

29 March 2011

Alkane Resources

ALK

\$1.79/share

Outperformance set to continue

BUY

Following a successful capital raising completed in early February, ALK's shareprice has continued to rise. In our view this represents a growing understanding of the strong fundamentals that ALK offers. Prices for rare earths, zirconium and niobium have also continued to strengthen. Upcoming newsflow should continue to see ALK outperform with several MOUs to be signed with customers, and completion of the Dubbo DFS in July. We recommend buying ALK with 188% upside to our expanded case (1Mtpa) NPV of A\$5.15ps.

Ten reasons to Buy

- MOUs – several to be signed with customers this half.
- DFS – completion targeted July.
- NPV - A\$5.15ps at 1Mtpa rates.
- Multiples - forward PEs of 2-3x.
- Capital Payback – less than 2.5 years (Petra forecast).
- Rare earths – Chinese export quotas supporting price.
- Zirconia – market expected to remain tight for years.
- Niobium – Japanese and Koreans seeking supply.
- Tomingley Gold – project consent targeted in August.
- McPhillamys – 3.0Moz resource, BFS underway.

Dubbo Zirconia Project (Australia) – 100%

- Potential annual revenue >US\$600Mpa at spot prices.
- Capital payback – less than 1 year at spot prices.
- Resources 73.2Mt containing 1.4Mt ZrO₂, 549kt REO.
- Mine life at 1Mtpa rates is over 70 years.
- Pilot plant operating in Sydney for >2.5 years.
- Cheap entry into a unique asset.

Tomingley Gold (Australia) – 100%

- Reserves 209koz, resources of 659koz.
- Initial 7.5 year mine life, 50-60kozpa.
- Strong exploration upside.

McPhillamys (Australia) – 49%

- Significant 3.0Moz resource with upside.
- Newmont (earning 75%) undertaking BFS.

Newsflow ahead

- Q2 2011 – MOUs with customers for DZP.
- Q3 2011 – DZP BFS completion.
- Q3 2011 – Financing and construction Tomingley.
- Q4 2011 – Financing and approvals DZP.
- Q1 2012 – Construction DZP.
- 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	\$481.5M
12 month low/high	\$0.23 / \$1.84
Average monthly turnover	\$22.2M

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	5.1	2.7
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	3.0	2.0
Enterprise Value (\$M)	244	593	838	979	831	597
EV / EBITDA (x)	na	na	213	35	4.3	2.0

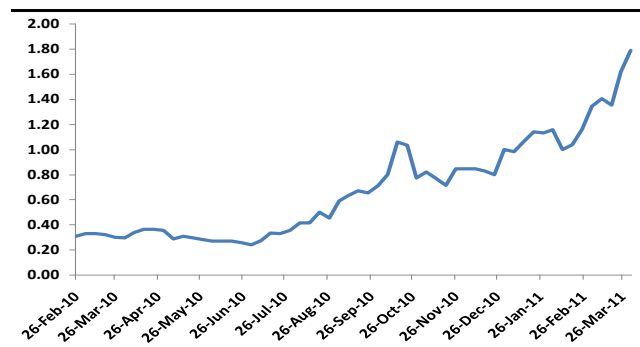
Substantial Shareholders (FPO)

