow	\$M	(0.3)	12.6	5.8	3.8	11.0	58.2	Other	\$M	-1.0	0.0	0.0	0.0	0.0	0.0
BALANCE SHEET							DEPRECIATION								
Cash	\$M	4.6	17.2	23.0	26.8	37.8	95.9	Tomingley Gold	\$M	0.0	0.0	0.0	10.1	14.6	14.9
Other Current	\$M	0.4	10.0	10.0	11.6	20.5	43.2	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.0	12.6	27.2
Total Current	\$M	5.0	27.2	33.0	38.4	58.3	139.1	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0
Fixed Assets	\$M	2.1	27.1	357.1	848.3	943.6	923.4	Total	\$M	0.0	0.0	0.0	10.1	27.2	42.1
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	0.0	26.0	33.6	29.6
Other	\$M	0.5	0.5	0.5	0.5	0.5	0.5	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.0	164.4	338.1
Total NC Assets	\$M	41.8	63.6	395.6	886.8	980.1	923.9	Other	\$M	-2.1	0.0	0.0	0.0	0.0	0.0
TOTAL ASSETS	\$M	46.8	90.8	428.6	925.2	1,038.4	1,063.1	Total	\$M	-2.1	0.0	0.0	26.0	198.0	367.6
Total Debt	\$M	0.0	20.0	370.0	895.0	895.0	695.0	HEDGING							
Current Liab	\$M	1.1	1.1	1.1	1.1	33.0	82.0	Gold hedged	oz	0	0	0	0	0	0
Non Current Liab	\$M	0.2	6.5	8.5	10.1	17.0	3.7	Hedged price	US\$/oz	0	0	0	0	0	0
TOTAL LIAB	\$M	1.3	27.6	379.6	906.2	945.0	780.7	Hedged price	A\$/oz	0	0	0	0	0	0
NET ASSETS	\$M	45.6	63.2	49.0	19.0	93.4	282.3	Sales hedged	%	0%	0%	0%	0%	0%	0%
SH/HLDRS FUNDS	\$M	45.6	63.2	49.0	19.0	93.4	282.3	Ave. deliverable price	US\$/oz	1226	1594	1750	1600	1450	1300
RATIO ANALYSIS							ASSUMPTIONS								
EPS	¢	(0.7)	(0.9)	(5.3)	(11.2)	27.7	70.2	Exchange Rate	A\$/US\$	0.92	1.04	1.02	0.95	0.90	0.85
PER	x	na	na	na	na	3.7	1.5	Gold Price	US\$/oz	1226	1594	1750	1600	1450	1300
EPS Growth	%	0.8	18.9	509.5	111.7	(348.1)	153.8	Gold Price	A\$/oz	1333	1526	1716	1684	1611	1529
EBITDA per share	¢	-0.8	-0.8	-0.9	8.6	72.3	135.4	Zirconia price	US\$/kg	6.00	7.00	11.00	12.00	11.50	11.00
EBITDA Multiple	x	-119.3	-124.7	-109.8	11.9	1.4	0.8	LREE Price	US\$/kg	35.00	35.00	35.00	55.00	45.00	40.00
EV/EBITDA	x	-117.1	-126.0	-248.5	49.6	5.8	2.4	YHREE Price	US\$/kg	50.00	110.00	110.00	100.00	90.00	80.00
CFPS	¢	(0.5)	(0.9)	(5.3)	(7.4)	49.6	104.1	90 day Bank Bills	%	4.68	4.95	5.00	5.25	5.25	5.25
PCFR	x	na	na	na	na	2.1	1.0	10 Yr Bond rate	%	5.38	5.12	5.00	5.50	5.50	5.50
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	Interest Rate Charged	%	5.88	5.62	5.50	6.00	6.00	6.00
Yield	%	0.0	0.0	0.0	0.0	0.0	0.0	VALUATION							
Franking	%	0	0	0	0	0	0	Tomingley Gold						77.1	\$ 0.29
Payout Ratio	%	0%	0%	0%	0%	0%	0%	Dubbo Zirconia						1,121.9	\$ 4.17
Gearing D/E	%	na	4.5	707.8	4,564.0	917.4	212.2	McPhillamys						74.0	\$ 0.28
Interest Cover	x	6.5	na	na	0.3	2.7	6.2	Other						10.0	\$ 0.04
EBITDA Margin	%	na	na	na	39.6	56.9	59.0	Net Cash (Debt)						13.0	\$ 0.05
EBIT Margin	%	na	na	na	22.3	48.9	52.2	Total						1,296.0	\$ 4.82
Return On Assets	%	(4.6)	(2.4)	(0.6)	1.4	16.1	30.3								
Return On Equity	%	(4.0)	(3.7)	(28.9)	(157.7)	79.6	66.9								
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

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

Figure 4: Stockpiled DZP ore



Source: Petra Capital

Figure 5: Core Shed

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



Source: Petra Capital

Figure 6: 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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