

NICKEL MINES LIMITED
and its controlled entities

A.B.N. 44 127 510 589

FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2017

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**NICKEL MINES LIMITED
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DIRECTORS' REPORT

The Directors present their report together with the financial report of Nickel Mines Group, being Nickel Mines Limited ('the Company' or 'Nickel Mines') and its controlled entities ('the Group'), for the year ended 30 June 2017 and the auditor's report thereon:

Directors

The names and particulars of the Directors of the Company at any time during or since the end of the period are:

Norman Alfred Seckold - Executive Chairman

Director since 12 September 2007.

Norman Seckold graduated with a Bachelor of Economics degree from the University of Sydney in 1970. He has spent more than 30 years in the full time management of natural resource companies, both in Australia and overseas.

Mr Seckold has been the Chairman of a number of publicly listed companies including Moruya Gold Mines (1983) N.L., which acquired the Golden Reward heap leach gold deposit in South Dakota, USA, Pangea Resources Limited, which acquired and developed the Pauper's Dream gold mine in Montana, USA, Timberline Minerals, Inc. which acquired and completed a feasibility study for the development of the MacArthur copper deposit in Nevada, USA, Perseverance Corporation Limited, which discovered and developed the Nagambie gold mine in Victoria, Valdora Minerals N.L., which developed the Rustler's Roost gold mine in the Northern Territory and the Ballarat East Gold Mine in Victoria, Viking Gold Corporation, which discovered a high grade gold deposit in northern Sweden, Mogul Mining N.L., which drilled out the Magistral and Ocampo gold deposits in Mexico and Bolnisi Gold N.L, which discovered and developed the Palmarejo and Guadalupe gold and silver mines in Mexico.

Mr Seckold is currently Chairman of Collerina Cobalt Limited, a minerals exploration and development company operating in Australia and Indonesia, Planet Gas Limited, an energy explorer with interests in conventional and unconventional oil and gas resources, Santana Minerals Ltd., a precious metals exploration company with projects in Mexico, and unlisted public company Mekong Minerals Limited.

Peter James Nightingale - Executive Director

Director since 12 September 2007.

Peter Nightingale graduated with a Bachelor of Economics degree from the University of Sydney and is a member of the Institute of Chartered Accountants in Australia. He has worked as a chartered accountant in both Australia and the USA.

As a director or company secretary Mr Nightingale has, for more than 25 years, been responsible for the financial control, administration, secretarial and in-house legal functions of a number of private and public listed companies in Australia, the USA and Europe including Pangea Resources Limited, Timberline Minerals Inc., Perseverance Corporation Limited, Valdora Minerals N.L., Mogul Mining N.L., Bolnisi Gold N.L, Cockatoo Coal Limited and Sumatra Copper & Gold plc. Mr Nightingale is currently a director of ASX Listed Argent Minerals Limited, Collerina Cobalt Limited and Planet Gas Limited and unlisted public company Prospech Limited.

Justin Werner – Executive Director

Director since 23 August 2012.

Justin, who has a bachelor of management from the University of Sydney, has been involved in mining industry for more than 15 years. He was a founding partner of PT Gemala Borneo Utama, a private Indonesian exploration and mining company, which developed a heap leach gold mine in West Kalimantan and which discovered the highly prospective Romang Island project with Robust Resources Limited which was acquired by Indonesian business man Anthony Salim.

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Prior to focusing on developing projects in Indonesia, Justin worked as a consultant for specialist mining consultancies GPR Dehler, Jamieson Consulting and Partners in Performance, leading many successful turnaround projects for blue chip mining companies including Freeport McMoran (Grassberg deposit, Indonesia where he spent 2 years), Lihir Gold (Lihir mine, Papua New Guinea), Placer Dome (Nevada, USA), BHP Billiton (Ingwe Coal, South Africa), Rio Tinto (West Angeles Iron Ore, Australia), Nickel West (Western Australia) and QNI Yabulu refinery (Queensland, Australia). Mr Werner is currently Managing Director of ASX Listed Collierina Cobalt Limited.

James Crombie - Director

Director since 23 May 2008.

Jim Crombie graduated from the Royal School of Mines, London, in 1980 with a B.Sc. (Hons) in Mining Engineering, having been awarded an Anglo American Scholarship. Mr. Crombie held various positions with DeBeers Consolidated Mines and the Anglo American Corporation in South Africa and Angola between 1980 and 1986. He spent the next thirteen years as a Mining Analyst and Investment Banker with Shepards, Merrill Lynch, James Capel & Co. and finally with Yorkton Securities. Mr. Crombie was the Vice President, Corporate Development of Hope Bay Mining Corporation Inc. from February 1999 through May 2002 and President and CEO of Ariane Gold Corp. from August 2002 to November 2003. Mr. Crombie was President, CEO and a director of Palmarejo Silver and Gold Corporation until the merger with Coeur d'Alene Mines Corporation, one of the world's leading silver companies, in December 2007. He was a director of Sherwood Copper Corporation until its business combination with Capstone Mining Corp. in November 2008. Currently, Mr. Crombie is President and CEO of Odyssey Resources Corp., and a director of Arain Silver and Torex Gold Resources Inc.

Mark Lochtenberg - Director

Director since 10 March 2017.

Mr Lochtenberg graduated with a Bachelor of Law (Hons) degree from Liverpool University, U.K. and has been actively involved in the coal industry for more than 25 years. He was the Executive Chairman and founding Managing Director of ASX-listed Cockatoo Coal Limited. He was a principal architect of Cockatoo's inception and growth from an early-stage grassroots explorer through to its current position as an emerging mainstream coal producer.

He was also formerly the co-head of Glencore International AG's worldwide coal division, where he spent 13 years overseeing a range of trading activities including the identification, due diligence, negotiation, acquisition and aggregation of the coal project portfolio that would become Xstrata Coal. Prior to this MR Lochtenberg established a coal "swaps" market for Bain Refco, (Deutsche bank) after having served as a senior coal trader for Hansen Neuerburg AG and as coal marketing manager for Peko Wallsend Limited.

Mr Lochtenberg is currently Chairman of ASX listed Equus Resources Limited, a minerals exploration company with operations in Chile and a Director of Australian Transport Energy Corridor Pty Ltd ('ATEC').

Anthony McClure - Director

Director from 23 May 2008 to 8 March 2017.

Anthony McClure graduated with a Bachelor of Science (Geology) degree from Macquarie University in 1986. Mr McClure has over 25 years technical, management and financial experience in the resource sector worldwide in project management and executive development roles. He has also worked in the financial services sector and stockbroking, primarily as a resource analyst covering both mineral and energy sectors. He is the current managing director of Silver Mines Limited, a director of Planet Gas Limited and a director of unlisted public company Mekong Minerals Limited.

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Richard James Edwards - Company Secretary

Company Secretary since 28 March 2012.

Richard Edwards graduated with a Bachelor of Commerce degree from the University of New South Wales, is a Fellow of the Governance Institute of Australia, a member of CPA Australia and holds a Graduate Diploma of Applied Finance and Investment from FINSIA. Following eight years as an owner/manager of his own business Mr Edwards has worked for over ten years providing financial reporting and company secretarial services to a range of publicly listed companies in Australia with a focus on the mining sector, including as CFO and Company Secretary of Indonesia focused Sumatra Copper & Gold plc. He is also Company Secretary of ASX listed Collerina Cobalt Limited, Indo Mines Limited and unlisted public company Prospech Limited.

Directors' Meetings

The number of Directors' meetings held and number of meetings attended by each of the Directors of the Company, while they were a Director, during the year are:

| Director | Board meetings | |
|-------------------|----------------|----------|
| | Held | Attended |
| Norman Seckold | 3 | 3 |
| Peter Nightingale | 3 | 3 |
| James Crombie | 3 | - |
| Mark Lochtenberg | 1 | 1 |
| Anthony McClure | 2 | - |
| Justin Werner | 3 | 3 |

Directors' Interests

The beneficial interests of each director of the Company in the issued share capital of the Company are:

| Specified directors | 1 July 2016 | Purchased | Sold | Date of this report |
|---------------------|-------------|-----------|------|---------------------|
| Norman Seckold | 115,272,673 | - | - | 115,272,673 |
| Peter Nightingale | 16,286,787 | - | - | 16,286,787 |
| James Crombie | 5,775,000 | - | - | 5,775,000 |
| Mark Lochtenberg | 11,693,333* | - | - | 11,693,333 |
| Anthony McClure | 4,125,000 | - | - | 4,125,000^ |
| Justin Werner | 21,099,491 | - | - | 21,099,491 |

* Number held on 10 March 2017, the date of becoming a Director.

^ Number held on 8 March 2017, the date of ceasing to be a Director.

No shares were granted to key management personnel during the reporting period as compensation.

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DIRECTORS' REPORT

Principal Activities and Review of Operations (all amounts in US\$ unless otherwise stated)

The operating loss of the Group for the year ended 30 June 2017 after income tax was \$3,738,494 (2016 - \$1,520,727)

The Company was incorporated on 12 September 2007, under the laws of the State of New South Wales, Australia. The Group is involved in the acquisition, exploration and development of nickel mining projects and no significant change in the nature of those activities has occurred during the period.

During and following the year ended 30 June 2017 milestones were achieved as follows:

Highlights:

- In December 2016 a revised offtake agreement was signed with PT Indonesia Tsingshan Stainless Steel ('ITSS'), a subsidiary of the Tsingshan Group, to supply 50,000 wet metric tonnes ('wmt') per month of nickel ore at a cut off grade of 1.90% nickel. In October 2017 an updated offtake agreement has been signed with ITSS guaranteeing to take supply of 50,000 wmt per month until 30 November 2018, with a cut-off grade of 1.60% nickel.
- During the year ended 30 June 2017 a total of 305,898 wmt were mined with an average stripping ratio of 0.83.
- A total of 303,597 wmt were delivered during the year at an average grade of 2.06% nickel.
- In December 2016 Nickel Mines signed a Share Swap and Collaboration Agreement with Shanghai Decent Investment Group Ltd ('Shanghai Decent'), a wholly owned subsidiary of Tsingshan Group. Subsequent to the end of the year this was superseded by the signing of a Collaboration and Subscription Agreement with Shanghai Decent and a strategic Cornerstone Investor. The parties to the Collaboration and Subscription Agreement will construct and operate an RKEF Plant, within Tsingshan Park. Nickel ore mined from Hengjaya Mine will be primarily supplied to the RKEF Plant. At the same time Shanghai Decent and the Cornerstone Investor committed to invest \$50M into Nickel Mines with these proceeds being utilised by the Company to fund an initial 25% stake in the RKEF lines.
- The Group issued 750,000 shares at A\$0.15 each for cash totalling A\$112,500 (\$84,836).

