

21 July 2014

## Alkane Resources

**ALK A\$0.25/share**

### Gold production set to rise

**BUY**

ALK reported June quarter gold production of 16.3koz for full year production of 20.7koz (first gold was poured Feb). Full year production was below guidance of 22-27koz, reflecting lower throughput due to initial issues with the cyanide destruct circuit. These issues have been rectified and the plant reached design capacity of 1Mtpa in May. ALK target strong production growth of 60-70koz in FY15 with potential to exceed that should the current positive reconciliation for grade and tonnage continue. Project approval for the Dubbo Zirconia project is expected in Q4 along with commercialisation of rare earth and zirconium MOUs. We maintain our **BUY** recommendation on ALK with NPV of A\$2.27/share.

#### Tomingley Gold (100%) – production rising

- June quarter of 16.3koz at All In Sustaining Cash Costs (AISC) of A\$1,283/oz.
- FY14 production of 20.7koz at AISC of A\$1,604/oz.
- High costs reflect plant issues and ramp up phase.
- Issues rectified and plant now at design capacity.
- Ail in costs expected to trend down to <A\$1,100/oz.
- Free cashflow was \$2.2M for the June quarter.
- We expect free cashflow to rise to >\$5M this qtr.
- Upside exists via positive reconciliation.
- Gold grade is currently 23% above reserve.
- Tonnage is currently 12% above reserve.
- FY14 NPAT reduced from \$2.1M to a loss of \$3.6M.
- Gold NPV unchanged at \$0.34/share.

#### Dubbo Zirconia Project (DZP – 100%)

- Shin-Etsu rare earth MOU to be commercialised Q4.
- European zirconium MOU to be commercialised Q4.
- Front end engineering design to be completed Q4.
- State project approval targeted Q4.
- Zirconium – prices flat during the quarter.
- Rare earths – neodymium, dysprosium and praseodymium showing positive signs.
- Niobium – moderate demand with prices improving.

#### Key dates and newsflow

- Q4 2014 – Finalise offtake agreements.
- Q4 2014 – DZP Environmental approval.
- Q1 2015 – DZP equity sell down (project level).
- Q1 2015 – Construction commences at DZP.
- Q2 2015 – DZP Project Financing (Export Credit Agency debt plus Project debt).
- Q2 2016 – Commissioning of DZP.

#### Company Data

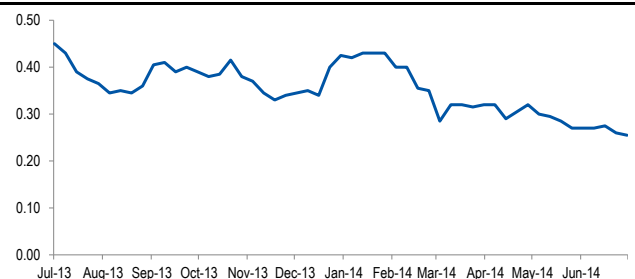
Shares - ordinary	412.6M
Options	0M
Total (fully diluted)	412.6M
Market Cap	\$103.2M
12 month low/high	\$0.25 / \$0.47
Average monthly turnover	\$3.3M
Average monthly volume	9.6M

#### Financial Summary

Year end June	2013A	2014F	2015F	2016F	2017F
Revenue (\$M)	2.7	23.3	104.0	188.0	514.9
Costs (\$M)	2.3	24.8	64.2	112.4	275.9
EBITDA (\$M)	0.0	-1.5	39.8	75.6	239.0
NPAT (\$M)	2.6	-3.6	13.1	13.6	107.7
EPS (¢ps)	0.6	-0.9	3.2	3.3	26.1
EPS Growth (%)		na	>100	4.2	>100
PER (x)	40.5	na	7.9	7.6	1.0
Cashflow (\$M)	6.4	0.8	27.7	41.4	192.1
CFPS (¢ps)	1.5	0.2	6.7	10.0	46.6
PCFPS (x)	na	na	3.7	2.5	0.5
Enterprise Value (\$M)	39	83	561	1026	840
EV / EBITDA (x)	na	-54	14	14	4

Substantial Shareholders (FPO)	Shares (M)	(%)
Abbotsleigh	91.6	22.2%
Fidelity	41.3	10.0%

#### Alkane Resources – performance over one year (A\$/share)



#### Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document. On 16th June 2014, Petra Capital was a broker to the issue of 40.0M shares at \$0.26/share, raising A\$10.4M. A fee was received.

