

8 September 2014

Alkane Resources

ALK A\$0.26/share

Tomingley generating significant cashflow

BUY

ALK has reported strong production of 15.4koz for the two months of July and August. Importantly all-in sustaining cash costs (AISC) have fallen to A\$849/oz (down 47% on Feb-June period). We estimate free cashflow generation of ~\$8M for the two months. ALK have retained full year production forecasts at 60-70koz in FY15. Potential exists to significantly exceed forecasts should the current positive reconciliation for grade and tonnage continue. Project approval for the Dubbo Zirronia Project (DZP) has now moved to the PAC (Planning Assessment Commission) stage with approval expected before year end. We maintain our BUY recommendation on ALK with NPV of A\$2.24/share.

Tomingley Gold (100%) – Figs. 1-3

- Production was 15.4koz for July and August.
- This equates to >90koz annualised.
- Impressive all-in costs of A\$849/oz.
- Free cash margins of over A\$500/oz.
- Free cashflow generation of ~\$4M per month.
- Milled grade tracking 30% higher than reserve.
- Milled tonnes tracking 9% higher than reserve.
- Positive reconciliation to date is in the oxide ore.
- Sulphide ore to creep in over coming months.
- Strong upside exists should positive reconciliation continue.
- Reserves increased 35% to 295koz (was 209koz).
- Resources increased 2% to 830koz (812koz).

DZP (100%) – approval progressing

- NSW Department of Planning & Environment has released its report (dated Sept 2014).
- The report states the DZP is expected to be approved subject to conditions.
- DZP has now moved to PAC for review.
- ALK anticipates final determination before year end.

Key dates and newsflow

- Q4 2014 – Finalise offtake agreements.
- Q4 2014 – DZP Environmental approval.
- Q1 2015 – DZP equity sell down (project level).
- Q1/2 2015 – Construction commences at DZP.
- Q2 2015 – DZP Project Financing (Export Credit Agency debt plus Project debt).
- Q3 2016 – Commissioning of DZP.

Company Data

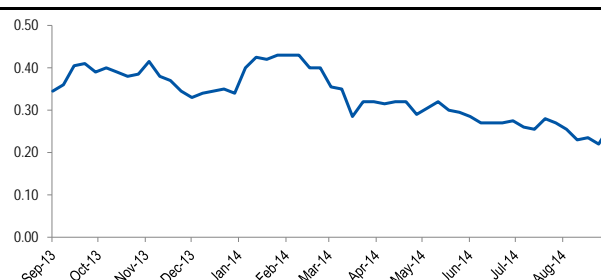
Shares - ordinary	412.6M
Options	0M
Total (fully diluted)	412.6M
Market Cap	\$107.3M
12 month low/high	\$0.25 / \$0.47
Average monthly turnover	\$3.6M
Average monthly volume	11.2M

Financial Summary

Year end June	2013A	2014F	2015F	2016F	2017F
Revenue (\$M)	2.7	23.3	106.9	188.3	504.5
Costs (\$M)	2.3	24.8	67.7	112.6	275.7
EBITDA (\$M)	0.0	-1.5	39.1	75.7	228.8
NPAT (\$M)	2.6	-3.6	11.8	13.7	100.5
EPS (¢ps)	0.6	-0.9	2.8	3.3	24.3
EPS Growth (%)	>100	na	>100	16.7	>100
PER (x)	42.1	na	9.1	7.8	1.1
Cashflow (\$M)	6.4	0.8	27.0	41.5	181.7
CFPS (¢ps)	1.5	0.2	6.5	10.0	44.0
PCFPS (x)	na	na	4.0	2.6	0.6
Enterprise Value (\$M)	43	87	566	1031	855
EV / EBITDA (x)	na	-56	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.

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Figure 1: Tomingley Gold Operations

Tomingley Gold is performing well with strong production of 15.4koz for the months of July and August at low all-in cash costs of A\$849/oz.

TGO Production		FY 2014 (Feb-June) ²	July – August 2014
Waste Mined	Tonnes	4,635,684	1,129,758
Ore mined	Tonnes	545,550	207,778
Grade	g/t	1.42	2.13
Ore milled	Tonnes	359,096	200,171
Head grade	g/t	2.24	2.54
Recovery	%	91.4	95.4
Gold poured	Ounces	20,711	15,398
Gold sold	Ounces	16,374	14,734
Gold revenue	A\$M	23.3	20.8
AISC ¹	A\$/oz	1,604	849
Stockpiles			
Ore for immediate milling	Tonnes	185,701	193,659
Bullion on hand	Ounces	4,386	10,343

Source: Alkane Resources.