Operations:

Mining

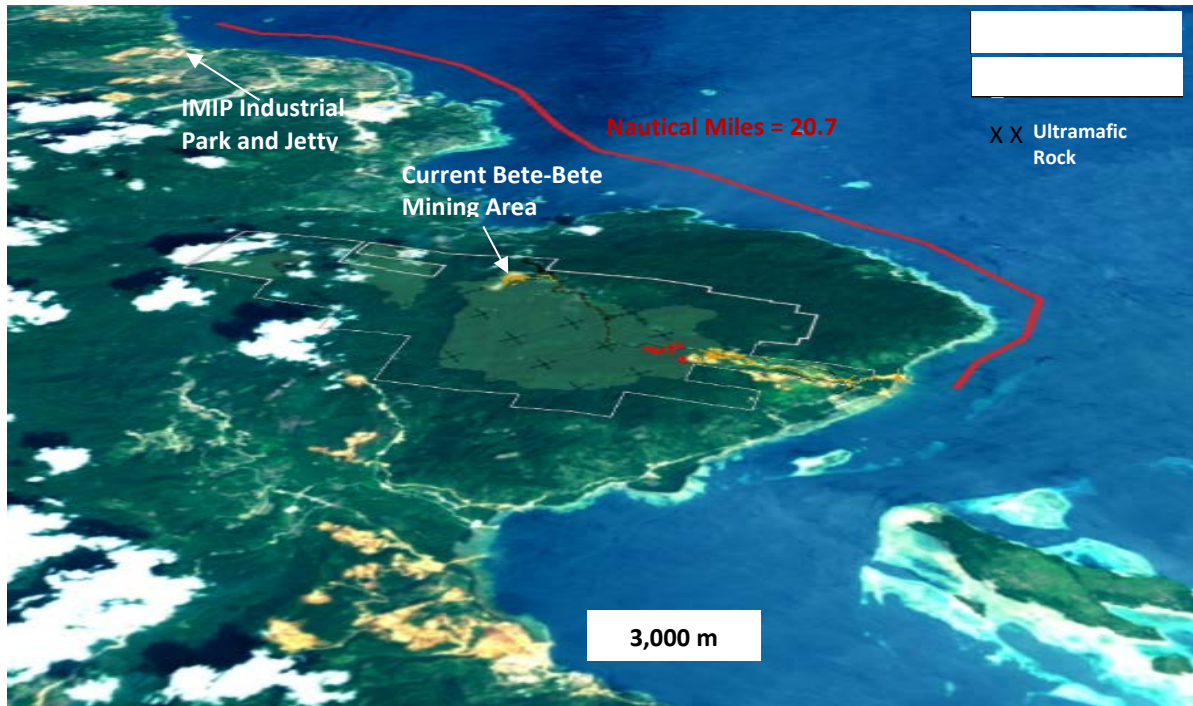
Since the recommencement of mining at Bete Bete a total of 609,434 wmt have been mined from October 2015 to end of September 2017 with an average stripping ratio of 1.01. A total of 649,422 wmt of ore have been delivered (ore delivered by barge is slightly higher than ore mined due to old stocks from mining in 2013 being sold) with an average grade of 2.05% nickel and 46.56% moisture content. A record monthly delivery of 60,388 wmt was achieved in September 2017 with a record high of 2,940 wmt in one day also achieved in this month.

Offtake Agreement

On 17 December 2016 the Group entered into an offtake agreement with PT Indonesia Tsingshan Stainless Steel ('ITSS') for the delivery of 50,000 wmt per month at an average grade of 1.90% nickel (minimum 1.80%). In October 2017 an updated offtake 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 1.60% nickel. Under the terms of the agreement, ITSS will make an advance payment of \$2 million to enable expansion of operations at the mine and allow the Company to finalise some outstanding forestry tax obligations and obtain a 'Pinjam Pakai' forestry permit over an area covering 998 hectares of the Hengjaya project.

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Map showing Hengjaya IUP and Mining area and distance to IMIP Jetty

Tsingshan Group

Collaboration and subscription

In December 2016 Nickel Mines signed a Share Swap and Collaboration Agreement with Shanghai Decent Investment Group Ltd (Decent), a wholly owned subsidiary of Tsingshan Group, China's largest stainless steel producer.

This agreement comprised two key components:

- (i) purchasing a 51% stake in a new proprietary nickel processing plant (Broly); and
- (ii) building two Rotary Kiln Electric Furnace (RKEF) lines capable of producing 150,000 tonnes per annum of nickel pig iron (NPI) containing 15,000 tonnes of nickel metal.

The Broly plant did not meet Tsingshan's exemplary performance standards in terms of operating costs or total metal recoveries and operations were suspended.

As a result of Broly being removed from the collaboration efforts, a revised deal was negotiated and we are pleased to report a new Collaboration and Subscription Agreement has now been signed with Decent and a strategic Cornerstone Investor (Cornerstone) introduced by Tsingshan. Once again this new agreement will govern the funding and construction of 2 RKEF lines capable of producing 150,000 tonnes per annum of NPI containing 15,000 tonnes of nickel metal.

The 2 new RKEF lines will be built within Tsingshan's Indonesian Morowali Industrial Park (IMIP), a world class, fully integrated processing facility that was borne out of the Indonesian Government's desire to ban the shipping of unprocessed minerals and encourage an in-country, downstream processing industry.

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Tsingshan have committed almost \$10 billion to date building IMIP which features NPI and stainless steel capacity, a 1.2 gigawatt power plant and world-class port facilities. In partnering with Tsingshan, the Company will be working with the dominant player in the global NPI market. They are the pioneers of RKEF processing technology who have demonstrated they can build and run their NPI capacity cheaper than anyone in the industry. With 20 RKEF lines already operating at IMIP, NML will benefit from Tsingshan's operational expertise and track record of on-time, under budget project delivery.



Decent and Cornerstone will together invest \$50M into Nickel Mines with these proceeds being utilised by the Company to fund an initial 25% stake in the RKEF lines. Upon successfully completing an Initial Public Offering (IPO) the Company will then have the option to move to a controlling interest of between 51%-60%. Within 12 months of first production Nickel Mines has a further right to move to 100% ownership of the 2 RKEF lines.

The Collaboration and Subscription Agreement includes very competitive capex and opex guarantees by Tsingshan.

A Condition Precedent (CP) in the Collaboration and Subscription Agreement to the Decent and Cornerstone investment into Nickel Mines is a requirement that Nickel Mines be "debt free". To address this the Company recently commenced a pre-IPO funding round that will seek to raise ~\$15M at ~\$0.16 per share (A\$0.20). In addition to this cash injection the Company will also be converting ~\$15M of debt to equity. Upon completion of this funding round, Decent and Cornerstone will finalise their investment into Nickel Mines and the Company will then focus its efforts on completing an IPO on the ASX during the first half of 2018 at a targeted issue price of A\$0.35.

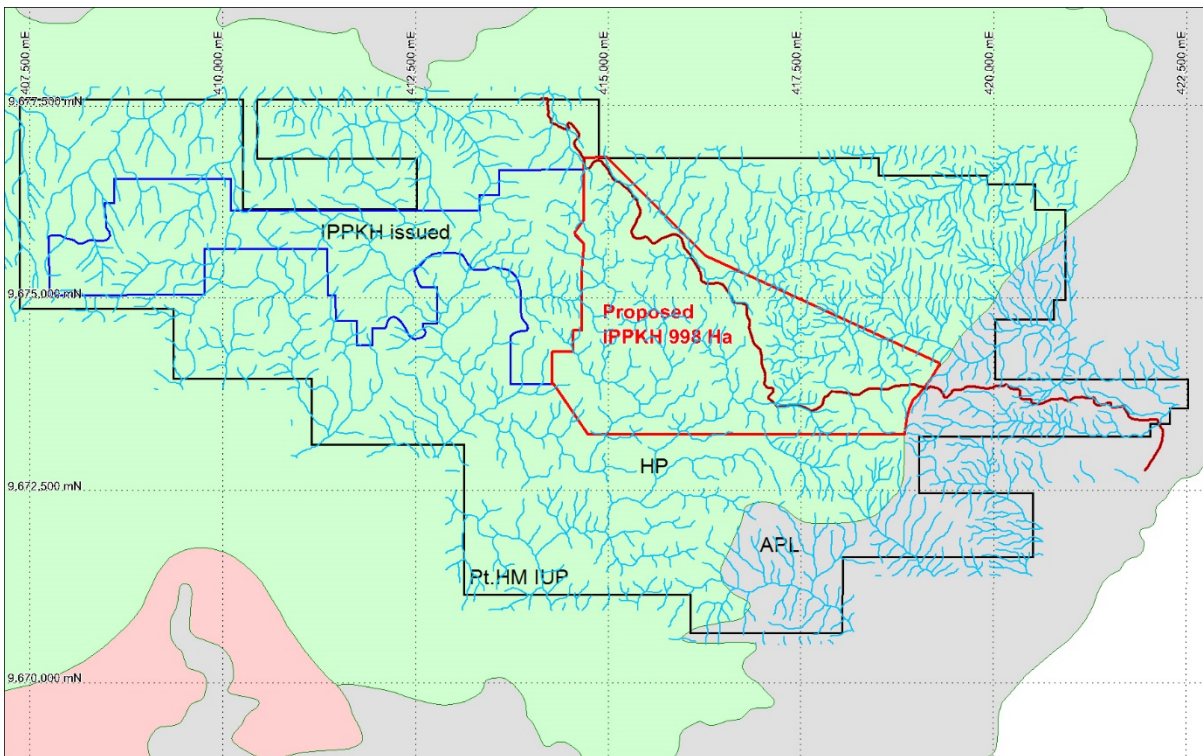
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Forestry

Pinjam Pakai Application

The Group successfully reclassified an area of the concession that was previously protected forest to production forest in August 2014. In order to be able to mine this area an application for an Ijin Pinjam Pakai (Borrow and Use Permit) for an area of 1,576 hectares in relation to this reclassified forest area was made, subject to feedback from the forestry department this area has been reduced to 998 hectares as the Indonesian law does not allow for a borrow use licence of greater than 1,000 hectares. This application now sits on the Director General's desk awaiting his signature, having passed all of the reviews and conditions from the various departments involved in the issuance of a Pinjam Pakai. The Company has some outstanding forestry tax obligations it is in the process of paying down, once paid the Company remains optimistic of the new Pinjam Pakai being issued not long after that requirement is met. This will enable a significantly expanded resource area to be mined in closer proximity to the coast which will reduce current mining and hauling costs significantly.



Forest classification map for the Hengjaya project area.

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Corporate

As outlined above in December 2016 Nickel Mines signed a Share Swap and Collaboration Agreement with Shanghai Decent a wholly owned subsidiary of Tsingshan Group. Subsequent to the end of the year this was superseded by the signing of a Collaboration and Subscription Agreement with Shanghai Decent and a strategic Cornerstone Investor. The parties to the Collaboration and Subscription Agreement will construct and operate an RKEF Plant, within Tsingshan Park. Minerals mined from Hengjaya Mine will be primarily supplied to the RKEF Plant. At the same time Shanghai Decent and the Cornerstone Investor committed to invest \$50M into Nickel Mines with these proceeds being utilised by the Company to fund an initial 25% stake in the RKEF lines. A Condition Precedent (CP) in the Collaboration and Subscription Agreement to the Decent and Cornerstone investment into Nickel Mines is a requirement that Nickel Mines be "debt free". To address this the Company recently commenced a pre-IPO funding round that will seek to raise ~\$15M at ~\$0.16 per share (A\$0.20). In addition to this cash injection the Company will also be converting ~\$15M of debt to equity. Upon completion of this funding round, Decent and Cornerstone will finalise their investment into Nickel Mines.

The Group issued 750,000 shares at A\$0.15 each for cash totalling A\$112,500 (\$84,836). There were no amounts unpaid on the shares issued.

In March 2017 Mr Anthony McClure retired as a Director of the Company and Mr Mark Hamish Lochtenberg was appointed a Director of the Company.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 30 June 2017. No dividends have been paid or declared during the period or in prior periods.

