

NICKEL

MINES LIMITED

ACN 127 510 589

ASX Release: 31 October 2019

ASX: NIC

Shares on issue: 1.665B

Market capitalisation: \$1,065.6M
(@\$0.64)

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
Mark Lochtenberg

Non-Executive Director
Weifeng Huang

Non-Executive Director
YuanYuan Xu

Substantial Shareholders

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

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QUARTERLY ACTIVITIES REPORT

For the quarter ended 30 September 2019

HENGJAYA NICKEL AND RANGER NICKEL RKEF PROJECTS COMBINE FOR 10,000 TONNES OF NICKEL METAL PRODUCTION

Highlights

- Hengjaya Nickel and Ranger Nickel RKEF projects commissioning and ramp-up phase complete.
- RKEF September quarter production (100% basis) – 10,019 tonnes of nickel metal.
- September quarter production was 33.5% above monthly nameplate capacity (1,250t Ni per month for each plant).
- RKEF September quarter sales (100% basis) – US\$117.2M including first NPI sales from Ranger Nickel in August.
- RKEF EBITDA (100% basis) – US\$50.2M.
- September quarter cash costs:
 - Hengjaya Nickel US\$7,523/tonne
 - Ranger Nickel US\$7,552/tonne
- Cash + receivables + inventory at quarter end of US\$154.7M. (June quarter US\$103.1M).
- US\$15M of early debt repayments against Ranger debt facility.
- Record monthly production from the Hengjaya Mine.



Aerial image of Nickel Mines 60% owned Hengjaya Nickel and Ranger Nickel

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

RKEF Operations

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

Following the commissioning and ramp-up period across the March and June 2019 quarters, the September quarter saw Hengjaya Nickel's production run rate comfortably exceeding the nameplate capacity of 1,250t Ni per month (15,000tpa Ni) and the targeted run rate of 1,375t Ni per month (16,500tpa Ni). For the September quarter, Hengjaya Nickel produced 5,379.3 tonnes of nickel metal at an average NPI grade of 13.6% at a weighted average cash cost of US\$7,523/tonne.

The Group's attributable nickel production was 3,227.6 tonnes of nickel metal.

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

HENGJAYA NICKEL		July	August	September	Qtr Total	June Qtr
NPI Production	tonnes	12,713.1	13,405.7	13,451.6	39,570.4	31,256.4
NPI Grade	%	13.0	13.9	13.9	13.6	14.0
Nickel Metal Production	tonnes	1,647.5	1,858.9	1,872.9	5,379.3	4,386.3
Cash Costs	USD/t Ni	7,456	7,580	7,527	7,523	7,725

For the September quarter, Hengjaya Nickel recorded (on a 100% basis) sales of US\$60.5M, underlying EBITDA of US\$25.9M and an underlying net profit of US\$23.9M.¹



Operations at Hengjaya Nickel.

¹ Unaudited numbers from monthly operating entity financial reporting.

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

With Ranger Nickel's kiln 1 and kiln 2 having commencing production in late May and late June respectively, the September quarter marked the first quarter of true commissioning. As is evident from the month on month production numbers, Ranger Nickel was rapidly and seamlessly ramped up to full production. For the September quarter, Ranger Nickel produced 4,640.3 tonnes of nickel metal at an average NPI grade of 14.1% and at a weighted average cash cost of US\$7,552/tonne.

