

24 May 2011

Regency Mines

| Year End | Revenue (£m) | PBT* (£m) | EPS* (p) | DPS (p) | P/E (x) | Yield (%) |
|----------|--------------|-----------|----------|---------|---------|-----------|
| 06/09 | 0.0 | (0.7) | (0.3) | 0.0 | N/A | N/A |
| 06/10 | 0.0 | 0.4 | 0.1 | 0.0 | 46.6 | N/A |
| 06/11e | 0.0 | 2.8 | 0.3 | 0.0 | 10.9 | N/A |
| 06/12e | 0.0 | 6.0 | 0.7 | 0.0 | 5.6 | N/A |

Note: *PBT and EPS are normalised, excluding intangible amortisation and exceptional items.

Investment summary: Coming into its own

A global shortage of new, economically mineable nickel deposits has put Regency Mines in a good position to advance its Mambare nickel laterite project in Papua New Guinea (PNG). The project received a major boost in 2010 when a 50:50 joint venture (JV) was signed with Direct Nickel (DNI), which is in the final, industrial-scale testing stages of bespoke and highly economical nickel laterite processing technology. A 4,000m drill programme, underway at the end of this month, is targeting an initial JORC resource out of a total target of 600Mt at 0.8% Ni. Regency also holds interests in Red Rock Resources and Oracle Coalfields. Australian exploration interests in copper and nickel include the Bundarra mining camp in Queensland.

DNI partnership increases economic viability of Mambare

The DNI-Regency JV is in possession of a novel nickel processing technology to exploit hitherto sterilised or marginal nickel laterite ore bodies. According to the terms of an agreement between DNI and Regency, Mambare will produce 20,000tpa of nickel initially, ramping up to 60,000. DNI is on course to commission its final demonstration plant (in conjunction with CSIRO in Perth) in December and full industrial (and scalable) testing will run for four months.

Regency as a financier

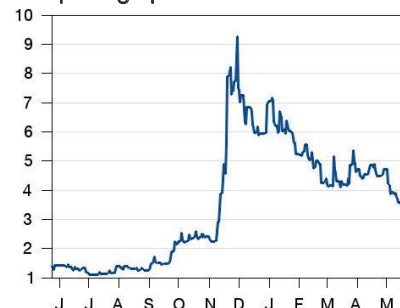
Regency has a number of strategic investments, including 21% of Red Rock Resources (gold, iron ore, uranium, rare earth elements); 11% of Oracle Coalfields (lignite in Pakistan); and 7.3% of DNI.

Valuation: Worst case 1.85pps to best case 73.87pps

In the worst-case scenario, in which only its cash and listed assets (valued at current share prices) are considered as assets, we estimate Regency's fully-diluted net asset value per share to be 1.85p. In the low-end scenario we value Regency at 3.01p per share. In the median scenario, we value it at 14.19p per share and in the high-end scenario, we value it at 73.87p per share (see pages 2 and 9).

Price 3.70p
Market Cap £22m

Share price graph



Share details

Code RGM
Listing AIM
Sector Metals and Mining
Shares in issue 603m

Price

52 week High 9.3p Low 1.1p

Balance Sheet as at 31 December 2010

Debt/Equity (%) 5.1
NAV per share (p) 2.4
Net debt (£m) 0.7

Business

Regency Mines is a multi-commodity exploration and investment company trading on AIM, Frankfurt and PLUS. Its flagship assets are the large-scale Mambare nickel laterite project in Papua New Guinea and a 21% interest in Red Rock Resources.

Valuation

| | 2010 | 2011e | 2012e |
|--------------|------|-------|-------|
| P/E relative | N/A | N/A | N/A |
| P/CF | N/A | N/A | N/A |
| EV/Sales | N/A | N/A | N/A |
| ROE | 8% | 15% | 23% |

Revenues by geography

| UK | Europe | US | Other |
|-----|--------|-----|-------|
| N/A | N/A | N/A | N/A |

Analysts

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Investment summary: Potential 19 times upside

Regency Mines is a multi-faceted minerals exploration and investment company with:

- a 50% interest in the Mambare nickel laterite joint venture in Papua New Guinea (PNG);
- a 21% interest in Red Rock Resources;
- an 11% holding in the recently AIM-listed Oracle Coalfields; and
- nickel and copper exploration in Queensland and Western Australia.

It also holds 4.5m Cue Resources' shares, 17.9m Alba Mineral Resources shares and 1.5m Greatland Gold shares. It is listed on AIM and also traded on Frankfurt and PLUS.

