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## European Nickel Philippines Venture Looks Promising

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European Nickel (AIM:ENK) has announced the acquisition of 19.3% interest in Toledo Mining Corporation Plc from Investika Limited and Murray Morgan Investments Ltd and 18.7% interest in the Berong Nickel Corporation (BNC) from Investika Limited in the Philippines for a total consideration of £24.6M/ US\$48.0M.

Toledo has a 56.1% direct and indirect interest in BNC, which in turn has a 100% ownership of Berong, Moorsom and Long Point nickel laterite deposits. This effectively earns ENickel a 29.5% interest in BNC. In addition, Toledo also has a 52% interest in the Pilan and a 58% interest in the Ulugan nickel laterite deposits.

ENickel is also acquiring 18.7% interest in China Nickel Corporation, a nickel marketing company, a strategic move for the marketing of ENickel product.

The transaction is expected to be sealed through an initial cash payment of £4.6M followed by a second payment of £20M in shares or cash, deferred until 30 September 2008. Toledo and its Philippine partner, Atlas Consolidated Mining and Development Corporation (Atlas), are not to exercise their pre-emptive rights on Investika's holding on BNC, according to the conditions of the transaction.

Shares to be offered to sellers will be priced at 55p/share if ENickel's 20 day volume weighted average price (VWAP) is greater than 60p or £20.5M (US\$39.0M) in cash if share price is less than 55p. Where ENickel's 20 day VWAP falls between 55-60p, sellers can elect for either cash or shares. These prices are considerably higher than the current ENickel shareprice. Any shares sold before 30 September 2009 must take place through ENickel's broker. The transaction gives ENickel the right to two nominees on Toledo's Board.

The deal significantly expands European Nickel's interests and could potentially have major positive implications for the share price.

**Share Price:** 34p

**12m High:** 61p

**12m Low:** 27p

**Market Cap:** £131m

**Shares in Issue:** 385m undiluted

393m diluted (but before Toledo transaction)

**Gearing:** Nil (Net Cash £47m at Year End)

**Interest Cover:** n.a.

**EPIC Code:** ENK

**Sector:** Mining

**Market:** London Full List

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**Previous Research Note:**

'Metallurgical Results for Acoje. EOY 2007 Results' 28.2.2008, 39.5p

**Analysts:** Gift Rukezo/Roger Hardman

# The Philippines Project

The assets are laterite nickel deposits amenable to ENickel's low cost heap leaching process. ENickel expects to realise a combined production capacity of +90,000t/y of nickel from its Philippine projects as a result of this transaction. Toledo's projects have a pre-JORC resource base of 375Mt at 1.3% Ni equivalent to 4.9Mt Ni of which about 1.2Mt is attributable to ENickel.

The Berong deposit comprising of Moorsom & Long Point deposits has a JORC resource of 9.92 Mt at 1.55% Ni and a combined pre-JORC resource of 275Mt at 1.3% Ni. Production is ongoing at Berong mine at a grade of 1.5% Ni. BNC is making profit from the Direct Shipping Ore (DSO) currently being mined and shipped to BHP Billiton's Yabulu refinery in Queensland, Australia under a 500,000 wet metric tonne per annum ore supply contract and to the Chinese market on a spot basis. European Nickel plans to carry out further investigations to increase the amount of DSO sales. There are plans to process the ore on site to produce a Ni concentrate.

Toledo is currently examining the potential of various alternative metallurgical process routes for the on-site processing of its deposits. Bottle roll tests confirmed the amenability of Berong and Ipilan ores to European Nickel's heap leach process. Confirmation of the viability of the heap leach process is expected after a bulk sampling analysis at ENickel's heap leach test facility being constructed on Luzon Island. The analysis is to be run alongside test work on ore from the Company's joint venture project with Rusina Mining NL at Acoje.

Drilling is in progress at Ipilan/Celestial project in order to bring it to a JORC classification and the programme is expected to be completed during the third quarter of 2008. A resource of over 100Mt at about 1.25% Ni is expected to complement the Berong DOS operation. Environmental studies have been completed by Toledo and the necessary permits and approvals and site planning of key infrastructure facilities, including stockpile areas, access roads and a causeway are in place at this project.

The Ulugan deposit in north-eastern Palawan consists of two exploration permit applications and further exploration work is yet to be carried out on the deposit.

# The Caldag Project-Turkey

The Caldag project in Turkey remains ENickel's primary asset. ENickel announced on 22 May 2008 its formal submission of an application for a Forestry Permit to the Ministry of Environment and Forestry following consultations with local and regional stakeholders. The company expects the approval of the application within some 60 days. The permit is for a 335ha of forestry land which is to include open pit mine, waste dump area, and processing plant area. ENickel revised its infrastructure plan following consultations with stakeholders on environmental issues and the revision is expected to have some cost implications on the project.

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