

NICKEL

MINES LIMITED

ACN 127 510 589

ASX Release: 30 July 2020

ASX: NIC

Shares on issue: 2.128B

Market capitalisation: \$1.255B
(@\$0.59)

Board of Directors

Non-Executive Chairman
Rob Neale

Executive Deputy Chairman
Norman Seckold

Managing Director
Justin Werner

Executive Director and CFO
Peter Nightingale

Non-Executive Director
James Crombie

Non-Executive Director
Weifeng Huang

Non-Executive Director
Mark Lochtenberg

Non-Executive Director
Dasa Sutantio

Non-Executive Director
YuanYuan Xu

Substantial Shareholders

Shanghai Decent	18.6%
PT. KBP	16.1%
BlackRock Group	6.8%
Norman Seckold	5.8%
Shanghai Wanlu	5.7%

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QUARTERLY ACTIVITIES REPORT

For the quarter ended 30 June 2020

10,104 TONNES OF NICKEL PRODUCTION FROM RKEF PROJECTS AS COMPANY INCREASES ATTRIBUTABLE INTEREST TO 80%

Highlights

- Successful completion of 1 for 3.6 Entitlements Offer raising A\$231M.
- NIC's attributable interest in the Hengjaya Nickel and Ranger Nickel RKEF projects increased from 60% to 80% (effective from 1 July 2020).
- RKEF June quarter production of **10,103.9** tonnes of nickel metal (100% basis), down 10.5% from a record 11,291.3 tonnes of nickel metal in the March quarter.
- NIC attributable nickel production of **6,062.3** tonnes of nickel metal, down 10.5% from 6,774.8 tonnes of nickel metal in the March quarter.
- 8,423.9** nickel tonnes sold (100% basis), down 30.8% from 12,170.8 nickel tonnes sold in the March quarter.
- RKEF June quarter sales of **US\$87.5M** (100% basis), down 37.2% from US\$139.3M in March quarter.
- RKEF June quarter EBITDA of **US\$24.0M** (100% basis), down 51.8% from US\$49.8M in the March quarter.
- Lower EBITDA partly offset by US\$12.5M increase in NPI inventory carried at cost.
- RKEF June quarter cash costs:
 - Hengjaya Nickel: **US\$7,342/tonne**, up 1.3% from March quarter.¹
 - Ranger Nickel: **US\$7,392/tonne**, up 2.4% from March quarter.¹
- ¹ March quarter costs restated lower than those presented in the March quarterly report.
- Cash + receivables + inventory at quarter end of **US\$193.9M**, down 12.4% from US\$221.4M in the March quarter. Cash up 25.1% to **US\$91.2M**.
- Quarterly saprolite production from the Hengjaya Mine of **62,610 tonnes**, down 58.2% from the March quarter. Additionally, 182,730 tonnes of limonite were stockpiled in the quarter.
- All operations were affected by severe adverse weather in June.
- No Covid-19 cases reported at any of the Company's operations and no direct adverse operational impacts.



An NPI tap at the Hengjaya Nickel Project.

The Directors are pleased to present the June 2020 Quarterly Activities Report for Nickel Mines Limited ('Nickel Mines' or 'the Company') and its controlled entities ('the Group').

The Group's principal operations, located in Central Sulawesi, Indonesia, are the Hengjaya Nickel and Ranger Nickel RKEF (Rotary Kiln Electric Furnace) projects located within the Indonesia Morowali Industrial Park ('IMIP'), and the Hengjaya Nickel Mine. For the quarter under review the Company held a 60% interest in each RKEF project and an 80% interest in the Hengjaya Mine. On 30 June 2020, the Company completed the acquisition of an additional 20% interest in each RKEF project, increasing the Company's interest to an 80% interest in both projects.

RKEF Operations

Hengjaya Nickel Project (80% interest held by Nickel Mines, 60% interest through the June Quarter)

During the June quarter, Hengjaya Nickel produced 4,980.2 tonnes of nickel metal at an average NPI grade of 14.6% at a production-weighted average cash cost of US\$7,342/tonne.

The Group's attributable nickel production was 2,988.1 tonnes of nickel metal, a decrease of 12.2% from the March quarter production. Whilst production was down on the March quarter record production, partly due to adverse weather conditions, including wet season flooding and a brief production interruption caused by an earthquake offshore from the IMIP, production remained well above nameplate production.

The Company is pleased to report the following Hengjaya Nickel operating results for the June 2020 quarter:

HENGJAYA NICKEL		April	May	June	Quarter Total	March Quarter
NPI Production	tonnes	11,946.4	11,400.6	10,731.3	34,078.3	40,076.8
NPI Grade	%	14.2	14.6	15.1	14.6	14.2
Nickel Metal Production	tonnes	1,696.6	1,661.2	1,622.4	4,980.2	5,671.7
Cash Costs	USD/t Ni	7,289	7,362	7,380	7,342	7,247 ¹

For the June quarter, Hengjaya Nickel recorded (on a 100% basis) sales of US\$43.2M for 4,150.4 tonnes of nickel metal sold, underlying EBITDA of US\$11.7M² and an underlying net profit of US\$9.7M².

Due to the export shipping and sales cycle, Hengjaya Nickel also recorded a US\$6.0M increase in NPI inventory which is carried at cost.

In April 2020, at the height of market uncertainty around the impact of the coronavirus pandemic, the decision was made to lock in place NPI sales contracts for the remainder of the June 2020 quarter to give the Company increased certainty over nickel sales pricing. Whilst this decision has meant that Hengjaya Nickel did not fully capture the uplift in nickel and NPI pricing that transpired across the remainder of the June quarter, the excess of nickel metal production not sold during the June quarter will be sold during the September quarter.

