

# Annual Report 2018



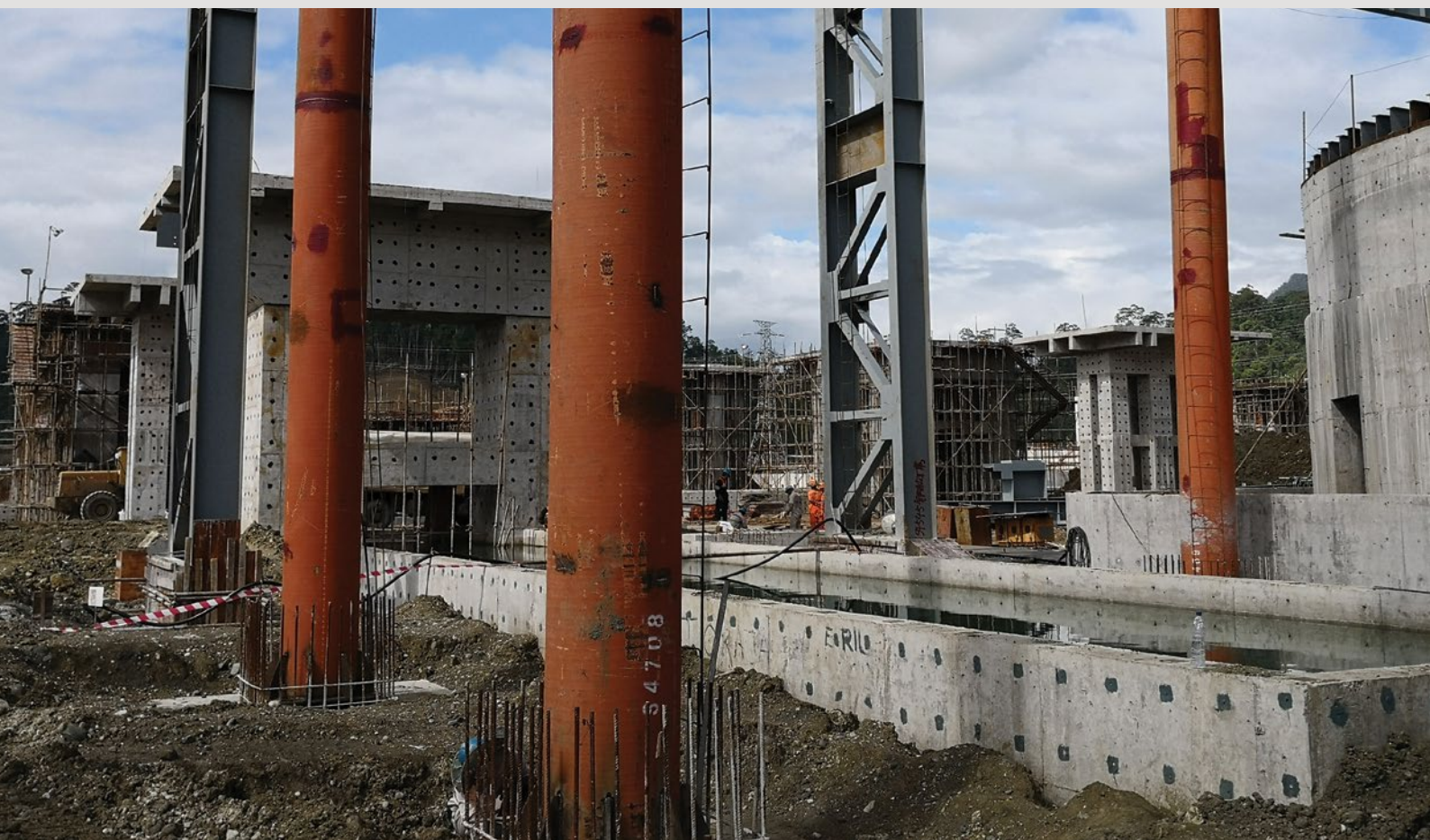
NICKEL MINES LIMITED  
and its controlled entities  
A.B.N. 44 127 510 589

**NICKEL**  
MINES LIMITED



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## 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 2018 after income tax was \$2,926,833 (2017 - \$3,738,494)

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. During the period the Company signed agreements to become a downstream producer of nickel pig iron (NPI).

During and following the year ended 30 June 2018 significant milestones were achieved as follows:

### Highlights:

- > Successful completion of the Company's Initial Public Offering (IPO), with A\$200 million being raised through the issue of 571,428,571 shares at A\$0.35 each, with the Company being admitted to the ASX Official List on 20 August 2018.
- > In September 2017 the Company entered into a Collaboration and Subscription Agreement (CSA) with Shanghai Decent Investment (Group) Co., Ltd., (Shanghai Decent), a Tsingshan group company and another cornerstone investor, Shanghai Wanlu Investment Co., Ltd (Wanlu). The CSA sets out (among other things) the terms on which a 2-line Rotary Kiln Electric Furnace (RKEF) plant within the Indonesia Morowali Industrial Park (IMIP) will be funded and constructed (RKEF Project).
- > Construction of the 2 RKEF lines is progressing well with a majority of the foundation works completed and approximately 40% of procurement and 20% of civil works having also been completed.
- > Successful completion of the pre-IPO capital raise which commenced in December 2017 and raised approximately \$29 million. The funds raised were used to meet the precondition requirements of the CSA and repay the debts owing.
- > Following the successful completion of the pre-IPO capital raise during the year, the Company received capital contributions from Shanghai Decent and Wanlu in April 2018 for \$26 million and \$24 million, respectively, which have been provided to Hengjaya Holdings Private Ltd (Hengjaya Holdings) by way of a shareholder loan from the Company in April 2018, resulting in the Company holding a 25% interest in PT Hengjaya Nickel Industry (Hengjaya Nickel), the owner of the RKEF Project.
- > Following successful completion of the Company's IPO Nickel Mines provided notification of its exercise of its option under the CSA to acquire a further 35% interest in the RKEF Project to increase its interest to 60%. The Company will pay \$70 million to Shanghai Decent in cash to acquire the additional 35% interest.
- > In early June 2018 Nickel Mines signed a Memorandum of Understanding (MOU) with Shanghai Decent to construct, own and operate 2 RKEF lines, in addition to the 2 RKEF lines operating under the CSA. This MOU is rapidly progressing towards a definitive agreement, and upon completion would see Nickel Mines operating 4 RKEF lines.
- > In February 2018 PT Hengjaya Mineralindo (PT Hengjaya) obtained a borrow and use licence, a Ijin Pinjam Pakai (IPPKH) in respect of approximately 994 hectares, enabling an expanded resource area to be mined in closer proximity to the coast which will reduce current mining and hauling costs.
- > During the year ended 30 June 2018 a total of 391,362 wmt were mined with an average stripping ratio of 1.3. A total of 449,955 wmt were delivered during the year at an average grade of 2.06% nickel.



# Review of Operations

## Tsingshan Group

### *Collaboration and Subscription Agreement*

On 19 September 2017, the Company entered into the CSA with Shanghai Decent, a Tsingshan group company, and Wanlu, which sets out (among other things) the terms on which the RKEF Project will be funded and constructed and the future operations of the RKEF Project.

The RKEF Project is currently under construction within the IMIP, located approximately 12 kilometres north of the Company's Hengjaya Mine on the island of Sulawesi

In addition to the construction of the RKEF Project, a material objective of the CSA was to facilitate Shanghai Decent and Wanlu becoming significant shareholders in the Company.

### *Funding for construction of RKEF Project*

The guaranteed construction cost of the RKEF Project as agreed under the CSA is no more than \$200 million, of which:

- > \$50 million has been funded by the Company from the 'Initial Subscriptions' from Shanghai Decent and Wanlu as described below; and
- > the balance shall be funded by Shanghai Decent by way of shareholder loans injected into Hengjaya Holdings, a Singaporean holding company which holds 100% of the shares (directly and indirectly) of Hengjaya Nickel.
- > Where the actual construction cost of the RKEF Project exceeds \$200 million, Shanghai Decent has agreed to indemnify Hengjaya Holdings or Hengjaya Nickel (without recourse to the assets or either of those entities) to the extent to which the actual construction costs of the RKEF Project exceed \$200 million and such excess amounts are actually incurred by Hengjaya Holdings or Hengjaya Nickel (as the case may be).

Pursuant to the CSA, in April 2018:

- > Shanghai Decent subscribed for and were issued with 161,696,446 ordinary shares in the Company for consideration of \$26 million; and
- > Wanlu subscribed for and were issued with 149,258,258 ordinary shares in the Company for consideration of \$24 million,

(together, 'Initial Subscriptions').

The Initial Subscriptions were completed following the satisfaction of all relevant condition precedents under the CSA, including:

- > completion of legal and financial due diligence by Shanghai Decent and its professional advisers on the Company and the Hengjaya Mine;
- > there being no breach of any covenants, undertakings and agreements required to be performed or caused to be performed by the parties under the CSA prior to completion of the Initial Subscriptions; and
- > each of the Company, Shanghai Decent and Wanlu having obtained all relevant approvals required to permit the Initial Subscriptions.

In April 2018:

- > the Company provided \$50 million to Hengjaya Holdings by way of shareholder loan (for accounting purposes this has been treated as an investment in associate); and
- > Hengjaya Holdings in turn provided the \$50 million received from the Company to Hengjaya Nickel (\$25 million by way of shareholder loan and \$25 million as equity contributions), which will be used by Hengjaya Nickel to contribute to the funding of the construction of the RKEF Project.

Shanghai Decent is required under the CSA to fund the balance of the construction costs of the RKEF Project via shareholder loans to Hengjaya Holdings.

### *Shanghai Decent's responsibilities for the RKEF Project*

Under the terms of the CSA, Shanghai Decent is responsible for:

- > the construction of the RKEF Project and shall take a lead role in the design, construction and operationalisation of the RKEF Project, which is to be undertaken through Hengjaya Nickel; and
- > ensuring that the RKEF Project is completed with an annual capacity of no less than 14,000 tonnes of equivalent contained nickel within 20 calendar months from April 2018 when Nickel Mines funded its first \$50 million investment in the development of the RKEF Project.

Shanghai Decent's obligations above are subject to the absence of a 'force majeure event' (being an event arising from any cause beyond the reasonable control of Shanghai Decent, including without limitation, acts of God, acts of civil or military authority, governmental restrictions, wars and change of Law).

Shanghai Decent further undertakes to procure that its related companies supply such utilities and logistics services within the IMIP as required by the Hengjaya Nickel or the RKEF Project in line with the IMIP 'principle of non-discrimination'.



## *First acquisition of Hengjaya Holdings' shares following completion of the Initial Public Offering*

The Company is required to acquire further shares in the capital of Hengjaya Holdings from Shanghai Decent following completion of its Initial Public Offering. Within 10 Business Days of the Company's Shares being listed and quoted on the ASX, the Company may notify Shanghai Decent the number of shares in the capital of Hengjaya Holdings, representing no less than 26% but no more than 35% of the share capital of Hengjaya Holdings that the Company agrees to acquire from Shanghai Decent (First Acquisition Notice).

Subsequent to end of the financial year, following successful completion of the Company's IPO the Company has provided notice to Decent that it will acquire a further 35% of the share capital of Hengjaya Holdings, increasing its shareholding in Hengjaya Holdings (and as a result, the RKEF Project) from 25% to 60%. The consideration payable for this additional 35% interest is \$70 million payable in cash to Shanghai Decent.

In addition to the acquisition of the additional 35% of the share capital of Hengjaya Holdings, the Company will also be assigned a proportion of the total outstanding shareholder loans owing from Hengjaya Holdings to Shanghai Decent at the time the RKEF Project is completed, such that the Company will also have 60% of the total shareholder loans made by the Company and Shanghai Decent to fund the RKEF Project.

## *Call option to acquire up to 100% of Hengjaya Holdings*

Under the CSA, the Company has been granted a call option (Call Option) to require Shanghai Decent to sell to the Company all of the shares in Hengjaya Holdings held by Shanghai Decent (Option Shares) and assign all remaining shareholder loans owing from Hengjaya Holdings to Shanghai Decent for consideration of \$120 million, from a 60% ownership position, which if exercised would increase the Company's shareholding in Hengjaya Holdings to 100%.



# Review of Operations

The Company must exercise the Call Option no later than 12 months from the date on which the first batch of NPI is produced from the RKEF Project (or such other date as may be agreed in writing with Shanghai Decent).

If the Company elects to exercise the Call Option, the form of consideration payable by the Company to acquire the Option Shares and remaining shareholder loans will be at the election of Shanghai Decent. Shanghai Decent can elect the consideration be in cash, Shares in the Company or combination of both.

The Company has not yet decided whether it will exercise the Call Option and the Company will make an assessment at the time this option becomes available whether it is in the best interests of the Company to exercise the Call Option.

## *RKEF Construction*

Construction of the first 2 RKEF lines is progressing well. As of mid-August, the majority of foundation works have been completed, with approximately 40% of procurement and 20% of civil works also completed. Most of the material equipment components have been produced and put in lines in China, for shipping to the IMIP.

## *Memorandum of Understanding to acquire an interest in two additional RKEF lines*

On 1 June 2018, the Company entered into a non-binding Memorandum of Understanding with Shanghai Decent whereby the Company shall have the right, but not the obligation, to acquire an interest of no less than 51% and up to 100% in a new special purpose company which will be the owner of two new RKEF lines which Shanghai Decent may choose to construct within the IMIP.