Valuation: Worst case 1.85pps to best case 73.87pps

We have valued Regency according to four scenarios. In the worst-case scenario, only Regency's cash and listed assets (valued at the share prices currently prevailing) are considered as assets. Liabilities are taken from Regency's consolidated balance sheet as at 31 December 2010. In this case, we calculate Regency's fully-diluted net asset value per share to be 1.85p. Considering Regency's other assets and valuing its holding in DNI at the most recent share price at which Regency acquired shares (A\$5.77 per share), in the low-end scenario we calculate Regency's diluted NAV to be 3.01p per share. In the median scenario, Regency's Mambare interest is valued at DNI's current (unlisted) share price of A\$5.77 per share. Its stake in DNI is valued at its theoretical diluted valuation, assuming it raises equity to fund the capital required for a 20,000tpa nickel plant at its current share price. From this, we calculate Regency's fully-diluted NAV to be 14.19p per share. In the high-end scenario, Regency's Mambare interest is valued at 50% of the potential project value of US\$1,140m (see page 6, Exhibit 5). Its DNI stake is valued assuming that DNI fully re-rates to 50% of the potential value of the project (see page 6, Exhibit 5), such that there is no dilution on subsequent equity funding. Based on this, we calculate Regency's diluted NAV as 73.87p per share.

Sensitivities: New technology

DNI has negated a substantial portion of the technological risk associated with its project through exhaustive testing. The final stage involves testing the process under conditions of continuous production and reagent recycling at a demonstration plant in Perth (December commissioning).

Financials: Estimated £0.9m in cash plus another £1.5m available

Such as they are, Regency's profits are almost exclusively derived from its share of associates' (in this case Red Rock Resources) profits. As this is a non-cash item, Regency is otherwise cash-flow negative and needs to fund itself either via issues of equity or sales of assets. As at 30 June 2011, we estimate that Regency will have £0.9m in cash on its balance sheet which, at current rates of depletion, we believe will be sufficient to support its activities until FY14. In addition, on 10 September 2009, Regency entered into a Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV, where the latter agreed to subscribe in tranches for up to a maximum of £3m of Regency's ordinary shares over a period of up to 24 months from the company's first use of the SEDA. Since then, we estimate that Regency has used approximately £1.5m of its SEDA facility and so has another £1.5m remaining.

Nickel to the fore

Key to Regency's strategy is the advancement of the large-scale Mambare nickel-laterite project in PNG. This is a project with significantly improved prospects since last year's announcement of a joint venture with Direct Nickel (DNI), which has developed bespoke, low-cost, high-yield technology for processing nickel laterites.

Mambare: Cost effective Ni-oxide development in PNG

Bespoke nickel-laterite processing – Direct Nickel

In 2010 Regency announced a milestone partnership (50:50 on the Mambare project) with DNI, a technology company that has developed a bespoke nickel-laterite processing technique which more than halves the cost of nickel production (see Exhibit 1) and significantly reduces wastage (by up to 95%). If Mambare is successfully commissioned (forecast for 2014), the DNI process will make it a flagship project that reinvents the image of expensive, messy nickel laterite projects and will catapult Regency into the ranks of mid-tier nickel producers.

The bespoke DNI process

The DNI process represents a number of significant advantages over alternative nickel laterite processing methods – it is cheaper (primarily due to the recycling of 96% of the reagent for each processing pass), it produces significantly less waste product and the process is quick:

Exhibit 1: A comparison of nickel laterite processing methods

Note: HPAL (High Pressure Acid Leach), APL (Atmospheric Pressure Leaching). Costs calculated from DNI demonstration plant (2008).

| | HPAL | Heap leaching | APL | DNI |
|--------------------------|--------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Material | Limonite and saprolite | Limonite and saprolite | Limonite and saprolite | Limonite and saprolite |
| Recovery rates | ~95% for Ni ~90% for cobalt | ~75% for Ni ~51% for Co | ~90% for Ni ~90% for Co | ~95% for Ni ~85% for Co |
| Temperature/ Pressure | 240-270°C/5400kPa | Room temp/atmospheric pressure | 80-105°C | Low temp/Atmospheric pressure |
| Reagent | Sulphuric acid | Dilute sulphuric acid | Sulphuric acid + sulphur dioxide | Patented reagent |
| Capital cost | ~US\$12-18/lb | ~US\$11/lb | ~US\$10/lb | ~US\$12* |
| Cash costs | ~US\$5/lb | ~US\$3/lb | ~US\$5/lb | ~US\$1.84* |
| Acid consumption | 200-500kg/tonne | 400kg/tonne | 150kg/tonne | 20-30kg/tonne |
| Comments | Limonite more efficient to process as the low magnesium/aluminium levels reduce acid consumption | Saprolite preferable. More suitable on low-clay materials | Saprolite/limonite ore blend must be precise for system to be efficient | Treats full laterite profile (from limonite to saprolite) within 2-4 hours |

Source: Edison Investment Research

Another advantage of the DNI process is the facility to upscale the processing plant as production progresses – the current plant for Mambare is to begin production with 20ktpa for the first c four years followed by a ramp up to 60ktp (Exhibit 2).

