

NICKEL

MINES LIMITED

ACN 127 510 589

ASX Release: 30 April 2019

ASX: NIC

Shares on issue: 1.388B

Market capitalisation: \$583M

Board of Directors

Non-Executive Chairman
Rob Neale

Executive Deputy Chairman
Norman Seckold

Managing Director
Justin Werner

Executive Director and CFO
Peter Nightingale

Non-Executive Director
James Crombie

Non-Executive Director
Mark Lochtenberg

Non-Executive Director
Weifeng Huang

Non-Executive Director
YuanYuan Xu

Substantial Shareholders

Shanghai Decent	11.6%
Shanghai Wanlu	10.8%
Blackrock	9.9%
Norman Seckold	8.9%
Regal FM	5.1%

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QUARTERLY ACTIVITIES REPORT

For the quarter ended 31 March 2019

The Directors of Nickel Mines Limited ('Nickel Mines' or the 'Company') are pleased to provide the following activities report for the quarter ended 31 March 2019.

Highlights

- **First NPI produced from the Company's 60% owned Hengjaya Nickel Project less than 12 months from breaking ground.**
- **The first line of the Hengjaya Nickel Project now operating at > 80% of nameplate capacity.**
- **Ranger Nickel Project construction near complete with the first line expected commissioning in early May 2019.**
- **Material corporate income tax relief granted by the Indonesian Government to the Company's 17% owned Ranger Nickel Project.**
- **Mine expansion initiatives at the Company's 80% owned Hengjaya Mine well advanced.**
- **Subsequent to the end of the quarter, intention to increase ownership of Ranger Nickel to 60%.**
- **US\$160M financing proposal announced.**



NPI production from the Hengjaya Nickel Project

IMIP Operations

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

First NPI from Hengjaya Nickel Project

On 31 January 2019, Shanghai Decent, the Company's operating partner and 40% equity holder in the Hengjaya Nickel Project advised that the first nickel pig iron ('NPI') had been produced from the first of Hengjaya Nickel's two rotary kilns in a maiden production run. On 18 March 2019 the second Hengjaya Nickel kiln also commenced commissioning and produced its first NPI.

Commencement of production at Hengjaya Nickel during the quarter was a milestone for the Company, achieved less than 12 months after ground was broken at the project and is further evidence of Tsingshan's industry-leading ability to deliver a project in record time and a testament to their commitment, professionalism and work ethic.

The commissioning process and production ramp-up is consistent with that previously implemented across the 20 existing RKEF lines currently in operation within the IMIP with greater than 80% of name plate production capacity now being achieved from the first line.

The Company is pleased to report the following operating results for the first 2 months of commissioning with both RKEF lines continuing to ramp up to their steady state production and operating cost profiles.

		January [^]	February	March [*]	Quarter Total
NPI Production	tonnes	67.5	1,802.6	6,502.2	8,372.3
NPI Grade	%	11.6	12.7	13.1	13.0
Nickel Metal Production	tonnes	7.9	229.9	852.4	1,090.2
IMIP NPI Pricing[#]	US\$/t LME Ni	12,800	12,800	12,800	12,800 ^{##}
All in Cost^{**}	US\$/t				8,246

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

^{*} March quarter numbers include 1,516.9 tonnes of NPI and 190.9 tonnes of nickel metal from kiln #2 which commenced operation on 18 March 2019.

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

^{##} The average LME nickel price over the March quarter was US\$12,930/t.

^{**} All in Cost is inclusive of depreciation and interest of US\$598/t.

During the transition from construction to commissioning, some operating costs may have been classified as capital costs and vice versa.

Subsequent to the end of the quarter, the Hengjaya Nickel commissioning process has continued with improving production performance from each kiln.

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

Construction Update

During the March quarter, Shanghai Decent advised that an expedited schedule will now see the first kiln of the Company's 17% owned Ranger Nickel Project now scheduled to commence commissioning in early May 2019 with the second kiln to commence commissioning about 45 days later.



Construction progress at the Ranger Nickel Project



Lining of the Ranger Nickel rotary kilns with refractory brick

Corporate Income Tax Relief for Ranger Nickel

During the March quarter, the Minister of Finance of the Republic of Indonesia granted the Company’s Indonesian operating entity, PT Ranger Nickel Industry (‘Ranger Nickel’), material corporate income tax relief for its 17% owned Ranger Nickel Project.