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

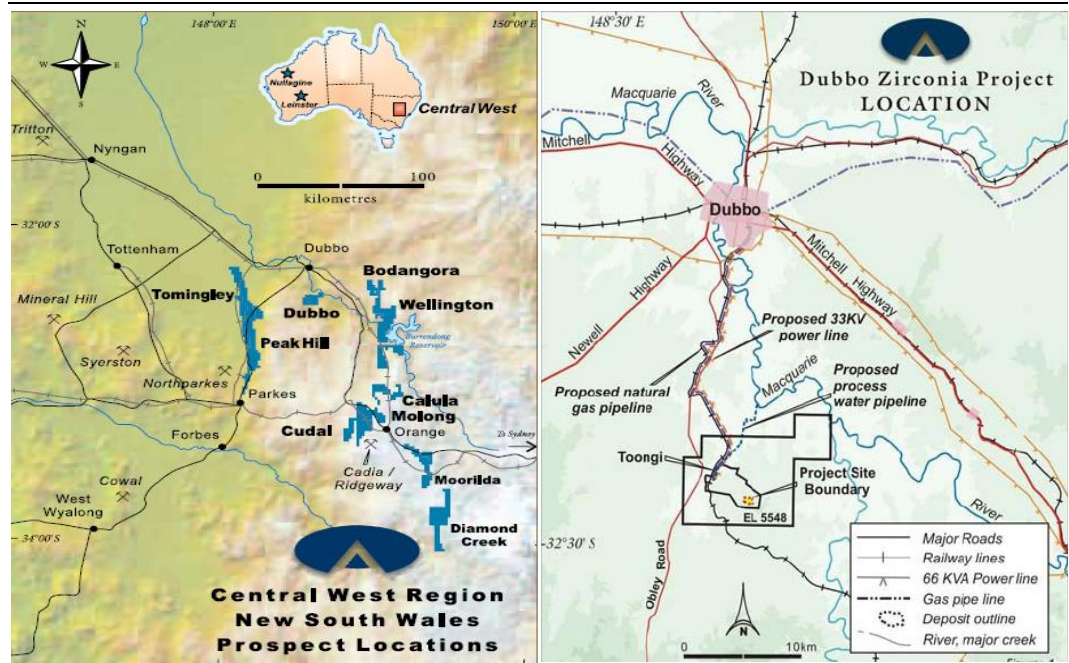
Analysis

ALKANE RESOURCES (ALK AU) (ALKNY QTQX) 29-Mar-11 Year End 31 Dec							RESOURCES								
PROFIT & LOSS	2010A	2011F	2012F	2013F	2014F	2015F	2010A	2011F	2012F	2013F	2014F	2015F			
Sales Revenue	\$M	0.0	0.0	19.8	83.3	320.3	477.4	Tomingley Gold (NSW)							
Other Income	\$M	0.2	0.0	0.0	0.0	0.0	Tonnes	Mt	11.3	11.3	11.0	10.0	9.0	8.0	
Operating Costs	\$M	1.5	2.2	15.8	54.9	128.3	172.1	Grade (gold)	g/t	1.8	1.8	1.8	1.8	1.9	1.9
Exploration	\$M	0.8	0.0	0.0	0.0	0.0	0.0	Contained Gold	oz	661,212	661,212	645,298	592,249	539,200	486,151
Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0	McPhillamys Gold (NSW)							
EBITDA	\$M	(2.1)	(2.2)	3.9	28.3	192.1	305.3	Tonnes	Mt	91.9	91.9	91.9	91.9	91.9	91.9
Depreciation & Amort.	\$M	0.0	0.0	4.7	16.7	24.2	29.8	Grade (gold)	g/t	1.0	1.0	1.0	1.0	1.0	1.0
EBIT	\$M	(2.1)	(2.2)	(0.8)	11.6	167.8	275.5	Contained Gold	Moz	2.96	2.96	2.96	2.96	2.96	2.96
Net Interest	\$M	(0.3)	4.1	18.0	32.5	32.8	20.0	Dubbo Zirconia (NSW)							
Pre-Tax Profit	\$M	(1.8)	(6.3)	(18.8)	(20.9)	135.0	255.5	Tonnes	Mt	73.2	73.2	73.2	73.2	72.5	71.5
Tax	\$M	0.0	0.0	0.0	0.0	40.5	76.6	Zirconium (ZrO ₂)	%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Minorities	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Niobium	%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Net Profit	\$M	(1.8)	(6.3)	(18.8)	(20.9)	94.5	178.8	Yt + REE	%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Abnormal	\$M	9.6	0.0	0.0	0.0	0.0	0.0	Contained product	Mt	2.4	2.4	2.4	2.4	2.4	2.4
Reported Profit	\$M	7.8	(6.3)	(18.8)	(20.9)	94.5	178.8	ATTRIBUTABLE PRODUCTION							
Dividends Paid	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	oz	-	-	14,323	49,335	49,335	49,335
Adjustments	\$M	0.0	0.0	0.0	0.0	0.0	0.0	DZP - ZrO ₂ products	t	0	0	0	755	9,810	15,696
Retained Earnings	\$M	(16.6)	(23.0)	(41.7)	(62.6)	31.9	210.8	DZP - Niobium	t	0	0	0	159	2,070	3,312
CASH FLOW							DZP - LREE								
Revenue	\$M	0.0	0.0	19.8	83.3	320.3	477.4	DZP - YHREE	t	0	0	0	69	891	1,426