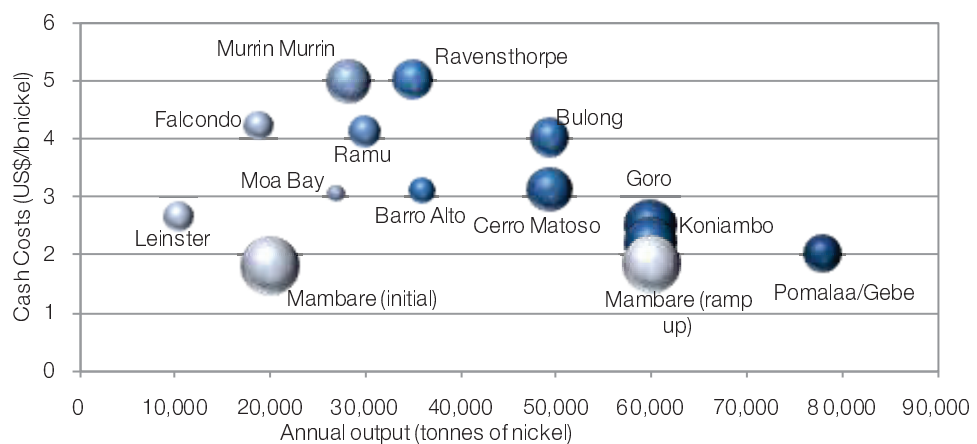
Cash costs of US\$1.84/lb

The capital (US\$12/lb) and cash costs (US\$1.84) of the DNI process were estimated by Aker Solutions (formerly Aker Kvaerner) in 2009 in a scaled up pre-feasibility study, and represent a

substantial discount to conventional HPAL laterite processing methods used in current mines. Exhibit 2 shows that the US\$1.84/lb cash costs expected for Regency's Mambare project are lower than mining operations of comparable resource extent (relative bubble size) and nickel output per year. As the process is readily scalable, the cash costs of the project are not affected by a ramp-up in production to 60ktpa of nickel per year, and Exhibit 2 shows that cash costs are expected to be less than the Goro Mine (Vale) and Koniambo project forecast (Xstrata and SMS) in New Caledonia.

Exhibit 2: Cash costs, annual output and deposit size of major global nickel laterite deposits

Note: Size of bubble represents contained nickel resource.



Source: Edison Investment Research

Pilot plant

Learning from the mistakes of previous (failed) technologies, DNI is not taking any chances with its technology. In the late 1990s, when High Pressure Acid Leach (HPAL) technologies were touted as the answer to unlocking the nickel potential of the world's nickel-laterite deposits, Anaconda Mining was pushing for quick production at the Murrin Murrin mine in Western Australia. In the company's rush (primarily to take advantage of delays at the Vale Inco's Voisey Bay nickel sulphide project in Canada), Anaconda bypassed the demonstration plant stage, launching straight from laboratory tests to full-scale production. Subsequent engineering and metallurgical shortfalls caused major economic and environmental problems at the Murrin Murrin mine. Regency and DNI are not cutting any corners – a pilot plant (partnered with the Australian government science agency CSIRO) is being built in Western Australia in preparation for feasibility testing (due for completion in Q311).

Scoping economics

Beyond a pilot or test plant stage, hydrometallurgical processes such as the DNI process can typically be scaled up with few operational complications. So, if a 5,000tpa plant can be operated successfully and to the operating parameters laid down, it should be relatively straightforward to scale it up to any reasonable size that the ore body can support. This in turn allows the process to be refined and for economies of scale to be realised. In particular, a plant of 20,000tpa capacity (as is expected for the first four years of Mambare production) would combine the advantages of being of commercial scale in its own right, with the potential to expand easily (the Mambare project is expected to increase to 60,000tpa capacity), as well as maximising economies of scale. Given this, DNI capex costs could potentially be reduced further from the c US\$12-13 per lb of annual nickel

capacity noted above to a level that would make the DNi/Mambare operation (using Brook Hunt figures) the second cheapest in the world in terms of the cost of installed capacity. On this basis, the major operating parameters of the plant would be as follows:

Exhibit 3: Mambare project operating parameters

Note: * Assumed inversely proportional to costs.

| Parameter/assumptions | Assumption |
|-----------------------------------------------|---------------------------|
| Nickel production rate (tpa) | 20,000 |
| Nickel price (US\$/t) | 21,135 |
| Cobalt price (US\$/lb) | 26.37 |
| Price realised (as percentage of LME price) | 75 |
| Unit processing costs of production (US\$/lb) | 1.84 |
| Gross smelter royalty | 1% fixed + 0.5% variable* |
| Capex (US\$ per annual production lb) | 12.84 |
| Total capex (US\$m) | 566 |
| Depreciation | Over 10 years |
| Cost of debt (%) | 8 |

