

Uraniumletter INTERNATIONAL

the international independent information and advice bulletin for uranium resource investments

Special Situation – January 2012 Update

www.allianceresources.com.au



Alliance Resources Ltd. (A\$ 0.33)

ASX : AGS

H+L prices (12 months) : A\$ 0.46 – 0.11

Net issued shares : 341.2 million

Fully diluted : 349.6 million

Market capitalization : A\$112.6 million

Next price target: A\$ 0.60

Company profile

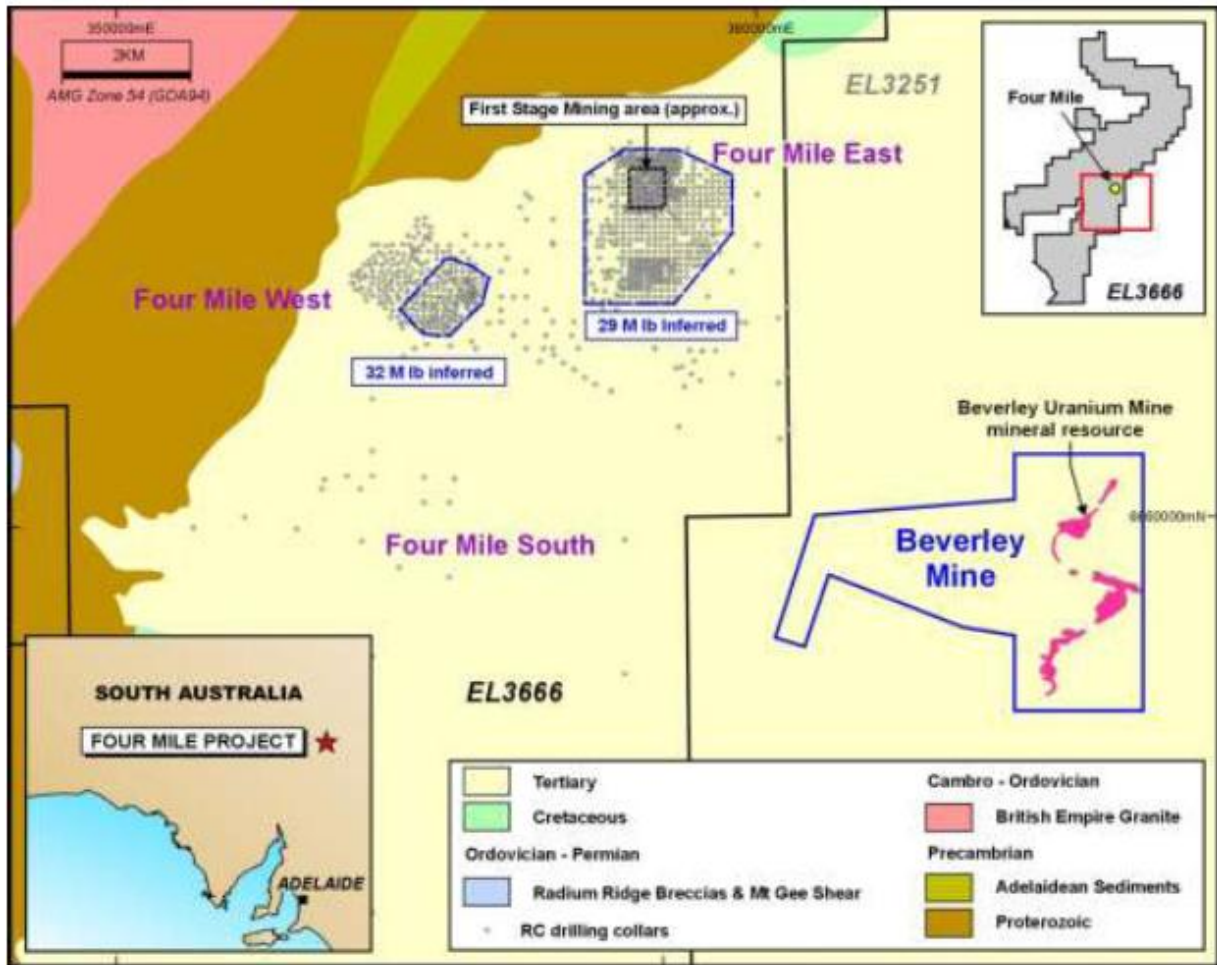
Alliance Resources Ltd (“Alliance”), through its wholly-owned subsidiary Alliance Craton Explorer Pty (ACE) is an emerging uranium developer. The Company has a 25% participating interest in the Four Mile Joint Venture, where its joint venture partner and manager, Quasar Resources Pty Ltd (Quasar), is developing the **Four Mile Uranium Project**, the largest Australian uranium discovery in 25 years, which is located in **South Australia**.