Andrew Richards  
+61 2 9239 9605

# Analysis

## ALKANE RESOURCES (ALK AU) (ALKNY OTCQX) 18-Jul-14

Year End 30 June

PROFIT & LOSS	2013A	2014F	2015F	2016F	2017F	2018F
Sales Revenue	\$M 0.0	23.3	104.0	188.0	514.9	606.6
Other Income	\$M 2.7	0.0	0.0	0.0	0.0	0.0
Operating Costs	\$M 2.3	24.8	64.2	112.4	275.9	320.7
Exploration	\$M 0.4	0.0	0.0	0.0	0.0	0.0
Other	\$M 0.0	0.0	0.0	0.0	0.0	0.0
<b>EBITDA</b>	<b>\$M 0.0</b>	<b>(1.5)</b>	<b>39.8</b>	<b>75.6</b>	<b>239.0</b>	<b>285.9</b>
Depreciation & Amort.	\$M 0.1	3.2	14.6	21.9	44.1	51.1
<b>EBIT</b>	<b>\$M (0.1)</b>	<b>(4.7)</b>	<b>25.2</b>	<b>53.7</b>	<b>194.9</b>	<b>234.8</b>
Net Interest	\$M (1.4)	(1.1)	12.1	34.2	41.0	32.5
<b>Pre-Tax Profit</b>	<b>\$M 1.3</b>	<b>(3.6)</b>	<b>13.1</b>	<b>19.5</b>	<b>153.9</b>	<b>202.3</b>
Tax	\$M (1.3)	0.0	0.0	5.8	46.2	60.7
Minorities	\$M 0.0	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>\$M 2.6</b>	<b>(3.6)</b>	<b>13.1</b>	<b>13.6</b>	<b>107.7</b>	<b>141.6</b>
Abnormal	\$M (69.0)	9.1	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>\$M (66.4)</b>	<b>5.5</b>	<b>13.1</b>	<b>13.6</b>	<b>107.7</b>	<b>141.6</b>
Dividends Paid	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Adjustments	\$M 3.7	0.0	0.0	0.0	0.0	0.0
<b>Retained Earnings</b>	<b>\$M (15.5)</b>	<b>(10.0)</b>	<b>3.1</b>	<b>16.7</b>	<b>124.4</b>	<b>266.1</b>

CASH FLOW	2013A	2014F	2015F	2016F	2017F	2018F
Revenue	\$M 6.8	23.3	104.0	188.0	514.9	606.6
Costs	\$M (1.9)	(24.8)	(64.2)	(112.4)	(275.9)	(320.7)
Net Interest	\$M 1.4	1.1	(12.1)	(34.2)	(41.0)	(32.5)
Tax Paid	\$M 0.0	1.3	0.0	0.0	(5.8)	(46.2)
<b>Gross Cash Flow</b>	<b>\$M 6.4</b>	<b>0.8</b>	<b>27.7</b>	<b>41.4</b>	<b>192.1</b>	<b>207.2</b>
Net Capex	\$M (29.3)	(98.5)	(506.0)	(506.0)	(6.5)	(6.5)
Exploration	\$M (8.0)	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 0.0	0.0	0.0	0.0	0.0	0.0
<b>Free Cashflow</b>	<b>\$M (30.8)</b>	<b>(97.7)</b>	<b>(478.3)</b>	<b>(464.6)</b>	<b>185.6</b>	<b>200.7</b>
Equity Issues	\$M 0.0	10.0	0.0	0.0	0.0	0.0
Net Borrowings	\$M 0.0	0.0	485.0	460.0	(175.0)	(200.0)
Net Investments	\$M 15.4	43.6	0.0	0.0	0.0	0.0
<b>Surplus Cash Flow</b>	<b>\$M (15.4)</b>	<b>(44.1)</b>	<b>6.7</b>	<b>(4.6)</b>	<b>10.6</b>	<b>0.7</b>

