

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notice is hereby given that an Extraordinary General Meeting (**EGM** or **Meeting**) of Shareholders is to be convened at the offices of DLA Piper, Level 22, 1 Martin Place, Sydney, New South Wales on Tuesday 12 December 2023 at 11.00am (Sydney time).

This Notice of Extraordinary General Meeting (**Notice of Meeting**) and the enclosed Explanatory Memorandum provide additional information on the resolution to be considered at the EGM being held to seek Shareholder approval for the Company to acquire up to 75% of the Excelsior Nickel Cobalt project (**ENC Project**) via an acquisition of up to 75% of the shares in Excelsior International Investment Pte. Ltd. (**Excelsior**) and up to 75% of the shareholder loans due or owing by Excelsior (**ENC Acquisition**).

The Directors have determined pursuant to regulations 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders on Sunday 10 December 2023 at 7.00pm (Sydney Time).

Terms and abbreviations used in the Notice of Meeting and the Explanatory Memorandum will, unless the context requires otherwise, have the meaning given to them in the Glossary.

ASX takes no responsibility for the contents of this Notice of Meeting or the Explanatory Memorandum.

Independent Expert's Report: Shareholders should carefully consider the Independent Expert's Report which accompanies this Notice of Meeting. The Independent Expert's Report comments on the fairness and reasonableness of the proposed ENC Acquisition and contains an assessment of the potential advantages and disadvantages of the proposed ENC Acquisition.

The Independent Expert has concluded that the ENC Acquisition is fair and reasonable to Non-Associated Shareholders.

AGENDA

BUSINESS

Resolution 1: Approval for the Company to acquire up to 75% of the ENC Project

To consider and, if thought fit, pass the following Resolution as an ordinary resolution:

*'That, for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the Company to acquire up to 75% of the Excelsior Nickel Cobalt Project via an acquisition of up to 75% of the shares in Excelsior International Investment Pte. Ltd. (**Excelsior**) and 75% of the shareholder loans due or owing by Excelsior (and/or its subsidiaries), from Decent Resource Limited and its associates (including Shanghai Decent Investment (Group) Co., Ltd.), on the terms and conditions summarised in the Explanatory Memorandum accompanying this notice of Meeting.'*

The Independent Expert's Report prepared by Lonergan Edwards & Associates Limited has concluded that the ENC Acquisition under this Resolution 1 is fair and reasonable to Shareholders not associated with Decent Resource Limited or Shanghai Decent Investment (Group) Co., Ltd (**Non-Associated Shareholders**).

Shareholders are referred to the report **attached** as Schedule 1 to the Explanatory Memorandum.

Voting Exclusion

The Company will disregard any votes cast in favour of this Resolution 1 by or on behalf of:

- (a) Decent Resource Limited, Shanghai Decent Investment (Group) Co., Ltd, or any of their respective Associates; or
- (b) any other person who will obtain a material benefit as a result of the ENC Acquisition (except a benefit solely by reason of being a holder of ordinary securities in the Company).

However, the Company will not disregard a vote if it is cast by:

- (a) the person as proxy for a person who is entitled to vote, in accordance with directions on the proxy form;
- (b) the Chairperson as proxy for a person who is entitled to vote, in accordance with directions on the proxy form to vote as the proxy decides; or
- (c) a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - (i) the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an Associate of a person excluded from voting; and
 - (ii) the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

Further information in relation to this Resolution is set out in the Explanatory Memorandum **below**.

By order of the Board



Richard Edwards
Company Secretary
6 November 2023

EXTRAORDINARY GENERAL MEETING

TO BE HELD ON 12 DECEMBER 2023

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared to assist members to understand the business to be put to Shareholders at an Extraordinary General Meeting to be held at the offices of DLA Piper, Level 22, 1 Martin Place, Sydney, New South Wales on Tuesday 12 December 2023 at 11.00am (Sydney Time).

An Independent Expert's Report prepared by Lonergan Edwards & Associates Limited (the **Independent Expert**), which sets out a detailed examination of the proposed ENC Acquisition to enable Shareholders to assess its merits, is attached to this Explanatory Memorandum as Schedule 1. Shareholders are encouraged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

The Independent Expert has concluded that the ENC Acquisition is fair and reasonable to Non-Associated Shareholders.

1 Resolution 1: Approval for the Company to acquire up to 75% of the ENC Project

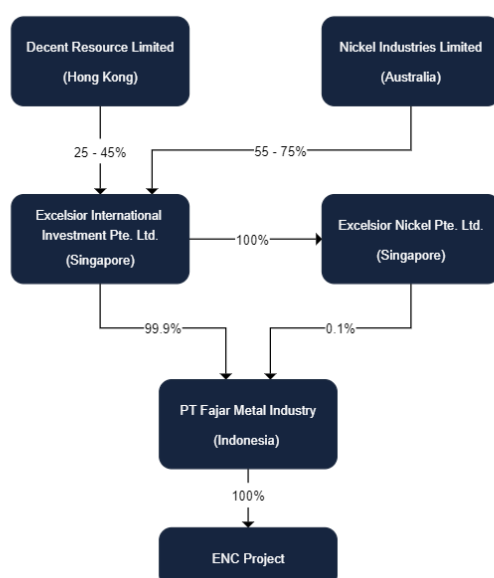
1.1 Overview of the ENC Project

On 11 October 2023, the Company announced that it had reached a positive final investment decision with respect to its participation and investment in the Excelsior Nickel Cobalt high-pressure acid leach (**HPAL**) project (**ENC Project**).

The Company entered into a conditional acquisition agreement (**Acquisition Agreement**) with Decent Resource Limited (**Decent Resource**) to acquire 55% of the ENC Project via an acquisition of 55% of the shares in Excelsior and 55% of the shareholder loans due or owing by Excelsior (**Shareholder Loans**). The Company was also granted an option to acquire an additional 20% interest in the ENC Project (**Option**). The Option exercise period ends on 31 January 2024.

Excelsior directly and indirectly owns 100% of the issued share capital of PT Fajar Metal Industry, a private company limited by shares which will develop and own the ENC Project (**FMI**).

The ENC Project structure will be as follows:



The purchase price for the 55% interest in the ENC Project is US\$1,265 million. The exercise price for the Option is US\$460 million. The Company intends to fund the purchase price using a US\$350 million 5-year senior term facility with PT Bank Negara Indonesia (Persero) Tbk Singapore Branch, proceeds of the A\$943 million (approx. US\$620 million) placement recently received from United Tractors, and existing cash and strong ongoing cash flows from existing operations.

The ENC Project, which will consist of four independent 'lines', will have nameplate production capacity of 60,000 metric tonnes per annum of contained nickel equivalent across the three major class 1 nickel products being mixed hydroxide precipitate, nickel sulphate and nickel cathode, all of which are suitable for use in the electric vehicle battery market. Actual production output is expected to be 72,000 metric tonnes per annum.

The ENC Project will consist of processes and supporting facilities such as ore washing, chromium concentration, high-pressure acid soaking, extraction workshop, electrolysis workshop, sulfuric acid plant, limestone plant and dry-stack tailings.

The majority of the electricity required by the ENC Project will be generated through heat capture at the sulfuric acid plant, as well as the solar project announced by the Company on 9 October 2023, with any residual (if any) to be drawn from the IMIP – as a result of the reliance on renewable energy sources, the ENC Project is expected to be one of the lowest carbon-emitting HPAL projects globally.

Project infrastructure and civil works have commenced, with commissioning expected to commence in October 2025. Decent Resource has provided a construction guarantee in relation to construction cost and the timing of meeting or exceeding the nameplate production capacity and achieving commercial production. Refer to Section 1.3 for further details.

Given the early stage of construction, Excelsior has not yet entered into offtake, raw material or other key agreements - however, these are expected to be entered into during the period prior to the commencement of commissioning. As with other RKEF and HPAL projects in which the Company and Shanghai Decent have collaborated, all required permitting is expected to be completed prior to, or around, achieving commercial production.

An Indonesian tax concession has been obtained for the ENC Project. The tax concession comprises a 100% corporate tax reduction and exception from withholding tax for 15 years commencing from the tax year in which commercial production is achieved. Following the end of the initial 15 year period, a 50% corporate tax reduction will apply for a further 2 years.

1.2 Key terms of the Acquisition Agreement

Key terms of the Acquisition Agreement are as follows:

Term	Summary
Vendor	Decent Resource.
Conditions precedent	<p>The Acquisition Agreement is conditional on:</p> <ul style="list-style-type: none"> • (Shareholder Approval) Nickel Industries obtaining Shareholder approval for the acquisition; • (Construction Guarantee) Execution of a Construction Guarantee as described in Section 1.3 of this Explanatory Memorandum. This condition has been satisfied; • (Shareholders' Agreement) Execution of a Shareholders' Agreement for Excelsior as described in Section 1.4 of this Explanatory Memorandum. This condition has been satisfied; and

Term	Summary																																								
	<ul style="list-style-type: none"> (Deposit) Nickel Industries paying a refundable deposit of US\$126.5 million to Decent Resource on or before 31 October 2023, which will be set off against the consideration payable under Tranche 1 (described below). This condition has been satisfied. <p>If all of the Conditions Precedent are not satisfied, Decent Resource must repay the Deposit to the Company.</p>																																								
Tranches	<p>Based on the agreed valuation of the ENC Project of US\$2.3 billion, the total consideration payable by the Company to acquire a 55% interest in the ENC Project is US\$1,265 million payable over six tranches on the below dates:</p> <table border="1"> <thead> <tr> <th>Tranche</th> <th>Completion date*</th> <th>Purchase price (US\$m)</th> <th>Interest acquired</th> <th>Cumulative interest</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>10 business days following shareholder approval</td> <td>\$126.5¹</td> <td>5.50%</td> <td>5.50%</td> </tr> <tr> <td>2</td> <td>By 1 January 2024</td> <td>\$189.8</td> <td>8.25%</td> <td>13.75%</td> </tr> <tr> <td>3</td> <td>By 1 April 2024</td> <td>\$316.3</td> <td>13.75%</td> <td>27.50%</td> </tr> <tr> <td>4</td> <td>By 1 October 2024</td> <td>\$379.5</td> <td>16.50%</td> <td>44.00%</td> </tr> <tr> <td>5</td> <td>By 1 July 2025</td> <td>\$126.5</td> <td>5.50%</td> <td>49.50%</td> </tr> <tr> <td>6</td> <td>By 1 October 2025²</td> <td>\$126.5</td> <td>5.50%</td> <td>55.00%</td> </tr> <tr> <td>TOTAL</td> <td></td> <td>1,265.0</td> <td>55.00%</td> <td></td> </tr> </tbody> </table> <p>*Dates are approximate and may be amended by the agreement of the Company and Decent Resource.</p>	Tranche	Completion date*	Purchase price (US\$m)	Interest acquired	Cumulative interest	1	10 business days following shareholder approval	\$126.5 ¹	5.50%	5.50%	2	By 1 January 2024	\$189.8	8.25%	13.75%	3	By 1 April 2024	\$316.3	13.75%	27.50%	4	By 1 October 2024	\$379.5	16.50%	44.00%	5	By 1 July 2025	\$126.5	5.50%	49.50%	6	By 1 October 2025 ²	\$126.5	5.50%	55.00%	TOTAL		1,265.0	55.00%	
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Option	<p>Decent Resource also granted the Company an option to acquire (or to nominate a nominee to acquire) an additional 20% of the ENC Project via an acquisition of up to a further 20% of the Excelsior Shares and 20% of the Shareholder Loans (Option Securities) for US\$460 million. The option may be exercised until 31 January 2024.</p> <p>If the Company does not exercise the Option, then Decent is entitled to transfer the Option Securities to a third party. The Company has waived the pre-emptive rights regime under the Shareholders' Agreement (discussed in Section 1.4 below) in relation to this transfer.</p>																																								
Project finance	<p>If FMI obtains third party project finance for the ENC Project the consideration payable by the Company will be reduced by an amount to be agreed by the parties having regard to the amount of project finance and timing of drawdown. There is no guarantee that FMI will receive any project finance for the ENC Project (either on terms acceptable to FMI or at all).</p>																																								

¹ The deposits will be applied towards payment of the Tranche 1 Purchase Price.

² Following commissioning of line 1 of the ENC Project.

Term	Summary
Representations and warranties	<p>Each party under the Acquisition Agreement provides customary representations and warranties with regards to its ability to enter into the Acquisition Agreement.</p> <p>Additionally, Decent Resource provides representations and warranties to the Company with respect to Excelsior and FMI, including its ownership of the Excelsior Shares and Shareholder Loans, the capital structure of FMI, the authorisations required to conduct FMI's business, the conduct of FMI's business, and FMI's financial and tax position.</p> <p>The representations and warranties given as at the date of the Acquisition Agreement and again on completion of each Tranche.</p>
Termination	<p>The Acquisition Agreement may be terminated by the Company if the conditions precedent are not satisfied or if, at any time before the completion of Tranche 6, Excelsior or Decent Resource commits a material breach of the agreement which is not remedied (if capable of being remedied).</p>
Governing law	Singapore.

1.3 Construction Guarantee

Decent Resource has provided the following construction guarantee to FMI (**Construction Guarantee**).

Term	Summary
Capex Guarantee	<p>Decent Resource guarantees that the total construction cost incurred by FMI for the ENC Project will not exceed US\$2.3 billion.</p>
Nameplate Guarantee	<p>Decent Resource guarantees that the ENC Project will, meet or exceed the nameplate production capacity on or before 31 July 2026.</p> <p>The nameplate production capacity is 60,000 metric tonnes per annum of contained nickel equivalent.</p>
Defects	<p>Decent Resource must at its own cost remedy and make good any defect in the ENC Plant identified during the 12 months following commencement of commercial production.</p>
Conditions	<p>The Construction Guarantee is conditional on Decent Resource having control over the design and construction of the ENC Project, the construction cost overrun, performance or defect not being attributable to a force majeure event, and there being no delay in any payment required to be made by the Company under the Acquisition Agreement.</p>

1.4 Shareholders' Agreement

The Company has entered into a Shareholders' Agreement with Decent Resource and Excelsior which will become effective on completion of Tranche 1.

Until the Company holds 51% or more of the aggregate number of Excelsior Shares (which will occur on completion of Tranche 6), Decent Resource is entitled to appoint the majority of directors of Excelsior. This means that Decent Resource will be in a position to control the Excelsior board with the exception of limited reserved matters.

If Excelsior issues any new securities the Company and Decent Resource (and any other shareholder) will generally be entitled to participate in the new issue pro-rata to their holdings.

If a shareholder in Excelsior proposes to sell all or part of its securities, the remaining shareholders are entitled to participate in a purchase of those securities pro-rata to their existing holdings of Excelsior prior to any sale to third parties.

The shareholders and Excelsior may agree to amend the Shareholders' Agreement.

1.5 Overview of ASX Listing Rule 10.1

Under ASX Listing Rule 10.1, an entity must not, without Shareholder approval, acquire a substantial asset from a substantial (10%+) holder in the Company or an associate of a substantial (10%+) holder. In general terms, ASX Listing Rule 10.2 provides that a substantial asset is one where the value or consideration equals or exceeds 5% or more of the equity interests of the entity as set out in the most recent accounts released to ASX.

Decent Resource is an associate of a substantial (10%+) holder as it is an associate of Shanghai Decent, a 22.7% Shareholder of the Company.

As the total equity interests of the Company as of 30 June 2023 were approx. US\$2.04 billion, 5% of the total equity interests of the Company is approx. US\$101.8 million. Accordingly, the ENC Project will be a substantial asset for the purpose of Listing Rule 10.2 as the consideration payable to acquire 55% of the ENC Project is US\$1.265 billion, and 75% of the ENC Project is US\$1.725 billion.

1.6 Information required to be provided to Shareholders under ASX Listing Rule 10.5

In addition to the information provided above, for the purposes of ASX Listing Rule 10.5, the following information is provided in relation to Resolution 1:

The name of the person from whom the entity is acquiring the substantial asset or to whom the entity is disposing of the substantial asset	Decent Resource Limited.
Which category in ASX Rules 10.1.1 – 10.1.5 the person falls within and why	Decent Resource is an associate of Shanghai Decent, a 22.7% Shareholder of the Company, and therefore falls within ASX Listing Rule 10.1.4.
Details of the asset being acquired and purchase price	55% of the Excelsior Shares and Shareholder Loans for US\$1,265 million. An additional 20% of the Excelsior Shares and Shareholder Loans for US\$460 million if the Company exercises the Option.

<p>The intended source of funds for the ENC Acquisition</p>	<p>US\$350 million 5-year senior term facility with PT Bank Negara Indonesia (Persero) Tbk Singapore Branch comprising:</p> <ul style="list-style-type: none"> • US\$200 million (secured against the Company's Angel Nickel Project and associated shareholder loans); and • US\$150 million (unsecured). <p>Proceeds of the placement of A\$943 million (approx. US\$620 million) recently received from United Tractors.</p> <p>Company's existing cash and strong ongoing cash flows from existing operations.</p>
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1.7 Independent Expert's Report

ASX Listing Rule 10.5.10 requires that the Notice of Meeting to obtain Shareholder approval for the purposes of ASX Listing Rule 10.1 must be accompanied by a report by an independent expert expressing their opinion as to whether the transaction is fair and reasonable to Shareholders.

The Independent Expert's Report prepared by Longeran Edwards & Associates Limited sets out a detailed examination of the ENC Acquisition to enable Shareholders to assess its merits.

The Independent Expert has concluded that the ENC Acquisition is fair and reasonable. Shareholders are encouraged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

1.8 Consequences of Resolution 1

If Resolution 1 **is passed**, Nickel Industries will proceed with the ENC Acquisition.

If Resolution 1 **is not passed**, Nickel Industries will not proceed with the ENC Acquisition.

1.9 Board Recommendation

The Board (other than Mr Haijun Wang and Mr Xiang Binghe) recommend that Shareholders vote in **FAVOUR** of Resolution 1.

Each of Mr Haijun Wang and Mr Xiang Binghe decline to give a recommendation due to the fact that each of them are a related party of Shanghai Decent and therefore have an interest in the outcome of the Resolution.

The Chairperson of the Meeting intends to vote undirected proxies in **FAVOUR** of Resolution 1.

GLOSSARY

Acquisition Agreement	means the acquisition agreement executed by the Company with Decent Resource to acquire up to 55% of the ENC Project via an acquisition of up to 55% of the Excelsior Shares and 55% of the Shareholder Loans, with an option to acquire a further 20% of the Excelsior Shares and 20% of the Shareholder Loans.
Associate	has the meaning given to it in the Corporations Act.
ASX	means ASX Limited (ABN 98 008 624 691) or the securities market it operates, as the context requires.
ASX Listing Rules	means the official Listing Rules of the ASX as amended from time to time.
Board	means the board of Directors of Nickel Industries.
Chairperson	means the chair of the EGM elected from time to time.
Company or Nickel Industries	means Nickel Industries Limited (ACN 127 510 589).
Completion Date	means the completion date for each of Tranche 1, Tranche 2, Tranche 3, Tranche 4, Tranche 5 or Tranche 6, as the context requires.
Conditions Precedent	means the conditions precedent under the Acquisition Agreement as set out in paragraph 1.2 of the Explanatory Memorandum.
Construction Guarantee	means the construction guarantee provided by Decent Resource in favour of FMI summarised in paragraph 1.3 of the Explanatory Memorandum.
Corporations Act	means the <i>Corporations Act 2001</i> (Cth).
Decent Resource	means Decent Resource Limited.
Deposit	means a refundable US\$126.5 million deposit.
Directors	means the directors of Nickel Industries from time to time.
EGM or Meeting	means the extraordinary general meeting of the Shareholders.
ENC Project	means the project known as the 'Excelsior Nickel Cobalt project' ³ a high-pressure acid leach plant with nameplate production capacity of 60,000 metric tonnes of contained nickel equivalent in a mixed hydroxide precipitate, nickel sulphate or nickel cathode, located in or around the Indonesia Morowali Industrial Park.
Excelsior	means Excelsior International Investment Pte. Ltd.
Excelsior Shares	means ordinary shares of Excelsior on a fully diluted basis.
Explanatory Memorandum	means the explanatory memorandum that forms part of this Notice of Meeting.
FMI	means PT Fajar Metal Industry.