¹ Due to post-quarter end accounting adjustments, March 2020 quarterly cash costs which were previously reported as US\$7,671/tonne have been revised down to US\$7,247/tonne of nickel metal production.

² Unaudited numbers from monthly operating entity financial reporting. Final tonnes sold are adjusted for each contract following the receipt of final assay results, which are generally received approximately 60 days following the original contract date. Where final assay results have not yet been received, tonnes sold is reported as stated in the original contract. The weighted average contract price for the June quarter, before receipt of final assay results, was US\$10,319/t of nickel.

Ranger Nickel Project (80% interest held by Nickel Mines, 60% interest through the June Quarter)

During the June quarter, Ranger Nickel produced 5,123.7 tonnes of nickel metal at an average NPI grade of 14.4% at a production-weighted average cash cost of US\$7,392/tonne.

The Group's attributable nickel production was 3,074.2 tonnes of nickel metal, a decrease of 8.8% on the March quarter production. Whilst production was down on the March quarter record production, partly due to adverse weather conditions, including wet season flooding and a brief production interruption caused by an earthquake offshore from the IMIP, production remained well above nameplate production.

The Company is pleased to report the following Ranger Nickel operating results for the June 2020 quarter:

RANGER NICKEL		April	May	June	Quarter Total	March Quarter
NPI Production	tonnes	11,233.3	13,376.4	10,913.9	35,523.6	39,321.1
NPI Grade	%	14.1	14.2	15.1	14.4	14.3
Nickel Metal Production	tonnes	1,580.8	1,894.8	1,648.1	5,123.7	5,619.6
Cash Costs	USD/t Ni	7,375	7,418	7,381	7,392	7,216 ³

For the June quarter, Ranger Nickel recorded (on a 100% basis) sales of US\$44.3M for 4,273.5 tonnes of nickel metal sold, underlying EBITDA of US\$12.3M⁴ and an underlying net profit of US\$10.2M⁴.

Due to the export shipping and sales cycle, Hengjaya Nickel also recorded a US\$6.5M increase in NPI inventory which is carried at cost.

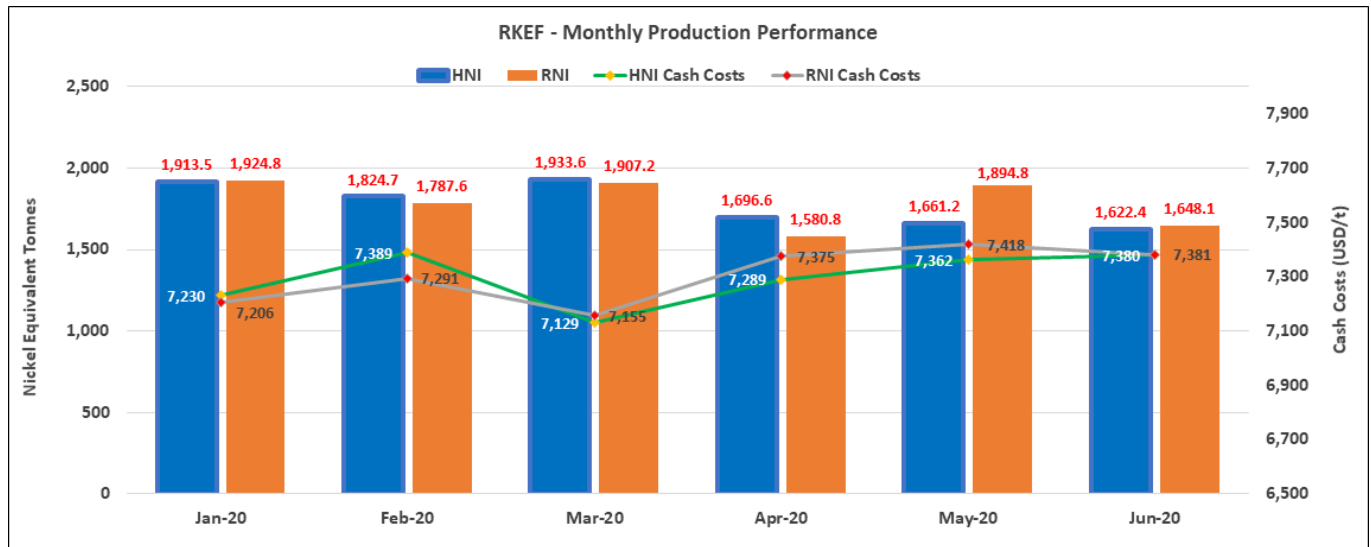
In April 2020, at the height of market uncertainty around the impact of the coronavirus pandemic, the decision was made to lock in place NPI sales contracts for the remainder of the June 2020 quarter to give the Company increased certainty over nickel sales pricing. Whilst this decision has meant that Ranger Nickel did not fully capture the uplift in nickel and NPI pricing that transpired across the remainder of the June quarter, the excess of nickel metal production not sold during the June quarter will be sold during the September quarter.



An NPI tap at the Ranger Nickel Project.

³ Due to post-quarter end accounting adjustments, March 2020 quarterly cash costs which were previously reported as US\$7,673/tonne have been revised down to US\$7,216/tonne of nickel metal production.

⁴ Unaudited numbers from monthly operating entity financial reporting. Final tonnes sold are adjusted for each contract following the receipt of final assay results, which are generally received approximately 60 days following the original contract date. Where final assay results have not yet been received tonnes sold is reported as stated in the original contract. The weighted average contract price for the June quarter, before receipt of final assay results, was US\$10,321/t of nickel.



