

21 December 2021

The Manager Companies  
ASX Limited  
20 Bridge Street  
Sydney NSW 2000

(70 pages by email)

### **NOTICE OF EXTRAORDINARY GENERAL MEETING**

Nickel Mines Limited ('the Company') provides the Notice of Extraordinary General Meeting ('Notice of Meeting') being sent to Company shareholders today, seeking shareholder approval for the Company to acquire a 70% interest in the Oracle Nickel Project ('Proposed Transaction'). Accompanying the Notice of Meeting is an Explanatory Memorandum and an Independent Expert's Report, which finds the Proposed Transaction is both fair and reasonable to shareholders with the report suggesting:

- (i) an implied valuation of the Oracle Nickel Project (on a 100% basis) under a discounted cash flow ('DCF') methodology in a range of US\$1.45 billion to US\$1.55 billion, approximately double that of the US\$750 million buy-in valuation that the Company's 70% interest (US\$525 million) is being acquired for; and
- (ii) the Proposed Transaction represents an attractive investment proposition in terms of Capital Intensity (project capital cost divided by annual nickel production capacity) relative to other significant nickel projects.

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

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting (EGM) of members is to be convened at Level 2, 66 Hunter Street, Sydney, NSW or via Zoom webcast, on Tuesday 25 January 2022 at 1.00 pm (AEDT).

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

**Zoom webcast details:  
Zoom Meeting ID – 967 7522 1914  
Password – 777396  
or access at**

<https://zoom.us/j/96775221914?pwd=TnBWamZ0L3R6TjlQOEt2c1Jsc0hqdz09>

The Explanatory Memorandum provides additional information on matters to be considered at the EGM.

The Directors have determined pursuant to regulations 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on Sunday 23 January 2022 at 7.00 pm (AEDT).

Terms and abbreviations used in the Notice and the Explanatory Memorandum will, unless the context requires otherwise, have the meaning given to them in the Glossary.

ASX takes no responsibility for the contents of this Notice of Extraordinary General Meeting or the Explanatory Memorandum.

## AGENDA

### BUSINESS

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

#### **Ordinary Resolution 1. Approval for the Company to acquire a 70% interest in Oracle Development Pte Ltd**

*'That, for the purposes of Listing Rule 10.1 and for all other purposes, approval is given for the Company to acquire such number of shares and shareholder loans in Oracle Development Pte Ltd (Oracle) which represents 70% of the equity and 70% of all shareholder loans due or owing by Oracle (and/or its subsidiaries), from Shanghai Decent Investment (Group) Co., Ltd. (Shanghai Decent) and its associates (including Decent Resource Limited), on the terms and conditions summarised in the Explanatory Memorandum accompanying this Notice of Meeting.'*

### **Voting Exclusion**

The Company will disregard any votes cast in favour of this Resolution 1 by or on behalf of Shanghai Decent or any of its associates.

However, the Company will not disregard a vote if it is cast by:

- (a) the person as proxy for a Shareholder who is entitled to vote, in accordance with directions on the Proxy Form;
- (b) the Chairperson as proxy for a Shareholder who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
  - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting; and
  - (ii) the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

**By order of the Board**



**Richard Edwards**  
**Company Secretary**

20 December 2021

**EXTRAORDINARY GENERAL MEETING  
TO BE HELD ON 25 JANUARY 2022**

**EXPLANATORY MEMORANDUM**

This Explanatory Memorandum has been prepared to assist members to understand the business to be put to members at an Extraordinary General Meeting to be held at Level 2, 66 Hunter Street, Sydney, NSW, on Tuesday 25 January 2022 at 1.00 pm (AEDT).

An Independent Expert's Report prepared by Lonergan Edwards & Associates Limited, which sets out a detailed examination of the Proposed Transaction to enable Shareholders to assess its merits is attached to this Explanatory Memorandum. Shareholders are encouraged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

**The Independent Expert has concluded that the Proposed Transaction is fair and reasonable.**

**Resolution 1 - Approval for the Company to acquire a 70% interest in Oracle Development Pte Ltd**

**1.1 Background to the Proposed Transaction**

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

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

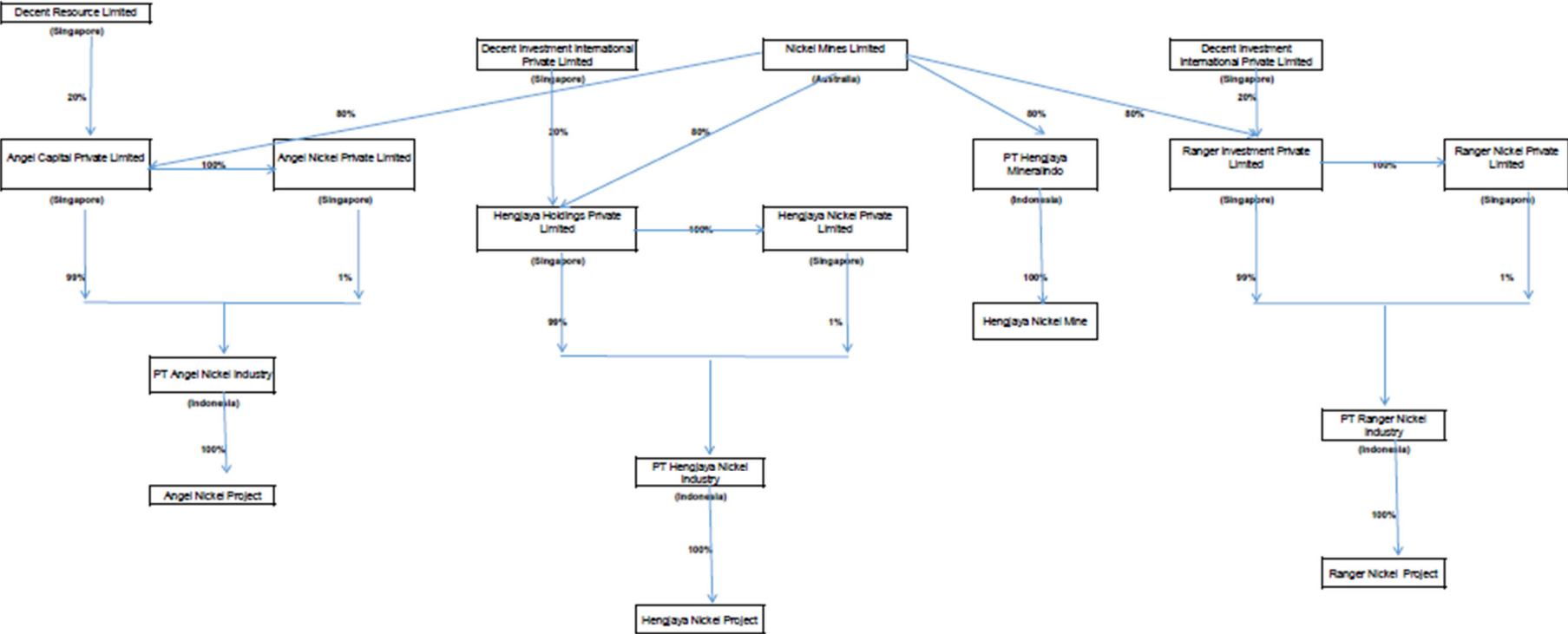
The Company will acquire its interest in the Oracle Nickel Project through the acquisition of 70% of the shares in Oracle Development Pte Ltd (**Oracle**) and shareholder loans due or owing by Oracle (and/or its subsidiaries). Oracle will wholly own (directly and indirectly) 100% of the shares in PT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

The Proposed Transaction is based on a total valuation for the Oracle Nickel Project and Oracle Power Plant of US\$750 million (on a 100% basis) and Nickel Mines will secure its 70% interest through payments (in several tranches as outlined in section 1.2) of US\$525 million (US\$750 million x 70%), comprised as follows: acquisition consideration of US\$371 million (US\$530 million x 70%), as well as the obligation to provide construction funding of US\$154 million (US\$220 million x 70%).

The Company already holds an 80% interest in four operational RKEF lines within the IMIP, and four lines under construction at the Indonesia Weda Bay Industrial Park (**IWIP**), which is another industrial park in Indonesia. Two of these lines form the **Hengjaya Nickel Project** and two form the **Ranger Nickel Project**, whilst the four lines under construction at IWIP form the **Angel Nickel Project**.

The Oracle Nickel Project will be owned under a replica corporate structure to the Company's Hengjaya Nickel (detailed in the Company's prospectus dated 2 August 2018), Ranger Nickel (detailed in the explanatory memorandum to the Company's extraordinary general meeting held on 26 July 2019) and Angel Nickel Projects (detailed in the explanatory memorandum to the Company's extraordinary general meeting held on 19 January 2021).

Current corporate structure of the Nickel Mines Group as at the date of this Notice:



Refer to page 9 for the corporate structure of the Oracle Nickel Project.

## 1.2 Key terms of the Proposed Transaction

The key terms of the Proposed Transaction are summarised in the table below:

<b>Vendor</b>	Decent Resource																				
<b>Assets being acquired</b>	<p>The acquisition will occur in three tranches, as follows:</p> <ul style="list-style-type: none"> <li>• <b>First Acquisition</b> - 10 shares (representing 10% of the issued capital) of Oracle and the assignment to Nickel Mines of 10% of aggregate shareholder loans due or owing by Oracle (and/or its subsidiaries) to Decent Resource or Shanghai Decent (and any other associate of Shanghai Decent).</li> <li>• <b>Second Acquisition</b> - 20 shares (representing 20% of the issued capital) of Oracle and the assignment to Nickel Mines of 20% of aggregate shareholder loans due or owing by Oracle (and/or its subsidiaries) to Decent Resource or Shanghai Decent (and any other associate of Shanghai Decent).</li> <li>• <b>Third Acquisition</b> - 40 shares (representing 40% of the issued capital) of Oracle and the assignment to Nickel Mines of 40% of aggregate shareholder loans due or owing by Oracle (and/or its subsidiaries) to Decent Resource or Shanghai Decent (and any other associate of Shanghai Decent).</li> </ul>																				
<b>Purchase price</b>	<p>The acquisition consideration for three tranches (<b>Acquisition Payments</b>) are as follows:</p> <ul style="list-style-type: none"> <li>• <b>First Acquisition Payment</b> - US\$53 million payable to Shanghai Decent and its associates as follows: <ul style="list-style-type: none"> <li>– Deposit Amount: Nickel Mines has paid US\$30 million in deposits to Shanghai Decent for the First Acquisition as follows (i) a US\$10 million ‘good faith deposit’ which was paid on execution of the Memorandum of Understanding on 22 November 2021 and (ii) a further US\$20 million deposit which was paid following signing of the CA on 7 December 2021 (together, the <b>Deposit Amount</b>); and</li> <li>– The remaining funding requirement to complete the First Acquisition is US\$23 million in cash, to be paid to Decent Resource on completion of the First Acquisition.</li> </ul> </li> <li>• <b>Second Acquisition Payment</b> - US\$106 million in cash to be paid to Decent Resource on completion of the Second Acquisition.</li> <li>• <b>Third Acquisition Payment</b> - US\$212 million in cash to be paid to Decent Resource on completion of the Third Acquisition.</li> </ul> <p>In addition, conditional upon the completion of the First Acquisition, Nickel Mines and Decent Resource shall provide, in the ratio 70:30, shareholder loans injected through Oracle to Oracle Nickel (<b>Construction Loans</b>) as per the following schedule:</p> <table border="1"> <thead> <tr> <th></th> <th><b>Nickel Mines</b></th> <th><b>Decent Resource</b></th> <th><b>Total</b></th> </tr> </thead> <tbody> <tr> <td>First Construction Loan</td> <td>US\$46,200,000</td> <td>US\$19,800,000</td> <td>US\$66,000,000</td> </tr> <tr> <td>Second Construction Loan</td> <td>US\$46,200,000</td> <td>US\$19,800,000</td> <td>US\$66,000,000</td> </tr> <tr> <td>Third Construction Loan</td> <td>US\$61,600,000</td> <td>US\$26,400,000</td> <td>US\$88,000,000</td> </tr> <tr> <td><b>Total</b></td> <td><b>US\$154,000,000</b></td> <td><b>US\$66,000,000</b></td> <td><b>US\$220,000,000</b></td> </tr> </tbody> </table>		<b>Nickel Mines</b>	<b>Decent Resource</b>	<b>Total</b>	First Construction Loan	US\$46,200,000	US\$19,800,000	US\$66,000,000	Second Construction Loan	US\$46,200,000	US\$19,800,000	US\$66,000,000	Third Construction Loan	US\$61,600,000	US\$26,400,000	US\$88,000,000	<b>Total</b>	<b>US\$154,000,000</b>	<b>US\$66,000,000</b>	<b>US\$220,000,000</b>
	<b>Nickel Mines</b>	<b>Decent Resource</b>	<b>Total</b>																		
First Construction Loan	US\$46,200,000	US\$19,800,000	US\$66,000,000																		
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<b>Total</b>	<b>US\$154,000,000</b>	<b>US\$66,000,000</b>	<b>US\$220,000,000</b>																		

<b>Timing</b>	<p>Acquisition Payments:</p> <ul style="list-style-type: none"> <li>• The First Acquisition must occur by no later than 31 March 2022.</li> <li>• The Second Acquisition must occur by no later than 30 June 2022.</li> <li>• The Third Acquisition must occur by no later than 31 December 2022.</li> </ul> <p>Construction Loans:</p> <ul style="list-style-type: none"> <li>• The First Construction Loan must occur by no later than 30 September 2022.</li> <li>• The Second Construction Loan must occur by no later than 31 December 2022.</li> <li>• The Third Construction Loan Acquisition must occur by no later than 31 March 2023.</li> </ul>
<b>Other key terms</b>	Please otherwise refer to the Independent Expert's Report for further information on the terms of purchase of the 70% interest in the Oracle Nickel Project.
<b>Funding</b>	The final funding mix for the Proposed Transaction is to be determined and may include cash flows from operations, debt and/or equity funding.

### 1.3 Material terms of the CA

The terms of the Proposed Transaction are governed by the terms of the CA, which is governed under the laws of Singapore.