³ Previously called the Dawn HPAL+ Project

HPAL	has the meaning give in paragraph 1.1 of the Explanatory Memorandum.
Independent Expert	means Longeran Edwards & Associates Limited.
Independent Expert's Report	means the report issued by the Independent Expert as set out in [Schedule 1] to this Notice.
Nameplate Guarantee	has the meaning given in paragraph 1.3 of the Explanatory Memorandum.
Non-Associated Shareholders	means Shareholders of the Company not associated with Decent Resource or Shanghai Decent.
Notice of Meeting	means this notice of EGM.
Option	has the meaning give in paragraph 1.1 of the Explanatory Memorandum.
Option Securities	has the meaning given in paragraph 1.2 of the Explanatory Memorandum.
Resolutions	means the resolutions proposed in this Notice of Meeting.
Shanghai Decent	means Shanghai Decent Investment (Group) Co., Ltd.
Shareholder	means a holder of Shares in Nickel Industries.
Shareholder Loans	means all shareholder loans due or owing to Decent Resource (excluding working capital amounts) as at the applicable Completion Date.
Shares	means fully paid ordinary shares in capital of Nickel Industries.
Tranche	means Tranche 1, Tranche 2, Tranche 3, Tranche 4, Tranche 5 or Tranche 6, as the context requires.
Tranche 1	means the acquisition of 5.5% of the Shareholder Loans and 5.5% of Excelsior Shares.
Tranche 2	means the acquisition of an additional 8.25% of the Shareholder Loans and an additional 8.25% of the Excelsior Shares.
Tranche 3	means the acquisition of an additional 13.75% of the Shareholder Loans and an additional 13.75% of the Excelsior Shares.
Tranche 4	means the acquisition of an additional 16.5% of the Shareholder Loans and an additional 16.5% of the Excelsior Shares.
Tranche 5	means the acquisition of an additional 5.5% of the Shareholder Loans and an additional 5.5% of the Excelsior Shares.
Tranche 6	means the acquisition of an additional 5.5% of the Shareholder Loans and an additional 5.5% of the Excelsior Shares.

Schedule 1 Independent Expert's Report

LONERGAN EDWARDS & ASSOCIATES LIMITED

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The Independent Directors
Nickel Industries Limited
Level 2, 66 Hunter Street
Sydney NSW 2000

7 November 2023

**Subject: Acquisition from substantial shareholder
Agreement to acquire up to 75% of Excelsior Nickel Cobalt project**

Dear Independent Directors

Introduction

- 1 In January 2023, Nickel Industries Limited (Nickel Industries or the Company) entered into an Electric Vehicle Battery Supply Chain Strategic Framework Agreement (Strategic Agreement) with Shanghai Decent Investment (Group) Co., Ltd. (Shanghai Decent)¹. Under the Strategic Agreement the Company acquired an option to collaborate with Shanghai Decent on future battery nickel opportunities including the Excelsior Nickel Cobalt project (ENC Project).
- 2 On 11 October 2023, Nickel Industries announced that it had reached a positive final investment decision with respect to its participation and investment in the ENC Project. The Company entered into a conditional acquisition agreement (Acquisition Agreement) with Decent Resource Limited² (Decent Resource) to acquire up to 75% of the ENC Project via:
 - (a) the acquisition of 55% of the shares in Excelsior International Investment Pte. Ltd (Excelsior) and 55% of the shareholder loans due or owing by Excelsior (the Proposed ENC Acquisition). The purchase price for the 55% interest in the ENC Project is US\$1,265 million (ENC Project Consideration)
 - (b) an option to acquire an additional 20% interest in the ENC Project (Option). The Option exercise price is US\$460 million and the option exercise period ends on 31 January 2024.

ENC Project

- 3 The ENC Project is a high-pressure acid leach (HPAL) project that will be operating within the Indonesia Morowali Industrial Park (IMIP). The ENC Project has nameplate production capacity of 60,000 tonnes per annum (tpa) of contained nickel equivalent in a nickel cathode, nickel sulphate or mixed hydroxide precipitate (MHP), all of which are suitable for use in the electric vehicle (EV) battery market. Actual production output, however, is expected to be

¹ A Tsingshan Holding Group (Tsingshan) group company.

² A subsidiary company of Tsingshan.

Authorised Representatives:

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

* Members of Chartered Accountants Australia and New Zealand and holders of Certificate of Public Practice.
Liability limited by a scheme approved under Professional Standards Legislation

72,000 tpa. Project infrastructure and civil works for the ENC Project commenced in the third quarter of 2023, with commissioning expected to commence in October 2025.

Nickel Industries

- 4 Nickel Industries is an Australian company that is a globally significant, low-cost producer of nickel. The Company has established a financial, operational and strategic partnership with Tsingshan, the world's largest stainless steel producer and owns 80% interests in the Hengjaya and Ranger Nickel Projects (HNI and RNI), Angel Nickel Project (ANI) and Oracle Nickel Project (ONI) (collectively the NPI Projects), a 10% interest in PT Huayue Nickel Cobalt (HNC) which is a HPAL project located in the IMIP, and an 80% interest in the Hengjaya Mineralindo Nickel Mine (Hengjaya Mine). The Company also owns a number of early stage nickel exploration projects, such as the Siduarsari Nickel-Cobalt Project.

Shanghai Decent

- 5 Shanghai Decent operates as an investment company within the Tsingshan group and is responsible for the development of the IMIP and the Indonesia Weda Bay Industrial Park (IWIP). Tsingshan is involved in manufacturing, sales, warehousing, investment, and import and export trade. The group's main products are stainless steel ingot, bar, rod, plate, wire, pipe and other products, which are widely used in a range of sectors. Tsingshan also produces raw materials, intermediate products and new energy batteries, which are primarily used in energy storage systems and EVs.
- 6 Nickel Industries and Tsingshan have a longstanding relationship pre-dating the Company's initial public offering in 2018, with Nickel Industries supplying nickel laterite to Tsingshan's IMIP operations. Collaboration between Nickel Industries and Tsingshan has led to Nickel Industries' acquisition of interests in a number of rotary kiln electric furnace (RKEF) operations in the IMIP and IWIP, and is now being extended to Class 1 nickel projects such as the ENC Project.

Scope / purpose

- 7 The Proposed ENC Acquisition is with persons in a position of influence under the Australian Securities Exchange (ASX) Listing Rules and requires the approval of Nickel Industries shareholders that are not considered a party to the transaction (the Nickel Industries non-associated shareholders). The ASX Listing Rules require the notice of meeting sent to shareholders to include an independent expert's report (IER), stating whether the transaction is "fair and reasonable" to the Nickel Industries non-associated shareholders.
- 8 Accordingly, the Independent Directors of Nickel Industries that are not associated with Shanghai Decent have requested that Lonergan Edwards & Associates Limited (LEA) prepare an IER in accordance with ASX Listing Rule 10.5.10 stating whether, in our opinion, the Proposed ENC Acquisition is fair and reasonable to the Nickel Industries non-associated shareholders³.
- 9 The IER will accompany the Notice of Extraordinary General Meeting and Explanatory Memorandum to be sent by Nickel Industries to Nickel Industries shareholders in connection

³ For the purposes of this report, all future references to "Nickel Industries shareholders" is a reference to the "Nickel Industries non-associated shareholders".

with the Proposed ENC Acquisition. LEA is independent of Nickel Industries and has no involvement or other interest in the Proposed ENC Acquisition.

Summary of opinion

- 10 LEA has concluded that the Proposed ENC Acquisition is fair and reasonable to Nickel Industries shareholders. We have formed this opinion for the reasons set out below.
- 11 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 – *Content of expert reports* (RG 111) a related party transaction is “fair” if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired.

Assessment of fairness

- 12 The net present value (NPV) of the ENC Project Consideration of US\$1,170 million⁴ for 55% of the ENC Project is less than the NPV of the estimated future free cash flows from the ENC Project which we have assessed at US\$1,980 million to US\$2,200 million (refer Section VI). This valuation has regard to nameplate steady state rates of production, a reasonable assessment of future nickel prices and operating costs for the ENC Project.
- 13 The ENC Project Capex Cap (i.e. a 100% project basis) is broadly consistent with other transactions for HPAL interests based on relative Capital Intensity⁵.
- 14 Further, as the Option exercise price has been determined on a consistent pro-rata basis with the ENC Project Consideration, the Option exercise price is also fair. However, we note that Nickel Industries is under no obligation to exercise the Option.

Assessment of reasonableness

- 15 Pursuant to RG 111, a transaction is reasonable if it is fair. Consequently, we have concluded that the Proposed ENC Acquisition is both fair and reasonable.

Advantages and disadvantages

- 16 In concluding whether the Proposed ENC Acquisition is “fair” and “reasonable” to the non-associated shareholders of Nickel Industries we have also had regard to the advantages and disadvantages of the Proposed ENC Acquisition from the perspective of Nickel Industries shareholders:

Advantages

- (a) the Proposed ENC Acquisition will increase the Company’s exposure to Grade 1 nickel production, providing Nickel Industries shareholders with significant exposure to the EV battery supply chain
- (b) the guaranteed capital cost (Capex Cap) and nameplate production capacity guarantee (Nameplate Guarantee) provided in respect of the ENC Project increases the project’s attractiveness as it reduces the risk of capital cost overruns and provides output certainty
- (c) the Proposed ENC Acquisition will provide diversification of the Company’s client base

⁴ Which is the NPV of the ENC Project Consideration of US\$1,265 million.

⁵ Capital Intensity is the project capital cost divided by annual nickel production capacity.

- (d) the Proposed ENC Acquisition will continue the longstanding financial, operational and strategic partnership with Shanghai Decent and Tsingshan, which has to date been of significant benefit to the Company

Disadvantages

- (e) there are no obvious disadvantages in connection with the Proposed ENC Acquisition at the date of this report.

Other considerations

- 17 Nickel Industries does not intend to raise further equity capital to finance the Proposed ENC Acquisition as the Company has funds available from the proceeds of the recent placement to PT United Tractors Tbk (of A\$943 million, which is approximately US\$620 million), a US\$350 million five-year senior term facility and a US\$50 million revolving credit facility with PT Bank Negara Indonesia (Persero) Tbk, as well as existing cash and ongoing cash flows from existing operations.

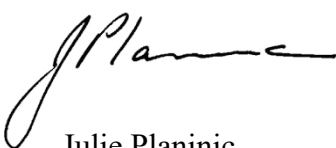
Conclusion

- 18 In our opinion, the advantages of the Proposed ENC Acquisition significantly outweigh the disadvantages.

General

- 19 This report is general financial product advice only and has been prepared without taking into account the personal objectives, financial situations or needs of individual Nickel Industries shareholders. Accordingly, before acting in relation to the Proposed ENC Acquisition, Nickel Industries shareholders should have regard to their own objectives, financial situation and needs. Nickel Industries shareholders should also read the Notice of Meeting and Explanatory Memorandum that has been issued by Nickel Industries in relation to the Proposed ENC Acquisition.
- 20 Furthermore, this report does not constitute advice or a recommendation (inferred or otherwise) as to whether Nickel Industries shareholders should vote for or against the Proposed ENC Acquisition. These are matters for individual Nickel Industries shareholders based upon their own views as to value, their expectations about future economic and market conditions and their particular personal circumstances including their risk profile, liquidity preference, investment strategy, portfolio structure and tax position. If Nickel Industries shareholders are in doubt about the action they should take in relation to the Proposed Transaction, or matters dealt with in this report, shareholders should seek independent professional advice.
- 21 For our full opinion on the Proposed ENC Acquisition and the reasoning behind our opinion, we recommend that Nickel Industries shareholders read the remainder of our report.

Yours faithfully



Julie Planinic
Authorised Representative



Jorge Resende
Authorised Representative

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- A Financial Services Guide**
- B Qualifications, declarations and consents**
- C History of Nickel Industries' operations**
- D Nickel industry overview**
- E Glossary**

I Key terms of the Proposed ENC Acquisition

Excelsior

- 22 Excelsior will wholly own the ENC Project, a HPAL project that will be operating within the IMIP with nameplate production capacity of 60,000 tpa of contained nickel equivalent in a MHP, nickel sulphate or nickel cathode, with expectations of production of 72,000 tpa of contained nickel equivalent. Project infrastructure and civil works for the ENC Project commenced in the third quarter of 2023, with commissioning expected to commence in October 2025.

Terms of the Proposed ENC Acquisition

- 23 The terms of the Proposed ENC Acquisition are set out in the Acquisition Agreement, which was entered into by Nickel Industries, Excelsior and Decent Resource on 11 October 2023.
- 24 Nickel Industries will acquire its interest in the ENC Project through the acquisition of 55% of the shares in Excelsior and shareholder loans due or owing by Excelsior (and/or its subsidiaries). Excelsior directly and indirectly owns 100% of the issued share capital of PT Fajar Metal Industry (FMI), a private company limited by shares which will develop and own the ENC Project.
- 25 The design and construction of the ENC Project will be undertaken by FMI. The Acquisition Agreement is conditional on Decent Resource providing a construction guarantee (Construction Guarantee) under which Decent Resource guarantees to FMI the following:
- (a) **Capex guarantee** – a guarantee that the total construction cost incurred by FMI for the ENC Project will not exceed US\$2.3 billion (Capex Cap)
 - (b) **Nameplate guarantee** – that the ENC Project will meet or exceed the nameplate production capacity on or before 31 July 2026 (Nameplate Guarantee). The nameplate production capacity is 60,000 metric tonnes per annum of contained nickel equivalent
 - (c) **Defects guarantee** – Decent Resource must at its own cost remedy and make good any defect in the ENC Project's plant identified during the 12 months following commencement of commercial production.
- 26 The Construction Guarantee is conditional on Decent Resource having control over the design and construction of the ENC Project, the construction cost overrun, performance or defect not being attributable to a force majeure event, and there being no delay in any payment required to be made by the Company under the Acquisition Agreement.
- 27 The Acquisition Agreement is conditional upon:
- (a) Nickel Industries obtaining shareholder approval
 - (b) execution of the Construction Guarantee outlined in paragraph 25 above
 - (c) execution of a Shareholders' Agreement for Excelsior relating to the operation of FMI and the ongoing development of the ENC Project, noting that it is contemplated that Decent Resource will have control over the design, construction, management, and operation of the project in accordance with the approvals given by the Excelsior shareholders from time to time

- (d) Nickel Industries paying a refundable deposit of US\$126.5 million to Decent Resource on or before 31 October 2023, which will be set off against the consideration payable under the first payment tranche (refer to table in paragraph 28 below).

ENC Project Consideration

- 28 Based on the ENC Project Capex Cap of US\$2.3 billion, the ENC Project Consideration for the acquisition of 55% of the ENC Project is US\$1,265 million. The consideration is payable in six tranches, as follows:

55% acquisition of the ENC Project				
Tranche	Completion date ⁽¹⁾	Interest acquired %	Cumulative interest %	Payment US\$m
1	10 business days following shareholder approval ⁽²⁾	5.50	5.50	126.5
2	1 January 2024	8.25	13.75	189.8
3	1 April 2024	13.75	27.50	316.3
4	1 October 2024	16.50	44.00	379.5
5	1 July 2025	5.50	49.50	126.5
6	On commissioning	5.50	55.00	126.5
Total		55.00		1,265.0

Note:

- 1 Dates are approximate and may be amended by the agreement of the Company and Decent Resource.
2 This has been paid as a refundable deposit (on the basis that if Nickel Industries shareholders do not approve the resolution to acquire up to 75% of the ENC Project, this amount will be refunded).

- 29 The Proposed ENC Acquisition is subject to shareholder approval before 28 December 2023, and payment of a refundable deposit of US\$126.5 million before 31 October 2023. The payment of this refundable deposit has been made.
- 30 If FMI obtains third party project finance for the ENC Project, the consideration payable by Nickel Industries will be reduced by an amount to be agreed by the parties having regard to the amount of project finance and timing of drawdown(s).

Option

- 31 Should Nickel Industries elect to exercise the Option on or before 31 January 2024, the Company will be required to pay US\$460 million for a further 20% interest in the ENC Project.

Resolution

- 32 Completion of the Proposed ENC Acquisition is subject to Nickel Industries shareholder approval. The following resolution is included in the Notice of Meeting:

Resolution 1 – approval for the Company to acquire up to 75% of the ENC Project

“That, for the purposes of ASX Listing Rule 10.1 and for all other purposes, approval is given for the Company to acquire up to 75% of the Excelsior Nickel Cobalt Project via an acquisition of up to 75% of the shares in Excelsior International Investment Pte. Ltd. (Excelsior) and 75% of the shareholder loans due or owing by Excelsior (and/or its subsidiaries), from Decent Resource Limited and its associates (including Shanghai Decent Investment (Group) Co., Ltd.), on the terms and conditions summarised in the Explanatory Notice accompanying this notice of Meeting.”

II Scope of our report

Purpose

- 33 The Proposed ENC Acquisition represents an acquisition of a substantial asset⁶ from a substantial shareholder⁷ under ASX Listing Rule 10.1.3 and requires the approval of Nickel Industries non-associated shareholders.
- 34 ASX Listing Rule 10.5.10 requires the notice of meeting sent to shareholders to include an IER, stating whether the transaction is “fair and reasonable” to the non-associated shareholders⁸. Accordingly, the Independent Directors of Nickel Industries that are not associated with the Proposed ENC Acquisition have requested that LEA prepare an IER stating whether, in our opinion, the Proposed ENC Acquisition is “fair and reasonable” to the Nickel Industries non-associated shareholders⁹, together with the reasons for this opinion.
- 35 Our report will accompany the meeting documents sent by Nickel Industries to its shareholders for the purpose of the Company’s Extraordinary General Meeting including the resolution seeking to approve the Proposed ENC Acquisition.
- 36 LEA is independent of Nickel Industries and Shanghai Decent and has no other involvement or interest in the Proposed ENC Acquisition.

Basis of assessment

- 37 In preparing our report, we have given due consideration to the ASX Listing Rules and Regulatory Guides issued by ASIC, particularly RG 111 and Regulatory Guide 76 – *Related party transactions*.
- 38 ASX Listing Rule 10.1 states that an entity must ensure that it does not acquire a substantial asset from, or dispose of a substantial asset to a substantial holder (of >10% of the voting rights) or an associate of a substantial holder without the approval of holders of the entity’s ordinary securities. Approval is required by resolution at a general meeting.
- 39 ASX Listing Rule 10.2 states that an asset is substantial if its value, or the value of the consideration for it, is 5% or more of the book value of the equity interests of the entity.
- 40 ASX Listing Rule 10.5 requires that the notice of general meeting includes a report from an independent expert stating whether the transaction is fair and reasonable to non-associated holders of the entity’s ordinary securities.
- 41 RG 111 states that “fair and reasonable” should not be applied as a composite test and states there should be a separate assessment of “fair” and “reasonable”. RG 111 provides that a proposed related party transaction:

⁶ ASX Listing Rule 10.2 defines an asset as substantial if its value or the value of the consideration for it is, or in the ASX’s opinion is, 5% or more of the “equity interest” of the entity as set out in the latest accounts given to the ASX under the Listing Rules.

⁷ Shanghai Decent is a substantial shareholder in Nickel Industries for the purposes of ASX Listing Rule 10.1.3 as it has a relevant interest in over 10% of the Company’s total votes.

⁸ Chapter 2E of the *Corporations Act 2001* (Cth) does not impose an IER requirement.

⁹ For the purposes of this report, all future references to “Nickel Industries shareholders” is a reference to the “Nickel Industries non-associated shareholders”.

- (a) is “fair” if the value of the financial benefit to be provided by the entity to the related party is equal to or less than the value of the consideration being provided to the entity by the related party. This comparison is required to be made assuming an arm’s length transaction between knowledgeable and willing, but not anxious parties
 - (b) is “reasonable” if it is “fair”. A related party transaction may also be “reasonable” despite being “not fair” if the expert believes there are other reasons for non-associated shareholders to vote for the proposal.
- 42 Given the above, in our opinion, the most appropriate basis upon which to evaluate whether the Proposed ENC Acquisition is “fair and reasonable” to Nickel Industries shareholders is to consider:
- (a) the market value of the 55% interest in the ENC Project
 - (b) the consideration to be paid by Nickel Industries for the 55% interest in the ENC Project
 - (c) the extent to which (a) and (b) differ in order to assess whether the Proposed ENC Acquisition is “fair”
 - (d) the implications for Nickel Industries if the Proposed ENC Acquisition is not implemented
 - (e) the position of Nickel Industries before and after the Proposed ENC Acquisition, and the net benefits inherent in the transaction
 - (f) the client base of Nickel Industries pre and post the Proposed ENC Acquisition
 - (g) the advantages and disadvantages of the Proposed ENC Acquisition from the perspective of Nickel Industries shareholders.
- 43 The Proposed ENC Acquisition is reasonable to Nickel Industries shareholders provided the advantages of the Proposed ENC Acquisition outweigh the disadvantages from the perspective of Nickel Industries shareholders.

