

16 July 2012

Alkane Resources

ALK

\$0.96/share

Rare earths MOU signed

BUY

ALK has achieved a major milestone with the signing of a rare earths MOU with Japanese firm Shin-Etsu Chemical Company Ltd. The agreement is for an initial five years with ALK's DZP (Dubbo Zirconia Project) rare earth concentrates to be processed in Japan at Shin-Etsu's existing separation facility. Shin-Etsu will have priority to purchase at commercial prices a quantity of rare earths processed under the agreement. Selling the full suite of separated rare earths has the potential to increase DZP revenue by up to \$100Mpa. We recommend buying ALK with 280% upside to NPV of A\$3.80/share.

Rare Earth MOU signed

- Initial 5 year agreement likely to increase to 10 years.
- MOU likely to convert to binding agreement end of Q4.
- Pricing to be finalised once agreement is binding.
- DZP revenue has the potential to rise by \$100Mpa.
- Shin-Etsu to provide ongoing technical assistance.
- Confirms DZP products as high quality.
- Confirms DZP as attractive, secure long-term supply.
- ALL DZP products are now under MOU.

Shin-Etsu Chemical Company Ltd.

- Diverse company founded in 1926.
- Rare earths make up ~13% of business.
- FY12 revenue of US\$12.8B, NPAT US\$1.2B.
- Strong balance sheet with \$2.94B cash, \$186M debt.
- Operates Japan's only large scale RE separation plant
- Further details <http://www.shinetsu.co.jp/e/index.shtml>

MOU paves the way for funding

- MOU allows ALK to progress project sell-down.
- 10% sell-down could provide up to \$200M cash.
- Strong interest from govt agencies to provide debt.
- Up to \$500M in funding likely from offtakers and debt.
- ALK target sell-down & debt in place by year end.

Newsflow ahead

- Q3 2012 – Tomingley project approval (fully funded).
- Q3 2012 – Updated financials DZP.
- Q4 2012 – DZP EIS submitted.
- Q4 2012 – DZP sell-down plus govt debt (MOUs).
- Q3 2013 – DZP approval and financing.
- Q3 2013 – First production Tomingley.
- Q4 2014 – First production Dubbo.

Company Data

Shares - ordinary	372.2M
Options	4.0M
Total (fully diluted)	376.2M
Market Cap	\$361.1M
12 month low/high	\$0.74 / \$2.17
Average monthly turnover	\$30.1M

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	3.9	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	2.3	1.3
Enterprise Value (\$M)	244	234	342	1094	1059	809
EV / EBITDA (x)	na	na	na	77.3	5.3	2.3

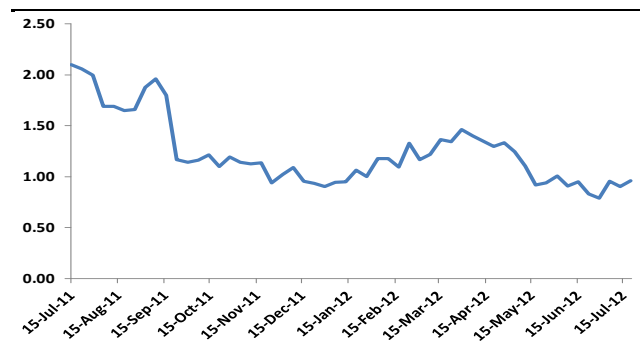
Substantial Shareholders (FPO)

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)
16-Jul-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	3.9	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	-142.9	25.3	1.8	1.0
EV/EBITDA	x na	na	na	77.3	5.3	2.3
CFPS	¢ (0.5)	(0.3)	(0.5)	(1.6)	42.6	73.4
PCFR	x na	na	na	na	2.3	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	(\$)	0.96
Iss. Shares	(M)	372.2
Iss. Options	(M)	4.0
Mkt Cap.	(\$M)	357.3



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
Dubbo Zirconia	\$M	0.0	0.0	0.0	98.0	203.9
Other	\$M	1.5	2.6	2.5	3.0	3.5
Total	\$M	1.5	2.6	2.5	25.9	147.4

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	A\$ps
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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