SBNC

# Sherlock Bay Nickel Corporation Limited

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The Manager
Company Announcements Office
Australian Stock Exchange Limited
4th Floor, 12 Bridge Street
Sydney NSW 2000

Dear Sir / Madam,

## BANK FEASIBILITY STUDY

## HIGHLIGHTS

- Feasibility study on open cut mining and BioLeach processing has been completed.
- Project financing to be undertaken in three stages incorporating unsecured convertible note (public offer of $15 million enacted), primary bank debt and equity/off-take prepayment.
- Commencement of production planned for June quarter 2005.
- Feasibility Study Base Case has been developed on an initial 4 year mine life.
- Base Case resource of 8 million tonnes at 0.53% nickel and 0.10% copper processing 2mtpa.
- Project capital cost estimate of $22.7 million and a working capital component of $11.5 million.
- Annualised project operating expenditures (excluding interest, royalties, exploration expenditure and depreciation) of $30.36 million and revenues of $99.3 million.
- Total project cash flow surplus of $227.5 million is projected over the initial project life (4 years). Base Case studies have used a nickel price of US$11,000 per tonne with AUD US exchange rate of $0.75 (i.e. A$14,660 per tonne Ni).
- Cash operating costs of A$1.69 per pound nickel after allowance for copper credits.

- Future exploration programme focusing on additional open pit and underground potential to materially extend the Project life.

**Sherlock Bay Nickel Project**

Sherlock Bay Nickel Corporation Limited ("SHN") is pleased to announce the successful completion of its Bankable Feasibility Study ("BFS") into the commencement of mining at its wholly owned Sherlock Bay Nickel Project.

The study has been undertaken prior to the recently announced resource upgrade to a Measured Resource of 11.4 million tonnes at 0.47% nickel (refer below for restatement of project global resource). The BFS was conducted by the Company utilising the services of independent consultants with the final consolidated documentation currently the subject of review by RSG Global.

The Company has entered into negotiations with a number of parties in respect of off-take arrangements, initiated negotiations with a number of third party financiers and undertaken a debt financing project through an unsecured convertible note.

**Base Case Operation**

For project financing purposes, the Company has designed an initial open pit operation based upon the following "Base Case" parameters:

- Measured Resource of 8mt at 0.53% Ni, 0.10% Cu and 0.01% Co.
- Processing 2 million tonne per annum.
- Net refinery return on contained nickel metal of 75% of gross product value and 75% of spot price for copper.
- Overall nickel recovery 83.5% for a total averaging 8,850 tpa of contained nickel.
- Average nickel price USD11,000pt.
- Exchange rate $0.75.

The Base Case has been focused on the Symonds Deposit with its current Measured and Indicated resources standing at 10.8 mt at an average grade of 0.53%. It is noted that the grade in the Symonds Deposit is higher than that of the Discovery Deposit. The Project has been designed with the potential for expansion as resource drilling has continued throughout the course of the BFS.

The current total resource stands at 33 million tonnes grading 0.49% Ni, 0.10% Cu, in an ore body that is still open at depth and within the strike length between the two defined ore shoots.

The environmental approval process is well advanced having been progressed in parallel with the BFS.

**Capital Costs**

There are no existing mining or processing facilities within the Project area.

Capital costs for construction inclusive of provisions for contingencies are estimated to be $22.7 million with a further $11.5 million in working capital to commissioning.

**Operating Costs**

The Base Case feasibility estimate for the Project operating costs is A$15.18 per tonne of ore mined and processed. This equates to an annual operating expenditure of approximately A$30.36 million. Annualised depreciation and royalty cost are estimated to be $8.95 million. Total cash costs per pound of nickel are estimated at A$1.69 per pound.

**Project Surplus**

The estimated total project cash surplus before tax is A$227.5 million.

**Project Funding**

The Company has commenced a $35 million Project funding programme. While continuing to source primary bank debt funding to the level of $15 to $20 million the Company has embarked upon a funding programme through an unsecured convertible note to raise $15 million of a potential $20 million under this facility. The Company has secured strong support for the offering with the determination of the unsecured convertible note offer expected imminently.

A delay in the approval by ASIC, together with other events, has led the Company to seek to replace the unsecured convertible note trustee. The Company has agreed terms with a replacement trustee and expect to announce the appointment of the new trustee and lodge a replacement prospectus to reflect the new trust deed by Friday 17th of September.

In addition to the unsecured convertible note and bank debt other sources of funding being considered include off-take agreement pre payment and equity.

**Off-take Agreement**

Off-take agreement discussions are well advanced. A number of companies are competing to secure the supply of nickel metal that will be provided by SHN's proposed mine. The Company is seeking to bring this element of the Project to a conclusion and will advise the market of the successful off-take party on or before 31 October 2004.

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**Start Up**

Allowing time for the securing of primary bank debt finance and around 6 month construction period, the company is aiming to be in full production by June 2005.

**Resource Statement**

The Project has been designed with the potential for expansion as resource drilling has continued through out the course of the BFS. The current total resource stands at 33 million tonnes grading 0.49% Ni, 0.10% Cu, in an ore body that is still open at depth. The current resource is as set out below:

| | Tonnes | Nickel % | Contained Nickel Metal (Tonnes) |
|---|---|---|---|
| **Symonds Deposit** | | | |
| Measured | 7,200,000 | 0.53 | 38,160 |
| Indicated | 3,600,000 | 0.53 | 19,080 |
| Inferred | 9,600,000 | 0.53 | 50,880 |
| *Total Symonds* | *20,400,000* | *0.53* | 108,120 |
| **Discovery Deposit** | | | |
| Measured | 4,200,000 | 0.38 | 15,960 |
| Indicated | 5,600,000 | 0.45 | 25,200 |
| Inferred | 2,,800,000 | 0.45 | 12,600 |
| *Total Discovery* | *12,600,000* | *0.43* | 53,760 |
| **Overall Total** | **33,000,000** | **0.49** | **161,880** |

The Company is to embark upon a programme to further upgrade and increase the existing resource position. This programme will be directed at both the underground and open pit potential of the mineral properties. The short term focus will be to expand significantly the initial 4 year mine life.

**Optimisation Programme**

Having completed the Base Case study the Company is undergoing a programme of optimisation. This programme will continue during and beyond the proposed Project commissioning phase.

**AL (Boris) Gerick**
Managing Director

The information on mineralisation in this report accurately reflects information prepared by competent persons (as defined by the Australasian Code of Reporting of Identified Mineral Resources and Ore Reserves). It is compiled by W Goode, a consultant to the Company who is a Member of the Australasian Institute of Mining and Metallurgy with more than requisite experience in the fields of activity in which he is reporting.