Limitations and reliance on information

- 44 Our opinions are based on the economic, share market, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 45 Our report is also based upon financial and other information provided by Nickel Industries. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 46 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Proposed ENC Acquisition from the perspective of the Nickel Industries shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose of forming its opinion, “due diligence” of the type undertaken by companies and their advisers in relation to (for example) prospectuses or profit forecast is beyond the scope of an IER.

- 47 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the Proposed ENC Acquisition rather than a comprehensive audit or investigation of detailed matters. Further, this report and the opinions therein, must be considered as a whole. Selecting specific sections or opinions without context or considering all factors together, could create a misleading or incorrect view or opinion. This report is a result of a complex valuation process that does not lend itself to a partial analysis or summary.
- 48 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 49 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.
- 50 In forming our opinion, we have also assumed that the information set out in the Explanatory Memorandum is complete, accurate and fairly presented in all material respects.

III Profile of Nickel Industries

Overview

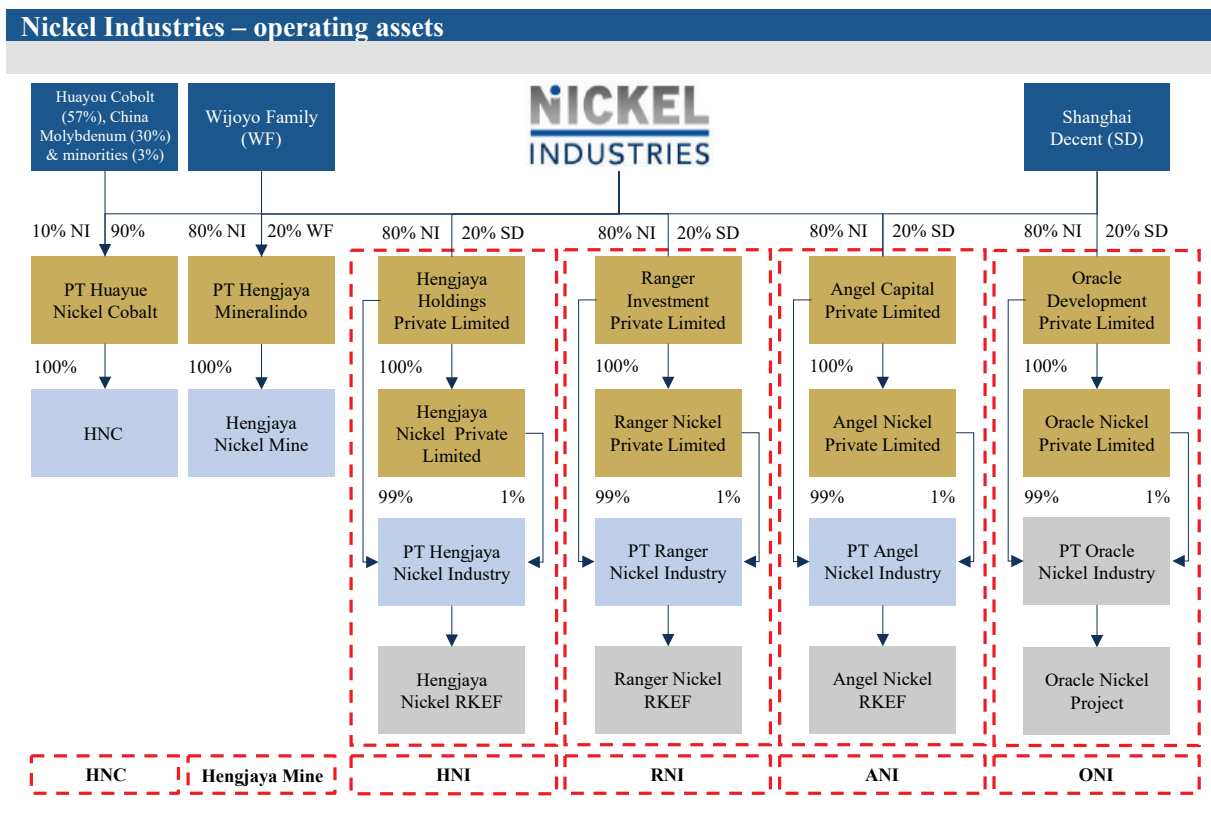
51 Nickel Industries, an ASX-listed Australian company with assets in Indonesia, has become a globally significant, low-cost nickel producer. The Company owns 80% interests in HNI, RNI, ANI and ONI (collectively defined as the NPI Projects¹⁰), a 10% interest in HNC and an 80% interest in the Hengjaya Mine. The Company also owns a number of early stage nickel projects such as the Siduarsi Nickel-Cobalt Project.

History

52 A history of Nickel Industries’ operations, including the founding of its mining operations and the acquisition of interests in the NPI Projects, is set out in Appendix C.

Current operations

53 Nickel Industries’ operating assets and respective company structures are shown below:



54 The majority of Nickel Industries’ operating assets are located in the Morowali Regency on the east coast of Central Sulawesi, Indonesia, with ANI located in the IWIP on Halmahera Island in the Maluku Province, as shown in the following map:

¹⁰ Noting that HNI currently produces nickel matte from its two RKEF lines.

Nickel Industries – locations



Hengjaya Nickel Project (HNI)

- 55 HNI is 80% owned by Nickel Industries and operates two 42 kilo volt amps (kVA) RKEF lines. The project has historically produced NPI, with nameplate production capacity of 150,000 tpa of NPI containing 15,000 tonnes of nickel. HNI produced its first NPI in late January 2019 and had a strong maiden quarter of production, with nickel metal production significantly exceeding the nameplate run rate of 3,750 tonnes of nickel in each of the following quarters to date.
- 56 Following facility modifications undertaken in October 2022, HNI has transitioned to a nickel matte product. The required modification cost for each RKEF line was minimal (approximately US\$1 million per line) and cash costs at HNI have increased due to the additional costs incurred in the nickel matte production and conversion process, combined with the lower recovery rate (at a 93% recovery rate, costs on an equivalent per tonne of nickel produced basis increase by 7.5%). Post the transition, nickel metal production has continued to exceed nameplate capacity.

Ranger Nickel Project (RNI)

- 57 RNI is 80% owned by Nickel Industries and is a replication of HNI (i.e. it operates two 42 kVA RKEF lines with a similar production capacity and operational cost structure). The commissioning of RNI commenced in late May 2019, and by August 2019 the project was operating above its nameplate monthly run rate, with production levels in the following quarters all significantly higher than nameplate capacity (3,750 tonnes of nickel per quarter).

Angel Nickel Project (ANI)

- 58 ANI is 80% owned by Nickel Industries and is located within the IWIP on Halmahera Island in Indonesia’s North Maluku province. The project comprises four RKEF lines with an annual nameplate production capacity of 36,000 tonnes of nickel metal in NPI, a 380 megawatt (MW) captive power plant and ancillary facilities required for the operation of each of the RKEF lines and the power plant.

- 59 ANI's operations are larger than the combined operations of HNI and RNI and are based on the next generation of technology. When combined with ANI's captive power plant, ANI has operational costs that are materially lower than HNI and RNI and give rise to bottom quartile operating costs (on a global basis). In addition, ANI benefits from operating within the IWIP (similar to the IMIP) that provides significant cost and logistics savings underpinned by the ability to locally source an abundance of higher grade (>1.8% nickel grade) nickel ore and the vertically integrated nature of operations within the IWIP.
- 60 ANI entered the commissioning stage on 25 January 2022 and production was limited to around 80% of nameplate capacity prior to commissioning of the ANI power plant, which occurred in late July 2022. Since commissioning the power plant, ANI has significantly exceeded nameplate capacity (of 3,000 tonnes of nickel per month). Post the commissioning of the ANI power plant, and given the relatively high power costs at present¹¹, ANI has had materially lower cash operating costs per tonne of nickel metal production than both HNI and RNI.

Oracle Nickel Project (ONI)

- 61 ONI owns and operates four RKEF lines with an annual nameplate production capacity of 36,000 tonnes of nickel metal in NPI, ancillary facilities required for the operation of each of the RKEF lines and a 380 MW captive power plant. The asset specifications of ONI and the power plant replicate those of the Company's 80%-owned ANI. Consistent with the Company's other NPI projects, Shanghai Decent has undertaken to procure all of the NPI product from ONI at market prices for NPI in China.
- 62 ONI entered the commissioning stage on 15 November 2022, with all four of its RKEF lines producing NPI in the first quarter of 2023. Commissioning of the ONI power plant commenced on 23 June 2023, and in the September 2023 quarter operating costs at the project reduced materially. Similar to ANI, ONI is expected to have lowest quartile operating costs (on a global basis).

Hengjaya Nickel Mine

- 63 Nickel Industries holds an 80% interest in the Hengjaya Mine, a long-life nickel laterite deposit, with the remaining 20% interest owned by the Wijoyo family, acting as the local Indonesian partner. The mine is located 12 kilometres from the IMIP in the Morowali Regency on the east coast of the province of Central Sulawesi, Indonesia. In 2012, PT Hengjaya Mineralindo (PT Hengjaya) was granted a 20-year mining operation / production licence, including two further 10-year extension options.
- 64 The Hengjaya Mine produces direct shipping ore, the majority of which is sold into the IMIP facility for the production of NPI. The mine holds JORC¹² compliant resources as follows (as announced to the ASX on 12 September 2022)¹³:

¹¹ Costs for commodities, and energy related commodities in particular, increased significantly following Russia's invasion of Ukraine and have remained relatively high on a comparative historical basis.

¹² Joint Ore Reserves Committee (JORC).

¹³ These JORC resources have been modestly depleted by subsequent mining.

Hengjaya Nickel Mine – JORC compliant resources				
Category	Dry tonnes (million)	Nickel %	Cobalt %	Iron %
Measured	85	1.3	0.1	30.4
Indicated	130	1.2	0.1	28.6
Inferred	85	1.2	0.1	29.1
Total	300	1.2	0.1	29.2

- 65 The resource upgrade provided in September 2022 represented a 56% increase on the June 2020 reported resources and has placed the Hengjaya Mine amongst the top 10 global nickel resources. The resource upgrade included high grade saprolite resources of 72 wet metric tonnes (WMT) at 1.8% nickel and limonite resources of 151 WMT at 1.2% nickel. The Hengjaya Mine is the closest large tonnage, high grade saprolite and limonite mine to the IMIP, which provides the IMIP with long term ore supply with the lowest transportation costs and associated transportation emissions¹⁴.
- 66 Recently, numerous expansion initiatives¹⁵ have been undertaken with the underlying objective being to unlock the strategic value of Hengjaya Mine’s large-scale resource, including completion (in August 2023) of the haul road linking the Hengjaya Mine to the IMIP. The haul road is expected to deliver a significant uplift in total ore sales from current levels of approximately 3.5 million tonnes (Mt) per annum (Mtpa) to a targeted 10 Mtpa.
- 67 As a direct result of the expansion initiatives, as well as demand for limonite ore from the IMIP, the Hengjaya Mine increased 2022 annual production to 6.8 Mt (comprised of 2.9 Mt saprolite and 3.9 Mt limonite), an increase of 87.7% over the previous year. During the year Nickel Industries commenced supplying commercial quantities of limonite to HNC¹⁶ as well as QMB New Energy¹⁷ at the IMIP. The limonite ore at Hengjaya Mine has historically been treated as overburden and whilst the limonite ore itself was stockpiled, the cost of mining this ore has been expensed. As at 30 September 2023, this stockpile had increased to 11.27 million WMT of limonite ore.

PT Huayue Nickel Cobalt (HNC)

- 68 Following a process commenced in early 2023, Nickel Industries acquired a 10% interest in HNC from Newstride Development Limited (an entity within the Tsingshan group and an affiliate of Shanghai Decent) for US\$270 million. The other shareholders in HNC are Huayou Cobalt (57%), CMOC Group (30%) and other minorities (3%).

¹⁴ Noting that the Company’s RKEF facilities at the IMIP require (in total) some 8.8 million WMT of saprolite per annum and future limonite requirements for the two HPAL projects currently in production at IMIP are some 20 million WMT per annum.

¹⁵ While having the immediate beneficial effect of scaling up production levels and reducing unit costs (on a per tonne basis), many of the expansion initiatives have been designed to prepare the mine to be a future material supplier of both saprolite and limonite ore to the IMIP.

¹⁶ The Company owns a 10% interest in HNC.

¹⁷ QMB New Energy operates an HPAL plant at the IMIP and will require approximately 10 Mtpa of limonite ore when operating at full capacity. Nickel Industries has also entered into a strategic co-operation agreement with QMB New Energy for the future supply of limonite, subject to further definitive agreements to be agreed by the respective parties.

- 69 HNC is a HPAL project located in the IMIP. Construction for the plant commenced in March 2020 and the project was commissioned in November 2021 on time and on budget. The project achieved the fastest construction, the lowest capital expenditure, the shortest commissioning time and the largest scale in comparison with similar projects globally¹⁸.
- 70 HNC has nameplate capacity of 60,000 tpa and 5,000 tpa of cobalt, which is sold as a MHP. Since April 2022, HNC has produced at approximately 10% above this nameplate capacity. Pricing of the MHP has historically been by reference to the market prices for nickel quoted on the London Metals Exchange (LME) and the Shanghai Futures Exchange. HNC also sources limonite from a range of local Indonesian mines (including the Hengjaya Mine) and therefore has diversified its key supply input.
- 71 The investment in HNC has other related benefits to Nickel Industries, such as increasing the Company's HPAL operational knowledge which will assist with its planned expansion of its HPAL interests (currently through the ENC Project).
- 72 Nickel Industries acquired its 10% interest in HNC at the start of August 2023. During August and September, HNC produced 14,102 tonnes of nickel and 989 tonnes of cobalt in MHP. The Company's attributable share of HNC production was 1,410 tonnes of nickel and 99 tonnes of cobalt.

Other exploration assets

- 73 Nickel Industries is in the process of developing a range of nickel projects in Indonesia with the most advanced being Siduarsi. A definitive agreement has been signed with PT Iriana Mutiara Mining for the staged acquisition of a 100% interest in Siduarsi in the Papua province¹⁹. Exploration is well underway, with a JORC resource estimate, a feasibility study and environmental impact study in the process of being completed. The feasibility study will focus on the economics of an initial direct shipping ore operation, which could provide quality saprolite and limonite by barge to either the IMIP or the IWIP.

Tax relief granted

- 74 Nickel Industries' projects have been granted material tax relief, which commence from the tax year in which commercial production is achieved, a summary of which is outlined below:

Nickel Industries – tax concessions			
	Date announced	100% corporate tax reduction	50% corporate tax reduction
HNI	Nov 2018	7 years	2 years
RNI	Mar 2019	7 years	2 years
ANI	Jan 2022	10 years	2 years
ONI	Mar 2022	10 years	2 years
HNC	not applicable ⁽¹⁾	15 years	2 years

Note:

- 1 Nickel Industries did not own its interest in this project when this tax free period was announced.

- 75 Due to the growth in NPI production in Indonesia, the Indonesian Government has recently announced plans to cease granting tax holidays for new NPI projects in the near term. This

¹⁸ Entities associated with Tsingshan / Shanghai Decent constructed the HNC plant.

¹⁹ This followed on from the binding memorandum of understanding (MoU) signed in September 2021.

does not impact the tax breaks already in existence (such as those Nickel Industries receives with respect to its NPI Projects) nor those for new HPAL projects.

Financial performance

76 The financial performance of Nickel Industries for the three years to CY22, in addition to the six months ended 30 June 2023 (1H23), is set out below:

Nickel Industries – statement of financial performance⁽¹⁾				
	CY20	CY21	CY22	1H23
	US\$m	US\$m	US\$m	US\$m
Revenue	523.5	645.9	1,217.0	932.3
Cost of production	(321.6)	(393.2)	(856.6)	(755.3)
Gross profit	201.9	252.7	360.4	177.0
Directors' fees and consultants' expenses	(4.1)	(9.4)	(9.3)	(5.0)
Depreciation and amortisation	(36.8)	(36.0)	(66.6)	(50.6)
Other expenses	(3.4)	(13.3)	(22.7)	(12.2)
Share of profit / (loss) of equity accounted investees	-	(0.1)	0.4	-
Net financial expenses	(3.1)	(13.0)	(41.8)	(51.2)
Profit before tax	154.6	181.0	217.0	58.0
Income tax expense	(0.9)	(5.1)	(7.7)	(9.0)
Profit after tax	153.7	175.9	209.4	49.1
Profit attributable to non-controlling interests	43.1	38.0	50.4	21.9
Profit attributable to owners of the Company	110.6	137.9	159.0	27.1

Note:

1 Rounding differences may exist.

77 As noted above, the operations of Nickel Industries have grown significantly over the above period, in particular as regards the number of and ownership interests in the NPI Projects constructed and commissioned over the period. In this regard, ONI is currently in the production ramp up stage, the Hengjaya Mine is in the process of a major expansion and earnings from HNC have not yet been included in the Company's financial results.

Financial position

78 The financial position of Nickel Industries as at 31 December 2022 and 30 June 2023 is set out below:

Nickel Industries – statement of financial position⁽¹⁾		
	31 Dec 22	30 Jun 23
	US\$m	US\$m
Debtors and prepayments	235.6	369.9
Inventories	204.8	223.4
Creditors, accruals and provisions	(199.6)	(212.3)
Net working capital	240.9	381.1
Property, plant and equipment	1,922.1	1,870.4
Goodwill	102.7	102.7
Exploration and evaluation assets	-	8.9
Other assets net of other liabilities	60.0	62.5
Deferred tax liabilities	(96.1)	(96.1)
Total funds employed	2,229.6	2,329.6

Nickel Industries – statement of financial position⁽¹⁾

	31 Dec 22	30 Jun 23
	US\$m	US\$m
Cash and cash equivalents	144.2	364.0
Interest bearing liabilities	(559.3)	(656.6)
Net cash / (debt)	(415.0)	(292.6)
Net assets	1,814.5	2,037.0
Non-controlling interests	515.9	547.8
Net assets attributable to Nickel Industries shareholders	1,298.6	1,489.2

Note:

1 Rounding differences may exist.

IV Profile of the ENC Project

Overview

79 Nickel Industries' Strategic Agreement with Shanghai Decent has provided the Company with the opportunity to collaborate with Shanghai Decent on future battery nickel opportunities, which has enabled the Company to enter into the Acquisition Agreement with Decent Resource, to acquire up to 75% of the ENC Project via:

- (a) the acquisition of 55% of the ENC Project for US\$1,265 million
- (b) the Option to acquire an additional 20% interest in the ENC Project. The Option exercise price is US\$460 million and the option exercise period ends on 31 January 2024.

ENC Project overview

80 The ENC Project is a HPAL project that will be operating within the IMIP. The ENC Project will have nameplate production capacity of 60,000 tpa of contained nickel equivalent in a nickel cathode, nickel sulphate or MHP, all of which are suitable for use in the EV battery market. Based on experience at HNC, actual production output is expected to be 72,000 tpa. Project infrastructure and civil works for the ENC Project commenced in the third quarter of 2023, with commissioning expected to commence in October 2025.

81 Decent Resource will have control over the design, construction, management, and operation of the ENC Project in accordance with the approvals provide by Excelsior shareholders from time to time, with the design and construction of the ENC Project to be undertaken by FMI (an indirect wholly owned subsidiary of Shanghai Decent).

