Alkane Resources scores a big hit capital generator with gold

In some ways Alkane Resources Ltd. (ASX:ALK | OTCQX:ANLKY) reminds us of the uber-successful Metals X (ASX:MLX), which we have written about tangentially in the past. That company was (and still is) a tin miner with the famous Renison tine mines in Tasmania under its control. However a fortuitous and almost serendipitous purchase of some throwaway gold assets from Alacer Gold Corp. (TSX:ASR) turned Metals X into a *bona fide* gold producer of substance with a large fan club. It also gave it the AU$458mn market cap that it has today and helped it tide itself over the slump in prices and sentiment in the tin space.

Alkane is something along the same lines. For ages synonymous with the Dubbo Zirconia Project (DZP) with its rich and wonderful array of diverse minerals, Alkane dusted off a gold project in its immediate vicinity during 2014 and gained itself not only an insurance policy against the notoriously fickle REE (rare earths) space, but cash flow and producer status as well.

Since then the Tomingley project (known as the TGO) has gone from strength to strength and recently announced a maiden underground resource with the effect that the gold operations now stretch out farther into the future rather than being a mere “filler” while waiting for Dubbo to kick in.

Tomingley – Steaming Along

The latest numbers for the gold operation were for the December quarter and showed that gold production was in line with forecast at 15,346 ounces despite some weather interruptions to operations. Production for FY16 to that date was 35,136 ounces.

Site operating cash costs were A$1,166/ounce compared to a gold price in AUD of over $1,500. The costs were higher than the anticipated long term life-of-mine AISC of A$1,000 – 1,100/oz due to waste stripping in FY16 at the Wyoming One pit.

The company has been stashing away bullion and also selling gold with gold sales 14,250 ounces in the December quarter generating revenue of AU$22.6mn at an average price of A$1,583/ounce in the quarter. Site cash flow for the quarter after site operating expenses and development expenditure was $2.45mn, providing the rest of Alkane with a meaningful flow of funds. As at December-end the site cash flows totalled $12.55mn for the fiscal year to date.

Interestingly the company has been able to wisely slip in a gold hedge which as at 31 December 2015 encompassed 14,500 ounces at an average forward price of AU$1,606/ounce. As mentioned the company is pursuing a strategy akin to that of Goldcorp in its heyday, stashing away gold for a rainy day and at the end of December had bullion on hand valued at AU$4.4mn (@ AU$1,456/oz).

Going Underground

The next expansion move for Tomingley is to head underground to access a number of known reserves, the main one of which is under the Wyoming One pit. The company considered six alternative means of doing this and the option chosen accesses ore within the Wyoming One and Caloma Two deposits from a portal in the Caloma open pit. This can be seen in the schematic below.

The geological controls to mineralisation at Tomingley are well understood and it is anticipated that further drilling from underground developments will continue to expand the potential resource base. The study highlights the potential of the Tomingley gold deposits to sustain a long term underground mining operation.

The company also released a ore reserve estimate for the underground portion.

Other Prospects

As they would say in the racing industry Alkane "has form" when it comes to gold projects, and we are not just talking of Tomingley. In 2010 the McPhillamys gold project, which had been a JV between Alkane and Newmont, was sold to Regis Resources for $150mn, of which Alkane's share was $73.5mn. This deposit had been discovered by Alkane in 2005 and a 3mn oz gold resource was identified in 2010. In the hope of repeating this win the company has a number of other gold/base metals prospects on the boil. Most are in the general vicinity of the DZP in central New South Wales.

Those of note are:

Bodangora gold-copper prospect

- Large monzonite intrusive complex with gold-copper mineralisation
- Similarities to Newcrest's Cadia-Ridgeway gold-copper mine
- Recent drill intercepts at new target (Kaiser)
- 41m @ 1.15g/t gold and 1.24% copper
- 8m @ 0.34g/t gold and 1.06% copper

Cudal gold-zinc prospect

- Best drill intercept 17m @ 1.2 g/t gold and 2.8% zinc (ALK ASX 19 January2011)
- Interesting targets, both porphyry style copper-gold and

possibly sedimentary replacement (Carlin model)

The most recent work has been at Elsienora where recent drill intercepts included 29m @ 1.53g/t Au, incl 4m @5.86g/t Au and 8m @ 3.14g/t Au.

