

6 March 2012

## Alkane Resources

ALK

\$1.21/share

### Strong newsflow ahead

**BUY**

ALK has released a company update following the recent successful capital raising of A\$77M. Key takeaways are (i) shareprice upside remains high with plenty of positive newsflow over the next 12 months (ii) the planned sell-down of equity in the Dubbo Zirconia Project (DZP), plus offer of low interest (<2%) government debt, is expected to be in place by year end and (iii) potential remains for a sale of ALK's McPhillamys stake for >\$100M. We recommend buying ALK with 218% upside to NPV of A\$3.85/share.

#### Strong newsflow ahead

- Q1 2012 – Drilling results Tomingley & Galwadgere.
- Q1 2012 – Rare earth MOUs.
- Q1 2012 – Resource update Tomingley.
- Q1 2012 – Tomingley project approval.
- Q2 2012 – Updated financials DZP.
- Q3 2012 – DZP EIS submitted.
- Q4 2012 – DZP equity selldown plus govt debt.
- Q1/2 2013 – Final DZP approval and financing.
- Q2 2013 – First production Tomingley.
- Q2/3 2014 – First production Dubbo.

#### DZP 100% (Aust.) – several funding options exist

- Strong interest from offtakers to acquire project equity.
- 10% selldown could provide up to \$300M cash.
- Strong interest from govt agencies to provide debt.
- Up to \$700M in funding likely from offtakers and debt.
- ALK target selldown & debt to be in place by year end.

#### McPhillamys 49% (Aust.) – corporate upside

- Newmont reviewing options for McPhillamys (3Moz).
- Interest exists from several parties.
- ALK's 49% stake could attract >\$100M.

#### Tomingley Gold 100% (Aust.) – fully funded

- Measured and Indicated resources of 411koz.
- Initial 7.5 year mine life with +10 years likely.
- 50-60kozpa at cash costs of A\$940/oz.
- Current prices = \$650/oz margins (\$35Mpa cashflow).

#### Key Dates

- March 14 – Entitlement offer opens.
- March 14 – Tranche 1 placement shares issued.
- March 29 – Entitlement offer closes.
- April 10 – Entitlement shares issued.
- April 16 – EGM to approve tranche 2 placement.
- April 23 – Tranche 2 placement shares issued.

#### Company Data

Shares (includes placement & entitlement offer)	366.2M
Options	0M
Total (fully diluted)	366.2M
Market Cap	\$443.1M
12 month low/high	\$0.88 / \$2.71
Average monthly turnover	\$52.7M

#### 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	2.2	2.5	25.9	147.4	253.3
EBITDA (\$M)	-2.1	-2.2	-2.5	14.1	198.6	345.3
NPAT (\$M)	-1.8	-1.9	-2.0	-13.7	91.2	188.6
EPS (¢ps)	-0.7	-0.7	-0.6	-3.8	24.9	51.5
PER (x)	na	na	na	na	4.9	2.3
Cashflow (Gross-\$M)	-1.2	-1.9	-2.0	-6.1	158.4	273.5
CFPS (¢/sh)	-0.5	-0.7	-0.6	-1.7	43.2	74.7
PCFPS (x)	na	na	na	na	2.8	1.6
Enterprise Value (\$M)	244	234	428	1180	1145	894
EV / EBITDA (x)	na	na	na	83	5.8	2.6

#### Substantial Shareholders (FPO)

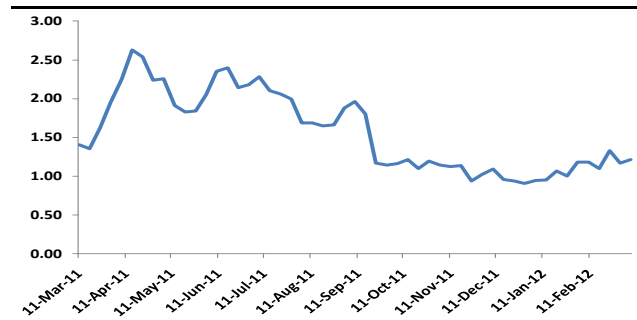
Substantial Shareholders (FPO)	Shares (M)	(%)
Abbotsleigh*	96.7	26.4%