82 The design and construction of the ENC Project will be undertaken by FMI. The Acquisition Agreement includes a Construction Guarantee under which Shanghai Decent will provide FMI the following²⁰:

- (a) **Capex Cap** – a guarantee that the cost incurred by FMI in construction and commissioning of the ENC Project will not exceed US\$2.3 billion
- (b) **Nameplate Guarantee** – that the ENC Project will meet or exceed the nameplate production capacity of 60,000 tpa on or before 31 July 2026
- (c) **Defects guarantee** – Decent Resource must at its own cost remedy and make good any defect in the ENC Project's plant identified during the 12 months following commencement of commercial production.

83 The ENC Project will benefit from the same innovations incorporated into HNC, such as the conversion of heat generated from its sulfuric acid plant (which is currently the world's largest) into electricity for the project. HNC is one of the world's lowest carbon intensive nickel producers (with a carbon intensity of less than 10 tonnes of carbon per tonne of nickel), with a plan to be carbon-neutral by 2030. The ENC Project will also access solar power, which will make it one of the world's lowest carbon intensive nickel projects globally.

²⁰ Refer to paragraph 25 for further details regarding the Construction Guarantee.

Feasibility Study

84 A feasibility study for the ENC Project was prepared by an associate company of Tsingshan (Feasibility Study) and provides detailed information regarding the operational outputs and costs expected for the ENC Project over a forecast period. The Feasibility Study also concluded that:

- “(a) Indonesia has a large number of laterite nickel ore suitable for high pressure acid leaching, and has the characteristics of high nickel and cobalt grade and low magnesium content, suitable for high pressure acid leaching process;*
- (b) The project adopts the production technology of advanced, reliable, good product quality, low energy consumption, less pollution, flexible operation, safe and reliable;*
- (c) The main raw and auxiliary materials required by this project have the supply conditions, which can ensure the demand of industrial production;*
- (d) The project is close to IMIP Industrial Park, which has perfect water, power, telecommunications, road and other infrastructure planning. There are Hydrometallurgy high pressure acid leaching and fire method RKEF production plants in the park, and the project construction conditions are superior;*
- (e) After the completion of the project, it has good economic and social benefits, and has a strong ability to resist market risks.”*

Production output

85 The ENC Project will have the ability to produce nickel cathode and nickel sulphate in addition to the typical MHP produced at typical HPAL plants. A summary of these outputs is as follows:

- (a) nickel cathode – nickel cathode refers to a pure metallic nickel electrode used in electrochemical processes, particularly in electrolysis and electroplating applications. In these processes, an electric current is passed through a solution containing metal ions, causing the metal ions to either deposit onto the cathode (electroplating) or be reduced to form a solid metal at the cathode (electrolysis)
- (b) mixed hydroxide precipitate – MHP refers to a solid material formed when nickel and cobalt ions are treated with a solution containing hydroxide ions. MHP (in the context of an Indonesian HPAL operation) is an intermediate product in the production of nickel and cobalt and after formulation it can undergo further refining steps to separate and purify the nickel and cobalt components
- (c) nickel sulphate – is a chemical compound with the formula NiSO_4 that is a bright green, crystalline solid that is highly soluble in water. The compound is composed of nickel ions (Ni^{2+}) and sulphate ions (SO_4^{2-}). Nickel sulphate is commonly used in electroplating, battery manufacturing, as a catalyst and in other industrial uses.

86 Pricing for the three products is interrelated, with nickel cathode prices tracking LME nickel market prices, with the prices for nickel sulphate and MHP generally being lower on an

equivalent contained tonne of nickel metal basis due to the lower purity, the additional processing required before end use and varied demand²¹.

- 87 Whilst the MHP end product is a combination of nickel and cobalt, the nickel cathode and nickel sulphate products exclude cobalt. As a result, there are separate nickel (nickel cathode and nickel sulphate) and cobalt (cobalt sulphate) commodities produced.
- 88 Given the early stage of construction, Excelsior has not yet entered into offtake, raw material and other key agreements, however, these are expected to be entered into during the period prior to the commencement of commissioning. As with other RKEF and HPAL projects in which the Company and Shanghai Decent have collaborated, all required permitting is expected to be completed prior to, or around, achieving commercial production.

²¹ In recent years, there have however been periods where nickel sulphate and MHP prices have traded at a premium to LME nickel prices.

V Valuation methodology

Valuation approaches

- 89 RG 111 outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 90 Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 91 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 92 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.
- 93 An asset based methodology is applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where a business is no

longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodology selected

- 94 We have assessed the value of the 55% interest in the ENC Project by applying the DCF methodology to forecast cash flows based on nameplate steady state rates of production and a reasonable assessment of future nickel and cobalt sulphate prices and operating costs. This value has then been compared to the present value of the ENC Project Consideration for the 55% interest in the ENC Project (refer to paragraph 28).
- 95 As a cross-check, we have had regard to the implied Capital Intensity²² of the ENC Project in comparison to other significant nickel HPAL projects.

²² Capital Intensity is the project capital cost divided by annual nickel production capacity.

VI Valuation of the 55% interest in the ENC Project

Overview

- 96 As stated in previous sections of this report, Nickel Industries is seeking to acquire a 55% interest in the ENC Project from Decent Resource for US\$1,265 million. The value of the ENC Project has been assessed by applying the DCF methodology to forecast cash flows based on nameplate steady state rates of production and a reasonable assessment of future nickel and cobalt sulphate prices and operating costs. The value of a 55% interest in the ENC Project has then been compared to the present value of the ENC Project Consideration, which is planned to be provided in tranches as indicated in paragraph 28.
- 97 As a cross check we have had regard to the implied Capital Intensity²³ of the ENC Project Capex Cap (i.e. a 100% project basis) in comparison to other significant HPAL projects (both existing and proposed).

Valuation on a DCF basis

- 98 Under the DCF methodology, the value of the ENC Project is equal to the NPV of the estimated cash flows over the estimated operating period. In order to arrive at the NPV, the future cash flows are discounted using a discount rate which reflects the risk associated with the cash flow stream.
- 99 Our DCF valuation is based on free cash flow projections derived by LEA having regard to, inter alia (adjusted where considered necessary by LEA after discussions with Nickel Industries management):
- (a) the Construction Guarantee which Decent Resource will provide FMI the following:
 - (i) **Capex Cap:** a guarantee that the total construction cost incurred by FMI for the ENC Project will not exceed US\$2.3 billion
 - (ii) **Nameplate Guarantee:** that the ENC Project will meet or exceed the nameplate production capacity (60,000 nickel equivalent tonnes per annum of nickel-cobalt hydroxide) on or before 31 July 2026
 - (b) the Feasibility Study in regards to the ENC Project's production output (which is underwritten by the Nameplate Guarantee) and operating costs (including both cash and non-cash costs).
- 100 Whilst LEA believes the assumptions underlying the cash flow projections adopted for valuation purposes are reasonable and appropriate, it should be noted in respect of these projections that:
- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
 - (b) the projections and the underlying assumptions have not been reviewed by an investigating accountant or technical expert for reasonableness or accuracy of compilation and application of assumptions

²³ Capital Intensity is the project capital cost divided by annual nickel production capacity.

- (c) future profits and cash flows are inherently uncertain
- (d) by their nature, the projections do not take into account the operational flexibility available to management to react to changes in the market conditions in which the ENC Project will operate
- (e) the achievability of the projections is not warranted or guaranteed by Nickel Industries or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Nickel Industries and its management; and
- (f) actual results may be significantly more or less favourable.

101 Free cash flow represents the operating cash flows on an ungeared basis (i.e. before interest) less taxation payments²⁴, maintenance costs (post commissioning) and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the ENC Project to be determined irrespective of the level of debt funding employed.

102 For valuation purposes we have assumed a valuation date of 30 September 2023. Cash flows for the ENC Project cover a period of 30 years post commissioning (noting that the useful life of ENC Project is well in excess of this).

Cash flow projections

103 As the detailed cash flow projections are commercially sensitive, they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections. Our base case scenario and related assumptions reflect a 100% interest in the ENC Project.

Production output

104 The ENC Project is expected to have production capacity of 72,000 tpa of contained nickel equivalent. However, both the Feasibility Study and the Nameplate Guarantee are based on production capacity of 60,000 tpa of contained nickel equivalent production. Accordingly this level of production has been adopted for valuation purposes. Production of 60,000 tpa of nickel equivalent also produces approximately 25,000 tonnes of cobalt sulphate with a 20.5% cobalt content (which is equivalent to approximately 5,000 tonnes of cobalt production).

105 Notwithstanding the operational flexibility available to the ENC Project with respect to the ultimate product output (including the production of either nickel cathode and cobalt sulphate, nickel sulphate or MHP), for the purpose of our valuation we have assumed that the commodities produced are nickel cathode and cobalt sulphate²⁵.

106 Project infrastructure and civil works for the ENC Project commenced in the third quarter of 2023, and consistent with the Feasibility Study, we have assumed a two year construction period, plus a one year ramp up period to reach full production.

²⁴ Also calculated on an ungeared basis.

²⁵ The ENC Project also produces small (relatively immaterial) quantities of manganese sulphate and copper sponge, which have been included in our valuation.

107 Given the ENC Project is expected to produce nickel equivalent at a rate of 72,000 tpa, which materially exceeds nameplate capacity, we have also considered a range of alternative assumed scenarios in our sensitivity analysis below.

Nickel prices

108 Nickel cathode such that will be produced by the ENC Project typically commands prices that are equivalent to LME nickel prices. In determining forecast nickel prices for the valuation of the ENC Project we have therefore had regard to LME nickel prices. The benchmark LME nickel prices from 1 January 2020 to 30 September 2023 are shown below.

Historical nickel pricing (US\$ per tonne)⁽¹⁾

1 January 2020 to 30 September 2023



Source: FactSet.

Analyst forecast prices and forward nickel prices

109 Analyst LME nickel price forecasts as at or around the valuation date, as well as average forward nickel prices, are set out below:

LME nickel price forecasts (US\$ per tonne)

	2023	2024	2025	2026	2027	Long term ⁽¹⁾
Analyst forecasts						
Average (nominal prices)	20,424	20,178	20,291	19,835	20,036	21,307
Median (nominal prices)	20,361	20,438	20,000	20,341	20,972	22,887
Number of analysts	28	28	23	17	16	7
Average (real prices)⁽²⁾						
Average (real prices) ⁽²⁾	20,291	19,597	19,483	18,618	18,383	18,323
Median (real prices) ⁽²⁾	20,229	19,848	19,204	19,092	19,242	18,000
Number of analysts	28	28	23	17	16	11

LME nickel price forecasts (US\$ per tonne)

	2023	2024	2025	2026	2027	Long term ⁽¹⁾
Forward prices						
Forward nickel prices (nominal)	18,573	19,024	20,349	21,497	22,612	23,611
Forward nickel prices (real) ⁽²⁾	18,519	18,774	19,550	20,188	20,758	21,188

Note:

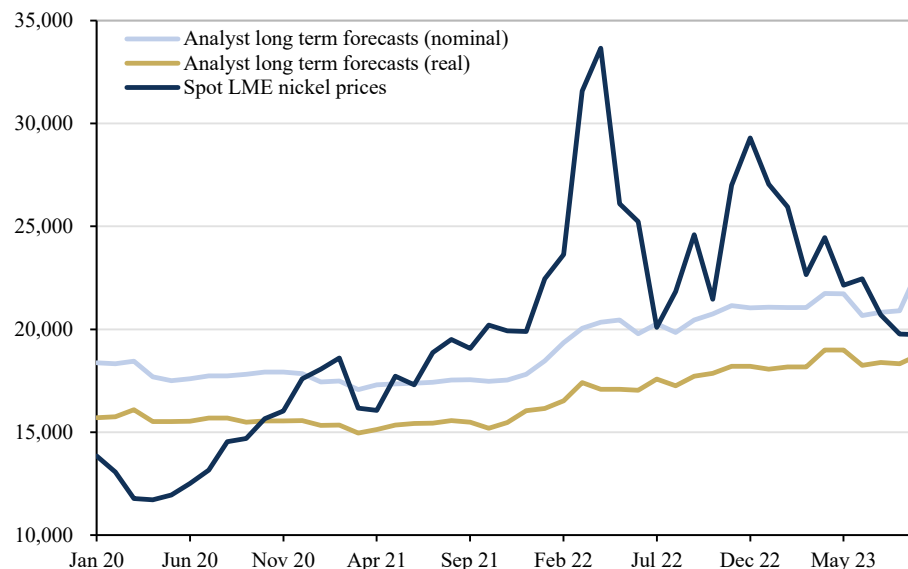
- Analyst long term nickel prices relate to 2028 to 2032.
- In the absence of real nickel price forecasts for 2023 to 2027, the nominal prices over this period have been adjusted to remove assumed inflation (of 2.3% per annum).

Source: Consensus Economics and Bloomberg.

- 110 The analyst long term nickel price estimates in real terms (i.e. excluding inflation) were between US\$15,000 to US\$16,000 per tonne during 2020 to 2021, and these have subsequently increased to around US\$18,000 per tonne.

Long term nickel price forecasts and spot nickel prices⁽¹⁾ (\$US per tonne)

January 2020 to September 2023

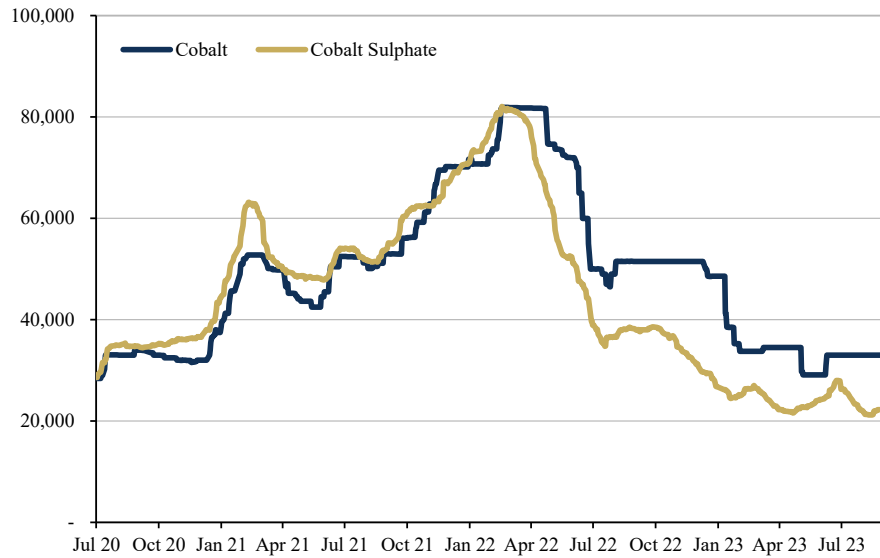


Source: Consensus Economics.

Cobalt sulphate prices

- 111 As stated above, cobalt sulphate with a 20.5% cobalt content will be produced by the ENC Project in tandem with nickel cathode production. In order to determine the pricing for cobalt sulphate we have considered the historical relationship between cobalt and cobalt sulphate prices (noting that for comparability purposes, the cobalt sulphate pricing below is based on 100% cobalt), which is as follows:

Historical cobalt and cobalt sulphate prices (US\$ per tonne)⁽¹⁾
22 July 2022 to 30 September 2023



Source: Nickel Industries.

- 112 As shown above, cobalt sulphate prices generally traded at a premium to cobalt prices up to around March 2022, after which cobalt sulphate prices have traded at a discount to cobalt prices. This is primarily due to a divergence of market fundamentals, with relatively tight supply of cobalt intermediate products (such as cobalt sulphate) up to March 2022, followed by an oversupply of cobalt intermediate products over the period since March 2022.
- 113 Analyst LME cobalt price forecasts as at or around the valuation date, as well as average forward cobalt prices, are set out below:

LME cobalt price forecasts (US\$ per tonne)

	2023	2024	2025	2026	2027	Long term ⁽¹⁾
Analyst forecasts						
Average (nominal prices)	35,363	39,389	41,941	47,240	50,485	51,943
Median (nominal prices)	33,954	36,955	40,785	46,848	48,502	50,309
Number of analysts	10	10	10	9	9	5
Forward prices						
Average (real prices) ⁽²⁾	35,133	38,254	40,272	44,340	46,320	47,887
Median (real prices) ⁽²⁾	33,734	35,890	39,162	43,972	44,501	44,092
Number of analysts	10	10	10	9	9	7
Forward cobalt prices (nominal)	33,209	34,027	na	na	na	na
Forward cobalt prices (real) ⁽²⁾	33,108	33,570	na	na	na	na

Note:

- Analyst long term cobalt prices relate to 2028 to 2032.
- In the absence of real cobalt price forecasts for 2023 to 2027, the nominal prices over this period have been adjusted to remove assumed inflation (of 2.3% per annum).

Source: Consensus Economics and Bloomberg.

na – not available.

Nickel, cobalt and cobalt sulphate prices adopted

114 Having regard to the above, for the purposes of our DCF valuation we have adopted the following nickel cathode and cobalt sulphate prices:

LME nickel and cobalt (and cobalt sulphate) prices (real) adopted (US\$ per tonne)⁽¹⁾						
	2023	2024	2025	2026	2027	2028+
LME nickel price (real)	20,000	20,000	19,500	19,000	18,500	18,000
Nickel cathode prices adopted	20,000	20,000	19,500	19,000	18,500	18,000
Cobalt price	33,000	37,000	40,000	42,000	43,000	44,000
Cobalt sulphate price discount ⁽²⁾	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Cobalt sulphate prices adopted	23,100	25,900	28,000	29,400	30,100	30,800

Note:

- 1 Given the assumed commencement of production from 1 October 2025, only prices from 2025 have been used in the valuation of the ENC Project. The prices adopted for valuation purposes have been calendarised to a 30 September year end (which are not shown above).
- 2 Based on the historical average level of discounts for the year to 30 September 2023.

Cash operating costs

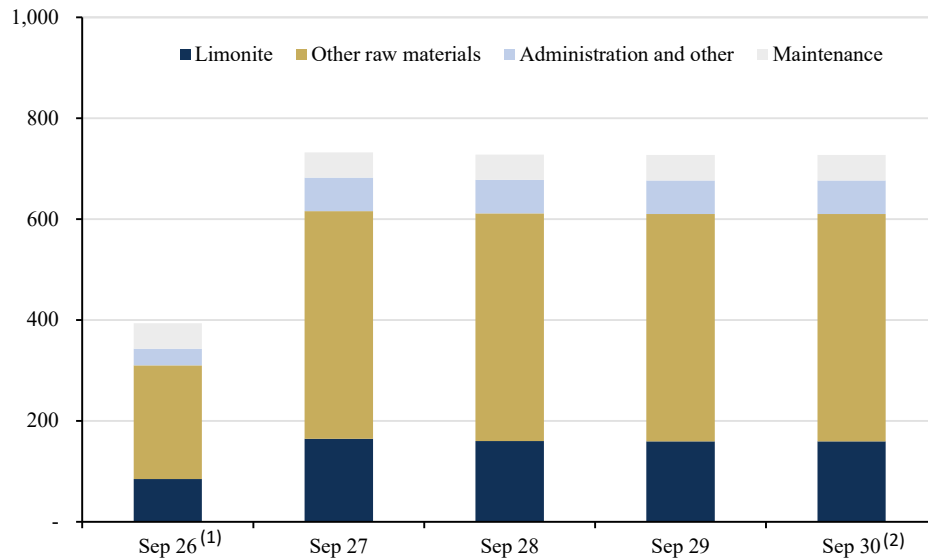
115 The cash operating costs set out in the Feasibility Study for the ENC Project include the following:

- (a) raw materials – these represent the majority of costs for the ENC Project and cover a range in inputs including limonite, brim stone, limestone, sodium hydroxide, hydrochloric acid and soda
- (b) power costs – this is the additional power required over and above the power generated internally by the conversion of heat generated from the ENC Project’s sulphuric acid plant (some of this additional power is to be provided from renewable sources)
- (c) administration costs – wages, sales expenses, administration costs
- (d) maintenance costs – approximately US\$50 million per annum (which results in minimal capital expenditure required for operations).

116 Having regard to the Feasibility Study (adjusted where necessary, for example for limonite costs that are consistent with our nickel price assumptions), for the purposes of our DCF valuation, we have adopted the following cash operating costs:

Cash operating costs (US\$ million)

Year ending 30 September



Note:

- 1 The year to 30 September reflects 50% of nameplate production as the project ramps up to full production rates.
- 2 Post the year to 30 September 2030, cash operating costs have been maintained at these levels.

