

NICKEL

MINES LIMITED

ACN 127 510 589

ASX Release: 22 July 2019

ASX: NIC

Shares on issue: 1.525B

Market capitalisation: \$808.5M
(@\$0.53)

Board of Directors

Non-Executive Chairman
Rob Neale

Executive Deputy Chairman
Norman Seckold

Managing Director
Justin Werner

Executive Director and CFO
Peter Nightingale

Non-Executive Director
James Crombie

Non-Executive Director
Mark Lochtenberg

Non-Executive Director
Weifeng Huang

Non-Executive Director
YuanYuan Xu

Substantial Shareholders

Shanghai Decent	10.6%
Blackrock	10.5%
Shanghai Wanlu	9.8%
Norman Seckold	8.1%
Regal FM	7.5%

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QUARTERLY ACTIVITIES REPORT

For the quarter ended 30 June 2019

RANGER NICKEL COMES ONLINE AS HENGJAYA NICKEL SWINGS INTO FULL PRODUCTION

Highlights

- Hengjaya Nickel commissioning and ramp-up phase complete with the project producing nickel units well above nameplate capacity at costs less than forecast.
 - 4,386 tonnes nickel metal production in June 2019 quarter (NIC attributable: 2,632 tonnes)
 - Cash Costs: US\$7,725/t
- Ranger Nickel commenced commissioning with both kilns having now produced first NPI.
- Significant advancement of the Company's move to increase its ownership interest in Ranger Nickel from 17% to 60%.
 - Announcement of a US\$80M debt package to be provided by Shanghai Decent.
 - Completion of a heavily oversubscribed placement raising A\$55M at A\$0.40 per share with strong support by new and existing institutional investors.
 - Agreement by Shanghai Decent to accept US\$40M of NIC equity at A\$0.41 per share as partial consideration for the acquisition, increasing its ownership interest in NIC to ~18.1% post completion*.

*Approval of the transaction and for the issuance of new shares to Shanghai Decent subject to shareholder approval at an EGM scheduled for 26 July 2019.
- First repatriation of funds from Hengjaya Nickel to Australia.



NPI production from the Ranger Nickel Project

RKEF Operations

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

Hengjaya Nickel now producing well above nameplate capacity

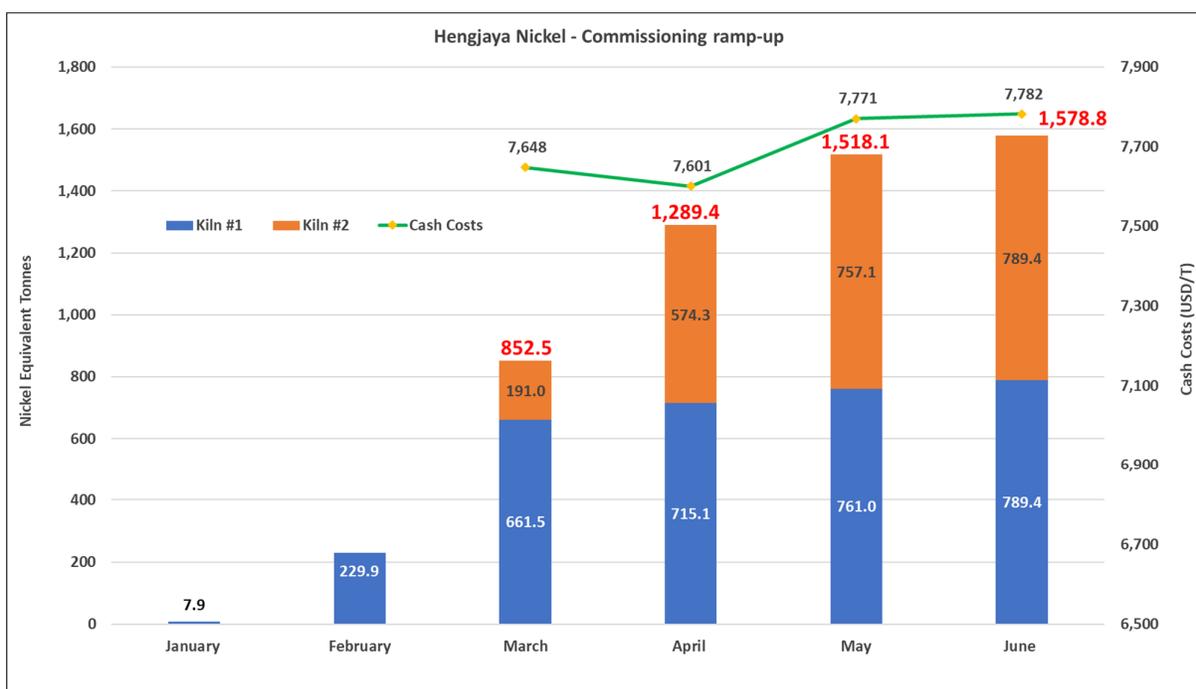
Further to the strong maiden quarter of production at Hengjaya Nickel as reported in the Company's March 2019 quarterly, the June 2019 quarter saw a continuation of Hengjaya Nickel's seamless ramp-up towards full capacity with the current production run rate now comfortably exceeding the targeted run rate of 1,375kt per month (16,500kt per annum) and well above nameplate capacity of 15,000kt per annum. For the June quarter, Hengjaya Nickel produced 4,386.3 tonnes of nickel metal at an average NPI grade of 14.0% at a weighted average cash cost of US\$7,725/tonne. Nickel Mines attributable production was 2,632 tonnes. The weighted average price received by Hengjaya Nickel over the June quarter for its nickel in NPI was US\$12,059/tonne against an average LME nickel price for the June quarter of US\$12,266/tonne.

