

REGENCY MINES PLC

www.regency-mines.com

Price (bid-offer):	4.96p-5.20p	Listing:	AIM, Frankfurt
Ticker:	RGM	Sector:	Mining
12-month trading range:	0.90p-10.60p		
Shares in issue	576.23 million, Ordinary 0.1p		
Market capitalisation:	£29.27m		
Net Assets (at 30 June 2010):	£3.943m		
Gearing (at 30 June 2010):	Nil (cash £30,800)		
Financial calendar:	Year End – 30 June; Interims – March; Finals – December; AGM – December.		
Major Shareholders:	TD Waterhouse Noms. (10.6%), Barclaysshare Noms. (8.8%), HSDL Noms (7.7%), Direct Nickel Pty (7.5%), Andrew Bell (7%), Starvest plc (5.8%), Rock Noms (5.2%), Hargreaves Landsdown Noms (5%), Lewis Charles Noms (4.1%), LR Noms (3.9%), Red Rock Resources plc (3.1%)		
Principal Business:	A natural resources exploration and investment company with interests in nickel, copper, cobalt, gold and coal in Australia, Papua New Guinea (“PNG”) and Pakistan. Of primary focus is the Company’s tie-up with Direct Nickel Pty on its Botue-Mambare nickel laterite project in PNG.		

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Potentially large nickel play in PNG with a technology partner whose aim it is to revolutionise the laterite nickel processing industry. Value underpinned by an exciting investment and exploration portfolio.

- The Botue-Mambare lateritic nickel/cobalt deposit in Papua New Guinea, for which work on establishing a JORC resource is soon to start alongside Direct Nickel (“DNI”). The partners are committed to spending up to £1m each on exploration;
- A 7.31% stake in DNI, a private company that intends a public listing later this year and for which the deal terms create an implied value of US\$75 million;
- A holding of 141.6m shares (approximately 20%) in Red Rock Resources (“RRR”), currently worth over £17 million, offering leverage against a host of exciting resources investments and activities;
- 20.75 million shares (approximately 11.26%) worth around £1.6 million in Oracle Coalfields, a business currently on Plus Markets, but which intends to list on AIM this year;
- Exploration Licenses at Bundarra in Queensland, an area with a history of gold and copper production and which will be a focus area for 2011;
- Exploration Licenses in the sulphide nickel/gold prospective Lake Johnston greenstone belt in Western Australia (Munglinup, Lake Tay and Mt Gordon);
- Exploration Licenses prospective for gold at Kambalda, Western Australia; and
- A 16% holding in mineral resources AIM ‘shell’ Alba Mineral Resources worth over £300,000 and a small position in Greatland Gold, also on AIM.

The 'Direct' approach

PAPUA NEW GUINEA

Botue-Mambare ("Mambare"), Joint Venture with DNi – laterite nickel/cobalt

Nickel's primary use is in stainless steel production, and in the last few years we have become used to linking its market value with consumption from developing nations through large civil engineering projects and demand for things as humble – to us – as a washing machine. As steel production has increased, the same cannot be said for discoveries of new sulphide nickel deposits and this has shifted focus to the less efficiently produced laterites. Coincidentally, laterite (a weathered, metal-rich rock) is typically found in the tropics, i.e. close to some of the most active steel markets in modern times. Nickel itself sits at over US\$27,000 per tonne and Cobalt – in metallic form used in the production of certain alloys – some US\$39,000 per tonne (source: lme.co.uk, 03/02/2011) making the efficient development of lateritic deposits a must rather than an option. As laterite is more costly to process than sulphide, but new deposits are comparatively prolific, would it not be mightily beneficial if someone could marry a potentially large laterite resource with a high-efficiency nickel and cobalt recovery technology?

We can plainly see how Jupiter Mines (see below) has grown – and continues to do so – as a steel industry feed stock, so could this budding JV deliver a similar performance? Mambare is a potentially vast nickel-cobalt resource, with previous estimates of 630 million tonnes at 0.78% nickel (0.5% cut-off) or 200 million tonnes at 1.01% nickel (0.8% cut-off). A drilling programme in 2009, which yielded 4,000 metres of core, identified two principal orebodies flanking the Aramu River, which flows through the tenements. A limonite zone to the southeast averaged 1.08% Nickel and 0.11% Cobalt over an average thickness of 8.1m, while the underlying saprolite returned averages of 1.36% Nickel and 0.04% Cobalt over 5.25m. To the northwest, the limonite produced 1.05% Nickel and 0.11% Cobalt over an average thickness of 8.07m, with 1.25% Nickel and 0.04% Cobalt over 2.60m for the saprolite. Of course, these results are from preliminary sampling and much more work is required before a resource can be declared. Although Regency expended minimal sums on the project last year, most management time has seemingly been devoted to sealing a deal with DNi. Regency and DNi first came together in November 2009, having a view to pilot and eventually commission the former's proprietary nickel-cobalt recovery technology. Based in Sydney, Australia, DNi is currently private but intends to seek its own public listing this year. Its senior management includes the founding partners of Nautilus Minerals Inc. (AIM code: NUS), a £300m-plus market cap seafloor exploration company.

