

NICKEL

MINES LIMITED

ACN 127 510 589

ASX Release: 28 January 2020

ASX: NIC

Shares on issue: 1.665B

Market capitalisation: \$1,132M
(@\$0.68)

Board of Directors

Non-Executive Chairman
Rob Neale

Executive Deputy Chairman
Norman Seckold

Managing Director
Justin Werner

Executive Director and CFO
Peter Nightingale

Non-Executive Director
James Crombie

Non-Executive Director
Weifeng Huang

Non-Executive Director
Mark Lochtenberg

Non-Executive Director
YuanYuan Xu

Substantial Shareholders

Shanghai Decent	18.1%
Shanghai Wanlu	9.0%
BlackRock Group	8.3%
Norman Seckold	7.4%
Regal FM	7.1%

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QUARTERLY ACTIVITIES REPORT

For the quarter ended 31 December 2019

HENGJAYA NICKEL AND RANGER NICKEL RKEF PROJECTS COMBINE FOR 10,968 TONNES OF NICKEL METAL PRODUCTION

Highlights

- Record quarterly nickel production at both Hengjaya Nickel and Ranger Nickel RKEF projects.
- RKEF December quarter production of **10,968.3** tonnes of nickel metal (100% basis), up **9.5%** from 10,019.6 tonnes of nickel metal in September quarter.
- NIC attributable nickel production of **6,580.9** tonnes of nickel metal, up **27.5%** from 5,161.0 tonnes of nickel metal in September quarter.
- RKEF December quarter sales of **US\$141.1M** (100% basis), up **20.4%** from US\$117.2M in September quarter.
- RKEF December quarter EBITDA of **US\$56.6M** (100% basis), up **12.7%** from US\$50.2M in September quarter.
- RKEF December quarter cash costs:
 - Hengjaya Nickel: **US\$7,778/tonne**
 - Ranger Nickel: **US\$7,886/tonne**
- Cash + receivables + inventory at quarter end of **US\$190.6M**, up **23.2%** from US\$154.7M in September quarter. Additionally, Group liabilities were reduced by US\$21.1M over the quarter.
- Quarterly production from the Hengjaya Mine of 194,159 tonnes, down **2.4%**



Hengjaya and Ranger Nickel are now well-established tenants within the IMIP

The Directors are pleased to present the December 2019 Quarterly Activities Report for Nickel Mines Limited ('Nickel Mines' or 'the Company') and its controlled entities ('the Group').

RKEF Operations

Hengjaya Nickel Project (60% interest held by Nickel Mines)

During the December quarter, Hengjaya Nickel produced 5,577.9 tonnes of nickel metal at an average NPI grade of 13.6% at a weighted average cash cost of US\$7,778/tonne.

The Group's attributable nickel production was 3,346.7 tonnes of nickel metal, an increase of 3.7% on the September quarter.

The Company is pleased to report the following Hengjaya Nickel operating results for the December quarter:

HENGJAYA NICKEL		October	November	December	Quarter Total	September Qtr
NPI Production	tonnes	14,937.5	12,978.0	12,995.2	40,910.7	39,570.4
NPI Grade	%	13.0	13.7	14.3	13.6	13.6
Nickel Metal Production	tonnes	1,943.1	1,780.4	1,854.4	5,577.9	5,379.3
Cash Costs	USD/t Ni	7,768	7,789	7,779	7,778	7,523

For the December quarter, Hengjaya Nickel recorded (on a 100% basis) sales of US\$71.5M for 5,514 tonnes of nickel metal sold, underlying EBITDA of US\$29.7M and an underlying net profit of US\$27.8M.¹



Operations at Hengjaya Nickel

¹ Unaudited numbers from monthly operating entity financial reporting. Final tonnes sold are adjusted for each contract following the receipt of final assay results, which are generally received approximately 60 days following the original contract date. Where final assay results have not yet been received tonnes sold is reported as stated in the original contract. The weighted average contract price for the December quarter, pre receipt of assay results, was US\$13,249/t of nickel.

