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The Manager Companies
ASX Limited
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(2 pages by email)

Memorandum of Understanding Signed to Diversify into Nickel Matte Production

The Directors of Nickel Mines Limited ('Nickel Mines' or 'the Company') are pleased to announce that the Company has signed a Memorandum of Understanding ('MoU') with its collaboration partner, Shanghai Decent Investment (Group) Co., Ltd ('Shanghai Decent'), for two of its four 80% owned Rotary Kiln Electric Furnace ('RKEF') lines to undergo the necessary modifications to allow them to produce a nickel matte product suitable for sale into the electric vehicle battery market.

As advised by the Company in its ASX release of 5 March 2021, *Potential Diversification into the EV Battery Supply Chain*, Tsingshan recently announced signing a one year contract to supply 100,000 tonnes of nickel matte to Huayou Cobalt and CNGR Advanced Material Co. Ltd, commencing from October 2021.

Tsingshan advised that the trial production of this high grade nickel matte (>75%) within the Indonesia Morowali Industrial Park ('IMIP') had been successful.

The Directors are pleased to advise that the Company has been offered the opportunity to convert two of its RKEF lines (either the Hengjaya Nickel or Ranger Nickel project), out of an initial total of 10 RKEF lines within the IMIP, that will undergo the minor modifications required to produce nickel matte that will then be further processed to fulfil these contracts.

While the specific details of capital modification costs, operating costs and selling arrangements with Shanghai Decent remain commercial-in-confidence and subject to a definitive agreement, the Company can advise:

- The required modification cost for each RKEF line is expected to be minimal (approximately US\$1M per line).
- The cash operating costs for producing a tonne of nickel in matte are expected to be comparable to the cash costs of producing a tonne of nickel in nickel pig iron ('NPI').
- Units of production, measured in contained tonnes of nickel metal, produced by the Company's RKEF lines after conversion to produce nickel matte are expected to be comparable with the current units of production in NPI.
- As with its NPI production, Shanghai Decent has provided a firm undertaking to purchase all of the Company's nickel matte production.

- Switching between NPI and nickel matte production is possible with minimal production disruption, however, it is not optimal to do so regularly and it is proposed that Nickel Mine's converted RKEF lines will be utilised for dedicated nickel matte production unless there is an extended period where operational economics would favour a switch back to NPI.
- Once the modifications are completed it will take approximately two weeks for the converted RKEF lines to produce an 'on-spec' nickel matte product, with the interim 'off-spec' product remaining a saleable product.
- It expected these modifications will be completed in time for production and delivery of nickel matte in early Q4 2021.

NPI v Nickel Matte Pricing

Driven by the now well accepted global thematic of vehicle electrification, the nickel market is rapidly evolving as are the supply/demand fundamentals of the various products of which it is comprised.

While it is not possible to predict the future price behaviour of individual nickel products, the Directors offer the following observations which underpin the decision to pursue this diversification into the production of nickel matte:

- Pricing of nickel matte, a precursor to the production of nickel sulphate, will more directly correlate to the LME nickel price than NPI pricing.
- At the current level of bifurcation between the pricing of LME nickel and NPI, the indicative payability of nickel matte is currently superior to the payability of NPI.
- Nickel matte and NPI payabilities will vary from time to time, however, all other factors being equal, the economic returns from producing nickel matte improve further in a higher LME nickel price environment.
- Diversification of the Company's products serves to insulate the Company from potential future and ongoing bifurcation in the pricing of nickel products.

Commenting on the Company's diversification into the nickel matte market, Managing Director Justin Werner said:

"We are delighted that Nickel Mines has been given this opportunity to participate in this exciting transition into the EV battery supply chain, a development that further reflects and enhances our relationship with Tsingshan and our standing in the global nickel market. Our future ability to sell nickel matte into the EV battery supply chain provides a diversification of not only Nickel Mines' production base but offers a broader exposure to the pricing dynamics of individual nickel markets that are expected to emerge over the coming years. We believe the ability to become a meaningful supplier of nickel across multiple end-user markets will make Nickel Mines a truly unique investment proposition amongst other global producers and lay the platform for a broader array of future growth opportunities."

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