

9 August 2012

Alkane Resources

ALK

\$1.04/share

Sale of McPhillamys Gold Project

BUY

Alkane Resources and Newmont today announced they have accepted an offer from Regis Resources for the sale of the McPhillamys gold project. Regis will pay \$150M (100%) which equates to \$73.5M (20c/share) for ALK's 49% share. Whilst the price is lower than our estimate of \$109M, this is a positive outcome crystallizing value in a long term project. The positive announcement follows recent major milestones achieved by ALK comprising Tomingley gold project approval and the rare earths MOU signed with Japanese company Shin-Etsu. We recommend buying ALK with 255% upside to NPV of A\$3.70/share.

McPhillamys gold project sold

- Regis to acquire McPhillamys for \$150M in scrip.
- ALK's share = \$73.5M or 17.5M RRL shares at A\$4.20/share.
- There is no escrow condition on shares issued.
- Payment equates to \$60/oz based on 2.5Moz resources (57Mt @ 1.36g/t Au) at 0.5g/t Au cut-off

Transaction conditions

- Subject to satisfaction of the following within 90 days:
 - Ministerial grant of exploration licence renewal
 - Ministerial approval of transfer of exploration licences
 - Approval by Regis' project financier
 - FIRB approval of issue of shares to Newmont
 - Regis obtaining shareholder approvals required

What does it mean for ALK?

- Crystallises value of 20c/share for ALK's stake.
- Provides balance sheet flexibility.
- Allows ALK to focus attention on the Tomingley Gold and Dubbo Zirconia projects.

Newsflow ahead

- Q3 2012 – Tomingley mining licence.
- 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	\$391.2M
12 month low/high	\$0.74 / \$1.95
Average monthly turnover	\$27.5M

Financial Summary – 1Mtpa rates

Year end Dec	2010A	2011A	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	4.1	2.0
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	2.4	1.4
Enterprise Value (\$M)	244	234	356	1109	1074	823
EV / EBITDA (x)	na	na	na	78.4	5.4	2.4

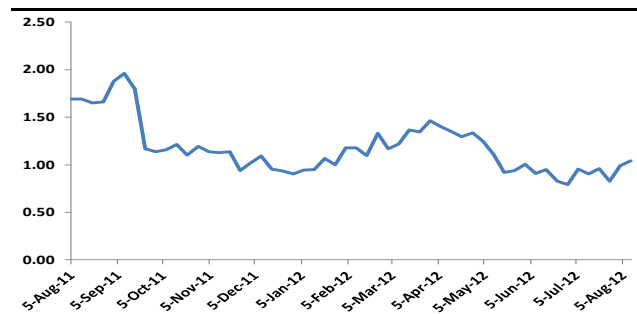
Substantial Shareholders (FPO)