Ranger Nickel Project (60% interest held by Nickel Mines)

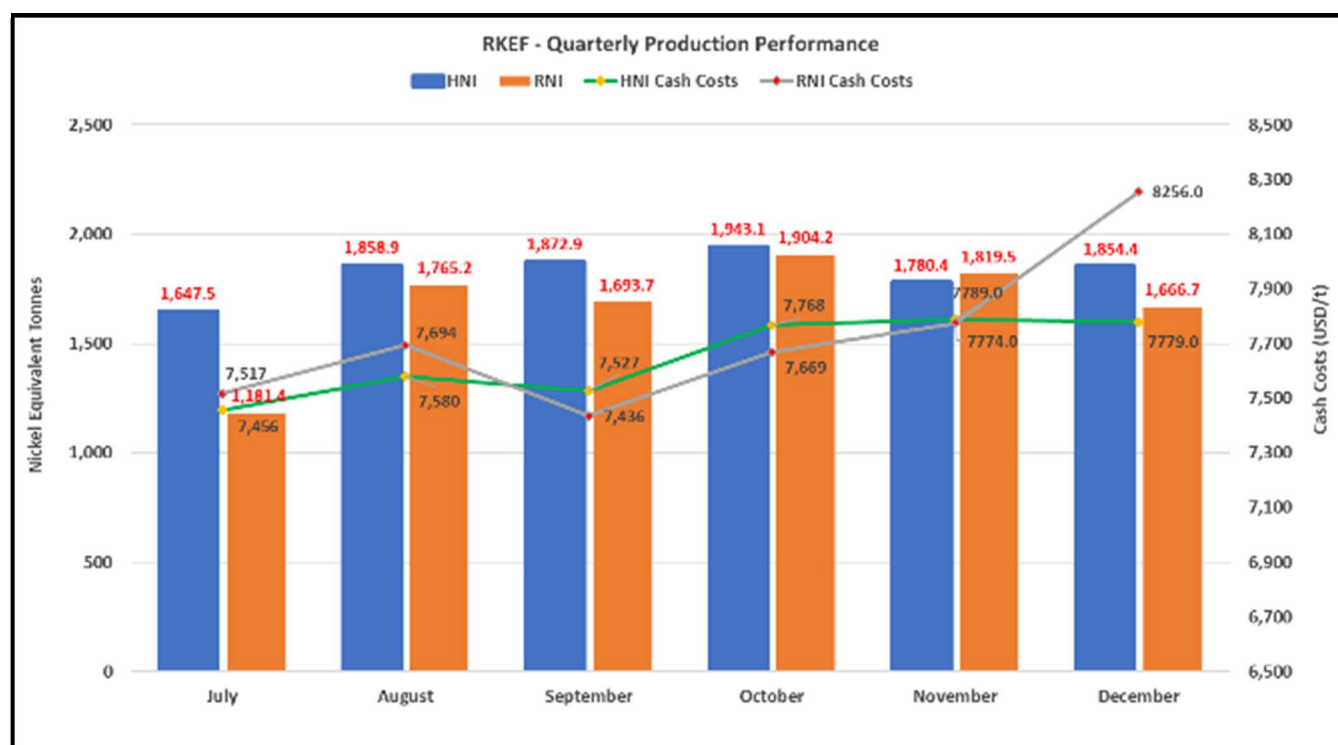
During the December quarter, Ranger Nickel produced 5,390.4 tonnes of nickel metal at an average NPI grade of 13.8% at a weighted average cash cost of US\$7,886/tonne.

The Group's attributable nickel production was 3,234.2 tonnes of nickel metal, an increase of 67.2%² on the September quarter.

The Company is pleased to report the following Ranger Nickel operating results for the December quarter:

RANGER NICKEL		October	November	December	Quarter Total	September Qtr
NPI Production	tonnes	13,595.3	13,433.4	12,076.0	39,104.7	32,822.6
NPI Grade	%	14.0	13.5	13.8	13.8	14.1
Nickel Metal Production	tonnes	1,904.2	1,819.5	1,666.7	5,390.4	4,640.3
Cash Costs	USD/t Ni	7,669	7,774	8,256	7,886	7,552

For the December quarter, Ranger Nickel recorded (on a 100% basis) sales of US\$68.0M for 5,241 tonnes of nickel metal sold, underlying EBITDA of US\$26.9M and an underlying net profit of US\$25.0M.³



Both Hengjaya Nickel and Ranger Nickel reported record nickel production in the December quarter

² This increase is partly the result of the Company increasing its holding of Ranger Nickel from a 17% interest to a 60% on 15 August 2019.

