

NEWS

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ALKANE MAKES A MAJOR GOLD DISCOVERY, BUT RARE EARTHS REMAIN THE DRIVER

By our Man In Oz

On July 1 last year Alkane Resources was valued on the ASX at A\$62 million. On July 1 this year, if a recent dramatic share price escalation continues, Alkane will crack the magic A\$1 billion mark. That represents an annualised 1500 per cent rise, unquestionably one of the fastest rates of growth ever achieved by an Australian mining company. Newcomers to Minesite will gawk at the growth. Regulars will remember that we have been saying for some time that Alkane is a stock with three impressive irons in the commodities fire. Last week, an extra iron was added, though Alkane chief executive, Ian Chalmers, said the driver remained the company's unique exposure to rare earths and a mineral rarely discussed, zirconia.

News of the fourth iron, a potentially big copper and gold discovery, went through to the keeper with barely a blink, Ian said. "It's still all about our Dubbo rare earths and zirconia project. Our latest gold discovery was scarcely noticed." It should have been, because while it is early days there is a chance that Alkane has hit a major porphyry-style structure at Bodangora in the central west of New South Wales, an area known to host big copper/gold systems such as the Ridgeway orebody being mined by Australia's premier gold stock, Newcrest Mining.

Before considering the first assays from Bodangora it's worth taking a glance at Ridgeway, a classic porphyry-style orebody (low grades, but vast tonnages). In its first full year of production (2004) Ridgeway yielded around 430,000 ounces of gold and 47,000 tonnes of copper. Those numbers have declined as the mine has deepened, but they are a guide to what can be extracted from ore assaying around 0.8 of a gram of gold a tonne, and 0.38 per cent copper. Bodangora, which is in its earliest of early days, has yielded assays which have a Ridgeway ring to them, including 45 metres at 0.9g/t gold and 0.24 per cent copper, plus 21 metres at 1.51g/t gold and 0.41 per cent copper. More drilling is essential, but an early geological interpretation is that Alkane has only touched the top of a big and deep system.

Despite the parallels in gold and copper grades, rock type, location, and the potential for Bodangora to one day rank as a world-class discovery, the investment market treated recent assays as interesting, but a discovery which needs a lot more drilling to firm up. In terms of market movement, the discovery appears to have added about A30 cents to Alkane's share price, but even that move is impossible to assign to Bodangora because the company's other projects have entering a major news generation phase.

"We are entering a rather interesting time," was how low-key Ian described the next few months at Alkane, from his even more low-key office, in a low-brow street of Perth's unfashionable East Perth. He isn't joking. A day after Minesite's man had his chat with Ian Alkane casually dropped a financing announcement into the ASX which did all but contain a construction start date for the company's Tomingley goldmine, a development which flags a return to mining after a few years on the sidelines.

Credit Suisse has been given the job of putting together a A\$45 million project loan and gold hedging facility for up to 163,000 ounces of gold, about 44 per cent of the output expected from of Tomingley over its 7.5 year life. Small by most measures the mine is important to Alkane because of the way it gets the company back into a "mining state of mind" rather than exploring. It will also be a stand-alone development with the CS

loan facility having no recourse to the big one on Alkane's books, the DZP (Dubbo Zirconia Project).

More than a decade in gestation, the DZP is a project for the time. It is a truly remarkable geological anomaly rich in a cocktail of minerals, including zirconia, niobium, tantalum, and the many-headed rare earth family. Outcropping on the surface, the first 55 metres of the structure, known as the Toongi intrusive trachytes, contain 35.7 million tonnes of ore in the measured resource category, with the next 45 metres containing another 37.5 million tonnes. "We really don't need to drill any further yet because we have enough material for at least 100 years of production, and probably a lot more," Ian said.

Many of the details about the DZP have been reported before, as have the relentless rise of rare earth prices thanks to Chinese demand and strict export quotas. Less well known is the recent surge in the price of zircon minerals, also due to Chinese demand. Of more interest to investors is the question of what's next for the DZP? The answer is that over the next few months (and possibly just weeks) Alkane will announce a number of early stage mineral sales agreements. Significantly, none are expected to be with Chinese companies, a sign of how that country has blotted its record with overly aggressive business tactics – if in doubt ask David Harley at **Gunson Resources** what he thinks of Chinese business manners, or Luke Tonkin at Mt Gibson, or Andrew Forrest at Fortescue Metals.

Japan is rated as the country most likely to be signing MOUs with Alkane, but with Europe joining the queue. Ian declined to go the next step, but Minesite's Man in Oz reckons the MOU signatories will also bring capital to the table, either in the form of pre-paid sales contracts, or low-interest loans from their national financing arms, a measure of the importance of rare earths to the auto and high-tech industries.

If all goes to plan, Alkane will wrap up its offtake sales agreements by mid-year, just as it finalises an almost complete definitive feasibility study. Environmental studies are likely to run to the end of 2011, with detailed design over-lapping environmental work. Financing and government consent agreements are expected by early next year, followed by construction and first product out the door in late 2013.

Important as the DZP timetable is, the point about Alkane is that it has become much more than a one-trick pony. Tomingley, a small but plain vanilla gold project, means the company returns to cash generation. The DZP is a development which sells itself, such is the global significance of a new source of rare earths and zirconia – and that's before the company gets a kick along from its 100 per cent owned Bodangora discovery, or a 25 per cent stake in the big McPhillamys gold discovery being worked up its 75 per cent owner, the world's biggest goldminer, Newmont.

It is the combination of assets, and the way in which they are all developing a head of steam around the same time that has ignited Alkane's share price, though even in his most optimistic moments it is unlikely that Ian ever thought he'd be running an A\$1 billion company, which he might be before the year is out. For anyone interested, the share price at which Alkane hits that milestone is A\$3.72 – a price which, theoretically, will be reached in 73 days if the stock continues to appreciate at the breakneck speed recorded since Minesite took its last look at the company on January 6 when it was trading at A85 cents, and the A\$2.54 pre-Easter closing price.

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