State of Affairs

The Company at balance date was supplying unprocessed nickel ore under an offtake agreement with ITSS, a subsidiary of Tsingshan, to supply 50,000 wmt per month of nickel ore at a cut off grade of 1.90% nickel. In October 2017 an updated offtake 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 1.60% nickel. Subsequent to the end of the year the Company signed a Collaboration and Subscription Agreement with Shanghai Decent and a strategic Cornerstone Investor. The parties to the Collaboration and Subscription Agreement will construct and operate an RKEF Plant, within Tsingshan Park. Minerals mined from Hengjaya Mine will be primarily supplied to the RKEF Plant. At the same time Shanghai Decent and the Cornerstone Investor committed to invest \$50M into Nickel Mines with these proceeds being utilised by the Company. As detailed above a pre-IPO raise of approximately \$15M, and an anticipated debt to equity conversion of approximately \$15M, is being conducted to make the Company 'debt free', at which point Shanghai Decent and the Cornerstone Investor will subscribe for \$26M and \$24M worth of Company shares respectively to fund the initial 25% stake in the RKEF lines.

The Company awaits the signature of the Director General on the forestry permit for an area covering 998 hectares, which will enable a significantly expanded resource area to be mined in closer proximity to the coast which will reduce current mining and hauling costs significantly. The Company has prepared cash flow projections that support the ability of the Group to continue as a going concern.

Further, the ability of the Group to continue as a going concern is dependent upon the following:

- the Group continuing to defer payment commitments to trade and other creditors through informal arrangements; and
- the Group successfully renegotiating the repayment terms of the convertible note; and
- the Group successfully completing the Pre-IPO capital raise to satisfy the Condition Precedent in the Collaboration and Subscription Agreement; and
- the Group generating positive cash flows from operations and/or raising additional funds through the issue of debt and/or equity.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Group during the year ended 30 June 2017 other than as disclosed in this Directors' Report, or in the financial statements.

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Impact of Legislation and Other External Requirements

On 12 January 2014 the Indonesian Government introduced a ban on the export of unprocessed minerals. As a consequence the mining operations at the Hengjaya project were ceased. Whilst the ban on the export of unprocessed minerals remains in place, mining operations were recommenced in October 2015 following the signing of a series of ore offtake agreements to supply ore to PT Sulawesi Mining Investment as detailed above. There were no environmental or other legislative requirements during the year that have significantly impacted the results or operations of the Group.

Environmental Regulations

The Group's operations are subject to environmental regulations in the Republic of Indonesia.

The Board of Directors regularly monitors compliance with environmental regulations. The Directors are not aware of any significant breaches of these regulations during the year covered by this report.

Likely Developments

Information as to likely developments in the operations of the Group and the expected results of those operations in subsequent years has not been included in this report because disclosure of this information would be likely to result in unreasonable prejudice to the Group.

Indemnification of Officers and Auditors

During or since the end of the year, the Company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the Company against a liability incurred by such an officer or auditor. In addition, the Company has not paid or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

Events Subsequent to Balance Date

Subsequent to the end of the year the Company signed a Collaboration and Subscription Agreement with Shanghai Decent and a strategic Cornerstone Investor. The parties to the Collaboration and Subscription Agreement will construct and operate an RKEF Plant, within Tsingshan Park. Nickel ore mined from Hengjaya Mine will be primarily supplied to the RKEF Plant. At the same time Shanghai Decent and the Cornerstone Investor committed to invest \$50M into Nickel Mines with these proceeds being utilised by the Company to fund an initial 25% stake in the RKEF lines. A Condition Precedent in the Collaboration and Subscription Agreement to the Decent and Cornerstone investment into Nickel Mines is a requirement that Nickel Mines be "debt free". To address this the Company recently commenced a pre-IPO funding round that will seek to raise ~\$15M at ~\$0.16 per share (A\$0.20). In addition to this cash injection the Company will also be converting ~\$15M of debt to equity. Upon completion of this funding round, Decent and Cornerstone will finalise their investment into Nickel Mines.

In October 2017 an updated offtake 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 1.60% nickel. Under the terms of the agreement, ITSS will make an advance payment of \$2 million to enable expansion of operations at the mine and allow the Company to finalise some outstanding forestry tax obligations and obtain a 'Pinjam Pakai' forestry permit over an area covering 998 hectares of the Hengjaya project. The funds were received on 30 October 2017.

Other than the matters detailed above, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

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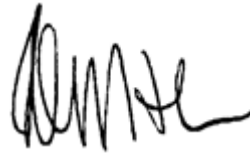
Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 13 and forms part of the Directors' Report for the period ended 30 June 2017.

Signed at Sydney this 31st day of October 2017 in accordance with a resolution of the Board of Directors:



Norman Seckold
Chairman



Peter Nightingale
Director



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Nickel Mines Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Nickel Mines Limited for the financial year ended 30 June 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Adam Twemlow

Partner

Brisbane

31 October 2017

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017**

| USD | Notes | 2017 \$ | 2016 \$ |
|--|-------|-------------|-------------|
| Nickel ore sales revenue | | 8,594,750 | 4,538,523 |
| Cost of sales | | (7,683,830) | (4,551,777) |
| Gross profit/(loss) | | 910,920 | (13,254) |
| Administration and consultants' expenses | | (554,740) | (403,823) |
| Depreciation and amortisation | | (50,337) | (40,493) |
| Inventory write-down | 10 | - | (805,315) |
| Tax reversals/(charges) | | (136,234) | 859,278 |
| Agency fee charges | 12 | (3,300,000) | (900,000) |
| Other expenses | 5 | (245,239) | (143,587) |
| Results from operating activities | | (3,375,630) | (1,447,194) |
| Financial income | 6 | 10,683 | 12,858 |
| Financial expense | 6 | (552,895) | (458,691) |
| Finance costs | | (542,212) | (445,833) |
| Loss before income tax | | (3,917,842) | (1,893,027) |
| Income tax benefit | 8 | 179,348 | 372,300 |
| Loss for the year | | (3,738,494) | (1,520,727) |
| Other comprehensive income | | | |
| Items that may be classified subsequently to profit or loss | | | |
| Total comprehensive loss for the year | | (3,738,494) | (1,520,727) |
| Loss attributable to: | | | |
| Owners of the Company | | (3,831,761) | (1,377,084) |
| Non-controlling interest | | 93,267 | (143,643) |
| Loss for the year | | (3,738,494) | (1,520,727) |
| Total comprehensive loss attributable to: | | | |
| Owners of the Company | | (3,831,761) | (1,377,084) |
| Non-controlling interest | | 93,267 | (143,643) |
| Total comprehensive loss for the year | | (3,738,494) | (1,520,727) |
| Earnings per share | | | |
| Basic and diluted loss per share (cents) | 9 | (1.21) | (0.44) |

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

| USD | Notes | 2017 \$ | 2016 \$ |
|---|-------|-------------------|-------------------|
| Current assets | | | |
| Cash and cash equivalents | 17 | 278,775 | 218,207 |
| Trade and other receivables | 7 | 288,689 | 833,919 |
| Inventory | 10 | 959,451 | 430,344 |
| Other | | 136,855 | 137,497 |
| Total current assets | | <u>1,663,770</u> | <u>1,619,967</u> |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 26,276,076 | 26,474,575 |
| Total non-current assets | | <u>26,276,076</u> | <u>26,474,575</u> |
| Total assets | | <u>27,939,846</u> | <u>28,094,542</u> |
| Current liabilities | | | |
| Trade and other payables | 12 | 12,687,311 | 9,426,364 |
| Provision – employee’s benefit obligation | | 268,996 | 133,966 |
| Borrowings | 13 | 5,381,025 | 1,227,383 |
| Total current liabilities | | <u>18,337,332</u> | <u>10,787,713</u> |
| Non-current liabilities | | | |
| Deferred tax liabilities | 8 | - | 179,348 |
| Provision – rehabilitation | | 297,066 | 268,375 |
| Borrowings | 13 | 8,151,024 | 12,051,024 |
| Total non-current liabilities | | <u>8,448,090</u> | <u>12,498,747</u> |
| Total liabilities | | <u>26,785,422</u> | <u>23,286,460</u> |
| Net assets | | <u>1,154,424</u> | <u>4,808,082</u> |
| Equity | | | |
| Share capital | 14 | 26,188,005 | 26,103,169 |
| Foreign currency translation reserve | | (595,498) | (595,498) |
| Accumulated losses | | (25,960,930) | (22,129,169) |
| Total equity attributable to equity holders of the Company | | <u>(368,423)</u> | <u>3,378,502</u> |
| Non-controlling interest | | 1,522,847 | 1,429,580 |
| Total equity | | <u>1,154,424</u> | <u>4,808,082</u> |

The above consolidated statement of financial position should be read in conjunction with accompanying notes.

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2017

| | Notes | Share capital | Accumulated losses | Foreign currency translation reserve | Total | Non-controlling interest | Total equity |
|--|-------|---------------|--------------------|--------------------------------------|-------------|--------------------------|--------------|
| USD | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2015 | | 25,699,077 | (19,843,435) | (595,498) | 5,260,144 | 186,880 | 5,447,024 |
| Total comprehensive income for the year | | | | | | | |
| Loss for the year | | - | (1,377,084) | - | (1,377,084) | (143,643) | (1,520,727) |
| Total comprehensive loss for the year | | - | (1,377,084) | - | (1,377,084) | (143,643) | (1,520,727) |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Issue of shares | 14 | 411,618 | - | - | 411,618 | - | 411,618 |
| Costs of issue | 14 | (7,526) | - | - | (7,526) | - | (7,526) |
| Contribution by non-controlling interest | 13 | - | (908,650) | - | (908,650) | 1,386,343 | 477,693 |
| Balance at 30 June 2016 | | 26,103,169 | (22,129,169) | (595,498) | 3,378,502 | 1,429,580 | 4,808,082 |
| Balance at 1 July 2016 | | 26,103,169 | (22,129,169) | (595,498) | 3,378,502 | 1,429,580 | 4,808,082 |
| Total comprehensive income for the year | | | | | | | |
| Loss for the year | | - | (3,831,761) | - | (3,831,761) | 93,267 | (3,738,494) |
| Total comprehensive loss for the year | | - | (3,831,761) | - | (3,831,761) | 93,267 | (3,738,494) |
| Transactions with owners, recorded directly in equity | | | | | | | |
| Issue of shares | 14 | 84,836 | - | - | 84,836 | - | 84,836 |
| Balance at 30 June 2017 | | 26,188,005 | (25,960,930) | (595,498) | (368,423) | 1,522,847 | 1,154,424 |

The above consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

NICKEL MINES LIMITED
and its controlled entities

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

| USD | Notes | 2017 | 2016 |
|---|--------------|-----------------------|-----------------------|
| | | \$ | \$ |
| Cash flows from operating activities | | | |
| Cash receipts from customers | | 9,142,340 | 3,930,552 |
| Cash payments in the course of operations | | (8,832,278) | (4,506,127) |
| Interest received | | 10,683 | 12,858 |
| Research and development refund/(repayment) | | (236,066) | 487,212 |
| Net cash from/(used in) operating activities | 17 | <u>84,679</u> | <u>(75,505)</u> |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | | (111,191) | (472,502) |
| Net cash used in investing activities | | <u>(111,191)</u> | <u>(472,502)</u> |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 14 | 84,836 | 411,618 |
| Costs of issue | | - | (7,526) |
| Net cash from financing activities | | <u>84,836</u> | <u>404,092</u> |
| Net increase/(decrease) in cash and cash equivalents | | 58,324 | (143,915) |
| Effect of exchange rate adjustments on cash held | | 2,243 | (61,609) |
| Cash and cash equivalents at the beginning of the year | | <u>218,207</u> | <u>423,731</u> |
| Cash and cash equivalents at the end of the year | | <u><u>278,775</u></u> | <u><u>218,207</u></u> |

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NICKEL MINES LIMITED
and its controlled entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 1 - REPORTING ENTITY

Nickel Mines Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report for the year ended 30 June 2017 comprises the Company and its subsidiaries (together referred to as the 'Group'). The Group is a for-profit entity and is involved in nickel mining operations.