Nickel Mines and Shanghai Decent have agreed to negotiate in good faith to enter into a definitive agreement within 3 months of the signing of the Memorandum of Understanding. Upon signing a definitive agreement, the Company shall pay Shanghai Decent a non-refundable deposit of \$5.0 million for the right to acquire its initial interest in the new special purpose company and the right to increase its ownership to 100% at a valuation of \$300 million within 18 months from the commercial operation of the two new RKEF lines.

## **Hengjaya Mine**

### *Overview*

The Hengjaya Mine concession area covers 6,249 hectares and is held under an Izin Usaha Pertambangan (IUP Operasi/Produksi) or 'Mining Business Licence, Operation/Production' (IUP OP) with drilling completed to date totalling 1,402 holes for 30,296 metres. The resource is not fully defined with only approximately half of the mapped ultramafic nickel bearing area having been resource drilled.

### **Operations:**

#### *Mining*

Since the recommencement of mining at the Bete Bete deposit within the Hengjaya project in October 2015, a total of over one million wmt have been mined with an average stripping ratio of 1.06. During the year ended 30 June 2018 a total of 391,362 wmt were mined with an average stripping ratio of 1.3. A total of 449,955 wmt were delivered during the year at an average grade of 2.06% nickel.

A record monthly delivery of 60,967 wmt was achieved in October 2017 with a record high of 3,707 wmt in one day was achieved in January 2018.





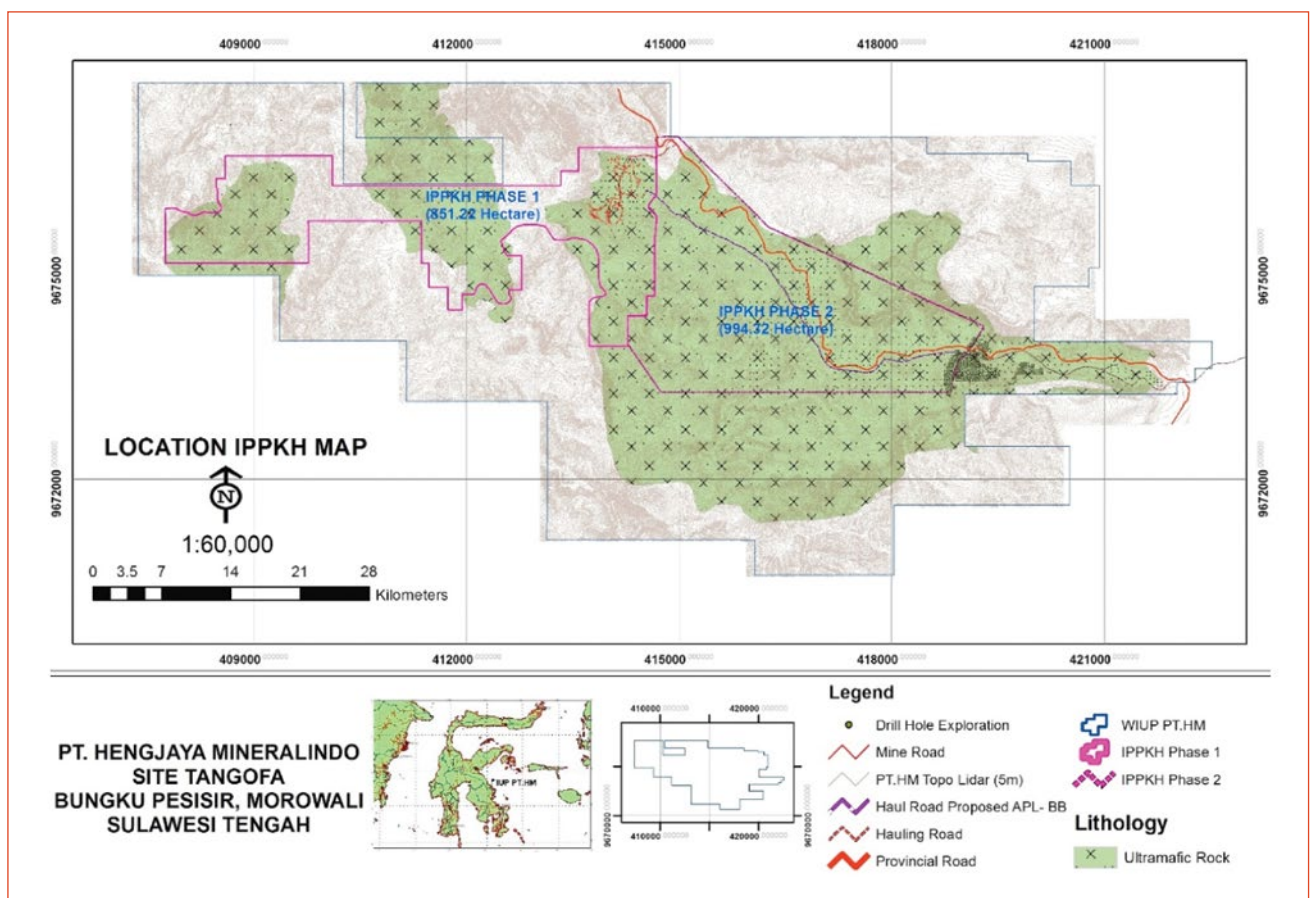
## Ore Supply Agreements

In September 2015 PT Hengjaya signed an ore supply agreement with PT Sulawesi Mining Investment, a Tsingshan group company, to supply 30,000 wmt per month of nickel ore at a cut-off grade of 1.90% nickel for six months and the Hengjaya Mine's operations were recommenced. In December 2016 PT Hengjaya entered into an ore supply agreement with a Tsingshan group company 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 ore supply 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.

## Forestry

In February 2018 PT Hengjaya obtained an IPPKH in respect of approximately 994 hectares, enabling an expanded resource area to be mined in closer proximity to the coast which will reduce current mining and hauling costs.

PT Hengjaya has commenced formally staking the IPPKH boundary (Terpal Batas). Once completed a newly devised mine plan will be implemented to mine a block in the new area with a haul distance of only 6 kilometres to the jetty, greatly reducing haul distances and allowing larger trucks to be used.



## Upcoming Operations

The new central zone pit 21 will be an area of 13 hectares with an average anticipated grade of 2.1% nickel and is 6km closer to the jetty than Bete Bete. The new hauling road will be part of the old APL road which will need some maintenance done and an extra 900

metres of new road needs to be built. Hauling to the jetty will be done using 20-ton trucks instead of 6-ton trucks. There will be a new fleet of excavators, dozers etc. for the central pit.

# Review of Operations

## Mineral Resources Statement

Summarised below by resource category is the JORC resource estimate for the Hengjaya project, using a 1.50% nickel cut-off grade.

| Category               | Block          | Dry Tonnes        | Ni (%)      | Co (%)      | Fe (%)       |
|------------------------|----------------|-------------------|-------------|-------------|--------------|
| Measured               | Block B        | 18,000            | 1.70        | 0.03        | 16.00        |
|                        | Block C        | 690,000           | 1.80        | 0.05        | 16.00        |
| <b>Total Measured</b>  |                | <b>700,000</b>    | <b>1.80</b> | <b>0.05</b> | <b>16.00</b> |
| Indicated              | Bete Bete      | 5,500,000         | 1.90        | 0.04        | 15.00        |
|                        | West Bete Bete | 1,200,000         | 1.80        | 0.05        | 6.10         |
|                        | Central        | 350,000           | 1.80        | 0.07        | 16.00        |
|                        | Central 2      | 6,400,000         | 1.80        | 0.08        | 17.00        |
|                        | Block A        | 890,000           | 1.90        | 0.09        | 40.00        |
|                        | Block B        | 210,000           | 1.70        | 0.03        | 16.00        |
| <b>Total Indicated</b> |                | <b>15,000,000</b> | <b>1.90</b> | <b>0.06</b> | <b>17.00</b> |
| Inferred               | Bete Bete      | 300,000           | 2.00        | 0.04        | 17.00        |
|                        | West Bete Bete | 900,000           | 1.90        | 0.05        | 12.00        |
|                        | Central        | 17,000,000        | 1.80        | 0.05        | 17.00        |
|                        | Central 2      | 2,700,000         | 1.70        | 0.08        | 17.00        |
|                        | Block A        | 200,000           | 1.90        | 0.09        | 41.00        |
|                        | Block B        | 600,000           | 2.00        | 0.03        | 15.00        |
|                        | Block C        | 100,000           | 1.70        | 0.04        | 16.00        |
| <b>Total Inferred</b>  |                | <b>22,000,000</b> | <b>1.80</b> | <b>0.05</b> | <b>17.00</b> |
| <b>Grand Total</b>     |                | <b>38,000,000</b> | <b>1.80</b> | <b>0.06</b> | <b>17.00</b> |

## Resource Comparison 2018 to 2017

As the Company was not listed on the ASX in the prior year no annual review of Mineral Resources was conducted at the time.

## Statement of Compliance

The information in this report that relates to Mineral Resources is based on information compiled by Mr Brett Gunter, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy. 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.

Information relating to the Mineral Resources Statement is based on, and fairly represents, information and supporting documentation prepared by Nickel Mines staff and contractors and approved by Mr Brett Gunter. The Mineral Resource Statement as a whole has been approved by Mr Gunter and he has consented to the form and context in which it appears in this report.

## Corporate Governance Statement

The Board is committed to maintaining standards of Corporate Governance. Corporate Governance is about having a set of core values and behaviours that underpin the Company's activities and ensure transparency, fair dealing and protection of the interests of stakeholders. The Company has reviewed its corporate governance practises against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2018 Corporate Governance Statement is dated as at 17 March 2018 and reflects the corporate governance practises throughout the 2018 financial year. The 2018 Corporate Governance Statement was approved by the Board on 17 March 2018. A description of the Company's current corporate governance practises is set out in the Company's Corporate Governance Statement which can be viewed at [www.nickelmines.com.au/corporate-governance/](http://www.nickelmines.com.au/corporate-governance/).

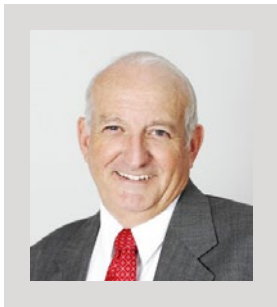


The Directors present their report together with the financial report of Nickel Mines Group, being Nickel Mines Limited ('the Company' or 'Nickel Mines') and its controlled entities ("the Group"), for the year ended 30 June 2018 and the auditor's report thereon:

## Directors

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

### Robert Neale – Non-Executive Chairman

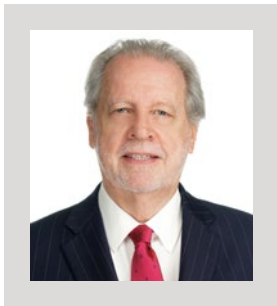


Director since 16 April 2018.

Mr Neale graduated from the University of Queensland in 1968 with a First Class Honours Degree in Geology and Mineralogy with an additional major in Chemistry. Mr Neale is currently the Non-Executive Chairman of Mayur Resources Limited, a recently listed industrial minerals and energy company with assets in Papua New Guinea. Mr Neale is also a non-executive director of Amber Power Limited, an Australian, non-listed public company, developing innovative new energy technologies.

Mr Neale is the former Managing Director of New Hope Corporation Limited (NHC) and non-executive director of Plant Gas Limited until February 2016. He joined NHC in 1996 as General Manager and was appointed as an executive officer in 2005 and to the Board of Directors in 2008 until his retirement in 2014. Mr Neale has more than 45 years' experience in the mining, oil and gas and exploration industries covering base metals, gold, coal, synthetic fuels and conventional oil and gas, bulk materials shipping, and power generation. Prior to NHC he spent 23 years' with Esso Australia and EXXON Coal and Minerals Company.

### Norman Seckold – Executive Deputy Chairman



Executive Chairman to 16 April 2018. Director since 12 September 2007.

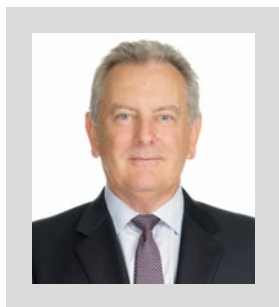
Norman Seckold graduated with a Bachelor of Economics degree from the University of Sydney in 1970. He has spent more than 30 years in the full time management of natural resource companies, both in Australia and overseas.

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 Collierina 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 Chile and Mexico, and unlisted public company Mekong Minerals Limited.

# Directors' Report

## Peter Nightingale – Executive Director and Chief Financial Officer



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., Argent Minerals Limited, Bolnisi Gold N.L and Cockatoo Coal Limited. Mr Nightingale is currently a director of ASX Listed Collierina Cobalt Limited and Planet Gas Limited and unlisted public company Prospech Limited.

## Justin Werner – Managing Director

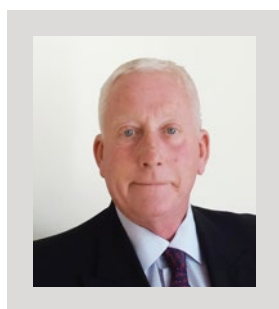


Director since 23 August 2012.

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.

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 a 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.



## Weifeng Huang – Director



Director since 26 April 2018.

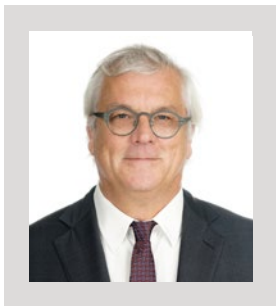
Mr Huang graduated with a Bachelor of Engineering degree from Zhejiang University in 1982 and obtained a Masters of Business Administration from Zhejiang University in 1998.

