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2 December 2020

The Manager Companies
ASX Limited
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(50 pages by email)

INDEPENDENT EXPERT'S VALUATION REPORT
ACQUISITION OF ANGEL NICKEL

As announced by Nickel Mines Limited ('Nickel Mines' or 'the Company') on 24 November 2020, the Company has executed a binding Definitive Agreement ('Agreement') with its partner Shanghai Decent Investment (Group) Co., Ltd to acquire, for US$490 million, a 70% equity interest in the Angel Nickel Project ('the Transaction'), a development project comprising four RKEF lines and a captive 380MW power station currently under construction within the Indonesia Weda Bay Industrial Park.

Completion of the Transaction is subject to approval by the Company's shareholders. A Notice of Meeting is currently being prepared, with the General Meeting expected to be held in January 2021.

The Company has now received the attached Independent Expert Valuation Report which will form part of the Notice of Meeting.

In summary, the Independent Expert Valuation Report opines:

1. The Transaction is fair and reasonable to the Company's shareholders.
2. The advantages of the Transaction significantly outweigh the disadvantages.
3. Based on the assumptions in the Independent Expert Valuation Report, the value of 100% of the Angel Nickel Project ranges from US$1.4 billion to US$1.5 billion with the corresponding value of Nickel Mines' 70% interest ranging from US$1.0 billion to US$1.1 billion.

Interested parties should read the Independent Expert Valuation Report in its entirety together with the Notice of Meeting, when despatched, to form a view on the merits of the proposed acquisition by the Company.

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The Independent Directors
Nickel Mines Limited
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1 December 2020

Subject: Acquisition from substantial shareholder
Agreement to acquire 70% of Angel Nickel Project

Dear Independent Directors

Introduction

1 On 16 October 2020 Nickel Mines Limited (Nickel Mines or the Company) announced that it had entered into a Memorandum of Understanding (MoU) in relation to the proposed purchase of a 70% interest in the Angel Nickel Project[1] by Nickel Mines from Shanghai Decent Investment (Group) Co., Ltd (Shanghai Decent)[2] for US$490 million[3] (the Proposed Transaction). The Consideration is payable in two tranches, as follows:

(a) US$210 million by 31 March 2021, pursuant to which Nickel Mines will acquire a 30% interest in the Angel Nickel Project (the first payment)

(b) a further US$280 million by 31 December 2021, pursuant to which Nickel Mines will acquire an additional 40% interest in the Angel Nickel Project (increasing its total interest to 70%).

2 On signing the MoU, the Company paid a US$10 million "good faith deposit" to Shanghai Decent and upon execution of a Definitive Agreement has committed to a further US$20 million "down payment" to Shanghai Decent, with the combined US$30 million to be offset against the first payment. The US$20 million payment will be funded from existing cash reserves with the remaining US$460 million to be funded from a combination of cash reserves, debt and equity.

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1 The Angel Nickel Project will after construction, comprise four new rotary kiln electric furnace (RKEF) lines within the Indonesian Weda Bay Industrial Park, together with a captive 380 megawatt (MW) power plant.

2 A Tsingshan Holding Group (Tsingshan) group company.

3 Defined as the Consideration.

3 On 24 November 2020, Nickel Mines announced that it had entered into a binding Definitive Agreement[4] with Shanghai Decent to acquire a 70% equity interest in the Angel Nickel Project. The Agreement formalised the Company's investment opportunity under the MoU. The announcement also stated that the Company was well progressed with acquisition funding and the funding split was proposed to be 50% debt funding and 50% equity funding[5].

The Angel Nickel Project

4 The Angel Nickel Project is a development project located within the Indonesia Weda Bay Industrial Park (IWIP) on Halmahera Island in Indonesia's North Maluku province. PT Angel Nickel Industry (PT ANI), wholly owned by Angel Capital Private Limited (Angel Private), a Singapore based private company, will wholly own the Angel Nickel Project.

5 PT ANI will build, own and operate four rotary kiln electric furnace (RKEF) lines with an annual nameplate production capacity of 36,000 tonnes of nickel metal (in nickel pig iron (NPI)) and a captive 380 MW power plant. Following full payment of the Consideration of US$490 million, the project will be 70% owned by Nickel Mines and 30% by Shanghai Decent.

6 The Angel Nickel Project will be organised under a similar corporate structure to the Company's existing RKEF assets, with Shanghai Decent taking the lead role in the design and construction of the Angel Nickel Project. Furthermore, Shanghai Decent will indemnify PT ANI for any construction costs of the Angel Nickel Project exceeding US$700 million.

Nickel Mines

7 Nickel Mines is an Australian company that has become a globally significant, low cost producer of NPI, a key ingredient in the production of stainless steel. The Company has established a financial, operational and strategic partnership with China's Tsingshan, the world's largest stainless steel producer. Pursuant to this partnership, via Collaboration Agreements with Shanghai Decent, Nickel Mines owns an 80% interest in each of the Hengjaya and Ranger Nickel Projects, which include four RKEF processing facilities[6] located in the Indonesia Morowali Industrial Park (IMIP)[7] in Indonesia. 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.

Purpose

8 The Proposed Transaction is with persons in a position of influence under the Australian Securities Exchange (ASX) Listing Rules and requires the approval of Nickel Mines shareholders that are not considered a party to the transaction (the Nickel Mines non-associated shareholders). The ASX Listing Rules require the notice of meeting sent to

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4 Collaboration Agreement Relating to the Angel RKEF Project (the Agreement). The Agreement was entered into on 23 November 2020.

5 Nickel Mines cautioned that these percentages may, depending on market conditions, vary at the Company's sole discretion.

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

7 The IMIP is the world's largest vertically integrated stainless facility with a current stainless steel production capacity of 3 million tonnes per annum.

shareholders to include an independent expert's report (IER), stating whether the transaction is "fair and reasonable" to the Nickel Mines non-associated shareholders.

9 Accordingly, the Independent Directors of Nickel Mines that are not associated with Shanghai Decent have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER in accordance with ASX Listing Rule 10.5.10 stating whether, in our opinion, the Proposed Transaction is fair and reasonable to the Nickel Mines non-associated shareholders.

10 The IER will accompany the Notice of Extraordinary General Meeting and Explanatory Memorandum to be sent by Nickel Mines to Nickel Mines shareholders in connection with the Proposed Transaction. LEA is independent of Nickel Mines and has no involvement or other interest in the Proposed Transaction.

Summary of opinion

11 LEA has concluded that the Proposed Transaction is fair and reasonable to the Nickel Mines shareholders. We have formed this opinion for the reasons set out below.

12 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) a related party transaction is "fair" if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.

Assessment of fairness

13 The Consideration of US$490 million is less than the net present value (NPV) of the Company's pro rata share of the estimated future free cash flows from the Angel Nickel Project based on nameplate steady state rates of production, a reasonable assessment of future nickel prices and operating costs.

14 The Consideration for the Proposed Transaction is also:

(a) consistent with the implied values of the interests in the Hengjaya and Ranger Nickel Projects acquired by Nickel Mines from Shanghai Decent

(b) an attractive investment proposition in in terms of the Capital Intensity[8] of the Angel Nickel Project relative to other significant nickel projects.

Assessment of reasonableness

15 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently we have concluded that the Proposed Transaction is both fair and reasonable.

Advantages and disadvantages

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

[8] Capital Intensity is the project capital cost divided by annual nickel production capacity.

Advantages

(a) the Angel Nickel Project, which will include new interests in RKEF plants located at the IWIP, is a low Capital Intensity, low operating cost operation that provides Nickel Mines with diversification of NPI production and income

(b) the Proposed Transaction will essentially double the Company's NPI production and is value accretive, with the Consideration (totalling US$490 million) being less than the NPV of the expected future cash flows from the proportionate interest to be acquired in the Angel Nickel Project

(c) the Angel Nickel Project is similar to the Hengjaya and Ranger Nickel Projects in which Nickel Mines has an 80% interest. These investments have provided Nickel Mines with positive income contribution since acquisition

(d) the greater size of the Company will enhance the liquidity of the Company's shares on the ASX

(e) the guaranteed capital cost of the Angel Nickel Project and the NPI product off-take undertaking from Shanghai Decent increases the project's attractiveness as it reduces the risk of capital cost overruns and any excess production

Disadvantages

(a) there are no obvious disadvantages in connection with the proposed acquisition of a 70% interest in the Angel Nickel Project at the date of this report.

Other considerations

17 Whilst discussions with banks and other financial institutions are well progressed, as stated in the Agreement, the exact terms of funding are not yet determined. However, the Company has currently indicated that the current funding proposal is 50% debt and 50% equity. Given the Company's modest net debt level and the cash flows which can be reasonably expected to be generated by the current 80% interests in the Hengjaya and Ranger Nickel Projects in the period to 31 March 2021 and subsequently in the period 1 April 2021 to 31 December 2021, we have assumed that these funds can be used toward funding the Proposed Transaction.

Conclusion

18 In our opinion, the advantages of the Proposed Transaction significantly outweigh the disadvantages.

General

19 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.

20 The ultimate decision by Nickel Mines shareholders whether to approve the Proposed Transaction should be based on each shareholder's assessment of the Proposed Transaction. This report has been provided for shareholders in Nickel Mines not associated with Shanghai Decent.

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

Yours faithfully

Julie Planinic
Authorised Representative

Martin Hall
Authorised Representative

LONERGAN EDWARDS & ASSOCIATES LIMITED

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I Key terms of the Proposed Transaction

PT ANI

22 PT ANI will wholly own the Angel Nickel Project, a development project comprising four RKEF lines with an annual nameplate capacity of 36,000 tonnes of NPI and a captive 380 MW power station currently under construction within the IWIP on Halmahera, Indonesia.