Quasar is an affiliate of Heathgate Resources Pty Ltd (Heathgate), which owns and operates the Beverley Uranium Mine, located immediately southeast of the Four Mile Project. Heathgate is an affiliate of US company General Atomics.

In January 2010, Alliance announced a further expansion of the Indicated + Inferred Mineral Resource, classified in accordance with the JORC Code. The total resource inventory for the Four Mile Uranium Project increased by 16% to **32,000 tonnes (71 million pounds) of contained U_3O_8 grading 0.33% U_3O_8** at an average grade of 0.33% U_3O_8 , consisting of the following two deposits:



- ▶ Four Mile West (**FMW**) with and Indicated + Inferred Mineral Resource of 19,000 tonnes (42 million pounds) of contained U_3O_8 at an average grade of 0.34% U_3O_8 and
- ▶ Four Mile East (**FME**) with an Inferred Mineral Resource of 13,000 tonnes (29 million pounds) of contained U_3O_8 at an average grade of 0.31% U_3O_8



As a result of the high grade and large inventory, Four Mile has the potential to become the highest grade and largest operating In-Situ Recovery mine in the world. There exists significant potential for expansion of the mineral resource base with further evaluation and estimation of a mineral resource for the western area mineralization at FMW.

Mineralization remains open to the west with several hundred metres of untested ground to a sub vertical faulted contact with outcropping crystalline basement.

At FME, mineralization remains open to the west and northeast, with approximately 30 kilometres of largely untested range front.

In September 2008, Alliance announced that Quasar had notified Alliance of its “decision to mine” and delivered a Feasibility Study recommending uranium mining using In-Situ Recovery (ISR) mining technology. Alliance has been contributing to the cost of development of the Project since October 2008.

In March 2009, Alliance published estimated project development costs (100%) as A\$90 million (Alliance share A\$22.5 million) and forecast total operating cash costs, including royalties, as determined by Quasar in its feasibility study at A\$38.80 (US\$25) per pound U₃O₈. Subsequently, Quasar advised Alliance of a proposed change in scope of the budgeted project development costs to A\$112 million (Alliance share A\$28.0 million).

In July 2009, the Four Mile Project received an Environmental Approval from the Australian Government. Alliance also commissioned an independent Scoping Study for the Project to determine capital and operating cost estimates for comparison with costs presented to Alliance by Quasar in its Feasibility Study, followed by an Optimisation Study in 2010 for a new 5 million pounds per annum stand alone In Situ Recovery treatment and uranium processing plant.

However, as the issues surrounding the registration of a native title mining agreement are yet to be resolved, a mining lease has not been issued and work on the Four Mile Project has been scaled down. Refer section headed 'Legal Proceedings'.