The CA provides the ability for Nickel Mines to acquire its interest in the Oracle Nickel Project in three tranches:

- A **First Acquisition** for US\$53 million to acquire 10% of the issued capital of Oracle and the assignment to Nickel Mines of 10% of aggregate shareholder loans due or owing by Oracle (and/or its subsidiaries) to Decent Resource (and any other associate of Shanghai Decent):
  - Nickel Mines paid to Shanghai Decent a US\$10 million 'good faith deposit' upon execution of the Memorandum of Understanding on 22 November 2021 and a further US\$20 million deposit upon signing of the CA on 7 December 2021 (US\$20 million) (together, the **Deposit Amount**).
  - The First Acquisition, approval for which is being sought under this Notice of Meeting, must be completed by 31 March 2022, unless a '**Material Adverse Event**' (being an event, change or other matter that is reasonably likely to have a material adverse effect for Nickel Mines to obtain funding (whether debt or equity, and whether funding can be obtained in its entirety or otherwise on terms satisfactory to Nickel Mines acting reasonably) to fund the Second Acquisition) occurs prior to completion of the First Acquisition, in which case the parties agree to negotiate in good faith to adjust the date for completion of the First Acquisition.
  - Should Shareholder approval not be granted, and the First Acquisition does not complete as a result of such approval not being obtained, Nickel Mines will forfeit the entire Deposit Amount to Shanghai Decent.
  - If Shareholder approval is obtained and completion of the First Acquisition does not occur due to Decent Resource (and/or Shanghai Decent or any other associate of Shanghai Decent) failing to comply with its completion obligations with respect to the First Acquisition under the CA (and such failure is not remedied within 5 business days after Nickel Mines notifies Decent Resource of the same), if Nickel Mines elects not to complete the First Acquisition, Shanghai Decent shall repay the entire Deposit Amount to Nickel Mines and also pay to Nickel Mines an additional US\$30 million termination fee.
  - If the First Acquisition does not occur due to Nickel Mines failing to comply with its obligations under the CA, Shanghai Decent will have no obligation to repay (all or any part of) the Deposit Amount to Nickel Mines.

- A **Second Acquisition** for US\$106 million to acquire an additional 20% of the issued capital of Oracle and the assignment to Nickel Mines of an additional 20% of aggregate shareholder loans due or owing by Oracle (and/or its subsidiaries) to Decent Resource (and any other associate of Shanghai Decent).
  - The Second Acquisition is conditional upon Shareholder approval (which is being sought under this Notice of Meeting) and completion of the First Acquisition.
  - The Second Acquisition must be completed by 30 June 2022, unless a Material Adverse Event occurs after completion of the First Acquisition, in which case the parties agree to negotiate in good faith to adjust the date for completion of the Second Acquisition.
  
- A **Third Acquisition** for US\$212 million to acquire an additional 20% of the issued capital of Oracle and the assignment to Nickel Mines of an additional 20% of aggregate shareholder loans due or owing by Oracle (and/or its subsidiaries) to Decent Resource (and any other associate of Shanghai Decent).
  - The Third Acquisition is conditional upon Shareholder approval (which is being sought under this Notice of Meeting) and completion of the Second Acquisition.
  - The Third Acquisition must be completed by 31 December 2022, unless a Material Adverse Event occurs after completion of the Second Acquisition, in which case the parties agree to negotiate in good faith to adjust the date for completion of the Third Acquisition.

To the extent that any further shareholder loans are provided by Decent Resource (or Shanghai Decent or any other associate of Shanghai Decent) to Oracle after completion of the Third Acquisition, 60 days after commissioning of the Oracle Nickel Project (or such other date as notified by Shanghai Decent to Nickel Mines and such date not to be later than 20 May 2023), Shanghai Decent must transfer or assign (at nil consideration) such proportion of any additional shareholder loans to Nickel Mines such that Nickel Mines will hold 70% of the aggregate shareholder loans payable by Oracle (and/or its subsidiaries) to Decent Resource (or Shanghai Decent or any other associate of Shanghai Decent).

Subject to the Resolution being sought in this Notice being approved, the Company intends to complete the First Acquisition by 31 March 2022 and, subject also to the Company obtaining any required equity and/or debt funding (as applicable) sufficient to fund the Second and Third Acquisition, the Company intends to complete the Second Acquisition by 30 June 2022 and the Third Acquisition by 31 December 2022.

#### ***Shanghai Decent's role in designing and constructing the Oracle Nickel Project***

Under the terms of the CA, Shanghai Decent:

- will take the lead for the design and construction of the Oracle Nickel Project, which is to be undertaken through Oracle Nickel;
- undertakes to Nickel Mines that the Oracle RKEF Plant shall have an annual production capacity of no less than 36,000 tonnes of equivalent contained nickel;
- undertakes that the Oracle RKEF Plant will be commissioned by no later than 19 February 2023;
- undertakes to Nickel Mines that the Oracle Power Plant shall have an installed capacity of 380MW; and
- undertakes that the Oracle Power Plant will be commissioned by no later than 19 July 2023.

The construction of the Oracle Nickel Project and Oracle Power Plant will be funded through a mix of paid-up capital and shareholder loans, as well as Construction Loan, injected through Oracle to Oracle Nickel.

The actual construction cost of the Oracle Nickel Project and Oracle Power Plant is not to exceed US\$750 million. If the cost does exceed US\$750 million, Decent will reimburse Oracle Nickel in full for the costs exceeding US\$750 million, and only where those costs are actually incurred, and not prospectively or on a contingent basis.



Under the terms of the CA, if there is any omission or defect in the design and construction of the Oracle Nickel Project or Oracle Power Plant, Shanghai Decent must complete or make good any such omission or defect as soon as reasonably practicable and at its own expense.

If the parties are unable to resolve a breach or dispute under the CA, the dispute will be finally resolved by arbitration in Singapore in accordance with the Arbitration Rules of the Singapore International Arbitration Centre.

Please refer to the Independent Expert's report for further details about the Proposed Transaction and the current status of the Oracle Nickel Project.

### ***Representations and warranties under the CA***

Each party under the CA gives customary capacity warranties with regards to its ability to enter into the CA, such warranties given as at the date of the CA, completion of the First Acquisition, Second Acquisition and Third Acquisition, including that:

- the obligations under the CA constitute valid and legally binding obligations on each party;
- each party has authority to enter into and deliver the CA and the entry into the CA does not result in any breach of any constitutional document or breach of law; and
- each party has taken all actions in order to lawfully enter into, exercise its rights and perform and comply with its obligations under the CA.

Shanghai Decent further warrants to the Company that:

- as at the date of the CA, there is no civil, criminal, administrative or disciplinary or arbitration proceedings in progress, pending or threatened against Oracle, Oracle Nickel or Oracle Nickel Private Limited (**Oracle Nickel Private**) and Decent is not aware of any facts or circumstances likely to give rise to such proceedings; and
- as at the date of the CA, completion of the First Acquisition, Second Acquisition and Third Acquisition, the Oracle Nickel Project will be 100% held and owned free of any encumbrances by Oracle Nickel.

### ***Structure of the Board of Directors of Oracle, Oracle Nickel Private Limited and Oracle Nickel***

In accordance with the CA, the boards of directors of Oracle, Oracle Nickel Private Limited and Oracle Nickel shall comprise no more than five directors and the appointment or removal of any director of Oracle, Oracle Nickel Private and Oracle Nickel shall require approval of 70% of shareholders of that company.

Upon completion of the First Acquisition, at which time the Company will hold a 10% interest in Oracle, Nickel Mines will be entitled to nominate one director to the board of each of Oracle, Oracle Nickel Private and Oracle Nickel, and Shanghai Decent will be entitled to nominate four directors. Upon completion of the Third Acquisition, at which time the Company will increase its interest in Oracle to 70%, the Company will be entitled to nominate three directors to the boards of each of Oracle, Oracle Nickel Private and Oracle Nickel, and Shanghai Decent will be entitled to nominate two directors.

#### 1.4 Rationale for the Proposed Transaction

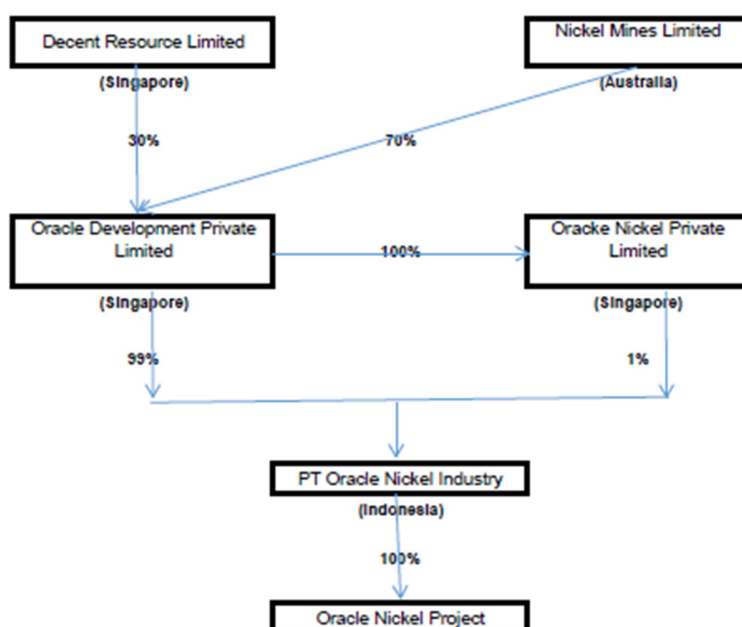
The purpose of the Proposed Transaction is for the Company to obtain a 70% ownership interest in, and fund the construction of, the Oracle Nickel Project and the Oracle Power Plant.

The Board of Nickel Mines believes the opportunity to obtain a 70% interest in the Oracle Nickel Project is a compelling economic opportunity that will deliver significant value for Nickel Mines Shareholders and is consistent with the Company's aim of becoming a globally significant nickel producer.

This opinion is supported by the Independent Expert's Report.

#### *Indicative corporate structure of the Oracle Nickel Project post completion*

On completion of the Proposed Transaction, the corporate structure of the Oracle Nickel Project is expected to be as follows:



#### 1.5 Timetable for the Proposed Transaction

Dispatch Notice of Meeting	21 December 2021
Meeting of Shareholders	25 January 2022
Completion of the First Acquisition	by 31 March 2022
Completion of the Second Acquisition	by 30 June 2022
Completion of the Third Acquisition	by 31 December 2022

The timetable above is indicative only and the Company reserves the right to vary the dates set out above subject to the Corporations Act, Listing Rules and other applicable laws.

## **1.6 Listing Rule 10.1**

Under Listing Rule 10.1, an entity must not, without shareholder approval, acquire a substantial asset from a substantial holder in the Company or an associate of a substantial holder. In general terms, Listing Rule 10.2 provides that a substantial asset is one where the value or consideration equals or exceeds 5% or more of the equity interests of the entity as set out in the most recent accounts released to ASX.

The Proposed Transaction falls within Listing Rule 10.1.3 because it involves the acquisition of a substantial asset from an associate of a substantial Shareholder of the Company. Decent Resource is an associate of Shanghai Decent, a substantial Shareholder of the Company currently holding approximately 18.67% of the issued shares in the Company.

The total equity interests of the Company as at 30 June 2021 (as contained in the Appendix 4D lodged with ASX on 26 August 2021, being the latest accounts given to ASX under the Listing Rules), is US\$1,120,200,593. Accordingly, 5% of the total equity interest of the Company as at 30 June 2021 is US\$56,010,030. The Oracle Nickel Project is considered a substantial asset for the purpose of Listing Rule 10.2 as the amount payable for the Proposed Transaction is US\$525 million (comprising US\$371 million of Acquisition Payments and \$US\$154 million of Construction Loans).

## **1.7 Independent Expert's Report**

Listing Rule 10.5.10 requires that that the notice of meeting to obtain shareholder approval for the purpose of Listing Rule 10.1 must be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders.

The Independent Expert's Report prepared by Lonergan Edwards & Associates Limited sets out a detailed examination of the Proposed Transaction to enable Shareholders to assess its merits.

**The Independent Expert has concluded that the Proposed Transaction is fair and reasonable.**

**Shareholders are encouraged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.**

## **Board Recommendation**

The Board (other than Mr Weifeng Huang) recommends that Shareholders vote in **FAVOUR** of Resolution 1.

Mr Weifeng Huang declines to give a recommendation due to the fact that he is a related party of Shanghai Decent.

If the Resolution is passed, the Company will be able to proceed with the Transaction and acquire a 70% interest in the Oracle Nickel Project. If the Resolution is not passed, the Company will not be able to proceed with the Transaction and will not be able to acquire the 70% interest in the Oracle Nickel Project and Nickel Mines will forfeit the Deposit Amount.

