



MIRABELA NICKEL LTD

ABN 23 108 161 593

Condensed Interim Consolidated Financial Report

For the half-year ended 30 June 2014

Incorporating Appendix 4D

Expressed in thousands of US dollars (US\$000) unless otherwise stated

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APPENDIX 4D**Reporting Period**

The reporting period is the half-year ended 30 June 2014. The previous corresponding period is 30 June 2013.

Results for announcement to the market

| | | % change | | 30-Jun-14 US\$000 |
|---|------|-------------|----|----------------------|
| Revenue from ordinary activities | Down | 24% | To | 94,949 |
| Profit from ordinary activities after tax | Up | 643% | To | 373,880 |
| Profit attributable to equity holders | Up | 643% | To | 373,880 |

No dividend was paid or proposed during the half-year ended 30 June 2014 (half-year ended 30 June 2013: Nil).

The Group incurred a gross loss for the period of US\$11.929 million (30 June 2013: gross loss of US\$11.051 million) and a net profit for the period of US\$373.880 million (30 June 2013: net loss of US\$68.911 million). Sales generated comprised 6,176 tonnes of nickel and 1,998 tonnes of copper, contributing to gross sales of US\$94.949 million, offset by treatment, refining and transport charges of US\$20.881 million and cost of sales of US\$85.997 million. The Group's net profit of US\$373.880 million for the period was primarily driven by the debt forgiveness of the US\$395.000 million 8.75% Senior Unsecured Notes due 15 April 2018 and incurred interest, a combined total of US\$439.715 million, pursuant to the successful completion of its restructure when the Deed of Company Arrangement (**DOCA**) was fully effectuated on 25 June 2014.

Net tangible assets

The net tangible assets per ordinary share for the half-year ended 30 June 2014 were (US\$0.016) (31 December 2013: (US\$0.043)).

Investments in controlled entities

During the period, there were no changes in control over Group entities.

Wholly owned subsidiaries of Mirabela Nickel Limited included the following:

- Mirabela Mineração do Brasil Ltda
- Mirabela Investments Pty Ltd

Mirabela Nickel Limited owns 100% of the Santa Rita nickel sulphide mining and processing operations in Bahia, Brazil, which is the Group's principal revenue-generating asset.

Investments in associates and joint ventures

Mirabela Nickel Limited does not have any interests in associates or joint venture entities.

Review and accounting standards

The report is based on the condensed interim consolidated financial report that has been subjected to a review by the Company's auditor. All entities incorporated into the consolidated Group's results were prepared under IFRS.

Material uncertainty regarding continuation as a going concern

The matters set forth in Note 3(d) of the condensed interim consolidated financial report indicate the existence of material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Directors' report

The directors of Mirabela Nickel Limited (the **Company**) present their report together with the consolidated financial report of the Group, comprising the Company and its subsidiaries, for the half year ended 30 June 2014 and the auditor's report thereon. The use of the words Company and Group are interchangeable for the purposes of this report and the financial report.

Directors

The Directors of the Company (the **Board**) at any time during, or since the end of the half-year are, unless otherwise stated:

| | |
|-------------------|--|
| Richard Newsted | Non-executive Chairman (appointed 25 June 2014) |
| Ross Griffiths | Non-executive Director (appointed 25 June 2014) |
| Mark Milazzo | Non-executive Director (appointed 25 June 2014) |
| Maryse Belanger | Chief Executive Officer and Managing Director (appointed 27 June 2014) |
| Alastair McKeever | Non-executive Director (appointed 7 August 2014) |
| Geoffrey Handley | Non-executive Director (appointed 1 January 2011; resigned effective 11 January 2014) Non-executive Chairman (appointed 1 January 2012; resigned effective 11 January 2014) |
| Ian Purdy | Chief Executive Officer & Managing Director (resigned as director effective 5 May 2014; resigned as Chief Executive Officer effective 31 May 2014) |
| Ian McCubbing | Non-executive Director (appointed 1 January 2011; resigned effective 7 April 2014) Non-executive Chairman (appointed 11 January 2014; resigned effective 7 April 2014) |
| Peter Nicholson | Non-executive Director (appointed 12 June 2012; resigned effective 11 January 2014) |
| Nicholas Sheard | Non-executive Director (appointed 20 March 2007; resigned effective 7 April 2014) |
| Colin Steyn | Non-executive Director (appointed 29 October 2009; resigned effective 11 January 2014) |

OPERATING AND FINANCIAL REVIEW

Mirabela Nickel Ltd is an international mineral resource company engaged in nickel sulphide ore mining activities and the production and subsequent sales of concentrate. The ordinary shares of the Company are listed on the Australian Securities Exchange (**ASX**) under the symbol "MBN".

The Company's principal asset is the 100% owned Santa Rita nickel sulphide, open pit operation in Bahia State, Brazil. The Santa Rita operation is a world class asset, producing a high quality metal concentrate via a state of the art nickel flotation processing plant and supported by an open pit with a current life of mine of 20 years remaining reserves (including 2014).

The Company also has a number of near-mine and regional exploration prospects that have the potential to provide additional, organic growth.

Restructure

On 30 December 2013, the Company announced that it had secured a US\$45.000 million loan from a consortium of holders (**Ad-hoc Group**) of the Company's US\$395.000 million 8.75% Senior Unsecured Notes due 15 April 2018. The intention of the loan was to provide the Company with sufficient liquidity to operate its business (i.e. the business was materially loss making) as discussions progressed with all of the Company's key stakeholders regarding a comprehensive restructuring. The first draw down under the loan occurred during January 2014. As at the date of this report, the facility was fully drawn and had been fully utilised to fund operating losses and capital expenditure since 31

Directors' report

December 2013. Including fees and accrued interest approximately US\$60.000 million was due and payable on 30 June 2014 (the revised maturity date of the loan). The loan was subsequently converted to Senior Convertible Secured Notes.

On 25 February 2014, the Company notified the ASX that the Ad-Hoc Group had entered into a Plan Support Agreement (PSA) which formalised an agreement to provide continued support (both funding and standstill support) whilst a proposed plan to recapitalise the Company was implemented. The ASX announcement included a redacted copy of the legally binding PSA which outlined the terms on which the Ad-hoc Group would continue to support the Company.

Following receipt of the signed PSA, Messrs Martin Madden, Clifford Rocke and David Winterbottom from KordaMentha were appointed as voluntary administrators of the Company and Mirabela Investments Pty Ltd on 25 February 2014 pursuant to section 436A of the Corporations Act 2001 (*Cth*).

For further detail on the restructure refer to the various public disclosures that were published on the ASX since the Company was placed into voluntary administration.

On 25 June 2014, the Company successfully completed its restructure when the Deed of Company Arrangement (DOCA) was fully effectuated, the Deed Administrators retired, the DOCA terminated and the day to day management of the Company reverted to the Company's directors. Although the Brazilian subsidiary (not under administration) was able to continue production during the four months the Company was under voluntary administration, production was restricted by the challenging financial position the Company was experiencing.

OPERATING REVIEW

The Group is a single asset, single commodity nickel producer engaged in nickel sulphide ore mining activities and the production and subsequent sales of concentrate, and as a result is heavily reliant on the nickel price. The Group's cash flows from operating activities were negative throughout the six months ended 30 June 2014, with the LME nickel price continuing to trade below the Company's cash flow break-even position after overheads, financing, sustaining capital costs, general & administration costs and tax.

During December 2013 the company adopted a revised mine plan of 25Mt per annum of material mined for 2014 and 2015. Although the company was able to maintain mining operations in accordance with the revised mine plan during the first quarter, the performances of the open pit mine and the processing plant were lower than expected. Material movement was adversely impacted by low availability and productivity of a number of loaders and excavators and the recoveries were unfavourably impacted by low water availability due to less reclaimed water from the tailings dam.

The second quarter operating results were lower than expected due to a change in the mining schedule. Continued issues with loading equipment availability, resulted in better quality ore from the South zone of the core pit being replaced with ore from the Central zone that contains elevated levels of MgO. Plant performance for the second quarter was adversely impacted by preventative maintenance requirements on the Primary and Secondary crushers and SAG Mill. During the latter stages of the quarter the desliming process recommenced as a result of an interim return water management plan. Nickel production continued to be restricted by ore quality limitations.

Capital expenditure for the six month period was US\$15.653 million, including deferred stripping costs of US\$2.718 million.

As a result of the lower production volumes for the first half of the year, the Company achieved unit cash costs of US\$7.85/lb.

Directors' report

Safety

The Group's twelve month moving average Lost Time Injury Frequency Rate (**LTIFR**) closed the half year ended 30 June 2014 at 1.22 (30 June 2013: 1.12). The LTIFR has been impacted by four minor incidents during the six month period. The Group continues to target further improvements to its safety record through ongoing safety training and safety improvement programs.

Mining

Total mined material movement for the six month period was 11.71 million tonnes of material moved for 2.02 million tonnes of ore.

The mining operations for the first quarter of 2014 were in line with the revised mine plan of 25Mt per annum of material mined for 2014 and for 2015, despite the challenging operational and business conditions. However, material movement was impacted by low availability/productivity of a number of loaders and excavators.