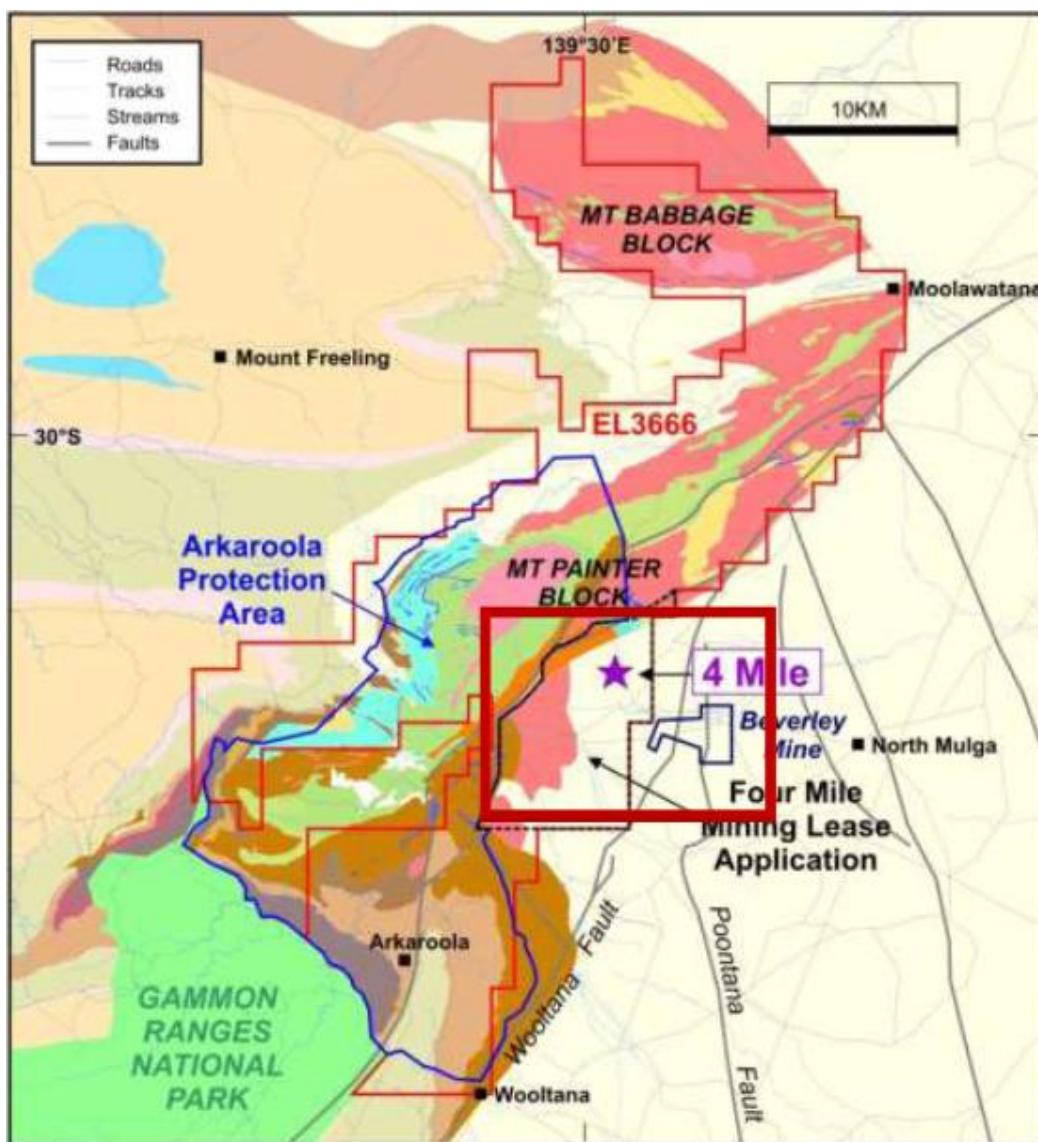
As a result, uranium concentrate production, which was initially proposed to commence in early 2010 at a projected rate of 2.6 million pounds U_3O_8 per annum and increasing to 3 million pounds U_3O_8 per annum within 3 months, has also been delayed.

Overview of projects

URANIUM

➤ Four Mile Joint Venture, South Australia

The Four Mile Joint Venture area is located 550 km north of Adelaide in South Australia. Alliance holds a 25% participating interest in the joint venture. Quasar an affiliate of Heathgate, which owns and operates the Beverley Uranium Mine, located 8 kilometres southeast of the Four Mile Uranium Project, holds a 75% interest in the joint venture and is the manager of the Project. Heathgate is an affiliate of US company General Atomics.



In May 2008, Alliance and Quasar lodged a Mining Lease Application over the Four Mile Project area.

In September 2008, Quasar notified Alliance of its “decision to mine” and delivered a Feasibility Study recommending uranium mining using In-Situ Recovery (ISR) mining technology.

Quasar’s proposal is to construct a satellite resin loading plant at Four Mile to capture uranium and to transport the loaded resin by truck to Heathgate’s Beverley Plant for resin stripping, uranium precipitation, drying packaging and storage of uranium concentrate.

Quasar’s decision to mine ended ACE’s free carry period in the immediate mine development area. However, Alliance is still free carried in relation to exploration outside of the Four Mile Mine development area.

