European Nickel PLC: Interim financial report for the year and six months ended 30 September 2010

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European Nickel PLC

Interim financial report
for the year and six months ended 30 September 2010

Highlights:

* US$5m placing to strategic partner, Hunter Dickinson group
* John McManus appointed non-executive director
* Acoje Definitive Feasibility Study fast tracked
* Çaldag Project put on "Care and Maintenance"

This half year information is given to the Australian Stock Exchange (ASX) under listing rule 4.2A. The information should be read in conjunction with the most recent annual financial report.

Chairman's statement

Dear Shareholder

I am pleased to be able to report to you on the progress made by your company over the past six months. It has been a challenging and busy time for all of us with the completion of the merger and integration with Rusina Mining and the continued progress towards the development of our various projects.

Philippines

As a consequence of the merger ENK now has a 92% economic interest in the Acoje project in the Philippines which is fully permitted and ready to develop upon conclusion of a definitive feasibility study ("DFS") which commenced in 2009. The merger has been accounted for as a business combination using the acquisition method.
Work on the Acoje feasibility study was slowed down considerably over the past year while management concentrated heavily on furthering the Çaldag project. Despite this our very capable metallurgists continued to make significant progress at the Acoje Test Centre on improvements to our core precipitation model with a view to lowering operating costs and increasing the payability of the end mixed hydroxide product ("MHP").

As outlined in our announcement made on 10 December, all of your Company's efforts and resources are now being focused on the Acoje project, with the aim of fast tracking the DFS to completion as quickly as possible. The base case scenario for Acoje is an operation producing 24,500 tonnes of nickel MHP a year over an initial 10 year life of mine. There is significant potential to extend this by converting the JORC Inferred Acoje and Zambales Chromite nickel laterite deposits to JORC Indicated status. Indeed we believe Acoje has the potential to be a bigger operation with a longer mine life than Çaldag.

Based on the results of the Pre-Feasibility Study, Acoje offers attractive project returns with a project NPV of US$586m, at a discount rate of 10%, and a project IRR of 37.2% using a long term nickel price of US$7 per pound and a cobalt price of US$10 per pound (currently US$10.65 and US$16.30 respectively)

Turkey

Significant progress has been made in furthering the development of the Çaldag project. During May we announced the signing of term sheets with two Initial Mandated Lead Arrangers (“IMLA's“), Société Générale and UniCredit Bank for a $300m debt facility. Progress on concluding this facility has been excellent with the majority of work required to enable the IMLA's to seek final credit approval concluded as of the date of this report.

In addition to the debt portion of the project financing ENK announced a strategic partnership with the Hunter Dickinson (HDI) group in July, wherein HDI agreed to subscribe for US$50m of equity in the Company at a price of 44p per share subject to completion of the proposed project financing. HDI is very supportive of the Company's strategic direction as demonstrated by the significant premium to the share price at the time of announcement. In addition HD subscribed for US$5m of equity in the Company during July, also at a premium to the prevailing share price.

Work at the operational level has also increased significantly. An owner's team has been appointed and finalisation of outstanding issues in the environmental, geotechnical and engineering areas has occurred and tender contracts were sought.

Against this backdrop of positive activity it was disappointing to have the Company's forestry permit cancelled during May by a regional court hearing a case on a related matter. The Company's advice was that this was a legal technical issue and would be rectified by the passing of a new mining law. This occurred during June and was subsequently ratified by the President of Turkey. We reapplied for our permits and submitted them during August. Unfortunately the forestry permits have not yet been reissued despite the Company being advised that it has completed all things necessary for this to occur and repeated assurances from Government officials that the permits would be forthcoming. The forestry permits are on the critical path for the development of Çaldag and without them very little further progress is possible.

Chairman's statement (continued)

Consequently, and as announced on 10 December, the Board decided to put the Çaldag project on a 'Care & Maintenance' basis until receipt of the forestry permits, at which time the project will be re-evaluated in light of the progress made at Acoje. A number of critical aspects of the project construction schedule have been completed and the Company is very well placed to continue with the development of Çaldag as soon as the required permits are issued.