³ Unaudited numbers from monthly operating entity financial reporting. Final tonnes sold are adjusted for each contract following the receipt of final assay results, which are generally received approximately 60 days following the original contract date. Where final assay results have not yet been received tonnes sold is reported as stated in the original contract. The weighted average contract price for the December quarter, pre receipt of assay results, was US\$13,056/t of nickel.

COMBINED RKEF OPERATIONS		October	November	December	Quarter Total	September Qtr
NPI Production	tonnes	28,532.8	26,411.4	25,071.2	80,015.4	72,393.0
NPI Grade	%	13.5	13.6	14.0	13.7	13.8
Nickel Metal Production	tonnes	3,847.3	3,600.0	3,521.1	10,968.3	10,019.6

During the December quarter, the combined Hengjaya Nickel and Ranger Nickel projects recorded (on a 100% basis) sales of US\$141.1M for 10,755 tonnes of nickel metal, underlying EBITDA of US\$56.6M and an underlying net profit of US\$52.8M.

The record financial performance of the RKEF operations were achieved against the backdrop of a progressively weakening nickel price across the December quarter as the market both struggled to comprehend the implications of the early re-implementation of the full Indonesian nickel ore ban and trust the large drawdowns in LME stockpiles. The modest bifurcation of NPI pricing from LME prices that became evident in the September quarter eased somewhat in the December quarter as the LME nickel price progressively weakened, however NPI pricing across the quarter still sat marginally below the lower bounds of the historic NPI/LME price correlation.

The December quarter saw average monthly cash costs for Hengjaya Nickel and Ranger Nickel rise 3.4% and 4.6% respectively, increases of which were primarily attributable to greater electricity consumption (higher kwh per tonne of nickel) as the operations teams trialled different ore mixes to further enhance recoveries. The trialling of various blends of ore was most pronounced in December at Ranger Nickel which also saw the take up of some additional year-end expenses resulting in December costs rising 6.2% from November.

Finance⁴

P&L and Balance Sheet

At 31 December 2019, the Group held the equivalent of US\$49.8M in cash (30 September 2019 - US\$33.0M) comprising:

- US\$24.1M held by Nickel Mines;
- US\$2.4M held by PT Hengjaya Mineralindo, in which Nickel Mines holds an 80% interest;
- US\$19.5M held by Hengjaya Nickel and its related entities, in which Nickel Mines holds a 60% interest;
- US\$3.8M held by Ranger Nickel and its related entities, in which Nickel Mines holds a 60% interest.

In addition, the Group had trade receivables of US\$86.7M (30 September 2019 - US\$84.5 million) comprising:

- US\$45.4M held by Hengjaya Nickel;
- US\$39.1M held by Ranger Nickel;
- US\$2.2M held by Hengjaya Mine⁵.

The US\$84.5M in trade receivables reported at the end of the September quarter has been received in full.

In addition to the abovementioned cash and receivables, at 31 December 2019 the Group also held inventory (valued at the lower of cost or net realisable value) of US\$54.2M (30 September 2019 - US\$37.2M) comprising:

- US\$27.5M held by Hengjaya Nickel comprising US\$7.2M of NPI and US\$20.3M of raw materials;
- US\$26.5M held by Ranger Nickel comprising US\$5.5M of NPI and US\$21.0M of raw materials;
- US\$0.2M of nickel ore held by Hengjaya Mine.

⁴ Unaudited numbers from monthly operating entity financial reporting.

