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29 March 2022

The Manager Companies
ASX Limited
20 Bridge Street
Sydney NSW 2000 (93 pages by email)

NOTICE OF EXTRAORDINARY GENERAL MEETING

Nickel Mines Limited (‘**Nickel Mines**’ or ‘**the Company**’) provides the Notice of Extraordinary General Meeting (‘**Notice of Meeting**’) being sent to shareholders today, seeking shareholder approval for the Company to issue 108,122,223 new fully paid ordinary shares in the Company (‘**Shares**’) to Shanghai Decent Investment (Group) Co., Ltd. (‘**Shanghai Decent**’) (or its nominee), (‘**Shanghai Decent Placement**’).

The Notice of Meeting also asks shareholders to ratify the issue of 108,122,223 Shares to institutional and sophisticated investors which was completed on 15 February 2022.

Accompanying the Notice of Meeting is an Explanatory Memorandum and an Independent Expert’s Report, which finds the proposed Shanghai Decent Placement is not fair, but reasonable to shareholders with the report suggesting:

The Independent Expert went on to note the following advantages and disadvantages of the Shanghai Decent Placement:

Advantages

(a) *the Equity Raise (including the Shanghai Decent Placement) is being undertaken to fund the First and Second Acquisition Payments[1] for the Oracle Nickel Project (totalling US$129.0 million), the First Shareholder Loan (of some US$46.2 million) and to provide funds for corporate purposes. The acquisition payments secure a 30% interest in the Oracle Nickel Project which is significantly value accretive for Nickel Mines shareholders. If the Shanghai Decent Placement is rejected, Nickel Mines will still need to raise additional funds to secure its interest in the Oracle Nickel Project, and it is unclear whether this could be undertaken on more favourable terms (particularly given the increased volatility and recent trading range of Nickel Mines shares)*

1 As defined in the Explanatory Memorandum.

(b) *Nickel Mines has established a financial, operational and strategic partnership with Shanghai Decent and Tsingshan which has been very beneficial to Nickel Mines shareholders and has resulted in Nickel Mines becoming a globally significant, low-cost producer of NPI. The Shanghai Decent Placement is consistent with (and a continuation of) this established relationship. If rejection of the Shanghai Decent Placement adversely affected this relationship, the impact on value for Nickel Mines could be significant*

Disadvantages

(c) *pursuant to the Shanghai Decent Placement, Shanghai Decent will increase its interest in Nickel Mines from some 17.9[2] to some 21.15% of issued capital, an interest which from a regulatory perspective implicitly reflects a degree of control over the Company. However, the increase in Shanghai Decent's interest in Nickel Mines is not expected to have an impact on the day to day operations or control of the Company*

(d) *the Shanghai Decent Placement is not "fair" when assessed based on the guidelines set out in RG 111. This is because the Shanghai Decent Placement does not provide value to Nickel Mines shareholders which is equal to the full controlling interest value of Nickel Mines shares prior to the Shanghai Decent Placement. However, this is to be expected as the Shanghai Decent Placement does not involve a takeover offer (or similar proposal) for 100% of Nickel Mines shares*

(e) *the Shanghai Decent Placement is slightly value dilutive on a comparative portfolio interest basis. However, at the midpoint of A$0.005 per share (based on our assessed value range for Nickel Mines) this dilution is not material.*

As indicated above there are a number of advantages and disadvantages associated with the Shanghai Decent Placement. However, as these funds (combined with the proceeds from the Institutional Placement) enable Nickel Mines to finance the First and Second Acquisition Payments and First Shareholder Loan for the (significantly value accretive) Oracle Nickel Project, in our opinion, the Shanghai Decent Placement is reasonable and in the best interests of Nickel Mines shareholders.

For the reasons set out above, in our opinion, the Shanghai Decent Placement is therefore not fair but is reasonable to Nickel Mines shareholders in the absence of a superior proposal.

The Directors encourage all shareholders to review the material contained within the Notice of Meeting and Explanatory Memorandum including the Independent Expert's Report.

[2] Post the Institutional Placement.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting ('**EGM**') of members is to be convened at Level 2, 66 Hunter Street, Sydney, NSW or via Zoom webcast, on Tuesday 3 May 2022 at 11.00 am (Sydney Time).

Please note that due to the ongoing restrictions due to COVID-19, all resolutions will be decided based on proxy votes. Shareholders will be able to attend the EGM virtually via a live Zoom webcast which will include a facility for Shareholders to ask questions in relations to the business of the meeting.

Zoom webcast details:
Zoom Meeting ID – 970 7451 5901
Password – 824314
or access at
https://zoom.us/j/97074515901?pwd=MGFtRk5OYmV5VzFhL3FWQUNBcjRXQT09

The Explanatory Memorandum and Independent Expert's Report provides additional information on matters to be considered at the EGM.

The Directors have determined pursuant to regulations 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on Sunday 1 May 2022 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 or the Explanatory Memorandum.

AGENDA

BUSINESS

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

Ordinary Resolution 1. Approval of the proposed issue of the Shanghai Decent Shares

*'That, for the purposes of item 7 of section 611 of the Corporations Act, for Listing Rule 10.11 and for all other purposes, Shareholders approve the issue of 108,122,223 fully paid ordinary shares in the Company in accordance with the terms and conditions set out in the Explanatory Memorandum, to Shanghai Decent (or its nominee) ('**Shanghai Decent Shares**'), as a result of which Shanghai Decent's relevant interest in the Company's shares shall increase to a maximum of 21.15%.*

The Independent Expert Report prepared by Lonergan Edwards & Associates Limited has concluded that the proposed issue of the Shanghai Decent Shares under this Resolution 1 is not fair but reasonable. Shareholders are referred to the report attached to the Explanatory Memorandum.

Voting Exclusion Statement

The Company will disregard any votes cast in favour of this Resolution 1 by or on behalf of:

- Shanghai Decent (and any nominee) or any associate of that person or those persons; and
- any other person who will obtain a material benefit as a result of the issue of the securities (except a benefit solely by reason of being a holder of ordinary securities in the Company).

However, this does not apply to a vote cast in favour of a resolution by:

(a) a person as proxy or attorney for a Shareholder who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way;

(b) the Chairperson as proxy or attorney for a Shareholder who is entitled to vote on the resolution, in accordance with a direction given to the Chairperson to vote on the resolution as the Chairperson decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

  (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and

  (ii) the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

Voting Prohibition

In accordance with item 7 of section 611 of the Corporations Act, Shanghai Decent (and any nominee) and any associates of that person or those persons are excluded from voting in favour of Resolution 1 and the Company will disregard any votes cast in favour of Resolution 1 by Shanghai Decent (and any nominee) and any associates of that person or those persons.

Ordinary Resolution 2. Ratification of the issue of 108,122,223 Shares to institutional and sophisticated investors

'That pursuant to and in accordance with Listing Rule 7.4 and for all other purposes, Shareholders ratify the issue of 108,122,223 Shares to institutional and sophisticated investors on 15 February 2022, on the terms and conditions in the Explanatory Memorandum.'

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution 2 by or on behalf of:

- any person who participated in the issue; or
- an associate of any person who participated in the issue.

However, this does not apply to a vote cast in favour of a resolution by:

(a) a person as proxy or attorney for a Shareholder who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way;

(b) the Chairperson as proxy or attorney for a Shareholder who is entitled to vote on the resolution, in accordance with a direction given to the Chairperson to vote on the resolution as the Chairperson decides; or

(c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:

   (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and

   (ii) the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

By order of the Board

Richard Edwards
Company Secretary

24 March 2022

EXTRAORDINARY GENERAL MEETING

TO BE HELD ON 3 MAY 2022

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 2, 66 Hunter Street, Sydney, NSW, on Tuesday 3 May 2022 at 11.00 am (Sydney Time).

An Independent Expert's Report prepared by Lonergan Edwards & Associates Limited (the '**Independent Expert**'), which sets out a detailed examination of the proposed Shanghai Decent Placement to enable Shareholders to assess its merits is attached to this Explanatory Memorandum. 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.

The Independent Expert has concluded that the proposed issue of Shanghai Decent Shares is not fair, but reasonable.

Resolution 1 - Approval of the proposed issue of Shanghai Decent Shares

1.1 Background to the proposed Shanghai Decent Placement

On 7 December 2021, Nickel Mines executed a Collaboration Agreement ('**CA**') with Shanghai Decent and Decent Resource Limited ('**Decent Resource**'), a wholly owned subsidiary of Shanghai Decent, to acquire a 70% interest in the **Oracle Nickel Project** (as defined herein) (the '**Oracle Nickel Transaction**'). The Oracle Nickel Project is currently under construction within the Indonesia Morowali Industrial Park ('**IMIP**') and comprises:

- four rotary kiln electric furnace ('**RKEF**') lines ('**Oracle RKEF Plant**'); and
- ancillary facilities required for the operation of the Oracle RKEF Plant.

The Company will acquire its interest in the Oracle Nickel Project through the acquisition of 70% of the shares in Oracle Development Pte Ltd ('**Oracle**') and shareholder loans due or owing by Oracle (and/or its subsidiaries). Oracle will wholly own (directly and indirectly) 100% of the shares in PT Oracle Nickel Industry ('**Oracle Nickel**'), a private company limited by shares which is to be incorporated in Indonesia and will own the Oracle Nickel Project assets. Oracle Nickel will also separately undertake the construction of a 380MW power plant ('**Oracle Power Plant**').[3]

The acquisition funding will be undertaken in the following tranches:

(i) an initial acquisition ('**First Acquisition**') whereby Nickel Mines acquired an initial interest of 10% of the shares in Oracle Nickel Project at a cost of US$53 million[4] on 17 February 2022;

(ii) a second acquisition ('**Second Acquisition**') whereby Nickel Mines will acquire an additional 20% of the shares in Oracle Nickel Project at a cost of US$106 million, which is to occur by no later than 30 June 2022; and

(iii) a third acquisition ('**Third Acquisition**') whereby Nickel Mines will acquire an additional 40% interest in Oracle Nickel Project for US$212 million, which is to occur by no later than 31 December 2022.

The shareholder loans will be undertaken in the following tranches:

(i) US$46.2 million by 30 September 2022 ('**First Shareholder Loan**');

[3] For further information see the Company's ASX announcement dated 21 December 2021.
[4] Nickel Mines has paid US$53m to Shanghai Decent for the First Acquisition, comprising (i) US$10m deposit paid on signing of the initial memorandum of understanding, (ii) US$20m paid on signing of the CA, and (iii) US$23m paid on 17 February 2022.

(ii) US$46.2 million by 31 December 2022; and

(iii) US$61.6 million by 31 March 2023.

At an Extraordinary General Meeting of Shareholders held on 25 January 2022, Shareholders voted overwhelmingly in favour of a resolution approving the acquisition of a 70% interest in the Oracle Nickel Project.

On 9 February 2022, the Company announced the launch of a US$225 million capital raising comprising:

- a ~US$106 million (~A$148 million) fully underwritten, institutional placement ('**Institutional Placement**');
- a non-underwritten share purchase plan ('**SPP**') to eligible shareholders in Australia and New Zealand, with the SPP targeting to raise up to ~US$13 million (~A$18 million); and
- a ~US$106 million (~A$148 million) non-underwritten placement to Shanghai Decent (or its nominee) ('**Shanghai Decent Placement**').

On 11 March 2022, the Company announced the withdrawal of the SPP given market conditions ('**SPP Withdrawal**').

The majority of the proceeds from the Institutional Placement and Shanghai Decent Placement (together comprising the '**Equity Raise**') will be put towards funding the acquisition of a 30% interest in Oracle Nickel Project, via the First Acquisition Payment and the Second Acquisition Payment, as well as funding the First Shareholder Loan. Excess funds will strengthen the Company's balance sheet and provide additional capital for general corporate purposes.

The Company announced the successful completion the Institutional Placement to professional and sophisticated investors utilising the Company's 15% placement capacity under Listing Rule 7.1, on 10 February 2022.

1.2 Shanghai Decent Placement

The second stage of the Equity Raise is the proposed Shanghai Decent Placement which comprises the issue of 108,122,223 Shares to Shanghai Decent (or its nominee) as consideration for the Second Acquisition Payment of US$106 million to paid to Shanghai Decent on completion of the Second Acquisition.

The proposed share issuance pursuant to the Shanghai Decent Placement forms part of the "acquisition consideration" to be paid by the Company to Shanghai Decent for the Oracle Nickel Transaction. The issue of Shares to satisfy a payment obligation owing to Shanghai Decent by the Company is consistent with past transactions that the Company has successfully completed with Shanghai Decent.

1.3 Key advantages and disadvantages of the Shanghai Decent Placement

For the reasons set out below and based on the information available, the Non-Conflicted Directors consider that on balance the advantages of the Shanghai Decent Placement outweigh the disadvantages and that Shareholder approval of the Shanghai Decent Placement is in the best interests of Shareholders.

The Non-Conflicted Directors consider that the advantages of the Shanghai Decent Placement for Shareholders are as follows:

(a) **Additional funding is required to secure the Company's interest in the Oracle Nickel Project and satisfy its payment obligations under the CA**

The Company's entry into the CA was approved by Shareholders on 25 January 2022. The notice of extraordinary general meeting provided to shareholders in respect of that approval noted that the final funding mix for the Oracle Nickel Project was yet to be determined and may include cash flows from operations, debt and/or equity funding. Since that time, the Company investigated a wide range of funding alternatives (including debt, equity and hybrid raisings). The Equity Raising which includes the Shanghai Decent Placement was the preferred means of ensuring that funds were received by the Company within the required timeframe and in advance of expenditure requirements.

The issue of the Shanghai Decent Placement to Shanghai Decent by the Company will satisfy the Company's US$106 million Second Acquisition Payment obligation pursuant to the CA, which will result in the Company's ownership interest in Oracle Nickel increasing to 30%.

Further the commitment by Shanghai Decent to acquire the Shanghai Decent Shares was believed to be important to encourage investor participation in the Institutional Placement and SPP.

(b) **No impact on control**

The Shanghai Decent Placement will result in Shanghai Decent and its associates increasing their voting power in the Company up to a maximum of 21.15%. This is a relatively modest overall increase in Shanghai Decent's shareholding in the Company, considering its current ownership before the announcement of the Equity Raising was 18.67%[5].

Shanghai Decent has not sought additional representation on the Company Board as part of the Shanghai Decent Placement and Shanghai Decent's 'control' over the Company does not significantly change.

(c) **The additional funding enables the Company to progress with its stated objectives**

The funds raised by the Shanghai Decent Placement will be applied in the manner set out in the background section above. Importantly, the Shanghai Decent Placement will not change the Company's current strategy.

(d) **Demonstrates strong ongoing support from the Company's major shareholder**

The Shanghai Decent Placement represents a further substantial investment by Shanghai Decent and demonstrates its strong ongoing support for the Company, its operations and prospects. This is consistent with Shanghai Decent's demonstrated prior commitments to the Company.

(e) **Independent Expert's Report – reasonableness**

The Shanghai Decent Placement is considered "not fair but reasonable" by the Independent Expert.

The Non-Conflicted Directors consider that the disadvantages of the Shanghai Decent Placement are as follows:

(a) **Dilution of Non-Associated Shareholder interests**

The Shanghai Decent Placement will result in the dilution of each Shareholder who is not associated with Shanghai Decent ('**Non-Associated Shareholders**') in terms of their proportionate interest in the Company. However, the Non-Conflicted Directors believe that the benefits outlined above outweigh the perceived disadvantages associated with the dilution of the equity interests of existing Non-Associated Shareholders.

(b) **Shanghai Decent's level of control**

The Shanghai Decent Placement will increase Shanghai Decent's level of control over the Company from a pre-Equity Raise level of 18.67% of the Company's issued share capital up to a maximum of 21.15%.

Whilst that increase is, in the view of the Non-Conflicted Directors, modest, it is an increase and does provide Shanghai Decent an increased capacity to impact decisions made by the Company. In addition, in accordance with the Corporations Act, a shareholder with voting power of in excess of 20% and less than 90% may acquire an additional

[5] As a result of the Institutional Placement, Shanghai Decent's shareholding was diluted from 18.67% to 17.91%.

3% voting power every six months without shareholder approval and without being required to make a 'takeover bid' (known as the 'creep' exception).

(c) **Independent Expert's Report – fairness**

The Shanghai Decent Placement is considered "not fair but reasonable" by the Independent Expert on the basis of the guidelines set out in ASIC Regulatory Guide 111. This is because the Shanghai Decent Placement does not provide value to Shareholders which is equal to the full controlling interest value of Shares prior to the Shanghai Decent Placement. However, as noted by the Independent Expert this is to be expected as the Shanghai Decent Placement does not involve a takeover offer (or similar proposal) for 100% of Shares.

1.4 Approval for the purposes of Listing Rule 10.11

Listing Rule 10.11 provides that unless one of the exceptions in Listing Rule 10.12 applies, a listed company must not issue or agree to issue equity securities to:

10.11.1 a related party;

10.11.2 a person who is, or was at any time in the 6 months before the issue or agreement, a substantial (30%+) holder in the company;

10.11.3 a person who is, or was at any time in the 6 months before the issue or agreement, a substantial (10%+) holder in the company and who has nominated a director to the board of the company pursuant to a relevant agreement which gives them a right or expectation to do so;

10.11.4 an associate of a person referred to in Listing Rules 10.11.1 to 10.11.3; or

10.11.5 a person whose relationship with the company or a person referred to in Listing Rules 10.11.1 to 10.11.4 is such that, in ASX's opinion, the issue or agreement should be approved by its shareholders,

unless it obtains shareholder approval.

The issue of the Shanghai Decent Shares to Shanghai Decent (or its nominee) falls within Listing Rule 10.11.3 as Shanghai Decent is a substantial (10%+) holder in the Company and has nominated a director to the Board of the Company pursuant to a relevant agreement,[6] and does not fall within any of the exceptions in Listing Rule 10.12.

If Resolution 1 is passed, the Company will be able to proceed with the issue of the Shanghai Decent Shares to Shanghai Decent (or its nominee) and pursuant to Listing Rule 7.2, exception 14, the Company may issue the Shanghai Decent Shares without using up the Company's 15% placement capacity under Listing Rule 7.1. The funds raised from the issue of the Shanghai Decent Shares will enable the Company to make the Second Acquisition Payment as part consideration for the acquisition of the Oracle Nickel Project

If Resolution 1 is not passed, the Company will not be able to proceed with the issue of the Shanghai Decent Shares to Shanghai Decent (or its nominee). As a result the Company will not have raised the funds from the issue of the Shanghai Decent Shares but will still need to raise additional funds to secure its interest in the Oracle Nickel Project and meet its payment obligations under the CA. It is unclear whether the funds could be raised on more or less favourable terms or at all. If funds could not be raised at all the Company will not be able to proceed with the acquisition of the 70% interest in the Oracle Nickel Project and Nickel Mines will forfeit the Deposit Amount.

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[6] As at the date of this Notice Shanghai Decent and its associates has a relevant interest in 17.91% of the issued voting shares in the Company. Prior to the completion of the Institutional Placement, Shanghai Decent and its associates had a relevant interest in 18.67% of the issued voting shares in the Company. Mr Weifeng Huang is a nominee director of Shanghai Decent.

1.5 Approval for the purposes of item 7 of section 611 of the Corporations Act

Pursuant to section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by, or on behalf of, the person and because of that transaction, that person's or someone else's voting power increases:

- from 20% or below to more than 20%; or
- from a starting point that is above 20% to below 90%.

A person has a relevant interest in the securities of a company if they individually, or jointly:

- are the holder of the securities;
- have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- have the power to dispose of, or control the exercise of a power to dispose of, the securities.

The calculation of a person's voting power for these purposes means the total number of votes that the person and its associates have a relevant interest in, expressed as a percentage of total votes attaching to all shares in the entity (**'Voting Power'**).

Item 7 of section 611 of the Corporations Act provides an exception to the prohibition under section 606 of the Corporations Act. This exception provides that a person may acquire a relevant interest in a company's voting shares if shareholders of the company approve the acquisition. For the exception in item 7 of section 611 of the Corporations Act to apply, shareholders must be given all information known to the person proposing to make the acquisition or their Associates, or known to the company, that was material to the decision of how to vote on the resolution. In ASIC Regulatory Guide 74, ASIC has indicated what additional information should be provided to shareholders in these circumstances. This information is set out below.

Resolution 1 seeks shareholder approval, for the purpose of item 7 of section 611 of the Corporations Act and all other purposes, to allow Shanghai Decent and its associates to acquire a relevant interest in Shares (upon completion of the proposed Shanghai Decent Placement) that is more than 20%, up to a maximum of 21.15%.

1.6 Prescribed information

(a) Identity of the acquirers and their associates

The Shares to be issued under Resolution 1 will be issued to Shanghai Decent (or its nominee).

Shanghai Decent is a substantial holder of the Company, holding at the date of this Notice a relevant interest in 17.91%[7] of the issued voting shares in the Company. In addition, Shanghai Decent is the Company's long-term strategic partner (with a 20% ownership interest) at the Indonesian RKEF assets, being Hengjaya Nickel Project, Ranger Nickel Project and Angel Nickel Project. Shanghai Decent is a part of the Tsingshan group of companies. At this time the Company's operations and the development of the Angel Nickel Project and Oracle Nickel Project are heavily reliant on the Tsingshan group.[8]

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[7] Prior to the completion of the Institutional Placement, Shanghai Decent and its associates held 18.67% of the issued shares in the Company.

[8] See for further information the Company's ASX announcement dated 9 February 2022 entitled 'Presentation to Investors' on page 34.

(b) Effect of the Shanghai Decent Placement on the Company's Capital Structure and Shanghai Decent's voting power

As at the date of this Notice, Shanghai Decent and its associates have a relevant interest in 17.91%[9] of the issued voting shares in the Company. If approved and completed, the Shanghai Decent Placement would increase Shanghai Decent's relevant interest in the issued voting shares in the Company to 21.15%.

(c) The reasons for the Shanghai Decent Placement and use of funds

See detailing reasoning for the Shanghai Decent Placement (and Equity Raising generally) and the use of funds above in the background section of this Explanatory Notice.

(d) When the proposed Shanghai Decent Placement is to occur

Under the terms of a subscription agreement between the Company and Shanghai Decent dated 9 February 2022 ('**Subscription Agreement**'), the issue of the Shanghai Decent Shares is subject to the following conditions which may not be waived by either party:

- the **FIRB Condition**: the Treasurer of the Commonwealth of Australia or his delegate:
  - gives written notice that there are no objections under the Foreign Acquisitions and Takeovers Act 1975 (Cth) ('**FATA**') to the transactions contemplated by this Subscription Agreement, and such notice is either:
    - not subject to conditions; or
    - only subject to:
      - tax-related conditions which are in the form, or substantially in the form, of those set out in Attachment A of FIRB Guidance Note 47 on 'Tax Conditions' (in the form released on 21 September 2020); and
      - such other conditions that Decent consider to be acceptable (acting reasonably); or
  - has become, or is, precluded from making an order or decision in respect of the transactions contemplated by this Subscription Agreement under Division 2 of Part 3 of the FATA; and
- the **Shareholder Approval Condition**: Shareholder approval of this Resolution 1.

(together, the '**Conditions**').

Pursuant to ASX Listing Rule 10.13.5 the Shanghai Decent Shares must be issued no later than 1 month after the date of the Meeting or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules. The Company is proposing to issue the Shanghai Decent Shares as soon as practicable following satisfaction of the Conditions and prior to 3 June 2022, but there is no guarantee that the FIRB Condition will be satisfied within 1 month after the date of the Meeting. Accordingly, the Company may need to apply to ASX for a waiver of the requirements of ASX Listing Rule 10.13.5 to allow the Company to issue Shares under this Resolution no later than 3 months after the date of the Meeting. Further details of any waivers, including conditions imposed, will be disclosed to Shareholders in due course.