Corporate

As a consequence of the merger with Rusina a number of changes were made at Board level. This included the appointment of Robert Gregory and Mark Hanlon as Managing Director and Finance Director respectively, the appointment of Simon Purkiss as Executive Deputy Chairman, the resignation of Andrew Lindsay as Finance Director and Sir David Logan and Euan Worthington as non-executive directors and the appointment of Neil Herbert as a non-executive director. I would like to thank Andrew, Sir David and Euan for their contribution to the Company and welcome Rob, Mark and Neil to the board.
Subsequent to the US$5m placing to HD a further non-executive director, John McManus, was appointed to the board in late August.

Financial Results

Our financial results are in line with expectations for a company that has yet to commence operations. The major movements in the balance sheet reflect the fair value adjustments of the merger with Rusina as well as a write down in the carrying value of our investments in Toledo Mining Corporation and the Berong project on the island of Palawan in the Philippines.

Outlook

All efforts will now be focused on the Acoje project in the Philippines to which we are transferring the Company's resources in order to move the DFS ahead as quickly as possible. The heap leach facility at Acoje is fully constructed and all equipment is on site for the enhanced downstream process and the trial heap leach will be started during the first quarter of 2011. The necessary permits to construct a full scale operation have been received. Consultation processes with the local stakeholders have been continuing during this period and ENK enjoys a good level of support for the project. Drilling to increase the size of the resource through conversion of Inferred resources to Measured and Indicated status will also commence in the first half of 2011 and is expected to further enhance the project returns as the life of mine is potentially extended. The Acoje project has the attributes to be a considerably larger and more profitable project than Caldag. In the circumstances, ENK is very happy to have made the switch in priorities, enabling the Company to focus resources better and bring forward the excellent Acoje project.

Once again I want to convey my sincere appreciation of the efforts of all our employees and the support of our shareholders.

David Whitehead
Chairman
14 December 2010

The Directors
European Nickel PLC
3rd Floor
49 Albemarle Street
London
W1S 4JR

Our ref: SJB/CGT

13 December 2010

Dear Sirs

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of European Nickel PLC for the year ended 30 September 2010, I declare to the best of my knowledge and belief, there have been:

(a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
(b) No contravention of any applicable code of professional conduct in relation to the review.

This declaration is in respect of European Nickel PLC and the entities it controlled during the half year.

Yours faithfully

Stuart Barnsdall
Partner
PKF (UK) LLP

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INDEPENDENT AUDITORS' REVIEW REPORT TO THE MEMBERS OF EUROPEAN NICKEL PLC

We have reviewed the accompanying interim financial information of European Nickel PLC, which comprises the condensed consolidated income statement, the condensed consolidated statement of other comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement for the year ended 30 September 2010, the condensed consolidated balance sheet as at 30 September 2010, a summary of significant accounting policies, other selected explanatory notes and the directors' declaration. The consolidated entity comprises the company and the entities it controlled at 30 September 2010 or from time to time during the year ended on that date. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the consolidated entity's members those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the consolidated entity's members for our review work, for this report, or for the conclusions we have reached.

Directors' responsibility for the interim financial information

The directors of the company are responsible for the preparation and fair presentation of the interim financial information in accordance with the AIM Rules of the London Stock Exchange, International Accounting Standards (including the International Accounting Interpretations) and the Australian Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the interim financial information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express a conclusion on the interim financial information based on our review. We conducted our review in accordance with International Standard on Review Engagements ISRE 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity“, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the financial report is not presented fairly, in all material respects, in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's position as at 30 September 2010 and its performance for the year then ended and International Accounting Standard IAS 34 “Interim Financial Reporting“ and the Australian

Corporations Regulations 2001. As the auditor of European Nickel PLC, ISRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Auditing Standards (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the interim financial information of European Nickel PLC:

(a) does not present fairly, in all material respects, the consolidated entities' financial position as at 30 September 2010 and of its financial performance and cash flows for the year ended on that date; and

(b) does not comply with the AIM Rules of the London Stock Exchange, International Accounting Standard IAS 34 “Interim Financial Reporting“ and Corporations Regulations 2001.

Emphasis of matter - Caldag forestry permit, availability of project finance and going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the interim financial statements.

The Group will require further funding for working capital purposes over the next twelve months and the current funding position as explained in note 1 indicates the existence of a material uncertainty which may cast significant doubt on Group's ability to continue as a going concern. The Group's interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

Note 1 to the interim financial statements also describes the delay in the issuance of the necessary forestry permit for the Caldag project and the requirement for the company to raise project debt for construction of the project. Completion of the funding arrangements has currently been delayed pending the issuance of the forestry permit. We understand that the directors consider that they are taking the necessary steps for the permit to be issued and they also believe that adequate funding will be arranged for construction of the Caldag project. However, there can be no certainty in respect of these matters and if the Company is unsuccessful in either regard in an appropriate timescale this could lead to impairment of the carrying value of the Group's Caldag related assets.