Material movement for the second quarter of 2014 was adversely impacted by low loading equipment productivity due to the lack of infrastructure equipment, thus limiting material movement. Infrastructure equipment is required to prepare the drill floors, clean-up around the excavating machines and push waste on the dumps. The clean-up of the South zone of the core pit is still delayed, and upon completion the drilling schedule is expected to recommence. In addition, during the second quarter ore was preferentially mined causing broken ore inventories to be drawn down during this period, resulting in waste catch-up being required in subsequent months. The effect of these issues has resulted in a change in the mine schedule where the South zone was avoided and replaced with ore from the Central zone, thus unfavourably impacting both quantity and quality of ore. The Central zone ore is higher in deleterious MgO which in-turn results in a lower quality and recovery of ore.

Mine grade for the six month period of 0.42% was negatively impacted by limited availability of better quality ore feed with lower deleterious impurities and higher sulphur. This impact was caused by the delay in access to the South zone due to infrastructure issues as noted above.

Processing

During the six month period ended 30 June 2014 a total of 2.79 million tonnes of ore was milled, at an average head grade of 0.41% nickel and achieving an average recovery of 50%.

During the six month period, plant performance was negatively impacted by additional maintenance requirements on the Primary and Secondary Crushers and SAG Mill. The tailings dam lift is progressing and phase 1 is expected to be completed by end of August 2014. Phases 2 and 3 of the construction are underway and are expected to be completed by the end of 2015. The tailings dam lift is currently behind schedule as a result of the Company's recent restructure process, which resulted in the delayed mobilisation of people and equipment.

Recoveries during the six month period were adversely affected by low water availability due to less reclaimed water from the tailings dam. As a result of the reduced water availability it was necessary to cease desliming and instead utilise a dispersant reagent, thus reducing the overall efficiency of the process. This improved towards the latter part of the period in line with the tailings dam wall lift, resulting in the desliming process recommencing, but with a reduced total plant through-put.

Sale of concentrate

During the six months ended 30 June 2014, the Group produced 5,705 tonnes of contained nickel in concentrate, 1,801 tonnes of contained copper in concentrate, and 103 tonnes of contained cobalt in concentrate. During the six month period a total of 3,690 tonnes of nickel in concentrate was sold in-country to an international and foreign domiciled trading house (**ITH**) and 2,486 tonnes of nickel in concentrate was sold to Norilsk Nickel Harjavalta Oy (**Norilsk Nickel**)

Directors' report

pursuant to a long term offtake agreement. A new short term offtake agreement was entered into during the period with ITH, which extends to 31 December 2014 resulting in all production to 31 December 2014 being supported by executed offtake agreements. The Company expects to commence a full tender process in quarter three of 2014 to secure a long term offtake agreement for approximately 50% of the production from 1 January 2015 onwards.

Exploration

The primary exploration strategy currently consists of maintaining certain existing tenements in good standing and compliance by spending the minimum amounts on capital expenditure, and the release of tenement areas that management believe have a low prospect.

Legal: Brazil

In accordance with the dispute resolution terms under the Santa Rita Concentrate Sales Agreement (**Agreement**) between Mirabela Brazil and Votorantim Metais S.A. (**Votorantim**), on 3 June 2014 the parties signed the Terms of Reference to the formal commencement of arbitration proceedings under the rules of the Center for Arbitration and Mediation CCBC, Sao Paulo Brazil. The arbitration proceeding is in relation to the validity of the alleged force majeure claimed by Votorantim and the obligations of Votorantim under the Agreement. Mirabela Brazil is requesting compensation for loss.

Operating Licence

Mirabela Brazil holds an operating licence for the Santa Rita mine, issued by the Bahia State Environmental Board (**INEMA**). This licence was issued in September 2009 for a period of four years. As part of the renewal process all statutory reports and documentation were submitted in compliance with the required timeframe for a renewal of the licence.

Site inspection by INEMA of Santa Rita required additional information including blast monitoring. All requirements were complied with and reports submitted in the correct time frame.

The current licence has been automatically extended until the review Process from INEMA is completed. Feedback from INEMA has indicated that the formal review of all reports will start in late December 2014.

Should the operating licence not be granted, mining operations will cease and the Company will likely be liquidated.

Outlook

As the Company has only recently successfully completed its restructure, as noted earlier, the Board and management will focus the second half of the 2014 financial year on returning the operation to normalised production levels, re-assessing capital requirements and cost base to prepare the Company for 2015.

The Board has commenced a strategic review of the appropriate operating model for the Company that could impact the current life of mine plan, capital and operating cost structures. The Board is expecting to have completed this review by the end of 2014. As a result, the Company is not in a position to provide any operational, unit cash cost or capital guidance for the remainder of 2014.

EXECUTIVE AND BOARD CHANGES

Board changes

Mr Richard Newsted, Mr Ross Griffiths and Mr Mark Milazzo were appointed as Non-executive Directors of the Board effective 25 June 2014.

Ms Maryse Belanger was appointed Chief Executive Officer and Managing Director of Mirabela effective 27 June 2014.

Directors' report

Mr Alastair McKeever was appointed as Non-executive Director of the Board effective 7 August 2014.

Mr Ian McCubbing was appointed Non-executive Chairman of the Board effective 11 January 2014, replacing Mr Geoff Handley. Mr McCubbing resigned from the Board effective 7 April 2014.

Mr Geoff Handley resigned as Non-executive Chairman and from the Board effective 11 January 2014.

Mr Ian Purdy resigned from the Board effective 5 May 2014 and resigned as Chief Executive Officer of the Group effective 31 May 2014.

Mr Peter Nicholson resigned from the Board effective 11 January 2014.

Mr Colin Steyn resigned from the Board effective 11 January 2014.

Mr Nicholas Sheard resigned from the Board effective 7 April 2014.

Executive changes

Dr Linda Tompkins was appointed Company Secretary effective 25 June 2014.

Mr Christiaan Els resigned as Company Secretary of the Group effective 19 May 2014. Mr Els continues employment with the Company as Chief Financial Officer.

FINANCIAL REVIEW

The Group recorded a net profit for the six month period ended 30 June 2014 of US\$373.880 million, representing US\$0.43 per share, in comparison to a net loss for the same period ended 30 June 2013 of US\$68.911 million representing a loss of US\$0.08 per share.

The net profit for the period of US\$373.880 million was primarily driven by the debt forgiveness of the US\$395.000 million 8.75% Senior Unsecured Notes due 15 April 2018 and incurred interest, a combined total of US\$439.715 million, (as outlined in Note 2 to the condensed interim consolidated financial report), offset in part by lower net sales revenue due to lower volume of sales as a result of lower production, which was adversely impacted by the Company's recent events surrounding its restructure.

Total assets increased by US\$42.904 million to US\$201.446 million from 31 December 2013. This was mainly due to an increase in cash during the period primarily driven by proceeds from the issue of US\$55.000 million of Senior Convertible Secured Notes and US\$45.000 million from the Syndicated Note Subscription Deed provided by the Ad-hoc Group of Senior Unsecured Noteholders, which (including incurred interest and fees of approximately US\$15.000 million) were subsequently converted to US\$60.000 million of Senior Convertible Secured Notes (all forming part of the Company's recent restructure process).

Total liabilities were US\$216.598 million, a decrease of US\$317.762 million from 31 December 2013. The improvement in total liabilities was mainly as a result of the debt forgiveness of the Senior Unsecured Noteholder debt, as commented on above, offset in part by the issue of US\$115.000 million of Senior Convertible Secured Notes.

Total equity was also impacted by the favourable result of the debt forgiveness resulting in a total deficiency of US\$15.152 million at 30 June 2014, a positive movement of US\$360.666 million from 31 December 2013.

FINANCIAL POSITION

During the six month period ended 30 June 2014, cash and cash equivalents increased by US\$31.687 million to US\$62.422 million.

Directors' report

Cash outflows from operating activities for the period were US\$43.856 million. Cash receipts of US\$69.622 million reflected the sale of 6,176 tonnes of nickel in concentrate, and associated by-products, to Norilsk Nickel and ITH, offset by cash outflows of US\$114.340 million, driven primarily by operational costs.

Net cash outflows from investing activities for the period were US\$15.653 million. The cash outflow included budgeted capital expenditure primarily relating to the ongoing lifting of the tailings dam wall, and deferred waste removal costs.

The net cash inflow from financing activities of US\$89.771 million mainly reflects proceeds from the issue of US\$55.000 million of Senior Convertible Secured Notes and US\$45.000 million from the Syndicated Note Subscription Deed provided by the Ad-hoc Group of Senior Unsecured Noteholders, offset in part by principal repayments and interest payments of US\$7.816 million and US\$2.413 million, respectively, relating to the Banco Bradesco S.A. working capital facility, and Caterpillar and Atlas Copco finance lease facilities.

The Board has commenced a strategic review of the business model for the Company, including its approach to executing mining and production activities. The Board is expecting to complete the review by the end of 2014. In the absence of strategic decisions on the operations, the Company has prepared cash flow forecasts based on an independent external expert's business model and life of mine plan. This modelling has been updated for projected nickel prices, foreign exchange and capital expenditure assumptions.

The Board's assessment that the going concern basis of preparation is appropriate for the next 12 months is based on the cash flow forecasts and sensitivities performed by the Company. The forecasts used are dependent on the achievement of production in accordance with the existing life of mine plan, commercial pricing, along with the stability of the nickel prices and foreign exchange rates to consensus views. The forecasts do not incorporate any revisions to life of mine plan or other operational changes which may be adopted coming from the Board's strategic review. Should the operations not successfully achieve forecast production, commercial prices, forecast nickel prices and foreign exchange assumptions not be achieved, the Group may be required to source additional funds through debt or equity markets or a combination of both or a sell-down of assets.

