

## NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting of members is to be convened at Level 9, 33 Erskine Street, Sydney, NSW, on Friday 26 July 2019 at 11.00 am.

The Explanatory Memorandum provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of the Notice.

The Directors have determined pursuant to regulations 7.11.37 and 7.11.38 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on Wednesday 24 July 2019 at 7.00 pm (Sydney time).

Terms and abbreviations used in the Notice and the Explanatory Memorandum will, unless the context requires otherwise, have the meaning given to them in the Glossary.

ASX takes no responsibility for the contents of this Notice of Meeting or the Explanatory Memorandum.

## AGENDA

### BUSINESS

To consider and, if thought fit, pass the following Resolutions, with or without amendment:

### **Ordinary Resolution 1. Approval for the Company to move to a 60% interest in Ranger Investment Private Limited**

*'That, subject to the passing of Resolution 2, for the purposes of Listing Rules 10.1 and 10.9 and for all other purposes, approval is given for the Company to acquire shares and shareholder loans in Ranger Investment Private Limited (**Ranger**) which represents 60% of the equity and the aggregate of all shareholder loans made to Ranger, from Shanghai Decent Investment (Group) Co., Ltd. (**Shanghai Decent**) and its associates, on the terms and conditions summarised in the Explanatory Memorandum accompanying this Notice of Meeting.'*

### **Voting Exclusion**

The Company will disregard any votes cast in favour of this Resolution 1 by or on behalf of Shanghai Decent or any of its associates.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

## Ordinary Resolution 2. Approval of the proposed issue of the Shanghai Decent Shares

*That, subject to the passing of Resolution 1, for the purposes of Listing Rule 7.1 and for all other purposes, Shareholders approve the issue of 139,972,705 fully paid ordinary shares in the Company calculated in accordance with the following formula, and the terms and conditions set out in the Explanatory Memorandum, to Shanghai Decent and its associates (**Shanghai Decent Shares**):*

$$X = 40,000,000 / Y / Z;$$

*Where X = the Shanghai Decent Shares;*

*Y = A\$0.41; and*

*Z = 0.697, being the closing AUD:USD exchange rate on 3 June 2019.*

### Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution 2 by or on behalf of Shanghai Decent or any of its associates.

However, the Company will not disregard a vote if:

- (a) it is cast by the person as proxy for a person who is entitled to vote, in accordance with directions on the Proxy Form; or
- (b) it is cast by the Chairperson as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

**By order of the Board**



**Richard Edwards**  
**Company Secretary**

25 June 2019

**EXTRAORDINARY GENERAL MEETING  
TO BE HELD ON 26 JULY 2019**

**EXPLANATORY MEMORANDUM**

This Explanatory Memorandum has been prepared to assist members to understand the business to be put to members at an Extraordinary General Meeting to be held at Level 9, 33 Erskine Street, Sydney, NSW, on Friday 26 July 2019 at 11.00 am.

**Resolution 1 - Approval for the Company to move to a 60% interest in Ranger Investment Private Limited**

**1.1 Background to the acquisition**

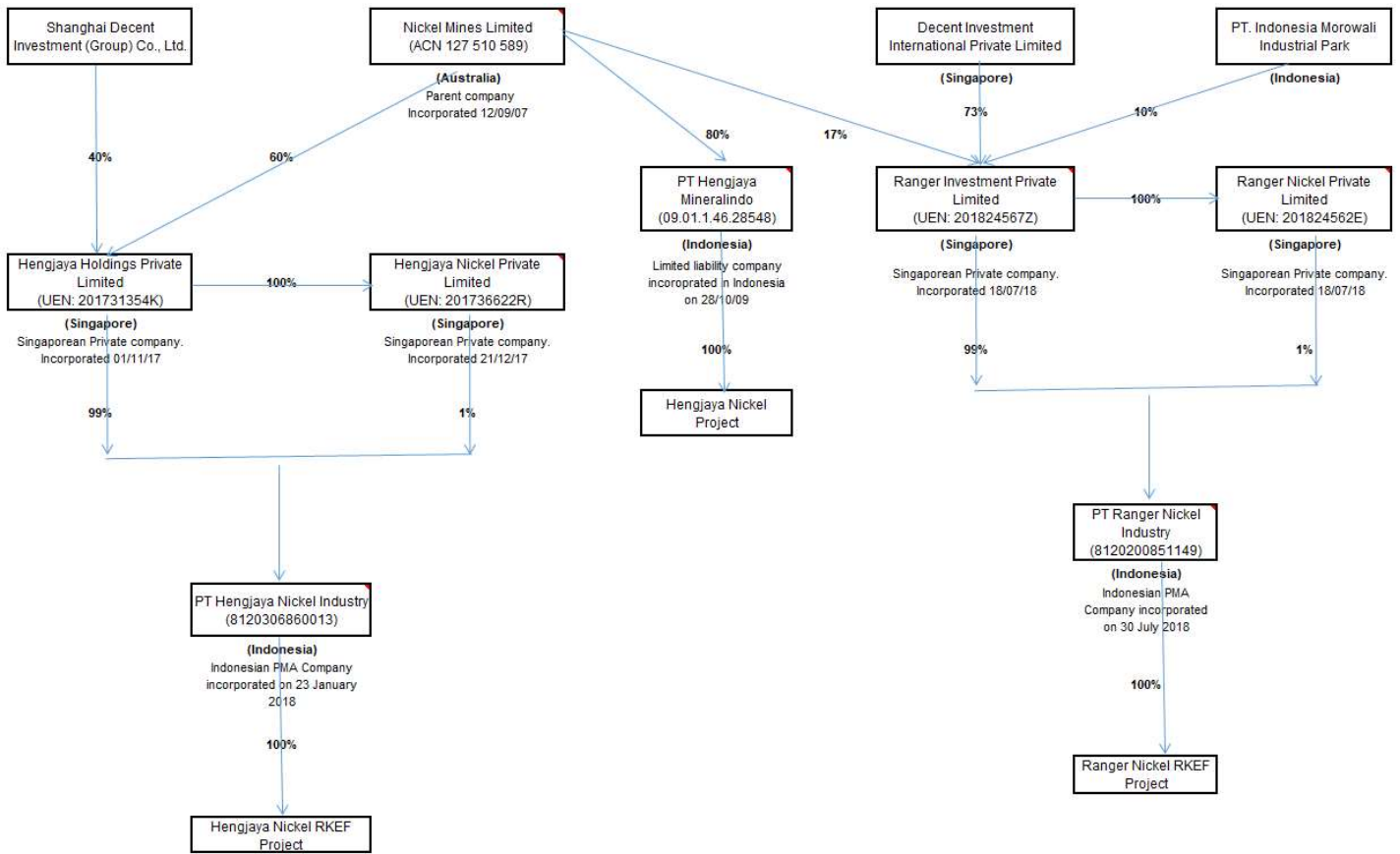
In November 2018, Nickel Mines Limited (**Nickel Mines** or the **Company**) progressed a non-binding Memorandum of Understanding dated 1 June 2018 and executed a Collaboration Agreement with Shanghai Decent Investment (Group) Co., Ltd. (**Shanghai Decent**) (as amended from time to time) (**CA**) to acquire up to an 80% equity interest in 2 additional Rotary Kiln Electric Furnace (**RKEF**) lines currently under construction within the Indonesia Morowali Industrial Park (**IMIP**). The Company already holds a 60% interest in two recently constructed and now operational RKEF lines within the IMIP (**Hengjaya Nickel Project**), which it funded using part of the proceeds from its initial public offering in August 2018.

The additional RKEF lines, known as the Ranger Nickel Project, are owned under a replica corporate structure to the Company's Hengjaya Nickel Project and was detailed in the prospectus of the Company dated 7 August 2018 (**Prospectus**). Nickel Mines' interest in the Ranger Nickel Project will be held through a Singaporean incorporated holding company, Ranger Investment Private Limited (**Ranger**) that will wholly own an Indonesian incorporated PMA operating company, PT Ranger Nickel Industry (**Ranger Nickel**) which in turn owns the Ranger Nickel Project assets.

Under the terms of the CA, in November 2018, Nickel Mines completed an initial acquisition (**First Acquisition**) of 17% of the equity in Ranger and 17% of all shareholder loans due to an associate of Shanghai Decent at a cost of US\$50 million (based on a valuation of US\$300 million for the entire Ranger Nickel Project).

Nickel Mines is proposing to increase its equity interest in Ranger to 60% as set out in this Explanatory Memorandum. The Company did not obtain shareholder approval for the First Acquisition which was in breach of Listing Rule 10.1 as the First Acquisition involved the acquisition of a substantial asset from a substantial holder in the Company. As the Company did not obtain shareholder approval for the First Acquisition, the Company is now seeking Shareholder approval for the Company to acquire from Shanghai Decent shares and shareholder loans in Ranger which would represent 60% of the equity in Ranger and 60% of all shareholder loans made to Ranger.

*Current corporate structure of the Ranger Nickel Project as at the date of this Notice*



## 1.2 Key terms of the Proposed Transaction

The key terms of the First Acquisition and Proposed Transaction are summarised in the table below:

<b>Vendor</b>	Shanghai Decent and its associates.
<b>Assets being acquired</b>	<ul style="list-style-type: none"> <li>• <b>First Acquisition</b> - 17 shares (representing 17% of the issued capital) of Ranger and the assignment to Nickel Mines of 17% of aggregate shareholder loans payable by Ranger to Shanghai Decent and its associates; and</li> <li>• <b>Proposed Transaction</b> - 43 shares (representing 43% of the issued capital) of Ranger and the assignment to Nickel Mines of 43% of aggregate shareholder loans payable by Ranger to Shanghai Decent and its associates.</li> </ul>
<b>Purchase Price</b>	<ul style="list-style-type: none"> <li>• <b>First Acquisition</b> - US\$50 million paid to Shanghai Decent in; and</li> <li>• <b>Proposed Transaction</b> - US\$121,400,000 payable to Shanghai Decent and its associates as follows: <ul style="list-style-type: none"> <li>○ US\$40 million by the issue of \$US40 million of Shares to Shanghai Decent and its associates; and</li> <li>○ US\$81,400,000 in cash.</li> </ul> </li> </ul>
<b>Other key terms</b>	Please otherwise refer to the Independent Expert's Report for further information on the terms of purchase of the First Acquisition and Proposed Transaction.
<b>Funding</b>	<p>In respect of the First Acquisition, US\$50 million was paid to Shanghai Decent in cash using funds raised from the Company's IPO. The funding for the Proposed Transaction is as follows:</p> <ul style="list-style-type: none"> <li>• debt funding of approximately US\$80 million from Shanghai Decent - see further details in section 1.4 below (<b>Debt Funding</b>);</li> <li>• the issue of \$US40 million of Shares to Shanghai Decent or its associates to satisfy part of the purchase price payable to Shanghai Decent or its associates. Under the terms of the CA, the purchase price shall be satisfied by the Company in cash, the issue of new equity in the Company or a combination of both, at the discretion of Shanghai Decent. Shanghai Decent has agreed with the Company that US\$40 million of the total purchase price is to be satisfied by this issue; and</li> <li>• an equity raising of up to US\$55 million pursuant to the Company's 15% annual placement capacity under Listing Rule 7.1 by way of a placement to professional and sophisticated investors which was announced on 5 June 2019 (<b>Placement</b>).</li> </ul>

## 1.3 Material terms of the CA

The terms of the Proposed Transaction are governed by the terms of the CA, which is governed under the laws of Singapore.

### *Second Acquisition Option*

The CA provides the ability for Nickel Mines to acquire its interest in the Ranger Nickel Project in three tranches:

- The First Acquisition (as described above and which was completed in November 2018);
- A 'Second Acquisition Option', under which Nickel Mines has the option to increase its equity interest in Ranger and in the total shareholder loans owing by Ranger to between 51% and 60% before 31 December 2019 - and which the Company intends to exercise to effect the Proposed Transaction. If the Second Acquisition is completed within 60 days after the first batch of nickel pig iron (NPI) is produced from the Ranger Nickel Project, the additional percentage acquired will be calculated based on a discounted valuation of US\$280 million. If the Second Acquisition is completed more than 60 days after the first batch of NPI is