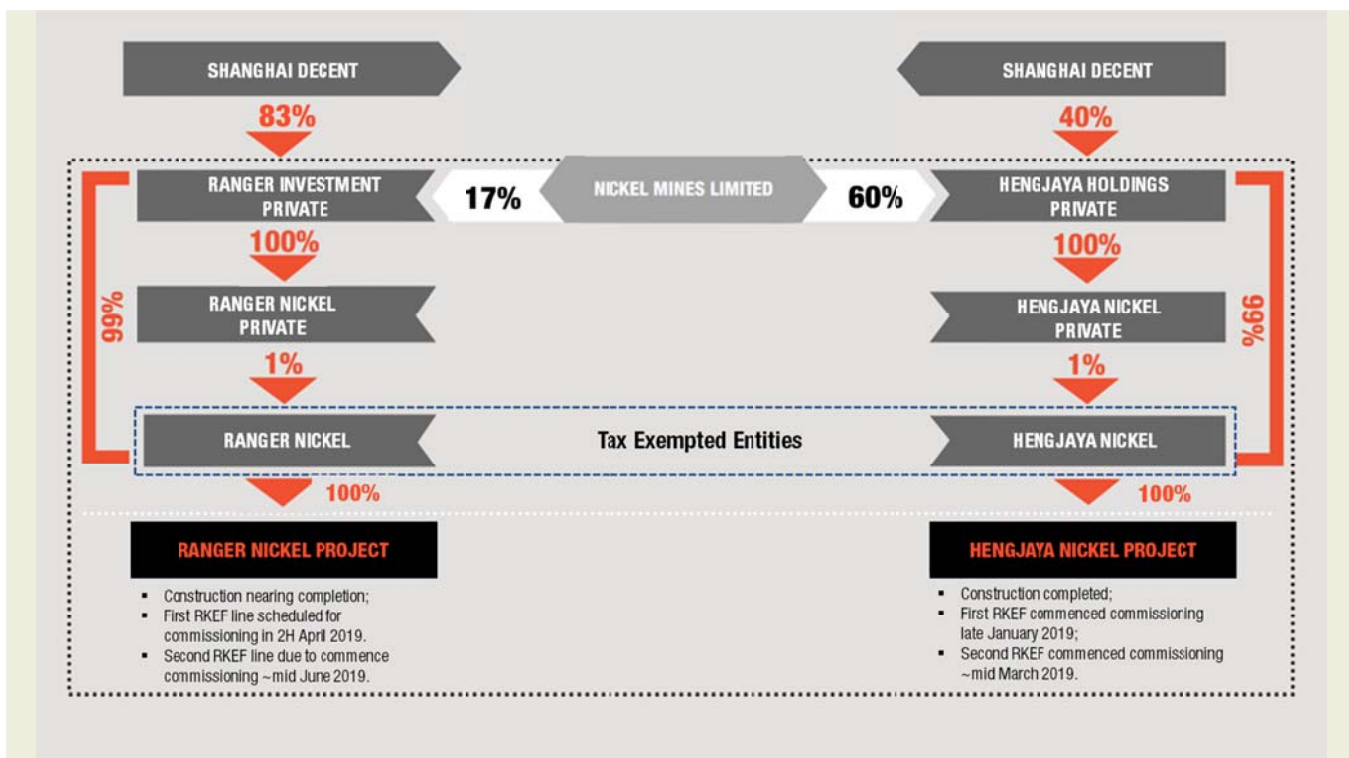
The tax concessions mirror those previously granted to the Company’s 60% owned Hengjaya Nickel Project.

Notice of the tax relief was communicated to the Company by official decree from the Minister of Finance of the Republic of Indonesia on the basis that Ranger Nickel had “met the criteria and requirements for the reduction of corporate income tax as regulated in Article 3 of the Regulation of the Minister of Finance Number 35/PMK.101/2018 concerning Provision of Corporate Income Tax Reduction Facilities”.

The corporate income tax reduction will be as follows:

- a Corporate Income Tax Reduction of 100% for a period of seven tax years, starting from the tax year in which commercial production is achieved;
- a Corporate Income Tax Reduction of 50% of payable income tax for a period of two tax years, starting from the end of the initial seven year period; and
- exemption from withholding and tax collection by third parties on sales proceeds that would normally be remitted to the Indonesian Revenue Department for a period of seven years, also commencing from the tax year in which commercial production is achieved.