Mr Huang began his career in several industrial enterprises and has broad management experiences from serving as the Plant Manager of Wenzhou Tractor Plant, the General Manager of Wenzhou Machinery Industrial Corporation, the Vice Mayor of Wenzhou and the Executive Chairman of China Perfect Machinery Industry Corp., Ltd. Mr Huang also served as the Deputy Director of the Management Committee of Shanghai Jinqiao Export Processing Zone, where he was appointed as a Director of Shanghai Jinqiao Export Processing Zone

Development Co., Ltd, a publicly-listed company on the Shanghai Stock Exchange and the Deputy CEO of Shanghai Jinqiao Group. Mr Huang was also a former Chairman of the board of Harbin High Tech (Group) Co., Ltd, another publicly-listed company on the Shanghai Stock Exchange.

Mr Huang is currently the Chairman of Shanghai Decent Investment (Group) Co., Ltd, (Shanghai Decent) a flagship company within the Tsingshan group and the President Director of PT Indonesia Morowali Industrial Park. Under his leadership, Shanghai Decent has led in the investments of over \$5 billion in the Indonesia Morowali Industrial Park (IMIP), an industrial park covering 2,000 hectares, and making IMIP an industry recognised ferronickel and stainless steel complex.

## 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').

## Yuanyaun Xu – Director



Director since 26 April 2018.

Ms Yuanyaun Xu graduated with a Bachelor's Degree in Fashion Business & Fashion Design from Instituto Marangoni.

Since graduation, Ms Xu has honed her business acumen, participating in the Shanghai Fashion Week with a focus on marketing, public relations and procurement activities.

She is currently an Executive Director of Shanghai Wanlu Investment Co., Ltd.

# Directors' Report

## Richard 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 Collierina Cobalt Limited and unlisted public companies Indo Mines Limited and 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 |
| Robert Neale      | 1              | 1        |
| Norman Seckold    | 5              | 5        |
| James Crombie     | 5              | 4        |
| Weifeng Huang     | 1              | -        |
| Mark Lochtenberg  | 5              | 4        |
| Peter Nightingale | 5              | 5        |
| Justin Werner     | 5              | 5        |
| Yuanyuan Xu       | 1              | -        |

## Directors' Interests

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

| Key management personnel | 1 July 2017                | Purchased                | Granted as compensation <sup>(3)</sup> | Sold | Date of this report |
|--------------------------|----------------------------|--------------------------|--|------|---------------------|
| Robert Neale             | 500,000 <sup>(1)</sup>     | -                        | -                                      | -    | 500,000             |
| Norman Seckold           | 115,272,673                | 6,184,963 <sup>(2)</sup> | 2,258,025                              | -    | 123,715,661         |
| Peter Nightingale        | 16,286,787                 | 3,720,842 <sup>(2)</sup> | 2,258,025                              | -    | 22,265,654          |
| James Crombie            | 5,775,000                  | -                        | 805,000                                | -    | 6,580,000           |
| Weifeng Huang            | - <sup>(1)</sup>           | -                        | -                                      | -    | -                   |
| Mark Lochtenberg         | 11,693,333                 | -                        | -                                      | -    | 11,693,333          |
| Justin Werner            | 21,099,491                 | 3,916,806 <sup>(2)</sup> | -                                      | -    | 25,016,297          |
| Yuanyuan Xu              | 149,258,258 <sup>(1)</sup> | -                        | -                                      | -    | 149,258,258         |

<sup>(1)</sup> Number held at the date he/she became a director.

<sup>(2)</sup> To enable the company to meet the precondition requirements of the CSA the directors agreed to receive shares in lieu of payment to extinguish the debts owing. Norman Seckold received 3,472,777 shares; Peter Nightingale received 1,008,656 shares and Justin Werner received 2,416,806. Additionally the Company settled all outstanding loan and creditor balances with MIS Corporate Pty Limited ('MIS'), an entity in which Peter Nightingale and Norman Seckold hold a controlling interest by the issuance of 2,712,186 shares to both Peter Nightingale and Norman Seckold. The remaining balance were purchased in the pre-IPO capital raise which commenced in December 2017.

<sup>(3)</sup> Following the successful capital raise in December 2017 the Board approved a one-off payment to Peter Nightingale, Norman Seckold and James Crombie totalling A\$976,000 in recognition of the services they have provided leading up to the pre-IPO capital raise. The payment was settled through the issue of shares at the rate of \$0.16 per share.



## Financial position

The net assets of the Group at 30 June 2018 were \$75,144,714, with unrestricted cash on hand of \$806,574. The increase in net assets from the prior year was a result of the capital raise in December 2017 and the receipt of \$50,000,000 under the CSA. The funds received were used to repay the outstanding liabilities and to acquire the 25% interest in Hengjaya Holdings.

## Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 30 June 2018. No dividends have been paid or declared during the period or in prior periods.

## Significant Changes in State of Affairs

In the opinion of the directors, significant changes in the state of affairs of the Group that occurred during the year ended 30 June 2018 were as follows:

- In September 2017 the Company entered into the CSA with Shanghai Decent and Wanlu. The CSA sets out (among other things) the terms on which a 2-line Rotary Kiln Electric Furnace (RKEF) plant within the Indonesia Morowali Industrial Park (IMIP) will be funded and constructed (RKEF Project).
- Following the successful completion of a pre-IPO capital raise during the year, the Company received capital contributions from Shanghai Decent and Wanlu in April 2018 for \$26 million and \$24 million, respectively, which have been provided to Hengjaya Holdings by way of a shareholder loan from the Company in April 2018, resulting in the Company holdings a 25% interest in Hengjaya Nickel, the owner of the RKEF Project.
- In February 2018 PT Hengjaya obtained an IPPKH in respect of approximately 994 hectares, enabling an expanded resource area to be mined in closer proximity to the coast which will reduce current mining and hauling costs.
- During the year the Directors of the Company resolved to seek admission to the ASX Official List.

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 2018 other than as disclosed in this Directors' Report, or in the financial statements.

## 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 companies within the Tsingshan Group 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.

# Directors' Report

## 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.

## Non-audit services

During the year KPMG, the Group's auditor, provided the following non-audit services:

|  | <b>2018</b>   |
|--|---------------|
|  | <b>\$</b>     |
| Taxation services in relation to IPO                   | 7,545         |
| Investigating Accountant's services in relation to IPO | 35,884        |
|  | <u>43,429</u> |

The directors have considered the non-audit services provided during the year by KPMG. These services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants as they did not involve review or auditing the auditors own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards. For this reason the Board is satisfied that the provision of those non-audit services provided during the year by KPMG is compatible with and did not compromise the auditor independence of the Corporations Act 2001.

## Events Subsequent to Balance Date

Subsequent to the end of the year:

- the Company successfully completed its IPO, with A\$200 million being raised through the issue of 571,428,571 shares at A\$0.35 each, with the Company being admitted to the ASX Official List on 20 August 2018.
- Following successful completion of the Company's IPO Nickel Mines provided notification of its exercise of its option under the CSA to acquire a further 35% interest in the RKEF Project to increase its interest to 60%. The Company will pay \$70 million to Shanghai Decent in cash to acquire the additional 35% interest.

In early June 2018 Nickel Mines signed a Memorandum of Understanding (MOU) with Shanghai Decent to construct, own and operate an additional 2 RKEF lines. This MOU is rapidly progressing towards a definitive agreement, and upon completion would see Nickel Mines operating 4 RKEF lines.

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.

## Remuneration Report - (Audited)

All amounts in this remuneration report are in Australian Dollars unless otherwise stated.

## Principles of Compensation - (Audited)

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group. Key management personnel comprise the directors of the Company. No other employees have been deemed to be key management personnel. The policy of remuneration of directors and senior executives is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. Compensation levels have been, and will be, set to be in line with Australian listed entities of equivalent size and comparable operations in order to attract and retain suitably qualified and experienced key management personnel but also having regard to the prevailing financial capacity of the Company.



## Remuneration Report - (Audited) (Con't)

### Principles of Compensation - (Audited) (Con't)

The Board is responsible for reviewing and evaluating its own performance. The evaluation process is intended to assess the Group's business performance, whether long term strategic objectives are being achieved and the achievement of individual performance objectives.

Remuneration generally consists of salary payments. The remuneration disclosed below represents the cost to the Group for the services provided under these arrangements.

#### *Consultancy Agreements with key management personnel*

The Company has entered into an executive consultancy agreement with a company associated with Justin Werner. The agreement is denominated in Australian Dollars. Under this executive consultancy agreement, the consultancy company of Mr Werner agrees to make Mr Werner available to perform the duties and responsibilities of the position of Managing Director. The consultancy company currently receives a monthly fee of \$12,500 per month (exclusive of GST) and will receive a monthly fee of \$25,833 (exclusive of GST) upon successful listing of the Company on the ASX. The consultancy agreement commenced on 1 April 2018 and continues until terminated in accordance with its terms. Prior to 1 April 2018 there was no formal contract with Mr Werner.

The Company has entered into an executive consultancy agreement with a company associated with Norman Seckold. The agreement is denominated in Australian Dollars. Under this executive consultancy agreement, the consultancy company of Mr Seckold agrees to make Mr Seckold available to perform the duties and responsibilities of the position of Deputy Chairman and Executive Director. The consultancy company currently receives a monthly fee of \$8,500 per month (exclusive of GST) and will receive a monthly fee of \$8,333 (exclusive of GST) upon successful listing of the Company upon the ASX. The consultancy agreement commenced on 1 May 2018 and continues until terminated in accordance with its terms. Prior to 1 May 2018 there was no formal contract with Mr Seckold.

The Company has entered into an executive consultancy agreement with a company associated with Peter Nightingale. The agreement is denominated in Australian Dollars. Under this executive consultancy agreement, the consultancy company of Mr Nightingale agrees to make Mr Nightingale available to perform the duties and responsibilities of the position of Chief Financial Officer and Executive Director. The consultancy company currently receives a monthly fee of \$8,500 per month (exclusive of GST) and will receive a monthly fee of \$16,667 (exclusive of GST) upon successful listing of the Company upon the ASX. The consultancy agreement commenced on 1 April 2018 and continues until terminated in accordance with its terms. Prior to 1 April 2018 there was no formal contract with Mr Nightingale.

Each Executive Director is entitled to be reimbursed for reasonable travel and other expenses incurred in connection with attending meetings of the Board and any committee on which he or she serves. The consultancy agreements may be terminated by the Company or the consultancy company by either party giving three months' notice. The Company may terminate the consultancy agreements without notice in certain circumstances, including but not limited to a breach of contract, criminal activity or serious misconduct by the consultancy company or the key management personnel.

Each of the Company's Non-Executive Directors have entered into Letters of Appointment with the Company to serve as Non-Executive Directors. Each of the Letters of Appointment provide that amongst other things, in consideration for their services, the Company will pay the following fees to the Non-Executive Directors.

| <b>Name</b>      | <b>Position</b>        | <b>Annual fee (A\$)</b> |
|------------------|------------------------|-------------------------|
| Robert Neale     | Non-Executive Chairman | 150,000                 |
| James Crombie    | Non-Executive Director | 50,000                  |
| Weifeng Huang    | Non-Executive Director | 50,000                  |
| Mark Lochtenberg | Non-Executive Director | 50,000                  |
| Yuanyuan Xu      | Non-Executive Director | 50,000                  |

# Directors' Report

## Remuneration Report - (Audited) (Con't)

### Principles of Compensation - (Audited) (Con't)

No directors or senior executives receive performance related remuneration however for the year ended 30 June 2018 the Board approved a one-off grant of shares to Peter Nightingale, Norman Seckold and James Crombie in recognition of the services they have provided leading up to the pre-IPO capital raise.

There were no remuneration consultants used by the Group during the year ended 30 June 2018, or in the prior year.

### Consequences of performance on shareholder wealth

In considering the Group's performance and benefits for shareholder wealth, the Board has regard to the following indices in respect of the current financial year and the previous four financial years.

| USD  | 2018        | 2017        | 2016        | 2015        | 2014        |
|--|-------------|-------------|-------------|-------------|-------------|
| Net loss attributable to owners of the company | (3,311,526) | (3,831,761) | (1,377,084) | (3,732,242) | (2,968,977) |
| Dividends paid                                 | -           | -           | -           | -           | -           |

As the Group is in the development stage the Board also considers non-financial indices in assessing the Group's performance and the shareholders wealth. This includes obtaining the permits and approvals to further develop the mining operations, identifying opportunities for potential strategic business partnerships and ventures and the success of fund raising ventures.