## GLOSSARY

<b>Acquisition Payments</b>	means the First Acquisition Payment, the Second Acquisition Payment and the Third Acquisition Payment.
<b>Angel Nickel Project</b>	means the Angel RKEF Plant, Angel Power Plant, ancillary facilities required for the operation of the Angel RKEF Plant and Angel Power Plant and the land on which the Angel RKEF Plant and Angel Power Plant (and any ancillary facilities) will be constructed within the IWIP.
<b>Angel Power Plant</b>	means one 380MW captive power plant situated in the IWIP which will supply power to the Angel RKEF Plant as well as other third-party operations within the IWIP.
<b>Angel RKEF Plant</b>	means an RKEF smelter plant with a planned nameplate annual production capacity of 36,000 tonnes of equivalent nickel (in NPI) and situated in the IWIP.
<b>ASX</b>	means ASX Limited (ABN 98 008 624 691) or the securities market it operates, as the context requires.
<b>Board</b>	means the board of Directors of the Company.
<b>Company or Nickel Mines</b>	means Nickel Mines Limited (ACN 127 510 589).
<b>Construction Loans</b>	means the shareholder loans, injected through Oracle to Oracle Nickel, to construct the Oracle Power Plant.
<b>Decent Resource</b>	Decent Resource Limited, a limited liability company incorporated in Hong Kong Special Administrative Region, PRC
<b>Deposit Amount</b>	US\$30 million already paid by Nickel Mines to Shanghai Decent towards the First Acquisition Payment.
<b>Explanatory Memorandum</b>	means the explanatory memorandum that forms part of this Notice of Meeting.
<b>First Acquisition</b>	means the initial acquisition of 10% of the issued securities in Oracle and 10% of all shareholder loans due or owing by Oracle (and/or its subsidiaries) to Shanghai Decent and its associates.
<b>First Acquisition Payment</b>	US\$53 million.
<b>Hengjaya Nickel Project</b>	means the Hengjaya RKEF Plant, ancillary facilities required for the operation of the Hengjaya RKEF Plant and the land on which they are situated within the IMIP.
<b>Hengjaya RKEF Plant</b>	means an RKEF smelter plant with a planned nameplate annual production capacity of 30,000 tonnes of equivalent nickel (in NPI) and situated in the IMIP.
<b>IMIP</b>	means the Indonesia Morowali Bay Industrial Park.
<b>Independent Expert</b>	means Lonergan Edwards & Associates Limited.
<b>Independent Expert's Report</b>	means the report issued by the Independent Expert as set out in Annexure A to this Notice.
<b>IWIP</b>	means the Indonesia Weda Bay Industrial Park, located in Central Halmahera Regency, North Maluku Province, Indonesia.
<b>Listing Rules</b>	means the official Listing Rules of the ASX as amended from time to time.
<b>Meeting or Extraordinary General Meeting</b>	means the extraordinary general meeting to be held on 25 January 2022, the subject of the Notice and the Explanatory Memorandum.
<b>MW</b>	means megawatt, a unit of power representing one million watts.
<b>NPI</b>	means nickel pig iron, a beneficiated form of nickel metal.
<b>Oracle</b>	means Oracle Development Private Limited, a private Singaporean holding company limited by shares which will own (directly and indirectly) Oracle Nickel.
<b>Oracle Nickel</b>	means PT Oracle Nickel Industry, an Indonesian PMA operating private company limited by shares which is to be incorporated and which will own the Oracle Nickel Project assets.
<b>Oracle Nickel Private</b>	means Oracle Nickel Private Limited, a private Singaporean holding company limited

	by shares and which is a wholly owned subsidiary of Oracle.
<b>Oracle Nickel Project</b>	means the Oracle RKEF Plant, Oracle Power Plant, ancillary facilities required for the operation of the Oracle RKEF Plant and Oracle Power Plant and the land on which the Oracle RKEF Plant and Oracle Power Plant (and any ancillary facilities) will be constructed within the IMIP.
<b>Oracle Power Plant</b>	means one 380MW captive power plant situated in the IMIP which will supply power to the Oracle RKEF Plant as well as other third-party operations within the IMIP.
<b>Oracle RKEF Plant</b>	means an RKEF smelter plant with a planned nameplate annual production capacity of 36,000 tonnes of nickel equivalent (in NPI) and situated in the IMIP.
<b>PMA company</b>	means a ' <i>Penanaman Modal Asing</i> ', an Indonesian foreign direct ownership company in which foreign share ownership of up to 100% is allowed.
<b>Proposed Transaction</b>	means the proposed acquisition of the Oracle Nickel Project in three stages, through the acquisition by the Company of shares in Oracle and shareholder loans in Oracle which represents 70% of the equity and 70% of the aggregate of all shareholder loans due or owing by Oracle (and/or its subsidiaries) to Shanghai Decent and its associates, as well as the funding of 70% of the Construction Loans.
<b>Ranger Nickel Project</b>	means the Ranger RKEF Plant, ancillary facilities required for the operation of the Ranger RKEF Plant and the land on which they are situated within the IMIP.
<b>Ranger RKEF Plant</b>	means an RKEF smelter plant with a planned nameplate annual production capacity of 30,000 tonnes of equivalent nickel (in NPI) and situated in the IMIP.
<b>RKEF</b>	means rotary kiln electric furnace.
<b>Second Acquisition</b>	means the acquisition of an additional 20% of the issued securities in Oracle and 20% of all shareholder loans due or owing by Oracle (and/or its subsidiaries) from Shanghai Decent and its associates.
<b>Second Acquisition Payment</b>	US\$106 million.
<b>Shanghai Decent</b>	means Shanghai Decent Investment (Group) Co., Ltd., a Tsingshan group company.
<b>Shareholder</b>	means a holder of Shares in the Company.
<b>Shares</b>	means fully paid ordinary shares in capital of the Company.
<b>Third Acquisition</b>	means the acquisition of an additional 40% of the issued securities in Oracle and 40% of all shareholder loans due or owing by Oracle (and/or its subsidiaries) from Shanghai Decent and its associates.
<b>Third Acquisition Payment</b>	US\$212 million.
<b>Tsingshan</b>	means the Tsingshan group of companies.

## ANNEXURE A - INDEPENDENT EXPERT'S REPORT

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

15 December 2021

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

Dear Independent Directors

**Introduction**

- 1 On 22 November 2021, Nickel Mines Limited (Nickel Mines or the Company) announced that it had entered into a multi-faceted Memorandum of Understanding (MoU)<sup>1</sup> that included the proposed purchase of a 70% interest in the Oracle Nickel Project<sup>2</sup> (defined herein) by Nickel Mines from Shanghai Decent Investment (Group) Co., Ltd (Shanghai Decent)<sup>3</sup> (the Proposed Transaction).
- 2 The Oracle Nickel Project is currently under construction and comprises four new rotary kiln electric furnace (RKEF) lines, as well as the ancillary facilities required for the operation of the RKEF lines. In addition, the construction of a 380 megawatt (MW) captive power plant and associated ancillary facilities (Power Plant) that will support the RKEF lines and the IMIP's overall grid power requirements, will separately be undertaken.
- 3 The Proposed Transaction is based on a total valuation for the Oracle Nickel Project and Power Plant of US\$750 million (on a 100% basis) and Nickel Mines will secure its 70% interest through combined payments of US\$525 million (Consideration), detailed as follows:
  - (a) the "acquisition" component – US\$371 million payable in three stages up to 31 December 2022, pursuant to which Nickel Mines will acquire a 70% interest in the Oracle Nickel Project
  - (b) the "construction" funding obligation – US\$154 million payable by 31 March 2023, funded by way of shareholder loans.

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<sup>1</sup> The other facets of this MoU covered the establishment of a Future Energy collaboration framework to optimise the transition to renewable energy sources, as well as the planned participation in future HPAAL projects utilising Nickel Mines' current and prospective resources across Indonesia to produce battery grade nickel.

<sup>2</sup> As well as committing to 70% of the shareholder loans, which will fund the associated captive power plant.

<sup>3</sup> A Tsingshan Holding Group (Tsingshan) group company.

**Authorised Representatives:**

Wayne Lonergan • Craig Edwards\* • Hung Chu • Martin Hall • Martin Holt\* • Grant Kepler\* • Julie Planinic\* • Nathan Toscan • Jorge Resende

- 4 On signing the MoU, the Company paid a US\$10 million “good faith deposit” to Shanghai Decent. On 8 December 2021, Nickel Mines announced that it had entered into a binding Definitive Agreement<sup>4</sup> with Shanghai Decent to acquire a 70% equity interest in the Oracle Nickel Project, which formalised the Company’s investment opportunity under the MoU.
- 5 On signing the Agreement, the Company paid a further US\$20 million “down payment” to Shanghai Decent, with the combined US\$30 million to be offset against the acquisition component. The remaining Consideration (US\$495 million) will be funded from a combination of cash reserves (including operating cash flows), debt and equity, at the Company’s sole discretion.

### **The Oracle Nickel Project**

- 6 The Oracle Nickel Project is a development project located within the Indonesia Morowali Industrial Park (IMIP)<sup>5</sup> in Central Sulawesi, Indonesia. PT Oracle Nickel Industry (PT ONI), wholly owned by Oracle Development Private Limited (Oracle Development), a Singapore based private company, will wholly own the Oracle Nickel Project.
- 7 PT ONI 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)). Construction of the RKEF lines has commenced. PT ONI will also separately undertake the construction and operation of the Power Plant<sup>6</sup>. Following full payment of the acquisition component of the Consideration, the Oracle Nickel Project will be 70% owned by Nickel Mines and 30% by Shanghai Decent.
- 8 The Oracle 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 Oracle Nickel Project. Furthermore, Shanghai Decent will indemnify PT ONI for any construction costs of the Oracle Nickel Project and Power Plant exceeding US\$750 million.

### **Nickel Mines**

- 9 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 80% interests in each of:
  - (a) the Hengjaya and Ranger Nickel Projects, which include four RKEF processing facilities<sup>7</sup> located in the IMIP; and
  - (b) the Angel Nickel Project, which includes four RKEF processing facilities located in the Indonesia Weda Bay Industrial Park (IWIP) on Halmahera Island in Indonesia’s North

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<sup>4</sup> Collaboration Agreement Relating to the Oracle RKEF Project (the Agreement). The Agreement was entered into on 7 December 2021.

<sup>5</sup> The IMIP is the world’s largest nickel industrial site and has a vertically integrated stainless facility with a current stainless steel production capacity of 3 million tonnes per annum (Mtpa).

<sup>6</sup> The Oracle Nickel Project’s asset specifications will replicate those of the Company’s 80% owned Angel Nickel Project within the Indonesia Weda Bay Industrial Park (IWIP) on Halmahera Island that is anticipated to commence commissioning in March 2022.

<sup>7</sup> Each of the Hengjaya and Ranger Nickel Projects operates two RKEF lines.

Maluku province. Commissioning of the Angel Nickel Project is expected to commence in March 2022.

- 10 Nickel Mines also owns an 80% interest in the Hengjaya Mineralindo Nickel Mine (Hengjaya Mine), a large tonnage, high grade nickel laterite deposit located in the Morowali Regency of Central Sulawesi, Indonesia. The deposit is located just 12 kilometres from the IMIP. The Company also recently announced the staged acquisition of 100% of the Siduarsa Nickel-Cobalt Project in the Papua province of Indonesia. This project is an early-stage nickel and cobalt deposit.

## **Purpose**

- 11 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<sup>8</sup>). The ASX Listing Rules require the notice of meeting sent to shareholders to include an independent expert's report (IER), stating whether the transaction is "fair and reasonable" to the Nickel Mines non-associated shareholders.
- 12 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.
- 13 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**

- 14 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.
- 15 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.

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<sup>8</sup> For the purposes of this report, all future references to "Nickel Mines shareholders" is a reference to the "Nickel Mines non-associated shareholders".



### Assessment of fairness

- 16 The Consideration of US\$525 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 Oracle Nickel Project based on nameplate steady state rates of production, a reasonable assessment of future nickel prices and operating costs.
- 17 The Consideration for the Proposed Transaction is also:
- (a) consistent with the implied values of the interests in the Hengjaya, Ranger and Angel Nickel Projects acquired by Nickel Mines from Shanghai Decent
  - (b) an attractive investment proposition in terms of the Capital Intensity<sup>9</sup> of the Oracle Nickel Project relative to other significant nickel projects.

### Assessment of reasonableness

- 18 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

- 19 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:

#### Advantages

- (a) the Oracle Nickel Project, which will include new interests in RKEF plants located at the IMIP, 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 increase the Company's NPI production by around 50%<sup>10</sup> and is value accretive, with the Consideration (totalling US\$525 million) being less than the NPV of the expected future cash flows from the proportionate interest to be acquired in the Oracle Nickel Project
- (c) the Oracle Nickel Project is similar to the Hengjaya, Ranger and Angel Nickel Projects in which Nickel Mines has respective 80% interests. The Hengjaya and Ranger Nickel Projects have provided Nickel Mines with positive income contribution since commissioning<sup>11</sup>
- (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 Oracle Nickel Project and Power Plant, as well as 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 unsold production

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<sup>9</sup> Capital Intensity is the project capital cost divided by annual nickel production capacity.

<sup>10</sup> Above the combined NPI production capacity from the Hengjaya, Ranger and Angel Nickel Projects (note, at the time of commissioning of the Oracle Nickel Project the Angel Nickel Project will be fully operational).

<sup>11</sup> The Angel Nickel Project is expected to commence commissioning in March 2022.

### Disadvantages

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

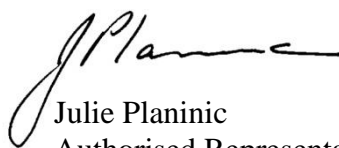
### Other considerations

- 20 As stated above, the “acquisition” component of the Consideration may be funded by existing cash reserves, debt funding and equity funding (or a combination thereof). We understand that operating cash flows, which can be reasonably expected to be generated by the current 80% interests in the Hengjaya and Ranger Nickel Projects (as well as the Angel Nickel Project post commissioning and ramp up) in the period to 31 March 2023, will also be used toward funding the Proposed Transaction.

### Conclusion

- 21 In our opinion, the advantages of the Proposed Transaction significantly outweigh the disadvantages.
- 22 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.
- 23 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.
- 24 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

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## **Appendices**

- A Financial Services Guide**
- B Qualifications, declarations and consents**
- C History of Nickel Mines' operations**
- D Glossary**

## I Key terms of the Proposed Transaction

### PT ONI

- 25 PT ONI will wholly own the Oracle Nickel Project, a development project comprising four RKEF lines with an annual nameplate capacity of 36,000 tonnes of NPI currently under construction within the IMIP in Central Sulawesi, Indonesia. In addition, PT ONI will separately construct and operate a captive 380 MW power station (Power Plant).

### Terms of the Proposed Transaction

- 26 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<sup>12</sup> on 7 December 2021. Oracle Development is a private company incorporated in Singapore and holds 100% of the shares in PT ONI.
- 27 Under the terms of Agreement, the Company will secure its 70% interest in the Oracle Nickel Project through an “acquisition” component comprising US\$371 million, together with the obligation to provide US\$154 million of “construction” funding by way of shareholder loans, injected through Oracle Development to PT ONI. The agreed payment schedule and Nickel Mines’ ownership interest in the Oracle Nickel Project is as follows:

Payment schedule				
Date	Amount US\$m	Cumulative US\$m	Ownership %	Explanation
Signing of MoU	10.0	10.0		Already paid
Definitive Agreement	20.0	30.0		Already paid
By 31 March 2022	23.0	53.0	10	
By 30 June 2022	106.0	159.0	30	
By 30 September 2022	46.2	205.2		First construction shareholder loan
By 31 December 2022	212.0	417.2	70	
By 31 December 2022	46.2	463.4		Second construction shareholder loan
By 31 March 2023	61.6	525.0		Third construction shareholder loan
<b>Total</b>	<u>525.0</u>			

- 28 The total costs of construction of the Oracle Nickel Project and Power Plant are limited to US\$750 million. Shanghai Decent undertakes to indemnify PT ONI for any construction costs exceeding US\$750 million.
- 29 Shanghai Decent irrevocably and unconditionally undertakes to procure all of the NPI product from PT ONI at market price for NPI in China and shall indemnify PT ONI for all and any losses, costs or damages should it fail to fulfil this obligation.