It should be noted that these concessions may be revoked and are maximum periods that may be amended or adjusted if certain conditions are not met, the most important condition being the satisfaction of a minimum investment realisation which Ranger Nickel’s project comfortably exceeds.



Intention to Move to 60% of Ranger Nickel and Financing Proposal

Subsequent to the end of the quarter, the Company announced its decision to increase its current 17% ownership interest in the Ranger Nickel Project to 60%. This decision has been made in consultation with the Company's collaboration partner, Shanghai Decent, which currently holds the other 83% interest in Ranger Nickel.

In accordance with the Collaboration Agreement ('CA') governing Ranger Nickel, the Company will increase its holding of Ranger Investment Private Limited, the Singaporean domiciled holding company that wholly owns PT Ranger Nickel Industry, an Indonesian PMA company that owns 100% of the Ranger Nickel Project.

The Company's move to 60% of Ranger Nickel will be funded via a US\$160M financing package comprising US\$100M of senior secured debt and US\$60M of equity. The financing package surplus above the Ranger Nickel acquisition consideration will be used to facilitate a number of strategic initiatives being undertaken at the Hengjaya Mine and for general working capital purposes.

The Company has mandated Sprott Private Resource Lending II (Collector), L.P. to finance the US\$100M senior secured debt component of the financing package. Targeted financing completion date of 31 May 2019 is subject to a number of conditions precedent including completion of due diligence by the lender and receipt by the Company of all required regulatory and shareholder approvals.

The US\$60M equity component of the finance package will be funded in part by Shanghai Decent increasing its direct investment in Nickel Mines by accepting ~US\$40M of the Ranger Nickel acquisition consideration as Nickel Mines' shares and the balance by placements to a selection of current and/or new professional investors.

Hengjaya Mine Operations

Hengjaya Mine (80% interest held by Nickel Mines)



Aerial image of the Hengjaya Mine Jetty (to be upgraded) with 4,500 wmt barge moving to 7,500 wmt barge

About the Hengjaya Mine

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

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

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



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

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

Production Summary

		January	February	March	Quarter Total	December Qtr
Tonnes mined	wmt	39,848	42,772	44,576	127,196	123,176
Overburden mined	Bcm	96,133	111,444	72,204	279,781	254,604
Strip ratio	Bcm/wmt	2.4	2.6	1.6	2.2	2.1
Tonnes sold	wmt	41,401	35,284	66,233	142,918	139,707
Average grade	%	1.89	1.92	1.94	1.92	2.02
Average price received	US\$/t	26.07	27.54	28.38	27.51	31.78
Average cost of production	CIF US\$/t	24.20	25.32	28.33	26.02	25.55

December Quarter Production Report

Sales for the quarter totalled 142,918 wet metric tonnes ('wmt') at an average grade of 1.92%, a 3,211 wmt increase on the December 2018 quarter. The reduction in grade from the previous quarter (2.02%) is part of the long term mine plan and a means of optimising the Bete Bete resource. With the Hengjaya Nickel Project now in production and generating cash flow, there is no longer the need to high-grade operations at Bete Bete with future production set to target delivery of nickel ore with a grade of approximately 1.9% Ni which is considered the optimal grade required by the IMIP's RKEF operations.

Production increased marginally to 127,196 wmt for the quarter at an average stripping ratio of 2.2:1. The increase in strip ratio reported in January and February was attributed with waste pre-stripping of a new area in Bete Bete where mining will continue solely whilst the haul road from the new Central Pit to the jetty is completed within the IPPKH 2 concession.

Additional contractor and permitting costs associated with readying the Central Pit for operation in the second half of CY19 were responsible for the increased cost base in March. Upon completion of all planned expansion initiatives (haul road, larger trucking fleet, jetty expansion etc) production costs are anticipated to be lower.

Mine Expansion

A number of key activities continued during the quarter in support of the Hengjaya Mine expansion including extension of the existing haul road to the new Central 21 pit in preparation for stripping and mining in this new pit which will reduce the hauling distances from the current 13km to 6km and allow for an increase in haul truck size from the 8 tonnes currently being used to a planned 35 to 40 tonnes.

Mine operations for the Central pit will incorporate the introduction of larger mining fleet including, a fleet of 45 tonne articulated dump trucks for overburden mining in association with larger capacity excavators and additional ancillary fleet for mining ore and waste.