DNi has spent over US\$14m developing and demonstrating a novel and potentially revolutionary process for treating laterite nickel ores. The 'Direct Nickel Process' uses recyclable liquid reagents to efficiently extract nickel metal from laterite, using tank leaching at atmospheric pressure, and is the first to treat limonite (oxidised surface rock) and saprolite (chemically weathered sub-limonite layer) ores in a single treatment circuit. In testing, the DNi Process has been shown to offer high nickel and cobalt recoveries after a short processing time and produces nickel sulphide concentrate and Mixed Hydroxide Precipitate ("MHP", again a nickel concentrate). DNi believes it has far lower overall operating costs than any competing treatment technology and not restricted by project scale. In terms of intellectual property, DNi owns the worldwide perpetual rights to the Process, having developed it – utilising the technical expertise of its primary shareholder and major mining company Teck Resources – from existing technologies used in the chemicals processing sector in the USA.

At present, where laterite nickel is treated, systems can use high pressure acid leaching ("HPAL"), which requires immense heat and/or pressure, which can be very corrosive. The cost of equipment is high compared to that used to treat sulphides and, accordingly, it is considered by management that the DNi Process could revolutionise the laterite nickel industry. The question, therefore, is: can it perform? So far, a reagent recycling circuit has been successfully demonstrated in the USA and now DNi is poised to commission a full demonstration plant in Perth, Australia. It is intended that this prototype facility will process between 1 and 5 tonnes of ore per day from a variety of lateritic deposits in which DNi may take an equity interest, including that of Mambare.

The Regency/DNi JV was signed in November 2009, with the parties agreeing to develop the project on a 50/50 basis as a standalone company. Should the objective of listing this JV company as a separate entity to seek funding for resource and technology development not be achieved, the Mambare licence will revert to Regency 100%. To further cement the relationship, the parties agreed a share swap in two tranches, notionally valued at A\$3m (approximately £1.8m), which was completed late January 2011.

Regency now holds approximately 1.04m shares in DNi, which in turn now holds approximately 58.5m Regency shares. The terms used an implied valuation of US\$75m for DNi, which is the level used for the subscription in June 2010 by Australia's national science agency, the Commonwealth Scientific and Industrial Research Organisation ("CSIRO"). Accordingly, relative to Regency sits alongside significantly larger operations in the CSIRO, Teck Resources and OZ Minerals. The reciprocal equity investment is followed by Regency and DNi agreeing to each contribute up to £1m for infill and deeper drilling at Mambare and this is planned to commence in April 2011. A priority for this new programme is to drill 4,000m in 220 holes to define a resource on part of the area to be reported under the JORC code.

AUSTRALIA

Queensland

Bundarra – copper/gold

Regency intends to make Bundarra, which has hosted small-scale copper mining historically, a focus for exploration over the coming year. The Company holds two exploration permits covering around 260 sq km, which means the area is at last under one umbrella; the region has only hosted intermittent work because of a previously fragmented tenement structure. Located 120km southwest of Mackay, in central eastern Queensland, the area has undergone exploration activity in the more recent past, with Geopeko drilling a number of holes in the 1970s and works on and off until the late 1980s. Regency recently conducted a site visit to plan further drilling and locate these existing holes, which had returned very encouraging copper grades, but the results were not followed with any further exploration activity. In addition, previous rock chip sampling returned gold grades worth a follow-up, although at the time the samples didn't prompt drilling activity. Management is currently reviewing existing data and has identified several targets, of which the largest magnetic anomaly was present at Mt Orange, which hasn't yet been drilled. In addition, Regency expects to identify further targets through the acquisition and processing of spectral satellite imagery, reprocessing existing data and a ground assessment of these target areas. Topography in the licenses can be quite steep, so in selecting these sites the engineers will have an eye on anticipated cost of platform preparation and equipment transportation.