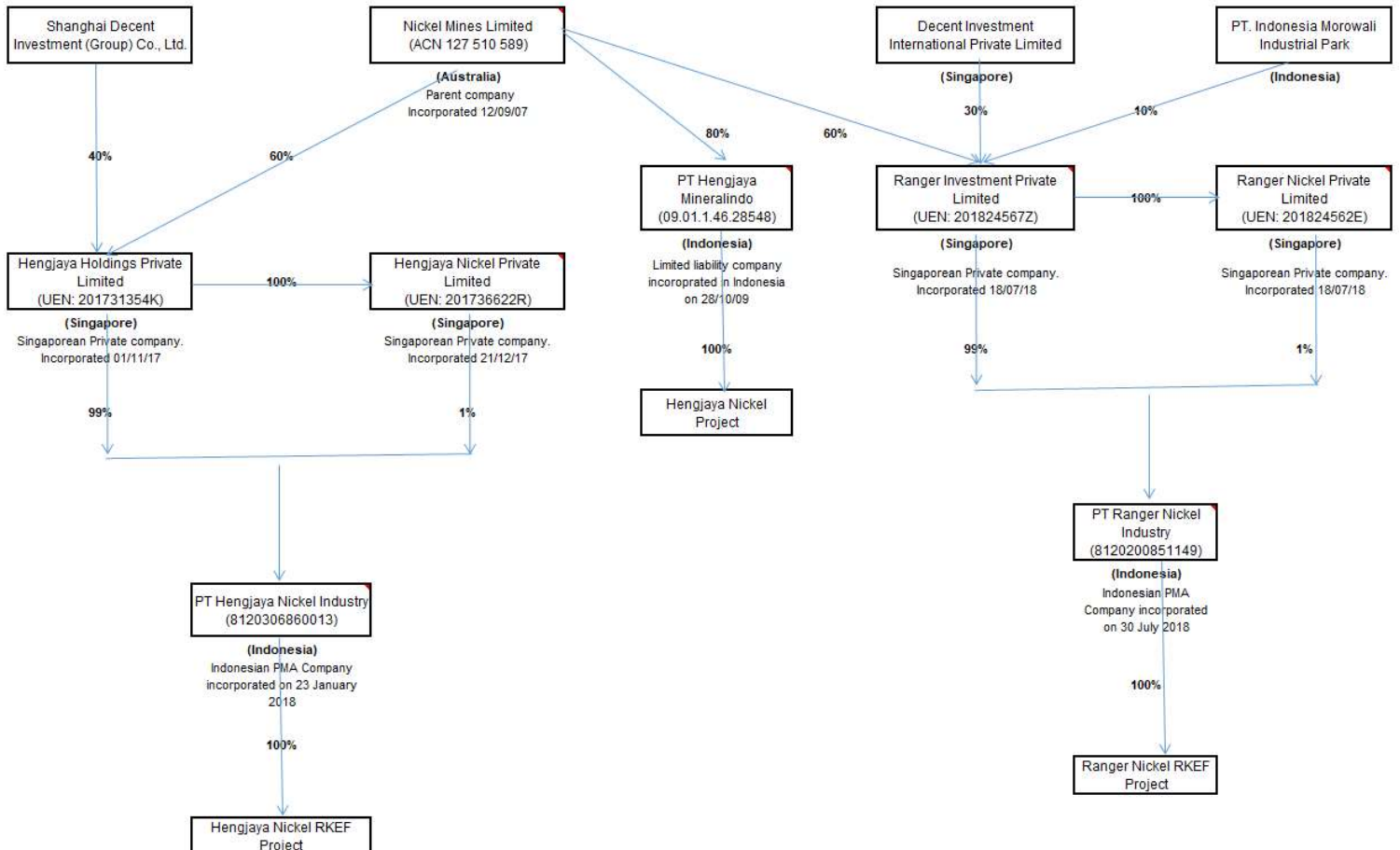
produced from the Ranger Nickel Project, the additional percentage acquired will be calculated based on a valuation of US\$300 million. The first batch of NPI was produced from the Ranger Nickel Project on 30 May 2019; and

- Conditional upon completion of the Second Acquisition Option, a ‘Third Acquisition Option’, will permit Nickel Mines to increase its interest in Ranger and in the total shareholder loans to up to 80% within 18 months of the first batch of NPI being produced from the Ranger Nickel Project (being 30 May 2019). Any additional interest acquired under the Third Acquisition Option will be calculated based on a valuation of US\$300 million. In the event that the Company exercises the Third Acquisition Option it will comply with all Listing Rules and obtain any Shareholder approvals required.

Subject to the Resolutions being sought in this Notice being approved and finalisation of the debt funding component for the Proposed Transaction, the Company intends to move to a 60% interest in the Ranger Nickel Project by 29 July 2019 such that the Company will pay a purchase price based on a valuation of US\$280 million.

*Indicative corporate structure of the Ranger Nickel Project post completion*

On completion of the Proposed Transaction, the corporate structure of the Ranger Nickel Project is expected to be as follows:



### *Shanghai Decent's responsibilities for the Ranger Nickel Project*

Under the terms of the CA, Shanghai Decent is responsible for:

- the design, construction and operationalisation of the Ranger Nickel Project, which is to be undertaken through Ranger Nickel; and
- ensuring that the Ranger Nickel Project is completed with an annual capacity of no less than 14,000 tonnes of equivalent contained nickel within 20 calendar months from November 2018.

The guaranteed capital cost of the Ranger Nickel Project will be funded by shareholder loans injected through Ranger and Ranger Nickel Private Limited to Ranger Nickel, being the Indonesian PMA Company which holds the Ranger Nickel Project assets.

Shanghai Decent's obligations above are subject to the absence of a 'force majeure event' (being an event arising from any cause beyond the reasonable control of Shanghai Decent, including without limitation, acts of God, acts of civil or military authority, governmental restrictions, wars and change of law).

Shanghai Decent further undertakes to procure that its related companies supply such utilities and logistics services within the IMIP as required by Ranger or the Ranger Nickel Project in line with the IMIP 'principle of non-discrimination'.

Please refer to the Independent Expert's report for further details about the First Acquisition and the Proposed Transaction and the current status of the Ranger Nickel Project.

### *Structure of the Board of Directors of Ranger, Ranger Nickel Private Limited and Ranger Nickel*

In accordance with the CA, the boards of directors of Ranger, Ranger Nickel Private Limited and Ranger Nickel shall comprise no more than five (5) directors.

Upon completion of the Proposed Transaction and the Company subsequently increasing its shareholding in Ranger Nickel to 60%, the Company will be entitled to nominate three (3) of the five (5) directors the boards of each of Ranger, Ranger Nickel Private and Ranger Nickel, and Shanghai Decent will be entitled to nominate the remaining two (2) directors.

Further, any appointment or removal of any director of Ranger shall require the affirmative vote of no less than 60% of the shareholders of the company present and voting.

#### 1.4 Material terms of the Debt Funding from Shanghai Decent

As announced on 21 May 2019, the Company has entered into a binding term sheet for the Debt Funding. The material terms of the Debt Funding is set out as follows:

<b>Lender</b>	Decent Investment International Private Limited, being an associated entity of Shanghai Decent.
<b>Borrower</b>	Nickel Mines Limited.
<b>Facility Amount</b>	US\$80,000,000.
<b>Interest Rate</b>	6% per annum plus the greater of (i) 3-Month US\$ LIBOR or (ii) 2.5% per annum.
<b>Payment of Interest</b>	Interest is payable on the last day of each Interest Period.
<b>Interest Period</b>	1 month.
<b>Payment of Principal</b>	Quarterly instalments by repaying on the last business day of each November, February, May and August (beginning on 30 November 2020) an amount which reduces the outstanding principal of the Loan by 1/15th of the amount borrowed under the debt facility.
<b>Security</b>	The Company will grant will grant security over its 60% equity interest in Ranger Investment Private Limited and its 60% equity interest in Hengjaya Holdings Private Limited, the Singaporean entity which holds a 100% indirect interest in the Hengjaya Nickel Project.
<b>Prepayment Penalties</b>	None. The Loan may be prepaid after 5 years from the first drawdown in whole or in part. Any prepayment shall be made with accrued interest on the amount prepaid and without premium or penalty.
<b>Up Front Fees</b>	None.
<b>Default interest</b>	2 per cent per annum over the applicable interest rate on the overdue amount which is payable.
<b>Break Fees</b>	None.

#### 1.5 Rationale for the Proposed Transaction

The purpose of the First Acquisition and Proposed Transaction is for the Company to obtain an ownership interest in the Ranger Nickel Project of 60%.

The Company's intentions regarding the Ranger Nickel Project, and the First Transaction and Proposed Transaction were foreshadowed in section 2.5 of the Company's prospectus dated 7 August 2018. The Board of Nickel Mines believes the opportunity to obtain an interest in the Ranger Nickel Project is a compelling economic opportunity that will deliver significant value for Nickel Mines shareholders and is consistent with the Company's aim of becoming a globally significant nickel producer.

This opinion is supported by the Independent Expert's Report.



## 1.6 Timetable for Proposed Transaction

Dispatch Notice of Meeting	26 June 2019
Meeting of Shareholders	26 July 2019
Issue of Shanghai Decent Shares	29 July 2019
Cleansing Notice under s708A of the Corporations Act and Appendix 3B	29 July 2019

The timetable above is indicative only and the Company reserves the right to vary the dates set out above subject to the Corporations Act, Listing Rules and other applicable laws.

### 1.7 - Listing Rule 10.1

Under Listing Rule 10.1, an entity must not, without Shareholder approval, acquire a substantial asset from a substantial holder in the Company or an associate of a substantial holder. In general terms, Listing Rule 10.2 provides that a substantial asset is one where the value or consideration equals or exceeds 5% or more of the equity interests of the entity as set out in the most recent accounts released to ASX.

Shanghai Decent is a substantial shareholder of the Company, currently holding approximately 10.6% of the issued Shares in the Company.

The total equity interests of the Company as at 31 December 2018 (as contained in the Appendix 4D lodged with ASX on 28 February 2019, being the latest accounts given to ASX under the Listing Rules), is US\$209,758,987. Accordingly, 5% of the total equity interest of the Company as at 31 December 2018 is US\$10,487,949. Ranger is considered a substantial asset for the purpose of Listing Rule 10.2.

### 1.8 - Listing Rule 10.9

ASX has determined that the Company should have obtained listing Rule 10.1 Shareholder approval in respect of the First Acquisition and is therefore required to take corrective action pursuant to Listing Rule 10.9.

Under Listing Rule 10.9, the corrective action, at the option of the entity, is either of the following:

- (a) cancelling the transaction (or arranging for its cancellation); or
- (b) seeking the approval of holders of ordinary securities to the transaction. If approval is not obtained, the entity must cancel the transaction (or arrange for its cancellation).

The Company is therefore seeking Shareholder approval for the First Acquisition and for the Company to acquire from Shanghai Decent shares and shareholder loans in Ranger which would represent 60% of the equity in Ranger and 60% of all shareholder loans made to Ranger, which have been and will be effected by:

- the First Acquisition in respect of 17% of the equity in Ranger and the aggregate of all shareholder loans made to Ranger from Shanghai Decent; and
- the Proposed Transaction in respect of 43% of the equity in Ranger and the aggregate of all shareholder loans made to Ranger.

## **1.9 - Independent Expert's Report**

Listing Rule 10.10.2 requires that the notice of meeting to obtain Shareholder approval for the purpose of Listing Rule 10.1 must be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the Shareholders.

The Independent Expert's Report prepared by Longeran Edwards sets out a detailed examination of the First Acquisition and Proposed Transaction to enable Shareholders to assess its merits.

**The Independent Expert has concluded that the First Acquisition and the Proposed Transaction is fair and reasonable.**

**Shareholders are encouraged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.**

### **Board Recommendation**

The Board (other than Mr Weifeng Huang) recommends that Shareholders vote in **FAVOUR** of Resolution 1.

Mr Weifeng Huang declines to give a recommendation due to the fact that he is a related party of Shanghai Decent.

## Resolutions 2 - Proposed Issue of the Shanghai Decent Shares

As outlined above in Section 1.2, the Proposed Transaction involves the issue of \$US40 million of Shares to Shanghai Decent and its associates (**Shanghai Decent Shares**).

Resolution 2 seeks Shareholder approval, pursuant to Listing Rule 7.1, for the issue of the Shanghai Decent Shares.

### 2.1 Listing Rule 7.1

Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

As announced on 5 June 2019, the Company has utilised part of its 15% annual placement capacity for the Placement. The effect of Resolution 2 is to allow the Company to issue the Shanghai Decent Shares within the period of 3 months after its approval at the Meeting (or a longer period, if allowed by ASX) without using the Company's 15% annual placement capacity.

### 2.2 Shanghai Decent share issue

As outlined in Section 1.2 above, a part of the purchase price payable by the Company for the Proposed Transaction will be satisfied by the issue of \$US40 million of Shares to Shanghai Decent. Based on a conversion price of A\$0.41 per share (which has been agreed with Shanghai Decent) and a AUD:USD exchange rate of 0.697 (being the closing AUD:USD exchange rate on 3 June 2019). The Company proposes to issue 139,972,705 Shares to Shanghai Decent to satisfy this part of the purchase price.

<b>Total Number of Shares on issue following completion of the Placement</b>	1,525,495,624
<b>Number of Shanghai Decent Shares to be issued to Shanghai Decent (or its associates)</b>	139,972,705
<b>Number of Shares currently held by Shanghai Decent (or its associates) as at the date of this Notice</b>	161,696,446
<b>% held by Shanghai Decent (or its associates) on completion of the Placement and issue of the Shanghai Decent Shares</b>	18.1%
<b>Total NIC share capital on completion of the Placement and issue of the Shanghai Decent Shares</b>	1,665,468,329

Following completion of the issue of the Shanghai Decent Shares, the major shareholders of the Company will be as follows:

Shareholder	Prior to Shanghai Decent Share issue		Post completion of Shanghai Decent Share issue	
	Shares (M)	%	Shares (M)	%
Directors and management	189.8	12.4	189.8	11.4
Shanghai Decent	161.7	10.6	301.7	18.1
Other existing shareholders	1,174.0	77.0	1,174.0	70.5
<b>Total</b>	<b>1,525.5</b>	<b>100.0</b>	<b>1,665.5</b>	<b>100</b>

### 2.3 Specific Information required by Listing Rule 7.3

#### *Shanghai Decent Shares*

Pursuant to and in accordance with Listing Rule 7.3, the following information is provided in relation to the approval to issue the Shanghai Decent Shares:

<b>Number of securities to be issued</b>	139,972,705 - see section 2.2 above.
<b>Date by which securities will be issued</b>	The Company will issue the Shanghai Decent Shares no later than 3 months after the date of this Extraordinary General Meeting and will issue the Shanghai Decent Shares on the date of completion of the Proposed Transaction.
<b>Issue price of the securities</b>	A\$0.41 per Share.
<b>Recipient of issue</b>	The Shanghai Decent Shares will be issued to Shanghai Decent or its associates.
<b>Terms of securities</b>	The Shanghai Decent Shares are fully paid ordinary Shares in the Company and will rank equally with the other ordinary Shares in the Company.
<b>Use of funds raised</b>	The Shanghai Decent Shares as they are being issued as part of the consideration for the Proposed Transaction.
<b>Voting Exclusion statement</b>	A voting exclusion statement is included in this Notice of Extraordinary General Meeting.

