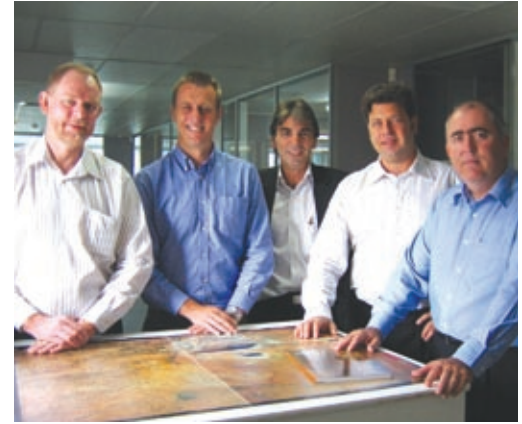


Textbook start for new explorer

Timing a run well towards listing is Alloy Resources, a gold-focused Western Australian explorer. **Allan Trench** runs the ruler over the company, the projects, the management and the IPO structure.



The Alloy board, from left to right: Peter Hepburn-Brown, Peter Harold, Bernard McAuliffe, Jayson Meyers, and Kevin Hart.

The textbook rules for a successful exploration company IPO (initial public offering) are pretty straightforward from both an investor and promoter perspective. First, pick a metal that enjoys positive market sentiment and fundamentals. Second, look for good projects including a near-term production play. Third, aim for a tight capital structure so that new shares are not in oversupply. Fourth, choose a well-credentialed management team that will enjoy the market's confidence. Fifth, look

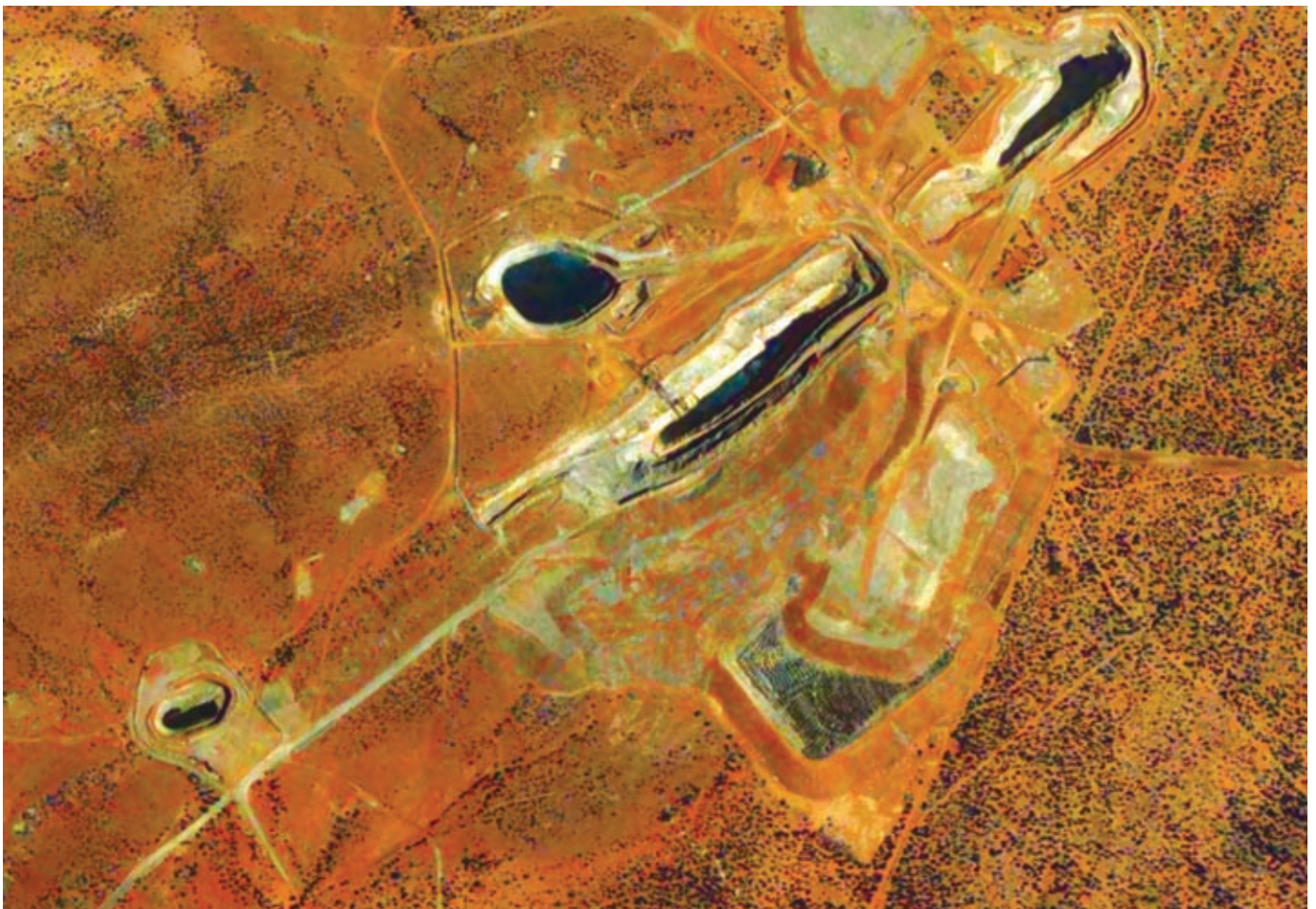
for drilling to start immediately upon listing so that the story doesn't go cold in the after-market.

Looking at Alloy Resources, it appears that management have been reading up on the textbooks — perhaps not surprising given that managing director Jayson Meyers is a part-time academic in geophysics at Perth's Curtin University of Technology.

