



MIRABELA NICKEL LTD

ABN 23 108 161 593

Unaudited Condensed Interim Consolidated Financial Report

For the three months ended 31 March 2015

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

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

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Unaudited condensed interim consolidated statement of profit or loss and other comprehensive income

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

		Three months ended 31 March 2015	Three months ended 31 March 2014
	Note	US\$000	US\$000
Sales revenue	8	67,506	51,869
Treatment, refining and transport charges		(12,709)	(12,026)
Net sales revenue		54,797	39,843
Direct costs		(44,695)	(44,026)
Royalties		(2,848)	(2,023)
Depreciation, amortisation and depletion		(838)	(46)
Cost of sales		(48,381)	(46,095)
Gross profit/(loss)		6,416	(6,252)
General and administration expenses	9	(1,673)	(7,319)
Financial income	10	387	458
Financial expense	10	(6,672)	(11,790)
Net foreign exchange (loss)/gain	11	(11,977)	19,108
Other income	12	47	150
Other expenses	12	(45,107)	(19,509)
		(64,995)	(18,902)
Loss before income tax		(58,579)	(25,154)
Income tax		-	-
Loss for the period		(58,579)	(25,154)
OTHER COMPREHENSIVE INCOME/(EXPENSE)			
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences		(3,806)	(10,489)
Net change in fair value of cash flow hedges transferred to profit or loss		-	844
Other comprehensive expense for the period, net of tax		(3,806)	(9,645)
Total comprehensive income/(expense) for the period		(62,385)	(34,799)
EARNINGS/(LOSS) PER SHARE			
Basic loss per share (\$ per share)		(0.06)	(0.03)
Diluted loss per share (\$ per share)		(0.06)	(0.03)

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

Unaudited condensed interim consolidated statement of changes in equity

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

	Attributable to equity holders of the Group				
	Issued capital	Translation reserve	Share based payments reserve	Accumulated losses	Total deficiency
Period ended 31 March 2015	US\$000	US\$000	US\$000	US\$000	US\$000
Balance at 1 January 2015	803,813	(154,201)	5,590	(664,197)	(8,995)
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD					
Loss for the period	-	-	-	(58,579)	(58,579)
Other comprehensive income/ (expense)					
Foreign currency translation differences	-	(3,806)	-	-	(3,806)
Total other comprehensive income/(expense)	-	(3,806)	-	-	(3,806)
Total comprehensive income/(expense) for the period	-	(3,806)	-	(58,579)	(62,385)
Balance at 31 March 2015	803,813	(158,007)	5,590	(722,776)	(71,380)

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

Unaudited condensed interim consolidated statement of changes in equity

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

	Attributable to equity holders of the Group					
	Issued capital	Translation reserve	Share based payments reserve	Hedging reserve	Accumulated losses	Total equity
Period ended 31 March 2014	US\$000	US\$000	US\$000	US\$000	US\$000	US\$000
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						
Loss for the period	-	-	-	-	(25,154)	(25,154)
Other comprehensive income/ (expense)						
Foreign currency translation differences	-	(10,489)	-	-	-	(10,489)
Net change in fair value of cash flow hedges transferred to profit or loss	-	-	-	844	-	844
Total other comprehensive income/(expense)	-	(10,489)	-	844	-	(9,645)
Total comprehensive income/(expense) for the period	-	(10,489)	-	844	(25,154)	(34,799)
TRANSACTIONS WITH EQUITY HOLDERS						
Shares issued during the period net of issue cost	37	-	-	-	-	37
Share based payment recognised	-	-	291	-	-	291
Total transactions with equity holders	37	-	291	-	-	328
Balance at 31 March 2014	796,554	(136,204)	5,881	(3,896)	(1,072,624)	(410,289)