Meanwhile at DZP

Alkane's Dubbo Zirconia Project (DZP) continues to bubble along in the background. It has been around since before the REE boom erupted and is still here after the tide has gone out. Part of its longevity is that it is multi-metal in nature with zirconium (hafnium), niobium (tantalum), yttrium and rare earth elements. It also helps that it is one of the world's largest in-ground resources of rare metals and rare earths. Due to the size of the resource, the mine is expected to process 1,000,000 tonnes of ore throughput per year over a period of 70 years or more.

A demonstration pilot plant at ANSTO (the research complex on the outskirts of Sydney) has been running since 2008, allowing Alkane to prove up the DZP's technical and financial viability. The pilot plant aided in the development of a working flowsheet and verified resource extraction and processing methods for the complex mineralogy.

In the Coffers

Following land acquisitions for the DZP of AU$3.74M, the Group's cash position was A$14.76mn with, as mentioned earlier, bullion on hand valued at AU$4.4mn (@ AU$1456/oz). AZL executed an AU$4mn working capital facility which was undrawn at 31 December.

Possible Outcomes

Originally we thought that Tomingley was just a stop-gap operation with a shortish Life of Mine that would fade away as Dubbo ramped up. Now we are starting to "think bigger". There might be two outcomes and neither is extinction of the gold activities. Firstly we wonder whether the whole division might be spun out. Looking at the current market cap of Alkane there seems to be no credit for Tomingley. Indeed the gold division standalone would probably have a market cap of at least AU$100mn.

The other option is that the gold division stays within Alkane and remains an internal funding source for the Dubbo project build.

However, with gold perking up and the AUD staying so low the profits flowing down to the bottom line at Tomingley are rather unappreciated by the market as they get sidetracked to fund Dubbo and thus never see light of day (i.e. the bottom line). However, if the gold division was to be IPOed it could provide Alkane with a cash windfall that far exceeded whatever cashflow comes from it currently. It all depends on how sentiment evolves towards gold in coming months and where the Australian dollar goes.

Conclusion

At the risk of sounding like the Book of Genesis, in the beginning there was Alkane…. And after the sound and fury of the REE boom is but a distant memory Alkane is still with us (and a mere handful of other REE names). It is as it should be.

The thing that has kept Alkane above the struggling masses is that the DZP is such a multifaceted deposit with various minerals to exploit, while maintaining the exposure to gold has provided a handy (and growing) income stream to minimize funding needs in the darkest hours for specialty metals.

The issue now is whether the gold division might be even more gainfully employed as a big hit capital generator by being spun out. Such an action would give existing shareholders a payday, raise capital for Alkane and make the separated gold entity self-funding for its own exploration efforts.

Much depends on how the gold markets and AUD evolve over coming months.

Neometals Secures its Lithium Patch

The Mount Marion Lithium project was far from lacking in mineable resources but that has not held Neometals Ltd. (ASX: NMT) back from securing a portfolio of neighbouring properties from Metals X to ensure that no interlopers appear on its doorstep now that it is ramping up the project. At just over a kilometre wide and several kilometres long the Mount Marion concession held by Neometals is rather constraining, particularly as the main mineralisation borders the top northern edge of the concession. This has necessitated planning for tailings and waste dumps in the limited space available. One might say that the company "didn't have room to swing a cat".

A deal in recent days has opened up the horizon for Neometals as it has been able to not only secure territory for placing mine support functions with better ergonomics but it has also secured extension zones to two of its major identified trends.

The Deal

The deal was first mooted back in January and has taken until now to solidify. The latest deal is one in which Neometal's 70% held subsidiary, RIM (the other 30% being held by Mineral Resources Limited) agreed to lease, from Metals X Ltd. (ASX:

MLX), the lithium mining rights over a portion of the Hampton Area Location 53, which adjoins the Mt Marion Lithium Project, and to purchase an adjoining mining lease and associated infrastructure from Metals X.

The purchase of the adjoining leases and associated infrastructure will provide potential tailings storage, optimal waste dump positioning and access to an existing heavy haul road which will benefit the future development of Mt Marion.

This transaction allows RIM to explore and develop extensions of the No 2 and No 2 West Lithium Deposits, located on the northern boundary of the Mt Marion Project.

