

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 tin 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 Elsiehora 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.