

1 March 2012

Alkane Resources

ALK

\$1.17/share

Strong demand for capital raising

BUY

Alkane has received firm commitments from institutional investors for an A\$77M placement (70.3M shares @ A\$1.10/share). The placement comprises 2 tranches with \$44M in T1 and \$33M in T2 (key dates below). A further \$30M is expected to be raised from a partially underwritten non-renounceable 1:10 rights issue. The placement was well oversubscribed with strong domestic and international demand. Funds will be used (i) to complete the EIS and advance the Dubbo Zirconia and Rare Earths project (DZP) (ii) construct and commission the Tomingley Gold project and (iii) for working capital purposes. Upon completion of the rights, the Tomingley gold project will be fully funded targeting first cashflow from Q2 2013. We recommend buying ALK with 228% upside to our NPV of A\$3.84/share.

Successful capital raising – key impacts

- Placement was heavily oversubscribed.
- Strong demand highlights ALK's quality asset portfolio.
- ALK set to move from explorer to producer in 2013.
- The capital raising (36% dilution) sees:
 - NPV down 21% to A\$3.84/share (from A\$4.84)
 - 2014 PE 5x (4x), 2015 2.1x (1.6x), 2016 2.0x (1.5x)
 - PCF 2.8x (2.2x), 1.4x (1.1x) and 1.5x (1.2x)

Dubbo Zirconia Project 100% (Australia) – world class

- DFS (Sept 2011) confirmed a robust long life project.
- Initial reserves of 36Mt for a 36 year mine life.
- Expected EBITDA margins of >US\$275Mpa.
- Pilot plant operating in Sydney for ~4 years.
- MOUs signed for zirconium and niobium offtake.
- MOUs for rare earth offtake targeted in March.

Tomingley Gold 100% (Australia)

- Measured and Indicated resources of 411koz.
- Initial 7.5 year mine life with +10 years likely.
- 50-60kozpa at cash costs of A\$940/oz.
- Current prices = \$650/oz margins (\$35Mpa cashflow).

Key Dates

- March 5 – ALK shares quoted ex-entitlement.
- March 9 – Record date for entitlement issue.
- March 14 – Tranche 1 placement shares issued.
- March 29 – Entitlement offer closes.
- April 10 – Entitlement shares issued.
- April 16 – EGM to approve tranche 2 placement.
- April 23 – Tranche 2 placement shares issued.

Company Data

Shares - ordinary	366.2M
Options	0M
Total (fully diluted)	366.2M
Market Cap	\$428.5M
12 month low/high	\$0.89 / \$2.73
Average monthly turnover	\$53.1M

Financial Summary – 1Mtpa rates

Year end Dec	2010A	2011F	2012F	2013F	2014F	2015F
Revenue (\$M)	0.2	0.0	0.0	41.5	341.9	617.4
Costs (\$M)	1.5	2.2	2.5	25.9	147.4	253.3
EBITDA (\$M)	-2.1	-2.2	-2.5	15.6	194.5	364.1
NPAT (\$M)	-1.8	-1.9	-2.0	-18.1	79.9	194.6
EPS (¢ps)	-0.7	-0.7	-0.6	-4.9	21.8	53.1
PER (x)	na	na	na	na	5.4	2.2
Cashflow (Gross-\$M)	-1.2	-1.9	-2.0	-10.5	142.3	286.9
CFPS (¢/sh)	-0.5	-0.7	-0.6	-2.9	38.9	78.3
PCFPS (x)	na	na	na	na	3.0	1.5
Enterprise Value (\$M)	244	234	413	1170	1151	887
EV / EBITDA (x)	na	na	na	75	5.9	2.4

Substantial Shareholders (FPO)

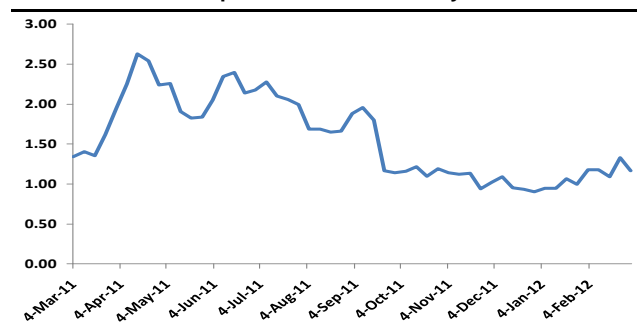
Substantial Shareholders (FPO)	Shares (M)	(%)
Abbotsleigh*	96.7	26.4%

*Assuming pro-rata maintained with current capital raising

Board

Director	Position	Executive	Independent
Ian Chalmers	MD	Executive	-
John Dunlop	Chairman	Non-Exec	Independent
Ian Gandel	Director	Non-Exec	-
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 70.3M shares at \$1.10/share in February 2012, raising A\$77.3M. A fee was received.