Source: Direct Nickel, Edison Investment Research

In addition, we have had to make the following assumptions regarding (principally) the mining operation associated with the plant:

Exhibit 4: Edison assumptions regarding unquantified Mambare costs

| Item (units as shown) | Assumption |
|-----------------------|------------------------------------------|
| Unit mining costs | US\$2 per tonne |
| Stripping ratio | 3:1 waste to ore ratio |
| Unit transport costs | US\$10 per tonne of ore |
| Unit shipping costs | US\$110 per tonne of concentrate shipped |
| Administration costs | US\$2 per tonne of ore mined |
| Marginal tax rate | 30% |

Source: Edison Investment Research

On the basis of these assumptions, we estimate the following scoping economics for Mambare:

Exhibit 5: Mambare project estimated scoping economics

Note: Ni and Co accounted for as co-products, not by-products.

| Item (units as shown) | Scoping economics (US\$m) |
|-------------------------------|---------------------------|
| Nickel revenue (US\$m) | 317 |
| Cobalt revenue (US\$m) | 72 |
| Total revenue (US\$m) | 389 |
| Working costs (US\$m) | 128 |
| Cash operating profit (US\$m) | 261 |
| Depreciation (US\$m) | 57 |
| Operating profit (US\$m) | 205 |
| Net finance income | 0 |
| Profit before tax (US\$m) | 205 |
| Tax (US\$m) | 61 |
| Marginal tax rate (%) | 30 |
| Profit after tax (US\$m) | 143 |
| Capex (US\$m) | 566 |

Source: Edison Investment Research

Discounting positive free cash-flows of US\$200m at 10% over 25 years yields a value of US\$1,813m, which drops to US\$1,247m after netting off capital expenditure of US\$566m.

Modelling the project in detail to account for additional factors such as the cost of debt reduces the value by an additional 9% to US\$1,140m.

Alternatively, the value of the project can be analysed in terms of the discount rate applied to projected future cash flows, as follows.

Exhibit 6: Mambare project sensitivity to project discount rate (US\$m)

| Discount rate | 10.0 | 15.0 | 20.0 | 25.0 | 30.0 |
|---------------------------------------|--------------|-------|-------|-------|-------|
| Project NPV (US\$m) | 1,140 | 647 | 360 | 177 | 51 |
| Variation in project NPV vs base case | u/c | (43%) | (68%) | (84%) | (96%) |

Source: Edison Investment Research

Exploration

Regency is positioned to take advantage of a growing global nickel market buoyed by an increasing demand for stainless steel, as it heads towards a JORC-compliant resource at its Mambare project in PNG. The 242km² tenement was acquired in 2007 and covers a large plateau (20x7km) of elevated, weathered ultramafic material with significant lateritic and saprolitic development. The ground was intermittently explored from 1960-1971 by state and private entities and the resulting auger drilling and trenching reports were reviewed by Anaconda Nickel in 1999, which produced in-house resource estimates for the limonite alone of 630Mt at 0.78% Ni and 200Mt at 1.01% Ni with nickel cut-offs of 0.5% and 0.8% respectively (making it comparable with the world's largest lateritic nickel resources).

In 2008, Regency conducted a Ground Penetrating Radar survey and a 4,000m wide-spaced (200mx400m) drill programme over the southern extension of the plateau, which showed mineralisation extended to >20m depth with a substantial saprolite horizon underlying the limonite in some areas and consequently defined three key targets. In May, Regency will commence a c £2m exploration programme (50:50 with DNI) with two key aims:

- 1) follow up infill drilling (100x100m) on key areas to announce a JORC-compliant resource in line with Anaconda's 1999 estimate; and
- 2) determine depth extent of laterite development (not determined during the 1960s due to the shallow nature of auger drilling) via Ground Penetrating Radar.

Hot rock potential of PNG

In February 2011, Regency filed an exploration licence application (ELA) in a geothermal hotspot 45km east of the Mambare project area. If the licence is granted, the development of a geothermal power plant could further decrease the operating costs for the Mambare mine. The concept is not new in this part of the world – 75% of power consumed by the Lihir Gold Mine (40moz) is powered by Lihir-commissioned 56MW geothermal power station, with an aim to increase this figure to 100% in the future.

Investments

Regency holds strategic positions in Red Rock Resources, Direct Nickel and Oracle Coalfields.

Red Rock Resources

Regency currently holds a 21% stake in Red Rock Resources – a company with a diversified portfolio (iron ore, gold, uranium and rare earth elements) of exploration and development projects

in Greenland, Kenya and Colombia. For a full description and valuation of Red Rock and its assets, please see our note dated 6 April 2011.