The Board is relying on the independent external expert's business model and life of mine plan for continued operations, that was prepared for the Deed Administrator, as it aligns with current business operational practice, until it completes its strategic review of the future business model of the Company, as this is the best available information that the Board currently has whilst it evaluates the practical implementation of the assumptions used in the current life of mine plan, and as such, there may be material uncertainty that could give rise to significant doubt about the ability of the Group to realise its assets and settle its obligations in an orderly manner over the period required and at the amounts stated in the financial report (refer also to Notes 2 and 3(d) to the condensed interim consolidated financial report).

SUBSEQUENT EVENTS

Senior Unsecured Notes

The Senior Unsecured Noteholder debt of US\$395.000 million 8.75% Senior Unsecured Notes due 15 April 2018 (**Original Noteholders**) and incurred interest were extinguished on 25 June 2014, and in return the Original Noteholders became entitled to approximately 98.2% of the Company's ordinary shares on issue at that time (**DOCA Shares**). The DOCA Shares were transferred from existing shareholders of the Company (by order of the Supreme Court of New South Wales) to a trustee who holds them as bare trustee (Mirabela Investments Pty Ltd) for the Original Noteholders. As at 31 July 2014, eligible Original Noteholders entitled to approximately 99.3% of the DOCA Shares had submitted the relevant documentation and taken possession of their share of the DOCA Shares. On 1 August 2014, the approximately 0.7% of DOCA Shares that were not taken up reverted to the Bare Trustee for management according to the rules as outlined in the Deed of Company Arrangement.

Directors' report

Caterpillar

The carrying amount of the Caterpillar finance lease facility is US\$5.002 million at 30 June 2014. The standstill agreement that was entered into by the Group with Caterpillar, in respect of the Group's obligations under the Caterpillar finance lease facility, terminated on 23 July 2014. Pursuant to the terms of the standstill agreement, Caterpillar agreed, among other things, not to enforce its rights under the Caterpillar Facility or declare a default or take any enforcement action in respect of a default caused by the Group entering into restructuring discussions with its major creditors.

Tax Audit

In January 2011 the tax authority of the State of Bahia, Brazil, conducted an indirect tax audit of the Company. Following the audit, the Bahia tax authority notified the Company alleging that it incorrectly claimed tax credits from July 2008 to May 2010 and that the Company was liable for the unpaid taxes together with interest and penalties.

The Company challenged the assessment in February 2011 in the Council of State Revenue. The administrative review proceedings concluded in February 2014 resulting in partial success for the Company. This decision formally closed the administrative stage of the proceedings and any challenges to the final administrative decision require commencement of judicial proceedings to the Court. To appeal the case in the court the Company is required to either provide a bank guarantee or make a full payment into a trust with the court for the full amount of the disputed portion of the claim (US\$2.907 million). Due to the liquidity pressures in the business, and to preserve cash, the Company has decided not to appeal the final administrative decision. The Company received permission from the Bahia State Tax Authority to settle the outstanding amount by utilising its accrued non-cash indirect tax credits. This was subsequently settled on 9 July 2014.

Extra Judicial Proceeding

The Board has resolved not to proceed with the extra judicial process in Brazil, and have resolved to honour the agreement with the Ad-hoc Group of the original Senior Unsecured Noteholders to issue the subordinated unsecured notes with aggregate face value of US\$5.000 million and a term of 30 years, attracting an interest rate of 1%.

Corporate

Mr Alastair McKeever was appointed as Non-executive Director of the Board effective 7 August 2014.

COMPARATIVE INFORMATION

Comparative information is presented for the half-year ended 30 June 2013 for the statement of profit or loss and other comprehensive income and as at 31 December 2013 for the statement of financial position.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 308C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 12 and forms part of the Directors' Report for the half-year ended 30 June 2014.

Directors' report

ROUNDING

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and Directors' Report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:



Richard Newsted
Non-executive Chairman

Perth, 25 August 2014



Maryse Belanger
Chief Executive Officer & Managing Director

Perth, 25 August 2014

Directors' declaration

In the opinion of the directors of Mirabela Nickel Limited (the Company):

1. the financial statements and notes of the Group are in accordance with the *Corporations Act 2001*, including:
 - a. giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and
 - b. complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001;
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Richard Newsted
Non-executive Chairman

Perth, 25 August 2014



Maryse Belanger
Chief Executive Officer & Managing Director

Perth, 25 August 2014

Lead auditor's independence declaration



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

To: the directors of Mirabela Nickel Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half year ended 30 June 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'R Gambitta', written over the printed name.

R Gambitta

Partner

Perth

25 August 2014

Independent auditor's review report



Independent auditor's review report to the members of Mirabela Nickel Limited

We have reviewed the accompanying condensed interim financial report of Mirabela Nickel Limited which comprises the condensed interim consolidated statement of financial position as at 30 June 2014, condensed interim consolidated statement of profit or loss and other comprehensive income, condensed interim consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 26 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 30 June 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Mirabela Nickel Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Independent auditor's review report



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Mirabela Nickel Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without modifying our conclusion expressed above, attention is drawn to note 3(d) to the financial report. The matters set forth in Note 3(d) indicate the existence of material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

A handwritten version of the KPMG logo in blue ink.

KPMG

A handwritten signature in blue ink, appearing to be 'R Gambitta'.

R Gambitta

Partner

Perth

25 August 2014

MIRABELA NICKEL LIMITED

**Condensed interim consolidated statement of profit or loss and other comprehensive income
For the half-year ended 30 June 2014**

| | | Half-year ended 30 June 2014 | Half-year ended 30 June 2013 |
|--|-------------|------------------------------------|------------------------------------|
| | <i>Note</i> | US\$000 | US\$000 |
| Sales revenue | 9 | 94,949 | 124,279 |
| Treatment, refining and transport charges | | (20,881) | (24,557) |
| Net sales revenue | | 74,068 | 99,722 |
| Direct costs | | (79,879) | (90,269) |
| Royalties | | (4,386) | (5,754) |
| Depreciation, amortisation and depletion | | (1,732) | (14,750) |
| Cost of sales | | (85,997) | (110,773) |
| Gross loss | | (11,929) | (11,051) |
| General and administration expenses | 10 | (21,514) | (5,762) |
| Financial income | 11 | 862 | 3,342 |
| Financial expense | 11 | (22,544) | (21,751) |
| Net foreign exchange gain/(loss) | | 26,604 | (32,855) |
| Other income | 12 | 439,902 | 1,181 |
| Other expenses | 12 | (21,180) | (2,015) |
| | | 402,130 | (57,860) |
| Profit/(Loss) before income tax | | 390,201 | (68,911) |
| Income tax | 13 | (16,321) | - |
| Profit / (loss) for the period | | 373,880 | (68,911) |
| OTHER COMPREHENSIVE INCOME/(EXPENSE) | | | |
| Items that are or may be reclassified subsequently to profit or loss: | | | |
| Foreign currency translation differences | | (22,244) | (12,679) |
| Net change in fair value of cash flow hedges transferred to profit or loss | | 1,406 | 2,261 |
| Other comprehensive expense for the period, net of tax | | (20,838) | (10,418) |
| Total comprehensive income/(expense) for the period | | 353,042 | (79,329) |
| EARNINGS/(LOSS) PER SHARE | | | |
| Basic earnings/(loss) per share (\$ per share) | | 0.43 | (0.08) |
| Diluted earnings/(loss) per share (\$ per share) | | 0.43 | (0.08) |

The accompanying condensed notes form part of this condensed interim consolidated financial report.

Condensed interim consolidated statement of changes in equity
For the half-year ended 30 June 2014

| | | Attributable to equity holders of the Group | | | | | |
|--|------|---|---------------------|------------------------------|-----------------|--------------------|------------------|
| | | Issued capital | Translation reserve | Share based payments reserve | Hedging reserve | Accumulated losses | Total deficiency |
| Half-year ended | Note | US\$000 | US\$000 | US\$000 | US\$000 | US\$000 | US\$000 |
| 30 June 2014 | | | | | | | |
| Balance at 1 January 2014 | | 796,517 | (125,715) | 5,590 | (4,740) | (1,047,470) | (375,818) |
| TOTAL COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD | | | | | | | |
| Profit for the period | | - | - | - | - | 373,880 | 373,880 |
| Other comprehensive income/ (expense) | | | | | | | |
| Foreign currency translation differences | | - | (22,244) | - | - | - | (22,244) |
| Net change in fair value of cash flow hedges transferred to profit or loss | 17 | - | - | - | 1,406 | - | 1,406 |
| Total other comprehensive income/(expense) | | - | (22,244) | - | 1,406 | - | (20,838) |
| Total comprehensive income/(expense) for the period | | - | (22,244) | - | 1,406 | 373,880 | 353,042 |
| TRANSACTIONS WITH EQUITY HOLDERS | | | | | | | |
| Share issue during the period | | 7,296 | - | - | - | - | 7,296 |
| Share based payments cancelled during the period | | - | - | (328) | - | 328 | - |
| Share based payment recognised | | - | - | 328 | - | - | 328 |
| Total transactions with equity holders | | 7,296 | - | - | - | 328 | 7,624 |
| Balance at 30 June 2014 | 24 | 803,813 | (147,959) | 5,590 | (3,334) | (673,262) | (15,152) |

The accompanying condensed notes form part of this condensed interim consolidated financial report.