### Funding

- 30 The Agreement states that the “acquisition” component of the Consideration may be funded by existing cash reserves, debt funding and equity funding (or a combination thereof), at Nickel Mines’ sole discretion. The final funding mix for the Proposed Transaction is still to be determined.

<sup>12</sup> As at the date of the Agreement, Decent Resource Limited owned 100% of the shares in Oracle Development.

## Resolutions

- 31 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 Oracle Development Private Limited

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

## II Scope of our report

### Purpose

- 32 The Proposed Transaction represents an acquisition of a substantial asset<sup>13</sup> from a substantial shareholder<sup>14</sup> under Rule 10.1.3 of the ASX Listing Rules and requires the approval of Nickel Mines non-associated shareholders.
- 33 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<sup>15</sup>. 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 Transaction is “fair and reasonable” to the Nickel Mines non-associated shareholders, together with the reasons for this opinion.
- 34 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.
- 35 LEA is independent of Nickel Mines and Shanghai Decent and has no other involvement or interest in the Proposed Transaction.

### Basis of assessment

- 36 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*.
- 37 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.
- 38 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.
- 39 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.
- 40 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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<sup>13</sup> 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.

<sup>14</sup> 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.

<sup>15</sup> 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.
- 41 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the Proposed Transaction is “fair and reasonable” to Nickel Mines non-associated shareholders is to consider:
- (a) the market value of the 70% interest in the Oracle Nickel Project
  - (b) the Consideration to be paid by Nickel Mines for the 70% interest in the Oracle 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.
- 42 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**

- 43 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).
- 44 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.
- 45 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.



- 46 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.
- 47 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

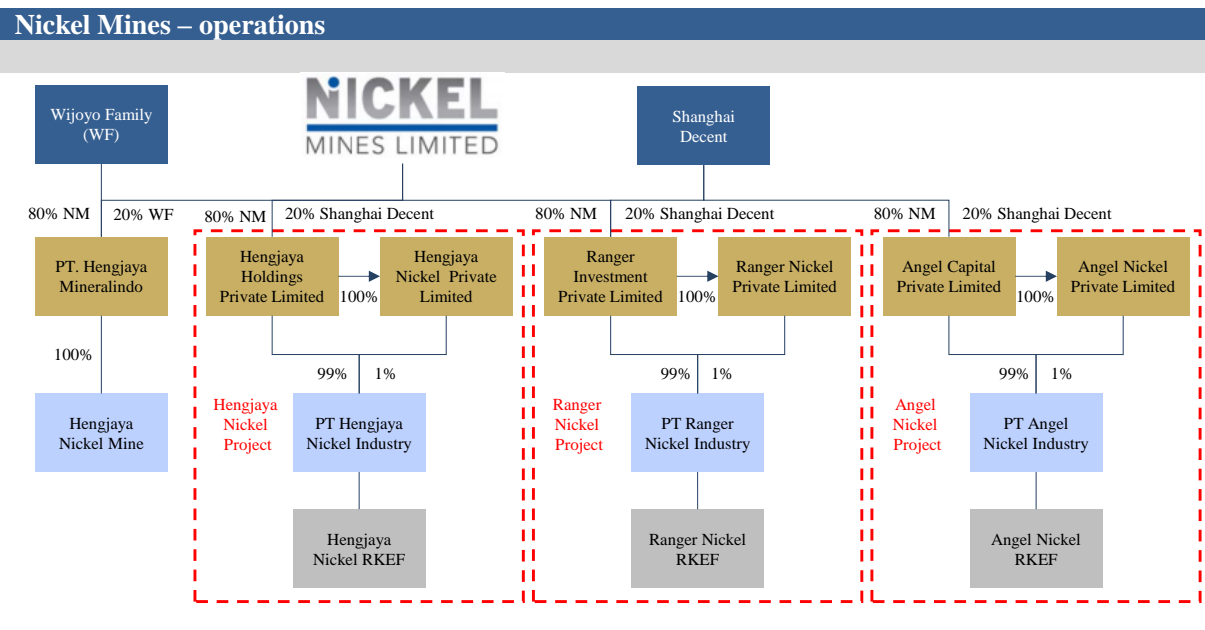
48 Nickel Mines is an ASX listed Australian company with assets in Indonesia that has become a globally significant, low-cost producer of NPI, a key ingredient in the production of stainless steel. The Company owns 80% interests in the Hengjaya, Ranger and Angel Nickel Projects (all of which are NPI projects), and an 80% economic interest in the Hengjaya Mine, which produces nickel laterite ore. The Company also recently announced the staged acquisition of 100% of the Siduarsa Nickel-Cobalt Project (an early-stage nickel and cobalt project) in the Papua province of Indonesia.

#### History

49 A history of Nickel Mines’ operations and acquisition of interest in the Hengjaya, Ranger and Angel Nickel Projects is set out in Appendix C.

#### Current operations

50 Nickel Mines’ primary assets are 80% interests in the Hengjaya, Ranger and Angel Nickel Projects, and the Hengjaya Mine, as shown below:



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

## Nickel Mines – locations



### Hengjaya Nickel Project

- 52 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 (tpa) of NPI containing 15,000 tonnes of nickel (targeted production is 16,500 tpa 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.
- 53 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 <sup>(1)</sup> US\$/t nickel
31 March 2019	8,372	13.0	1,090	7,648
30 June 2019	31,256	14.0	4,386	7,725
30 September 2019	39,570	13.6	5,379	7,523
31 December 2019	40,911	13.6	5,578	7,778
31 March 2020	40,077	14.2	5,672	7,671
30 June 2020	34,078	14.6	4,980	7,342
30 September 2020	33,381	15.4	5,143	7,139
31 December 2020	38,390	14.9	5,719	7,612
31 March 2021	36,811	13.8	5,065	8,725
30 June 2021	36,928	13.6	5,008	9,133
30 September 2021	36,174	13.8	4,990	10,429

**Note:**

- 1 Cash costs exclude depreciation and interest.

### Ranger Nickel Project

- 54 The Ranger Nickel Project is 80% owned by Nickel Mines. The project is a replication of the low cost Hengjaya Nickel Project, and operates two 42 KVA RKEF lines with a similar production capacity (nameplate production of 150,000 tpa of NPI containing 15,000 tonnes of nickel) and operational cost structure.
- 55 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 both its nameplate and targeted monthly run rates, and production for the September 2019 quarter was also above nameplate and targeted quarterly levels. In the following quarters to 30 September 2021, production levels have all been significantly higher than nameplate and targeted production levels, as shown below:

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

**Note:**

- 1 Cash costs exclude depreciation and interest.

### Angel Nickel Project

- 56 The Angel Nickel Project is 80% owned by Nickel Mines. The project is located in the IWIP and once in operation will have four RKEF lines with combined nameplate production of 36,000 tonnes of nickel per annum. Similar to the other RKEF modules that are operated by Tsingshan in Indonesia, the Angel Nickel Project is expected to have operating costs in the lowest quarter of global NPI producers.
- 57 The Angel Nickel Project is currently in the construction stage, with commissioning expected in the first quarter of 2022, which is well ahead of the October 2022 contractual delivery date for the commencement of commissioning. The first of four RKEF lines is now expected to be commissioned in March 2022, with the other three RKEF lines to be commissioned progressively over the following 60 to 90 days. This would result in all four RKEF lines producing NPI by June 2022.

### Hengjaya Nickel Mine

- 58 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.

- 59 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 JORC<sup>16</sup> compliant resources as follows (as announced to the ASX on 27 August 2020):

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

- 60 Recently, numerous expansion initiatives have been undertaken with the underlying objective being to unlock the strategic value of Hengjaya Mine’s large-scale resource. While having the immediate effect of scaling up production levels and reducing costs, many of the expansion initiatives are designed to prepare the mine to be a future material supplier of both saprolite and limonite ore to the IMIP. These expansion initiatives included:
- (a) developing the Central Pit as both an additional production area to the existing Bete Bete Pit with a shorter haul road distance to the jetty
  - (b) developing dedicated haul roads from the Bete Bete Pit through the Central Pit to the jetty to facilitate the use of larger 40 tonne haul trucks
  - (c) expanding the jetty capacity to allow for the simultaneous loading of multiple 10,000 tonne barges
  - (d) building a modernised campsite and auxiliary facilities to cater for an expanded and upskilled workforce
  - (e) upgrading of onsite ore preparation and analytical laboratories
  - (f) construction of an ore scalping grizzly to allow faster separation of oversized rock from ore to increase ore recovery; and
  - (g) commencing the design and construction of a direct haul road between Hengjaya Mine and the IMIP to facilitate the increased supply of both saprolite and limonite ore into the IMIP.
- 61 The Hengjaya Mine has now reached annualised production of 2 million tonnes per annum (Mtpa) and is targeting this production run rate to increase to 3 Mtpa from 2022.

<sup>16</sup> Joint Ore Reserves Committee (JORC).

## Financial performance

62 The financial performance of Nickel Mines for the year to 30 June 2019 (FY19), six months to 31 December 2019, calendar year to 31 December 2020 (CY20) and six months to 30 June 2021<sup>17</sup> is set out below:

### Nickel Mines – statement of financial performance<sup>(1)</sup>

	FY19 US\$m	HY to 31 Dec 19 US\$m	CY20 US\$m	HY to 30 Jun 21 US\$m
Revenue	64.9	236.1	523.5	288.7
Cost of goods sold	(43.3)	(136.2)	(321.6)	(178.4)
<b>Gross profit</b>	21.6	99.9	201.9	110.3
Directors' fees and consultants' expenses	(2.6)	(2.9)	(4.1)	(2.8)
Depreciation and amortisation	(6.8)	(16.4)	(36.8)	(16.9)
Other expenses	(1.1)	(1.0)	(3.4)	(1.6)
Share of profit/(loss) of equity accounted investees	2.6	1.2	-	(0.1)
Net financial profit/(expenses)	58.3	10.7	(3.1)	(3.6)
<b>Profit before tax</b>	71.9	91.5	154.6	85.3
Income tax expense	(0.1)	(0.2)	(0.9)	(2.2)
<b>Profit after tax</b>	71.8	91.3	153.7	83.0
Profit attributable to non-controlling interests	6.3	34.8	43.1	17.7
<b>Profit attributable to owners of the Company</b>	65.5	56.5	110.6	65.3

**Note:**

1 Rounding differences may exist.

## Historical results

63 Nickel Mines' historical financial performance for FY19 includes the ramp up of the Hengjaya Nickel Project (which commenced operations in January 2019) and the initial commissioning of the Ranger Nickel Project (which commenced operations in late May 2019). Whilst both the Hengjaya and Ranger Nickel Projects have been operational post FY19, the ownership levels for both projects have varied, with the most recent change (which saw Nickel Mines increase its ownership from 60% to 80% for both the Hengjaya and Ranger Nickel Projects) completing on 30 June 2020. In addition, the Angel Nickel Project (in which Nickel Mines has an 80% interest) is expected to commence commissioning in March 2022. Accordingly, the historical results for Nickel Mines are not representative of ongoing financial performance.

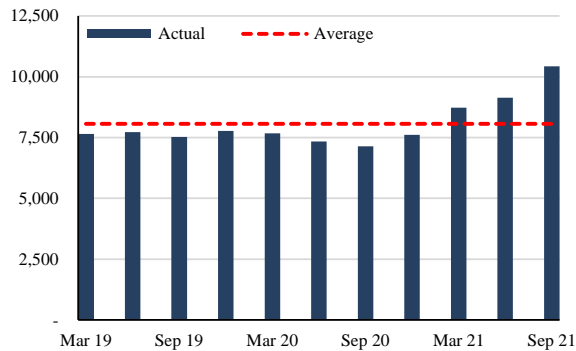
## Cash costs for the Hengjaya and Ranger Nickel Projects

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

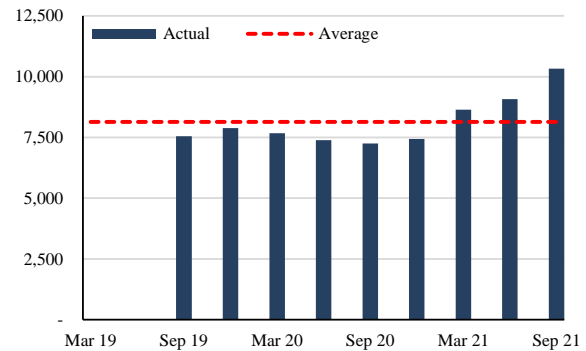
<sup>17</sup> On 14 February 2020, the Directors of Nickel Mines resolved to change the Company's financial year end date from 30 June to 31 December to align reporting dates across the Nickel Mines group entities.

Quarterly cash cost (US\$/t of nickel production)<sup>(1)</sup>

Hengjaya Nickel Project



Ranger Nickel Project



Note:

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

- 65 As indicated above, in the period post commissioning up to December 2020, cash costs for both the Hengjaya and Ranger Nickel Projects were relatively consistent, being generally around US\$7,500/t of nickel production.
- 66 The March 2021 quarter saw a material increase in operating costs for the respective Hengjaya and Ranger Nickel Projects, with cash costs rising by 14.6% and 16.1% respectively in comparison to the December 2020 quarter. The increase in cash costs was attributable to a combination of:
- an increase in London Metal Exchange (LME) nickel prices (which increased to around US\$20,000/t during the quarter and averaged approximately US\$17,500/t) and resulted in nickel ore costs increasing by approximately US\$4/t (from US\$37/t in the December 2020 quarter) to US\$41/t in the March 2021 quarter<sup>18</sup>
  - higher coal prices in the March 2021 quarter saw the costs for key inputs (such as power, reductant and smelting coal) increase materially, resulting in electricity costs increasing by approximately 20% over the quarter (from US\$0.05/Kwh to US\$0.06/Kwh).
- 67 Over the June 2021 and September 2021 quarters cash costs continued to rise due to higher power and reductant / smelting costs as a result of higher coal prices (noting that nickel ore costs appear to have stabilised).
- 68 Notwithstanding the higher cash costs, the Company's RKEF operations remain in the lowest operating cost quartile for NPI production, and given record NPI prices, Nickel Mines' EBITDA<sup>19</sup> margin per tonne of sales actually increased in the September 2021 quarter (to US\$6,190/t, an increase of 30.8% from US\$4,732/t in the June 2021 quarter). This cost advantage is highlighted by the following statement from Nickel Mines' Quarterly Report for the three months to 30 September 2021:

<sup>18</sup> Since the Indonesian Government's adoption of a new benchmark ore pricing regime in May 2020, nickel ore prices are now more closely indexed to LME price movements.

