

16 February 2021

The Manager Companies
ASX Limited
20 Bridge Street
Sydney NSW 2000

(8 pages by email)

INDEPENDENT EXPERT'S REPORT FOR AN ADDITIONAL 10% EQUITY INTEREST IN ANGEL NICKEL

As announced by Nickel Mines Limited ('Nickel Mines' or 'the Company') on 24 November 2020, the Company agreed with its collaboration partner Shanghai Decent Investment (Group) Co., Ltd ('Shanghai Decent') to acquire a 70% equity interest in the Angel Nickel Project ('Angel Nickel') for US\$490M. Angel Nickel is a development project comprising four RKEF lines and a captive 380MW power station currently under construction within the Indonesia Weda Bay Industrial Park ('IWIP') on Halmahera Island in Indonesia's North Maluku province.

As further announced by Nickel Mines on 20 January 2021, the Company has agreed with Shanghai Decent to acquire an additional 10% equity interest in Angel Nickel.

The acquisition by the Company of an 80% interest in Angel Nickel is accordance with the following staged payments:

- Stage 1 - US\$210M by 31 March 2021 to acquire an initial 30% interest. As announced on 1 February 2021, the Company has completed the Stage 1 acquisition.
- Stage 2 - US\$350M by 31 December 2021 to acquire a further 50% interest. If the Stage 2 acquisition is completed by 30 June 2021, the purchase price will be discounted to US\$344M.

On 19 January 2021, the Company's shareholders approved the acquisition of the initial 70% interest in Angel Nickel. The proposed acquisition of an additional 10% interest will also require the approval of Nickel Mines shareholders with this approval to be sought at the Company's Annual General Meeting to be held in May 2021.

ASX Listing Rule 10.5.10 requires that the notice of meeting to obtain shareholder approval must be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to the shareholders. Lonergan Edwards & Associates Limited provided an Independent Expert's Report which accompanied the notice of meeting for the approval of the acquisition of the initial 70% interest in Angel Nickel and has provided the attached addendum to that report to address the acquisition of the additional 10% of Angel Nickel.

In summary, the addendum to the Independent Expert's Report prepared by Lonergan Edwards & Associates Limited opines:

1. The Transaction is fair and reasonable to the Company's shareholders.
2. Excluding the discount for potential early payment, the US\$70M purchase price for the additional 10% interest is comparable on a pro rata basis to the original transaction with the corresponding value of the additional 10% interest proposed to be acquired by Nickel Mines ranging from US\$140M to US\$150M.
3. The acquisition of an additional 10% interest in the Angel Nickel Project is fair as the consideration payable of US\$70M is less than the NPV of the Company's additional 10% pro rata share of the estimated future free cash flows from the Angel Nickel Project based on nameplate steady state rates of production, and a reasonable assessment of future nickel prices and operating costs.

The acquisition of an additional 10% interest in Angel Nickel increases Nickel Mines' total attributable nickel metal nameplate production capacity (inclusive of the Hengjaya Nickel and Ranger Nickel nameplate capacities) to 52,800 tonnes of nickel production per annum.

Nickel metal production for the Hengjaya Nickel and Ranger Nickel Projects was 43.5% above nameplate capacity for the 12 months to 30 September 2020. This outperformance increased to 53.7% above nameplate capacity, in the three months to 31 December 2020.

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15 February 2021

**Subject: Acquisition from substantial shareholder
Agreement to acquire a further 10% of Angel Nickel Project
Addendum to the Independent Expert Report dated 1 December 2020**

Dear Independent Directors

Introduction

- 1 We refer to our report dated 1 December 2020 in relation to the proposed purchase by Nickel Mines Limited (Nickel Mines or the Company) of a 70% interest in the Angel Nickel Project¹ from Shanghai Decent Investment (Group) Co., Ltd (Shanghai Decent)² for US\$490 million (December 2020 Report). The transaction represented an acquisition from a substantial shareholder and the report was prepared to meet Australian Securities Exchange (ASX) Listing Rules requirements.
- 2 The consideration of US\$490 million was to be payable as to:
 - (a) US\$210 million by 31 March 2021, pursuant to which Nickel Mines would acquire a 30% interest in the Angel Nickel Project (the first payment)³
 - (b) a further US\$280 million by 31 December 2021, pursuant to which Nickel Mines would acquire an additional 40% interest in the Angel Nickel Project (increasing its total interest to 70%).
- 3 In our December 2020 Report we concluded that the proposed transaction was fair and reasonable to the Nickel Mines shareholders. In particular we noted that:
 - (a) based on assumptions we considered to be reasonable and appropriate, the value of 100% of the Angel Nickel Project under the discounted cash flow (DCF) approach

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

² A Tsingshan Holding Group (Tsingshan) group company.