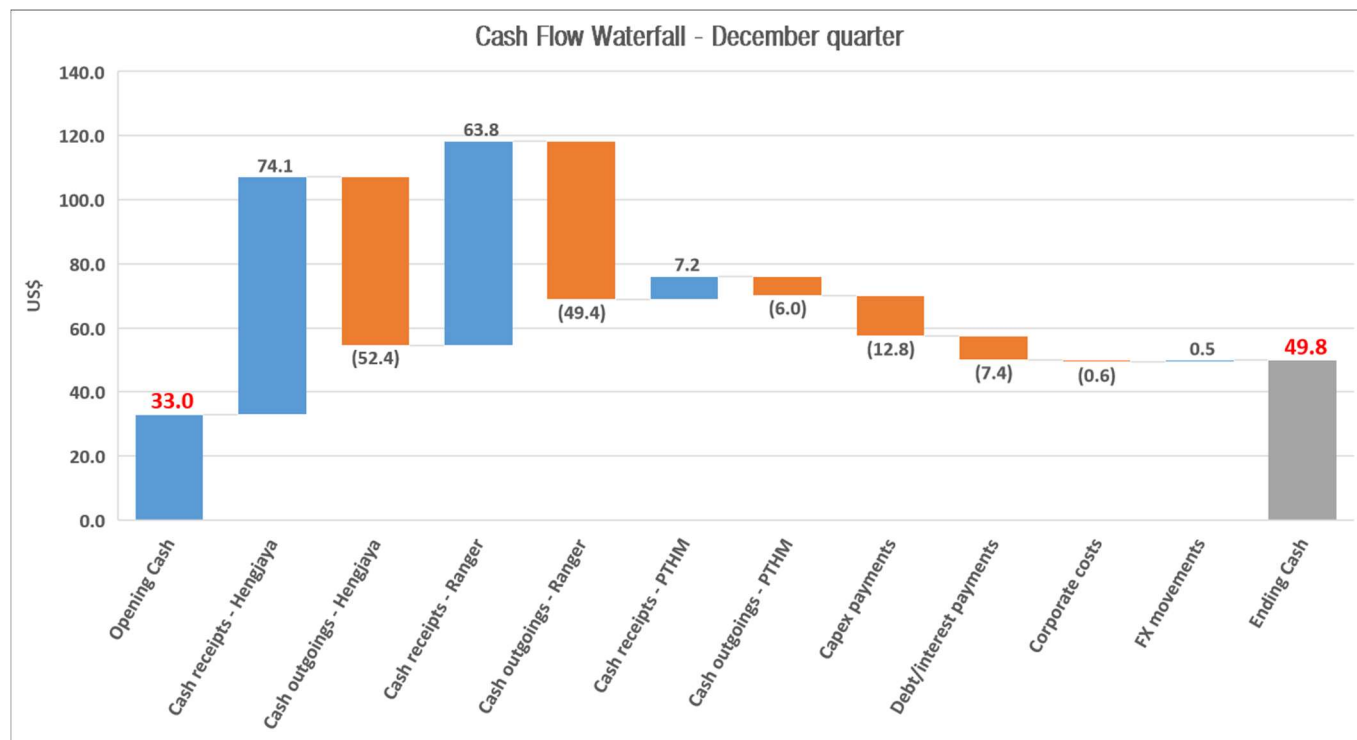
⁵ Sales by Hengjaya Mine to Hengjaya Nickel and Ranger Nickel are inter group transactions and are eliminated on consolidation.

Hengjaya Nickel and Ranger Nickel sought to increase nickel ore inventories over the December quarter, both to ensure availability of supply and allow greater flexibility in managing NPI grades.

During the December 2019 quarter, Hengjaya Nickel repaid the final US\$3M of a US\$9M working capital loan to Nickel Mines and the final US\$2M of a US\$6M working capital loan to Shanghai Decent. Ranger Nickel also fully repaid US\$10M of working capital loans during the quarter, US\$6M to Nickel Mines and US\$4M to Shanghai Decent, with the working capital loans having been made in proportion to Nickel Mines and Shanghai Decent ownership interests in the RKEF projects.

Cash Flow

The following cash flow waterfall provides a reconciliation of cash movements over the December quarter.



Capital expenditure for the quarter represents minor completion works at Hengjaya Nickel and Ranger Nickel and development capital being spent at Hengjaya Mine for expansion/improvement initiatives including upgrades to the jetty, building of a graded haul road from Central Pit to the jetty and new camp accommodation.

In addition to reporting a cash position of US\$49.8M at the end of the December quarter the Company also advises that Group liabilities for the quarter were reduced by US\$21.1M.

Hengjaya Mine Operations

Hengjaya Mine (80% interest held by Nickel Mines)



About the Hengjaya Mine

Nickel Mines holds an 80% interest in PT Hengjaya Mineralindo ('PT Hengjaya'), the owner of 100% of the Hengjaya Mine, with the remaining 20% interest owned by the Company's Indonesian partner, members of the Wijoyo Family.

The mine is located in the Morowali Regency, Central Sulawesi, Indonesia within an IUP licence covering 6,249 hectares. The IUP holds a 20 year mining operation/production licence (issued May 2012) with two further 10 year extension periods.

Additional 2019 resource and infill drilling was undertaken inside IPPKH 1 and 2. During the year 12,270 metres of core drilling was completed. An upgraded resource model is well advanced and scheduled be completed in early 2020.