Costs	\$M	(1.5)	(2.2)	(15.8)	(54.9)	(128.3)	(172.1)	Other	t	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest	\$M	0.3	(4.1)	(18.0)	(32.5)	(32.8)	(20.0)	Total - Dubbo	t	0	0	0	1,212	15,756	25,210
Tax Paid	\$M	0.0	0.0	0.0	0.0	0.0	(40.5)	REVENUE							
Gross Cash Flow	\$M	(1.2)	(6.3)	(14.0)	(4.2)	159.3	244.8	Tomingley Gold	\$M	0.0	0.0	19.8	63.8	58.6	58.6
Net Capex	\$M	(1.0)	(130.0)	(230.7)	(137.0)	(11.1)	(11.1)	Dubbo Zirconia	\$M	0.0	0.0	0.0	19.4	261.8	418.8
Exploration	\$M	(7.8)	0.0	0.0	0.0	0.0	0.0	Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0
Dividends	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Total	\$M	0.2	0.0	19.8	83.3	320.3	477.4
Other	\$M	0.2	0.0	0.0	0.0	0.0	0.0	COSTS							
Free Cashflow	\$M	(9.9)	(136.3)	(244.8)	(141.1)	148.2	233.7	Tomingley Gold	A\$/oz	0	0	930	930	930	930
Equity Issues	\$M	0.0	20.0	0.0	0.0	0.0	0.0	Tomingley Gold	\$M	0.0	0.0	13.3	45.9	45.9	45.9
Net Borrowings	\$M	0.0	130.0	245.0	145.0	(100.0)	(150.0)	Dubbo Zirconia	\$M	0.0	0.0	0.0	6.1	78.9	126.2
Net Investments	\$M	9.6	0.0	0.0	0.0	0.0	0.0	Other	\$M	1.5	2.2	2.5	3.0	3.5	0.0
Surplus Cash Flow	\$M	(0.3)	13.6	0.2	3.9	48.2	83.7	Total	\$M	1.5	2.2	15.8	54.9	128.3	172.1
BALANCE SHEET							CAPEX								
Cash	\$M	4.6	18.2	18.4	22.3	70.5	154.2	Tomingley Gold	\$M	2.0	60.0	30.7	2.0	2.0	2.0
Other Current	\$M	0.4	18.0	22.0	41.6	160.2	238.7	Dubbo Zirconia	\$M	0.0	70.0	200.0	135.0	9.1	9.1
Total Current	\$M	5.0	36.2	40.4	63.9	230.6	392.9	Other	\$M	-1.0	0.0	0.0	0.0	0.0	0.0
Fixed Assets	\$M	2.1	132.1	358.1	478.3	465.2	446.4	Total	\$M	1.0	130.0	230.7	137.0	11.1	11.1
Exploration	\$M	39.3	36.0	38.0	38.0	36.0	0.0	DEPRECIATION							
Intangibles	\$M	0.0	0.0	0.0	0.0	0.0	0.0	Tomingley Gold	\$M	0.0	0.0	4.7	16.1	16.6	17.1
Other	\$M	0.5	0.5	0.5	0.5	0.5	0.5	Dubbo Zirconia	\$M	0.0	0.0	0.0	0.6	7.7	12.7
Total NC Assets	\$M	41.8	168.6	396.6	516.8	501.7	446.9	Other	\$M	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL ASSETS	\$M	46.8	204.8	437.0	580.8	732.3	839.8	Total	\$M	0.0	0.0	4.7	16.7	24.2	29.8
Total Debt	\$M	0.0	130.0	375.0	520.0	420.0	270.0	EBITDA							
Current Liab	\$M	1.1	1.1	1.1	1.1	41.6	77.7	Tomingley Gold	\$M	0.0	0.0	6.4	18.0	12.7	12.7