From old mining records, it is indicated that between 1900 and 1918, some 1,930 tonnes of ore were treated for an average grade of 16.5% copper. Production in the 1960s and 70s from the Isens Mine in the Mt Orange area was around 10,000 tonnes at 8-12% copper, 6-9 oz per tonne silver, and 2 grams per tonne gold. It is now considered that Bundarra has potential for modest tonnage, but high-grade copper-gold vein type mineralisation that could be extracted using an open pit and underground. In addition, there could be bulk tonnage, low grade breccia (rock pieces held together by a cement matrix) and sheeted vein (multiple, closely spaced mineralised veins) gold-copper orebodies. Management also believes there could be large iron ore-copper-gold ("IOCG") systems, similar to those that host BHP Billiton's Olympic Dam and Xstrata's Ernest Henry mines. Evidently, there is much to prove with the work programme, but we understand that initially proving such prospects will not be as labour-intensive as one may think. With copper at nearly US\$10,000 per tonne (source: lme.co.uk, 3/2/2011) we would understand why management sees considerable opportunity at the Bundarra licences.

Western Australia

Lake Johnston region – nickel sulphide/gold

The Company's licences in the southern section of the Lake Johnston region are considered prospective for nickel sulphides as well as gold. Regency has recently completed an 837 line kilometre airborne Versatile Time-Domain Electromagnetic ("VTEM") geophysics programme of over some of its Western Australian licenses; one particular anomaly at **Kambalda/Junction South**, to test for any trend along an inferred sulphide body at **Munglinup**, and to define more closely a significant anomaly on a line of inferred greenstone presence detected south of Munglinup. The **Lake Tay** and **Mt Gordon** licences are also prospective for nickel sulphide and gold. Regency is looking to expand on early-stage exploration work undertaken by other parties between 1966 and 1989, which established several gold anomalies in the licence areas. Subsequent drilling of a couple of targets produced relatively low nickel results, but some more encouraging gold grades.

INVESTMENT PORTFOLIO

Red Rock Resources plc (AIM code: RRR)

The principal equity investment for Regency is the business it spun-out on AIM in July 2005. The value attributed to this stake – some £17 million-plus – is testament to the Regency model insofar as offering corporate finance and investment is concerned. We believe observers should remember the RRR success story when considering Regency's new ventures, such as Oracle below and the agreement with DNi. RRR itself commands a market cap around £90m, of which around 40% comes from its stake in Jupiter Mines (ASX code: JMS), which is another feather in the corporate deal-making cap. From iron ore and manganese assets acquired for a few hundred thousand pounds, RRR has a sizeable holding in what could become a serious player in the global steel industry feed market and this is thanks to some shrewd negotiations and business contacts at the highest level. Within Jupiter sits the Mt Ida iron ore project for which a JORC resource is awaited and where RRR has maintained a 1.5% net smelter royalty that itself could provide significant future value. The remaining RRR portfolio offers a combination of equity investments and direct exploration activity in resources including uranium, rare earths, copper and – perhaps most importantly – gold.

Even though the shares improved dramatically last year, we still believe they are a value proposition as the trends for investees Jupiter Mines, Resource Star (ASX code: RSL), Cue Resources (TMX code: CUE) and Ascot Mining (Plus Markets code: ASMP) bode well. Add to this the work being undertaken to define gold and copper resources at the Migori prospect in Kenya (with a potential £6m-plus windfall from a proposed deal involving another investee, Kansai Mining) and the beginning of gold production in Colombia and we believe the upside story has considerable weight. Loans to operator Mineras Four Points in Colombia have enabled mine restoration and the recommencement of gold production; as this scales-up and generates cash flow it should provide another underpinning/enhancing factor.

The message we want to get across is our belief that there is more to come from RRR; its valuation reflects the success from the first deals coming to fruition and the potential from newer ventures.

Oracle Coalfields plc (Plus Markets code: ORCP)

In November 2010, the Company subscribed for 18.5m shares in Plus Markets constituent Oracle Coalfields at 5.5p per share and, following additional market purchases, has taken its holding to 20.75m shares or approximately 11.26%. In addition, Oracle intends to seek admission to AIM in the first half of this year and Regency has the right – but no obligation – to subscribe for additional shares in any placing to accompany the admission such that it would hold 20% of Oracle's as-enlarged share capital. Regency's Board looks upon Oracle as a strategic investment, with whose management it intends to closely co-operate in order to swiftly develop the corporate story and add value to both sets of shareholders.