Condensed interim consolidated statement of changes in equity
For the half-year ended 30 June 2014

| | | Attributable to equity holders of the Group | | | | | |
|--|------|---|---------------------|------------------------------|-----------------|--------------------|--------------|
| | | Issued capital | Translation reserve | Share based payments reserve | Hedging reserve | Accumulated losses | Total equity |
| Half-year ended | Note | US\$000 | US\$000 | US\$000 | US\$000 | US\$000 | US\$000 |
| 30 June 2013 | | | | | | | |
| Balance at 1 January 2013 | | 797,110 | (115,379) | 7,186 | (14,403) | (555,825) | 118,689 |
| TOTAL COMPREHENSIVE INCOME/ (EXPENSE) FOR THE PERIOD | | | | | | | |
| Loss for the period | | - | - | - | - | (68,911) | (68,911) |
| <i>Other comprehensive income/ (expense)</i> | | | | | | | |
| Foreign currency translation differences | | - | (12,679) | - | - | - | (12,679) |
| Net change in fair value of cash flow hedges transferred to profit or loss | 17 | - | - | - | 2,261 | - | 2,261 |
| Total other comprehensive income/(expense) | | - | (12,679) | - | 2,261 | - | (10,418) |
| Total comprehensive income/(expense) for the period | | - | (12,679) | - | 2,261 | (68,911) | (79,329) |
| TRANSACTIONS WITH EQUITY HOLDERS | | | | | | | |
| Shares issued during the period net of issue cost | | (593) | - | - | - | - | (593) |
| Share based payment recognised | | - | - | 476 | - | - | 476 |
| Total transactions with equity holders | | (593) | - | 476 | - | - | (117) |
| Balance at 30 June 2013 | 24 | 796,517 | (128,058) | 7,662 | (12,142) | (624,736) | 39,243 |

The accompanying condensed notes form part of this condensed interim consolidated financial report.

Condensed interim consolidated statement of financial position

As at 30 June 2014

| | | 30 June 2014 | 31 December 2013 |
|--------------------------------------|------|-----------------|------------------|
| | Note | US\$000 | US\$000 |
| ASSETS | | | |
| Cash and cash equivalents | 14 | 62,422 | 30,735 |
| Trade and other receivables | 15 | 32,540 | 25,223 |
| Inventories | 16 | 50,035 | 67,970 |
| Total current assets | | 144,997 | 123,928 |
| Trade and other receivables | 15 | 38,106 | 31,951 |
| Property, plant and equipment | 19 | 15,515 | - |
| Exploration and evaluation assets | 18 | 2,828 | 2,663 |
| Total non-current assets | | 56,449 | 34,614 |
| Total assets | | 201,446 | 158,542 |
| LIABILITIES | | | |
| Trade and other payables | 20 | 24,295 | 64,483 |
| Provisions | 21 | 3,447 | 3,392 |
| Borrowings | 22 | 6,475 | 456,241 |
| Total current liabilities | | 34,217 | 524,116 |
| Provisions | 21 | 11,356 | 10,244 |
| Borrowings | 22 | 86,107 | - |
| Convertible note derivative | 23 | 68,597 | - |
| Deferred tax liability | 13 | 16,321 | - |
| Total non-current liabilities | | 182,381 | 10,244 |
| Total liabilities | | 216,598 | 534,360 |
| Net liabilities | | (15,152) | (375,818) |
| EQUITY | | | |
| Contributed equity | 24 | 803,813 | 796,517 |
| Reserves | | (145,703) | (124,865) |
| Accumulated losses | | (673,262) | (1,047,470) |
| Total deficiency | | (15,152) | (375,818) |

The accompanying condensed notes form part of this condensed interim consolidated financial report.

MIRABELA NICKEL LIMITED

Condensed interim consolidated statement of cash flow
For the half-year ended 30 June 2014

| | <i>Note</i> | Half-year ended 30 June 2014 US\$000 | Half-year ended 30 June 2013 US\$000 |
|---|-------------|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Cash receipts from customers | | 69,622 | 141,750 |
| Cash paid to suppliers and employees | | (114,340) | (125,998) |
| Interest received | | 862 | 3,342 |
| Net cash from/(used in) operating activities | | (43,856) | 19,094 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Acquisition of property, plant and equipment | | (15,653) | (18,872) |
| Net cash used in investing activities | | (15,653) | (18,872) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Interest paid | | (2,413) | (19,459) |
| Repayment of borrowings | | (7,816) | (4,815) |
| Share issue costs | | - | (593) |
| Proceeds from borrowings | | 100,000 | - |
| Net cash (used in)/from financing activities | | 89,771 | (24,867) |
| Net (decrease)/increase in cash and cash equivalents | | 30,262 | (24,645) |
| Cash and cash equivalents at beginning of the period | | 30,735 | 143,007 |
| Effect of changes in foreign currency | | 1,425 | (10,245) |
| Cash and cash equivalents at end of the period | 14 | 62,422 | 108,117 |

The accompanying condensed notes form part of this condensed interim consolidated financial report.

Notes to condensed interim consolidated financial report

For the half-year ended 30 June 2014

1. REPORTING ENTITY

The Company is domiciled in Australia. The address of the Company's registered office is Level 21, Allendale Square, 77 St Georges Terrace, Perth WA 6000. The consolidated financial statements of the Company for the half-year ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is a for-profit entity primarily involved in the production, development and exploration of mineral properties, predominantly nickel, in Brazil.

2. STATUS OF OPERATIONS AND COMPANY RESTRUCTURE

The Group is engaged in the mining, production and sale of nickel concentrate. Its principal asset is the 100% owned Santa Rita nickel sulphide, open pit operation in Bahia State, Brazil. The Santa Rita operation produces metal concentrate via a nickel flotation processing plant and is supported by an open pit with a current life of mine of 20 years based on remaining reserves (including 2014). The Group also has a number of near-mine and regional exploration prospects.

As announced on 25 June 2014, the Company successfully completed its restructure when the Deed of Company Arrangement (DOCA) was fully effectuated, the Deed Administrators retired, the DOCA terminated and the day-to-day management of the Company reverted to the Company's directors.

As a result, the status of various restructure events are as follows:

- The Senior Unsecured Noteholder debt of US\$395.000 million 8.75% Senior Unsecured Notes due 15 April 2018 (**Original Noteholders**) and incurred interest were extinguished on 25 June 2014, and in return the Original Noteholders became entitled to approximately 98.2% of the Company's ordinary shares on issue at that time (**DOCA Shares**). The DOCA Shares were transferred from existing shareholders of the Company (by order of the Supreme Court of New South Wales) to a trustee who holds them as bare trustee (Mirabela Investments Pty Ltd) for the Original Noteholders.
 - In order to take possession of the DOCA Shares to which they are entitled, Original Noteholders are required to submit certain documentation evidencing their entitlement;
 - As at 30 June 2014, eligible Original Noteholders entitled to approximately 27% of the DOCA Shares had submitted the relevant documentation and taken possession of their share of the DOCA Shares;
 - As at 31 July 2014, eligible Original Noteholders entitled to approximately 99.3% of the DOCA Shares had submitted the relevant documentation and taken possession of their share of the DOCA Shares; and
 - On 1 August 2014, the approximately 0.7% of DOCA Shares that were not taken up reverted to the Bare Trustee for management according to the rules as outlined in the Deed of Company Arrangement.
- The US\$115.000 million 9.50% Senior Convertible Secured Notes (**SCSN**) due 24 June 2019 were issued on 24 June 2014 (further details regarding the SCSNs is contained in Note 22):
 - The SCSNs are convertible into Mirabela ordinary shares at the discretion of the SCSN Holders up to the maturity date of 24 June 2019. No SCSNs were converted into Mirabela ordinary shares as at 30 June 2014; and
 - Mirabela has the option to redeem the SCSNs on or after the third anniversary of the issuance of the SCSNs, based on specified terms.

The new Board and Chief Executive Officer/Managing Director, having been appointed post 25 June 2014 will focus the second half of the 2014 financial year on returning the operation to normalised production levels, re-assessing capital requirements and cost base to prepare the Company for 2015.

Reference should also be made to Note 3(d) in terms of the going concern basis of preparation.

**Notes to condensed interim consolidated financial report
For the half-year ended 30 June 2014**

3. BASIS OF PREPARATION

(a) Statement of compliance

This condensed interim consolidated financial report is a general purpose financial report which has been prepared in accordance with AASB 134: Interim Financial Reporting, IAS 34: Interim Financial Reporting and the Corporations Act 2001. The condensed interim consolidated financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the financial year ended 31 December 2013.

The condensed interim consolidated financial report was approved by the Board of Directors on 25 August 2014.

(b) Basis of measurement

The condensed interim consolidated financial report has been prepared on the historical cost basis except for the following which are measured at fair value:

- Derivative financial instruments; and
- Share based payment arrangements.

The methods used to measure fair values are discussed further in Note 6.

Certain comparative amounts in the condensed interim consolidated financial report have been reclassified to conform with the current year's presentation.

(c) Functional and presentation currency

The condensed interim consolidated financial report is presented in United States dollars, which is the Group's presentation currency. The Company's functional currency is Australian dollars and the functional currency of the Company's foreign subsidiary is the Brazilian Real. The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates.

(d) Financial position and going concern basis of preparation

The Group ended the half year with cash on hand and on deposit of US\$62.422 million, which was positively impacted during the period by proceeds from the issue of SCSNs of US\$55.000 million, and proceeds of US\$45.000 million under the terms of the Syndicated Note Subscription Deed provided by the Ad-hoc Group of Senior Unsecured Noteholders.