On the commodity front, Alloy's main focus is gold, with a head start of 220,000 JORC-compliant ounces, and

50,000 unclassified oz, near to operating mills in Western Australia.

Readers are no doubt well versed that gold is enjoying a sunny period of elevated prices — make that very elevated prices — in part influenced by a lack of significant new discoveries or expanded production by the majors. So opportunities for new small players to become niche gold producers are clear: Alloy, therefore, opens its account with a big tick in the box for having picked the right commodity at the right time.



Alloy's Comet project represents a near-term path to cash flow.

In respect of a near-production play, Alloy points to its Comet-Webb's Patch gold project near Cue in WA's Murchison district.

The company has the benefit of an existing mine plan, underground dirt grading 6.6 grams per tonne in resources and trucking access to the Mt Magnet mill via 80km of mostly sealed roads.

The strategy? No surprises for guessing that it is to recommence mining, convert resources to reserves through intensive drilling and then further expand the resource base as soon as possible. Meyers points to the company's management having the necessary skills in underground mining, smart near-mine exploration experience and in geophysics, which he views as a key to unlocking new resource potential in and around historical mining centres.

Give Alloy another tick in regards to potential for production.

Rounding out the project portfolio are the Horse Well gold project in the Yandal belt of the NE Goldfields, Doyle's Dam gold prospect near Kalgoorlie and the 88 Creek opportunity in WA's Kimberley region.

At Horse Well, the Palomino prospect has a gold resource of 53,000oz (JORC-compliant) that lies above 100m depth. At Doyle's dam, Alloy will follow up gold anomalism linked to structures in granite, similar to those that host the Golden Cities and Federal gold mines developed in the late 1990s. Finally, at 88 Creek, the company is seeking to build upon earlier work by Striker (now North Australian Diamonds) that identified gold-in-soils and in the shallow bedrock with walk-up drilling targets.

Alloy aims to raise \$5 million through the issuance of 25 million shares at 20c each, with the offer to be underwritten by KTM Capital. At the time of writing, the projected listing date is March 29. Should demand for new shares be excessive, a provision for an additional \$2 million oversubscription is in place.



Alloy MD Jayson Myers in the Comet open pit. Myers, a specialist in geophysics, has big plans for his company's ground.

On listing, foundation investors, including the board and management, will own around 25% of the total capital, with these shares escrowed for two years (not the over-the-top management share allocations seen in some recent IPO documents). Seed investors will own a further 23% or thereabouts of the company, of which 50% of stock is escrowed for one year. Harmony Gold, vendors of the Comet-Webb's Patch project, make up a further 8.6%, again escrowed for one year. IPO subscribers pick up the rest — expected to be around 43% of the company based on a \$5 million subscription (or more if the oversubscriptions are taken up in the offer). Nominal market capitalization upon listing at 20c is therefore \$11.66 million with 58.3 million shares on issue. The escrow provisions provide IPO investors with some insurance against an oversupply of stock in the first year — with the company intent on releasing positive drilling results to attract further new investors into the stock.

A further opportunity exists in the form of 1-for-1 attaching options to the Alloy IPO, exercisable at 20c within three years of listing. For investors in the IPO after-market, the options provide for extreme leverage to exploration success. What's more is that option conversion may come at a time when Alloy is seeking funds for mine development. Score another tick for Alloy on the capital structure front.

When it comes to a management team, Alloy will be led by Meyers and by Joseph Gutnick's former mining man, Peter Hepburn-Brown, who will serve as executive director. Meyers has a PhD in Geophysics from the University of Miami and an industry track record that has seen him work across a variety of

minerals including diamonds, gold and nickel.

Hepburn-Brown is a mining engineer with a history of managing operations for WMC, Great Central Mines and Harmony Gold.

Making up the rest of the board are chairman Peter Harold, best known as managing director of Sally Malay Mining and a man who is well-placed to tackle issues around the start of WA mining operations, and non-executive director and company secretary Kevin Hart, a mining-focused accountant.

The endorsement of Harold for Alloy is significant, in the light of his success in taking Sally Malay from IPO through to mid-cap nickel producer over the past five years. Once again, Alloy rates a tick on the IPO checklist with regards to a well-credentialed management team.

Like most juniors, Alloy is aware that strong news flow from its exploration activities is a must to maintain strong market support. Unlike some companies, however, Alloy has the near-mine and advanced projects to ensure that near-term drilling campaigns will yield significant results. Most resources naturally pinch and swell as they are drilled out — Alloy will be hoping to quickly locate the swells and understand the structural controls on gold distribution such that ongoing drilling locates the best sections of mineralization.

"I'm obviously a big fan of geophysics but I'm a big fan of the drill bit, too," Meyers said.

"I see the two working together at Alloy more so than in many companies. Geophysics, good structural geology and drill testing are seamless at Alloy, which we see as one of our competitive advantages. Some companies treat these disciplines separately — with results often less than optimum as a result."

So Alloy looks like one to watch amongst the new generation of emerging junior gold companies. Australia still waits for the next Normandy or Newcrest; Alloy is aiming to be on the list of contenders over the coming years. **RS**

Key Positives for Alloy

- **Near-term gold production potential**
- **Good exploration potential to increase resources**
- **Well-rounded board**
- **Modest capitalisation on listing**

Key Risks for Alloy

- **Gold prices from 2007 onwards**
- **Competitive milling contracts**
- **Cost structure for mining operations**

alloy resources ... at a glance

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DIRECTORS

Peter Harold, Jayson Meyers,
Peter Hepburn-Brown, Kevin Hart

MARKET CAPITALISATION

\$11.66 million (at the Offer Price)