NICKEL MINES LIMITED

ACN 127 510 589

ASX Release: 28 July 2021

ASX: NIC

Shares on issue:	2.515B
Market capitalisation: (@ A$1.175)	A$2.96B

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
Dasa Sutantio

Non-Executive Director
YuanYuan Xu

Substantial Shareholders

Shanghai Decent	18.0%
PT. KBP	15.1%
BlackRock Group	7.8%
Baillie Gifford & Co.	6.2%

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QUARTERLY ACTIVITIES REPORT

For the quarter ended 30 June 2021

NICKEL MINES LIMITED

CONSISTENT NICKEL PRODUCTION OVER 10,000 TONNES AND RECORD MINE PRODUCTION DELIVERS US$57.9M EBITDA FROM OPERATIONS

- RKEF quarterly production of **10,143.0** tonnes of nickel metal (100% basis), up 0.7% from the 10,067.5 tonnes of nickel metal in the March 2021 quarter. NIC attributable nickel production was **8,114.4** tonnes of nickel metal.
- **10,735.7** nickel tonnes sold (100% basis), up 4.7% from 10,257.1 nickel tonnes sold in the March quarter.
- RKEF quarterly sales of **US$150.2M** (100% basis), up 8.7% from the US$138.2M in the March quarter.
- RKEF quarterly EBITDA of **US$50.8M** (100% basis), up 0.2% from the US$50.7M in the March quarter.
- Underlying Free Cash Flow from Operations of **US$57.7M** (100% basis), up 15.4% from the US$50.0M in the March quarter.
- RKEF June quarter cash costs:
  - Hengjaya Nickel: **US$9,133/tonne Ni**, up 4.7% from March quarter.
  - Ranger Nickel: **US$9,081/tonne Ni**, up 5.1% from March quarter.
- Record nickel ore production from Hengjaya Mine of **574,791 wmt**, up 25.9% from the record 456,487 wmt in the March quarter resulted in record quarterly EBITDA of **US$7.1M,** up 57.8% from the US$4.5M in the March quarter. Record monthly production of **236,118 wmt** in June.
- Cash + receivables + inventory at quarter end of **US$363.5M**, up 31.0% from US$277.4M in the March quarter.
- Completion of the issue of US$175M Senior Unsecured Notes and acquisition of an additional 20% of Angel Nickel.
- Angel Nickel project construction on schedule for commissioning in 2H 2022 to more than double nameplate nickel production.

The Directors are pleased to present the June 2021 Quarterly Activities Report for Nickel Mines Limited ('Nickel Mines' or 'the Company') and its controlled entities ('the Group').

The Group's principal operations, located in Central Sulawesi, Indonesia, are the Hengjaya Nickel and Ranger Nickel Rotary Kiln Electric Furnace ('RKEF') projects located within the Indonesia Morowali Industrial Park ('IMIP'), and the Hengjaya Nickel Mine. For the quarter under review the Company held an 80% interest in the Hengjaya Nickel and Ranger Nickel RKEF projects and the Hengjaya Mine. The Company now also holds a 50% interest in the Angel Nickel RKEF project currently under construction at the Indonesia Weda Bay Industrial Park ('IWIP').

RKEF Operations

Hengjaya Nickel Project (80% interest held by Nickel Mines)

During the June 2021 quarter, Hengjaya Nickel produced 5,008.2 tonnes of nickel metal at an average nickel pig iron ('NPI') grade of 13.6% at a production-weighted average cash cost of US$9,133/tonne.

Nickel Mines' attributable nickel production was 4,006.6 tonnes of nickel metal, a decrease of 1.1% from the March quarter production.

The Hengjaya Nickel operating results for the June quarter were:

HENGJAYA NICKEL		April	May	June	Quarter Total	March Quarter
NPI Production	tonnes	12,006.8	12,831.1	12,089.9	36,927.8	36,811.4
NPI Grade	%	13.6	13.7	13.4	13.6	13.8
Nickel Metal Production	tonnes	1,631.6	1,760.1	1,616.5	5,008.2	5,064.9
Cash Costs	USD/t Ni	9,099	8,911	9,408	9,133	8,725

For the June quarter, Hengjaya Nickel recorded (on a 100% basis) sales of US$74.5M for 5,380.3 tonnes of nickel metal sold, underlying EBITDA of US$24.4M[1] and an underlying net profit of US$22.5M[1].

Hengjaya and Ranger RKEF operations

[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 contracts delivered in the June quarter, before receipt of final assay results, was US$14,172/t of nickel.

Ranger Nickel Project (80% interest held by Nickel Mines)

During the June 2021 quarter, Ranger Nickel produced 5,134.8 tonnes of nickel metal at an average NPI grade of 13.7% at a production-weighted average cash cost of US$9,081/tonne.

Nickel Mines' attributable nickel production was 4,107.8 tonnes of nickel metal, an increase of 2.6% on the March quarter production.

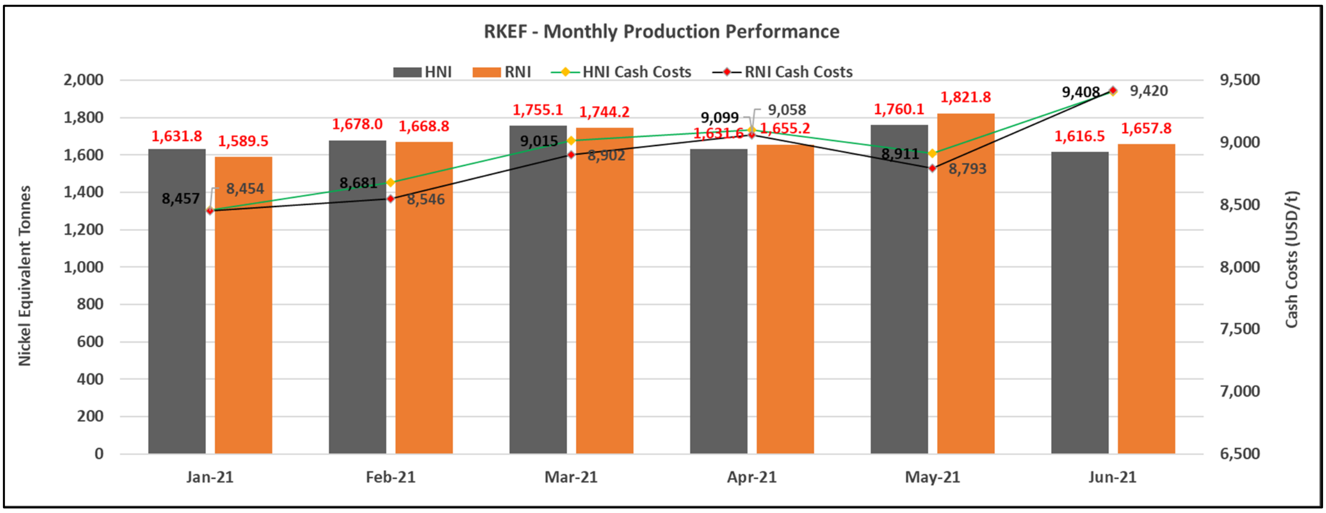
The Ranger Nickel operating results for the June quarter were:

RANGER NICKEL		April	May	June	Quarter Total	March Quarter
NPI Production	tonnes	11,984.7	13,552.6	12,021.4	37,558.7	35,127.8
NPI Grade	%	13.8	13.4	13.8	13.7	14.2
Nickel Metal Production	tonnes	1,655.2	1,821.8	1,657.8	5,134.8	5,002.5
Cash Costs	USD/t Ni	9,058	8,793	9,420	9,081	8,641

For the June quarter, Ranger Nickel recorded (on a 100% basis) sales of US$75.7M for 5,355.4 tonnes of nickel metal sold, underlying EBITDA of US$26.5M[2] and an underlying net profit of US$24.6M[2].

Hengjaya Nickel control centre

[2] 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 contracts delivered in the June quarter, before receipt of final assay results, was US$14,161/t of nickel.



Production and cost performance from the Hengjaya Nickel and Ranger Nickel RKEF projects

COMBINED RKEF OPERATIONS		April	May	June	Quarter Total	March Quarter
NPI Production	tonnes	23,991.5	26,383.7	24,111.3	74,486.5	71,939.3
NPI Grade	%	13.7	13.6	13.6	13.6	14.0
Nickel Metal Production	tonnes	3,286.8	3,581.9	3,274.3	10,143.0	10,067.5

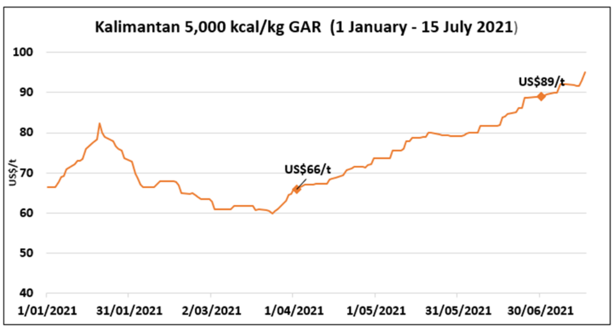
During the June quarter, the combined Hengjaya Nickel and Ranger Nickel projects recorded (on a 100% basis) sales of US$150.2M for 10,735.7 tonnes of nickel metal, underlying EBITDA of US$50.8M and underlying net profit of US$47.0M.

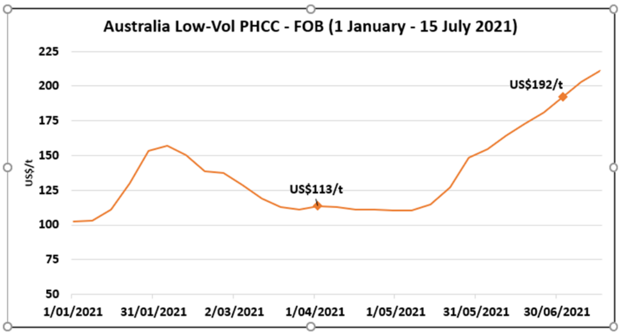
Production for the quarter (100% basis) was 10,143.0 tonnes, up 0.7% from the 10,067.5 tonnes produced in the March quarter.

Commentary on RKEF Operations

The June quarter delivered another strong quarter of consistent nickel production with 10,143.0 tonnes produced across the Hengjaya Nickel and Ranger Nickel RKEF operations. As communicated in the previous quarter, management continued with the decision to marginally reduce NPI grades (at the expense of maximising nickel tonnes) to minimise the pricing penalties applied to higher grade NPI (greater than 12%) with lower iron content. This strategy, along with firming NPI prices over the quarter saw realised prices increase more than US$500/t from the previous quarter.

Higher sales contract prices were however partly offset by increased operating cash costs due to higher power and reductant costs as a result of rising thermal and coking coal prices (up c.35% and c.70% respectively from the March quarter), almost solely accounting for the approximate 5% increase in cash costs during the quarter. Nickel ore costs in the June quarter were marginally lower than in the March quarter (~US$40/wmt v ~US$41/wmt), in line with a retracement in the average LME nickel price over the quarter.