Terms of the Proposed Transaction

23 The terms of the Proposed Transaction are set out in the Agreement which was entered into by Nickel Mines, Shanghai Decent and Decent Resource Limited[9] on 23 November 2020. Angel Private is a private company incorporated in Singapore. Angel Private holds 100% of the shares in PT ANI.

24 The Consideration for the Proposed Transaction is as follows:

(a) a deposit of US$10 million was paid to Shanghai Decent upon entering into the MoU

(b) a further deposit of US$20 million was paid within five days of entering into the Agreement[10]

(c) First Acquisition – the above US$30 million deposits form part of the First Acquisition Consideration and a further US$180 million is payable by 31 March 2021 (the First Acquisition Date) whereby Nickel Mines will acquire an initial 30% interest in:

(i) the share capital in Angel Private

(ii) all of shareholder loans due or owing by Angel Private as at the First Acquisition Date

(d) Second Acquisition – US$280 million is payable by 31 December 2021 (the Second Acquisition Date) for a further 40% interest in Angel Private (bringing the shareholding to 70%) and to acquire an equivalent proportionate interest in the balance of shareholder loans.

25 A graphical summary of the Proposed Transaction is as follows:

9 As at the date of the Agreement, Decent Resource Limited owned 100% of the shares in Angel Private.

10 A condition precedent of the First Acquisition is shareholder approval of the Proposed Transaction. The deposit amounts are repayable if the Proposed Transaction is not approved by Nickel Mines shareholders.

Proposed Transaction

26 The total costs of construction of the Angel Nickel Project are limited to US$700 million. Shanghai Decent undertakes to indemnify PT ANI for any construction costs exceeding US$700 million.

27 Shanghai Decent irrevocably and unconditionally undertakes to procure all of the NPI product from PT ANI at market price for NPI in China and shall indemnify PT ANI for all and any losses, costs or damages should it fail to fulfil this obligation.

Funding

28 The Company has advised that discussions with banks and other financial institutions are well progressed, with acquisition consideration currently proposed to be 50% debt funding and 50% equity funding, although these percentages may, depending on market conditions, vary at Nickel Mines' sole discretion.

29 The final funding mix for the Proposed Transaction is still to be determined and Nickel Mines has advised that further details on these arrangements will be announced when available.

Resolutions

30 Completion of the Proposed Transaction is subject to Nickel Mines shareholder approval. The following resolution is included in the Notice of Meeting:

Ordinary Resolution 1 – Approval for the Company to acquire a 70% interest in Angel Capital Private Limited

*"That, for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for the Company to acquire shares and shareholder loans in Angel Capital Private Limited (**Angel**) which represents 70% of the equity and 70% of all shareholder loans made to Angel, from Shanghai Decent Investment (Group) Co., Ltd. (**Shanghai Decent**) and its associates, on the terms and conditions summarised in the Explanatory Memorandum accompanying this Notice of Meeting."*

II Scope of our report

Purpose

31 The Proposed Transaction represents an acquisition of a substantial asset[11] from a substantial shareholder[12] under Rule 10.1.3 of the ASX Listing Rules and requires the approval of Nickel Mines non-associated shareholders.

32 ASX Listing Rule 10.5.10 requires the notice of meeting sent to shareholders to include an IER, stating whether the transaction is "fair and reasonable" to the non-associated shareholders[13]. Accordingly, the Independent Directors of Nickel Mines that are not associated with the Proposed Transaction have requested that LEA prepare an IER stating whether, in our opinion, the Proposed Transactions are "fair and reasonable" to the Nickel Mines non-associated shareholders, together with the reasons for this opinion.

33 Our report will accompany the meeting documents sent by Nickel Mines to its shareholders for the purpose of the Company's Extraordinary General Meeting including resolutions seeking to approve the Proposed Transaction.

34 LEA is independent of Nickel Mines and Shanghai Decent and has no other involvement or interest in the transaction.

Basis of assessment

35 In preparing our report, we have given due consideration to the ASX Listing Rules and Regulatory Guides issued by ASIC, particularly RG 111 and Regulatory Guide 76 – *Related party transactions*.

36 ASX Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to a substantial holder (of >10% of the voting rights) or an associate of a substantial holder without the approval of holders of the entity's ordinary securities. Approval is required by resolution at a general meeting.

37 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity.

38 ASX Listing Rule 10.5 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to non-associated holders of the entity's ordinary securities.

39 RG 111 states that "fair and reasonable" should not be applied as a composite test and states there should be a separate assessment of "fair" and "reasonable". RG 111 provides that a proposed related party transaction:

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[11] ASX Listing Rule 10.2 defines an asset as substantial if its value or the value of the consideration for it is, or in the ASX's opinion is, 5% or more of the "equity interest" of the entity as set out in the latest accounts given to the ASX under the Listing Rules.

[12] Shanghai Decent is a substantial shareholder in Nickel Mines for the purposes of ASX Listing Rule 10.1.1 as it has a relevant interest in over 10% of the Company's total votes.

[13] Chapter 2E of the *Corporations Act 2001* (Cth) does not impose an IER requirement.

(a) is "fair" if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity by the related party. This comparison is required to be made assuming an arm's length transaction between knowledgeable and willing, but not anxious parties

(b) is "reasonable" if it is "fair". A related party transaction may also be "reasonable" despite being "not fair" if the expert believes there are other reasons for non-associated shareholders to vote for the proposal.

40 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the Proposed Transactions are "fair and reasonable" to the non-associated shareholders is to consider:

(a) the market value of the 70% interest in the Angel Nickel Project

(b) the consideration to be paid by Nickel Mines for the 70% interest in the Angel Nickel Project

(c) the extent to which (a) and (b) differ in order to assess whether the Proposed Transaction is "fair"

(d) the implications for Nickel Mines if the Proposed Transaction is not implemented

(e) the position of Nickel Mines before and after the Proposed Transaction, and the net benefits inherent in the transaction

(f) the advantages and disadvantages of the Proposed Transaction from the perspective of Nickel Mines non-associated shareholders.

41 The Proposed Transaction is reasonable to Nickel Mines shareholders provided the advantages of the Proposed Transaction outweighs the disadvantages from the perspective of Nickel Mines shareholders.

Limitations and reliance on information

42 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, as has been evident by the significant volatility in equity markets in recent times due to the impact of the 2019 novel coronavirus (COVID-19).

43 Our report is also based upon financial and other information provided by Nickel Mines. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.

44 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposed Transaction from the perspective of the Nickel Mines shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, "due diligence" of the type

undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecast is beyond the scope of an IER.

45 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 Transactions rather than a comprehensive audit or investigation of detailed matters.

46 In forming our opinion, we have also assumed that the information set out in the Explanatory Memorandum is complete, accurate and fairly presented in all material respects.

III Profile of Nickel Mines

Overview

47 Nickel Mines is an ASX listed Australian company that has become a globally significant, low cost producer of NPI, a key ingredient in the production of stainless steel. The Company owns an 80% interest in the Hengjaya Nickel Project, an 80% interest in the Ranger Nickel Project (both of which produce NPI), and an 80% economic interest in the Hengjaya Mine, which produces nickel laterite ore.

History

Mining origins

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

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

Indonesian export ban on unprocessed minerals

50 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.

51 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 produce low-cost NPI through processing and smelting ore into stainless steel furnaces in a continuous hot flow[14], and has since become the dominant player in the Indonesian NPI industry and a global leader in NPI processing technology[15].

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14 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.

15 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.

52 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

53 The introduction of the Indonesian DSO ban materially changed the course of Nickel Mines' future, with the Company subsequently required to meet the minimum required export grade of 4% for nickel products. The development of the IMIP and a growing requirement of nickel laterite as feedstock for the IMIP's RKEF lines saw the Hengjaya Mine recommence operations in the second half of 2015.

54 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. As a result, production at the Hengjaya Mine recommenced in October 2015. In December 2016, PT Hengjaya entered into an offtake agreement with Tsingshan group company PT Indonesia Tsingshan Stainless Steel (ITSS) for the delivery of 50,000 WMT per month at an average grade of 1.9% nickel[16].

55 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[17] discussing a strategic partnership that would contemplate the two parties building additional NPI processing capacity within the IMIP.

56 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 of NPI containing 15,000 tonnes of nickel.

57 Nickel Mines acquired a 25% interest in the Hengjaya Nickel Project in April 2018 by provision of a US$50 million shareholder loan to Hengjaya Holdings Private Limited (Hengjaya Holdings). These funds were in turn provided to Hengjaya Nickel by way of a US$25 million shareholder loan and a US$25 million equity contribution. Hengjaya Nickel used these funds to contribute to the guaranteed capital cost of US$200 million for the construction of the Hengjaya Nickel Project[18].

ASX listing and events subsequent

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

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[16] In October 2017, an updated off-take agreement was signed with ITSS guaranteeing to take supply of 50,000 WMT per month until 30 November 2018, with a cut-off grade of 1.6% nickel.

[17] Shanghai Decent is a Tsingshan company.

[18] At this time, the Company also held an option to acquire no less than 51% and up to 100% of the Hengjaya Nickel Project.

still under construction at the time, to 60% based on the guaranteed construction price of US$200 million.