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

COMBINED RKEF OPERATIONS		April	May	June	Quarter Total	March Quarter
NPI Production	tonnes	23,179.7	24,777.0	21,645.3	69,602.0	79,397.9
NPI Grade	%	14.1	14.4	15.1	14.5	14.2
Nickel Metal Production	tonnes	3,277.4	3,556.0	3,270.5	10,103.9	11,291.3

During the June quarter, the combined Hengjaya Nickel and Ranger Nickel projects recorded (100% basis) sales of US\$87.5M for 8,423.9 tonnes of nickel metal, underlying EBITDA of US\$24.0M and an underlying net profit of US\$19.9M.

The June quarter production result was once again achieved against the backdrop of the Coronavirus pandemic. While many mining operations around the world were disrupted over the past quarter, strict safety protocols implemented within the IMIP and heightened operational vigilance served to ensure continuous operations although certain social distancing initiatives enacted during the quarter did marginally impact normal efficiencies. Production levels over the quarter were also negatively impacted by some modest operational issues including a minor electrode malfunction at Ranger Nickel that saw daily output drop over a 5-day period and periodic maintenance of the power plant which saw reduced power supply across the IMIP for the first 10 days of June.

In addition, operations were partly affected by severe adverse weather conditions, including wet season flooding and a brief production interruption caused by an earthquake offshore from the IMIP. Rainfall of 1,128mm (3.7 feet) was recorded at the Hengjaya Mine in June 2020, almost double the June 2016 - 2019 average.

***IMIP – June 2020******Morowali Road – June 2020***

Operating cost performance across the quarter was once again very consistent. As highlighted in footnotes 1 and 3, reported March quarter cash costs were revised lower subsequent to the March quarter end. The small increase in June quarter cash costs across both the Hengjaya and Ranger RKEF Projects can be attributed to lower nickel output during the quarter (resulting in higher unit costs) and a small increase in labour costs with some employees receiving penalty payments to compensate for extended stays in Morowali as a result of Covid-19-related travel restrictions.

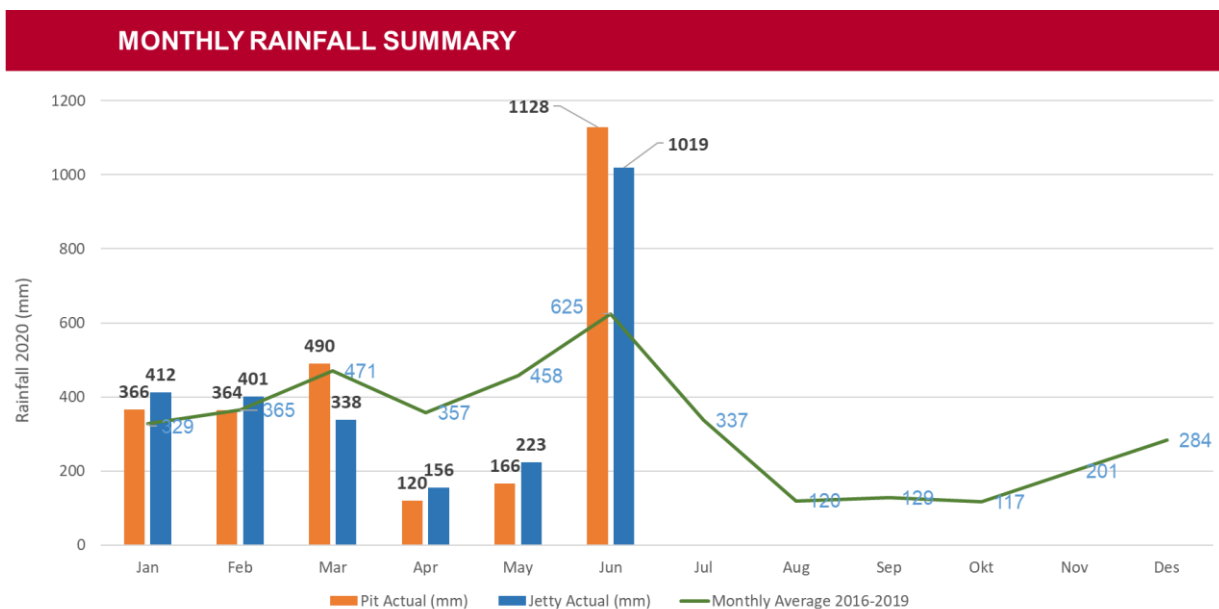
Hengjaya Mine Operations

Hengjaya Mine (80% interest held by Nickel Mines)

The June quarter marked the commencement of mining at the new Central Pit. Over the past nine months the efforts of the mining team at the Hengjaya Mine have been focused on readying the Central Pit to assume the majority of mining activities, in a move from the existing Bete Bete Pit.

The Central Pit is approximately 6km closer to the coastline and will involve much shorter haulage distances to the Company's recently expanded jetty. The Central Pit will also utilise a designated pit-to-jetty haul road that will allow the use of much larger 40 tonne trucks (previously 8 tonnes) that will significantly improve transportation efficiencies and reduce mining costs.

While first ore at the Central Pit was mined and trucked to the jetty for barging in early April, mine production across the remainder of the quarter was severely impacted by an above-average wet season. Heavy rain and localised flooding materially impacted mining activities and caused delays to the planned ramp-up of operations at the Central Pit.