The terms of the transaction are:

- Neometals will lease the land area over a portion of the Hampton Area Location 53 which adjoins the Mt Marion Lithium Project for an initial 10 year period with two periods to extend for a further five-year period. The Lease fee will be $90,000 per annum indexed to the Consumer Price Index
- Neometals will be allowed to mine and extract lithium ores from the lease area and store associated waste from mining on the land area. Neometals will pay a royalty of $2/t of ore mined and processed from the land area as well as a 1.5% NSR on the sale of any downstream products generated from mining and processing of ores won from the land area
- Metals X will sell outright to Neometals (or its nominee) Mining Lease M15/717 and infrastructure located upon it. The purchase price is $250,000 and Neometals will take over all liabilities and MRF responsibility associated with the tenement.
- Metals X will retain the exclusive rights to access and

mine gold from the tenement and pre-emptive rights over any upstream or downstream sale of the tenement
- Metals X will transfer to Neometals Miscellaneous Licence 15/220 but retain access rights to use such private road for access to its exclusive gold rights

Metals X and Mount Marion

While for Neometals, Mount Marion means Lithium for Metals X its focus is/was gold. Metals X are retaining the gold rights on the lease area. Metals X picked up this territory as part of its bargain buy of assets from Alacer, so we presume this was originally an asset of Avoca before that merged with Anatolia Development to create the ill-starred Alacer. Metals X's purchase of gold mining assets from Alacer was one of the canniest deals we have ever seen in mining circles. Like taking candy from a baby.

The Ghost Crab/Mount Marion orebody was first discovered by Newcrest Mining in 1995. It was targeted as a potential site for mineralisation because of the presence of a northwest / north-northwest flexure of the Karramindie Shear Zone and its proximity to the Depot Granodiorite. Initial soil auger sampling identified a broad anomaly and a series of RAB/AC holes followed. The overall strike length ranges up to 400 m with thicknesses from 1 to 25 m. The lense generally plunges to the northwest at approximately 45°, with the mineralisation intersected in deep drilling to 950 m below surface, a down-plunge length of 1,400m. According to a resource statement of Metals X, the total pre-mining resource of the Mount Marion lodes stands at approximately 1.2mn ozs, making Mount Marion one of the largest orebodies in the Coolgardie Domain.

Mount Marion's Lithium – A Better Class of Spodumene

The Mount Marion lithium project was added to the Neometals portfolio in September 2009. It is one of Australia's largest high-grade lithium spodumene occurrences. It is located some

40km south of Kalgoorlie in the Goldfields region of Western Australia. The project is comprised of two Mining Leases, M15/999 and M15/1000, which cover the outcropping pegmatites.

Prior Work

From the 1960’s through to the 1980’s, Western Mining (which was taken over by BHP-Billiton in 2005) carried out extensive exploration on the Mount Marion tenements. It completed a study that considered mining, beneficiation and chemical processing to produce 5,000 tpa of lithium carbonate over a mine life of 10 years. In 1996, Associated Minerals Pty Ltd completed a pre-feasibility study to produce lithium and potassium products. Pilot test work produced spodumene concentrates grading at 6.5 to 7 % Li_2O, with lithium recoveries of between 75% and 83%. After that time the deposit was held by a private individual, with no further meaningful exploration activities conducted until Neometals (then known as Reed Resources) came into the picture in 2009.

Mount Marion’s resources total 14.8 million tonnes @1.3% Li_2O. The resource is open along strike and down dip.

A new resource exploration potential estimate is being prepared as part of an extensive resource expansion and infill drilling program under development.

As noted before this deal allows RIM to explore and develop extensions of the No 2 and No 2 West Lithium Deposits, located on the northern boundary of the Mt Marion Project. Up until now the Pit 2 and Pit 2 West in the mine plan abutted the tenement border.

Previous drilling at the No 2 and No 2 West deposits has indicated that lithium mineralisation continues into the newly leased tenements, providing RIM an opportunity to expand the current JORC resource with further exploration. The new deal gives latitude to pursue the deposits to the north/northeast with expanded pit shells, offering the potential for expansion of the project and its Life of Mine.

Conclusion

Developments continue apace at Neometals’ Mount Marion. While the territory added may not have had much work done on it from the Lithium perspective the company, with this deal, has achieved two goals in one stroke. It has expanded the ground available for it to have logistical “legroom” while also securing the extension to two of its more prospective future mining areas. This latter aspect increases immensely the flexibility it will have with mine and pit design.

The recent uplift in price is more than justified on current developments and I feel that as momentum builds our price estimate of 19 cents in the next twelve-months will be achieved.