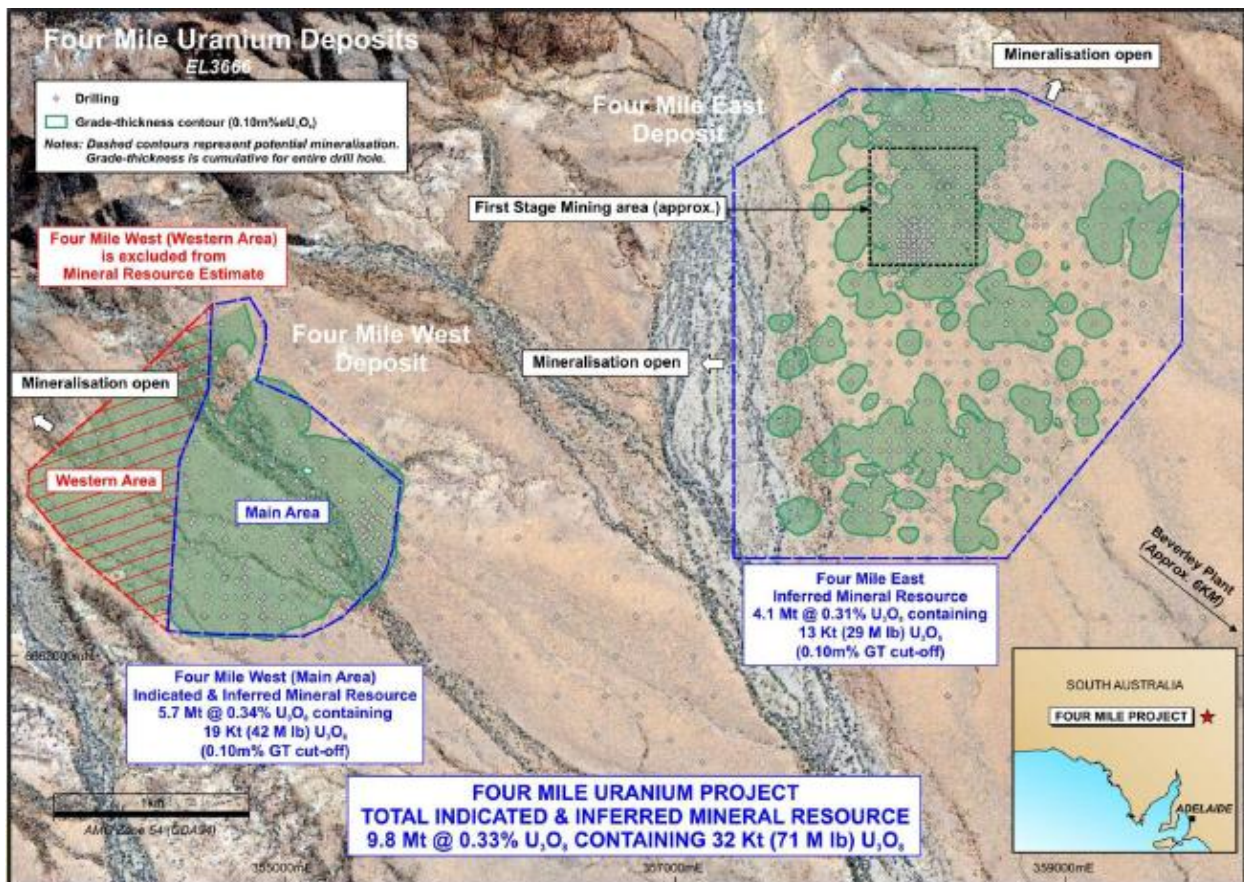
Uranium concentrate production is proposed to commence in 2010 at a projected rate of 3 million pounds U₃O₈ per annum, but has been postponed until the mining lease is granted and development recommences.

The high grade of uranium mineralization and projected production rate will potentially make Four Mile the highest grade and largest ISR uranium mines in the world - reinforcing the significance of the discovery of the deposit and its value to Alliance shareholders.

The Feasibility Study assumes the production licence applicable to the Beverley plant will not need to be increased in order to accommodate Four Mile production.

The Four Mile Uranium Project consists of two uranium deposits, the Four Mile West and Four Mile East deposits.

In January 2010, Alliance announced the total Indicated + Inferred Mineral Resource for the Four Mile Uranium Project had increased by 16% to 32,000 tonnes (71 million pounds) of contained U₃O₈ at an average grade of 0.33% U₃O₈.



Optimisation Study

During 2009 Alliance commissioned an independent Scoping Study for the Project to determine capital and operating cost estimates for comparison with costs presented to Alliance by Quasar in its Feasibility Study. This was followed by an Optimisation Study prepared by Adelaide Control Engineering Pty Ltd for a new 5 million pounds per annum stand alone In-Situ Recovery (ISR) and uranium processing plant for the Four Mile Uranium Project in South Australia.

The study was based on criteria and assumptions supplied by Alliance Resources Ltd and prepared using data sourced from freely available information from the Primary Industries and Resources South Australia web site, standard industry information, data generated by the Four Mile Scoping Study Report and other ISR mine experience.