The Company is pleased to report the following Hengjaya Nickel operating results for the June quarter with both RKEF lines continuing to ramp up to their steady state production and operating cost profiles.

HENGJAYA NICKEL		April	May	June	Qtr Total	March Qtr
NPI Production	tonnes	8,684.8	11,320.5	11,251.1	31,256.4	8,372.3
NPI Grade	%	14.8	13.4	14.0	14.0	13.0
Nickel Metal Production	tonnes	1,289.4	1,518.1	1,578.8	4,386.3	1,090.2
IMIP NPI Pricing#	USD/t Ni	12,800	11,800	11,700	12,059	12,800
Cash Costs*	USD/t Ni	7,601	7,771	7,782	7,725	7,648

* All in Costs (inclusive of depreciation and interest) for the June quarter averaged US\$8,198/t Ni.

The IMIP's NPI price is set on a monthly basis with reference to the average price paid for NPI by several of China's largest stainless steel mills with adjustments made for VAT (17% in China) and freight.



Hengjaya Nickel's commissioning profile since production commenced in late January 2019

Ranger Nickel Project (17% interest held by Nickel Mines)

Ranger Nickel – Now Commissioning

On 30 May 2019, Shanghai Decent, the Company's operating partner and 83% equity holder in the Ranger Nickel Project advised that first NPI had been produced from the first of Ranger Nickel's two rotary kilns. On 29 June 2019 news followed that Ranger Nickel's second kiln had also produced its first NPI in a maiden production run. The commissioning process and ramp-up to full production is anticipated to be consistent with that of the Company's 60% owned Hengjaya Nickel Project which as reported above has enjoyed a seamless ramp-up and is currently producing nickel units well above nameplate capacity.

Both kilns are expected to take approximately 2 months to ramp up to 80% of capacity. The commissioning of Ranger Nickel's kilns comes well ahead of previous guidance for the middle of the September quarter and now sees all four kilns across the Company's Hengjaya Nickel and Ranger Nickel RKEF projects having been put into production in less than 18 months.