With the abatement of wet season and the return to more normal operating conditions (commencing from around the middle of July) all expansion initiatives and logistics are in place to see a materially higher level of mining production over the remainder of 2020 and through 2021 that will result in the Hengjaya Mine making a more substantial contribution to the IMIP's annual nickel ore requirements.

		April	May	June	Quarter Total	March Quarter
Tonnes mined	wmt	12,523	25,452	24,635	62,610	149,958
Overburden mined	BCM	81,367	59,450	10,000	150,817	179,524
Limonite mined	wmt	15,060	88,440	79,230	182,730	75,254
Strip ratio*	BCM/wmt	7.2	4.3	2.2	4.0	1.48
Tonnes sold	wmt	5,737	22,399	25,893	54,029	155,599
Average grade	%	1.79	1.83	1.78	1.80	1.83
Average price received	USD/t	21.08	26.24	22.26	23.79	24.32
Average cost of production⁵	CIF USD/t	53.58	43.34	41.67	44.73	29.70

*Strip ratio includes limonite as overburden.

⁵ Monthly production costs are a six-month average of mining costs plus port/selling costs for the actual month.

Disclaimer

Whilst the Group's RKEF and mining operations have largely been unaffected by Covid-19 to date, it is not possible to predict the future course and duration of the pandemic and the impact that it may have on future operations.

The Central Pit stripping ratio for the quarter was 4.0:1 due to pre-stripping of overburden to develop the new pit, this also included stockpiling of limonite. The strip ratio will reduce as ore production increases in the second half of 2020.

The mined ore grade produced was 1.80% Ni, giving good reconciliation with geological block modelling.

Limonite Ore Stockpiling

To date, a total of 368,120 wmt of limonite ore grading approximately 1.2% nickel has been stockpiled adjacent to waste dumps at Bete Bete and the Central Pit. Stockpiling of limonite is planned to continue as part of normal operations without hindering saprolite ore production.

Hengjaya Mine Expansion

Key expansion activities and operational restructuring initiatives continued to advance during the June quarter in support of the Hengjaya Mine's plan to significantly increase production during the second half of 2020 and to provide the platform for a materially extended mine life at higher production rates.

Construction works on the haul road connecting Central Pit to the Bete Bete pit continued with the 5.4km pilot road completed and construction of the haul road works 30% into the program. Once completed, this haul road will allow both saprolite and limonite ore from Hengjaya Mine's various pits to be hauled to the jetty for barging to IMIP. The connecting road system from Bete Bete to the Central Pit and its surrounding areas will also provide the opportunity to blend ore (if required) from current and future pit locations, enabling further optimisation of the Hengjaya Mine resource potential.



Central Pit – July 2020.

Mining activities are now ramping up at the Central Pit development as the wet season abates.

Civil earthworks for installation of the ore scalping grizzly adjacent to Central Pit has progressed to improve overall ore recovery and to beneficiate ore prior to it being barged to the IMIP. The main steel framework has been delivered to site. The grizzly is designed to operate 24/7 with capacity for 40 tonne mine haul trucks to direct-tip ore. This will beneficiate ore by rejecting oversized waste rock, improve ore recovery and reduce 'in pit' oversized material sorting times and costs. It is the intention to utilise stockpiled oversized rock for various infrastructure projects planned for Hengjaya Mine and local communities.



Civil works for ore scalping (Ore tiphead).

The jetty is now fully operational, utilising both 6,500 tonne and 10,000 tonne capacity barges to cope with the anticipated additional production.

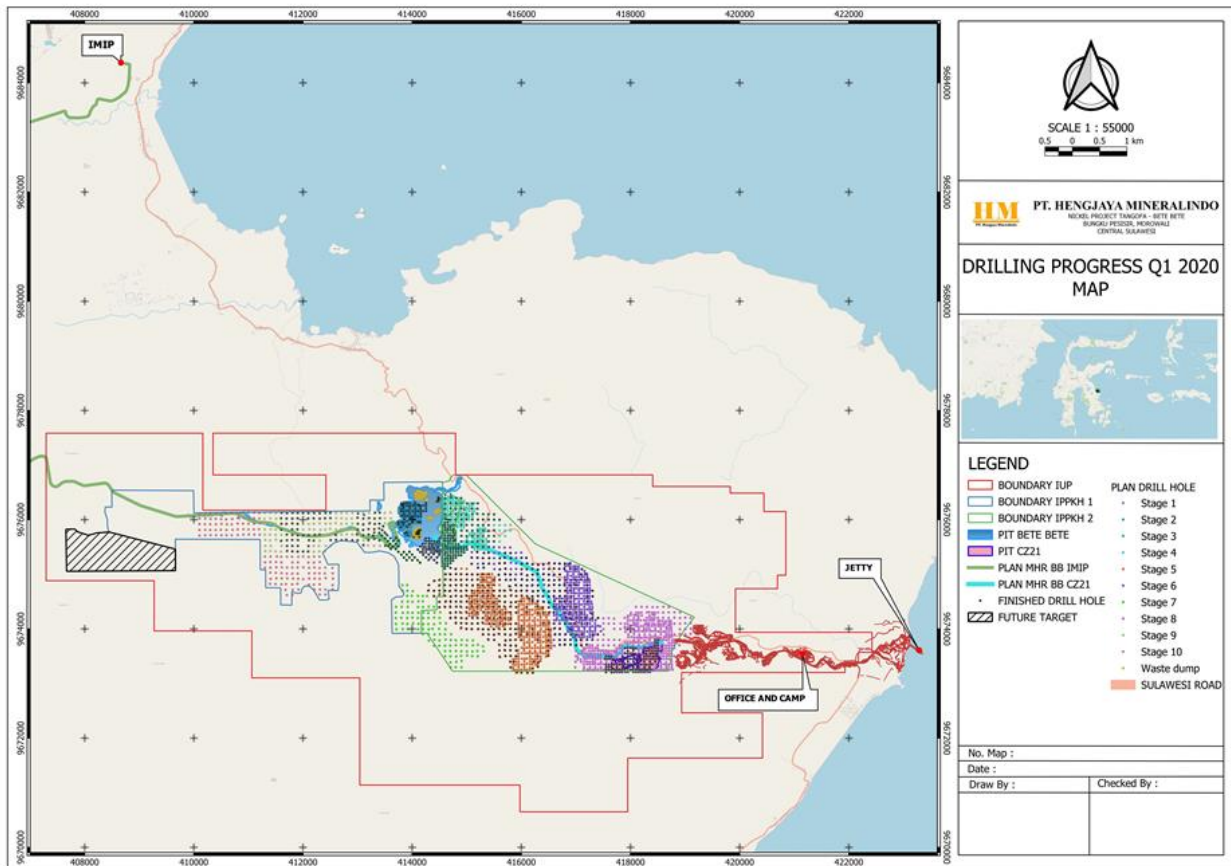
The construction of the mine camp and infrastructure facilities is now completed. New infrastructure includes technical offices and workshops, a community relations centre, safety, training and recreational buildings and a new mosque.