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

Unaudited condensed interim consolidated statement of financial position

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

As at 31 March 2015

		31 March 2015	31 December 2014
	Note	US\$000	US\$000
ASSETS			
Cash and cash equivalents	13	25,277	17,560
Trade and other receivables	14	4,869	5,865
Inventories	15	29,712	55,893
Total current assets		59,858	79,318
Trade and other receivables	14	29,848	34,645
Property, plant and equipment	17	34,609	36,859
Exploration and evaluation assets	16	1,996	2,363
Total non-current assets		66,453	73,867
Total assets		126,311	153,185
LIABILITIES			
Trade and other payables	18	19,913	33,388
Deferred revenue	19	9,533	-
Provisions	20	1,832	2,028
Borrowings	21	191	1,996
Total current liabilities		31,469	37,412
Provisions	20	11,224	13,234
Borrowings	21	98,270	95,822
Convertible note derivative	22	48,546	6,921
Deferred tax liability		8,182	8,791
Total non-current liabilities		166,222	124,768
Total liabilities		197,691	162,180
Net liabilities		(71,380)	(8,995)
EQUITY			
Contributed equity	23	803,813	803,813
Reserves		(152,417)	(148,611)
Accumulated losses		(722,776)	(664,197)
Total deficiency		(71,380)	(8,995)

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

Unaudited condensed interim consolidated statement of cash flow

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the quarter ended 31 March 2015

	Three months ended 31 March 2015	Three months ended 31 March 2014
<i>Note</i>	US\$000	US\$000
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	54,050	28,922
Cash paid to suppliers and employees	(33,854)	(64,878)
Interest received	387	458
Net cash from/(used in) operating activities	20,583	(35,498)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(5,487)	(4,088)
Net cash used in investing activities	(5,487)	(4,088)
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(1,539)	(2,342)
Repayment of borrowings	(1,816)	(5,776)
Proceeds from borrowings	-	35,003
Net cash (used in)/from financing activities	(3,355)	26,885
Net increase/(decrease) in cash and cash equivalents	11,741	(12,701)
Cash and cash equivalents at beginning of the period	17,560	30,735
Effect of changes in foreign currency	(4,024)	(15)
Cash and cash equivalents at end of the period	25,277	18,019

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

Notes to unaudited condensed interim consolidated financial report

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

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 unaudited condensed interim consolidated financial statements of the Company for the three months ended 31 March 2015 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 GOING CONCERN

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 14 years based on remaining reserves (including 2015). The Group also has a number of near-mine and regional exploration prospects.

Mirabela's Board approved new mine plan for 2015 focuses on streamlining operations and reducing production unit costs. The mine plan targets optimising near-term cash flows given the low and volatile nickel price environment. The mine plan has built-in flexibility and can be modified at the appropriate time when nickel prices demonstrate a sustained recovery.

Mirabela's first quarter of 2015 demonstrated continued overall improvement across the mine and plant with quarterly results for both areas in-line with operational guidance. Mine performance was hampered by the low availability of drilling equipment and hence a lack of broken material readily accessible to excavate. This resulted in lower than planned utilisation of the loading and hauling equipment. Process plant recovery continues to improve compared to the last quarter of 2014. The tailings deposition and dam wall construction are progressing according to the 2015 operations plan. Lower C1 cash costs continued into the first quarter of 2015 following on from the fourth quarter of 2014. However, further time is required to demonstrate sustained improvement across all areas of the mine.

Apart from the Group's existing offtake arrangements, Mirabela has negotiated the sale of its remaining uncontracted nickel concentrate production for 2015. Negotiations with various parties are also well advanced for the sale and purchase of Santa Rita nickel concentrate after 2015.

Arbitration proceedings under the rules of the Center for Arbitration and Mediation CCBC, Sao Paulo Brazil, between Mirabela Brazil and Votorantim Metais S.A. (**Votorantim**) continued during the quarter. The arbitration proceedings were initiated by Votorantim in relation to its alleged force majeure claim and contractual obligations under its offtake agreement with Mirabela Brazil. Mirabela Brazil is also requesting compensation for financial loss.

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. Mirabela Brazil has applied for a renewal of the licence. The current licence has been automatically extended until INEMA finalises its review. The Company has no reason to consider the renewal will not be granted, but there is no guarantee the operating licence will be granted and what new conditions will apply.

The Board's assessment that the going concern basis of preparation is appropriate for the next 12 months is based on the cashflow forecasts and sensitivities performed by the Company. The Board is relying on the approved new mine plan and should one or more of the key assumptions contained in that new mine plan, particularly the realised nickel price and production assumptions, not be achieved, there may be material uncertainty that could

Notes to unaudited condensed interim consolidated financial report

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

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.