NPI flows from Ranger Nickel's first week of commissioning

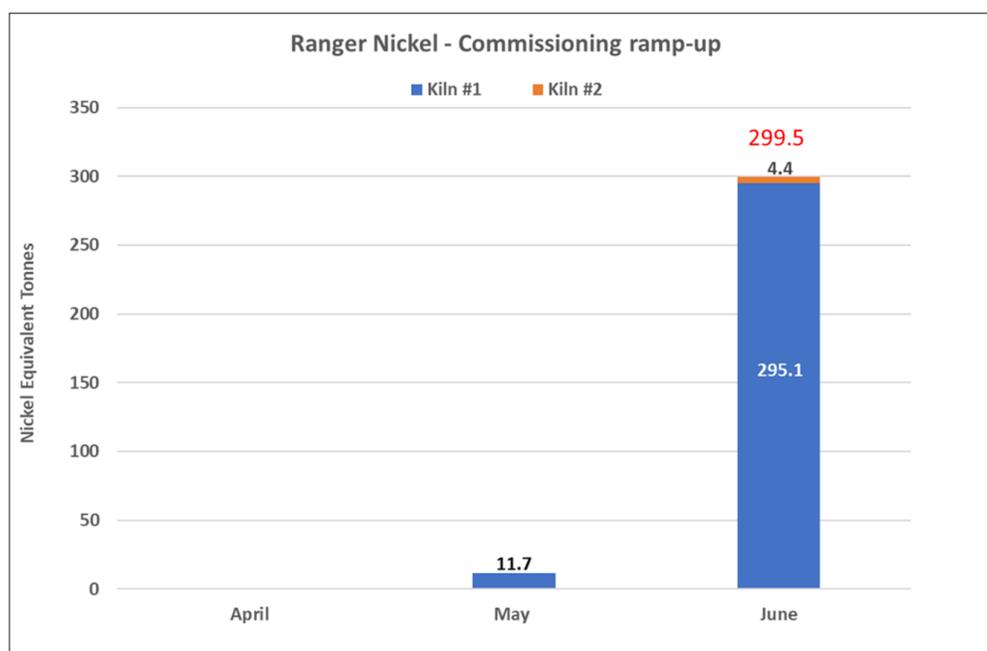
For the June quarter, Ranger Nickel produced 311.2 tonnes of nickel metal at an average NPI grade of 12.6%. Nickel Mines' attributable production was 52.9 tonnes. Cost data for Ranger Nickel's first full month of production was still being compiled at the time of this report.

The Company is pleased to report the following operating results for the first full month of commissioning at Ranger Nickel with both RKEF lines continuing to ramp up to their steady state production and operating cost profiles.

RANGER NICKEL		April	May [^]	June [*]	Qtr Total
NPI Production	tonnes	-	123.1	2,354.0	2,477.1
NPI Grade	%	-	9.5	12.7	12.6
Nickel Metal Production	tonnes	-	11.7	299.5	311.2

[^] May is represented by a single day of production.

^{*} June quarter numbers include 40.3 tonnes of NPI and 4.4 tonnes of nickel metal from kiln #2 which commenced operation on 29 June 2019.



Ranger Nickel's commissioning profile since production commenced in late May 2019

Increase to 60% ownership of Ranger Nickel

Over the course of the June quarter the Company made significant progress in advancing its move to increase its ownership in Ranger Nickel from 17% to 60% having announced its intention to exercise its contractual right to do so in April. The additional 43% interest being acquired by the Company carries a total funding requirement of US\$121.4M based on a discounted US\$280M valuation¹.

Having previously announced the Company's move to 60% of Ranger would be funded via a US\$160M financing package comprising US\$100M of senior secured debt and US\$60M of new equity, subsequent discussions with various funding parties resulted in the Company revising the quantum and mix of this package with the Company accepting a smaller debt facility and agreeing to a slightly larger equity component.

¹ The US\$280M valuation is on a 100% basis and represents a \$20M discount from the US\$300M valuation that would have been applicable if the Company had elected to increase its interest in Ranger Nickel more than 60 days after first NPI production.

The key components of the revised funding package are as follows:

US\$80M Senior Secured Debt Facility

The originally proposed US\$100M senior secured debt facility was replaced by a binding term sheet and commitment letter with Decent Investment International Private Limited ('Decent Investment'), an associate of Shanghai Decent, to provide a US\$80M senior secured debt facility. This revised debt financing package was negotiated at a more favourable overall cost and did not include any up-front fees, break fees or the issuance of any equity warrants.

A summary of the key terms of the facility to be provided by Decent Investment can be seen in the table below.

Lender	Decent Investment, an associate of Shanghai Decent.
Borrower	Nickel Mines.
Facility Amount	US\$80,000,000.
Interest Rate	6% plus the greater of (i) 3-Month US\$ LIBOR or (ii) 2.5% per annum.
Payment of Interest	Interest is payable on the last day of each Interest Period.
Interest Period	1 month.
Payment of Principal	Quarterly instalments by repaying on the last Business Day of each November, February, May and August (beginning on 30 November 2020) an amount equal to 1/15 of the amount borrowed under the Facility at Financial Close.
Security	Nickel Mines will grant security over its 60% equity interest in Ranger Investment Private Limited ('Ranger Investment') and its 60% equity interest in Hengjaya Holdings Private Limited, the Singaporean entity which holds a 100% indirect interest in the Hengjaya Nickel Project.
Early prepayment	Nickel Mines may prepay or cancel the facility without penalty.