New camp and infrastructure Hengjaya Mine.

Exploration

Exploration and infill drilling continued during the quarter with 216 holes completed for 4,349 metres. The program included infill drilling at the Central Pit area to enhance mine planning and scheduling and to assist with planning for the separation of limonite and saprolite ore.



Extensive drilling has now been completed across a majority of the Hengjaya Mine tenement.

Following an extensive campaign of drilling during 2019 and 2020, a total of 1,894 holes for 40,702 metres has been completed to the end of June. Using this new data, an updated geological model is now well progressed with a final report planned to be completed during the current September 2020 quarter.

In addition to the abovementioned drill campaign, a greenfield exploration program will continue over the remainder of 2020 with drilling targeting new encouraging areas identified by ground penetrating radar in both Central and West Bete Bete areas.

Safety, Environment and Community

Safety

No lost time injuries or medical treatment injuries were reported during the June quarter.

No reportable environmental incidents were recorded during the June quarter and the environmental team completed all required compliance monitoring and reporting. Development of additional safe operating procedures continued in parallel with the mine’s expansion program.

During the quarter there was an intensified health and safety focus, with an emphasis on general hygiene and minimising risks of Covid-19 infections in the workplace. Pleasingly, no Covid-19 cases were observed or reported in any of the Hengjaya Mine operations or its regional office in Jakarta.

The Hengjaya Mine continued with strict non-essential visitor access, a proactive protocol that has been in place since late January, with additional medical checks on workers and service providers continuing to be taken on a routine basis.

Environment

No environmental incidents were reported during the June quarter, with work continuing to complete final landform contouring, drainage improvements and rehabilitation of previously mined production areas.

Site rehabilitation continued at the Bete Bete waste dump areas with PT Hengjaya Mineralindo continuing with its involvement in numerous local and regional rehabilitation programs. On site, various environmental impact studies associated with the Hengjaya Mine to IMIP haul road project continued to be progressed during the quarter, including water management studies and ongoing stakeholder consultation. As part of Hengjaya Mine's commitment to the local community, other potential, longer term sustainability programs in the local and regional areas are being reviewed.



Mine rehabilitation program.

Community

Hengjaya Mine continues to work to establish personal development and training programs with both local and regional stakeholders, including the Tangofa, Bete Bete, Markati, Labota and Bahodopi village regions. New offices have been completed at Hengjaya Mine site including a new facility for the community relations team.

The majority of local and regional activities were postponed during the June quarter due to Covid-19 travel restrictions, social distancing, Company restricted access procedures and travel protocols.

Finance⁶

Balance Sheet

At 30 June 2020, the Group held:

- Cash and cash equivalents: US\$91.2M (31 March 2020 - US\$72.9M)
- Trade receivables: US\$34.6M (31 March 2020 - US\$97.6M)
- Inventories: US\$68.1M (31 March 2020 - US\$50.9M)

Cash and cash equivalents of US\$91.2M were held by Group companies as follows:

- US\$43.6M held by Nickel Mines;
- US\$1.4M held by Hengjaya Mine, in which Nickel Mines holds an 80% interest;
- US\$29.4M held by Hengjaya Nickel and its related entities, in which Nickel Mines holds an 80% interest; and
- US\$16.8M held by Ranger Nickel and its related entities, in which Nickel Mines holds an 80% interest.

⁶ Unaudited numbers from monthly operating entity financial reporting.

Trade receivables of US\$34.6M were held by Group companies as follows:

- US\$19.3M held by Hengjaya Nickel;
- US\$14.7M held by Ranger Nickel;
- US\$0.6M held by Hengjaya Mine⁷.

Trade receivables decreased by US\$63.0M from the March quarter as receivables from the record production and tonnes sold in the March quarter were received. As noted above, in April 2020 at the height of market uncertainty around the impact of the coronavirus pandemic, the decision was made to lock in place NPI sales contracts for the remainder of the June 2020 quarter.

US\$97.6M in trade receivables reported at the end of the March quarter has been received in full.