59 On 1 November 2018, Nickel Mines announced that the Hengjaya Nickel Project's operating entity had been granted material corporate income tax relief on the following basis:

(a) a corporate income tax reduction of 100% for a period of seven tax years, starting from the tax year in which commercial production is achieved

(b) a corporate income tax reduction of 50% of payable income tax for a period of two tax years, starting from the end of the initial seven year period

(c) exemption from withholding and tax collection by third parties on sales proceeds that would normally be remitted to the Indonesian Revenue Department for a period of seven years, also commencing from the tax year in which commercial production is achieved.

60 On 8 November 2018, the Company executed the Ranger CA with Shanghai Decent to acquire up to an 80% equity interest in the Ranger Nickel Project, which included two additional RKEF lines under construction in the IMIP. The Ranger CA provided for Nickel Mines to acquire its interest in three tranches:

(a) the Initial Ranger Acquisition gave Nickel Mines the right to acquire an initial interest of 17% in the Ranger Nickel Project and 17% of all shareholder loans due to Shanghai Decent (and its affiliates) at cost of US$50 million (based on a valuation of US$300 million)[19]

(b) the Second Ranger Acquisition permitted Nickel Mines to increase its interest in the Ranger Nickel Project and in the total shareholder loans to between 51% and 60% before 31 December 2019. If this acquisition was completed within 60 days after the first batch of NPI was produced from the Ranger Nickel Project, the additional percentage acquired would be calculated based on a discounted valuation of US$280 million. If this acquisition was completed more than 60 days after the first batch of NPI was produced from the Ranger Nickel Project, the additional percentage acquired would be calculated based on a valuation of US$300 million

(c) conditional upon completion of the Second Ranger Acquisition, the Third Ranger Acquisition Option permitted Nickel Mines to increase its interest in the Ranger Nickel Project and in the total shareholder loans to up to 80% within 18 months of the first batch of NPI being produced from the Ranger Nickel Project. Any additional interest acquired under the Third Ranger Acquisition Option would be calculated based on a valuation of US$300 million.

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

61 On 1 February 2019, Nickel Mines advised that the Company's 60% owned Hengjaya Nickel Project had produced its first NPI. In this announcement the Company also stated that:

(a) the Hengjaya Nickel Project's first kiln was expected to reach at least 80% of nameplate capacity by early April 2019 and that the second kiln was anticipated to commence commissioning in early March 2019 and was expected to reach at least 80% of capacity in early May 2019. Ramp-up to full scale production for both kilns was expected to be achieved shortly thereafter[20]

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

62 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.

63 On 17 April 2019, Nickel Mines announced that it intended to increase its ownership in the Ranger Nickel Project to 60%. The Company also stated that as the commissioning of the first kiln of the Ranger Nickel Project was well ahead of the previous September 2019 quarter commissioning target, the decision had been made to expedite the acquisition of this additional 43% interest.

64 On 3 June 2019, Nickel Mines announced that the first NPI had been produced from one of the Ranger Nickel Project's two RKEF lines in a maiden production run. On 1 July 2019, the Company announced that the second line had commenced commissioning and produced its first NPI. Both lines were expected to take approximately two months to ramp up to 80% of capacity.

65 On 15 August 2019, the Company announced that it had completed the Second Ranger Acquisition, increasing its ownership from 17% to 60%. The acquisition was at a discounted valuation of US$280 million, compared to the US$300 million valuation at which its initial 17% interest was acquired[21]. The Second Ranger Acquisition cost was funded by the drawdown of US$80 million in debt provided by Shanghai Decent, the issue of US$40 million of shares in the Company and a cash payment of US$1.4 million.

66 On 9 September 2019, Nickel Mines announced that Shanghai Decent and the Company had agreed to amend two material terms in the Hengjaya CA[22] that governs the contractual rights and obligations with respect to the Hengjaya Nickel Project. These were:

(a) Nickel Mines had agreed to limit its contractual option to further equity in the Hengjaya Nickel Project to not more than 80% (previously 100%); and

[20] This commissioning process and ramp-up was consistent with that previously implemented across the 20 existing RKEF lines then currently in operation within the IMIP.

[21] 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.

[22] Collaboration Agreement between Shanghai Decent and Nickel Mines signed on 19 September 2017.

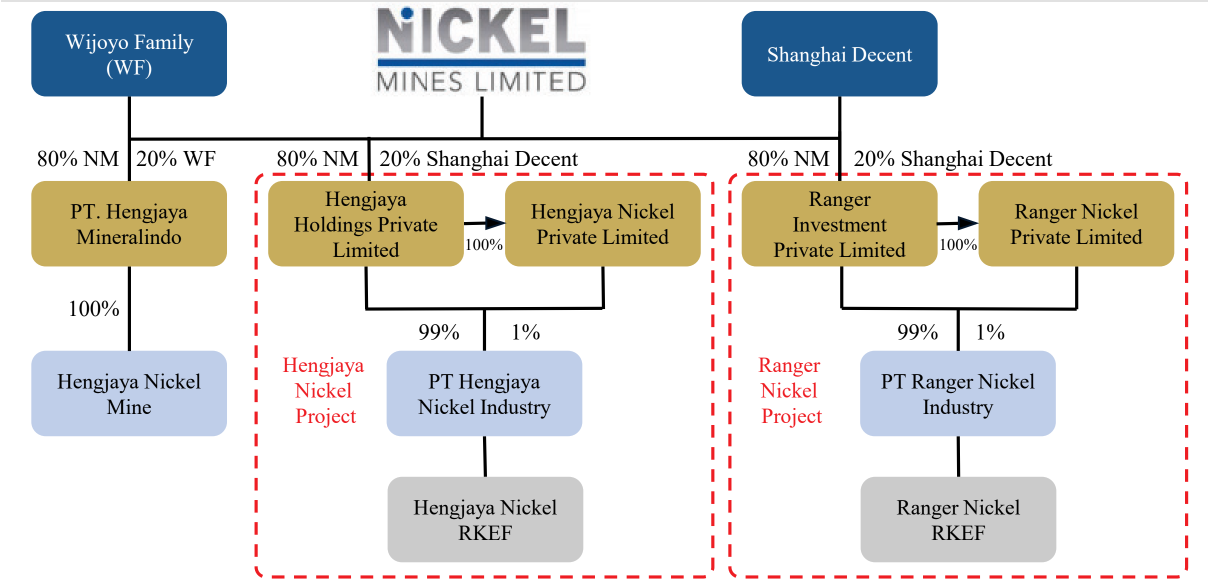
(b) the option period during which Nickel Mines could acquire further equity in the Hengjaya Nickel Project had been extended to 30 November 2020 (previously 31 January 2020).

67 On 19 May 2020, the Company announced its decision (in consultation with its collaboration partner Shanghai Decent) to increase 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. The acquisition completed on 30 June 2020 and was funded by a $231 million pro-rata non-renounceable entitlement offer.

Current operations

68 Nickel Mines owns nickel mining and processing operations on the east coast of Central Sulawesi, Indonesia. As stated above, the Company holds ownership interests that comprise an 80% interest in the Hengjaya Nickel Project, an 80% interest in the Ranger Nickel Project and an 80% ownership stake in the Hengjaya Mine.

Nickel Mines – operations



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

Nickel Mines – locations

Hengjaya Nickel Project

70 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 tonnes per annum of NPI containing 15,000 tonnes of nickel (targeted production is 16,500 tonnes per annum 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.

71 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 both the nameplate and targeted run rate of 3,750 and 4,125 tonnes of nickel per quarter respectively. Quarterly production levels have continued to materially exceed nameplate and targeted 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$/tonnes 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

Note:
1 Cash costs exclude depreciation and interest.

Ranger Nickel Project

72 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 tonnes per annum of NPI containing 15,000 tonnes of nickel) and operational cost structure.

73 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 and targeted monthly run rate and production for the September 2019 quarter was also above nameplate and targeted quarterly levels. In the following four quarters production levels have all been significantly higher than nameplate and targeted production levels, 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$/tonne 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

Note:
1 Cash costs exclude depreciation and interest.

Hengjaya Nickel Mine

74 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.

75 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 hosts Joint Ore Reserves Committee compliant resources as follows (as announced to the ASX on 27 August 2020):

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

Financial performance

76 The financial performance of Nickel Mines for the two years to 30 June 2019 (FY19), six months to 31 December 2019 and six months to 30 June 2020[23] is set out below:

Nickel Mines – statement of financial performance[(1)]	FY18 US$m	FY19 US$m	HY to 31 Dec 19 US$m	HY to 30 Jun 20 US$m
Revenue	13.6	64.9	236.1	227.8
Cost of sales	(10.4)	(43.3)	(136.2)	(153.1)
Gross profit	3.1	21.6	99.9	74.7
Administration and consultants' expenses	(2.0)	(2.6)	(2.9)	(2.1)
Agency fee charges	(1.8)	-	-	-
Depreciation and amortisation	(0.3)	(6.8)	(16.4)	(18.3)
Other expenses	(0.6)	(1.1)	(1.0)	(2.8)
Share of profit of equity accounted investee	-	2.6[(2)]	1.2[(2)]	-
Net financial expenses	(0.7)	58.3[(3)]	10.7	(6.0)
Profit / (loss) before tax	(2.3)	71.9	91.5	45.5
Income tax expense	(0.6)	(0.1)	(0.2)	-
Profit / (loss) after tax	(2.9)	71.8	91.3	45.5
Profit attributable to non-controlling interests	0.4	6.3	34.8	21.1
Profit / (loss) attributable to owners of the Company	(3.3)	65.5	56.5	24.4

Note:
1 Rounding differences exist.
2 Relates to the Ranger Nickel Project, prior to acquiring a controlling interest.
3 Includes a net change in fair value of investment in associate of US$57.3 million.