The Hengjaya Mine is one of the largest tonnage, high grade operations in close proximity to the IMIP in Central Sulawesi. Using a 1.0% Ni cut-off grade, the Hengjaya Mine hosts a JORC compliant resource of 180 million dry tonnes at 1.3% Ni and 0.08% Co, containing 2.3 million tonnes of contained nickel and 140,000 tonnes of contained cobalt as follows:⁶

	Dry Tonnes (million)	Ni (%)	Co (%)	Fe (%)
Measured	6.9	1.2	0.07	23
Indicated	50	1.4	0.07	26
Inferred	120	1.3	0.08	29
Total	180	1.3	0.08	28

Production Summary

		October	November	December	Quarter Total	September Qtr
Tonnes mined	wmt	69,734	56,086	68,339	194,159	199,056
Overburden mined	BCM	168,960	163,290	95,791	428,041	432,042
Strip ratio	BCM/wmt	2.4	2.9	1.4	2.2	2.2
Tonnes sold	wmt	70,549	59,311	67,035	196,895	231,487
Average grade	%	2.01	1.97	1.98	1.99	1.90
Average price received	USD/t	38.83	36.35	37.38	37.59	27.72
Average cost of production	CIF USD/t	26.48	27.55	25.01	26.27	24.85

December Quarter Production Report Highlights

Sales totalled 196,895 wet metric tonnes ('wmt') at an increased average grade of 1.99% nickel.

The average cost of production was slightly higher due to wet season preparation including earth and drainage work costs.

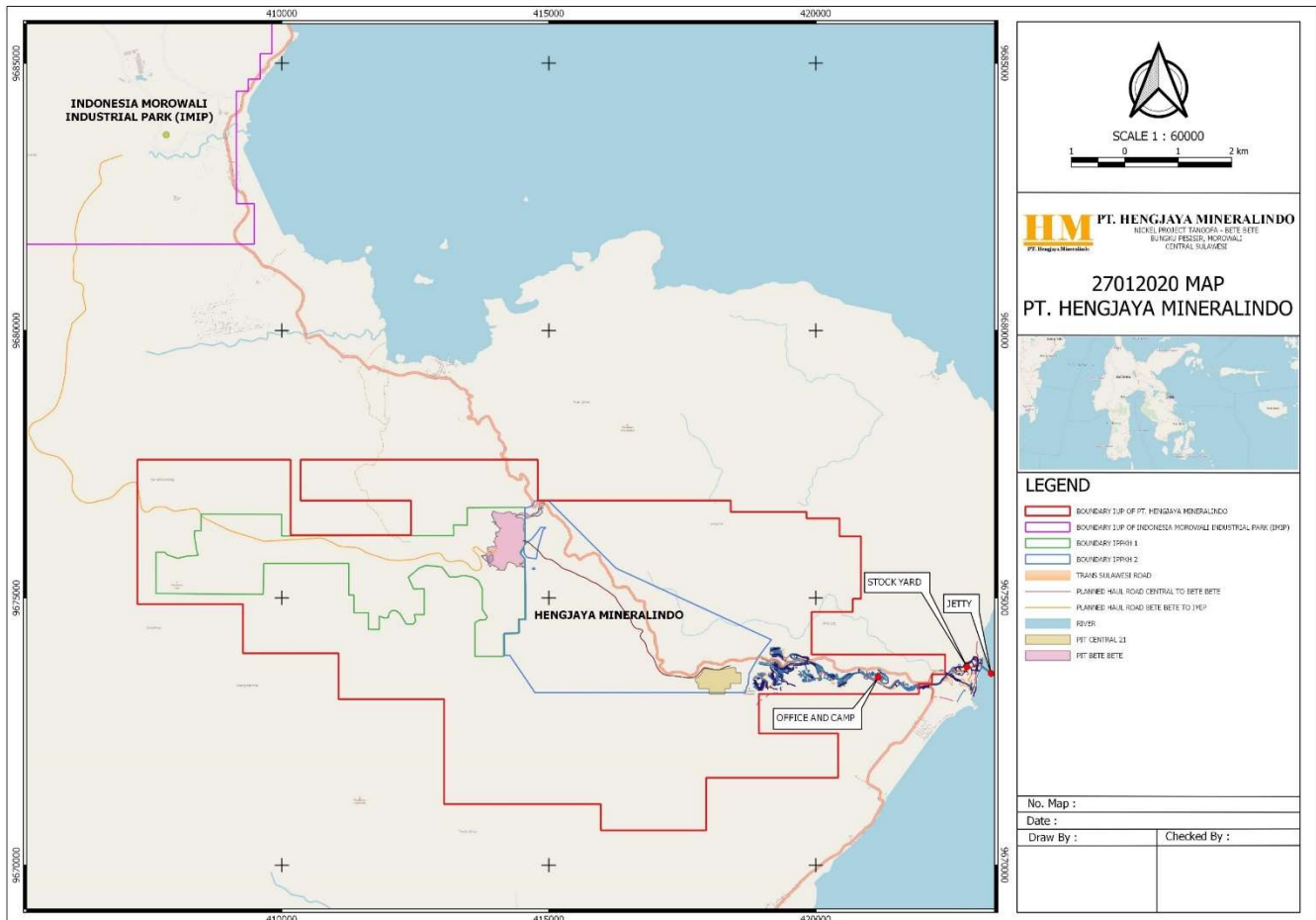
The ore to waste strip was consistent at 2.2:1. Overburden included limonite ore which has been stockpiled adjacent to waste dumps at Bete Bete in readiness for eventual supply to the IMIP's HPAL projects.

