

20 April 2011

Alkane Resources

ALK

\$2.42/share

Tomingley Gold one step closer

BUY

Alkane Resources (ALK) today announced that it has moved one step closer to commercialising its Tomingley (100%) gold project. The company has secured a mandate for (i) a A\$45M Project Loan Facility and (ii) a 163,000 ounce Gold Hedging Facility. These facilities will assist ALK to underpin the gold price in order to commercialise the project. Coupled with some encouraging drilling results yesterday and rapid progress of its Dubbo Zirconia project, ALK is well on its way to becoming a diverse, Australian, emerging producer. Our valuation remains unchanged at \$5.15/share and we recommend a BUY.

Our View

- Valuation – A\$5.15/share at 1.0Mtpa rates.
- Cash – A\$22M as at 28 February.
- Forward PER/PCFR's – 1-4x (spot/Petra prices).

Tomingley (100%) gold hedging secured

- Hedging - 163,000 ounces (announced today).
- Debt - A\$45M project loan (announced today).
- Forward prices - +\$1,500/oz vs cash costs of \$942/oz.
- Production - 50-60kozpa.
- Mine Life - 7.5 years but up to 10-12 years potential.
- Reserves / resources - 209koz / 689koz (respectively).

McPhillamys (25-49%) bankable study underway

- Resource - 3.0Moz with upside.
- Newmont - earning 75% and undertaking a BFS.

Drilling underway on new gold-copper projects

- Glen Hollow (NSW) - 45m @ 0.87g/t gold & 0.24% copper (from 60m) announced yesterday, with drilling ending in mineralisation.

Dubbo Zirconia & Rare Earths (100%) MOU's now due

- MOU's - ALK announced in March: "we hope to have 3-4 in place over the next couple of months". These will form a framework for off-take contracts.
- Prices (zirconia & rare earths) - markets remain tight and prices continue to rise. Zirconia markets expected to remain tight for years. Rare Earths market may move into balance 2014 or 2015.

Newsflow ahead

- Q2 2011 – MOUs with customers for DZP.
- Q3 2011 – Zirconia/Rare Earths BFS completion.
- Q3 2011 – Tomingley Gold financing.
- Q4 2011 – Zirconia/Rare Earths and approvals.
- Q1 2012 – Zirconia/Rare Earths construction.
- Q4 2012 – First production Tomingley.
- Q3 2013 – First production Dubbo.

Company Data

| | |
|--------------------------|-----------------|
| Shares - ordinary | 269.0M |
| Options | 0M |
| Total (fully diluted) | 269.0M |
| Market Cap | \$651.0M |
| 12 month low/high | \$0.23 / \$2.73 |
| Average monthly turnover | \$40M |

Financial Summary (fully diluted) – 1Mtpa rates

| Year end June | 2010A | 2011F | 2012F | 2013F | 2014F | 2015F |
|------------------------|-------|-------|-------|-------|-------|-------|
| Revenue (\$M) | 0.2 | 0.0 | 19.8 | 83.3 | 320.3 | 477.4 |
| Costs (\$M) | 1.5 | 2.2 | 15.8 | 54.9 | 128.3 | 172.1 |
| EBITDA (\$M) | -2.1 | -2.2 | 3.9 | 28.3 | 192.1 | 305.3 |
| NPAT (\$M) | -1.8 | -6.3 | -18.8 | -20.9 | 94.5 | 178.8 |
| EPS (¢ps) | -0.7 | -2.4 | -7.0 | -7.8 | 35.1 | 66.5 |
| PER (x) | na | na | na | na | 6.9 | 3.6 |
| Cashflow (Gross-\$M) | -1.2 | -6.3 | -14.0 | -4.2 | 159.3 | 244.8 |
| CFPS (¢/sh) | -0.5 | -2.4 | -5.2 | -1.5 | 59.2 | 91.0 |
| PCFPS (x) | na | na | na | na | 4.1 | 2.7 |
| Enterprise Value (\$M) | 244 | 763 | 1008 | 1149 | 1001 | 767 |
| EV / EBITDA (x) | na | na | 256.0 | 40.5 | 5.2 | 2.5 |