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

3. BASIS OF PREPARATION

(a) Statement of compliance

This unaudited condensed interim consolidated financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and prepared as required under the terms of the 9.50% Senior Convertible Secured Notes due 2019 Indenture agreement dated 24 June 2014. The unaudited condensed interim consolidated financial report of the Group and Company complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB). The unaudited condensed interim consolidated financial statements for the three months ended 31 March 2015 have been prepared on a going concern basis.

The unaudited condensed interim consolidated financial report was approved by the Board of Directors on 27 May 2015.

(b) Basis of measurement

The unaudited condensed interim consolidated financial statements have been prepared on the historical cost basis except for the following:

- derivative financial instruments are measured at fair value; and
- share based payment arrangements are measured at fair value.

The methods used to measure fair values are discussed further in Note 5.

The comparative figures for the three months ended 31 March 2014 related to the period in which the Company was under voluntary administration.

(c) Functional and presentation currency

The unaudited 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 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.

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.

(d) 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 the current circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Notes to unaudited condensed interim consolidated financial report

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

The going concern basis of accounting relies on such estimates and assumptions and the comments as outlined in Note 2 and Note 3(e) 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 2014.

(e) Financial position and going concern basis of preparation

The Group ended the three month period with cash on hand and on deposit of US\$25.277 million (31 December 2014: \$17.560 million). Cash was positively impacted during the three months by cashflows from operations; offset in part by capital expenditure (primarily relating to the tailings dam project), repayment of borrowings, and interest payments.

The Group generated a loss of US\$58.579 million for the three months ended 31 March 2015, which was attributable primarily to fair value adjustments to the convertible note option of US\$42.648 million, net foreign exchange losses of US\$11.977 million, and net financing costs of US\$6.285 million. Net financing costs mainly comprise of net interest expense relating to the current debts. Foreign exchange losses comprise of realised and unrealised movements on the conversion of cash holdings and borrowings. The Group's net liability position as at 31 March 2015 increased to US\$71.380 million. Net cash inflows from operating and investing activities for the three months ended 31 March 2015 were US\$15.096 million.

The Board and management continue to focus on assessing key business requirements to ensure the Group's ability to realise its assets and settle its obligations in an orderly manner. The 2015 mine plan, approved by the Board, focuses on streamlining operations and reducing production unit costs. The mine plan targets optimising near-term cashflows given the low and volatile nickel price environment. Production levels to-date have improved in line with the mine and business plan. This modelling has been updated for projected nickel prices, foreign exchange and capital expenditure assumptions.

Apart from the Group's existing offtake arrangements, Mirabela has negotiated the sale of its remaining uncontracted nickel concentrate production for 2015. Negotiations with various parties are also well advanced for the sale and purchase of Santa Rita nickel concentrate after 2015.

The Board's assessment that the going concern basis of preparation is appropriate for the next 12 months is based on the cashflow forecasts and sensitivities performed by the Company. The forecasts used are dependent on the achievement of production in accordance with the new approved mine plan, commercial pricing, along with the stability of the nickel prices and foreign exchange rates to consensus views. Should the operations not successfully achieve forecast production, commercial prices, forecast nickel prices and foreign exchange assumptions not be achieved, the Group will be required to source additional funds through debt or equity markets or a combination of both and/or a sell-down of assets.

The Board is relying on the new mine plan that was recently approved. Should one or more of the key assumptions contained in that new mine plan, particularly the realised nickel price and production assumptions, not be achieved, 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.

Notes to unaudited condensed interim consolidated financial report

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Group in this unaudited condensed interim 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 2014.

5. 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 2014.

6. 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 2014.

7. 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 an international trading house (**ITH**). Sales for the three months ended 31 March 2015 were split 50% to ITH and 50% to Norilsk Nickel (three months ended 31 March 2014: 58% to Norilsk Nickel and 42% to ITH).

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 unaudited condensed interim consolidated financial report.