NOTE 2 - BASIS OF PREPARATION

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board ('IASB').

The financial report has been prepared on a going concern basis which is further outlined in Note 4.

The financial report was authorised for issue by the Directors on 31 October 2017.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

Functional and presentation currency

These consolidated financial statements are presented in United States dollars, which is the Company's functional currency.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 4 – Going concern
- Note 8 – Recognition of deferred tax assets and liabilities
- Note 10 – Inventory
- Note 11 – Recoverability of property, plant and equipment
- Note 12 – Trade and other payables
- Note 13 – Convertible notes

NICKEL MINES LIMITED
and its controlled entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by all entities in the Group.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Non-controlling interest

The Group measures any non-controlling interest at its proportionate interest in the identifiable net assets of the acquiree. Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements. Where a controlled entity issues shares to minority interests which does not result in loss of control by the Group, any gain or loss arising on the Group's interest in the controlled entity is recognised directly in equity.

Nickel ore sales revenue

Nickel ore sales revenue is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Accounting for acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such transactions.

NICKEL MINES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to United States dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to United States dollars at foreign exchange rates ruling at the dates the fair value was determined.

Financial statements of foreign operations

The assets and liabilities of foreign entities are translated to United States dollars at the foreign exchange rates ruling at the reporting date. The revenues and expenses of foreign operations are translated to United States dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions. Foreign exchange differences arising on retranslation are recognised directly in the foreign currency translation reserve ('FCTR'), a separate component of equity.

Foreign exchange gains and losses arising from a monetary item receivable or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in the FCTR.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to United States dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to United States dollars at exchange rates at the dates of the transactions.

When a foreign operation is disposed of, in part or in full, the relevant amount in the FCTR is transferred to profit or loss as part of the profit or loss on disposal.

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see below accounting policy Impairment).

Depreciation and amortisation

Depreciation is charged to the income statement using a reducing balance method from the date of acquisition.

Furniture and fittings and plant and machinery are depreciated at 25%.

Land and buildings and infrastructure are depreciated at 5%.

Mine infrastructure assets are depreciated at 5%.

Mining properties amortisation rate is applied on the basis of units of production over the life of the economically recoverable resources.

Office equipment is depreciated at rates of between 25% and 40%.

Plant and machinery are depreciated at 25%.

NICKEL MINES LIMITED
and its controlled entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

Non-financial assets

The carrying amounts of the Group's assets, other than deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Calculation of recoverable amount

The recoverable amount of assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Share capital

Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

Dividends

Dividends are recognised as a liability in the period in which they are declared.

Trade and other payables

Trade and other payables are stated at their amortised cost. Trade payables are non-interest bearing and are normally settled on 30 day terms.

NICKEL MINES LIMITED
and its controlled entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Expenses

Net financing income

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, interest earned and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payment is established.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs which are directly attributable to the Group's exploration and evaluation and development activities are capitalised in relation to qualifying assets.

Income tax

Income tax on the income statement for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: The initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Tax consolidation

The Company and its wholly owned Australian resident entities have formed a tax consolidated group and are therefore taxed as a single entity. The head entity within the tax consolidated group is Nickel Mines Limited.

NICKEL MINES LIMITED
and its controlled entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

Employee benefits

Wages, salaries, annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on average costs over the relevant period of production, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Site restoration

In accordance with the Group's environmental policy and applicable legal requirements, a provision for site restoration in respect of disturbed land, and the related expense, is recognised when the land is disturbed.

Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

NICKEL MINES LIMITED
and its controlled entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Liabilities classified at fair value through profit or loss

The fair value of those convertible notes that are measured at fair value through profit or loss have been measured with reference to the terms of the Convertible Loan Facility Agreement ('Loan Facility') using a valuation technique that considers inputs that include risk adjusted discount factor, probability of achieving IPO and US treasury bond rate.

Exploration, evaluation and development expenditure

Exploration and evaluation costs, including the costs of acquiring licences, are capitalised at cost or fair value, as exploration and evaluation assets on an area of interest basis. Costs incurred before the consolidated entity has obtained the legal rights to explore an area are recognised in the statement of comprehensive income.

Exploration and evaluation assets are only recognised if the rights of the area of interest are current and either:

- (i) the expenditures are expected to be recouped through successful development and exploitation of the area of interest;
or
- (ii) activities in the area of interest have not at the reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability and facts and circumstances suggest that the carrying amount exceeds the recoverable amount. For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating unit shall not be larger than the area of interest.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified from exploration and evaluation expenditure to mining property and development assets within property, plant and equipment.

NICKEL MINES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the Group Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Compound financial instruments

Where a convertible note is issued and can be converted to share capital at the option of the holder, and the options meets the definition of an equity instrument, the note is treated as a compound financial instrument.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest related to the financial liability is recognised in profit or loss, unless it relates to a qualifying asset. On conversion, the financial liability is reclassified to equity and no gain or loss is recognised.

Liabilities classified at fair value through profit or loss

When a convertible note is identified to contain an embedded derivative that meets the definition of a liability, the whole contract is measured and accounted for at fair value through profit or loss, unless the derivative is able to be measured reliably, in which case it is separated from the host contract and accounted for separately at fair value through profit or loss.

Any gains or losses arising on the instrument upon fair valuing at inception are not immediately recognised as a gain or loss in profit or loss, but are instead deferred and recognised as a gain or loss in profit or loss on a systematic basis over the life of the instrument. Any subsequent movement in the fair value of financial instruments that are carried at fair value through profit or loss are recognised directly in profit or loss within finance expenses.

Transaction costs of financial liabilities that are carried at fair value through profit or loss are expensed in profit or loss.

NICKEL MINES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2016, and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

AASB 9 Financial Instruments

AASB 9 replaces the existing guidance in AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets and the new general hedge accounting requirements. It also carries forward the guidance on recognition and de-recognition of financial instruments from AASB 139.

AASB 9 is effective for the Company's annual reporting period beginning 1 July 2018 and can be early adopted. The Company does not plan to adopt this standard early and the standard is not expected to have a significant effect on the financial statements.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programs. AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

NOTE 4 - GOING CONCERN

The consolidated financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

During the year the Company raised \$84,836 through the placement of 750,000 shares at A\$0.15 per share.

The Group recorded a loss after tax of \$3,738,494 for the year ended 30 June 2017. At 30 June 2017 the Group had cash and cash equivalents of \$278,775 (2016 - \$218,207), a net current asset deficiency of \$16,673,562 (2016 - \$9,167,746) and net assets of \$1,154,424 at 30 June 2017 (2016 - \$4,808,082).

Included within current liabilities is \$1,360,166 of loans from related parties. These parties have signed confirmations that they will not call for repayment of these loans unless the Group has sufficient working capital to allow repayment without adversely impacting the continuation of the Group as a going concern. In addition, included within trade and other payables is \$941,667 owing to related parties. These parties have also signed confirmations that they will not call for repayment of these amounts unless the Group has sufficient working capital to allow repayment without adversely impacting the continuation of the Group as a going concern.

Furthermore, the deferred project acquisition payment of \$2,800,000 is not yet due and payable and payment can be deferred (refer Note 12). The agency fee payable of \$3,801,501 can also be deferred however interest charges will apply for amounts not settled by their due date at a rate of 12% per annum (refer Note 12).

The Company also has a convertible note with a face value of \$3,000,000 that matured in July 2017. At the date of this report the convertible note has not been repaid or converted and the Company is currently negotiating the terms of an extension to the facility and new conversion terms given the Company is no longer pursuing a listing on the Singapore Stock Exchange.

NICKEL MINES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 4 - GOING CONCERN (Con't)

The Group has current trade creditors, payables and accruals of \$4,516,276 (refer Note 12) which are generally past due and deferred under informal arrangements with creditors. The Group continues to trade with existing suppliers that have deferred amounts under these informal arrangements. Additional funding will be required to meet the Group's projected cash outflows for a period of 12 months from the date of the directors' declaration.

In September 2015 the Group entered into a short term off-take agreement with an Indonesian based third party to sell nickel pig iron from Hengjaya which allowed the recommencement of production at the mine. This off-take agreement was extended for a further 12 months in March 2016. Further to this on 17 December 2016 the Group entered into another offtake agreement for increased volumes until 31 December 2017. In October 2017 an updated offtake 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 1.60% nickel. Under the terms of the agreement, ITSS has made an advance payment of \$2,000,000 to enable expansion of operations at the mine and allow the Company to finalise some outstanding forestry tax obligations and obtain a 'Pinjam Pakai' forestry permit over an area covering 998 hectares of the Hengjaya project.

Subsequent to the end of the year the Company signed a Collaboration and Subscription Agreement with Shanghai Decent and a strategic Cornerstone Investor. The parties to the Collaboration and Subscription Agreement will construct and operate an RKEF Plant, within Tsingshan Park. Minerals mined from Hengjaya Mine will be primarily supplied to the RKEF Plant. At the same time Shanghai Decent and the Cornerstone Investor committed to invest \$50M into Nickel Mines with these proceeds being utilised by the Company to fund an initial 25% stake in the RKEF lines. The directors intend to undertake a pre-IPO capital raise of approximately \$15M, and an anticipated debt to equity conversion of approximately \$15M, to make the Company 'debt free', a Condition Precedent in the Collaboration and Subscription Agreement, at which point Shanghai Decent and the Cornerstone Investor will subscribe for \$26M and \$24M worth of Company shares respectively to fund the initial 25% stake in the RKEF lines.

The Directors have prepared cash flow projections that support the ability of the Group to continue as a going concern. These cash flow projections assume the Group generates positive cash flows from operations in accordance with the recently executed offtake agreement and/or raises additional funding through the issue of debt and/or equity and successfully renegotiates the repayment terms of the convertible note. In the event the group does not generate sufficient positive cash flows from operations and/or additional funding is not obtained, the Directors have assumed that the Group will continue to defer payment commitments to trade and other creditors and renegotiate the repayment terms of the convertible note.

These conditions give rise to a material uncertainty that may cast significant doubt upon the Group's ability to continue as a going concern. The ongoing operation of the Group is critically dependent upon:

- the Group continuing to defer payment commitments to trade and other creditors through informal arrangements; and
- the Group successfully renegotiating the repayment terms of the convertible note; and
- the Group successfully completing the Pre-IPO capital raise to satisfy the Condition Precedent in the Collaboration and Subscription Agreement; and
- the Group generating positive cash flows from operations and/or raising additional funds through the issue of debt and/or equity.

In the event that the Group is not able to continue to defer payment commitments to trade and other creditors, successfully renegotiate the repayment terms of the convertible note, successfully complete the Pre-IPO capital raise and generate positive cash flows from operations and/or raise additional funding it may not be able to continue operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the consolidated financial report.