The key findings of the study were:

- ▶ the capital cost for a complete standalone 5 million pound per annum In-situ Recovery (ISR) processing plant, including all direct and indirect costs, is estimated to be \$210.1 million to an accuracy of +/- 25%;
- ▶ the operating costs for a 5 million pound per annum In-situ Recovery (ISR) process plant are estimated to be \$21.53 AUD/lb.
- ▶ Alliance considers that by utilising existing field well patterns at Four Mile East there is potential for the capital cost to be reduced to \$181 million with an undiscounted payback time of approximately 12 months
- ▶ Adelaide Control Engineering has reviewed Alliance's findings and agrees that a capital cost reduction of \$29 million is reasonable.
- ▶ Battery Limits for the Optimisation Study standalone plant capital cost estimate were included in the announcement dated 18 April 2011:

- Study commissioned and paid for by Alliance (not the joint venture)

Case (ISR)		ACE Estimate		Quasar Estimate	
	Study Type	Capital (A\$M)	Operating (A\$/lb U3O8)	Capital (A\$M)	Operating (A\$/lb U3O8)
Satellite Plant ⁽³⁾ @ 3Mlbpa	Scoping	96	31.33 ⁽⁴⁾	98 ⁽⁵⁾	38.80 ⁽⁶⁾
Standalone Plant @ 5Mlbpa	Scoping	168	21.73		
Standalone Plant @ 5Mlbpa	Optimisation	210	21.53		

- Payback time (undiscounted) for the additional \$112M cost of the 5Mlbpa standalone plant based on difference in operating costs (\$17.27 per lb) is ~16 months
- There is potential for the 5Mlbpa standalone plant capital cost to be reduced to \$181M by utilising existing well field patterns at Four Mile East. Payback time (undiscounted) reduces to ~12 months

1. Operating costs include royalties (State, Native Title and third party).
2. Feasibility Study for Four Mile Mine Development Area In-Situ Recovery Project Report dated 22 September 2008, commissioned by Quasar Resources Pty Ltd (Quasar) and prepared by Heathgate Resources Pty Ltd (Heathgate) and compiled by URS Australia Pty Ltd.
3. Quasar's feasibility study proposed construction of a satellite pre-processing plant close to the Four Mile deposits, to capture uranium onto resin beads, with the loaded resin being trucked to Heathgate's Beverley plant for elution, filtration, drying and packaging.
4. The ACE operating cost includes an estimate of an appropriate fee to Heathgate for use of the Beverley plant & infrastructure and an estimate of Heathgate's corporate expenses in Adelaide.
5. Quasar's feasibility study estimated a \$90 million capital cost, however Quasar advised Alliance of a proposed change in scope of the budget in May 2009 to \$98 million with input from GRD Minproc (\$112 million less \$14 million for capital at Four Mile West).
6. A component of Quasar's estimated operating cost is a fee for use of the Beverley plant and infrastructure, and a management fee, both paid to Heathgate. The feasibility study stated that the (joint venture) use of the Beverley plant is subject to an appropriate agreement on commercial terms with the owner/operator of that plant, Heathgate, an affiliate company of Quasar. To date, Quasar has not provided Alliance with any proposed terms and conditions for use of the Beverley plant. Alliance does not therefore know if the terms and conditions are commercial and at arm's length.

Development Schedule

As the issues surrounding the registration of a native title mining agreement are yet to be resolved, a mining lease has not been issued and work on the Project has been scaled down.

Legal Proceedings

Misleading and deceptive conduct (Jurisdiction: Federal Court of Australia)

On 12 July 2010, ACE filed an application seeking damages from Heathgate and damages and restitution of the 75% interest in the exploration licence over the Four Mile Project from Quasar arising from Quasar's and Heathgate's failure to disclose to ACE information concerning the prospectivity of part of that tenement. ACE contends that Quasar is engaged in misleading or deceptive conduct and also contends that Quasar, with the assistance or participation of Heathgate, breached its obligations under the joint venture agreement, its fiduciary obligations owed to ACE and misused confidential information when Quasar sought, and obtained a one-year extension of the earn-in period, and subsequently, the transfer of a 75% interest in the exploration licence.

Native Title Mining Agreement (Jurisdiction: Supreme Court of South Australia)

- ▶ On 12 November 2009, ACE issued proceedings against Quasar and Heathgate seeking a declaration that Quasar exceeded and breached its authority, acted in breach of its fiduciary obligations and acted in breach of its contractual obligation of good faith in signing a native title mining agreement (First NTMA) for the Four Mile project in the form negotiated by Quasar;
- ▶ A declaration that Heathgate knowingly participated in the breaches referred to above;
- ▶ An order requiring Quasar and Heathgate to execute a deed, in a form previously submitted to Quasar, which places Alliance in substantially the same position it would have been in had the First NTMA related only to the Four Mile Project, or in the alternative, a mandatory injunction requiring Quasar to commence negotiating a new native title agreement which relates only to Four Mile; and
- ▶ Damages and costs.