PKF (UK) LLP
London
United Kingdom

13 December 2010

Directors' declaration

In the opinion of the directors of European Nickel PLC (“the Company“):

1. the financial statements and notes set out on pages 7 to 20, are in accordance with the Corporations Act 2001 including:

(a) giving a true and fair view of the consolidated entities financial position as at 30 September 2010 and of its performance for the half-year ended on that date; and

(b) complying with International Accounting Standard 34 Interim Financial Reporting and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

Robert Gregory
Managing Director
13 December 2010

Consolidated income statement
for the year and six months ended 30 September 2010

	Note	Six months to 30 September 2010	Six months to 30 September 2009	Year ended 30 September 2010	Year ended 30 September 2009
		Unaudited	Unaudited	Reviewed	Audited
		US$000	US$000	US$000	US$000
Revenue		-	-	-	-
Cost of sales		-	-	-	-
Gross profit		-	-	-	-
Administrative expenses		(7,624)	(5,521)	(11,428)	(9,215)
Exceptional gain	4	32,745	-	32,745	-
Impairment loss	5	(30,518)	-	(30,518)	-
Other operating costs		(252)	162	(1,722)	(2,585)
Other operating income		-	97	-	123

Operating loss (5,649) (5,262) (10,923) (11,677)

Other interest receivable and similar income 111 2,055 13 82

Interest payable and similar charges - (314) (1,227) (1,288)

Share of results of associates and joint ventures 352 (205) 66 (1,486)

Loss before tax (5,186) (3,726) (12,071) (14,369)

Tax - - - -

Loss for the period (5,186) (3,726) (12,071) (14,369)

Attributable to:

Equity shareholders of the parent company (5,106) (3,726) (11,991) (14,369)

Non-controlling interest (80) - (80) -

(5,186) (3,726) (12,071) (14,369)

Loss per share (basic and diluted) 6 ($0.032) ($0.035) ($0.076) ($0.135)

Consolidated statement of comprehensive income
for the year and six months ended 30 September 2010

Six months to Six months to Year ended Year ended
30 September 30 September 30 September 30 September

2010 2009 2010 2009

Unaudited Unaudited Reviewed Audited

US$000 US$000 US$000 US$000

Loss for the
period (5,186) (3,726) (12,071) (14,369)

Other
comprehensive
income/(expense):

Exchange
differences
arising on
translation
of foreign
operations 5,096 191 5,118 197

Gain/(loss) on
available for
sale investments - 552 33 173

Loss on disposal
of investment in
associate (660) (5,755) (7,719) (5,755)

Total
comprehensive
expense for the
period (750) (8,738) (13,394) (19,754)

Total
comprehensive
expense
attributable to:

Equity
shareholders of
the parent
company (1,900) (8,738) (14,544) (19,754)

Non-controlling
interests 1,150 - 1,150 -

(750) (8,738) (13,394) (19,754)

Consolidated statement of financial position
As at 30 September 2010

Year ended Year ended
30 September 30 September

2010 2009

Reviewed Audited

Note US$000 US$000

Non-current assets

Goodwill 1,096 1,096

Intangible assets 4 91,030 2,641

Property, plant and equipment 7 80,843 78,553

Investments accounted for using the equity method 5 853 50,169

Available for sale investments 4, 5 4,572 865

178,394 133,324

Current assets

Inventories 94 102

Trade and other receivables 8 17,471 16,549

Cash and cash equivalents 7,556 1,530

25,121 18,181

Total assets 203,515 151,505

Current liabilities

Interest-bearing loans - (3,922)

Trade and other payables (5,397) (3,073)

(5,397) (6,995)

–

Net current assets 198,118 144,510

–

Non-current liabilities

Provisions (2,400) (2,400)

Total liabilities (7,797) (9,395)

Net assets 195,718 142,110

Consolidated statement of financial position (continued)
As at 30 September 2010

Equity

Called up share capital 9 15,604 8,480

Share premium account 9 226,401 207,496

Merger reserve 9 18,641 776

Translation reserve 3,533 (355)

