

12 February 2013

## Alkane Resources

ALK

\$0.66/share

### First cashflow within 12 months

**BUY**

The NSW government has granted the mining lease at ALK's Tomingley (100%) gold project (Figs. 1-3). Development and construction is expected to commence immediately with first production and cashflow targeted within 12 months. Additionally several high grade intersections over economic widths were received at Caloma Two, indicating further resource upgrades. Coupled with the progress of its Dubbo Zirconia Project (DZP), ALK is well on its way to becoming a diverse, Australian, emerging producer. Our valuation equates to \$2.49/share and we recommend a BUY.

#### Tomingley (100%) – moving to production

- All major approvals/permits now in place.
- Total capex estimated at \$116M - approximately \$12M spent to date.
- Fully funded - cash A\$80M plus a \$45M debt facility.
- Long lead items ordered – ball mill on site this month.
- Detailed plant design is 95% complete (Mintrex).
- Annual production of 50-60kozpa targeted.
- First 2 years production at 70kozpa to enable quicker payback.
- Life of mine cash costs of \$980/oz (from \$1,000/oz).
- EBITDA of ~\$35Mpa at current spot prices (\$1650/oz).
- Strong upside exists from exploration.

#### Exploration success – Caloma Two

- Further impressive drilling results from Caloma Two outside the current resource:
  - 37m @ 3.1g/t Au from 165m depth
  - 34m @ 2.8g/t Au from 222m
  - 20m @ 4.1g/t Au from 143m
  - 19m @ 2.8g/t Au from 246m
  - 17m @ 3.9g/t Au from 135m
  - 10m @ 4.5g/t Au from 147m
- Caloma Two is adjacent to the planned pit (Fig. 1).
- Mineralisation may extend a further 150m east taking total strike length to ~450m.
- Further drilling is continuing.

#### Newsflow ahead

- Q1 2013 – Dubbo Zirconia EIS submitted.
- Q1 2013 - Niobium JV.
- Q2 2013 – Tomingley resource update.
- Q4 2013 – Dubbo Zirconia project financing.
- Q1 2014 – First production Tomingley.
- Q1 2016 – First production Dubbo Zirconia.

#### Company Data

Shares - ordinary	372.5M
Options	4.0M
Total (fully diluted)	376.5M
Market Cap	\$248.5M
12 month low/high	\$0.56 / \$1.61
Average monthly turnover	\$17.7M

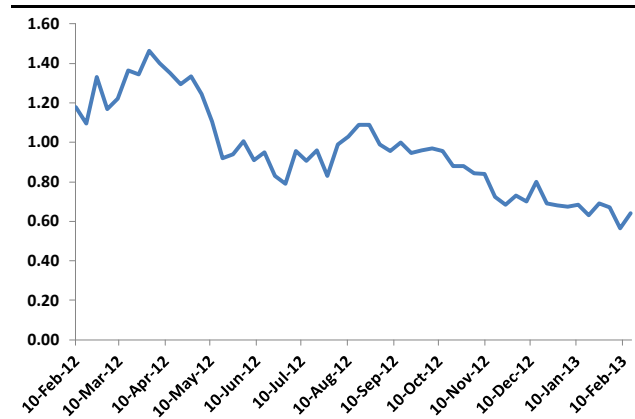
#### Financial Summary (fully diluted)

Year end Dec	2011A	2012F	2013F	2014F	2015F	2016F
Revenue (\$M)	0.0	0.0	0.0	48.5	114.4	527.8
Costs (\$M)	2.6	3.5	4.5	33.4	73.5	289.6
EBITDA (\$M)	-3.5	-3.5	-4.5	15.1	40.9	238.2
NPAT (\$M)	-2.8	-1.8	-4.1	-9.8	-17.7	100.0
EPS (¢ps)	-1.0	-0.5	-1.1	-2.6	-4.7	26.8
EPS Growth (%)	na	na	na	na	na	+100
PER (x)	na	na	na	na	na	2.5
Cashflow (Gross-\$M)	-0.8	-1.8	-4.1	-1.5	-2.1	187.5
CFPS (¢/sh)	-0.3	-0.5	-1.1	-0.4	-0.6	50.3
PCFPS (x)	na	na	na	na	na	1.3
Enterprise Value (\$M)	234	167	292	796	1251	1071
EV / EBITDA (x)	na	na	na	53	31	5

#### Substantial Shareholders (FPO)

	Shares (M)	(%)
Abbotsleigh	93.1	25.0%
Fidelity	18.7	5.0%

#### 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. On 25th October 2012, Petra Capital was appointed as a financial advisor, with Credit Suisse and Sumitomo Mitsui, in relation to the financing of the Dubbo Zirconia Project.