### 2.6 Board Recommendation

The Board (other than Mr Weifeng Huang) recommends that Shareholders vote in **FAVOUR** of Resolution 2.

Mr Weifeng Huang declines to give a recommendation due to the fact that he is a related party of Shanghai Decent.

## GLOSSARY

<b>ASX</b>	means ASX Limited (ABN 98 008 624 691) or the securities market it operates, as the context requires.
<b>Board</b>	means the board of Directors of the Company.
<b>Company or Nickel Mines</b>	means Nickel Mines Limited (ACN 127 510 589).
<b>Debt Funding</b>	means the debt funding package agreed to between the Company and Shanghai Decent and its associates.
<b>Explanatory Memorandum</b>	means the explanatory memorandum that forms part of this Notice of Meeting.
<b>First Acquisition</b>	means the initial acquisition of 17% in Ranger and 17% of all shareholder loans made to Ranger from Shanghai Decent
<b>IMIP</b>	means the Indonesia Morowali Industrial Park, in Central Sulawesi, Indonesia.
<b>Independent Expert</b>	means Longeran Edwards & Associates Limited.
<b>Independent Expert's Report</b>	means the report issued by the Independent Expert as set out in Annexure A to this Notice.
<b>Listing Rules</b>	means the official Listing Rules of the ASX as amended from time to time.
<b>Meeting or Extraordinary General Meeting</b>	means the extraordinary general meeting to be held on 26 July 2019, the subject of the Notice and the Explanatory Memorandum.
<b>NPI</b>	means nickel pig iron, a beneficiated form of nickel metal.
<b>PMA Company</b>	means a ' <i>Penanaman Modal Asing</i> ', an Indonesian foreign direct ownership company in which foreign share ownership of up to 100% is allowed.
<b>Proposed Transaction</b>	means the proposed acquisition of shares and shareholder loans in Ranger which represents 60% of the equity and the aggregate of all shareholder loans made to Ranger.
<b>Ranger</b>	means Ranger Investment Private Limited, a Singaporean holding company that owns an Indonesian incorporated PMA operating company, PT Ranger Nickel Industry, that wholly owns the Ranger Nickel Project.
<b>Ranger Nickel</b>	means PT Ranger Nickel Industry, an Indonesian incorporated PMA operating company, which wholly owns the Ranger Nickel Project.
<b>Ranger Nickel Project</b>	means the construction of 2 additional RKEF lines within the IMIP.
<b>RKEF</b>	means rotary kiln electric furnace.
<b>Shanghai Decent</b>	means Shanghai Decent Investment (Group) Co., Ltd., a Tsingshan group company.
<b>Shareholder</b>	means a holder of Shares in the Company.
<b>Shares</b>	means fully paid ordinary shares in capital of the Company.
<b>Tsingshan</b>	means the Tsingshan group of companies.
<b>VWAP</b>	means the volume weighted average price.

**ANNEXURE A - INDEPENDENT EXPERT'S REPORT**

# LONERGAN EDWARDS & ASSOCIATES LIMITED

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The Independent Directors  
Nickel Mines Limited  
Level 2  
66 Hunter Street  
Sydney NSW 2000

19 June 2019

**Subject: Acquisition from substantial shareholder  
Intention to move to 60% ownership of Ranger Nickel Project  
Fair and reasonable to Nickel Mines Limited shareholders not associated with  
Shanghai Decent**

Dear Independent Directors

## Introduction

- 1 On 17 April 2019, the directors of Nickel Mines Limited (Nickel Mines or the Company) announced that the Company had decided to increase its current ownership interest in the Ranger Nickel Project from 17% to 60% (the Proposed Transaction). The acquisition of the initial 17% interest in the Ranger Nickel Project (Initial Transaction) occurred upon signing of the Collaboration Agreement for the Ranger Nickel Project entered into on 8 November 2018 (CA).
- 2 The initial 17% interest in the Ranger Nickel Project was acquired for US\$50.0 million (Initial Transaction Consideration).
- 3 The purchase consideration for the Proposed Transaction is US\$121.4 million (Purchase Consideration). The decision to acquire a further 43% interest in the Ranger Nickel Project has been made in consultation with Shanghai Decent Investment (Group) Co., Ltd (Shanghai Decent), the Company's collaboration partner and a substantial shareholder<sup>1</sup>, which currently owns 83% of the Ranger Nickel Project.
- 4 Under the "Second Acquisition Option" in the CA, Nickel Mines can elect to increase its interest in the Ranger Nickel Project to between 51% and 60% before 31 December 2019. If the acquisition is completed within 60 days of the Ranger Nickel Project commencing nickel pig iron (NPI) production, the price of the additional interest is based on a discounted valuation of US\$280 million.<sup>2</sup> Given the Company's decision to elect to increase its interest

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<sup>1</sup> Shanghai Decent currently owns 10.6% of shares on issue, which will increase to some 18.1% if the Proposed Transaction proceeds.

<sup>2</sup> If the acquisition occurs more than 60 days after production commences at the Ranger Nickel Project, the acquisition cost is calculated based on a US\$300 million valuation.

in the Ranger Nickel Project within the 60 days first production period, the Purchase Consideration is US\$121.4 million<sup>3</sup>.

## Nickel Mines

- 5 Nickel Mines is an Australian public company focused on becoming a globally significant, low cost producer of NPI, a key ingredient in the production of stainless steel. The Company has established a financial, operational and strategic partnership with China's Tsingshan Holding Group (Tsingshan), the world's largest stainless steel producer. This partnership, via Collaboration Agreements with Shanghai Decent (a Tsingshan group company), will see Nickel Mines own and operate two rotary kiln electric furnace (RKEF) processing facilities (the Hengjaya and Ranger Nickel Projects) located in the Indonesian Morowali Industrial Park (IMIP)<sup>4</sup> in Indonesia.
- 6 Nickel Mines also owns an 80% interest in the Hengjaya Mineralindo Nickel Mine (Hengjaya Mine), a large tonnage, high grade saprolite deposit located in the Morowali Regency of Central Sulawesi, Indonesia. The deposit is located just 12 kilometres from the IMIP.

## Purpose

- 7 The Initial Transaction and the Proposed Transaction are transactions with persons in a position of influence under the Australian Securities Exchange (ASX) Listing Rules and require the approval of Nickel Mines shareholders that are not considered a party to the transaction (the Nickel Mines non-associated shareholders<sup>5</sup>). The ASX Listing Rules require the notice of meeting sent to shareholders to include an independent expert's report (IER), stating whether the transactions are "fair and reasonable" to the Nickel Mines non-associated shareholders.
- 8 Accordingly, the Independent Directors of Nickel Mines that are not associated with Shanghai Decent have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER in accordance with ASX Listing Rule 10.10.2 stating whether, in our opinion, the Initial Transaction and the Proposed Transaction are fair and reasonable to the Nickel Mines non-associated shareholders.
- 9 The LEA report will accompany the Notice of Meeting and Explanatory Statement to be sent by Nickel Mines to Nickel Mines shareholders in connection with the Proposed Transaction. LEA is independent of Nickel Mines and has no involvement or other interest in the Proposed Transaction.

## Summary of opinion

- 10 In LEA's opinion the Initial Transaction and the Proposed Transaction are fair and reasonable to the Nickel Mines Shareholders. We have formed this opinion for the reasons set out below.

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<sup>3</sup> Rounded up by US\$1.0 million carried forward from the initial acquisition.

<sup>4</sup> The IMIP is the world's largest vertically integrated stainless facility with a current stainless steel production capacity of 3.0 million tpa.

<sup>5</sup> For the purposes of this report, all future references to "Nickel Mines shareholders" is a reference to the "Nickel Mines non-associated shareholders".



- 11 Pursuant to the Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) a related party transaction<sup>6</sup> is “fair” if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.

### Fairness

- 12 In our opinion the Initial Transaction and the Proposed Transaction are fair as:
- (a) the Initial Transaction Consideration of US\$50.0 million is in accordance with the contractual terms of the CA for the Ranger Nickel Project and implies a value for 100% of the Ranger Nickel Project of US\$300.0 million
  - (b) the Purchase Consideration of US\$121.4 million for the 43% interest is in accordance with the contractual terms of the CA (agreed in November 2018) for the Ranger Nickel Project
  - (c) the Purchase Consideration implies a value for 100% of the Ranger Nickel Project of US\$280 million which represents a 7% discount to the US\$300 million value referred to in the CA and implied in:
    - (i) the Initial Transaction (i.e. the acquisition of the first 17% of the Ranger Nickel Project by Nickel Mines)
    - (ii) the option to purchase a further 20% in the Ranger Nickel Project within 18 months of the first NPI production.

By exercising the option over the 43% interest in the Ranger Nickel Project within 60 days of the first NPI production rather than before 31 December 2019, the Purchase Consideration is US\$8.6 million lower
  - (d) the value of US\$300 million attributed to the Ranger Nickel Project under the CA is consistent with the value attributed to the Hengjaya Nickel Project (an identical project which is currently 60% owned by Nickel Mines) in the option to acquire up to a further 40% interest in that project under the terms of the Collaboration Agreement for that project.

These precedent transactions are shown in the table below:

<b>Nickel Mines – acquisition of interest in Nickel Projects</b>			
<b>Transaction date</b>	<b>Acquisition</b>	<b>Purchase Price US\$m</b>	<b>Value of 100% US\$m</b>
<b>Hengjaya Nickel Project</b>			
April 2018	25% initial interest	50.0	200.0 <sup>(1)</sup>
September 2018	Further 35% interest	70.0	200.0 <sup>(1)</sup>
By January 2020	Up to 40% interest	120.0 <sup>(2)</sup>	300.0 <sup>(3)</sup>
<b>Ranger Nickel Project</b>			
November 2018	17% initial interest	50.0 <sup>(4)</sup>	300.0 <sup>(5)</sup>
By July 2019	Further 43% interest	121.4 <sup>(4)</sup>	280.0 <sup>(5)</sup>
November 2020	Up to 20% interest	60.0 <sup>(6)</sup>	300.0 <sup>(5)</sup>

<sup>6</sup> Which includes a transaction with a person in a position of influence that requires member approval under ASX Listing Rule 10.

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**Note:**

- 1 Transaction based on the guaranteed construction price of US\$200 million. At the time of entering into these transactions the performance of the plant had not been proven.
  - 2 Price for a further 40% interest.
  - 3 As per the terms of the Collaboration Agreement for Hengjaya Nickel Project. The Purchase Price increased as the project has become operational.
  - 4 The purchase price for the first 17% interest was rounded down by US\$1.0 million. As per the terms of the CA, the Purchase Consideration includes the US\$1.0 million rounding down from the acquisition of the initial 17% interest.
  - 5 As per the terms of the CA for Ranger Nickel Project.
  - 6 Price for a further 20% interest.
- 

- (e) the Initial Transaction Consideration and the Purchase Consideration (totaling \$US\$171.4 million) is less than the present value of the Company's pro rata share of the estimated future free cash flows from the Ranger Nickel Project based on nameplate production capacity and a conservative assessment of future nickel prices.

**Reasonableness**

- 13 Pursuant to RG 111, a related party transaction is reasonable if it is fair. Consequently, in our opinion, the Initial Transaction and the Proposed Transaction are both fair and reasonable to Nickel Mines shareholders.

**Advantages and disadvantages**

- 14 In concluding whether the Initial Transaction and the Proposed Transaction are "fair and reasonable" to the non-associated shareholders of Nickel Mines we have also had regard to the advantages and disadvantages of the Initial Transaction and the Proposed Transaction from the perspective of Nickel Mines shareholders:

***Advantages***

- (a) the Initial Transaction provided Nickel Mines with an interest in the Ranger Nickel Project and the opportunity it increase its interest in the project over time
- (b) exercising the Second Option within 60 days of the first NPI production from the Ranger Nickel Project (rather than before 31 December 2019) results in the acquisition price being US\$8.6 million lower
- (c) the Proposed Transaction provides Nickel Mines with an additional income source from downstream production of ore extracted from the Hengjaya Mine or other mines. Based on the current performance of the Hengjaya Nickel Project, the increased interest in the Ranger Nickel Project will contribute some 7,095 tonnes of additional NPI production annually (bringing the total attributable nickel production from the Ranger Nickel Project to some 9,900 tonnes per annum (tpa)). The Company's attributable nickel production from both the Hengjaya and Ranger Nickel Projects will be approximately 20,000 tpa produced in facilities operating at some of the lowest costs in the world, increasing the significance of its nickel production capabilities and the scale of the Company

- (d) subject to acquiring the 43% interest under the Proposed Transaction, the CA allows Nickel Mines to acquire a further 20% interest on prima facie commercially attractive terms (increasing its total holding in the Ranger Nickel Project to 80%) within 18 months of the first NPI production
- (e) the Initial Transaction and the Proposed Transaction are value accretive, with the Initial Transaction Consideration and the Purchase Consideration (totalling \$US\$171.4 million) being less than the net present value (NPV) of the expected future cash flows.

### ***Disadvantages***

- (f) existing Nickel Mines non-associated shareholders' interests will be prima facie diluted (in percentage terms) by the US\$78 million share placement being made to partially fund the Proposed Transaction, under which Shanghai Decent will increase its interest in Nickel Mines from some 11.6% to some 18.1%<sup>7</sup> of issued capital
- (g) the Proposed Transaction is being partially debt financed by Shanghai Decent and its associates<sup>8</sup> at an interest rate of some 8.5%<sup>9</sup>. Nickel Mines' gearing is currently nil. However, we note that:
  - (i) the interest rate on the loan is more favourable than the best rate offered by a third party financier reflecting that lender's assessment of risk associated with the project. The other loan terms being consistent with the third party lender's proposal
  - (ii) the level of gearing post-acquisition of the 43% interest is modest and the indicated funding of the Proposed Transaction reflects a more efficient capital structure.