Sustaining capital expenditure and depreciation

117 As set out above, maintenance costs of US\$50 million per annum have been included in the cash costs, which equates to about 2% of the project value per annum based on the US\$2.3 billion Capex Cap (at 100% level). Given this allowance, we have not added any further capital expenditure for sustaining capital expenditure.

118 Depreciation has been based on a 20 year life which is consistent with the useful life allowed for tax purposes. We note that the expected life of the project (as noted above) is well in excess of this.

Working capital

119 A working capital allowance of US\$95 million for the ENC Project to reach a steady state of production has been included in the DCF, which is included in the first two years of operation as the project reaches its full production output.

Corporate tax

120 The Indonesian corporate tax rate is 22%. However, the ENC Project has been granted material corporate income tax relief as follows:

- (a) a corporate income tax reduction of 100% for a period of 15 tax years, starting from the tax year in which commercial production is achieved
- (b) 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 15 year period
- (c) 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 15 years, also commencing from the tax year in which commercial production is achieved.

121 The DCF model includes an allowance for 10% withholding tax payable on dividends distributed to the Singaporean holding company. No withholding tax is expected to be payable on dividend distributions from Singaporean companies²⁶.

Discount rate

122 We have adopted a discount rate of 10.0% per annum (after tax in real terms) based on the midpoint of the assessment below for the ENC Project:

Weighted average cost of capital (WACC)		
	Low %	High %
Beta	1.1	1.2
Market risk premium	5.5	5.5
Risk free rate	4.7	4.7
Cost of equity	10.8	11.3
Specific project risk premium	1.0	1.5
Country risk premium	3.0	3.0
Cost of equity including other premiums	14.8	15.8
Cost of debt pre tax	8.5	9.5
Cost of debt post tax⁽¹⁾	6.6	7.4
Proportion equity	60.0	70.0
Proportion debt	40.0	30.0
WACC (after tax)	11.5	13.3
Forecast inflation ⁽²⁾	2.3	2.3
Real WACC (after tax)	9.0	10.7
Adopted real WACC (after tax)	10.0	

Note:

- 1 The post tax cost of debt is derived by adopting Indonesia's 22% corporate tax rate
- 2 Given the cash flows for the ENC Project have been forecast in real terms we have calculated the equivalent real discount rate having regard to the annual level inflation implied by the difference between US Government Bonds and US Treasury Inflation Indexed Bonds. Based on trading in these securities during as at 30 September 2023, inflation implied by the 30-year US Government Bonds compared to the relevant US Treasury Inflation Indexed Bonds (i.e. implied inflation for 30 years from this date) was 2.3%.

123 Our discount rate assessment reflects:

- (a) a **risk free rate** of 4.7% per annum – our adopted risk free rate is equivalent to the average yield on the 30-year US Government Bond as at 30 September 2023 (note, this is the longest term US Treasury Bond on issue)
- (b) a **market risk premium** of 5.5% per annum
- (c) an **equity beta** of 1.1 to 1.2 – having regard to:
 - (i) the tolling nature of the ENC Project's proposed facilities

²⁶ We have conservatively allowed for withholding tax at a rate of 10% from the commencement of generation of distributable free cash flow from the ENC Project.

- (ii) the ENC Project’s exposure to nickel and cobalt sulphate prices and the commodity price volatility therein
- (d) **specific company risk premium** of 1.0% to 1.5% has been adopted due to the early (development) stage of the ENC Project as at the date of this report. This specific risk premium is potentially conservative given the Construction Guarantee (incorporating the Capex Cap and the Nameplate Guarantee)
- (e) **country risk premium**²⁷ of 3% has been adopted based on Indonesia’s country bond default spread²⁸
- (f) a long-term **cost of debt** of 8.5% to 9.5%²⁹, which has primary regard to Nickel Industries’ recent five-year senior term facility with PT Bank Negara Indonesia (Persero) Tbk, which was announced on 11 October 2023, which had interest rates increasing from 7.3%³⁰ initially to 8.8%³⁰ after 18 months³¹
- (g) a conservative **gearing ratio** (debt / enterprise value) of 30% to 40% (noting that the ENC Project is ultimately targeting a gearing ratio of 50% or higher)
- (h) a long-term **inflation rate** of 2.3% per annum, which is consistent with the estimated long-term inflation rate in the US of 2.3% per annum as at 30 September 2023.

Sensitivity

- 124 There are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations. It is important therefore not to credit the output of DCF models with a precision they do not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the enterprise being valued.
- 125 In assessing our valuation range for the valuation of a 100% interest in the ENC Project we have therefore considered the sensitivity of value to changes in the key assumptions, as shown below:

ENC Project – NPV sensitivities (at 100% project interest)			
Variable	Base case assumption	Sensitivity %	Value range US\$m
Nickel production (base case)	60,000	+ / - 6,000 tonnes	3,045 – 4,507
Nickel production (expected case)	72,000	not applicable	5,239
LME nickel price (real)	US\$19,125/t – US\$18,000/t	+ / - 10	3,152 – 4,400
Cobalt sulphate adjustment discount	~ US\$2,600/t	+ / - 15	3,551 – 4,002
Cash costs per tonne (real)	~ US\$730 million	+ / - 10	3,320 – 4,232
Discount rate	10% per annum	9 – 11	3,434 – 4,171

²⁷ A country risk premium essentially allows for three major risks associated with investment in a foreign country including political risk, economic risk and currency risk.

²⁸ Where the country bond default spread is measured as the difference between the yield on the country’s sovereign bonds and the yield on comparable US Treasury Bonds.

²⁹ The adopted cost of debt implicitly includes allowance for a country risk premium.

³⁰ Based on current Secured Overnight Financing Rates (SOFR).

³¹ Noting this is the best indication of potential borrowing rates in Indonesia for the project.

- 126 As noted above, the base case assumption for production of the ENC Project is 60,000 tpa of nickel production (in the form of nickel cathode). It is important to note, however, that at the expected production levels of 72,000 tpa nickel equivalent (assuming nickel cathode is produced and an equivalent percentage increase in cobalt sulphate production), adopting the above valuation assumptions results in an increase in the ENC Project value of over US\$1.4 billion (at the 100% project level).
- 127 The value attributable to the effective tax holiday shown at paragraph 120 above in our base case DCF valuation is approximately US\$653 million for the ENC Project, based on our adopted discount rate of 10.0%.

DCF value

- 128 Based on the above assumptions we have assessed the value of the ENC Project as follows

ENC Project – valuation		
	Low US\$m	High US\$m
Value of 100% of the ENC Project	3,600	4,000
Nickel Industries proposed ownership	55%	55%
Value of 55% of the ENC Project	1,980	2,200
Present value of ENC Project Consideration (for 55% of the ENC Project) ⁽¹⁾	1,170	1,170
Value in excess of the present value of the ENC Project Consideration	810	1,030

Note:

- 1 This is the ENC Project Consideration of US\$1,265 million for 55% of the ENC Project to be paid in tranches from the valuation date (i.e. 30 September 2023) set out in paragraph 28, discounted at 10% per annum (which is consistent with the WACC we have assessed for the ENC Project).

- 129 Our assessed DCF value for 55% of the ENC Project is therefore significantly in excess of the present value of the ENC Project Consideration.

Capital Intensity of nickel equivalent

- 130 The Capital Intensity for the ENC Project, based on both the nameplate production capacity (60,000 tpa of nickel equivalent production) and expected production (72,000 tpa of nickel equivalent production) is set out below:

ENC Project – Capital Intensity			
		60,000 tpa	72,000 tpa
Capital cost (100%)	US\$m	2,300	2,300
Nickel equivalent production	tpa	60,000	72,000
Capital Intensity	US\$m/t	38,333	31,944

- 131 The Capital Intensity of significant HPAL projects (predominantly in Indonesia), is set out in the following table:

Capital Intensity for global nickel projects

Project	Year	Plant	Ni capacity tpa	Capital cost US\$m	Capital Intensity US\$m/t
VNC (Goro)	2010	HPAL	60,000	6,000	100,000
Ambatovy	2012	HPAL	60,000	5,500	91,667
Ramu ⁽¹⁾	2012	HPAL	34,000	1,490	43,823
Current Indonesian HPAL plants					
PT Halmahera Persada Lygend ⁽²⁾	2018 ⁽³⁾	HPAL	54,000	1,500	27,778
HNC ⁽⁴⁾	2019 ⁽³⁾	HPAL	60,000	1,600	26,667
QMB New Energy ⁽⁵⁾	2019 ⁽³⁾	HPAL	50,000	1,600	32,000
Proposed / probable Indonesian HPAL plants					
PT Huafei	2021	HPAL	120,000	2,080	17,333 ⁽⁶⁾
Huayou (Pomalaa)	2022 ⁽⁷⁾	HPAL	120,000	4,500	37,500
Huayou (Sorowako)	2022 ⁽⁸⁾	HPAL	60,000	1,800	30,000
PT Huashan	2022	HPAL	120,000	2,604	21,700 ⁽⁶⁾

Note:

- 1 The Ramu nickel project is located in Papua New Guinea and was the first successful HPAL project to achieve high capacity utilisation with relatively low operating costs.
- 2 Comprising a Phase 1 (37,000 tonnes) and Phase 2 (17,000 tonnes) plant operating on Obi Island. A third possible plant is proposed adding 60,000 tonnes, however no further details are available. Production commenced in mid-2021.
- 3 Year that construction commenced.
- 4 HNC commenced production in December 2021.
- 5 This plant is not yet in full production, with production from the second phase expected to ramp up in 2023.
- 6 The relatively low capital costs for these projects reflects Tsingshan's cost advantage and significant experience in building such HPAL plants.
- 7 Project agreement signed by Huayou Cobalt and Vale in April 2022 to build a HPAL in Pomalaa, south-east Sulawesi. Ford Motor Company subsequently joined the partnership.
- 8 Project announced by Huayou Cobalt and PT Vale in September 2022 to build a HPAL in Sorowako in South Sulawesi Province.

Source: Nickel Industries; *The Rise and Rise of Indonesian HPAL – But Can It Continue?* Angela Durant, Analyst, Wood Mackenzie, 12 December 2022; Mining Technology and LEA analysis.

132 Regarding the Capital Intensity for ENC Project we note that:

- (a) the Capital Intensity for historical global nickel projects (including early HPAL plants) is higher³² than the Capital Intensity for the ENC Project
- (b) the Capital Intensity for the ENC Project is above the Capital Intensity for the current and proposed projects³³, however the ENC Project:
 - (i) includes the ability to produce nickel cathode, which increases the capital cost to build the project
 - (ii) is expected to operate at the bottom of the cost curve
 - (iii) is expected to have the lowest carbon footprint of operating HPAL plants

³² Earlier projects were generally considered uneconomic (in part reflected in the high Capital Intensity).

³³ Noting that the Capital Intensity for the PT Huafei and PT Huashan plants are relatively low as they both reflect Tsingshan's cost advantage and significant experience in building such HPAL plants.

- (c) without a Construction Guarantee (incorporating the Capex Cap and the Nameplate Guarantee) such as that covering the ENC Project, there is no certainty that other competing projects in the proposed / probable stages will either be commissioned, or at the announced Capital Intensity.

VII Evaluation of the Proposed ENC Acquisition

133 In our opinion, the Proposed ENC Acquisition is fair and reasonable to Nickel Industries shareholders. We have formed this opinion for the reasons set out below.

Fairness

134 Pursuant to RG 111, a related party transaction is “fair” if the value of the financial benefit being offered by the entity to the related party is equal to or less than the value of the assets being acquired. In our opinion the Proposed ENC Acquisition is fair as:

- (a) the NPV of the ENC Project Consideration of US\$1,170 million³⁴ for 55% of the ENC Project is less than the NPV of the estimated future free cash flows from the ENC Project, which we have assessed at US\$1,980 million to US\$2,200 million (refer Section VI). This valuation has regard to nameplate steady state rates of production, a reasonable assessment of future nickel prices and operating costs for the ENC Project
- (b) the ENC Project Capex Cap is broadly consistent with other transactions for HPAL interests based on relative Capital Intensity³⁵.

135 Further, as the Option exercise price has been determined on a consistent pro-rata basis with the ENC Project Consideration, the Option exercise price is also fair. However, we note that Nickel Industries is under no obligation to exercise the Option.

Assessment of reasonableness

136 Pursuant to RG 111, a related party transaction is reasonable if it is fair. Accordingly, we have concluded that the Proposed ENC Acquisition is both fair and reasonable to Nickel Industries shareholders.

137 In considering whether the Proposed ENC Acquisition is reasonable to Nickel Industries shareholders we have also had regard to the following:

- (a) the implications for Nickel Industries if the Proposed ENC Acquisition is not implemented
- (b) the position of Nickel Industries before and after the Proposed ENC Acquisition, and the net benefits inherent in the transaction
- (c) the client base of Nickel Industries pre and post the Proposed ENC Acquisition
- (d) the advantages and disadvantages of the Proposed ENC Acquisition from the perspective of Nickel Industries shareholders.

Implications if the Proposed ENC Acquisition is not implemented

138 If the Proposed ENC Acquisition does not occur as a result of Nickel Industries shareholders failing to pass a resolution at general meeting authorising the Proposed ENC Acquisition, Nickel Industries will forgo increased exposure to the Class 1 nickel and EV battery supply

³⁴ Which is the NPV of the ENC Project Consideration of US\$1,265 million.

³⁵ Capital Intensity is the project capital cost divided by annual nickel production capacity.

chain. In our opinion, the value of these earnings, and the implicit diversification benefits, exceeds the consideration payable.

Position of Nickel Industries before and after the Proposed ENC Acquisition

139 Whilst the Company currently has some exposure to the Class 1 nickel and EV battery supply chain through its 10% interest in HNC, this interest is not material to the Company's business as a whole.

140 Based on the DCF assessment, the Proposed ENC Acquisition is value accretive as the Proposed ENC Acquisition provides Nickel Industries with:

- (a) an additional income source from further downstream production of Class 1 nickel (i.e. nickel cathode, nickel sulphate or MHP)
- (b) increasing diversification of operations with Class 1 nickel suitable for battery products (ongoing demand for which is high), as compared to NPI production (which is predominantly used in stainless steel production)
- (c) a greater operational footprint and presence in one of the largest nickel production centres globally.

141 Nickel Industries does not intend to raise further equity capital to finance the Proposed ENC Acquisition as the Company has sufficient funding for the ENC Proposed Transaction, including:

- (a) the proceeds available from the recent placement to PT United Tractors Tbk (of A\$943 million, which is approximately US\$620 million), which completed on 22 September 2023
- (b) a US\$350 million five-year senior term facility with PT Bank Negara Indonesia (Persero) Tbk and a US\$50 million revolving credit facility (for general working capital purposes), which was announced on 11 October 2023, together with the positive final investment decision for the ENC Project. The five-year senior term loan facility of US\$350 million is split across two tranches: tranche A (US\$200 million secured against ANI) and tranche B (US\$150 million unsecured). The interest rates applicable on the loan facility will be a margin above the SOFR (currently ~5.3%), according to the following schedule:
 - (i) initial 12-month period is 2.00%
 - (ii) months 12-18 is 3.00%
 - (iii) 18 months onwards is 3.50%.

The margin on the revolving capital facility will be 3.00%

- (c) existing cash (as well as ongoing cash flows from existing operations).

Client base of Nickel Industries before and after the Proposed ENC Acquisition

142 Shanghai Decent has offtake arrangements to purchase all of the NPI product from RNI, ANI and ONI, whilst the nickel matte from HNI and MHP product from HNC is sold to other third parties. Accordingly, the client base of the Company is currently highly concentrated with Shanghai Decent.

- 143 An investment in the ENC Project provides Nickel Industries with the opportunity to significantly diversify the Nickel Industries customer base once the ENC Project reaches full production and new (non Shanghai Decent) customers purchase the production output.

Advantages and disadvantages

- 144 In concluding whether the Proposed ENC Acquisition is “fair and reasonable” to Nickel Industries shareholders we have also had regard to the advantages and disadvantages of the Proposed ENC Acquisition from the perspective of Nickel Industries shareholders:

Advantages

- (a) the Proposed ENC Acquisition will increase the Company’s exposure to Grade 1 nickel production, providing Nickel Industries shareholders with significant exposure to the EV battery supply chain
- (b) the Capex Cap and Nameplate Guarantee of the ENC Project increases the project’s attractiveness as they reduce the risk of capital cost overruns and provide output certainty
- (c) the Proposed ENC Acquisition will provide diversification of the Company’s client base
- (d) the Proposed ENC Acquisition will continue the longstanding financial, operational and strategic partnership with Shanghai Decent and Tsingshan, which has to date been of significant benefit to the Company

Disadvantages

- (e) there are no obvious disadvantages in connection with the Proposed ENC Acquisition at the date of this report.

Other considerations

- 145 As noted above, Nickel Industries does not intend to raise further equity capital to finance the Proposed ENC Acquisition as the Company has funds available from the proceeds of the recent placement to PT United Tractors Tbk (of A\$943 million, which is approximately US\$600 million), a US\$350 million five-year senior term facility and a US\$50 million revolving credit facility with PT Bank Negara Indonesia (Persero) Tbk, as well as existing cash and ongoing cash flows from existing operations.

Conclusion

- 146 In our opinion, the advantages of the Proposed ENC Acquisition significantly outweigh the disadvantages.

Appendix A

A Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001* (Cth) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Explanatory Memorandum to be sent to Nickel Industries shareholders in connection with the Proposed ENC Acquisition.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee estimated at A\$60,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Australian Financial Complaints Authority (AFCA), an external complaints resolution service. You will not be charged for using the AFCA service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 7
64 Castlereagh Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

B Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the *Corporations Act 2001* (Cth). LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Ms Julie Planinic and Mr Jorge Resende, who are each authorised representatives of LEA. Ms Planinic and Mr Resende have over 24 years and 21 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Independent Directors of Nickel Industries to accompany the Notice of Meeting to be sent to Nickel Industries shareholders. It is not intended that this report serve any purpose other than as an expression of our opinion as to whether or not the Proposed ENC Acquisition is fair and reasonable to Nickel Industries shareholders not associated with Shanghai Decent.
- 4 LEA expressly disclaims any liability to any Nickel Industries shareholder who relies or purports to rely on our report for any other purpose and to any other party who relies or purports to rely on our report for any purpose whatsoever.

Interests

- 5 At the date of this report, neither LEA, Ms Planinic nor Mr Resende have any interest in the outcome of the Proposed ENC Acquisition. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 6 We have considered the matters described in ASIC Regulatory Guide 112 – *Independence of experts*, and consider that there are no circumstances that, in our view, would constitute a conflict of interest or would impair our ability to provide objective independent assistance in this engagement.
- 7 Nickel Industries shareholders should be aware that LEA prepared IERs in March 2022 and May 2023 with respect to (inter alia) the issue of shares to Shanghai Decent and has also issued a number of IERs in connection with the Company's acquisition of its NPI Projects in the period June 2019 to December 2021.
- 8 LEA had no part in the formulation of the Proposed ENC Acquisition. Its only role has been the preparation of this report.

Indemnification

- 9 As a condition of LEA's agreement to prepare this report, Nickel Industries agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Nickel Industries which is false or

Appendix B

misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 10 LEA consents to the inclusion of this report in the form and context in which it is included in the Notice of Meeting.

C History of Nickel Industries' operations

Mining origins

- 1 Nickel Industries was incorporated on 12 September 2007 with the objective of acquiring, exploring and developing nickel resources. After a period focusing on other opportunities, in December 2009 the Company entered into an agreement to acquire an 80% economic interest in the share capital of PT Hengjaya, the owner of 100% of the Hengjaya Mine, with the remaining 20% interest owned by members of Indonesia's Wijoyo family.
- 2 Nickel Industries commenced mine production in October 2012 and a maiden shipment of nickel laterite ore was exported in February 2013. A number of vessels containing high grade nickel laterite (at an average grade of 1.98% nickel) were sold into China and Japan in 2013. However, following the Indonesian Government's formal ban on the direct shipping of unprocessed minerals in January 2014 (including exports under a grade of 4% nickel), mining at the Hengjaya Mine ceased and operations were placed on care and maintenance.

