

# Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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## El Niño Ventures Inc. (TSX.V: ELN, FF: E7Q) – Further Encouraging Drill Results on the DRC Copper Project

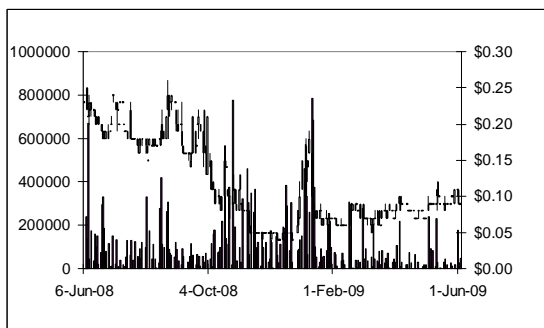
Sector/Industry: Junior Mining/Base Metals/Uranium

[www.elninoventures.com](http://www.elninoventures.com)

### Market Data (as of June 5, 2009)

Current Price	\$0.085
Fair Value	<b>\$0.30 (↑)</b>
Rating*	<b>BUY</b>
Risk*	<b>5 (Highly Spec)</b>
52 Week Range	C\$0.035 - C\$0.260
Shares O/S	40.48 mm
Market Cap	\$3.44 mm
Current Yield	N/A
P/E	N/A
P/B	1.93
YoY Return	-63.0%
YoY TSXV	-57.2%

\*see back of report for rating and risk definitions



### Investment Highlights

- Additional assay results from the Main Zone at the Kasala Project have been released with highlights including 7.07% Cu over 7 meters and 6.07% Cu over 10 meters.
- IP, magnetic and geochemical surveys identify a substantial extension to the Kasala Main Zone to the east and southeast.
- Interest agreement to earn 70% interest in another highly prospective DRC Copperbelt property, PR 9316, completed in December 2008.
- We believe the company will have to raise additional capital to fund its working capital and capital expenditure budget for the balance of FY2009.
- We maintain our BUY rating on the company with a slight increase in our fair value estimate to \$0.30 per share, compared to \$0.29 per share in our previous report.

### Key Financial Data (FYE - January 31)

(C \$)	2007	2008	2009
Cash	33,780	7,786,666	1,153,861
Working Capital	3,257,901	8,156,430	1,168,273
Equipment	44,709	295,506	668,310
Total Assets	3,439,941	8,619,740	2,130,324
Net Loss	(2,973,538)	(5,915,175)	(7,596,045)
EPS	(0.23)	(0.20)	(0.19)

*El Niño Ventures Inc. holds several prospective Copper/Cobalt properties in the Democratic Republic of Congo (DRC) including a new discovery called the Kasala Project. The company recently finalized the acquisition of Research Permit 9316, a prospective property located in close proximity to the Ruashi Mine, also in the DRC.*

**DRC Copper Properties**

**Kasala:** In our previous update on El Niño Ventures Inc., we discussed the company's high grade copper/cobalt discovery at the Kasala Project (Research Permit 5214) in hole MBD-023. The discovery area is now called the Kasala Main Zone. Table 1 refreshes the reader on Hole MDB-023 results:

Table 1: Highlights from Hole MDB-023

Hole Id	From (m)	To (m)	Interval (m)	Copper (Cu)	Cobalt (Co)
MDB-023	17	97	80	1.42%	0.13%
...including	17	46	29	2.82%	0.34%
...including	21	26	5	4.11%	0.50%

Source: El Niño Ventures Inc.

A total of 56 reverse circulation (RC) drill holes totaling 5883 meters, and 20 diamond drill (DD) holes totaling 3583.6 meters have been completed across the Kasala Project permit area, the majority of which were drilled into the Kasala Main Zone. Highlights of additional assay results are summarized in Table 2. Of particular significance to note are the thick intervals encountered as seen in Hole MBD-DD-011, which intersected 91 meters including a 10 meter section grading 6.07% copper.

Table 2: Highlights from 2008 drilling at the Kasala Project.