15 In our opinion, the advantages of the Initial Transaction and the Proposed Transaction significantly outweigh the disadvantages.

### **Other matters**

- 16 In preparing this report we have considered the interests of Nickel Mines shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 17 The ultimate decision by Nickel Mines shareholders whether to approve the Initial Transaction and the Proposed Transaction should be based on each shareholder's assessment of the Initial Transaction and the Proposed Transaction. This report has been provided for shareholders in Nickel Mines not associated with Shanghai Decent.

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<sup>7</sup> Based on an issue price of \$0.41 per share to Shanghai Decent and the placement of new shares to both new and existing institutional investors at \$0.40 per share. The US\$38 million placement to institutional investors was completed on 13 June 2019, reducing Shanghai Decent's interest to 10.6%. The issue of US\$40 million shares to Shanghai Decent will increase its holding to 18.1%.

<sup>8</sup> As announced by Nickel Mines on 21 May 2019.

<sup>9</sup> Based on the 15 May 2019 3 month USD LIBOR rate of 2.52513% plus 6.0% margin. The interest rate applicable to the loan is the margin (6%) and the greater of 2.5% and 3-Month USD LIBOR.

- 18 If in doubt about the Initial Transaction and the Proposed Transaction or matters dealt with in our report, Nickel Mines shareholders should seek independent professional advice. For our full opinion on the Initial Transaction and the Proposed Transaction, and the reasoning behind our opinion, we recommend that Nickel Mines shareholders read the remainder of our report.

Yours faithfully



Julie Planinic  
Authorised Representative



Martin Hall  
Authorised Representative

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## I Key terms of the Initial Transaction and the Proposed Transaction

### Initial Transaction

- 19 In November 2018, Nickel Mines announced the conversion of a non-binding Memorandum of Understanding with Shanghai Decent<sup>10</sup> to acquire an interest in two additional RKEF lines into a binding CA.<sup>11</sup> Following the execution of the CA, Nickel Mines completed the first acquisition under the CA, acquiring 17% of the issued share capital of Ranger Investment Private Limited (Ranger Investment) and an underlying 17% interest in the ownership the Ranger Nickel Project for US\$50.0 million<sup>12</sup> (Initial Transaction).
- 20 Ranger Investment is a Singaporean holding company which holds 100% of the shares (directly and indirectly) of PT Ranger Nickel Industry (Ranger Nickel), which is an Indonesian PMA<sup>13</sup> company which owns and will operate the RKEF processing facilities (referred to as the Ranger Nickel Project) once it is completed. The CA provides Nickel Mines with the option to acquire up to 80% of the equity in the Ranger Nickel Project over time.
- 21 Subsequent to Nickel Mines acquiring the 17% interest in the Ranger Nickel Project under the CA in November 2018, Shanghai Decent further expedited the construction of the Ranger Nickel Project. The first kiln of the Ranger Nickel Project was commissioned in May 2019 with a maiden production run occurring on 30 May 2019<sup>14</sup>. The second kiln is expected to be commissioned in early July 2019 with production to start shortly thereafter. As a result, the completion of the Ranger Nickel Project is well ahead of the original December quarter 2019 commissioning target.

### Terms of the Proposed Transaction

- 22 On 17 April 2019, the directors of Nickel Mines announced that the Company had, under the terms of the CA governing the Ranger Nickel Project, decided to increase its current ownership interest to 60%.
- 23 A second acquisition option under the CA permits Nickel Mines to increase its interest in the Ranger Nickel Project to between 51% and 60% before 31 December 2019 (Second Acquisition Option). If the acquisition is completed within 60 days of the plant commencing NPI production, the price of the additional interest is based on a discounted valuation of the

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<sup>10</sup> The Memorandum of Understanding was signed in June 2018.

<sup>11</sup> Nickel Mines ASX Announcement dated 9 November 2018.

<sup>12</sup> Based on a valuation of some US\$300.0 million times 17% interest equals US\$51 million (rounded to US\$50 million). US\$1.0 million was carried forward to the Second Acquisition Option.

<sup>13</sup> A PMA (Penanaman Modal Asing) is a limited liability company established under the laws of Indonesia.

<sup>14</sup> Nickel Mines ASX announcement dated 3 June 2019.

whole project of US\$280 million.<sup>15</sup> The Purchase Consideration for the additional 43% is US\$121.4 million<sup>16</sup>.

- 24 The additional 43% interest will be acquired from Shanghai Decent and its associates, which currently owns an 83% interest in the Ranger Nickel Project. Nickel Mines will acquire a further 43 shares in Ranger Investment and acquire an equivalent interest (i.e. 43%) in the loan provided by Shanghai Decent to Ranger Investment to fund construction of the Ranger Nickel Project.
- 25 Under the terms of the CA, the consideration payable to Shanghai Decent (or as Shanghai Decent may direct) for the Second Acquisition Option shall be satisfied by Nickel Mines in cash, the allotment of new shares in Nickel Mines or a combination of both at Shanghai Decent's sole discretion. The issue price of the new shares shall not be less than the volume average weighted price for trades done on the ASX for 10 days prior to the date of the Second Acquisition Option notice. The Purchase Consideration of US\$121.4 million will be paid as follows:
- (a) US\$40 million in Nickel Mines shares issued to Shanghai Decent at an agreed price of A\$0.41 per share
  - (b) US\$81.4 million in cash funded by a combination of a new debt facility (refer below) and share placement to new and existing institutional shareholders which occurred on 5 June 2019<sup>17</sup>.
- 26 If the Second Acquisition Option is exercised, a third acquisition option under the CA enables Nickel Mines to increase its interest in Ranger Investments and associated shareholder loans up to 80% within 18 months of the first production from the Ranger Nickel Project (Third Acquisition Option). Any additional interest acquired under the Third Acquisition Option will be based on a value of US\$300 million.

## Funding

- 27 The Proposed Transaction will be funded out of a US\$158 million funding package made up of US\$80 million in senior secured debt and US\$78 million of equity<sup>18</sup>. The total financing package is in excess of the US\$121.4 million acquisition price, with the balance being used to facilitate a number of strategic initiatives at the Hengjaya Mine and for general working capital purposes.

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<sup>15</sup> If the acquisition occurs more than 60 days after production commences at the Ranger Nickel Project, the acquisition cost is calculated based on a US\$300 million valuation (consistent with the valuation in the First Acquisition).

<sup>16</sup> Being US\$280 million times 43% equals US\$120.4 million, rounded up by US\$1.0 million carried forward from the First Acquisition.

<sup>17</sup> A A\$55.0 million share placement was completed on 5 June 2019 which translates to US\$38.0 million at an AUD:USD exchange rate of 0.6914.

<sup>18</sup> Being the US\$38 million referred to above and US\$40.0 million of shares to be issued to Shanghai Decent.

- 28 The US\$80 million loan facility will be provided by Shanghai Decent and its associates<sup>19</sup> and has the following key terms<sup>20</sup>:
- (a) conditional upon the receipt by the Company of all required regulatory and shareholder approvals
  - (b) secured against the shares held by the Company in:
    - (i) Ranger Investment (including the 43% to be acquired under the Proposed Transaction)
    - (ii) Hengjaya Holdings Private Limited
  - (c) term of five years repayable in 15 equal quarterly payments commencing on 30 November 2020. Early repayment is possible after one year's interest has been paid on the facility
  - (d) the interest rate is the greater of the US\$ three-month LIBOR<sup>21</sup> or 2.5% per annum, plus 6.0%.
- 29 As noted above, Shanghai Decent will effectively subscribe for US\$40 million of the equity component. Shanghai Decent will be issued with 139,972,705 new shares at a price of A\$0.41 per share<sup>22</sup>.
- 30 The balance of US\$38 million equity has been raised by way of a placement of 137.5 million new shares to both new and existing institutional investors on 5 June 2019. The pricing of the placement was A\$0.40 per share and represented a 6.1% discount to the 30-day volume weighted average share price (VWAP)<sup>23</sup>.

## Resolutions

- 31 There are two inter-conditional resolutions in respect of the Initial Transaction and the Proposed Transaction which must be passed by Nickel Mines shareholders at the Extraordinary General Meeting:
- (a) approval for the Company to acquire a 60% interest in Ranger Investment
  - (b) approval of the proposed issue of shares to Shanghai Decent for the purposes of ASX Listing Rule 7.1.

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<sup>19</sup> As announced by Nickel Mines on 21 May 2019.

<sup>20</sup> Appended to the commitment letter (deed) entered into with respect to the loan facility.

<sup>21</sup> London Interbank Offered Rate (LIBOR).

<sup>22</sup> This price was confirmed in Nickel Mines ASX Announcement on 5 June 2019. The agreed share price is based on the AUD:USD exchange rate of 0.697 as at 3 June 2019.

<sup>23</sup> Nickel Mines ASX Announcement on 5 June 2019.



## II Scope of our report

### Purpose

- 32 Both the Initial Transaction and the Proposed Transaction represent an acquisition of a substantial asset<sup>24</sup> from a substantial shareholder<sup>25</sup> under Rule 10.1.3 of the ASX Listing Rules and require the approval of Nickel Mines shareholders that are not considered a party to the transactions (i.e. the non-associated shareholders).
- 33 ASX Listing Rule 10.10.2 requires the notice of meeting sent to shareholders to include an IER, stating whether the transaction is “fair and reasonable” to the non-associated shareholders<sup>26</sup>. Accordingly, the Independent Directors of Nickel Mines that are not associated with the Initial Transaction and the Proposed Transaction have requested that LEA prepare an IER stating whether, in our opinion, the Initial Transaction and the Proposed Transaction are “fair and reasonable” to the non-associated shareholders, together with the reasons for this opinion.
- 34 Our report will accompany the meeting documents sent by Nickel Mines to its shareholders for the purpose of approving the Initial Transaction and the Proposed Transaction.
- 35 LEA is independent of Nickel Mines and Shanghai Decent and has no other involvement or interest in the transaction.

### Basis of assessment

- 36 In preparing our report, we have given due consideration to the ASX Listing Rules and Regulatory Guides issued by ASIC, particularly RG 111 and Regulatory Guide 76 – *Related Party Transactions* (RG 76).

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<sup>24</sup> ASX Listing Rule 10.2 defines an asset as substantial if its value or the value of the consideration for it is, or in the ASX’s opinion is, 5% or more of the “equity interest” of the entity as set out in the latest accounts given to the ASX under the Listing Rules.

<sup>25</sup> Shanghai Decent is a substantial shareholder in Nickel Mines for the purposes of ASX Listing Rule 10.1.1 as it has a relevant interest in over 10% of the Company’s total votes.

<sup>26</sup> Chapter 2E of the Corporations Act does not impose an IER requirement.

- 37 ASX Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to a substantial holder (of > 10% of the voting rights) or an associate of a substantial holder without the approval of holders of the entity's ordinary securities. Approval is required by resolution at a general meeting.
- 38 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity.
- 39 ASX Listing Rule 10.10 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to non-associated holders of the entity's ordinary securities.
- 40 RG 111 states that "fair and reasonable" should not be applied as a composite test and states there should be a separate assessment of "fair" and "reasonable". RG 111 provides that a proposed related party transaction:
- (a) is "fair" if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity by the related party. This comparison is required to be made assuming an arm's length transaction between knowledgeable and willing, but not anxious parties
  - (b) is "reasonable" if it is "fair". A related party transaction may also be "reasonable" despite being "not fair" if the expert believes there are other reasons for non-associated shareholders to vote for the proposal.
- 41 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the Initial Transaction and the Proposed Transaction are "fair and reasonable" to the non-associated shareholders is to consider:
- (a) the value of the 60% interest in the Ranger Nickel Project (i.e. the total interest that is to be acquired)
  - (b) the consideration to be paid by Nickel Mines for the 17% interest and the further 43% interest in the Ranger Nickel Project
  - (c) the extent to which (a) and (b) differ in order to assess whether the Proposed Transaction is "fair"
  - (d) the implications for Nickel Mines if the Proposed Transaction is not implemented
  - (e) the position of Nickel Mines before and after the Proposed Transaction, and the net benefits inherent in the transaction
  - (f) the advantages and disadvantages of the Initial Transaction and the Proposed Transaction from the perspective of Nickel Mines shareholders.
- 42 We have concluded that the Initial Transaction and the Proposed Transaction are reasonable to Nickel Mines shareholders if the advantages of the Initial Transaction and the Proposed Transaction outweigh the disadvantages from the perspective of Nickel Mines shareholders.

## **Limitations and reliance on information**

- 43 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over a relatively short period of time.
- 44 Our report is also based upon financial and other information provided by Nickel Mines. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 45 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Initial Transaction and the Proposed Transaction from the perspective of the Nickel Mines shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecast is beyond the scope of an IER.
- 46 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Initial Transaction and the Proposed Transactions rather than a comprehensive audit or investigation of detailed matters.
- 47 In forming our opinion, we have also assumed that the information set out in the Explanatory Statement is complete, accurate and fairly presented in all material respects.

### III Profile of Nickel Mines

#### Overview

48 Nickel Mines is an ASX listed Australian company that holds interests in nickel mining and processing operations in Indonesia. The Company owns a 60% interest in two RKEF lines (Hengjaya Nickel Project), a 17% interest in two additional RKEF lines (Ranger Nickel Project) and an 80% economic interest in the Hengjaya Mine, which produces nickel laterite ore.