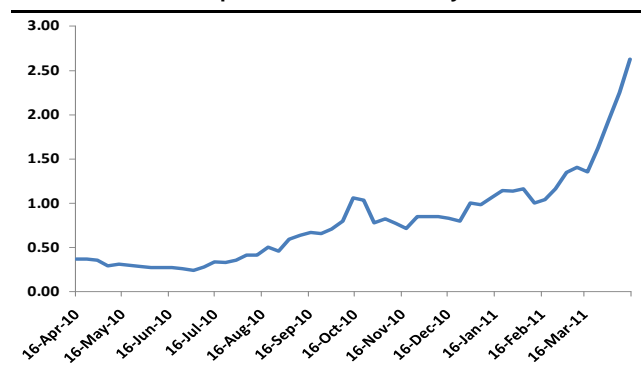
Substantial Shareholders (FPO)

| Substantial Shareholders (FPO) | Shares (M) | (%) |
|--------------------------------|------------|-------|
| Abbotsleigh | 70.9 | 26.4% |

Board

| Director | Position | Executive | Independent |
|---------------|----------|-----------|-------------|
| Ian Chalmers | MD | Executive | - |
| John Dunlop | Chairman | Non-Exec | Independent |
| Ian Gandel | Director | Non-Exec | Independent |
| 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 20M shares at \$1.05/share in February 2011, raising A\$21.0M. A fee was received.

Andrew Richards
+61 (0)2 9239 9605

George Marias
+61 (0)2 9239 9601

Tomingley Gold Project (100%)

The Tomingley gold project is located ~40km from Dubbo in NSW. The project is located in an area of existing infrastructure with the Newell Highway transecting the project and linking a number of towns with regional population ~150,000. No camp facilities are required and the workforce can be sourced locally. A natural gas pipeline and railway are located 5km west of Tomingley and power is available from the NSW state grid at Peak Hill, 16km south of the site. Water supply is expected via a pipeline to be laid from established sources near Narromine, 40km to the north.

Definitive Feasibility Study

The definitive feasibility study was completed by Mintrex in December 2010 (Fig. 1). The final environmental assessment was lodged earlier this year and the review and consent process is expected to take approximately 5 months. Construction time is estimated at 15 months and first gold production anticipated 2H 2012. Metallurgical test work indicates 93% recoveries from standard gravity CIL circuit with gravity recoveries of +50% in the fresh ore. Design plant throughput is 1Mtpa with two stage crushing, single stage ball milling and gravity/CIL gold recovery for production of gold dore at ~50kozpa. The base case shows production of 369koz over a 7.5 year mine life but with potential to support a 10-12 year mining operation. Operating cash costs are estimated at A\$942/oz for life of mine (Fig. 2).

Figure 1: DFS Results (Dec 2010)

A solid cashflow generator at A\$1,500/oz prices.

| | |
|---------------------|-----------|
| Capex | A\$95M |
| Mine Life | 7.5yrs |
| Start Date | 2H 2012 |
| Strip ratio | 7.6:1 |
| Throughput | 1Mtpa |
| Grade – open cut | 1.8g/t Au |
| Grade – underground | 4.0g/t Au |
| Recoveries | 93% |
| Annual production | ~50kozpa |
| Cash Costs | A\$942/oz |
| NPV @ A\$1,500/oz | \$42M |
| IRR | 22% |
| NPV @ A\$1,400/oz | \$15M |
| IRR | 15% |

Figure 2: Summary of Mine Operating Costs

High cash costs primarily reflect the combination of strip ratio and low grade.

| | LOM \$M | A\$/t (processed) | A\$/oz (recovered) |
|----------------------------|---------------|----------------------|-----------------------|
| Mining | 222.75 | 33.94 | 603 |
| Processing and Maintenance | 115.99 | 17.67 | 314 |
| RSF lifting costs | 4.97 | 0.76 | 13 |
| Rehabilitation | 2.87 | 0.44 | 8 |
| Bullion and refining | 1.31 | 0.20 | 4 |
| Total | 347.89 | 53.01 | 942 |

Source: Alkane Resources

ALK has proposed mining 3 pits (Fig. 3) initially commencing with the Caloma pit followed by Wyoming Three and Wyoming One. Caloma remains open below 200m vertical depth with underground potential. Wyoming One is also open at depth and to the south. Mining, development and site construction work will be carried out by contractors, supervised by Alkane staff. Open pit mining plan is based on the use of 120 tonne excavators and 90t off road dump trucks.

Underground mining is planned at Wyoming One after the open pit is completed by year 6. Access is expected to be via a 1:7 decline through a portal located close to the base of the pit. The north and south areas of the underground will be mined concurrently to ensure a steady production rate. The preferred proposal is based on contract mining using a single 40-50t truck with two load-haul dump units (LHDs) for development, production loading and backfilling stopes.