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## Tomingley Gold Project (100%)

**Figure 1: Key Parameters**

**A strong cashflow generator at current gold prices of \$1,650/oz.**

Capex	A\$116M
Mine Life (minimum)	7yrs
Mine inventory	380koz
Start Date	Q4 2013
Strip ratio	7.6:1
Throughput	1Mtpa
Grade – open cut	1.8g/t Au
Grade – underground	4.0g/t Au
Recoveries (standard CIL)	+93%
Production – first 2 years	70kozpa
Production – life of mine	55kozpa
Cash Costs (excluding royalties)	\$980/oz
Cash Costs (including royalties)	~\$1,020/oz
EBITDA (first 2 years)	\$44Mpa
EBITDA (life of mine average)	\$35Mpa

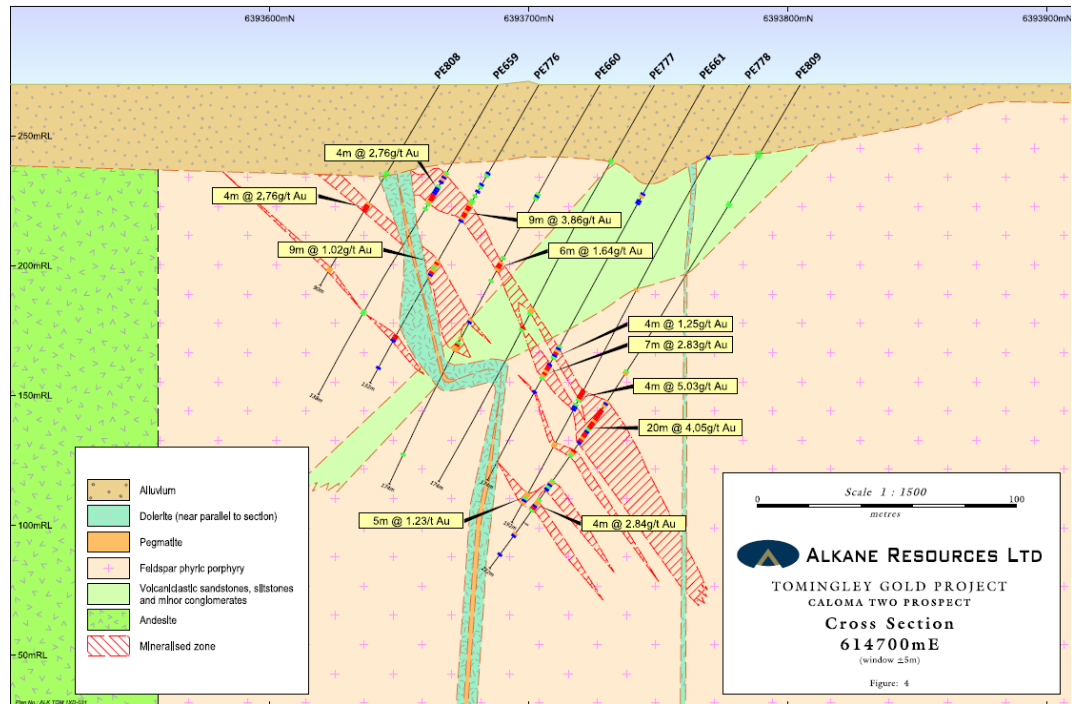
Source: Alkane Resources, Petra Capital

## Caloma Two – resource upside

**Strong upside exists from exploration.**

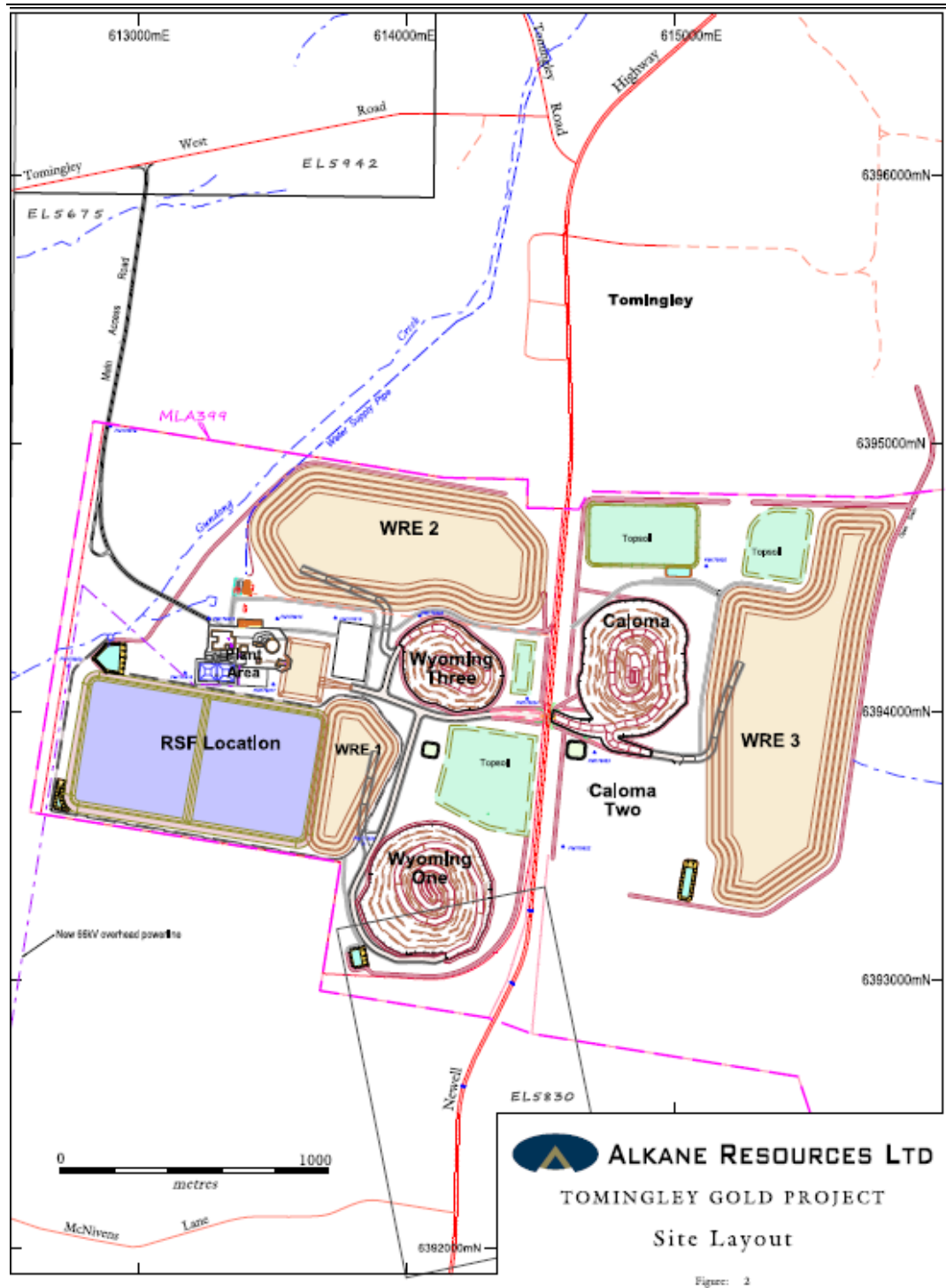
An RC drilling program commenced in October 2012 to define resources within the Caloma Two deposit located immediately south of the planned Caloma open pit. Gold mineralisation appears to be associated with quartz-sulphide veins within a near vertical 100m wide east-west structural corridor. Very broad zones of mineralisation are observed where cross linking vein structures appear to be flat to shallow north dipping, and where veins intersect bands of siltstone within the porphyry body. Drilling is continuing at Caloma Two with a maiden resource targeted later in the quarter.

**Figure 2: Caloma Two Cross Section (looking west)**



Source: Alkane Resources

Figure 3: Tomingley Gold Project Plan



Source: Alkane Resources



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