[9] Prior to the completion of the Institutional Placement, Shanghai Decent and its associates held 18.67% of the issued shares in the Company.

(e) Summary of the key terms of the Subscription Agreement

Under the terms of the Subscription Agreement, subject to satisfaction of the Conditions), the Company has agreed to issue 108,122,223 shares fully paid ordinary shares ranking *pari passu* with existing fully paid ordinary shares to Shanghai Decent (or its nominee) at a price of A$1.37 per Share (being the same price as the Institutional Placement), representing a total consideration of A$148,127,446 (US$106 million[10]).

(f) Details of relevant agreements that are conditional on the Shanghai Decent Placement

Shanghai Decent and its associates agree that the completion under the Subscription Agreement and issue of the Shanghai Decent Placement to Shanghai Decent by the Company will satisfy the Company's US$106 million Second Acquisition Payment obligation pursuant to the CA, which will result in the Company's ownership interest in Oracle Nickel increasing to 30%.

The Company ability to perform its obligations under the CA is not directly conditional on the Shanghai Decent Placement being approved by Shareholders however if the Shanghai Decent Placement is not approved, the Company will still need to raise additional funds to secure its interest in the Oracle Nickel Project and meet its payment obligations under the CA. It is unclear whether the funds could be raised on more or less favourable terms or at all. If funds could not be raised at all, the Company will not be able to proceed with the acquisition of the 70% interest in the Oracle Nickel Project and Nickel Mines will remain with a 10% interest. If this were to occur, the Company's relationship with Shanghai Decent may also be adversely affected.

(g) Shanghai Decent's intentions regarding the Company

Shanghai Decent have confirmed to the Company that it has no intention to:

- make any changes to the business of the Company;
- inject any further capital into the Company at this time;
- make any changes to the existing employees of the Company that are inconsistent with the Board's current strategies and efforts to properly resource the Company to deliver on its stated objectives (in this regard see in particular the Company's ASX announcement dated 9 February 2022 entitled 'Presentation to Investors');
- transfer any of the Company's assets between the Company and Shanghai Decent or any of his associates;
- redeploy any of the Company's fixed assets; or
- change the Company's financial or dividend distribution policies.

The statements set out above are statements of the current intention of Shanghai Decent only and may vary as new information becomes available or circumstances change.

(d) The interests any director of the Company has in the Shanghai Decent Placement

Shanghai Decent has one nominee director on the Board of the Company (of a total of eight directors), being Mr Weifeng Huang. Mr Huang has been the Shanghai Decent nominee director since April 2018, and it is currently intended that he will remain as the sole nominee director of Shanghai Decent following completion of the proposed Shanghai Decent Placement. Mr Huang has an interest in the Shanghai Decent Placement by virtue of being a related party of Shanghai Decent.

None of the Directors other than Mr Huang (the '**Non-Conflicted Directors'**) have an interest in the Shanghai Decent Placement.

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[10] Assuming an AUD/USD exchange rate of 0.7156.

(e) Voting exclusion statement

A voting exclusion statement is included in the Notice.

Neither the Company nor the Directors are aware of any additional information not set out in this Explanatory Memorandum, or the Independent Expert Report, that would be relevant to Shareholders in deciding how to vote on this Resolution 1.

1.7 Independent Expert's Report

ASIC Regulatory Guide 74, requires that that the notice of meeting to obtain shareholder approval for the purpose of item 7 of section 611 of the Corporations Act 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 Non-Conflicted Directors engaged Lonergan Edwards & Associates Limited ('**Independent Expert**') to prepare the Independent Expert's Report. That report sets out a detailed examination of the proposed Shanghai Decent Placement to enable Shareholders to assess its merits.

The Independent Expert has concluded that the proposed Shanghai Decent Placement is not fair, but reasonable.

However, The Independent Expert went on to note that:

"As indicated above there are a number of advantages and disadvantages associated with the Shanghai Decent Placement. However, as these funds (combined with the proceeds from the Institutional Placement) enable Nickel Mines to finance the First and Second Acquisition Payments and First Shareholder Loan for the (significantly value accretive) Oracle Nickel Project, in our opinion, the Shanghai Decent Placement is reasonable and in the best interests of Nickel Mines shareholders.

For the reasons set out above, in our opinion, the Shanghai Decent Placement is therefore not fair but is reasonable to Nickel Mines shareholders in the absence of a superior proposal."

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.

1.8 Board Recommendation

The Non-Conflicted Directors recommend 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 and therefore has an interest in the outcome of the resolution. In order to manage any potential or perceived conflict of interest, Mr Weifeng Huang did not participate in the Board's consideration or vote in relation to the Shanghai Decent Issue.

The Chairman of the Meeting intends to vote undirected proxies IN FAVOUR of Resolution 1.

Resolution 2 - Ratification of the issue of 108,122,223 Shares to institutional and sophisticated investors

2.1 Purpose of Shareholder approval

On 15 February 2022, pursuant to its then available Listing Rule 7.1 capacity, the Company issued 181,122,223 fully paid ordinary shares ranking pari passu with existing fully paid ordinary shares ('**Institutional Shares**') at A$1.37 per share to professional and sophisticated investors (none of whom were related parties of the Company) identified by or introduced by third party advisers to the Company during the book build process conducted on 9 and 10 February 2022.

Broadly speaking, and subject to a number of exceptions, Listing Rule 7.1 limits the amount of equity securities that a listed company can issue without the approval of its shareholders over any 12 month period to 15% of the fully paid ordinary securities it had on issue at the start of that period.

The issue of the Institutional Shares does not fit within any of these exceptions and, as it has not yet been approved by Shareholders, it effectively uses up part of the 15% limit in Listing Rule 7.1, reducing the Company's capacity to issue further equity securities without Shareholder approval under Listing Rule 7.1 for the 12 month period following the issue date.

Listing Rule 7.4 allows the shareholders of a listed company to approve an issue of equity securities after it has been made or agreed to be made. If they do, the issue is taken to have been approved under Listing Rule 7.1 and so does not reduce the company's capacity to issue further equity securities without shareholder approval under that rule.

The Company wishes to retain as much flexibility as possible to issue additional equity securities into the future without having to obtain Shareholder approval for such issues under Listing Rule 7.1. To this end, Resolution 2 seeks the ratification by Shareholders of the prior issue of securities that occurred in the 12 months prior to the date of this Notice that have not already been approved by Shareholders for the purposes of Listing Rule 7.4.

The effect of the ratification being passed is to restore the Company's maximum discretionary power to issue further shares up to 15% of the issued capital of the Company without requiring shareholder approval during the next 12 months.

Should ratification by Shareholders not be approved, the issue of securities will continue to be included in the Company's 15% issuance capacity until 12 months after the date the securities were issued effectively decreasing the number of equity securities it can issue without Shareholder approval over the 12 month period following the issue date.

2.2 Additional information required by Listing Rule 7.5

The funds raised from the issue of the Institutional Shares, representing a total consideration of A$148,127,446 (US$106 million[11]), will be applied as detailed in the background section of this Explanatory Memorandum.

The Institutional Shares were issued pursuant to subscription commitments containing standard terms for a transaction of this nature.

A voting exclusion statement is included in the Notice.

2.3 Board recommendation

The Board unanimously recommends that you vote IN FAVOUR of Resolution 2.

The Chairman of the Meeting intends to vote undirected proxies IN FAVOUR of Resolution 2.

[11] Assuming an AUD/USD exchange rate of 0.7156.

GLOSSARY

ASX	means ASX Limited (ABN 98 008 624 691) or the securities market it operates, as the context requires.
Board	means the board of Directors of the Company.
CA	means the Collaboration Agreement between the Company, Shanghai Decent and Decent Resource dated 7 December 2021.
Chairperson	means the chair of the EGM elected from to time.
Company or Nickel Mines	means Nickel Mines Limited (ACN 127 510 589).
Conditions	means the FIRB Condition and the Shareholder Approval Condition.
Construction Loans	means the shareholder loans, injected through Oracle to Oracle Nickel, to construct the Oracle Power Plant.
Corporations Act	means the Corporations Act 2001 (Cth).
Decent Resource	means Decent Resource Limited, a limited liability company incorporated in Hong Kong Special Administrative Region, PRC
Deposit Amount	means US$30 million already paid by Nickel Mines to Shanghai Decent towards the First Acquisition Payment.
Directors	means the directors of the Company from time to time.
Equity Raise	means a US$225 million capital raising being undertaken by the Company.
Explanatory Memorandum	means the explanatory memorandum that forms part of this Notice of Meeting.
FIRB Condition	has the meaning given in section 1.6(d) of this Explanatory Memorandum.
First Acquisition	means the initial acquisition of 10% of the issued securities in Oracle and 10% of all shareholder loans due or owing by Oracle (and/or its subsidiaries) to Shanghai Decent and its associates.
First Acquisition Payment	means US$53 million already paid by Nickel Mines to Shanghai Decent.
First Shareholder Loan	means a US$46.2 million loan to be acquired by the Company by 30 September 2022 under the CA.
Hengjaya Nickel Project	means the Hengjaya RKEF Plant, ancillary facilities required for the operation of the Hengjaya RKEF Plant and the land on which they are situated within the IMIP.
Hengjaya RKEF Plant	means an RKEF smelter plant with a planned nameplate annual production capacity of 30,000 tonnes of equivalent nickel (in NPI) and situated in the IMIP.
IMIP	means the Indonesia Morowali Bay Industrial Park.
Independent Expert	means Lonergan Edwards & Associates Limited.
Independent Expert's Report	means the report issued by the Independent Expert as set out in Annexure A to this Notice.
Institutional Placements	means a ~US$106 million (~A$148 million) fully underwritten institutional placement.
Institutional Shares	means 181,122,223 fully paid ordinary shares ranking pari passu with Shares.
IWIP	means the Indonesia Weda Bay Industrial Park, located in Central Halmahera Regency, North Maluku Province, Indonesia.
Listing Rules	means the official Listing Rules of the ASX as amended from time to time.

Meeting or **Extraordinary General Meeting** or **EGM**	means the extraordinary general meeting to be held on 25 January 2022, the subject of the Notice and the Explanatory Memorandum.
MW	means megawatt, a unit of power representing one million watts.
Non-Associated Shareholders	means each Shareholder who is not associated with Shanghai Decent.
Non-Conflicted Directors	means the Directors other than Mr Huang.
Notice	means the notice of EGM contained in this document.
NPI	means nickel pig iron, a beneficiated form of nickel metal.
Oracle	means Oracle Development Private Limited, a private Singaporean holding company limited by shares which will own (directly and indirectly) Oracle Nickel.
Oracle Nickel	means PT Oracle Nickel Industry, an Indonesian PMA operating private company limited by shares which is to be incorporated and which will own the Oracle Nickel Project assets.
Oracle Nickel Private	means Oracle Nickel Private Limited, a private Singaporean holding company limited by shares and which is a wholly owned subsidiary of Oracle.
Oracle Nickel Project	means the Oracle RKEF Plant, Oracle Power Plant, ancillary facilities required for the operation of the Oracle RKEF Plant and Oracle Power Plant and the land on which the Oracle RKEF Plant and Oracle Power Plant (and any ancillary facilities) will be constructed within the IMIP.
Oracle Nickel Transaction	means the proposed acquisition of the Oracle Nickel Project in three stages, through the acquisition by the Company of shares in Oracle and shareholder loans in Oracle which represents 70% of the equity and 70% of the aggregate of all shareholder loans due or owing by Oracle (and/or its subsidiaries) to Shanghai Decent and its associates, as well as the funding of 70% of the Construction Loans.
Oracle Power Plant	means one 380MW captive power plant situated in the IMIP which will supply power to the Oracle RKEF Plant as well as other third-party operations within the IMIP.
Oracle RKEF Plant	means an RKEF smelter plant with a planned nameplate annual production capacity of 36,000 tonnes of nickel equivalent (in NPI) and situated in the IMIP.
Resolutions	means the resolutions proposed in this Notice.
RKEF	means rotary kiln electric furnace.
Second Acquisition	means the acquisition of an additional 20% of the issued securities in Oracle and 20% of all shareholder loans due or owing by Oracle (and/or its subsidiaries) from Shanghai Decent and its associates.
Second Acquisition Payment	means US$106 million.
Shanghai Decent	means Shanghai Decent Investment (Group) Co., Ltd., a part of Tsingshan group company.
Shanghai Decent Placement	means a ~US$106 million (~A$148 million) non-underwritten placement to Shanghai Decent (or its nominee).
Shanghai Decent Shares	means 181,122,223 fully paid ordinary shares ranking *pari passu* with Shares.
Shareholder	means a holder of Shares in the Company.
Shareholder Approval Condition	means Shareholder approval of Resolution 1.
Shares	means fully paid ordinary shares in capital of the Company.
SPP	means a non-underwritten share purchase plan.

Subscription Agreement	means a subscription agreement between the Company and Shanghai Decent dated 9 February 2022.
Third Acquisition	means the acquisition of an additional 40% of the issued securities in Oracle and 40% of all shareholder loans due or owing by Oracle (and/or its subsidiaries) from Shanghai Decent and its associates.
Third Acquisition Payment	means US$212 million.
Tsingshan	means the Tsingshan group of companies.

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

24 March 2022

Subject: Proposed issue of shares to Shanghai Decent Investment (Group) Co., Ltd

Dear Directors

The Shanghai Decent Placement

1 On 9 February 2022, Nickel Mines Limited (Nickel Mines or the Company) announced a proposal to raise circa US$225[1] million of capital to fund, inter alia, the acquisition of the initial 30% interest in the Oracle Nickel Project. The equity raising (collectively, the Equity Raise) comprises:

(a) a US$106 million (A$148 million) fully underwritten institutional placement through the issue of 108.1 million new shares at A$1.37 per share[2] representing approximately 4.3% of the Company's share capital prior to the share issue (the Institutional Placement)

(b) a non-underwritten Share Purchase Plan (SPP) to eligible shareholders in Australia and New Zealand at A$1.37 per share[2]. The SPP was targeting to raise up to US$13 million (A$18 million)

(c) a US$106 million (A$148 million) placement to Shanghai Decent Investment (Group) Co., Ltd (Shanghai Decent)[3] or its nominee through the issue of 108.1 million new shares at A$1.37 per share[2] representing approximately 4.3% of the company's share capital prior to the share issue (the Shanghai Decent Placement[4]).

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1 United States of America (US) dollars (USD/US$).

2 Representing a 5.8% discount to the last traded price on 8 February 2022.

3 A subsidiary of Tsingshan, see paragraph 9.

4 The Shanghai Decent Placement was referred to as the Conditional Placement in the Equity Raise announcement released on 9 February 2022.

2 On 10 February 2022, Nickel Mines announced the successful completion of the Institutional Placement and subsequently issued 108.1 million ordinary shares on 15 February 2022 at the issue price of A$1.37 per share.

3 The SPP opened on 16 February 2022 and was scheduled to close on 8 March 2022, with SPP subscriptions to be issued and allotted on 15 March 2022. However, on 11 March 2022 Nickel Mines announced that the SPP had been withdrawn, due to market volatility and the retraction of the Company's share price which fell significantly below the issue price of A$1.37 per share.

4 Following the Institutional Placement, Shanghai Decent has a relevant interest of approximately 17.9% in Nickel Mines shares[5]. If the Shanghai Decent Placement proceeds, Shanghai Decent will have a relevant interest of approximately 21.15% in Nickel Mines shares.

5 Nickel Mines intends to use the majority of the proceeds of the Institutional Placement and Shanghai Decent Placement to fund the remaining payments associated with the acquisition of the initial 30% interest in the Oracle Nickel Project, as well as funding the first of three shareholder loans required under the Oracle Nickel Project Definitive Agreement (First Shareholder Loan) which is due to be provided by 30 September 2022. Excess funds will strengthen the Company's balance sheet and provide additional capital for general corporate purposes. The issue of shares to Shanghai Decent under the Shanghai Decent Placement is subject to the approval of Nickel Mines shareholders.

Nickel Mines

6 Nickel Mines is an Australian company that has become a globally significant, low-cost producer of nickel pig iron (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. Pursuant to this partnership, via collaboration agreements with Shanghai Decent, Nickel Mines owns 80% interests in each of:

(a) the Hengjaya and Ranger Nickel Projects, which include four rotary kiln electric furnace (RKEF) processing facilities[6] located in the Indonesia Morowali Industrial Park (IMIP); and

(b) the Angel Nickel Project, which includes four RKEF processing facilities and a power plant located in the Indonesia Weda Bay Industrial Park (IWIP) on Halmahera Island in Indonesia's North Maluku province. Commissioning of the Angel Nickel Project commenced on 25 January 2022.

7 Nickel Mines also entered into a Definitive Agreement in December 2021 to purchase a 70% interest in the Oracle Nickel Project, a development project located within the IMIP in Central Sulawesi, Indonesia. The Oracle Nickel Project is currently under construction and comprises four new RKEF lines and a power plant, as well as the ancillary facilities required for the

5 Prior to the Institutional Placement, Shanghai Decent had a relevant interest of 18.7% in Nickel Mines.

6 Each of the Hengjaya and Ranger Nickel Projects operates two RKEF lines.

operation of the RKEF lines and power plant. Commissioning of the Oracle Nickel Project is expected to commence no later than July 2023.

8 Nickel Mines also owns an 80% interest in the Hengjaya Mineralindo Nickel Mine (Hengjaya Mine), a large tonnage, high grade nickel laterite deposit located in the Morowali Regency of Central Sulawesi, Indonesia. The deposit is located just 12 kilometres from the IMIP. The Company also recently announced:

(a) the staged acquisition of 100% of the Siduarsi Nickel-Cobalt Project, an early-stage nickel and cobalt exploration project in the Papua province of Indonesia; and

(b) an agreement to acquire 100% of the Tablasufa Nickel Project, a 5,000-hectare Production Operation IUP[7] located on the northeast coast of West Papua, Indonesia.

Shanghai Decent

9 Shanghai Decent operates as an investment company within Tsingshan and is responsible for the development of the IMIP and IWIP. Tsingshan is involved in manufacturing, sales, warehousing, investment, import and export trade. The group's main products are stainless steel ingot, bar, rod, plate, wire, pipe and other products, which are widely used in petroleum, chemical industry, machinery, electric power, automobile, shipbuilding, food, pharmaceutical, decoration and other fields. Tsingshan also produces raw materials (NPI), intermediate products and new energy batteries, which are mainly used in energy storage systems and electric vehicles.

10 Nickel Mines and Tsingshan have a longstanding relationship pre-dating the initial public offering in 2018, with Nickel Mines supplying nickel laterite to Tsingshan's IMIP operations. Collaboration between Nickel Mines and Tsingshan has led to Nickel Mines' acquisition of interests in a number of RKEF lines in IMIP and IWIP.

Scope

11 Section 606 of the *Corporations Act 2001* (Cth) (Corporations Act) generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies[8]. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a resolution of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor (where applicable) or any of their respective associates.

12 As Shanghai Decent will acquire a relevant interest of more than 20% in Nickel Mines as a result of the Shanghai Decent Placement, there is a regulatory requirement for Nickel Mines to provide shareholders with all material information relevant to a vote on the Shanghai Decent Placement. The Independent Directors of Nickel Mines have elected to commission an independent expert's report (IER) to discharge these disclosure obligations. Consequently, the Independent Directors of Nickel Mines have requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether, in LEA's opinion, the Shanghai Decent

7 An IUP (Izin Usaha Pertambangan) is a mining business licence that is granted for performing production operation activities in Indonesia.

8 Subject to the 3% every six months "creep provisions".

Placement is fair and reasonable to the shareholders of Nickel Mines not associated with Shanghai Decent[9].

13 LEA is independent of Nickel Mines and Shanghai Decent and has no involvement with or interest in the outcome of the Shanghai Decent Placement other than the preparation of this report.

Summary of opinion

14 LEA has concluded that the Shanghai Decent Placement is not fair but is reasonable to Nickel Mines shareholders.

15 We have arrived at this conclusion for the reasons set out below.

Assessment of fairness

16 Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) requires that the fairness of the Shanghai Decent Placement be assessed by comparing the controlling interest value of Nickel Mines shares prior to implementation of the Shanghai Decent Placement with the portfolio value of Nickel Mines shares following implementation (being the deemed "consideration" delivered to Nickel Mines shareholders).

17 In order for the Shanghai Decent Placement to be "fair" under RG 111, the portfolio value of Nickel Mines shares following implementation of the Shanghai Decent Placement must be equal to, or greater than, the controlling interest value of Nickel Mines shares before implementation.

18 This comparison is set out below:

"Fairness" value comparison[(1)]

	Section	Low A$ per share	High A$ per share	Mid-point A$ per share
Controlling interest value of Nickel Mines shares prior to the Shanghai Decent Placement	V	1.86	2.19	2.025
Portfolio interest value of Nickel Mines shares following the Shanghai Decent Placement	VI	1.42	1.67	1.545
Extent to which the portfolio interest value post implementation of the Shanghai Decent Placement is less than the controlling interest value of Nickel Mines shares before implementation		(0.44)	(0.52)	(0.480)

Note:
1 The low and high per share values have been rounded to the nearest cent.

19 Based on the above we have concluded that the Shanghai Decent Placement is not fair when assessed based on the guidelines set out in RG 111.

9 For the purpose of the IER, "Nickel Mines shareholders" refers to the shareholders of Nickel Mines that are not associated with Shanghai Decent and its associated companies.

Assessment of reasonableness

20 Under RG 111 a transaction is "reasonable" if it is fair. It may also be reasonable notwithstanding being "not fair", if the expert concludes that the advantages of the Shanghai Decent Placement outweigh the disadvantages from the perspective of Nickel Mines shareholders.

21 In considering whether the Shanghai Decent Placement is reasonable, we have considered whether Nickel Mines shareholders are likely to be better off from a value perspective if they approve the Shanghai Decent Placement by comparing the value of Nickel Mines shares pre and post the Shanghai Decent Placement on a consistent portfolio basis.

22 Accordingly, we have reduced our controlling interest value prior to the Shanghai Decent Placement by a minority interest discount[10] in order to estimate the corresponding portfolio interest value of Nickel Mines shares.

Comparative value of Nickel Mines shares[(1)]

	Section	Low A$ per share	High A$ per share	Mid-point A$ per share
Portfolio interest value of Nickel Mines shares before the Shanghai Decent Placement[(2)]	VII	1.42	1.68	1.550
Portfolio interest value of Nickel Mines shares following the Shanghai Decent Placement	VI	1.42	1.67	1.545
Decrease in portfolio interest value of Nickel Mines shares due to the Shanghai Decent Placement		-	(0.01)	(0.005)
% decrease		-	*(0.6%)*	*(0.3%)*

Note:
1 The high and low per share values have been rounded to the nearest cent.
2 Being our controlling interest value pre Shanghai Decent Placement, less a minority interest discount of 20% at the business or enterprise value. Refer to paragraph 235.

23 The majority of the US$3 million total transaction costs which will be incurred under the Equity Raise were associated with the Institutional Placement and proposed SPP, noting the minor component attributable to the Shanghai Decent Placement will be incurred irrespective of whether the Shanghai Decent Placement is approved by Nickel Mines shareholders. As a result, there are no additional transaction costs attributable to the approval of the Shanghai Decent Placement.

24 Accordingly, the minor value dilution post the Shanghai Decent Placement (on a consistent portfolio interest basis) is attributable to the issue price per new fully paid ordinary share of A$1.37 representing a discount of some 3.5% to 18.5% to our assessed value of Nickel Mines (on a minority interest basis) prior to the Shanghai Decent Placement[11].

10 Consistent with the approach adopted in Section VI, we have applied a 20% minority interest discount to our assessed business value.