Oracle's principal asset is an exploration licence (held through an 80% owned subsidiary, Sindh Carbon Energy Limited, "SCEL") over 66.1sq km of Block VI of the Thar Coalfield in Sindh Province, Pakistan. The block is close to existing roads and power lines, being situated 380km from Karachi and only 32km from the town of Islamkot. Dargo Associated Limited, a UK-based coal consultancy firm, has established a JORC Measured Resource of 1.423 billion tonnes of lignite coal, from which a Proven Reserve of 371 million tonnes open-pit has been defined. Lignite is otherwise known as 'brown coal', whose typical use is in electricity generation at mine-mouth power plants as its relatively high moisture content makes it quite volatile and dangerous to transport long distances. Sindh's coal has a moisture content of 40%, although this can be reduced to about 14% by drying and its overall composition means it is also suitable for the cement manufacturing industry.

In fact, SCEL has signed Memoranda of Understanding ("MoU"s) with Karachi Electric Supply Company for a joint venture to construct a mine-mouth power station, and with Lucky Cement Limited for the supply of lignite coal. Accordingly, it is considered that the project is ripe for a fast-track development and Oracle has appointed SRK Consultants to effect a bankable feasibility study ("BFS") for completion during 2011, and engineers Wardell Armstrong International to conduct an Environmental and Social Impact Assessment. The exploration licence is valid until 25 November 2011 and, following the completion of the BFS, Oracle intends to seek its conversion to a Mining Licence, with a view to development and production in 2012. Clearly, the development of a mine and obligations under the JV to construct a power plant, will require significant capital expenditure, likely covered by raising fresh capital directly and project finance. Initial production, should the mine be commissioned, is envisaged in the region of 2.5-3.5 million tonnes per annum. Regency's stake in Oracle is currently worth approximately £1.6m, although investors should appreciate there may be liquidity issues on Plus.

Alba Mineral Resources plc (AIM code: ALBA)

Regency owns approximately 17.9m shares (16.2%) in Alba, worth north of £300,000 today. Its £2m-plus market cap reflects the fact Alba remains – to all intents and purposes – a resources company waiting to happen. There are licenses within the portfolio, but Alba has been long starved of adequate capital to make a serious go of anything. Until something material happens here, and it is possible Andrew Bell *et al* will have something to say about the direction it takes, this is option money to the firm.

Greatland Gold plc (AIM code: GGP)

The Company holds a nominal 1.5m shares in Greatland, a gold exploration company operating in Western Australia and Queensland, worth approximately £45,000. Regency Directors Andrew Bell and John Watkins also serve on the Board of Greatland.

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RECENT RESULTS AND FINANCING

The Company's Final Results for the year ended 30 June 2010 showed a pre-tax profit of £602,000 (2009: loss £717,000), largely thanks to consolidating the share price performance of principal investee, RRR. As such, investors are reminded not to consider this a 'trading' or cash profit. Additionally, it must be accepted that the business relies on the support of existing and other shareholders for external financing and Regency has effected several equity placings, with over £1.8m raised since June last year. Furthermore, it has made (so far) limited use of a £3m equity draw down facility, which is described below, although a US\$2m loan has been provided from the same source.

Yorkville Advisors, Loan and SEDA

In order to finance acquisition of the shares in Oracle, in November 2010, Regency entered into a loan agreement with YA Global Master SPV Limited, which is advised by Yorkville Advisors LLC. Regency already has a Standby Equity Distribution Agreement ('SEDA') with YA Global. The loan agreement saw Regency borrow US\$2m at an annual interest rate of 12%, repayable in eight instalments, with the last due in November 2011. The loan is secured under the SEDA signed on 9 September 2009 and by security over certain liquid assets, including 30 million shares held in RRR. Under the SEDA, YA Global made £3m potentially available to Regency through periodic subscriptions over two years, priced at a discount to the prevailing market price, only at times and in sizes determined by the Company, albeit subject to agreed mechanisms including limitations such as perceived liquidity in the shares at the time. As at today's date, Regency had drawn approximately £490,000 from this facility, with the last sum taken in January 2010.