NICKEL MINES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

| | 2017 | 2016 |
|--|-------------|-------------|
| | \$ | \$ |
| NOTE 5 - OTHER EXPENSES | | |
| Audit fees – KPMG audit of financial report | 99,976 | 95,066 |
| Travel | 51,719 | 39,498 |
| Legal fees | 93,544 | 9,023 |
| | 245,239 | 143,587 |
| NOTE 6 - FINANCIAL INCOME AND FINANCE EXPENSE | | |
| Interest income | 10,683 | 12,858 |
| Interest expense | (417,133) | (145,908) |
| Net change in fair value of financial liabilities at fair value | (120,859) | (300,000) |
| Foreign exchange loss | (14,903) | (12,783) |
| | (542,212) | (445,833) |
| NOTE 7 - TRADE AND OTHER RECEIVABLES | | |
| GST receivable | 4,041 | 1,682 |
| Trade receivables | 284,648 | 832,238 |
| | 288,689 | 833,919 |
| NOTE 8 - INCOME TAX EXPENSE | | |
| Loss before tax – continuing operations | (3,917,842) | (1,893,027) |
| Prima facie income tax expense/(benefit) at the Australian tax rate of 30% (2016 – 30%) | (1,175,352) | (567,908) |
| Increase in income tax expense/(benefit) due to: | | |
| - Effect of tax rates in foreign jurisdictions | - | - |
| - Non-deductible expenses | 961,344 | 299,671 |
| - Effect of deferred tax assets for tax losses not brought to account | 152,318 | - |
| - Effect of net deferred tax assets not brought to account | - | - |
| - Effect of foreign currency conversion | (117,657) | (104,063) |
| Income tax expense/(benefit) – current and deferred | (179,348) | (372,300) |
| Deferred tax assets/(liabilities) have been recognised in respect of the following items: | | |
| DTA on Australian tax losses | - | 317,479 |
| DTL net deductible temporary differences | - | (496,827) |
| Net | - | (179,348) |

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| NOTE 8 - INCOME TAX EXPENSE (Con't) | 2017 | 2016 |
|--|-------------|-------------|
| | \$ | \$ |
| Deferred tax assets have not been recognised in respect of the following items: | | |
| Deductible temporary differences (net) | 759,664 | - |
| Tax losses | (607,346) | - |
| Net | 152,318 | - |

The deductible temporary differences and tax losses do not expire under the current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilise the benefits of the deferred tax asset. The Company does not have any franking credits.

NOTE 9 – LOSS PER SHARE

Basic and diluted loss per share have been calculated using:

| | | |
|---|---------------------|---------------------|
| Net loss for the year attributable to equity holders of the Company | (3,831,761) | (1,377,084) |
| | N° of shares | N° of shares |
| Weighted average number of ordinary shares (basic and diluted) | | |
| - Issued ordinary shares at the beginning of the year | 316,580,516 | 312,811,635 |
| - Effect of shares issued on 26 August 2015 | - | 2,821,918 |
| - Effect of shares issued on 19 April 2016 | - | 85,916 |
| - Effect of shares issued on 8 June 2017 | 45,330 | - |
| Weighted average number of shares at the end of the year | 316,625,846 | 315,719,469 |

As the Group is loss making, none of the potentially dilutive securities are currently dilutive.

| | 2017 | 2016 |
|----------------------------|-------------|-------------|
| | \$ | \$ |
| NOTE 10 - INVENTORY | | |
| Current | | |
| Inventory – ore stockpiles | 959,451 | 430,344 |
| | 959,451 | 430,344 |

During the year the Group continued to provide ore to PT Sulawesi Mining Investment ('SMI'), an Indonesian subsidiary of Tsingshan Group, under an offtake agreement originally signed in October 2015 to supply 30,000 wet metric tonnes of 2.0% unprocessed nickel ore per month. A revised ore supply contract was signed with PT Indonesia Tsingshan Stainless Steel ('ITSS') in December 2016 to supply 50,000 wet metric tonnes of nickel ore per month. In October 2017 an updated offtake agreement has been signed, with ITSS guaranteeing to take supply of 50,000 wmt per month until 30 November 2018, with a cut-off grade of 1.60% nickel.

Inventories are measured at the lower of cost and net realisable value. At 30 June 2017 the carrying value of inventory was assessed and a write-down of inventory of \$Nil was recorded (2016: \$805,315).

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| | 2017 | 2016 |
|---|-------------|-------------|
| | \$ | \$ |
| NOTE 11 - PROPERTY, PLANT AND EQUIPMENT | | |
| Furniture and fittings | | |
| Furniture and fittings – cost | 42,197 | 41,520 |
| Accumulated depreciation | (33,877) | (29,995) |
| Net foreign currency differences on translation | (5,840) | (5,840) |
| Net book value | 2,480 | 5,685 |
| Mine infrastructure assets | | |
| Mine infrastructure assets – cost | 2,954,616 | 2,954,049 |
| Accumulated depreciation | (600,579) | (493,050) |
| Net foreign currency differences on translation | (550,716) | (550,716) |
| Net book value | 1,803,321 | 1,910,283 |
| Buildings | | |
| Buildings– cost | 297,680 | 292,897 |
| Accumulated depreciation | (53,771) | (42,846) |
| Net foreign currency differences on translation | (53,948) | (53,948) |
| Net book value | 189,961 | 196,103 |
| Mining properties | | |
| Mining properties– cost | 26,505,912 | 26,476,264 |
| Accumulated amortisation | (411,367) | (223,701) |
| Net foreign currency differences on translation | (1,980,965) | (1,980,965) |
| Net book value | 24,113,579 | 24,271,598 |
| Office equipment | | |
| Office equipment – cost | 267,464 | 127,837 |
| Accumulated depreciation | (128,528) | (100,292) |
| Net foreign currency differences on translation | (13,884) | (13,884) |
| Net book value | 125,052 | 13,661 |
| Plant and machinery | | |
| Plant and machinery – cost | 773,563 | 756,000 |
| Accumulated depreciation | (611,351) | (558,225) |
| Net foreign currency differences on translation | (120,530) | (120,530) |
| Net book value | 41,682 | 77,245 |
| Total property, plant and equipment | 26,276,076 | 26,474,575 |

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Con't)

After consideration of both internal and external factors, the Directors believe that no indicators of impairment existed at 30 June 2017 and have therefore not completed an impairment assessment over the carrying value of the Group's property, plant and equipment assets at 30 June 2017.

At 30 June 2016 the directors performed an impairment test on the carrying value of property, plant and equipment. In assessing the value of assets relating to the Hengjaya project, the Group assessed the recoverable amount at 30 June 2016 based on its fair value less costs of disposal.

The recoverable amount of the Hengjaya project cash generating unit was determined by discounting the future cash flows to be generated from the project on the assumption that the Group enters into and completes a definitive binding agreement with Tsingshan and its partner Zhonghao to acquire a 51% interest in the first phase of a new smelter in Sulawesi, which will produce 4,000 tonnes of nickel metal as a high grade 52% Nickel Hydroxide.

Key assumptions include a 15 year life of mine, nickel price of \$12,500 per tonne, an ore feed grade of 2.0% nickel costing \$20 per tonne of ore, an additive cost of \$1,835 per tonne of nickel, a coal cost of \$1,524 per tonne of nickel, a lime cost of \$97 per tonne of nickel, capital costs to build the processing facilities of \$33.1 million, production of 4,000 tonnes of nickel per annum and a post-tax discount rate of 12% p.a.

Based on this impairment assessment, the directors determined that the carrying value of property, plant and equipment assets did not exceed the recoverable amount.

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below.

| | 2017 | 2016 |
|--------------------------------------|-----------|-----------|
| | \$ | \$ |
| Furniture and fittings | | |
| Carrying amount at beginning of year | 5,685 | 12,769 |
| Additions | 677 | 452 |
| Depreciation | (3,882) | (7,536) |
| Net book value | 2,480 | 5,685 |
| Mine infrastructure assets | | |
| Carrying amount at beginning of year | 1,910,283 | 2,014,908 |
| Additions | 567 | - |
| Depreciation | (107,529) | (104,625) |
| Net book value | 1,803,321 | 1,910,283 |
| Buildings | | |
| Carrying amount at beginning of year | 196,103 | 200,841 |
| Additions | 4,783 | 5,489 |
| Depreciation | (10,925) | (10,227) |
| Net book value | 189,961 | 196,103 |

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NOTE 11 - PROPERTY, PLANT AND EQUIPMENT (Con't)

| | 2017 | 2016 |
|--------------------------------------|-------------------|-------------------|
| | \$ | \$ |
| Mining properties | | |
| Carrying amount at beginning of year | 24,271,598 | 23,687,622 |
| Additions | 29,647 | 458,475 |
| Increase in rehabilitation provision | - | 199,416 |
| Amortisation | (187,666) | (73,915) |
| Net book value | <u>24,113,579</u> | <u>24,271,598</u> |
| Office equipment | | |
| Carrying amount at beginning of year | 13,661 | 19,344 |
| Additions | 139,627 | 7,821 |
| Depreciation | (28,236) | (13,504) |
| Net book value | <u>125,052</u> | <u>13,661</u> |
| Plant and machinery | | |
| Carrying amount at beginning of year | 77,245 | 211,313 |
| Additions | 17,563 | 264 |
| Depreciation | (53,126) | (134,332) |
| Net book value | <u>41,682</u> | <u>77,245</u> |

NOTE 12 - TRADE AND OTHER PAYABLES

| | | |
|---------------------------------------|-------------------|------------------|
| Current | | |
| Creditors | 4,516,276 | 4,451,767 |
| Deferred project acquisition payments | 2,800,000 | 2,800,000 |
| Taxes payable ⁽¹⁾ | 372,305 | 506,646 |
| Agency fee payable ⁽²⁾ | 3,801,501 | 774,005 |
| Accruals | 1,197,229 | 893,946 |
| | <u>12,687,311</u> | <u>9,426,364</u> |

⁽¹⁾ During the year a review of the R&D claims made by the Company for the 2015 financial year concluded that the claims did not meet the criteria of eligible R&D expenditure. At 30 June 2016 the Company had taken up an accrual of \$487,212, equal to the estimated amount repayable were it to be determined that there was no eligible R&D expenditure claimable. No penalties were imposed on the Company by the Australian Taxation Office ('ATO'), given its reliance on independent taxation advice and voluntary amendment of the claim. The Company entered into a payment arrangement with the ATO to repay the claimed amount, including any interest charges by June 2018.

⁽²⁾ Under the Amendment Agreement to Reschedule Debt ('Debt Agreement') detailed in Note 13 the Company agreed to a fixed repayment schedule of the Agency Fee to PT Hengjaya Sukses Pratama ('HSP'). Under a scope of work HSP earns the Agency Fee for sales and marketing requirements in relation to the first 440,000 wmt of nickel ore produced by Hengjaya, a threshold that was reached during the year and assisting in negotiating the terms of sales contracts with all potential customers and connected parties in relation to or connected with the sale and marketing of nickel ore produced or developed by Hengjaya. In addition HSP is responsible for obtaining for PT Hengjaya all federal, provincial and local government approvals, including but not limited to forestry, mining, export, port, land access and community relations permits and approvals, and all other approvals as may be required by PT Hengjaya for PT Hengjaya to develop and operate the Hengjaya mine.

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NOTE 12 - TRADE AND OTHER PAYABLES (Con't)

Under the repayment schedule the amount due and payable by the Company to HSP is as follows:

- a) \$2,000,000 of the Agency Fee to HSP's nominated entity at the time the a pre-IPO fundraising completes (see Note 13).
- b) the balance of the Agency Fee to HSP's nominated entity payable from net cash flow at the Hengjaya mine as follows:
 - i) \$150,000 per month for 6 months from 1 January 2016
 - ii) \$200,000 per month for 6 months from 1 July 2016
 - iii) \$350,000 per month for 6 months from 1 January 2017
 - iv) \$300,000 per month for 6 months from 1 July 2017.

Interest will be incurred on any overdue amount at a rate of 12% per annum.