Hole ID	From (m)	To (m)	Interval (m)	Cu (%)	Co (%)
MBD-DD-007	164.2	186.2	22	1.97	0.004
Including	170.2	175.2	5	3.09	0.001
MBD-DD-008	78.8	109.8	31	2.19	0.012
MBD-DD-011A	63.4	93.4	30	1.88	0.110
Including	86.4	91.4	5	4.91	0.016
MBD-DD-011B	78.1	149.1	91	1.19	0.100
Including	113.1	123.1	10	6.07	0.034
MBD-DD-019	125.0	147.0	22	3.28	0.057
Including	126.0	133.0	7	7.02	0.090
MBD-026	26.0	47.0	21	2.42	0.088
MBD-027	9.0	100.0	91	1.16	0.033
Including	22.0	33.0	11	3.68	0.047
Including	39.0	44.0	5	4.39	0.009

Source: El Niño Ventures Inc.

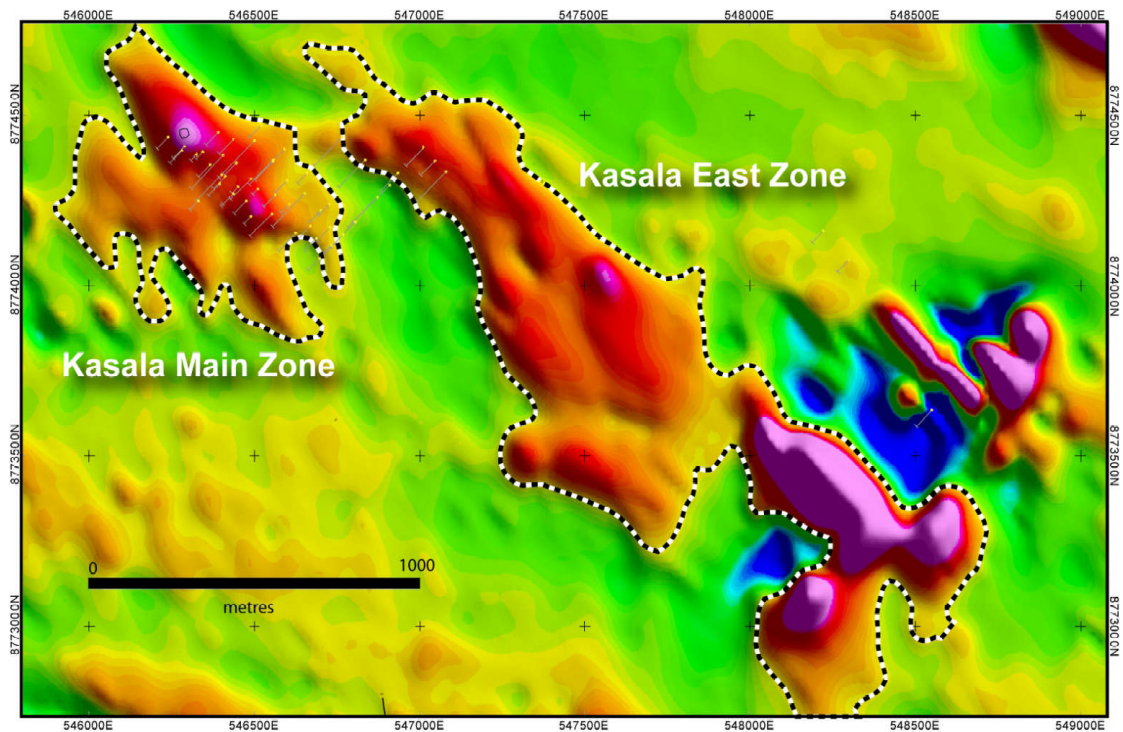
Copper grades encountered in the remaining holes are comparable to discovery hole MDB-023 with slightly lower cobalt grades. Higher grade copper intersections are on par, or above those of other projects in the region:

- The Ruashi Mine owned by Metorex (LSE: MTX) has probable reserves of 24.12 million tons grading 3.78% copper.
- The Freeport-McMoRan Copper & Gold (NYSE: FCX) Tenke Fungurume project is expected to commence production in the second half of 2009, from reserves of approximately 100 million tonnes grading 2.3% copper.

Three types of copper mineralization have been encountered on the property, malachite (oxide), chalcocite (sulphide) and chalcopyrite (sulphide). The high grade intersections are predominately associated with mixed malachite and chalcocite mineralization, and chalcopyrite mineralization. As noted in previous reports, the mineralization is hosted in dolomitic shales and breccias of the Mwashya Group, the upper-most unit of the Roan Supergroup, which hosts the majority of large copper and cobalt deposits in the Congolese Copper Belt. Thus far, drilling has confirmed the mineralization over a strike length of 800 m and a width of 250 m with thicknesses up to 91 meters.