Acting as manager of the joint venture, Quasar purported to sign the First NTMA on behalf of ACE and submitted it to Primary Industries and Resources South Australia (PIRSA) for registration on 12 June 2009. The First NTMA subsumed the then existing native title mining agreement for Heathgate's Beverley mine, exposing Alliance to potential cross liabilities for matters relating to Beverley. Further, it gave Heathgate the right to make decisions for the Four Mile joint venturers without reference to them. The First NTMA was subsequently terminated, without reference to ACE, and a further native title agreement was executed by Quasar and lodged with PIRSA on 12 May 2010 (being the agreement the subject of Quasar's application for an order against the Mining Registrar) (Second NTMA). With the leave of the Court, ACE has amended its statement of claim to cover the Second NTMA which ACE considers also to significantly disadvantage it.

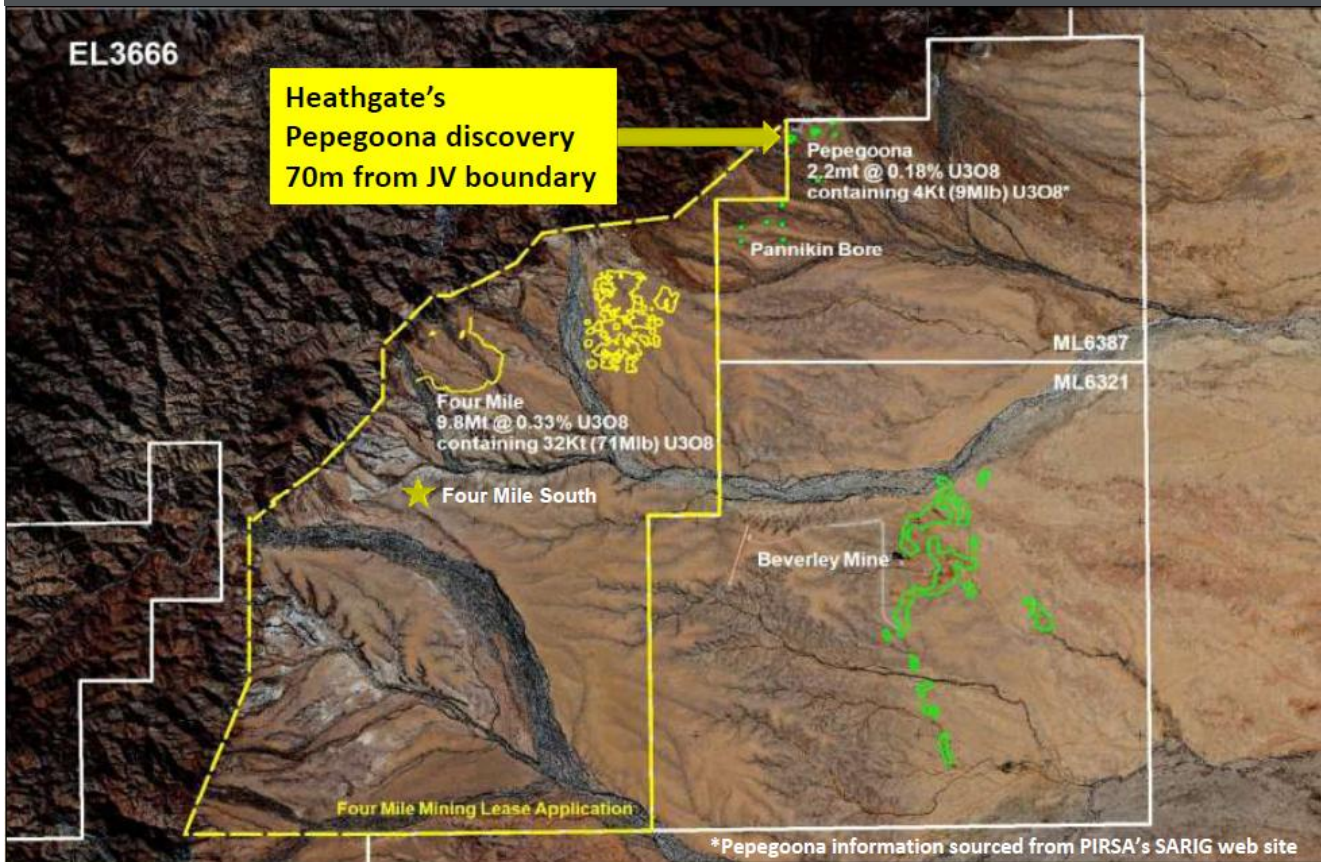
On July 4, 2011, the Supreme Court of South Australia refused Quasar's and Heathgate's applications for the leave to appeal the decision ordering discovery of documents for which privilege had been claimed.

As a result of matters disclosed in those documents, ACE made a further application to amend its statement of claim which was granted on August 12, 2011.