BALANCE SHEET	2013A	2014F	2015F	2016F	2017F	2018F
Cash	\$M 64.3	20.2	26.8	22.2	32.8	33.5
Other Current	\$M 44.8	67.1	67.1	67.1	67.1	303.3
<b>Total Current</b>	<b>\$M 109.1</b>	<b>87.3</b>	<b>94.0</b>	<b>89.3</b>	<b>99.9</b>	<b>336.8</b>
Fixed Assets	\$M 21.1	116.4	607.8	1,092.0	1,054.4	1,009.8
Exploration	\$M 45.3	45.3	45.3	45.3	45.3	0.0
Intangibles	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Other	\$M 7.8	7.8	7.8	7.8	7.8	7.8
<b>Total NC Assets</b>	<b>\$M 74.1</b>	<b>169.5</b>	<b>660.9</b>	<b>1,145.0</b>	<b>1,107.5</b>	<b>1,017.6</b>
<b>TOTAL ASSETS</b>	<b>\$M 183.2</b>	<b>256.8</b>	<b>754.9</b>	<b>1,234.4</b>	<b>1,207.4</b>	<b>1,354.4</b>
Total Debt	\$M 0.0	0.0	485.0	945.0	770.0	570.0
Current Liab	\$M 9.6	1.7	1.7	7.6	47.9	62.4
Non Current Liab	\$M 0.1	3.2	3.2	3.2	3.2	194.1
<b>TOTAL LIAB</b>	<b>\$M 9.7</b>	<b>4.9</b>	<b>489.9</b>	<b>955.8</b>	<b>821.1</b>	<b>826.5</b>
<b>NET ASSETS</b>	<b>\$M 173.5</b>	<b>251.8</b>	<b>264.9</b>	<b>278.6</b>	<b>386.3</b>	<b>527.9</b>
<b>SH/HLDRS FUNDS</b>	<b>\$M 236.4</b>	<b>251.8</b>	<b>264.9</b>	<b>278.6</b>	<b>386.3</b>	<b>527.9</b>

RATIO ANALYSIS	2013A	2014F	2015F	2016F	2017F	2018F
EPS	¢ 0.6	(0.9)	3.2	3.3	26.1	34.3
PER	x 40.5	na	7.9	7.6	1.0	0.7
EPS Growth	% >100	(242.0)	>100	4.2	689.8	31.5
EBITDA per share	¢ 0.0	-0.4	9.6	18.3	57.9	69.3
EBITDA Multiple	x 5731.1	-66.7	2.6	1.4	0.4	0.4
EV/EBITDA	x 2159	-53.6	14.1	13.6	3.5	2.2
CFPS	¢ 1.5	0.2	6.7	10.0	46.6	50.2
PCFR	x na	na	3.7	2.5	0.5	0.5
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	172.9	331.3	190.8	101.6
Interest Cover	x 0.1	4.3	2.1	1.6	4.8	7.2
EBITDA Margin	% na	(6.6)	38.3	40.2	46.4	47.1
EBIT Margin	% na	(20.3)	24.3	28.6	37.9	38.7
Return On Assets	% (0.0)	(1.8)	3.3	4.4	16.1	17.3
Return On Equity	% 1.1	(1.4)	4.9	4.9	27.9	26.8
Eff Tax rate	% 0	0	0	30	30	30

Share Price	(\$)	0.25
Iss. Shares	(M)	412.6
Iss. Options	(M)	0.0
Mkt Cap.	(\$M)	103.2