### Kasala East

In addition to drilling, the company also completed magnetic and geochemical surveys in late 2008. Review of the data identified a new target to the east and southeast of the Kasala Main zone with similar magnetic and geochemical signatures. The new zone, called the Kasala East Zone appears to be significantly larger than the Main Zone having a surface expression length of approximately 2500 meters ranging in width between 150 and 750 meters. Significant faulting is present on the property and management believes the Main Zone has been faulted off the northern end of the East Zone. In Figure 1 below, we see residual magnetics with Phase I drill hold locations; magnetic highs are represented by hotter colours.



**Figure 1:** Residual Magnetics with drill hole locations. Magnetic highs are represented by hotter colours. (Source: El Nino Ventures Inc.)

While the magnetic highs in Figure 1 do not necessarily imply the location of higher grade mineralization, the results of Phase I drilling demonstrate a strong correlation between higher grade intercepts and increased magnetics. As a result, the initial targets of Phase II drilling

will focus on magnetic highs, particularly the southeast of the Kasala East Zone. The company is currently pursuing financing to fund the 2009 Phase II drill program.

The reader will note that three holes in Phase I were collared within Kasala East. While copper mineralization was present in core, we do not believe the slightly lower grades are representative of the target as the collar locations and drill angles meant the holes only intersected the edge of the structure.

**Important goals for the company to achieve at the Kasala project are the further delineation of high grade copper at the Kasala Main Zone (greater than 2% Cu) and delineation of a major copper bearing structure at the Kasala East Zone.**

**Current Status:** Subject to financing, the company's 2009 goals are to:

- Complete a minimum of 5,000 meters of drilling on the Kasala Project in 2009.
- Collect sufficient data to enable a resource calculation.
- Conduct approximately 2,500m of initial exploration drilling on Research Permit 9316, (Interest Agreement to earn 70% completed in mid December 2008).
  - As noted before, Research Permit 9316 will benefit from its proximity to infrastructure
  - Channel samples in artisanal workings have returned greater than 1% Cu.
- Complete geochemical survey and exploration drilling on Research Permit 2461

### **Outlook on Copper**

We have maintained our long term price forecast for copper at US\$2.03/lb.

### **Financials**

At the end of FY2009 (ended January 2009), the company had cash and working capital of \$1.15 million and \$1.17 million, respectively. ELN had a net loss of \$7.60 million in FY2009 (EPS: -\$0.19), compared to \$5.92 million in FY2008 (EPS: -\$0.20). We estimate the company had a burn rate of \$0.59 million per month in FY2009. The following table shows the company's cash position and liquidity ratios.

<b>FYE - January 31</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Cash	33,780	7,786,666	1,153,861
Working Capital	\$3,257,901	\$8,156,430	\$1,168,273
LT Debts/ Assets	-	-	-
Burn Rate (incl exploration costs)	(\$509,165)	(\$327,739)	(\$594,008)
Cash from financing activities	\$5,864,197	\$11,800,112	\$380,931

**Recent Financing:** There was no major financing completed subsequent to January 2009. However, the company announced in May 2009, it plans to raise up to \$2.25 million from a non-brokered private placement by issuing up to 22.5 million units at a price of \$0.10 per unit

**Stock Options and Warrants:** We estimate the company currently has about 4 million options outstanding, with an exercise price of \$0.10 and maturity period between January

2013 and December 2013 (none of the options are currently in the money). The company also has 5.88 million warrants outstanding, with an exercise price of \$0.15 and maturity period between January 2011 and February 2011 (none of the warrants are currently in the money).

**Conclusion:** At the end of January 2009, the company has \$1.15 million in cash. If the company continues to burn at \$0.59 million per month, we believe the company's current cash is close to zero, and ELN will have to raise additional capital to fund its working capital and projects going forward. However, based on our discussion with management, the company has a low capital expenditure budget of \$1.5 million for the balance of FY2009. We believe if the company is successful in raising the planned \$2.25 million (discussed above), ELN will be able to fund its working capital and budgeted capital expenditures.

### **Valuation**

As shown in the table below, our revised valuation of the company is \$0.30 per share, compared to \$0.29 per share in our previous report. We continue to value ELN based on its projects with resource estimates (the Bathurst Zinc Project and the Bancroft Uranium project), and book value of ELN's DRC projects (despite being the company's primary focus, the DRC projects still do not have any known resource estimate).

