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Rusina Mining 17 Feb 09

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Nurturing its nickel ambitions despite a tough market

Rusina Mining continues to sell modest amounts of direct-shipping nickel ore, allowing it to maintain its cash position at a time when many of its smaller resource peers are in a critical condition. The company is able to maintain a high level of overall activity on its Philippine projects due to various farm-out initiatives with key industry players, meaning ongoing news flow and potential upside for shareholders.

Fat Prophets initially recommended buying Rusina Mining at 23 cents in March 2007 (Fat Mining 69). Our last review of this stock was in December (Fat Mining 152).

From a charting perspective, there has been little change to the outlook for Rusina Mining over recent moths. As evident on the daily chart, following a steady decline during 2008, prices are now consolidating at the lows.

From a longer-term perspective, given the decline over the past 18 months, several more months of consolidation is now likely. In our opinion, it will take some time for investor support to turn around and a sustainable upward trend to emerge.

Whilst many junior exploration companies around the world suffer from low activity levels due to cash constraints in the current market environment, Rusina Mining is one of the lucky ones. The company is able to maintain a high level of overall exploration and development activity on its Philippine projects due to various farm-out initiatives with key industry players.

This helps ensure that not only there is plenty of news flow to keep shareholders happy and continue the company's growth; it also ensures that Rusina is able to maintain its cash reserves at a critical time when raising money is extremely difficult.

As a reminder to Members, the company's major focus is on its Acoje project area, which encompassing the historic Acoje mine. This mine operated from 1935 as Southeast Asia's largest metallurgical grade chromite mine, producing more than 10 million tonnes of ore. The underground and surface mining ceased during 1991 due to insufficient sustaining capital and low commodity prices.

Let's now look at recent December 2008 quarter exploration and development activity at Acoje under Rusina's ownership, beginning with the company's initial project which has so provided the company with a taste of production and modest cash flow.

This first project involves DMCI Mining, a subsidiary of Philippines-listed construction company, DMCI Holdings, and Rusina in an alliancing Direct Ship Ore (DSO) agreement. Under this 50/50 deal, DMCI is responsible for all of the funding, mining, grade control, rehabilitation, road and port developments, along with marketing and sales obligations, for the production of 5 million tonnes of direct-shipping nickel ore over a five-year period.

Not surprisingly in the current market environment, the DSO market has virtually ground to a halt, with only one 7,500 tonne 2.1% Ni trial shipment being despatched to a single Japanese customer. Encouragingly, the trial shipment was successful and DMCI are reviewing mine plans for possible future cargos.

The New Year has apparently shown some renewed interest in DSO cargos, particularly with respect to those with higher iron content, but margins nevertheless remain low. Rusina's partner DMCI has advised that it has signed a contract to move 50,000 tonnes of 1.3% Ni during February and that negotiations are continuing for higher-grade 1.8% Ni cargos.

Turning to the company's second and more larger-scale project in The Philippines, the DMCI ferro-nickel project also involves partner DMCI. The group is investigating the feasibility of building a ferro-nickel facility that will guarantee ore supply based on Rusina's Acoje deposits for up to five years, with Rusina retaining a 40% free-carry in such a project.

Given current market circumstances, there was little activity on this particular project during the past quarter.

Finally, let's turn our attention to the company's third and potentially most important medium to longer-term proposed project, comprising a heap-leach development study in conjunction with European Nickel. This is where activity was at its peak.

Under the deal, Rusina and European Nickel have entered into a joint venture agreement to investigate the feasibility of heap leaching the company's Acoje ore. European Nickel will spend US$10 million on a Feasibility Study to earn up to a 40% stake in the nickel laterite project.

Trial heap leach pads under construction at Acoje

Duding the December quarter the results of a Pre-feasibility Study conducted by European Nickel were released, demonstrating estimated annual production of 24,500 tonnes of nickel and 930 tonnes of cobalt at a cash operating cost of US$3.10/lb of nickel, net of by-products including refining costs at US$6.00/lb nickel price and a US$10/lb cobalt price.

The total development cost is estimated at US$498 million, with a post-tax Net Present Value of US$375 million (at a 10% discount rate) and assuming a US$6/lb nickel price and US$10/lb cobalt. This would generate an Internal Rate of Return of 28.3% and a payback period of three years.

The results demonstrate an economically viable nickel laterite project, with a JORC Indicated Resource of 30.76 million tonnes at 1.12% nickel and 0.05% cobalt (at a 0.8% nickel cut-off for saprolite and a 0.9% nickel cut off for limonite) giving the project an initial mine life of ten years. Mining will be at a low strip ratio of 0.46.

Further potential resources have been identified, comprising the JORC Inferred Resources at Acoje and the Zambales Chromite deposit, which are expected to extend the mine life beyond 20 years and are expected to be confirmed to JORC Indicated Resource levels during the completion of the Definitive Feasibility Study.

The project has now moved into the DFS phase, with the construction of the trial leach facility to demonstrate the large-scale permeability and recovery of the Acoje ore. First leaching is on schedule for April 2009.

In addition, European Nickel have constructed a research laboratory at Acoje where larger 4 metre column test work, as well as advanced metallurgical work aimed at enhancing the final mixed-hydroxide products, can be undertaken as part of the DFS. The permitting of the full scale plant has also commenced and the Chinese engineering group (China Tianchan Engineering Corporation) have conducted a site visit.

Rusina held cash reserves of A$4.9 million and A$2.2 million in receivables as at the December quarter's end, so there is no need for short-term funding.

We maintain our positive medium to longer-term outlook on Rusina Mining and believe it represents an extremely cheap and highly leveraged nickel exposure. The company effectively has three project 'irons in the fire', which strengthens its long-term growth position.

There have already been substantial supply-side cuts in the nickel industry, with a lot of proposed expensive, nickel laterite developments likely to be canned and never see the light of day. This will help drive a sustained recovery in nickel prices when demand eventually picks up.

Accordingly, Rusina Mining will remain firmly held within the Fat Prophets Mining & Resources Portfolio.

Snapshot RML

Rusina Mining

Rusina Mining is an emerging nickel and precious metals player, focused entirely on its projects in The Philippines. The company is listed on the Australian Stock Exchange and on the AIM market of the London Stock Exchange. The company has defined a JORC-compliant resource estimate for its nickel laterite deposit at its Acoje project on the island of Luzon and it commenced mining operations during the second half of 2007. The Acoje property also hosts chromite, nickel sulphides and platinum group metals. The company effectively has three project 'irons in the fire' with respect to nickel production at Acoje in which it is effectively free-carried, which strengthens its longer-term growth prospects.

Market Capitalisation	**A$11m**