#### History

##### Mining origins

49 Nickel Mines was incorporated on 12 September 2007 with the objective of acquiring, exploring and developing nickel projects. After a period focusing on other opportunities, in December 2009 the Company entered into an agreement to acquire an 80% economic interest in the share capital of PT Hengjaya Mineralindo (PT Hengjaya), the owner of 100% of the Hengjaya Mine, with the remaining 20% interest owned by members of Indonesia's Wijoyo family.

50 Nickel Mines commenced production in October 2012 and made a maiden shipment of nickel laterite in February 2013. A number of vessels containing high grade nickel laterite (at an average grade of 1.98% nickel) were sold into China and Japan in 2013. However, when the Indonesian Government formally enacted a ban on the direct shipping of unprocessed minerals in January 2014 (including exports under a grade of 4% nickel), mining at the Hengjaya Mine ceased and operations were placed on care and maintenance.

##### Indonesian export ban on unprocessed minerals

51 The origins of the Indonesian export ban of direct shipping of unprocessed minerals (DSO ban) dates back to the 2009 Indonesian Law on Mineral and Coal Mining. This law described certain minerals as national non-renewable resources, specifying that mining should be managed to encourage sustainable regional development, be for the benefit of national interests and pursuant to the welfare and prosperity of the Indonesian people. While it was not until January 2014 that an Indonesian presidential DSO ban decree came into force, the intervening period had seen the Indonesian Government actively encouraging and promoting the investment into and construction of smelting facilities to establish an in-country downstream nickel processing industry.

52 In response to the flagged legislative changes announced by the Indonesian Government in 2009, and well ahead of the DSO ban's formal introduction in 2014, in mid-2013 Tsingshan<sup>27</sup>, then one of China's largest stainless steel producers, committed to building a nickel processing facility in Indonesia to satisfy the indicated new framework for the treatment of Indonesia's natural resources.

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<sup>27</sup> Shanghai Decent is a Tsingshan company.

- 53 PT Indonesia Morowali Industrial Park was established to develop the IMIP in the Morowali County of the Central Sulawesi Province of Indonesia. During October 2013, China's President Xi and then Indonesian President Yudhoyono witnessed the signing of the Cooperation and Financing Agreement for the development of the IMIP.

#### **Resumption of mining operations and development of Tsingshan relationship**

- 54 The introduction of the Indonesian DSO ban materially changed the course of Nickel Mines' future, with the Company subsequently required to meet the minimum required export grade of 4% for nickel products. The development of the IMIP and a growing requirement of nickel laterite as feedstock for the IMIP's RKEF lines saw the Hengjaya Mine recommence operations in the second half of 2015.
- 55 In September 2015 PT Hengjaya signed a supply agreement with PT Sulawesi Mining Investment, a Tsingshan group company, to supply 30,000 wet metric tonnes (WMT) per month of nickel laterite at a cut-off grade of 1.90% nickel for six months. As a result, production at the Hengjaya Mine recommenced in October 2015. In December 2016, PT Hengjaya entered into an offtake agreement with Tsingshan group company PT Indonesia Tsingshan Stainless Steel (ITSS) for the delivery of 50,000 WMT per month at an average grade of 1.90% nickel<sup>28</sup>.
- 56 The development of this relationship and Tsingshan's requirement for more NPI production to fuel its stainless steel expansion plans culminated in Nickel Mines and Shanghai Decent<sup>29</sup> discussing a strategic partnership that would contemplate the two parties building additional NPI processing capacity within the IMIP.
- 57 In September 2017, Nickel Mines executed a Collaboration and Subscription Agreement with Tsingshan with respect to the funding and construction of two RKEF lines to produce 150,000 tpa of NPI containing 15,000 tonnes of nickel (the Hengjaya Nickel Project).
- 58 Nickel Mines acquired a 25% interest in the Hengjaya Nickel Project in April 2018 by provision of a US\$50 million shareholder loan to Hengjaya Holdings Private Limited (Hengjaya Holdings). These funds were in turn provided to PT Hengjaya Nickel Industry (Hengjaya Nickel) by way of US\$25 million shareholder loan and US\$25 million equity contribution. Hengjaya Nickel used these funds to contribute to the guaranteed capital cost of US\$200 million for the construction of the Hengjaya Nickel Project.

#### **ASX listing and events subsequent events**

- 59 Nickel Mines was listed on the ASX in August 2018 raising \$200 million. On 4 September 2018, the Company submitted notice to Shanghai Decent to acquire a further 35% of the issued and paid-up share capital of Hengjaya Holdings and a proportionate interest in the shareholder loans owing by Hengjaya Holdings to Shanghai Decent for US\$70 million. This transaction increased the Company's interest in the Hengjaya Nickel Project, which was still under construction at the time, to 60% based on the guaranteed construction price of US\$200 million.

<sup>28</sup> In October 2017, an updated offtake agreement was signed with ITSS guaranteeing to take supply of 50,000 WMT per month until 30 November 2018, with a cut-off grade of 1.60% nickel.

<sup>29</sup> Shanghai Decent is a Tsingshan company.

- 60 On 1 November 2018, Nickel Mines announced that the Hengjaya Nickel Project's operating entity had been granted material corporate income tax relief on the following basis:
- (a) a corporate income tax reduction of 100% for a period of seven tax years, starting from the tax year in which commercial production is achieved
  - (b) a corporate income tax reduction of 50% of payable income tax for a period of two tax years, starting from the end of the initial seven year period
  - (c) exemption from withholding and tax collection by third parties on sales proceeds that would normally be remitted to the Indonesian Revenue Department for a period of seven years, also commencing from the tax year in which commercial production is achieved.
- 61 On 8 November 2018, the Company executed a binding CA with Shanghai Decent to acquire up to an 80% equity interest in two additional RKEF lines, under construction in the IMIP, and referred to as the Ranger Nickel RKEF lines (Ranger Nickel Project). The collaboration agreement provides for Nickel Mines to acquire its interest in three tranches:
- (a) the First Acquisition gave Nickel Mines the right to acquire an initial interest of 17% in the Ranger Nickel Project and 17% of all shareholder loans due to Shanghai Decent (and its affiliates) at cost of US\$50 million (based on a valuation of US\$300 million)<sup>30</sup>
  - (b) the Second Acquisition Option permits Nickel Mines to increase its interest in the Ranger Nickel Project and in the total shareholder loans to between 51% and 60% before 31 December 2019<sup>31</sup>. If this acquisition is completed within 60 days after the first batch of NPI is produced from the Ranger Nickel Project, the additional percentage acquired will be calculated based on a discounted valuation of US\$280 million. If this acquisition is completed more than 60 days after the first batch of NPI is produced from the Ranger Nickel Project, the additional percentage acquired will be calculated based on a valuation of US\$300 million
  - (c) conditional upon completion of the Second Acquisition Option, the Third Acquisition Option permits Nickel Mines to increase its interest in the Ranger Nickel Project and in the total shareholder loans to up to 80% within 18 months of the first batch of NPI being produced from the Ranger Nickel Project. Any additional interest acquired under the Third Acquisition Option will be calculated based on a valuation of US\$300 million.
- 62 On 1 February 2019, Nickel Mines advised that the Company's 60% owned Hengjaya Nickel Project had produced its first NPI. In this announcement the Company also stated that:
- (a) the Hengjaya Nickel Project's first kiln was expected to reach at least 80% of nameplate capacity by early April 2019 and that the second kiln was anticipated to commence commissioning in early March 2019 and was expected to reach at least 80% of capacity

<sup>30</sup> The First Acquisition completion date was 10 business days after the execution of the CA and the 17% interest in the Ranger Nickel Project was acquired by Nickel Mines at a price of US\$50 million using proceeds from the funds raised under the initial public offering. The balance of US\$1 million (being the difference between 17% of US\$300 million and the price paid of US\$50 million) was carried forward to the Second Acquisition Option.

<sup>31</sup> The Second Acquisition Option is the Proposed Transaction, the subject of this report.

in early May 2019. Ramp-up to full scale production for both kilns was expected to be achieved shortly thereafter<sup>32</sup>

- (b) Shanghai Decent had advised that an expedited schedule would see the first kiln of the Ranger Nickel Project ready to commence commissioning in April 2019, with the second kiln to commence commissioning a month later. This was well ahead of previous guidance target (i.e. targeting commissioning in the September 2019 quarter).

- 63 On 26 March 2019, the Company announced that the Ranger Nickel Project had been granted corporate income tax relief on a basis consistent with the tax concessions previously granted to the Hengjaya Nickel Project.
- 64 On 17 April 2019, Nickel Mines announced that it intended to increase its ownership in the Ranger Nickel Project to 60%. The Company also stated that as the commissioning of the first kiln of the Ranger Nickel Project was well ahead of the previous September 2019 quarter commissioning target, the decision had been made to expedite the acquisition of this additional 43% interest.
- 65 On 3 June 2019, Nickel Mines announced that the first NPI had been produced from one of the Ranger Nickel Project's two RKEF lines in a maiden production run. The second line is expected to commence commissioning by early July 2019, with both lines expected to take approximately two months to ramp up to 80% of capacity.

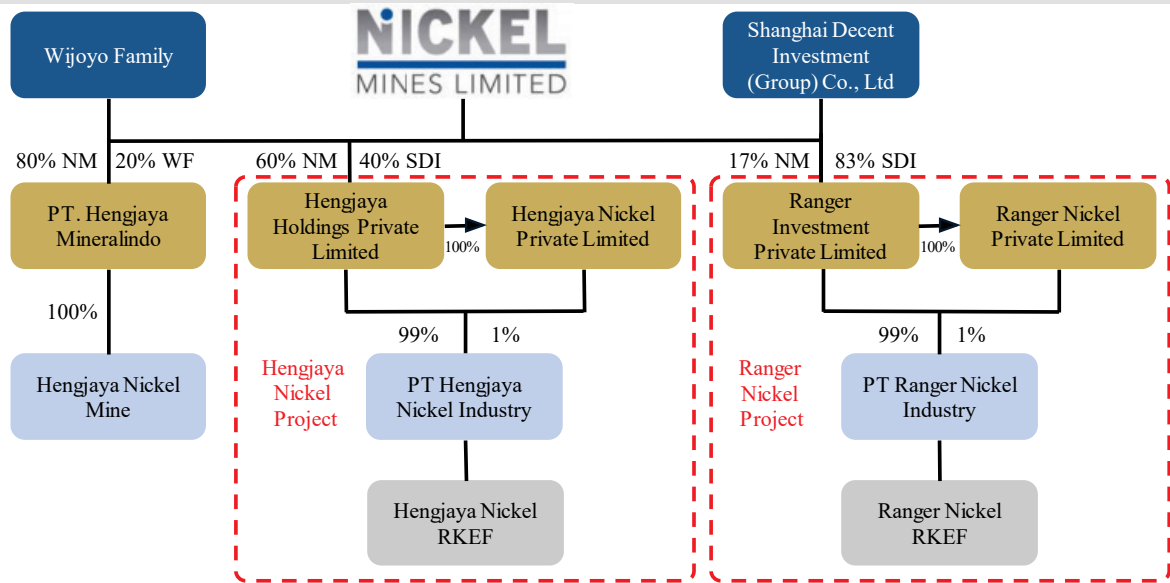
### **Current operations**

- 66 Nickel Mines owns nickel mining and processing operations on the east coast of Central Sulawesi, Indonesia. The company holds ownership interests that comprise an 80% ownership stake in the Hengjaya Mine, a 60% interest in the Hengjaya Nickel Project and a 17% interest in the Ranger Nickel Project.

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<sup>32</sup> This commissioning process and ramp-up is consistent with that previously implemented across the 20 existing RKEF lines currently in operation within the IMIP.

Nickel Mines – operations



67 Nickel Mines’ mining and processing operations are all located in the Morowali Regency on the east coast of Central Sulawesi, Indonesia. Its RKEF lines are operated within the IMIP, which is situated approximately 12 kilometres north of the Hengjaya Mine boundary, as shown in the following map:

Nickel Mines – locations





## Hengjaya Nickel Mine

- 68 Nickel Mines holds an 80% interest in the Hengjaya Mine, a world-class nickel laterite deposit, with the remaining 20% interest owned by the Wijoyo family, acting as the local Indonesian partner. The mine is located in the Morowali Regency, on the east coast of the province of Central Sulawesi, Indonesia. In 2012, PT Hengjaya was granted a 20-year mining operation / production licence, including a further 10-year extension option. The mine is responsible for supplying the Hengjaya Nickel Project's two RKEF lines with 1.5 million tonnes (Mt) per annum (Mtpa) of mineral ore with a grade exceeding 1.8%.
- 69 The mine hosts Joint Ore Reserves Committee (JORC) compliant resources as follows:

Nickel Mines – JORC resources				
Category	1.5% cut-off grade		1.0% cut-off grade	
	Dry tonnes (million)	Nickel %	Dry tonnes (million)	Nickel %
Measured	0.7	1.8	6.9	1.2
Indicated	15.0	1.9	50.0	1.4
Inferred	22.0	1.8	120.0	1.3
Total	38.0	1.8	180.0	1.3

## Hengjaya Nickel Project

- 70 The Hengjaya Nickel Project is 60% owned by Nickel Mines, with the Company holding an option to move to 100% ownership within 12 months of first NPI production<sup>33</sup>. The project has a production capacity of 16,500 tonnes of finished NPI product per annum and is a low cost NPI producer (as are all of the RKEF modules that are operated by Tsingshan in Indonesia), with operating costs in the lowest quarter of global NPI producers. As stated above, the Hengjaya Nickel Project produced its first NPI in late January 2019 and the project was expecting to reach 80% of capacity in early May 2019, with ramp-up to full scale production expected to be achieved shortly thereafter.