11 Based on our assessed minority interest value of A$1.42 to A$1.68 per share prior to the Shanghai Decent Placement.

25 Based on the above, the Shanghai Decent Placement is, prima facie, not reasonable to Nickel Mines shareholders when considered solely from a value perspective. However, the decrease in the value per share is not material.

Advantages and disadvantages

26 In assessing whether the Shanghai Decent Placement is reasonable we have also had regard, in particular, to the advantages and disadvantages of the Shanghai Decent Placement as regards the non-associated shareholders of Nickel Mines. These matters are summarised below:

Advantages

(a) the Equity Raise (including the Shanghai Decent Placement) is being undertaken to fund the First and Second Acquisition Payments[12] for the Oracle Nickel Project (totalling US$129.0 million), the First Shareholder Loan[12] (of some US$46.2 million) and to provide funds for corporate purposes. The acquisition payments secure a 30% interest in the Oracle Nickel Project which is significantly value accretive for Nickel Mines shareholders. If the Shanghai Decent Placement is rejected, Nickel Mines will still need to raise additional funds to secure its interest in the Oracle Nickel Project, and it is unclear whether this could be undertaken on more favourable terms (particularly given the increased volatility and recent trading range of Nickel Mines shares)

(b) Nickel Mines has established a financial, operational and strategic partnership with Shanghai Decent and Tsingshan which has been very beneficial to Nickel Mines shareholders and has resulted in Nickel Mines becoming a globally significant, low-cost producer of NPI. The Shanghai Decent Placement is consistent with (and a continuation of) this established relationship. If rejection of the Shanghai Decent Placement adversely affected this relationship, the impact on value for Nickel Mines could be significant

Disadvantages

(c) pursuant to the Shanghai Decent Placement, Shanghai Decent will increase its interest in Nickel Mines from some 17.9%[13] to approximately 21.15% of issued capital, an interest which from a regulatory perspective implicitly reflects a degree of control over the Company. However, the increase in Shanghai Decent's interest in Nickel Mines is not expected to have an impact on the day to day operations or control of the Company

(d) the Shanghai Decent Placement is not "fair" when assessed based on the guidelines set out in RG 111. This is because the Shanghai Decent Placement does not provide value to Nickel Mines shareholders which is equal to the full controlling interest value of Nickel Mines shares prior to the Shanghai Decent Placement. However, this is to be expected as the Shanghai Decent Placement does not involve a takeover offer (or similar proposal) for 100% of Nickel Mines shares

(e) the Shanghai Decent Placement is slightly value dilutive on a comparative portfolio interest basis. However, at the midpoint of A$0.005 per share (based on our assessed value range for Nickel Mines) this dilution is not material.

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12 As defined in the Notice of Meeting.

13 Post the Institutional Placement.

27 As indicated above there are a number of advantages and disadvantages associated with the Shanghai Decent Placement. However, as these funds (combined with the proceeds from the Institutional Placement[14]) enable Nickel Mines to finance the First and Second Acquisition Payments and First Shareholder Loan for the (significantly value accretive) Oracle Nickel Project, in our opinion, the Shanghai Decent Placement is reasonable and in the best interests of Nickel Mines shareholders.

28 For the reasons set out above, in our opinion, the Shanghai Decent Placement is therefore not fair but is reasonable to Nickel Mines shareholders in the absence of a superior proposal.

General

29 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.

30 The ultimate decision whether to approve the Shanghai Decent Placement should be based on each Nickel Mines shareholder's assessment of their own circumstances. If Nickel Mines shareholders are in doubt about the action they should take in relation to the Shanghai Decent Placement or matters dealt with in this report, Nickel Mines shareholders should seek independent professional advice. For our full opinion on the Shanghai Decent Placement and the reasoning behind our opinion, we recommend that Nickel Mines shareholders read the remainder of our report.

Yours faithfully

Julie Planinic	Martin Hall
Authorised Representative	Authorised Representative

14 As indicated above, on 11 March 2022 Nickel Mines withdrew the SPP.

LONERGAN EDWARDS & ASSOCIATES LIMITED

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Appendices

A **Financial Services Guide**

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C **Assessment of discount rate**

D **Glossary**

I The Shanghai Decent Placement

Key terms

31 On 9 February 2022, Nickel Mines Limited (Nickel Mines) announced a proposal to raise circa US$225 million of capital to fund the acquisition of the initial 30% interest in the Oracle Nickel Project. The Equity Raise comprises:

(a) the Institutional Placement – a US$106 million (A$148 million) fully underwritten institutional placement through the issue of 108.1 million new shares at A$1.37 per share[15] representing approximately 4.3% of the Company's share capital prior to the share issue

(b) the SPP – to eligible shareholders in Australia and New Zealand at A$1.37 per share[15]. The SPP was not underwritten and was targeting to raise up to US$13 million (A$18 million)

(c) the Shanghai Decent Placement – a US$106 million (A$148 million) placement to Shanghai Decent or its nominee through the issue of 108.1 million new shares at A$1.37 per share[15] representing approximately 4.3% of the Company's share capital prior to the share issue.

32 On 10 February 2022, Nickel Mines announced the successful completion of the Institutional Placement and subsequently issued 108.1 million ordinary shares on 15 February 2022 at the issue price of A$1.37 per share.

33 Under the SPP, eligible shareholders in Australia and New Zealand were invited to apply for up to A$30,000 of shares free of any brokerage, commission and transaction costs. The SPP opened on 16 February 2022 and was scheduled to close on 8 March 2022, with SPP subscriptions to be issued and allotted on 15 March 2022. However, on 11 March 2022 Nickel Mines announced that the SPP had been withdrawn due to market volatility and the retraction of the Company's share price, which fell significantly below the issue price of A$1.37 per share.

34 The issue of shares to Shanghai Decent under the Shanghai Decent Placement component of the Equity Raise is subject to the approval of Nickel Mines shareholders. A shareholder meeting to vote on the Shanghai Decent Placement is scheduled for May 2022.

Sources and uses of Equity Raise funds

35 As set out in the table below, the majority of the proceeds from the Equity Raise will be used to fund the remaining payments required to acquire a 30% interest in the Oracle Nickel Project, with the remaining funds used to fund the First Shareholder Loan[16] and to provide cash for general corporate purposes:

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15 Representing a 5.8% discount to the last traded price on 8 February 2022.

16 Refer to paragraph 200 for an overview of the Oracle Nickel Project payment schedule.

Sources and uses of funds	A$m[1]	US$m
Sources		
Institutional Placement	148	106
Shanghai Decent Placement	148	106
Total sources	296	212
Uses		
First Acquisition Payment for Oracle Nickel Project[2]	32	23
Second Acquisition Payment for Oracle Nickel Project	148	106
First Shareholder Loan for Oracle Nickel Project	65	46
Transaction costs	4	3
Additional cash to balance sheet	47	34
Total uses	296	212

Note:

1 Figures assume an USD:AUD exchange rate of 0.7156 per the Equity Raising Presentation dated February 2022.

2 Nickel Mines paid the remaining US$23 million required for the First Acquisition Payment on 18 February 2022.

36 Following completion of the Proposed Equity Raise, Nickel Mines will be fully funded for all Oracle Nickel Project acquisition payments up to and including 30 September 2022.

Conditions

37 The Shanghai Decent Placement is subject to terms of a subscription agreement entered into with Shanghai Decent and subject to the following conditions precedent:

(a) Nickel Mines shareholder approval for the purposes of ASX Listing Rule 10.11 and s611(7) of the Corporations Act (with the vote expected to be held in March / April 2022); and

(b) Foreign Investment Review Board approval.

38 Further details regarding the above conditions are set out in the Notice of Meeting.

II Scope of our report

Purpose

39 Section 606 of the Corporations Act generally prohibits the acquisition of a relevant interest in issued voting securities of an entity if the acquisition results in a person's voting power in a company increasing from below 20% to more than 20%, or from a starting point between 20% and 90%, unless a permissible exception applies. A permissible exception to this general prohibition is set out in s611(7), whereby such an acquisition is allowed where the acquisition is approved by a majority of securityholders of the entity at a general meeting and no votes are cast in respect of securities held by the acquirer, the vendor or any of their respective associates.

40 Regulatory Guide 74 – *Acquisitions approved by members* sets out the view of ASIC on the operation of s611(7) of the Corporations Act. Section 611(7) of the Corporations Act allows shareholders to waive the prohibition in s606 and requires that shareholders approving a resolution pursuant to this section be provided with all material information in relation to the respective proposal.

41 As noted above, as the issue of shares to Shanghai Decent under the Shanghai Decent Placement will result in Shanghai Decent holding more than 20% of Nickel Mines shares, there is a regulatory requirement for Nickel Mines to provide shareholders with all material information relevant to a vote on the Shanghai Decent Placement. The Independent Directors of Nickel Mines have elected to commission an IER to discharge these disclosure obligations. Consequently, the Independent Directors of Nickel Mines have requested that LEA prepare an IER stating whether, in LEA's opinion, the Shanghai Decent Placement is fair and reasonable to the non-associated shareholders of Nickel Mines and the reasons for that opinion.

42 This report has been prepared to assist the Independent Directors of Nickel Mines in making their recommendation to the shareholders of Nickel Mines not associated with Shanghai Decent, and to assist these shareholders in assessing the merits of the Shanghai Decent Placement.

43 Our report should not be used for any other purpose or by any other party. The ultimate decision whether to approve the Shanghai Decent Placement should be based on each shareholder' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Shanghai Decent Placement or matters dealt with in this report, Nickel Mines shareholders should seek independent professional advice.

Basis of assessment

44 In preparing our report, we have had regard to the Australian Securities Exchange (ASX) Listing Rules and Regulatory Guides issued by ASIC, particularly RG 111. RG 111 sets out (inter alia) the view of ASIC on the content of expert reports prepared for the purpose of seeking approval under s611(7) of the Corporations Act.

45 Under RG 111 the Shanghai Decent Placement is deemed a "change of control" transaction because following the Shanghai Decent Placement, Shanghai Decent will hold a greater than 20% voting interest in Nickel Mines. As a result, RG 111 states that the Shanghai Decent Placement must be analysed as if it were a takeover bid under Chapter 6 of the Corporations

Act. Accordingly, the expert is required to assess the transaction in terms of the convention established for takeovers pursuant to s640 of the Corporations Act, being:

(a) is the offer "fair" – when assessing takeovers, an offer is "fair" if the value of the offer price or consideration is equal to, or greater than the value of the securities the subject of the offer. This comparison should be made assuming 100% ownership of the company and is irrespective of whether the offer is cash or scrip

(b) is it "reasonable" – an offer is "reasonable" if it is fair. An offer may also be reasonable if, despite being "not fair", there are sufficient reasons for securityholders to accept the offer in the absence of any higher bid before the close of the offer.

46 Notwithstanding that the Shanghai Decent Placement does not involve any takeover offer being made to Nickel Mines shareholders, RG 111 requires that the fairness of the Shanghai Decent Placement be assessed by comparing the controlling interest value of Nickel Mines shares prior to implementation of the Shanghai Decent Placement with the portfolio value of Nickel Mines shares following implementation (being the deemed "consideration" delivered to Nickel Mines shareholders). In order for the Shanghai Decent Placement to be "fair" under RG 111, the portfolio value of Nickel Mines shares following implementation of the Shanghai Decent Placement must be equal to, or greater than, the controlling interest value of Nickel Mines shares before implementation.

47 The Shanghai Decent Placement will also be "reasonable" if it is "fair". In addition, in our opinion, the Shanghai Decent Placement will be "reasonable" even if it is "not fair" if the advantages of the Shanghai Decent Placement outweigh the disadvantages from the perspective of Nickel Mines shareholders.

48 Our report has therefore considered a range of both qualitative and quantitative factors including:

(a) the controlling interest value of 100% of Nickel Mines shares prior to implementing the Shanghai Decent Placement

(b) the portfolio value of Nickel Mines shares following implementation of the Shanghai Decent Placement (having regard to the intended use of the funds raised, including a part acquisition payment in respect of the Oracle Nickel Project)

(c) the difference of (a) and (b) in order to assess whether the Shanghai Decent Placement is fair to Nickel Mines shareholders pursuant to RG 111

(d) the impact of the Shanghai Decent Placement on the ownership and control of Nickel Mines

(e) the relevant position of Nickel Mines shareholders before and after implementation of the Shanghai Decent Placement assessed on a consistent basis (i.e. by comparing the portfolio value before implementation with the portfolio value afterwards)

(f) the implications for Nickel Mines shareholders if the Shanghai Decent Placement is not approved and implemented; and

(g) other qualitative and strategic issues associated with the Shanghai Decent Placement and the extent to which, on balance, they may advantage or disadvantage existing Nickel Mines shareholders if the Shanghai Decent Placement proceeds or is rejected.

Limitations and reliance on information

49 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time (as evidenced by the external factors that gave rise to the recent volatility in the Nickel Mines share price).

50 Our report is also based upon financial and other information provided by Nickel Mines and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards. 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.

51 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Shanghai Decent Placement from the perspective of 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 forecasts is beyond the scope of an IER.

52 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 proposed transaction, rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.

53 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.

54 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

55 In forming our opinion, we have also assumed that:

(a) the information set out in the Notice of Meeting is complete, accurate and fairly presented in all material respects

(b) if the Shanghai Decent Placement is approved, it will be implemented in accordance with the terms set out in the Notice of Meeting.

III Profile of Nickel Mines

Overview

56 Nickel Mines, an ASX-listed Australian company with assets in Indonesia, has become a globally significant, low-cost producer of NPI, a key ingredient in the production of stainless steel. The Company owns 80% interests in the Hengjaya, Ranger and Angel Nickel Projects and is party to a Definitive Agreement to purchase a 70% interest in the Oracle Nickel Project (collectively defined as the NPI Projects). Nickel Mines also owns an 80% economic interest in the Hengjaya Mine, which produces nickel laterite ore.

57 The Company also recently announced the staged acquisition of 100% of the Siduarsi Nickel-Cobalt Project (an early-stage nickel and cobalt project) in the Papua province of Indonesia as well as 100% of the Tablasufa Nickel Project (a 5,000-hectare Production Operation IUP[17] located on the northeast coast of West Papua, Indonesia).

History

Mining origins

58 Nickel Mines was incorporated on 12 September 2007 with the objective of acquiring, exploring and developing nickel resources. 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.

59 Nickel Mines commenced mine production in October 2012 and made a maiden shipment of nickel laterite ore 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

60 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.

61 In mid-2013, Tsingshan (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. Tsingshan pioneered the RKEF process to

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17 An IUP (Izin Usaha Pertambangan) is a mining business licence that is granted for performing production operation activities in Indonesia.

produce low-cost NPI through processing and smelting ore into stainless steel furnaces in a continuous hot flow[18], and has since become the dominant player in the Indonesian NPI industry and a global leader in NPI processing technology[19].

62 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.

Recommencement of mining operations and development of Tsingshan relationship

63 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 for nickel laterite ore as feedstock for the IMIP's RKEF lines saw the Hengjaya Mine recommence operations in October 2015.

64 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 1.9% nickel for six months. In December 2016, PT Hengjaya entered into an offtake agreement with Tsingshan group company PT Indonesia Tsingshan Stainless Steel for the delivery of 50,000 WMT per month at an average grade of 1.9% nickel[20].

65 The development of this relationship and Tsingshan's requirement for additional NPI production to supply its stainless steel expansion plans culminated in Nickel Mines and Shanghai Decent discussing a strategic partnership that would contemplate the two parties building additional NPI processing capacity within the IMIP.

66 In September 2017, Nickel Mines executed a Collaboration and Subscription Agreement with Tsingshan with respect to the funding and construction of the Hengjaya Nickel Project, which included two RKEF lines with nameplate production of 150,000 tonnes per annum (tpa) of NPI containing 15,000 tonnes of nickel.

ASX listing and establishment of NPI operations

67 Nickel Mines acquired a 25% interest in the Hengjaya Nickel Project in April 2018 for US$50 million. Following the successful listing of Nickel Mines on the ASX in August 2018, in accordance with its rights under its Collaboration and Subscription Agreement, the Company acquired a further 35% in the issued capital of Hengjaya Holdings Private Limited (Hengjaya Holdings) for US$70 million. Nickel Mines also held a call option until 30 November 2020 to increase its ownership of Hengjaya Holdings up to 80% for an additional amount of up US$60 million[21].

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18 The major innovation was the RKEF process which allows ore to be processed, smelted and directed into stainless steel furnaces in a continuous hot flow.

19 Including having implemented the Argon Oxygen Decarburisation process, which incorporates the direct hot charging of NPI into the stainless steel production process for a low cost stainless steel cost position.

20 In October 2017, an updated offtake agreement was signed with PT Indonesia Tsingshan Stainless Steel guaranteeing to take supply of 50,000 WMT per month until 30 November 2018, with a cut-off grade of 1.6% nickel.

21 This option was exercised in June 2020.

68 In early 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.

69 In November 2018 Nickel Mines announced it had elevated an Memorandum of Understanding (MoU) for the Ranger Nickel Project to an executed binding Collaboration Agreement with its partner Shanghai Decent to acquire up to an 80% equity interest in two additional RKEF lines under construction at the time within the IMIP. The first 17% interest was acquired for US$50 million. During August 2019, the Company increased its ownership in the Ranger Nickel Project from 17% to 60% based on a discounted valuation of US$280 million (compared to the US$300 million valuation at which its initial 17% interest was acquired)[22].

70 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.

71 In June 2020, Nickel Mines increased its ownership in the Hengjaya and Ranger Nickel Projects from 60% to 80%. The consideration for the projects was US$120 million in total (or US$60 million for each 20% interest) as well as a US$30 million payment for the estimated share of the undistributed retained earnings pertaining to each 20% interest acquired.

72 On 16 October 2020, the Company announced that it had entered into a MoU in relation to the proposed purchase of a 70% interest in the Angel Nickel Project from Shanghai Decent for US$490 million, comprising four new RKEF lines within the IWIP, together with a captive 380 megawatt (MW) power plant. The consideration was payable in two tranches, US$210 million by 31 March 2021 (for a 30% interest) and a further US$280 million by 31 December 2021 (for an additional 40% interest).

73 Nickel Mines announced on 20 January 2021 that the Company had agreed with Shanghai Decent to acquire an additional 10% equity interest in the Angel Nickel Project, bringing Nickel Mines' ownership to 80%, with the consideration to be made in three, rather than two tranches. Following three staged payments undertaken in February 2021 (30%), April 2021 (20%) and October 2021 (30%), and allowing for early payment discounts, the total consideration for Nickel Mines' 80% interest in the Angel Nickel Project was

22 This reduced value implied in the acquisition of the further 43% arose due to the Company electing to increase its ownership within 60 days of the Ranger Nickel Project's first NPI production. In the alternative, the consideration payable would have been based on a valuation of US$300 million.

US$557.6 million[23]. Funding was provided from a mixture of an equity capital raising (as announced on 2 December 2020) and debt.

74 On 22 November 2021, Nickel Mines announced that it had entered into a multi-faceted MoU[24] with Shanghai Decent that included the proposed purchase of a 70% interest in the Oracle Nickel Project[25]. On signing the MoU, the Company paid a US$10 million "good faith deposit" to Shanghai Decent. On 8 December 2021 Nickel Mines entered into a binding Definitive Agreement[26] with Shanghai Decent for the 70% equity interest in the Oracle Nickel Project, which formalised the Company's investment opportunity under the MoU. On signing the agreement, the Company paid a further US$20 million "down payment" and on 18 February 2022 the remaining US$23 million of the First Acquisition Payment was paid to Shanghai Decent.

75 On 6 January 2022, Nickel Mines announced that the Angel 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 10 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 10 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 10 years, also commencing from the tax year in which commercial production is achieved.

76 Nickel Mines signed a MoU with PT Sumber Energi Surya Nusantara (SESNA)[27] to implement, if certain economic parameters are met, 200 megawatt peak (MWp) solar capacity within the IMIP to significantly scale up the supply of renewable energy to the Company's Hengjaya and Ranger Nickel Projects within the IMIP. Under the proposed agreement Nickel Mines will be the long-term offtake partner for SESNA and will not be required to contribute any capital funding. The indicative tariff for electricity (expressed as US cents per kilowatt hour (kWh), which is expected to remain constant over the life of the project, remains commercial-in-confidence and is considered competitive with other similar scale solar projects. The solar project may be implemented in stages with SESNA committing to finalise and deliver a project proposal within three months of signing the MoU, at which point the Company may elect to proceed or terminate the MoU at its discretion.

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23 Reduced by US$2.4 million for early payment discounts.

24 The other facets of this MoU covered the establishment of a Future Energy collaboration framework to optimise the transition to renewable energy sources, as well as the planned participation in future HPAL projects utilising Nickel Mines' current and prospective resources across Indonesia to produce battery grade nickel.

25 As well as committing to 70% of the shareholder loans, which will fund the associated captive power plant.

26 Collaboration Agreement Relating to the Oracle RKEF Project, entered into on 7 December 2021.

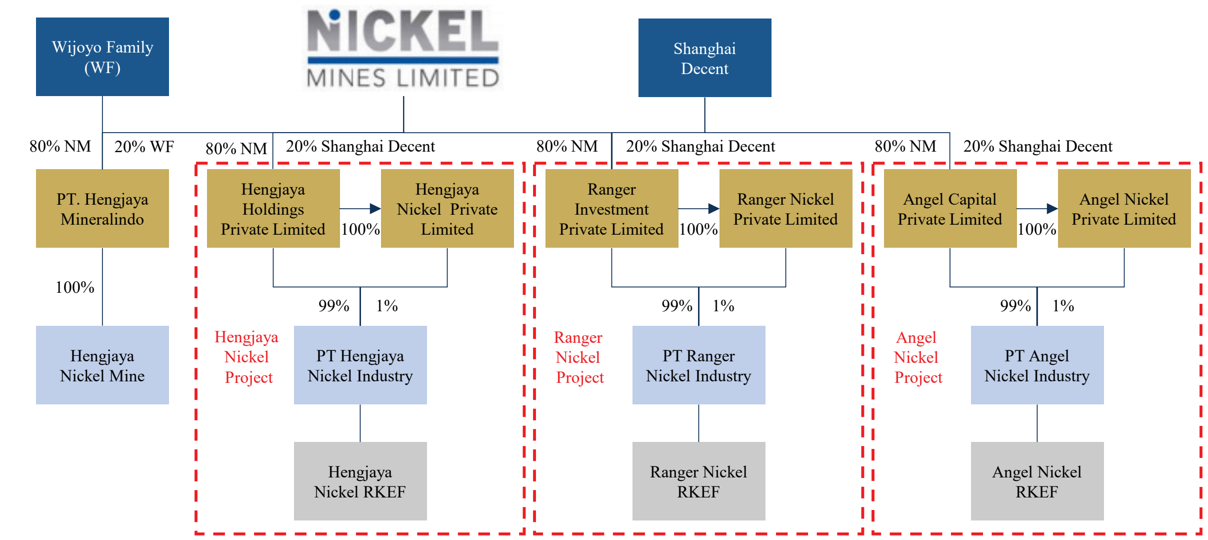
27 SESNA is an established and leading solar development company in Indonesia, owning and operating a portfolio of solar feed-in-tariff and microgrid projects as well as providing services and solutions such as engineering, procurement and construction capabilities, solar financing, and other technical development support to commercialise solar projects.

77 The potential 200 MWp solar project supplements the existing 396 kilowatt peak (kWp) plus 250 kWh battery storage project which the Company has entered into with SESNA for integration into the facilities at the Hengjaya Mine, which is scheduled to commission in the first quarter of 2022. The Hengjaya Mine currently sources its power from diesel-powered generators and it is anticipated that the Hengjaya Mine solar project will reduce diesel consumption by approximately 31 million litres over the 25-year projected mine life.