The Group generated a profit of US\$373.880 million for the half-year ended 30 June 2014, which was primarily attributable to the debt forgiveness of the Original Noteholder debt of US\$439.715 million. As a result of this, the Group's net liability position as at 30 June 2014 reduced to US\$15.152 million, as the Original Noteholder debt was derecognised and new unsecured notes issued. Net cash outflows from operating and investing activities for the half-year ended 30 June 2014 were US\$59.509 million.

As outlined in Note 2, the Company recently effectuated the DOCA and exited from voluntary administration. The Board and management are focussing on assessing key business requirements to ensure the Group's ability to realise its assets and settle its obligations in an orderly manner.

The Board has commenced a strategic review of the business model for the Company, including its approach to executing mining and production activities. The Board is expecting to complete the review by the end of 2014. In the absence of strategic decisions on the operations, the Company has prepared cash flow forecasts based on an independent external expert's business model and life of mine plan. This modelling has been updated for projected nickel prices, foreign exchange and capital expenditure assumptions.

**Notes to condensed interim consolidated financial report
For the half-year ended 30 June 2014**

The Board's assessment that the going concern basis of preparation is appropriate for the next 12 months is based on the cash flow forecasts and sensitivities performed by the Company. The forecasts used are dependent on the achievement of production in accordance with the existing life of mine plan, commercial pricing, along with the stability of the nickel prices and foreign exchange rates to consensus views. The forecasts do not incorporate any revisions to life of mine plan or other operational changes which may be adopted coming from the Board's strategic review. Should the operations not successfully achieve forecast production, commercial prices, forecast nickel prices and foreign exchange assumptions not be achieved, the Group may be required to source additional funds through debt or equity markets or a combination of both or a sell-down of assets.

The Board is relying on the independent external expert's business model and life of mine plan for continued operations, that was prepared for the Deed Administrator, as it aligns with current business operational practice, until it completes its strategic review of the future business model of the Company, as this is the best available information that the Board currently has whilst it evaluates the practical implementation of the assumptions used in the current life of mine plan, and as such, there may be material uncertainty that could give rise to significant doubt about the ability of the Group to realise its assets and settle its obligations in an orderly manner over the period required and at the amounts stated in the financial report.

(e) Rounding

The Group is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this condensed interim consolidated financial report are consistent with those applied by the Group in its consolidated annual financial report as at and for the financial year ended 31 December 2013.

(a) Financial instruments

(i) Convertible note liability and derivative

Convertible notes issued by the Company comprise convertible notes that can be converted to share capital at the option of the holder and a convertible note derivative whose fair value changes with the Company's underlying share price and the USD:AUD exchange rate.

The liability component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option, and is calculated as the difference between the financial instrument as a whole and the value of the derivative at inception. The embedded derivative component is recognised initially at fair value. Any directly attributable transaction costs are allocated to the convertible note liability. The fair value of the derivative portion has been valued using a valuation technique including inputs that include reference to similar instruments and option pricing models. Subsequent to recognition, the liability component of the convertible note is measured at amortised cost using the effective interest method. The convertible note derivative is measured at fair value through profit or loss.

The convertible note liability and derivative are derecognised from the statement of financial position when the obligations specified in the contract are discharged. This can occur upon the note holder exercising their option or the option period lapses requiring the Company to repay the obligation.

**Notes to condensed interim consolidated financial report
For the half-year ended 30 June 2014**

5. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under current circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The going concern basis of accounting relies on such estimates and assumptions and the comments as outlined in Note 2 and Note 3(d) should be read in conjunction with this note.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the Group's consolidated annual financial report as at and for the financial year ended 31 December 2013.

A significant area of estimation and judgement relevant to the current and future reporting periods is as follows:

(i) Convertible note derivative

An option pricing model is used to calculate the fair value of the convertible note derivative that is dependent upon a number of estimates and assumptions. The types of estimates and assumptions used are set out in Note 6(i). Changes to the estimates and assumptions used in the pricing model could have a material impact on the fair value of the convertible note derivative.

6. DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value determination disclosures are described in the Group's consolidated annual financial report as at and for the financial year ended 31 December 2013, except for the following:

(i) Convertible note derivatives

The fair value of the convertible note derivative has been determined by firstly computing the fair value per convertible option feature multiplied by the number of outstanding options. The fair value per option is computed using an option pricing model that takes account of the exercise price, the term of the option, the Company's share price at the end of the reporting period, the expected volatility of the underlying share price and the risk-free interest rate (based on government bonds). The expected volatility is based upon historic volatility (based on the

Notes to condensed interim consolidated financial report

For the half-year ended 30 June 2014

remaining life of the options) adjusted for abnormal spikes on the Company's share price. Given the shares of the Company were only reinstated on the ASX on 30 June 2014, judgements were required as to the underlying share price and expected volatility as at 24 June 2014.

7. FINANCIAL RISK MANAGEMENT

The Group's financial risk management objectives and policies are consistent with those disclosed in the consolidated annual financial report as at and for the financial year ended 31 December 2013, except as outlined in Note 25.

8. SEGMENT REPORTING

During the financial period, the Group operated in one business and operating segment, being mineral exploration and production, and in one primary geographical area, being Brazil, with two customers: Norilsk Nickel Harjavalta Oy (**Norilsk Nickel**), subsidiary of OJSC MMC Norilsk Nickel and International Trading House (**ITH**). Sales for the half-year ended 30 June 2014 were split 60% to ITH and 40% to Norilsk Nickel (half-year ended 30 June 2013: 74% to Votorantim Metais Niquel S.A. (**Votorantim**) and 26% to Norilsk Nickel).

| Customer Sector Group | Principal Activities |
|-----------------------|---|
| Base Metals | Mining of nickel, copper, cobalt and platinum in Brazil |

Internal reporting is prepared on the same basis as this condensed interim consolidated financial report.

9. SALES REVENUE

| | Half-year ended 30 June 2014 US\$000 | Half-year ended 30 June 2013 US\$000 |
|----------------------|---|---|
| Nickel Sales | 83,003 | 104,357 |
| Copper Sales | 7,099 | 10,809 |
| Cobalt Sales | 886 | 1,409 |
| Other Sales | 3,961 | 7,704 |
| Sales Revenue | 94,949 | 124,279 |

Nickel sales are comprised as follows:

| | Half-year ended 30 June 2014 US\$000 | Half-year ended 30 June 2013 US\$000 |
|---|---|---|
| Realised nickel sales | 71,577 | 118,989 |
| Revaluation of unrealised nickel sales | 12,120 | (13,629) |
| Unwinding of metal and foreign exchange forward contracts designated as hedges | (694) | (1,003) |
| Nickel Sales | 83,003 | 104,357 |

Realised nickel sales for the half-year ended 30 June 2014 comprised 6,176 tonnes of nickel in concentrate (half-year ended 30 June 2013: 8,075 tonnes), 81% being payable (half-year ended 30 June 2013: 89% payable) at an average realised nickel price of US\$6.49/lb; (half-year ended 30 June 2013: US\$7.54/lb).

Notes to condensed interim consolidated financial report

For the half-year ended 30 June 2014

Revaluation of unrealised nickel sales comprises forward price revaluation on sales that have not been finalised as at the period end. In accordance with the Group's offtake agreements, sales are initially recognised using a provisional sales price, being the average LME price of the month prior to the month of sale. Adjustments to the sales price subsequently occur, based on movements in quoted market prices up to the date of final pricing. Adjustments are also made to the sales volume upon finalisation of assays as per the Group's offtake agreements. The period between provisional invoicing and final pricing is typically between two to four months. Accordingly, the fair value of the final sales price adjustment is estimated at period end and changes in the fair value are recognised as an adjustment to revenue. For revaluation purposes fair value is estimated using the forward LME price of the second month after the month of the provisional sale.

During the year ended 31 December 2011 the Group terminated all of its outstanding metal and foreign exchange forward contracts designated as hedges. The ineffective portion of the termination costs relating to these hedges were recognised as an expense and the effective portion were recognised in the hedge reserve. This hedge reserve unwinds to revenue upon realisation of the original underlying hedged transactions (refer to Note 17).

10. GENERAL & ADMINISTRATION EXPENSE

The general & administration expenses include legal and advisory fees of approximately US\$16.300 million relating to the Company's recent restructure/recapitalisation process.

11. FINANCIAL INCOME/EXPENSE

| | Half-year ended 30 June 2014 US\$000 | Half-year ended 30 June 2013 US\$000 |
|-----------------------------------|--|--|
| Interest received | 862 | 3,342 |
| Financial income | 862 | 3,342 |
| Interest expense | (22,038) | (21,111) |
| Unwinding of rehabilitation costs | (506) | (640) |
| Financial expense | (22,544) | (21,751) |

12. OTHER INCOME AND OTHER EXPENSES

| | Half-year ended 30 June 2014 US\$000 | Half-year ended 30 June 2014 US\$000 |
|--|--|--|
| Debt Forgiveness ^(a) | 439,715 | - |
| Sundry | 187 | 1,181 |
| Other income | 439,902 | 1,181 |
| Provision for recoverable Brazilian tax credits ^(b) | (5,221) | - |
| Research expenses | (308) | (1,510) |
| Indirect taxes | (408) | (560) |
| Sundry | (371) | 55 |
| Restructuring expenses ^(c) | (14,872) | - |
| Other expenses | (21,180) | (2,015) |

Notes to condensed interim consolidated financial report

For the half-year ended 30 June 2014

(a) Debt forgiveness

Resulting from the Company restructure, the Senior Unsecured Noteholder debt of US\$395.000 million 8.75% Senior Unsecured Notes due 15 April 2018 (**Original Noteholders**) and incurred interest, were extinguished on 25 June 2014 at the termination of the Deed of Company Arrangement (**DOCA**). In return, the Original Noteholders became entitled to approximately 98.2% of the Company's existing ordinary shares on issue at that time (**DOCA Shares**). The DOCA Shares were transferred from existing shareholders of the Company (by order of the Supreme Court of New South Wales) to a trustee who holds them as bare trustee (Mirabela Investments Pty Ltd) for the Original Noteholders.