Fair value reserve - (1,278)

Accumulated losses (90,868) (73,009)

Total equity attributable to equity holders of the parent 173,311 142,110

Non-controlling interest 4 22,407 -

Total equity 195,718 142,110

Consolidated cash flow statement
for the year and six months ended 30 September 2010

Six months to Six months to Year ended Year ended
30 September 30 September 30 September 30 September

2010 2009 2010 2009

Unaudited Unaudited Reviewed Audited

US$000 US$000 US$000 US$000

Operating loss (5,649) (5,262) (10,923) (11,677)

Depreciation and amortisation 367 474 737 877

Bad debt provision - - 30

Impairment loss - - 30,518

Exceptional gain - - (32,745)

Effect of exchange rate fluctuations - 3,495 - 1,455

Share-based payment expense 520 589 1,267 1,025

Operating cash (4,759) (704) (11,117) (8,320)

outflow before
movements in working
capital

(Increase)/decrease 2 - 8 (1)
in stocks

Decrease/(increase) (1,685) (2,507) (922) 489
in trade and other
receivables

Increase/(decrease) 1,858 1,535 2,324 621
in trade and other
payables

Net cash used in (6,785) (1,676) (9,707) (7,211)
operating activities

Interest and similar 9 - 13 82
income received

Interest and similar (67) (118) (290) (180)
charges paid

Purchase of (2,468) (3,550) (2,677) (3,937)
property, plant and
equipment

Purchase of (9) (2) (9) (13)
intangible fixed
assets

Purchase of 1,542 - - -
investments in joint
ventures reversed on
business combination

Purchase of - (4,181) - (4,861)
investments in joint
ventures

Repayments - 59 - (221)
from/(loans to)
associates

Proceeds from sale 73 - 1,031 -
of shares in
associate

Net cash used in (920) (7,792) (1,932) (9,130)
investing activities

Issue of ordinary 14,390 5,909 22,302 5,909
share capital

Interest-bearing - 4,000 (4,000) 4,000
loan

Net cash from 14,390 9,909 18,302 9,909
financing activities

Net 6,685 441 6,663 (6,432)
increase/(decrease)
in cash and cash
equivalents

Cash and cash 1,209 1,330 1,530 8,791
equivalents at
beginning of period

Effect of foreign (338) (241) (637) (829)
currency rate
changes

Cash and cash 7,556 1,530 7,556 1,530
equivalents at the
end of the period

Consolidated statement of changes in equity
for the period ended 30 September 2010

Called
up Share Fair Non-
share premium Merger Translation value Accumulated Sub- controlling Total
capital account reserve reserve reserve losses total Interest equity

US$000 US$000 US$000 US$000 US$000 US$000 US$000 US$000 US$000

As at 30
September
2008 7,216 202,851 776 (552) (1,451) (54,268) 154,572 - 154,572

Loss for the
period - - - - - (10,643) (10,643) - (10,643)

Exchange
differences - - - 6 - - 6 - 6

Change in the
fair value of
available for
sale
financial
assets - - - - (379) - (379) - (379)

Total
comprehensive
income for
the period - - - 6 (379) (10,643) (11,017) - (11,017)

Issue of
shares - - - - - - - - -

Expenses

incurred
issuing
shares - - - - - - - - -

Share-based
payments - - - - - 436 436 - 436

As at 31
March 2009 7,216 202,851 776 (546) (1,830) (64,475) 143,992 - 143,992

Loss for the
period - - - - - (3,726) (3,726) - (3,726)

Exchange
differences - - - 191 - - 191 - 191

Loss on
deemed
disposal - - - - - (5,755) (5,755) - (5,755)

Change in the
fair value of
available for
sale
financial
assets - - - - 552 - 552 - 552

Total
comprehensive
income for
the period - - - 191 552 (9,481) (8,738) - (8,738)

Issue of
shares 1,264 5,026 - - - - 6,290 - 6,290

Expenses
incurred
issuing
shares - (381) - - - - (381) - (381)

Share-based
payments - - - - - 947 947 - 947

As at 30
September
2009 8,480 207,496 776 (355) (1,278) (73,009) 142,110 - 142,110

Loss for the
period - - - - - (6,885) (6,885) - (6,885)

Exchange
differences - - - 22 - - 22 - 22

Loss on
disposal - - - - - (7,059) (7,059) - (7,059)