Current operations

78 Nickel Mines' operating assets are 80% interests in each of the Hengjaya, Ranger and Angel Nickel Projects, and the Hengjaya Mine, which are shown below:

Nickel Mines – operating assets



79 As stated above, Nickel Mines has also entered into a Definitive Agreement to purchase a 70% interest in the Oracle Nickel Project. The Oracle Nickel Project is currently under construction and comprises four new RKEF lines, as well as the ancillary facilities required for the operation of the RKEF lines. Commissioning of the Oracle Nickel Project is expected to commence no later than July 2023.

80 Nickel Mines' operations are located in Indonesia, with the Angel Nickel Project located in the IWIP on Halmahera Island in the Maluku Province and its other assets located in the Morowali Regency on the east coast of Central Sulawesi, Indonesia, as shown in the following map:

Nickel Mines – locations

81 Whilst Nickel Mines currently produces NPI at both its Hengjaya and Ranger Nickel RKEF facilities, it has the ability to modify these plants to produce a nickel matte product suitable for sale into the electric vehicle battery market[28]. Regarding these modifications Nickel Mines advised that:

(a) the required modification cost for each RKEF line is expected to be minimal (approximately US$1 million per line)

(b) 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 nickel in NPI

(c) 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

(d) as with its NPI production, Shanghai Decent has provided a firm undertaking to purchase all of the Company's nickel matte production

(e) switching between NPI and nickel matte production is possible with minimal production disruption, however, it is not optimal to do so regularly

(f) once the modifications are completed it would 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.

28 On 3 May 2021, Nickel Mines announced that it had signed a MoU with its collaboration partner, Shanghai Decent, for two of its four 80% owned operating RKEF lines at the Hengjaya and Ranger Nickel Projects to undergo the necessary modifications to allow them to produce a nickel matte product. The modifications have not yet been undertaken.

Hengjaya Nickel Project

82 The Hengjaya Nickel Project is 80% owned by Nickel Mines. The project operates two 42 kilo volt amps (KVA) RKEF lines with combined nameplate production of 150,000 tpa of NPI containing 15,000 tonnes of nickel. It 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.

83 The Hengjaya Nickel Project produced its first NPI in late January 2019 and had a strong maiden quarter of production. The June 2019 quarter saw a continuation of the ramp up towards full capacity with nickel metal production significantly exceeding the nameplate run rate of 3,750 tonnes of nickel per quarter. Quarterly production levels have continued to materially exceed nameplate production levels, as shown below:

Hengjaya Nickel Project – key production statistics by quarter

Quarter ended	NPI production tonnes	Nickel grade %	Nickel metal production tonnes	Cash costs[(1)] US$/t nickel
31 March 2019	8,372	13.0	1,090	7,648
30 June 2019	31,256	14.0	4,386	7,725
30 September 2019	39,570	13.6	5,379	7,523
31 December 2019	40,911	13.6	5,578	7,778
31 March 2020	40,077	14.2	5,672	7,671
30 June 2020	34,078	14.6	4,980	7,342
30 September 2020	33,381	15.4	5,143	7,139
31 December 2020	38,390	14.9	5,719	7,612
31 March 2021	36,811	13.8	5,065	8,725
30 June 2021	36,928	13.6	5,008	9,133
30 September 2021	36,174	13.8	4,990	10,429
31 December 2021	39,132	12.7	4,957	12,418

Note:
1 Cash costs exclude depreciation and interest.

Ranger Nickel Project

84 The Ranger Nickel Project is 80% owned by Nickel Mines. The project is a replication of the low cost Hengjaya Nickel Project, and operates two 42 KVA RKEF lines with a similar production capacity (nameplate production of 150,000 tpa of NPI containing 15,000 tonnes of nickel) and operational cost structure.

85 The commissioning of the first kiln of the Ranger Nickel Project occurred in late May 2019, with the second in late June 2019. By August 2019 the project was operating above its nameplate monthly run rate, and production for the September 2019 quarter was also above nameplate quarterly levels. In the following quarters to 31 December 2021, production levels have all been significantly higher than nameplate capacity, as shown below:

Ranger Nickel Project – key production statistics by quarter				
Quarter ended	NPI production tonnes	Nickel grade %	Nickel metal production tonnes	Cash costs(1) US$/t nickel
30 June 2019	2,477	12.6	311	na
30 September 2019	32,823	14.1	4,640	7,552
31 December 2019	39,105	13.8	5,390	7,886
31 March 2020	39,321	14.3	5,620	7,673
30 June 2020	35,524	14.4	5,124	7,392
30 September 2020	36,449	15.2	5,557	7,258
31 December 2020	38,676	15.0	5,808	7,442
31 March 2021	35,128	14.2	5,003	8,641
30 June 2021	37,559	13.7	5,135	9,081
30 September 2021	36,980	13.9	5,123	10,327
31 December 2021	39,641	12.9	5,130	12,277

Note:
1 Cash costs exclude depreciation and interest.

Angel Nickel Project

86 The Angel Nickel Project is 80% owned by Nickel Mines and is located within the IWIP on Halmahera Island in Indonesia's North Maluku province. The project comprises four RKEF lines with an annual nameplate production capacity of 36,000[29] tonnes of nickel metal in NPI, a 380 MW captive power plant and ancillary facilities required for the operation of each of the RKEF lines and the power plant.

87 The Angel Nickel Project entered the commissioning stage on 25 January 2022, with the first of its four RKEF lines having commenced NPI production. This is well ahead of the October 2022 contractual commencement of commissioning. The other three RKEF lines are to be progressively commissioned over the following 60 to 90 days, which is expected to result in all four RKEF lines producing NPI by April 2022.

88 The Angel power plant remains on schedule to commence commissioning by the end of September 2022, ahead of the October 2022 contractual delivery date, with the Angel Nickel Project utilising power from the existing IWIP electricity grid in the interim. During this period it is expected that NPI production from the Angel Nickel Project's RKEF lines will run at less than 100% of the 36,000 tonnes of nickel metal production nameplate capacity per annum depending on power availability. Full NPI production capacity is expected to be achieved around one month after the commissioning of the power plant.

89 The Angel Nickel Project is expected to have similar operating costs (adjusted for the higher production capacity) to the Hengjaya and Ranger Nickel Projects. However, ownership of the power plant provides the Angel Nickel Project with the benefits of a captive, secure, integrated power supply which will lower the NPI production energy operating costs (relative to the Hengjaya and Ranger Nickel Projects).

29 The Company's existing Hengjaya and Ranger Nickel Projects have a combined nameplate capacity of 30,000 tonnes of nickel metal in NPI. Since reaching steady-state operations, actual production from the Hengjaya and Ranger Nickel Projects has consistently significantly exceeded nameplate production capacity.

90 The RKEF technology at the IWIP is expected to be similar to IMIP giving rise to bottom quartile operating costs (on a global basis) that provide significant cost and logistics savings underpinned by several factors:

(a) the ability to locally source an abundance of higher grade (>1.8% nickel grade) nickel ore. Such nickel ore is restricted from export from Indonesia as a result of the Indonesian Government's ban on the exportation of unprocessed nickel ore under a grade of 4% nickel

(b) the generation of competitively priced electricity, which is powered by domestically sourced (and abundant) thermal coal; and

(c) the vertically integrated nature of operations within the IWIP to produce a stainless steel end product, utilising the key raw material inputs, including nickel ore and power.

Oracle Nickel Project

91 The Oracle Nickel Project is a development project located within the IMIP that will build, own and operate four RKEF lines with an annual nameplate production capacity of 36,000 tonnes of nickel metal in NPI, and ancillary facilities required for the operation of each of the RKEF lines. In addition, the construction of a 380 MW captive power plant and associated ancillary facilities that will support the RKEF lines and the IMIP's overall grid power requirements will separately be undertaken. The asset specifications of the Oracle Nickel Project and the power plant will replicate those of the Company's 80%-owned Angel Nickel Project.

92 The Oracle Nickel Project will be organised under a similar corporate and operational structure to the Company's existing RKEF assets at the IMIP, with Shanghai Decent taking the lead role in the design and construction of the project. Furthermore, Shanghai Decent has contractually committed that the total cost of the Oracle Nickel Project and power plant shall not exceed US$750 million.

93 Commissioning of the four Oracle RKEF lines is to commence no later than 19 February 2023 and the power plant is to commence commissioning no later than 19 July 2023 (subject to any force majeure event). In addition, Shanghai Decent has undertaken to procure all of the NPI product from the Oracle Nickel Project at market prices for NPI in China.

94 As noted above, the RKEF technology in place at the IMIP gives rise to bottom quartile operating costs (on a global basis), with the Oracle Nickel Project expected to have similar operating costs to the Angel Nickel Project.

95 The Oracle Nickel Project has also been granted tax concessions that equate to material corporate income tax relief, similar to the tax concessions recently granted for the Angel Nickel Project.

Hengjaya Nickel Mine

96 Nickel Mines holds an 80% interest in the Hengjaya Mine, a long-life 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 two further 10-year extension options.

97 The Hengjaya Mine is in close proximity to the IMIP. It produces direct shipping ore, the majority of which is sold into the IMIP facility for the production of NPI. The mine holds JORC[30] compliant resources as follows (as announced to the ASX on 27 August 2020)[31]:

Hengjaya Nickel Mine – JORC compliant resources				
Category	Dry tonnes (million)	Nickel %	Cobalt %	Iron %
Measured	20	1.3	0.08	28
Indicated	109	1.3	0.08	29
Inferred	56	1.3	0.07	27
Total	185	1.3	0.08	28

98 In addition to the above, at least five significant exploration targets, covering a further 1,500 hectares within the Hengjaya Mine licence area have been identified in locations where similar type nickel laterite deposits of between 60 to 120 million WMT is postulated. In these areas nickel laterite has already been identified by surface mapping and wide spaced drilling.

99 Recently, numerous expansion initiatives have been undertaken with the underlying objective being to unlock the strategic value of Hengjaya Mine's large-scale resource. While having the immediate beneficial effect of scaling up production levels and reducing unit costs (on a per tonne basis), many of the expansion initiatives were designed to prepare the mine to be a future material supplier of both saprolite and limonite ore to the IMIP. These expansion initiatives included:

(a) developing the Central Pit as both an additional production area to the existing Bete Bete Pit with a shorter haul road distance to the jetty

(b) developing dedicated haul roads from the Bete Bete Pit through the Central Pit to the jetty to facilitate the use of larger 40 tonne haul trucks

(c) expanding the jetty capacity to allow for the simultaneous loading of multiple 10,000 tonne barges

(d) building a modernised campsite and auxiliary facilities to cater for an expanded and upskilled workforce

(e) upgrading of onsite ore preparation and analytical laboratories

(f) construction of an ore scalping grizzly to allow faster separation of oversized rock from ore to increase ore recovery; and

(g) commencing the design and construction of a direct haul road between the Hengjaya Mine and the IMIP to facilitate the increased supply of both saprolite and limonite ore into the IMIP.

100 The Hengjaya Mine recently reached annualised production of 3 million tonnes per annum (Mtpa) and this level of production is expected to be maintained into 2022 and beyond. In addition, in the December 2021 quarter, Nickel Mines commenced supplying limonite to the

30 Joint Ore Reserves Committee (JORC).

31 These JORC resources have been modestly depleted by subsequent mining.

Huayue Nickel Cobalt project[32], which is in the early stages of commissioning at the IMIP. The limonite ore at Hengjaya Mine has historically been treated as overburden and whilst the limonite ore itself was stockpiled, the cost of mining this ore has been expensed. The Hengjaya Mine has historically stockpiled 2.91 million WMT of limonite ore at an average grade of 1.16%.

Other operations

101 During 2021 the Company executed a facility agreement with PT Sinar Inti Pembangunan, under which the Company advanced to PT Sinar Inti Pembangunan US$3.5 million to assist in funding the development and eventual acquisition of the Pt. Adadi Nikel Nusantara and Pt. Sulawesi Nikel Abadi nickel projects.

102 On 2 September 2021, Nickel Mines announced it had signed a binding memorandum of agreement with PT Iriana Mutiara Mining for the staged acquisition of a 100% interest in the Siduarsi Nickel Cobalt Project. Whilst the key terms are considered commercial-in-confidence and subject to execution of a joint venture agreement, Nickel Mines will be required to fund various project milestones including a modest exploration program over two years, the completion of a JORC compliant Resources statement and a mine feasibility study.

103 In December 2021, the Company signed a Conditional Share Purchase Agreement with Bolt Metals Corp.[33] to acquire 100% of the Tablasufa Nickel Project. Bolt Metals Corp. owns a 65% interest in PT Tablasufa Nickel Mining and PT Best Resources owns the remaining 35% interest. The Tablasufa Nickel Project is a 5,000-hectare Production Operation IUP located on the northeast coast of West Papua, Indonesia (approximately 200 kilometres from the Siduarsi Nickel Cobalt Project[34]), which has undergone considerable past exploration by various parties.

104 Under the terms of the Conditional Share Purchase Agreement, Nickel Mines can acquire 100% of the Tablasufa Nickel Project for a total consideration of US$8.5 million, with the key conditional terms being:

(a) the completion of satisfactory due diligence, at Nickel Mines' absolute discretion

(b) extension of the Tablasufa Nickel Project Production Operation IUP; and

(c) Bolt Metals Corp. shareholder approval.

Financial performance

105 The financial performance of Nickel Mines for the year to 30 June 2019 (FY19), six months to 31 December 2019, and two calendar years to 31 December 2021 (CY21)[35] is set out below:

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32 Owened by PT Huayue Nickel Cobalt, which is a joint venture between Huayou Cobalt (57%), China Molybdenum (30%), Tsingshan (10%) and others (3%).

33 A company listed on the Canadian Securities Exchange.

34 Similar to the Siduarsi Nickel Cobalt Project, the Tablasufa Nickel Project is along a geo-tectonic strike from the Ramu nickel-cobalt project in neighbouring Papua New Guinea.

35 On 14 February 2020, the Directors of Nickel Mines resolved to change the Company's financial year end date from 30 June to 31 December to align reporting dates across the Nickel Mines group entities.

Nickel Mines – statement of financial performance[1]	FY19 US$m	HY to 31 Dec 19 US$m	CY20 US$m	CY21 US$m
Revenue	64.9	236.1	523.5	645.9
Cost of goods sold	(43.3)	(136.2)	(321.6)	(393.2)
Gross profit	21.6	99.9	201.9	252.7
Directors' fees and consultants' expenses	(2.6)	(2.9)	(4.1)	(9.4)
Depreciation and amortisation	(6.8)	(16.4)	(36.8)	(36.0)
Other expenses	(1.1)	(1.0)	(3.4)	(13.3)
Share of profit/(loss) of equity accounted investees	2.6	1.2	-	(0.1)
Net financial profit/(expenses)	58.3	10.7	(3.1)	(13.0)
Profit before tax	71.9	91.5	154.6	181.0
Income tax expense	(0.1)	(0.2)	(0.9)	(5.1)
Profit after tax	71.8	91.3	153.7	175.9
Profit attributable to non-controlling interests	6.3	34.8	43.1	38.0
Profit attributable to owners of the Company	65.5	56.5	110.6	137.9

Note:
1 Rounding differences may exist.

Historical results

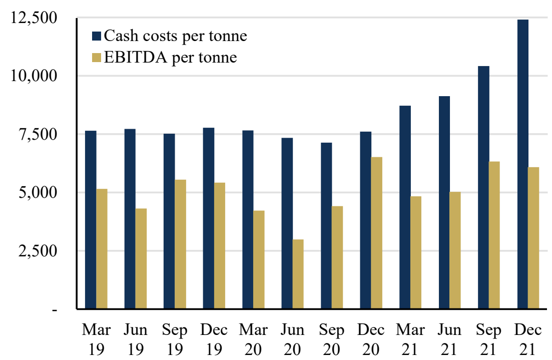
106 Nickel Mines' historical financial performance for FY19 includes the ramp up of the Hengjaya Nickel Project (which commenced operations in January 2019) and the initial commissioning of the Ranger Nickel Project (which commenced operations in late May 2019). Whilst both the Hengjaya and Ranger Nickel Projects have been operational post FY19, the ownership levels for both projects have varied, with the most recent change (which saw Nickel Mines increase its ownership from 60% to 80% for both the Hengjaya and Ranger Nickel Projects) completing on 30 June 2020. In addition, the Angel Nickel Project (in which the Company has an 80% interest) has recently commenced commissioning and the Oracle Nickel Project is in the project construction stage. Accordingly, the historical results for Nickel Mines are not representative of future financial performance.

Cash costs for the Hengjaya and Ranger Nickel Projects

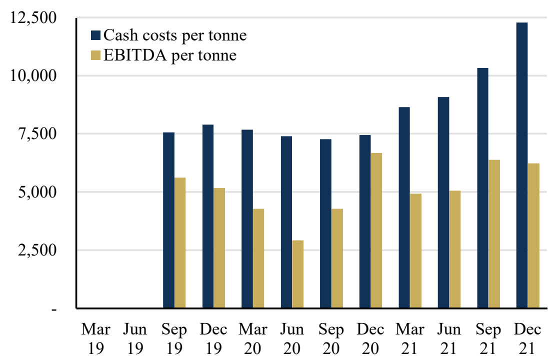
107 The historical cash costs and EBITDA per tonne for the Hengjaya and Ranger Nickel Projects since commissioning are set out in the table below:

Quarterly cash cost and EBITDA (US$/t of nickel production)[1]

Hengjaya Nickel Project



Ranger Nickel Project



Note:
1 Cash cost per tonne includes ore costs, electricity, reductant and smelting coal costs, other operating costs and management expenses but excludes depreciation and interest charges.

108 As indicated above, in the period post commissioning up to 31 December 2020, cash costs for both the Hengjaya and Ranger Nickel Projects were relatively consistent, being generally around US$7,500 per tonne (US$/t) of nickel production. The March 2021 quarter saw a material increase in operating costs in comparison to the previous quarter for both the Hengjaya and Ranger Nickel Projects, with cash costs rising by 14.6% and 16.1% respectively. The increase in cash costs was attributable to a combination of:

(a) an increase in London Metal Exchange (LME) nickel prices (which increased to around US$20,000/t during the quarter and averaged approximately US$17,500/t) and resulted in nickel ore costs increasing by approximately US$4/t (from US$37/t in the December 2020 quarter) to US$41/t in the March 2021 quarter[36]

(b) higher coal prices in the March 2021 quarter saw the costs for key inputs (such as power, reductant and smelting coal) increase materially, resulting in electricity costs increasing by approximately 20% over the quarter (from US$0.05/Kwh to US$0.06/Kwh).

109 As shown in the chart above, over the following three quarters to 31 December 2021 cash costs continued to increase for both the Hengjaya and Ranger Nickel Projects due to rising input costs, and in particular higher coal prices.

110 In the Quarterly Report for the three months to 31 December 2021, Nickel Mines noted that operating cash costs at the Hengjaya and Ranger Nickel Projects both rose by around 19%, compared to the September quarter, with approximately 75% of these increases attributable to rising coal and electricity prices. Most of the balance of the cost increases were attributable to nickel ore prices (these are linked to LME nickel prices), which for the December quarter averaged some US$580 per tonne higher than the September quarter. The Company also stated the following:

"The upwards trend in coal and electricity prices evident across most of 2021 appears to have peaked in the current price cycle. Supply shortages and the resulting price spikes, which affected the entire coal complex in the early part of the December quarter, have now eased and resulted in a notable reduction in energy-related cash operating costs in December compared to November."

111 Notwithstanding the higher cash costs, the Company's RKEF operations remain in the lowest operating cost quartile for NPI production, and given the higher NPI prices that prevailed (a reflection of robust NPI demand arising from high levels of global stainless steel production), Nickel Mines' EBITDA[37] margin (a key operating performance metric for the Company) was maintained above US$6,000/t (refer to chart above). This cost advantage is highlighted by the following statement from Nickel Mines' Quarterly Report for the three months to 30 September 2021:

"Nickel Mines' largest relative cost advantage remains the cost of nickel ore, which represents approximately 40% of the NPI operating cost base. Chinese NPI producers are currently paying US$124 per tonne for 1.8% ore (due its relative scarcity in China) compared

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36 Since the Indonesian Government's adoption of a new benchmark ore pricing regime in May 2020, nickel ore prices are now more closely indexed to LME price movements.

37 Earnings before interest, tax, depreciation and amortisation (EBITDA).

with Nickel Mines currently paying ~US$40/t, with supply of lower grade ore into China set to tighten further as the Philippines comes into its wet season."

Impact of COVID-19

112 Due to a swift response to the initial outbreak of COVID-19 at the IMIP, including strict access controls and leave suspension, the implementation of a vaccination programme, and the continued enforcement of strict safety measures, the Hengjaya and Ranger Nickel Projects have continued to operate as normal throughout the COVID-19 pandemic.

113 Nickel Mines also implemented strict access controls and restricted non-essential movements in and out of its 80% owned Hengjaya Mine. During the September 2021 quarter the COVID-19 vaccination program for the mine site workforce was completed, with 94% of the workforce fully vaccinated.

Financial position

114 The financial position of Nickel Mines as at 31 December 2020 and 31 December 2021 is set out below:

Nickel Mines – statement of financial position[1]	31 Dec 20 US$m	31 Dec 21 US$m
Debtors and prepayments	117.8	125.1
Inventories	61.3	107.0
Creditors, accruals and provisions	(44.9)	(64.5)
Net working capital	134.2	167.5
Property, plant and equipment	600.8	1,296.3
Goodwill	55.4	78.0
Other assets net of other liabilities	44.8	55.8
Deferred tax liabilities	(55.4)	(78.0)
Total funds employed	779.8	1,519.7
Cash and cash equivalents	351.4	137.9
Interest bearing liabilities	(45.0)	(327.6)
Net cash / (debt)	306.4	(189.7)
Net assets	1,086.2	1,329.9
Non-controlling interests	(146.2)	(153.5)
Net assets attributable to Nickel Mines shareholders	940.1	1,176.4

Note:
1 Rounding differences may exist.

Property, plant and equipment

115 Nickel Mines' property, plant and equipment is predominantly comprised of plant and machinery relating to its holdings in the Hengjaya, Ranger and Oracle Nickel Projects.

Nickel Mines – property, plant and equipment		
	31 Dec 20 US$m	31 Dec 21 US$m
Buildings	60.4	57.4
Mining properties	27.3	25.4
Plant and machinery	505.9	891.4
Construction in progress (relates to the Oracle Nickel Project)	-	312.4
Other (motor vehicles, office equipment etc.)	7.2	9.7
Total property, plant and equipment	600.8	1,296.3

Net cash / debt

116 A breakdown of Nickel Mines' net cash / (debt) as at 31 December 2020 and 31 December 2021 is set out below:

Nickel Mines – net cash		
	31 Dec 20 US$m	31 Dec 21 US$m
Cash and cash equivalents	351.4	137.9
Ranger debt facility	(45.0)	-
Working capital loan	-	(4.0)
Senior Unsecured Notes[1]	-	(323.6)
Net cash / (debt)	306.4	(189.7)

Note:
1 Includes accumulated interest of US$5.3 million.

117 Details of the Ranger debt facility and the Senior Unsecured Notes are as follows:

(a) in August 2019, as part of the financing package to increase the Company's interest in the Ranger Nickel Project from 17% to 60%, Nickel Mines entered into a senior debt facility agreement with a Shanghai Decent associated company (the Ranger debt facility). The draw downs under the Ranger debt facility, which attracted an interest rate of 6% plus the greater of the three month USD LIBOR[38] or 2.5% per annum, were fully repaid during the half year to 30 June 2021

(b) in March 2021, as part of the financing package to facilitate the Company's acquisition of its 80% interest in the Angel Nickel Project, Nickel Mines issued US$175 million of Senior Unsecured Notes. The Senior Unsecured Notes have a coupon interest rate of 6.5% per annum, are payable semi-annually in arrears, and mature on 1 April 2024

(c) on 9 September 2021, Nickel Mines announced the completion of a further US$150 million issue of Senior Unsecured Notes, with the same terms as the initial US$175 million note issue (including an interest rate of 6.5% per annum and 1 April 2024 maturity). The new Senior Unsecured Notes were consolidated with the existing Senior Unsecured Notes to form a US$325 million single series of notes. The Senior Unsecured Notes are listed on the Singapore Exchange Securities Trading Limited.