(b) Recoverable Brazilian tax credits

As a result of the concentrate sales shift from Votorantim to International Trading House, there is no certainty that the accumulating Brazilian state input tax credits, which usually get offset against the same indirect taxes on domestic sales, will be fully utilised in the future. However, approval was recently granted by the Brazil Bahia State Tax Authority for the Group to utilise these credits against other specific tax liabilities and to potentially sell remaining credits to third party entities at a discount, under specific conditions.

(c) Restructuring expenses

The restructuring expenses relate to the fees incurred in accordance with the Syndicated Note Subscription Deed, which formed part of the debt that was repaid by the Company via the issuance of the Senior Convertible Secured Notes (refer Note 22). Legal and advisory expenses relating to the Company restructure form part of general & administration costs and are commented on in Note 10.

13. INCOME TAX EXPENSE

The tax expense relates to the derecognition of tax losses that were previously recognised to offset deferred tax liabilities. Under the recapitalisation of the Company that was completed on 25 June 2014, the Australian tax losses of the Company were extinguished as a result of the application of the commercial debt forgiveness provisions of the Australian tax legislation.

14. CASH AND CASH EQUIVALENTS

| | 30 June 2014 US\$000 | 31 December 2013 US\$000 |
|--------------------------|-------------------------|-----------------------------|
| Cash at bank and on hand | 54,202 | 13,267 |
| Call deposits | 8,220 | 17,468 |
| | 62,422 | 30,735 |

15. TRADE AND OTHER RECEIVABLES

| | 30 June 2014 US\$000 | 31 December 2013 US\$000 |
|--------------------------|-------------------------|-----------------------------|
| Current asset | | |
| Trade receivables | 23,322 | 13,666 |
| Prepayments | 9,218 | 11,557 |
| | 32,540 | 25,223 |
| Non-current asset | | |
| Other receivables | - | 432 |
| Prepayments | 38,106 | 31,519 |
| | 38,106 | 31,951 |

Notes to condensed interim consolidated financial report
For the half-year ended 30 June 2014

Current prepayments for the year ended 30 June 2014 include payments in advance for consumables not yet delivered.

Non-current prepayments comprise certain recoverable Brazilian federal and state taxes arising from the construction and commissioning stages of the Santa Rita operation as well as operating expenses prepayments. It is anticipated that these taxes will be offset against future income tax payable, however, a provision of US\$5.221 million has been taken up during the period against the doubtful component of the State tax credits.

16. INVENTORIES

| | 30 June 2014 | 31 December 2013 |
|---|---------------|------------------|
| | US\$000 | US\$000 |
| Broken ore – net realisable value | 11,889 | 19,502 |
| Concentrate - net realisable value | 7,764 | 15,545 |
| Stores, spares and consumables - net realisable value | 30,382 | 32,923 |
| | 50,035 | 67,970 |

Stores, spares and consumables represent materials and supplies consumed in the production process. All inventories have been calculated as the lower of cost and net realisable value, with net realisable value for broken ore stocks and concentrate representing the estimated selling price in the ordinary course of business less any further costs expected to be incurred in respect of such disposal.

17. DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGES

As at 30 June 2014 there were no metal or foreign exchange forward contracts designated as hedges. These contracts were terminated during the year ended 31 December 2011. The remaining effective portion of the hedges was recognised in the hedge reserve and is unwound to revenue upon realisation of the underlying hedge transactions.

Net change in fair value of cash flow hedges transferred to profit or loss:

| | Half-year ended 30 June 2014 | Half-year ended 30 June 2013 |
|--------------------------------------|---------------------------------|---------------------------------|
| | US\$000 | US\$000 |
| Nickel and Copper- forward contracts | 1,406 | 3,726 |
| Foreign exchange - forward contracts | - | (1,465) |
| | 1,406 | 2,261 |

18. EXPLORATION AND EVALUATION EXPENDITURE

| | 30 June 2014 | 31 December 2013 |
|---|--------------|------------------|
| | US\$000 | US\$000 |
| Balance at the beginning of the period | 2,663 | 3,490 |
| Expenditure incurred during the period | - | - |
| Transferred to construction and development in progress | - | (422) |
| Effect of movements in foreign exchange | 165 | (405) |
| Balance at the period end | 2,828 | 2,663 |

The recoverability of the carrying amounts of exploration and evaluation assets is dependent upon the successful development and commercial exploitation or sale of the respective area of interest.

Notes to condensed interim consolidated financial report
For the half-year ended 30 June 2014

19. PROPERTY, PLANT & EQUIPMENT

| 30 June 2014 US\$000 | Plant & equipment | Leased assets | Land | Mine properties | Construction & development expenditure | Total |
|--|----------------------|------------------|-----------------|--------------------|--|------------------|
| Cost | | | | | | |
| Balance at 1 January 2014 | 380,708 | 60,703 | 9,870 | 336,175 | 6,350 | 793,806 |
| Additions | 1,718 | 697 | - | 3,221 | 10,017 | 15,653 |
| Disposals | (2) | (44) | - | - | - | (46) |
| Transfer to stores spares and consumables | (348) | - | - | - | - | (348) |
| Transfers | (179) | 179 | - | - | - | - |
| Effect of movement in exchange rates | 24,368 | 3,672 | 625 | 21,343 | 607 | 50,615 |
| Balance at 30 June 2014 | 406,265 | 65,207 | 10,495 | 360,739 | 16,974 | 859,680 |
| Depreciation and impairment | | | | | | |
| Balance at 1 January 2014 | (380,708) | (60,703) | (9,870) | (336,175) | (6,350) | (793,806) |
| Depreciation charge for the period | (67) | (27) | - | (18) | - | (112) |
| Effect of movement in exchange rates | (24,098) | (3,843) | (625) | (21,279) | (402) | (50,247) |
| Balance at 30 June 2014 | (404,873) | (64,573) | (10,495) | (357,472) | (6,752) | (844,165) |
| Net book value at 30 June 2014 | 1,392 | 634 | - | 3,267 | 10,222 | 15,515 |

Impairment Reversal Indicators

An assessment was conducted whether current circumstances required a reversal of the previously booked impairment losses.

The Board considers it not appropriate to contemplate any reversal of the previously booked impairment losses due to:

- The Company having recently come out of voluntary administration with a critical restructure/recapitalisation event occurring;
- The current nickel price continues to trade below the Group's current cash flow breakeven position after overheads, financing, sustaining capital, general & administration costs and tax;
- The Company is still loss making; and
- The recent appointment of a new Board of Directors and Chief Executive Officer who are in the process of considering operational aspects/issues of the Group before strategies in relation to the operational model are implemented.

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For the half-year ended 30 June 2014

| 31 December 2013 US\$000 | Plant & equipment | Leased assets | Land | Mine properties | Construction & development expenditure | Total |
|--|----------------------|------------------|----------------|--------------------|--|------------------|
| Cost | | | | | | |
| Balance at 1 January 2013 | 452,460 | 32,169 | 11,315 | 386,573 | 375 | 882,892 |
| Additions | 14,165 | 8,393 | - | 7,834 | 6,217 | 36,609 |
| Rehabilitation discount and inflation rate adjustment | - | - | - | (6,555) | - | (6,555) |
| Transfers from exploration & evaluation expenditure | - | - | - | - | 422 | 422 |
| Transfer to stores, spares and consumables | (3,167) | - | - | - | - | (3,167) |
| Disposals | (2,071) | - | - | - | - | (2,071) |
| Transfers | (29,112) | 29,173 | - | - | (61) | - |
| Effect of movement in exchange rates | (51,567) | (9,032) | (1,445) | (51,677) | (603) | (114,324) |
| Balance at 31 December 2013 | 380,708 | 60,703 | 9,870 | 336,175 | 6,350 | 793,806 |
| Depreciation and Impairment | | | | | | |
| Balance at 1 January 2013 | (275,353) | (26,397) | (5,822) | (216,516) | (191) | (524,279) |
| Depreciation charge for the year | (6,954) | (1,754) | - | (6,404) | - | (15,112) |
| Impairment charge for the year | (156,134) | (18,240) | (4,940) | (145,709) | (6,159) | (331,182) |
| Transfers | 20,854 | (20,854) | - | - | - | - |
| Transfer to stores, spares and consumables | (1,982) | - | - | - | - | (1,982) |
| Effect of movement in exchange rates | 38,861 | 6,542 | 892 | 32,454 | - | 78,749 |
| Balance at 31 December 2013 | (380,708) | (60,703) | (9,870) | (336,175) | (6,350) | (793,806) |
| Net book value at 31 December 2013 | - | - | - | - | - | - |

20. TRADE AND OTHER PAYABLES

| | 30 June 2014 US\$000 | 31 December 2013 US\$000 |
|-------------------------------------|-------------------------|-----------------------------|
| Trade payables | 16,314 | 32,022 |
| Other payables and accrued expenses | 7,981 | 32,461 |
| | 24,295 | 64,483 |

Other payables and accrued expenses as at 30 June 2014 mainly comprise royalties on commodity sales and Brazilian federal and state taxes.