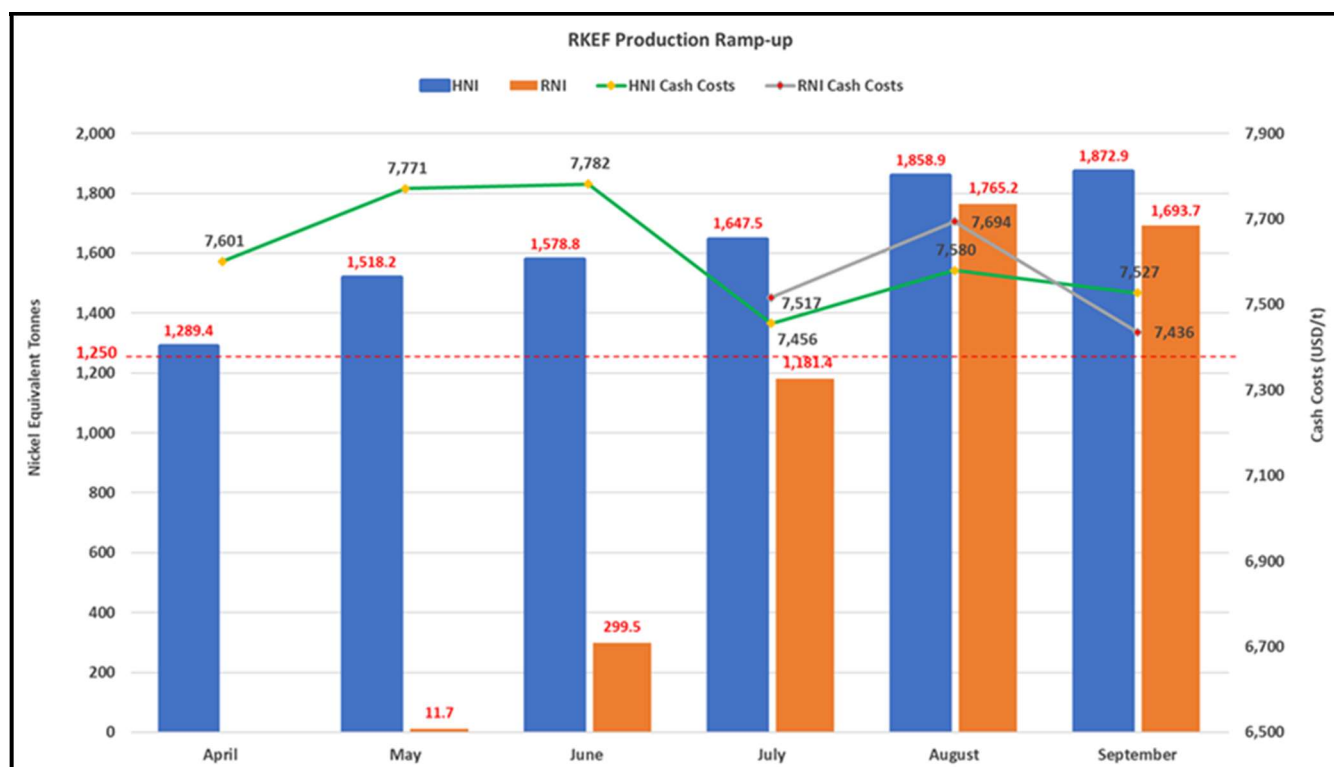
The Group's attributable nickel production was 1,933.40 tonnes of nickel metal (following the Company increasing its interest in Ranger Nickel on 15 August 2019 from 17% to 60%).

Ranger Nickel's first NPI sales were booked in August.

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

RANGER NICKEL		July	August	September	Qtr Total	June Qtr
NPI Production	tonnes	8,058.3	12,389.1	12,375.2	32,822.6	2,477.1
NPI Grade	%	14.7	14.2	13.7	14.1	12.6
Nickel Metal Production	tonnes	1,181.4	1,765.2	1,693.7	4,640.3	311.2
Cash Costs	USD/t Ni	7,517	7,694	7,436	7,552	n/a

For the September quarter, Ranger Nickel recorded (on a 100% basis) sales of US\$56.7M, underlying EBITDA of US\$24.3M and an underlying net profit of US\$21.9M.²



Both Hengjaya Nickel and Ranger Nickel have enjoyed a seamless ramp-up to full production.

² Unaudited numbers from monthly operating entity financial reporting.

COMBINED RKEF OPERATIONS		July	August	September	Qtr Total	June Qtr
NPI Production	tonnes	20,771.4	25,794.8	25,826.8	72,393.0	33,733.5
NPI Grade	%	13.6	14.0	13.8	13.8	13.9
Nickel Metal Production	tonnes	2,828.9	3,624.1	3,566.6	10,019.6	4,697.5

For the September quarter the combined Hengjaya Nickel and Ranger Nickel projects recorded (on a 100% basis) sales of US\$117.2M, underlying EBITDA of US\$50.2M and an underlying net profit of US\$45.8M.

NPI Pricing

The second half of the September quarter saw a sharp appreciation in the LME nickel price and a disconnect with NPI prices. The LME nickel price rise is attributed to:

- the Indonesian Government announcing a reinstatement of the full export ban on nickel ore; and
- an intensified drawdown in LME stockpiles partially in response to the reintroduction of the export ban.