38 London Inter-Bank Offer Rate (LIBOR).

Share capital

118 As at 23 March 2022, Nickel Mines had 2,623.2 million fully paid ordinary shares on issue which included 108.1 million ordinary shares issued under the Intuitional Placement component of the Equity Raise.

Significant shareholders

119 As at 8 February 2022[39], there were four substantial shareholders in Nickel Mines that held a total of 48.7% of the ordinary shares on issue, as detailed below:

Nickel Mines – substantial shareholders

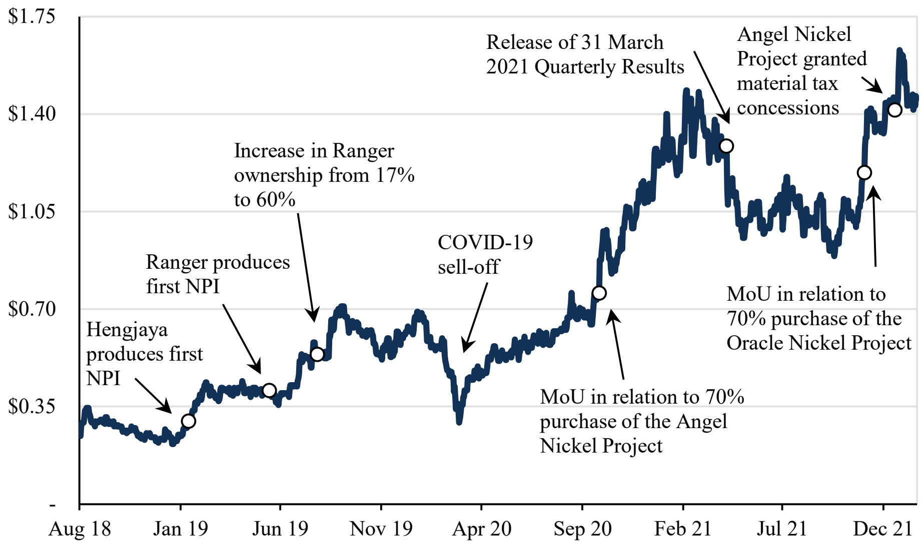
Shareholder	Shares held million	% interest
Shanghai Decent Investment (Group) Co., Ltd	469.7	18.7
PT Karunia Bara Perkasa	378.4	15.0
BlackRock Group	195.5	7.8
Baillie Gifford & Co[(1)]	181.3	7.2
Total	1,224.9	48.7

Note:
1 On 11 March 2022, Baillie Gifford lodged a Notice of ceasing to be a substantial holder.

Share price performance

120 The following chart illustrates the movement in the share price of Nickel Mines since listing on the ASX on 20 August 2018 to 8 February 2022[39]:

Nickel Mines – share price history[(1)]
20 August 2018 to 8 February 2022



Note:
1 Based on closing prices.
Source: Bloomberg

39 Being the last trading day prior to the announcement of the Equity Raise.

121 Since listing on the ASX on 20 August 2018, the Nickel Mines share price has generally performed strongly, aside from two notable periods being, a selloff in late February to March 2020, due to initial concerns about the COVID-19 pandemic[40], and the decline observed post the release of the 31 March 2021 quarterly results[41], which appears to be due to concerns about higher cash costs at the Hengjaya and Ranger Nickel Projects.

122 The Nickel Mines share price increased significantly following the announcement of the proposed acquisition of the 70% interest in the Angel Nickel Project on 16 October 2020 and (prima facie) also responded favourably to the announcement of the proposed acquisition of a 70% interest in the Oracle Nickel Project on 22 November 2021.

123 Subsequent to the announcement of the Equity Raise, the Nickel Mines share price has experienced increased volatility. This appears to be due to the Company's association with Tsingshan, and press speculation regarding a short position held by Tsingshan in the LME nickel market (i.e. external factors). Nickel Mines shares were placed into a trading halt on 9 March 2022 and the Company made the following statement:

"The Company acknowledges recent press speculation regarding a short position in LME nickel held by Tsingshan group and the implications this had had on global nickel markets.

The Company notes following discussions today with personnel of Tsingshan and its affiliate Shanghai Decent ('Tsingshan'):

- *the Company's operations at the Hengjaya Nickel and Ranger Nickel projects are unaffected, as is commissioning at the Angel Nickel project and construction at the Oracle Nickel project.*
- *Tsingshan have firmly assured the Company that they have no intention of selling any shares that it holds in the Company.*
- *there has been no change in Tsingshan's irrevocable undertaking to purchase all of the nickel pig iron produced by the Company's RKEF operations.*
- *there has been no impact on Tsingshan's intention to receive Nickel Mines shares in the Conditional Placement as detailed on 9 February 2022 as part consideration for the Company acquiring a 70% interest in the Oracle Nickel Project.*
- *Tsingshan remains the world's largest stainless steel and nickel producer with its operations generating revenues of 352B RMB (US$~$56B) in 2021. Tsingshan's operations remain robust and unaffected with the Group having strong confidence in its ability to manage its current market position."*

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40 To date, the Hengjaya and Ranger Nickel Projects and the Hengjaya Mine operations have not been operationally impacted by the outbreak of the COVID-19 pandemic.

41 Being the first period in which operating cash costs for the Hengjaya and Ranger Nickel Projects had materially increased since commissioning due to increases in nickel ore, reductant agent and thermal coal prices.

Liquidity in Nickel Mines shares

124 The liquidity in Nickel Mines shares based on trading on the ASX over the 12 month period prior to 8 February 2022[42] is set out below:

Nickel Mines – liquidity in shares						
			No of shares traded	WANOS(1) outstanding	Implied level of liquidity	
					Period(2)	Annual(3)
Period	Start date	End date	000	000	%	%
1 month	9 Jan 22	8 Feb 22	276,369	2,515,029	11.0	131.9
3 months	9 Nov 21	8 Feb 22	736,499	2,515,029	29.3	117.1
6 months	9 Aug 21	8 Feb 22	1,537,793	2,515,029	61.1	122.3
1 year	9 Feb 21	8 Feb 22	3,022,209	2,515,029	120.2	120.2

Note:
1 Weighted average number of shares outstanding (WANOS) during relevant period.
2 Number of shares traded during the period divided by WANOS.
3 Implied annualised figure based upon implied level of liquidity for the period.

125 In each of the periods above, total share turnover (on an annualised basis) has been in excess of 117% of the total number of shares issued in Nickel Mines, indicating a high level of market liquidity. Nickel Mines shares are included in the S&P/ASX 200 Index.

42 Being the last trading day prior to the announcement of the Equity Raise.

IV Valuation methodology

Valuation approaches

126 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.

127 Under the DCF methodology the value of the business is equal to the net present value (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.

128 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.

129 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, 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.

130 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.

Methodology selected

131 The market value of Nickel Mines before the Shanghai Decent Placement (on a controlling interest basis) has been assessed by aggregating the market value of Nickel Mines' various economic interests in its NPI Projects (defined at paragraph 134 below) and the Hengjaya Mine, less an allowance for unallocated corporate costs, net borrowings and any outstanding NPI Project payments[43]. The market value of Nickel Mines before the Shanghai Decent Placement has also been adjusted for the pro-forma impact of the Institutional Placement which was completed on 10 February 2022[44].

132 As a cross-check for our assessed value of the equity in Nickel Mines we have had regard to the Nickel Mines share price adjusted for a premium for control (to enable a comparison on a like for like (controlling interest) basis).

43 These payments relate to the Oracle Nickel Project.

44 As indicated above, on 11 March 2022 Nickel Mines withdrew the SPP component of the Equity Raise.

V Valuation of Nickel Mines before the Shanghai Decent Placement

Overview

133 As stated in Section V, the market value of Nickel Mines before the Shanghai Decent Placement (on a controlling interest basis) has been assessed by aggregating the market value of Nickel Mines' various economic interests in its NPI Projects (defined at paragraph 134 below) and the Hengjaya Mine, less an allowance for unallocated corporate costs, net borrowings and any outstanding NPI Project payments[45]. The market value of Nickel Mines before the Shanghai Decent Placement has also been adjusted for the pro-forma impact of the Institutional Placement which was completed on 10 February 2022[46].

134 As set out in Section III, Nickel Mines has interests in the following assets:

(a) the NPI Projects:

(i) an 80% economic interest in the Hengjaya and Ranger Nickel Projects, which each comprise two operating RKEF lines within the IMIP

(ii) an 80% economic interest in the Angel Nickel Project, comprising four RKEF lines within the IWIP. This project is currently in the process of commissioning

(iii) being party to a Definitive Agreement to acquire a 70% interest in the Oracle Nickel Project, which comprises four RKEF lines within the IMIP that are currently under construction

(b) an 80% economic interest in the Hengjaya Mine, which produces nickel laterite ore

(c) other early stage nickel exploration projects.

135 The valuation of Nickel Mines' respective interests in its NPI Projects, the Hengjaya Mine and related unallocated corporate costs has been undertaken by adopting the DCF methodology. Under the DCF methodology, the value of Nickel Mines' respective operations is equal to the NPV of the estimated 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.

136 As a cross-check for our assessed value of the equity in Nickel Mines we have had regard to the Nickel Mines share price adjusted for a premium for control (to enable a comparison on a like for like (controlling interest) basis).

137 Reflective of the nature and the location of its assets, the cash flows for Nickel Mines respective operations are stated in USD. Accordingly, our valuation of Nickel Mines has been prepared in USD, with the resulting equity values converted to Australian dollars (AUD/A$) at a spot price as at or around 31 January 2022.

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45 These payments relate to the Oracle Nickel Project.

46 As indicated above, on 11 March 2022 Nickel Mines withdrew the SPP component of the Equity Raise.

Valuation of interests in NPI Projects

138 As stated above, the Hengjaya and Ranger Nickel Projects have been operating since the first half of 2019, and we have had regard to the historical operations of these projects for the purposes of assessing the respective future cash flows.

139 The Angel Nickel Project is currently being commissioned and the Oracle Nickel Project is at the construction (or development) stage. Accordingly, as at the date of valuation, historical operating results for the Angel and Oracle Nickel Projects are not available.

140 Nickel Mines has advised that the combined historical operating results of the Hengjaya and Ranger Nickel Projects represent a reasonable proxy for the estimated cash flows that are expected to be generated by the Angel and Oracle Nickel Projects, but for the following key differences:

(a) the Angel and Oracle Nickel Projects each comprise four next generation RKEF lines with nameplate annual production capacity of 36,000 tonnes of nickel metal (in NPI)[47]. In comparison, the combined Hengjaya and Ranger Nickel Projects comprise four RKEF lines with annual nameplate production capacity of 30,000 tonnes of nickel metal[47]

(b) the Angel and Oracle Nickel Projects will each own a captive 380 MW power plant which will provide the benefit of secure, integrated power supply. This will lower nickel production costs (in the form of lower electricity costs) in comparison to the Hengjaya and Ranger Nickel Projects.

141 Accordingly, the DCF valuations of the Angel and Oracle Nickel Projects are based on the free cash flow projections derived by LEA having regard to, inter alia, the historical operating performance of the Hengjaya and Ranger Nickel Projects, adjusted where necessary to determine reasonable forecast parameters.

142 Whilst LEA believes the assumptions underlying the cash flow projections adopted for valuation purposes are reasonable and appropriate, 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) the projections and the underlying assumptions have not been reviewed by an investigating accountant or technical expert for reasonableness or accuracy of compilation and application of assumptions

(c) future profits and cash flows are inherently uncertain

(d) by their nature, the projections do not take into account the operational flexibility available to management to react to changes in the market conditions in which Nickel Mines' NPI Projects operate

(e) the achievability of the 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; and

47 On a 100% ownership basis.

(f) actual results may be significantly more or less favourable.

143 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments[48], capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the NPI Projects to be determined irrespective of the level of debt funding employed.

144 For valuation purposes we have assumed a valuation date of 31 January 2022. Project cash flows for each of the NPI Projects cover a period of 30 years from the date of commissioning[49]. The valuation has been undertaken in real terms (i.e. excluding inflation) as the cash flows for Nickel Mines' operating assets have been forecast in real terms. Cash flows for the NPI Projects have been determined on a 100% ownership basis, with allowance for Nickel Mines' economic interests on a pro-rata basis.

145 Regarding the commencement of the Angel and Oracle Nickel Projects:

(a) on 25 January 2022 the Angel Nickel Project commenced NPI production at the first of its RKEF lines, with the remaining three RKEF lines to be progressively commissioned over the following 60 to 90 days. This is expected to result in all four RKEF lines producing NPI by the end of April 2022. The Angel power plant remains on schedule to commence commissioning by the end of September 2022, and this is expected to enable the Angel Nickel Project to achieve nameplate capacity around one month after commissioning of the power plant. Prior to commissioning of the power plant, NPI production from Angel Nickel Project's RKEF lines will run at less than 100% of nameplate capacity, depending on power availability

(b) preparations for construction of the Oracle Nickel Project are underway and the Definitive Agreement with Shanghai Decent relating to the project states that the four RKEF lines shall commence commissioning by no later than 19 February 2023 (subject to any force majeure event or a serious delay due to COVID-19), with the power plant due to be commissioned not more than six months later. For the purposes of our valuation, we have assumed that the Oracle Nickel Project's RKEF lines will also run at less than 100% of nameplate capacity prior to commissioning of the power plant.

146 As the detailed cash flow projections for the NPI Projects are commercially sensitive, they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections.

Nickel metal production

147 Nickel metal production represents NPI production (tonnes) multiplied by the NPI grade. A summary of the annual nameplate nickel metal production capacity of the Nickel Mines NPI Projects is set out below:

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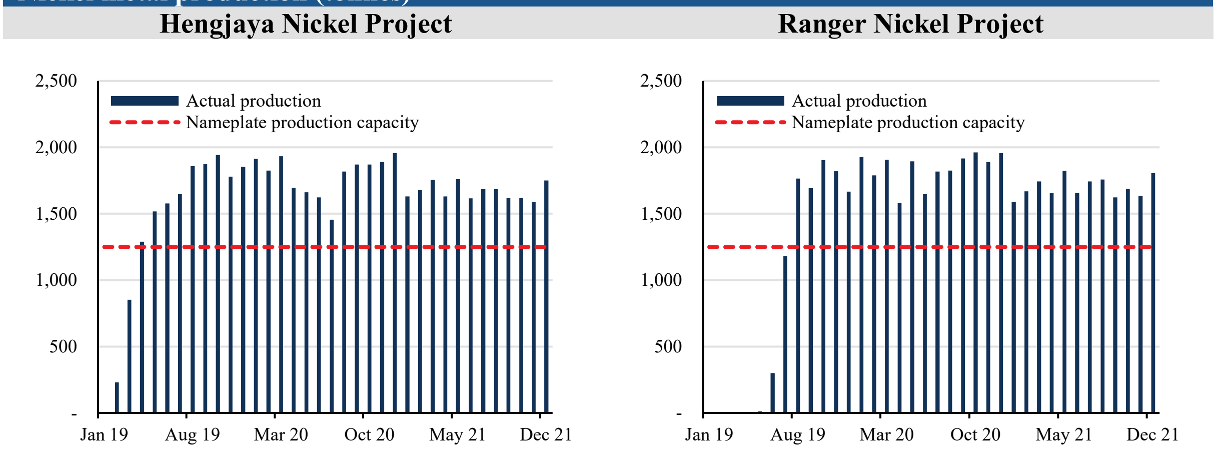
48 Also calculated on an ungeared basis.

49 Noting that the expected useful life of the RKEF lines is well in excess of 30 years.

Annual nameplate capacity	
NPI Project	**Contained nickel (tonnes)**
Hengjaya Nickel Project	15,000
Ranger Nickel Project	15,000
Angel Nickel Project	36,000
Oracle Nickel Project	36,000
Total	102,000

148 As set out in Section III, following a short ramp up period post commissioning, both the Hengjaya and Ranger Nickel Projects have consistently significantly exceeded nameplate production capacity (which is 1,250 tonnes of nickel metal (in NPI) per month), as shown below:

Nickel metal production (tonnes)



149 Since inception, nickel metal production has exceeded nameplate production capacity by 37.9% (Hengjaya) and 41.6% (Ranger). During 2021, nickel metal production for the Hengjaya and Ranger Nickel Projects was 20,020 tonnes and 20,391 tonnes respectively, which is some 33.5% (Hengjaya) and 35.9% (Ranger) above nameplate capacity.

150 For the purposes of the DCF valuation, we have adopted nickel metal production equal to 135% of nameplate capacity for the Hengjaya and Ranger Nickel Projects. Given the inherent potential for the Angel and Oracle Nickel Projects to exceed nameplate capacity, Nickel metal production for the Angel and Oracle Nickel Projects has been considered at the following three levels:

(a) nameplate capacity

(b) 117.5% of nameplate capacity

(c) 135% of nameplate capacity.

Nickel prices

NPI prices

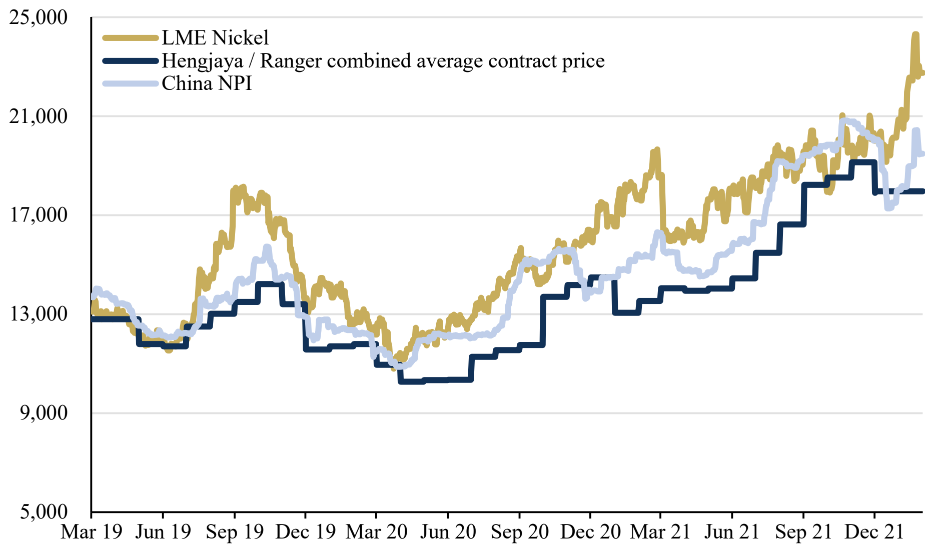
151 The NPI market is ostensibly a Chinese-orientated market with prices increasingly a function of individual contract negotiations between buyer and seller. Whilst indicative prices are

published by a number of sources, there are numerous adjustments applied to the published prices to account for specification composition, freight and foreign exchange.

152 NPI prices essentially follow the benchmark LME nickel price, with a premium or discount depending on the level of adjustment. However, there are other variables that can influence NPI prices, such as the breakeven levels for Chinese NPI producers (who have significantly higher cost bases than Indonesian NPI producers).

153 The diagram below sets out the combined average NPI contract prices received by the Hengjaya and Ranger Projects relative to LME nickel prices and China NPI prices:

Historical nickel pricing (US$/t)(1)
1 March 2019 to 31 January 2022



Note:
1 China NPI price represents 8% to 12% grade NPI.
Source: Nickel Mines and Bloomberg.

154 Over the period set out above, the average monthly contract prices for the Hengjaya and Ranger Nickel Projects reflected a 13.1% discount relative to spot LME nickel prices and the China NPI prices have reflected an average discount of 6.1% in comparison to spot LME nickel prices. The NPI prices adopted for DCF purposes are therefore based on future projected LME nickel prices, less an allowance for adjustment discounts ranging from 10% to 15%.

Analyst forecast prices and forward nickel prices

155 Analyst nickel price forecasts, as well as average forward nickel prices, are set out below:

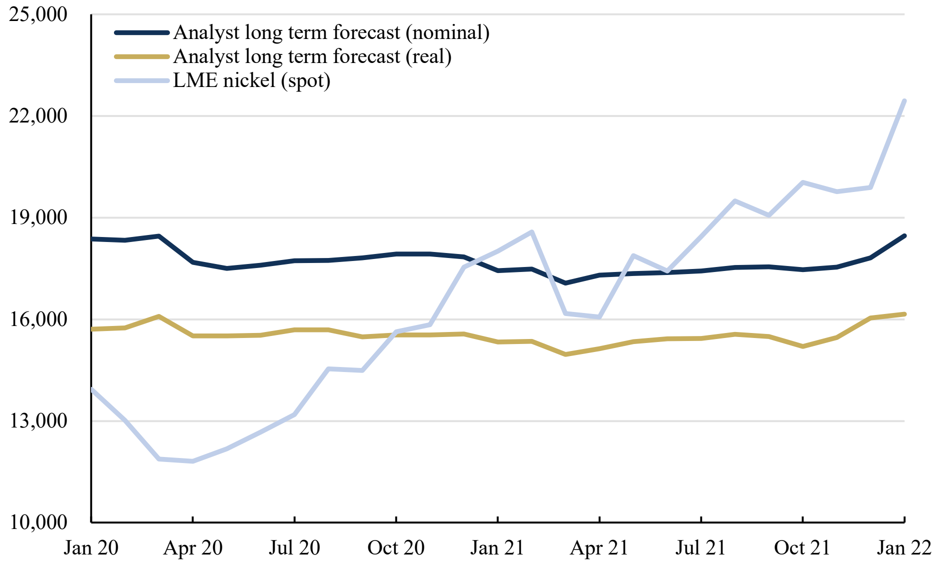
Nickel price forecasts

	2022 US$/t	2023 US$/t	2024 US$/t	2025 US$/t	2026 US$/t	Long term[(1)] US$/t
Analyst forecasts						
Average (nominal prices)	19,315	18,549	17,447	17,361	17,362	18,464
Median (nominal prices)	19,375	18,188	17,637	17,568	17,416	18,445
Number of analysts	27	27	19	18	15	11
Average (real prices)[(2)]	19,141	18,022	16,619	16,213	15,896	16,156
Median (real prices)[(2)]	19,201	17,671	16,800	16,406	15,946	16,232
Number of analysts	27	27	19	18	15	10
Forward prices						
Forward nickel prices (nominal prices)	22,875	21,724	21,472	21,353	21,331	na[(3)]
Forward nickel prices (real prices)[(2)]	22,777	21,122	20,466	19,955	19,543	na[(3)]

Note:
1 Analyst long term nickel prices relate to 2027 to 2031.
2 In the absence of nominal nickel price forecasts for 2022 to 2026, the nominal prices over this period have been adjusted to remove assumed inflation (of 2.0% per annum).
3 Nickel forward prices only extend to 19 May 2027 and as such a reasonable average for the full 2027 year cannot be determined.
na – not available.
Source: Consensus Economics, as at 17 January 2022. Bloomberg, as at 31 January 2022.

156 We also note that long term analyst nickel price estimates have remained fairly consistent during 2020, 2021 and the beginning of 2022, notwithstanding the increasing LME spot nickel prices:

Long term nickel price forecasts and spot nickel prices[(1)] ($US/t)



Source: Consensus Economics, Bloomberg as at 1 February 2022.