<sup>19</sup> Earnings before interest, tax, depreciation and amortisation (EBITDA).

*“Nickel Mines’ largest relative cost advantage remains the cost of nickel ore, which represents approximately 40% of the NPI operating cost base. Chinese NPI producers are currently paying US\$124 per tonne for 1.8% ore (due its relative scarcity in China) compared with Nickel Mines currently paying ~US\$40/t, with supply of lower grade ore into China set to tighten further as the Philippines comes into its wet season.”*

### Impact of COVID-19

- 69 Due to a swift response to the initial outbreak of COVID-19 at the IMIP, including strict access controls and leave suspension, and the continued enforcement of strict safety measures, the Hengjaya and Ranger Nickel Projects have continued to operate as normal throughout the COVID-19 pandemic. The IMIP is also progressively rolling out a vaccination program across the park.
- 70 Nickel Mines also implemented strict access controls and restricted non-essential movements in and out of its 80% owned Hengjaya Mine. During the September 2021 quarter the COVID-19 vaccination program for the mine site workforce was completed, with 94% of the workforce fully vaccinated.

### Financial position

- 71 The financial position of Nickel Mines as at 31 December 2020 and 30 June 2021 is set out below:

Nickel Mines – statement of financial position <sup>(1)</sup>		
	31 Dec 20	30 Jun 21
	US\$m	US\$m
Debtors and prepayments	117.8	120.6
Inventories	61.3	66.0
Creditors, accruals and provisions	(44.9)	(36.3)
<b>Net working capital</b>	134.2	150.3
Property, plant and equipment	600.8	590.4
Goodwill	55.4	55.4
Investment in equity accounted investees <sup>(2)</sup>	-	347.5
Other assets net of other liabilities	44.8	16.1
Deferred tax liabilities	(55.4)	(55.4)
<b>Total funds employed</b>	779.8	1,104.3
Cash and cash equivalents	351.4	189.8 <sup>(4)</sup>
Interest bearing liabilities	(45.0)	(173.9)
<b>Net cash<sup>(3)</sup></b>	306.4	15.9
<b>Net assets</b>	1,086.2	1,120.2
Non-controlling interests	146.2	153.5
<b>Net assets attributable to Nickel Mines shareholders</b>	940.1	966.7

**Note:**

- 1 Rounding differences may exist.
- 2 Relates to Nickel Mines’ 50% investment in the Angel Nickel Project as at 30 June 2021. Nickel Mines’ ownership of the Angel Nickel Project has subsequently increased to 80% from 1 October 2021 following the US\$210 million acquisition payment.
- 3 Given that 30% of the Angel Nickel Project was acquired for US\$210 million on 1 October 2021, Nickel Mines holds a net debt position as at the date of this report.
- 4 As at 30 September 2021, the cash and cash equivalents position was US\$120.8 million.



### Property, plant and equipment

72 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 20	30 Jun 21
	US\$m	US\$m
Buildings	60.4	59.0
Mining properties	27.3	26.5
Plant and machinery	505.9	494.3
Other (motor vehicles, office equipment etc.)	7.2	10.6
<b>Total property, plant and equipment</b>	<b>600.8</b>	<b>590.4</b>

### Net cash / debt

73 A breakdown of Nickel Mines net cash as at 31 December 2020 and 30 June 2021 is set out below:

Nickel Mines – net cash		
	31 Dec 20	30 Jun 21
	US\$m	US\$m
Cash and cash equivalents	351.4	189.8 <sup>(1)</sup>
Ranger debt facility	(45.0)	-
Senior Unsecured Notes	-	(173.9)
<b>Net cash</b>	<b>306.4</b>	<b>15.9</b>

**Note:**

1 As at 30 September 2021, the cash and cash equivalents position was US\$120.8 million.

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

- (a) in August 2019, as part of the financing package to increase the Company's interest in the Ranger Nickel Project from 17% to 60%, Nickel Mines entered into a senior debt facility agreement with a Shanghai Decent associated company (the Ranger debt facility). The drawn debts under the Ranger debt facility, which attracted an interest rate of 6% plus the greater of the three month US\$ LIBOR<sup>20</sup> or 2.5% per annum, were fully repaid during the half year to 30 June 2021
- (b) in March 2021, as part of the financing package to facilitate the Company's acquisition of its 80% interest in the Angel Nickel Project, Nickel Mines issued US\$175 million of Senior Unsecured Notes. The Senior Unsecured Notes have a coupon interest rate of 6.5% per annum, are payable semi-annually in arrears, and mature on 1 April 2024.

75 On 9 September 2021 (i.e. post the 30 June 2021 balance date), Nickel Mines announced the completion of a further US\$150 million issue of Senior Unsecured Notes, with the same terms as the US\$175 million note issue (including an interest rate of 6.5% per annum and 1 April 2024 maturity). The new Senior Unsecured Notes were consolidated with the existing Senior Unsecured Notes to form a US\$325 million single series of notes.

<sup>20</sup> London Inter-Bank Offer Rate (LIBOR).

76 As announced on 1 October 2021, a further 30% interest in the Angel Nickel Project was acquired for US\$210 million and accordingly as at the date of this report Nickel Mines holds a net debt position.

## Share capital

77 As at 7 December 2021, Nickel Mines had 2,515.0 million fully paid ordinary shares on issue.

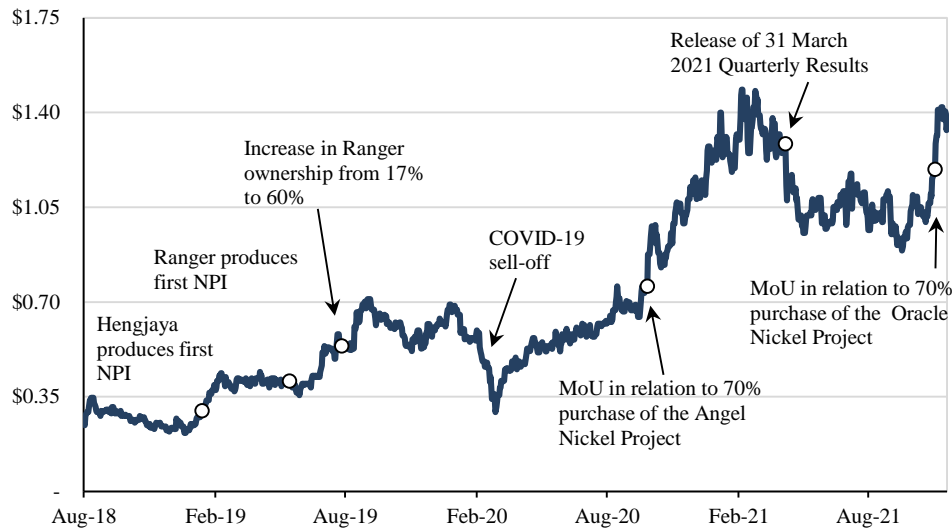
## Significant shareholders

78 As at 7 December 2021, there were four substantial shareholders in Nickel Mines that held a total of 48.7% of the ordinary shares on issue, as detailed below:

Nickel Mines – substantial shareholders		
Shareholder	Shares held	
	million	% interest
Shanghai Decent Investment (Group) Co., Ltd	469.7	18.7
PT Karunia Bara Perkasa	378.4	15.0
BlackRock Group	195.5	7.8
Baillie Gifford & Co	181.3	7.2
<b>Total</b>	<b>1,224.9</b>	<b>48.7</b>

79 The following chart illustrates the movement in the share price of Nickel Mines since listing on the ASX on 20 August 2018 to 7 December 2021<sup>21</sup>:

Nickel Mines – share price history<sup>(1)</sup>  
20 August 2018 to 7 December 2021



**Note:**

1 Based on closing prices.

Source: Bloomberg

<sup>21</sup> Being the last trading day prior to the date Nickel Mines entered into a the Agreement with Shanghai Decent to acquire a 70% equity interest in the Oracle Nickel Project.

- 80 Since listing on the ASX on 20 August 2018, the Nickel Mines share price has generally performed strongly, aside from two notable periods being, a selloff in late February to March 2020, due to initial concerns about the COVID-19 pandemic<sup>22</sup>, and the decline observed post the 31 March 2021 quarterly results<sup>23</sup>, which appears to be due to concerns about higher cash costs at the Hengjaya and Ranger Nickel Projects.
- 81 The Nickel Mines share price increased significantly following the announcement of the proposed acquisition of the 70% interest in the Angel Nickel Project on 16 October 2020. The Nickel Mines share price has also responded favourably (up to 7 December 2021) post the announcement of the proposed acquisition of a 70% interest in the Oracle Nickel Project on 22 November 2021.

### Liquidity in Nickel Mines shares

- 82 The liquidity in Nickel Mines shares based on trading on the ASX over the 12 month period prior to 7 December 2021<sup>24</sup> is set out below:

Nickel Mines – liquidity in shares						
Period	Start date	End date	No of shares	WANOS <sup>(1)</sup>	Implied level of liquidity	
			traded	outstanding	Period <sup>(2)</sup>	Annual <sup>(3)</sup>
			000	000	%	%
1 month	8 Nov 21	7 Dec 21	260,486	2,515,029	10.4	124.3
3 months	8 Sep 21	7 Dec 21	839,410	2,515,029	33.4	133.5
6 months	8 Jun 21	7 Dec 21	1,474,981	2,515,029	58.6	117.3
1 year	8 Dec 20	7 Dec 21	3,010,724	2,504,427	120.2	120.2

**Note:**

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

- 83 In each of the periods above, total share turnover (on an annualised basis) has been in excess of 117% of the total number of shares issued in Nickel Mines, indicating a high level of market liquidity.

<sup>22</sup> 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.

<sup>23</sup> Being the first period in which operating cash costs for the Hengjaya and Ranger Nickel Projects had materially increased since commissioning due to increases in nickel ore, reductant agent and thermal coal prices (refer paragraph 66).

<sup>24</sup> Being the last trading day prior to the date Nickel Mines announced that it had entered into the Agreement with Shanghai Decent to acquire a 70% equity interest in the Oracle Nickel Project.

## IV Profile of Oracle Nickel Project

### Overview

- 84 The Oracle Nickel Project is a development project located within the IMIP that will build, own and operate four RKEF lines with an annual nameplate production capacity of 36,000<sup>25</sup> tonnes of nickel metal in NPI, and ancillary facilities required for the operation of each of the RKEF lines. In addition, the construction of a 380 MW captive power plant and associated ancillary facilities (Power Plant) that will support the RKEF lines and the IMIP's overall grid power requirements, will separately be undertaken.
- 85 The asset specifications of the Oracle Nickel Project and the Power Plant will replicate those of the Company's 80%-owned Angel Nickel Project within the IWIP on Halmahera Island that is anticipated to commence commissioning in March 2022.

### The Oracle Nickel Project

- 86 The Oracle Nickel Project will have nameplate capacity of 36,000 tpa of nickel metal (in NPI). Nickel Mines' 70% interest in Oracle Nickel Project therefore represents 25,200 tpa of attributable nickel metal production. By comparison, the annual nameplate production capacity (and Nickel Mines' interest) in the Hengjaya, Ranger and Angel Nickel Projects is set out below:

Annual capacity (nickel tpa in NPI)			
Nickel Projects	Hengjaya (IMIP)	Ranger (IMIP)	Angel (IWIP)
Nameplate capacity	15,000	15,000	36,000
Nickel Mines interest	80%	80%	80%
Nickel Mines attributable nameplate capacity	12,000	12,000	28,800

- 87 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.
- 88 The Agreement provides for Shanghai Decent to take a lead role in the design and construction of the Oracle Nickel Project, with commissioning of the four Oracle RKEF lines to commence no later than 19 February 2023 and the Power Plant to commence commissioning no later than 19 July 2023 (subject to any force majeure event). In addition, Shanghai Decent has undertaken to procure all of the NPI product from PT ONI at market prices for NPI in China.
- 89 The Oracle 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 Oracle 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).

<sup>25</sup> The Company's existing Hengjaya and Ranger Nickel Projects have a combined nameplate capacity of 30,000 tonnes of nickel metal in NPI.

- 90 The Oracle Nickel Project will be organised under a similar corporate and operational structure to the Company's existing RKEF assets at the IMIP, with Shanghai Decent taking the lead role in the design and construction of the Oracle Nickel Project. Furthermore, Shanghai Decent is contractually committed that the total cost of the Oracle Nickel Project and Power Plant shall not exceed US\$750 million.
- 91 The RKEF technology in place at the IMIP gives 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 IMIP to produce a stainless-steel end product, utilising the key raw material inputs, including nickel ore and power.

### **Tax benefits**

- 92 Similar to the Hengjaya and Ranger Nickel Projects (and that expected for the Angel Nickel Project<sup>26</sup>), the Oracle 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.

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<sup>26</sup> Confirmation of these tax concessions for the Angel Nickel Project is expected upon construction nearing completion.

## V Valuation methodology

### Valuation approaches

- 93 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.
- 94 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.
- 95 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.
- 96 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, EBITDA, earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.
- 97 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**

- 98 We have assessed the value of the 70% interest in the Oracle 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\$525 million) for the 70% interest in the Oracle Nickel Project, comprising an acquisition component (US\$371 million) and construction funding obligations (US\$154 million).
- 99 As cross-checks, we have had regard to the:
- (a) Consideration payable for the Oracle Nickel Project in comparison to the transactions entered into by Nickel Mines for the acquisition of interests in the Hengjaya, Ranger and Angel Nickel Projects
  - (b) implied Capital Intensity<sup>27</sup> of the Oracle Nickel Project in comparison to other significant nickel projects.

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<sup>27</sup> Capital Intensity is the project capital cost divided by annual nickel production capacity.



## VI Valuation of the 70% interest in the Oracle Nickel Project

### Overview

- 100 As stated in Section V, we have assessed the value of the 70% interest in the Oracle 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 Oracle Nickel Project (US\$525 million<sup>28</sup>).
- 101 As cross-checks, we have had regard to the:
- (a) Consideration payable for the Oracle Nickel Project in comparison to the transactions entered into by Nickel Mines for the acquisition of interests in the Hengjaya, Ranger and Angel Nickel Projects
  - (b) implied Capital Intensity<sup>29</sup> of the Oracle Nickel Project in comparison to other significant nickel projects.

