



Rusina Mining

April 7th 2010

European Nickel and Rusina Mining – the sum of the parts

In a move that the market had long been anticipating, European Nickel (AIM:ENK) and Rusina Mining (AIM:RMLA, ASX:RML) announced on 2 February their intention to merge. The two companies have been working closely together for three years at Rusina's Acoje project on Luzon in the Philippines, where European Nickel's proprietary heap leach technology - developed at their Caldag laterite mine in Turkey - is being successfully brought to bear on Acoje's tropical nickel laterites.

The all-paper merger exchanges four European Nickel shares for every five Rusina shares, offering Rusina's shareholders a minimum 15.5% premium, and valuing Rusina at £ 18.1 million at the time of the announcement. But the deal is structured to accommodate variations in the share prices of both companies up to a total value for Rusina of £27.1 million before any adjustment will be made to the exchange ratio, which means that a sustained improvement in the share price of European Nickel to 11.2p or beyond could leave Rusina shareholders with a far better deal – a premium of up to 73%.

Following the announcement this week of significant developments in the long-drawn out Caldag project finance negotiations, uncertainty over which has inhibited European Nickel's share price for some months, that value cap may well now be called into play.

European Nickel's Simon Purkiss stated at their recent AGM that renewed interest from Western banks in financing Caldag was being actively pursued as a alternative to the on-going Chinese funding process, and this week he was able to tell the market that term sheets have now been presented and are being negotiated with the expectation of mandating a group of arrangers to lead the financing during the second quarter 2010.

But the Chinese are still at the table – and very willing to stay there - and so a short 6-week extension to the Financing Framework Agreement with Jiangxi Rare Earth and Rare Metals Tungsten Group Company Limited (JXTC) and China Tianchen Engineering Corporation (TCC) has been agreed. This will allow extra time for the Chinese export credit agency to provide a Letter of Intent and for the Industrial and Commercial Bank of China to prepare a term sheet for the US\$350 million of project finance required for Caldag. In addition, the Jiangxi Provincial Government's approval for JXTC's purchase of 20% of the Çaldağ project for US\$20 million is nearing completion, subject to the finalisation of the debt financing. The BHP Billiton Offtake Termination Agreement – commencement of which is contingent on completion of financing - has also been extended.

Purkiss was also able to announce that following new legislation in Turkey, Caldag would benefit from tax incentives - including the reduction of corporate tax to 4% - which would allow half of the capital cost of the project to be recouped in tax savings. Taken in conjunction with the terms of the JXTC offtake agreement, these incentives increase the project NPV of Caldag – based on \$6 nickel - by almost 40% to US\$285 million.

The market welcomed the news, and at the time of writing, European Nickel's share price had reached 9.0p, almost halfway between the original 10 day VWAP and the value cap equating to 11.2p...

Price: 6.38p

Market Cap: £19.31m

1 Year Share Price Graph



Share Information

Code: RMLA

Listing: AIM/ASX

52 week	High	Low
	7.45	2.25

Sector: General Mining - Nickel

Website: www.rusina.com.au/index.php?section=1

Company Synopsis: *Rusina Mining N.L. is an active mining exploration company that is focused on the emerging Philippine mining sector. The Company has defined a JORC compliant resource estimate for nickel laterites at its Acoje tenement on the island of Luzon and will commence mining operations in the second half of 2007. The Acoje property also hosts chromite, nickel sulphides and platinum group metals. Rusina is listed on the Australian Stock Exchange, code RML and the London Stock Exchange (AIM) code RMLA.*

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Meanwhile, in the Philippines, Rusina Mining have taken one more step down the path to full scale production at Acoje with the granting of an Environmental Compliance Certificate last week. The ECC is perhaps the most important element in the long permitting chain which stretches from initial exploration to mining and processing, and whilst there are still a number of environmental hurdles to be cleared, the key components of the project are now approved.

Acoje started life 75 years ago as a metallurgical chromite mine, and was the Far East's leading producer for many years. Nickel and appreciable amounts of platinum group metals were also mined from the eastern section of the orebody for a brief period in the 1970s. When Rusina acquired the project back in 2003, the original intention was to further develop the sulphide orebodies and establish a nickel/PGM mining operation. But times change, markets change, and accordingly, so do exploration and development priorities. Today, Rusina is focused primarily bringing into production the nickel laterite resources discovered at Acoje over the last five years. This JORC compliant resource – growing as drilling continues – is now over 50 million tonnes of combined limonite and saprolite at a grade of approximately 1.1% nickel.