Nickel and NPI prices adopted

157 Having regard to the above, for the purposes of our DCF valuation we have adopted the following LME nickel prices, which after allowance for price adjustment discounts implies the following NPI prices:

NPI price (real) adopted (US$/t)						
	2022	**2023**	**2024**	**2025**	**2026**	**2027+**
LME nickel price (real)	20,000	19,000	18,000	17,000	16,000	16,000
Price adjustment discount[1]	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Adopted NPI price (real)	17,500	16,625	15,750	14,875	14,000	14,000

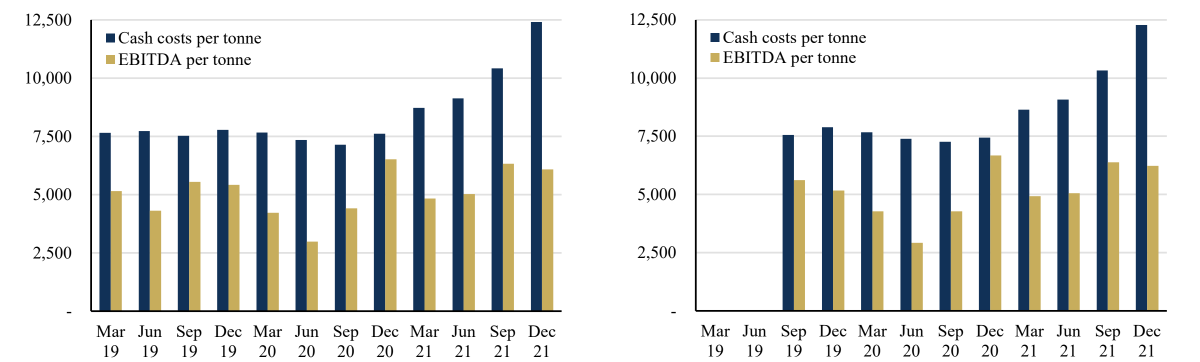
Note:
1 Adopting the midpoint of the price adjustment discount of 10% to 15%.

Cash operating costs

158 The quarterly historical cash operating costs and EBITDA per tonne for the Hengjaya and Ranger Nickel Projects since commissioning are set out in the table below:

Quarterly cash cost and EBITDA (US$/t of nickel production)[1]

Hengjaya Nickel Project	**Ranger Nickel Project**



Note:
1 Cash cost per tonne includes ore costs, electricity, reductant and smelting coal costs, other operating costs and management expenses but excludes depreciation and interest charges.

159 As indicated above, in the period following commissioning up to December 2020, cash operating costs for both the Hengjaya and Ranger Nickel Projects were relatively consistent at around US$7,500/t. However, post this period, due to rising input costs (most notably costs for coal, electricity and nickel ore), cash operating costs at the respective operations increased during 2021 and peaked in November 2021 at US$12,730 (Hengjaya) and US$12,606 (Ranger) per tonne respectively. However, as noted in Section III (refer paragraphs 109 to 110), Nickel Mines stated in its December 2021 Quarterly Report that:

"The upwards trend in coal and electricity prices evident across most of 2021 appears to have peaked in the current price cycle. Supply shortages and the resulting price spikes, which affected the entire coal complex in the early part of the December quarter, have now eased and resulted in a notable reduction in energy-related cash operating costs in December compared to November."

160 Notwithstanding rising cash operating costs, the EBITDA per tonne of NPI produced for the Hengjaya and Ranger Nickel Projects has been maintained above US$6,000/t for the half year

to 31 December 2021 due to higher nickel (and NPI) prices and the RKEF operations being in the lowest operating cost quartile for NPI production globally.

161 The new RKEF lines at the Angel and Oracle Nickel Projects will obtain electricity supply[50] from ownership of their respective on-site power stations and this is expected to reduce electricity costs at the respective projects by approximately 20%. Other than these electricity costs, Nickel Mines expects cash operating costs on a per tonne basis for the respective Angel and Oracle Nickel Projects to be similar to those for the Hengjaya and Ranger Nickel Projects.

162 To allow for ownership of the respective power plants in our valuation we have reduced the comparative cost of electricity supply to each the Angel and Oracle Nickel Projects by approximately 20% (which equates to a reduction in cash operating costs of approximately US$400/t in the context of assumed long term electricity prices[51]).

163 For the purposes of our DCF, we have therefore adopted the following cash operating costs per tonne of nickel production:

Adopted cash operating costs (US$/t)(1)

	2022	2023	2024	2025	2026	2027+
Hengjaya / Ranger Nickel Projects	10,500	10,000	9,500	9,000	8,500	8,400
Angel / Oracle Nickel Projects	10,100	9,600	9,100	8,600	8,100	8,000

Note:
1 Cash cost per tonne includes ore costs, electricity, reductant and smelting coal costs, other operating costs and management expenses.

164 We have cross checked our adopted cash operating costs to the implied EBITDA per tonne and EBITDA margins and consider these reasonable having regard to the historical performance of the Hengjaya and Ranger Nickel Projects (adjusted as appropriate for the reduction in electricity expenses at the Angel and Oracle Nickel Projects).

Sustaining capital expenditure and depreciation

165 Based on Nickel Mines' experience at the Hengjaya and Ranger Nickel Projects (capital expenditure for which subsequent to commissioning has been modest to date) and its understanding of the Angel and Oracle Nickel Projects, we have assumed sustaining capital expenditure of some US$1.0 million per annum for each of the NPI Projects[52]. For simplicity, we have also assumed that depreciation is equal to capital expenditure[53].

50 Electricity is a key input to the RKEF process and comprises some 30% of the total operating costs for the Hengjaya and Ranger Nickel Projects.

51 Noting current electricity prices have risen as a result of the recent increase in thermal coal prices.

52 Note, there is also an allowance for repairs and maintenance included in the cash operating costs adopted for valuation purposes.

53 This is for both the upfront and sustaining capital expenditure.

Working capital

166 An allowance for working capital for the Angel and Oracle Nickel Projects to reach a steady state of production has been included in the DCF, similar to that historically required to reach a steady state of production for the Hengjaya and Ranger Nickel Projects[54].

Corporate tax

167 The Indonesian corporate tax rate is 22%. However, the Hengjaya and Ranger Nickel Projects have 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 (i.e. 2027 and 2028)

(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.

168 Due to their materially larger respective "planned investment values" (relative to the Hengjaya and Ranger Nickel Projects), the Angel and Oracle Nickel Projects have been granted increased tax free periods[55], with these tax concessions including:

(a) a corporate income tax reduction of 100% for a period of 10 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 10 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 10 tax years, also commencing from the tax year in which commercial production is achieved.

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

Discount rate

170 As set out in Appendix C, we have assessed the weighted average cost of capital (WACC) for Nickel Mines at 9.5% (real) per annum. To allow for the different stages of development of the Angel and Oracle Nickel Projects (which are at the commissioning and the construction stages respectively), and the additional risks inherent at these stages, we have added 0.5% and 1.0% to the discount rate assessed for Nickel Mines respectively. This results in the following discount rates for each of the NPI Projects (after tax in real terms):

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[54] Less the proportion of the working capital that Nickel Mines has already provided for the Angel Nickel Project as at the date of valuation.

[55] The Oracle Nickel Project tax concessions were confirmed on 14 March 2022.

Discount rate	
	Discount rate %
Hengjaya and Ranger Nickel Projects	9.5
Angel Nickel Project	10.0
Oracle Nickel Project	10.5

Alternate scenario analysis

171 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. 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.

172 Accordingly, LEA has also considered the impact of alternate assumptions for the key business drivers to provide some indication of the sensitivity of the NPV outcome to changes in those assumptions. It should be noted that the scenarios do not (nor do they purport to) represent the range of potential outcomes (i.e. there is a wide range of potential outcomes outside these scenarios). They are simply theoretical indicators of the sensitivity of the NPV to the alternative assumptions adopted.

173 A description of each of the additional scenarios considered is outlined in the table below:

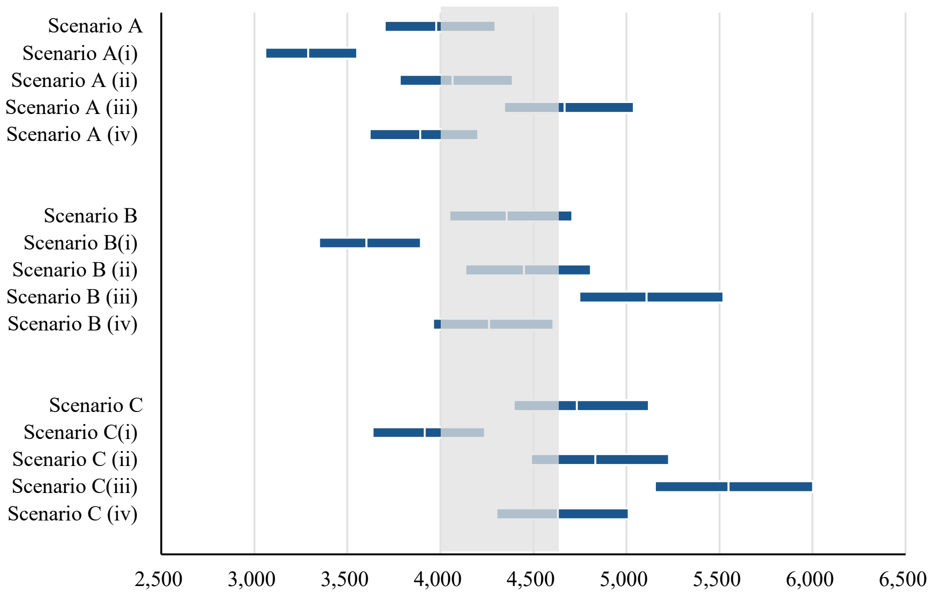
Nickel Mines – NPI Project DCF scenario assumptions	
Scenario	**Description**
Scenario A	As described above
Scenario A(i)	Scenario A adjusted to reflect nickel prices that are 10% lower and cash operating costs that are 5% lower
Scenario A(ii)	Scenario A adjusted to reflect nickel prices that are 5% lower and cash operating costs that are 10% lower
Scenario A(iii)	Scenario A adjusted to reflect nickel prices that are 10% higher and cash operating costs that are 5% higher
Scenario A(iv)	Scenario A adjusted to reflect nickel prices that are 5% higher and cash operating costs that are 10% higher
Scenarios B to B(iv)	Scenario A to A(iv) except assumed nickel metal production for the Angel and Oracle Nickel Projects is 117.5% of nameplate capacity
Scenarios C to C(iv)	Scenario A to A(iv) except assumed nickel metal production for the Angel and Oracle Nickel Projects is 135% of nameplate capacity

Valuation outcomes and value range adopted

174 As indicated above, we have considered the cash flows of the NPI Projects on a 100% ownership basis and have allowed for Nickel Mines economic interests on a pro-rata basis. The aggregate NPV outcomes for Nickel Mines combined pro-rata[56] interests in the NPI Projects relative to LEA's assessed valuation range are set out diagrammatically below:

56 Pro-rata of the individual project values on a 100% ownership basis.

Nickel Mines – aggregate pro rata interest in NPI Projects by scenario (US$m)(1)(2)(3)



Note:
1 The low and high of our assessed valuation range is represented by the grey shaded area.
2 The low and high value range of each scenario reflects a +/- 1.0% range on our adopted discount rates set out at paragraph 170 above. The white line represents the NPV outcome for each scenario based on the mid-point of our discount rate range.
3 The NPV outcomes above do not include any allowance for the remaining Oracle Nickel Project payments, which have been allowed for separately below.

175 In regard to the valuation scenario outcomes shown above, we note that:

(a) since reaching steady state operations, the Hengjaya and Ranger Nickel projects have on average consistently exceeded their nameplate production capacity by 37.9% and 41.6% respectively (refer paragraphs 148 to 149). To the extent that the Angel and Oracle Nickel Projects operate at a similar level in excess of nameplate capacity, the Scenario A variants (which assume nameplate capacity only for the Angel and Oracle Nickel Projects) are conservative

(b) the value attributable to the respective tax holidays for the NPI Projects included in the valuation scenarios ranges from US$500 million to US$800 million.

Adopted DCF value for NPI Projects

176 Based on the above, we have adopted a combined value for Nickel Mines' pro-rata interest in the NPI Projects ranging from US$4.0 billion to US$4.6 billion. As indicated in the diagram above, this range reflects a greater weighting towards the assumed Scenario B (and its variants) production performance, which (whilst arguably conservative) we regard as appropriate for the purpose of this report. In the event that the subsequent actual performance of the Angel and Oracle Nickel Projects more closely reflects the actual performance of the Hengjaya and Ranger Nickel Projects (in terms of percentage outperformance to benchmark), it would be more appropriate to have regard to the valuation outcomes indicated by the assumed production under Scenario C (and its variants).

Valuation of 80% interest in the Hengjaya Mine

Introduction

177 As stated above, the value of the Hengjaya Mine has been assessed by adopting the DCF methodology. The valuation has been undertaken as at 31 January 2022, in real terms (i.e. consistent with the valuation of the NPI Projects) and adopting a 25 year mine life (which is consistent with the mine life expected by Nickel Mines at present[57]).

178 As the detailed cash flow projections for the Hengjaya Mine are commercially sensitive, they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections.

179 Whilst LEA believes the assumptions underlying the cash flow projections adopted for valuation purposes are reasonable and appropriate, 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) the projections and the underlying assumptions have not been reviewed by an technical mining expert for reasonableness or accuracy of compilation and application of assumptions

(c) future profits and cash flows are inherently uncertain

(d) by their nature, the projections do not take into account the operational flexibility available to management to react to changes in the market conditions in which Nickel Mines' Hengjaya Mine operates

(e) the achievability of the 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; and

(f) actual results may be significantly more or less favourable.

Mine production

180 A summary of production for the Hengjaya Mine during 2021 is as follows:

Hengjaya Mine production (2021)					
Quarter	**Mar 21**	**Jun 21**	**Sep 21**	**Dec 21**	**Total**
Saprolite tonnes mined (WMT)	456,487	574,791	579,156	847,260	2,457,694
Overburden mined (BCM)(1)	262,270	549,213	793,045	1,183,367	2,787,895
Limonite mined (BCM)	402,557	349,373	257,448	152,222	1,161,600
Overburden and limonite mined (BCM)	664,827	898,586	1,050,493	1,335,589	3,949,495
Strip ratio(2)	1.5	1.6	1.8	1.6	1.6
Tonnes sold (WMT)	424,410	542,384	568,692	634,486	2,169,972
Average grade sold (%)	1.77	1.78	1.74	1.75	1.76
Average price received (US$/t)	35.40	36.09	36.45	37.55	36.48
Average cost of production(3) (CIF(4) US$/t)	22.78	23.48	24.61	24.98	24.20

57 Noting that the Hengjaya Mine was granted a 20-year mining operation / production licence in 2012 and has two 10-year extension options. Therefore, around the valuation date, the current production licence has some 30 years to expiry.

Note:
1 Bank cubic metres (BCM).
2 Strip ratio includes limonite as overburden.
3 Average cost of production includes amortisation and depreciation costs for the 12 months of US$0.79/t.
4 CIF – costs including freight.

181 The Hengjaya Mine achieved record production levels in the December 2021 quarter due to numerous mine expansion initiatives implemented over the year focused on increasing production and lowering costs. Specifically, during the December 2021 quarter:

(a) the Hengjaya Mine set a new production record of 847,260 WMT of saprolite ore mined, a 46% increase on the previous record of 579,156 WMT reported in the September 2021 quarter. This has positioned the mine to deliver on its budgeted 3 million tonnes of saprolite ore production for 2022

(b) the first barges of limonite ore were delivered to the Huayue Nickel Cobalt project located within the IMIP (commencing November 2021). A total of 98,313 tonnes of limonite ore were delivered in November and December 2021 and supply will continue during 2022.

182 With the majority of operational improvements now fully implemented, in conjunction with opening new mine areas at the Bete Bete and Central Pit operations, the Hengjaya Mine has been able to successfully operate at targeted production levels. The Jetty operations have also operated at a significantly higher capacity since their expansion and upgrade, whilst the finalisation of the 6.5 kilometres of mine haul road to IMIP is planned to be completed in 2022. Internal haul roads connecting several Bete Bete and Central pits are now in full operation and have been a significant contributor to improved mining efficiencies. As a result, during 2021 the costs of ore production at the Hengjaya Mine reduced significantly.

183 Extensive drilling during 2021 (which is expected to continue into 2022) has continued to prepare the mine for higher production rates in future years. Grade control infill drilling continues in the Central Pit areas to enhance the rolling 12-month mine plan, whilst the Bete Bete areas continue to be drilled with new exploration commencing in areas east of the Central Pit operations.

184 Having regard to the recent expansion of the mine, and the production levels envisaged by Nickel Mines' management, for valuation purposes the following production levels have been adopted over the forecast period:

(a) 3.0 Mtpa of saprolite ore; and

(b) 0.7 Mtpa of limonite ore in 2022, increasing to 1.2 Mtpa from 2024 (noting that this is potentially conservative given the nature of the ore body, each tonne of saprolite ore production produces around one tonne of limonite ore).

Nickel prices adopted

185 At paragraph 157 above we set out the LME nickel prices we have adopted for the purposes of deriving NPI prices for the NPI Projects. Given the price of saprolite ore is directly related to LME nickel prices, we have also used these LME prices (adjusted for average nickel grades and moisture content etc.) to derive the saprolite prices for DCF valuation purposes. On this

basis, we have adopted a saprolite price of US$38/WMT from 2022, which decreases to US$32/WMT (real) over the forecast period.

186 The prices to be received for the sale of limonite ore are commercial-in-confidence and therefore we have not set these out in this report.

Cash costs and capital expenditure

187 The Hengjaya Mine employs a contract miner, paid on a per tonne of saprolite ore produced basis. This per tonne cost includes allowance for mine capital expenditure (covering the equipment and machinery required to perform mining operations) and also allows for the cost of mining the limonite ore, which is mined together with the overburden[58].

188 Mine capital expenditure that is not covered by the contract miner is expected to be minimal in 2022, with these funds to be directed towards the completion of expansion initiatives (such as completion of the haul road directly connecting the mine and the IMIP). Post these expansion initiatives, capital expenditure not covered by the contract miner is expected to be relatively modest (at approximately US$1 million per annum).

189 Given recent expansion initiatives have increased mine efficiency and reduced costs, we do not consider the historical operating cash costs at the Hengjaya Mine prior to 2021 as reasonably indicative of ongoing operating costs. Operating cash costs in 2021 were US$23.41/t. Operating cash costs adopted for valuation purposes are US$23/t of saprolite ore production for 2022, reducing to US$22/tpa thereafter, reflecting the full benefits of the expansion initiatives either previously undertaken or expected to be completed in 2022 (in particular the haul road to the IMIP). As stated above, this cost also allows for the mining of limonite ore.

190 We have also allowed for corporate costs of some US$1.5 million per annum, based on historical levels of expenditure, which are not expected to change materially.

Working capital

191 Mine working capital requirements, including the stockpiling of ore (such as for the limonite ore), has been allowed for in the DCF calculations.

Discount rate

192 As set out in Appendix C, we have assessed the WACC for Nickel Mines at 9.5% (real) per annum. We have adopted a discount rate of 10% (real) per annum for the Hengjaya Mine, which is slightly higher than the discount rate assessed for Nickel Mines and takes into account the inherent risks of the nickel mining operations, which are partially offset by the nature of operations at the mine (which are undertaken on a contract miner basis).

Potential sell down to 49%

193 Nickel Mines holds an 80% economic interest in the Hengjaya Mine with the remaining 20% owned by an Indonesian partner, the Wijoyo family. The mine is owned via PT Hengjaya, an

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58 There is, however, an additional cost to transport the limonite ore from its various stockpiles at the mine to the IMIP.

Indonesian company in which Nickel Mines will be required to sell down to 49% by 2028, noting that this sell down is to be undertaken at market value[59].

194 For valuation purposes we have therefore assumed that any notional sell down (at the valuation date) of Nickel Mines' ownership interest in the Hengjaya Mine (to meet the above requirement) would be undertaken at a market value equivalent to our assessed valuation of the mine. On this basis there is no required adjustment to our valuation.

Valuation summary

195 Based on the above, our valuation for 100% of the Hengjaya Mine ranges from US$240 million to US$280 million. On a pro rata basis, the value of Nickel Mines' 80% interest in the Hengjaya Mine is US$192 to US$224 million.

196 As set out in Section III there are significant reserves of nickel ore at the Hengjaya Mine, together with further exploration areas where there are identified prospects of increasing these nickel ore reserves based on planned future drilling programmes. Our valuation of the Hengjaya Mine assumes annual future mining of these nickel ore reserves at the current rate of 3.0 Mtpa of Saprolite ore. There is significant ongoing demand for nickel ore from the Hengjaya and Ranger Nickel Projects (which are in operation), the Oracle Nickel Project (which is under construction) and the other RKEF projects operating at the IMIP. In the event the activities at the Hengjaya Mine are up-scaled and annual rates of production of nickel ore are increased in response to this demand, our valuation of the Hengjaya Mine would increase.

Valuation of corporate costs

197 Nickel Mine's unallocated corporate costs primarily relate to Directors' fees and consultants' expenses, in addition to listed company costs. We have discussed the level of unallocated corporate costs with Nickel Mines' management (i.e. costs which are not reflected in the respective valuations of the NPI Projects or the Hengaya Mine) and have adopted unallocated ongoing corporate costs of US$5.0 million to US$5.5 million per annum for valuation purposes[60].

198 We have assessed the (negative) value of these corporate costs by adopting the DCF methodology over a 30 year period (i.e. consistent with the forecast period for the NPI Projects) and have applied a discount rate of 9.5% per annum (consistent with the discount rate determined in Appendix C for Nickel Mines).

199 On this basis, the value of the unallocated corporate costs has been assessed at negative US$50 million to US$60 million.

Remaining Oracle Nickel Project payments

200 As indicated above, our assessed value of Nickel Mines' interests in the NPI Projects includes a 70% interest in the Oracle Nickel Project, the agreed payment schedule for which is as follows:

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59 To the extent market value is not offered by any potential purchaser, we understand that the sell down is unable to proceed.

60 Given current Australian tax arrangements, we have conservatively assumed these corporate costs are not tax deductible.

Oracle Nickel Project payment schedule				
Date	**Amount US$m**	**Cumulative US$m**	**Ownership %**	**Explanation**
Signing of MoU	10.0	10.0		Already paid by Nickel Mines
Definitive Agreement	20.0	30.0		Already paid by Nickel Mines
By 31 March 2022	23.0	53.0	10	First Acquisition payment[1]
By 30 June 2022	106.0	159.0	30	Second Acquisition payment
By 30 September 2022	46.2	205.2		First Shareholder Loan
By 31 December 2022	212.0	417.2	70	
By 31 December 2022	46.2	463.4		Second Shareholder Loan
By 31 March 2023	61.6	525.0		Third Shareholder Loan
Total	525.0			

Note:
1 This amount was paid by Nickel Mines on 18 February 2022 (i.e. post the 31 January 2022 valuation date).

201 As at 31 January 2022 (i.e. prior to the Equity Raise), Nickel Mines had paid US$30 million of the total US$525 million (i.e. US$495 million was remaining). For the purposes of our valuation, we have not made any present value adjustments to the remaining Oracle Nickel Project payments as at the valuation date as we consider any adjustments thereof to be immaterial in the context of a 100% valuation of the equity in Nickel Mines, particularly given the majority of payments are due within 12 months from this date.