### Valuation on a DCF basis

- 102 Under the DCF methodology, the value of the Oracle 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.
- 103 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 Oracle Nickel Project, but for the following key differences:
- (a) the Oracle Nickel Project will comprise four next generation RKEF lines with nameplate annual production capacity of 36,000 tonnes of nickel metal (in NPI)<sup>30</sup>. 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<sup>30</sup>
  - (b) the Oracle Nickel Project will have 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.
- 104 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 Oracle Nickel Project), adjusted where necessary to determine reasonable forecast parameters for the Oracle Nickel Project.
- 105 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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<sup>28</sup> Including both the acquisition component (US\$371 million) and construction funding obligations (US\$154 million).

<sup>29</sup> Capital Intensity is the project capital cost divided by annual nickel production capacity.

<sup>30</sup> 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 Oracle 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.

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

107 Preparations for construction of the Oracle Nickel Project are underway and the MoU states that the four RKEF lines of the Oracle Nickel Project shall commence commissioning by no later than February 2023 (subject to any force majeure event or a serious delay due to COVID-19)<sup>32</sup> with the Power Plant due to commission not more than six months later. 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 111), we have assumed a relatively short ramp up period once in production.

108 For valuation purposes we have assumed a valuation date of 1 January 2022. Cash flows from the Oracle Nickel Project cover a period of 35 years starting in 2023<sup>33</sup>.

## **Cash flow projections**

109 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 Oracle Nickel Project.

## **Nickel metal production**

110 Nickel metal production represents the NPI production (tonnes) multiplied by the NPI grade. The Oracle Nickel Project is estimated to have an annual nameplate production capacity of

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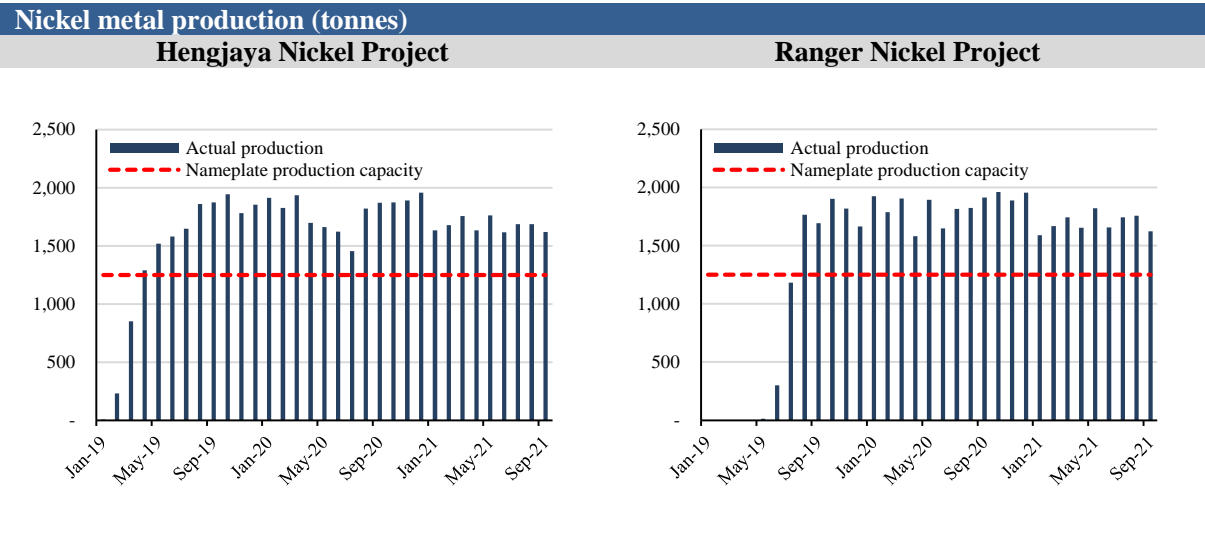
<sup>31</sup> Also calculated on an ungeared basis.

<sup>32</sup> 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 or material delay as a result of COVID-19, the Oracle Nickel Project will be put into commissioning by no later than 19 February 2023.

<sup>33</sup> Noting that the useful life of the RKEF lines is well in excess of this.

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.

- 111 Following a short ramp up period post commissioning, both the Hengjaya and Ranger Nickel Projects have consistently exceeded nameplate (and targeted) production capacity (which is 1,250 tonnes of nickel metal (in NPI) per month), as shown below:



- 112 For the 12 months to 30 September 2021, nickel metal production for the Hengjaya and Ranger Nickel Projects was 20,782 tonnes and 21,069 tonnes respectively, which is some 38.5% (Hengjaya) and 40.5% (Ranger) above nameplate capacity. Since inception, nickel metal production has exceeded nameplate production capacity by 38.5% (Hengjaya) and 42.2% (Ranger).

- 113 Given the potential for the Oracle 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

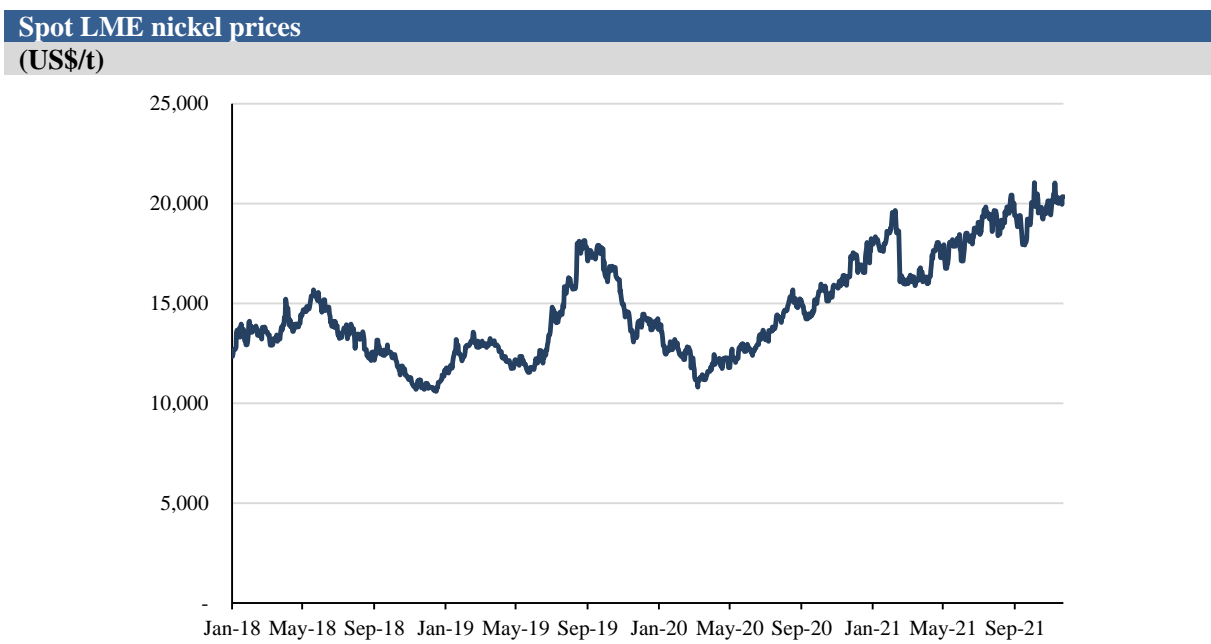
- 114 The NPI market is ostensibly a Chinese-orientated market with prices increasingly a function of individual contract negotiations between buyer and seller. Whilst indicative prices are published by a number of sources, there are numerous adjustments applied to the published prices to account for specification composition, freight and foreign exchange.
- 115 NPI prices essentially follow the benchmark LME nickel price, with a premium or discount depending on the level of adjustment. However, there are other variables that can influence NPI prices, including the breakeven levels for typical Chinese NPI producers (who have significantly higher cost bases than Indonesian NPI producers).
- 116 Nickel Mines' realised NPI prices from the Hengjaya and Ranger Nickel Projects have averaged 93%, 87% and 86% in 2019, 2020 and 2021 to date of the comparable LME nickel

price, noting that realised prices have ranged between 76% and 98% during 2021 to date<sup>34</sup>. The adopted NPI prices for our base case scenario are therefore based on LME nickel prices less an allowance for adjustment discounts.

- 117 The RKEF lines at the Oracle Nickel Project are assumed to be commissioned in the first quarter of 2023, with the Power Plant due to be commissioned not more than six months later. Accordingly, for the valuation of the Oracle Nickel Project, we have considered LME nickel prices from 2023.

**Spot nickel prices**

- 118 Spot LME nickel prices for the period from 1 January 2018 to 7 December 2021 are set out below:



Source: Bloomberg, as at 7 December 2021.

**Analyst forecast prices and forward nickel prices**

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

<sup>34</sup> During the end of the June 2021 quarter and into the first half of July, Chinese NPI prices (and payabilities relative to LME nickel prices) increased, fuelled by robust stainless-steel consumption and supply tightness across the NPI market.

Nickel price forecasts					
	2023	2024	2025	2026	2027+
	US\$/t	US\$/t	US\$/t	US\$/t	US\$/t
<b>Analyst forecasts</b>					
Average (nominal prices)	17,342	16,627	16,821	17,539 <sup>(1)</sup>	17,539 <sup>(1)</sup>
Median (nominal prices)	16,767	16,875	17,568	17,509 <sup>(1)</sup>	17,509 <sup>(1)</sup>
Number of analysts	22	18	16	10	10
Average (real prices)	16,792 <sup>(2)</sup>	15,784 <sup>(2)</sup>	15,655 <sup>(2)</sup>	15,467 <sup>(1)</sup>	15,467 <sup>(1)</sup>
Median (real prices)	16,235 <sup>(2)</sup>	16,019 <sup>(2)</sup>	16,351 <sup>(2)</sup>	15,476 <sup>(1)</sup>	15,476 <sup>(1)</sup>
Number of analysts	22	18	16	9	9
<b>Forward prices</b>					
Forward nickel prices (nominal prices)	19,535	19,456	19,435	19,477	na <sup>(3)</sup>
Forward nickel prices (real prices) <sup>(2)</sup>	18,937	18,490	18,108	17,791	na <sup>(3)</sup>

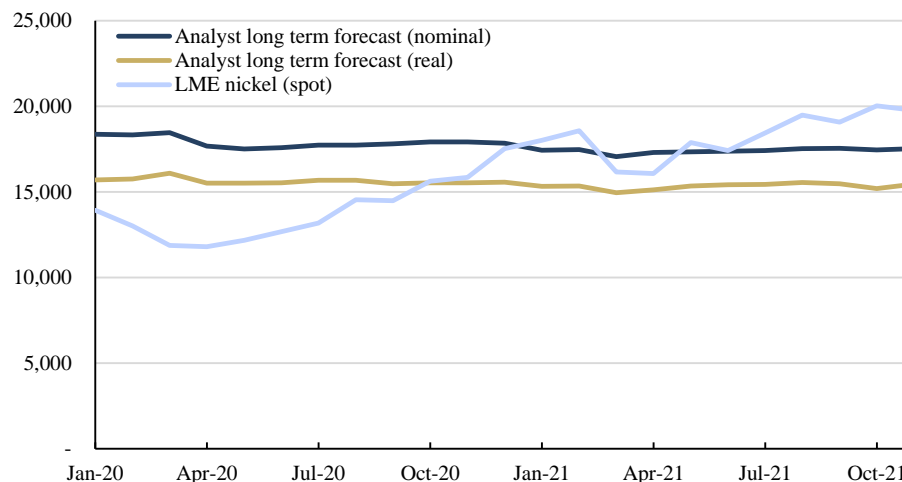
**Note:**

- Analyst long term nickel prices relate to 2026 to 2030.
  - Nominal nickel prices have been adjusted to remove assumed inflation (of 2.0% per annum).
  - Nickel forward prices only extend to 17 March 2027 and as such a reasonable average for the full 2027 year cannot be determined.
- na – not available.

**Source:** Consensus Economics, as at 15 November 2021. Bloomberg, as at 7 December 2021.

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

**Long term nickel price forecasts and spot nickel prices<sup>(1)</sup> (\$US/t)**



**Source:** Consensus Economics, Bloomberg as at 7 December 2021.

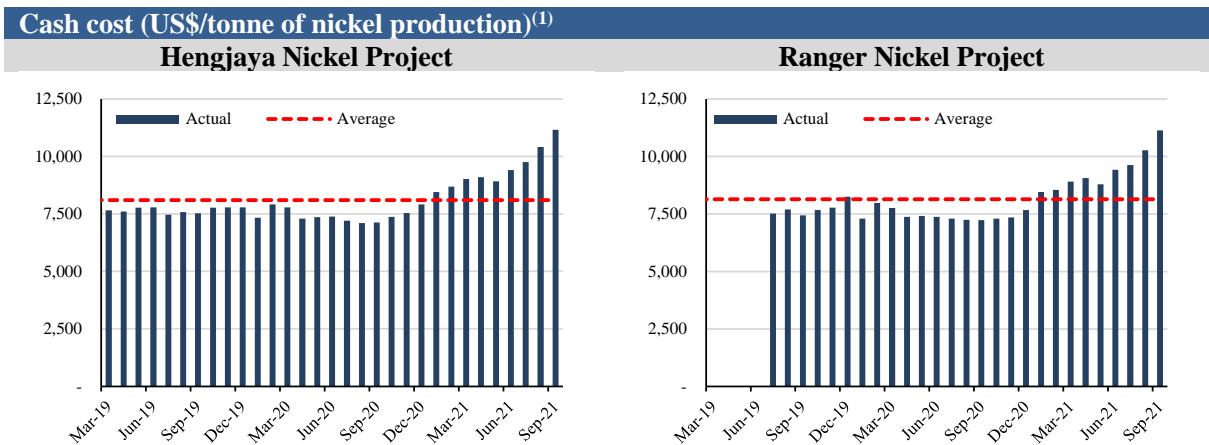
**Nickel and NPI prices adopted**

121 Having regard to the above, for the purposes of our report we have adopted the following LME nickel and implied NPI prices for our base case scenario:

NPI price (real) adopted (US\$/tonne)					
	2023	2024	2025	2026	2027+
LME nickel price (real)	17,500	17,000	16,500	16,000	15,500
Price adjustment discount	10%	10%	10%	10%	10%
Adopted NPI price (real)	15,750	15,300	14,850	14,400	13,950

## Cash costs

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



**Note:**

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

123 As indicated above, in the period post commissioning up to December 2020, cash costs for both the Hengjaya and Ranger Nickel Projects were relatively consistent around US\$7,500/t. In more recent periods, cash costs at the respective operations have increased to over US\$11,000/t. As set out in further detail in paragraphs 66 and 67, this is attributable to the increasing costs for nickel ore and higher power and reductant / smelting costs as a result of rising coal prices.