Reserves and Resources

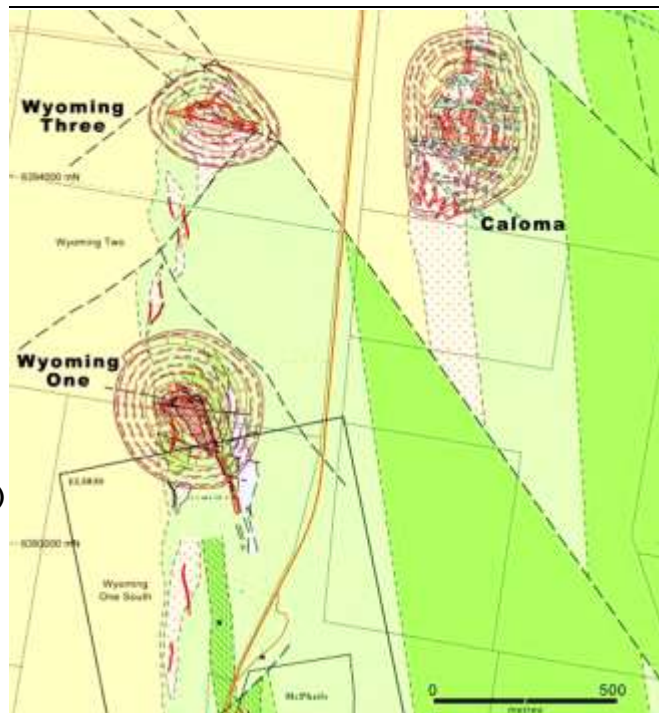
Open pit mining is planned to 180m depth however mineralisation extends to 350m.

Mineralisation covers a sequence of Ordovician volcanic rocks within an andesitic porphyry host. At Caloma, multiple mineralised structures have been defined within the main feldspar host which is 80-150m wide. Much of the area is covered by transported and un-mineralised clay sediments with an average depth of 25m at Wyoming One and 5-10m at Wyoming Three and Caloma. Open pit ore reserves comprise 3.6Mt @ 1.8g/t gold for 209koz gold and were estimated from pit optimisations based on Measured and Indicated resources. A further 0.7Mt @ 3.98g/t gold for 87koz is classified as mining inventory for the underground (Fig. 3 & 4).

Open pit resources comprise 11.3Mt @ 1.82g/t gold for 659koz (Fig. 5). Upside exists from several nearby prospects including Caloma 2, Wyoming 2, McLeans, Tomingley 1 & 2, Black Snake and Smiths.

Figure 3: Tomingley Gold Plan

Production is planned from 3 open pits with further underground planned at Wyoming One.



An underpass (\$2.5M) is required at Caloma to allow haulage to the mill.

Source: Alkane Resources

Figure 4: JORC Reserves – Open Pit

| Deposit | Proved | | Probable | | Total | | |
|--------------|------------------|-------------|----------------|-------------|------------------|-------------|------------------|
| | Tonnage (t) | Grade (g/t) | Tonnage (t) | Grade (g/t) | Tonnage (t) | Grade (g/t) | Ounces (minable) |
| Wyoming 1 | 1,700,000 | 1.6 | 200,000 | 1.3 | 1,900,000 | 1.6 | 94,500 |
| Wyoming 3 | 500,000 | 1.6 | - | - | 500,000 | 1.6 | 28,100 |
| Caloma | 1,100,000 | 2.3 | 100,000 | 1.7 | 1,200,000 | 2.2 | 86,500 |
| Total | 3,300,000 | 1.8 | 300,000 | 1.5 | 3,600,000 | 1.8 | 209,100 |

Source: Alkane Resources

Figure 5: JORC Resources

| Category | Measured | | Indicated | | Inferred | | Total | | |
|--------------|------------------|-------------|------------------|-------------|------------------|-------------|-------------------|-------------|----------------|
| | Tonnage (t) | Grade (g/t) | Tonnage (t) | Grade (g/t) | Tonnage (t) | Grade (g/t) | Tonnage (t) | Grade (g/t) | Ounces |
| Wyoming 1 | 2,227,000 | 2.07 | 882,000 | 2.25 | 3,478,000 | 1.62 | 6,857,000 | 1.86 | 393,200 |
| Wyoming 3 | 630,000 | 1.87 | 58,000 | 1.73 | 154,000 | 1.25 | 842,000 | 1.75 | 47,300 |
| Caloma | 2,047,750 | 2.04 | 440,050 | 1.71 | 1,371,620 | 1.36 | 3,859,420 | 1.76 | 218,500 |
| Total | 4,904,750 | 2.03 | 1,380,050 | 2.06 | 5,003,620 | 1.54 | 11,288,420 | 1.82 | 658,900 |