Net debt

202 As at 31 December 2021, Nickel Mines had net debt of some $US206.2 million, calculated as follows:

Nickel Mines – net debt			
	31 Dec 21[1] US$m	**Nickel Mines interest %**	**Nickel Mines US$m**
Nickel Mines cash	55.4	100.0	55.4
Hengjaya Nickel cash	33.2	80.0	26.6
Ranger Nickel cash	20.7	80.0	16.6
Angel Nickel cash	21.7	80.0	17.4
Hengjaya Mine cash	6.9	80.0	5.5
Total cash	137.9		121.4
Senior Unsecured Notes	(318.3)	100.0	(318.3)
Interest on notes	(5.3)	100.0	(5.3)
Working capital facility	(4.0)	100.0	(4.0)
Total borrowings	(327.6)		(327.6)
Net debt	(189.7)		(206.2)

Note:
1 This position is not materially different to the position as at 31 January 2021, i.e. the valuation date.

203 As at 31 January 2022 Nickel Mines' shares were trading cum-dividend. The Nickel Mines shares went ex-entitlement in relation to this final dividend on 2 February 2022. Accordingly,

for valuation purposes (as at 31 January 2022), we have included allowance for this dividend payment as a surplus liability, the amount for which is US$36.2 million[61].

Pro-forma impact of Institutional Placement

204 As indicated above, the market value of Nickel Mines before the Shanghai Decent Placement has also been adjusted for the pro-forma impact of the Institutional Placement[62]. Under the Institutional Placement, Nickel Mines raised US$106 million, which will primarily be used to fund, inter alia, the acquisition of the initial 30% interest in the Oracle Nickel Project (refer paragraph 35).

205 In addition to the above, Nickel Mines will incur some US$3.0 million of transaction costs[63]. Notwithstanding a small proportion of these transaction costs are associated with the undertaking of the proposed Shanghai Decent Placement, the approval of the Shanghai Decent Placement will not result in any incremental transactions costs. Accordingly we have allowed for the full US$3.0 million of transaction costs in our assessed value of Nickel Mines prior to the Shanghai Decent Placement.

Other assets / liabilities

206 Whilst Nickel Mines has recently entered into a number of agreements to either farm-in or to acquire nickel exploration / development projects, the Company's interests in these projects are not material in the context of the valuation of the operating assets owned by Nickel Mines. As a result, for the purpose of our report, we have conservatively placed no value on these assets as at the valuation date.

Share capital outstanding

207 As indicated above, we have allowed for the pro-forma impact of the Institutional Placement in our assessed value of Nickel Mines[62]. Accordingly, we have adopted 2,623.2 million fully paid ordinary shares on issue, calculated as follows:

Nickel Mines – share capital(1)

	Shares on issue (million)
Shares on issue (pre Equity Raise)	2,515.0
Shares issued under Institutional Placement(2)	108.1
Pro-forma shares on issue	2,623.2

Note:
1 Rounding differences exist.
2 Issued on 15 February 2022.

61 Calculated as the final dividend (of A$0.02 per share) multiplied by the shares outstanding (2.515 billion shares) equals A$50.3 million, which is US$36.2 million when translated at the average USD:AUD rate of A$0.72 for the month of January 2022.

62 As indicated above, on 11 March 2022 Nickel Mines withdrew the SPP component of the Equity Raise.

63 Notwithstanding a small proportion of these costs are associated with the undertaking of the proposed Shanghai Decent Placement, the approval of the Shanghai Decent Placement will not result in any incremental transaction costs.

Valuation summary

208 Given the above, we have assessed the value of Nickel Mines shares prior to the Shanghai Decent Placement on a controlling interest basis as follows:

Nickel Mines – valuation summary (Pre the Shanghai Decent Placement)	Para	Low US$m	High US$m
Assessed value of interest in NPI projects	176	4,000.0	4,600.0
Assessed value of interest in Hengjaya Mine	195	192.0	224.0
Corporate costs	199	(50.0)	(60.0)
Enterprise value		4,142.0	4,764.0
Remaining Oracle acquisition and loan payments	201	(495.0)	(495.0)
Net debt	202	(206.2)	(206.2)
2021 final dividend	203	(36.2)	(36.2)
Subtotal		(737.4)	(737.4)
Cash raised under Institutional Placement	204	106.0	106.0
Transaction costs	205	(3.0)	(3.0)
Pro-forma net debt and other liabilities(1)		(634.4)	(634.4)
Equity value – controlling interest basis		3,507.6	4,129.6
Adopted USD:AUD rate(2)	Note 1	0.72	0.72
Equity value – controlling interest basis (A$m)		4,871.6	5,735.5
Fully diluted pro-forma shares on issue (million)(1)	207	2,623.2	2,623.2
Equity value – controlling interest basis (A$/share)		1.86	2.19

Note:
1 Pro-forma to reflect the impact of the Institutional Placement.
2 As indicated above, we have assessed the value of Nickel Mines in USD. For the purposes of our valuation we have adopted an USD:AUD exchange rate of A$0.72, which is broadly consistent with the average USD:AUD exchange rate for the month of January 2022.

Cross check to share trading in Nickel Mines

209 We have cross checked our assessed value of Nickel Mines on a controlling interest basis by reference to the market prices of Nickel Mines shares on the ASX prior to the Equity Raise, adjusted for a premium for control. We note that:

(a) as set out in Section III, Nickel Mines shares are actively traded, which indicates that the listed market price is likely to be a reasonably reliable reference point for the portfolio value of Nickel Mines shares

(b) Nickel Mines has a market capitalisation of around A$3.7 billion[64], it is researched and analysed by 11 investment analyst firms and has a number of institutional investors on its register

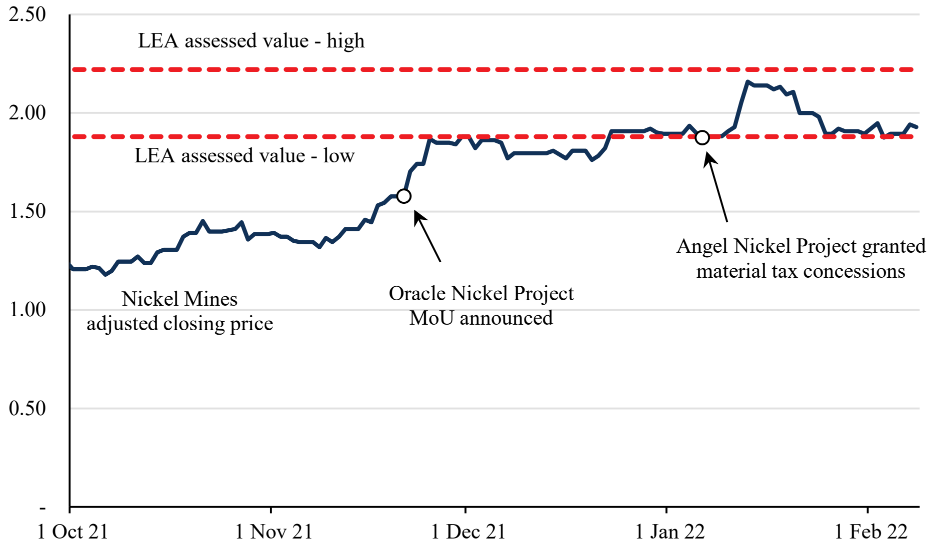
(c) significant information has been disclosed in relation to Nickel Mines operations in its financial reports and stock exchange announcements.

64 As at 8 February 2022.

210 Empirical analysis undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover)[65].

211 Accordingly, we set out below a comparison of the recent share trading in Nickel Mines (adjusted for a control premium of 32.5%) relative to our assessed controlling interest value of Nickel Mines:

Comparison of assessed values to share trading in Nickel Mines[(1)(2)] (A$)
1 October 2021 to 8 February 2022



Note:
1 The Nickel Mines close price has been adjusted for a control premium of 32.5%.
2 LEA assessed low and high value of A$1.85 and A$2.18 per share (refer paragraph 208).
Source: Bloomberg, LEA analysis.

212 As indicated above, Nickel Mines has made the following recent and potentially market sensitive ASX announcements:

(a) 22 November 2021 – the announcement regarding entering into an MoU for the acquisition of a 70% interest in the Oracle Nickel Project

(b) 6 January 2022 – the announcement that the Angel Nickel Project had secured material tax concessions for a 10 year period, which was an increase over the seven year tax holiday period granted for the Hengjaya and Ranger Nickel Projects.

213 Since the announcement of the MoU regarding the acquisition of the 70% interest in the Oracle Nickel Project, share trading in Nickel Mines (adjusted for a premium for control) has been relatively consistent with the low end of our assessed valuation range and for a short period was broadly consistent with the high end of our assessed valuation range. Accordingly, we consider our assessed controlling interest value of Nickel Mines prior to the Shanghai Decent Placement to be reasonable.

65 LEA has analysed the control premiums paid in successful takeovers and other change in control transactions involving cash consideration in Australia over the period 2000 to 2020. LEA's study covered around 500 transactions in all sectors excluding real estate investment trusts, based on data sourced from Bloomberg, Connect4 and public company transaction documents and ASX announcements. Scrip transactions were excluded from the analysis because the value of the scrip consideration can vary materially depending on the date of measurement.

VI Portfolio value of Nickel Mines shares (post the Shanghai Decent Placement)

Methodology

214 The value of Nickel Mines following the Shanghai Decent Placement has been derived by aggregating:

(a) the value of Nickel Mines prior to the Shanghai Decent Placement; and

(b) the receipt and subsequent utilisation of the cash raised by the Shanghai Decent Placement, including payment of the remaining outstanding monies to acquire the initial 30% interest in the Oracle Nickel Project.

Pro-forma impact of Shanghai Decent Placement Funds

215 As indicated at paragraph 35, the proceeds from the Shanghai Decent Placement will be used to fund, inter alia, the remaining payments required to acquire a 30% interest in the Oracle Nickel Project.

216 Following completion of the Shanghai Decent Placement, Nickel Mines will be fully funded for all Oracle Nickel Project acquisition payments up to and including 30 September 2022. As Nickel Mines entered into a binding Definitive Agreement in relation to the acquisition of its interests in the Oracle Nickel Project on 8 December 2021, the Shanghai Decent Placement does not change the nature of Nickel Mines' business or assets, other than the following:

(a) Nickel Mines will raise cash of US$106 million

(b) the number of ordinary shares on issue will increase (refer paragraph 221 below).

217 As indicated at paragraph 205, there are no incremental transaction costs associated with the approval of the Shanghai Decent Placement.

Minority interest discount

218 Consistent with the requirements of RG 111, the value of Nickel Mines shares after the Shanghai Decent Placement must be assessed on a minority interest basis. Empirical research undertaken by LEA on takeover premiums and minority interest discounts indicates that standard discounts for minority interests generally range from 20% to 25% of the full underlying (controlling interest) equity value of a company, with the low end of the range generally reflecting companies with little or no net debt.

219 In the circumstances of Nickel Mines we have had regard in particular to:

(a) the purpose of the Shanghai Decent Placement, including the proposed application of the monies raised

(b) the low level of net debt relative to the equity value of the Company

(c) the comparative position of the Company pre and post the Shanghai Decent Placement.

220 Accordingly, we have applied a discount of 20% to our assessed pre-Shanghai Decent Placement (controlling interest) enterprise value, which we consider appropriate in the circumstances.

Shares on issue post Shanghai Decent Placement

221 Pursuant to the Shanghai Decent Placement, Nickel Mines will issue some 108.1 million new ordinary shares based on the raising size of US$106.0 million (A$148.1 million) and the issue price of A$1.37 per share.

222 Following completion of the Shanghai Decent Placement, Nickel Mines will have some 2,731.3 million ordinary shares on issue:

Shares on issue post raising(1)	Shares (million)
Shares on issue pre raising	2,515.0
Shares issued under Institutional Placement(2)	108.1
Shares issued under the SPP(3)	-
Pro-forma shares on issue prior to Shanghai Decent Placement	2,623.2
New shares issued under Shanghai Decent Placement	108.1
Shares on issue post Shanghai Decent Placement	2,731.3

Note:
1 Rounding issues exist.
2 Issued on 15 February 2022.
3 As indicated above, on 11 March 2022 Nickel Mines withdrew the SPP component of the Equity Raise.

Minority interest value

223 Based on the above and the analysis in the preceding sections, we have therefore assessed the minority interest value of Nickel Mines shares following the Shanghai Decent Placement as follows:

Nickel Mines – minority interest value	Para	Assessed value Low US$m	Assessed value High US$m
Enterprise value pre Shanghai Decent Placement – controlling interest basis	208	4,142.0	4,764.0
Minority interest discount(1)	220	(828.4)	(952.8)
Enterprise value pre Shanghai Decent Placement – minority interest basis		3,313.6	3,811.2
Pro-forma net debt and other liabilities (pre Shanghai Decent Placement)	208	(634.4)	(634.4)
Transaction costs	217	-	-
Funds raised from Shanghai Decent Placement	221	106.0	106.0
Net debt and other liabilities (post Shanghai Decent Placement)		(528.4)	(528.4)
Equity value – minority interest basis		2,785.2	3,282.8
USD:AUD exchange rate	Note 2	0.72	0.72
Equity value – minority interest basis (A$m)		3,868.3	4,559.4
Shares on issue (post Shanghai Decent Placement) (million)	222	2,731.3	2,731.3
Value per share – minority interest basis (A$/share)		1.42	1.67

Note:
1 Based on an adopted minority interest discount of 20%.
2 As indicated above, we have assessed the value of Nickel Mines in USD. For the purposes of our valuation we have adopted an USD:AUD exchange rate of A$0.72, which is broadly consistent with the average USD:AUD exchange rate for the month of January 2022.

Recent share trading (post Equity Raise announcement)

224 A summary of the trading in Nickel Mines shares post the announcement of the Equity Raise up to 23 March 2022 is set out below:

Nickel Mimes – share price history (post Equity Raise announcement)

Time periods	Low A$	High A$	VWAP A$	Number traded (m)	Value traded A$m
10 February 2022 to 23 March 2022	1.12	1.79	1.34	1,020.7	1,369.6
10 February 2022 to 9 March 2022 (pre halt)[1]	1.14	1.79	1.46	411.8	599.9
9 March 2022 (post halt) to 23 March 2022[2]	1.12	1.42	1.26	608.9	769.7

Note:
1 Being the period post the announcement of the Equity Raise up to the trading halt for Nickel Mines shares on 9 March 2022 due to external factors (as detailed in paragraph 123).
2 Being the period post the trading halt up to the last trading day prior to the date of our report.
Source: Bloomberg.

225 Since the announcement of the Equity Raise up to 23 March 2022, Nickel Mines shares have traded between A$1.12 and A$1.79 and closed at A$1.34[66]. The VWAP over this period was A$1.34.

226 We note that the low end of our assessed value of Nickel Mines shares (both pre and post the Shanghai Decent Placement) on a minority interest basis is broadly consistent with the trading in Nickel Mines shares prior to the trading halt on 9 March 2022 (noting that this represents a modest premium to the trading in Nickel Mines shares subsequent to the trading halt).

66 The relatively wide share price trading range reflects increased volatility due to external factors (as detailed in paragraph 124).

VII Evaluation of the Shanghai Decent Placement

Assessment of fairness

227 In our opinion, the Shanghai Decent Placement is not fair. We are of this opinion for the following reasons.

Assessment of fairness

228 RG 111 requires that the fairness of the Shanghai Decent Placement be assessed by comparing the controlling interest value of Nickel Mines shares prior to implementation of the Shanghai Decent Placement with the portfolio value of Nickel Mines shares following implementation (being the deemed "consideration" delivered to Nickel Mines shareholders). In order for the Shanghai Decent Placement to be "fair" under RG 111, the portfolio value of Nickel Mines shares following implementation of the Shanghai Decent Placement must be equal to, or greater than, the controlling interest value of Shanghai Decent Placement shares before implementation.

229 This comparison is set out below:

"Fairness" value comparison(1)

	Section	Low A$ per share	High A$ per share	Mid-point A$ per share
Controlling interest value of Nickel Mines shares prior to the Shanghai Decent Placement	VI	1.86	2.19	2.025
Portfolio interest value of Nickel Mines shares following the Shanghai Decent Placement	V	1.42	1.67	1.545
Extent to which the portfolio interest value post implementation of the Shanghai Decent Placement is less than the controlling interest value of Nickel Mines shares before implementation		(0.44)	(0.52)	(0.480)

Note:

1 The low and high per share values have been rounded to the nearest cent.

230 Based on the above we have concluded that the Shanghai Decent Placement is not fair to Nickel Mines shareholders when assessed under RG 111.

Assessment of reasonableness

231 Under RG 111 the Shanghai Decent Placement is reasonable if, notwithstanding not being fair but after considering other significant factors, the expert is of the opinion that the advantages of the Shanghai Decent Placement outweigh the disadvantages from the perspective of Nickel Mines shareholders.

232 Consequently, we set out below the advantages and disadvantages of the Shanghai Decent Placement from the perspective of Nickel Mines shareholders.

Position of Nickel Mines shareholders

233 In considering whether the Shanghai Decent Placement is reasonable, we have considered whether Nickel Mines shareholders are likely to be better off from a value perspective if they

approve the Shanghai Decent Placement by comparing the value of Nickel Mines shares pre and post the Shanghai Decent Placement on a consistent portfolio basis.

234 Accordingly, we have reduced our controlling interest value prior to the Shanghai Decent Placement by a minority interest discount[67] in order to estimate the corresponding portfolio interest value of Nickel Mines shares prior to the Shanghai Decent Placement.

235 On this basis, we note that the Shanghai Decent Placement (as evaluated) is marginally value dilutive for Nickel Mines shareholders:

Comparative value of Nickel Mines shares[(1)]

	Section	Low A$ per share	High A$ per share	Mid-point A$ per share
Portfolio interest value of Nickel Mines shares before the Shanghai Decent Placement[(2)]	VII	1.42	1.68	1.550
Portfolio interest value of Nickel Mines shares following the Shanghai Decent Placement	VI	1.42	1.67	1.545
Decrease in portfolio interest value of Nickel Mines shares due to the Shanghai Decent Placement		-	(0.01)	(0.005)
% decrease		-	*(0.6%)*	*(0.3%)*

Note:

1 The low and high per share values have been rounded to the nearest cent.

2 Being our controlling interest value pre Shanghai Decent Placement, less a minority interest discount of 20% at the business or enterprise value.

236 The majority of the US$3 million total transaction costs which will be incurred under the Equity Raise were associated with the Institutional Placement and proposed SPP, noting the minor component attributable to the Shanghai Decent Placement will be incurred irrespective of whether the Shanghai Decent Placement is approved by shareholders. As a result, there are no additional transaction costs attributable to the approval of the Shanghai Decent Placement.

237 Accordingly, the minor value dilution post the Shanghai Decent Placement (on a consistent portfolio interest basis) is attributable to the issue price per new fully paid ordinary share of A$1.37 representing a discount of some 3.5% to 18.5% to our assessed value of Nickel Mines (on a minority interest basis) prior to the Shanghai Decent Placement[68].

238 Based on the above, the Shanghai Decent Placement is, prima facie, not reasonable to Nickel Mines shareholders when considered solely from a value perspective. However, the decrease in the value per share is not material.

Impact on control

239 If the Shanghai Decent Placement is approved there will be an impact on the voting power and ownership of Nickel Mines. Shanghai Decent (which currently has a relevant interest in

67 Consistent with the approach adopted in Section VI, we have applied a 20% minority interest discount to our assessed enterprise value.

68 Based on our assessed minority interest value of A$1.42 to A$1.68 per share prior to the Shanghai Decent Placement.

Nickel mines shares of approximately 17.9%[69]) will increase its relevant interest in Nickel Mines to 21.15% as follows:

Share capital comparison			
	Nickel Mines shares on issue million	Shares held by Shanghai Decent million	%
Pre Equity Raising	2,515.0	469.7	18.67
Shares issued under Institutional Placement(1)	108.1	-	-
Pro-forma post Institutional Placement	2,623.2	469.7	17.91
Shanghai Decent Placement	108.1	108.1	100.0
Shares on issue post the Shanghai Decent Placement	2,731.3	577.8	21.15

Note:
1 As stated above, on 11 March 2022 Nickel Mines withdrew the SPP component of the Equity Raise.

240 Therefore, if the Shanghai Decent Placement is approved Shanghai Decent will increase its interest in Nickel Mines from some 17.9% to some 21.15% of issued capital, an interest which from a regulatory perspective implicitly reflects a degree of control over the Company. However, there will be no change in Shanghai Decent's representation on Nickel Mines' Board and the 21.15% is not sufficient to block a special resolution. Accordingly, there is no substantive change in control of Nickel Mines if the Shanghai Decent Placement is approved.

Proposed issue price of shares

241 As noted above, pursuant to the Shanghai Decent Placement, Nickel Mines shares will be issued at A$1.37 per share. In contrast:

(a) our controlling interest value of Nickel Mines prior to the Shanghai Decent Placement is A$1.85 to $2.18 per share

(b) our minority interest value of Nickel Mines prior to the Shanghai Decent Placement is A$1.42 to $1.68 per share.

242 Thus, the issue price of A$1.37:

(a) is materially lower than our valuation range for Nickel Mines shares on a 100% controlling interest basis (primarily due to the absence of a control premium being paid[70])

(b) is below the lower end of our valuation range for Nickel Mines shares on a portfolio interest basis

(c) is consistent with the issue price offered under the Institutional Placement and SPP[71] components of the Equity Raise.

243 In addition to the above, we note that the issue price of A$1.37 represents a modest discount to share trading in Nickel Mines shares following the Oracle Nickel Project acquisition

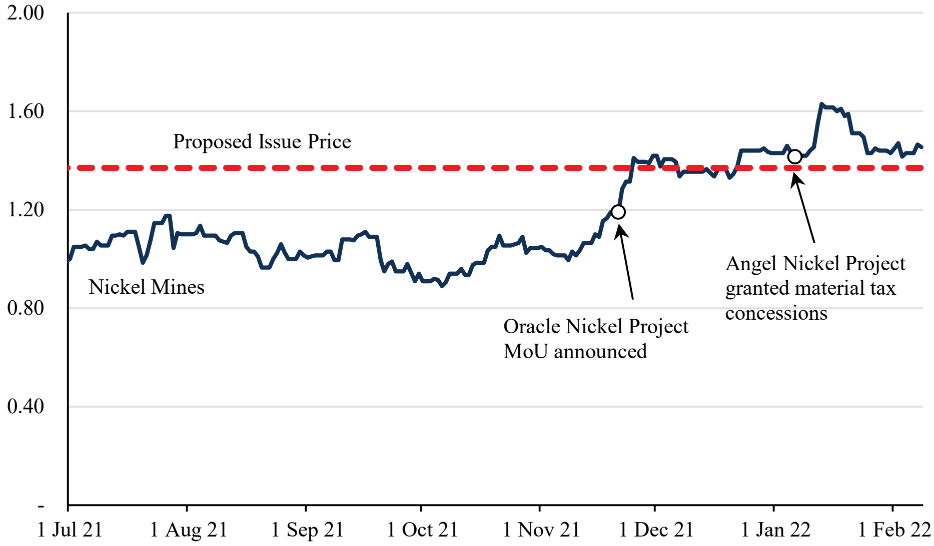
69 Post the Institutional Placement.

70 Which we do not consider unreasonable having regard to the factors outlined at paragraph 240.

71 Notwithstanding that Nickel Mines withdrew the SPP on 11 March 2022.

announcement, and a significant premium to share trading in Nickel Mines prior to the Oracle Nickel Project acquisition announcement:

Share trading in Nickel Mines relative to Proposed Issue Price (A$)
1 July 2021 to 8 February 2022[(1)]



Note:
1 Being the last trading day prior to the announcement of the Equity Raise.
Source: Bloomberg, LEA analysis.

244 Also, the issue price of the Shanghai Decent Placement at A$1.37 is consistent with the issue price of the recently completed Institutional Placement. In this regard, we note the Institutional Placement, which was undertaken with full disclosure of the proposed Shanghai Decent Placement, was fully subscribed and successfully completed on 10 February 2022. We also note that the proposed SPP, which also had an issue price of A$1.37 and was targeted to raise approximately A$18 million, received applications far in excess of this amount (some A$57 million) before the SPP was withdrawn on 11 March 2022.