Change in the
fair value of
available for

sale
financial 33 - 33
assets - - - - 33 -

Total
comprehensive
income for
the period - - - 22 33 (13,944) (13,889) - (13,889)

Issue of
shares 1,340 7,182 - - - - 8,522 - 8,522

Expenses
incurred
issuing
shares - (450) - - - - (450) - (450)

Share-based
payments - - - - - 1,283 1,283 - 1,283

As at 31
March 2010 9,820 214,228 776 (333) (1,245) (85,670) 137,576 - 137,576

Loss for the
period - - - - - (5,106) (5,106) (80) (5,186)

Exchange
differences - - - 3,866 - - 3,866 1,230 5,096

Loss on
disposal - - - - - (660) (660) - (660)

Total
comprehensive
income for
the period - - - 3,866 - (5,766) (1,900) 1,150 (750)

Non-
controlling
interest
arising on
business
combination
(see note 4) - - - - - - - 21,257 21,257

Recycled on
disposal of
available for
sale
investment - - - - 1,245 - 1,245 - 1,245

Issue of
shares 5,784 12,344 17,865 - - - 35,993 - 35,993

Expenses
incurred
issuing
shares - (171) - - - - (171) - (171)

Share-based
payments - - - - - 568 568 - 568

As at 30
September
2010 15,604 226,401 18,641 3,533 - (90,868) 173,311 22,407 195,718

Notes

1. Basis of preparation

These consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Statements and the AIM Rules and the Australian Corporations Act 2001 and on the basis of the accounting policies used in preparing the Group's financial statements for the period ending 30 September 2009 which were prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

The Company announced a change to its Accounting Reference Date on 15 November 2010 extending it to 31 March. Consequently, the results for the six months ended 30 September 2010 are unaudited and the results for the year ended 30 September 2010 are reviewed. Neither therefore constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The statutory accounts for the year ended 30 September 2009 have been delivered to the Registrar of Companies. The audit report was unqualified and did not include any statement under Sections 498 (2) or (3) of the Companies Act 2006 and included an emphasis of matter relating to going concern, the availability of project finance and the assumptions adopted for the Berong impairment review.

The interim financial statements were approved by a duly appointed and authorised committee of the Board of Directors on 13 December 2010. They are unaudited but the financial information as at 30 September 2010 and for the year then ended have been reviewed by the auditor as set out in their report.

Going concern, Caldag forestry permit and availability of project finance

In common with many companies in the exploration and development stages, the Company raises its finance for exploration and development programmes in discrete tranches. The directors have prepared cash flows projections for the period to December 2011 which indicate that existing funds and readily realisable assets will not be sufficient to fund the group for the foreseeable future. The Board have held discussions with a number of finance providers in respect of raising additional debt or equity finance and believes that these funds will be forthcoming in the necessary timescale. It has therefore concluded that it is appropriate to prepare these accounts on a going concern basis. However, as with all such fundraisings, there can be no certainty in this regard.

The directors have been in discussions to raise project debt required to fund the construction of the Caldag project. These funding arrangements cannot be completed until the forestry permit required for construction of the project is obtained. Whilst the directors are confident that they are taking all the necessary steps to ensure that the permit will be issued and the funding will be available, there can be no certainty that this will be the case. Were the permit and the funding not to become available in an appropriate timescale the directors would need to consider alternative strategies and an impairment review would be required in respect of the capitalised expenditure on the Caldag project.

2. The directors do not propose an interim dividend.

3. Segment information

The Group has adopted IFRS 8 Operating Segments with effect from 1 October 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports on the performance of the managerial units of the Group to the chief operating decision maker, in this case the Managing Director and the Board of Directors. The Group identifies these units primarily according to the country of operations, Turkey and the Philippines with the remainder, including investments, being unallocated.