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21. PROVISIONS

| | 30 June 2014 | 31 December 2013 |
|---|---------------|------------------|
| | US\$000 | US\$000 |
| Current liability | | |
| Provision for annual leave | 3,239 | 3,094 |
| Provision for onerous lease | 208 | 298 |
| | 3,447 | 3,392 |
| Non-current liability | | |
| Provision for rehabilitation | 11,262 | 10,093 |
| Other provision non-current | 94 | 151 |
| | 11,356 | 10,244 |
| Reconciliation of movements in provisions | | |
| Provision for annual leave | | |
| Balance at beginning of period | 3,094 | 3,281 |
| Provision made/(reversed) during the period | (92) | 232 |
| Effect of movements in foreign exchange | 237 | (419) |
| Balance at period end | 3,239 | 3,094 |
| Provision for onerous lease | | |
| Balance at beginning of period | 298 | - |
| Provision (reversed)/made during the financial period | - | 298 |
| Provision used during the financial period | (107) | - |
| Effect of movements in foreign exchange | 17 | - |
| Balance at period end | 208 | 298 |
| Provision for rehabilitation | | |
| Balance at beginning of period | 10,093 | 17,777 |
| Accretion expense | 506 | 1,241 |
| Discount and inflation rate adjustment | - | (6,555) |
| Effect of movements in foreign exchange | 663 | (2,370) |
| Balance at period end | 11,262 | 10,093 |
| Other provision non-current | | |
| Balance at beginning of period | 151 | - |
| Provision used during the financial period | - | - |
| Provision (reversed)/made during the financial period | (66) | 162 |
| Effect of movements in foreign exchange | 9 | (11) |
| Balance at period end | 94 | 151 |

The rehabilitation provision is an estimate of the value of future costs for dismantling, demobilisation, remediation and ongoing treatment and monitoring of the Santa Rita operation. The Group uses third parties to estimate these costs. The estimate will be reviewed over time as the operation develops. The unwinding of the effect of discounting on the provision is recognised as a finance cost. In addition, the rehabilitation obligation has been recognised as an asset and will be amortised over the life of the mine.

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22. BORROWINGS

| 30 June 2014 US\$000 | Senior convertible secured notes (i) | Caterpillar finance lease facility (ii) | Banco Bradesco loan (iii) | Atlas Copco finance lease facility (iv) | Total |
|-------------------------|---|--|------------------------------|--|---------------|
| Interest Rate | 9.50% | COF + LIBOR + 2.75% | 6.00% + LIBOR | 6.00% | |
| Loan Term | 2014 to 2019 | 2009 to 2014 | 2012 to 2018 | 2012 to 2015 | |
| Carrying Value | 39,107 | 5,002 | 47,000 | 1,473 | 92,582 |
| Current borrowings | - | 5,002 | - | 1,473 | 6,475 |
| Non-current borrowings | 39,107 | - | 47,000 | - | 86,107 |
| | 39,107 | 5,002 | 47,000 | 1,473 | 92,582 |

| 31 December 2013 US\$000 | Senior unsecured notes (v) | Caterpillar finance lease facility (ii) | Banco Bradesco loan (iii) | Atlas Copco finance lease facility (iv) | Total |
|-----------------------------|-------------------------------|--|------------------------------|--|----------------|
| Interest Rate | 8.75% | COF + LIBOR + 2.75% | 6.00% + LIBOR | 6.00% | |
| Loan Term | 2011 to 2018 | 2009 to 2014 | 2012 to 2014 | 2012 to 2015 | |
| Carrying Value | 395,000 | 9,031 | 50,000 | 2,210 | 456,241 |
| Current borrowings | 395,000 | 9,031 | 50,000 | 2,210 | 456,241 |
| | 395,000 | 9,031 | 50,000 | 2,210 | 456,241 |

- (i) US\$115.000 million of 9.50% Senior Convertible Secured Notes (SCSN) due 24 June 2019 were issued on 24 June 2014. Interest on the SCSNs shall be capitalised by the Company and added to the principal amount of the SCSNs semi-annually in arrears on 24 June and 24 December of each year during the term of the SCSNs. The SCSNs are secured by a first ranking charge on a material part of the assets of the Group (including shares in its subsidiaries and a material part of the assets of Mirabela Brazil).

Initial debt establishment costs of US\$7.296 million were offset against the principal borrowings amount and are amortised using the effective interest rate method. The SCSNs have been separated from the convertible note option, which is separately disclosed at Note 23. The US\$115.000 million of SCSNs comprise: borrowings of US\$39.107 million; convertible note option of US\$68.597 million; and initial debt establishment costs of US\$7.296 million.

The SCSNs, including the incurred interest, are convertible into the Company's ordinary shares at the discretion of the SCSN Holders up to the maturity date of 24 June 2019. No SCSNs were converted into the Company's ordinary shares as at 30 June 2014. The Company has the option to redeem the SCSNs on or after the third anniversary of the issuance of the SCSNs, based on specified terms. On redemption, any principal and incurred interest will be paid out in cash.

- (ii) The US\$55.000 million master funding and leasing agreement is for the purpose of lease financing of up to 90% of the purchase price of Caterpillar mobile equipment. The facility was drawn down to US\$40.795 million as at 30 June 2014, with US\$5.002 million outstanding after repayments. Further drawdown under the leasing facility will require approval from Caterpillar prior to the drawdown. Lease payments under the facility are calculated on the basis of a 60 month term, and include interest determined at the date of the particular

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funding request as the prevailing 3 month US\$ LIBOR rate plus COF plus 2.75% per annum (weighted-average interest rate of 4.31%).

- (iii) During January 2012, the Company's Brazilian subsidiary, Mirabela Mineração do Brasil Ltda (**Mirabela Brazil**), entered into a US\$50.000 million, 35 month working capital facility with Banco Bradesco S.A. Principal was repayable in instalments, being 50% in month 12, and the remainder in equal instalments in months 24, 30 and 35. The Company negotiated revised repayment terms on the facility which provided for a part payment of US\$3.000 million in January 2014 and the remaining amount of the principal, by agreement dated 6 May 2014, to be deferred to 29 March 2018. Interest remains payable bi-annually at a rate of LIBOR plus 6%. The loan is unsubordinated and secured by a Guarantee from the Company and a fiduciary assignment on the Norilsk Nickel and ITH receivables.
- (iv) The Company entered into a US\$5.200 million 36 month financing facility with Atlas Copco Customer Finance during January 2012, to finance four DML drill rigs. Down-payment of US\$0.780 million was made at commencement of the facility, with the remaining principal repayable in six semi-annual equal instalments (plus interest at a fixed rate of 6%) commencing July 2012. US\$1.473 million is outstanding after repayments as at 30 June 2014.
- (v) US\$395.000 million of 8.75% Senior Unsecured Notes due 2018 were issued in the International and United States Rule 144A debt capital markets during April 2011. The notes were guaranteed by Mirabela Investments Pty Ltd and Mirabela Mineração do Brasil Ltda. Interest on the notes was payable semi-annually in arrears on April 15 and October 15 of each year during the term of the notes. Borrowing costs of US\$20.476 million to secure this funding were offset against the principal borrowings amount and were amortised using the effective interest rate method.

Resulting from the Company restructure, the Senior Unsecured Noteholder debt (**Original Noteholders**) and incurred interest were extinguished on 25 June 2014 at the termination of the Deed of Company Arrangement (**DOCA**). In return, the Original Noteholders became entitled to approximately 98.2% of the Company's ordinary shares on issue at that time (**DOCA Shares**). The DOCA Shares were transferred from existing shareholders of the Company (by order of the Supreme Court of New South Wales) to a trustee who holds them as bare trustee for the Original Noteholders. A gain on forgiveness of the Original Noteholder debt of US\$439.715 million has been recognised (refer to Note 12).

23. CONVERTIBLE NOTE OPTION

| | 30 June 2014 | 31 December 2013 |
|----------------------------------|---------------|------------------|
| | US\$000 | US\$000 |
| Balance at beginning of period | - | - |
| Fair value – initial recognition | 68,597 | - |
| Balance at period end | 68,597 | - |

The option component of the Senior Convertible Secured Notes (SCSN) is classified as a derivative liability. The value of the derivative fluctuates with the Company's underlying share price and the USD:AUD exchange rate as reported from period to period, which is reflected in the fair value movement. An increase in the share price of the Company increases the liability.

As the SCSNs are denominated in United States dollars (USD) and convertible into equity at a fixed USD price, the change in the exchange rate with the Australian dollar (AUD) is also taken into account in deriving the fair value movement during the period.

The date of derivation of the convertible note option was 24 June 2014. The securities of the Company were reinstated to official quotation from 30 June 2014.