Notes to unaudited condensed interim consolidated financial report

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

8. SALES REVENUE

	Three months ended 31 March 2015 US\$000	Three months ended 31 March 2014 US\$000
Nickel Sales	60,346	44,906
Copper Sales	5,500	4,793
Cobalt Sales	877	652
Other Sales	783	1,518
Sales Revenue	67,506	51,869

Nickel sales are comprised as follows:

	Three months ended 31 March 2015 US\$000	Three months ended 31 March 2014 US\$000
Realised nickel sales	61,691	41,298
Revaluation of unrealised nickel sales	(1,345)	4,117
Unwinding of metal and foreign exchange forward contracts designated as hedges	-	(509)
Nickel Sales	60,346	44,906

Revaluation of unrealised nickel sales comprise of 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, based on the offtake terms. 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 typically ranges from the month of scheduled shipment 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 first or second month after the month of the provisional sale based on offtake terms.

9. GENERAL AND ADMINISTRATION EXPENSE

The general & administration expenses for the three months ended 31 March 2014 included legal and advisory fees of approximately US\$4.164 million relating to the Company's restructure/recapitalisation process, and higher salaries due to a higher number of employees compared to 2015.

Notes to unaudited condensed interim consolidated financial report

(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

10. FINANCIAL INCOME/EXPENSE

	Three months ended 31 March 2015 US\$000	Three months ended 31 March 2014 US\$000
Interest received	387	458
Financial income	387	458
Interest expense ^(a)	(6,312)	(10,867)
Borrowing costs	(74)	(682)
Unwinding of rehabilitation costs	(286)	(241)
Financial expense	(6,672)	(11,790)

(a) Interest expense

The March 2014 quarter included interest on the US\$395.000 million 8.75% Senior Unsecured Notes due 2018, which were extinguished on 25 June 2014 as part of the Company's restructure process.

11. NET FOREIGN EXCHANGE (LOSS)/GAIN

The net foreign exchange loss is predominantly unrealised and relates primarily to the translation of borrowings and cash which are denominated in currencies other than the functional currencies of the Group. The senior convertible secured notes and the Banco Bradseco working capital facility are significant contributors to this unrealised foreign exchange loss.

12. OTHER INCOME AND OTHER EXPENSES

	Three months ended 31 March 2015 US\$000	Three months ended 31 March 2014 US\$000
Sundry	47	150
Other income	47	150
Fair value adjustment on derivative ^(a)	(42,648)	-
Critical spares write off	-	(1,287)
Research expenses	(5)	(178)
Recoverable Brazilian tax credits write-off ^(b)	(2,199)	(2,752)
Indirect taxes	-	(80)
Restructuring expenses ^(c)	-	(14,872)
Sundry	(255)	(340)
Other expenses	(45,107)	(19,509)

(a) Fair value adjustment

The value of the option component of the Senior Convertible Secured Notes fluctuates with the Company's underlying share price and the USD:AUD exchange rate as reported from period to period, which is reflected as the fair value adjustment (refer to Note 22).

Notes to unaudited condensed interim consolidated financial report

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For the three months ended 31 March 2015**(b) Recoverable Brazilian tax credits**

As a result of the concentrate sales shift from Votorantim to an 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.

(c) Restructuring expenses

The restructuring expenses relate to the non-cash 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.

13. CASH AND CASH EQUIVALENTS

	31 March 2015 US\$000	31 December 2014 US\$000
Cash at bank and on hand	9,422	11,210
Call deposits	15,855	6,350
	25,277	17,560

14. TRADE AND OTHER RECEIVABLES

	31 March 2015 US\$000	31 December 2014 US\$000
Current asset		
Trade receivables	1,702	1,775
Prepayments	3,167	4,090
	4,869	5,865
Non-current asset		
Prepayments	29,848	34,645
	29,848	34,645

Current prepayments 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 probable that these taxes will be offset against future income tax payable, however, a provision of US\$1.956 million has been taken up during the three months ended 31 March 2015 against the doubtful component of the State tax credits (cumulative to-date provision value of US\$11.556 million).

15. INVENTORIES

	31 March 2015 US\$000	31 December 2014 US\$000
Broken ore – at cost	2,739	3,955
Concentrate – at cost	11,213	29,312
Stores, spares and consumables - net realisable value	15,760	22,626
	29,712	55,893

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

Notes to unaudited condensed interim consolidated financial report

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For the three months ended 31 March 2015

further costs expected to be incurred in respect of such disposal. Net realisable expense for the three months ended 31 March 2015 equated to US\$1.563 million.