## Ranger Nickel Project

- 71 The Ranger Nickel Project is 17% owned by Nickel Mines, with the Company holding options to move to 80% ownership within 18 months of first NPI production. The project is a replication of the low cost Hengjaya Nickel Project, with a similar operational cost structure and production capacity (16,500 tonnes of finished NPI product per annum). The commissioning of the first kiln of the Ranger Nickel Project occurred in May 2019 (well ahead of the previous September 2019 quarter commissioning target), with the second kiln expected to commence commissioning in early July 2019.

<sup>33</sup> The first NPI was produced on 31 January 2019.

## Financial performance

72 The financial performance of Nickel Mines for the three years to 30 June 2018 (FY18), and six months to 31 December 2018 (1HY19) is set out below:

<b>Nickel Mines – statement of financial performance<sup>(1)</sup></b>				
	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>1HY19</b>
	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>	<b>US\$m</b>
Revenue	4.5	8.6	13.6	8.1
Cost of goods sold	(4.5)	(7.7)	(10.7)	(6.0)
<b>Gross profit</b>	<b>(0.0)</b>	<b>0.9</b>	<b>2.9</b>	<b>2.1</b>
Administration and consultants' expenses	(0.4)	(0.6)	(2.0)	(1.3)
Agency fee charges	(0.9)	(3.3)	(1.8)	-
Depreciation and amortisation	(0.0)	(0.1)	(0.1)	(0.0)
Net financial expenses	(0.4)	(0.5)	(0.7)	(1.4)
Other expenses	(0.2)	(0.4)	(0.6)	(0.5)
Share of loss of equity accounted investee	-	-	-	(0.1)
<b>Operating expenses</b>	<b>(1.9)</b>	<b>(4.8)</b>	<b>(5.1)</b>	<b>(3.3)</b>
<b>Profit / (loss) before tax</b>	<b>(1.9)</b>	<b>(3.9)</b>	<b>(2.3)</b>	<b>(1.2)</b>
Income tax expense	0.4	0.2	(0.7)	(0.5)
<b>Profit / (loss) after tax</b>	<b>(1.5)</b>	<b>(3.7)</b>	<b>(2.9)</b>	<b>(1.7)</b>

**Note:**

1 Rounding differences exist.

73 Nickel Mines' historical financial performance largely reflects the performance of its Hengjaya Mine operations. However, given Nickel Mines' recent investments in nickel processing operations (i.e. both the Hengjaya Nickel Project and the Ranger Nickel Project) and the potential earnings capabilities of these assets, the Company's future financial results are expected to be weighted towards its processing operations. Accordingly, the historical financial performance for Nickel Mines is not representative of ongoing financial performance.

## Financial position

74 The financial position of Nickel Mines as at 30 June 2018 and 31 December 2018 is set out below:

**Nickel Mines – statement of financial position<sup>(1)</sup>**

	<b>30 Jun 18</b>	<b>31 Dec 18</b>
	<b>US\$m</b>	<b>US\$m</b>
Debtors and prepayments	0.4	1.8
Inventories	0.6	0.7
Creditors, accruals and provisions	(4.0)	(4.2)
<b>Net working capital</b>	<b>(3.0)</b>	<b>(1.7)</b>
Property, plant and equipment	26.6	26.6
Investment in equity accounted investees	50.0	169.9
Other assets	1.0	0.6
Provisions – non-current	(0.3)	(0.3)
<b>Total funds employed</b>	<b>74.3</b>	<b>195.1</b>
Cash and cash equivalents	0.8	14.6
Interest bearing liabilities	-	-
<b>Net cash / (borrowings)</b>	<b>0.8</b>	<b>14.6</b>
<b>Net assets attributable to Nickel Mines shareholders</b>	<b>75.1</b>	<b>209.8</b>

**Note:**

1 Rounding differences exist.

**Property, plant and equipment**

75 Nickel Mines' property, plant and equipment is predominantly comprised of mining properties relating to its holding in the Hengjaya Mine.

**Nickel Mines – property, plant and equipment**

	<b>30 Jun 18</b>	<b>31 Dec 18</b>
	<b>US\$m</b>	<b>US\$m</b>
Mining properties	24.4	24.4
Mine infrastructure assets	1.7	1.7
Other (buildings, motor vehicles, office equipment etc.)	0.5	0.5
<b>Total property, plant and equipment</b>	<b>26.6</b>	<b>26.6</b>

**Investment in equity accounted investees**

76 Nickel Mines investment in equity accounted investees relates to its investments in the Hengjaya Nickel Project and Ranger Nickel Project.

**Nickel Mines – investment in equity accounted investees**

	<b>30 Jun 18</b>	<b>31 Dec 18</b>
	<b>US\$m</b>	<b>US\$m</b>
Investment in Hengjaya Holdings	50.0	119.9
Investment in Ranger Investment	-	50.0
<b>Investment in equity accounted investees</b>	<b>50.0</b>	<b>169.9</b>

77 We note that the operations of the Hengjaya Nickel Project will be consolidated by Nickel Mines in the 30 June 2019 financial statements, as will Ranger Nickel Project should the acquisition complete by 30 June 2019.

## Share capital

78 As at 18 June 2019, Nickel Mines had 1,525 million fully paid ordinary shares on issue, including 280 million ordinary shares subject to escrow arrangements.

## Significant shareholders

79 As at 18 June 2019 (based on disclosures in the FY18 Annual Report and substantial shareholder notices released to the ASX up to that date), there were six substantial shareholders in Nickel Mines that held a total of 50.9% of the ordinary shares on issue as detailed below:

<b>Nickel Mines – substantial shareholders<sup>(1)</sup></b>		
<b>Shareholder</b>	<b>Shares held</b>	
	<b>million</b>	<b>% interest</b>
Shanghai Decent Investment (Group) Co., Ltd	161.7	10.6
Shanghai Wanlu Investment Co Ltd	149.3	9.8
BlackRock Group	137.9	9.0
Norman Alfred Seckold	123.7	8.1
Regal Funds Management Pty Ltd	112.3	7.4
UBS Group AG and its related bodies corporate	91.9	6.0
<b>Total</b>	<b>776.8</b>	<b>50.9</b>

**Note:**

1 Rounding errors exist.

## IV Valuation methodology

### Valuation approaches

- 80 ASIC Regulatory Guideline 111 – *Content of expert reports* (RG 111) outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
  - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
  - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
  - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
  - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 81 Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 82 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 83 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

- 84 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

## **Methodologies selected**

### **Primary methodology**

- 85 We have assessed the value of the 60% interest in the Ranger Nickel Project by reference to the price paid by Nickel Mines in recent comparable transactions for:
- (a) an initial 25% interest in the Hengjaya Nickel Project
  - (b) a further 35% interest in the Hengjaya Nickel Project
  - (c) the initial 17% interest in the Ranger Nickel Project.
- 86 We have also had regard to the following:
- (a) the value implied under the option for Nickel Mines to acquire up to 100% interest in the Hengjaya Nickel Project
  - (b) the Purchase Consideration for the Proposed Transaction
  - (c) the value implied under the option for Nickel Mines to acquire up to 80% interest in the Ranger Nickel Project.

### **Cross check**

- 87 Consistent with RG 111 we have also assessed the indicative value of the Ranger Nickel Project by applying the DCF methodology.

## V Valuation of the interest in Ranger Nickel Project

### Overview

- 88 As stated in Section IV, the value of the 60% interest in the Ranger Nickel Project has been compared to a number of precedent transactions entered into by Nickel Mines in respect of the acquisition of interests in the Hengjaya Nickel Project, the initial 17% interest in the Ranger Nickel Project and the Proposed Transaction.
- 89 As a cross-check, the Initial Transaction Consideration and the Purchase Consideration to be paid under the Proposed Transaction have been compared to an indicative valuation of the Ranger Nickel Project based on a DCF analysis of the project's forecast cash flows.

### Precedent transactions

#### Initial interest in the Ranger Nickel Project (Initial Transaction)

- 90 In November 2018, the Company executed the CA to acquire up to an 80% equity interest in two additional RKEF lines, under construction in the IMIP, and referred to as the Ranger Nickel Project.
- 91 The First Acquisition under the CA was for a 17% interest at a price of US\$50 million<sup>34</sup>. The purchase price was based on a US\$300 million valuation for the Ranger Nickel Project. This valuation is consistent with the value attributed to the total Hengjaya Nickel Project<sup>35</sup> for the purposes of Nickel Mines purchasing up to a further 40% interest under the call option.

#### Further 43% interest in Ranger Nickel Project (Proposed Transaction)

- 92 Under the terms of the CA, Nickel Mines will pay US\$121.4 million for its further 43% interest based on a discounted valuation of the overall project of US\$280 million. This reduced value arises due to the Company electing to increase its ownership within 60 days of Ranger Nickel Project's first NPI production. In the alternative, if Nickel Mines elected to increase its ownership after this period but before 31 December 2019, under the terms of the CA the consideration payable is based on a valuation of US\$300 million.

#### Option to acquire a further 20% interest in Ranger Nickel Project

- 93 Nickel Mines has a right under the CA to increase its interest in Ranger Nickel Project to 80% within 18 months of the first NPI production. The price for this acquisition of up to a further 20% interest in the Ranger Nickel Project is also based on a total project value of US\$300 million.

#### Interest in the Hengjaya Nickel Project

- 94 Nickel Mines currently holds a 60% interest in the Hengjaya Nickel Project. The Hengjaya Nickel Project and the Ranger Nickel Project are identical projects save for the Ranger Nickel Project construction being approximately five months later.

<sup>34</sup> A 17% interest implies a purchase price of US\$51 million. US\$1 million was carried forward and included in the Second Acquisition Option purchase price.

<sup>35</sup> The Hengjaya Nickel Project is a comparable project to the Ranger Nickel Project.

- 95 The purchase price for this investment was as follows:
- (a) **April 2018** – Nickel Mines acquired a 25% interest in the Hengjaya Nickel Project, which was still under construction, by provision of a US\$50 million shareholder loan to Hengjaya Holdings, implying a value of US\$200 million for 100% of the project. These funds were in turn provided to Hengjaya Nickel by way of US\$25 million shareholder loan and US\$25 million equity contribution. Hengjaya Nickel used these funds to contribute to the guaranteed capital cost of US\$200 million for the construction of the Hengjaya Nickel Project
  - (b) **September 2018** – Nickel Mines submitted notice to Shanghai Decent to acquire a further 35% of the issued and paid-up share capital of Hengjaya Holdings and a proportionate interest in the shareholder loans owing by Hengjaya Holdings to Shanghai Decent for US\$70 million, implying a value of US\$200 million for 100% of the project. This transaction increased the Company’s interest in the Hengjaya Nickel Project, which was still under construction, to 60% based on the guaranteed construction price of US\$200 million.
- 96 Nickel Mines also has a call option, expiring 12 months after the first NPI production from the Hengjaya Nickel Project, to enable it to increase its ownership in the Hengjaya Nickel Project to 100% for consideration of a further US\$120 million. The price payable if the option is exercised implies a value for the Hengjaya Nickel Project of some US\$300 million.

### **DCF assessment**

- 97 Under the DCF methodology the value of the Ranger Nickel Project is equal to the NPV of the estimated future cash flows over the estimated operating period. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

### **Cash flow projections**

- 98 Our DCF valuation is based on the detailed free cash flow projections prepared by Nickel Mines management. Free cash flow projections for the Hengjaya Nickel Project were reviewed by Blackpeak Capital and Wood Mackenzie. LEA has undertaken a review of the Ranger Nickel Project’s cash flows projections to satisfy itself that they are reasonable and sufficiently reliable for valuation purposes.
- 99 Based upon the above, nothing came to our attention that would indicate that the projections could not be relied upon for valuation purposes. That said, it should be noted that:
- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
  - (b) future profits and cash flows are inherently uncertain
  - (c) the achievability of these projections is not warranted or guaranteed by Nickel Mines or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Nickel Mines and its management
  - (d) actual results may be significantly more or less favourable.



- 100 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments<sup>36</sup>, capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.
- 101 The free cash flow projections cover the period to 30 June 2055 (being a period of 35 years from 1 July 2019). For valuation purposes we have assumed a valuation date of 1 July 2019.
- 102 As the detailed cash flow projections are commercially sensitive they have not been set out in our report. However, information on the major assumptions underlying the free cash flow projections is set out below.
- 103 The major base case assumptions underlying the Ranger Nickel Project free cash flows are set out below:

**Nickel Mines – drivers of free cash flow**

<b>Input</b>	<b>Assumption<sup>(1)</sup></b>	<b>Comment</b>
<b>NPI production</b>	150,000 tonnes	<ul style="list-style-type: none"> <li>Consistent with nameplate capacity of the Ranger Nickel Project and the Hengjaya Nickel Project</li> <li>Assumed to occur in FY21, however commissioning is ahead of schedule</li> <li>Requires 1.545 million tonnes of ore</li> </ul>
<b>Nickel price (real)</b>	US\$13,000 per tonne	<ul style="list-style-type: none"> <li>NPI prices closely follow the benchmark London Metal Exchange (LME) nickel price, with a premium or discount depending on the prevailing market conditions (e.g. demand from stainless steel producers)</li> <li>This compares to the actual price achieved by Hengjaya Nickel Project in the first quarter CY19 of US\$12,800 per tonne</li> <li>The assumed price is well below the long term LME nickel price forecast by Wood Mackenzie (and disclosed in the Company's prospectus)</li> </ul>
<b>NPI grade (%)</b>	11%	<ul style="list-style-type: none"> <li>The NPI grade achieved by the Hengjaya Nickel Project in 2019 ranged from 11.5% to 13.7%</li> </ul>
<b>Ore cost</b>	US\$30.90 per WMT	<ul style="list-style-type: none"> <li>Based on nickel grade and moisture content</li> <li>Capped at US\$33 per WMT</li> <li>As a result of the Indonesian export ban on nickel ore, the Ranger Nickel Project has access to high grade (&gt;1.8% Ni) laterite feedstock that is produced in Indonesia at a lower cost than feedstock from other countries e.g. the Philippines</li> </ul>
<b>Electricity</b>	US\$2,600 per tonne of contained nickel	<ul style="list-style-type: none"> <li>Consistent with assumptions for the Hengjaya Nickel Project</li> <li>The IMIP has an on-site purpose built power plant capable of producing 1.96 gigawatts. Tenants including the Ranger and Hengjaya Nickel Projects have access to this power supply which is priced under an agreed formula</li> </ul>

<sup>36</sup> Also calculated on an ungeared basis. The value of the "tax holiday" granted by the Indonesian Government has been valued separately.