### Details of Remuneration for the Year Ended 30 June 2018 - (Audited)

Details of director and senior executive remuneration and the nature and amount of each major element of the remuneration of each director of the Company, and other key management personnel of the Group are set out below. All balances included are denominated in Australian Dollars:

| Key management personnel       | Year        | Short term Salary and fees A\$ | Post-employment Superannuation A\$ | Share based payments Shares A\$ | Total A\$        | Proportion of remuneration performance related % | Value of options as a proportion of remuneration % |
|--------------------------------|-------------|--------------------------------|------------------------------------|---------------------------------|------------------|--|--|
| <i>Executive directors</i>     |             |                                |                                    |                                 |                  |  |  |
| Peter J. Nightingale           | 2018        | 51,000                         | -                                  | 408,000                         | 459,000          | 89%  | -  |
|                                | 2017        | -                              | -                                  | -                               | -                | -  | -  |
| Norman A. Seckold              | 2018        | 51,000                         | -                                  | 408,000                         | 459,000          | 89%  | -  |
|                                | 2017        | -                              | -                                  | -                               | -                | -  | -  |
| Justin C. Werner               | 2018        | 177,859                        | -                                  | -                               | 177,859          | -  | -  |
|                                | 2017        | 150,000                        | -                                  | -                               | 150,000          | -  | -  |
| <i>Non-executive directors</i> |             |                                |                                    |                                 |                  |  |  |
| Robert C. Neale*               | 2018        | -                              | -                                  | -                               | -                | -  | -  |
| James Crombie                  | 2018        | -                              | -                                  | 160,000                         | 160,000          | 100%   | -  |
|                                | 2017        | -                              | -                                  | -                               | -                | -  | -  |
| Weifeng Huang**                | 2018        | -                              | -                                  | -                               | -                | -  | -  |
| Mark H. Lochtenberg^           | 2018        | -                              | -                                  | -                               | -                | -  | -  |
|                                | 2017        | -                              | -                                  | -                               | -                | -  | -  |
| Yuanyuan Xu**                  | 2018        | -                              | -                                  | -                               | -                | -  | -  |
| <b>Total</b>                   | <b>2018</b> | <b>279,859</b>                 | <b>-</b>                           | <b>976,000</b>                  | <b>1,255,859</b> | <b>78%</b>                                       |  |
| Total                          | 2017        | 150,000                        | -                                  | -                               | 150,000          | -  | -  |

\* Appointed as a Director on 16 April 2018.

\*\* Appointed as a Director on 26 April 2018.

^ Appointed as a Director on 10 March 2017.



## Remuneration Report - (Audited) (Con't)

### Details of Remuneration for the Year Ended 30 June 2018 - (Audited) (Con't)

For the year ended 30 June 2017 Norman Seckold, Peter Nightingale, James Crombie and Mark Lochtenberg waived the Director fees owing to them. For the year ended 30 June 2018 there was no remuneration paid or payable to Robert Neale, Weifeng Huang, Mark Lochtenberg and Yuanyuan Xu.

Following the successful capital raise in December 2017 the Board approved a one-off payment to Peter Nightingale, Norman Seckold and James Crombie totalling A\$976,000 (excluding GST) in recognition of the services they have provided leading up to the pre-IPO capital raise. The payment of A\$1,057,600 (including GST) was converted to US\$851,368 using the rate of 80.5c and settled through the issue of shares on 31 January 2018 at the pre-IPO capital raising price of US\$0.16 per share.

The total remuneration expense for the year ended 30 June 2018 of A\$1,255,859 has been recognised in the Statement of Profit or Loss at the USD equivalent of US\$974,607.

### Movement in shares – (Audited)

The movement during the reporting period in the number of ordinary shares in the Company held directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

|                   | 1 July 2017                | Purchased                | Granted as compensation <sup>(3)</sup> | Sold | 30 June 2018 |
|-------------------|----------------------------|--------------------------|--|------|--------------|
| Robert Neale      | 500,000 <sup>(1)</sup>     | -                        | -                                      | -    | 500,000      |
| Norman Seckold    | 115,272,673                | 6,184,963 <sup>(2)</sup> | 2,258,025                              | -    | 123,715,661  |
| Peter Nightingale | 16,286,787                 | 3,720,842 <sup>(2)</sup> | 2,258,025                              | -    | 22,265,654   |
| James Crombie     | 5,775,000                  | -                        | 805,000                                | -    | 6,580,000    |
| Weifeng Huang     | - <sup>(1)</sup>           | -                        | -                                      | -    | -            |
| Mark Lochtenberg  | 11,693,333                 | -                        | -                                      | -    | 11,693,333   |
| Justin Werner     | 21,099,491                 | 3,916,806 <sup>(2)</sup> | -                                      | -    | 25,016,297   |
| Yuanyuan Xu       | 149,258,258 <sup>(1)</sup> | -                        | -                                      | -    | 149,258,258  |

<sup>(1)</sup> Number held at the date he/she became a director.

<sup>(2)</sup> To enable the company to meet the precondition requirements of the CSA the directors agreed to receive shares in lieu of payment to extinguish the debts owing. Norman Seckold received 3,472,777 shares; Peter Nightingale received 1,008,656 shares and Justin Werner received 2,416,806. Additionally the Company settled all outstanding loan and creditor balances with MIS Corporate Pty Limited, an entity in which Peter Nightingale and Norman Seckold hold a controlling interest by the issuance of 2,712,186 shares to both Peter Nightingale and Norman Seckold. All other share purchases were made in cash as part of the pre-IPO capital raise which commenced in December 2017.

<sup>(3)</sup> Following the successful capital raise in December 2017 the Board approved a one-off payment to Peter Nightingale, Norman Seckold and James Crombie totalling A\$976,000 (excluding GST) in recognition of the services they have provided leading up to the pre-IPO capital raise. The payment was settled through the issue of shares at the rate of US\$0.16 per share.

### Transactions with Key Management Personnel – (Audited)

Peter Nightingale and Norman Seckold hold a controlling interest in an entity, MIS Corporate Pty Limited, 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\$279,452 (2017 - A\$371,325) which included the monthly fee of A\$15,000 per month and reimbursement of consultant expenses incurred by MIS Corporate Pty Limited on behalf of the Group. At 30 June 2018 A\$51,346 (30 June 2017: A\$629,236) remained outstanding and was included in the creditor's balance.

# Directors' Report

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

The lead auditor's independence declaration is set out on page 17 and forms part of the Directors' Report for the period ended 30 June 2018.

Signed at Sydney this 31st day of August 2018 in accordance with a resolution of the Board of Directors:



**Robert Neale**  
Chairman



**Norman Seckold**  
Deputy Chairman

# Lead Auditor's Independence Declaration



## 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 2018 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

KPMG

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

Adam Twemlow

*Partner*

Brisbane

31 August 2018

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

| USD   | Notes | 2018<br>\$         | 2017<br>\$         |
|---|-------|--------------------|--------------------|
| Nickel ore sales revenue                                    |       | 13,551,415         | 8,594,750          |
| Cost of sales   |       | (10,693,574)       | (7,683,830)        |
| Gross profit  |       | 2,857,841          | 910,920            |
| Administration expenses:                                    |       |                    |                    |
| Directors' fees and consultants' expenses                   |       | (1,987,189)        | (554,740)          |
| Depreciation expense  |       | (64,425)           | (50,337)           |
| Tax charges   |       | (23,540)           | (136,234)          |
| Agency fee charges  | 12    | (1,800,000)        | (3,300,000)        |
| Other expenses  | 4     | (602,673)          | (245,239)          |
| <b>Results from operating activities</b>                    |       | <b>(1,619,986)</b> | <b>(3,375,630)</b> |
| Financial income  | 5     | 675,890            | 10,683             |
| Financial expense   | 5     | (1,326,476)        | (552,895)          |
| Finance costs   |       | (650,586)          | (542,212)          |
| <b>Loss before income tax</b>                               |       | <b>(2,270,572)</b> | <b>(3,917,842)</b> |
| Income tax benefit/(expense)                                | 8     | (656,261)          | 179,348            |
| <b>Loss for the year</b>                                    |       | <b>(2,926,833)</b> | <b>(3,738,494)</b> |
| <b>Other comprehensive income</b>                           |       |                    |                    |
| Items that may be classified subsequently to profit or loss |       | -                  | -                  |
| <b>Total comprehensive loss for the year</b>                |       | <b>(2,926,833)</b> | <b>(3,738,494)</b> |
| <b>Loss attributable to:</b>                                |       |                    |                    |
| Owners of the Company                                       |       | (3,311,526)        | (3,831,761)        |
| Non-controlling interest                                    |       | 384,693            | 93,267             |
| <b>Loss for the year</b>                                    |       | <b>(2,926,833)</b> | <b>(3,738,494)</b> |
| <b>Total comprehensive loss attributable to:</b>            |       |                    |                    |
| Owners of the Company                                       |       | (3,311,526)        | (3,831,761)        |
| Non-controlling interest                                    |       | 384,693            | 93,267             |
| <b>Total comprehensive loss for the year</b>                |       | <b>(2,926,833)</b> | <b>(3,738,494)</b> |
| <b>Earnings per share</b>                                   |       |                    |                    |
| Basic and diluted loss per share (cents)                    | 9     | (0.72)             | (1.21)             |

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

# Consolidated Statement of Financial Position

As at 30 June 2018

| USD   | Notes | 2018<br>\$        | 2017<br>\$        |
|---|-------|-------------------|-------------------|
| <b>Current assets</b>   |       |                   |                   |
| Cash and cash equivalents   | 18    | 806,574           | 278,775           |
| Trade and other receivables                                       | 6     | 387,412           | 288,689           |
| Inventory   | 10    | 588,843           | 959,451           |
| Other current assets  | 7     | 768,643           | 136,855           |
| <b>Total current assets</b>                                       |       | <b>2,551,472</b>  | <b>1,663,770</b>  |
| <b>Non-current assets</b>   |       |                   |                   |
| Other non-current asset   |       | 242,045           | -                 |
| Investment in equity accounted investee                           | 15    | 50,000,025        | -                 |
| Property, plant and equipment                                     | 11    | 26,627,634        | 26,276,076        |
| <b>Total non-current assets</b>                                   |       | <b>76,869,704</b> | <b>26,276,076</b> |
| <b>Total assets</b>   |       | <b>79,421,176</b> | <b>27,939,846</b> |
| <b>Current liabilities</b>  |       |                   |                   |
| Trade and other payables  | 12    | 2,855,385         | 12,315,006        |
| Current tax payable   |       | 657,471           | 372,305           |
| Provision – employee's benefit obligation                         |       | 478,549           | 268,996           |
| Borrowings  | 13    | -                 | 5,381,025         |
| <b>Total current liabilities</b>                                  |       | <b>3,991,405</b>  | <b>18,337,332</b> |
| <b>Non-current liabilities</b>                                    |       |                   |                   |
| Provision – rehabilitation  |       | 285,057           | 297,066           |
| Borrowings  | 13    | -                 | 8,151,024         |
| <b>Total non-current liabilities</b>                              |       | <b>285,057</b>    | <b>8,448,090</b>  |
| <b>Total liabilities</b>  |       | <b>4,276,462</b>  | <b>26,785,422</b> |
| <b>Net assets</b>   |       | <b>75,144,714</b> | <b>1,154,424</b>  |
| <b>Equity</b>   |       |                   |                   |
| Share capital   | 14    | 103,105,128       | 26,188,005        |
| Foreign currency translation reserve                              |       | (595,498)         | (595,498)         |
| Accumulated losses  |       | (29,272,456)      | (25,960,930)      |
| <b>Total equity attributable to equity holders of the Company</b> |       | <b>73,237,174</b> | <b>(368,423)</b>  |
| Non-controlling interest  |       | 1,907,540         | 1,522,847         |
| <b>Total equity</b>   |       | <b>75,144,714</b> | <b>1,154,424</b>  |

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

# Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

| USD  | Notes | Share capital<br>\$ | Accumulated losses<br>\$ | Foreign currency<br>translation reserve<br>\$ | Total<br>\$ | Non-controlling interest<br>\$ | Total equity<br>\$ |
|--|-------|---------------------|--------------------------|---|-------------|--------------------------------|--------------------|
| <b>Balance at 1 July 2016</b>                                |       | 26,103,169          | (22,129,169)             | (595,498)                                     | 3,378,502   | 1,429,580                      | 4,808,082          |
| <b>Total comprehensive income for the year</b>               |       |                     |                          |   |             |                                |                    |
| 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)        |
| <b>Transactions with owners, recorded directly in equity</b> |       |                     |                          |   |             |                                |                    |
| Issue of shares  | 14    | 84,836              | -                        | -   | 84,836      | -                              | 84,836             |
| <b>Balance at 30 June 2017</b>                               |       | 26,188,005          | (25,960,930)             | (595,498)                                     | (368,423)   | 1,522,847                      | 1,154,424          |
| <b>Balance at 1 July 2017</b>                                |       | 26,188,005          | (25,960,930)             | (595,498)                                     | (368,423)   | 1,522,847                      | 1,154,424          |
| <b>Total comprehensive income for the year</b>               |       |                     |                          |   |             |                                |                    |
| Loss for the year  |       | -                   | (3,311,526)              | -   | (3,311,526) | 384,693                        | (2,926,833)        |
| Total comprehensive loss for the year                        |       | -                   | (3,311,526)              | -   | (3,311,526) | 384,693                        | (2,926,833)        |
| <b>Transactions with owners, recorded directly in equity</b> |       |                     |                          |   |             |                                |                    |
| Issue of shares  | 14    | 79,587,329          | -                        | -   | 79,587,329  | -                              | 79,587,329         |
| Costs of issue   | 14    | (2,670,206)         | -                        | -   | (2,670,206) | -                              | (2,670,206)        |
| <b>Balance at 30 June 2018</b>                               |       | 103,105,128         | (29,272,456)             | (595,498)                                     | 73,237,174  | 1,907,540                      | 75,144,714         |

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



# Consolidated Statement of Cash Flows

For the year ended 30 June 2018

| USD   | Notes | 2018<br>\$          | 2017<br>\$       |
|---|-------|---------------------|------------------|
| <b>Cash flows from operating activities</b>                   |       |                     |                  |
| Cash receipts from customers                                  |       | 13,468,402          | 9,142,340        |
| Cash payments to employees and suppliers                      |       | (21,513,018)        | (8,832,278)      |
| Interest received   |       | 55,677              | 10,683           |
| Research and development repayment                            |       | (259,102)           | (236,066)        |
| <b>Net cash from/(used in) operating activities</b>           | 18    | <u>(8,248,041)</u>  | <u>84,679</u>    |
| <b>Cash flows from investing activities</b>                   |       |                     |                  |
| Payments for investments in equity accounted investees        | 15    | (50,000,025)        | -                |
| Payments for property, plant and equipment                    |       | (670,670)           | (111,191)        |
| <b>Net cash used in investing activities</b>                  |       | <u>(50,670,695)</u> | <u>(111,191)</u> |
| <b>Cash flows from financing activities</b>                   |       |                     |                  |
| Proceeds from issue of shares                                 | 14    | 73,908,362          | 84,836           |
| Costs of issue  |       | (1,770,206)         | -                |
| Repayment of borrowings                                       |       | (13,182,546)        | -                |
| <b>Net cash from financing activities</b>                     | 18    | <u>58,955,610</u>   | <u>84,836</u>    |
| <b>Net increase in cash and cash equivalents</b>              |       | 36,874              | 58,324           |
| Effect of exchange rate adjustments on cash held              |       | 490,925             | 2,243            |
| <b>Cash and cash equivalents at the beginning of the year</b> |       | <u>278,775</u>      | <u>218,207</u>   |
| <b>Cash and cash equivalents at the end of the year</b>       |       | <u>806,574</u>      | <u>278,775</u>   |

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

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## 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 2018 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 and production 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 was authorised for issue by the Directors on 31 August 2018.