Historical results

77 Nickel Mines' historical financial performance to FY18 largely reflects the performance of its Hengjaya Mine operations. The result 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 were operational throughout FY20 (which comprises the two half year periods), the ownership levels for both projects were not consistent throughout this period. Accordingly, the historical results for Nickel Mines are not representative of ongoing financial performance.

Impact of COVID-19

78 On 29 January 2020, Nickel Mines provided an update with respect to the COVID-19 pandemic and its impact on the IMIP, which stated (inter alia) that:

(a) the IMIP had implemented strict access controls to the IMIP from 26 January 2020

[23] Nickel Mines changed its financial year end date from 30 June to 31 December to align reporting dates across the Nickel Mines group entities.

(b) all non-Indonesian personnel were prohibited from entering the IMIP unless exceptional circumstances required their entry (and all such personnel would be subject to medical screenings with their travel history analysed)

(c) rostered leave for Chinese workers had been suspended

(d) Chinese employees currently on rostered leave would have their return delayed; and

(e) both the Hengjaya Nickel Project and Ranger Nickel Project were continuing to operate as normal.

79 On 1 April 2020, Nickel Mines provided a further COVID-19 update including, inter alia, the following:

(a) the IMIP was continuing to enforce strict safety measures in response to COVID-19 including implementing rigid access restrictions and thorough screening procedures to ensure the health and wellbeing of all its workers. These protocols had been in place since late January, when the virus was still in its infancy, with work rosters being rescheduled to ensure the continuation of normal operations within the IMIP

(b) with a workforce that is made up of more than 90% local employees from the surrounding community, and with fly in fly out / expat workers restricted from entering the IMIP, early and proactive measures in addressing the potential impacts of COVID-19 were critical to the uninterrupted operations to date within the IMIP

(c) the Government of Central Sulawesi had locked down its borders, with the Governor issuing a decree on 23 March 2020 prohibiting the entry and exit of all foreign citizens, foreign workers and Indonesian migrant workers

(d) the Company reported that the operating performance of both the Hengjaya and Ranger Nickel Projects for the March 2020 quarter had been a continuation of the steady state production output and operating cost performance reported for the December 2019 quarter (which was the first full quarter of steady state operations for both projects)

(e) for the March 2020 quarter, combined production was 11,291 tonnes of nickel metal (100% basis) representing a record quarter of production and a 2.9% increase on the December 2019 quarter

(f) whilst the Company's operations were largely unaffected by COVID-19, it was not possible to predict the future course and duration of the pandemic and the impact that may have on the Company's operations; and

(g) the Company had also implemented strict access controls and restricted non-essential movements in and out of its 80% owned Hengjaya Mine. Temperature checks and symptom screenings were being carried out prior to every shift with the Hengjaya Mine also having commenced procurement of additional health and medical supplies.

80 With respect to the potential impacts of COVID-19 on Tsingshan's NPI and stainless steel operations, Mr Weifeng Huang, Chairman of Shanghai Decent Group and Nickel Mines Director, stated[24]:

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[24] ASX announcement titled *Nickel Mines COVID-19 Response and Production Update*, 1 April 2020.

"Due to the industry characteristics of continuous production throughout the year, Tsingshan did not stop the production either in China or out of China because of Chinese New Year, so the impact on Tsingshan's production in China from the movement controls implemented to fight the COVID-19 pandemic in China have been minimal. While an impact on the domestic stainless-steel end market is inevitable, with the full resumption of work and production and the expected quick recovery in economic activities, I believe the market will soon restore to pre-pandemic levels barring any sudden deterioration in the current situation. Even then if the stainless-steel markets ex-China is depressed due to the COVID19 situation, the RKEF production in IMIP will keep up the good performance and can export its NPI products to China since Tsingshan's own NPI production in China can only meet about half of its stainless-steel plants' requirements."

Financial position

81 The financial position of Nickel Mines as at 31 December 2019 and 30 June 2020 is set out below:

Nickel Mines – statement of financial position[1]	31 Dec 19 US$m	30 Jun 20 US$m
Debtors and prepayments	97.2	51.9
Inventories	56.2	68.1
Creditors, accruals and provisions	(53.8)	(36.6)
Net working capital	99.6	83.4
Property, plant and equipment	628.5	613.8
Goodwill	55.4	55.4
Other assets net of other liabilities	9.1	15.0
Deferred tax liabilities	(55.4)	(55.4)
Total funds employed	737.3	712.2
Cash and cash equivalents	49.8	91.3
Deferred consideration payable[2]	-	(3.9)
Interest bearing liabilities	(65.0)	(55.0)
Net cash / (borrowings)	(15.2)	32.4[3]
Net assets	722.1	744.5
Non-controlling interests	(294.7)	(146.5)
Net assets attributable to Nickel Mines shareholders	427.5	598.1

Note:
1 Rounding differences exist.
2 Relates to the distribution of retained earnings to Shanghai Decent as at 30 June 2020 in relation to the recently acquired 20% interests in the Hengjaya and Ranger Nickel Projects. During the September 2020 quarter this amount was repaid.
3 Net cash as at 30 September 2020 was US$48.8 million.

Property, plant and equipment

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

Nickel Mines – property, plant and equipment	31 Dec 19 US$m	30 Jun 20 US$m
Buildings and land	61.1	59.5
Mining properties	25.4	25.1
Plant and machinery	536.5	521.1
Other (motor vehicles, office equipment etc.)	5.5	8.1
Total property, plant and equipment	628.5	613.8

Share capital

83 As at 1 December 2020, Nickel Mines had 2,128.1 million fully paid ordinary shares on issue.

Significant shareholders

84 As at 1 December 2020, there were the following substantial shareholders in Nickel Mines that held a total of 53.0% of the ordinary shares on issue as detailed below:

Nickel Mines – substantial shareholders	Shares held	
Shareholder	**million**	**% interest**
Shanghai Decent Investment (Group) Co., Ltd	395.5	18.6
PT. Karunia Bara Perkasa	343.2	16.1
BlackRock Group	144.0	6.8
Norman Alfred Seckold	123.7	5.8
Shanghai Wanlu Investment Co Ltd	121.3	5.7
Total	1,127.7	53.0

85 The following chart illustrates the movement in the share price of Nickel Mines since listing on the ASX on 20 August 2018 to 24 November 2020:

Nickel Mines – share price history[1]

20 August 2018 to 24 November 2020

Note:
1 Based on closing prices.
Source: Bloomberg

86 Nickel Mines listed on the ASX on 20 August 2018 and over the intervening period since the share price has performed strongly (aside from a selloff in March 2020 due to initial concerns about the COVID-19 pandemic[25]). The share price also responded favourably to the announcement of the Proposed Transaction on 16 October 2020.

Liquidity in Nickel Mines shares

87 The liquidity in Nickel Mines shares based on trading on the ASX over the 12 month period prior to 24 November 2020 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	25 Oct 20	24 Nov 20	221,293	2,128,100	10.4	124.8
3 months	25 Aug 20	24 Nov 20	548,932	2,128,100	25.8	103.2
6 months	25 May 20	24 Nov 20	1,012,929	2,105,201	48.1	96.2
1 year	25 Nov 19	24 Nov 20	1,965,467	1,891,370	103.9	103.9

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.

88 In each of the periods above, total share turnover (on an annualised basis) has been in excess of 95% of the total number of shares issued in Nickel Mines, indicating a high level of market liquidity.

25 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.

IV Profile of Angel Nickel Project

Overview

89 The Angel Nickel Project is a development project located within the IWIP on Halmahera Island in Indonesia's North Maluku province. The project will build, own and operate four RKEF lines with an annual nameplate production capacity of 36,000[26] 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.

90 Following the payment of US$490 million, the project will be 70% owned by Nickel Mines and 30% by Shanghai Decent. The Angel Nickel Project will be organised under a similar corporate and operational structure to the Company's existing RKEF assets at IMIP, with Shanghai Decent taking the lead role in the design and construction of the Angel Nickel Project. Furthermore, Shanghai Decent is contractually committed that the total cost of the Angel Nickel Project shall not exceed US$700 million.

IWIP

91 The IWIP is a joint venture between Tsingshan (40% ownership), Hauyou Group (30%) and Zhenshi Holdings Group (30%). It is strategically located next to the large Weda Bay nickel deposit owned by Tsingshan (51.3%), Eramet (38.7%) and Aneka Tambang (10%), which provides feedstock to the IWIP operations. A map of the location of IWIP (relative to IMIP) is as follows:

Nickel Mines – IWIP location

[26] The Company's existing Hengjaya and Ranger Nickel Projects have a combined nameplate capacity of 30,000 tonnes of nickel metal in NPI.

92 An aerial photo of the IWIP is as follows:

Nickel Mines – IWIP aerial photo

93 Tsingshan is rapidly developing the IWIP[27] as a new nickel production frontier, with growing NPI supply and expectations that Indonesian supply will continue to displace higher cost production from China. As with the IMIP, Tsingshan is collaborating with a number of partners across a range of projects within the IWIP. Presently within the IWIP there are eight commissioned RKEF lines and four RKEF lines nearing completion, with power, port capacity and other ancillary services continuing to be progressively established. Whilst not as mature a facility as IMIP, IWIP provides Nickel Mines with potential expansion into a growing NPI site.