RESOURCES	2013A	2014F	2015F	2016F	2017F	2018F
<b>Tomingley Gold (NSW)</b>						
Tonnes	Mt 12.6	12.2	11.2	10.1	8.9	7.8
Grade (gold)	g/t 2.0	2.0	2.0	2.0	2.0	2.0
Contained Gold	oz 809,556	783,695	711,789	637,971	564,025	505,208
<b>Dubbo Zirconia (NSW)</b>						
Tonnes	Mt 73.2	73.2	73.2	73.0	72.1	71.0
Zirconium (ZrO <sub>2</sub> )	% 2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Niobium	% 0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Yt + REE	% 0.9%	0.9%	0.9%	0.9%	0.9%	0.9%
Contained product	Mt 2.4	2.4	2.4	2.4	2.4	2.4

ATTRIBUTABLE PRODUCTION	2013A	2014F	2015F	2016F	2017F	2018F
Tomingley Gold	oz -	16,374	71,209	68,651	68,770	54,699
DZP - ZrO <sub>2</sub> products	t 0	0	0	3,196	14,384	17,581
DZP - Niobium	t 0	0	0	427	1,922	2,349
DZP - LREE	t 0	0	0	968	4,355	5,322
DZP - YHREE	t 0	0	0	252	1,136	1,388
Other	t 0.0	0.0	0.0	0.0	0.0	0.0
Total - Dubbo	t 0	0	0	4,844	21,796	26,640

REVENUE	2013A	2014F	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 0.0	23.3	104.0	100.8	101.1	80.4
Dubbo Zirconia	\$M 0.0	0.0	0.0	87.2	413.8	526.1
Other	\$M 2.7	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>\$M 2.7</b>	<b>23.3</b>	<b>104.0</b>	<b>188.0</b>	<b>514.9</b>	<b>606.6</b>

COSTS	2013A	2014F	2015F	2016F	2017F	2018F
Tomingley (cash costs A\$/oz)	0	958	885	892	906	1095
Tomingley (all in cash A\$/oz)	0	1634	930	936	950	1150
Tomingley Gold	\$M 0.0	19.8	59.2	61.2	62.3	59.9
Dubbo Zirconia	\$M 0.0	0.0	0.0	46.2	208.6	255.8
Corporate / Other	\$M 2.3	5.0	5.0	5.0	5.0	5.0
<b>Total</b>	<b>\$M 2.3</b>	<b>24.8</b>	<b>64.2</b>	<b>112.4</b>	<b>275.9</b>	<b>320.7</b>

CAPEX	2013A	2014F	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 21.0	78.5	3.0	3.0	3.0	3.0
Dubbo Zirconia	\$M 10.0	20.0	503.0	503.0	3.5	3.5
Other	\$M -1.7	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>\$M 29.3</b>	<b>98.5</b>	<b>506.0</b>	<b>506.0</b>	<b>6.5</b>	<b>6.5</b>

DEPRECIATION	2013A	2014F	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 0.0	3.2	14.6	16.0	17.0	17.7
Dubbo Zirconia	\$M 0.0	0.0	0.0	5.9	27.0	33.4
Other	\$M 0.1	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>\$M 0.1</b>	<b>3.2</b>	<b>14.6</b>	<b>21.9</b>	<b>44.1</b>	<b>51.1</b>

EBITDA	2013A	2014F	2015F	2016F	2017F	2018F
Tomingley Gold	\$M 0.0	3.5	44.8	39.5	38.8	20.6
Dubbo Zirconia	\$M 0.0	0.0	0.0	41.0	205.1	270.3
Other	\$M 0.0	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>\$M 0.0</b>	<b>3.5</b>	<b>44.8</b>	<b>80.6</b>	<b>244.0</b>	<b>290.9</b>

HEDGING	2013A	2014F	2015F	2016F	2017F	2018F
Gold hedged	oz 0	0	24,000	0	0	0
Hedged price	US\$/oz 0	1319	1278	0	0	0
Hedged price	A\$/oz 0	1449	1444	0	0	0
Sales hedged	% 0%	0%	34%	0%	0%	0%
Ave. deliverable price	US\$/oz 1401	1295	1293	1263	1250	1250
Ave. deliverable price	A\$/oz 1,460	1,423	1,461	1,468	1,471	1,471