Quasar and Heathgate then applied to amend their respective defences. These applications were heard in the last week of September and were allowed in part only with most of ACE's objectives being upheld

On December 5, 2011, Alliance announced that the litigation concerning the native title agreement for the Four Mile Project, currently before the South Australian Supreme Court, had been adjourned while the parties take steps to satisfy conditions precedent in accordance with a settlement between the parties. The conditions precedent to be satisfied include registration of the NTMA.

Four Mile Project - Prospectivity



COPPER-GOLD AND BASE METALS

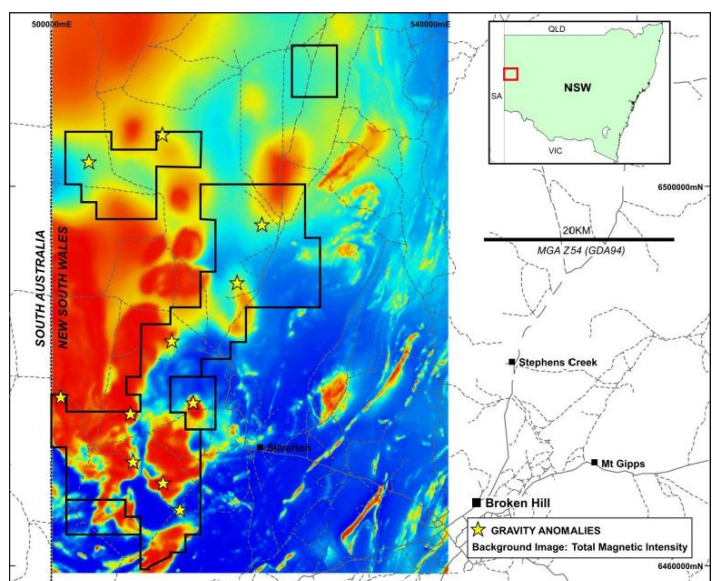
➤ East Frome Base Metal Project, New South Wales

The 100%-owned East Frome Project is located approximately 30 km north-west of Broken Hill in New South Wales.

Alliance has developed plans for a staged exploration program for blind deposits of Broken Hill style lead-zinc-silver mineralization and copper-gold mineralization within Palaeo-Proterozoic basement beneath the covering Tertiary and Cretaceous cover sediments.

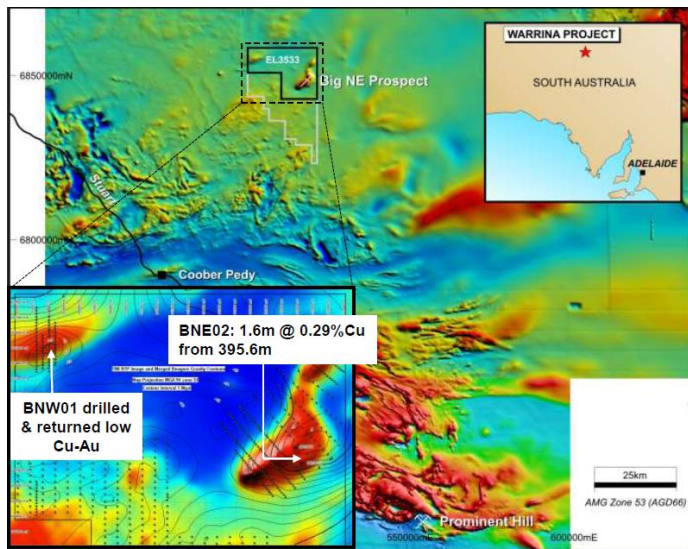
During the June 2011 quarter, detailed gravity surveys were completed over five gravity and/or magnetic anomalies within the project area.

Electrical geophysical surveys are planned over the gravity anomalies with the aim of identifying potential conductors to assist with targeting of drill holes.



➤ Warrina Copper-Gold Project, South Australia

The 100%-owned Warrina Gold-Copper Project is located 60 km north-east of Coober Pedy in South Australia.



Alliance is targeting two large magnetic and gravity anomalies for Olympic Dam style iron-oxide copper-gold mineralization within the Achaean Gawler Craton.

In its March 2009 quarterly report, Alliance announced that analyses for the two holes drilled in the subsequent quarter were received. Best intervals were 1m grading 448ppm copper from 498 metres down hole in BNE04 and 1.6 metres grading 0.29% copper from 395.6 metres down hole in BNE05.

Future work will consist of a review of all work to date and possible re-modelling of the existing gravity data using the latest specific gravity data.

GOLD

During the December 2010 quarter, the sale of Alliance's subsidiary, Maldon Resources Pty Ltd, to Octagonal Resources Limited (**Octagonal**) was completed.