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24. CONTRIBUTED EQUITY

Movement in share capital for the half-year ended 30 June 2014

| | Ordinary shares | Number of shares | Issue price ⁽²⁾ | US\$ |
|---------------------|---|--------------------|----------------------------|--------------------|
| 1 January 2014 | Opening balance | 876,801,147 | | 796,516,913 |
| 24 June 2014 | Shares issued as Fee Shares ⁽¹⁾ | 34,532,547 | 0.1379 | 4,762,038 |
| 24 June 2014 | Shares issued as Rollover Shares ⁽¹⁾ | 18,376,522 | 0.1379 | 2,534,122 |
| 30 June 2014 | Closing balance | 929,710,216 | | 803,813,073 |

(1) The Senior Convertible Secured Notes (SCSN) Holders were issued 52,909,069 new ordinary shares in the Company on 24 June 2014 in accordance with the terms of the recapitalisation as follows:

- 34,532,547 ordinary shares were issued to the new capital parties subscribing to the US\$55.000 million of SCSNs (Fee Shares); and
- 18,376,522 ordinary shares were issued to the Syndicated Note Subscription Deed (SNSD) lenders for rolling over the SNSD debt (US\$45.000 million) and incurred interest & fees (US\$15.000 million) into the SCSNs (Rollover Shares).

(2) Issue price is based on the derivative option value share price calculated as at 24 June 2014.

Movement in share capital for the half-year ended 30 June 2013

| | Ordinary shares | Number of shares | Issue price | US\$ |
|---------------------|--|--------------------|-------------|--------------------|
| January 1, 2013 | Opening balance | 876,582,736 | | 797,110,316 |
| January 23, 2013 | Shares issued on conversion of performance rights (Issued at A\$1.84) ⁽¹⁾ | 182,358 | - | - |
| May 31, 2013 | Shares issued on conversion of performance rights (Issued at A\$0.98) ⁽¹⁾ | 36,053 | - | - |
| 30 June 2013 | Closing balance | 876,801,147 | | 797,110,316 |
| | Less: Share issue cost – prior period ⁽²⁾ | - | | (593,403) |
| | | 876,801,147 | | 796,516,913 |

(1) Performance rights converted to shares for no consideration.

(2) Represents costs relating to the prior period equity raisings.

Weighted average number of shares

| | Half-year ended 30 June 2014 | Half-year ended 30 June 2013 |
|---|------------------------------|------------------------------|
| Weighted basic average number of shares outstanding (000's) | 878,555 | 876,749 |
| Weighted diluted average number of shares outstanding (000's) | 878,555 | 876,749 |

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Unissued Shares under Performance Rights at 30 June 2014

| Vesting date | Number of Performance Rights |
|------------------|------------------------------|
| 31 December 2013 | 482,263 |
| Balance | 482,263 |

No performance rights were granted during the half-year ended 30 June 2014.

Unissued Shares under Performance Rights at 31 December 2013

| Vesting date | Number of Performance Rights |
|------------------|------------------------------|
| 31 December 2013 | 482,263 |
| 31 December 2015 | 4,527,782 |
| Balance | 5,010,045 |

482,263 performance rights were outstanding at 30 June 2014, relating to the "Mirabela Nickel Limited Performance Rights Plan" (originally approved at a Shareholders' meeting held on 13 September 2010) which were in holding lock and vested on 31 December 2013 but which were subsequently suspended by the previous Board on 10 January 2014.

Additionally, 4,527,782 performance rights, which were granted pursuant to the "2013 Mirabela Nickel Limited Long Term Incentive Plan" (LTI), approved by shareholders on 30 May 2013, were subsequently cancelled by the previous Board on 10 January 2014.

Unissued Shares under Options at 30 June 2014

The balance of 400,000 unlisted options expired on 30 June 2014. No share options were granted during the half-year ended 30 June 2014.

Unissued Shares under Options at 31 December 2013

| Exercise Price A\$ | Exercise Price US\$ ⁽¹⁾ | Expiry Date | Number of Options |
|-----------------------|---------------------------------------|--------------|----------------------|
| A\$3.00 | US\$2.68 | 30 June 2014 | 400,000 |
| Balance | | | 400,000 |

(1) All options are exercisable in A\$ (presented in US\$ at 31 December 2013 rate of 0.894)

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25. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT

The Group has exposure to liquidity risk, market risk and credit risk arising from its financial instruments.

The Group's management of financial risk is aimed at ensuring net cash flows are sufficient to meet all of its financial commitments and maintain the capacity to fund the Santa Rita operation and ancillary exploration activities.

Liquidity risk and market risk which have changed since 31 December 2013 apply specifically to the Senior Convertible Secured Notes and the convertible note option, as outlined in Notes 22 and 23.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. For the half-year ended 30 June 2014, the Group's approach to managing liquidity was to ensure, as far as possible, that it always had sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements as at period end:

| 30 June 2014 | | | | | | | |
|---|------------------|------------------|------------------|-------------|-----------|------------------|-------------------|
| US\$000 | Carrying Amount | Contractual | | | | 2-5 years | More than 5 years |
| | | cash outflows | 6 months or less | 6-12 months | 1-2 years | | |
| Non-derivative financial liabilities | | | | | | | |
| Senior convertible secured notes ⁽¹⁾ | (39,107) | (182,603) | - | - | - | (182,603) | - |
| Derivative financial liabilities | | | | | | | |
| Convertible note option ⁽¹⁾ | (68,597) | - | - | - | - | - | - |
| | (107,704) | (182,603) | - | - | - | (182,603) | - |

(1) As the Senior Convertible Secured Notes and the Convertible Note Option can only be paid out in shares and not cash during their term, from the perspective of the Noteholders, the repayment is shown at maturity in 2019.

There were no Senior Convertible Secured Notes or Convertible Note Options as at 31 December 2013.

Market risk

Market risk is the risk that changes in market conditions, such as equity prices, foreign exchange and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return.

The Group is exposed to fluctuations in foreign currency, interest rates and the share price in relation to the convertible note option.

The Group has interest exposure on the convertible note option as the derivative value fluctuates with the risk free rate of interest.

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FAIR VALUES**Fair values versus carrying amounts**

The fair values of the Senior Convertible Secured Notes and Convertible Note Option, together with the carrying amounts shown in the condensed interim consolidated statement of financial position, are as follows:

| Consolidated | Note | 30 June 2014 | | 31 December 2013 | |
|----------------------------------|------|------------------|------------------|------------------|------------|
| | | Carrying amount | Fair value | Carrying amount | Fair value |
| US\$000 | | | | | |
| Senior convertible secured notes | 21 | (39,107) | (46,403) | - | - |
| Convertible note option | 22 | (68,597) | (68,597) | - | - |
| | | (107,704) | (115,000) | - | - |

The fair value of the convertible note option is determined using level 2 inputs in the fair value hierarchy. The basis for determining fair values is further disclosed in Note 6.

26. SUBSEQUENT EVENTS**Senior Unsecured Notes**

The Senior Unsecured Noteholder debt of US\$395.000 million 8.75% Senior Unsecured Notes due 15 April 2018 (**Original Noteholders**) and incurred interest were extinguished on 25 June 2014, and in return the Original Noteholders became entitled to approximately 98.2% of the Company's ordinary shares on issue at that time (**DOCA Shares**). The DOCA Shares were transferred from existing shareholders of the Company (by order of the Supreme Court of New South Wales) to a trustee who holds them as bare trustee (Mirabela Investments Pty Ltd) for the Original Noteholders. As at 31 July 2014, eligible Original Noteholders entitled to approximately 99.3% of the DOCA Shares had submitted the relevant documentation and taken possession of their share of the DOCA Shares. On 1 August 2014, the approximately 0.7% of DOCA Shares that were not taken up reverted to the Bare Trustee for management according to the rules as outlined in the Deed of Company Arrangement.

Caterpillar

The carrying amount of the Caterpillar finance lease facility is US\$5.002 million at 30 June 2014. The standstill agreement that was entered into by the Group with Caterpillar, in respect of the Group's obligations under the Caterpillar finance lease facility, terminated on 23 July 2014. Pursuant to the terms of the standstill agreement, Caterpillar agreed, among other things, not to enforce its rights under the Caterpillar Facility or declare a default or take any enforcement action in respect of a default caused by the Group entering into restructuring discussions with its major creditors.

Tax Audit

In January 2011 the tax authority of the State of Bahia, Brazil, conducted an indirect tax audit of the Company. Following the audit, the Bahia tax authority notified the Company alleging that it incorrectly claimed tax credits from July 2008 to May 2010 and that the Company was liable for the unpaid taxes together with interest and penalties.

The Company challenged the assessment in February 2011 in the Council of State Revenue. The administrative review proceedings concluded in February 2014 resulting in partial success for the Company. This decision formally closed the administrative stage of the proceedings and any challenges to the final administrative decision require commencement of judicial proceedings to the Court. To appeal the case in the court the Company is required to either provide a bank guarantee or make a full payment into a trust with the court for the full amount of the disputed portion of the claim (US\$2.907 million). Due to the liquidity pressures in the business, and to preserve

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cash, the Company has decided not to appeal the final administrative decision. The Company received permission from the Bahia State Tax Authority to settle the outstanding amount by utilising its accrued non-cash indirect tax credits. This was subsequently settled on 9 July 2014.

Extra Judicial Proceeding

The Board has resolved not to proceed with the extra judicial process in Brazil, and have resolved to honour the agreement with the Ad-hoc Group of the original Senior Unsecured Noteholders to issue the subordinated unsecured notes with aggregate face value of US\$5.000 million and a term of 30 years, attracting an interest rate of 1%.

Corporate

Mr Alastair McKeever was appointed as Non-executive Director of the Board effective 7 August 2014.