

Alkane – With the Stamp of Approval from Fidelity

While there are some mining companies that are chameleon-like and change their colours depending on the mining climate, there are some companies that are multifaceted because it's just the way their deposits are, good examples being Texas Rare Earths and Alkane.

Alkane's Dubbo Zirconia Project (DZP) was around 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.

It was these attractions that lured in Shin-Etsu, the massive Japanese chemicals combine that ranks 9th in the world in that space, as the strategic partner in the development. Shin-Etsu is the operator of Japan's only large scale separation and refining plant for rare earths. Australian Zirconia Limited, a wholly owned subsidiary of Alkane, inked the non-binding MOU with Shin-Etsu in June 2012. AZL will produce a suite of separated heavy and light rare earths using the rare earth concentrates from the DZP.

A toll processing agreement will use Shin-Etsu Chemical's

technology to process 100% of DZP heavy and light rare earth concentrates in Japan (or other agreed location) to produce high purity separated rare earth oxides.

Under the terms of the agreement, Shin-Etsu will have priority to purchase at commercial prices a quantity of the rare earths that they toll process under the agreement via an initial five-year offtake agreement. The remaining available quantity of separated rare earths will be sold to other companies with which AZL has been discussing off-take arrangements.

The Market Dynamics

One of the most intriguing things on this company has been its steadily declining price over the last twelve months as the mining market has been improving (in a fashion). Alkane, it might be noted, has a US listing for its ADRs (OTCQX: ANLKY) where it trades regularly if not voluminously. In the Australian market though they stock has a lively demand with a three month daily average trading volume of just over 800,000 shares.

When asked recently why Alkane was heading in the opposite direction to the rest of the REE pack after having looked so robust at the start of the year, we were tempted to give the stock answer of “more sellers than buyers”. Some though might see darker forces at work.

The current loaned (read “short”) position according to ASX records is a mere 0.29%.



Dark Pools

The stock price of Alkane has not behaving like that of company that is cashed up (from a recent financing) and with Fidelity just coming on board. Some have speculated that dark pool trading may be behind Alkane’s flailing share price

performance because there is no good rationale evident from its business strategy for it to trade consistently lower.

Rule changes were brought in by the ASIC (the Australian Securities & Investment Commission) in May 2013 to try and restore order to this chaos and liquidity leakage. The result was a collapse in volumes moving through dark pools, according to a report in the newspaper, The Australian in October 2013. It quoted figures from financial data provider IRESS and the ASX showing that traditional “upstairs” or block trading venues increased their share by a fifth to 16.2% in the five months after regulations designed to drive trading activity back to the public market were introduced. Much of their gain came at the expense of broker-operated dark pools whose market share shrank from 11.1% to just 4.5%.

That having been said it does not necessarily mean that individual stocks, like Alkane, have not been tumbled by unscrupulous players.

Recent Financing

In mid-June of 2014 Alkane undertook a placement of 40 million shares priced at \$0.26 each to raise \$10.4 million. Funds from this placement will be used to supplement existing cash reserves to progress the Dubbo Zirconia Project front-end engineering design. Funds were also going to be used to further DZP product development, enhancement and marketing; the development and acquisition of certain water resources for the DZP and certain acquisitions of land within the DZP area.

Heavyweights on Board

A share register is about the only place where a heavy weight won't sink your boat. That makes more intriguing the ongoing weakness at Alkane Resources as it was only in June that the company received a notice of initial substantial shareholding from one of the world's largest asset managers, Fidelity Worldwide Investment, which declared a 10% stake in the

company. It had bought shares between the 3rd of March and the 16th of June at prices ranging from \$0.26 to \$0.40. The lower end price was when it participated in the aforementioned placement.

The interesting thing is that Fidelity as a group is not known to us as an investor in mining juniors. Fidelity Worldwide Investment manages over US\$274.9 billion for private individuals and institutions as at 31 March 2014. Clearly something must have piqued the behemoth's interests in Alkane over the vast heaving mass of more pedestrian mining stories.

However we would also note that around the same time the London asset manager, Coupland Cardiff (which was recorded as holding 5.3% in May) ceased to be a major holder.

It also might be noted that the largest shareholder (25% in May) is Ian Gandel who is also a non-executive director. The Gandel name is synonymous with various leading retail fashion chains in Australia. He has been a director of the Gandel Retail Trust and has had an involvement in the construction and leasing of Gandel shopping centres. Through his private investment vehicles, he has been an investor in the mining industry since 1994. Gandel Metals Pty Ltd is currently a substantial holder in a number of publicly listed Australian companies and now holds and explores tenements in its own right in Victoria, New South Wales and Western Australia. He is also a non-executive director of Gippsland Limited and non-executive chairman of Octagonal Resources Limited and Alliance Resources Ltd.

Conclusion

Alkane is a paradox in a gently improving market for Rare Earths and specialty metals as it tests new lows. This is despite managing to bring on board sizeable financing and one of the world's largest institutional investors and yet the stock is testing its 12-month lows.

As one of the few REE stories to catch (and retain) a Japanese end-user/partner Alkane also stands out from the pack. Many REE companies gained the faith of the Japanese consumers but then lost it through inaction and promotorial stunts using the partners' names with the partners seeing no output or even progress.

Whatever the temporary price setback might be the Rare Earth race will ONLY go to the serious players and Alkane with its Japanese partner is up there amongst the sector leaders.