The Angel Nickel Project

94 The Angel Nickel Project will have nameplate capacity of 36,000 tonnes per annum of nickel metal (in NPI). Nickel Mines' 70% interest in Angel Nickel Project therefore represents 25,200 tonnes per annum of attributable nickel metal production. By comparison, the Hengjaya and Ranger Nickel Projects each have annual nameplate production capacity of 15,000 tonnes of nickel metal (in NPI) and the Company's 80% interest in the respective projects combined represents 24,000 tonnes per annum of attributable nickel metal production. As noted in Section III, since reaching steady-state operations, actual production from the Hengjaya and Ranger Nickel Projects has consistently significantly exceeded nameplate (and targeted) production capacity.

[27] Adopting a similar development approach to the IMIP where the Company's existing Hengjaya and Ranger Nickel Projects are located.

95 The Agreement provides for Shanghai Decent to take a lead role in the design and construction of Angel Nickel Project with commissioning to be no later than 16 October 2022 (subject to any force majeure event).

96 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 captive, secure, integrated power supply which will lower the NPI production operating cost (relative to the Hengjaya and Ranger Nickel Projects).

97 The RKEF technology at the IWIP is expected to be similar to IMIP giving rise to bottom quartile costs (on a global basis) that deliver 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.

Tax benefits

98 Similar to the Hengjaya and Ranger Nickel Projects, the Angel Nickel Project is expected to be granted regulated tax concessions that equate to material corporate income tax relief. These benefits are expected to include:

(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.

V Valuation methodology

Valuation approaches

99 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.

100 Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

101 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.

102 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.

103 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

104 We have assessed the value of the 70% interest in the Angel Nickel Project by applying the DCF methodology to forecast cash flows based on nameplate steady state rates of production and a reasonable assessment of future nickel prices and operating costs. This value has then been compared to the Consideration (US$490 million) for the 70% interest of the Angel Nickel Project.

105 As cross-checks, we have had regard to the:

(a) Consideration payable for the Angel Nickel Project in comparison to the transactions entered into by Nickel Mines for the acquisition of interests in the Hengjaya and Ranger Nickel Projects

(b) implied Capital Intensity[28] of the Angel Nickel Project in comparison to other significant nickel projects.

[28] Capital Intensity is the project capital cost divided by annual nickel production capacity.

VI Valuation of the 70% interest in the Angel Nickel Project

Overview

106 As stated in Section V, we have assessed the value of the 70% interest in the Angel Nickel Project by applying the DCF methodology to forecast cash flows based on nameplate production capacity and a reasonable assessment of future nickel prices and operating costs. This value has then been compared to the Consideration for the acquisition of the 70% interest of the Angel Nickel Project (US$490 million).

107 As cross-checks, we have had regard to the:

(a) Consideration payable for the Angel Nickel Project in comparison to the transactions entered into by Nickel Mines for the acquisition of interests in the Hengjaya and Ranger Nickel Projects

(b) implied Capital Intensity[29] of the Angel Nickel Project in comparison to other significant nickel projects.

Valuation on a DCF basis

108 Under the DCF methodology, the value of the Angel Nickel Project 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 risk associated with the cash flow stream.

109 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 Nickel Project, but for the following key differences:

(a) the Angel Nickel Project will comprise four next generation RKEF lines with nameplate annual production capacity of 36,000 tonnes of nickel metal (in NPI)[30]. 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[30]

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

110 Our DCF valuation is therefore based on free cash flow projections derived by LEA having regard to, inter alia, the combined historical operating performance of the Hengjaya and Ranger Nickel Projects (as a proxy for the Angel Nickel Project), adjusted where necessary to determine reasonable forecast parameters for the Angel Nickel Project.

111 Whilst LEA believes the assumptions underlying the cash flow projections adopted for valuation purposes are reasonable and appropriate, it should be noted in respect of these projections that:

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29 Capital Intensity is the project capital cost divided by annual nickel production capacity.

30 On a 100% ownership basis.

(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 the Angel Nickel Project will 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

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

112 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments[31], capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the Angel Nickel Project to be determined irrespective of the level of debt funding employed.

113 Ground has been broken at the Angel Nickel Project and the Agreement provides for commissioning to be no later than 16 October 2022 (subject to any force majeure event)[32]. Consistent with the actual performance of the Hengjaya and Ranger Projects, which both took less than three months from commissioning to exceed nameplate capacity (refer paragraph 117), we have assumed a relatively short ramp up period once in production.

114 For valuation purposes we have assumed a valuation date of 31 March 2021 (being the date at which the balance of the first payment of US$210 million[33] is required from Nickel Mines to secure the initial 30% interest in the Angel Nickel Project). Cash flows from the Angel Nickel Project cover a period of 35 years starting in 2022[34].

Cash flow projections

115 As the detailed cash flow projections 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. Our base case scenario and related assumptions reflect a 100% interest in the Angel Nickel Project.

[31] Also calculated on an ungeared basis.

[32] Tsingshan has a track record of commissioning RKEF plants around one year from breaking ground. The Agreement states that subject to a force majeure event, the Angel Nickel Project will be put into commissioning by no later than 16 October 2022.

[33] Under the Agreement, a US$10 million dollar "good faith" payment was made on execution of the MoU and a further US$20 down payment was made within five days of executing the Agreement.

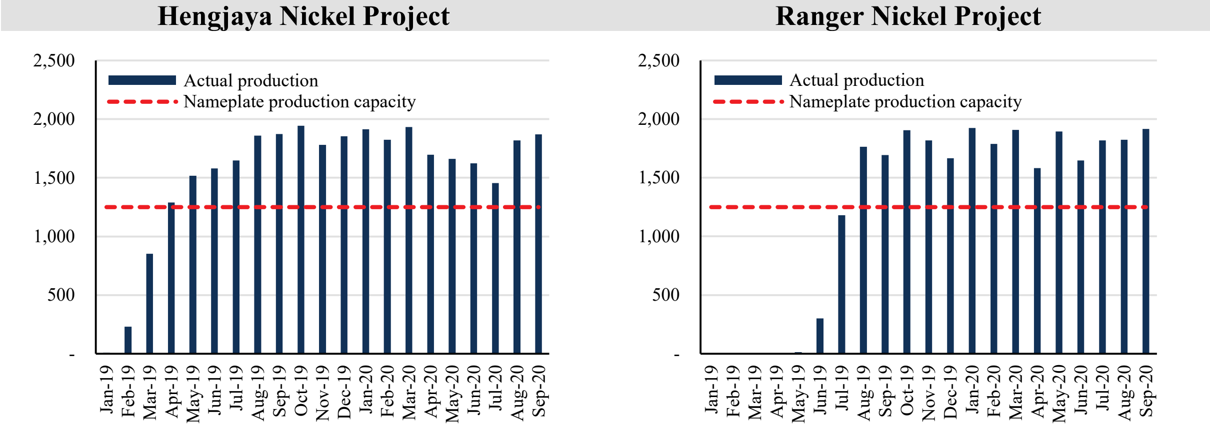
[34] Consistent with the forecast periods for the Hengjaya and Ranger Nickel Projects, notwithstanding that the useful life of the RKEF lines is well in excess of this.

Nickel metal production

116 Nickel metal production represents the NPI production (tonnes) multiplied by the NPI grade. The Angel Nickel Project is estimated to have an annual nameplate production capacity of 36,000 tonnes of nickel metal per annum. For the purposes of our valuation, we have adopted this nameplate nickel production capacity in our base case scenario.

117 Within three months of commissioning, both the Hengjaya and Ranger Nickel Projects were consistently exceeding their nameplate (and targeted) production capacity (which is 1,250 tonnes of nickel metal (in NPI) per month), as shown below:

Nickel metal production (tonnes)



118 For the 12 months to 30 September 2020, nickel metal production for the Hengjaya and Ranger Nickel Projects was 21,373 tonnes and 21,690 tonnes respectively, which is some 42.5% (Hengjaya) and 44.6% (Ranger) above nameplate capacity[35].

119 Given the potential for the Angel Nickel Project to exceed nameplate capacity, we have also considered a range of alternative assumed production scenarios in our sensitivity analysis below.

Nickel price assumption

NPI prices

120 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.

121 NPI prices essentially follow the benchmark London Metal Exchange (LME) nickel price, with a premium or discount depending on the level of adjustment. Nickel Mines realised NPI prices from the Hengjaya and Ranger Nickel Projects averaged 93% and 86% of the comparable month LME nickel price over 2019 and the 10 months to 31 October 2020 respectively (this equated to an average of 90% over the total 22 month period). The adopted

35 This is also some 29.5% (Hengjaya Nickel Project) and 31.5% (Ranger Nickel Project) above targeted production capacity respectively.

NPI prices for our base case scenario are therefore based on LME nickel prices less an allowance for adjustment discounts.

122 The RKEF lines at the Angel Nickel Project are assumed to be commissioned in the third quarter of 2022 and ramp up to full production the following year. Accordingly, for the valuation of the Angel Nickel Project, we have considered LME nickel prices from 2022.

Spot nickel prices

123 Spot LME nickel prices for the period from 1 January 2017 to 24 November 2020 are set out below:

Spot LME nickel prices
(US$/tonne)

Source: Bloomberg, as at 24 November 2020.

