

PACIFIC NICKEL MINES LTD (PNM AU, \$0.057. Market cap A\$12.8m*)

Equity raise to take DSO nickel projects to feasibility and ML applications

Pacific Nickel Mines (previously Malachite Resources) has raised A\$3.8m (before costs) to allow the company to advance the Jejevo and Kolosori projects to feasibility status, complete environmental and social assessment reports and allow the lodgement of mining lease applications. PNM's aim is to establish a direct shipping nickel ore export business to the RKEF/nickel-in-pig iron producers in Asia within the next 2 years.

We are encouraged that PNM directors supported the recent issue, subscribing around 15% of the total raised.

As recently reported, PNM released initial results from an independent mineral resource estimate for both of its projects in the Solomons:

- For **Kolosori** (PNM 80%), a JORC-compliant resource of saprolite and transitional saprolite of 7.3mt at 1.46% nickel (at a 1% cut) and 5.9mt at 1.55% nickel (1.2% cut) or some 90-100,000t contained nickel tonnes. As well an additional resource target may take the Kolosori resource to as much as 8-10mt. The project area is prospective for additional resources.
- For **Jejevo** (PNM 80%), independent consultants have determined an exploration target of 4.9 to 6.6Mt at a grade range of 1.4 to 1.6% Ni (or 74-99,000 contained nickel 1.5% Ni), based on a 413 drill hole campaign completed by the previous owner of the project, Sumitomo. Further drilling – which is about to commence - will elevate this to JORC 2012 resource status. As at Kolosori, a number of additional targets have been identified.

This is a very good start to resource definition by PNM. In a previous report we suggested that a 10-12mt reserve would likely be the target to justify a mining operation of 6 years at 1.5-2mtpa from two operations. Assuming resources of around 8mt at Kolosori and perhaps 6-7mt at Jejevo (both at 1.5% Ni) and assuming high resource to reserve conversion ratios we think a 10-12mt reserve might already be achievable. This will provide the basis for a feasibility study starting in early 2021.

In our initiation report we presented a case where production capacity of 1.7mtpa could be established, each for capex of around US\$20m. (This is little more than a quarrying and transshipping exercise). With costs of around US\$30/t (benchmarked off a DSO bauxite operation in Australia) we suggested a post-tax NPV₈ of around A\$110m (unfunded) with an IRR of over 60% could be achieved at mid-cycle commodity prices (US\$63/t). Results from the forthcoming feasibility study will therefore be very interesting.

With the demise of Indonesian supply, DSO pricing has been strong at around US\$75/wet metric tonne (CIF) for 1.5% nickel ore. This has been assisted by a strong LME nickel price, now over US\$7.50/lb. We continue to believe that nickel supply will be tight for the next 4-5 years as rechargeable battery demand diverts metal from an already tight market. This, we believe, will continue to see a shift in nickel demand by the stainless producers toward laterite/DSO sources.

PNM provides an inexpensive exposure to what we believe can become a high margin, high cashflow business in an increasingly attractive commodity.

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Where to now for Pacific Nickel Mines?

- PNM management has established a highly credible reputation with local landholders and with the Island and National governments. All appear anxious for the projects to proceed.
- We understand that the Ministry of the Environment has undertaken site visits to both projects to put together the terms of reference for environmental permits.
- PNM has applied for a business licence to operate in Isabel Province. This is an important step to allow PNM to operate in Isabel and to secure a SI export licence.
- Within the next 2-3 months we believe that PNM can establish a +10Mt JORC compliant resource at both projects to justify the start of mine planning.
- This will allow the company to move forward with the lodgement of mining lease applications, which will require a basic mining study and updated environmental reports and permits. We expect the first of the MLA's to be lodged in mid 2021.
- We see the following activities over the next few months:
 - Completion of resource drilling and move to JORC status.
 - Identification of additional resources.
 - Completion of Environmental and Social Impact Statements for Jejevo and Kolosori.
 - Completion of a PFS including detailed mine planning at Jejevo and Kolosori.
 - Detailed logistics and shipping planning.
 - Detailed port engineering planning
 - DSO marketing studies
 - Completion of a BFS
 - Recruitment of Project Manager based in Solomon Islands
 - Securing of all required licences to operate in the Solomons.
 - Strategic review of other nickel deposits in the Solomons.
- PNM is now fully funded to achieve these goals.

PNM Capital structure		
Issued capital*	m	214.6
Issue of shares to Kolosori**	m	9.4
Total shares*	.	223.9
Options***	m	11.5
Share price	\$	0.057
Market capitalisation	\$m	12.8
Cash (estimated)*	\$m	4.0
Enterprise value	\$m	8.8
Additional shares		
To Sunshine, subject to lodgement of ML	m	13.8
To Kolosori, subject to grant of ML	m	15.6
		29.4
Total no. of shares (conditional)		
	m	253.4
Market capitalisation (conditional)	\$m	14.4
Held by directors*		19.2%
* Includes T1 and T2 from recent placement		
** Subject to CPs.		
*** Average exercise price of 6c		

Malachite Resources was renamed Pacific Nickel Mines Ltd (PNM) at its AGM on 30 November 2020.