**Nickel Mines – drivers of free cash flow**

<b>Input</b>	<b>Assumption<sup>(1)</sup></b>	<b>Comment</b>
<b>Reductant coal cost</b>	US\$1,450 per tonne of contained nickel	<ul style="list-style-type: none"> <li>Consistent with assumptions for the Hengjaya Nickel Project</li> </ul>
<b>Other operating costs</b>	US\$1,614 per tonne of contained nickel	<ul style="list-style-type: none"> <li>Consistent with assumptions for the Hengjaya Nickel Project</li> <li>Includes other materials (refractory material, electrode paste, furnace shells, diesel), labour, selling expenses, repairs and maintenance and management expenses</li> </ul>
<b>Sustaining capital expenditure (capex)</b>	US\$5.0 million per annum	<ul style="list-style-type: none"> <li>Consistent with assumptions for the Hengjaya Nickel Project</li> <li>Potentially conservative given that there is an allowance for repairs and maintenance in the operating costs</li> </ul>

**Note:**

1 All inputs to the DCF model are real.

**Corporate tax**

104 The Indonesian corporate tax rate is 25%. However, the Ranger Nickel Project has been granted material corporate income tax relief as follows:

- (a) a corporate income tax reduction of 100% for a period of seven tax years, starting from the tax year in which commercial production is achieved (i.e. 2020)
- (b) a corporate income tax reduction of 50% of payable income tax for a period of two tax years, starting from the end of the initial seven year period
- (c) exemption from withholding and tax collection by third parties on sales proceeds that would normally be remitted to the Indonesian Revenue Department for a period of seven years, also commencing from the tax year in which commercial production is achieved.

105 These concessions may be revoked and are maximum periods that may be amended or adjusted, if certain conditions are not met, the key condition being that the minimum investment level be met. The investment in the Ranger Nickel Project exceeds this minimum requirement.

106 The DCF model includes an allowance for 10% withholding tax payable on dividends distributed to the Singaporean holding company. No withholding tax is payable on dividend distributions from Singaporean companies.

**Discount rate**

107 We have adopted a discount rate of 10.5% per annum (after tax in real terms) based on the approximate mid-point of the assessment below for the Ranger Nickel Project.

Weighted averaged cost of capital (WACC)		
	Low %	High %
Beta	1.1	1.2
Risk premium	6.0	6.0
Risk free	3.0	3.0
<b>Cost of equity</b>	9.6	10.2
Company specific premium	0.5	1.0
Country risk premium	3.0	3.0
<b>Cost of equity including other premiums</b>	13.1	14.2
Cost of debt pre tax	9.0	10.0
<b>Cost of debt post tax<sup>(1)(2)</sup></b>	6.8	7.5
Proportion equity	85.0	85.0
Proportion debt	15.0	15.0
<b>WACC (after tax)</b>	12.1	13.2
Forecast inflation <sup>(3)</sup>	1.9	1.9
Real WACC (after tax)	10.0	11.1
<b>Adopt</b>	<b>10.5</b>	

**Note:**

- 1 The tax free holiday is valued separately to the enterprise cash flows.
- 2 The post-tax cost of debt is derived adopting Indonesia's 25% corporate tax rate.
- 3 Given the cash flows for the Ranger Nickel Project have been provided to us in real terms we have calculated the equivalent real discount rate having regard to the annual level inflation implied by the difference between United States of America (US) Government Bonds and US Treasury Inflation Indexed Bonds<sup>37</sup>.

108 LEA's discount rate assessment reflects:

- (a) a **risk free rate** of 3.0% per annum – which approximates the yield on 30 year US Government Bonds as at 30 April 2019
- (b) a **market risk premium (MRP)** of 6.0% per annum<sup>38</sup>
- (c) an **equity beta** of 1.1 to 1.2 – having regard to:
  - (i) the tolling nature of the Ranger Nickel Project's facilities
  - (ii) the Ranger Nickel Project's exposure to nickel prices and the commodity price volatility therein
- (d) **company specific risk premium** of 0.5% to 1.0% to allow for the development risks associated with the project (noting that many of these risks have been mitigated, e.g. through the experience with established RKEF projects etc.)

<sup>37</sup> As at 30 April 2019, inflation implied by the 5, 10 and 30 year US Government Bonds compared to the relevant US Treasury Inflation Indexed Bonds (i.e. implied inflation for 5, 10 and 30 year periods from this date) was 1.8%, 1.9% and 2.0% respectively.

<sup>38</sup> Being the estimated risk premium obtained by looking at the implied premium for the S&P 500. (Source: Aswath Damodaran, Stern University New York, January 2019.)

- (e) **country risk premium**<sup>39</sup> of 3% has been adopted based on Indonesia's country bond default spread<sup>40</sup>
- (f) a long term **cost of debt** of 9% to 10% having regard to the terms of the recent debt facilities entered into by Nickel Mines. Note this rate implicitly includes allowance for a country risk premium
- (g) a conservative **gearing ratio** (debt / enterprise value) of 15%
- (h) a long term **inflation rate** of 1.9%, consistent with the estimated long-term inflation rate in the US (as a proxy for global inflation).

### Sensitivity analysis

- 109 There are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.
- 110 It is important therefore not to credit the output of DCF models with a precision they do not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the enterprise being valued.
- 111 In assessing a valuation range to adopt we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

Ranger Nickel Project DCF valuation – sensitivity analysis <sup>(1)</sup>			
Variable	Base Case assumption	Sensitivity %	Value range \$m
Nickel units produced (tonnes)	16,533	+/-10%	463 – 652
NPI price / tonne	US\$13,000	+/- 10%	398 – 717
Operating expenses (millions)	US\$135.3	+/- 10%	458 – 657
Sustaining capex (millions)	US\$5.8	+/- 10%	553 – 562
Discount rate	10.5%	+/- 2%	482 – 660

**Note:**

- 1 Excludes the incremental value of the tax holiday granted by the Indonesian government.

- 112 The real NPI price / tonne is clearly the most sensitive assumption. We note that this parameter would have to reduce below US\$11,000 per tonne to cause the value of the project to reduce below the US\$280 million value at which the 43% interest is being acquired.
- 113 The DCF value of the nine year tax holiday is some US\$95 million based on our adopted discount rate of 10.5% before any adjustment for the risk of amendment or adjustment by the Indonesian Government.

<sup>39</sup> A country risk premium essentially allows for three major risks associated with investment in a foreign country including political risk, economic risk and currency risk.

<sup>40</sup> Where the country bond default spread is measured as the difference between the yield on the country's sovereign bonds and the yield on comparable US Treasury Bonds.

**Adopted DCF value**

- 114 Based on the above, the value of 100% of the Ranger Nickel Project under the DCF approach ranges from US\$400 million to US\$650 million.
- 115 This value is well in excess of the US\$300 million value attributed to the Ranger Nickel Project in the CA and the discounted project value of US\$280 million on which the Proposed Transaction is based.

## VI Evaluation of the Initial Transaction and the Proposed Transaction

116 In our opinion the Initial Transaction and the Proposed Transaction are fair and reasonable to the Nickel Mines shareholders. We have formed this opinion for the reasons set out below.

### Fairness

117 Pursuant to RG 111, a related party transaction<sup>41</sup> is “fair” if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired. In our opinion the Initial Transaction and the Proposed Transaction are fair as:

- (a) the Initial Transaction Consideration of US\$50.0 million is in accordance with the contractual terms of the CA for the Ranger Nickel Project and implies a value for 100% of the Ranger Nickel Project of US\$300.0 million
- (b) the Purchase Consideration of US\$121.4 million for the 43% interest is in accordance with the contractual terms of the CA (agreed in November 2018) for the Ranger Nickel Project
- (c) the Purchase Consideration implies a value for 100% of the Ranger Nickel Project of US\$280 million which represents a 7% discount to the US\$300 million value referred to in the CA and implied in:
  - (i) the Initial Transaction (i.e. the acquisition of the first 17% of the Ranger Nickel Project by Nickel Mines)
  - (ii) the option to purchase a further 20% in the Ranger Nickel Project within 18 months of the first NPI production.

By exercising the option over the 43% interest in the Ranger Nickel Project within 60 days of the first NPI production rather than before 31 December 2019, the Purchase Consideration is US\$8.6 million lower

- (d) the value of US\$300 million attributed to the Ranger Nickel Project under the CA is consistent with the value attributed to the Hengjaya Nickel Project (an identical project which is currently 60% owned by Nickel Mines) in the option to acquire up to a further 40% interest in that project under the terms of the Collaboration Agreement for that project.

These precedent transactions are shown in the table below:

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<sup>41</sup> Which includes a transaction with a person in a position of influence that requires member approval under ASX Listing Rule 10.

<b>Nickel Mines – acquisition of interest in Nickel Projects</b>			
<b>Transaction date</b>	<b>Acquisition</b>	<b>Purchase Price US\$m</b>	<b>Value of 100% US\$m</b>
<b>Hengjaya Nickel Project</b>			
April 2018	25% initial interest	50.0	200.0 <sup>(1)</sup>
September 2018	Further 35% interest	70.0	200.0 <sup>(1)</sup>
By January 2020	Up to 40% interest	120.0 <sup>(2)</sup>	300.0 <sup>(3)</sup>
<b>Ranger Nickel Project</b>			
November 2018	17% initial interest	50.0 <sup>(4)</sup>	300.0 <sup>(5)</sup>
By July 2019	Further 43% interest	121.4 <sup>(4)</sup>	280.0 <sup>(5)</sup>
November 2020	Up to 20% interest	60.0 <sup>(6)</sup>	300.0 <sup>(5)</sup>

**Note:**

- 1 Transaction based on the guaranteed construction price of US\$200 million. At the time of entering into these transactions the performance of the plant had not been proven.
- 2 Price for a further 40% interest.
- 3 As per the terms of the Collaboration Agreement for the Hengjaya Nickel Project. The purchase price increased as the project has become operational.
- 4 The purchase price for the first 17% interest was rounded down by US\$1.0 million. As per the terms of the CA, the Purchase Consideration includes the US\$1.0 million rounding down from the acquisition of the initial 17% interest.
- 5 As per the terms of the CA for Ranger Nickel Project.
- 6 Price for a further 20% interest.

- (e) the Initial Transaction Consideration and the Purchase Consideration (totalling US\$171.4 million) is less than the present value of the Company's pro rata share of the estimated future free cash flows from the Ranger Nickel Project based on nameplate production capacity and a conservative estimate of future nickel prices.

**Reasonableness**

- 118 Pursuant to RG 111, a related party transaction is reasonable if it is fair. Consequently, in our opinion, the Initial Transaction and the Proposed Transaction are both fair and reasonable to Nickel Mines Shareholders.
- 119 In considering whether the Initial Transaction and the Proposed Transaction are reasonable to Nickel Mines Shareholders we have also had regard to the following:
- (a) the announcement of the Initial Transaction
  - (b) the implications for Nickel Mines if the Proposed Transaction is not implemented
  - (c) the position of Nickel Mines before and after the Proposed Transaction, and the net benefits inherent in the transaction
  - (d) other qualitative factors with respect to the Proposed Transaction.

### **Implication if the Proposed Transaction is not implemented**

- 120 If the Second Acquisition Option is not exercised on or before 60 days from the “CT Date”<sup>42</sup>, the project value for the purposes of determining the Second Acquisition Option consideration will increase from US\$280 million to US\$300 million. This would increase the Second Acquisition Option consideration to US\$130 million, should the Second Acquisition Option proceed prior to 31 December 2019<sup>43</sup>.
- 121 Further, if the Proposed Transaction is not implemented, Nickel Mines’ attributable share of production, on a steady state basis, from the Ranger Nickel Project will remain at approximately 2,805 tpa and Nickel Mines will forgo the benefit of an increase in earnings from the project.
- 122 Subject to acquiring the 43% interest under the Proposed Transaction, the CA allows Nickel Mines to acquire a further 20% interest (increasing its total holding in the Ranger Nickel Project to 80%) under the Third Acquisition Option. The Third Acquisition can occur within 18 months of the first NPI production from the Ranger Nickel Project. This opportunity / option would be foregone if the Proposed Transaction is not implemented and the Second Acquisition Option does not proceed prior to 31 December 2019.

### **The position of Nickel Mines before and after the Initial Transaction and the Proposed Transaction**

- 123 Based on the indicative DCF assessment, the Initial Transaction and the Proposed Transaction are value accretive as the Initial Transaction and the Proposed Transaction provide Nickel Mines with an additional income source from downstream production of ore extracted from the Hengjaya Mine or other mines. Based on the current performance of the Hengjaya Nickel Project, the 60% interest in the Ranger Nickel Project will contribute some 7,095 tonnes of additional NPI production annually (bringing the total attributable nickel production from the Ranger Nickel Project to some 9,900 tpa). The Company’s attributable nickel production from both the Hengjaya and Ranger Nickel Projects will be approximately 20,000 tpa, increasing the significance of its nickel production capabilities.
- 124 The Proposed Transaction is being partially debt financed at an interest rate of 8.5%<sup>44</sup> per annum, which is a more favourable rate than that which could be obtained from a third party financier reflecting that lender’s assessment of risk associated with the project. We note that the Company undertook a competitive funding process, managed by external advisers, to fund the Proposed Transaction. Subsequently, Shanghai Decent and its associates offered a more competitive interest rate, holding other terms similar to that of the third party proposal.