Inventory (valued at the lower of cost or net realisable value) of US\$68.1M was held by Group companies as follows:

- US\$29.0M held by Hengjaya Nickel comprising US\$7.2M of NPI and US\$21.8M of raw materials;
- US\$38.8M held by Ranger Nickel comprising US\$7.9M of NPI and US\$30.9M of raw materials;
- US\$0.3M of nickel ore held by Hengjaya Mine.

Raw materials inventory increased by US\$4.7M from the March quarter.

NPI inventory increased by US\$12.5M from the March quarter. This NPI inventory, produced over the June quarter is carried at cost and will be sold over the September quarter. The value uplift and profit associated with this production will be realised at the time of sale.

During the June quarter, Hengjaya Nickel continued routine monthly repatriations of funds to its Singaporean holding company, Hengjaya Holdings Private Limited, which, in turn, distributes the funds to its shareholders, Nickel Mines and Shanghai Decent and its associates, in proportion to their ownership interests (i.e. 60% to Nickel Mines and 40% to Shanghai Decent and its associates). During the quarter, US\$16.8M was repatriated to Nickel Mines and US\$11.2M was repatriated to Shanghai Decent and its associates.

Ranger Nickel commenced the same routine monthly repatriations of funds in April 2020, with funds firstly flowing through Singaporean holding company, Ranger Investment Private Limited, which, in turn, distributes the funds to its shareholders, Nickel Mines and Shanghai Decent and its associates, in proportion to their ownership interests through the June quarter (i.e. 60% to Nickel Mines and 40% to Shanghai Decent and its associates). During the quarter, US\$10.8M was repatriated to Nickel Mines and US\$7.2M was repatriated to Shanghai Decent and its associates.

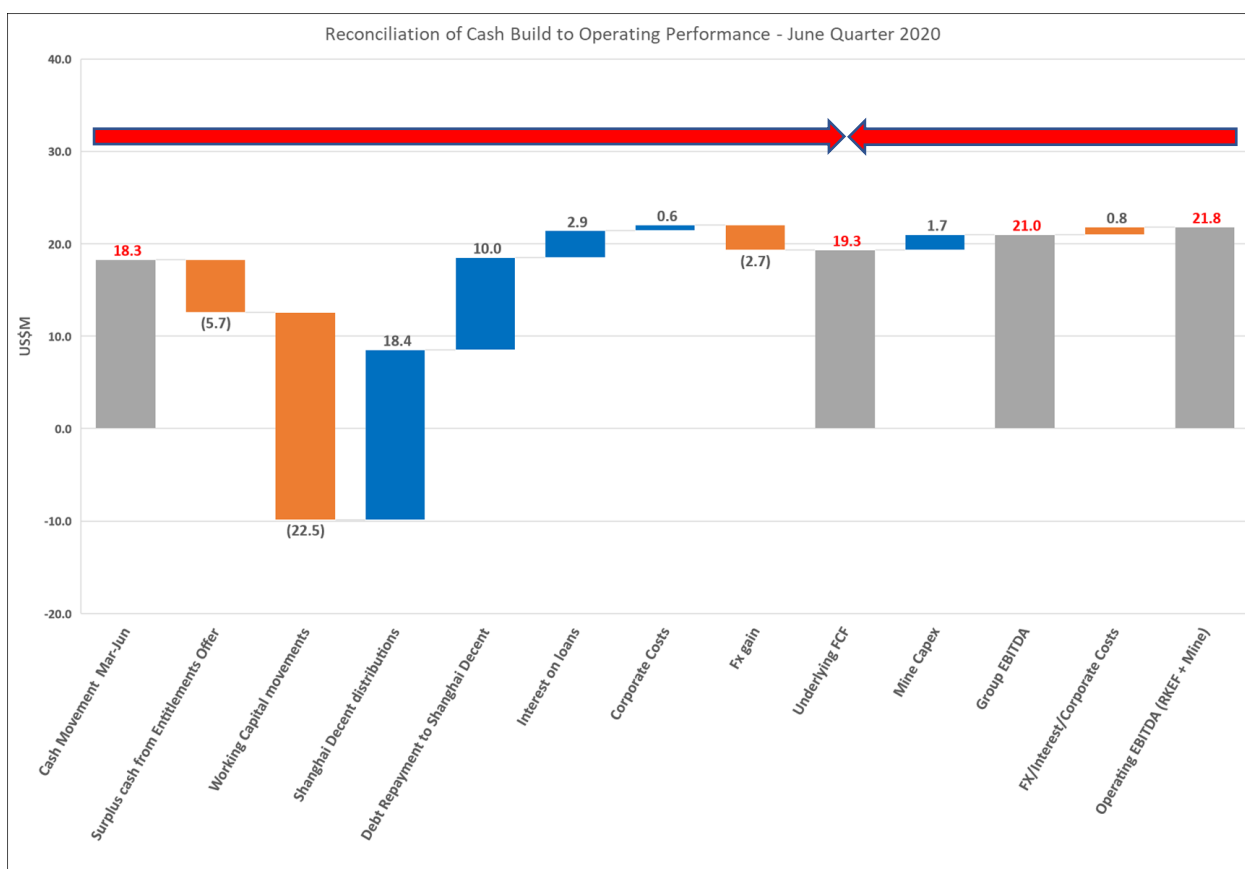
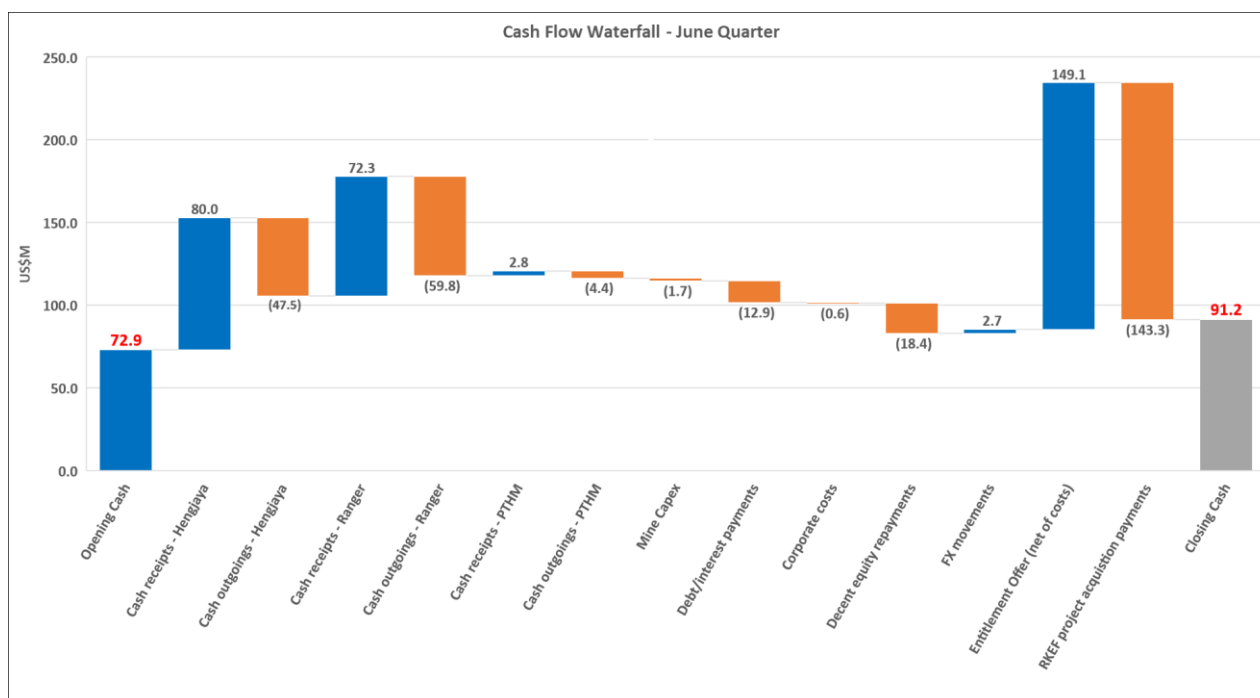
Following completion of the acquisition by Nickel Mines of an additional 20% interest in both Hengjaya Nickel and Ranger Nickel on 30 June 2020, 80% of all future distributions from the RKEF projects will flow to Nickel Mines.