Indonesian export ban on unprocessed minerals

- 3 The origins of the Indonesian export ban of direct shipping of unprocessed minerals (DSO Ban) dates back to the 2009 Indonesian Law on Mineral and Coal Mining. This law described certain minerals as national non-renewable resources, specifying that mining should be managed to encourage sustainable regional development, be for the benefit of national interests and pursuant to the welfare and prosperity of the Indonesian people. While it was not until January 2014 that an Indonesian presidential DSO Ban decree came into force, the intervening period had seen the Indonesian Government actively encouraging and promoting the investment into and construction of smelting facilities to establish an Indonesian downstream nickel processing industry.
- 4 In mid-2013, Tsingshan (then one of China's largest stainless steel producers) committed to building a nickel processing facility in Indonesia to satisfy the indicated new framework for the treatment of Indonesia's natural resources. Tsingshan pioneered the RKEF process to produce low-cost NPI through processing and smelting ore into stainless steel furnaces in a continuous hot flow³⁶, and has since become a global leader in NPI processing technology³⁷ and the dominant player in the Indonesian NPI industry.
- 5 PT Indonesia Morowali Industrial Park was established to develop the IMIP in the Morowali County of the Central Sulawesi Province of Indonesia. During October 2013, China's President Xi and then Indonesian President Yudhoyono witnessed the signing of the Cooperation and Financing Agreement for the development of the IMIP.

³⁶ The major innovation was the RKEF process which allows ore to be processed, smelted and directed into stainless steel furnaces in a continuous hot flow.

³⁷ Including having implemented the Argon Oxygen Decarburisation process, which incorporates the direct hot charging of NPI into the stainless steel production process for a low cost stainless steel cost position.

Appendix C

Resumption of mining operations and development of Tsingshan relationship

- 6 The introduction of the Indonesian DSO Ban materially changed the course of Nickel Industries' future, with the Company subsequently required to meet the minimum required export grade of 4% for nickel products. The development of the IMIP, and a growing requirement for nickel laterite ore as feedstock for the IMIP's RKEF lines, saw the Hengjaya Mine recommence operations in October 2015.
- 7 In September 2015, PT Hengjaya signed a supply agreement with PT Sulawesi Mining Investment, a Tsingshan group company, to supply 30,000 WMT per month of nickel laterite at a cut-off grade of 1.9% nickel for six months. In December 2016, PT Hengjaya entered into an offtake agreement with Tsingshan group company PT Indonesia Tsingshan Stainless Steel for the delivery of 50,000 WMT per month at an average grade of 1.9% nickel³⁸.
- 8 The development of this relationship and Tsingshan's requirement for additional NPI production to supply its stainless steel expansion plans culminated in Nickel Industries and Shanghai Decent discussing a strategic partnership that would contemplate the two parties building additional NPI processing capacity within the IMIP.
- 9 In September 2017, Nickel Industries executed a Collaboration and Subscription Agreement with Tsingshan with respect to the funding and construction of HNI, which included two RKEF lines with nameplate production of 150,000 tpa of NPI containing 15,000 tonnes of nickel.

Hengjaya and Ranger Nickel Projects (HNI and RNI)

- 10 Nickel Industries acquired a 25% interest in HNI in April 2018 for US\$50 million. Following the successful listing of Nickel Industries on the ASX in August 2018, in accordance with its rights under its Collaboration and Subscription Agreement, the Company acquired a further 35% in the issued capital of Hengjaya Holdings Private Limited for US\$70 million. Nickel Industries also held a call option until 30 November 2020 to increase its ownership of Hengjaya Holdings Private Limited up to 80% for an additional amount of up to US\$60 million³⁹.
- 11 In November 2018 Nickel Industries announced it had elevated a MoU for RNI to an executed binding Collaboration Agreement with Shanghai Decent to acquire up to an 80% equity interest in two additional RKEF lines under construction at the time within the IMIP. The first 17% interest was acquired for US\$50 million. During August 2019, the Company increased its ownership in RNI from 17% to 60% based on a discounted valuation for a 100% interest in RNI of US\$280 million (compared to the US\$300 million valuation at which its initial 17% interest was acquired)⁴⁰.

³⁸ In October 2017, an updated offtake agreement was signed with PT Indonesia Tsingshan Stainless Steel guaranteeing to take supply of 50,000 WMT per month until 30 November 2018, with a cut-off grade of 1.6% nickel.

³⁹ This option was exercised in June 2020.

⁴⁰ This reduced value implied in the acquisition of the further 43% arose due to the Company electing to increase its ownership within 60 days of RNI's first NPI production. In the alternative, the consideration payable would have been based on a valuation of US\$300 million.

Appendix C

- 12 In June 2020, Nickel Industries increased its ownership in both HNI and RNI from 60% to 80%. The consideration for the increased interests in the projects was US\$120 million in total (or US\$60 million for each 20% interest), as well as a US\$30 million payment for the estimated share of the undistributed retained earnings pertaining to each 20% interest acquired.
- 13 On 3 May 2021, the Company announced that it had signed a MoU with Shanghai Decent for two of its four 80% owned operating RKEF lines at HNI and RNI to undergo the necessary modifications to allow the production of a nickel matte product.
- 14 On 3 October 2022, Nickel Industries announced that HNI had commenced its transition from NPI to nickel matte production⁴¹. Following the transition, HNI produces a low grade nickel matte which is upgraded to high grade nickel matte (i.e. nickel sulphide with 60%-75% nickel content) by converters that have been specifically built by Shanghai Decent (for which Nickel Industries pays a per tonne charge).

Angel Nickel Project (ANI)

- 15 The Company announced on 16 October 2020 that it had entered into a MoU in relation to the proposed purchase of a 70% interest in ANI from Shanghai Decent for US\$490 million, comprising four new RKEF lines within the IWIP, together with a captive 380 MW power plant. The consideration was payable in two tranches: US\$210 million by 31 March 2021 (for a 30% interest), and a further US\$280 million by 31 December 2021 (for an additional 40% interest).
- 16 Nickel Industries announced on 20 January 2021 that the Company had agreed with Shanghai Decent to acquire an additional 10% equity interest in ANI, bringing its ownership to 80%, with the consideration to be made in three, rather than two tranches. Following three staged payments undertaken in February 2021 (30%), April 2021 (20%) and October 2021 (30%), and allowing for early payment discounts, the total consideration for Nickel Industries' 80% interest in ANI was US\$557.6 million⁴². Funding was provided from a mixture of an equity capital raising (as announced on 2 December 2020) and debt.
- 17 On 25 January 2022, ANI entered the commissioning stage, with the first of its four RKEF lines having commenced NPI production. By around mid-May 2022, all four of the RKEF lines had been commissioned (all well ahead of the October 2022 contractual project delivery date), with production limited to around 80% of nameplate capacity prior to commissioning the ANI power plant. The ANI power plant commenced commissioning in late July 2022, following which production at the RKEF lines immediately exceeded nameplate capacity (to a significant extent).
- 18 On 6 March 2023, the Company announced that it had reached agreement with Shanghai Decent to switch two of ANI's RKEF lines from NPI production to the production of nickel

⁴¹ Given innovations by Nickel Industries' operating partner and major shareholder, Tsingshan, nickel matte produced from laterite ore is now able to be sold into the "Class 1" nickel EV battery supply chain. Switching between NPI and nickel matte production is possible with minimal production disruption, however, it is not optimal to do so regularly.

⁴² Reduced by US\$2.4 million for early payment discounts.

Appendix C

matte. The switch to nickel matte production, which will be subject to market conditions, is not expected to occur until early 2024, as the required low grade to high grade converter capacity is currently under construction within the IWIP.

Oracle Nickel Project (ONI)

- 19 On 22 November 2021, Nickel Industries announced that it had entered into a multi-faceted MoU⁴³ with Shanghai Decent that included the proposed purchase of a 70% interest in ONI⁴⁴ for US\$525 million. ONI includes four new RKEF lines within the IMIP, together with a captive 380 MW power plant. On signing the MoU, the Company paid a US\$10 million “good faith deposit” to Shanghai Decent.
- 20 On 8 December 2021 Nickel Industries entered into a binding Definitive Agreement with Shanghai Decent for the purchase of the 70% equity interest in ONI. On signing the agreement, the Company paid a further US\$20 million “down payment” and on 18 February 2022 the remaining US\$23 million of the first 10% payment was paid to Shanghai Decent. A further 20% interest in ONI was secured in May 2022 following the issue of shares to the value of US\$108 million to Shanghai Decent. The third and final equity payment of US\$212 million was provided around 28 September 2022.
- 21 ONI entered the commissioning stage on 15 November 2022 at the first of its four RKEF lines, with the second RKEF line commissioned in December 2022 and the remaining two lines commissioned in the first quarter of 2023. The commissioning of the ANI power plant is expected during June 2023, after which time production is expected to rapidly increase to above 130% of nameplate capacity.
- 22 On 4 August 2023 Nickel Industries acquired an additional 10% equity interest in ONI for US\$75 million, bringing its ownership to 80%.

Other projects

- 23 Nickel Industries signed a binding term sheet⁴⁵ with PT Sumber Energi Surya Nusantara (SESNA)⁴⁶ in August 2022 to develop and install a 200 MW_p and 20 MWh battery solar project within the IMIP to supply renewable energy to Nickel Industries IMIP based projects, including ENC. Under the proposed arrangements, Nickel Industries will be the long-term offtake partner for SESNA and will not be required to contribute any capital funding. The indicative tariff for electricity is expected to remain constant over the life of the project and is considered competitive with other similar scale solar projects.

⁴³ The other facets of this MoU covered the establishment of a future energy collaboration framework to optimise the transition to renewable energy sources, as well as the planned participation in future HPAL projects utilising Nickel Industries’ current and prospective resources across Indonesia to produce battery grade nickel.

⁴⁴ As well as committing to 70% of the shareholder loans, which were provided to fund the associated captive power plant.

⁴⁵ This follows on from the MoU signed in January 2022.

⁴⁶ SESNA is a leading solar development company in Indonesia, owning and operating a portfolio of solar feed-in-tariff and microgrid projects as well as providing services and solutions such as engineering, procurement and construction capabilities, solar financing, and other technical development support to commercialise solar projects.

Appendix C

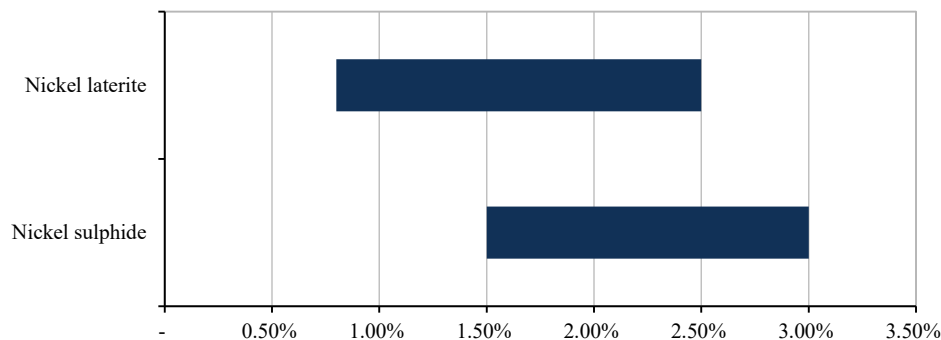
- 24 This project supplements the existing 396 kWp plus 250 kWh battery storage project which the Company has entered into with SESNA for integration into the facilities at the Hengjaya Mine, which is currently scheduled to be commissioned in 2025.
- 25 On 4 August 2023 Nickel Industries acquired a 10% interest in PT Huayue Nickel Cobalt (HNC) which is a HPAL project located in the IMIP, from Newstride Development Limited (an entity within the Tsingshan group and an affiliate of Shanghai Decent) for US\$270 million.

D Nickel industry overview

Overview

- 1 Nickel is the fifth most common element on earth and occurs extensively in the earth's crust and core. In its most raw form, nickel is silvery-white. The metal also radiates a natural yellow, and sometimes whitish, hue. While the concentration of nickel in the earth's crust is 80 parts per million, the earth's core consists mainly of a nickel-iron alloy. Nickel has the ability to form an oxide layer that prevents further corrosion. It also has unique energy density properties that are difficult to replicate or substitute, that help it deliver greater energy storage capacity at lower cost.
- 2 Nickel occurs naturally, principally as oxides, sulphides and silicates and has outstanding physical and chemical properties, which make it essential in thousands of products. Around 60% of the world's resources are laterites, with the other 40% sulphides. The typical nickel content grades of these types of nickel ore are:

Nickel ore grades



Source: International Nickel Study Group: *The World Nickel Factbook 2021* report.

- 3 Nickel demand has historically been affected by various factors such as economic growth and technological advancements (such as battery technology). Its primary use is in stainless steel (69% of consumption), with other uses being batteries (11%), nonferrous alloys (7%), plating (6%), alloy steels (3%) and casting (2%)⁴⁷.
- 4 The output of refined nickel production⁴⁸ is generally divided into two primary categories:
 - (a) Class 1 – describes a group of nickel products comprising powders and briquettes, cathodes, pellets, oxides and sulphates. Class 1 products typically have a relatively high nickel content and are suitable for battery products (ongoing demand for which is high)
 - (b) Class 2 – comprises NPI and ferronickel. These nickel products commonly have a lower nickel content and are used predominantly in stainless steel production, where stainless steel producers are able to take economic advantage of the high level of iron content.

⁴⁷ Source: <https://nickelinstitute.org/en/about-nickel-and-its-applications/>.

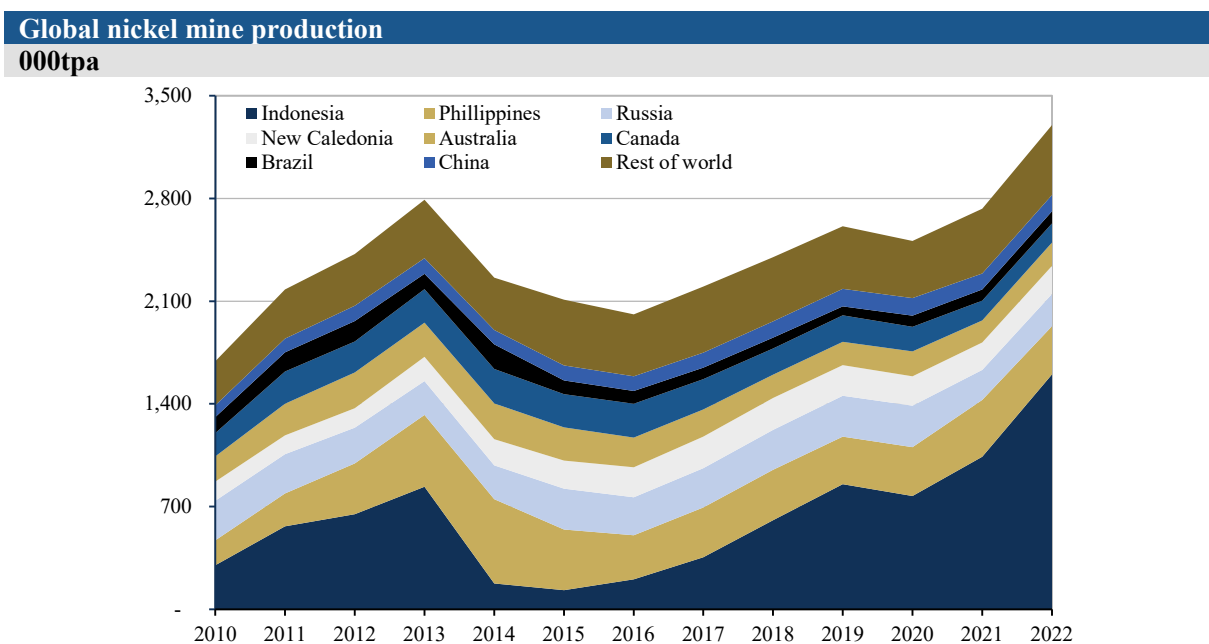
⁴⁸ The supply of nickel is also available from recycling (i.e. secondary sources).

Appendix D

- 5 The nickel industry has been constantly evolving due to advancements in technology for the production of various nickel products, the most relevant of which to today's market have been the development of NPI as a stainless steel feedstock and improvements in nickel battery technology. The combined impact of these technologies has (inter alia) given rise to the bifurcation of Class 1 and Class 2 nickel prices given an increasing supply of NPI (i.e. Class 2 nickel) combined with growing demand for battery grade nickel (i.e. Class 1 nickel). The separation of the Class 1 and Class 2 nickel markets in the value chain, coupled with the fact that global exchange-traded nickel accounts for less than a quarter of the total finished nickel supply, has made nickel pricing both challenging and volatile in recent years.
- 6 In the past, the primary obstacles to producing nickel sulphate were obtaining enough high-quality feedstock materials like intermediary nickel products, briquettes, and powders, and concerns about the feasibility of mass production via existing methods (pyrometallurgical / hydrometallurgical) to meet the future needs of the EV industry. However, Tsingshan's technological breakthrough in creating nickel sulphate by converting nickel laterite ores to NPI, and then further to nickel matte, has the potential to bridge the gap between the Class 1 and Class 2 value chains over the medium to longer term (assuming respective supply / demand responses by market participants).

Nickel supply

- 7 Abundant nickel resources and a rapidly expanding downstream nickel refining industry (refer below) has led to the significant expansion of Indonesian nickel mine production, with supply increasing by 49% in 2022 in comparison to 2021 (representing nearly all of the industry's growth for 2022). Indonesian mine production now accounts for almost half (49%) of world annual mined nickel supply⁴⁹, as shown in the following chart:



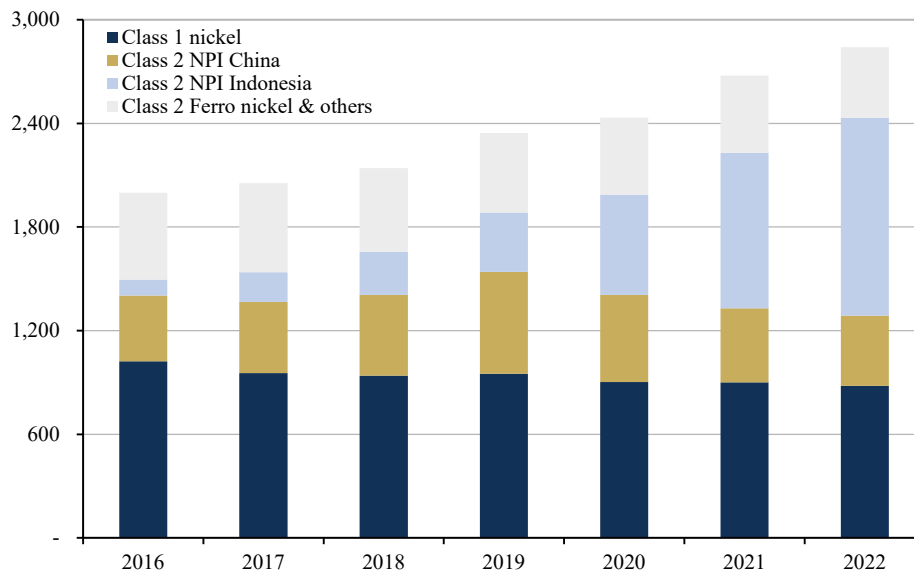
Source: USGS: *Mineral Commodity Summaries 2022 and 2023*, *Minerals Yearbook 2014 and 2019* and LEA analysis.

⁴⁹ Source: United States Geological Survey (USGS): *Mineral Commodity Summaries 2023* report dated 31 January 2023.

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- 8 Following the Indonesian DSO Ban in 2014, mine production in Indonesia decreased significantly, which had a profound impact on global mine supply. Partially offsetting this was a substantial increase in nickel exports from the world's second largest producer, the Philippines, however this increase could not be sustained over the longer term. Due to a combination of increasing demand for mined nickel from downstream Indonesian processing facilities, and a temporary lift in the DSO Ban in 2017 (which was reintroduced in 2020), Indonesian mine production levels subsequently recovered.
- 9 Indonesia is home to the world's largest reserves of nickel and has a natural advantage in the supply of nickel ore. The Indonesian Government has also actively encouraged the development of its downstream nickel industry, with the introduction of the DSO Ban in January 2014 that forced nickel producers to meet the minimum required export grade of 4% for nickel products. The DSO Ban led to significant investment in the downstream Indonesian nickel industry (predominantly NPI), as shown in the following chart.