DNi

In addition to its direct interest in the Mambare joint venture, Regency also has a stake in DNi, acquired in two tranches totalling A\$6m in late 2010 and early 2011, giving Regency a 7.3% holding in the private company. DNi plans to float on the ASX in mid-2011.

Oracle Coalfields

In 2010, Regency took an 11% stake in Oracle Coalfields via a £1m placement and through market purchases, taking the chance to invest in the coal industry in Pakistan, at a time when there is an acknowledged power shortage. Oracle listed on AIM in April 2011; as part of the process, Regency has elected to subscribe for a further 30m new shares (at 10p), taking its holding in Oracle to 21.7% from June 2011. Oracle's flagship project is Block VI (lignite coal) in Pakistan, which is being advanced towards a Bankable Feasibility Study (BFS), due to be completed in mid-2011. In the meantime, it has entered into an MoU with the Karachi Electric Supply Company (KESC), with the objective of supplying coal for local power generation via a mine-mouth 300MW (initial) power plant. In January 2010, Oracle also secured a potential off-take deal whereby it will supply Lucky Cement's kilns with coal as it develops the Block VI project into a mine. First production is expected in late 2014 or early 2015. In a note dated September 2010, we observed that Oracle Coalfields is trading at an enterprise value equivalent to 0.43p per resource tonne (vs an industry average of c US\$1.35/t).

Hard rock interests in Australia

While Regency's nickel interests dominate the immediate future of the company, it is not neglecting its Australian copper and nickel tenements. The company holds:

- 1) Bundarra Mining Camp; central eastern Queensland. This historic mining area was picked up by Regency in 2004, and covers an area of known epithermal deposits (related to the proximal Bundarra granodiorite). Copper was produced and smelted on site in the late 19th century and gold anomalies are common. The ground was explored during the 1970s, but the drilling ignored the areas of main historic mineralisation and also appears to have missed geophysical targets. Regency completed a 107-hole shallow RAB drilling program in 2006, with copper intersections of up to 1m at 1.37% copper, but subsequent research on the old production areas, field visits and reinterpretation of old geophysics have highlighted two major targets at Mt Orange and Mt Flora. A Versatile Time-Domain Electromagnetic (VTEM) survey is planned for August 2011, before drilling.
- 2) Munginiup, Western Australia. The company has conducted geophysics and air core drilling, which has identified a high grade sulphide zone above the bedrock. This will be explored further, with a view to either finding base metal mineralisation or identifying a potential sulphuric acid project.
- 3) Kambalda, Western Australia. Regency picked up this nickel/gold interest for a low price during the last downturn (the ground already has an approved mining licence). An

airborne VTEM survey was flown in late 2010 and the area is now considered prospective mainly for gold.

Valuation

A summary of our valuation of Regency and the assumptions behind the valuation is as follows:

Exhibit 7: Regency valuation

Note: * Intrinsic value only; ** before any additional, potential dilution

| | Worst case scenario | Low end scenario | Median scenario | High end scenario |
|--------------------------------------------------|---------------------|-------------------|-------------------|--------------------|
| Non current assets | | | | |
| Red Rock Resources | 11,101,338 | 11,101,338 | 25,119,608 | 87,210,636 |
| Property, plant and equipment | | 35,758 | 35,758 | 35,758 |
| Goodwill | | 47,961 | 47,961 | 47,961 |
| Exploration assets | | 2,439,012 | 53,925,049 | 352,388,148 |
| Total non current assets | 11,101,338 | 13,624,069 | 79,128,377 | 439,682,503 |
| Current assets | | | | |
| Oracle Coalfields | 2,404,500 | 2,404,500 | 2,404,500 | 2,404,500 |
| Oracle Coalfields (subscription rights) | 152,139 | 152,139 | 152,139 | 152,139 |
| DNI | | 3,941,921 | 9,082,188 | 25,759,573 |
| Cue Resources | 281,280 | 281,280 | 281,280 | 281,280 |
| Alba Mineral Resources | 229,555 | 229,555 | 229,555 | 229,555 |
| Alba Convertible Loan Stock | | 57,000 | 57,000 | 57,000 |
| Greatland Gold | 34,500 | 34,500 | 34,500 | 34,500 |
| Cash and cash equivalents | 949,374 | 949,374 | 949,374 | 949,374 |
| Trade and other receivables | | 813,824 | 813,824 | 813,824 |
| Total current assets | 4,051,348 | 8,864,093 | 14,004,359 | 30,681,745 |
| TOTAL ASSETS | 15,152,685 | 22,488,161 | 93,132,736 | 470,364,248 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Trade and other payables | 208,622 | 208,622 | 208,622 | 208,622 |
| Short term borrowings | 1,120,330 | 1,120,330 | 1,120,330 | 1,120,330 |
| Total current liabilities | 1,328,952 | 1,328,952 | 1,328,952 | 1,328,952 |
| Non current liabilities | | | | |
| Deferred tax liabilities | 2,111,439 | 2,111,439 | 2,111,439 | 2,111,439 |
| Total non-current liabilities | 2,111,439 | 2,111,439 | 2,111,439 | 2,111,439 |
| Total liabilities | 3,440,391 | 3,440,391 | 3,440,391 | 3,440,391 |
| Net assets | 11,712,294 | 19,047,770 | 89,692,345 | 466,923,857 |
| Shares in issue** | | | | |
| Shares in issue** | 603,244,403 | 603,244,403 | 603,244,403 | 603,244,403 |
| Derivatives | 28,875,000 | 28,875,000 | 28,875,000 | 28,875,000 |
| Diluted shares in issue | 632,119,403 | 632,119,403 | 632,119,403 | 632,119,403 |
| Net asset value per share (pence) | 1.94 | 3.16 | 14.87 | 77.40 |
| Diluted net asset value per share (pence) | 1.85 | 3.01 | 14.19 | 73.87 |
| Share price | 3.70 | 3.70 | 3.70 | 3.70 |
| Share price premium/(discount) to NAV (%) | 99.7 | 22.8 | -73.9 | -95.0 |