Six months to 30
September 2010 Turkey Philippines Unallocated Total

USD'000 USD'000 USD'000 USD'000

Revenue - - - -

Results

Segment result (2,140) 30,554 (33,711) (5,297)

Investment
income 9 9

Foreign
exchange gain 876 876

Finance costs (774) (774)

Income taxes

Loss for the
period (5,186)

Segment assets 97,382 90,105 16,028 203,515

Six months to 30
September 2009 Turkey Philippines Unallocated Total

USD'000 USD'000 USD'000 USD'000

Revenue - - - -

Results

Segment result (1,373) (536) (2,102) (4,011)

Investment
income (83) (83)

Foreign
exchange gain 678 678

Finance costs (314) (314)

Income tax
credit 4 4

Loss for the
period (3,726)

Segment assets 95,984 50,169 5,352 151,505

For the year ended
30 September 2010 Turkey Philippines Unallocated Total

USD'000 USD'000 USD'000 USD'000

Revenue - - - -

Results

Segment result (4,498) 30,380 (36,739) (10,857)

Investment
income 13 13

Foreign
exchange loss (120) (120)

Finance costs (1,107) (1,107)

Income taxes - -

Loss for the
period (12,071)

Assets and
liabilities

Segment assets 97,382 90,105 16,028 203,515

For the year ended
30 September 2009 Turkey Philippines Unallocated Total

USD'000 USD'000 USD'000 USD'000

Revenue - - - -

Results

Segment result (6,912) (1,886) (2,911) (11,709)

Investment
income 82 82

Foreign
exchange loss (2,283) (2,283)

Finance costs (459) (459)

Income taxes - -

Loss for the period	(14,369)

Segment assets	95,984	50,169	5,352	151,505

4. Business combinations

Rusina Mining NL

Rusina Mining NL (“Rusina“), a publicly owned Australian company that had been listed on AIM and the Australian Stock Exchange. Prior to 16 June 2010 the Group owned shares in Rusina representing 2.9% of the outstanding shares of Rusina. Effective 16 June 2010 the transaction became binding and the Group acquired 97.1% of the outstanding shares and share options of Rusina with European Nickel PLC shares being issued on 24 June 2010 giving the Group a 100% interest in Rusina.

Rusina is a Philippines focused mineral exploration and development company. Its major asset is the Acoje Nickel Laterite Project. It also has a portfolio of exploration properties that are prospective for base metals, precious metals and chromite. The acquisition of Rusina will allow the Group improved access to development capital; a strengthened management team; the creation of a nickel development company of significant scale; geographical and project diversification and a platform for growth.

The purchase consideration was US$21.25m, being the fair value of the shares issued to the Rusina shareholders and option holders on 16 June 2010 the date the merger became binding and control was obtained. The premium of the shares issued was credited to the merger reserve.

Details of the net assets acquired are as follows:

	Fair values US$000
Cash and cash equivalents	1,271
Intangible assets	84,000
Property, plant and equipment	459
VAT reclaimable	436
Trade and other receivables	831
Trade and other payables	(847)
Borrowings	(1,427)
Net identifiable assets	84,723
Previously held interests	(18,683)
Non-controlling interests	(21,257)

Purchase consideration (21,246)

Gain arising on bargain purchase (23,537)

The fair value of the assets was assessed by an independent expert using a discounted cashflow model and both the indicated and inferred resources of the project. Non-controlling interests in the acquired entities were measured at their proportionate share of the acquiree's net assets. Key assumptions for the fair valuation of the assets and inputs used were:

* The expected value (EV) per tonne of contained nickel at Acoje and ZCMC was assessed using appropriate comparator companies. As ZCMC is at an earlier stage of development than Acoje a different set of comparator companies was used.
* EV per tonne of contained nickel
* Acoje $131.50
* ZCMC $50.50

The Group recognised a gain of US$472k as a result of measuring at fair value its 2.9% equity interest in Rusina held prior to the acquisition date. The gain is included in exceptional gains in the income statement.

The Group recognised a gain of US$5.23m as a result of measuring at fair value its 20% equity interest in Fil-Euro Asian Nickel Corporation ("FEANC") held prior to the acquisition date. The gain is included in exceptional gains in the income statement and FEANC is now consolidated in the Group accounts.

The Group recognised a gain of US$4.78m as a result of measuring at fair value its 40% equity interest in Zambales Chromite Mining Corporation ("ZCMC") held prior to the acquisition date. The gain is included in exceptional gains in the income statement and ZCMC is now consolidated in the Group accounts.

The Group recognised a gain arising on bargain purchase of US$23.54m being the difference between (i) the acquisition date fair value of the consideration transferred, (ii) the non-controlling interest, and (iii) the acquisition date fair value of the previously held equity interest in the Rusina group entities; and the fair value of the acquisition date amounts of the net identifiable assets acquired and liabilities assumed. The gain is included in exceptional gains in the income statement.

