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29th May 2008

Dwyka Resources - Rating Raised - Philippine coal data shows strong potential of the acquisition **Buy**

Dwyka Resources (AIM:DWY) **Mkt Cap: £40m Price: 30.75p BUY**

Rating Raised - Philippine coal data shows strong potential of the acquisition

On 7 May 2008 **Dwyka Resources** announced that it had entered into an option agreement to acquire a 30% interest in the Daguma Coal Project with interests in two coal deposits (Daguma — Blocks 380 and 381 and Bonanza — 8 blocks) located on Mindanao Island in the southern Philippines. There is also the potential in the agreement to increase the interest to 100%. The project is located some 45km from the coast and has the potential to be brought into production in the near term.

The company has now provided a summary of historic data on the project which gives some guidance to the potential scale of the project, plus indications of near-term resource and production potential.

In 1997, Axis, a Philippine company, was granted a Coal Reconnaissance Permit in the area and subsequently obtained a Coal Operating Contract. In 1999 a subsidiary of BHP reviewed work on Blocks 380 and 381 and estimated a resource (which is not JORC compliant) of 378Mt. In 2000 Axis geologists published a report on exploration work on these blocks plus one other, quoting a non-JORC-compliant estimate of preliminary resources of 266Mt and a mineable reserve of 225Mt. It also concluded that the coal was of suitable quality for power generation and easily mineable. Subsequently the current owners have been involved in further exploration and drilling programmes on the properties.

Dwyka's exploration programme is to conduct drill programmes which will enable JORC-compliant resource evaluations. The initial target is to confirm 125-150Mt with a calorific value between 5,300-5,500 kilocalories per kilogram.

Comment

This acquisition represents a continuation of Dwyka's diversified exploration. It is a timely entry into coal in the Southeast Asia region with the prospect of a significant reserve and near-term production.

Recommendation

Looking to a valuation, we compare Dwyka to AIM-listed Churchill Mining (market cap of £45m excluding investments). Churchill has a JORC resource of 250Mt of thermal coal at a broadly similar calorific value to that at Daguma. However, Churchill is also fully engaged in a 60,000m

Contact Details

Kam Bansil
 Technology
 +44 (0)20 7634 4763
kam.bansil@ambrian.com

Richard Chase
 Metals & Mining
 +44 (0)20 7634 4770
richard.chase@ambrian.com

Dean Cooper
 Alternative Energy
 +44 (0)20 7634 4769
dean.cooper@ambrian.com

Julian Emery
 Metals & Mining
 +44 (0)20 7634 4768
julian.emery@ambrian.com

Gurpreet Gujral
 Technology
 +44 (0)20 7634 4771
gurpreet.gujral@ambrian.com

Richard Lucas
 Special Situations
 +44 (0)20 7634 4762
richard.lucas@ambrian.com

Werner Riding
 Oil & Gas
 +44 (0)20 7634 4700
werner.riding@ambrian.com

Brock Salier
 Metals & Mining
 +44 (0)20 7634 4765
brock.salier@ambrian.com

Dougie Youngson
 Energy
 +44 (0)20 7634 4764
dougie.youngson@ambrian.com

Sales
Charles Bendon
 +44 (0)20 7634 4736
charles.bendon@ambrian.com

drill campaign. As such, we value Daguma at 0.6x this (£27m). Adding the pre-announcement market cap, and incorporating the 40m new shares and £10m cash, this gives Dwyka a value of £66m, equating to 38.5p per share on a post-money basis.

We expect mobilisation of drill rigs and subsequent definition of a JORC resource to act as the main share price drivers from Daguma over the coming 12 months. On top of this, any positive drill results from nickel or gold properties would add significant speculative upside.

On this basis, we are upgrading Dwyka from a Speculative Buy to a **BUY**, with an initial **price target of 40p per share**. We expect to upgrade this price target as the company reaches progressive development milestones, as well as in response to any exploration success on its nickel and gold projects.

- Julian Emery

Ambrian is engaged as corporate broker to this company.

Recommendation - Buy

www.dwyresources.com

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Forbes Cutler

+44 (0)20 7634 4735

forbes.cutler@ambrian.com

Anthony Nathan

+44 (0)20 7634 4738

anthony.nathan@ambrian.com

David Pettman

+44 (0)20 7634 4737

david.pettman@ambrian.com

Mike Read

+44 (0)20 7634 4739

mike.read@ambrian.com

Trading

Lee Hunter

+44 (0)20 7634 4753

lee.hunter@ambrian.com

Darren Knight

+44 (0)20 7634 4752

darren.knight@ambrian.com

David Mackay

+44 (0)20 7634 4751

david.mackay@ambrian.com

Nick Screech

+44 (0)20 7634 4741

nick.screech@ambrian.com

Chris Stallard

+44 (0)20 7634 4740

chris.stallard@ambrian.com

Operations

Mike Dack

+44 (0)20 7634 4734

mike.dack@ambrian.com