

18 June 2012

Alkane Resources

ALK

\$0.95/share

Update highlights positive progress

BUY

ALK has released a company update highlighting positive project progress. Key takeaways comprise (i) initial MOUs with customers for rare earths are expected by end of July (ii) recent improvements to the flowsheet for ALK's Dubbo Zirconia Project (DZP) highlight potential for increased EBITDA (iii) timetable to first DZP production remains 2H 2014 and (iv) Tomingley gold project approval is targeted by July. ALK's balance sheet remains strong with ~\$105M cash and no debt. We recommend buying ALK with 300% upside to NPV of A\$3.80/share.

DZP (100%) – a world class project

- Recoveries for heavy rare earths (HREEs) have improved at the DZP demonstration plant.
- Potential exists for higher forecast HREE production.
- Indicates potentially higher EBITDA (DFS - \$300Mpa).
- Water recycling initiatives underway to reduce capex.
- DZP remains a robust, long life project.
- Current resources equate to a 74 year mine life.
- Strong upside exists from near term MOUs.

Rare Earth MOUs

- ALK is assessing JV and toll treatment arrangements.
- Potential to process rare earths through a JV facility.
- Potential to sell high quality separated rare earths and increase revenue.
- In talks with rare earth separators outside China.
- MOU finalisation targeted by end of July.

Tomingley Gold (100%)

- State government approval targeted by July.
- Mine lease approval targeted by end of July.
- Twelve month construction for first gold mid 2013.
- Ball mill ordered Sept 2011 and on site Nov 2012.
- Initial 7.5 year mine life likely with +10 years likely.
- 50-60kozpa at \$940/oz cash costs.

McPhillamys (49%)

- Newmont (51%) considering options for McPhillamys.
- We value ALK's 49% stake at A\$109M.

Newsflow ahead

- Q3 2012 – Rare earth MOUs.
- Q3 2012 – Tomingley project approval and financing.
- Q4 2012 – DZP EIS submitted.
- Q2/3 2013 – DZP approval and financing.
- Q3 2013 – First production Tomingley.
- Q2/3 2014 – First production Dubbo.

Company Data

Shares - ordinary	372.2M
Options	4.0M
Total (fully diluted)	376.2M
Market Cap	\$357.4M
12 month low/high	\$0.85 / \$2.52
Average monthly turnover	\$34.8M

Financial Summary – 1Mtpa rates

Year end Dec	2010A	2011F	2012F	2013F	2014F	2015F
Revenue (\$M)	0.2	0.0	0.0	40.1	346.0	598.6
Costs (\$M)	1.5	2.6	2.5	25.9	147.4	253.3
EBITDA (\$M)	-2.1	-3.5	-2.5	14.1	198.6	345.3
NPAT (\$M)	-1.8	-2.8	-2.0	-13.3	91.9	189.4
EPS (¢ps)	-0.7	-1.0	-0.5	-3.6	24.7	50.9
PER (x)	na	na	na	na	3.8	1.9
Cashflow (Gross-\$M)	-1.2	-0.8	-2.0	-6.1	158.4	273.2
CFPS (¢/sh)	-0.5	-0.3	-0.5	-1.6	42.6	73.4
PCFPS (x)	na	na	na	na	2.2	1.3
Enterprise Value (\$M)	244	234	338	1090	1055	805
EV / EBITDA (x)	na	na	na	77.1	5.3	2.3

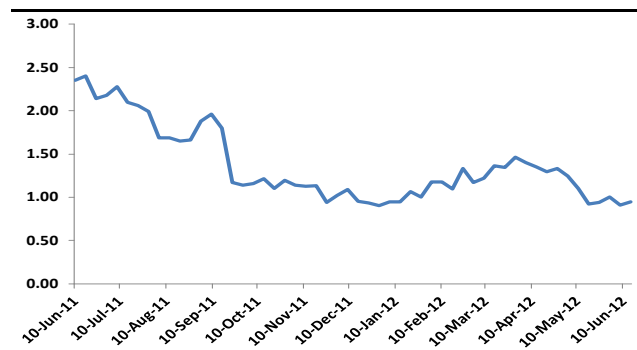
Substantial Shareholders (FPO)

