

FINANCIAL REPORT HALF YEAR ENDED 31 DECEMBER 2021

Pacific Nickel Mines Limited (ASX Code: PNM) (**Pacific Nickel** or **Company**) provides its Financial Report for the Half Year ended 31 December 2021.

Authorised by the Board.

For further information please contact:

Mr. Geoff Hiller

Executive Director & CEO

Mr. Andrew J. Cooke

Company Secretary

Email: acooke@pacificnickel.com

Please visit the company's website at www.pacificnickel.com



A.B.N 86 075 613 268

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2021

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This Interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by Pacific Nickel Mines Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

**Pacific Nickel Mines Limited
ABN 86 075 613 268
and Controlled Entities**

DIRECTORS' REPORT

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Pacific Nickel Mines Limited ("Pacific Nickel" or the "Company") and the entities it controlled (together, the 'Group') at the end of, or during, the half-year ended 31 December 2021 ("Period").

DIRECTORS

The names of the Pacific Nickel's directors in office during the half-year and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

Mr T Cuthbertson (Non-Executive Chairman)
Mr J. Dean (Non-Executive Director)
Mr G Hiller (Executive Director)
Mr R Thomson (Non-Executive Director)

REVIEW OF RESULTS AND OPERATIONS

During the Period the Group's main business activity was the development of nickel laterite deposits in the Solomon Islands.

SOLOMON ISLAND NICKEL PROJECTS

Kolosori Nickel Project (80%) Solomon Islands

The Kolosori Nickel Project ("Project") is an advanced stage direct shipping ore nickel laterite project with excellent potential for development. The project has several positive aspects including its close proximity to the coast, no processing requirements, low capital route to direct shipping ore production and local landowner support.

The Company has focused on development drilling, feasibility work and regulatory approvals for the Project as follows:

- Initial development drilling program completed with 83 holes drilled. 11 of the 83 holes drilled were for metallurgical test work and were distributed across the proposed first mining area to ensure a representative sample. The other 72 holes drilled formed the first stage of infill holes designed to increase the confidence level of the current Mineral Resource in preparation for the development of the project;
- The next phase of development drilling included approximately 150 holes. This program commenced in August 2021 and was completed in November 2021. The program has been designed to increase the confidence in the resource estimate in preparation for financing and the development of the project;
- Resindo Resources and Energy Group ("Resindo") completed a financial and technical study on the Kolosori Project for the lodgement of a mining lease application. The mining lease application was submitted in August 2021.
- The Company lodged an environmental and social impact assessment ("ESIA") required for the development consent. The development consent was approved in December 2021 by the Environment and Conservation Division of the Solomon Islands Ministry of Environment;
- The results of scoping study of the Project was announced to the ASX on 18 November 2021;
- The Company initiated a definitive feasibility study for the Project; with many of the key infrastructure components already well advanced. The definitive feasibility study is expected to be completed around April 2022.
- The Company began initial discussions with a number of potential financiers and is also reviewing potential nickel offtake arrangements for the Project; and
- An Early Works Program commenced in December 2021 and was completed by the date of this Report.

Scoping Study for Kolosori Nickel Project

The Scoping Study, which was announced on 18 November 2021, was conducted by a group of leading independent consultants from Australia and Indonesia including Resindo and Mining One, overseen by in-house Company personnel who are experienced in mining projects in the region.

**Pacific Nickel Mines Limited
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DIRECTORS' REPORT (CONTINUED)

REVIEW OF RESULTS AND OPERATIONS (CONTINUED)

The key parameters of the Scoping Study were as follows:

- Shallow open pit mining operation
- No processing or tailings dams required (as it is a direct ship ore)
- Initial haul road from first pit to the port area less than 1 km
- Stockpile management a key to moisture control and loading DSO onto barges
- Barge ore less than 1km to 50,000 to 60,000 tonne geared ships for export
- Production of 1.3 wet mtpa based on port throughput

The key assumptions and result inputs of the Scoping Study were:

- Production Target of 6.23m tonnes at 1.5% Ni for 93,450t of contained nickel
- Production Target contains 43% Measured and Indicated Resources with more than 75% of the Production Target over the first 2.5 years from Measured and Indicated Resources
- The shallowness of mining allows flexibility to mine the Measured and Indicated Mineral Resource as early as possible where required
- Ability to mine higher grades in excess of 1.6%Ni early in mine schedule
- First production targeted in late 2022
- Capital cost estimate between US\$18m and US\$20m
- Site operating cost estimate in the range US\$15 to US\$17/wmt
- Barging costs in the range US\$4.50 to US\$5.50/wmt
- Shipping cost of around US\$38/wmt
- Saprolite shipped to China for the RKEF plants for end use in the stainless steel industry
- Pricing of 1.5% Ni saprolite US\$85/wmt (CIF China)
- Pricing of 1.6% Ni saprolite US\$91/wmt (CIF China)
- Capital payback approximately one year

Early Works Program

The Company commenced an Early Works Program in December 2021, which was designed to allow the Company and its contractors to establish a site base at Kolosori in preparation for the main construction program targeted for the middle of 2022 subject to the completion of the definitive feasibility study, regulatory approvals, and financing.

The scope of the Early Works includes the following:

- Carry out a geotechnical assessment of the proposed wharf site;
- Carry out a test pit for mining;
- Prepare a temporary camp including fuel tanks;
- Carry out a detailed environmental survey within the main project infrastructure areas;
- Assess quarry sites to provide construction materials for wharf and road construction; and
- Facilitate site visits in December 2021 and January 2022 for third party contractors to assess port construction, barging, site infrastructure, logistics and mining activities.