A\$55M Equity Placement

Subsequent to announcing its revised debt package, in June the Company successfully completed a private placement to new and existing institutional and sophisticated investors raising A\$55M before costs.

The placement, arranged by Bell Potter Securities as Lead Manager and Book Runner, resulted in the issuance of 137,500,000 new shares in the Company at a price of A\$0.40 per share, representing a 6.1% discount to the 30-day VWAP. The Placement was completed under the Company's existing 15% Placement capacity under ASX Listing Rule 7.1 with the new shares being allotted to investors on 13 June 2019.

US\$40M Equity Conversion by Shanghai Decent

The A\$55M equity placement precedes the proposed issuance of US\$40M of new fully paid ordinary Nickel Mines shares to Shanghai Decent that will complete the equity component of the Company's US\$121.4M funding requirement to move to 60% of Ranger Nickel.

Shanghai Decent will be issued its new equity in the Company at a price of A\$0.41 per share. This will see Shanghai Decent's ownership interest in the Company increase to approximately 18.1%. The Company is scheduled to hold an Extraordinary General Meeting on 26 July 2019 to approve both the Company's move to a 60% equity interest in Ranger Nickel and the issuance of new shares to Shanghai Decent as partial consideration for the acquisition.

Funds raised beyond the US\$121.4M will be used to fast-track a number of development initiatives currently underway at the Company's 80% owned Hengjaya Mine and for general working capital purposes.

Repatriation of Funds from Indonesia

With Hengjaya Nickel having completed its commissioning phase and Ranger Nickel well advanced through its ramp up, the Boards of Directors of both Hengjaya Holdings Private Limited and Ranger Investment Private Limited (the Singaporean entities which hold a 100% indirect interest in the Hengjaya Nickel and Ranger Nickel Projects respectively) have agreed that, after the retention of sufficient working capital for the Indonesian RKEF operating entities to undertake their operations and meet their obligations, 'surplus cash' to these requirements will be reviewed on a quarterly basis for distributions to shareholders in proportion to their respective shareholdings in Hengjaya Holdings Private Limited and Ranger Investment Private Limited to repay shareholder loans and then dividends.

Fund repatriation from Indonesia back to Australia has commenced with US\$3 million of a US\$9 million working capital loan by the Company to the Hengjaya Nickel Project being repaid during the June quarter. The Company's proportion of the shareholder loans which have been used to construct the Hengjaya Nickel and Ranger Nickel Projects, is in direct proportion to its equity interest in the RKEF Projects (i.e. currently 60% of the Hengjaya Nickel shareholder loans and 17% of the Ranger Nickel shareholder loans, increasing to 60% of Ranger Nickel shareholder loans upon completion of the Company's move to a 60% interest in Ranger Nickel).

Finance

The Company advises that at 30 June 2019 the Nickel Mines Group held the equivalent of US\$49.0 million in cash². US\$40.9 million of this was held by Nickel Mines, US\$1.1 million was held by PT Hengjaya Mineralindo, in which Nickel Mines holds a direct 80% interest and US\$7.0 million was held by entities related to the Hengjaya Nickel Project, in which the Company holds a 60% indirect interest. Further, at 30 June 2019, the Nickel Mines Group had trade receivables of US\$45.2 million (US\$1.6 million by PT Hengjaya Mineralindo and US\$43.6 million by Hengjaya Nickel) and held inventory of US\$0.7 million.

² Numbers detailed in the Finance section are unaudited numbers. Given the Company currently only holds a 17% interest in Ranger Nickel no numbers from Ranger Nickel have been incorporated here.