³ On 1 February 2021 the Company announced that it had completed the acquisition of an initial 30% interest in the Angel Nickel Project following early payment of the balance of the first payment.

Authorised Representatives:

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

ranged from US\$1.4 billion to US\$1.5 billion, with the corresponding value of Nickel Mines' 70% interest ranging from US\$1.0 billion to US\$1.1 billion⁴

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

- 4 Furthermore, our analysis indicated that adopting a level of production outperformance for the Angel Nickel Project comparable to that achieved to date at the Hengjaya and Ranger Nickel Projects (around 40% above nameplate capacity), the value of 100% of the Angel Nickel Project would be substantially greater than the values stated above.
- 5 We also noted a number of significant advantages of the proposed transaction from the perspective of Nickel Mines' shareholders and formed a view that there were no obvious disadvantages in connection with the proposed transaction.
- 6 The proposed transaction was strongly supported by Nickel Mines shareholders and approved at the Extraordinary General Meeting held on 19 January 2021.

Acquisition of a further 10% interest in Angel Nickel Project

- 7 On 20 January 2021, the Company announced that it had negotiated to acquire an additional 10% of Angel Nickel, increasing Nickel Mines' proposed total ownership of the Angel Nickel Project to 80%. The additional 10% interest forms part of the second stage acquisition, increasing the second stage acquisition percentage from 40% to 50% (with the second stage acquisition to be finalised by no later than 31 December 2021).
- 8 Subject to a discount for a potential early payment, the purchase price for the additional 10% interest is US\$70 million, this pricing being comparable pro rata to the original transaction. Consideration for the second stage acquisition of 50% of the Angel Nickel Project therefore increases from US\$280 million to US\$350 million. However, at the Company's election, if the second stage payment is made by 30 June 2021, the acquisition consideration will be reduced to US\$344 million, reflecting a discount of US\$6 million for early payment.
- 9 The acquisition of an additional 10% interest in the Angel Nickel Project increases Nickel Mines' total attributable nickel metal nameplate production capacity (inclusive of the Hengjaya and Ranger Nickel Projects' nameplate capacities) to 52,800 tonnes of nickel production per annum.

Purpose

- 10 Consistent with the initial transaction, the proposed acquisition of a further 10% interest in the Angel Nickel Project is with persons in a position of influence under the ASX Listing Rules and requires the approval of Nickel Mines shareholders that are not considered a party to the transaction (the Nickel Mines non-associated shareholders).
- 11 Accordingly, the Independent Directors of Nickel Mines that are not associated with Shanghai Decent have requested that Lonergan Edwards & Associates Limited (LEA) prepare this

⁴ These values were derived based on the nameplate capacity of the Angel Nickel Project.

addendum to our December 2020 Report to opine on whether the acquisition of an additional 10% interest in the Angel Nickel Project is fair and reasonable to the Nickel Mines non-associated shareholders.

- 12 We understand shareholder approval for the acquisition of the additional interest will be sought at the Annual General Meeting in May 2021 and that Nickel Mines shareholders will be provided with a copy of this report prior to the meeting. This report is supplementary to our December 2020 Report and should be read in conjunction with it. The December 2020 Report was provided to Nickel Mines shareholders via a company announcement on 2 December 2020 and with the Notice of Extraordinary Meeting on 18 December 2020.

