

26 October 2011

Alkane Resources

Year End	Revenue (A\$m)	PBT* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/09	**4.7	2.4	1.0	0.0	119.0	N/A
12/10	**10.1	7.9	3.2	0.0	36.8	N/A
12/11e	0.1	(2.1)	(0.8)	0.0	N/A	N/A
12/12e	33.0	(17.6)	(6.5)	0.0	N/A	N/A

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.
**2009 and 2010 revenues include A\$4.1m and A\$9.6m gain on sale of investments respectively.

Investment summary: Further MoU signed

Alkane has signed a memorandum of understanding (MoU) with a European company to produce and market ferro-niobium using niobium concentrate to be produced from its Dubbo Zirconium, Niobium and rare earths project (DZP). Further, this agreement effectively commits 100% of the niobium concentrate to be produced annually from the DZP at the increased 1Mtpa production scenario. The company now states (off the back of this MoU) that it considers the DZP will now be developed at this expanded rate. This MoU is now the fourth such agreement to be reached for the DZP's future production (due for a Q114 start).

100% zirconium output committed

Three MoUs have now been announced for the DZP's zirconium-based products, accounting for 100% of future zirconium production and 39% or c A\$196m of the forecast A\$505m of total steady-state (from 2016) annual project revenues.

100% niobium output committed

With this announcement in place, Alkane has committed 100% of its niobium output from the DZP at the expanded 1Mtpa production rate. This accounts for c 22% or c A\$111m of total forecast annual revenues from 2016.

Only rare earth MoUs still to be finalised

Alkane is currently finalising MoUs with a number of interested parties pertaining to the DZP's annual output of light and heavy rare earth concentrates, which account together for 39% or c A\$197m of total forecast annual revenues from 2016.

Valuation: Shares very cheap vs our A\$3.33 valuation

Shares in Alkane have come off c 40% since the start of September, mirroring a collapse in global investor sentiment towards mining juniors. However, we continue to see the DZP as a highly strategic and important project, supported by strong underlying demand fundamentals, especially for its zirconium and heavy rare earth based products. Therefore our forecasts remain unchanged and we reiterate our A\$3.33/share total valuation, with further MoUs relating to the rare earth concentrates (due by end 2011) to confirm development of the DZP at the expanded 1Mtpa production rate.

Price **A\$1.17**
Market Cap **A\$316m**

Share price graph



Share details

Code ALK
Listing ASX
Sector Metals and Mining
Shares in issue 269m

Price

52 week High Low
A\$2.63 A\$0.68

Balance Sheet as at 30 June 2011

Debt/Equity (%) N/A
NAV per share (c) 16.0
Net cash (A\$m) 18.3

Business

Alkane Resources is a multi-commodity explorer, with projects located in the central west region of New South Wales in Australia. Alkane owns the Tomingley Gold (100%) and Dubbo rare metal and rare earths (100%) projects and has a 49% (moving to 25%) stake in the McPhillamys Gold project with JV partner Newmont Australia.

Valuation

	2010	2011e	2012e
P/E relative	312%	N/A	N/A
P/CF	N/A	N/A	N/A
EV/Sales	28.4	N/A	24.3
ROE	17%	N/A	N/A

Geography based on revenues (2011)

UK	Europe	US	Other
0%	0%	0%	100%

Analysts

Charles Gibson +44 (0)20 3077 5724
Tom Hayes +44 (0)20 3077 5725
mining@edisoninvestmentresearch.co.uk