The route to exploiting the laterites is two-fold: in the short-term, via direct shipping of ore to China and Japan, and in the medium and long term, via a heap-leach mining and processing operation utilising European Nickel's proprietary technology.

Direct shipping commenced in 2007 in partnership with DMCI Holdings of Manila, who undertook all funding, mining, grade control, rehabilitation, road and port development work, as well as marketing and sales, in return for 50% of the profits – effectively a free carry for Rusina. Regular shipping has been on hold owing to the depressed nickel price climate, but the partners have now agreed to resume operations, based on selective shipments of up to 200,000 tonnes of higher grade (>2%) ore. As the DSO market continues to be volatile, shipments will only be made as and when they can satisfy the partners' pre-agreed cost/profit criteria.

The laterite processing operation at Acoje has now progressed to full feasibility studies. The heap-leach process has been developed and trialled over the last three years at Caldag, whilst adaptations to cope with a wet tropical climate with abundant rainfall have been tested extensively at BHP's Cerro Matoso in Colombia, and at Acoje itself. The process offers distinct advantages over other laterite process routes such as high pressure acid leaching, involving less than half the capital expenditure and much lower unit production costs. A pre-feasibility study published at the end of 2008 found the project economically viable at a nickel price of US\$6 per lb, based on a 3 million tpa mining operation to produce 24,500 tonnes of nickel and 930 tonnes of cobalt in a mixed hydroxide product. An extended heap-leach trial forms part of the Acoje feasibility study, and is now almost ready to commence trialling.

The base process developed by European Nickel is simple. Mined ore is transported to the process site, where it is crushed and - if necessary – agglomerated, before being stacked on the leach pad. The ore is then irrigated with dilute sulphuric acid, which leaches out the contained metals. The leach solution is collected and returned to the pad. Once the optimum metals recovery (approx 78% nickel at Acoje) has been achieved the solution is pumped to the process plant, where, first, the iron is precipitated out of the solution by raising the pH with limestone. Further raisings of the pH with soda ash precipitate out the nickel and cobalt in a two stage process, producing primary and secondary saleable mixed hydroxide products.

There is also scope to adjust the final process stages allowing the nickel and cobalt to be separated out into individual hydroxide products, which would increase payability. These options – which include Resin in Pulp for iron removal, and Ion Exchange to produce a pure nickel product - will form part of the heap leach trial.

The trial heap-leach operation is now poised to commence. The trial heap will be constructed at the same height as the full commercial operation and is designed to prove the heap percolation and leach rates on a full scale basis as well as demonstrating the rain control methodology. In addition the trial facility will showcase the clean, safe and environmentally friendly nature of the process to the government and local stakeholders. All the required equipment and components for ore crushing and agglomerating are fully commissioned. The downstream processing plant shed has been erected, and the Resin in Pulp, Ion Exchange and Centrifuge are presently being installed. All that remains is the stacking of the pad, following which irrigation of the ore with acid can commence...



Thus far, the cost of developing the Acoje laterites towards full feasibility has been borne by European Nickel, under a joint venture agreement made almost exactly three years ago, which allowed European Nickel to earn up to 40% of the project. Following the merger, Acoje will be owned 80% by the new combined entity and 20% by Filipino partners.

The benefits of a merger to both companies are clear - the combined entity will have a total attributable resource base of 1.35 million tonnes of contained nickel, forecast production of 45,000 tonnes per annum from its two flagship projects, Çaldağ and Acoje, and a combined project NPV at \$7 nickel of almost US\$1 billion. Crucially, with around US\$800 million to raise to bring both Caldag and Acoje into full production, it will also have a far stronger balance sheet, and as a mid-tier aspirant, will have greater credibility in the funding rounds still to come.

The merger will also consolidate ownership of Acoje, and rationalise the strategic relationships between European Nickel/Rusina and their Chinese allies at JXTC and TCC. With the current Chinese influence on the nickel market, the new MHP refinery being constructed by JXTC, TCC's status as ECP contractor for both projects, and the involvement of both in the Caldag funding, this merger – if approved – will square a number of overlapping circles very neatly and offer value far in excess of the sum of its parts.

The author holds shares in European Nickel

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