Source: Alkane Resources

Petra Capital

Level 1, 343 George Street, Sydney NSW 2000

ABN 95 110 952 782

ACN 110 952 782

AFSL 317 944

| | | | |
|-------------------------|---------------------|--------------------|----------------------------------|
| Research (Resources): | George Marias | +61 (0)2 9239 9601 | gmarias@petracapital.com.au |
| Research (Resources): | Andrew Richards | +61 (0)2 9239 9605 | arichards@petracapital.com.au |
| Research (Resources): | Mark Cotton | +61 (0)2 9239 9614 | mcotton@petracapital.com.au |
| Research (Industrials): | Michael Henshaw | +61 (0)2 9239 9606 | mhenshaw@petracapital.com.au |
| Research (Industrials): | Richard Amland | +61 (0)2 9239 9607 | ramland@petracapital.com.au |
| Sales: | Errol Penrose | +61 (0)2 9239 9602 | epenrose@petracapital.com.au |
| Sales: | Kevin Curran | +61 (0)2 9239 9609 | kcurran@petracapital.com.au |
| Sales: | Frank Barila | +61 (0)2 9239 9603 | fbarila@petracapital.com.au |
| Sales: | Richard Macphillamy | +61 (0)2 9239 9604 | rmacphillamy@petracapital.com.au |
| Sales: | Kiera Brown | +61 (0)2 9239 9608 | kbrown@petracapital.com.au |
| Administration: | Larissa Falvo | +61 (0)2 9239 9600 | lfalvo@petracapital.com.au |

This document has been prepared in Australia by Petra Capital Pty Ltd who holds an Australian Financial Services License AFSL 317 944 and whose ABN is 95 110 952 782.

Disclosure

Petra Capital Pty Ltd and its associates, officers, directors, employees and agents, from time to time, may hold securities in Alkane Resources Limited and may trade in these securities either as principal or agent. On 10th February 2011, Petra Capital was lead broker to the issue of 20,000,000 shares at \$1.05/share to raise \$21.0M, for which Petra Capital received a fee.

Disclaimer

This report is published by Petra Capital Pty Ltd by way of general information or advice only. The information or advice contained in this report has been obtained from sources that were accurate at the time of issue, however the information or advice has not been independently verified and as such, Petra Capital Pty Ltd cannot warrant its accuracy or reliability. This report does not take into account specific investment needs or other considerations that may be pertinent to individual investors. Before making any investment decisions based on this report, parties should consider, with or without an investor adviser, whether any relevant part of this report is appropriate to their financial circumstances and investment objectives. Petra Capital Pty Ltd is a licensed institutional/wholesale stockbroking firm. The report is only intended for institutional and sophisticated clients to whom Petra Capital Pty Ltd has issued the report. Petra Capital Pty Ltd is not licensed to advise retail investors – retail investors should contact their own stockbroker or financial adviser/planner for advice. Petra Capital Pty Ltd accepts no liability or responsibility for any direct or indirect loss or damage caused by any error or omission within this report, or by persons relying on the contents of this report.

US Investors

This material is intended for use by major U.S. institutional investors (as such term is defined in the U.S. Securities Exchange Act of 1934) and “\$100 million investors” only and not the general investing public or retail customers. “\$100 million investors” means any entity, including any investment adviser (whether or not registered under the U.S. Investment Company Act of 1940) that owns or controls (or in the case of an investment adviser has under management) in excess of US\$100 million in aggregate financial assets (i.e. cash, money-market instruments, securities of unaffiliated issues, futures and options on futures and other derivative instruments). Transactions by or on behalf of any US person in any security mentioned in this document may only be effected through Monarch Capital Group LLC, a U.S. broker dealer. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified. Therefore, its accuracy is not guaranteed. Additional and supporting information is available upon request. This is not an offer or solicitation of an offer to buy or sell any security or to make any investment. Any opinion or estimate constitutes the preparer’s best judgement as of the date of preparation and is subject to change without notice. Petra Capital Pty Limited or Monarch and their associates or affiliates, and their respective officers, directors and employees may buy or sell securities mentioned herein as agent or principal for their own account.

Other International Investors

International investors are encouraged to contact their local regulatory authorities to determine whether restrictions apply in buying/selling this investment.