Source: Edison Investment Research

A description of the major assumptions inherent in the four scenarios considered above is:

- In the worst-case scenario, only Regency's cash and listed assets (valued at currently the share prices currently prevailing) are considered as assets. Liabilities are taken from Regency's consolidated balance sheet as at 31 December 2010.
- In the low-end scenario, Regency's other assets are considered as per its balance sheet on 31 December 2010. In addition, Regency's holding in DNI is valued at the most recent share price at which Regency acquired shares (A\$5.77 per share).
- In the median scenario, Red Rock is valued according to its own median scenario valuation (see our note dated April 2011). At the same time, Regency's Mambare interest is valued at DNI's current (unlisted) share price of A\$5.77 per share under 'exploration assets'. Its DNI stake is valued at its theoretical diluted valuation assuming it raises equity to fund the capital required for a 20,000tpa nickel plant at its current share price.
- In the high end scenario, Red Rock is valued according to its own high-end scenario valuation (see note dated April 2011). Regency's Mambare interest is valued at 50% of the potential project value of US\$1,140m (see page 6, Exhibit 5). Regency's DNI stake is valued assuming that DNI fully re-rates to 50% of the potential value of the project (see page 6, Exhibit 5), such that there is no dilution on subsequent equity funding.

Note that whereas the above consider a variety of re-rating scenarios for Regency's interests in Mambare, Red Rock and Direct Nickel, they do not consider a re-rating for Oracle Coalfields. As such, this represents an additional area of potential upside.

Risks and sensitivities

The principal risks and sensitivities to our valuation scenarios are:

- Financial risk. To continue with drilling and development, Regency will need to continue to fund itself through equity markets. It currently has an estimated £0.9m in cash as at end-June which, at current rates of depletion, we expect to be sufficient until FY13.
- New technology risk. Previous studies into the process have all foundered on the fact that the reagent in question is more expensive than the sulphuric acid typically used in the HPAL process. The regeneration of the reagent is therefore critical to determining the economic viability of the process. To date, DNI's technology has been successfully tested to confirm the performance of the decomposition equipment under very hot (up to 600°C) conditions in collaboration with the equipment vendors. This was a crucial test of the viability of the process. Nevertheless, it still needs to confirm that the process works continuously, regenerating the reagent using industrial-type and industrial-scale infrastructure. It also needs to prove that it is appropriate for Mambare ore (to date, the ore used in testwork has not been sourced from Mambare). The process is also energy intensive, with energy costs potentially comprising over 60% of the total. While this is taken into account in the feasibility studies concluded so far, it is also the reason that DNI and Regency are looking into the possibility of using geothermal power at Mambare. In addition, there is the possibility of gas emissions as a result of the gaseous decomposition of the salt in the reagent regeneration process, although it should be

possible to manage this eventuality by installing effective scrubbing procedures. Finally, the fact that the process is new and unproven means that the potential environmental issues relating to it are not well understood by regulators. In addition, there will be no previously trained workforce in existence to operate the process plant.

- Exclusivity. While Regency and DNI have a history of collaboration and Mambare is DNI's largest and most advanced project, there is no requirement for DNI to give preferential treatment to Mambare in applying its technology.
- Political and operational risk is evident in most countries in which mining is practised and PNG is no exception. However, we note that mining issues in PNG overwhelmingly involve one commodity, namely gold. The accessibility of artisanal gold mining in PNG means that the number of local stakeholders and the expectation of the community are a significant management issue for gold mines. We do not expect the same to be true of nickel mining in PNG.