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Analysis – assumes full \$107M raised (97.2M shares)

ALKANE RESOURCES							Share Price								
(ALK AU) (ALKNY OTCQX)							(\$)								
1-Mar-12							(M)								
Year End 31 Dec							(M)								
							(\$M)								
PROFIT & LOSS							RESOURCES								
	2010A	2011F	2012F	2013F	2014F	2015F	2010A	2011F	2012F	2013F	2014F	2015F			
Sales Revenue	\$M	0.0	0.0	0.0	41.5	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 10.8 9.8 8.8							
Operating Costs	\$M	1.5	2.2	2.5	25.9	147.4	253.3	Grade (gold) g/t 1.8 1.8 1.8 1.8 1.8 1.9							
Exploration	\$M	0.8	0.0	0.0	0.0	0.0	0.0	Contained Gold oz 661,212 661,212 661,212 634,688 581,639 528,590							
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)	15.6	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	7.6	28.1	43.1	Grade (gold) g/t 1.0 1.0 1.0 1.0 1.0 1.0							
EBIT	\$M	(2.1)	(2.2)	(2.5)	8.0	166.3	321.0	Contained Gold Moz 2.96 2.96 2.96 2.96 2.96 2.96							
Net Interest	\$M	(0.3)	(0.3)	(0.5)	26.1	52.2	43.0	Dubbo Zirconia (NSW)							
Pre-Tax Profit	\$M	(1.8)	(1.9)	(2.0)	(18.1)	114.2	278.0	Tonnes Mt 73.2 73.2 73.2 73.2 72.7 71.7							
Tax	\$M	0.0	0.0	0.0	0.0	34.3	83.4	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)	(1.9)	(2.0)	(18.1)	79.9	194.6	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	(1.9)	(2.0)	(18.1)	79.9	194.6	ATTRIBUTABLE PRODUCTION							
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold oz - - - 24,668 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)	(18.5)	(20.5)	(38.6)	41.3	235.9	DZP - Niobium t 0 0 0 0 1,617 3,363							
CASH FLOW							DZP - LREE t 0 0 0 0 1,713 3,564								
Revenue	\$M	0.0	0.0	0.0	41.5	341.9	617.4	DZP - YHREE t 0 0 0 0 563 1,171							
Costs	\$M	(1.5)	(2.2)	(2.5)	(25.9)	(147.4)	(253.3)	Other t 0.0 0.0 0.0 0.0 0.0 0.0							
Net Interest	\$M	0.3	0.3	0.5	(26.1)	(52.2)	(43.0)	Total - Dubbo t 0 0 0 0 11,929 24,813							
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	(34.3)	REVENUE							
Gross Cash Flow	\$M	(1.2)	(1.9)	(2.0)	(10.5)	142.3	286.9	Tomingley Gold \$M 0.0 0.0 0.0 41.5 79.5 75.5							
Net Capex	\$M	(1.0)	(13.2)	(95.0)	(746.0)	(123.6)	(22.9)	Dubbo Zirconia \$M 0.0 0.0 0.0 0.0 262.4 541.9							
Exploration	\$M	(7.8)	0.0	0.0	0.0	0.0	0.0	Other \$M 0.2 0.0 0.0 0.0 0.0 0.0							
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Total \$M 0.2 0.0 0.0 41.5 341.9 617.4							
Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0	COSTS							
Free Cashflow	\$M	(9.9)	(15.1)	(97.0)	(756.5)	18.8	264.0	Tomingley Gold A\$/oz 0 0 0 930 930 930							
Equity Issues	\$M	0.0	20.0	103.0	0.0	0.0	0.0	Tomingley Gold \$M 0.0 0.0 0.0 22.9 45.9 45.9							
Net Borrowings	\$M	0.0	0.0	20.0	765.0	0.0	(200.0)	Dubbo Zirconia \$M 0.0 0.0 0.0 0.0 98.0 203.9							
Net Investments	\$M	9.6	0.0	0.0	0.0	0.0	0.0	Other \$M 1.5 2.2 2.5 3.0 3.5 3.5							
Surplus Cash Flow	\$M	(0.3)	4.9	26.0	8.5	18.8	64.0	Total \$M 1.5 2.2 2.5 25.9 147.4 253.3							
BALANCE SHEET							CAPEX								
Cash	\$M	4.6	9.5	35.4	43.9	62.7	126.7	Tomingley Gold \$M 2.0 6.0 45.0 46.0 2.3 2.3							
Other Current	\$M	0.4	8.0	8.0	8.3	13.7	15.4	Dubbo Zirconia \$M 0.0 7.2 50.0 700.0 121.3 20.6							