In April 2020 Nickel Mines made a further voluntary early repayment against the Ranger debt facility of US\$10.0M. This reduced the balance of the Ranger debt facility to US\$55.0M.

⁷ Sales by Hengjaya Mine to Hengjaya Nickel and Ranger Nickel are inter group transactions and are eliminated on consolidation.

Cash Flow

The following cash flow waterfall provides a reconciliation of cash movements over the June 2020 quarter.



Expenditures

Expenditure on mine production and development activities during the quarter totalled US\$5.6M.

Expenditure on mine exploration activities during the quarter totalled US\$260,000.

Corporate

Decision taken to exercise RKEF ownership options

In May 2020, the Nickel Mines’ Board of Directors announced the Company’s decision to increase its 60% ownership interests in both the Hengjaya Nickel RKEF Project and the Ranger Nickel RKEF Project to 80% (‘the Transactions’). This decision was made in consultation with the Company’s collaboration partner, Shanghai Decent Investment Group Co., Ltd and its associates (‘Shanghai Decent’), which held the remaining 40% interests both RKEF Projects.

Exercise of option to move to 80% ownership of the Hengjaya Nickel Project

In accordance with the Collaboration and Subscription Agreement (‘CSA’) governing the Hengjaya Nickel Project, the Company elected to increase its holding (comprised of equity and shareholder loans) of Hengjaya Holdings Private Limited from 60% to 80%. Hengjaya Holdings Private Limited is a Singaporean domiciled holding company that wholly owns PT Hengjaya Nickel Industry, an Indonesian PMA⁸ company that owns 100% of the Hengjaya Nickel Project.

Under the terms of the CSA and its subsequent supplementary agreements, the Company had until 30 November 2020 to exercise this option. The exercise price of the option was US\$60 million, based on a valuation of US\$300 million for Hengjaya Nickel on a 100% basis.

Exercise of option to move to 80% ownership of the Ranger Nickel Project

In accordance with the Collaboration Agreement (‘CA’) governing the Ranger Nickel Project, the Company elected to increase its holding (comprised of equity and shareholder loans) of Ranger Investment Private Limited from 60% to 80%. Ranger Investment Private Limited is a Singaporean domiciled holding company that wholly owns PT Ranger Nickel Industry, an Indonesian PMA⁸ company that owns 100% of the Ranger Nickel Project.

Under the terms of the CA and its subsequent supplementary agreements, the Company had until 30 November 2020 to exercise this option. The exercise price of the option was US\$60 million, based on a valuation of US\$300 million for Ranger Nickel on a 100% basis.



Capital structure post completion of the additional 20% interests on the Hengjaya Nickel and Ranger Nickel Projects.

⁸ ‘Penanaman Modal Asing’; an Indonesian foreign investment company in which foreign share ownership of up to 100% is allowed.