Non Current Liab	\$M	0.2	14.5	20.5	40.1	156.7	199.2	Dubbo Zirconia	\$M	0.0	0.0	0.0	13.4	182.9	292.6
TOTAL LIAB	\$M	1.3	145.6	396.6	561.2	618.2	546.9	Other	\$M	-2.1	0.0	0.0	0.0	0.0	0.0
NET ASSETS	\$M	45.6	59.2	40.4	19.6	114.1	292.9	Total	\$M	-2.1	0.0	6.4	31.3	195.6	305.3
SH/HLDRS FUNDS	\$M	45.6	59.2	40.4	19.6	114.1	292.9	HEDGING							
RATIO ANALYSIS							Gold hedged								
EPS	¢	(0.7)	(2.4)	(7.0)	(7.8)	35.1	66.5	Hedged price	US\$/oz	0	0	0	0	0	0
PER	x	na	na	na	na	5.1	2.7	Hedged price	A\$/oz	0	0	0	0	0	0
EPS Growth	%	0.8	223.9	196.6	11.1	(553.1)	89.2	Sales hedged	%	0%	0%	0%	0%	0%	0%
EBITDA per share	¢	-0.8	-0.8	1.5	10.5	71.4	113.5	Ave. deliverable price	US\$/oz	1226	1319	1200	1100	950	950
EBITDA Multiple	x	-119.3	-218.9	122.3	17.0	2.5	1.6	Ave. deliverable price	A\$/oz	1,333	1,445	1,379	1,294	1,188	1,188
EV/EBITDA	x	-117.1	-269.7	213.0	34.6	4.3	2.0	ASSUMPTIONS							
CFPS	¢	(0.5)	(2.4)	(5.2)	(1.5)	59.2	91.0	Exchange Rate	A\$/US\$	0.92	0.91	0.87	0.85	0.80	0.80
PCFR	x	na	na	na	na	3.0	2.0	Gold Price	US\$/oz	1226	1319	1200	1100	950	950
DPS	¢	0.0	0.0	0.0	0.0	0.0	0.0	Gold Price	A\$/oz	1333	1445	1379	1294	1188	1188
Yield	%	0.0	0.0	0.0	0.0	0.0	0.0	Zirconia price	US\$/kg	6.00	7.00	6.50	6.00	6.00	6.00
Franking	%	0	0	0	0	0	0	LREE Price	US\$/kg	35.00	65.00	55.00	35.00	35.00	35.00
Payout Ratio	%	0%	0%	0%	0%	0%	0%	YHREE Price	US\$/kg	50.00	75.00	65.00	50.00	50.00	50.00
Gearing D/E	%	na	188.9	882.3	2,544.8	306.4	39.5	90 day Bank Bills	%	4.68	5.13	5.25	5.25	5.25	5.25
Interest Cover	x	6.5	na	na	0.4	5.1	13.8	10 Yr Bond rate	%	5.38	5.75	6.00	6.00	6.00	6.00
EBITDA Margin	%	na	na	19.9	34.0	60.0	64.0	Interest Rate Charged	%	5.88	6.25	6.50	6.50	6.50	6.50
EBIT Margin	%	na	na	(4.0)	14.0	52.4	57.7	VALUATION							
Return On Assets	%	(4.6)	(1.1)	(0.2)	2.0	22.9	32.8	Tomingley Gold	\$M	27.2	\$	0.10			
Return On Equity	%	(4.0)	(10.7)	(46.4)	(106.7)	82.9	61.1	Dubbo Zirconia	\$M	1,265.2	\$	4.70			
Eff Tax rate	%	0	0	0	0	30	30	McPhillamys	\$M	55.5	\$	0.21			
								Other	\$M	15.0	\$	0.06			
								Net Cash (Debt)	\$M	22.0	\$	0.08			
								Total	\$M	1,384.9	\$	5.15			