The Directors believe the bargain purchase resulted from the increased volatility in the share price at the time the transaction completed. The gain arising would not have been recognised if, as anticipated at the time, the share price had reached a level whereby the valuation cap under the Scheme of Arrangement had become operational.

Directly attributable acquisition costs of US$1,330,000 were incurred in the transaction. US$1,212,000 of these are reported within administration expenses in the current period as part of the operating result of the unallocated operating segment. US$118,000 are legal expenses which have been debited to the share premium account.

The acquired businesses contributed nil revenue and a net loss of US$1,717,000 for the period from 16 June 2010 to 30 September 2010. If the acquisition had occurred on 1 October 2009 Group revenue would have been nil and the net loss would have increased by US$9,245,000.

5. Impairment losses

A loss of US$7,719,000 was recognised in accumulated losses for the loss on disposal following the sale of shares held by the Group for the Toledo Mining

Corporation ("TMC") during the period. Significant influence existed following the disposal as Simon Purkiss is a director of TMC and it was deemed appropriate to continue to equity account the Group's interest. However, a more recent change of strategy by TMC has led the Directors to conclude that significant influence is no longer exerted. A loss of US$8,928,000 was therefore recognised as an impairment loss in the income statement and reported in the unallocated operating segment for the Group's 7.08% interest in Toledo Mining Corporation. The carrying value of the Group's interest in TMC is now accounted for as an available for sale investment and valued at the closing share price on 30 September 2010. The closing share price on 30 September 2010 was 23.5p valuing the Group's interest at US$1,092,000.

A loss of US$21,590,000 was recognised as an impairment loss in the income statement and reported in the unallocated operating segment for the Group's 18.7% interest in Berong Nickel Corporation (BNC). A change of strategy has led the Directors to conclude that despite the presence of Robert Gregory as a director of BNC significant influence no longer exists. The carrying value of the Group's interest in BNC is now accounted for as an available for sale investment. As a private company the fair value assessment of BNC necessitated an estimate of the economic value per tonne of the contained nickel resources at the Berong project. The Directors have assessed the likelihood of success for the ongoing drilling program at Berong and consider that a JORC and pre-JORC resource of 40m tonnes is a realistic basis for valuation. Based on an economic value per tonne of US$40 the Directors have concluded that it is appropriate to value the Group's interest in BNC at US$3,480,000.

Both investments have therefore been reallocated to "available for sale investments" from "investments accounted for using the equity method."

6. The calculation of loss per share is based on a loss attributable to equity shareholders of the company of US$5,106,000 for the six months to 30 September 2010 (six months to 30 September 2009 - loss US$3,726,000) and US$11,991,000 for the year to 30 September 2010 (year to 30 September 2009 - loss US$14,369,000) and on 158,237,624 (period to 30 September 2009 - 106,431,279) ordinary shares of 4p each, being the weighted average number of shares in issue during the period accounting for the four for one consolidation that took place on 21 June 2010 as if it had occurred at the start of the period. Outstanding options have no dilutive effect for the six months and the year to 30 September 2010.

7. Property, plant and equipment includes "Assets under construction" amounting to US$78,477,000 (year to 30 September 2009 - US$76,183,000), which relates to expenditure on the Çaldag project and which is not yet being depreciated.

8. Receivables includes an amount of US$7,883,000 (30 September 2009 - US$7,719,000) recoverable in over one year. This represents input VAT incurred in Turkey which will in due course be recovered against taxable sales in that country.

Receivables include a refundable deposit of US$4m which is an advance payment for equipment for the Çaldag project that may be recalled under a bank guarantee.

9. On 8 February 2010 76.3m ordinary shares of 1p each were issued at 7p each raising gross proceeds of £5.34m.

On 18 June 2010 96m ordinary shares of 1p each were issued at 7p each raising gross proceeds of £6.72m.

On 21 June 2010 a four for one consolidation of the ordinary shares of 1p each took place.

On 24 June 2010 60.48m ordinary shares of 4p each were issued to Rusina shareholders and optionholders. The premium on the shares was credited to the merger reserve.

On 20 July 2010 10m ordinary shares of 4p each were issued at 32p each raising gross proceeds of £3.2m.

10. On 8 February 2010 the Company repaid the US$5m loan provided by Endeavour Financial Corporation.

11. On 10 December 2010 the Company announced that until such time as the forestry permit is received, the Caldag project will be put on care and maintenance and the project financing process suspended.

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