	Shares (M)	(%)
Abbotsleigh	96.7	26.4%
Fidelity	18.7	5.1%

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) 9-Aug-12 Year End 31 Dec							Share Price (\$)			1.04		
PROFIT & LOSS							Iss. Shares (M)			372.2		
							Iss. Options (M)			4.0		
							Mkt Cap. (\$M)			387.1		
	2010A	2011A	2012F	2013F	2014F	2015F	RESOURCES					
Sales Revenue	\$M	0.0	0.0	0.0	40.1	346.0	Tomingley Gold (NSW)					
Other Income	\$M	0.2	0.0	0.0	0.0	0.0	Tonnes Mt					
Operating Costs	\$M	1.5	2.6	2.5	25.9	147.4	Grade (gold) g/t					
Exploration	\$M	0.8	1.0	0.0	0.0	0.0	Contained Gold oz					
Other	\$M	0.0	0.0	0.0	0.0	0.0	McPhillamys Gold (NSW)					
EBITDA	\$M	(2.1)	(3.5)	(2.5)	14.1	198.6	Tonnes Mt					
Depreciation & Amort.	\$M	0.0	0.1	0.0	7.2	27.1	Grade (gold) g/t					
EBIT	\$M	(2.1)	(3.6)	(2.5)	7.0	171.5	Contained Gold Moz					
Net Interest	\$M	(0.3)	(0.8)	(0.5)	20.2	40.2	Dubbo Zirconia (NSW)					
Pre-Tax Profit	\$M	(1.8)	(2.8)	(2.0)	(13.3)	131.3	Tonnes Mt					
Tax	\$M	0.0	0.0	0.0	0.0	39.4	Zirconium (ZrO ₂) %					
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	Niobium %					
Net Profit	\$M	(1.8)	(2.8)	(2.0)	(13.3)	91.9	Yt + REE %					
Abnormal	\$M	9.6	0.0	0.0	0.0	0.0	Contained product Mt					
Reported Profit	\$M	7.8	(2.8)	(2.0)	(13.3)	91.9	ATTRIBUTABLE PRODUCTION					
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	Tomingley Gold oz					
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0	DZP - ZrO ₂ products t					
Retained Earnings	\$M	(16.6)	(19.4)	(21.4)	(34.7)	57.2	DZP - Niobium t					
CASH FLOW							DZP - LREE t					
Revenue	\$M	0.0	0.0	0.0	40.1	346.0	DZP - YHREE t					
Costs	\$M	(1.5)	(1.7)	(2.5)	(25.9)	(253.3)	Other t					
Net Interest	\$M	0.3	0.9	0.5	(20.2)	(40.2)	Total - Dubbo t					
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	REVENUE					
Gross Cash Flow	\$M	(1.2)	(0.8)	(2.0)	(6.1)	158.4	Tomingley Gold \$M					
Net Capex	\$M	(1.0)	(3.0)	(95.0)	(746.0)	(123.6)	Dubbo Zirconia \$M					
Exploration	\$M	(7.8)	(10.9)	0.0	0.0	0.0	Other \$M					
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	Total \$M					
Other	\$M	0.2	0.0	0.0	0.0	0.0	COSTS					
Free Cashflow	\$M	(9.9)	(14.7)	(97.0)	(752.1)	34.8	Tomingley Gold A\$/oz					
Equity Issues	\$M	0.0	19.9	103.0	0.0	0.0	Tomingley Gold \$M					
Net Borrowings	\$M	0.0	0.0	20.0	765.0	(200.0)	Dubbo Zirconia \$M					
Net Investments	\$M	9.6	0.0	0.0	0.0	0.0	Other \$M					
Surplus Cash Flow	\$M	(0.3)	5.2	26.0	12.9	34.8	Total \$M					
BALANCE SHEET							CAPEX					
Cash	\$M	4.6	9.8	35.8	48.7	83.5	Tomingley Gold \$M					
Other Current	\$M	0.4	0.7	15.0	16.0	20.8	Dubbo Zirconia \$M					
Total Current	\$M	5.0	10.5	50.8	64.7	104.3	Other \$M					
Fixed Assets	\$M	2.1	2.4	97.4	836.2	913.5	Total \$M					
Exploration	\$M	39.3	51.8	38.0	38.0	36.0	DEPRECIATION					
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	Tomingley Gold \$M					
Other	\$M	0.5	0.5	0.5	0.5	0.5	Dubbo Zirconia \$M					
Total NC Assets	\$M	41.8	54.7	135.9	874.7	969.1	Other \$M					
TOTAL ASSETS	\$M	46.8	65.2	186.6	939.4	1,073.4	Total \$M					
Total Debt	\$M	0.0	0.0	20.0	785.0	585.0	EBITDA					
Current Liab	\$M	1.1	2.2	2.2	41.6	83.4	Tomingley Gold \$M					
Non Current Liab	\$M	0.2	0.2	0.7	1.8	4.5	Dubbo Zirconia \$M					
TOTAL LIAB	\$M	1.3	2.4	23.0	789.0	831.1	Other \$M					
NET ASSETS	\$M	45.6	62.7	163.7	150.4	242.3	Total \$M					
SH/HLDRS FUNDS	\$M	45.6	62.7	163.7	150.4	242.3	HEDGING					
RATIO ANALYSIS							Gold hedged oz					
EPS	¢	(0.7)	(1.0)	(0.5)	(3.6)	24.7	Hedged price US\$/oz					
PER	x	na	na	na	na	4.2	Hedged price A\$/oz					
EPS Growth	%	0.8	44.1	(47.9)	553.6	(792.4)	Sales hedged %					
EBITDA per share	¢	-0.8	-1.3	-0.7	3.8	53.4	Ave. deliverable price US\$/oz					
EBITDA Multiple	x	-119.3	-68.8	-154.8	27.4	1.9	Ave. deliverable price A\$/oz					
EV/EBITDA	x	na	na	na	79.4	5.5	ASSUMPTIONS					
CFPS	¢	(0.5)	(0.3)	(0.5)	(1.6)	42.6	Exchange Rate A\$/US\$					
PCFR	x	na	na	na	na	2.4	Gold Price US\$/oz					
DPS	¢	0.0	0.0	0.0	0.0	0.0	Gold Price A\$/oz					
Yield	%	0.0	0.0	0.0	0.0	0.0	Zirconia price US\$/kg					
Franking	%	0	0	0	0	0	LREE Price US\$/kg					
Payout Ratio	%	0%	0%	0%	0%	0%	YHREE Price US\$/kg					
Gearing D/E	%	na	na	na	489.6	289.5	90 day Bank Bills %					
Interest Cover	x	6.5	4.6	5.3	0.3	4.3	10 Yr Bond rate %					
EBITDA Margin	%	na	na	na	35.3	57.4	Interest Rate Charged %					
EBIT Margin	%	na	na	na	17.4	49.6	VALUATION					
Return On Assets	%	(4.6)	(5.5)	(1.3)	0.7	16.0	Tomingley Gold ASM					
Return On Equity	%	(4.0)	(4.5)	(1.2)	(8.8)	37.9	Dubbo Zirconia ASM					
Eff Tax rate	%	0	0	0	0	30	McPhillamys ASM					
							Other ASM					
							Net Cash (Debt) ASM					
							Total ASM					

Source: Petra Capital

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