Additional mine site laboratory sample preparation and assay equipment has been purchased to expand the existing facilities.

Sheeting, drainage and settlement controls inside the new expanded jetty stockpile area are also underway to accommodate the increase in tonnes to be mined and barged. Stockpile capacity will exceed 150,000 wmt to facilitate ore blending and for contingency planning.



Upon completion of a designate haul road future mining will be focused predominantly from the Central Pit



Aerial view of the haul road expansion



Aerial view of jetty currently undergoing expansion



Development of expanded ore stockpile area

Exploration

The exploration and infill drilling contractor completed mobilisation and drill rigs set up late in the quarter. The core drilling will firstly target the delineated areas surveyed by the recent ground penetrating radar within the Bete Bete extension.

The first phase of drilling will be followed by an infill and extensive exploration drilling program in the Central IPKKH2 area, starting from the Central 21 pit area. The drilling program will consist of approximately 9,000 metres over the next 10 months targeting additional resources and upgrading the current geological model.



Completing drill rig set up at Bete Bete

Planning for Limonite Ore Supply

In December 2018, the Company signed a MoU to supply limonite ore to a new High Pressure Acid Leach ('HPAL') plant recently announced to be constructed within the IMIP.

To support the additional ore supply requirements of the HPAL plant, two options for a direct haul into the IMIP are currently being considered. During the quarter detailed satellite imagery covering over 200km² to an accuracy of 50cm was completed with this detailed survey data to be used enable the detailed design and cost estimates for the preferred haul road route and other future infrastructure options.

The long term opportunity to supply limonite ore to the new HPAL plant continues to be planned for within the long term resource optimisation and in readiness for eventual delivery a number of ore stockpiles are being accumulated within Bete Bete. In addition to the limonite ore being stockpiled, additional long term mine plans are in progress, including scheduling and stockpile locations which sit inside current and future mine areas and add no additional cost to the short term mine operations.

Drilling in the Central and Bete Bete areas will include modelling of the limonite ore zones and horizons for resource optimisation to reduce future mining costs for this material.

MINE SAFETY AND ENVIRONMENT

Safety

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

Environment

No environmental incidents were reported during the quarter, with work continuing on contouring and rehabilitating previously mined production areas. Additional settlement ponds have been constructed in the new jetty area and new haul road. The mine site remains in compliance in respect to the operational licence.

Community

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

During the quarter a focus was on sensitisation with the various villages and authorities in respect to the mine's plans. Hengjaya Mine staff attended a number of educational/community based activities.



Mine staff participating in local educational programs (drug awareness)

QUARTERLY PROGRESS

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

“The March quarter marked a significant milestone for our Company with the successful commissioning and production of first NPI from both lines of Hengjaya Nickel, in a little under 12 months from breaking ground. This is a remarkable achievement and we thank Shanghai Decent management and the construction team for their commitment to delivering Hengjaya Nickel well ahead of schedule. Furthermore, the seamless commissioning ramp-up of Hengjaya Nickel to greater than 80% of nameplate capacity less than 3 months from first NPI production is testament to Tsingshan’s industry leading expertise in RKEF operation.

Hengjaya Nickel’s commissioning performance and Ranger Nickel’s fast-tracked development were key factors underpinning Nickel Mines’ decision to accelerate the decision to move to 60% of Ranger Nickel.

With Ranger Nickel soon to commence commissioning of its first kiln and also set to benefit from material corporate income tax concessions, the Directors of Nickel Mines believe that the Company is on track to become a world class nickel company that will have claim to the lowest capital intensive and most profitable nickel units across the global nickel market.

It was also very pleasing to see the great progress that was made at Hengjaya Mine over the course of the last quarter. Significant planning has gone into optimising the ramp-up of the mine to a production rate of 1.5M wmt of saprolite ore by the end of this calendar year in addition to readying ourselves for the ~2.5Mt to 3.0Mt of limonite ore that will also be supplied from the mine when the IMIP’s HPAL plant is completed. Development of the new haul road from the Central Pit to the jetty, the jetty expansion, construction of a new camp site and other infrastructure during the quarter will contribute to elevating the Hengjaya Mine to a world class, long life mining operation.”

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Statement of Compliance

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

About Nickel Mines Limited

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

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

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



Aerial photo of the IMIP