Alliance now holds 22,000,000 ordinary shares in Octagonal which equates to approximately 22% of Octagonal's issued share capital.

Management

Stephen Johnston - Chief Executive Officer, B.App.Sc.(Geology), M.Aus.IMM, has more than 25 years experience within the Australian mining industry, in technical and executive roles with companies including: Metals Exploration, North Kalgulri Mines, Asarco Australia, Metana Minerals, Croesus Mining and Exco Resources and for commodities including gold, copper and base metals. He has specific experience in mineral resource estimation, project evaluation and operations management.

John Stuart Ferguson Dunlop - Independent Non-Executive Chairman, BE(Min), MEng Sc(Min), P Cert Arb., FAusIMM(CP), FIMMM, MAIME, MCIMM, is a consultant mining engineer with close to 40 years surface and underground mining experience both in Australia and overseas spanning more than 25 countries. He is a former director of the Australasian Institute of Mining & Metallurgy (AusIMM) (2001-2006) but continues as Chairman of its affiliate, the Mineral Industry Consultants Society (MICA). Mr. Dunlop is also chairman of Alkane Resources (appointed 4 July 2006), Chairman of Drummond Gold, non-executive director of Gippsland and non-executive director of Copper Strike. Former public company directorships in the previous three years are: Drummond Gold and Encore Metals NL.

Ian J Gandel - Non Executive Director, LLB, BEc, FCPA, FAICD, is a Melbourne businessman with extensive experience in retail management and retail property, including the Gandel retail centre and Priceline chain and the CEO of a chain of serviced offices. Mr. Gandel has been an investor in the mining industry since 1994, and is currently a substantial shareholder of a number of publicly listed Australian companies and now holds and explores tenements in his own right in Victoria and Western Australia. He is also a non-executive director of Alkane Resources and the non-executive Chairman of Gippsland.

Tony D Lethlean - Non Executive Director, BAppSc (Geology), is a geologist with over 10 years mining experience specializing in underground operations, including Kalgoorlie's Golden Mile (WMC & KCGM) and Bellevue (Plutonic, now Barrick Gold). For over 10 years he has been in banking and stock broking, including the global mining group at CIBC World Markets. Mr. Lethlean is currently a Director of boutique investment banking firm Helmsec Global Capital focusing on the resources sector. Mr Lethlean is also a non-executive director of Alkane Resources.

Ian C Pamensky - B Comm., B Compt. (Hons), CA, F Fin, Company Secretary, is a Chartered Accountant with over 17 years of experience in accounting, audit, corporate finance, treasury & company secretarial roles. For the last 10 years Ian has worked within the resources sector for various ASX listed companies. Prior to this Ian spent over 4 years in audit in both South Africa and Australia and worked for a medium sized manufacturing & wholesale company.

Finance

Alliance paid A\$ 14.85 million towards the costs of development of the Four Mile Project to date, but disputes the validity of the cash calls made by Quasar and, in making these payments, has reserved all its rights. The payments are made to preserve Alliance's participation rights in the Project.

As at September 30, 2011, Alliance had cash reserves of A\$ 34.7 million.

Investment recommendation:

Alliance has 25% interest in the Four Mile Joint Venture in uranium mining friendly South Australia, where its joint venture partner Quasar Resources is developing the Four Mile Uranium Project.

In September 2008, Quasar notified Alliance of its decision to mine the Four Mile Project using ISR technology as the recommended basis for mine development. Uranium concentrate production was initially proposed to commence in 2010 pending the grant of a Mining Lease, at a targeted production rate of 3 million pounds U₃O₈ per annum.

With the resource of the Four Mile Deposit having increased by 10 million pounds U₃O₈ to 71 million pounds U₃O₈ in January 2010, an in-the-ground value of approximately US\$ 700 million (A\$ 770 million) can be attributed to the Company's 25% interest in the Project, with significant potential for further expansion of the resource.

Combined grades from Four Mile East and Four Mile West have the potential to make the Project the highest grade operating uranium mine in Australia and in moving toward first production in the near future, the highest grade and largest ISR operation in the world.

The delay in production from early 2010 due to legal proceedings, including the pending registration of the Native Title Mining Agreement for the Four Mile Uranium Mine has put Alliance's share price under strong pressure.

However, with the legal proceedings developing in favour of Alliance, including the possibility to get full control of the Four Mile Project, in our view, at a current market capitalization of A\$ 112.6 million, including A\$ 34.7 million cash reserves, the Company offers one of the most attractive investment opportunities amongst the next generation of uranium producers.

With the share price already having recovered by approximately 70% since our September 2011 report, we increase our next price objective from A\$ 0.50 to A\$ 0.60 per share.