Hengjaya Mine Operations

Hengjaya Mine (80% interest held by Nickel Mines)



Mining activities at Bete Bete resource area in July 2019

About the Hengjaya Mine

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

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

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



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

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

Production Summary

		April	May	June	Quarter Total	Mar Qtr
Tonnes mined	wmt	20,509	33,281	24,461	78,251	127,196
Overburden mined	BCM	31,764	38,151	47,569	117,484	279,781
Strip ratio	BCM/wmt	1.5	1.1	1.9	1.5	2.2
Tonnes sold	wmt	34,593	52,948	8,482	96,023	142,918
Average grade	%	1.85	1.84	1.85	1.84	1.92
Average price received	USD/t	22.89	23.58	24.55	23.42	27.51
Average cost of production	CIF USD/t	42.69*	43.93*	52.90*	44.11	26.02

* Costs include drilling and assaying for infill and resources program.

June Quarter Production Report

Sales for the quarter totalled 96,023 wet metric tonnes ('wmt') at an average grade of 1.84% nickel. Sales exceeded the mine production due to extreme wet conditions impacting mining activities in the Bete Bete pit.

A slight reduction in ore grade (1.84% nickel) from the previous quarter (1.92% nickel) was due to using low grade stockpiles at jetty to blend into ore sales. Local flooding of provisional and haul roads affected mining and barging in the month of June.

Due to seasonal rain early in the quarter and very heavy rain in June (1,136mm was recorded for the month) mine production for the quarter of 78,251 wmt was significantly lower the March quarter and at an average stripping ratio of 1.5.

Costs reported higher as HM's mine contractor is paid on barged/sold tonnes. This combined with the slightly lower grade and drilling program costs, resulted in negative cash flow for the quarter.

By the end of June the mine was back into full production, with a total of 27,508 wmt mined up to 18 July (average daily rate of 1,528 wmt) and 45,346 wmt already sold. The quarter's low production output and high costs are anticipated to revert to normal levels over the remainder of 2019.

Mine Expansion

A number of key activities continued during the quarter in support of the Hengjaya Mine expansion including extension of the existing haul road to the new Central 21 where the main portion of construction is now completed.

Access to IPKKH2 area allowed ground penetrating radar surveys to be completed with excellent results to date.

Additional mine site laboratory sample preparation and assay equipment has been installed to enable additional on-site assays to be completed and also faster grade control turnaround times.

The final design of camp and infrastructure facilities has been completed and tenders are being assessed to award works in July.

Jetty expansions have commenced and in house crushing plant fully operational for infrastructure works and improving haul roads.