124 As noted above, the new RKEF lines will obtain electricity supply<sup>35</sup> 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%. As a result, other than power / electricity costs, Nickel Mines expects cash costs on a per tonne basis for the Oracle Nickel Project to be similar to those for the Hengjaya and Ranger Nickel Projects.

125 To allow for ownership of the Power Plant in our valuation we have lowered the comparative cost of electricity supply to the Oracle Nickel Project by approximately 20% (which equates to a reduction in cash costs of approximately US\$400/t in the context of long term electricity prices<sup>36</sup>).

<sup>35</sup> 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.

<sup>36</sup> Noting current electricity prices have increased as a result of the recent increase in thermal coal prices.

126 For the purposes of our report, we have adopted the following cash costs for our base case scenario:

Cash costs (US\$/t) <sup>(1)</sup>	2023	2024	2025	2026	2027+
Adopted cash costs (real)	9,600	9,100	8,600	8,100	8,000

**Note:**

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

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

**Sustaining capital expenditure and depreciation**

128 Based on Nickel Mines' experience at the Hengjaya and Ranger Nickel Projects (capital expenditure for which subsequent to commissioning has been modest to date) and its understanding of the Oracle Nickel Project, we have assumed sustaining capital expenditure of some US\$1.0 million per annum for our base case scenario<sup>37</sup>. For simplicity, we have also assumed that depreciation is equal to capital expenditure<sup>38</sup>.

**Working capital**

129 An allowance for working capital for the Oracle 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**

130 The assumed Indonesian corporate tax rate will be 20%. However, we have been advised that the Oracle 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.

131 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

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

<sup>38</sup> This is for both the upfront and sustaining capital expenditure.

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

- 132 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**

- 133 We have adopted a discount rate of 10.5% per annum (after tax in real terms) based on the midpoint of the assessment below for the Oracle Nickel Project:

Weighted average cost of capital (WACC)		
	Low	High
	%	%
Beta	1.1	1.2
Risk premium	6.0	6.0
Risk free	3.0	3.0
<b>Cost of equity</b>	9.6	10.2
Specific company risk premium	1.0	2.0
Country risk premium	3.0	3.0
<b>Cost of equity including other premiums</b>	13.6	15.2
Cost of debt pre tax	8.0	9.0
<b>Cost of debt post tax<sup>(1)</sup></b>	6.0	6.8
Proportion equity	80.0	80.0
Proportion debt	20.0	20.0
<b>WACC (after tax)</b>	12.1	13.5
Forecast inflation <sup>(2)</sup>	2.0	2.0
Real WACC (after tax)	9.9	11.3
<b>Adopt</b>	<b>10.5</b>	<b>10.5</b>

**Note:**

- 1 The post-tax cost of debt is derived adopting Indonesia's 20% corporate tax rate.
- 2 Given the cash flows for the Oracle 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 7 December 2021, inflation implied by the 30 year US Government Bonds compared to the relevant US Treasury Inflation Indexed Bonds (i.e. implied inflation for 30 years from this date) was 2.3%.

- 134 LEA's discount rate assessment reflects:

- (a) a **risk free rate** of 3.0% per annum – our adopted risk free rate is higher than the average yield on the 30 year US Government Bond of 1.9% during November 2021. 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<sup>39</sup>
- (c) an **equity beta** of 1.1 to 1.2 – having regard to:
  - (i) the tolling nature of the Oracle Nickel Project’s proposed facilities
  - (ii) the Oracle 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 Oracle Nickel Project, which as at the date of our report had broken ground and is under construction
- (e) **country risk premium**<sup>40</sup> of 3% has been adopted based on Indonesia’s country bond default spread<sup>41</sup>
- (f) a long-term **cost of debt** of 8% to 9%<sup>42</sup>. This is higher than the interest rate for the Senior Unsecured Notes recently issued by Nickel Mines (of 6.5% per annum), however we consider this appropriate noting:
  - (i) the relatively short duration of the Senior Unsecured Notes (which mature on 1 April 2024) whereas our adopted cost of debt represents a long-term rate
  - (ii) the cost of debt for the Oracle Nickel Project has been assessed on a project specific level, which we consider should be higher than the observed cost of debt for Nickel Mines (which has operating cash flow from the Hengjaya and Ranger Nickel Projects)
- (g) a conservative **gearing ratio** (debt / enterprise value) of 20%
- (h) a long-term **inflation rate** of 2.0% per annum, which is lower than the estimated long-term inflation rate in the US currently around 2.3% per annum. In the context of a “real” valuation this is a conservative assumption as this results in a slightly higher discount rate.

### Sensitivity analysis

- 135 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.
- 136 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.
- 137 In assessing our valuation range we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

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<sup>39</sup> 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.

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

<sup>41</sup> 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.

<sup>42</sup> The adopted cost of debt implicitly includes allowance for a country risk premium.



Variable	Base case assumption	Sensitivity %	Value range \$m
Nickel production	36,000 tpa	32,000 tpa to 48,000 tpa	1,328 – 2,008
LME nickel price (real) 2023-2026	US\$16,000/t to US\$17,500/t	+ / - 10%	1,362 – 1,633
LME nickel price (real) 2027+	US\$15,500/t	+ / - 10%	1,270 – 1,726
NPI price adjustment discount	10%	15% to 5%	1,296 – 1,700
Cash costs per tonne (real) 2023-2026	US\$7,900/t to US\$9,200 /t	+ / - 10%	1,418 – 1,577
Cash costs per tonne (real) 2027+	US\$7,800/t	+ / - 10%	1,367 – 1,628
Discount rate	10.5%	11.5% to 9.5%	1,376 – 1,639

138 Since reaching steady state operations, the Hengjaya and Ranger Nickel projects have on average consistently exceeded their nameplate production capacity by 38.5% and 42.2% respectively (refer paragraphs 111 to 112). In comparison, the high end of the above nickel production sensitivity analysis (48,000 tpa) is 33.3% higher than nameplate production capacity for the Oracle Nickel Project.

139 The value attributable to the effective nine year tax holiday in our base case DCF valuation is approximately US\$172 million for the Oracle Nickel Project, based on our adopted discount rate of 10.5% (before any adjustment for the risk of amendment or adjustment by the Indonesian Government).

#### **Adopted DCF value**

140 Based on the above assumptions, the value of 100% of the Oracle Nickel Project under the DCF approach ranges from US\$1.45 billion to US\$1.55 billion, with the corresponding value of Nickel Mines' 70% interest ranging from US\$1.0 billion to US\$1.1 billion.

141 The above values are based on the nameplate capacity of the Oracle Nickel Project of 36,000 tpa of nickel production. As noted above, the Hengjaya and Ranger Nickel Projects have both, on average, operated at levels around 40% higher than nameplate capacity. At similar levels of production outperformance (i.e. 40%), the value of 100% of the Oracle Nickel Project would be substantially greater than the values derived above.

142 Our assessed values are in excess of the US\$750 million value attributed to 100% of the Oracle Nickel Project and Power Plant (Nickel Mines' 70% attributable share is US\$525 million) based on the Proposed Transaction.

#### **Cross check to Nickel Mines' transactions**

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

#### **Hengjaya Nickel Project transactions**

144 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

145 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 Collaboration Agreement (Ranger CA) occurred in November 2018 and comprised a 17% interest for a price of US\$50 million<sup>43</sup>. 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<sup>44</sup> 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
- (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.

146 Based on the relative nameplate capacity of the Oracle Nickel Project when compared to the Hengjaya and Ranger Nickel Projects, the US\$750 million construction cost is considered reasonable.

<sup>43</sup> 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.

<sup>44</sup> 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.

### Angel Nickel Project transactions

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

- (a) **acquisition of initial 30%** – under the terms of the MoU entered into on 16 October 2020, Nickel Mines paid Shanghai Decent US\$210<sup>45</sup> million on 1 February 2021 for the acquisition of a 30% interest in the Angel Nickel Project
- (b) **acquisition of further 20%** – on 21 April 2021, Nickel Mines completed the acquisition of a further 20% interest in the Angel Nickel Project for consideration of US\$137.6 million (which included a US\$2.4 million early repayment discount)
- (c) **acquisition of further 30%** – on 1 October 2021, Nickel Mines completed the acquisition of a further 30% in the Angel Nickel Project for a payment of US\$210 million, taking Nickel Mines' total interest in the Angel Nickel Project to 80%.

### Summary of Nickel Mines transactions

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

Nickel Mines – acquisition of interests in the Hengjaya, Ranger and Angel Nickel Projects							
Date	Interest %	Purchase price US\$m	Value of 100% US\$m	Capacity (100%) nickel tpa		Capital Intensity US\$m/t	
				Name-plate	LTM 21 <sup>(1)</sup>	Name-plate	LTM 21 <sup>(1)</sup>
<b>Hengjaya Nickel Project (2 RKEF lines)</b>							
April 2018	25	50.0	200.0 <sup>(2)</sup>	15.0	20.8	13.3	9.6
September 2018	35	70.0	200.0 <sup>(2)</sup>	15.0	20.8	13.3	9.6
June 2020	20	60.0	300.0 <sup>(3)</sup>	15.0	20.8	20.0	14.4
<b>Total</b>	<b>80</b>	<b>180.0</b>					
<b>Ranger Nickel Project (2 RKEF lines)</b>							
November 2018	17	50.0 <sup>(4)</sup>	300.0 <sup>(5)</sup>	15.0	21.1	20.0	14.2
July 2019	43	121.4 <sup>(4)</sup>	280.0 <sup>(5)</sup>	15.0	21.1	18.7	13.3
June 2020	20	60.0	300.0 <sup>(5)</sup>	15.0	21.1	20.0	14.2
<b>Total</b>	<b>80</b>	<b>231.4</b>					
<b>Angel Nickel Project (4 RKEF lines)</b>							
February 2021	30	210.0	700.0	36.0	n/a	19.4	n/a
April 2021	20	137.6 <sup>(6)</sup>	700.0 <sup>(7)</sup>	36.0	n/a	19.4	n/a
October 2021	30	210.0	700.0	36.0	n/a	19.4	n/a
<b>Total</b>	<b>80</b>	<b>557.6</b>					

<sup>45</sup> The Company's 'good faith' payment of US\$10 million upon signing the Angel Nickel MoU and US\$20 million down payment upon converting the MoU into a Definitive Agreement were offset against the First Acquisition Consideration of US\$210 million.

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**Note:**

- 1 Last 12 months to 30 September 2021 (LTM 21).
  - 2 Transaction based on the guaranteed construction price of US\$200 million.
  - 3 As per the terms of the Hengjaya Collaboration Agreement. The implied value and purchase consideration increased as the project became operational.
  - 4 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.
  - 5 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.
  - 6 Included a US\$2.4 million early payment discount.
  - 7 Implied value excluding the early payment discount.
- n/a – not applicable.
- 

- 149 Regarding the Hengjaya and Ranger transactions (in each instance 2 RKEF lines were acquired) 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.
- 150 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/t of nickel equivalent production, or approximately US\$14,200/t to US\$14,400/t of nickel equivalent production based on the recent actual production capacity of the Hengjaya and Ranger Nickel Projects.
- 151 The Capital Intensity for the Oracle Nickel Project is therefore marginally higher the Capital Intensity of the Hengjaya and Ranger Nickel Projects (at a project value of US\$300 million). However, the Capital Intensity for the Oracle 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.
- 152 Given the Oracle Nickel Project's asset specifications will replicate those of the Company's 80%-owned Angel Nickel Project (i.e. four RKEF lines, 36,000 tpa and a 380 MW captive power plant), it follows that the acquisition of the 80% interest in the Angel Nickel Project is the most comparable of the Nickel Mines' transactions. The Angel Nickel Project was acquired on a 100% basis for US\$700 million with an implied Capital Intensity of US\$19,400/t of nameplate nickel equivalent production.
- 153 The consideration for 100% of the Oracle Nickel Project (and Power Plant) is US\$750 million, which is US\$50 million higher than that for the Angel Nickel Project (which

Nickel Mines has stated is due to rising input and construction costs and a weakening US dollar). This implies a Capital Intensity of US\$20,833 per tonne of nickel equivalent production based on the nameplate capacity of 36,000 tpa. Should the actual annual production of the Oracle Nickel Project significantly outperform the nameplate capacity, as has been the case at the Hengjaya and Ranger Nickel Projects (refer paragraph 111), the Capital Intensity of actual nickel equivalent production would decrease significantly.

- 154 The Capital Intensity for the Oracle Nickel Project (and Power Plant) is therefore slightly higher than the Capital Intensity for the Angel Nickel Project. Notwithstanding this, the Oracle Nickel Project (and all the RKEF projects owned by Nickel Mines) represent industry low levels of capital intensity in the context of newly installed nickel production capacity, as shown below.

### Cross check to Capital Intensity of nickel equivalent

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

Global nickel projects' Capital Intensity					
Project	Year	Plant	Nickel capacity (tpa)	Capital cost US\$m	Capital Intensity US\$m/t
Ravensthorpe	2007	HPAL <sup>(1)</sup>	40,000	3,000	75,000
VNC (Goro)	2010	HPAL <sup>(1)</sup>	60,000	6,000	100,000
Onca Puma	2011	FeNi <sup>(2)</sup>	52,000	3,200	61,538
Barro Alto	2011	FeNi <sup>(2)</sup>	40,000	1,900	47,500
Ambatovy	2012	HPAL <sup>(1)</sup>	60,000	5,500	91,667
Ramu	2012	HPAL <sup>(1)</sup>	34,000	1,490	43,823
Koniambo	2013	FeNi <sup>(2)</sup>	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.

- 156 As shown above, the Capital Intensity for the global nickel projects is higher than the Capital Intensity for the RKEF lines (which is around US\$20,000<sup>46</sup>) and therefore the Oracle Nickel Project is an attractive investment proposition relative to an alternative investment in the global nickel sector.

<sup>46</sup> This is primarily due to the lower capital cost of the NPI technology owned by Tsingshan.