ASX announcements

- 13 Subsequent to the Extraordinary General Meeting on 19 January 2021, which approved the acquisition of the initial 70% interest in the Angel Nickel Project, the Company has made the following significant announcements regarding its operating performance and financial position:
- (a) 20 January 2021 – negotiation of an additional 10% interest in the Angel Nickel Project, as referred to above⁵
 - (b) 25 January 2021 – tabling of the Quarterly Activities Report for the quarter ended 31 December 2020 (December Quarterly Activities Report)
 - (c) 28 January 2021 – advice of the intention to pay a final dividend of A\$0.02 per share for the year ended 31 December 2020⁶
 - (d) 1 February 2021 – advice that the Company had completed the acquisition of an initial 30% interest in the Angel Nickel Project following early payment of the balance of the first payment. The Company also advised that it had repaid to Shanghai Decent the remaining US\$22.5 million owing under the Ranger Debt Facility and as a result was debt free.
- 14 The December Quarterly Activities Report contained a number of positive operational outcomes for the Company including (inter alia):
- (a) record rotary kiln electric furnace (RKEF) quarterly production from the Hengjaya and Ranger Nickel Projects' operations and corresponding record attributable nickel production for the Company
 - (b) record quarterly sales and related earnings (EBITDA⁷) on a 100% project basis and associated record free cash flow from operations (also on a 100% project basis)
 - (c) record repatriations of funds to the respective project shareholders, including US\$55 million to Nickel Mines.

⁵ This announcement also advised of a revision to the pricing methodology for the sale of nickel pig iron (NPI) produced by the Hengjaya and Ranger Nickel Projects.

⁶ This dividend was subsequently paid on 11 February 2021.

⁷ Earnings before interest, tax, depreciation and amortisation (EBITDA).

- 15 In preparing this supplementary report we have had regard to this operating performance, in particular as it relates to the key operational assumptions adopted in assessing the value of 100% of the Angel Nickel Project under the DCF approach. We have also had regard to movements in actual and forecast nickel prices in the period subsequent to our December 2020 Report⁸.

Valuation of Angel Nickel Project

Valuation approach

- 16 The valuation of the Angel Nickel Project included in the December 2020 Report was based on advice from Nickel Mines that the combined historical operating results of the Hengjaya and Ranger Nickel Projects represented a reasonable proxy for the estimated cash flows expected to be generated by the Angel Nickel Project, but for the following key differences:
- (a) the Angel Nickel Project will comprise four next generation RKEF lines with nameplate annual production capacity of 36,000 tonnes of nickel metal in nickel pig iron (NPI). In comparison, the combined Hengjaya and Ranger Nickel Projects comprise four RKEF lines with annual nameplate production capacity of 30,000 tonnes of nickel metal
 - (b) the Angel Nickel Project will own a captive 380 MW power plant which will provide the benefit of a secure, integrated power supply. This will lower nickel production costs in comparison to the Hengjaya and Ranger Nickel Projects.
- 17 Given the above, the valuation set out in the December 2020 Report was based on the free cash flow projections derived by LEA having regard to, inter alia, the combined historical operating performance of the Hengjaya and Ranger Nickel Projects (as a proxy for the Angel Nickel Project), adjusted where necessary to determine reasonable forecast parameters for the Angel Nickel Project.
- 18 As noted above, the Angel Nickel Project valuation in the December 2020 Report was based on nameplate production capacity (with a range of production sensitivities shown to illustrate the impact of production outperformance above name plate capacity).

Production and operating costs

- 19 As stated above, since the December 2020 Report was prepared Nickel Mines has released its December Quarterly Activities Report. The December Quarterly Activities Report stated that the Hengjaya and Ranger Nickel Projects had:
- (a) record quarterly production of 11,527 tonnes of metal (100% basis), which was 7.7% higher than nickel production in the September quarter
 - (b) record quarterly sales of US\$158.8 million (100% basis), up 16.6% from sales of US\$136.2 million in the September quarter

⁸ As noted in our December report, the Angel Nickel Project will produce NPI and therefore the relevant prices for the Company are NPI prices. Historically the Company has realised NPI prices that reflect an average of around 90% of the benchmark LME nickel price.

- (c) record RKEF quarterly EBITDA of US\$71.6 million (100% basis), up 45.6% from US\$49.2 million in the September quarter⁹
- (d) record underlying free cash flow from operations of US\$71.9 million (100% basis), up 58.0% from US\$45.5 million in the September quarter
- (e) cash costs for the respective projects as follows¹⁰:
 - (i) Hengjaya Nickel Project – US\$7,612 per tonne an increase of 6.6% from the September quarter
 - (ii) Ranger Nickel Project – US\$7,442 per tonne, an increase of 2.5% from the September quarter.