SWOT Table

Strengths <ul style="list-style-type: none">• Management track record for deal origination and extracting value.• Majority of the market cap represented by liquid investments, particularly over £17m from RRR.• Record for financial support from the market and relationship with Yorkville.	Weaknesses <ul style="list-style-type: none">• Regency does not yet have a JORC resource at any of its projects, making valuation read-across difficult.• DNI has not yet constructed a pilot plant.
Opportunities <ul style="list-style-type: none">• Potentially large laterite nickel resource in Papua New Guinea.• Partnership with technology provider DNI could lead to significant gains at Mambare and the value of the DNI holding.• Bundarra project could be developed into a significant copper/gold prospect.• Outlook for nickel and copper is encouraging, with demand still strong from developing economies.• Potential spin-out of projects into other quoted entities to better recognise and trade value.• Upside from investee portfolio, in particular Oracle Coalfields and DNI's prospective listing.	Threats <ul style="list-style-type: none">• DNI technology proves not to work on a commercial scale, diminishing the value of Regency's direct investment and potentially that of the Mambare project.• Macroeconomic and physical conditions outside the Company's control, such as nickel and copper price reductions and adverse weather at any site.

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DIRECTORS

Andrew Bell, Chairman

Andrew began his career as a natural resources analyst at Morgan Grenfell & Co. in the 1970s. He has experience in fund management, international corporate finance and private equity. Mr Bell is currently also a director of Red Rock Resources plc (Chairman) and Greatland Gold Plc (Chairman) on AIM and Jupiter Mines Ltd (Director) and Resource Star Ltd (Director), which are on the ASX.

Edmund Bugnosen, Director

Edmund holds a BSc in Mining Engineering and is a Member of the Institution of Materials, Mineral and Mining, a Life Member of the Philippine Society of Mining Engineers and a Member of the Philippine Institute of Mining, Metallurgical and Geological Engineers. After a period working for the Mines and Geosciences Bureau in the Philippines, he has – since 1989 – worked out of the UK as a consultant for mining companies and a variety of non-governmental organisations, aid/development agencies and governments, including the UN, UNIDO, the World Bank, the EU, the ILO, DFID, and the British Geological Society. In 1995-6 he served as Senior Mining Engineer in the Department of Mines and Petroleum, Papua New Guinea.

Julian Lee, Non-executive Director

Julian qualified as an accountant with Deloitte & Touche in 1996, following which he worked as a smaller companies corporate adviser and venture capitalist. He is the founder and Managing Director of Melee Venture Management Ltd, a technology-focused private equity company, Managing Director of Wound Solutions Ltd, and a director of International Mining, Research and Development Ltd, MSL Medical Ltd, and Wavionix Ltd.

John Watkins, Non-executive Director

Mr Watkins is a chartered accountant and a former partner of Ernst & Young and Neville Russell. He is a director of Starvest Plc, Red Rock Resources Plc (both shareholders of Regency Mines) and Greatland Gold Plc on AIM. In addition, he is Chairman of Rare Earths and Metals plc (formerly Lisungwe) and Equity Resources Plc (a shareholder of Regency Mines), both of which are on PLUS Markets.

SUMMARY

Perhaps Regency Mines' identity has become blurred in the global price recovery of certain natural resources and the stocks that front them. Regency has never been a simple exploration company and it would appear Chairman Andrew Bell is as determined as ever to carry on a record for deal-making and extracting value from direct and indirect investment in resources and the infrastructure for their development. It arguably took general market euphoria for most things mining to generate some interest in the shares, but we believe that this in turn prompted a more serious appraisal of the Regency and stable-partner RRR portfolios. In markets like these, it is too easy to buy into anything the sector has to offer; if the going gets tougher, sadly some investors may quickly find out they got a bit caught in the moment. Meanwhile, the accelerated share price rises enjoyed by Regency and RRR in November/December 2010 more than suggest Mr Bell and the teams around him have at last enjoyed some specific recognition for their efforts.

A long-term issue for Regency is that its fortunes have been too closely linked to RRR; the value of its stake in the latter dominating the prevailing market capitalisation. However, we feel there is great reason to look more closely at the discrete aspects of the story and divert eyes from the share price of its corporate offspring. At the time of writing, Regency's investment holdings – not including DNi – were worth approximately £19 million, meaning the Group's other assets were being valued at circa £10m. Where RRR now enjoys a rating where its potential is widely recognised, we believe the same is not true for Regency. This is despite a number of direct investments in mineral exploration licenses and a very exciting relationship with DNi, which has perpetual rights to technology that could revolutionise the laterite nickel ore processing industry. Such is the Board's record for deal-making and value enhancement that any one of Regency's licence interests could be spun-out into other listed entities, perpetuating the model so successfully pursued in RRR.

Synopsis

Looking at some of the valuations the market has put on 'wannabe' resources companies at present, we continue to see significant upside for Regency Mines. If you strip-out all of the listed investments, for the potential this company has in its nickel, copper and gold licences, our opinion is that the rating is modest at best.