16. EXPLORATION AND EVALUATION EXPENDITURE

	31 March 2015	31 December 2014
	US\$000	US\$000
Balance at the beginning of the period	2,363	2,663
Effect of movements in foreign exchange	(367)	(300)
Balance at the period end	1,996	2,363

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.

17. PROPERTY, PLANT & EQUIPMENT

31 March 2015	Plant & equipment	Leased assets	Land	Mine properties	Construction & development expenditure	Total
US\$000						
Cost						
Balance at 1 January 2015	338,383	57,042	8,716	332,605	1,741	738,487
Additions	1,140	-	-	4,257	90	5,487
Transfers ^(a)	50,675	(50,675)	-	-	-	-
Effect of movement in exchange rates	(61,420)	(5,587)	(1,475)	(56,813)	(302)	(125,597)
Balance at 31 March 2015	328,778	780	7,241	280,049	1,529	618,377
Depreciation and impairment						
Balance at 1 January 2015	(336,568)	(53,746)	(8,716)	(300,857)	(1,741)	(701,628)
Depreciation charge for the period	(172)	-	-	(666)	-	(838)
Transfers ^(a)	(47,707)	47,707	-	-	-	-
Effect of movement in exchange rates	60,747	5,259	1,475	50,922	295	118,698
Balance at 31 March 2015	(323,700)	(780)	(7,241)	(250,601)	(1,446)	(583,768)
Net book value at 31 March 2015	5,078	-	-	29,448	83	34,609

(a) Transfers

These relate to leased assets being transferred to plant and equipment upon expiry of the lease agreement.

Impairment Assessment

As the Group identified impairment indicators, primarily being the challenging nickel market conditions based on LME nickel prices, the Group performed an impairment test on the recoverability of its assets using consensus analyst nickel price assumptions as at 31 March 2015.

The Group is a single asset, single commodity producer and therefore the Group as a whole was determined a cash generating unit (**CGU**) for impairment purposes. The recoverable amount of the CGU was determined based on value in use (**VIU**). VIU was determined using a discounted cash flow model.

Notes to unaudited condensed interim consolidated financial report

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For the three months ended 31 March 2015

The fair value of property, plant and equipment is based on the level 3 fair value hierarchy, this being unobservable inputs.

The basis for determination of the recoverable amount was:

- *Nickel price* – future nickel prices were based on the quarter one 2015 consensus views from market participants (31 December 2014: quarter four of 2014);
- *Nickel production* – future nickel production was based on the new fourteen year life of mine model with material movement in 2015 of 27.9Mtpa (31 December 2014: 27.9Mtpa in 2015);
- *Operating and capital cost* – these costs were based on the new fourteen year life of mine model with material movement in 2015 of 27.9Mtpa including marginal ore grade material (31 December 2014: 27.9Mtpa in 2015);
- *Foreign exchange rates* – Brazilian real to US dollar exchange rates were based on quarter one 2015 (31 December 2014: quarter four of 2014) forecast consensus views from market participants; and
- *Discount rate* – a post-tax real discount rate of 10.20% (31 December 2014: 10.20%) based on weighted average cost of capital of an expected market participant.

Based on the above review, the Group is of the opinion that no impairment exists for the reporting period ended 31 March 2015. However, any material negative change in the above assumptions may result in a future impairment occurring.

31 December 2014	Plant & equipment	Leased assets	Land	Mine properties	Construction & development expenditure	Total
US\$000						
Cost						
Balance at 1 January 2014	380,708	60,703	9,870	336,175	6,350	793,806
Additions	4,741	2,932	-	11,524	24,677	43,874
Rehabilitation discount and inflation rate adjustment	-	-	-	-	-	-
Transfers from exploration & evaluation expenditure	-	-	-	-	-	-
Transfer to stores, spares and consumables	(811)	-	-	-	-	(811)
Disposals	(191)	(260)	-	-	-	(451)
Transfers	(1,258)	1,258	-	29,103	(29,103)	-
Effect of movement in exchange rates	(44,806)	(7,591)	(1,154)	(44,197)	(183)	(97,931)
Balance at 31 December 2014	338,383	57,042	8,716	332,605	1,741	738,487
Depreciation and Impairment						
Balance at 1 January 2014	(380,708)	(60,703)	(9,870)	(336,175)	(6,350)	(793,806)
Depreciation charge for the year	(387)	(150)	-	(114)	-	(651)
Transfers	-	-	-	(4,426)	4,426	-
Reclassification of critical spares	-	-	-	-	-	-
Effect of movement in exchange rates	44,527	7,107	1,154	39,858	183	92,829
Balance at 31 December 2014	(336,568)	(53,746)	(8,716)	(300,857)	(1,741)	(701,628)
Net book value at 31 December 2014	1,815	3,296	-	31,748	-	36,859