20 Nickel metal production for the Hengjaya and Ranger Nickel Projects was 43.5% above nameplate capacity for the 12 months to 30 September 2020. This outperformance increased to 53.7% above nameplate capacity, in the three months to 31 December 2020.

Nickel pricing

21 Concurrent with Nickel Mines' announcement on 20 January 2021 to increase its right to acquire an additional 10% of the Angel Nickel Project, the Company provided an update to the pricing methodology for the sale of its NPI product, which stated the following:

“Since the execution of Hengjaya Nickel and Ranger Nickel Collaboration Agreements, the dynamics of the nickel market have changed with the pricing of specific nickel products increasingly driven by their own supply/demand fundamentals. This development is now being progressively acknowledged across the nickel industry with a growing propensity to quote and forecast prices of specific nickel products. With the NPI market being very much ‘China-centric’ and with NPI not being an LME deliverable product, the continuing reference to the LME nickel price is no longer considered appropriate.”¹¹

22 Notwithstanding the development of the NPI market and the associated availability of NPI spot prices, very limited information is available about the future pricing of NPI (such as analyst forecasts and forward prices). Further, the historical relationship between nickel prices and NPI prices has been relatively strong. Accordingly, consistent with our December 2020 Report, we have considered the discount between LME prices and the NPI prices received by Nickel Mines over 2019 and 2020 (which was 93% and 86% respectively) when considering an appropriate NPI price. On this basis, a 10% price adjustment discount (as adopted in the December 2020 Report) remains appropriate as at the date of this report.

23 We also note that since the December 2020 Report was prepared spot LME nickel prices have increased by over US\$2,400 per tonne and long term future LME nickel prices have increased by around US\$2,000 per tonne.

⁹ Some of this increase in earnings was attributable to higher NPI prices.

¹⁰ Whilst cash costs for the December quarter increased at both projects, these remain below the equivalent prices adopted for valuation purposes in the December 2020 Report (which were US\$8,000 per tonne).

¹¹ LME is the London Metals Exchange.

Other assumptions

- 24 Based on the information available to us, we have no reason to update or change any of the other assumptions adopted in the December 2020 Report (including the assumptions for corporate and withholding tax, sustaining capital expenditure and working capital).
- 25 We have also reviewed the inputs to our weighted average cost of capital calculation shown in the December 2020 Report and are of the view that there is no reason to update or change this discount rate.

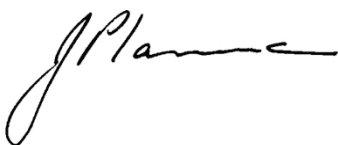
Valuation summary

- 26 Based on the above assumptions, our assessed value of 100% of the Angel Nickel Project under the DCF approach ranges from US\$1.4 billion to US\$1.5 billion. This value range is consistent with the value range for 100% of the Angel Nickel Project assessed in our December 2020 Report. In our view, the recent production outperformance (which has increased in the latest quarterly period) and higher LME nickel prices indicate that this valuation is likely to be conservative.
- 27 The corresponding value of the additional 10% interest proposed to be acquired by Nickel Mines ranges from US\$140 million to US\$150 million.
- 28 Our assessed values are in excess of the US\$700 million value attributed to 100% of the Angel Nickel Project based on the consideration of US\$70 million payable by Nickel Mines to acquire an additional 10% interest in the project¹².

Opinion

- 29 Pursuant to Australian Securities & Investments Commission Regulatory Guide 111 – Content of expert reports (RG 111), a related party transaction is fair if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired. In our opinion the acquisition of an additional 10% interest in the Angel Nickel Project is fair as the consideration payable of US\$70 million is less than the NPV of the Company's additional 10% pro rata share of the estimated future free cash flows from the Angel Nickel Project based on nameplate steady state rates of production, and a reasonable assessment of future nickel prices and operating costs.
- 30 Pursuant to RG 111, a related party transaction is reasonable if it is fair.
- 31 We have concluded therefore that the acquisition of an additional 10% interest in the Angel Nickel Project is fair and reasonable to Nickel Mines shareholders.

Yours faithfully



Julie Planinic
Authorised Representative



Martin Hall
Authorised Representative

¹² In undertaking our assessment we have ignored the potential discount based on payment of the second stage consideration by 30 June 2021.