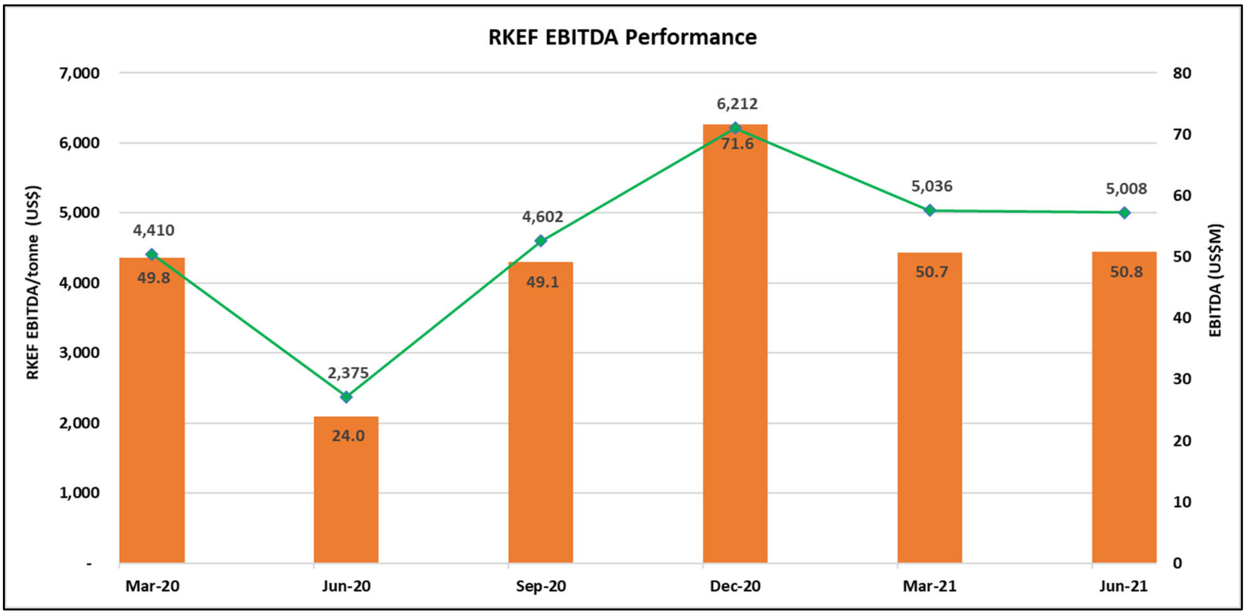




Significant price increases were observed across the entire coal complex during the June quarter

While indicative only, the above charts show the approximate 35% increase in thermal coal prices (Kalimantan 5,000 kcal/kg) and 70% increases in metallurgical coal prices (Australian Low-Vol PHCC) across the June quarter.

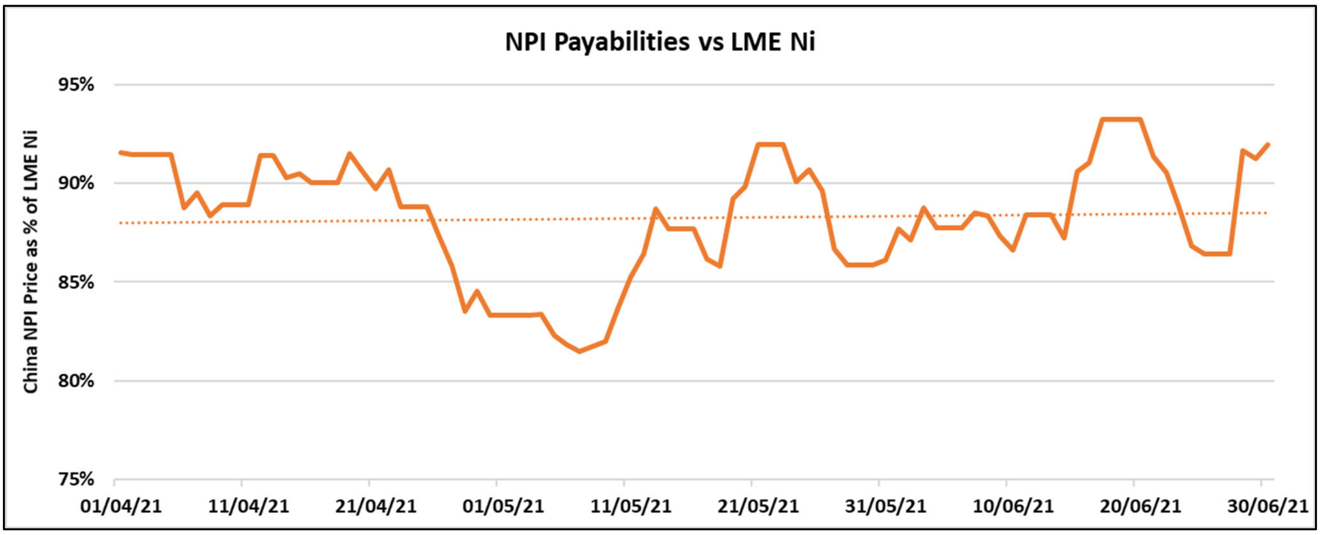
Despite the coal cost pressures across the industry during the June quarter, the Company's RKEF operations were able to maintain a healthy EBITDA margin of US$5,008/t Ni (marginally below the March quarter but above historical averages of ~US$4,730/t Ni) underpinning the ability of the Company's RKEF assets to maintain strong levels of profitability in all commodity price environments.