Analyst forecast prices and forward nickel prices

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

Nickel price forecasts

	2022 US$/tonne	2023 US$/tonne	2024 US$/tonne	2025 US$/tonne
Analyst forecasts				
Low (nominal prices)	12,076	11,833	11,949	15,983(1)
High (nominal prices)	16,535	17,637	18,951	19,622(1)
Average (nominal prices)	14,793	15,342	15,914	17,928(1)
Median (nominal prices)	15,000	15,239	15,750	17,856(1)
Number of analysts	23	20	19	11
Average (real prices)	n/a	n/a	n/a	15,545
Median (real prices)	n/a	n/a	n/a	15,322
Number of analysts	n/a	n/a	n/a	11
Forward prices				
Forward nickel prices (nominal prices)	16,158	16,332	16,500	16,725
Forward nickel prices (real prices)(2)	15,776	15,711	15,637	15,617

Note:
1 Analyst nominal nickel prices for 2025 relate to 2025 to 2029 (i.e. they are more representative of 2027 prices).
2 Nominal nickel prices have been adjusted to remove estimated inflation (of 1.5% per annum).
Source: Consensus Economics, as at 16 November 2020. Bloomberg, as at 24 November 2020.

Nickel and NPI prices adopted

125 The forward nickel prices are generally consistent with the analyst forecasts over the respective periods. Accordingly, we have adopted the following LME nickel and implied NPI prices for our base case scenario:

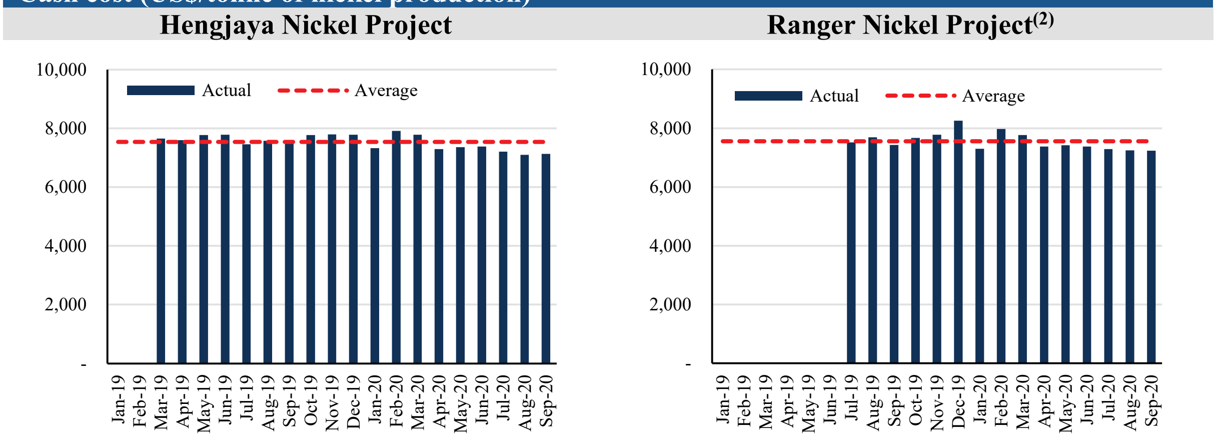
NPI price (real) adopted	
	US$/tonne
LME nickel price adopted from 2022 and thereafter (real)	15,500(1)
Price adjustment discount	10%
Adopted NPI price from 2022 and thereafter (real)	13,950

Note:
1 Based on an adopted range of US$15,000 to US$16,000 per tonne.

Cash costs

126 The historical cash costs of the Hengjaya and Ranger Nickel Projects since commissioning are set out in the table below:

Cash cost (US$/tonne of nickel production)(1)



Note:
1 Cash cost per tonne includes ore costs, electricity, reductant coal costs, other operating costs and management expenses but excludes depreciation and interest charges.
2 The increase in cash costs in December 2019 for the Ranger Nickel Project was largely attributable to greater electricity consumption and other expenses associated with the trialling of different ore mixes to further enhance recoveries.

127 As indicated above, the cash costs for both the Hengjaya and Ranger Nickel Projects have been relatively consistent since commissioning, averaging US$7,536 and US$7,556 per tonne of nickel production respectively. This is less than Nickel Mines' targeted cash costs of US$8,000 per tonne for these projects.

128 Other than power / electricity costs, Nickel Mines expects cash costs on a per tonne basis for the Angel Nickel Project to be similar to those for the Hengjaya and Ranger Nickel Projects. However, as noted above, the new RKEF lines will obtain electricity supply[36] from ownership of the captive 380 MW on-site power station (rather than an independent supplier), which is expected to reduce electricity costs at the project by approximately 20%.

129 For the purpose of our base case scenario we have initially adopted cash costs of US$8,000 per tonne (equivalent to targeted cash costs), which is conservative given the experience of the Hengjaya and Ranger Nickel Projects to date. To allow for ownership of the power station in our valuation we have lowered the comparative cost of electricity supply to the Angel Nickel Project by 20% (which equates to a reduction in cash costs of US$400 per tonne). This reduces the base case cash costs to US$7,600 per tonne of nickel production.

Sustaining capital expenditure and depreciation

130 Based on Nickel Mines' experience to date 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 Nickel Project, we have assumed capital expenditure of some US$1.0 million per annum for our base case scenario[37]. For simplicity, we have also assumed that depreciation is equal to capital expenditure[38].

Working capital

131 An allowance for working capital for the Angel Nickel Project to reach a steady state of production has been included in the DCF, similar to that required to reach a steady state of production for the Hengjaya and Ranger Nickel Projects.

Corporate tax

132 The assumed Indonesian corporate tax rate will be 20%. However, we have been advised that the Angel Nickel Project will likely be 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

(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.

133 These concessions may be revoked and are maximum periods that may be amended or adjusted, if certain conditions are not met, the key condition being that the minimum

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36 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.

37 Note, there is also an allowance for repairs and maintenance included in our adopted operating cash costs.

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

investment level be met. The investment in the Angel Nickel Project is expected to exceed this minimum requirement.

134 The DCF model 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

135 We have adopted a discount rate of 11.0% per annum (after tax in real terms) based on the midpoint of the assessment below for the Angel Nickel Project:

Weighted average cost of capital (WACC)	Low %	High %
Beta	1.1	1.2
Risk premium	6.0	6.0
Risk free	2.5	2.5
Cost of equity	9.1	9.7
Specific company risk premium	1.0	2.0
Country risk premium	3.0	3.0
Cost of equity including other premiums	13.1	14.7
Cost of debt pre tax	9.0	10.0
Cost of debt post tax(1)	6.8	7.5
Proportion equity	80.0	80.0
Proportion debt	20.0	20.0
WACC (after tax)	11.8	13.3
Forecast inflation(2)	1.5	1.5
Real WACC (after tax)	10.2	11.6
Adopt	**11.0**	

Note:
1 The post-tax cost of debt is derived adopting Indonesia's 20% corporate tax rate.
2 Given the cash flows for the Angel Nickel Project have been forecast in real terms we have calculated the equivalent real discount rate having regard to the annual level inflation implied by the difference between United States of America (US) Government Bonds and US Treasury Inflation Indexed Bonds. As at 24 November 2020, 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 1.9%.

136 LEA's discount rate assessment reflects:

(a) a **risk free rate** of 2.5% per annum – our adopted risk free rate is higher than the yield on the 30 year US Government Bond of 1.6% as at 24 November 2020. 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

(b) a **market risk premium (MRP)** of 6.0% per annum[39]

(c) an **equity beta** of 1.1 to 1.2 – having regard to:

(i) the tolling nature of the Angel Nickel Project's proposed facilities

(ii) the Angel Nickel Project's exposure to nickel prices and the commodity price volatility therein

(d) **specific company risk premium** of 1.0% to 2.0% has been adopted due to the early stage of the Angel Nickel Project, which as at the date of our report had broken ground and is under construction

(e) **country risk premium**[40] of 3% has been adopted based on Indonesia's country bond default spread[41]

(f) a long term **cost of debt** of 9% to 10% having regard to, inter alia, the terms of the recent debt facilities entered into by Nickel Mines[42]. This rate implicitly includes allowance for a country risk premium

(g) a conservative **gearing ratio** (debt / enterprise value) of 20%

(h) a long term **inflation rate** of 1.5%, which is lower than the estimated long-term inflation rate in the US of 1.9%. In the context of a real valuation this is a conservative assumption as this results in a slightly higher discount rate.

Sensitivity analysis

137 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.

138 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.

139 As indicated above, we consider our adopted nickel production volume and cash cost assumptions to be relatively conservative when compared to the historical operating performance of the Hengjaya and Ranger Nickel Projects. The sensitivity of our base case DCF valuation to these assumptions is shown below:

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39 Being the estimated risk premium obtained by observation / analysis of the implied premium for the S&P 500. Source: Aswath Damodaran, Stern University New York, January 2019.

40 A country risk premium essentially allows for three major risks associated with investment in a foreign county including political risk, economic risk and currency risk.

41 Where the country bond default spread is measured as the difference between the yield on the country's sovereign bonds and the yield on comparable US Treasury Bonds.

42 This has been assessed on a project specific level.

Sensitivity analysis – nickel production and cash costs (US$m)[1]						
		Nickel production (tonnes/annum)[1]				
		32,000	36,000	40,000	44,000	48,000[2]
Cash costs (US$/tonne of Nickel production)	**7,000**	1,413	1,594	1,774	1,955	2,136
	7,300	1,351	1,524	1,696	1,869	2,042
	7,600	1,288	**1,453**	1,618	1,784	1,949
	7,900	1,226	1,383	1,540	1,698	1,855
	8,200	1,163	1,313	1,462	1,612	1,761

Note:
1 The bolded value reflects our base case scenario.
2 The high end of the nickel production sensitivity analysis (44,000 tonnes per annum) is 33.3% higher than nameplate production capacity for the Angel Nickel Project. In comparison, since reaching steady state operations, the Hengjaya and Ranger Nickel projects have on average consistently exceeded their nameplate production capacity by 42.5% and 44.6% respectively (refer paragraph 118).