Bete Bete is currently running at steady state with the focus for 2020 on the start-up of production from the IPPKH2 area with the first pit known as Central 21.

Recent infill drilling has confirmed high grade ore blocks in the first Central pit mine area with many recent drill holes showing tonnage and grade upside compared to historical data.

The geological and block models are currently being finalised and are due for completion during the first quarter of 2020.

⁶ Resource number pre any dilution from mining. Update Resource Statement anticipated in the March 2020 quarter.



Mine Expansion

Several key expansion activities and operational restructuring initiatives continued during the quarter in support of the Hengjaya Mine's plan to significantly increase production during 2020. Access to Central pit areas inside IPPKH 2 area allowed haul road construction works and infill drilling to be performed ahead of the start-up of mining activities planned for early 2020.

The mining contract for Central pit (excavate and haul) was awarded to PT Sinar Terang Mandiri (STM). STM have extensive experience in operating a number of large-scale nickel laterite mining projects in Indonesia.

Mobilisation of additional mining equipment will commence during the March 2020 quarter.

The phase 1 portion of the haul road between the jetty and Central 21 is now completed and clearing of the pit area is planned to commence during the March 2020 quarter. Phase 2 of the haul road will join Central Pit to Bete Bete for ore haulage operations. As well as allowing larger 45 tonne trucks to be used for additional production the road will take ore haul trucks off the provisional road in 2020, minimising interaction with public traffic.

Dredging and expansion works on the jetty area have continued and this has allowed the successful operation of 6,500 tonne barges (previously 4,500 tonne). Sea wall extension works will continue until the middle of 2020.

The construction of the mine camp and infrastructure facilities continued during the quarter and are scheduled to be completed in the June 2020 quarter. As well as technical offices and workshops, the facility includes community development, safety, training and recreational buildings.



Mine camp expansion



Haul road to Central pit completed



Jetty works underway

Exploration

The exploration and infill drilling during the quarter included 210 holes for 4,503 metres. The program included infill drilling to improve mine planning and scheduling. The drilling brings total year to date drilling to 633 holes for 12,270 metres.

The drilling program will continue throughout 2020 targeting exciting new areas of limonite and saprolite ores identified by ground penetrating radar and historical drill data. Infill drilling is included in the program to assist the detailed mine planning and scheduling for the production ramp up in both Bete Bete and Central pits.

Ground penetrating radar works ('GPR') focused on areas to the west of Bete Bete adjacent to the new main haul road and targeted areas which have historical drill holes which intersected high grade ore.

In addition to nickel ore exploration, preliminary works has commenced on identifying significant quality limestone deposits inside IPKKH1 which may be used for future off-take agreements.

A comprehensive Resource update is planned for completion during the March 2020 quarter.



Clearance work in Central pit areas.

Planning for Limonite Ore Supply

76,338 tonnes of suitable HPAL limonite were successfully stockpiled in Bete Bete pit areas during the quarter for future supply to HPAL projects.