During the year ended 30 June 2017 \$3,300,000 (2016 - \$900,000) of Agency Fee charges were accrued based on work performed by HSP and \$525,000 (2016 - \$150,000) of Agency Fee was paid, leaving a balance of \$3,525,000 (2016 - \$750,000) due and payable, as well as \$276,501 (2016 - \$24,005) of interest.

Under a Loan Repayment and Subscription Agreement signed in January 2017 ('Repayment Agreement'), with HSP's nominated entity Swift Capital Limited ('Swift'), subject to a successful pre-IPO capital raising, Swift agreed to reduce the amount outstanding of Agency Fee by \$2,000,000. At the same time Swift directed the Company that \$2,850,000 of Agency Fees outstanding would be put towards a subscription by Swift for shares in the Company at \$0.158 per share, the anticipated pre-IPO price at which the Company would be issuing shares to become 'debt-free', a condition precedent of the Collaboration and Subscription Agreement signed subsequent to the end of the year with Shanghai Decent. The remaining amount of Agency Fee payable, including any interest charges, would be repaid in full in cash from funds raised under the pre-IPO raising.

Deferred project acquisition payments

Through various amendments to the original agreement entered into in December 2009 for the Company to acquire 80% of the share capital of PT Hengjaya Mineralindo ('PT Hengjaya') in Indonesia, the transfer of 80% of the PT Hengjaya to Nickel Mines was effected in March 2012 with deferred payments totalling \$7.35 million to be paid to the sellers based on the achievement of certain milestones. These deferred payments will be payable to PT Hengjaya Sukses Pratama ('HSP'), the Company's Indonesian partner in the Hengjaya project upon achievement of various project milestones.

In November 2012 the first milestone payment of \$1,350,000 plus associated interest charges of \$163,775 was made to HSP. The milestone was the listing of the Hengjaya licence on the Clean and Clear List issued by the Director General of Mineral and Coal, the Ministry of Energy and Mineral Resources.

In June 2013 the second milestone was achieved, upon the signing of the final 'Pinjam Pakai' forestry permit of Hengjaya's production forest area. 50% of the total milestone payment of \$3,000,000 was paid in January 2013 upon granting of the 'in principle' forestry permit. The balance became due on 20 July 2013. In July 2014 \$200,000 was paid and then in January 2015 \$1,500,000 plus associated interest charges of \$410,548 was paid. The additional \$200,000 paid in July 2014 will be offset against the \$3,000,000 final milestone payment when it becomes due and payable.

The third and final milestone payment of \$3,000,000 becomes due and payable one month following the conversion of the HL protected forest area into Other Utilisation Area and the granting of all other licences, approvals and steps as deemed necessary to allow the exploitation, open cut mining and production operation in that area. Confirmation of the downgrade of the HL protected forest area into Other Utilisation Area was received in August 2014. Before production can commence from this area a 'Pinjam Pakai' forestry permit must be obtained. The Company believes there are no further technical requirements needed to be satisfied and that the forestry permit will be granted upon payment of some outstanding forestry tax obligations. If payment is not made at the date the milestone payment becomes due and payable interest will be incurred on the overdue amount at a rate of 18% per annum.

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| | 2017 | 2016 |
|---|-----------|------------|
| | \$ | \$ |
| NOTE 13 – BORROWINGS AND CONVERTIBLE NOTES | | |
| Current | | |
| Convertible note | 4,020,859 | - |
| Loans from related parties | 1,360,166 | 1,227,383 |
| | 5,381,025 | 1,227,383 |
| Non-current | | |
| Convertible note | - | 3,900,000 |
| Loan – Swift Capital Limited | 8,151,024 | - |
| Loan - PT Hengjaya Sukses Pratama | - | 8,151,024 |
| | 8,151,024 | 12,051,024 |

Borrowings

During the year ended 30 June 2015 entities related to Norman Seckold, a Director, advanced A\$77,000 and \$200,000 to the Group. No further funds were advanced to the group during the year ended 30 June 2017 or 30 June 2016. The loans were unsecured and at call. Interest on the funds advanced to the Company were calculated at a rate of 10% p.a. from the date funds were advanced and totalled A\$10,048 and \$20,000 for the year ended 30 June 2017 (2016 – A\$10,428 and \$20,055). Interest on \$100,000 advanced to PT Hengjaya during the 2014 financial year is being calculated at a rate of 15% p.a. and totalled \$26,977 during the year (2016 – \$23,421). Outstanding amounts at 30 June 2017, including related interest charges, total A\$134,578 and \$446,052 (2016 - A\$124,178 and \$407,155).

During the year ended 30 June 2015 an entity related to Justin Werner, a Director, advanced A\$30,000 and \$130,000 to the Group. No further funds were advanced to the group during the year ended 30 June 2017 or 30 June 2016. The loans were unsecured and at call. Interest on the funds advanced to the Company were calculated at a rate of 10% p.a. from the date funds were advanced and totalled A\$3,000 and \$13,000 for the year ended 30 June 2017 (2016 - A\$3,008 and \$13,036). Interest on \$100,000 advanced to PT Hengjaya during the 2014 financial year is being calculated at a rate of 15% p.a. and totalled \$26,977 for the year ended 30 June 2017 (2016 – \$23,241). Outstanding amounts at 30 June 2017, including related interest charges, totalled A\$38,400 and \$355,674 (2016 - A\$35,400 and \$323,777).

During the year ended 30 June 2015 any entity related to Peter Nightingale, a Director, advanced A\$160,000 to the Group. No further funds were advanced to the group during the year ended 30 June 2017 or 30 June 2016. The loans were unsecured and at call. Interest on the funds advanced to the Company were calculated at a rate of 10% p.a. from the date funds were advanced and totalled A\$16,000 for the year ended 30 June 2017 (2016 – A\$16,044). Outstanding amounts at 30 June 2017, including related interest charges, totalled A\$206,778 (2016 - \$190,778).

During the year ended 30 June 2017, Peter Nightingale and Norman Seckold had an interest in an entity, MIS Corporate Pty Limited ('MIS'), which provided full administrative services, including administrative, accounting and investor relations staff both within Australia and Indonesia, rental accommodation, services and supplies, to the Group. Fees charged by MIS Corporate Pty Limited during the year amounted to A\$371,325 (2016 - A\$87,697). Outstanding amounts at 30 June 2017 total A\$629,236 (2016 - A\$319,308). During the year ended 30 June 2015 MIS advanced A\$269,272 to the Group and A\$16,403 in the year ended 30 June 2014. No further funds were advanced to the group during the year ended 30 June 2017 or 30 June 2016. The loans were unsecured and at call. Interest on the funds advanced to the Company were calculated at a rate of 10% p.a. from the date funds were advanced and totalled A\$28,640 for the year ended 30 June 2017 (2016 – A\$28,719). Outstanding amounts at 30 June 2017, including related interest charges, total A\$346,904 (2016 - A\$318,264).

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NOTE 13 – BORROWINGS AND CONVERTIBLE NOTES (Con’t)

During the years ended 30 June 2017 and 30 June 2016 PT Hengjaya Sukses Pratama (‘HSP’) did not contribute further funding towards the exploration, evaluation and development of the Hengjaya project.

During 2013 the Company and HSP, the Company’s Indonesian operating partner, had entered into a loan agreement to provide funding to enable the exploration, evaluation and development of the Hengjaya project. Under the terms of the agreement two facilities were established, the Nickel Mines Facility and the HSP Facility. During the year the PT Hengjaya repaid \$1,026,030 of funds advanced under the Nickel Mines Facility.

During the year ended 30 June 2015 the Company and HSP entered into an Amendment Agreement to Reschedule Debt (‘Debt Agreement’). Under the Debt Agreement the Company agreed to replace PT Hengjaya as the borrower in regards the amount owed to HSP under the HSP facility agreement. i.e. \$8,151,024. At the same time HSP agreed to unconditionally and irrevocably waive all interest accrued on the HSP facility. This resulted in a contribution from owner of \$2,715,275, which was recognised directly in equity in 2015.

Under the Repayment Agreement detailed in Note 12 signed between the Company and HSP’s nominated entity Swift Capital Limited (‘Swift’), Swift agreed that 50% of the amount outstanding under the HSP facility agreement (i.e. \$4,075,512) would be put towards a subscription by Swift for shares in the Company at \$0.158 per share, the anticipated pre-IPO price at which the Company would be issuing shares to become ‘debt-free’, a condition precedent of the Collaboration and Subscription Agreement signed subsequent to the end of the year with Shanghai Decent. The above subscription of shares by Swift is conditional upon a successful pre-IPO capital raising. The remaining amount payable under the facility agreement would be repaid in full in cash from funds raised under the pre-IPO raising.

Convertible notes

Liabilities measured at fair value through profit and loss

| | 2017 | 2016 |
|---|-------------|-------------|
| | \$ | \$ |
| Opening balance | 3,900,000 | 3,600,000 |
| Net change in fair value of financial liabilities at fair value | 120,859 | 300,000 |
| | 4,020,859 | 3,900,000 |

In January 2015 the Company, PT Hengjaya and Woodburn Holdings Limited (‘Woodburn’) entered into a Convertible Loan Facility Agreement (‘Loan Facility’). Key terms of the Loan Facility are as follows:

- Principal amount \$3,000,000 which was fully drawn down in February 2015.
- The convertible loan has a term of 30 months.
- Interest, accruing at a rate of 12% per annum from the date of drawdown until the date of full repayment of principal and interest, is only charged in the event of a default. No interest is chargeable if conversion occurs.
- Drawings under the Loan Facility will be applied towards subscription of shares in the Initial Public Offering (‘IPO’) on the Singapore Stock Exchange (‘SGX’) or Reverse Take Over (‘RTO’) of the Company or an unconditional trade sale.
- Conversion shall take place three business days after IPO/RTO approval or the unconditional trade sale.
- The conversion price is dependent upon the valuation of the Company at the time of listing on the SGX.
- As the SGX listing is no longer being pursued, the valuation ascribed to the financial liability at 30 June 2017 is the principal amount of \$3,000,000 and accrued interest charges of \$1,020,859. This is considered to represent fair value as the Directors consider the probability of a conversion event prior to maturity date to be nil.

The Convertible Loan Facility Agreement matured in July 2017. At the date of this report the convertible note has not been repaid or converted and the Company is currently negotiating the terms of an extension to the facility and new conversion terms given the Company is no longer pursuing a listing on the Singapore Stock Exchange.

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NOTE 13 – BORROWINGS AND CONVERTIBLE NOTES (Con't)

The Loan Facility is classified as a financial liability measured at fair value through profit and loss in its entirety due to the number of shares to be issued on conversion being dependent on the valuation of the Company at the time of listing on the Singapore Exchange.

NOTE 14 - ISSUED CAPITAL

| | Number of shares | \$ |
|---|---------------------|------------|
| Ordinary shares on issue at 30 June 2015 - fully paid | 312,811,635 | 25,699,077 |
| Issue of shares | 3,768,881 | 411,618 |
| Costs of issue | - | (7,526) |
| Ordinary shares on issue at 30 June 2016 - fully paid | 316,580,516 | 26,103,169 |
| Issue of shares | 750,000 | 84,836 |
| Ordinary shares on issue at 30 June 2017 - fully paid | 317,330,516 | 26,188,005 |

During the year ended 30 June 2017 the Group issued 750,000 shares at A\$0.15 each for cash totalling A\$112,500 (\$84,836). There were no amounts unpaid on the shares issued.

During the year ended 30 June 2016 the Group issued 3,768,881 shares at A\$0.15 each for cash totalling A\$565,332 (\$411,618). There were no amounts unpaid on the shares issued. Share issue costs totalled \$7,526.

Options

There were no options granted, exercised or lapsed unexercised during the year ended 30 June 2017 or year ended 30 June 2016.