With the global stainless steel markets experiencing significant margin pressure, Chinese stainless steel producers have not been willing, nor had the capacity to match historic payabilities for nickel in NPI and, consequently, NPI prices have lagged the LME nickel price since the sharp appreciation in the LME nickel price in second half of the September. Whilst the LME nickel price has fallen from its highs in September, it is unclear whether this disconnection between the LME nickel price and NPI prices is short term or if there will be a long term bifurcation in the markets.

Finance

At 30 September 2019, the Group held the equivalent of US\$33.0 million in cash (June quarter: US\$49.0 million) comprising:

- US\$17.7 million held by Nickel Mines;
- US\$1.2 million held by PT Hengjaya Mineralindo, in which Nickel Mines holds an 80% interest;
- US\$9.5 million held by Hengjaya Nickel and its related entities, in which Nickel Mines holds a 60% interest;
- US\$4.6 million held by Ranger Nickel and its related entities, in which Nickel Mines holds a 60% interest.

In addition, the Group had trade receivables of US\$84.5million (June quarter: US\$45.2 million) comprising:

- US\$47.6 million held by Hengjaya Nickel;
- US\$34.6 million held by Ranger Nickel;
- US\$2.3 million held by Hengjaya Mine³.

While Ranger Nickel's kiln 1 and kiln 2 commenced production in late May and late June respectively, first sales of NPI were not recorded until early August. Ranger Nickel was afforded earlier payment terms for a short period, receiving payment for US\$22.1M of its US\$56.7M in sales to quarter end.

Standard IMIP NPI payment terms of 60 days are now in effect for Hengjaya Nickel and Ranger Nickel meaning August and September sales receivables will translate into physical cashflow across October and November. The US\$45.2M in trade receivables reported at the end of the June quarter has been received in full.

³ Sales by Hengjaya Mine to Hengjaya Nickel and Ranger Nickel are intercompany transactions and eliminated on consolidation.

In addition to the abovementioned cash and receivables, at 30 September the Group also held inventory (valued at the lower of cost or net realisable value) of US\$37.2 million (June quarter: US\$8.9 million) comprising:

- US\$22.2 million held by Hengjaya Nickel including US\$6.0 million of NPI and US\$16.1 million of raw materials;
- US\$14.6 million held by Ranger Nickel including \$4.7 million of NPI and US\$9.9 million of raw materials;
- US\$0.4 million of nickel ore held by Hengjaya Mine.

During the September 2019 quarter, Nickel Mines made voluntary early repayments against the Ranger debt facility totalling US\$15 million. Hengjaya Nickel also repaid a further US\$3 million of a US\$9 million working capital loan to Nickel Mines and a further US\$2 million of a US\$6 million working capital loan to Shanghai Decent.

Hengjaya Mine Operations

Hengjaya Mine (80% interest held by Nickel Mines)



Mining activities at Bete Bete area.

About the Hengjaya Mine

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

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

Additional 2019 resource and infill drilling is ongoing inside IPPKH 1 and 2 with an upgraded resource model to be completed in early 2020.



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

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

Resources at the Hengjaya Mine are not fully defined and further exploration activities have commenced as discussed below.

Production Summary

		July	August	September	Quarter Total	June Qtr
Tonnes mined	wmt	57,098	64,008	77,950	199,056	78,251
Overburden mined	BCM	115,359	150,827	165,856	432,042	117,484
Strip ratio	BCM/wmt	2.0	2.4	2.1	2.2	1.5
Tonnes sold	wmt	77,933	68,326	85,228	231,487	96,023
Average grade	%	1.90	1.88	1.91	1.90	1.84
Average price received	USD/t	26.62	25.52	30.50	27.72	23.42
Average cost of production	CIF USD/t	28.31	23.81	23.18	24.85	44.11

September Quarter Production Report Highlights

Record sales were recorded for the quarter totalling 231,487 wet metric tonnes ('wmt') at an average grade of 1.9% nickel.

The average cost of production was significantly lower than the previous quarter which was adversely affected by heavy rain.

Improved weather, mine planning and operational improvements, including less re-handling of ore in pit, enhanced short term planning and quality control, have enabled the higher production rates and grade and lower operating costs to be sustained throughout the quarter. The mine operations team have also undertaken improvements to road surfaces, ramps and access in preparation for the wet season.