Total Current	\$M	5.0	17.5	43.4	52.2	76.4	142.1	Other \$M -1.0 0.0 0.0 0.0 0.0 0.0							
Fixed Assets	\$M	2.1	15.3	110.3	848.6	944.0	923.8	Total \$M 1.0 13.2 95.0 746.0 123.6 22.9							
Exploration	\$M	39.3	36.0	38.0	38.0	36.0	36.0	DEPRECIATION							
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold \$M 0.0 0.0 0.0 7.6 15.7 16.1							
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 12.5 27.0							
Total NC Assets	\$M	41.8	51.8	148.8	887.1	980.6	960.4	Other \$M 0.0 0.0 0.0 0.0 0.0 0.0							
TOTAL ASSETS	\$M	46.8	69.2	192.2	939.4	1,056.9	1,102.5	Total \$M 0.0 0.0 0.0 7.6 28.1 43.1							
Total Debt	\$M	0.0	0.0	20.0	785.0	785.0	585.0	EBITDA							
Current Liab	\$M	1.1	1.1	1.1	1.1	35.3	84.5	Tomingley Gold \$M 0.0 0.0 0.0 18.6 33.6 29.6							
Non Current Liab	\$M	0.2	4.5	6.5	6.8	10.2	11.9	Dubbo Zirconia \$M 0.0 0.0 0.0 0.0 164.4 338.1							
TOTAL LIAB	\$M	1.3	5.6	27.6	792.9	830.5	681.4	Other \$M -2.1 0.0 0.0 0.0 0.0 0.0							
NET ASSETS	\$M	45.6	63.7	164.6	146.5	226.4	421.1	Total \$M -2.1 0.0 0.0 18.6 198.0 367.6							
SH/HLDRS FUNDS	\$M	45.6	63.7	164.6	146.5	226.4	421.1	HEDGING							
RATIO ANALYSIS							Gold hedged oz 0 0 0 0 0 0								
EPS	¢	(0.7)	(0.7)	(0.6)	(4.9)	21.8	53.1	Hedged price US\$/oz 0 0 0 0 0 0							
PER	x	na	na	na	na	5.4	2.2	Hedged price A\$/oz 0 0 0 0 0 0							
EPS Growth	%	0.8	(5.1)	(19.6)	793.7	(541.0)	143.5	Sales hedged % 0% 0% 0% 0% 0% 0%							
EBITDA per share	¢	-0.8	-0.8	-0.7	4.3	53.1	99.4	Ave. deliverable price US\$/oz 1226 1587 1750 1600 1450 1300							
EBITDA Multiple	x	-119.3	-110.7	-171.4	27.5	2.2	1.2	Ave. deliverable price A\$/oz 1,333 1,522 1,716 1,684 1,611 1,529							
EV/EBITDA	x	na	na	na	74.9	5.9	2.4	ASSUMPTIONS							
CFPS	¢	(0.5)	(0.7)	(0.6)	(2.9)	38.9	78.3	Exchange Rate A\$/US\$ 0.92 1.04 1.02 0.95 0.90 0.85							
PCFR	x	na	na	na	na	3.0	1.5	Gold Price US\$/oz 1226 1587 1750 1600 1450 1300							
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	Gold Price A\$/oz 1333 1522 1716 1684 1611 1529							
Yield	%	0.0	0.0	0.0	0.0	0.0	0.0	Zirconia price US\$/kg 6.00 7.00 11.00 12.00 11.50 11.00							
Franking	%	0	0	0	0	0	0	LREE Price US\$/kg 35.00 35.00 35.00 55.00 45.00 40.00							
Payout Ratio	%	0%	0%	0%	0%	0%	0%	YHREE Price US\$/kg 50.00 110.00 110.00 100.00 90.00 80.00							
Gearing D/E	%	na	na	na	505.8	319.0	108.8	90 day Bank Bills % 4.68 4.94 5.00 5.25 5.25 5.25							
Interest Cover	x	6.5	6.4	5.3	0.3	3.2	7.5	10 Yr Bond rate % 5.38 5.12 5.00 5.50 5.50 5.50							
EBITDA Margin	%	na	na	na	37.6	56.9	59.0	Interest Rate Charged % 5.88 5.62 5.50 6.00 6.00 6.00							
EBIT Margin	%	na	na	na	19.2	48.7	52.0	VALUATION							
Return On Assets	%	(4.6)	(3.2)	(1.3)	0.8	15.7	29.1	Tomingley Gold ASM \$ 86.0 \$ 0.23							
Return On Equity	%	(4.0)	(2.9)	(1.2)	(12.4)	35.3	46.2	Dubbo Zirconia ASM \$ 1,123.7 \$ 3.07							
Eff Tax rate	%	0	0	0	0	30	30	McPhillamys ASM \$ 74.0 \$ 0.20							
								Other ASM \$ 10.0 \$ 0.03							
								Net Cash (Debt) ASM \$ 112.0 \$ 0.31							
								Total ASM \$ 1,405.8 \$ 3.84							

Source: Petra Capital

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