245 In addition to the above, Nickel Mines shareholders should note that in light of the recent volatility in Nickel Mines shares[72] the issue price of A$1.37 represents a premium to the more recent trading in Nickel Mines shares following the trading halt on 9 March 2022 (refer paragraph 224). Accordingly, if the Shanghai Decent Placement is rejected, Nickel Mines will still need to raise additional funds to secure its interest in the Oracle Nickel Project, and it is unclear whether this could be undertaken on more favourable terms.

Strategic partnership with Shanghai Decent

246 On 22 November 2021 the Company announced it had signed a multi-faceted MoU with Shanghai Decent, outlining a framework for future collaborations between the parties over the next several years. The MoU consolidates and expands the strong existing strategic partnership between the parties and outlines a plan for Nickel Mines to participate in numerous future development projects that Tsingshan has planned across Indonesia, with an immediate focus on the IMIP and the IWIP. The Oracle Nickel Project acquisition formed part of the terms of the MoU and was formalised under the Definitive Agreement entered into on 8 December 2021. The MoU also outlines a framework under which both parties will

72 Due to external factors (as detailed in paragraph 124).

collaborate on future energy projects aimed at delivering reduced carbon emissions and cleaner energy solutions across both industrial parks.

247 The financial, operational and strategic partnership with Shanghai Decent has been very beneficial to Nickel Mines shareholders and has resulted in Nickel Mines becoming a globally significant, low-cost producer of NPI. The Shanghai Decent Placement is consistent with and a continuation of this established relationship.

Dilution of existing shareholder interests

248 If the Shanghai Decent Placement is approved, the interests of non-associated Nickel Mines shareholders will be diluted as they will collectively hold only 78.8% of Nickel Mines shares after the share issue to Shanghai Decent.

249 However, it should be noted that Nickel Mines' non-associated shareholders are likely to be diluted in any event, as Nickel Mines will require additional equity capital[73] if the Shanghai Decent Placement does not proceed.

Likelihood of receiving a future takeover offer

250 Shanghai Decent currently owns approximately 17.9% of Nickel Mines (on a fully diluted basis), which is sufficient to block a full takeover by another party. A potential bidder seeking to take over Nickel Mines would therefore need to persuade Shanghai Decent to accept its offer in order to obtain control of Nickel Mines. The Shanghai Decent Placement to Shanghai Decent does not affect this reality. We therefore consider that the Shanghai Decent Placement has no impact on the potential for a third party to make a takeover offer for Nickel Mines. Further, given the relationship between Nickel Mines and Shanghai Decent, the likelihood of a takeover offer from a third party is considered remote.

Conclusion

251 Based on the above we summarise below the advantages and disadvantages of the Shanghai Decent Placement:

Advantages

(a) the Shanghai Decent Placement (together with the Institutional Placement) is being undertaken to fund the First and Second Acquisition Payments for the Oracle Nickel Project (totalling US$129.0 million), the First Shareholder Loan (of $US46.2 million) and to provide funds for corporate purposes. The acquisition payments secure a 30% interest in the Oracle Nickel Project which is significantly value accretive for Nickel Mines shareholders. If the Shanghai Decent Placement is rejected, Nickel Mines will still need to raise additional funds to secure its interest in the Oracle Nickel Project, and it is unclear whether this could be undertaken on more favourable terms (particularly given the increased volatility and recent trading range of Nickel Mines shares)

(b) Nickel Mines has established a financial, operational and strategic partnership with Shanghai Decent and Tsingshan which has been very beneficial to Nickel Mines shareholders and has resulted in Nickel Mines becoming a globally significant, low-cost producer of NPI. The Shanghai Decent Placement is consistent with and a continuation

73 We consider any capital raising by Nickel Mines would be likely to require a significant component of institutional funding and it would not be uncommon for institutional placements to be made at a discount to the prevailing share price.

of this established relationship. If rejection of the Shanghai Decent Placement adversely affected this relationship, the impact on value for Nickel Mines could be significant

Disadvantages

(c) pursuant to the Shanghai Decent Placement, Shanghai Decent will increase its interest in Nickel Mines from some 17.9% to some 21.15% of issued capital, an interest which from a regulatory perspective implicitly reflects a degree of control over the Company. However, the increase in Shanghai Decent's interest in Nickel Mines is not expected to have an impact on the day to day operations or control of the Company

(d) the Shanghai Decent Placement is not "fair" when assessed based on the guidelines set out in RG 111. This is because the Shanghai Decent Placement does not provide value to Nickel Mines shareholders which is equal to the full controlling interest value of Nickel Mines shares prior to the Shanghai Decent Placement. However, this is to be expected as the Shanghai Decent Placement does not involve a takeover offer (or similar proposal) for 100% of Nickel Mines shares

(e) the Shanghai Decent Placement is slightly value dilutive on a comparative portfolio interest basis. However, at the midpoint of A$0.005 per share (based on our assessed value range for Nickel Mines) this dilution is not material.

252 As indicated above there are a number of advantages and disadvantages associated with the Shanghai Decent Placement. However, as these funds (combined with the proceeds from the Institutional Placement) enable Nickel Mines to finance the First and Second Acquisition Payments and First Shareholder Loan for the (significantly value accretive) Oracle Nickel Project, in our opinion, the Shanghai Decent Placement is reasonable and in the best interests of Nickel Mines shareholders.

253 For the reasons set out above, in our opinion, the Shanghai Decent Placement is therefore not fair but is reasonable to Nickel Mines shareholders in the absence of a superior proposal.

Appendix A

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 IERs 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 authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Notice of Meeting to be sent to Nickel Mines shareholders in connection with the Shanghai Decent Placement.

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 entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $130,000 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 Planinic and Mr Hall, who are each authorised representatives of LEA. Ms Planinic and Mr Hall have over 22 years and 36 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 Notice of Meeting 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 Shanghai Decent Placement is fair and reasonable and in the best interests of Nickel Mines shareholders not associated with Shanghai Decent.

Interests

4 At the date of this report, neither LEA, Ms Planinic nor Mr Hall have any interest in the outcome of the Shanghai Decent Placement. 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 We have considered the matters described in ASIC Regulatory Guide 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.

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 Notice of Meeting.

Appendix C

Assessment of discount rate

Principles

1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.

2 The discount rate applied to the projected cash flows from an asset or business represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset or business. Discount rates for assets or businesses are frequently evaluated using the WACC which is a function of the cost of equity and the cost of debt (and related debt to equity levels).

3 Reflective of the nature and the location of its operations, the cash flows for Nickel Mines are stated in USD. Accordingly, we have referenced USD yields / rates of return as appropriate in determining a discount rate for Nickel Mines.

WACC

4 The generally accepted WACC formula is the post-tax WACC (without adjustment for dividend imputation), as shown below:

WACC formula

$$\boldsymbol{WACC = R_e \frac{E}{V} + R_d (1-t) \frac{D}{V}}$$

where:

R_e	=	expected equity investment return or cost of equity in nominal terms
R_d	=	interest rate on debt (pre-tax)
t	=	corporate tax rate
E	=	market value of equity
D	=	market value of debt
V	=	market value of debt plus equity

5 We have used the capital asset pricing model to derive the cost of equity for Nickel Mines. The formula for deriving the cost of equity using the capital asset pricing model is as follows:

Cost of equity calculation

$$\boldsymbol{R_e = R_f + \beta_e [E(R_m) - R_f]}$$

where:

R_e	=	expected equity investment return or cost of equity in nominal terms
R_f	=	risk-free rate of return
$E(R_m)$	=	expected market return
$E(R_m) - R_f$	=	market risk premium (MRP)
β_e	=	equity beta

6 It is appropriate to use a debt cost equivalent to that likely to be incurred by Nickel Mines assuming it were to raise debt finance in the capital market on the valuation date. Given that the majority of Nickel Mines' income is generated overseas and classified as conduit foreign income, the tax benefit associated with interest costs incurred by the holding company is dependent upon the level of assessable income generated in Australia. Therefore, we have conservatively assumed that the Company receives no tax shield associated with its debt funding.

7 The elements adopted in the calculation of the discount rate for Nickel Mines using the WACC are detailed as follows.

Discount rate for Nickel Mines

Risk-free rate

8 For the purpose of our valuation of Nickel Mines we have adopted a long-term risk-free rate of 3% per annum, which is higher than the average yield on the 30-year US Government Bond of 2.1% per annum for the month of January 2022 (note, this is the longest term US Treasury Bond on issue). However, this is consistent with current market practice, which is to apply a normalised risk-free rate having regard to a mix of historical averages and current spot rates.

Market risk premium

9 The MRP represents the additional return above the risk-free rate that investors require in order to invest in a well-diversified portfolio of equity securities (i.e. the equity market as a whole). Having regard to academic studies and empirical evidence[74], as well as the average market risk premium calculated over the longer term, we have adopted a long-term MRP of 6.0%.

Equity beta

10 In determining the appropriate equity beta for Nickel Mines, we have considered (inter-alia):

(a) the risks associated with the business of Nickel Mines

(b) the beta estimates of global companies primarily engaged in nickel mining and/or nickel processing.

Risk factors of Nickel Mines

11 We have considered the key business risks associated with Nickel Mines which are summarised below:

(a) input price risks – the Company is exposed to risks associated with the volatility and prices of nickel[75] and energy related costs (in particular coal)

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74 Including research published by Professor Aswath Damadaran (Stern University New York) and Duff & Phelps.

75 Nickel ore (and the cost thereof) is a key input into all the RKEF processing facilities in which Nickel Mines has an interest. Production of nickel ore from the Hengjaya Mine (in which Nickel Mines has an 80% interest) provides (in part) a natural hedge against these ore input costs.

Appendix C

(b) reliance on Tsingshan – Nickel Mines is heavily reliant on Tsingshan as a purchaser of NPI produced from Hengjaya Nickel Project and Ranger Nickel Project. The Company is also reliant on Tsingshan / Shanghai Decent for the design and construction of the Angel and Oracle Nickel Projects

(c) manufacturing disruption risk – a disruption at any of the facilities at which Nickel Mine's operations are based (i.e. the IMIP and IWIP) has the potential to adversely affect production capacity and earnings.

Betas of comparable companies

12 The equity betas of global companies primarily engaged in nickel mining and/or nickel processing are as follows:

Listed company betas

				Bloomberg		
Company	**Relative Index**	**Market cap A$m(1)**	**Gearing(2) %**	**Beta(3)**	**RSQ(4)**	**Obs(5)**
Nickel Mines	S&P/ASX 200 Index	3,596	4.9	1.14	0.15	41
MMC Norilsk Nickel	Moex Russia Index	61,014	15.9	0.49	0.13	48
Independence Group	S&P/ASX 200 Index	8,898	(8.2)	1.10	0.24	48
Vale Indonesia	Jakarta Composite Index	4,618	(16.6)	1.77	0.38	48
Eramet	Cac 40 Index	4,160	36.2	1.84	0.31	48
Nickel Asia Corp	Psei - Philippine Se Idx	2,232	(14.5)	1.19	0.14	48
Western Areas	S&P/ASX 200 Index	798	(19.4)	0.95	0.15	48
Mincor Resources	S&P/ASX 200 Index	787	(8.1)	0.85	0.11	48
Panoramic Resources	S&P/ASX 200 Index	502	(3.7)	1.49	0.18	48
Poseidon Nickel Ltd	S&P/ASX 200 Index	300	(2.5)	0.90	0.04	45
			Average	1.18		
			Median	1.10		

Note:
1 Market capitalisation obtained from Bloomberg as at 31 January 2022, except for Western Areas which is as at 18 August 2021 (being the last trading day prior to media speculation around a potential change of control transaction from Independence Group).
2 Gearing equals net debt divided by enterprise value. Negative levels indicate a net cash position.
3 Based on four years of monthly returns to 31 January 2022, except for Western Areas which is based on four years of monthly returns to 18 August 2021 (being the last trading day prior to media speculation around a potential change of control transaction from Independence Group).
4 R-squared (RSQ) measures the reliability of the beta estimate. Industry sector betas generally have a higher RSQ value and are typically more reliable.
5 Number of observations.

13 The above betas vary widely which reflects differences in size, leverage and operational risks. None of the other listed companies are directly comparable to Nickel Mines and the international companies are generally much larger in size. Individual stock betas are also generally less reliable than industry betas. As a result, it is important to also consider the related RSQ values shown above.

Conclusion

14 Having regard to the above, we have adopted an equity beta of 1.1 to 1.2 for Nickel Mines.

Country risk premium (CRP)

15 The three major types of risk associated with an investment in a foreign country are:

(a) political risk, which includes risks such as changes in the regulatory or legal environment, political expropriation, fiscal changes, the blocking of the capital markets and market intervention policies

(b) economic risk, which includes all variations in such macroeconomic parameters as interest rates and gross domestic product

(c) currency risk, such as exchange rate volatility as well as the gradual depreciation of the local currency over time.

16 Where these risks are greater, particularly in cases where investments are located in emerging countries, it has become common practice for investors to (appropriately) seek a higher rate of return on these investments to account for the increased country risk. This risk adjustment is commonly reflected in practice by adding a CRP (i.e. risk margin) to the corresponding discount rate for an equivalent investment in a mature market (noting that in this instance we adopt the US as the mature market).

Quantitative estimates of CRP

17 The most widely used proxy for the CRP (for an emerging country) is the "default spread" that investors seek for buying bonds issued by the emerging country (relative to the developed country which is being used as the benchmark for the determination of the "mature market" cost of equity).

18 It should be noted that a country's "default spread" measures the CRP for a debt instrument, not an equity instrument. Intuitively, the CRP for an equity instrument (i.e. equity CRP) should be larger due to greater risk associated with an equity investment. The extent to which equity CRP exceeds the debt CRP (or "default spread") is directly related to the relative volatility of the local equity and bond markets.

Conclusion

19 Having regard to relevant academic studies and empirical evidence, together with our assessment of the political risk of operating in Indonesia, we have adopted an equity CRP for Indonesia of 3.0%. Whilst we consider this risk premium appropriate to Indonesia overall, it is arguably conservative in the case of Nickel Mines having regard to factors including the (high-level) relationship established between Tsingshan and the Indonesian Government, and the positive tax concessions provided to the RKEF operations at IMIP and IWIP in which Nickel Mines holds equity interests.

Cost of debt

20 A long term cost of debt of 6.5% to 7.5% per annum has been adopted. This reflects a borrowing margin of around 3.5% to 4.5% above the adopted risk-free rate. In forming this opinion, we have also considered:

(a) the terms of Nickel Mines' current US debt facilities, which comprise Senior Unsecured Notes with a coupon rate of 6.5% maturing on 1 April 2024

(b) the facility agreement with PT Sinar Inti Pembangunan, under which Nickel Mines advanced US$3.5 million to assist in funding the development and eventual acquisition of the Pt. Hengjaya Nickel Utama and Pt. Mandiri Jaya Nickel nickel projects. Interest on the facility is calculated at a rate of 8.5% per annum

(c) the terms of the Ranger debt facility (entered into in 2019 and repaid in the half year to 30 June 2021) with an interest rate of 6% plus the greater of:

(i) 3-month USD LIBOR; or

(ii) 2.5% per annum.

Debt to debt plus equity ratio

21 We have assumed that over the long term the business operations of Nickel Mines are financed by a combination of 80% equity and 20% debt.

Calculation of WACC

22 Based on the above, the discount rate range for Nickel Mines is as follows:

Nickel Mines – assessment of discount rate		
Parameters	**Low %**	**High %**
Beta	1.1	1.2
MRP	6.0	6.0
Risk-free rate	3.0	3.0
Cost of equity	9.6	10.2
Country risk premium	3.0	3.0
Adjusted cost of equity	12.6	13.2
Cost of pre-tax debt	6.5	7.5
Tax rate(1)	-	-
Cost of post-tax debt	6.5	7.5
Proportion of equity funding (%)	80.0	80.0
Proportion of debt funding (%)	20.0	20.0
WACC / discount rate nominal (after tax)	11.4	12.1
Forecast inflation(2)	2.0	2.0
WACC / discount rate real (after tax)	9.2	9.9

Note:

1 Given that the majority of Nickel Mines' income is generated overseas and treated as conduit foreign income, the tax benefit associated with interest incurred by the holding company is dependent upon the level of assessable income generated in Australia. We have conservatively assumed that the Company receives no tax shield associated with its debt funding.

2 Given that the cash flows in our DCF model have been forecast in real terms, we have calculated the equivalent real discount rate having regard to the level of inflation implied by the difference between US Government Bonds and US Treasury Inflation Indexed Bonds. Based on trading in these securities during January 2022, inflation implied by the 30-year US Government Bonds compared to the relevant US Treasury Inflation Indexed Bonds (i.e. implied inflation for 30 years from this date) was 2.3%.

23 Based on the above we have adopted a real (post-tax) discount rate of 9.5% per annum (around the midpoint of the discount rate range calculated above) for Nickel Mines.

Appendix D

Glossary

Term	Meaning
A$ / AUD	Australian dollars
AFCA	Australian Financial Complaints Authority
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
BCM	Bank cubic metres
CIF	Costs including freight
Shanghai Decent Placement	The US$106 million (A$148 million) non-underwritten placement to Shanghai Decent (or its nominee)
Corporations Act	*Corporations Act 2001 (Cth)*
COVID-19	2019 novel coronavirus
CRP	Country risk premium
DCF	Discounted cash flow
DSO ban	Indonesian export ban of direct shipping of unprocessed minerals
EBIT	Earnings before interest and tax
EBITA	earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax depreciation and amortisation
Equity Raise	Equity raise comprising the Institutional Placement, the Shanghai Decent Placement and SPP
First Shareholder Loan	The first of three shareholder loans required under the Oracle Nickel Project Definitive Agreement due by 30 September 2022
FSG	Financial Services Guide
FY	Financial year
Hengjaya Holdings	Hengjaya Holdings Private Limited
Hengjaya Mine	Hengjaya Mineralindo Nickel Mine, a large tonnage, high grade nickel laterite deposit located in the Morowali Regency of Central Sulawesi, Indonesia
Hengjaya Nickel Project	Processing facility in the IMIP comprising two RKEF lines funded and constructed to produce 150,000 tonnes per annum of NPI containing 15,000 tonnes of nickel
IER	Independent expert's report
IMIP	Indonesia Morowali Industrial Park
Institutional Placement	A US$106 million (A$148 million) fully underwritten, institutional placement
IUP	Izin Usaha Pertambangan, a mining business licence granted for performing production operation activities in Indonesia
IWIP	Indonesia Weda Bay Industrial Park
JORC	Joint Ore Reserves Committee
KVA	Kilo volt amp
kWh	Kilowatt hour
kWp	Kilowatt peak
LEA	Lonergan Edwards & Associates Limited
LIBOR	London Inter-Bank Offer Rate
LME	London Metal Exchange
MoU	Memorandum of understanding
MRP	Market risk premium
Mtpa	Million tonnes per annum
MW	Megawatt
MWp	Megawatt peak
Nickel Mines / Company	Nickel Mines Limited

Appendix D

Term	Meaning
Nickel Mines non-associated shareholders	Shareholders of Nickel Mines not associated with Shanghai Decent
NPI	Nickel pig iron
NPI Projects	Collectively, the Hengjaya, Ranger, Angel and Oracle Nickel Projects
NPV	Net present value
Oracle Nickel Project	Comprising four new RKEF lines within the IMIP, together with a captive 380 MW power plant
PT Hengjaya	PT Hengjaya Mineralindo
Ranger debt facility	In August 2019, as part of the financing package to increase the Company's interest in the Ranger Nickel Project from 17% to 60%, Nickel Mines entered into a senior debt facility agreement with a Shanghai Decent associated company
Ranger Nickel Project	The RKEF processing facility comprising two additional lines in the IMIP, referred to as the Ranger Nickel RKEF lines
RG 111	Regulatory Guide 111 – *Content of expert reports*
RKEF	Rotary kiln electric furnace
RSQ	R-squared
Senior Unsecured Notes	In March 2021 and September 2021, Nickel Mines issued a total of US$325 million of Senior Unsecured Notes with a coupon interest rate of 6.5% per annum, payable semi-annually in arrears, maturing on 1 April 2024
SESNA	PT Sumber Energi Surya Nusantara
Shanghai Decent	Shanghai Decent Investment (Group) Co., Ltd
Siduarsi Nickel-Cobalt Project	An early-stage nickel and cobalt exploration project in the Papua province of Indonesia
SPP	A non-underwritten share purchase plan (SPP) to eligible shareholders in Australia and New Zealand, with the SPP targeting to raise up to ~US$13 million (~A$18 million)
Tablasufa Nickel Project	A 5,000-hectare Production Operation IUP located on the northeast coast of West Papua, Indonesia
tpa	Tonnes per annum
Tsingshan	Tsingshan Holding Group
US	United States of America
US$ / USD	United States dollars
US$/t	US dollars per tonne
WACC	Weighted average cost of capital
WANOS	Weighted average number of shares outstanding
WMT	Wet metric tonnes

NICKEL
MINES LIMITED
ABN 44 127 510 589

Need assistance?

Phone:
1300 855 080 (within Australia)
+61 3 9415 4000 (outside Australia)

Online:
www.investorcentre.com/contact

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MR SAM SAMPLE
FLAT 123
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THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Nickel Mines Limited Extraordinary General Meeting

The Nickel Mines Limited Extraordinary General Meeting will be held on Tuesday, 3 May 2022 at 11:00am (AEST). You are encouraged to participate in the meeting using the following options:

MAKE YOUR VOTE COUNT

To lodge a proxy, access the Notice of Meeting and other meeting documentation visit www.investorvote.com.au and use the below information:

Control Number: 999999

SRN/HIN: I9999999999

PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

For your proxy appointment to be effective it must be received by 11:00am (AEST) on Sunday, 1 May 2022.

ATTENDING THE MEETING VIRTUALLY

To view the live webcast and ask questions on the day of the meeting you will need to visit:

Zoom webcast details:
Zoom Meeting ID - 970 7451 5901
Passcode - 824314
or access at
https://zoom.us/j/97074515901?pwd=MGFtRk5OYmV5VzFhL3FWQUNBcjRXQT09

You may elect to receive meeting-related documents, or request a particular one, in electronic or physical form and may elect not to receive annual reports. To do so, contact Computershare.

NICKEL MINES LIMITED

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Need assistance?

Phone:
1300 855 080 (within Australia)
+61 3 9415 4000 (outside Australia)

Online:
www.investorcentre.com/contact

YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **11:00am (AEST) on Sunday, 1 May 2022.**

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative
If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com/au and select "Printable Forms".

Lodge your Proxy Form:

XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is

Control Number: 999999

SRN/HIN: I9999999999

PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

You may elect to receive meeting-related documents, or request a particular one, in electronic or physical form and may elect not to receive annual reports. To do so, contact Computershare.

MR SAM SAMPLE
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☐ **Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with '**X**') should advise your broker of any changes.

I 9999999999 I ND

Proxy Form

Please mark ☒ to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Nickel Mines Limited hereby appoint

☐ **the Chairman of the Meeting** **OR** ______________________

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Nickel Mines Limited to be held as a virtual meeting on Tuesday, 3 May 2022 at 11:00am (AEST) and at any adjournment or postponement of that meeting.

Step 2 Item of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
Item 1	Approval of the proposed issue of the Shanghai Decent Shares	☐	☐	☐
Item 2	Ratification of the issue of 108,122,223 Shares to institutional and sophisticated investors	☐	☐	☐

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s)

This section must be completed.

Individual or Securityholder 1	Securityholder 2	Securityholder 3	
			/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

Mobile Number	Email Address