### 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. There were no significant areas of uncertainty or critical judgements made by management in applying the accounting policies in the current year.

### Going concern

The consolidated financial statements have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realisation of assets and settlement of liabilities in the normal course of business.

During the year ended 30 June 2018, the Group incurred a net loss before tax of \$2,270,572 and net cash outflows from operating activities of \$8,248,041. As at 30 June 2018, the Group had net assets of \$75,144,714, including unrestricted cash of \$806,574.

While the net current assets show a deficit of \$1,439,933 at 30 June 2018, on 20 August 2018 the Company issued 571.4 million shares and raised A\$200,000,000 in cash, before capital raising costs (see note 23 – Subsequent events).

The Directors have prepared cash flow projections for the coming 12 months which include the obligations under the Collaboration and Subscription Agreement with Shanghai Decent Investment (Group) Co. Ltd, that support the ability of the Group to continue as a going concern. These cashflow projections assumes the Group maintains expenditure in line with the level of funding available.

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.

## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES

### **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.

#### *Investments in equity-accounted investees*

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and joint ventures are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

#### **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.



# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## 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.

The Group transacts in the following foreign currencies: Australian dollars (A\$ or AUD) and Indonesian Rupee (IDR).

#### *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.

At 30 June 2018 the functional currency of all components in the Group is United States dollars. The FCTR represents the foreign exchange differences which arose on retranslation in prior years on subsidiaries which have not yet been disposed.

### 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*

Mining properties amortisation rate is applied on the basis of units of production over the life of the economically recoverable resources. The amortisation is included in the costs of conversion of inventories.

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

- 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%.
- Office equipment is depreciated at rates of between 25% and 40%.
- Plant and machinery are depreciated at 25%.

## 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 and inventories, 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.

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

### 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 Group 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.

### 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.



## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

### 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.

#### *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.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

### 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 other wise 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.

### 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 comprise trade and other 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.

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.

### 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.

## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

### *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.

### **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 2018, 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 Group's annual reporting period beginning 1 July 2018. The standard is not expected to have a material impact on the financial statements based on the nature of the financial assets and liabilities recognised at 30 June 2018.

#### *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 the Group's annual reporting period beginning on 1 July 2018. The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15. The Group plans to adopt the cumulative method with the effect of applying this standard at the date of initial application (i.e. 1 July 2018) and as a result the Group will not apply the requirements of AASB 15 to the comparative period presented. The revenue of the Group is subject to a contractual arrangement which will expire in November 2018 and the implementation of AASB 15 is not expected to have a significant impact on the accounting treatment of the contract and as such it does not expect the application of AASB 15 to have a significant impact on its consolidated financial statements.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 3 - SIGNIFICANT ACCOUNTING POLICIES (Con't)

### New standards and interpretations not yet adopted (con't)

#### AASB 16 Leases

AASB 16 replaces existing leases guidance, including AASB 17 Leases. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

AASB 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has not yet completed a detailed assessment of the potential impact of applying AASB 16 on the financial statements.

|   | 2018<br>\$     | 2017<br>\$     |
|---|----------------|----------------|
| <b>NOTE 4 - OTHER EXPENSES</b>              |                |                |
| Audit fees – KPMG audit of financial report | 88,767         | 99,976         |
| IPO related fees – KPMG                     | 43,429         | -              |
| Travel                                      | 91,790         | 51,719         |
| Legal fees                                  | 378,687        | 93,544         |
|   | <u>602,673</u> | <u>245,239</u> |

## NOTE 5 - FINANCIAL INCOME AND FINANCE EXPENSE

|   |                  |                  |
|---|------------------|------------------|
| Interest income   | 55,677           | 10,683           |
| Interest expense  | (315,813)        | (417,133)        |
| Loss on extinguishing liabilities                               | (602,881)        | -                |
| Net change in fair value of financial liabilities at fair value | (407,782)        | (120,859)        |
| Foreign exchange gain/(loss)                                    | 620,213          | (14,903)         |
|   | <u>(650,586)</u> | <u>(542,212)</u> |

## NOTE 6 - TRADE AND OTHER RECEIVABLES

|                   |                |                |
|-------------------|----------------|----------------|
| GST receivable    | 11,291         | 4,041          |
| Trade receivables | 367,662        | 284,648        |
| Other             | 8,459          | -              |
|                   | <u>387,412</u> | <u>288,689</u> |

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

|                                      | 2018<br>\$ | 2017<br>\$ |
|--------------------------------------|------------|------------|
| <b>NOTE 7 - OTHER CURRENT ASSETS</b> |            |            |
| Prepayments – IPO Costs              | 483,451    | -          |
| Prepayments - other                  | 268,221    | 63,268     |
| Security deposit                     | 8,002      | 34,265     |
| Other                                | 8,969      | 39,322     |
|                                      | 768,643    | 136,855    |

## NOTE 8 - INCOME TAX EXPENSE

|   |             |             |
|---|-------------|-------------|
| Loss before tax – continuing operations   | (2,270,572) | (3,917,842) |
| Prima facie income tax expense/(benefit) at the Australian tax rate of 30% (2017 – 30%) | (681,172)   | (1,175,352) |
| Increase in income tax expense/(benefit) due to:  |             |             |
| - Effect of tax rates in foreign jurisdictions  | (136,976)   | -           |
| - Non-deductible expenses   | 1,632,739   | 961,344     |
| - Effect of deferred tax assets for tax losses not brought to account                   | (42,686)    | 152,318     |
| - Effect of net deferred tax assets not brought to account                              | (32,882)    | -           |
| - Effect of foreign currency conversion   | (82,762)    | (117,657)   |
| Income tax expense/(benefit) – current and deferred                                     | 656,261     | (179,348)   |

### Deferred tax assets/(liabilities) have been recognised in respect of the following items:

|  |   |   |
|--|---|---|
| DTA on Australian tax losses             | - | - |
| DTL net deductible temporary differences | - | - |
| Net                                      | - | - |

### Deferred tax assets have not been recognised in respect of the following items:

|  |          |           |
|--|----------|-----------|
| Deductible temporary differences (net) | 760,707  | 759,664   |
| Tax losses                             | (26,609) | (607,346) |
| Net                                    | 734,098  | 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.



# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

|   | 2018<br>\$  | 2017<br>\$  |
|---|-------------|-------------|
| <b>NOTE 9 - LOSS PER SHARE</b>  |             |             |
| <b>Basic and diluted loss per share have been calculated using:</b>   |             |             |
| Net loss for the year attributable to equity holders of the Company   | (3,311,526) | (3,831,761) |
| <b>Weighted average number of ordinary shares (basic and diluted)</b> |             |             |
| Issued ordinary shares at the beginning of the year                   | 317,330,516 | 316,580,516 |
| - Effect of shares issued on 8 June 2017                              | -           | 45,330      |
| - Effect of shares issued on 22 December 2017                         | 43,011,718  | -           |
| - Effect of shares issued on 28 December 2017                         | 15,294,233  | -           |
| - Effect of shares issued on 11 January 2018                          | 13,624,425  | -           |
| - Effect of shares issued on 30 January 2018                          | 4,148,352   | -           |
| - Effect of shares issued on 31 January 2018                          | 6,796,291   | -           |
| - Effect of shares issued on 26 March 2018                            | 1,648,352   | -           |
| - Effect of shares issued on 18 April 2018                            | 31,180,898  | -           |
| - Effect of shares issued on 26 April 2018                            | 28,768,277  | -           |
| Weighted average number of shares at the end of the year              | 461,803,062 | 316,625,846 |

As the Group is loss making, none of the potentially dilutive securities are currently dilutive. Subsequent to 30 June 2018 the Group issued an additional 571.4 million shares, see Note 23.

## NOTE 10 - INVENTORY

|                            |         |         |
|----------------------------|---------|---------|
| Inventory – ore stockpiles | 588,843 | 959,451 |
|                            | 588,843 | 959,451 |

During the period the Group continued to provide ore to PT Indonesia Tsingshan Stainless Steel ('ITSS'), an Indonesian subsidiary of Tsingshan Group, under an offtake agreement signed in October 2017 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. The cost of goods for the year ended 30 June 2018 totalling \$10,693,574 (2017: \$7,683,830) included employee expenses of \$1,132,787 (2017: \$962,339).

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

|  | 2018<br>\$ | 2017<br>\$ |
|--|------------|------------|
| <b>NOTE 11 - PROPERTY, PLANT AND EQUIPMENT</b> |            |            |
| <b>Furniture and fittings</b>                  |            |            |
| Furniture and fittings – cost                  | 37,541     | 36,357     |
| Accumulated depreciation                       | (34,826)   | (33,877)   |
| Net book value                                 | 2,715      | 2,480      |
| <b>Mine infrastructure assets</b>              |            |            |
| Mine infrastructure assets – cost              | 2,404,029  | 2,403,900  |
| Accumulated depreciation                       | (705,194)  | (600,579)  |
| Net book value                                 | 1,698,835  | 1,803,321  |
| <b>Buildings</b>                               |            |            |
| Buildings– cost                                | 250,682    | 243,732    |
| Accumulated depreciation                       | (64,623)   | (53,771)   |
| Net book value                                 | 186,059    | 189,961    |
| <b>Mining properties</b>                       |            |            |
| Mining properties– cost                        | 24,996,168 | 24,524,947 |
| Accumulated amortisation                       | (553,855)  | (411,367)  |
| Net book value                                 | 24,442,313 | 24,113,579 |
| <b>Office equipment</b>                        |            |            |
| Office equipment – cost                        | 288,485    | 253,580    |
| Accumulated depreciation                       | (168,726)  | (128,528)  |
| Net book value                                 | 119,759    | 125,052    |
| <b>Plant and machinery</b>                     |            |            |
| Plant and machinery – cost                     | 661,949    | 653,033    |
| Accumulated depreciation                       | (629,730)  | (611,351)  |
| Net book value                                 | 32,219     | 41,682     |
| <b>Motor vehicles</b>                          |            |            |
| Motor vehicles – cost                          | 147,367    | -          |
| Accumulated depreciation                       | (1,633)    | -          |
| Net book value                                 | 145,734    | -          |
| Total property, plant and equipment            | 26,627,634 | 26,276,076 |

## Impairment

After consideration of both internal and external factors, the Directors believe that no indicators of impairment existed at 30 June 2018 and have therefore not completed an impairment assessment over the carrying value of the Group's property, plant and equipment assets at 30 June 2018.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

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

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

|                                      | 2018<br>\$        | 2017<br>\$        |
|--------------------------------------|-------------------|-------------------|
| <b>Furniture and fittings</b>        |                   |                   |
| Carrying amount at beginning of year | 2,480             | 5,685             |
| Additions                            | 1,184             | 677               |
| Depreciation                         | (948)             | (3,882)           |
| Net book value                       | <u>2,716</u>      | <u>2,480</u>      |
| <b>Mine infrastructure assets</b>    |                   |                   |
| Carrying amount at beginning of year | 1,803,321         | 1,910,283         |
| Additions                            | 129               | 567               |
| Depreciation                         | (104,615)         | (107,529)         |
| Net book value                       | <u>1,698,835</u>  | <u>1,803,321</u>  |
| <b>Buildings</b>                     |                   |                   |
| Carrying amount at beginning of year | 189,961           | 196,103           |
| Additions                            | 6,950             | 4,783             |
| Depreciation                         | (10,852)          | (10,925)          |
| Net book value                       | <u>186,059</u>    | <u>189,961</u>    |
| <b>Mining properties</b>             |                   |                   |
| Carrying amount at beginning of year | 24,113,579        | 24,271,598        |
| Additions                            | 471,221           | 29,647            |
| Amortisation                         | (142,488)         | (187,666)         |
| Net book value                       | <u>24,442,312</u> | <u>24,113,579</u> |
| <b>Office equipment</b>              |                   |                   |
| Carrying amount at beginning of year | 125,052           | 13,661            |
| Additions                            | 34,905            | 139,627           |
| Depreciation                         | (40,198)          | (28,236)          |
| Net book value                       | <u>119,759</u>    | <u>125,052</u>    |
| <b>Plant and machinery</b>           |                   |                   |
| Carrying amount at beginning of year | 41,682            | 77,245            |
| Additions                            | 8,916             | 17,563            |
| Depreciation                         | (1,633)           | (53,126)          |
| Net book value                       | <u>48,965</u>     | <u>41,682</u>     |
| <b>Motor vehicles</b>                |                   |                   |
| Carrying amount at beginning of year | -                 | -                 |
| Additions                            | 147,367           | -                 |
| Depreciation                         | (1,633)           | -                 |
| Net book value                       | <u>145,734</u>    | <u>-</u>          |

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

|   | 2018             | 2017              |
|---|------------------|-------------------|
|   | \$               | \$                |
| <b>NOTE 12 - TRADE AND OTHER PAYABLES</b> |                  |                   |
| Current                                   |                  |                   |
| Creditors                                 | 2,533,155        | 4,516,276         |
| Deferred project acquisition payments     | -                | 2,800,000         |
| Agency fee payable                        | -                | 3,801,501         |
| Accruals                                  | 322,230          | 1,197,229         |
|   | <u>2,855,385</u> | <u>12,315,006</u> |

## *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 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 were payable to PT Hengjaya Sukses Pratama ('HSP'), the Company's Indonesian partner in the Hengjaya project upon achievement of various project milestones. At 30 June 2017 all milestones had been met except for the third and final milestone payment.