The Transactions were approved by shareholders at the Company's Annual General Meeting on 29 May 2020 with the Transaction subsequently completed on 30 June 2020. As from 30 June 2020, the Company holds an 80% economic and beneficial interest in both the Hengjaya Nickel and Ranger Nickel Projects.

Consideration payable in connection with the Transactions

The total cash consideration payable by Nickel Mines to Shanghai Decent in connection with the Transactions was ~US\$150M (or ~A\$231M⁹), comprising:

- US\$120M exercise price for the options (US\$60M for each 20% interest in the Hengjaya Nickel and Ranger Nickel Projects); and
- ~US\$30M representing compensation for Shanghai Decent's estimated share of undistributed retained earnings of the 20% interests in the Hengjaya Nickel and Ranger Nickel Projects being acquired by Nickel Mines.¹⁰

The cash consideration payable to Shanghai Decent in connection with the Transactions was funded out of the Company's existing cash reserves and the net proceeds of the Entitlement Offer, the details of which are outlined below.

Entitlements Offer raises A\$231M (~US\$150M)

To fund its increased interests in the Hengjaya Nickel and Ranger Nickel Projects the Company successfully completed a fully underwritten 1 for 3.6 entitlement offer to raise A\$231M (equivalent to approximately US\$150M¹¹), comprising:

- An accelerated institutional entitlement offer ('Institutional Entitlement Offer'); and
- A retail entitlement offer ('Retail Entitlement Offer')

The Entitlement Offer was conducted at A\$0.50 per New Share ('Offer Price'), representing an:

- 11.5% discount to the last traded price of A\$0.565 on Monday, 18 May 2020; and
- 9.2% discount to TERP of A\$0.55¹²

The Transaction resulted in the issue of 462,631,313 new ordinary shares in the Company.

Appointment of Non-Executive Director

During the quarter, the Company was pleased to announce the appointment of Mr Stephanus (Dasa) Sutantio as a Non-Executive Director. Mr Sutantio graduated with a Bachelor of Commerce degree from the Australian National University in 1987 and has been involved in the Asian financial sector for more than 20 years, holding various senior positions at Citibank N.A., Bank Tiara Asia Tbk., the Indonesian Bank Restructuring Agency and PT Bank Mandiri Tbk.

⁹ Based on an AUD:USD exchange ratio of 0.6499.

¹⁰ Represented an estimate of Shanghai Decent's share of undistributed retained earnings for the 20% interests in Hengjaya Nickel and Ranger Nickel being acquired by Nickel Mines. During the June quarter the Company paid \$23.3M to Shanghai Decent, with an additional payment to be made during the September quarter following completion of the half year audit, for the 20% share of profit of Hengjaya Nickel and Ranger Nickel in May and June.

¹¹ Based on an AUD:USD exchange ratio of 0.6499.

¹² TERP is the theoretical ex-rights price at which new shares should trade immediately after the ex-date for the Entitlement Offer. TERP is a theoretical calculation only and the actual price at which new shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not equal TERP.

He joined the Indonesian Tanito Group in 2010 and is currently a Director and CFO responsible for overseeing the Tanito Group's investments in the financial, mining support, marine logistics/shipping, property and hospitality sectors. Within the Tanito Group, Mr Sutantio is a Director of PT Karunia Bara Perkasa, the Company's second largest shareholder, which fully supported the Company's recent capital raising to fund the Company's increased interests in the Hengjaya Nickel and Ranger Nickel RKEF projects.

Commenting on the appointment of Mr Sutantio to the Board of Directors, Chairman Rob Neale commented:

"We are delighted to welcome Dasa to the Nickel Mines' Board. With a strong Asian finance background and experience across the Indonesian industrial, mining and energy sectors, Dasa brings a unique skill set and perspective to the Board that will be of undoubted value as we continue to evolve as a Company and assess future opportunities to deliver value for shareholders."

QUARTERLY PROGRESS

Commenting on operations over the June quarter, Managing Director Justin Werner said:

"Nickel Mines is pleased to report another excellent quarter of production across both of its RKEF projects. While not matching the record production levels achieved in the March quarter, the June quarter saw combined nickel output from the Hengjaya Nickel and Ranger Nickel projects of 10,100 tonnes with cash costs for both projects coming in below US\$7,400/t. The lower sales volume for the quarter has allowed Nickel Mines to build NPI inventory which will be sold this quarter into the currently strengthening nickel price environment with current NPI deliveries being priced at more than \$1,000/tonne above the June contract NPI price."

This was an exceptional effort from our operations team, many of whom have had to endure significantly extended stints at the IMIP resulting from Covid-19 related travel restrictions. We thank them for their commitment during these difficult times."

As was the case in the June quarter last year, operations at Hengjaya Mine were severely impacted by extensive rainfall and localised flooding. The wet season in Central Sulawesi is always challenging but this season saw well above-average rainfalls that made operations difficult. Despite the challenges presented by the weather, significant progress was made across the quarter in readying operations to significantly ramp up production when the wet season abates."

During the quarter the Company exercised its contractual options to move to 80% interests in both the Hengjaya Nickel and Ranger Nickel RKEF Projects and completed a strongly supported accelerated non-renounceable entitlement offer to raise A\$231 million. With the acquisition complete, the Company and its shareholders can now look forward to benefitting from materially increased attributable production and cash flows for the entire second half of 2020 and beyond. In less than two years since its IPO, Nickel Mines has now transitioned from a small-scale supplier of nickel ore to a globally significant nickel producer with attributable nickel production nearing 35kt per annum based on current production levels - a tremendous accomplishment we trust has pleased our shareholders."

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Statement of Compliance

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

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Aerial photo of the IMIP.