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140 In addition to the above, we have considered the sensitivity of our base case DCF valuation to the adopted real nickel prices and discount rate:

Sensitivity analysis – long term nickel price and discount rate (US$m)[1]						
		Long term real nickel price (US$/tonne)				
		13,500	14,500	15,500	16,500	17,500
Discount rate	**10.0%**	1,132	1,362	1,592	1,822	2,052
	10.5%	1,080	1,300	1,520	1,740	1,960
	11.0%	1,032	1,243	**1,453**	1,664	1,875
	11.5%	988	1,190	1,391	1,593	1,795
	12.0%	946	1,140	1,334	1,528	1,721

Note:
1 The bolded value reflects our base case scenario.

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141 The value attributable to the effective nine year tax holiday in our base case DCF valuation is approximately US$172 million for the Angel Nickel Project, based on our adopted discount rate of 11.0% (before any adjustment for the risk of amendment or adjustment by the Indonesian Government).

Adopted DCF value

142 Based on the above assumptions, the value of 100% of the Angel Nickel Project under the DCF approach ranges from US$1.4 billion to US$1.5 billion, with the corresponding value of Nickel Mines' 70% interest ranging from US$1.0 billion to US$1.1 billion.

143 The above values are based on the nameplate capacity of the Angel Nickel Project of 36,000 tonnes per annum of nickel production. As noted above, the Hengjaya and Ranger Nickel Projects have both, on average, operated at levels in excess of 40% of nameplate capacity. At similar levels of production outperformance (i.e. 40%), the value of 100% of the Angel Nickel Project would be substantially greater than the values derived above.

144 Our assessed values are in excess of the US$700 million value attributed to 100% of the Angel Nickel Project (Nickel Mines' 70% attributable share is US$490 million) based on the Proposed Transaction.

Cross check to Nickel Mines' transactions

145 As set out in Section III, Nickel Mines has entered into a number of transactions to acquire interests in the Hengjaya and Ranger Nickel Projects that have resulted in the Company holding 80% of each project. These transactions are summarised below.

Hengjaya Nickel Project transactions

146 Nickel Mines currently holds an 80% interest in the Hengjaya Nickel Project, the interests for which were acquired over three transactions:

(a) **acquisition of initial 25% interest –** in April 2018, Nickel Mines acquired a 25% interest in the Hengjaya Nickel Project, which was still under construction at the time, by provision of a US$50 million shareholder loan, implying a value of US$200 million for 100% of the project. These funds were used to contribute to the guaranteed capital cost of US$200 million (for 100%) for the construction of the Hengjaya Nickel Project

(b) **acquisition of a further 35% interest –** in September 2018, Nickel Mines submitted notice to Shanghai Decent to acquire a further 35% of the Hengjaya Nickel Project for US$70 million, implying a value of US$200 million for 100% of the project. This increased the Company's interest in the Hengjaya Nickel Project, which was still under construction at the time, to 60% based on the guaranteed construction price of US$200 million (for 100%)

(c) **acquisition of a further 20% interest –** on 30 June 2020, Nickel Mines exercised a call option (expiring 18 months from the commercial operation of the two RKEF lines comprising the Hengjaya Nickel Project), to enable it to increase its ownership in the Hengjaya Nickel Project to 80% for consideration of a further US$60 million. The price payable implied a value for 100% of the Hengjaya Nickel Project of some US$300 million.

Ranger Nickel Project transactions

147 Nickel Mines currently holds an 80% interest in the Ranger Nickel Project, the interests for which were also acquired over three transactions:

(a) **acquisition of initial 17% interest** – the first acquisition under the Ranger CA occurred in November 2018 and comprised a 17% interest for a price of US$50 million[43]. The purchase price was based on a valuation of US$300 million for the Ranger Nickel Project

(b) **acquisition of a further 43% interest** – under the terms of the Ranger CA, in July 2019 Nickel Mines paid US$121.4 million for a further 43% interest in the Ranger Nickel Project[44] based on a discounted valuation of the overall project of US$280 million. This reduced value arose due to the Company electing to increase its ownership within 60 days of Ranger Nickel Project's first NPI production. In the alternative, if Nickel Mines had elected to increase its ownership after this period but before 31 December 2019, under the terms of the Ranger CA the consideration payable would have been based on a valuation of US$300 million

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43 A 17% interest implies a purchase price of US$51 million. US$1 million was carried forward and included in the Second Ranger Acquisition purchase price.

44 Being an interest in the equity of Ranger Investment Private Limited and a pro rata share of all shareholder loans due to an associate of Shanghai Decent.

(c) **acquisition of a further 20% interest** – on 30 June 2020, Nickel Mines exercised its right under the Ranger CA to increase its interest in the Ranger Nickel Project to 80% (this right was held within 18 months of the first NPI production). The price for the further 20% interest in the Ranger Nickel Project was also based on a total project value of US$300 million.

148 Based on the relative nameplate capacity of the Angel Nickel Project when compared to the Hengjaya and Ranger Nickel Projects, the US$700 million construction cost is considered reasonable.

Summary of Nickel Mines transactions

149 A summary of the transactions relating to acquisitions of interests in the Hengjaya and Ranger Nickel Projects, including the implied Capital Intensity per tonne of nickel equivalent capacity, is as follows:

Nickel Mines – acquisition of interests in the Hengjaya and Ranger Nickel Projects

Date	Interest %	Purchase price US$m	Value of 100% US$m	Nameplate capacity (100%) nickel tonnes / annum	Capital Intensity US$m/tonne
Hengjaya Nickel Project					
April 2018	25	50.0	200.0[1]	15.0	13.3
September 2018	35	70.0	200.0[1]	15.0	13.3
June 2020	20	60.0	300.0[2]	15.0	20.0
Total	80	180.0			
Ranger Nickel Project					
November 2018	17	50.0[3]	300.0[4]	15.0	20.0
July 2019	43	121.4[3]	280.0[4]	15.0	18.7
June 2020	20	60.0	300.0[4]	15.0	20.0
Total	80	231.4			

Note:
1 Transaction based on the guaranteed construction price of US$200 million.
2 As per the terms of the Hengjaya CA. The implied value and purchase consideration increased as the project became operational.
3 The purchase price for the first 17% interest was rounded down by US$1 million. As per the terms of the Ranger CA, the Second Ranger Acquisition consideration included the US$1 million additional payment from the acquisition of the initial 17% interest.
4 As per the terms of the Ranger CA. The implied value for the Ranger Nickel Project is consistent with the implied value of the Hengjaya Nickel Project once operational. The reduced value implied in the acquisition of the further 43% arose due to the Company electing to increase its ownership within 60 days of Ranger Nickel Project's first NPI production. In the alternative, the consideration payable would have been based on a valuation of US$300 million.

150 Regarding the transactions we note that:

(a) the April 2018 and September 2018 acquisitions of interests in the Hengjaya Nickel Project were based on a guaranteed construction cost of US$200 million for 100% of the project (note this was subsequently increased for the final 20% investment)

(b) the July 2019 acquisition of a 43% interest in the Ranger Nickel Project was discounted as Nickel Mines elected to increase its ownership within 60 days of the project's first NPI production. But for this discount, the acquisition consideration for 100% ownership would have been US$300 million

(c) the remaining three acquisitions all transacted at a project value of US$300 million.

151 Having regard to the more recent transactions and ignoring discounts, the implied value for each of the Hengjaya and Ranger Nickel Projects was US$300 million. This equates to a Capital Intensity of US$20,000 per tonne of nickel equivalent production[45].

152 The consideration for 100% of the Angel Nickel Project (which includes four RKEF plants and a 380 MW power station) is US$700 million. This implies a Capital Intensity of US$19,444 per tonne of nickel equivalent production.

153 The Capital Intensity for the Angel Nickel Project is therefore less than the Capital Intensity of the Hengjaya and Ranger Nickel Projects (at a project value of US$300 million). However, the Capital Intensity for the Angel Nickel Project includes allowance for the captive 380 MW power station and a calculation excluding the associated capital expenditure for the power station would provide a lower value per tonne of nickel equivalent production.

Cross check to Capital Intensity of nickel equivalent

154 The Capital Intensity of significant global nickel projects is set out in the following table:

Global nickel projects' Capital Intensity

Project	Year	Plant	Ni capacity tonnes / annum	Capital cost US$m	Capital Intensity US$m/tonne
Ravensthorpe	2007	HPAL(1)	40,000	3,000	75,000
VNC (Goro)	2010	HPAL(1)	60,000	6,000	100,000
Onca Puma	2011	FeNi(2)	52,000	3,200	61,538
Barro Alto	2011	FeNi(2)	40,000	1,900	47,500
Ambatovy	2012	HPAL(1)	60,000	5,500	91,667
Ramu	2012	HPAL(1)	34,000	1,490	43,823
Koniambo	2013	FeNi(2)	30,000	6,300	105,000

Note:
1 HPAL = high pressure acid leach and FeNi = Iron nickel alloys. Nickel Mines' RKEF lines use Tsingshan's NPI technology.

155 As shown above, the Capital Intensity for the global nickel projects is higher than the Capital Intensity for the RKEF lines (which is less than US$20,000[46]) and therefore the Angel Nickel Project is an attractive investment proposition relative to an alternative investment in the global nickel sector.

[45] The average Capital Intensity of all six transactions is $17,556 per tonne of nickel equivalent production.
[46] This is primarily due to the lower capital cost of the NPI technology owned by Tsingshan.