The final deferred payment of \$2,800,000 (\$3,000,000 less \$200,000 paid in advance prior to 30 June 2017) became 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.

In February 2018 the Group received confirmation that the forestry permit for the area previously classified HL protected forest area had been granted and consequently in February 2018 the third and final milestone payment of \$2,800,000 (\$3,000,000 less \$200,000 paid in advance) was paid to HSP's nominee, completing the Company's deferred project acquisition obligations.

## *Agency fee payable*

The Agency fee was payable to PT Hengjaya Sukses Pratama's ('HSP') nominated entity, Swift Capital Limited ("Swift"). Under a scope of work HSP earns the Agency Fee for: sales and marketing requirements in relation to the first 440,000 wrmt of nickel ore produced by Hengjaya; 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; and 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.

During the year ended 30 June 2018 the activities in relation to the final approval required by PT Hengjaya to develop and operate the Hengjaya mine were completed and the remaining balance of Agency Fee totalling \$1,800,000 was recognised as an expense for the period and the total owing, including interest charges was settled in full, along with the Loan payable to Swift as detailed in Note 13 by the payment on 30 January 2018 of \$12,400,000 and the issue of 10,000,000 fully paid ordinary shares in the Company at \$0.16 per share to Swift's nominee.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

|   | 2018<br>\$ | 2017<br>\$ |
|---|------------|------------|
| <b>NOTE 13 - BORROWINGS AND CONVERTIBLE NOTES</b> |            |            |
| <b>Current</b>                                    |            |            |
| Convertible note                                  | -          | 4,020,859  |
| Loans from related parties                        | -          | 1,360,166  |
|   | -          | 5,381,025  |
| <b>Non-current</b>                                |            |            |
| Loan – Swift Capital Limited                      | -          | 8,151,024  |
|   | -          | 8,151,024  |

## **Borrowings**

During the year ended 30 June 2018 loans from related parties were settled in full, see Note 17 for details.

In September 2017 the Company entered into a Collaboration and Subscription agreement with Shanghai Decent. A condition precedent of the agreement for this JV to occur was for the Company to become 'debt-free'. An agreement was reached to repay the loan payable to Swift Capital Limited and this was settled in full on 30 January 2018, along with the agency fee payable to Swift as detailed in Note 12, by the payment on 30 January 2018 of \$12,400,000 and the issue of 10,000,000 fully paid ordinary shares in the Company at \$0.16 per share to Swift's nominee.

## **Convertible notes**

|   | 2018<br>\$  | 2017<br>\$ |
|---|-------------|------------|
| <b>Liabilities measured at fair value through profit and loss</b> |             |            |
| Opening balance   | 4,020,859   | 3,900,000  |
| Net change in fair value of financial liabilities at fair value   | 407,782     | 120,859    |
| Repayment   | (4,428,641) | -          |
|   | -           | 4,020,859  |

The PT Hengjaya and Woodburn Holdings Limited ('Woodburn') Convertible Loan Facility Agreement ('Convertible Note Facility') was due to mature on 21 July 2017. During the year the entities were renegotiating the facility agreement and on 29 January 2018 an agreement was reached for a total \$4,428,641 to be paid to Woodburn as final settlement of the Convertible Note Facility. The final payment represented the principal totalling \$3,000,000 and accrued interest and other charges of \$1,428,641.



# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 14 - ISSUED CAPITAL

|   | Number of shares | \$          |
|---|------------------|-------------|
| 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  |
| Issue of shares - cash                                | 455,793,411      | 73,908,362  |
| Issue of shares - share based payments                | 35,358,303       | 5,678,967   |
| Costs of issue  | -                | (2,670,206) |
| Ordinary shares on issue at 30 June 2018 - fully paid | 808,482,230      | 103,105,128 |

### 2018

During the year ended 30 June 2018 the Group issued 455,793,411 shares for cash totalling \$73,908,362. There were no amounts unpaid on the shares issued and share issue costs amounted to \$2,670,206. In addition to the cash issues the Group had the following share based payment arrangements:

#### *Settlement of liabilities*

29,408,347 shares were issued as full settlement of liabilities owing totalling \$4,726,974. This included the following:

- Repayment of Swift Capital loan and related liabilities: \$1,600,000 settled through the issue of 10,000,000 \$0.16 shares (see note 12).
- Repayment of related party loans: \$1,396,788 settled through the issue of 8,594,681 shares. This includes 6,898,239 \$A0.213 shares and 1,696,442 \$0.16 shares (see note 17)
- Payment of creditors: \$1,730,187 of creditor balances were settled through the issues of 10,813,666 \$0.16 shares.

#### *Director and employee payments*

As noted in Note 17 the Directors received a one-off payment in recognition of their efforts in respect of the pre-IPO capital raise in December 2017. The approved payment totaled A\$976,000 (excluding GST). The payment of A\$1,057,600 (including GST) was converted to \$851,368 using the rate of 80.5c and settled through the issue of shares on 31 January 2018 at the pre-IPO capital raising price of US\$0.16 per share.

Bonus payments totalling \$100,625 were granted to employees of the Group in recognition of their efforts in respect of the pre-IPO capital raise in December 2017. The payments were settled through the issue of 628,906 shares with an issue price of \$0.16.

### 2017

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

#### *Options*

There were no options granted, exercised or lapsed unexercised during the year ended 30 June 2018 or year ended 30 June 2017.

#### *Dividends*

There were no dividends paid or declared during the year ended 30 June 2018 or year ended 30 June 2017.

#### *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.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 15 - INVESTMENT IN HENGJAYA HOLDINGS PRIVATE LIMITED

In April 2018, following successful completion of the Company's pre-IPO capital raising, the Group acquired 25% of the issued share capital of Hengjaya Holdings Private Limited (Hengjaya Holdings), a Singaporean holding company which holds 100% of the shares (directly and indirectly) of PT Hengjaya Nickel Industry (Hengjaya Nickel), which is an Indonesian PMA Company which will own and operate the RKEF Project once completed (subject to relevant regulatory approvals).

As governed by the Collaboration and Subscription Agreement (CSA), the Company has provided the aggregate of \$50 million received from Shanghai Decent and Wanlu by way of a shareholder loan to Hengjaya Holdings. Hengjaya Holdings has in turn advanced these funds to Hengjaya Nickel for construction of the RKEF Project. There are no repayment terms and the Group does not intend to charge interest on the shareholder loan advanced to Hengjaya Holdings. As such, the monies advanced have been accounted for as part of the cost of acquiring the 25% interest in Hengjaya Holdings.

The construction of the RKEF plant has commenced. Under the CSA the balance of the capital costs shall be funded by Shanghai Decent through shareholder loans. The total cost has been guaranteed by Shanghai Decent to not exceed \$200 million. At 30 June 2018 there were no funds advanced by Shanghai Decent.

At 30 June 2018 the investment is accounted for as an equity accounted investment. There was no profit or loss incurred by the associate for the period 27 April 2018 to 30 June 2018.

|   | 2018              | 2017     |
|---|-------------------|----------|
|   | \$                | \$       |
| Hengjaya Holdings Private Limited – 25% | 50,000,025        | -        |
|   | <u>50,000,025</u> | <u>-</u> |

Following successful completion of the Company's IPO the Board has approved the acquisition of a further 35% interest in Hengjaya Holdings to increase its interest to 60%. The Company will pay \$70 million to Shanghai Decent in cash to acquire the additional 35% interest. The acquisition of the additional 35% interest was approved by the Board on 31 August 2018, see note 24.

## NOTE 16 - CONTROLLED ENTITIES

Particulars in relation to controlled entities:

|   | Ordinary shares – Group<br>interest<br>2018<br>\$ | Ordinary shares – Group<br>interest<br>2017<br>\$ |
|---|---|---|
| <i>Parent entity</i>                                |   |   |
| Nickel Mines Limited                                |   |   |
| <i>Controlled entities</i>                          |   |   |
| PT Hengjaya Mineralindo (incorporated in Indonesia) | 80  | 80  |

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 17 - RELATED PARTIES

### Key Management Personnel compensation

|                              | 2018    | 2017    |
|------------------------------|---------|---------|
|                              | \$      | \$      |
| Short term employee benefits | 213,131 | 113,130 |
| Share based payments         | 761,476 | -       |
|                              | 974,607 | 113,130 |

The key management personnel compensation comprises the following:

- The directors, Justin Werner, Peter Nightingale and Norman Seckold were compensated \$213,131 for their services during the year ended 30 June 2018 (2017 – Justin Werner, \$113,131) for directors fees. At 30 June 2018 \$13,263 remained outstanding (2017: \$324,719 outstanding).
- Peter Nightingale, Norman Seckold and James Crombie received a one-off payment following the successful capital raise. The total approved payment was for A\$976,000 (excluding GST) in recognition of the services they have provided leading up to the pre-IPO capital raise. The expense of \$761,476 was accrued at 31 December 2017 and converted to USD using a rate of 78c. The payment of A\$1,057,600 (including GST) was converted to \$851,368 using the rate of 80.5c and settled through the issue of shares on 31 January 2018 at the pre-IPO capital raising price of US\$0.16 per share.

No other key management personnel were remunerated for their services during the year ended 30 June 2018 or year ended 30 June 2017.

### Key Management Personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or joint control over the financial or operating policies of those entities.

A number of these entities transacted with the Group during the year. The aggregate value of transactions and outstanding balances (excluding the compensation noted above) relating to key management personnel and entities over which they have control or joint control were as follows:

| Key management personnel | Transaction       |       | Expense |         | Balance outstanding |           |
|--------------------------|-------------------|-------|---------|---------|---------------------|-----------|
|                          |                   |       | 2018    | 2017    | 2018                | 2017      |
|                          |                   |       | \$      | \$      | \$                  | \$        |
| Norman Seckold           | Loan and interest | (i)   | 14,149  | -       | -                   | 549,476   |
| Justin Werner            | Loan and interest | (ii)  | 7,727   | 189,078 | -                   | 385,185   |
| Peter Nightingale        | Loan and interest | (iii) | 6,257   | 64,669  | -                   | 158,909   |
|                          |                   |       | 28,133  | 253,747 | -                   | 1,093,570 |

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 17 - RELATED PARTIES (Con't)

- (i) At 30 June 2017 the loans owing by the Company to entities related to Norman Seckold comprised principal and accrued interest of A\$114,048 and \$246,977. 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. In addition at 30 June 2017 \$186,710 was owed by the Group's subsidiary, PT Hengjaya which had an applicable interest a rate of 15% p.a.. On 31 December 2017 the loans payable were settled in full through the issue of 3,472,776 shares in the Company on the same terms as the pre-IPO raising.
- (ii) At 30 June 2017 the loans owing by the Company to an entity related to Justin Werner comprised principal and accrued of A\$33,000 and \$169,977. 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. In addition, \$186,710 was owed by the Group's subsidiary PT Hengjaya which had an applicable interest rate of 15% p.a. On 31 December 2017 the loans payable were settled in full through the issue of 2,416,806 shares in the Company on the same terms as the pre-IPO raising.
- (iii) At 30 June 2017 the loan owing by the Company to an entity related to Peter Nightingale, had a principal and accrued interest balance of A\$176,000. The loan was 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. On 31 December 2017 the loan payable was settled in full through the issue of 1,008,656 shares in the Company on the same terms as the pre-IPO raising.

| Other related parties     | Transaction             |      | Expense |         | Balance outstanding |         |
|---------------------------|-------------------------|------|---------|---------|---------------------|---------|
|                           |                         |      | 2018    | 2017    | 2018                | 2017    |
|                           |                         |      | \$      | \$      | \$                  | \$      |
| MIS Corporate Pty Limited | Loan and interest       | (iv) | 11,199  | 21,600  | -                   | 266,596 |
| MIS Corporate Pty Limited | Administration services | (iv) | 219,431 | 280,055 | 37,950              | 483,568 |
|                           |                         |      | 230,630 | 301,655 | 37,950              | 750,164 |

- (iv) Peter Nightingale and Norman Seckold hold 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. On 1 July 2017 MIS agreed to provide these services for a fee of A\$15,000 per month. This fee will be reviewed quarterly by the Company and MIS. Fees charged by MIS during the year amounted to A\$279,452 (2017 - A\$371,325) which included the agreed monthly fee and the reimbursement of consultant expenses incurred by MIS on behalf of the Group. At 30 June 2018 A\$51,346 (30 June 2017: A\$629,236) remained outstanding and was included in the creditor's balance. In addition to the creditor balance the Company had outstanding loan balance owing to MIS at 30 June 2017 of \$266,596. The loan was denominated in Australian dollars, unsecured and at call. Interest was calculated at a rate of 10% p.a. from the date funds were advanced. On 31 December 2017 the loan balance was repaid in full through the issue of 1,696,442 shares in the Company on the same terms as the pre-IPO raising.

