

April 03, 2012

Alkane Plans To Be Producing Gold From Tomingley By Early Next Year, And Rare Earths From Dubbo By 2014

By Our Man in Oz

For the past two years, the tiny Tomingley gold project of Alkane Resources has played second fiddle to the company's proposed world-class Dubbo rare earths development. In a subtle way, which a few savvy investors noticed last week, tiny Tomingley has now taken on a more significant role in the growth of Alkane as a significant Australian mining company.

It was an updated resource estimate that shifted the focus back on to Tomingley, which is located in the western wheat and sheep grazing country of New South Wales. From a modest estimate of little more than 650,000 ounces of gold, Tomingley jumped to be within strike of the magic million ounces.

The 24 per cent increase in the identified mineral resource from 659,100 ounces to 811,700 ounces was the result of a substantial improvement in the resource at the Caloma orebody, one of three structures earmarked for mining as part of the Tomingley developments. Tonnage increased, but so, more markedly, did grade – by 16.7 per cent. The new numbers for Caloma are 5.45 million tonnes at 2.1 grams a tonne, which looks pretty good against the old estimate of 3.86 million tonnes at 1.8 grams per tonne. That takes the new numbers for Tomingley as a whole to 12.59 million tonnes at two grams per tonne, as against the previous estimate of 11.29 million tonnes at 1.8 grams per tonne.

Alkane, naturally, is pleased with the boost, as are investment banks that follow the company, among them the Vampire Squid itself, Goldman Sachs. In a snapshot comment sent to clients on the same day that Alkane reported the resource upgrade, Goldman refreshed its neutral rating on Alkane, but added that the extra tonnes had: “the potential to extend the mine life of the project and increase the overall grade of the project by around 10 per cent”. Goldman also reminded clients that Tomingley is simply the starter project that will allow Alkane to re-establish itself as a miner in western NSW, a position it lost when its' mothballed the Peak Hill mine several years ago.

Tomingley is significant in two key ways. It shifts the Alkane from being an explorer to a miner. And it will start generating positive cash flow as the company expands its horizon to incorporate the Dubbo rare earths project. To put the two projects into perspective, Tomingley is a mine which will cost about A\$100 million to develop. Dubbo is a A\$1 billion development that will catapult Alkane into the thin ranks of globally important rare earths producers. It's a mine that starts with a 100 year life expectancy, but which has the potential to last much longer – not that too many of today's shareholders will have to worry about that.

On the market, Alkane shares have been in a solid recovery trend since the start of 2012. From opening sales at A90 cents the shares are now trading at around A\$1.52, a 69 per cent rise in little more than three months, making Alkane a contender for Australia's best stock-market performer in the first quarter. The reason for the revival, and perhaps a target price to match last year's peak of A\$2.70, is increased interest from the same international investors who snapped up the lion's share of Alkane's A\$107 million capital raising in late February.

Alkane's chief executive Ian Chalmers said in a briefing note that part of the reason for the fresh capital raising was as a response to investor interest expressed at road shows in North America, the UK and Australia. "The recent visits were very satisfying because of the amount of interest in our projects particularly in London, New York and Toronto", Ian said. "I was really pleasantly surprised as I thought London would be quite gloomy because of the European debt crisis. However investors there said they thought the market had bottomed, and in someone's words, was 'awash with funds'. It was a similar situation in New York."

Since raising that A\$107 million in a mixed offering of non-renounceable entitlements and placements, priced at A\$1.10 a share, Alkane has richly-rewarded the participants. What everyone seems to like is the orderly project development and monetisation process which Ian and his fellow board members are orchestrating. Tomingley is seen as a handy way to re-start the mining motor inside the company. In addition, the 49 per cent-owned McPhillamys gold discovery is a more-than-useful asset ripe for trading, as the 51 per cent majority owner, Newmont Mining, is a potential seller, since at three million ounces the discovery is not big enough for the world's biggest goldminer. Finally, Dubbo is waiting as the prize at the end of Alkane's rainbow.

Potentially, Alkane could grow quite rapidly from here on in, as Tomingley starts from early next year to spin off cash from gold production at a rate of up to 60,000 ounces a year, albeit at a relatively modest profit margin of around US\$650 an ounce. A deal on McPhillamys should yield more than A\$100 million, and the way will then clear for a fund-raising, and possible small sell-down of equity in Dubbo - most probably to a major end-user of the cocktail of rare earths that the project will generate.

With solid cash flow underpinning day-to-day activities, and with a portion of the fresh capital allocated to finalising feasibility studies, Alkane will soon be in good shape for the big capital raising required by the Dubbo development. Ian said that process could involve the sale of a small stake, perhaps around 10 per cent equity at a premium to the estimated net present value of A\$1.2 billion.

"There are a number of international government agencies which have publicly stated their desire to invest in projects that can guarantee supply of strategic materials for industries in their countries", Ian said. "They have indicated the availability of equity and/or debt funds for these projects. If the economics of Dubbo stack up in the way we believe they will, we shouldn't have any difficulty in raising the required funds. We're aiming to have funding in place at least on paper by the end of 2012, so we're ready to proceed to development in mid-2013 with production later in 2014."