\*Assuming pro-rata maintained with current capital raising

#### 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 – assumes full \$107M raised (97.2M shares)

ALKANE RESOURCES (ALK AU) (ALKNY OTCQX) 6-Mar-12 Year End 31 Dec							Share Price (\$)								
							Iss. Shares	(M)	1.21						
							Iss. Options	(M)	366.2						
							Mkt Cap.	(\$M)	443.1						
PROFIT & LOSS	2010A	2011F	2012F	2013F	2014F	2015F									
Sales Revenue	\$M	0.0	0.0	40.1	346.0	598.6									
Other Income	\$M	0.2	0.0	0.0	0.0	0.0									
Operating Costs	\$M	1.5	2.2	2.5	25.9	147.4									
Exploration	\$M	0.8	0.0	0.0	0.0	0.0									
Other	\$M	0.0	0.0	0.0	0.0	0.0									
<b>EBITDA</b>	<b>\$M</b>	<b>(2.1)</b>	<b>(2.2)</b>	<b>(2.5)</b>	<b>14.1</b>	<b>198.6</b>	<b>345.3</b>								
Depreciation & Amort.	\$M	0.0	0.0	0.0	7.6	28.1	43.1								
<b>EBIT</b>	<b>\$M</b>	<b>(2.1)</b>	<b>(2.2)</b>	<b>(2.5)</b>	<b>6.5</b>	<b>170.5</b>	<b>302.2</b>								
Net Interest	\$M	(0.3)	(0.3)	(0.5)	20.3	40.2	32.8								
<b>Pre-Tax Profit</b>	<b>\$M</b>	<b>(1.8)</b>	<b>(1.9)</b>	<b>(2.0)</b>	<b>(13.7)</b>	<b>130.2</b>	<b>269.4</b>								
Tax	\$M	0.0	0.0	0.0	0.0	39.1	80.8								
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0								
<b>Net Profit</b>	<b>\$M</b>	<b>(1.8)</b>	<b>(1.9)</b>	<b>(2.0)</b>	<b>(13.7)</b>	<b>91.2</b>	<b>188.6</b>								
Abnormal	\$M	9.6	0.0	0.0	0.0	0.0	0.0								
<b>Reported Profit</b>	<b>\$M</b>	<b>7.8</b>	<b>(1.9)</b>	<b>(2.0)</b>	<b>(13.7)</b>	<b>91.2</b>	<b>188.6</b>								
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								
<b>Retained Earnings</b>	<b>\$M</b>	<b>(16.6)</b>	<b>(18.5)</b>	<b>(20.5)</b>	<b>(34.3)</b>	<b>56.9</b>	<b>245.5</b>								
CASH FLOW															
Revenue	\$M	0.0	0.0	40.1	346.0	598.6									
Costs	\$M	(1.5)	(2.2)	(2.5)	(25.9)	(147.4)	(253.3)								
Net Interest	\$M	0.3	0.3	0.5	(20.3)	(40.2)	(32.8)								
Tax Paid	\$M	0.0	0.0	0.0	0.0	(39.1)	(39.1)								
<b>Gross Cash Flow</b>	<b>\$M</b>	<b>(1.2)</b>	<b>(1.9)</b>	<b>(2.0)</b>	<b>(6.1)</b>	<b>158.4</b>	<b>273.5</b>								
Net Capex	\$M	(1.0)	(13.2)	(95.0)	(746.0)	(123.6)	(22.9)								
Exploration	\$M	(7.8)	0.0	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								
<b>Free Cashflow</b>	<b>\$M</b>	<b>(9.9)</b>	<b>(15.1)</b>	<b>(97.0)</b>	<b>(752.1)</b>	<b>34.8</b>	<b>250.6</b>								
Equity Issues	\$M	0.0	20.0	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								
<b>Surplus Cash Flow</b>	<b>\$M</b>	<b>(0.3)</b>	<b>4.9</b>	<b>26.0</b>	<b>12.9</b>	<b>34.8</b>	<b>50.6</b>								
BALANCE SHEET															
Cash	\$M	4.6	9.4	35.4	48.3	83.1	133.7								
Other Current	\$M	0.4	8.0	8.0	8.0	13.8	15.0								
<b>Total Current</b>	<b>\$M</b>	<b>5.0</b>	<b>17.4</b>	<b>43.4</b>	<b>56.3</b>	<b>97.0</b>	<b>148.6</b>								
Fixed Assets	\$M	2.1	15.3	110.3	848.6	944.0	923.8								
Exploration	\$M	39.3	36.0	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								
<b>Total NC Assets</b>	<b>\$M</b>	<b>41.8</b>	<b>51.8</b>	<b>148.8</b>	<b>887.1</b>	<b>980.6</b>	<b>960.4</b>								
<b>TOTAL ASSETS</b>	<b>\$M</b>	<b>46.8</b>	<b>69.2</b>	<b>192.2</b>	<b>943.4</b>	<b>1,077.5</b>	<b>1,109.0</b>								
Total Debt	\$M	0.0	0.0	20.0	785.0	785.0	585.0								
Current Liab	\$M	1.1	1.1	1.1	1.1	40.2	81.9								