Apart from the details disclosed in this note, no Director or other related party 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

|  | 2018<br>\$                  | 2017<br>\$               |                      |
|--|-----------------------------|--------------------------|----------------------|
| <b>NOTE 18 - STATEMENT OF CASH FLOWS</b>   |                             |                          |                      |
| <b>(a) Reconciliation of cash and cash equivalents</b>   |                             |                          |                      |
| 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  | 806,574                     | 278,775                  |                      |
| <b>(b) Reconciliation of net loss from ordinary activities after tax to net cash used in operating activities</b>  |                             |                          |                      |
| Loss from ordinary activities after tax  | (2,926,833)                 | (3,738,494)              |                      |
| <i>Non-cash items</i>  |                             |                          |                      |
| Depreciation and amortisation  | 64,425                      | 50,337                   |                      |
| Foreign exchange loss/(gain)   | (620,213)                   | 14,903                   |                      |
| Interest expense and loss on extinguished liabilities  | 642,213                     | 417,133                  |                      |
| Net change in fair value of financial liabilities  | 407,782                     | 120,859                  |                      |
| <i>Changes in assets and liabilities</i>   |                             |                          |                      |
| Trade receivables and other assets   | (731,737)                   | 545,871                  |                      |
| Inventory  | 370,608                     | (529,108)                |                      |
| Provisions   | 197,546                     | 163,721                  |                      |
| Trade and other payables   | (5,651,832)                 | 3,039,457                |                      |
| <b>Net cash used in operating activities</b>   | <b>(8,248,041)</b>          | <b>84,679</b>            |                      |
| <b>(c) Reconciliation of movements of liabilities to cash flows arising from financing activities</b>  |                             |                          |                      |
|  | <b>Liabilities</b>          | <b>Equity</b>            |                      |
|  | <b>Loans and borrowings</b> | <b>Convertible notes</b> | <b>Share capital</b> |
|  |                             |                          | <b>Total</b>         |
| <b>Opening balance at 1 July 2017</b>  | <b>9,511,190</b>            | <b>4,020,859</b>         | <b>26,188,005</b>    |
| <i>Changes from financing activities</i>   |                             |                          |                      |
| Proceeds from issue of shares  | -                           | -                        | 73,908,362           |
| Costs of issue   | -                           | -                        | (1,770,206)          |
| Repayment of borrowings and convertible notes  | (8,753,905)                 | (4,428,641)              | -                    |
| <b>Total changes from financing cash flows</b>   | <b>(8,753,905)</b>          | <b>(4,428,641)</b>       | <b>72,138,156</b>    |
| <i>Other changes</i>   |                             |                          |                      |
| The effect of changes in foreign exchange rates  | (2,710)                     | -                        | -                    |
| Costs of issue (settled in shares)   | -                           | -                        | (900,000)            |
| Finance expenses   | 642,213                     | 407,782                  | -                    |
| Creditors settled in shares  | -                           | -                        | 3,330,187            |
| Related party borrowings settled in shares   | (1,396,788)                 | -                        | 1,396,788            |
| Director and employee payments settled in shares   | -                           | -                        | 951,992              |
| <b>Total other changes</b>   | <b>757,285</b>              | <b>407,782</b>           | <b>4,778,967</b>     |
| <b>Closing balance at 30 June 2018</b>   | <b>-</b>                    | <b>-</b>                 | <b>103,105,128</b>   |



# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## 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:

|                             |    | 2018             | 2017           |
|-----------------------------|----|------------------|----------------|
|                             |    | \$               | \$             |
| Cash and cash equivalents   | 18 | 806,574          | 278,775        |
| Trade and other receivables | 6  | 387,412          | 288,689        |
|                             |    | <u>1,193,986</u> | <u>567,464</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 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## 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.

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

| <b>Consolidated</b>                   | <b>Carrying<br/>amount<br/>\$</b> | <b>Contractual<br/>cash flows<br/>\$</b> | <b>Less than<br/>one year<br/>\$</b> | <b>Between one<br/>and five years<br/>\$</b> | <b>More than<br/>five years<br/>\$</b> |
|---------------------------------------|-----------------------------------|--|--------------------------------------|--|--|
| <b>30 June 2018</b>                   |                                   |  |                                      |  |  |
| Trade and other payables              | 3,512,856                         | 3,512,856                                | 3,512,856                            | -  | -                                      |
|                                       | <u>3,512,856</u>                  | <u>3,512,856</u>                         | <u>3,512,856</u>                     | <u>-</u>                                     | <u>-</u>                               |
| <b>30 June 2017</b>                   |                                   |  |                                      |  |  |
| 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                      | 4,020,859                         | 4,262,111                                | 4,262,111                            | -  | -                                      |
| Deferred project acquisition payments | 2,800,000                         | 2,800,000                                | 2,800,000                            | -  | -                                      |
| Total liabilities                     | <u>26,219,360</u>                 | <u>26,537,956</u>                        | <u>18,386,932</u>                    | <u>8,151,024</u>                             | <u>-</u>                               |

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 2018 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 19 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

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

|                          | 2018               |             | 2017               |               |
|--------------------------|--------------------|-------------|--------------------|---------------|
|                          | Foreign currency   | USD         | Foreign currency   | USD           |
| <b>IDR</b>               |                    |             |                    |               |
| Cash at bank             | IDR 10,220,318,341 | \$709,547   | IDR 3,625,004,373  | \$272,107     |
| Accounts receivable      | IDR 5,295,797,056  | \$367,662   | IDR 3,237,502,516  | \$243,019     |
| Other current assets     | IDR 4,082,905,254  | \$283,456   | IDR 1,753,618,468  | \$131,633     |
| Provisions               | IDR 10,999,001,109 | (\$763,607) | IDR 7,541,074,684  | (\$566,062)   |
| Taxes payable            | IDR 6,095,274,009  | (\$423,165) | IDR 3,384,324,705  | (\$254,040)   |
| Trade and other payables | IDR 6,013,820,947  | (\$417,510) | IDR 59,935,532,760 | (\$4,498,989) |
| <b>AUD</b>               |                    |             |                    |               |
| Cash at bank             | A\$24,969          | \$18,489    | A\$267             | \$205         |
| Receivables              | A\$15,248          | \$11,291    | A\$5,258           | \$4,041       |
| Prepayments              | A\$652,870         | \$483,451   | -                  | -             |
| Borrowings               | -                  | -           | A\$726,660         | (\$558,438)   |
| Trade and other payables | A\$545,340         | (\$403,824) | A\$1,308,429       | (\$1,005,528) |
| Tax provisions payable   | -                  | -           | A\$514,986         | (\$395,767)   |

The following significant exchange rates applied during the year:

| USD | Average rate |        | Reporting date spot rate |        |
|-----|--------------|--------|--------------------------|--------|
|     | 2018         | 2017   | 2018                     | 2017   |
| IDR | 13,608       | 13,258 | 14,404                   | 13,322 |
| AUD | 1.2913       | 1.3259 | 1.3504                   | 1.3012 |

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

At 30 June 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<br>(Higher)/Lower | Total equity (Higher)/<br>Lower | Post tax loss<br>(Higher)/Lower | Total equity (Higher)/<br>Lower |
|---------------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|                                       | 2018<br>\$                      | 2018<br>\$                      | 2017<br>\$                      | 2017<br>\$                      |
| + 10% higher USD to IDR exchange rate | 128,359                         | 128,359                         | 467,233                         | 467,233                         |
| - 5% lower USD to IDR exchange rate   | (64,180)                        | (64,180)                        | (233,617)                       | (233,617)                       |
| + 10% higher USD to AUD exchange rate | 19,952                          | 19,952                          | 191,789                         | 191,789                         |
| - 5% lower USD to AUD exchange rate   | (9,976)                         | (9,976)                         | (95,895)                        | (95,895)                        |

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 19 - FINANCIAL INSTRUMENTS DISCLOSURE (Con't)

### 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:

|                           |    | 2018    | 2017    |
|---------------------------|----|---------|---------|
| <b>Financial assets</b>   |    |         |         |
| Cash and cash equivalents | 19 | 806,574 | 278,775 |

### 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.

|                   | 2018    | 2017    |
|-------------------|---------|---------|
|                   | \$      | \$      |
| Loss for the year | (5,427) | (2,485) |

### 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.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 20 - PARENT ENTITY DISCLOSURE

As at, and throughout the financial year ended 30 June 2018 the parent entity of the Group was Nickel Mines Limited.

|  | Parent Entity<br>2018<br>\$ | Parent Entity<br>2017<br>\$ |
|--|-----------------------------|-----------------------------|
| <b>Result of the parent entity</b>                         |                             |                             |
| Net profit/(loss)  | (4,850,295)                 | (4,204,832)                 |
| Other comprehensive income                                 | -                           | -                           |
| Total comprehensive profit/(loss)                          | <u>(4,850,295)</u>          | <u>(4,204,832)</u>          |
| <b>Financial position of the parent entity at year end</b> |                             |                             |
| Current assets   | 597,847                     | 4,398                       |
| Non-current assets   | 64,468,529                  | 10,590,822                  |
| Total assets   | <u>65,066,376</u>           | <u>10,595,220</u>           |
| Current liabilities  | 494,917                     | 9,939,565                   |
| Non-current liabilities                                    | -                           | 8,151,024                   |
| Total liabilities  | <u>494,917</u>              | <u>18,090,589</u>           |
| <b>Net Assets/(Liabilities)</b>                            | <u>64,571,459</u>           | <u>(7,495,369)</u>          |
| <b>Equity</b>  |                             |                             |
| Share Capital  | 103,105,128                 | 26,188,005                  |
| Accumulated losses   | (38,533,669)                | (33,683,374)                |
| <b>Total Equity</b>  | <u>64,571,459</u>           | <u>(7,495,369)</u>          |

At balance sheet date the company has no capital commitments or contingencies (2017 - \$nil).



# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## 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 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 2018, the Group had two segments, being mine development in Indonesia and the RKEF Project in Indonesia.

|   | Indonesia -<br>Mine Development<br>\$ | Indonesia -<br>RKEF Project<br>\$ | Unallocated<br>\$ | Total<br>\$  |
|---|---------------------------------------|-----------------------------------|-------------------|--------------|
| <b>30 June 2018</b>                         |                                       |                                   |                   |              |
| External revenues                           | 13,551,416                            | -                                 | -                 | 13,551,416   |
| Reportable segment loss/(profit) before tax | (2,579,722)                           | -                                 | 4,850,294         | 2,270,572    |
| Interest income                             | 25,103                                | -                                 | 30,574            | 55,677       |
| Interest expense                            | 21,818                                | -                                 | 293,995           | 315,813      |
| Depreciation and amortisation               | 64,401                                | -                                 | 24                | 64,425       |
| Reportable segment assets                   | 28,823,304                            | 50,000,025                        | 597,847           | 79,421,176   |
| Reportable segment liabilities              | (3,781,545)                           | -                                 | (494,917)         | (4,276,462)  |
| <b>30 June 2017</b>                         |                                       |                                   |                   |              |
| 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) |

The Group's external revenue is generated under the ore supply agreements with Tsingshan Group companies.

# Notes to the Consolidated Financial Statements

For the year ended 30 June 2018

## NOTE 22 - AUDITOR REMUNERATION

During the year ended 30 June 2018 KPMG, the Company's auditor, has 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:

|  | 2018    | 2017   |
|--|---------|--------|
|  | \$      | \$     |
| <i>Auditors of the Company</i>                         |         |        |
| Audit and review of financial reports – KPMG Australia | 47,196  | 66,546 |
| Audit and review of financial reports – KPMG Indonesia | 41,571  | 33,430 |
| <i>Services other than statutory audit</i>             |         |        |
| Taxation services in relation to IPO                   | 7,545   | -      |
| Investigating Accountant's services in relation to IPO | 35,884  | -      |
|  | 132,196 | 99,976 |

## NOTE 23 - SUBSEQUENT EVENTS

On 20 August 2018 the Group listed on the Australian Stock Exchange (ASX). The ASX listing was on completion of a successful capital raise which raised A\$200 million through the issues of approximately 571.4 million new shares. In accordance with the prospectus dated 7 August 2018 the Company provided notice to Shanghai Decent on 31 August 2018 of its election to acquire an additional 35% interest in share capital of Hengjaya Holding Private Limited. Consideration is the payment of \$70 million to Shanghai Decent. As a consequence of this the Company's interest in the RKEF project will also increase by 35% to 60%.