Laterite production is key to nickel growth market

Traditionally oxidised and clay-rich laterites (such as Mambare) have been difficult and expensive to process, with the result that the majority of nickel mining has been conducted on sulphide deposits. Even today, more than 35% of current global nickel output is sourced from just four major nickel-sulphide regions (namely Norilsk, Sudbury, Jinchuan and Western Australia) where the floatation and leaching procedures have been optimised and are, therefore, economical. However, production from nickel sulphides has been static in recent years, while the rate of new nickel sulphide discoveries has decreased dramatically at the same time as the urbanising world's demand for stainless steel products has been increasing. Given that nickel laterite deposits now account for 70% of the world's known near-surface nickel resources, in the absence of any other factors, the impending supply shortfall can only be satisfied by nickel-laterite mining. While this has been attempted on many occasions in the past (eg High Pressure Acid Leach in the late 1990s), to date no new process routes have proved both generally applicable and economically viable on a large scale.

Financials

Such as they are, Regency's profits are almost exclusively derived from its share of associates' (in this case Red Rock Resources) profits. As these are a non-cash item, Regency is otherwise cash-flow negative and needs to fund itself either via issues of equity or sales of assets. As at 30 June 2011, we estimate that Regency will have £0.9m in cash on its balance sheet which, at current rates of depletion, we believe will be sufficient to support its activities until FY14. In addition, on 10 September 2009, Regency entered into a Standby Equity Distribution Agreement (SEDA) with YA Global Master SPV whereby the latter agreed to subscribe in tranches for up to a maximum of £3m of Regency's ordinary shares over a period of up to 24 months from the first use of the SEDA by the company. Since that time, we estimate that Regency has used approximately £1.5m of its SEDA facility and so has another £1.5m remaining.

Exhibit 8: Financials

| | £'000s | 2009 | 2010 | 2011e | 2012e |
|-----------------------------------------------------|--------|----------------|----------------|----------------|------------------|
| Year end 30 June | | IFRS | IFRS | IFRS | IFRS |
| PROFIT & LOSS | | | | | |
| Revenue | | 43 | 42 | 0 | 0 |
| Cost of Sales | | (48.9) | (53.7) | (48.5) | (50.4) |
| Gross Profit | | (44.6) | (49.5) | (48.5) | (50.4) |
| EBITDA | | (44.6) | (49.5) | (48.5) | (50.4) |
| Operating Profit (before amort. and except.) | | (4.56) | (5.07) | (4.99) | (5.17) |
| Intangible Amortisation | | 0 | 0 | 0 | 0 |
| Exceptionals | | 0 | 18.2 | 6.15 | 0 |
| Operating Profit | | (4.56) | (3.24) | 1.17 | (5.17) |
| Share of profit of associates | | (2.71) | 9.31 | 3.341 | 6.509 |
| Net Interest | | 1.0 | (.5) | 0 | (.17) |
| Profit Before Tax (norm) | | (7.17) | 4.20 | 2,842 | 5,975 |
| Profit Before Tax (FRS 3) | | (7.17) | 6.02 | 3,458 | 5,975 |
| Tax | | 0 | (8.6) | (1,002) | (1,655) |
| Profit After Tax (norm) | | (7.17) | 3.33 | 1,841 | 4,320 |
| Profit After Tax (FRS 3) | | (7.17) | 5.16 | 2,456 | 4,320 |
| Average Number of Shares Outstanding (m) | | 267.1 | 392.1 | 515.6 | 623.2 |
| EPS - normalised (p) | | (0.3) | 0.1 | 0.4 | 0.7 |
| EPS - normalised and fully diluted (p) | | (0.3) | 0.1 | 0.3 | 0.7 |
| EPS - (IFRS) (p) | | (0.3) | 0.1 | 0.5 | 0.7 |
| Dividend per share (p) | | 0.0 | 0.0 | 0.0 | 0.0 |
| Gross Margin (%) | | N/A | N/A | N/A | N/A |
| EBITDA Margin (%) | | N/A | N/A | N/A | N/A |
| Operating Margin (before GW and except.) (%) | | N/A | N/A | N/A | N/A |
| BALANCE SHEET | | | | | |
| Fixed Assets | | 2,375 | 3,538 | 7,279 | 12,036 |
| Intangible Assets | | 45 | 47 | 47 | 47 |
| Tangible Assets | | 10 | 28 | 29 | 16 |
| Investments | | 2,319 | 3,463 | 7,202 | 11,973 |
| Current Assets | | 590 | 747 | 6,756 | 7,828 |
| Stocks | | 0 | 0 | 0 | 0 |
| Debtors | | 167 | 304 | 304 | 304 |
| Cash | | 204 | 31 | 949 | 2,304 |
| Other | | 220 | 413 | 5,502 | 5,220 |
| Current Liabilities | | (2.26) | (3.41) | (1,429) | (1,441) |
| Creditors | | (2.26) | (3.41) | (3.09) | (3.20) |
| Short term borrowings | | 0 | 0 | (1,120) | (1,120) |
| Long Term Liabilities | | 0 | 0 | 0 | 0 |
| Long term borrowings | | 0 | 0 | 0 | 0 |
| Other long term liabilities | | 0 | 0 | 0 | 0 |
| Net Assets | | 2,739 | 3,944 | 12,606 | 18,424 |
| CASH FLOW | | | | | |
| Operating Cash Flow | | 23 | (393) | (396) | (334) |
| Net Interest | | 1.0 | (.5) | 0 | (.17) |
| Tax | | 0 | 0 | (.33) | 0 |
| Capex | | (7.28) | (4.94) | (8.8.9) | (.75) |
| Acquisitions/disposals | | (1.8.7) | (3.3.6) | (5,0.9.0) | 2.8.2 |
| Financing | | 9.0.6 | 1,0.5.5 | 6,2.0.6 | 1,4.9.8 |
| Dividends | | 0 | 0 | 0 | 0 |
| Net Cash Flow | | 2.3 | (1.7.3) | (2.0.2) | 1,3.5.5 |
| Opening net debt/(cash) | | (1.8.1) | (2.0.4) | (.3.1) | 1.7.1 |
| HP finance leases initiated | | 0 | 0 | 0 | 0 |
| Other | | 0 | 0 | 0 | (.0) |
| Closing net debt/(cash) | | (2.0.4) | (.3.1) | 1.7.1 | (1,1.8.4) |