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

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

ALKANE RESOURCES
(ALK AU) (ALKNY OTCQX)
18-Jun-12

Year End 31 Dec

PROFIT & LOSS	2010A	2011A	2012F	2013F	2014F	2015F
Sales Revenue	\$M 0.0	0.0	0.0	40.1	346.0	598.6
Other Income	\$M 0.2	0.0	0.0	0.0	0.0	0.0
Operating Costs	\$M 1.5	2.6	2.5	25.9	147.4	253.3
Exploration	\$M 0.8	1.0	0.0	0.0	0.0	0.0
Other	\$M 0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	\$M (2.1)	(3.5)	(2.5)	14.1	198.6	345.3
Depreciation & Amort.	\$M 0.0	0.1	0.0	7.2	27.1	42.0
EBIT	\$M (2.1)	(3.6)	(2.5)	7.0	171.5	303.3
Net Interest	\$M (0.3)	(0.8)	(0.5)	20.2	40.2	32.8
Pre-Tax Profit	\$M (1.8)	(2.8)	(2.0)	(13.3)	131.3	270.5
Tax	\$M 0.0	0.0	0.0	0.0	39.4	81.2
Minorities	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	\$M (1.8)	(2.8)	(2.0)	(13.3)	91.9	189.4
Abnormal	\$M 9.6	0.0	0.0	0.0	0.0	0.0
Reported Profit	\$M 7.8	(2.8)	(2.0)	(13.3)	91.9	189.4
Dividends Paid	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Adjustments	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Retained Earnings	\$M (16.6)	(19.4)	(21.4)	(34.7)	57.2	246.5

CASH FLOW

Revenue	\$M 0.0	0.0	0.0	40.1	346.0	598.6
Costs	\$M (1.5)	(1.7)	(2.5)	(25.9)	(147.4)	(253.3)
Net Interest	\$M 0.3	0.9	0.5	(20.2)	(40.2)	(32.8)
Tax Paid	\$M 0.0	0.0	0.0	0.0	0.0	(39.4)
Gross Cash Flow	\$M (1.2)	(0.8)	(2.0)	(6.1)	158.4	273.2
Net Capex	\$M (1.0)	(3.0)	(95.0)	(746.0)	(123.6)	(22.9)
Exploration	\$M (7.8)	(10.9)	0.0	0.0	0.0	0.0
Dividends	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$M 0.2	0.0	0.0	0.0	0.0	0.0
Free Cashflow	\$M (9.9)	(14.7)	(97.0)	(752.1)	34.8	250.3
Equity Issues	\$M 0.0	19.9	103.0	0.0	0.0	0.0
Net Borrowings	\$M 0.0	0.0	20.0	765.0	0.0	(200.0)
Net Investments	\$M 9.6	0.0	0.0	0.0	0.0	0.0
Surplus Cash Flow	\$M (0.3)	5.2	26.0	12.9	34.8	50.3

BALANCE SHEET

Cash	\$M 4.6	9.8	35.8	48.7	83.5	133.8
Other Current	\$M 0.4	0.7	15.0	16.0	20.8	23.9
Total Current	\$M 5.0	10.5	50.8	64.7	104.3	157.7
Fixed Assets	\$M 2.1	2.4	97.4	836.2	932.6	913.5
Exploration	\$M 39.3	51.8	38.0	38.0	36.0	36.0
Intangibles	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$M 0.5	0.5	0.5	0.5	0.5	0.5
Total NC Assets	\$M 41.8	54.7	135.9	874.7	969.1	950.0
TOTAL ASSETS	\$M 46.8	65.2	186.6	939.4	1,073.4	1,107.7
Total Debt	\$M 0.0	0.0	20.0	785.0	785.0	585.0
Current Liab	\$M 1.1	2.2	2.2	2.2	41.6	83.4
Non Current Liab	\$M 0.2	0.2	0.7	1.8	4.5	7.7
TOTAL LIAB	\$M 1.3	2.4	23.0	789.0	831.1	676.1
NET ASSETS	\$M 45.6	62.7	163.7	150.4	242.3	431.6
SH/HLDRS FUNDS	\$M 45.6	62.7	163.7	150.4	242.3	431.6

RATIO ANALYSIS

EPS	¢ (0.7)	(1.0)	(0.5)	(3.6)	24.7	50.9
PER	x na	na	na	na	3.8	1.9
EPS Growth	% 0.8	44.1	(47.9)	553.6	(792.4)	106.1
EBITDA per share	¢ -0.8	-1.3	-0.7	3.8	53.4	92.8
EBITDA Multiple	x -119.3	-68.8	-141.4	25.0	1.8	1.0
EV/EBITDA	x na	na	na	77.1	5.3	2.3
CFPS	¢ (0.5)	(0.3)	(0.5)	(1.6)	42.6	73.4
PCFR	x na	na	na	na	2.2	1.3
DPS	¢ 0.0	0.0	0.0	0.0	0.0	0.0
Yield	% 0.0	0.0	0.0	0.0	0.0	0.0
Franking	% 0	0	0	0	0	0
Payout Ratio	% 0%	0%	0%	0%	0%	0%
Gearing D/E	% na	na	na	489.6	289.5	104.5
Interest Cover	x 6.5	4.6	5.3	0.3	4.3	9.3
EBITDA Margin	% na	na	na	35.3	57.4	57.7
EBIT Margin	% na	na	na	17.4	49.6	50.7
Return On Assets	% (4.6)	(5.5)	(1.3)	0.7	16.0	27.4
Return On Equity	% (4.0)	(4.5)	(1.2)	(8.8)	37.9	43.9
Eff Tax rate	% 0	0	0	0	30	30