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 24 - COMMITMENTS AND CONTINGENCIES

Under the terms of the Collaboration and Subscription Agreement with Shanghai Decent and Shanghai Wanlu, the Company agreed to purchase and Decent agreed to sell no less than 26% and not more than 35% of the issued capital of Hengjaya Holding Private Limited. On 30 August 2018 the Company provided notice to Shanghai Decent of its election to acquire an additional 35% interest in share capital of Hengjaya Holding Private Limited through the payment of \$70 million to Shanghai Decent.

There are no contingent liabilities existing at 30 June 2018 (2017: Nil).

# Directors' Declaration

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

- (a) the consolidated financial statements and notes set out on pages 18 to 48 and the Remuneration report on pages 12 to 15 in the Directors' report, 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 2018 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 August 2018

in accordance with a resolution of the Board of Directors:



Robert Neale  
Chairman



Norman Seckold  
Deputy Chairman

# Independent Auditor's Report



## Independent Auditor's Report

To the shareholders of Nickel Mines Limited

### Report on the audit of the Financial Report

#### 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 2018 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 2018;
- 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.



## Key Audit Matters

The **Key Audit Matters** we identified are:

- Accounting for the investment in equity accounted associate
- Going concern basis of accounting

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Accounting for the investment in equity accounted associate (\$50,000,025)

Refer to Note 15 Investment in Hengjaya Holdings Private Limited

| The key audit matter  | How the matter was addressed in our audit  |
|---|--|
| <p>The Group's investment in the equity accounted associate, Hengjaya Holdings Private Limited (Hengjaya Holdings) represents a significant transaction for the Group.</p> <p>This was a key audit matter specifically due to the following:</p> <ul style="list-style-type: none"> <li>• Size of the transaction: The Group's 25% interest in Hengjaya Holdings represented 63% of total assets of the Group at year end. The transaction included \$50,000,000 advanced to Hengjaya Holdings by way of shareholder loan; and</li> <li>• Complexity: The acquisition was part of the Collaboration and Subscription Agreement (CSA) with Shanghai Decent Investment (Group) Co., Ltd. (Shanghai Decent) and Shanghai Wanlu Investment Co., Ltd (Wanlu). The terms and conditions of the CSA were complex and the implications had pervasive impacts on the financial report. We focused on: <ul style="list-style-type: none"> <li>- the substance of the transaction, against the requirements of the accounting standards, including assessing the \$50,000,000 advanced as either a loan receivable or equity accounted associate. The Hengjaya Holdings Shareholder Loan Agreement details further terms in</li> </ul> </li> </ul> | <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• Reading the CSA to understand the key terms and conditions of the agreement and the obligations of each entity party to the contract;</li> <li>• Checking the completeness of the nature of the Group's obligations required by the CSA. We assessed the existence of triggering conditions of the obligations to underlying events of the Group and our understanding of the business. We compared these to the criteria for recording liabilities and recognising assets in the accounting standards;</li> <li>• Working with our valuation specialists we challenged the Group's fair value assessment. Of specific note was the financial instruments granted under the CSA. We did this by calculating a fair value using comparable market data and comparing it to the value derived by the Group;</li> <li>• Assessing the appropriateness of the Group's accounting treatment of its interest in Hengjaya Holdings against the criteria in the accounting standards. We read the Shareholder Loan Agreement to understand the terms under which the funds were advanced. We assessed the features of these terms, combined with our understanding of the terms of the CSA, against the criteria in the accounting standards for consistency to either loan receivable or equity accounted associate accounting;</li> <li>• Checking the cash payments for the transaction to the bank records of the Group agreed to the cost recorded and the total agreed in the CSA;</li> <li>• Obtaining the accounting records of the equity accounted associate and recalculating the Group's</li> </ul> |

# Independent Auditor's Report



|   |   |
|---|---|
| <p>relation to the \$50,000,000 advanced to Hengjaya Holdings;</p> <ul style="list-style-type: none"> <li>- further potential accounting implications, in particular unrecorded obligations, of the terms and conditions of the CSA and their treatment by the Group.</li> </ul> <p>These conditions required significant audit effort and greater involvement by senior team members and KPMG valuation specialists.</p> | <p>share of the associate's losses for the period. We performed additional procedures on the key underlying accounting records of the associate, including checking a sample of significant transactions recorded to the associate's bank records;</p> <ul style="list-style-type: none"> <li>• Evaluating the Group's disclosures in the financial report against the requirements of the accounting standards and our understanding of the terms and conditions of the CSA and Shareholder Loan Agreement.</li> </ul> |
|---|---|

| Going concern basis of accounting   |   |
|---|---|
| Refer to Note 2 Basis of preparation  |   |
| The key audit matter  | How the matter was addressed in our audit   |
| <p>The Group's use of the going concern basis of accounting and the associated extent of uncertainty is a key audit matter due to the status of initiatives during the audit, including the following:</p> <ul style="list-style-type: none"> <li>• The negative net current asset position of the Group prior to the completion of the IPO in August 2018;</li> <li>• The existence of the Group's conditional obligation to acquire an additional interest in Hengjaya Holdings on successful completion of the IPO and the funding options to achieve this. This obligation is outlined in the CSA;</li> <li>• The status and size of the funds from the IPO.</li> </ul> <p>The above conditions increased our audit effort in this key audit area.</p> <p>The Directors have determined that the use of the going concern basis of accounting is appropriate in preparing the financial report. Their assessment of going concern was based on cash flow projections. The preparation of these projections incorporated a number of assumptions and judgements, in particular as they related to the securing of additional funding from the IPO proceeds</p> | <p>Our procedures included:</p> <p>Reading the CSA to understand the key terms of the agreement and the obligations of each entity party to the contract, particularly as they relate to forecast cash flows;</p> <ul style="list-style-type: none"> <li>• Analysing the cash flow projections by: <ul style="list-style-type: none"> <li>- Evaluating the underlying data used to generate the projections. We specifically looked for their consistency with the Group's intentions, as outlined in Directors minutes, market announcements and post year end events (i.e. the IPO);</li> <li>- checking the receipt of proceeds from IPO post year end to the Group's bank records;</li> <li>- Assessing the planned levels of operating expenditures for consistency of relationships and trends to the Group's historical results, impact of the investment in Hengjaya Holdings, results since year end, and our understanding of the business, industry and economic conditions of the Group in light of the operational changes post-IPO;</li> <li>- Assessing their consistency with the CSA regarding the obligation to acquire an additional interest in Hengjaya;</li> </ul> </li> <li>• Evaluating the Group's repayment of pre-CSA liabilities with reference to loan extinguishment</li> </ul> |





|  |   |
|--|---|
| <p>post year end and to meet the CSA obligations relating to the additional interest in Hengjaya Holdings. The Directors have concluded that the range of possible outcomes considered in arriving at this conclusion does not give rise to a material uncertainty casting significant doubt on the Group's ability to continue as a going concern.</p> <p>We critically assessed the levels of uncertainty, as it related to the Group's ability to continue as a going concern. Our focus was on:</p> <ul style="list-style-type: none"> <li>• the Group's planned levels of operational and capital expenditures, and the ability of the Group to manage cash outflows within available funding, particularly in light of the recent investment in Hengjaya Holdings;</li> <li>• the contractual commitments associated with the acquisition;</li> <li>• funds received from the capital raising post year end; and</li> <li>• further events occurring subsequent to balance date and the Group's obligations following the successful listing on the Australian Stock Exchange.</li> </ul> <p>We also considered the activities undertaken by the Group as required under the CSA with Shanghai Decent and Wanlu. The CSA required the Group be debt free and we focused on the settlement of liabilities which existed at 30 June 2017 through both share based payments and cash payments to extinguish all obligations under the original financing arrangements.</p> <p>These conditions required significant audit effort and greater involvement by senior members of the audit team.</p> | <p>documentation, such as repayment agreements and cash records;</p> <ul style="list-style-type: none"> <li>• Evaluating the Group's disclosures in the financial report in relation to the CSA and the subsequent events by comparing them to our understanding of the agreement. We assessed the compliance of the disclosures with the disclosure requirements of the accounting standards.</li> </ul> |
|--|---|

# Independent Auditor's Report



## 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, with the exception of the Remuneration Report and our related assurance opinion.

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 and whether the use of the going concern basis of accounting is appropriate. 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 the 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\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Nickel Mines Limited for the year ended 30 June 2018, complies with *Section 300A of the Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included in pages 12 to 15 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Adam Twemlow

*Partner*

Brisbane

31 August 2018

## Additional ASX Information

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at 20 August 2018.

### Distribution of Equity Securities

| Range             | ORDINARY SHARES   |                  |
|-------------------|-------------------|------------------|
|                   | Number of Holders | Number of Shares |
| 1 to 1,000        | 1                 | 432              |
| 1,001 to 5,000    | 6                 | 15,849           |
| 5,001 to 10,000   | 6                 | 50,355           |
| 10,001 to 100,000 | 351               | 18,533,829       |
| Above 100,001     | 313               | 1,369,395,159    |
|                   | 677               | 1,387,995,624    |

The number of shareholders holding less than a marketable parcel is nil.

### Twenty Largest Shareholders

The names of the twenty largest holders of quoted shares are:

| N°                     | ORDINARY SHARES<br>SHAREHOLDER   | N° OF SHARES         | TOTAL        |
|------------------------|--|----------------------|--------------|
|                        |  |                      | %            |
| 1                      | HSBC Custody Nominees (Australia) Limited                                | 213,545,743          | 15.39        |
| 2                      | Shanghai Decent Investment (Group) Co Ltd                                | 161,696,446          | 11.65        |
| 3                      | Shanghai Wanlu Investment Co Ltd   | 149,258,258          | 10.75        |
| 4                      | Altinova Nominees Pty Limited  | 66,104,526           | 4.76         |
| 5                      | Permgold Pty Ltd <The Seckold Super Fund A/C>                            | 57,611,135           | 4.15         |
| 6                      | CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>              | 50,057,674           | 3.61         |
| 7                      | Morgan Stanley Australia Securities (Nominee) Pty Limited <No 1 Account> | 37,824,551           | 2.73         |
| 8                      | HSBC Custody Nominees (Australia) Limited – A/C 2                        | 32,464,396           | 2.35         |
| 9                      | QFSD International Co Limited  | 30,571,429           | 2.20         |
| 10                     | CS Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11A/C>              | 27,857,144           | 2.01         |
| 11                     | QHCZ International Co Limited  | 26,571,429           | 1.91         |
| 12                     | Bellambi Enterprises Limited   | 25,016,297           | 1.80         |
| 13                     | Brispot Nominees Pty Ltd <House Head Nominee A/C>                        | 25,000,000           | 1.80         |
| 14                     | Citicorp Nominees Pty Limited  | 23,512,506           | 1.69         |
| 15                     | Peng Lim Oon   | 21,487,143           | 1.55         |
| 16                     | Rosignol Pty Ltd <Nightingale Family A/C>                                | 19,616,200           | 1.41         |
| 17                     | HSBC Private Banking Nominee 1 (Jersey) Limited                          | 18,268,510           | 1.32         |
| 18                     | UBS Nominees Pty Ltd   | 16,692,984           | 1.20         |
| 19                     | CO2 Capital Private Limited  | 13,709,822           | 0.99         |
| 20                     | Bell Potter Nominees Ltd <BB Nominees A/C>                               | 12,857,143           | 0.93         |
| <b>Total in Top 20</b> |  | <b>1,029,723,336</b> | <b>74.19</b> |

# Additional ASX Information

## Substantial Shareholders

Substantial shareholders and the number of equity securities in which it has an interest, as shown in the Company's Register of Substantial Shareholders is:

| <b>Shareholder</b>                        | <b>N° of Shares<br/>Held</b> | <b>% of Issued<br/>Shares</b> |
|---|------------------------------|-------------------------------|
| Shanghai Decent Investment (Group) Co Ltd | 161,696,446                  | 11.65%                        |
| Shanghai Wanlu Investment Co Ltd          | 149,258,258                  | 10.75%                        |
| BlackRock Group                           | 137,890,000                  | 9.93%                         |
| Norman Alfred Seckold                     | 123,715,661                  | 8.91%                         |

## Class of Shares and Voting Rights

The voting rights attached to ordinary shares, as set out in the Company's Constitution, are that every member in person or by proxy, attorney or representative, shall have one vote when a poll is called, otherwise each member present at a meeting has one vote on a show of hands.

## Tenement Schedule

| <b>Project</b>   | <b>Tenement number</b>     | <b>Interest %</b> |
|------------------|----------------------------|-------------------|
| Hengjaya Project | 540-3/SK.001/DESDM/VI/2011 | 80%               |

# Corporate Directory

## Directors:

Robert Neale  
Norman Seckold  
James Crombie  
Weifeng Huang  
Mark Lichtenberg  
Peter Nightingale  
Justin Werner  
Yuanyuan Xu

## Company Secretary:

Richard Edwards

## Principal Place of Business and Registered Office:

Level 2, 66 Hunter Street  
SYDNEY NSW 2000  
Phone: 61-2 9300 3311  
Fax: 61-2 9221 6333  
Email: [info@nickelmines.com.au](mailto:info@nickelmines.com.au)  
Website: [www.nickelmines.com.au](http://www.nickelmines.com.au)

## Auditors:

KPMG  
Level 16, Riparian Plaza  
71 Eagle Street  
BRISBANE QLD 4000