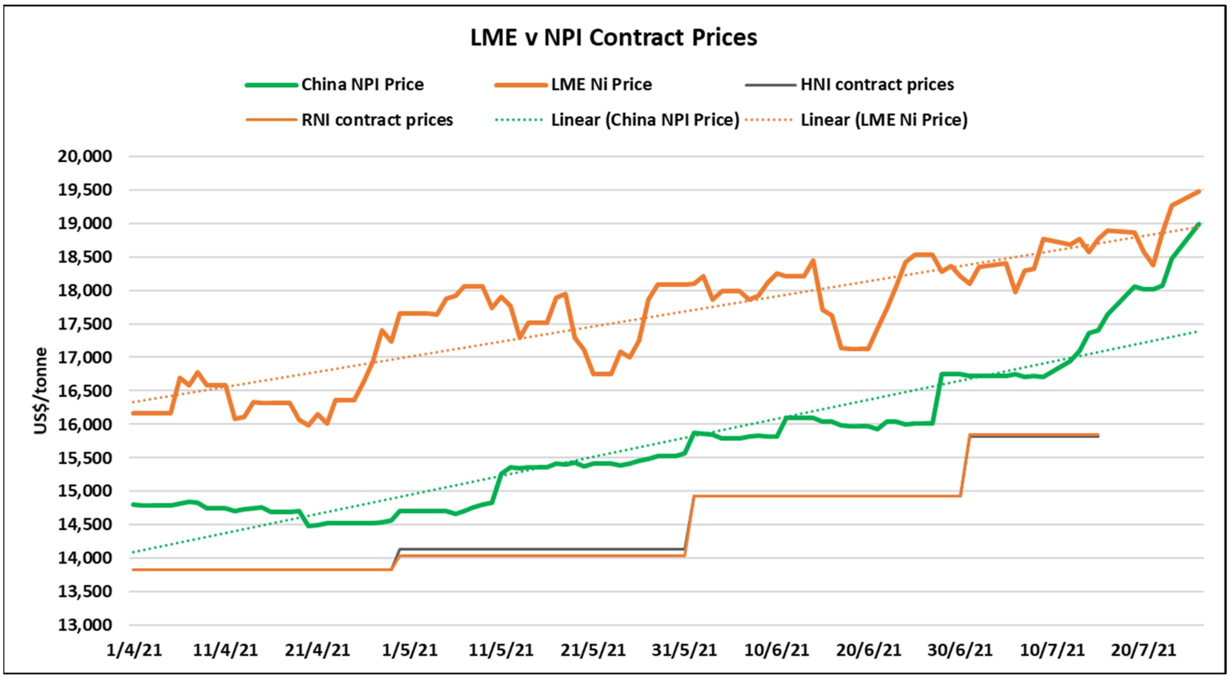


The June quarter produced another strong and consistent EBITDA performance

NPI Pricing

During the June quarter, the average NPI price (China ex-works) was ~US$15,300/t Ni representing approximately 88% of the average LME nickel price during the quarter. The Company's weighted average contract sales prices (pre-final assay) was 92.6% of the average NPI price (China ex-works) during the quarter with the discount due to the higher grade of NPI sold.





The Company notes the strengthening Chinese NPI price towards the end of the June quarter and into the first half of July, with this upwards price pressure fuelled by robust stainless steel consumption and supply tightness across the NPI market. Early July NPI sales contracts (for both export sales and internal IMIP sales) have captured this higher pricing with contracts for delivery in July and August being executed at between US$15,400/t Ni and US$16,300/t Ni, representing increases of US$1,300/t – US$2,200/t above weighted average contract prices (pre-final assay) in the March quarter. Since executing these most recent contracts, NPI pricing momentum has continued with NPI prices currently sitting >95% of LME nickel, equating to indicative NPI pricing levels (before application of relevant grade penalties) of ~US$19,000/t Ni.

Covid pandemic prevention and control

During the quarter, the IMIP continued to enforce strict access controls surrounding entry into and out of the park with the local government also maintaining a requirement for valid Negative-PCR tests to be obtained prior to travelling into the greater Morowali Regency. Despite these measures, there has been an incident of Covid-19 infection within the IMIP which has not impacted the Company's RKEF operations and has resulted in an increased vaccination program within the IMIP.

As of mid-July, 74,400 vaccines had been purchased for the ~40,000 workforce and 14,791 workers having been vaccinated including ~ 35% of Hengjaya Nickel and Ranger Nickel personnel. Based on current vaccination rates of ~1,000 doses per day the IMIP has a target to have all of its workforce fully vaccinated by the end of September.

The IMIP's vaccination program is targeting to have all employees fully vaccinated by the end of September 2021

In addition to the abovementioned vaccination program, the IMIP continues to implement its existing safety protocols including social distancing (where permissible), mandatory mask wearing, twice daily temperature checks and daily disinfectant of working areas and tools.

On duty employees are temperature checked twice daily

Hengjaya Mine Operations

Hengjaya Mine (80% interest held by Nickel Mines)

The June quarter saw the Hengjaya Mine deliver record levels of production with 574,791 wet metric tonnes ('wmt') mined, surpassing the previous record of 499,877 wmt in the December 2020 quarter a significant increase on the 62,610 wmt from the corresponding June 2020 quarter last year, which was impacted by high levels of rainfall and localised flooding. Expansion and improvement initiatives across the Hengjaya Mine operations over the last 12 months have focused on significantly ramping up production levels (target 1.5 million tpa) and improving the mines' ability to reduce delays associated with high rainfall events through the better management of haul roads, mine pits and water.

New production records of 359,883 wmt and 214,908 wmt were achieved across the Central and Bete Bete pits respectively with the combined 574,791 tonnes representing a greater than 25% increase on the previous quarter and placing Hengjaya Mine on track to deliver an upwardly revised 2021 production target of 2.0 mtpa.

Limonite ore continues to be stockpiled at the Central Pit with 1.9 million wmt currently stockpiled at an average grade of approximately 1.1%.

		April	May	June	Quarter Total	March Quarter
Tonnes mined	wmt	196,617	142,056	236,118	574,791	456,487
Overburden mined	BCM	110,421	167,294	271,498	549,213	262,270
Limonite mined	BCM	190,292	74,228	84,853	349,373	402,556
Overburden and limonite mined	BCM	300,713	241,522	356,351	898,586	664,827
Strip ratio*	BCM/wmt	1.53	1.70	1.51	1.56	1.46
Tonnes sold	wmt	170,676	151,816	219,892	542,384	424,410
Average grade	%	1.78	1.77	1.78	1.78	1.77
Average price received	USD/wmt	36.25	34.85	36.82	36.09	35.40
Average cost of production[3]	CIF USD/wmt	23.09	24.11	23.44	23.48	22.78

*Strip ratio includes limonite as overburden.

[3] Monthly production costs are a six-month average of mining costs plus port/selling costs for the actual month. Reported production costs also include US$332k of drilling costs incurred during the June quarter.

Bete Bete pit operations (foreground right is east expansion area with IMIP in the background)

Central East and West pits

Hengjaya Mine Expansion

Expansion activities continued during the June quarter, in support of the Hengjaya Mine's plan to further increase production of both saprolite and limonite ores in 2021 and beyond. Key operational workstreams for the quarter were focused on the continuing development of internal haul roads, jetty stockpile management, jetty loading areas and infill drilling.