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(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015

18. TRADE AND OTHER PAYABLES

	31 March 2015	31 December 2014
	US\$000	US\$000
Trade payables	11,875	26,303
Other payables and accrued expenses	8,038	7,085
	19,913	33,388

Other payables and accrued expenses as at 31 March 2015 mainly comprise royalties on commodity sales and Brazilian federal and state taxes.

19. DEFERRED REVENUE

Relates to a partial early payment received from a customer prior to cargo arrival at destination in April 2015.

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For the three months ended 31 March 2015

20. PROVISIONS

	31 March 2015	31 December 2014
	US\$000	US\$000
Current liability		
Provision for annual leave	1,791	1,940
Provision for onerous lease	41	88
	1,832	2,028
Non-current liability		
Provision for rehabilitation	11,169	13,166
Other provision non-current	55	68
	11,224	13,234
Reconciliation of movements in provisions		
Provision for annual leave		
Balance at beginning of period	1,940	3,094
Provision made/(reversed) during the period	173	(804)
Effect of movements in foreign exchange	(322)	(350)
Balance at period end	1,791	1,940
Provision for onerous lease		
Balance at beginning of period	88	298
Provision used during the financial period	(41)	(185)
Effect of movements in foreign exchange	(6)	(25)
Balance at period end	41	88
Provision for rehabilitation		
Balance at beginning of period	13,166	10,093
Accretion expense	286	1,021
Discount and inflation rate adjustment	-	3,138
Effect of movements in foreign exchange	(2,283)	(1,086)
Balance at period end	11,169	13,166
Other provision non-current		
Balance at beginning of period	68	151
Provision (reversed)/made during the financial period	(2)	(64)
Effect of movements in foreign exchange	(11)	(19)
Balance at period end	55	68

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.

Other provisions non-current includes indirect taxes payable which are not repayable in the next twelve months.

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For the three months ended 31 March 2015

21. BORROWINGS

	Subordinated unsecured notes	Senior convertible secured notes	Caterpillar finance lease facility	Banco Bradesco loan	Total
31 March 2015 US\$000	(i)	(ii)	(iii)	(iv)	
Interest Rate	1.00%	9.50%	COF + LIBOR + 2.75%	6.00% + LIBOR	
Loan Term	2014 to 2044	2014 to 2019	2009 to 2015	2012 to 2018	
Carrying Value	103	51,167	191	47,000	98,461
Current borrowings	-	-	191	-	191
Non-current borrowings	103	51,167	-	47,000	98,270
	103	51,167	191	47,000	98,461

	Subordinated unsecured notes	Senior convertible secured notes	Caterpillar finance lease facility	Banco Bradesco loan	Atlas Copco finance lease facility	Total
31 December 2014 US\$000	(i)	(ii)	(iii)	(iv)	(v)	
Interest Rate	1.00%	9.50%	COF + LIBOR + 2.75%	6.00% + LIBOR	6.00%	
Loan Term	2014 to 2044	2014 to 2019	2009 to 2015	2012 to 2018	2012 to 2015	
Carrying Value	100	48,722	1,259	47,000	737	97,818
Current borrowings	-	-	1,259	-	737	1,996
Non-current borrowings	100	48,722	-	47,000	-	95,822
	100	48,722	1,259	47,000	737	97,818

- (i) US\$5.000 million, 1.00% subordinated unsecured notes (**Subordinated Notes**) due 10 September 2044 were issued on 10 September 2014. Interest on the Subordinated Notes shall be capitalised by the Company and added to the principal amount of the Subordinated Notes annually in arrears on 10 September of each year during the term of the Subordinated Notes. The fair value of the Subordinated Notes was assessed at inception at US\$0.100 million, resulting in a fair value adjustment reducing the liability by US\$4.900 million as at 31 December 2014. This adjustment was due to the fair value being less than the face value due to a lower interest rate than market.
- (ii) 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 22. The US\$115.000 million of SCSNs initially comprised: borrowings of US\$39.107 million; convertible note option initial recognition of US\$68.597 million; and initial

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For the three months ended 31 March 2015

debt establishment costs of US\$7.296 million. These amounts will change over the life of the SCSNs as effective interest charges and fair value adjustments occur.