VII Evaluation of the Proposed Transaction

156 In our opinion, the Proposed Transaction is fair and reasonable to Nickel Mines shareholders. We have formed this opinion for the reasons set out below.

Fairness

157 Pursuant to RG 111, a related party transaction is "fair" if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired. In our opinion the Proposed Transaction is fair as:

(a) the Consideration for the interest in the Angel Nickel Project (of US$490 million) is less than the NPV of the Company's pro rata share of the estimated future free cash flows from the project based on nameplate rates of production, a reasonable assessment of future nickel prices and estimates of operating costs

(b) the Consideration for the Proposed Transaction is also:

(i) consistent with the implied values of the interests in the Hengjaya and Ranger Nickel Projects acquired by Nickel Mines from Shanghai Decent

(ii) an attractive investment proposition in terms of the Capital Intensity[47] of the Angel Nickel Project relative to other significant nickel projects.

Assessment of reasonableness

158 Pursuant to RG 111, a related party transaction is reasonable if it is fair. Consequently we have concluded that the Proposed Transaction is both fair and reasonable to Nickel Mines shareholders.

159 In considering whether the Proposed Transaction are reasonable to Nickel Mines shareholders we have also had regard to the following:

(a) the announcements with respect to the Proposed Transaction made to date

(b) the implications for Nickel Mines if the Proposed Transaction is not implemented

(c) the position of Nickel Mines before and after the Proposed Transaction, and the net benefits inherent in the transaction; and

(d) other qualitative factors with respect to the Proposed Transaction.

Implication if the Proposed Transaction is not implemented

160 If the Proposed Transaction is not implemented, Nickel Mines will forgo the opportunity to increase its interest in NPI production operations and the earnings that will flow from the interest in the Angel Nickel Project. In our opinion, the value of these earnings and the implicit diversification benefits exceeds the Consideration payable.

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47 Capital Intensity is the project capital cost divided by annual nickel production capacity.

161 If the Proposed Transaction does not occur as a result of Nickel Mines shareholders failing to pass a resolution at general meeting authorising the Proposed Transaction, Shanghai Decent will repay the deposit amounts within 10 business days of the condition precedent not being satisfied.

Position of Nickel Mines before and after the Proposed Transaction

162 Based on the indicative DCF assessment, the Proposed Transaction is value accretive as the Proposed Transaction provides Nickel Mines with:

(a) an additional income source from further downstream production of NPI

(b) a greater operational footprint and presence in the two largest nickel production centres globally. The interest in the Angel Nickel Project will contribute some 25,200 tonnes per annum of additional nickel metal (in NPI) production[48], increasing the significance of Nickel Mines' nickel production capabilities and the scale of the Company.

163 Whilst the exact details of the funding of the Proposed Transaction have not been determined, the Company has indicated that the likely funding will be 50% debt and 50% equity. The Company has advised that discussion with banks and other financial institutions are well progressed, however the exact percentage of debt and equity funding may vary.

164 As at 24 November 2020, Nickel Mines' market capitalisation was US$1.6 billion and its latest cash position was US$93.8 million, which exceeded its borrowings of US$45 million. For the purpose of our report we have considered the implications of 50% debt funding at an interest rate of 8.5% per annum[49]. Assuming a debt facility of US$245 million (i.e. 50% of the Consideration) to finance the Proposed Transaction, Nickel Mines' gearing level would increase from a net cash position to just over 10%, which would result in an annual debt servicing capacity based on the current performance of the Hengjaya and Ranger Nickel Projects of 7 times. This assumption is also conservative as there will be additional cash flow generated by the Angel Nickel Project once the RKEF lines are commissioned and reach nameplate capacity.

165 Further, the cash flow generated by the Hengjaya and Ranger Nickel Projects in the period to 31 March 2021 and the period 1 April 2021 to 31 December 2021 will be available to assist Nickel Mines with the funding of the Proposed Transaction.

Advantages and disadvantages

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

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48 Based on nameplate capacity of 36,000 tonnes per annum for the Angel Nickel Project. Post the ramp up period for the Hengjaya and Ranger Nickel Projects actual production levels have been significantly in excess of these nameplate capacity levels.

49 Broadly consistent with the rate charged by Shanghai Decent on the loan advance to the Company for the Second Ranger Acquisition and the debt rate adopted in the DCF discount rate. We have been advised by Nickel Mines management that several debt providers have recently indicated that debt funds would likely be available to the Company at or around this rate.

(a) the Angel Nickel Project, which will include new interests in RKEF lines located at the IWIP, is a low Capital Intensity, low operating cost operation that provides Nickel Mines with diversification of NPI production and income

(b) the Proposed Transaction will essentially double the Company's NPI production and is value accretive, with the Consideration (totalling US$490 million) being less than the NPV of the expected future cash flows from the proportionate interest to be acquired in the Angel Nickel Project

(c) the Angel Nickel Project is similar to the Hengjaya and Ranger Nickel Projects in which Nickel Mines has an 80% interest. These investments have provided Nickel Mines with positive income contribution since acquisition

(d) the greater size of the Company will enhance the liquidity of the Company's shares on the ASX

(e) the guaranteed capital cost of the Angel Nickel Project and the off-take undertaking from Shanghai Decent increases the project's attractiveness as it reduces the risk of capital cost overruns and any excess production

Disadvantages

(f) there are no obvious disadvantages in connection with the proposed acquisition of a 70% interest in the Angel Nickel Project at the date of this report.

Other considerations

167 Whilst discussions with banks and other financial institutions are well progressed, as stated in the Agreement, the exact terms of funding are not yet determined. However, the Company has currently indicated that the current funding proposal is 50% debt and 50% equity. Given the Company's modest net debt level and the cash flows which can be reasonably expected to be generated by the current 80% interests in the Hengjaya and Ranger Nickel Projects in the period to 31 March 2021 and subsequently in the period 1 April 2021 to 31 December 2021, we have assumed that these funds can be used toward funding the Proposed Transaction.

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 independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.

2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to Nickel Mines shareholders in connection with the Proposed Transaction.

4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

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

General financial product advice

6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.

7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at $60,000 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.

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

11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.

13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

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

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

Appendix B

Qualifications, declarations and consents

Qualifications

1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.

2 This report was prepared by Ms Julie Planinic and Mr Martin Hall, who are each authorised representatives of LEA. Ms Planinic and Mr Hall have over 20 years and 35 years' experience respectively in the provision of valuation advice (and related advisory services).

Declarations

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

Interests

4 At the date of this report, neither LEA, Ms Planinic nor Mr Hall have any interest in the outcome of the Proposed Transaction. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.

5 We have considered the matters described in ASIC RG 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 Explanatory Memorandum.

Appendix C

Glossary

Abbreviation	Definition
AFCA	Australian Financial Complaints Authority
Agreement	Collaboration Agreement relating to the Angel RKEF Project dated 23 November 2020
Angel Nickel Project	Comprising four new RKEF lines within the IWIP, together with a captive 380 MW power plant
Angel Private	Angel Capital Private Limited
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Capital Intensity	Project capital cost divided by annual nickel production capacity
Consideration	US$490 million
Corporations Act	Corporations Act 2001 (Cth)
COVID-19	2019 novel coronavirus
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
First Acquisition	Nickel Mines will acquire an initial 30% interest in the Angel Nickel Project
First Acquisition Consideration	Two deposits of US$10 million (upon entering the MoU) and US$20 million (within five days of entering the Agreement) plus a further US$180 million payable by 31 March 2021
First Acquisition Date	31 March 2021
FSG	Financial Services Guide
FY	Financial year
Hengjaya CA	Collaboration Agreement between Shanghai Decent and Nickel Mines signed on 19 September 2017
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
Initial Ranger Acquisition	The Company's acquisition of an initial 17% interest in the Ranger Nickel Project
ITSS	PT Indonesia Tsingshan Stainless Steel
IWIP	Indonesian Weda Bay Industrial Park
KVA	Kilo volt amp
LEA	Lonergan Edwards & Associates Limited
LME	London Metal Exchange
MoU	Memorandum of Understanding
MRP	Market risk premium
MW	Megawatt

Appendix C

Abbreviation	Definition
Nickel Mines / Company	Nickel Mines Limited
Nickel Mines non-associated shareholders	Shareholders of Nickel Mines not associated with Shanghai Decent
NPI	Nickel pig iron
NPV	Net present value
Proposed Transactions	Nickel Mines' proposed acquisition of a 70% interest in the Angle Nickel Project
PT ANI	PT Angel Nickel Industry
PT Hengjaya	PT Hengjaya Mineralindo
Ranger CA	Collaboration Agreement between the Company and Shanghai Decent signed on 8 November 2018
Ranger Nickel Project	The RKEF processing facility comprising two additional lines in the IMIP, referred to as the Ranger Nickel RKEF lines
RG 111	ASIC Regulatory Guide 111 – *Content of expert reports*
RKEF	Rotary kiln electric furnace
Second Acquisition	US$280 million payable by 31 December 2021 for a further 40% interest in Angel Private
Second Acquisition Date	31 December 2021
Second Ranger Acquisition	Option for Nickel Mines to increase its interest in the Ranger Nickel Project to between 51% and 60% before 31 December 2019
Shanghai Decent	Shanghai Decent Investment (Group) Co., Ltd
Third Ranger Acquisition Option	Option for Nickel Mines to increase its interest in the Ranger Nickel Project up to 80% within 18 months of the first batch of NPI being produced
Tsingshan	Tsingshan Holding Group
US	United States of America
US$ / USD	United States dollars
WANOS	Weighted average number of shares outstanding
WMT	Wet metric tonnes