Exhibit 1: Financials

Year end 31 December	A\$'000s	2009	2010	2011e	2012e
		IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue (includes FY09 & FY10 gain on sale of investments)		4,714	10,116	68	33,004
Cost of Sales		0	0	0	(25,891)
Gross Profit		4,714	10,116	68	7,113
EBITDA		2,249	7,642	(2,003)	4,886
Operating Profit (before GW and except.)		2,200	7,593	(2,132)	(17,809)
Intangible Amortisation		0	0	0	0
Exceptionals/discontinued		(130)	(130)	0	0
Other		0	0	0	0
Operating Profit		2,071	7,463	(2,132)	(17,809)
Net Interest		227	326	68	224
Profit Before Tax (norm)		2,427	7,919	(2,063)	(17,585)
Profit Before Tax (FRS 3)		2,298	7,789	(2,063)	(17,585)
Tax		0	0	0	0
Profit After Tax (norm)		2,427	7,919	(2,063)	(17,585)
Profit After Tax (FRS 3)		2,298	7,789	(2,063)	(17,585)
Average Number of Shares Outstanding (m)		245.8	249.0	259.0	269.0
EPS - normalised (c)		0.99	3.18	(0.80)	(6.54)
EPS - FRS 3 (c)		0.49	1.59	(0.40)	(3.27)
Dividend per share (c)		0.0	0.0	0.0	0.0
Gross Margin (%)		100.0	100.0	100.0	21.6
EBITDA Margin (%)		47.7	75.5	N/A	14.8
Operating Margin (before GW and except.) (%)		46.7	75.1	N/A	-54.0
BALANCE SHEET					
Fixed Assets		33,574	41,849	48,804	527,798
Intangible Assets		31,994	39,266	44,506	49,746
Tangible Assets		1,084	2,071	3,786	477,540
Investments		496	512	512	512
Current Assets		10,980	4,995	14,930	5,034
Stocks		0	0	0	2,732
Debtors		221	438	0	2,300
Cash		4,832	4,555	14,927	0
Other available for sale financial assets		5,928	3	3	3
Current Liabilities		(710)	(1,090)	(94)	2,034
Creditors		(638)	(997)	0	2,128
Short term borrowings		(72)	(94)	(94)	0
Long Term Liabilities		(146)	(186)	(186)	(488,996)
Long term borrowings		0	0	0	(488,811)
Other long term liabilities		(146)	(186)	(186)	(186)
Net Assets		43,699	45,568	63,455	45,870
CASH FLOW					
Operating Cash Flow		(552)	(1,525)	(1,802)	(1,513)
Net Interest		227	326	68	224
Tax		0	0	0	0
Capex		(8,903)	(8,831)	(7,844)	(502,449)
Acquisitions/disposals		4,071	9,587	0	0
Financing		1,665	166	19,950	0
Dividends		0	0	0	0
Net Cash Flow		(3,492)	(277)	10,373	(503,738)
Opening net debt/(cash)		(8,324)	(4,832)	(4,555)	(14,927)
HP finance leases initiated		0	0	0	0
Other		0	0	0	0
Closing net debt/(cash)		(4,832)	(4,555)	(14,927)	488,811

Source: Edison Investment Research, company accounts

EDISON INVESTMENT RESEARCH LIMITED

Edison Investment Research is a leading investment research company. It has won industry recognition, with awards both in the UK and internationally. The team of more than 75 includes over 40 analysts supported by a department of supervisory analysts, editors and assistants. Edison writes on more than 350 companies across every sector and works directly with corporates, fund managers, investment banks, brokers and other advisers. Edison's research is read by institutional investors, alternative funds and wealth managers in more than 100 countries. Edison, founded in 2003, has offices in London and Sydney and is authorised and regulated by the Financial Services Authority (www.fsa.gov.uk/register/firmBasicDetails.do?sid=181584).

DISCLAIMER

Copyright 2011 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Alkane Resources and prepared and issued by Edison Investment Research Limited for publication in the United Kingdom. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison Investment Research Limited at the time of publication. The research in this document is intended for professional advisers in the United Kingdom for use in their roles as advisers. It is not intended for retail investors. This is not a solicitation or inducement to buy, sell, subscribe, or underwrite securities or units. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment. A marketing communication under FSA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison Investment Research Limited has a restrictive policy relating to personal dealing. Edison Investment Research Limited is authorised and regulated by the Financial Services Authority for the conduct of investment business. The company does not hold any positions in the securities mentioned in this report. However, its directors, officers, employees and contractors may have a position in any or related securities mentioned in this report. Edison Investment Research Limited or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. This communication is intended for professional clients as defined in the FSA's Conduct of Business rules (COBs 3.5).