The first 6,000t capacity barge was loaded in June 2019

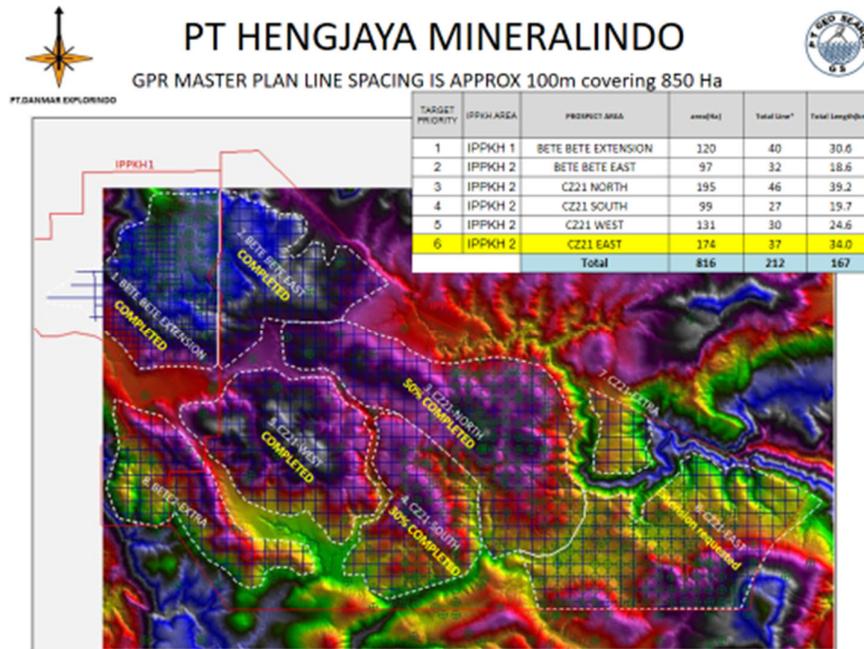


Expansion works to the jetty commenced in the June quarter

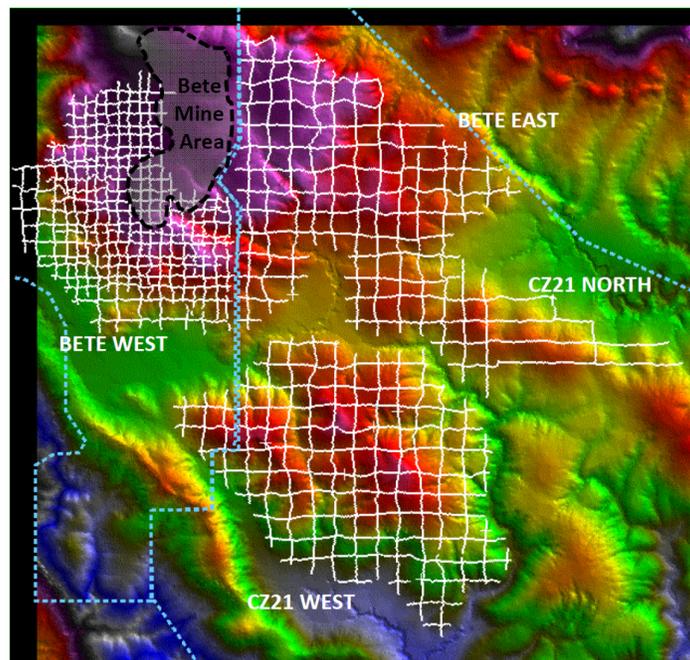
Exploration

The exploration and infill drilling worked performed in the quarter included 193 holes for 3,109 metres. The program included infill drilling to improve mine planning and scheduling. Results are currently being compiled and an update of the current resource model has commenced.

Initial access to IPPKH2 allowed for ground penetrating radar works (GPR) which totalled 425 hectares of Central and Bete Bete. The excellent GPR results define very good targets in new and existing resource areas. The new resources are planned to be drilled before the end of the year, including Bete Bete and all target areas inside IPPKH2 area.



Progress with GPR in Bete Bete and Central areas



Current pit operations and GPR program

Planning for Limonite Ore Supply

The limonite resource continues to be modelled as the resource is updated. The new areas where GPR works have been completed are showing substantial areas for drilling targeting additional resources of both saprolite and limonite ores.

Mine Safety and Environment

Safety

No lost time injuries were recorded during the June 2019 quarter. The Hengjaya Mine site continues to develop and maintain a safety management system.

Environment

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



Mine staff, local school students and regional authorities involved in mangrove planting at Hengjaya Mine jetty area

Community

A number of community projects continued including focus on educational, health, medical religious and agricultural projects. The Company continues to work and communicate with both local and regional stakeholders, including the Tangofa, Bete Bete and Bahodopi village regions.

In June the mine operations assisted local authorities in repair works on the provisional road. This allowed the reopening after a number of landslides and floods had block road access in both directions from the mine.

QUARTERLY PROGRESS

Commenting on the progress achieved this quarter, Managing Director Justin Werner noted:

“The June quarter was a remarkably busy period for the Company that saw significant advances made towards fulfilling our growth objectives. Continuing on the success of bringing Hengjaya Nickel into production in the March quarter, the June quarter saw Hengjaya Nickel seamlessly ramp up to full production to now be in a position where it is producing nickel units well above nameplate capacity and at a cost profile below expectations. The quarter was also highlighted by the bringing online of both Ranger Nickel kilns and they are anticipated to achieve a similar ramp-up profile to Hengjaya Nickel’s kilns.

Significant steps were also taken to securing an increase in Nickel Mines’ ownership of Ranger Nickel to 60%. Nickel Mines is grateful to Shanghai Decent for assisting the Company in securing a favourable debt package and also in agreeing to accept US\$40M of additional NIC shares as partial consideration for the transaction. Nickel Mines also thanks existing shareholders for their strong support of the recent placement and was pleased to welcome several new institutional shareholders to the register. The strong level of interest in the placement should be seen by all shareholders as both a firm endorsement of the growth path the Company has embarked on and recognition of the significant progress that has been delivered to date. In the approximately 11 months since the Company’s IPO, Nickel Mines has now clearly transitioned from a project development company to a globally significant nickel producer.

As Ranger Nickel ramps up to full production over the coming months Nickel Mines looks forward to reporting the strong financial results being generated across both RKEF projects.”

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Statement of Compliance

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

About Nickel Mines Limited

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

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

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



Aerial photo of the IMIP