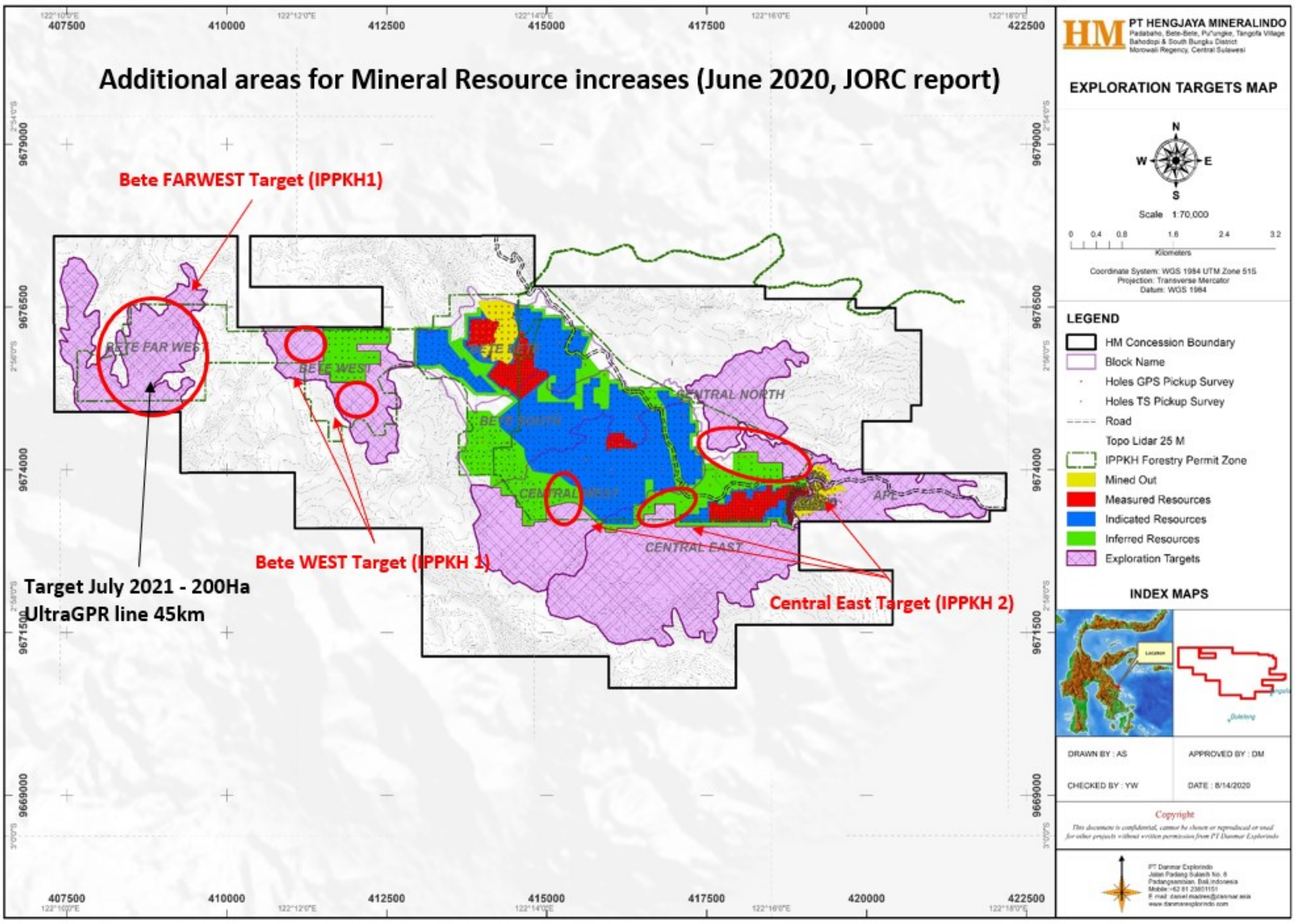
Main haul road approvals and construction works to IMIP continued to advance in areas around the Bete Bete pit to the IUP boundary and external APL areas, with associated water management controls and monitoring systems having now been installed on all new mine infrastructure areas.

The internal haul road connecting Bete Bete to Central is now in full operation.

Additional 40t articulated dump trucks, dozers, haul trucks and ancillary equipment arrived on site during the quarter and will be utilised for opening new areas on the existing pits and areas associated with the expansion east of Bete Bete pit and west of Central west pits.

In preparation for mining the new areas at higher mining rates, infilling drilling continued with 222 holes drilled for 5,183 metres.

An area of approximately 200 hectares to the far west of Bete Bete has also been identified for exploration, with a ground penetrating radar (GPR) survey to be completed before the end of 2021. Further exploration drilling is planned based on the GPR results.



IUP additional resource targets to the far west Bete Bete

Mine infrastructure and load out jetty

Waste dump rehabilitation

Safety, Environment and Community

Safety

The continued focus at the mine in safe work culture and ongoing training has resulted in another outstanding achievement with no Lost Time Injuries (LTI) or medical treatment injuries reported during the quarter. Total man hours worked since the last LTI is now over 5,498,200 hours.

A continued focus remains on sustaining a safe workplace throughout all operations, including training, ongoing updating of safe operating procedures and associated risk management systems. Additional risk assessments, change management and safe operating procedures continued as the production and work areas extended in current and new areas of operations.

PT Hengjaya dedicated training and toolbox meetings.

As part of Covid-19 protocols the Hengjaya Mine continued with strict non-essential visitor access, protocols that have been in place since late January 2020. The regional government also maintained the requirement for valid Negative-PCR tests to be obtained prior to travelling into the Morowali regency.

The mine site workforce continued to progress towards full Covid-19 vaccination which is planned to be completed by the end of July 2021.

Environment

No environmental incidents were reported during the June quarter and the environmental team completed all required licence compliance monitoring and reporting. Extensive monitoring programs continued and included water, dust and rehabilitation throughout the operations.

As part of the Company's commitment to reducing its greenhouse gas emissions the Hengjaya Mine has signed an agreement for the supply and installation of a 660 panel - 450kw solar power system for the main accommodation, office and workshop areas.

It is anticipated that the solar project will reduce diesel fuel consumption by some 31 million litres over the 25-year projected generation life as the mine currently sources its power from diesel powered generators, reduce the Hengjaya Mine carbon footprint by 10 tonnes over the project life and deliver an expected saving of 40% over the project life when compared to diesel powered generation.

The system will be installed during 2021 and allow the mine infrastructure area to operate on solar power during daylight hours. The solar power system has potential to be upgraded to further reduce the requirement for diesel generator usage, further reducing associated CO_2 emissions.

A carbon emissions report was also completed during the quarter. This report will be utilised to benchmark the Company's current carbon footprint against Indonesian and global nickel producers and assist in the identification and implementation of future carbon emission reduction programs and targets.