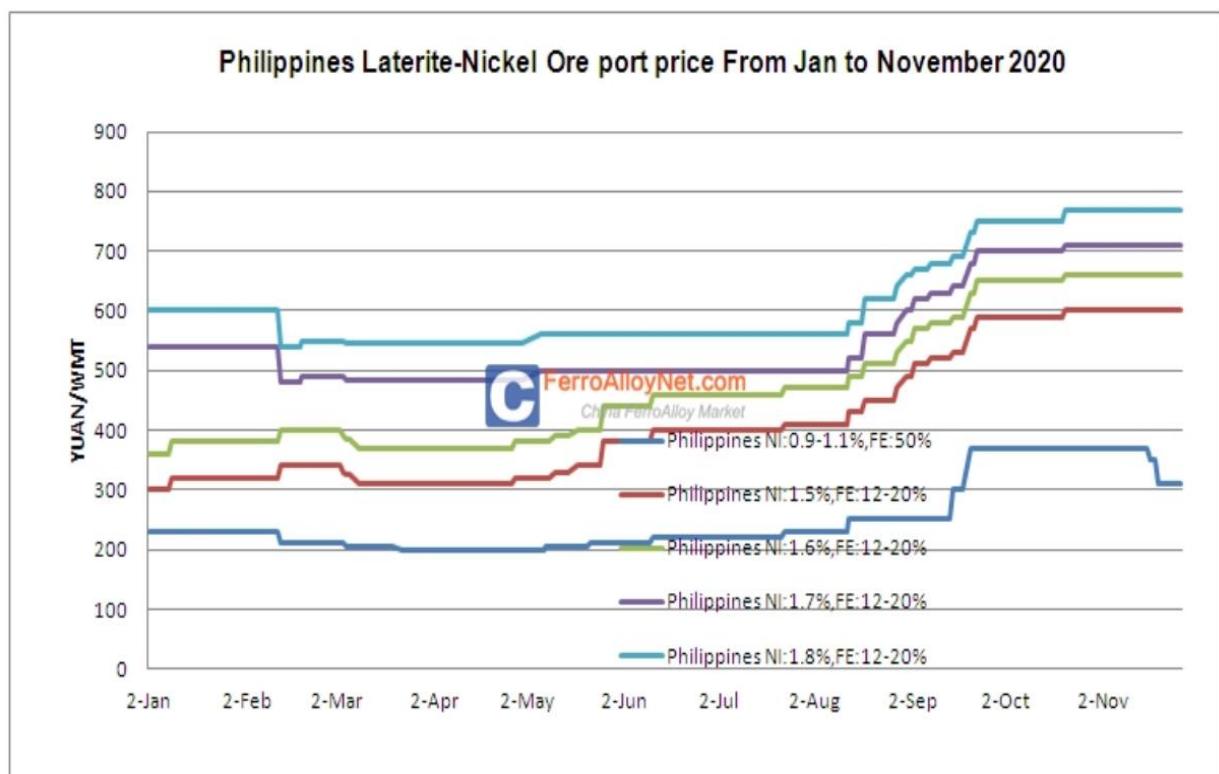
Commodity price

Historically, Indonesia has been the dominant source of nickel laterite ore. However, in 2014 Indonesia announced a ban on the export of nickel ores to incentivise further investment in domestic smelting and refining capacity. This policy was subsequently relaxed but reactivated in September 2019 to bring forward the ban from 2022 to January 2020. These bans have significantly increased investment in the Indonesian domestic nickel industry where the country has developed a growing presence in the global nickel market, in refined nickel and stainless steel production and in NPI. The extraordinary success of Nickel Mines (NIC: ASX, not covered) provides ample evidence that new sources of nickel units are being sought, and will likely be delivered from Indonesia.

In a reaction to the 2014 ban, the Philippines significantly increased its lateritic nickel mine production. Despite this, the supply restriction has significantly tightened global nickel markets, which has been reflected in increases in LME and DSO nickel prices. Prices of +1.5% DSO nickel ore have doubled over the past 12 months.

We do recognise that there will be a progressive move of the RKEF nickel industry to southern Asia (Indonesia and possibly the Philippines) exploiting inexpensive laterite ores and coal-derived energy. That said, we don't for a moment believe the Chinese domestic RKEF industry will be shut in as it is an important local industry. Given current global trade tensions, we believe China will ensure support for its domestic industries.

There appears to be few sources of nickel laterite ore outside Indonesia and the Philippines to satisfy demand from the domestic Chinese RKEF producers. We believe this provides an opportunity for the establishment of a DSO mining industry in the Solomons.



Source: Ferroalloynet.com

Nickel DSO prices (CIF), 11 December 2020, US\$/wet metric tonne. 1.5% Ni DSO is becoming the standard grade into RKEF's.

Nickel Ore CIF Price					
Country	Grade	CIF price on 11 Dec, 2020	CIF price on 4 Dec, 2020	Change	Unit
Philippine	NI0.6,FE50	41-42	41-42	--	USD/WMT
Philippine	NI0.9,FE49,AL7M AX	41-42	41-42	--	USD/WMT
Philippine	NI0.9,FE49,AL5M AX	50-51	50-51	--	USD/WMT
Philippine	NI1.5,FE15-30	75-76	75-76	--	USD/WMT
Philippine	NI1.8,FE12-18	98-99	98-99	--	USD/WMT

Source: Ferroalloy.net.com

DSO pricing has been supported by a strong LME nickel price



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Dr Chris Baker, an authorised representative of BSCP, certifies that the advice in this report reflects his honest view of the company. He has 29 years investment experience in wholesale capital markets. He worked as a mining analyst for brokers BZW and UBS for 11 years and has a further 16 years' experience as a mining analyst and portfolio manager with Colonial First State and Caledonia Investments. He now provides independent financial advice on a part time basis. He may own securities in companies he recommends but will declare this when providing advice. He currently owns shares in PNM. He is remunerated by BSCP but is not paid a specific fee for providing this report. BSCP are Corporate Advisors to PNM and receive fees from MAR for services provided. BSCP, its directors and consultants may own shares and options in PNM and may, from time to time, buy and sell the securities of PNM.

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