<b>Valuation Summary</b>	<b>Value</b>	<b>Value per Share</b>
Bathurst Zinc Project	\$4,598,450	\$0.11
Bancroft Uranium Project	\$770,816	\$0.02
Book Value of the DRC Projects	\$6,974,077	\$0.17
Working Capital - Debt	\$0	\$0.00
<b>Net Value</b>	<b>\$12,343,343</b>	<b>\$0.30</b>

As shown in the table below, our DCF model gave a fair value estimate of \$0.11 per share on the Bathurst Zinc project, unchanged from our previous report. We have not made significant changes to our DCF model.

<b>DCF Valuation Summary - Bathhurst Zinc Project</b>	
Ownership	75%
Resource (tonnes)	1,135,868
Cu - Grade (%)	0.23%
Zn - Grade (%)	5.58%
Pb - Grade (%)	1.49%
Ag - Grade (g/t)	30.49
Recovery - Cu	70%
Recovery - Zn	85%
Recovery - Pb	70%
Recovery - Ag	60%
Long-Term Copper Price (in US\$/lb)	\$2.03
Long-Term Zinc Price (in US\$/lb)	\$0.75
Long-Term Lead Price (in US\$/lb)	\$0.60
Long-Term Silver Price (in US\$/oz)	\$11.00
Operating Costs (\$/t)	\$65.0
Capital Costs (in \$mm)*	27.50
Production Commencement	2014
Mill Processing (tpd)	10,000
Mine Life (in years)	0.4
Discount Rate	11.6%
NPV	\$4,598,450
No. of Shares (diluted)	40,483,692
<b>Value per share</b>	<b>\$0.11</b>

The following table shows our DCF model for the Bathhurst Zinc project is highly sensitive to our long term Zn price forecast (our forecast is US\$0.75/lb).

<b>Zn Price (US\$/lb)</b>	<b>Fair Value (\$/Share)</b>
0.60	-0.05
<b>0.75</b>	<b>0.11</b>
0.90	0.27
1.05	0.43
1.20	0.59
1.35	0.75
1.50	0.91

Our revised comparable analysis values the company's Bancroft Uranium project at \$0.02 per share based on an EV/resource ratio of \$2.34/lb, compared to \$0.02 per share based on an EV/resource ratio of \$2.13/lb in our previous report.

	<b>Company</b>	<b>Symbol</b>	<b>Enterprise Value</b>	<b>Resources (in lbs)</b>	<b>EV/Resource</b>
1	Mega Uranium Ltd.	TSX: MGA	\$214,572,836	28,890,000	7.43
2	Pitchstone Exploration Ltd.	TSXV: PXP	\$8,679,390	2,028,253	4.28
3	Mawson Resource Ltd.	TSX: MAW	\$8,341,174	9,670,000	0.86
4	Uracan Resources Ltd.	TSXV: URC	\$18,571,743	20,350,000	0.91
5	Pele Mountain Resources Ltd.	TSXV: GEM	\$11,216,999	24,450,000	0.46
6	Santoy Resources Ltd.	TSXV: SAN	\$9,865,692	119,000,000	0.08
					<b>2.34</b>
	Total Historic Resource Estimate of the Bancroft Uranium Project (in lbs)				1,648,998
	<b>Fair value of the Bancroft Uranium Project</b>				<b>\$770,816</b>
	<b>Fair value per share</b>				<b>\$0.02</b>

\* The ratio was based on all of measured and indicated, and half of inferred and historic resource estimates

\* Stock prices are 1 year averages

### **Conclusion & Rating**

**We believe the company has made good progress on its DRC projects since our previous report. Based on our revised valuation models, we reiterate our BUY rating on the company with a fair value estimate of \$0.30/share.**

### **Risks**

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company's DRC projects do not have any NI 43-101 compliant resource estimates and does not currently have any operating mines.
- The success of drilling, expansion and determination of favorable resource estimates are important long-term success factors for the company.
- The value of the company depends on commodity prices.

**We rate the company's share a RISK of 5 (Highly Speculative).**

**Fundamental Research Corp. Equity Rating Scale:**

**Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

**Hold** – Annual expected rate of return is between 5% and 12%

**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

**Fundamental Research Corp. Risk Rating Scale:**

**1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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The distribution of FRC's ratings are as follows: BUY (69%), HOLD (11%), SELL (3%), SUSPEND (17%).

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