Global refined nickel production
000tpa



Source: Eramet Investor Presentations dated May 2019, May 2020, May 2021, May 2022 and February 2023.

- 10 Over the above period, we note that:
- refined nickel production increased year on year, with a compound annual growth rate (CAGR) of 6.0% per annum exhibited over the period to 2022
 - Class 1 nickel production in 2016 was 1,022 metric tonnes, which had reduced by 142 metric tonnes (some 14%) to reach 880 metric tonnes by 2022
 - Indonesian NPI production capacity increased by a CAGR of 52.6%, however growth slowed in 2022 to 27.4% (following growth of 55.2% in 2021)
 - Chinese NPI production peaked in 2019, with some of this production capacity displaced by cheaper NPI produced in Indonesia.

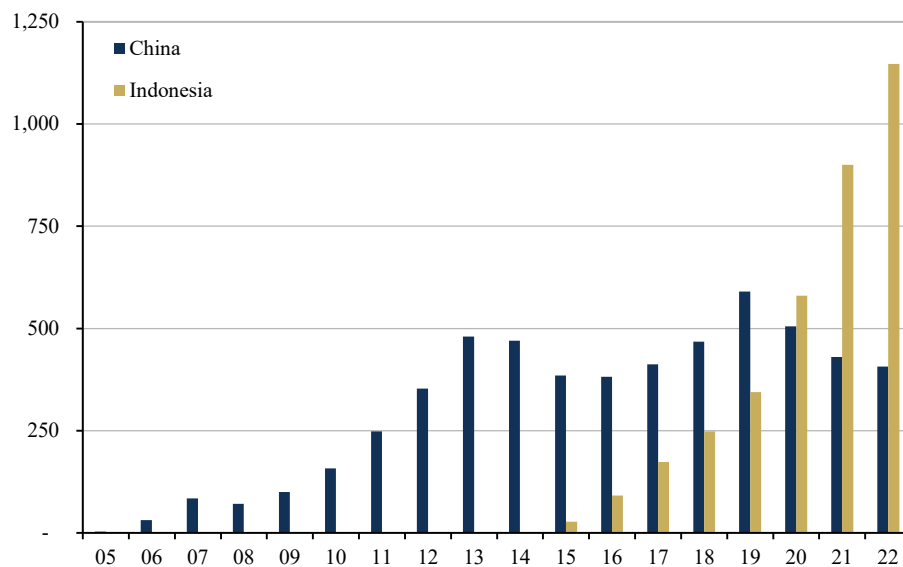
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NPI market and technology

- 11 NPI technology was developed by Tsingshan in China in 2005 as a low cost alternative to refined nickel and has typically been used to produce stainless steel. NPI is made by combining low grade nickel ore that is relatively high in iron ore content (around 50% iron) with coking coal and an aggregate mix (gravel and sand) that is heated in either a blast or electric furnace (such as the RKEF plants). This produces NPI with a nickel content ranging from around 2% to 15%⁵⁰.
- 12 Following investment by Tsingshan, production of NPI in Indonesia commenced in 2015. NPI produced in Indonesia is lower cost than Chinese NPI production⁵¹ due to a combination of lower nickel ore costs (which are typically set by the Indonesian Government and are substantially lower than equivalent grade nickel ore traded on the global market), lower transportation costs (as the ore is processed domestically⁵² rather than being transported to China), and lower power costs from coal sourced domestically. Due to these advantages, Indonesian NPI production levels have expanded significantly, as shown below:

NPI production

000tpa



Source: Eramet Investor Presentations dated May 2019, May 2020, May 2021, May 2022 and February 2023, USGS *Minerals Yearbook 2010, 2014 and 2019* and LEA analysis.

- 13 The production cost differential between Chinese and Indonesian NPI has led to the replacement of higher-cost Chinese NPI production by newer, lower-cost Indonesian NPI production⁵³. Such idle Chinese NPI capacity however has the potential to limit future NPI prices as (logically) higher sustained NPI prices are likely to be met by additional NPI supply

⁵⁰ Nickel Industries' RKEF plants produce NPI with 13% to 15% nickel metal content.

⁵¹ To date, all of the NPI produced in Indonesia has been exported to China.

⁵² Transportation costs are impacted by the high moisture content of the low grade nickel ore, i.e., a substantial proportion of the direct shipping ore transportation costs effectively relate to shipping water.

⁵³ Some of the older established Chinese production capacity has recently been placed on care and maintenance.

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as mothballed plants in China are restarted⁵⁴ (i.e. the highest cost marginal producer of Chinese NPI has an influence over NPI prices). Further, to the extent that lower cost Indonesian NPI production continues to displace higher cost Chinese NPI production, the price limit set by the highest cost marginal producer could also reduce.

- 14 In a bid to encourage additional domestic refining of nickel ore, the Indonesian Ministry for Maritime and Investment Affairs recently proposed the introduction of an export tax on sales of NPI and ferronickel. At present, the announced intention is to introduce a tax based on the LME nickel price (notwithstanding that LME nickel prices reflect Class 1 nickel and NPI is Class 2 grade nickel), with an offsetting allowance for when coal prices (based on the HBA thermal coal price⁵⁵) are above predetermined levels.
- 15 A major recent technological development in the nickel industry has been the ability to produce low grade nickel matte from RKEF plants at a relatively modest conversion cost (some US\$1 million per RKEF line)⁵⁶. This low grade nickel matte can then be upgraded to high grade nickel matte (i.e. nickel sulphide with 60% to 75% nickel content, which is classified as Class 1 nickel), subject to converter capacity availability. This process essentially liberates the nickel product from the iron ore.
- 16 There are currently 12 RKEF lines converted to produce nickel matte at the IMIP and eight RKEF lines at the IWIP have either recently transitioned, or are in the process of being transitioned, to produce nickel matte. Given the conversion cost is modest (and thereafter production can be switched between nickel matte and NPI), the potential exists for additional Indonesian NPI production capacity to be converted into nickel matte production. However, there are some practical constraints, such as access to the technology to upgrade the low grade to high grade nickel matte, and limited land available in close proximity to existing RKEF plants for constructing purpose built “upgrading” plants.
- 17 Future refined nickel supply is expected to be predominantly sourced from Indonesia, and at present, there are around 15 HPAL plants and some 40 NPI plants either in the feasibility, construction (or expansion) or commissioning stage. Whilst this is a significant expansion of current production capacity, a substantial proportion of these projects are at the feasibility stage and therefore there is no certainty that these will all proceed to the investment stage for any number of reasons (including, for NPI projects, potential uncertainty around project investment returns following the Indonesian Government’s proposed plans to introduce an NPI export tax and the increasing likelihood that tax breaks for investments in NPI projects will be withdrawn in the near term).

Mining in Indonesia

- 18 Nickel mining in Indonesia typically follows the following mining sequence, including pre-stripping and removing overburden, mining the nickel ore and then once mining has been completed, rehabilitation:

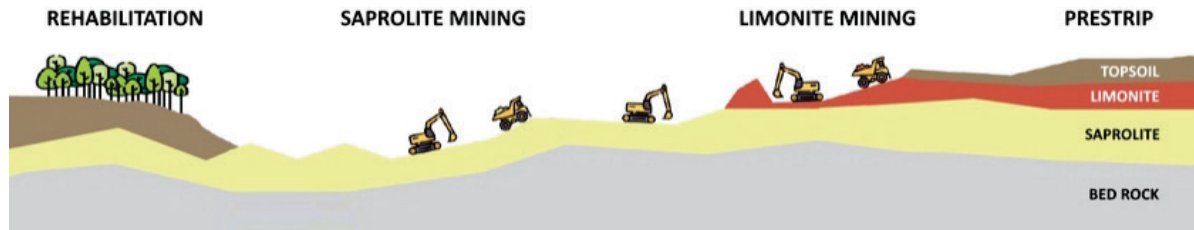
⁵⁴ However, the process of restarting mothballed plants is difficult, costly and time consuming.

⁵⁵ The HBA price for thermal coal is the basis for determining the prices of 77 Indonesian coal products and calculating the amount of royalty producers have to pay for each metric ton of coal sold. It is based on 6,322 kcal/kg GAR coal with 8% total moisture content, 15% ash as received, and 0.8% sulphur as received.

⁵⁶ Tsingshan developed this technology and currently owns the converting capacity at both the IMIP and IWIP.

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Nickel mining in Indonesia



- 19 Sapolite ore has been mined in Indonesia for many years and is predominantly used in the production of NPI. Limonite ore, which sits on top of the sapolite ore, has historically been treated as waste⁵⁷ as the technology to economically extract and refine this ore did not exist. Following the successful construction and commissioning of a number of HPAL plants in Indonesia, including two plants at the IMIP⁵⁸ (with a number of new HPAL plants in Indonesia currently in the feasibility or commissioning stage), there is now a rapidly growing market for Indonesian limonite ore.
- 20 Indonesian miners have benefitted from the additional revenue and associated mine efficiencies from selling the limonite ore. In addition, given the amount of waste generated by HPAL plants, the opportunity exists for those nickel miners located in the vicinity of industrial parks to potentially generate additional revenue by accepting waste from the industrial parks for a fee for use in backfilling mine pits⁵⁹ (as long as the waste is uncontaminated and suitable for mine rehabilitation).
- 21 Since May 2020, Indonesia's Ministry of Energy and Mineral Resources has set the monthly commodity prices for sapolite and limonite direct ore shipping under a range of bands. Prices are predominantly based on the HMA nickel price⁶⁰, adjusted for nickel grade and moisture content. Prices for sapolite ore (typically 1.5% to 1.9% nickel) are significantly higher than limonite ore (typically 0.8% to 1.2% nickel) and both prices increase with grade. Reflective of the regulated pricing structure established, prices for Indonesian nickel ores are also substantially lower than similar grades of ores sourced from competing nickel exporters, such as the Philippines.

Industrial parks in Indonesia

- 22 The DSO Ban, as well as other benefits such as tax holidays, led to significant investment in the downstream nickel industry in Indonesia, in particular from Chinese companies. This investment was primarily channeled into nickel related projects (and its related steel and battery making technologies) located at a number of industrial parks, including the IMIP and the IWIP (i.e. the parks in which Nickel Industries has investments in its NPI Projects).

⁵⁷ Or in more recent years sometimes stockpiled in anticipation of future sales.

⁵⁸ Which are the HNC and QMB New Energy plants. Such HPAL plants have significant limonite ore requirements in the order of 10 Mtpa.

⁵⁹ Noting that this would also require additional permits.

⁶⁰ "HMA Nickel" is the average spot nickel metal price published by the LME from the twentieth two months prior to the HPM period to the nineteenth month prior to the HPM period.

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- 23 The IMIP is an industrial park in the Bahodopi district of Morowali Regency, Central Sulawesi that covers an area of 4,000 hectares. The park is a joint venture between Tsingshan (with an effective interest of 66.25%) and Bintang Delapan (effective interest of 33.75%) and is served by a seaport, an airport and other associated infrastructure including over 3,000 MW installed power capacity. The IMIP is Indonesia's largest nickel focused industrial area and currently has stainless steel capacity of 3.0 Mtpa, 3.5 Mtpa of carbon steel capacity (expanding to 5.0 Mtpa), around 50 operating RKEF lines (both operating and under construction), as well as two HPAL operations and six power plants. Funds sourced from China and invested by Tsingshan (and its related entities) were a key driving force of the establishment of IMIP as one of the world's most important suppliers of nickel and NPI products.
- 24 The IWIP is developed under a joint venture between Tsingshan (40% ownership), Hanyou Group (30%) and Zhenshi Holdings Group (30%). It is strategically located next to the large Weda Bay nickel deposit owned by Tsingshan (51.3%), Eramet (38.7%) and Aneka Tambang (10%), which provides feedstock to the IWIP operations. The IWIP also has a seaport, an airport and other associated infrastructure, including over 2,000 MW installed power capacity. As with the IMIP, Tsingshan is collaborating with a number of partners across a range of projects within the IWIP. IWIP has over 50 RKEF lines (both operating and under construction), as well as a number of HPAL plants in the construction stage.
- 25 Industrial parks such as the IMIP and IWIP provide a range of benefits to investors, such as lower capital costs associated with the existing established infrastructure (seaport, airport and associated infrastructure), economies of scale from the concentration of a range of similar industrial plants and the pooling and blending of nickel ores, and corporate tax and withholding tax exemptions of up to 15 years⁶¹ (depending on investment value)⁶².

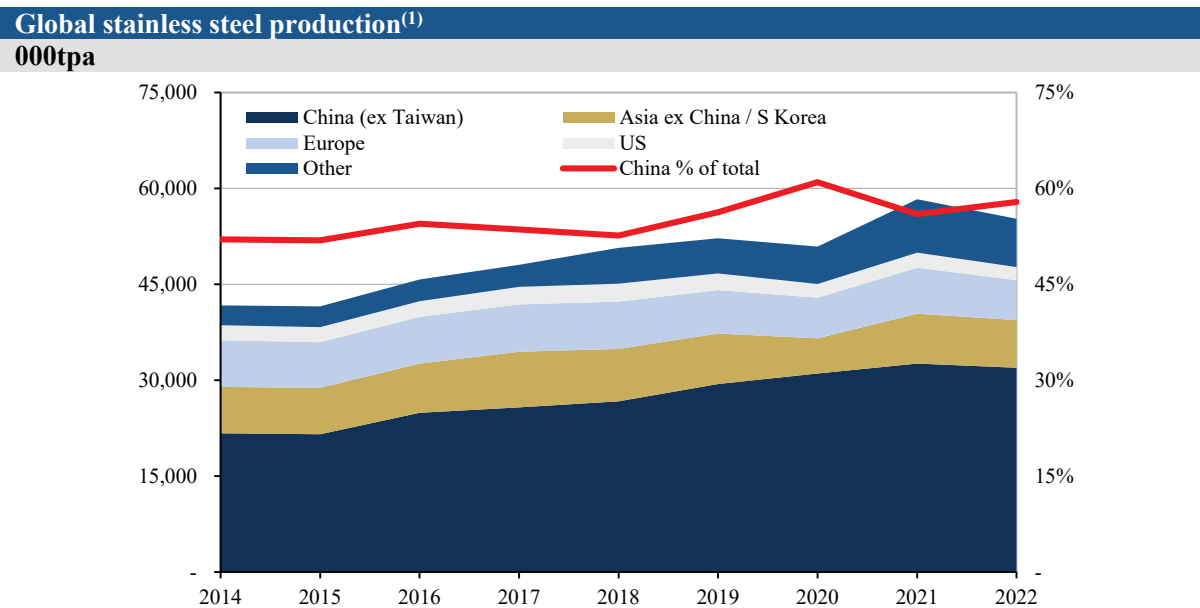
Demand for nickel

- 26 The stainless steel industry has historically been the key driver of demand for nickel, accounting for over two thirds of nickel consumption. More recently, however, there has been increasing demand (and expectations that this increased demand will continue) for Class 1 nickel from battery and EV producers, and other clean energy companies.
- 27 Nickel is used as a key alloying element in the production of stainless steel, and is also used in the production of steel plates, wires, and rods for construction projects. Over the five years prior to COVID-19, China was responsible for around 55% of the annual stainless steel produced globally, as shown below:

⁶¹ Plus a corporate tax exemption of 50% for an additional two years at the end of this period.

⁶² As noted above, the Indonesian Government intends to remove tax breaks for future NPI projects.

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Note:

1 Data includes stainless steel shop production (slab / ingot equivalent) for each calendar year.

Source: World Stainless Association: *Stainless steel in figures* reports for 2019 and 2022, stainless steel production statistics data release for 2022, and LEA analysis.

- 28 Annual stainless steel production in 2022 declined by 5.2% relative to 2021, which was driven by (inter alia)⁶³:
- (a) a 2.0% decrease in output in China, due to the introduction of strict lockdown policies across the country following a further outbreak of COVID-19, as well as a slowdown in the real estate sector; and
 - (b) declines of approximately 12.4% in Europe and 14.8% the US, due to weak steel consumption and higher prices from increasing energy and raw material costs resulting from Russia's invasion of Ukraine⁶⁴.
- 29 Whilst nickel's current primary use is in the production of stainless steel, there is increasing demand for nickel for use in lithium-ion battery production⁶⁵ (particularly for the purposes of EVs). There are two classifications of batteries: primary batteries, which are single use, and secondary batteries, which are rechargeable. Nickel is an essential component for the cathodes of many secondary battery designs, particularly with respect to lithium-ion batteries, as shown below:

⁶³ World Stainless Association: *Stainless steel in figures 2022* report and Organisation for Economic Co-operation and Development: *Steel Market developments: Q4 2022* report.

⁶⁴ Costs for commodities, and energy related commodities in particular, increased significantly following Russia's invasion of Ukraine and have remained relatively high since.

⁶⁵ The use of nickel in battery cathodes helps deliver higher energy density and greater storage capacity at a lower cost which, when used to power EVs, helps deliver a longer range for vehicles.

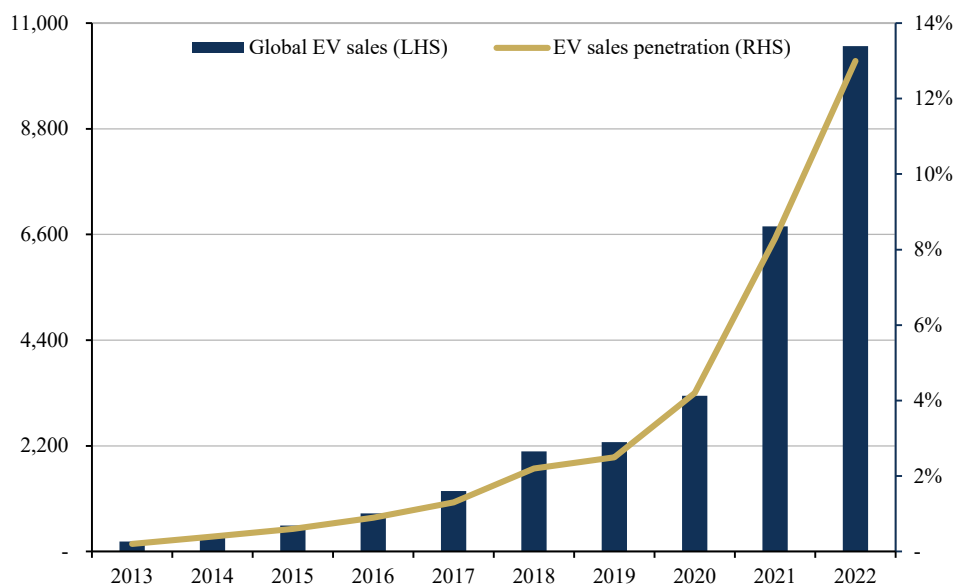
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Rechargeable battery types			
Battery type	Cathode	Anode	Electrolyte
Lead acid	Lead dioxide (PbO ₂)	Lead	Sulphuric acid
Nickel Cadmium	Nickel oxyhydroxide (NiOOH)	Hydrogen-absorbing alloy / Cadmium	Potassium hydroxide
Lithium-ion (LCO)	Lithium cobalt oxide (LiCoO ₂)		
Lithium-ion (NMC)	Lithium nickel manganese cobalt oxide (LiNiMnCoO ₂)	Carbon-based, typically graphite	Lithium salt in an organic solvent
Lithium ion (NCA)	Lithium nickel cobalt aluminium (LiNiCoAlO ₂)		

Source: Nickel Institute *Nickel in batteries* (<https://nickelinstitute.org/en/about-nickel-and-its-applications/nickel-in-batteries/>).