## VII Evaluation of the Proposed Transaction

157 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

158 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 Oracle Nickel Project (of US\$525 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, Ranger and Angel Nickel Projects acquired by Nickel Mines from Shanghai Decent
  - (ii) an attractive investment proposition in terms of the Capital Intensity<sup>47</sup> of the Oracle Nickel Project relative to other significant nickel projects.

### Assessment of reasonableness

159 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.

160 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

161 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 Oracle Nickel Project. In our opinion, the value of these earnings and the implicit diversification benefits exceeds the Consideration payable.

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<sup>47</sup> Capital Intensity is the project capital cost divided by annual nickel production capacity.



162 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 to Nickel Mines.

### **Position of Nickel Mines before and after the Proposed Transaction**

163 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 one of the largest nickel production centres globally. The interest in the Oracle Nickel Project will contribute some 25,200 tpa of additional nickel metal (in NPI) production<sup>48</sup>, increasing the significance of Nickel Mines' nickel production capabilities and the scale of the Company.

164 Whilst the exact details of the funding of the Proposed Transaction have not been determined, the Company has indicated that the Oracle Nickel Project will be funded from a combination of cash reserves (including operating cash flows), debt and equity.

165 As at 8 December 2021, Nickel Mines' market capitalisation was US\$2.4 billion, its latest reported cash position as at 30 September 2021 was US\$120.8 million and its latest reported debt position was US\$173.9 million as at 30 June 2021. However, this debt position is prior to the US\$150 million issue of Senior Unsecured Notes on 9 September 2021. After allowance for this debt, the Company's net debt position would be around US\$203 million (ignoring operating cash flows from 30 September 2021).

166 For the purpose of our report we have considered the implications of 50% debt funding at an interest rate of 8.5% per annum<sup>49</sup>. Assuming a debt facility of US\$262.5 million (i.e. 50% of the Consideration) to finance the Proposed Transaction, Nickel Mines' gearing level would increase from around 7.8% to approximately 16.3%, which would result in an annual debt servicing capacity based on the current performance of the Hengjaya and Ranger Nickel Projects of approximately 6.2 times. This assumption is also conservative as there will be additional cash flow generated by the Angel Nickel Project (which will commence commissioning in March 2022).

167 Further, the cash flow generated by the Hengjaya and Ranger Nickel Projects in the period to 31 March 2023 (when the final instalment from Nickel Mines is due), as well as the cash flow from the Angel Nickel Project post commissioning, will be available to assist Nickel Mines with the funding of the Proposed Transaction.

### **Advantages and disadvantages**

168 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 Transaction from the perspective of Nickel Mines shareholders:

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<sup>48</sup> Based on nameplate capacity of 36,000 tpa for the Oracle 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.

<sup>49</sup> Being the mid-point of our adopted cost of debt in the DCF discount rate.

- (a) the Oracle Nickel Project, which will include new interests in RKEF lines located at the IMIP, 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 increase the Company's NPI production by approximately 50%<sup>50</sup> and is value accretive, with the Consideration (totalling US\$525 million) being less than the NPV of the expected future cash flows from the proportionate interest to be acquired in the Oracle Nickel Project
- (c) the Oracle Nickel Project is similar to the Hengjaya, Ranger and Angel Nickel Projects in which Nickel Mines has respective 80% interests. The Hengjaya and Ranger Nickel Projects have provided Nickel Mines with positive income contribution since commissioning
- (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 Oracle 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 unsold production

#### **Disadvantages**

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

#### **Other considerations**

169 As stated above, the "acquisition" component of the Consideration may be funded by existing cash reserves, debt funding and equity funding (or a combination thereof) at Nickel Mines' sole discretion. We understand that operating cash flows, which can be reasonably expected to be generated by the current 80% interests in the Hengjaya and Ranger Nickel Projects (as well as the Angel Nickel Project post commissioning and ramp up) in the period to 31 March 2023, will also be used toward funding the Proposed Transaction.

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<sup>50</sup> Above the combined NPI production from the Hengjaya, Ranger and Angel Nickel Projects (note, at the time of commissioning of the Oracle Nickel Project the Angel Nickel Project will be fully operational).



## 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 \$50,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

## Appendix A

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

### Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

### Contact details

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

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

## Appendix B

### Qualifications, declarations and consents

#### Qualifications

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

### History of Nickel Mines' operations

#### Mining origins

- 1 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.
- 2 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

- 3 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.
- 4 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<sup>51</sup>, and has since become the dominant player in the Indonesian NPI industry and a global leader in NPI processing technology<sup>52</sup>.
- 5 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.

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<sup>51</sup> 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.

<sup>52</sup> 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.

## Appendix C

### Recommencement of mining operations and development of Tsingshan relationship

- 6 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.
- 7 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 off-take 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<sup>53</sup>.
- 8 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<sup>54</sup> discussing a strategic partnership that would contemplate the two parties building additional NPI processing capacity within the IMIP.
- 9 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 tpa of NPI containing 15,000 tonnes of nickel.
- 10 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<sup>55</sup>.

### ASX listing and events subsequent

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

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<sup>53</sup> 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.

<sup>54</sup> Shanghai Decent is a Tsingshan company.

<sup>55</sup> At this time, the Company also held an option to acquire no less than 51% and up to 100% of the Hengjaya Nickel Project.

## Appendix C

- 12 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.
- 13 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)<sup>56</sup>
  - (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.
- 14 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:

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<sup>56</sup> 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.

## Appendix C

- (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<sup>57</sup>
  - (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 the previous guidance target (i.e. targeting commissioning in the September 2019 quarter).
- 15 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.
- 16 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.
- 17 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.
- 18 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<sup>58</sup>. 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.
- 19 On 9 September 2019, Nickel Mines announced that Shanghai Decent and the Company had agreed to amend two material terms in the Hengjaya CA<sup>59</sup> 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

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<sup>57</sup> 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.

<sup>58</sup> 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.

<sup>59</sup> Collaboration Agreement between Shanghai Decent and Nickel Mines signed on 19 September 2017.



## Appendix C

- (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).
- 20 On 19 May 2020, Nickel Mines 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.
- 21 On 16 October 2020, the Company announced that it had entered into a MoU in relation to the proposed purchase of a 70% interest in the Angel Nickel Project from Shanghai Decent for US\$490 million. The Angel Nickel Project will comprise four new RKEF lines within the IWIP, together with a captive 380 MW power plant. The consideration was payable in two tranches, US\$210 million by 31 March 2021 for a 30% interest and a further US\$280 million by 31 December 2021, for an additional 40% interest.
- 22 Nickel Mines announced on 20 January 2021 that the Company had agreed with Shanghai Decent to acquire an additional 10% equity interest in the Angel Nickel Project, bringing Nickel Mines' ownership to 80%, with the consideration to be made in three, rather than two tranches. Following three staged payments undertaken in February 2021 (30%), April 2021 (20%) and October 2021 (30%), and allowing for early payment discounts, the total consideration for Nickel Mines' 80% interest in the Angel Nickel Project was US\$557.6 million<sup>60</sup>. Funding was provided from a mixture of an equity capital raising (as announced on 2 December 2020) and debt.
- 23 On 3 May 2021, Nickel Mines announced that it had signed a MoU with its collaboration partner, Shanghai Decent, for two of its four 80% owned operating RKEF lines to undergo the necessary modifications to allow them to produce a nickel matte product suitable for sale into the electric vehicle battery market. While the specific details of capital modification costs, operating costs and selling arrangements with Shanghai Decent remain commercial-in-confidence and subject to a definitive agreement, the Company advised that:
- (a) the required modification cost for each RKEF line are expected to be minimal (approximately US\$1 million per line)
  - (b) the cash operating costs for producing a tonne of nickel in matte are expected to be comparable to the cash costs of producing a tonne of nickel in NPI
  - (c) units of production, measured in contained tonnes of nickel metal, produced by the Company's RKEF lines after conversion to produce nickel matte are expected to be comparable with the current units of production in NPI
  - (d) as with its NPI production, Shanghai Decent has provided a firm undertaking to purchase all of the Company's nickel matte production

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<sup>60</sup> Reduced by US\$2.4 million for early payment discounts.



## Appendix C

- (e) switching between NPI and nickel matte production is possible with minimal production disruption, however, it is not optimal to do so regularly
  - (f) once the modifications are completed it would take approximately two weeks for the converted RKEF lines to produce an “on-spec” nickel matte product, with the interim “off-spec” product remaining a saleable product<sup>61</sup>.
- 24 On 2 September 2021, Nickel Mines announced it had signed a binding memorandum of agreement with PT Iriana Mutiara Mining for the staged acquisition of a 100% interest in the Siduarsi Nickel Cobalt Project. Whilst the key terms are considered commercial-in-confidence and subject to execution of a joint venture agreement, Nickel Mines will be required to fund various project milestones including a modest exploration program over two years, the completion of a JORC compliant Resources statement and a mine feasibility study.
- 25 On 18 October 2021, Nickel Mine’s 80% owned subsidiary, PT Hengjaya, operator of the Hengjaya Mine, signed a binding agreement with PT Huayue Nickel Cobalt<sup>62</sup> for the supply of limonite ore to the HNC High Pressure Acid Leach project, which is in the early stages of commissioning at the IMIP. The ore supply agreement is for an initial volume of 150,000 WMT grading between 1.0% to 1.3% nickel, with delivery from the middle of November 2021 and to the end of December 2021. The limonite ore at Hengjaya Mine has historically been treated as overburden and as such, the cost of mining this ore has been expensed. The Hengjaya Mine has historically stockpiled 2.14 million WMT of limonite ore at an average grade of 1.12%.

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<sup>61</sup> The modifications have not yet been undertaken at the Hengjaya and Ranger Nickel Projects.

<sup>62</sup> PT Huayue Nickel Cobalt is a joint venture between Huayou Cobalt (57%), China Molybdenum (30%), Tsingshan (10%) and others (3%).

## Appendix D

### Glossary

Abbreviation	Definition
AFCA Agreement	Australian Financial Complaints Authority Collaboration Agreement relating to the Oracle RKEF Project dated 23 November 2020
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Capital Intensity	Project capital cost divided by annual nickel production capacity
Consideration	US\$525 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
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
IMIP	Indonesian Weda Bay 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
JORC	Joint Ore Reserves Committee
KVA	Kilo volt amp
LEA	Lonergan Edwards & Associates Limited
LIBOR	London Inter-Bank Offer Rate
LME	London Metal Exchange
LTM 21	Last 12 months to 30 September 2021
MoU	Memorandum of Understanding
MRP	Market risk premium
MW	Megawatt
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
Oracle Development	Oracle Development Private Limited

## Appendix D

Abbreviation	Definition
Oracle Nickel Project	Comprising four new RKEF lines within the IMIP, together with a captive 380 MW power plant
Proposed Transactions	Nickel Mines' proposed acquisition of a 70% interest in the Angle Nickel Project
PT Hengjaya	PT Hengjaya Mineralindo
PT ONI	PT Oracle Nickel Industry
Ranger CA	Collaboration Agreement between the Company and Shanghai Decent signed on 8 November 2018
Ranger debt facility	In August 2019, Nickel Mines entered into a senior debt facility agreement with a Shanghai Decent associated company to increase the Company's interest in the Ranger Nickel Project from 17% to 60%
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 – <i>Content of expert reports</i>
RKEF	Rotary kiln electric furnace
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
Senior Unsecured Notes	In March 2021, as part of the financing package to facilitate the Company's acquisition of its 80% interest in the Angel Nickel Project, Nickel Mines issued US\$175 million of Senior Unsecured Notes
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
tpa	Tonnes per annum
Tsingshan	Tsingshan Holding Group
US	United States of America
US\$	United States dollars
WACC	Weighted average cost of capital
WANOS	Weighted average number of shares outstanding
WMT	Wet metric tonnes

### Need assistance?



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



**Online:**  
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## Nickel Mines Limited Extraordinary General Meeting

The Nickel Mines Limited Extraordinary General Meeting will be held on Tuesday, 25 January 2022 at 1:00pm (AEDT). You are encouraged to participate in the meeting using the following options:



### MAKE YOUR VOTE COUNT

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



**Control Number: 999999**

**SRN/HIN: I9999999999**

**PIN: 99999**

For Intermediary Online subscribers (custodians) go to [www.intermediaryonline.com](http://www.intermediaryonline.com)

For your proxy appointment to be effective it must be received by 1:00pm (AEDT) Sunday, 23 January 2022.



### ATTENDING THE MEETING VIRTUALLY

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

Zoom Meeting ID - 967 7522 1914

Password - 777396

or access at

<https://zoom.us/j/96775221914?pwd=TnBWamZ0L3R6TjlQOEt2c1Jsc0hqdz09>

# NICKEL

## MINES LIMITED

ABN 44 127 510 589

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### Need assistance?



**Phone:**

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



**Online:**

[www.investorcentre.com/contact](http://www.investorcentre.com/contact)



### YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **1:00pm (AEDT) on Sunday, 23 January 2022.**

## Proxy Form

### How to Vote on Items of Business

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

#### APPOINTMENT OF PROXY

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

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

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

**A proxy need not be a securityholder of the Company.**

#### SIGNING INSTRUCTIONS FOR POSTAL FORMS

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

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

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

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

#### PARTICIPATING IN THE MEETING

##### Corporate Representative

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

### Lodge your Proxy Form:

**XX**

#### Online:

Lodge your vote online at [www.investorvote.com.au](http://www.investorvote.com.au) using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is



**Control Number: 999999**

**SRN/HIN: I999999999**

**PIN: 99999**

For Intermediary Online subscribers (custodians) go to [www.intermediaryonline.com](http://www.intermediaryonline.com)

#### By Mail:

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

#### By Fax:

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



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

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

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



I 9999999999

I ND

# Proxy Form

Please mark  to indicate your directions

## Step 1 Appoint a Proxy to Vote on Your Behalf

XX

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

the Chairman of the Meeting **OR**

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

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Nickel Mines Limited to be held virtually on Tuesday, 25 January 2022 at 1:00pm (AEDT) and at any adjournment or postponement of that meeting.

## Step 2 Item of Business

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

	For	Against	Abstain
Item 1 Approval for the Company to acquire a 70% interest in Oracle Development Pte Ltd	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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

## Step 3 Signature of Securityholder(s) *This section must be completed.*

<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

### Update your communication details *(Optional)*

Mobile Number  Email Address

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