Regional DAS reforestation program ***Waste management sponsorship***

Community

During the quarter, the Hengjaya Mine continued with its commitment to development, recruitment, and training programs with both local and regional stakeholders, including the Tangofa, Bete Bete, Markati, Labota, Tanga Oreo and Bahodopi village regions.

Other projects included donations of additional equipment for local and regional domestic waste management, assistance with local villages on Covid awareness training, construction of a clean water harvesting facility for Bete Bete and donations to local sports, schools, religion projects and medical clinics.

Sporting and community support

Environment Social Governance

The Company is pleased to announce the appointment of Muchtazar ('Tazar') as its new Sustainability Manager. Prior to joining Nickel Mines Tazar led the implementation of sustainability programs at Unilever Indonesia where he received the SDG Pioneer award by the United Nations, being just the second Indonesian in SDG award history to receive this accolade.

Tazar has represented Indonesia in various international forums, such as the UN Global Compact Leaders Week, the Global Compact Network Singapore Youth Forum, and the Asian Circular Economy Leadership Academy.

Finance[4]

Balance Sheet

At 30 June 2021, the Group held:

- Cash and cash equivalents: US$189.8M (31 March 2021 - US$129.3M)
- Trade receivables: US$103.2M (31 March 2021 - US$85.8M)
- Inventories: US$70.5M (31 March 2021 - US$62.3M).

Cash and cash equivalents of US$189.8M were held by Group companies as follows:

- US$133.0M held by Nickel Mines;
- US$31.2M held by Hengjaya Nickel and its related entities, in which Nickel Mines holds an 80% interest;
- US$18.3M held by Ranger Nickel and its related entities, in which Nickel Mines holds an 80% interest; and
- US$7.3M held by Hengjaya Mine, in which Nickel Mines holds an 80% interest.

Trade receivables of US$103.2M were held by Group companies as follows:

- US$54.2M held by Hengjaya Nickel;
- US$40.8M held by Ranger Nickel;
- US$8.2M held by Hengjaya Mine[5].

Trade receivables increased by US$17.4M from the March quarter, primarily due to higher NPI prices being received in June.

$85.8M in trade receivables reported at the end of the March quarter have been received in full.

Inventory (valued at the lower of cost or net realisable value) of US$70.5M was held by Group companies as follows:

- US$33.3M held by Hengjaya Nickel, being raw materials;
- US$35.7M held by Ranger Nickel, being raw materials;
- US$1.5M of nickel ore held by Hengjaya Mine.

There was no NPI inventory on hand at the end of the June quarter as all NPI on hand was sold to entities operating within the IMIP.

During the quarter, Hengjaya Nickel made routine monthly repatriations totalling US$3.6M, with funds flowing through the Singaporean holding company, Hengjaya Holdings Private Limited, which in turn distributed the funds to its shareholders, Nickel Mines and Shanghai Decent Investment (Group) Co., Ltd ('Shanghai Decent') and its associates, in proportion to their ownership interests (80% to Nickel Mines and 20% to Shanghai Decent and its associates). These distributions amounted to US$2.9M to Nickel Mines and US$0.7M to Shanghai Decent and its associates.

During the quarter Ranger Nickel made routine monthly repatriations totalling US$18.3M, with funds flowing through the Singaporean holding company, Ranger Investment Private Limited, which in turn distributed the funds to its shareholders, Nickel Mines and Shanghai Decent and its associates, in proportion to their ownership interests (80% to Nickel Mines and 20% to Shanghai Decent and its associates). These distributions amounted to US$14.7M to Nickel Mines and US$3.6M to Shanghai Decent and its associates. The June quarter distributions from Ranger Nickel extinguished the remaining balance of shareholder loans established to fund the capital expenditure development of the Ranger Nickel Project.

[4] Unaudited numbers from monthly operating entity financial reporting.

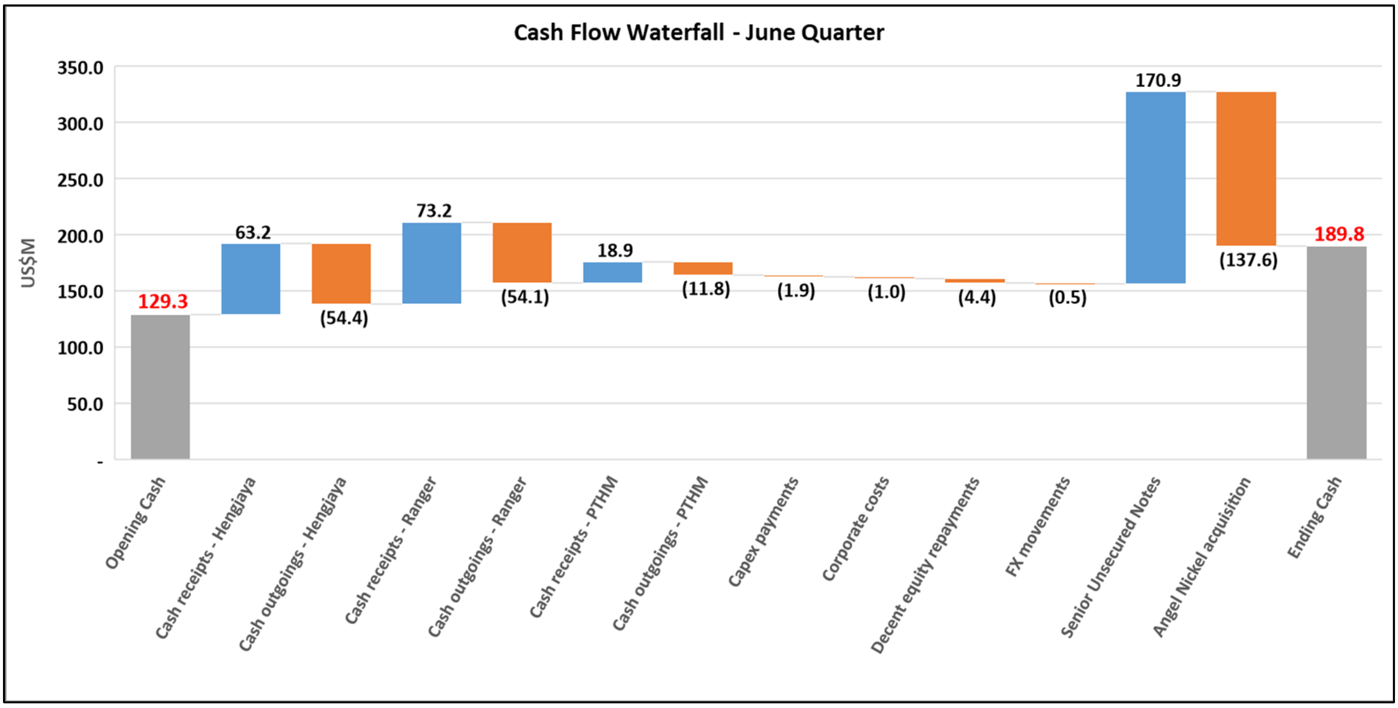
[5] Sales by Hengjaya Mine to Hengjaya Nickel and Ranger Nickel are inter group transactions and are eliminated on consolidation.