- 30 In recent years, nickel-bearing lithium-ion batteries (i.e. NMC and NCA batteries) have become the preferred battery type used for EVs⁶⁶. This is due to the use of nickel in battery cathodes, which helps deliver higher energy density and greater storage capacity at a lower cost which, and when used to power EVs, helps deliver a longer range for vehicles. EV battery demand currently accounts for a relatively small proportion of global nickel consumption, however increasing sales of EVs (which have grown significantly over the past decade as shown below) are expected to continue to be a key driver of growth for battery grade nickel:

Global EV sales
Total vehicles sold (thousands) and penetration (% of total vehicle sales)

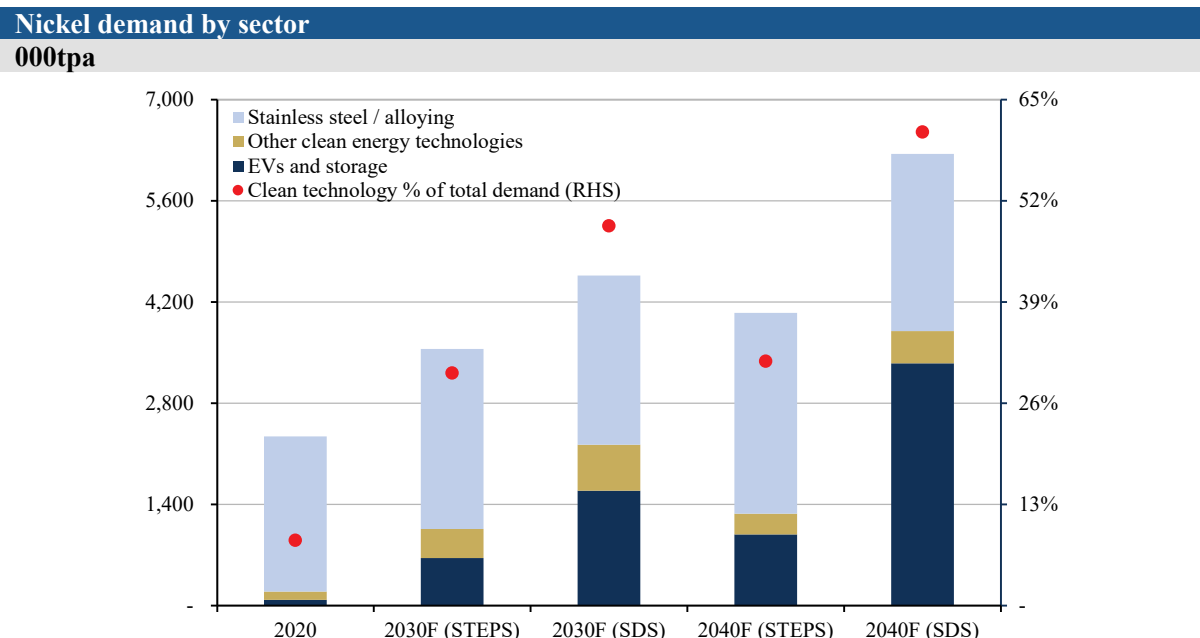


Source: ev.volumes.com.

⁶⁶ This is primarily due to the rise in demand for full battery EVs, as opposed to hybrid EVs, which utilise nickel metal hydride batteries.

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- 31 Global EV sales increased by 55.5% in 2022 (following 108.6% growth in the previous year) to reach 10.5 million vehicles and an EV sales penetration of 13.0% of total global vehicle sales⁶⁷. As a result of the increasing uptake of EVs around the world, demand for nickel for battery production is expected to increase from 11% of global refined nickel demand in 2021 to 18% by 2024⁶⁸.
- 32 In addition to battery production, nickel is regarded as critically essential for the development of a number of other clean energy technologies, including geothermal and hydrogen energy, and to a lesser degree, nuclear, solar power and wind energy.
- 33 The International Energy Agency (IEA) has estimated annual demand requirements for nickel by 2030 and 2040 under two key scenarios:
- (a) Stated Policies Scenario (STEPS) – which assumes there is no change to current government policy measures, noting that these measures fall short of the world’s shared sustainability goals; and
 - (b) Sustainable Development Scenario (SDS) – which assumes all countries and companies achieve their announced net-zero emissions targets under the Paris Agreement on time and in full.
- 34 A summary of IEA’s estimated annual demand requirements for nickel by 2030 and 2040 under STEPS and SDS are set out in the chart below:



Source: IEA: *The Role of Critical Minerals in Clean Energy Transitions* report dated May 2021.

⁶⁷ Noting that some of this demand has been stimulated by accommodative government policies towards the EV sector.

⁶⁸ Source: *Resources and Energy Quarterly* for December 2022, issued by the Australian Government’s Department of Industry, Science and Resources.

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- 35 Increasingly strict global climate change policies are expected to influence future demand for nickel from the clean energy sector, as nations around the world continue to transition to green energy (albeit at various rates of adoption). For instance, key government policies that currently support clean energy technology development include⁶⁹:
- (a) China – in 2020, China announced it was targeting EV sales of 20% of all light and heavy vehicle sales by 2025. Additional plans to support this include the Chinese Government announcing (in January 2022) its ambition to develop sufficient charging infrastructure to meet the needs of 20 million EVs by 2025
 - (b) US – in 2021, the US Federal Government announced EV targets that include a 50% share of EV sales in all vehicle categories by 2030 and the construction of 500,000 public EV chargers. The targets were underpinned by existing incentives under the Bipartisan Infrastructure Law, which includes funding packages of US\$7.5 billion to build charging infrastructure and US\$3.0 billion for advanced battery supply chains
 - (c) Europe – in 2021, the European Union proposed its “Fit for 55” package, designed to reduce its greenhouse gas emissions by 55% by 2030. The package includes a proposal for zero emission vehicle sales for all new passenger cars and vans by 2035 (through its CO₂ emissions standard), and new mandated charging infrastructure deployment targets set under the Alternative Fuels Infrastructure Regulation.
- 36 Whilst recent targets set by government policies have provided significant tailwinds to the EV industry, major automakers around the world are simultaneously accelerating electrification plans in order to remain competitive, and in some markets, have set more ambitious targets than those set out in policy regulations. For example, over the 2016 to 2022 period, the number of new EV models released by global manufacturers increased by a CAGR of approximately 30%⁷⁰.

Environmental, Social and Governance (ESG)

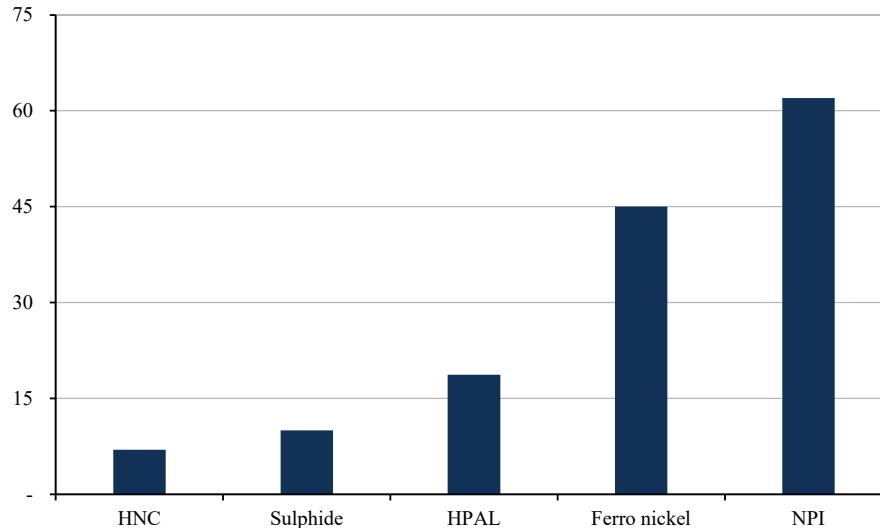
- 37 In recent years the world has seen a significant shift in focus towards ESG issues, driven by a range of factors, including increased awareness of the impact of climate change and social inequality, as well as a growing recognition of the importance of good corporate governance. As a result, investors have increasingly sought out companies that demonstrate strong ESG practices, and governments have implemented new regulations to ensure that organisations are held accountable for their environmental and social impacts.
- 38 Given ESG concerns for battery and EV producers, the most highly sought after nickel products are those with a low carbon footprint. A summary of the carbon dioxide emissions produced by the various nickel refining methods is as follows:

⁶⁹ Source: IEA: *Global Electric Vehicle Outlook 2022* report, dated May 2022.

⁷⁰ Source: IEA: *Global Electric Vehicle Outlook 2023* report, dated April 2023.

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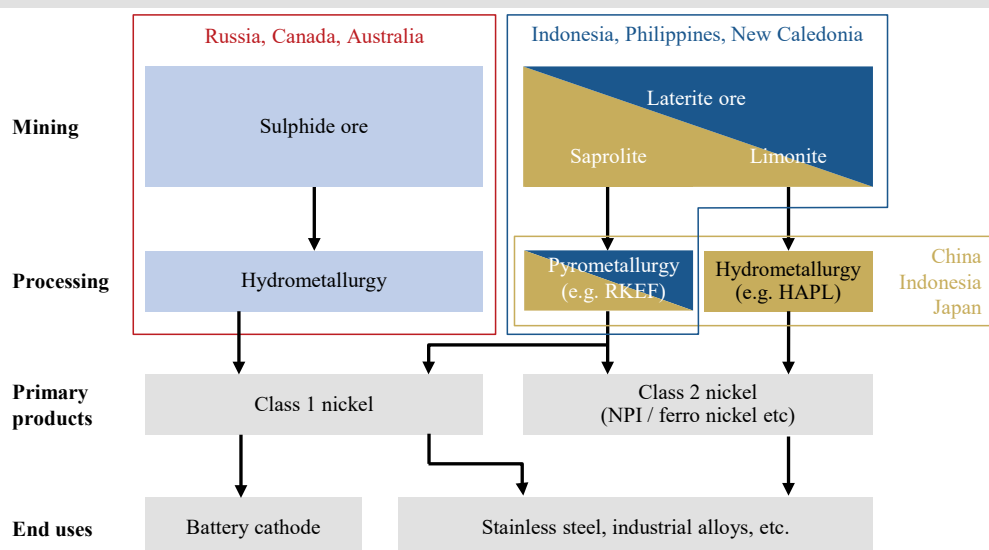
CO₂ emissions by process Tonnes of CO₂ per tonne of nickel



Source: IEA: *The Role of Critical Minerals in Clean Energy Transitions* report dated May 2021, MDPI: *Energy Consumption and Greenhouse Gas Emissions of Nickel Products* article dated 25 September 2022, Nickel Institute: *Ferrometallurgy Life Cycle Data* report released in 2020, Nickel Industries and LEA analysis.

- 39 Nickel produced at HNC using the HPAL process currently has the lowest carbon emissions of all the nickel refining processes. Accordingly, such nickel is highly sought after for battery production purposes, particularly by the world's largest automotive companies.
- 40 An overview of the current supply chain of nickel products is summarised below:

Nickel supply chain



Source: IEA: *The Role of Critical Minerals in Clean Energy Transitions* report dated May 2021, Nickel Industries and LEA analysis.

- 41 Many western EV manufacturers have minimum ESG standards that must be complied with, which, in some cases, includes operating a sustainable supply chain that minimises impacts on

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the environment. This presents a challenge for manufacturers looking to secure a long term supply of raw battery materials, which are often sourced from producers operating in jurisdictions that do not have strict ESG regulations⁷¹. Some EV producers have expressed a preference for “low-carbon” nickel, however “low-carbon” nickel is currently in limited supply and (as a result) is priced at a significant premium to other nickel products (anecdotally up to US\$3,000 per tonne). It is understood that in order to address this issue, manufacturers are adopting a holistic approach (that is, if higher carbon is accepted for one metal, other metals will be low-carbon to offset).

- 42 Industry participants have responded to the need to reduce the environmental impacts of nickel production by undertaking a number of measures, including:
- (a) transitioning current energy sources for mining and production operations to renewable energy and other lower-carbon emitting solutions. For instance, PT Vale, Indonesia’s largest nickel producer, has committed to being carbon neutral by 2050, and supplies a large proportion of its energy needs in Indonesia through its three hydroelectric plants
 - (b) promoting biodiversity in local regions through activities such as wild animal habitats preservation and planting or maintaining vegetation, and
 - (c) conducting continuous effluent monitoring, managing waste water runoff and avoiding disposal of solid and liquid waste into natural bodies of water.

Outlook

- 43 Over the short to medium term, both the supply and demand for nickel are expected to continue to increase materially. According to the Resources and Energy Quarterly⁷² for December 2022, global supply of mined nickel production is forecast to average 5.6% growth over the next two years, whilst refined nickel production is forecast to average 8.3% growth over the same period. As shown above by the IEA’s 2030 and 2040 forecasts, demand for nickel over the medium to longer term is also expected to increase significantly, particularly from EV and battery producers.
- 44 Whilst there is potential that the NPI market (Class 2 nickel) will move into oversupply as new large NPI projects are developed in Indonesia, Class 1 nickel is expected to remain in relatively short supply due to demand from EV and battery producers. However, the ability to produce nickel matte from the RKEF NPI production process has the potential to bridge (at least to some extent) the gap in market fundamentals between the two nickel grades.
- 45 With global production heavily dependent on Indonesian supply, downside risks are implicitly heavily concentrated. For example, there are some concerns that supply infrastructure bottlenecks could emerge at the mine level (insufficient supplies of nickel ore to the industrial parks). Further, since Indonesian nickel output largely serves the Chinese market (particularly as regards NPI production), any disruption to Chinese demand (such as new COVID-19 outbreaks) could induce producers to ease back on planned supply growth.

⁷¹ Recently, environmental groups urged Tesla to terminate its investment plans in Indonesia’s nickel industry, citing concerns over deforestation, pollution of water bodies, and disruption to the livelihoods of Indigenous people as a result of nickel mining.

⁷² Issued by the Australian Government’s Department of Industry, Science and Resources.

E Glossary

Abbreviation	Definition
1H23	Six months ended 30 June 2023
Acquisition Agreement	Conditional acquisition agreement between Nickel Industries and Decent Resource to acquire up to 75% of the ENC Project
AFCA	Australian Financial Complaints Authority
ANI	Angel Nickel Project, comprising four RKEF lines within the IWIP, together with a captive 380 MW power plant
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CAGR	Compound annual growth rate
Capex Cap	A guarantee under the Acquisition Agreement that the total construction cost incurred by FMI for the ENC Project will not exceed US\$2.3 billion
Capital Intensity	Project capital cost divided by annual nickel production capacity
Construction Guarantee	Construction guarantee included in the Acquisition Agreement
CY	Calendar year
DCF	Discounted cash flow
Decent Resource	Decent Resource Limited
DSO ban	Indonesian export ban of direct shipping of unprocessed minerals
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation of acquired intangibles
EBITDA	Earnings before interest, tax, depreciation and amortisation
ENC Project	Excelsior Nickel Cobalt Project
ENC Project Consideration	US\$1,265 million
ESG	Environmental, Social and Governance
EV	Electric vehicle
Excelsior	Excelsior International Investment Pte. Ltd
Feasibility Study	The feasibility study for the ENC Project prepared by an associate company of Tsingshan
FMI	PT Fajar Metal Industry
FSG	Financial Services Guide
FY	Financial year
HBA	The Indonesian reference price for thermal coal
Hengjaya Mine	Hengjaya Mineralindo Nickel Mine, a large tonnage, high grade nickel laterite deposit located in the Morowali Regency of Central Sulawesi, Indonesia
HNC	PT Huayue Nickel Cobalt
HNI	Hengjaya Nickel Project, comprising two RKEF lines at the IMIP
HPAL	High-pressure acid leach
IEA	International Energy Agency
IER	Independent expert's report
IMIP	Indonesia Morowali Industrial Park
IWIP	Indonesia Weda Bay Industrial Park
JORC	Joint Ore Reserves Committee
kVA	Kilo volt ampere
LEA	LonerGAN Edwards & Associates Limited
LME	London Metal Exchange
MHP	Mixed hydroxide precipitate
MoU	Memorandum of understanding

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Abbreviation	Definition
Mt	Million tonnes
Mtpa	Million tonnes per annum
MW	Megawatt
Nameplate Guarantee	Nameplate production capacity guarantee of 60,000 nickel equivalent tonnes per annum of nickel-cobalt hydroxide in respect of the ENC Project
NCA	Lithium nickel cobalt aluminium
Nickel Industries / Company	Nickel Industries Limited
Nickel Industries non-associated shareholders	Nickel Industries shareholders not considered a party to the Proposed ENC Acquisition
NMC	Lithium nickel manganese cobalt oxide
NPI	Nickel pig iron
NPI Projects	Collectively, HNI, RNI, ANI and ONI
NPV	Net present value
ONI	Comprising four RKEF lines within the IMIP, together with a captive 380 MW power plant
Option	Option for Nickel Industries to acquire an additional 20% interest in the ENC Project
Proposed ENC Acquisition	The Acquisition Agreement with Decent Resource to acquire 55% of the ENC Project via an acquisition of 55% of the shares in Excelsior and 55% of the shareholder loans due or owing by Excelsior
PT Hengjaya	PT Hengjaya Mineralindo
RG 111	ASIC Regulatory Guide 111 – <i>Content of expert reports</i>
RKEF	Rotary kiln electric furnace
RNI	Ranger Nickel Project, comprising two RKEF lines at the IMIP
SDS	Sustainable Development Scenario
SESNA	PT Sumber Energi Surya Nusantara
Shanghai Decent	Shanghai Decent Investment (Group) Co., Ltd
SOFR	Secured Overnight Financing Rate
STEPS	Stated Policies Scenario
Strategic Agreement	Electric Vehicle Battery Supply Chain Strategic Framework Agreement between Nickel Industries and Shanghai Decent
tpa	Tonnes per annum
Tsingshan	Tsingshan Holding Group
US	United States of America
US\$	United States dollars
USGS	United States Geological Survey
WACC	Weighted average cost of capital
WMT	Wet metric tonnes

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YOUR VOTE IS IMPORTANT

For your proxy appointment to be effective it must be received by **11:00am (AEDT) on Sunday, 10 December 2023.**

Proxy Form

How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

APPOINTMENT OF PROXY

Voting 100% of your holding: Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

Voting a portion of your holding: Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

Appointing a second proxy: You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf.

A proxy need not be a securityholder of the Company.

SIGNING INSTRUCTIONS FOR POSTAL FORMS

Individual: Where the holding is in one name, the securityholder must sign.

Joint Holding: Where the holding is in more than one name, all of the securityholders should sign.

Power of Attorney: If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

PARTICIPATING IN THE MEETING

Corporate Representative

If a representative of a corporate securityholder or proxy is to participate in the meeting you will need to provide the appropriate "Appointment of Corporate Representative". A form may be obtained from Computershare or online at www.investorcentre.com/au and select "Printable Forms".

Lodge your Proxy Form:

XX

Online:

Lodge your vote online at www.investorvote.com.au using your secure access information or use your mobile device to scan the personalised QR code.

Your secure access information is



Control Number: 999999

SRN/HIN: I999999999

PIN: 99999

For Intermediary Online subscribers (custodians) go to www.intermediaryonline.com

By Mail:

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne VIC 3001
Australia

By Fax:

1800 783 447 within Australia or
+61 3 9473 2555 outside Australia



PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.

You may elect to receive meeting-related documents, or request a particular one, in electronic or physical form and may elect not to receive annual reports. To do so, contact Computershare.

MR SAM SAMPLE
FLAT 123
123 SAMPLE STREET
THE SAMPLE HILL
SAMPLE ESTATE
SAMPLEVILLE VIC 3030

Change of address. If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.



I 9999999999

I ND

Proxy Form

Please mark to indicate your directions

Step 1 Appoint a Proxy to Vote on Your Behalf

XX

I/We being a member/s of Nickel Industries Limited hereby appoint

the Chairman of the Meeting **OR**

PLEASE NOTE: Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Extraordinary General Meeting of Nickel Industries Limited to be held at DLA Piper, Level 22, 1 Martin Place, Sydney, NSW 2000 on Tuesday, 12 December 2023 at 11:00am (AEDT) and at any adjournment or postponement of that meeting.

Step 2 Item of Business

PLEASE NOTE: If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

	For	Against	Abstain
Resolution 1 Approval for the Company to acquire up to 75% of the ENC Project	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business. In exceptional circumstances, the Chairman of the Meeting may change his/her voting intention on any resolution, in which case an ASX announcement will be made.

Step 3 Signature of Securityholder(s) *This section must be completed.*

<input type="text"/>	<input type="text"/>	<input type="text"/>	/ /
Sole Director & Sole Company Secretary	Director	Director/Company Secretary	Date

Update your communication details *(Optional)*

<input type="text"/>	<input type="text"/>
Mobile Number	Email Address

By providing your email address, you consent to receive future Notice of Meeting & Proxy communications electronically