The haul road alignment for the new PT Hengjaya to IMIP road has been defined. Detailed ground truthing, surveying and road design has commenced. The first pilot road is well advanced starting near Bete Bete pit and progressing inside IPKKH1 western area. The total haul road distance will be approximately 17 kms long and is intended for hauling ore for both the Hengjaya Nickel and Ranger Nickel RKEF plants and for supplying limonite ore to 3rd party HPAL plants.

Once completed the new haul road will enable higher tonnages to be mined and hauled (rather than barging) as well as allowing for strategic access to additional ore resources to the west of Bete Bete.

Geological modelling of the limonite block models will be included in the update resource modelling.

Mine Safety and Environment

Safety

Unfortunately during the quarter there was a fatality on one of the Hengjaya mine haul roads. The incident occurred when a sub-contractor's water truck lost control when descending on a hill. During the incident the passenger jumped from the vehicle and tragically suffered fatal injuries. The truck driver suffered minor injuries when the truck came to rest at the mine haul road safety ramp area. A full investigation was completed by ESDM and PT Hengjaya company officers. Additional and revised safety procedures have been completed and introduced to minimise a recurrence of a similar incident.

Training of staff and contractors in safe operating practices continues on a regular and routine basis. Since the incident there has been a heightened focus on contractor procedures and safe operating procedures.

Environment

No environmental incidents were reported during the December quarter, with work continuing on contouring and rehabilitating previously mined production areas. Site rehabilitation initiatives taken include a regional rehabilitation program, which is part of the IPPKH mine licence obligations. Phase one includes planting in 2020 of an 800,000 pine tree nursery in Central Sulawesi.



Hengjaya regional rehabilitation program, which includes planting of 800,000 pine tree seedlings

Community

PT Hengjaya continues to work and communicate with both local and regional stakeholders, including the Tangofa, Bete Bete and Bahodopi village regions. Recent programs included first aid, education in reducing the use of plastic bags and other plastic items in day to day living. PT Hengjaya also assisted regional villages in basic health checks and health and hygiene education.



Hengjaya Mine Community Relations Staff with locals on health and education initiatives.

QUARTERLY PROGRESS

Commenting on operations over the December quarter, Managing Director Justin Werner noted:

“Nickel Mines is pleased to once again report another quarter where new records for nickel production were achieved for both the Hengjaya Nickel and Ranger Nickel RKEF operations. Nearly 11,000 tonnes of nickel metal were produced on a 100% basis representing an increase of almost 10% on the September quarter. Furthermore, the December quarter was the first quarter in which Nickel Mines held a 60% interest in both operations for the entire quarter, an outcome that was reflected in a 27.5% increase in attributable nickel units to more than 6,500 for the quarter. Our operations teams must again be commended for this outstanding performance.

Despite an environment where nickel prices progressively weakened across the quarter, the Group is also delighted to report quarterly records for sales and EBITDA from the RKEF projects, an economic performance that serves to highlight not only the robustness of our operations but the exceptional leverage they will have to a rising nickel price.

Moving into 2020, Nickel Mines and its strategic partner and major shareholder Shanghai Decent will remain focused on sustaining the excellent operational performance of both RKEF projects whilst also exploring additional value adding growth opportunities.”

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Statement of Compliance

The information in this report that relates to Mineral Resources and Exploration Results is based on information compiled by Mr Brett Gunter, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy. Information relating to the Mineral Resource was first disclosed in the ASX announcement ‘Replacement Prospectus’ dated 20 August 2018 and updated in the ASX announcements dated 17 December 2018. Mr Gunter has sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the ‘Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves’. Brett Gunter consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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About Nickel Mines Limited

Nickel Mines Limited (ASX: NIC) is an ASX listed company becoming a significant player in the global nickel industry having established a financial, operational and strategic partnership with China's Tsingshan group, the world largest stainless steel producer.

Under the terms of two separate Collaboration Agreements with Shanghai Decent, a Tsingshan group company, Nickel Mines will own and operate RKEF processing facilities within the Indonesia Morowali Industrial Park, the world's largest vertically integrated stainless steel facility with a current stainless steel production capacity of 3.0 million tonnes per annum.

Nickel Mines also holds an 80% interest in the long life, high grade Hengjaya Mine located in Morowali Regency, Central Sulawesi, Indonesia just 12 kilometres from the IMIP.



Aerial photo of the IMIP.