Dividends

There were no dividends paid or declared during the year ended 30 June 2017 or year ended 30 June 2016.

Ordinary shares

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time.

NOTE 15 - CONTROLLED ENTITIES

Particulars in relation to controlled entities:

| | Ordinary shares – Group interest 2017 % | Ordinary shares – Group interest 2016 % |
|-------------------------------|--|--|
| <i>Parent Entity</i> | | |
| Nickel Mines Limited | | |
| <i>Controlled entities</i> | | |
| Nitro Pte. Ltd. | - | 100 |
| PT Hengjaya Mineralindo | 80 | 80 |
| Shelf Exploration Pty Limited | - | 100 |

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NOTE 15 - CONTROLLED ENTITIES (Con't)

- The Company holds an 80% interest in PT Hengjaya Mineralindo, which is incorporated in Indonesia.
- Nitro. Pte. Ltd. and Shelf Exploration Pty Limited, wholly controlled entities that were incorporated in Singapore and Australia respectively were deregistered during the year.

NOTE 16 - RELATED PARTIES

During the year ended 30 June 2015 entities related to Norman Seckold, a Director, advanced A\$77,000 and \$200,000 to the Group. No further funds were advanced to the group during the year ended 30 June 2017 or 30 June 2016. The loans were unsecured and at call. Interest on the funds advanced to the Company were calculated at a rate of 10% p.a. from the date funds were advanced and totalled A\$10,048 and \$20,000 for the year ended 30 June 2017 (2016 – A\$10,428 and \$20,055). Interest on \$100,000 advanced to PT Hengjaya during the 2014 financial year is being calculated at a rate of 15% p.a. and totalled \$26,977 during the year (2016 – \$23,421). Outstanding amounts at 30 June 2017, including related interest charges, total A\$134,578 and \$446,052 (2016 - A\$124,178 and \$407,155).

During the year ended 30 June 2015 an entity related to Justin Werner, a Director, advanced A\$30,000 and \$130,000 to the Group. No further funds were advanced to the group during the year ended 30 June 2017 or 30 June 2016. The loans were unsecured and at call. Interest on the funds advanced to the Company were calculated at a rate of 10% p.a. from the date funds were advanced and totalled A\$3,000 and \$13,000 for the year ended 30 June 2017 (2016 - A\$3,008 and \$13,036). Interest on \$100,000 advanced to PT Hengjaya during the 2014 financial year is being calculated at a rate of 15% p.a. and totalled \$26,977 during the year (2016 – \$23,241). Outstanding amounts at 30 June 2017, including related interest charges, totalled A\$38,400 and \$355,674 (2016 - A\$35,400 and \$323,777).

During the year ended 30 June 2015 any entity related to Peter Nightingale, a Director, advanced A\$160,000 to the Group. No further funds were advanced to the group during the year ended 30 June 2017 or 30 June 2016. The loans were unsecured and at call. Interest on the funds advanced to the Company were calculated at a rate of 10% p.a. from the date funds were advanced and totalled A\$16,000 for the year ended 30 June 2017 (2016 – A\$16,044). Outstanding amounts at 30 June 2017, including related interest charges, totalled A\$206,778 (2016 - \$190,778).

During the year ended 30 June 2017, Peter Nightingale and Norman Seckold had an interest in an entity, MIS Corporate Pty Limited ('MIS'), which provided full administrative services, including administrative, accounting and investor relations staff both within Australia and Indonesia, rental accommodation, services and supplies, to the Group. Fees charged by MIS Corporate Pty Limited during the year amounted to A\$371,325 for the year ended 30 June 2017 (2016 - A\$87,697). Outstanding amounts at 30 June 2017 total A\$629,236 (2016 - A\$319,308). During the year ended 30 June 2015 MIS advanced A\$269,272 to the Group and A\$16,403 in the year ended 30 June 2014. No further funds were advanced to the group during the year ended 30 June 2017 or 30 June 2016. The loans were unsecured and at call. Interest on the funds advanced to the Company were calculated at a rate of 10% p.a. from the date funds were advanced and totalled A\$28,640 (2016 – A\$28,719). Outstanding amounts at 30 June 2017, including related interest charges, total A\$346,904 (2016 - A\$318,264).

Apart from the details disclosed in this note, no Director has entered into a material contract with the Group during the year and there were no material contracts involving director's interests subsisting at year end.

During the year ended 30 June 2017 PT Hengjaya Mineralindo repaid to the Company \$1,026,030 (2016 - \$585,690 from the Company to Pt Hengjaya Mineralindo) of funds that the Company in prior year had provided for the exploration, evaluation and development of the Hengjaya project. The amount outstanding under the Nickel Mines Facility at 30 June 2017 totalled \$9,286,834 (2016 - \$10,312,864).

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| | 2017 | 2016 |
|--|---------------|-----------------|
| | \$ | \$ |
| NOTE 17 - STATEMENT OF CASH FLOWS | | |
| (a) Reconciliation of cash and cash equivalents | | |
| Cash and cash equivalents at the end of the year as shown in the Statements of Cash Flows is reconciled to the related items in the Balance Sheets as follows: | | |
| Bank balances | 278,775 | 218,207 |
| (b) Reconciliation of net loss from ordinary activities after tax to net cash used in operating activities | | |
| Loss from ordinary activities after tax | (3,738,494) | (1,520,727) |
| Non-cash items | | |
| Depreciation and amortisation | 50,337 | 344,140 |
| Foreign exchange loss | 25,547 | 12,783 |
| Borrowing costs | 406,489 | 145,908 |
| Inventory write-down | - | 805,315 |
| Net change in fair value of financial liabilities | 120,859 | 300,000 |
| Changes in assets and liabilities | | |
| Trade and other receivables | 545,871 | (707,812) |
| Inventory | (529,108) | (189,502) |
| Provisions | 163,721 | 198,387 |
| Trade and other payables | 3,039,457 | 536,003 |
| Net cash used in operating activities | 84,679 | (75,505) |

NICKEL MINES LIMITED
and its controlled entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 18 - KEY MANAGEMENT PERSONNEL DISCLOSURES

There are no key management personnel of the Group that are not Directors.

Anthony McClure, a Director until March 2018, was not compensated for his services during the year ended 30 June 2017 (2016 - nil). Outstanding amounts at 30 June 2017 total A\$100,000 (2016 - A\$100,000).

Peter Nightingale, a Director, was not compensated for his services during the year ended 30 June 2017 (2016 - nil). Outstanding amounts at 30 June 2017 total A\$76,500 (2016 - A\$76,500).

Justin Werner, a Director, was compensated \$150,000 for his services during the year ended 30 June 2017 (2016 - \$100,083) for directors fees. Outstanding amounts at 30 June 2017 total A\$262,247 (2016 - A\$164,083).

No other key management personnel were remunerated for their services during the year ended 30 June 2017 or year ended 30 June 2016. There are no service contracts with key management personnel, and no bonuses or other performance related compensation paid.

Movement in shares 2017

| Key management personnel | 1 July 2016 | Purchased | Sold | 30 June 2017 |
|---------------------------------|-------------------------|------------------|-------------|---------------------|
| Norman Seckold | 115,272,673 | - | - | 115,272,673 |
| Peter Nightingale | 16,286,787 | - | - | 16,286,787 |
| James Crombie | 5,775,000 | - | - | 5,775,000 |
| Mark Lochtenberg | 11,693,333 [^] | - | - | 11,693,333 |
| Anthony McClure | 4,125,000 | - | - | 4,125,000* |
| Justin Werner | 21,099,491 | - | - | 21,099,491 |

* Number held at the date he ceased to be a director.

[^] Number held at the date he became a director.

Movement in shares 2016

| Key management personnel | 1 July 2015 | Purchased | Sold | 30 June 2016 |
|---------------------------------|--------------------|------------------|-------------|---------------------|
| Norman Seckold | 115,272,673 | - | - | 115,272,673 |
| Peter Nightingale | 16,286,787 | - | - | 16,286,787 |
| James Crombie | 5,775,000 | - | - | 5,775,000 |
| Anthony McClure | 4,125,000 | - | - | 4,125,000 |
| Justin Werner | 21,099,491 | - | - | 21,099,491 |
| Terence Willstead | 3,000,000 | - | - | 3,000,000* |

* Number held at the date he ceased to be a director.

No shares were granted to key management personnel during the reporting period as compensation (2016 - Nil).

NICKEL MINES LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19 - FINANCIAL INSTRUMENTS DISCLOSURE

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, currency risk and interest rate risk. The summaries below presents information about the Group's exposure to each of these risks, their objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of the following assets represent the Group's maximum exposure to credit risk in relation to financial assets:

| | | 2017 | 2016 |
|-----------------------------|----|----------------|------------------|
| | | \$ | \$ |
| Cash and cash equivalents | 17 | 278,775 | 218,207 |
| Trade and other receivables | 7 | 288,689 | 833,919 |
| | | <u>567,464</u> | <u>1,052,126</u> |

The Group mitigates credit risk on cash and cash equivalents by dealing with regulated banks in Australia and Indonesia. Credit risk of trade and other receivables is very low as it consists predominantly of nickel ore sales receivable from one customer, amounts recoverable from the Australian Taxation Authority and interest receivable from call deposits held with regulated banks.

Impairment losses

None of the Group's material trade and other receivables are past due.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Refer Going Concern discussion in note 4.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

| Consolidated | Carrying amount | Contractual cash flows | Less than one year | Between one and five years | More than five years |
|---------------------------------------|----------------------------|-----------------------------------|---------------------------|---|---------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| 30 June 2017 | | | | | |
| Trade and other payables | 9,887,311 | 9,887,311 | 9,887,311 | - | - |
| Loan – Swift Capital Limited | 8,151,024 | 8,151,024 | - | 8,151,024 | - |
| Loans from related parties | 1,360,166 | 1,437,510 | 1,437,510 | - | - |
| Convertible note ¹ | 4,020,859 | 4,262,111 | 4,262,111 | - | - |
| Deferred project acquisition payments | 2,800,000 | 2,800,000 | 2,800,000 | - | - |
| Total liabilities | 26,219,360 | 26,537,956 | 18,386,932 | 8,151,024 | - |

¹ The contractual cash flows for the convertible note of \$4,262,111 is only payable in the event that the IPO does not proceed and the liability is settled in cash. The Directors have assessed the probability of IPO prior to maturity date of 21 July 2017 to be nil at 30 June 2017.

30 June 2016

| | | | | | |
|---------------------------------------|-------------------|-------------------|-------------------|-------------------|----------|
| Trade and other payables | 6,626,364 | 6,626,364 | 6,626,364 | - | - |
| Loan – PT Hengjaya Sukses Pratama | 8,151,024 | 8,151,024 | - | 8,151,024 | - |
| Loans from related parties | 1,227,393 | 1,366,903 | 1,366,903 | - | - |
| Convertible note | 3,900,000 | 3,900,000 | - | 3,900,000 | - |
| Deferred project acquisition payments | 2,800,000 | 2,800,000 | 2,800,000 | - | - |
| Total liabilities | 22,704,781 | 22,844,291 | 10,793,267 | 12,051,024 | - |

Ultimate responsibility for liquidity management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate funding where possible and monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations of expected settlement of financial assets and liabilities.

