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Alkane Could Be In Production From Tomingley By The End Of The Year, With Dubbo Following On In 2015

By Our Man in Oz

If your stockbroker told you there's a handsomely-profitable 50,000 ounce-a-year gold mine, and one of the world's biggest deposits of rare earths available for less than A\$90 million, it's a fair bet that you would suggest he take a holiday in the sun, and/or sober up.

That might be a mistake because what your adviser has in fact stumbled across is a company that comes straight out of the bargain basement, despite it being one of the better-known explorers and gold producers in Australia.

<u>Alkane Resources</u> has been a regular on the Australian mining scene for the past 33 years, surviving the roller-coaster of booms and busts which go with the territory.

But, over the past few years Alkane has moved away from its modest roots as a small explorer and occasional gold producer and onto the world stage, courtesy of the Chinese stranglehold on rare earths and a global search by non-Chinese consumers of that odd family of elements to find reliable supplies in reliable countries.

In fact, Alkane was working on its Dubbo Zirconia Project (DZP) west of Sydney long before Chinese government officials stomped a size 10 boot on exports, forcing the prices of prized elements such a neodymium, dysprosium and praseodymium through the roof.

The heat has since gone out of the rare earth market, but demand from consumers, such as Japanese high-tech magnet makers, for non-Chinese sources of supply has not faded, and it's that demand which will drive the Dubbo DZP to a final development decision later this year.

That'll be about the same time that Alkane starts gold production at its small, but well-formed, Tomingley mine in broadly the same location as the DZP.

For Alkane's long-serving chief executive lan Chalmers, the past few months have been a frustrating time, with both Tomingley and the DZP moving ahead, albeit at a slower pace than he would like, and certainly slower than some impatient investors would like.

It was a different story last August when Minesite's Man in Oz last chatted with him. Back then it was time for a double celebration, with a third on the way. The two wins were: the securing of development approval from the New South Wales government for Tomingley, and the signing of a memorandum of understanding covering the DZP with the big Japanese speciality magnet and chemicals make, Shin-Etsu.

The win in waiting was the sale of the McPhillamys gold project to ASX-listed Regis Resources for A\$150 million, with Alkane entitled to A\$73.5 million, which it took as an issue of 17.5 million Regis shares valued on the day of the deal at A\$4.20 each.

Since then, Regis shares have done what Ian hoped they would do, risen strongly to be trading this week at around A\$5.10, valuing Alkane's stake at A\$89.25 million, an extra A\$15.75 million for less than six months "work".

The reason the Regis stake is important when looking at Alkane is that it represents a second source of potential cash for the company, alongside a bank balance which was standing at A\$93.8 million on September 30, but which will have declined to somewhat less now, given ongoing exploration and project development costs.

At the current share price of A69 cents Alkane is valued at A\$257 million. Even assuming a drop off from the September 30 number, liquid cash and investments underpin A\$169 million of that that, meaning that the company has around 66 per cent cash backing, and that two high-class emerging projects in gold and rare earths are yours for A\$88 million.

As an investment equation it's hard to beat, because Tomingley alone is expected to operate on a cash-profit margin of US\$700 an ounce which, at the lower production target of 50,000 ounces a year equates to annual cash flow of around US\$35 million, over an expected minimum 10 year life. The more aggressive production target is 60,000 ounces, so those numbers could well come in higher.

If Tomingley is a handy future profit earner, it has the additional benefit of restoring to Alkane a production culture that faded when the company closed its Peak Hill mine several years ago, thus setting the scene for the company-making project, the DZP.

Big and technically complex for a company the size of Alkane, the latest capital and operating cost estimates, which incorporated both the higher-cost resource project environment in Australia and last year's fall in rare earth prices, raised a few eyebrows because it took the capex to over A\$1 billion and sliced the best part of A\$50 million off annual forecast revenue.

But despite the latest costings, the DZP remains a strongly profitable project with a net present value, assuming 20 years of operation, of A\$739 million – bearing in mind that the orebody has a life many times greater than 20 years.

What's more, the DZP is that it is a project on the radar screens of several foreign governments keen to ensure a consistent supply of rare earths and the equally important

elements of zirconia and niobium which are found in relatively high abundance in the ore of the unusual geological feature which hosts the elements, the Toongi trachyte.

Early-stage negotiations with the Export Credit Agencies of rare earth importing countries have been opened by the two expert firms advising Alkane, Credit Suisse and Sumitomo Mitsui, which will play a key role in sourcing low-cost funds for a project regarded as critical for industrial manufacturers in places such as Japan.

lan said all the building blocks for Tomingley and the DZP are falling into place with the final paper work and approvals for the gold mine making their way through the New South Wales government. First gold production is still possible from the relatively small development by the end of the year, or early in 2014.

The DZP is also in the development consent process and financing phase, potentially leading to a start on construction in the last quarter of this year and with first production towards the end of 2015.

"The approvals processes are taking longer than we would like, but that's the way it is and we have to work with government to achieve an outcome which satisfies everyone", lan said.

Brokers close to Alkane remain strongly supportive. Petra Capital, which has a role in the equity-raising phase of the financing process maintains a buy tip on the stock after the release of the increased capex and opex forecasts, describing the latest estimates as conservative, with potential for reductions in capex and an increase in revenue.