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 at a conversion price of approximately US\$0.1688. The conversion ratio may be adjusted for under certain circumstances including a share split or consolidation of shares, a rights issue at a discount, and a buy-back of shares. No SCSNs were converted into the Company's ordinary shares as at 31 March 2015.

The Company has the option to redeem the SCSNs, based on specified terms, on or after the third anniversary (but before the fourth anniversary) of the issuance of the SCSNs at an interim redemption price of 106.75% of the principal amount of the Notes, and on or after the fourth anniversary up to maturity at a final redemption price of 100% of the principal amount of the Notes. On redemption, any principal and incurred interest will be paid out in cash.

- (iii) 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 31 March 2015, with US\$0.191 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 funding request at the prevailing 3 month US\$ LIBOR rate plus COF plus 2.75% per annum (weighted-average interest rate of 3.58%).
- (iv) 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 part of ITH offtake arrangements.
- (v) 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. As at 31 March 2015, no amount was outstanding on this facility.

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For the three months ended 31 March 2015

22. CONVERTIBLE NOTE OPTION

	31 March 2015	31 December 2014
	US\$000	US\$000
Balance at beginning of period	6,921	-
Fair value – initial recognition	-	68,908
Fair value – adjustment	41,625	(61,987)
Balance at period end	48,546	6,921

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 difference in the Company's share price between date of inception and 31 March 2015 is reflected in the fair value movement. An increase in the share price of the Company increases the convertible note option liability. The decrease in the Company's share price since inception has resulted in a fair value gain.

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. A weakening in the USD:AUD exchange rate increases the convertible note option liability. The strengthening in the USD:AUD exchange rate since inception has also contributed to the fair value gain.

23. CONTRIBUTED EQUITY**Movement in share capital for the three months ended 31 March 2015**

	Ordinary shares	Number of shares	Issue price	US\$
1 January 2015	Opening balance	929,710,216		803,813,073
31 March 2015	Closing balance	929,710,216		803,813,073

Movement in share capital for the three months ended 31 March 2014

	Ordinary shares	Number of shares	Issue price	US\$
January 1, 2014	Opening balance	876,801,147		796,516,913
31 March 2014	Closing balance	876,801,147		796,516,913

Weighted average number of shares

	Three months ended 31 March 2015	Three months ended 31 March 2014
Weighted basic average number of shares outstanding (000's)	929,710,216	876,801,147
Weighted diluted average number of shares outstanding (000's)	929,710,216	876,801,147

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(prepared on the basis that material uncertainties raise significant doubt upon the Company's ability to continue as a going concern – refer Note 2 and Note 3(e))

For the three months ended 31 March 2015**Unissued Shares under Performance Rights at 31 March 2015**

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

No performance rights were granted during the three months ended 31 March 2015

Unissued Shares under Performance Rights at 31 December 2014

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

482,263 performance rights were outstanding at 31 March 2015, 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.

24. SUBSEQUENT EVENTS

On 8 May 2015, the Group received a stop work order from the Brazilian Ministry of Labour (the **Ministry**) requesting remedial work of installing protective guardrails in the plant and a small enclosure to cover parts of the conveyor belt. The remedial work was completed on 12 May 2015 at which point the stop work order was lifted by the Ministry, and plant operations returned to normal.

The Ministry issued a further stop work order on the Group on 8 May 2015 in respect of warehousing, transport and shipping of concentrate in bulk. This order has to do with possible occupational health concerns associated with concentrate handling. However, the Ministry approved the shipment of material which left the port in May 2015. The Company is assessing all available options to resolve these issues in line with best practice and, in the meantime, is also investigating other methods to contain and ship the concentrate material.