Currency risk

The Group functional currency in 2017 was assessed as being United States dollars. The Group is exposed to foreign currency risks due to the fact that the domestic ore sales of its subsidiary PT Hengjaya are in Indonesian Rupiah, liabilities of the Group are denominated in both Indonesian Rupiah and Australian dollars and the rights issue to shareholders and an additional placement during the year were denominated in Australian dollars.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

The Group's gross financial position exposure to foreign currency risk at 30 June 2017 is as follows:

- IDR 3,625,004,373 (\$272,107) cash in hand;
- A\$267 (\$205) cash in hand;
- A\$726,660 (\$558,438) of borrowings;
- IDR 3,237,502,516 (\$243,019) of accounts receivable;
- IDR 1,753,618,468 (\$131,633) of other current assets;
- A\$5,258 (\$4,041) of receivables;
- IDR 7,541,074,684 (\$566,062) of provisions;
- IDR 3,384,324,705 (\$254,040) of taxes payable;
- IDR 59,935,532,760 (\$4,498,989) of trade and other payables;
- A\$1,308,429 (\$1,005,528) of trade and other payables; and
- A\$514,986 (\$395,767) of tax provisions payable

The Group's gross financial position exposure to foreign currency risk at 30 June 2016 is as follows:

- IDR 2,642,244,866 (\$200,474) cash in hand;
- A\$324 (\$241) cash in hand;
- A\$668,620 (\$496,451) of borrowings;
- IDR 10,968,891,169 (\$832,238) of accounts receivable;
- IDR 5,302,853,628 (\$402,341) of provisions;
- IDR 256,137,112 (\$19,434) of taxes payable;
- IDR 21,117,290,471 (\$1,602,222) of trade and other payables;
- A\$994,588 (\$738,483) of trade and other payables
- A\$656,178 (\$487,213) of tax provision payable; and
- A\$2,265 (\$1,682) of receivables

The following significant exchange rates applied during the year:

| USD | Average rate | | Reporting date spot rate | |
|-----|--------------|--------|--------------------------|--------|
| | 2017 | 2016 | 2017 | 2016 |
| IDR | 13,258 | 13,618 | 13,322 | 13,180 |
| AUD | 1.3259 | 1.3726 | 1.3012 | 1.3468 |

The following sensitivity analysis is based on the exchange rate risk exposures at balance date.

At 30 June 2017 if the exchange rate between the United States dollar and the Indonesian Rupiah and the Australian Dollar had moved, as illustrated in the table below, with all other variables held constant, the post-tax loss and equity would have been affected as follows:

Judgement of reasonable possible movements:

| | Post tax loss (Higher)/Lower 2017 \$ | Total equity (Higher)/Lower 2017 \$ |
|---------------------------------------|---|--|
| + 10% higher USD to IDR exchange rate | 467,233 | 467,233 |
| - 5% lower USD to IDR exchange rate | (233,617) | (233,617) |
| + 10% higher USD to AUD exchange rate | 191,789 | 191,789 |
| - 5% lower USD to AUD exchange rate | (95,895) | (95,895) |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

Currency risk (Con't)

At 30 June 2016, a judgement of reasonable possible movements was as follows:

| | Post tax loss (Higher)/Lower 2016 \$ | Total equity (Higher)/Lower 2016 \$ |
|---------------------------------------|---|--|
| + 10% higher USD to IDR exchange rate | (44,619) | (44,619) |
| - 5% lower USD to IDR exchange rate | 22,309 | 22,309 |
| + 10% higher USD to AUD exchange rate | 221,976 | 221,976 |
| - 5% lower USD to AUD exchange rate | (110,998) | (110,998) |

Interest rate risk

The Group's exposure to market interest rate relates to cash assets.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk:

| | | 2017 | 2016 |
|---------------------------|----|----------------|----------------|
| Financial assets | | | |
| Cash and cash equivalents | 17 | <u>278,775</u> | <u>218,207</u> |

Sensitivity analysis

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) loss for the period by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the comparative period.

| | 2017 \$ | 2016 \$ |
|-------------------|--------------------|--------------------|
| Loss for the year | <u>(2,485)</u> | <u>(3,210)</u> |

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board ensures, where possible, costs are not incurred in excess of available funds and will seek to raise additional funding through issues of shares for the continuation of the Group's operation. There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 19 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

Convertible notes classified as fair value through profit and loss

Converting notes classified as fair value through profit or loss have been designated as a Level 3 financial instrument. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

As the listing of the Company's shares on the Singapore Stock Exchange, a condition precedent to the conversion to equity of the convertible note, is no longer being pursued, the valuation ascribed to the financial liability at 30 June 2017 is the principal amount of \$3,000,000 and accrued interest charges of \$1,020,859.

Sensitivity analysis on fair value of convertible notes:

The fair value of convertible notes measured at fair value through profit or loss is calculated using a valuation technique that considers the probability of the IPO resulting in conversion of the notes, and following key inputs and assumptions at 30 June 2017:

| | 2017 | 2016 |
|---|-------------|-------------|
| Principal | \$3,000,000 | \$3,000,000 |
| Maturity date | July 2017 | July 2017 |
| Risk-free interest rate (based on USD Treasury Bonds) | 0.84% | 0.6054% |
| Risk adjusted discount rate | 20% | 20% |
| Fair value at 30 June | \$4,020,859 | \$3,900,000 |

At 30 June 2017, if the risk adjusted discount rate had moved by +/- 5%, with all other variables held constant, the post-tax loss and equity would have been affected by an immaterial amount given the short period to maturity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 20 - PARENT ENTITY DISCLOSURE

As at, and throughout the financial year ended 30 June 2017 the parent entity of the Group was Nickel Mines Limited.

| | Parent Entity | Parent Entity |
|--|----------------------|----------------------|
| | 2017 | 2016 |
| | \$ | \$ |
| Result of the parent entity | | |
| Net profit/(loss) | (4,204,832) | (5,345,762) |
| Other comprehensive income | - | - |
| Total comprehensive profit | <u>(4,204,832)</u> | <u>(5,345,762)</u> |
| Financial position of the parent entity at year end | | |
| Current assets | 4,398 | 4,220 |
| Non-current assets | 10,590,822 | 11,595,442 |
| Total assets | <u>10,595,220</u> | <u>11,599,662</u> |
| Current liabilities | 9,939,565 | 2,924,011 |
| Non-current liabilities | 8,151,024 | 12,051,024 |
| Total liabilities | <u>18,090,589</u> | <u>14,975,036</u> |
| Net Liabilities | <u>(7,495,369)</u> | <u>(3,375,373)</u> |
| Equity | | |
| Share Capital | 26,188,005 | 26,103,169 |
| Accumulated losses | (33,683,374) | (29,478,542) |
| Total Equity | <u>(7,495,369)</u> | <u>(3,375,373)</u> |

At balance sheet date the company has no capital commitments or contingencies (2016 - \$nil).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 21 -SEGMENT INFORMATION

Segment information is presented in respect of the Group's management and internal reporting structure.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly income earning assets and revenue, interest bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period in that geographic region.

Geographical segments

For the year ended 30 June 2017, the Group had one segment, being mine development in Indonesia.

The Group has one reportable geographical segment as follows:

| | Indonesia | Unallocated | Total |
|---|------------------|--------------------|--------------|
| | \$ | \$ | \$ |
| 30 June 2017 | | | |
| External revenues | 8,594,750 | - | 8,594,750 |
| Reportable segment loss/(profit) before tax | (516,676) | 4,434,518 | 3,917,842 |
| Interest income | 10,643 | 40 | 10,683 |
| Depreciation and amortisation | 50,337 | - | 50,337 |
| Reportable segment assets | 27,935,449 | 4,398 | 27,939,846 |
| Reportable segment liabilities | (25,454,962) | (1,330,460) | (26,785,422) |
| 30 June 2016 | | | |
| External revenues | 4,538,523 | - | 4,538,523 |
| Reportable segment loss/(profit) before tax | 1,577,781 | 315,246 | 1,893,027 |
| Interest income | 11,552 | 1,306 | 12,858 |
| Depreciation and amortisation | 40,434 | 59 | 40,493 |
| Reportable segment assets | 28,090,322 | 4,220 | 28,094,542 |
| Reportable segment liabilities | (21,828,210) | (1,458,250) | (23,286,460) |

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2017

NOTE 22 – SUBSEQUENT EVENTS

Subsequent to the end of the year the Company signed a Collaboration and Subscription Agreement with Shanghai Decent and a strategic Cornerstone Investor. The parties to the Collaboration and Subscription Agreement will construct and operate an RKEF Plant, within Tsingshan Park. Minerals mined from Hengjaya Mine will be primarily supplied to the RKEF Plant. At the same time Shanghai Decent and the Cornerstone Investor committed to invest \$50M into Nickel Mines with these proceeds being utilised by the Company to fund an initial 25% stake in the RKEF lines. A Condition Precedent (CP) in the Collaboration and Subscription Agreement to the Decent and Cornerstone investment into Nickel Mines is a requirement that Nickel Mines be “debt free”. To address this the Company recently commenced a pre-IPO funding round that will seek to raise ~\$15M at ~\$0.16 per share (A\$0.20). In addition to this cash injection the Company will also be converting ~\$15M of debt to equity. Upon completion of this funding round, Decent and Cornerstone will finalise their investment into Nickel Mines.

In October 2017 an updated offtake 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 1.60% nickel. Under the terms of the agreement, ITSS will make an advance payment of \$2 million to enable expansion of operations at the mine and allow the Company to finalise some outstanding forestry tax obligations and obtain a ‘Pinjam Pakai’ forestry permit over an area covering 998 hectares of the Hengjaya project. The funds were received on 30 October 2017.

Other than the matters detailed above, there has not arisen in the interval between the end of the financial year and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

NOTE 23 – AUDITOR REMUNERATION

During the year ended 30 June 2017 KPMG, the Company’s auditor, has not performed other services in addition to their statutory audit duties.

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

| | 2017 | 2016 |
|--|-------------|-------------|
| | \$ | \$ |
| Statutory Audit | | |
| <i>Auditors of the Company</i> | | |
| Audit and review of financial reports – KPMG Australia | 66,546 | 57,984 |
| Audit and review of financial reports – KPMG Indonesia | 33,430 | 37,082 |
| Services other than statutory audit | | |
| - taxation services in relation to Singaporean IPO | - | 15,975 |
| | 99,976 | 111,041 |
| | 99,976 | 111,041 |

NICKEL MINES LIMITED
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DIRECTORS' DECLARATION

In the opinion of the Directors of Nickel Mines Limited ('the Company'):

- (a) the financial statements and notes set out on pages 14 to 47, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards, (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed at Sydney this 31st day of October 2017
in accordance with a resolution of the Board of Directors:



Norman Seckold
Chairman



Peter Nightingale
Director



Independent Auditor's Report

To the shareholders of Nickel Mines Limited

Opinion

We have audited the **Financial Report** of Nickel Mines Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- *Consolidated statement of financial position* as at 30 June 2017
- *Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

The **Group** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 4, "Going Concern" in the Financial Report. The conditions disclosed in Note 4, indicate the existence of a material uncertainty which may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Financial Report. Our opinion is not modified in respect of this matter.



Other Information

Other Information is financial and non-financial information in Nickel Mines Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_files/ar7.pdf. This description forms part of our Auditor's Report.



KPMG

KPMG

A handwritten signature in blue ink, appearing to be 'Adam Twemlow', with a horizontal line extending to the right.

Adam Twemlow

Partner

Brisbane

31 October 2017

NICKEL MINES LIMITED
and its controlled entities

CORPORATE DIRECTORY

Directors:

Norman Seckold
James Crombie
Mark Lochtenberg
Peter Nightingale
Justin Werner

Company Secretary:

Richard Edwards

Principal Place of Business and Registered Office:

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Auditors:

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71 Eagle Street
BRISBANE QLD 4000