Non Current Liab	\$M	0.2	4.5	6.5	6.5	10.3	11.4								
<b>TOTAL LIAB</b>	<b>\$M</b>	<b>1.3</b>	<b>5.6</b>	<b>27.6</b>	<b>792.6</b>	<b>835.5</b>	<b>678.4</b>								
<b>NET ASSETS</b>	<b>\$M</b>	<b>45.6</b>	<b>63.7</b>	<b>164.6</b>	<b>150.9</b>	<b>242.0</b>	<b>430.6</b>								
<b>SH/HLDRS FUNDS</b>	<b>\$M</b>	<b>45.6</b>	<b>63.7</b>	<b>164.6</b>	<b>150.9</b>	<b>242.0</b>	<b>430.6</b>								
RATIO ANALYSIS															
EPS	¢	(0.7)	(0.7)	(0.6)	(3.8)	24.9	51.5								
PER	x	na	na	na	na	4.9	2.3								
EPS Growth	%	0.8	(4.8)	(19.2)	571.8	(763.0)	106.9								
EBITDA per share	¢	-0.8	-0.8	-0.7	3.9	54.2	94.3								
EBITDA Multiple	x	-119.3	-110.7	-177.3	31.3	2.2	1.3								
EV/EBITDA	x	na	na	na	83.4	5.8	2.6								
CFPS	¢	(0.5)	(0.7)	(0.6)	(1.7)	43.2	74.7								
PCFR	x	na	na	na	na	2.8	1.6								
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	488.3	290.0	104.8								
Interest Cover	x	6.5	6.5	5.5	0.3	4.2	9.2								
EBITDA Margin	%	na	na	na	35.3	57.4	57.7								
EBIT Margin	%	na	na	na	16.2	49.3	50.5								
Return On Assets	%	(4.6)	(3.2)	(1.3)	0.7	15.8	27.3								
Return On Equity	%	(4.0)	(2.9)	(1.2)	(9.1)	37.7	43.8								
Eff Tax rate	%	0	0	0	0	30	30								
							Tomingley Gold	\$M	2.0	6.0	45.0	46.0	2.3	2.3	
							Dubbo Zirconia	\$M	0.0	7.2	50.0	700.0	121.3	20.6	
							Other	\$M	-1.0	0.0	0.0	0.0	0.0	0.0	
							<b>Total</b>	<b>\$M</b>	<b>1.0</b>	<b>13.2</b>	<b>95.0</b>	<b>746.0</b>	<b>123.6</b>	<b>22.9</b>	
DEPRECIATION															
Tomingley Gold	\$M	0.0	0.0	0.0	7.6	15.7	16.1								
Dubbo Zirconia	\$M	0.0	0.0	0.0	0.0	12.5	27.0								
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0								
<b>Total</b>	<b>\$M</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>7.6</b>	<b>28.1</b>	<b>43.1</b>								
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	0.0	0.0	0.0	0.0	0.0								
<b>Total</b>	<b>\$M</b>	<b>-2.1</b>	<b>0.0</b>	<b>0.0</b>	<b>17.1</b>	<b>202.1</b>	<b>348.8</b>								
HEDGING															
Gold hedged	oz	0	0	0	0	0	0								
Hedged price	US\$/oz	0	0	0	0	0	0								
Hedged price	A\$/oz	0	0	0	0	0	0								
Sales hedged	%	0%	0%	0%	0%	0%	0%								
Ave. deliverable price	US\$/oz	1226	1570	1701	1625	1525	1500								
Ave. deliverable price	A\$/oz	1,333	1,520	1,627	1,625	1,694	1,667								
ASSUMPTIONS															
Exchange Rate	A\$/US\$	0.92	1.03	1.05	1.00	0.90	0.90								
Gold Price	US\$/oz	1226	1570	1701	1625	1525	1500								
Gold Price	A\$/oz	1333	1520	1627	1625	1694	1667								
Zirconia price	US\$/kg	6.00	7.00	11.00	12.00	11.50	11.00								
LREE Price	US\$/kg	35.00	35.00	35.00	55.00	45.00	40.00								
YHREE Price	US\$/kg	50.00	110.00	110.00	100.00	90.00	85.00								
90 day Bank Bills	%	4.68	4.85	4.47	4.50	4.50	4.50								
10 Yr Bond rate	%	5.38	4.89	4.00	4.00	4.00	4.00								
Interest Rate Charged	%	5.88	5.39	4.50	4.50	4.50	4.50								
VALUATION							<b>ASM</b>								
Tomingley Gold								91.9	\$	0.25					
Dubbo Zirconia								1,085.7	\$	2.96					
McPhillamys								108.8	\$	0.30					
Other								10.0	\$	0.03					
Net Cash (Debt)								112.0	\$	0.31					
<b>Total</b>								<b>1,408.4</b>	<b>\$</b>	<b>3.85</b>					

Source: Petra Capital

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