Figure 2: Reserves and Resources

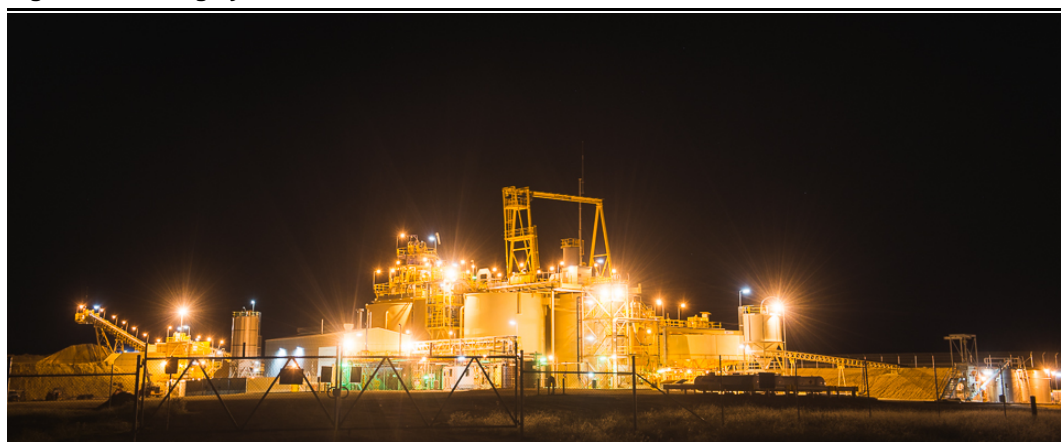
Reserves have increased by from 209koz to 295koz.

Resources have increased from 812koz to 830koz.

DEPOSIT	TOTAL RESOURCES						TOTAL RESERVES					
	2013			2014			2013			2014		
	Tonnage (Kt)	Grade (g/t Au)	Gold (koz)	Tonnage (Kt)	Grade (g/t Au)	Gold (koz)	Tonnage (Kt)	Grade (g/t Au)	Gold (koz)	Tonnage (Kt)	Grade (g/t Au)	Gold (koz)
Wyoming One	6,324	1.9	392.4	4,742	2.1	314.1	1,900	1.6	94.5	1,864	1.6	98.4
Wyoming Three	808	1.9	49.9	649	1.7	35.7	500	1.6	28.1	389	1.7	21.4
Caloma	5,453	2.1	369.4	5,909	1.8	335.7	1,200	2.2	86.5	1,928	2.2	136.0
Caloma Two	-	-	-	2,169	2.07	144.3	-	-	-	239	3.6	27.4
Stockpiles										186	1.9	11.5
TOTAL	12,586	2.0	811.7	13,468	1.92	829.8	3,600	1.8	209.1	4,606	2.0	294.7

Source: Alkane Resources.

Figure 3: Tomingley Gold Plant



Source: Alkane Resources.

8 September 2014

Analysis

ALKANE RESOURCES

(ALK AU) (ALKNY OTCQX)

5-Sep-14

Year End 30 June

PROFIT & LOSS	2013A	2014F	2015F	2016F	2017F	2018F
Sales Revenue	\$M 0.0	23.3	106.9	188.3	504.5	600.8
Other Income	\$M 2.7	0.0	0.0	0.0	0.0	0.0
Operating Costs	\$M 2.3	24.8	67.7	112.6	275.7	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
EBITDA	\$M 0.0	(1.5)	39.1	75.7	228.8	280.1
Depreciation & Amort.	\$M 0.1	3.2	15.3	21.9	44.1	51.1
EBIT	\$M (0.1)	(4.7)	23.9	53.8	184.7	229.0
Net Interest	\$M (1.4)	(1.1)	12.1	34.2	41.2	32.9
Pre-Tax Profit	\$M 1.3	(3.6)	11.8	19.6	143.5	196.1
Tax	\$M (1.3)	0.0	0.0	5.9	43.1	58.8
Minorities	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	\$M 2.6	(3.6)	11.8	13.7	100.5	137.3
Abnormal	\$M (69.0)	9.1	0.0	0.0	0.0	0.0
Reported Profit	\$M (66.4)	5.5	11.8	13.7	100.5	137.3
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
Retained Earnings	\$M (15.5)	(10.0)	1.8	15.5	115.9	253.2

CASH FLOW

Revenue	\$M 6.8	23.3	106.9	188.3	504.5	600.8
Costs	\$M (1.9)	(24.8)	(67.7)	(112.6)	(275.7)	(320.7)
Net Interest	\$M 1.4	1.1	(12.1)	(34.2)	(41.2)	(32.9)
Tax Paid	\$M 0.0	1.3	0.0	0.0	(5.9)	(43.1)
Gross Cash Flow	\$M 6.4	0.8	27.0	41.5	181.7	204.2
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
Free Cashflow	\$M (30.8)	(97.7)	(479.0)	(464.5)	175.2	197.7
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
Surplus Cash Flow	\$M (15.4)	(44.1)	6.0	(4.5)	0.2	(2.3)

BALANCE SHEET

Cash	\$M 64.3	20.2	26.2	21.6	21.9	19.5
Other Current	\$M 44.8	67.1	67.1	67.1	67.1	300.4
Total Current	\$M 109.1	87.3	93.3	88.8	89.0	319.9
Fixed Assets	\$M 21.1	116.4	607.2	1,091.3	1,053.7	1,009.1
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
Total NC Assets	\$M 74.1	169.5	660.2	1,144.3	1,106.8	1,016.9
TOTAL ASSETS	\$M 183.2	256.8	753.5	1,233.1	1,195.8	1,336.8
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	44.8	60.6
Non Current Liab	\$M 0.1	3.2	3.2	3.2	3.2	191.2
TOTAL LIAB	\$M 9.7	4.9	488.9	955.8	818.0	821.7
NET ASSETS	\$M 173.5	251.9	263.6	277.3	377.8	515.1
SH/HLDRS FUNDS	\$M 236.4	251.9	263.6	277.3	377.8	515.1