ASSUMPTIONS	2013A	2014F	2015F	2016F	2017F	2018F
Exchange Rate	A\$/US\$ 0.96	0.91	0.89	0.86	0.85	0.85
Gold Price	US\$/oz 1401	1295	1300	1263	1250	1250
Gold Price	A\$/oz 1460	1423	1469	1468	1471	1471
Zirconia Price	US\$/kg 5.75	6.00	5.50	5.50	5.75	6.00
LREE Price	US\$/kg 30.00	20.00	20.00	20.00	20.00	20.00
YHREE Price	US\$/kg 95.00	100.00	110.00	120.00	130.00	140.00
Niobium Price	US\$/kg 40.00	30.00	30.00	30.00	30.00	30.00
90 day Bank Bills	% 2.78	2.62	2.55	2.63	2.88	3.00
10 Yr Bond rate	% 3.73	4.02	3.75	3.38	3.38	3.50
Interest Rate Charged	% 4.23	4.52	4.25	3.88	3.88	4.00

VALUATION	2013A	2014F	2015F	2016F	2017F	2018F
Tomingley Gold					138.3	\$ 0.34
Dubbo Zirconia					831.5	\$ 2.01
Corporate / Other					-53.1	\$ (0.13)
Net Cash (Debt)					20.2	\$ 0.05
<b>Total</b>					<b>936.9</b>	<b>\$ 2.27</b>

Source: Petra Capital

21 July 2014

Petra Capital  
Level 17, 14 Martin Place, Sydney NSW 2000  
ABN 95 110 952 782  
ACN 110 952 782  
AFSL 317 944

Research (Res/Ind):	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):	David Cotterell	+61 (0)2 9239 9630	dcotterell@petracapital.com.au
Research (Industrials):	Michael Henshaw	+61 (0)2 9239 9606	mhenshaw@petracapital.com.au
Research (Industrials):	Mark Cotton	+61 (0)2 9239 9614	mcotton@petracapital.com.au
Research (Industrials):	Richard Amland	+61 (0)2 9239 9607	ramland@petracapital.com.au
Research (Industrials):	George Kopsiaftis	+61 (0)2 9239 9618	gkopsiaftis@petracapital.com.au
Research (Industrials):	Nick Berry	+61 (0)2 9239 9634	nberry@petracapital.com.au
Research (Property):	Jonathan Kriska	+61 (0)2 9239 9633	jkriska@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:	Shane Gavegan	+61 (0)2 9239 9616	sgavegan@petracapital.com.au
Sales:	Mark Innes	+61 (0)2 9239 9602	minnes@petracapital.com.au
Sales:	Jason Lal	+61 (0)2 9239 9617	jlal@petracapital.com.au
Sales:	Colin Redmond	+61 (0)2 9239 9613	credmond@petracapital.com.au
Sales:	Daniel Gardiner	+61 (0)2 9239 9608	dgardiner@petracapital.com.au
Sales:	Michael Vincent	+61 (0)2 9239 9620	mvincent@petracapital.com.au
Sales:	Peter Veldhuizen	+61 (0)2 9239 9609	pveldhuizen@petracapital.com.au
Administration:	Marion Pannell	+61 (0)2 9239 9635	mpannell@petracapital.com.au
Administration:	Jacqui Irons	+61 (0)2 9239 9621	jirons@petracapital.com.au
Administration:	Larissa Falvo	+61 (0)2 9239 9611	lfalvo@petracapital.com.au
Legal & Compliance:	Domenica Marias	+61 (0)2 9239 9612	dmarias@petracapital.com.au
Financials:	Tony Christelis	+61 (0)2 9239 9615	tchristelis@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 16th June 2014, Petra Capital was a broker to the issue of 40,000,000 shares at \$0.26/share raising \$10.4M. 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. As at the date of this report, Andrew Richards held 287,000 shares in Alkane Resources.

#### 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 on 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.