Source: Company accounts/Edison Investment Research

| Growth | Profitability | Balance sheet strength | Sensitivities evaluation | |
|--------|---------------|------------------------|--------------------------|---|
| | N/A | | Litigation/regulatory | ○ |
| | | | Pensions | ○ |
| | | | Currency | ◐ |
| | | | Stock overhang | ○ |
| | | | Interest rates | ● |
| | | | Oil/commodity prices | ● |

| Growth metrics | % | Profitability metrics | % | Balance sheet metrics | Company details | |
|--------------------|-----|-----------------------|------|-----------------------|-----------------|-----------------------|
| EPS CAGR 07-11e | N/A | ROCE 10e | N/A | Gearing 10e | 1.4% | Address: |
| EPS CAGR 09-11e | 189 | Avg ROCE 07-11e | N/A | Interest cover 10e | N/A | 115 Eastbourne Mews |
| EBITDA CAGR 07-11e | N/A | ROE 10e | 14.6 | CA/CL 10e | 4.7% | London, W2 6LQ |
| EBITDA CAGR 09-11e | 0.9 | Gross margin 10e | N/A | Stock turn 10e | N/A | Phone +44 2074024580 |
| Sales CAGR 07-11e | N/A | Operating margin 10e | N/A | Debtor days 10e | N/A | Fax +44 2074028738 |
| Sales CAGR 09-11e | N/A | Gr mgn / Op mgn 10e | N/A | Creditor days 10e | N/A | www.regency-mines.com |

| Principal shareholders | % | Management team |
|---------------------------------------------------------------------------------------------------------------|---------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Bellmin Ltd | 19.1 | Chairman: Andrew Bell |
| Yorkville Advisors LLC | 8.1 | Andrew Bell has been involved with the natural resources industry since the 1970s, when he was an analyst at Morgan Grenfell & Co. Andrew has also been involved with fund management and advisory services. He is the chairman of Red Rock Resources and Resource Star, and a director of Jupiter Mines. |
| Direct Nickel (Pty) Ltd | 6.2 | |
| Starvest Plc | 5.6 | |
| Red Rock Resources Plc | 3.0 | |
| Equity Resources Plc | 2.8 | |
| Sunvest Corp Ltd | 2.7 | Director: Edmund Bugnosen |
| | | Edmund Bugnosen qualified as a mining engineer in the 1970s and was subsequently head of the mining department at St Louis University, Manila. He has worked at the Mines and Geosciences Bureau in the Philippines and as a consultant for various NGOs, aid and government agencies and the World Bank. During the 1990s he served as a senior mining engineer in the Department of Mines and Petroleum, PNG. |
| Forthcoming announcements/catalysts | Date * | Non-executive director: John Watkins: |
| Mambare JORC resource | End 2011 | A chartered accountant and a former partner of Ernst & Young and Neville Russell, John is currently a director of Starvest, Red Rock Resources and Greatland Gold. He is also Chairman of Lisungwe, a mineral exploration company, and of Equity Resources (see 'principal shareholders'). |
| Pilot plant testing and commissioning | H211 | |
| | | |
| | | |
| Companies named in this report | | |
| Red Rock Resources (AIM:RRR), Resource Star (ASX:RSL), Jupiter Mines (ASX:JMS), Oracle Coalfields (PLUS:ORCP) | | |

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