At 30 June 2021, the Indonesian operating entities declared maiden dividends, US$40.0M by Hengjaya Nickel and US$25.0M by Ranger Nickel. Net proceeds are to be distributed to Nickel Mines and Shanghai Decent and its associates via the Singaporean holding company of each project across July and August. Importantly these distributions, and future distributions from the Hengjaya Nickel and Ranger Nickel projects, will constitute Conduit Foreign Income (CFI). Dividends paid by Nickel Mines to its foreign shareholders from CFI will not incur any withholding tax deductions in Australia.

Following the commencement of monthly repatriation of funds from the Hengjaya Mine in February 2021, a further US$3.0M was repatriated to Nickel Mines during the June quarter. Nickel Mines will receive 100% of fund repatriations from the Hengjaya Mine until intercompany loan funds advanced by Nickel Mines to the Hengjaya Mine have been fully repaid.

Cash Flow

The following cash flow waterfall provides a reconciliation of cash movements over the June 2021 quarter.



Free cash flow from operations, having adjusted for operational working capital movements, and including sustaining capex payments at Hengjaya Mine was US$57.7M.

Expenditures

Expenditure on mine production and development activities during the quarter totalled US$13.5M.

There was no expenditure on mine exploration activities during the quarter, with infill drilling costs, which totalled US$0.33M during the quarter classified as mine production costs.

Related Party Expenditures

During the June quarter the aggregate amount of payment to related parties and their associates totalled $332,000 comprising $214,000 of payments to Directors or Director related entities for Directors' consulting fees and $118,000 in fees were paid to MIS Corporate Pty Limited ('MIS'), an entity in which Directors Norman Seckold and Peter Nightingale have a controlling interest. MIS provides full administrative services, including administrative, accounting and investor relations staff both within Australia and Indonesia, rental accommodation, services and supplies, to the Group.

Corporate

Acquisition of a further 20% interest in Angel Nickel

In April 2021, the Company completed the acquisition of a further 20% interest in Angel Capital Private Limited ('Angel'), the Singaporean holding company and ultimate 100% owner of the Angel Nickel project comprising four next generation RKEF lines and a 380MW power station currently under construction within the IWIP on Halmahera Island in Indonesia's North Maluku province.

The Company now holds a 50% interest in the Angel Nickel project, having acquired its initial 30% interest in February 2021, and has the right to further increase its interest in Angel to 80% by 31 December 2021.

The acquisition of the 20% interest in Angel was agreed with the Company's partner, Shanghai Decent whereby the second stage acquisition of a further 50% of Angel has been split into two parts, thereby providing funding flexibility for the Company:

- Part A being 20% for payment of US$137.6M by 30 June 2021; and
- Part B being 30% for payment of US$210.0M by 31 December 2021.

The Part A payment of US$137.6M is inclusive of a US$2.4M discount based on the US$6.0M early payment discount the Company negotiated as announced on 20 January 2021.

Reiterating the Independent Expert's Valuation Reports prepared by Lonergan Edwards & Associates Limited as announced on 2 December 2020 and 20 January 2021:

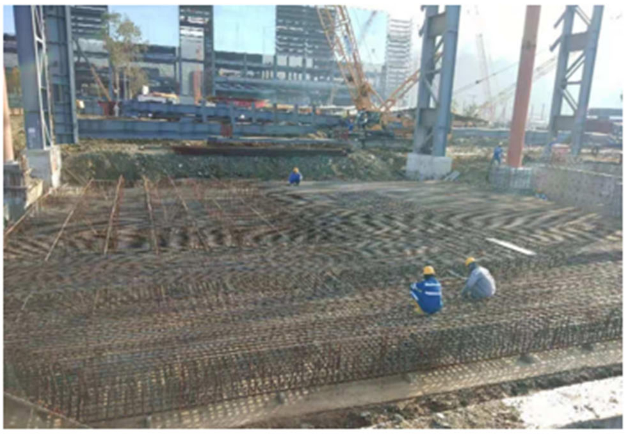
- Based on the assumptions in the Independent Expert Valuation Report, the value of 100% of the Angel Nickel project ranges from US$1.4 billion to US$1.5 billion.

The Company intends to complete the acquisition of its additional 30% interest in the Project by 31 December 2021 with a combination of existing cash, cash flows from operations and/or debt.

Angel Nickel progress report

During the June quarter excellent progress was made across the various phases of the Angel Nickel project. All material earthworks and plant footings have now been largely completed together with the commencement of fabrication of key long lead items including boilers, turbines and generators.

Scaffolding support for the RKEF Lines



Foundations of Main Workshop

Aerial view of ANI powerplant

Foundations for ANI powerplant

Foundations for Dry Ore shed

Column reinforcement for Electrostatic Precipitator

Cumulative completion of the various work phases at the end of the June quarter were estimated as follows:

Procurement of key capital equipment ~ 60%
Construction works ~ 40%
Installation ~ 8%

MOU signed to diversify into Nickel Matte production

In May 2021, the Company signed a Memorandum of Understanding ('MoU') with its collaboration partner, Shanghai Decent, for two of the Company's four 80% owned RKEF lines within the IMIP to undergo the necessary modifications to allow them to produce a nickel matte product suitable for sale into the electric vehicle battery market.