RATIO ANALYSIS

EPS	€ 0.6	(0.9)	2.8	3.3	24.3	33.3
PER	x 42.1	na	9.1	7.8	1.1	0.8
EPS Growth	% >100	(241.7)	>100	16.7	632.9	36.7
EBITDA per share	€ 0.0	-0.4	9.5	18.3	55.4	67.9
EBITDA Multiple	x 5960.3	-69.3	2.7	1.4	0.5	0.4
EV/EBITDA	x 2388	-56.3	14.5	13.6	3.7	2.3
CFPS	€ 1.5	0.2	6.5	10.0	44.0	49.5
PCFR	x na	na	4.0	2.6	0.6	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	174.1	333.0	198.0	106.9
Interest Cover	x 0.1	4.2	2.0	1.6	4.5	7.0
EBITDA Margin	% na	(6.6)	36.6	40.2	45.3	46.6
EBIT Margin	% na	(20.3)	22.4	28.6	36.6	38.1
Return On Assets	% (0.0)	(1.8)	3.2	4.4	15.4	17.1
Return On Equity	% 1.1	(1.4)	4.5	4.9	26.6	26.7
Eff Tax rate	% 0	0	0	30	30	30

Share Price	(\$)	0.26
Iss. Shares	(M)	412.6
Iss. Options	(M)	0.0
Mkt Cap.	(\$M)	107.3



RESOURCES	2013A	2014F	2015F	2016F	2017F	2018F
Tomingley Gold (NSW)						
Tonnes	Mt 12.6	12.2	11.1	10.0	8.9	7.7
Grade (gold)	g/t 2.0	2.0	2.0	2.0	1.9	2.0
Contained Gold	oz 809,556	783,695	702,353	628,535	554,588	497,420
Dubbo Zirconia (NSW)						
Tonnes	Mt 73.2	73.2	73.2	73.0	72.1	71.0
Zirconium (ZrO ₂)	% 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

Tomingley Gold	oz -	20,711	75,647	68,651	68,770	53,166
DZP - ZrO ₂ 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

Tomingley Gold	\$M 0.0	23.3	106.9	103.8	99.1	77.7
Dubbo Zirconia	\$M 0.0	0.0	0.0	84.5	405.4	523.1
Other	\$M 2.7	0.0	0.0	0.0	0.0	0.0
Total	\$M 2.7	23.3	106.9	188.3	504.5	600.8

COSTS

Tomingley (cash costs A\$/oz)	0	958	829	897	908	1129
Tomingley (all in cash A\$/oz)	0	1634	869	941	952	1185
Tomingley Gold	\$M 0.0	19.8	62.7	61.6	62.5	60.0
Dubbo Zirconia	\$M 0.0	0.0	0.0	46.1	208.3	255.7
Corporate / Other	\$M 2.3	5.0	5.0	5.0	5.0	5.0
Total	\$M 2.3	24.8	67.7	112.6	275.7	320.7

CAPEX

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
Total	\$M 29.3	98.5	506.0	506.0	6.5	6.5

DEPRECIATION

Tomingley Gold	\$M 0.0	3.2	15.3	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
Total	\$M 0.1	3.2	15.3	21.9	44.1	51.1

EBITDA

Tomingley Gold	\$M 0.0	3.5	44.1	42.3	36.6	17.7
Dubbo Zirconia	\$M 0.0	0.0	0.0	38.4	197.1	267.4
Other	\$M 0.0	0.0	0.0	0.0	0.0	0.0
Total	\$M 0.0	3.5	44.1	80.7	233.8	285.1

HEDGING

Gold hedged	oz 0	0	25,000	0	0	0
Hedged price	US\$/oz 0	1319	1308	0	0	0
Hedged price	A\$/oz 0	1449	1437	0	0	0
Sales hedged	% 0%	0%	33%	0%	0%	0%
Ave. deliverable price	US\$/oz 1401	1295	1286	1263	1250	1250
Ave. deliverable price	A\$/oz 1,460	1,423	1,413	1,423	1,441	1,462

ASSUMPTIONS

Exchange Rate	A\$/US\$ 0.96	0.91	0.91	0.89	0.87	0.86
Gold Price	US\$/oz 1401	1295	1275	1263	1250	1250
Gold Price	A\$/oz 1460	1423	1401	1423	1441	1462
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	2.63	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

Tomingley Gold	ASM 132.4	A\$ps 0.32
Dubbo Zirconia	824.1	\$ 2.00
Corporate / Other	-53.1	\$ (0.13)
Net Cash (Debt)	20.2	\$ 0.05
Total	923.6	\$ 2.24

Source: Petra Capital

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