Share Price	(\$)	0.95
Iss. Shares	(M)	372.2
Iss. Options	(M)	4.0
Mkt Cap.	(\$M)	353.6



RESOURCES	2010A	2011A	2012F	2013F	2014F	2015F
Tomingley Gold (NSW)						
Tonnes	Mt 11.3	11.3	12.6	12.1	11.1	10.1
Grade (gold)	g/t 1.8	1.8	2.0	2.0	2.0	2.1
Contained Gold	oz 661,212	661,212	809,556	783,031	729,983	676,934
McPhillamys Gold (NSW)						
Tonnes	Mt 91.9	91.9	91.9	91.9	91.9	91.9
Grade (gold)	g/t 1.0	1.0	1.0	1.0	1.0	1.0
Contained Gold	Moz 2.96	2.96	2.96	2.96	2.96	2.96
Dubbo Zirconia (NSW)						
Tonnes	Mt 73.2	73.2	73.2	73.2	72.7	71.7
Zirconium (ZrO ₂)	% 2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Niobium	% 0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Yt + REE	% 0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Contained product	Mt 2.4	2.4	2.4	2.4	2.4	2.4

ATTRIBUTABLE PRODUCTION

Tomingley Gold	oz	-	-	-	24,668	49,335	49,335
DZP - ZrO ₂ products	t	0	0	0	0	8,036	16,715
DZP - Niobium	t	0	0	0	0	1,617	3,363
DZP - LREE	t	0	0	0	0	1,713	3,564
DZP - YHREE	t	0	0	0	0	563	1,171
Other	t	0.0	0.0	0.0	0.0	0.0	0.0
Total - Dubbo	t	0	0	0	0	11,929	24,813

REVENUE

Tomingley Gold	\$M 0.0	0.0	0.0	40.1	83.6	82.2
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	262.4	516.4
Other	\$M 0.2	0.0	0.0	0.0	0.0	0.0
Total	\$M 0.2	0.0	0.0	40.1	346.0	598.6

COSTS

Tomingley Gold	A\$/oz	0	930	0	930	930
Tomingley Gold	\$M 0.0	0.0	0.0	22.9	45.9	45.9
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	98.0	203.9
Other	\$M 1.5	2.6	2.5	3.0	3.5	3.5
Total	\$M 1.5	2.6	2.5	25.9	147.4	253.3

CAPEX

Tomingley Gold	\$M 1.0	1.0	45.0	46.0	2.3	2.3
Dubbo Zirconia	\$M 0.0	2.0	50.0	700.0	121.3	20.6
Other	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Total	\$M 1.0	3.0	95.0	746.0	123.6	22.9

DEPRECIATION

Tomingley Gold	\$M 0.0	0.0	0.0	7.2	14.7	15.2
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	12.4	26.8
Other	\$M 0.0	0.1	0.0	0.0	0.0	0.0
Total	\$M 0.0	0.1	0.0	7.2	27.1	42.0

EBITDA

Tomingley Gold	\$M 0.0	0.0	0.0	17.1	37.7	36.3
Dubbo Zirconia	\$M 0.0	0.0	0.0	0.0	164.4	312.5
Other	\$M -2.1	-3.5	0.0	0.0	0.0	0.0
Total	\$M -2.1	-3.5	0.0	17.1	202.1	348.8

HEDGING

Gold hedged	oz	0	0	0	0	0
Hedged price	US\$/oz	0	0	0	0	0
Hedged price	A\$/oz	0	0	0	0	0
Sales hedged	%	0%	0%	0%	0%	0%
Ave. deliverable price	US\$/oz	1226	1570	1701	1625	1525
Ave. deliverable price	A\$/oz	1,333	1,520	1,627	1,625	1,694

ASSUMPTIONS

Exchange Rate	A\$/US\$	0.92	1.03	1.05	1.00	0.90
Gold Price	US\$/oz	1226	1570	1701	1625	1525
Gold Price	A\$/oz	1333	1520	1627	1625	1694
Zirconia price	US\$/kg	6.00	7.00	11.00	12.00	11.50
LREE Price	US\$/kg	35.00	35.00	35.00	55.00	45.00
YHREE Price	US\$/kg	50.00	110.00	110.00	100.00	90.00
90 day Bank Bills	%	4.68	4.85	4.47	4.50	4.50
10 Yr Bond rate	%	5.38	4.89	4.00	4.00	4.00
Interest Rate Charged	%	5.88	5.39	4.50	4.50	4.50

VALUATION

	ASM	ASps
Tomingley Gold	98.9	\$ 0.27
Dubbo Zirconia	1,085.3	\$ 2.92
McPhillamys	108.8	\$ 0.29
Other	15.0	\$ 0.04
Net Cash (Debt)	105.0	\$ 0.28
Total	1,413.0	\$ 3.80

Source: Petra Capital

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