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<sup>42</sup> Under the definitions of the CA this means the date on which the first batch of molten NPI is produced from the Phase 2 RKEF plant (i.e. the Ranger RKEF plant).

<sup>43</sup> Being the ending date for the Second Acquisition Option period.

<sup>44</sup> Based on the 15 May 2019 3 month USD LIBOR rate of 2.52513% plus 6.0% margin. The interest rate applicable to the loan is the margin (6%) and the greater of 2.5% and 3-Month USD LIBOR.



125 Nickel Mines' gearing is currently nil. The US\$80 million debt facility to be provided by Shanghai Decent and its associates to assist with financing the Proposed Transaction will result in a modest gearing level of some 14%. In our opinion, the indicated funding of the Proposed Transaction represents an efficient use of capital.

### Other qualitative factors

126 Based on the proposed funding existing Nickel Mines shareholders' interests will be prima facie diluted (in percentage terms) by the US\$78 million share placement which will partially fund the Proposed Transaction, under which Shanghai Decent will increase its interest in Nickel Mines to some 18.1% of issued capital (refer to the table below):

<b>Nickel Mines – estimated shareholdings after the Proposed Transaction</b>			
	<b>Shanghai Decent</b>	<b>Other Nickel Mines shareholders</b>	<b>Total</b>
Current number of shares on issue <sup>(1)</sup>	161,696,446	1,363,799,178	1,525,495,624
<i>Percentage shareholding</i>	<i>10.60%</i>	<i>89.40%</i>	<i>100.0%</i>
Equity to be issued (US\$)	40,000,000		
Exchange rate <sup>(2)</sup>	0.6970		
Equity issued / to be issued (A\$)	57,388,809		57,388,809
Price per share (A\$) <sup>(3)</sup>	0.41		
Number of shares to be issued <sup>(4)</sup>	139,972,705		139,972,705
Number of shares on issue after the Proposed Transaction	301,669,151	1,363,799,178	1,655,468,329
<i>Percentage shareholding</i>	<i>18.11%</i>	<i>81.89%</i>	<i>100.0%</i>

**Note:**

- 1 Includes the 137,500,000 shares issued to sophisticated and professional investors in June 2019 for US\$38M (A\$55M).
- 2 USD:AUD exchange rate as per Investing.com on 3 June 2019, this exchange rate has been agreed between Nickel Mines and Shanghai Decent and will apply regardless of when the new shares are actually issued.
- 3 The share price to Shanghai Decent has been agreed at \$0.41 per share. The share placement to new and existing institutional investors was made at \$0.40 per share.
- 4 Equity to be issued in A\$ divided by the agreed share price.

### Advantages and disadvantages

127 In concluding whether the Initial Transaction and the Proposed Transaction are “fair and reasonable” to the non-associated shareholders of Nickel Mines we have also had regard to the advantages and disadvantages of the Initial Transaction and the Proposed Transaction from the perspective of Nickel Mines shareholders:

#### Advantages

- (a) the Initial Transaction provided Nickel Mines with an interest in the Ranger Nickel Project and the opportunity it increase its interest in the project over time

- (b) exercising the Second Acquisition Option within 60 days of the first NPI production from the Ranger Nickel Project (rather than before 31 December 2019) results in the acquisition price being US\$8.6 million lower
- (c) the Proposed Transaction provides Nickel Mines with an additional income source from downstream production of ore extracted from the Hengjaya Mine or other mines. Based on the current performance of the Hengjaya Nickel Project, the increased interest in the Ranger Nickel Project will contribute some 7,095 tonnes of additional NPI production annually (bringing the total attributable nickel production from the Ranger Nickel Project to some 9,900 tpa). The Company's attributable nickel production from both the Hengjaya and Ranger Nickel Projects will be approximately 20,000 tpa produced in facilities operating at some of the lowest costs in the world, increasing the significance of its nickel production capabilities and the scale of the Company
- (d) subject to acquiring the 43% interest under the Proposed Transaction, the CA grants Nickel Mines the option to acquire a further 20% interest on prima facie commercially attractive terms (increasing its total holding in the Ranger Nickel Project to 80%) within 18 months of the first NPI production
- (e) the Initial Transaction and the Proposed Transaction are value accretive, with the Initial Transaction Consideration and the Purchase Consideration (totalling \$US\$171.4 million) being less than the NPV of the expected future cash flows. It is reasonable to expect that this additional value will be reflected in the share price over time<sup>45</sup>

### Disadvantages

- (f) existing Nickel Mines non-associated shareholders' interests will be prima facie diluted by the US\$780 million share placement which will partially fund the Proposed Transaction, under which Shanghai Decent will increase its interest in Nickel Mines to some 18.1% of issued capital
- (g) the Proposed Transaction is being partially debt financed at an interest rate of some 8.5%. Nickel Mines' gearing is currently nil. However, we note that:
  - (i) the interest rate on the loan is more favourable than the best rate offered by a third party financier reflecting that lender's assessment of risk associated with the project. The other loan terms being consistent with the third party lender's proposal
  - (ii) the level of gearing post-acquisition of the additional 43% interest in Ranger Nickel Project is modest and the indicated funding of the Proposed Transaction reflects a more efficient capital structure.

128 In our opinion, the advantages of the Initial Transaction and the Proposed Transaction significantly outweigh the disadvantages.

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<sup>45</sup> In this regard we note that analysts have estimated a share price in the range of \$0.93 to \$0.95.

## Financial Services Guide

### Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

### Financial Services Guide

- 3 The Corporations Act 2001 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to Nickel Mines shareholders in connection with the Proposed Transaction.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

### Financial services we are licensed to provide

- 5 Our Australian financial services licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

### General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

### Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the person who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at \$35,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

## Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

### Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7  
64 Castlereagh Street  
Sydney NSW 2000  
(or GPO Box 1640, Sydney NSW 2001)

## Appendix B

### Qualifications, declarations and consents

#### Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Ms Julie Planinic and Mr Martin Hall, who are each authorised representatives of LEA. Ms Planinic and Mr Hall have over 22 years and 33 years' experience respectively in the provision of valuation advice (and related advisory services).

#### Declarations

- 3 This report has been prepared at the request of the Independent Directors of Nickel Mines to accompany the Explanatory Memorandum to be sent to Nickel Mines Shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Proposed Transaction is fair and reasonable to Nickel Mines Shareholders.

#### Interests

- 4 At the date of this report, neither LEA, Ms Planinic nor Mr Hall have any interest in the outcome of the Proposed Transaction. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with Nickel Mines or Shanghai Decent prior to the preparation of this report.

#### Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Nickel Mines agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Nickel Mines which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

#### Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in the Explanatory Memorandum.

## Glossary

Abbreviation	Definition
1HY19	Six months to 31 December 2018
AFCA	Australian Financial Complaints Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CA	Collaboration Agreement for the Ranger Nickel Project dated 8 November 2018
capex	Capital expenditure
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
CY	Calendar year
DCF	Discounted cash flow
DSO ban	Indonesian export ban of direct shipping of unprocessed minerals
First Acquisition	Nickel Mines' acquisition of 17% of the issued share capital of Ranger Investment and an underlying 17% interest in the ownership the Ranger Nickel Project
FSG	Financial Services Guide
FY	Financial year
Hengjaya Holdings	Hengjaya Holdings Private Limited
Hengjaya Mine	Hengjaya Mineralindo Nickel Mine in Indonesia
Hengjaya Nickel	PT Hengjaya Nickel Industry
Hengjaya Nickel Project	Processing facility in the IMIP comprising two RKEF lines funded and constructed to produce 150,000 tpa of NPI containing 15,000 tonnes of nickel
IER	Independent expert's report
IMIP	Indonesian Morowali Industrial Park
Initial Transaction	The acquisition of the initial 17% interest in the Ranger Nickel Project
ITSS	PT Indonesia Tsingshan Stainless Steel
JORC	Joint Ore Reserves Committee
LEA	LonerGAN Edwards & Associates Limited
LIBOR	London Interbank Offered Rate
LME	London Metal Exchange
MRP	Market risk premium
Mt	Million tonnes
Mtpa	Million tonnes per annum
Nickel Mines / Company	Nickel Mines Limited
Nickel Mines non-associated shareholders	Shareholders of Nickel Mines not associated with Shanghai Decent
NPI	Nickel pig iron
PMA	Penanaman Modal Asing
Proposed Transaction	Nickel Mines' proposed increase of ownership interest in the Ranger Nickel Project from 17% to 60%
PT Hengjaya	PT Hengjaya Mineralindo
Purchase Consideration	US\$121.4 million
Ranger Investment	Ranger Investment Private Limited
Ranger Nickel	PT Ranger Nickel Industry
Ranger Nickel Project	The RKEF processing facility comprising two additional lines currently under construction in the IMIP, referred to as the Ranger Nickel RKEF lines

## Appendix C

Abbreviation	Definition
RBA	Reserve Bank of Australia
RG 111	ASIC Regulatory Guide 111 – <i>Content of expert reports</i>
RG 76	ASIC Regulatory Guide 76 – <i>Related party transactions</i>
RKEF	Rotary kiln electric furnace
Second Acquisition Option	Option for Nickel Mines to increase its interest in the Ranger Nickel Project to between 51% and 60% before 31 December 2019
Shanghai Decent	Shanghai Decent Investment (Group) Co., Ltd
Third Acquisition Option	Option for Nickel Mines to increase its interest in Ranger Investments and associated shareholder loans up to 80% within 18 months of the first production from the Ranger Nickel Project
tpa	Tonnes per annum
Tsingshan	Tsingshan Holding Group
US	United States of America
US\$ / USD	United States dollars
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WMT	Wet metric tonnes

### FORM OF PROXY

I/we .....

of .....

being a member/members of Nickel Mines Limited HEREBY APPOINT

.....  
or failing him, the Chairman of the Meeting, as my/our Proxy to vote for me/us and on my/our behalf at an Extraordinary General Meeting of Members of the Company to be held at 11.00am on 26 July 2019 and at any adjournment thereof.

The Proxy is directed by me/us to vote as indicated by the marks in the appropriate boxes below:

ORDINARY RESOLUTION	FOR	AGAINST	ABSTAIN
1. To approve the Company to move to a 60% equity interest in Ranger Investment Private Limited	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. To approve the Company to issue the Shanghai Decent Shares	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*The Chairman of the Meeting intends to vote all undirected proxies in favour of each resolution (including Resolution 1). If you have appointed the Chairman of the Meeting as your proxy (or the Chairman of the Meeting becomes your proxy by default), and you wish to give the Chairman specific voting directions on an item, you should mark the appropriate box/es opposite those Resolutions above (directing the Chairman to vote for, against or to abstain from voting).*

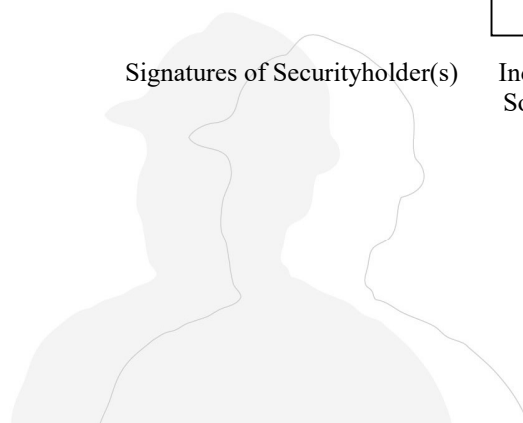
**Signature of Securityholder(s)** This section must be completed.

Dated this ..... day of ..... 2019

Signatures of Securityholder(s)

Individual Securityholder(s) or  
Sole Director and Company Secretary

Director and Director/Company Secretary





## PROXY INSTRUCTIONS

1. A member entitled to attend and vote is entitled to appoint not more than 2 proxies.
2. Where more than 1 proxy is appointed, each proxy must be appointment to represent a specified proportion of the member's voting rights.
3. A proxy need not be a member.
4. All joint holders must sign.
5. Where the company has a Sole Director and Company Secretary, that person must sign. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary.
6. Voting Exclusion Statement:
  7. The Company will disregard any votes cast on Resolutions 1 and 2 by Shanghai Decent and any associate of Shanghai Decent unless the vote is cast
    - as a proxy for a person entitled to vote in accordance with a direction on the proxy appointment; or
    - by the Chairman of the Meeting as a proxy for a person entitled to vote and the proxy appointment expressly authorises the Chairman of the Meeting to exercise the proxy.
  8. All executors of deceased estates must sign.
  9. Chapter 2C of the Corporations Act 2001 (Cth) requires information about you (including your name, address and details of the shares you hold) to be included in the Company's public register of members. This information must continue to be included in the public register if you cease to hold shares. These statutory obligations are not altered by the Privacy Amendment (Private Sector) Act 2000 (Cth). Information is collected to administer your shareholding which may not be possible if some or all of the information is not collected.
  10. The Company has determined, in accordance with regulation 7.11.37 of the Corporations Regulations 2001 (Cth), that the Company's shares quoted on the Australian Stock Exchange Limited at 7.00 pm Sydney time on 24 July 2019 are taken, for the purposes of the Extraordinary General Meeting to be held by the persons who held them at that time. Accordingly, those persons are entitled to attend and vote (if not excluded) at the meeting.
  11. Proxy forms must be received at the Company's registered office, Level 2, 66 Hunter Street, Sydney, NSW, 2000, or by facsimile on (61-2) 9221 6333, or by email to [redwards@nickelmines.com.au](mailto:redwards@nickelmines.com.au), not less than 48 hours before the time appointed for holding the meeting.