Tsingshan recently announced signing a one-year contract to supply 100,000 tonnes of nickel matte to Huayou Cobalt and CNGR Advanced Material Co. Ltd, commencing from October 2021 and

that the trial production of this high-grade nickel matte (>75%) within the IMIP had been successful.

The Company is delighted to have been offered the opportunity to convert two of its RKEF lines (either the Hengjaya Nickel or Ranger Nickel project), out of an initial total of 10 RKEF lines within the IMIP which will be converted by Tsingshan, to undergo the minor modifications required to produce nickel matte that will then be further processed to fulfil these contracts.

While the specific details of capital modification costs, operating costs and selling arrangements with Shanghai Decent remain commercial-in-confidence and subject to a definitive agreement, the Company can advise:

- The required modification cost for each RKEF line is expected to be minimal (approximately US$1.0M per line).
- The cash operating costs for producing a tonne of nickel in matte are expected to be comparable to the cash costs of producing a tonne of Ni in NPI.
- Units of production, measured in contained tonnes of nickel metal, produced by the Company's RKEF lines after conversion to produce nickel matte are expected to be comparable with the current units of production in NPI.
- As with its NPI production, Shanghai Decent has provided a firm undertaking to purchase all of the Company's nickel matte production.
- Switching between NPI and nickel matte production is possible with minimal production disruption, however, it is not optimal to do so regularly and it is proposed that Nickel Mine's converted RKEF lines will be utilised for dedicated nickel matte production unless there is an extended period where operational economics would favour a switch back to NPI.
- Once the modifications are completed it will take approximately two weeks for the converted RKEF lines to produce an 'on-spec' nickel matte product, with the interim 'off-spec' product remaining a saleable product.
- It expected these modifications will be completed in time for production and delivery of nickel matte in Q4 2021.

NPI v Nickel Matte Pricing

Driven by the now well accepted global thematic of vehicle electrification, the nickel market is rapidly evolving as are the supply/demand fundamentals of the various products of which it is comprised.

While it is not possible to predict the future price behaviour of individual nickel products, the Company offers the following observations which underpin the decision to pursue this diversification into the production of nickel matte:

- Pricing of nickel matte, a precursor to the production of nickel sulphate, will more directly correlate to the LME nickel price than NPI pricing.
- Nickel matte and NPI payabilities will vary from time to time, however, all other factors being equal, the economic returns from producing nickel matte may improve further in a higher LME nickel price environment.
- Diversification of the Company's products serves to insulate the Company from potential future and ongoing bifurcation in the pricing of nickel products.

Dividend policy

Subsequent to quarter end, the Company advised the following considerations would be taken into account in the articulation of future dividend payments.

- The Nickel Mines Group operations, the Hengjaya Nickel and Ranger Nickel RKEF projects and the Hengjaya Nickel Mine, are in steady state operations.
- The Nickel Mines Group operations are, under current economic conditions, highly profitable and generate significant free cash flows.
- The Hengjaya Nickel and Ranger Nickel RKEF projects have fully repaid the shareholder loans which funded the capital expenditure to construct those projects. Future repatriations of funds from those projects will be received by Nickel Mines as conduit foreign income which will not be subject to withholding tax deductions when distributed to foreign shareholders as dividends paid by Nickel Mines.
- The Company is lowly geared with modest debt outstanding.

Based on these factors, the Company intends that a proportion of the profit and free cash flow generated by the Nickel Mine Group operations will continue to be returned to shareholders by way of regular dividends declared on an interim and final basis each financial year.

The Company's commitment to future dividend payments and their quantum will be guided by the following considerations:

- Maintaining a satisfactory level of performance across the Company's operations measured by revenues, profitability and free cash flow generation. The Directors will take into consideration variables such as underlying economic conditions, the prevailing and future outlook for relevant commodity prices and the ongoing internal requirements of the business – namely any working and sustaining capital commitments and debt servicing obligations. These requirements will be necessarily prioritised ahead of dividend distributions.

- Competition for capital. The Company is in the fortunate position of having an operational footprint in two of the largest nickel production centres globally and a growing strategic partnership with the Tsingshan group. As such there is an expectation that future opportunities may be presented to the Company for consideration that will require the Directors to make decisions whether available funds are best utilised for growth options or returned to shareholders as dividends.

In noting the above considerations, the Company will seek to achieve an appropriate balance of deployment of surplus cashflows between growth opportunities and dividend distributions to shareholders and, until otherwise advised, will maintain the Company's interim and final dividends to at least equal to the most recent interim and final dividends paid by the Company.

To the extent that a circumstance arises that gives rise to a likely reduction in the amount of the dividend to be declared, that fact will be announced to the market by the Company.

QUARTERLY PROGRESS

Commenting on the June quarter's activities, Managing Director Justin Werner said:

"The June quarter was another busy quarter which again delivered consistent nickel production and strong free cash flow generation, despite some commodity cost pressures particularly regarding thermal and coking coal prices. This saw increases of up to 35% and 70% respectively from the previous March quarter but resulted in only a 4.9% increase in Hengjaya Nickel and Ranger Nickel costs. Our RKEF operations were again able to deliver excellent EBITDA margins which contributed to delivering US$57.7M of underlying free cash flow from operations for the quarter.

We are also delighted with the record 574,791 tonnes mined by the Hengjaya Mine during the June quarter. which comfortably surpassed our previous record of 499,877 tonnes delivered during the December 2020 quarter, a feat more remarkable given it was achieved over what is traditionally the weakest quarter of the year for mine operations given the seasonal wet season.

This outstanding performance has been made possible as a result of the many expansion and improvement initiatives implemented over the last 12 months and is testament to the hard work and commitment of our entire Hengjaya Mine team and mine contractors. We expect the production and cashflow generation from Hengjaya Mine to continue to grow as the mine continues to expand its production capability.

On a corporate note, we are pleased to have successfully completed our maiden US$175M bond which has allowed us to increase our interest in the Angel Nickel project to 50%, with construction progressing very well despite the Covid pandemic.

We have kicked off the September quarter with strong demand for NPI which is being reflected in a recent surge in prices and are pleased to report that our July contract NPI prices are as high as US$2,200/t above our weighted average contract pricing for the June quarter, with upside pricing momentum having continued since executing these most recent contracts."

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