Source: Petra Capital

Figure 1: Dubbo Zirconia Project Location

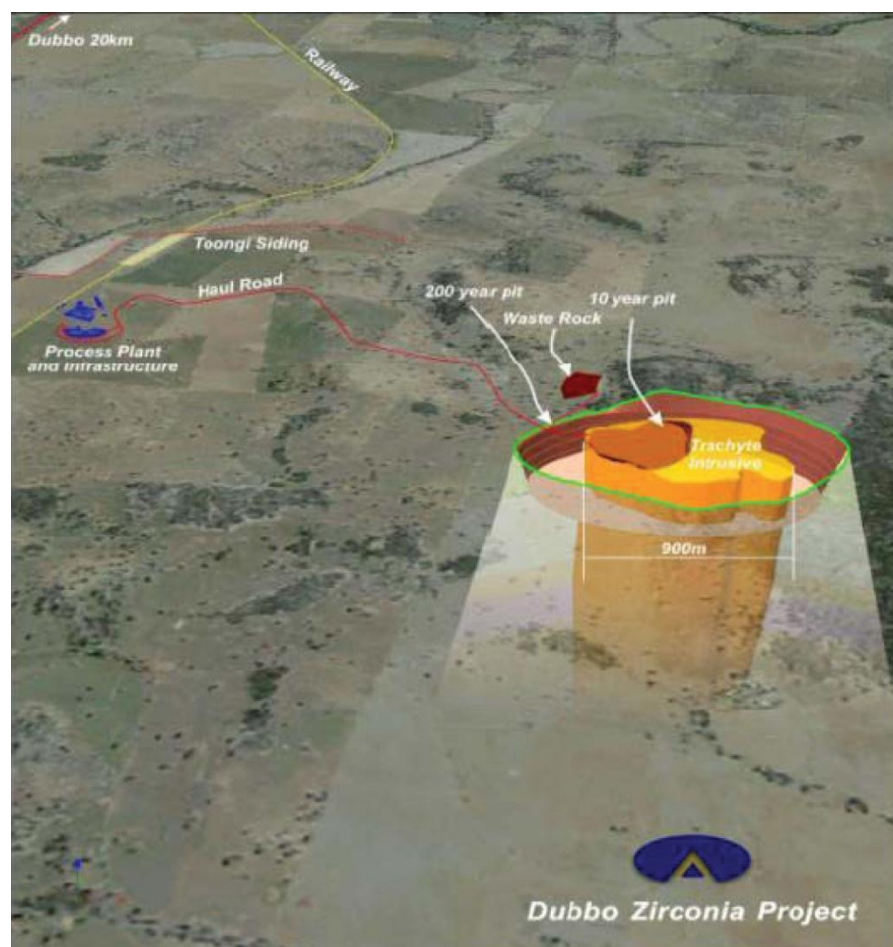
The Dubbo Zirconia project is well located with good infrastructure.



Source: Alkane Resources

Figure 2: Dubbo Zirconia Project – 3D Site Image

Potential +70 year open pit mine at the DZP extracting ore from the trachyte intrusive pipe which is 900m long, 600m wide and open at depth.



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.