The ore to waste strip was as planned at 2.2:1.

The successful introduction of 6,000 tonne barging also improved loading and logistics times between the mine and the IMIP.

Mine Expansion

Several key expansion activities continued during the quarter in support of the Hengjaya Mine's plan to increase production, including widening of the existing haul road from 9 metres to 14 metres in preparation for the 45t haul trucks which form part of the production ramp up. Works on jetty expansion and mine infrastructure upgrades continued.

Additional mine site laboratory sample preparation and assay equipment has been fully commissioned and operating at a suitable level (up 300%) to cope with the explorational, infill drilling programs, lower turnaround times and associated costs. The site laboratory also manages the day to day grade control and ore blending sample assays.

The construction of the camp and mine infrastructure facilities commenced during the quarter and are anticipated to be completed early in 2020.



Widening of existing haul roads for larger haul trucks almost complete.

Exploration

The exploration and infill drilling during the quarter included 237 holes for 4,728 metres. The program included infill drilling to improve mine planning and scheduling. The drilling brings the total year to date to 421 holes for 7,709 metres.

Access to IPPKH2 allowed for ground penetrating radar works ('GPR') which totalled 642 hectares of Central and Bete Bete. The GPR survey continued to deliver excellent results defining very good targets in new and existing resource areas. Drilling has also commenced inside IPPKH2 area with preliminary results being included in the resource model due to be updated in early 2020.

Preliminary results and modelling indicate additional resources in the drilled Bete Bete area showing a potential increase of approximately 50% of saprolite.



Progress with drilling in Bete Bete and Central areas.



IPPKH 2 drilling targets include areas not drilled previously.

Planning for Limonite Ore Supply

The limonite resource continues to be modelled as the resource is updated. The new areas where GPR works have been completed are showing substantial areas for drilling targeting additional resources of both saprolite and limonite ores. Initial reviews of limonite resources indicate all iron, nickel, cobalt, silica and magnesium grades are suitable for the proposed HPAL project which can add additional revenue for the Hengjaya Mine.

A study on the various options for a haul road from the Hengjaya Mine to the IMIP are well progressed.

Mine Safety and Environment

Safety

No lost time injuries were recorded during the September quarter. Project LTIFR reporting commenced in 2019 and currently is 0.69 per million work hours.

The Hengjaya Mine site continues to develop and maintain a safety management system. Training of staff and the workforce in safe operating practices continues on a regular and routine basis. Emergency response and rescue training were also undertaken during the period.

Environment

No environmental incidents were reported during the September quarter, with work continuing on contouring and rehabilitating previously mined production areas. Initiatives taken include site rehabilitation, cedar tree planting, regional programs and long term planning on site.

During the quarter, PT Hengjaya Mineralindo was awarded a certificate of excellence for its involvement in regional rehabilitation projects working with the forestry.



Environment team working on rehabilitation planting both on mine site and with regional forestry.

Community

Community development projects continued including focus on educational, health, medical religious and agricultural projects. The Group continues to work and communicate with both local and regional stakeholders, including the Tangofa, Bete Bete and Bahodopi village regions.



Hengjaya Mine Community Development Staff working with local health and education initiatives.

QUARTERLY PROGRESS

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

“The September quarter was a highly productive period for the Company. Ranger Nickel has enjoyed a seamless ramp up to now be producing broadly in line with Hengjaya Nickel and well above nameplate capacity. From having neither of our RKEF projects in production at the beginning of the year to having just reported over 10,000 tonnes of nickel production for the September quarter is a remarkable feat and, as always, we are extremely grateful to our operational teams who have worked tirelessly to deliver this result. We are extremely pleased that the market, and particularly our valued shareholders, are now able to see the production output and cash generating potential of these assets.”

It was also highly encouraging to see the Hengjaya Mine bounce back strongly with a record quarter of production, having experienced a difficult June quarter where significant flooding had a materially negative impact on operations. Again our thanks go to our mining team and our contractor for their efforts in not only achieving a record production result but also in advancing several of the mine’s expansion initiatives as it readies to materially increase mining rates of both our saprolite and limonite ore resources.”

Statement of Compliance

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

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About Nickel Mines Limited

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

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

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



Aerial photo of the IMIP.