Test Pit

The Company planned a test pit located in proposed mining area nearest to the proposed wharf area. The exploration team has drilled grade control holes in the area of this pit. The grade control holes are closely spaced (approximately 10 metres apart) and will enable a reconciliation of the grades from the drilling compared to the grades from the mined material.

**Pacific Nickel Mines Limited
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DIRECTORS' REPORT (CONTINUED)

REVIEW OF RESULTS AND OPERATIONS (CONTINUED)

The test pit will also provide the Company with valuable information regarding the ore characteristics with respect to mining productivity and moisture content. The material from the test pit will be stockpiled so that moisture content can be analysed over time to measure its drying characteristics as the moisture content of the ore is an important consideration for barging and shipping. At the date of this Report the test pit had been completed.

Geotechnical Work

The Company engaged a local contractor to carry out the geotechnical work for the Project. The main focus of the Early Works is to carry out an assessment of the ground conditions at the wharf site. The results from the test pit and the geotechnical work will feed into the definitive feasibility study work currently being undertaken by the Company and Resindo.

Jejevo Nickel Project (80%) Solomon Islands

The Jejevo Nickel Project is an advanced stage direct shipping ore nickel laterite project with excellent potential for development.

The Company owns Pacific Nickel Mines (SI) Limited which holds an 80% shareholding in Pacific Nickel Mines Varej Limited, which holds Prospecting License PL 01/18 located on the south coast of Santa Isabel Island in the Solomon Islands. The remaining 20% of Pacific Nickel Mines Varej Limited is owned by traditional land owners. The Jejevo Nickel Project is located within the PL 01/18 project area.

On 4 October 2021, PL 01/18 was renewed by the Solomon Islands Minister of Mines, Energy and Rural Electrification for a period of two years commencing 4 October 2021.

No exploration work was conducted at the Jejevo Nickel Project during the Period.

On 7 October 2021 the Company announced an initial JORC (2012) Mineral Resource estimate for the Jejevo Nickel Project (Jejevo). The total JORC mineral resource estimate at Jejevo is 7.82 million tonnes at 1.46 % Ni at a 1.2% Ni cut off. In addition, there is a conceptual resource extension target at Jejevo of a further 3.0 million to 5.0 million tonnes at 1.2% to 1.6% Ni.

The Mineral Resource estimate will form the basis of a scoping study at Jejevo, which is expected to be carried out in 2022.

The Company notes that there is a legal case relating to a judicial review of decisions made by government authorities in the Solomon Islands in relation to the awarding of PL 01/18 in 2018. At the date of this Report these legal proceedings are ongoing. The Company has legal advice that the case lacks merit.

EPM 18908 (100%) Queensland Australia

No exploration work was conducted at EPM 18908 during the Period.

CORPORATE

As part of a recent internal restructuring by the Company, the transfer of PL 05/19 from Kolosori Nickel (SI) Limited to Pacific Nickel Mines Kolosori Ltd (PNMK), a subsidiary entity of the Company incorporated in the Solomon Islands, was approved by the Mines and Minerals Board in the Solomon Islands on 22 September 2021. The Company owns an 80% interest in PNMK, with the remaining 20% interest held by local landowners.

On October 4 2021, the title to PL 01/18 was transferred to Pacific Nickel Mines Varej Limited (PNMV), a subsidiary entity of the Company incorporated in the Solomon Islands, as part of the Company's recent internal restructuring. The Company holds an 80% interest in PNMV, with the remaining 20% interest held by local landowners.

**Pacific Nickel Mines Limited
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DIRECTORS' REPORT (CONTINUED)

Capital Structure

On 29 October 2021 the Company advised a placement to raise \$5.25 million via the issue of 52.5 million shares at \$0.10 per share in two tranches. The first tranche of 30 million shares were allotted on 5 November 2021. The second tranche of 22.5 million shares were allotted on 20 December 2021.

In October 2021, 128,803 options with an exercise price of 9c with maturity 17 June 2024 were exercised.

On 26 November 2021, the Equity Incentive Plan was approved at the AGM.

On 22 December 2021, total 6.4 million Performance Rights were issued to eligible employees under the Equity Incentive Plan, of which 2.65 million Performance Rights were issued to Mr G Hiller approved by the AGM.

As at 31 December 2021 the Company had the following securities on issue:

- 267.52 million fully paid ordinary shares;
- 11.50 million options with an exercise price of 6c with maturity 30 September 2023;
- 71.50 million options with an exercise price of 9c with maturity 17 June 2024; and
- 6.4 million performance rights.

FINANCIAL PERFORMANCE

During the Period the consolidated net loss of the Group was \$0.447 million (2020: loss of \$2.110 million) which reflected:

- Expenses of \$0.314 million for corporate administration; and
- Expenses of \$0.126 million for employee benefits.

CASH FLOWS

During the Period, the Group had negative cash flow from operations of \$2.801 million (2020: negative cash flow of \$0.762 million).

During the Period the Group:

- received net proceeds from share issues of \$4.796 million;
- received net proceeds from options exercised of \$0.011 million;
- purchased plant and equipment of \$0.265 million; and
- made investments in nickel projects of \$0.035 million.

Cash at 31 December 2021 was \$3.513 million (2020: \$0.657 million).

FINANCIAL POSITION

Total equity increased from \$6.263 million as at 30 June 2021 to \$10.712 million as at 31 December 2021 as a result of a net loss of \$0.447 million, and net increased in contributed equity of \$4.896 million.

At 31 December 2021, the Group had liabilities in respect of unsecured loans held by Key Management Personnel (KMP) of \$0.195 million.

Pacific Nickel Mines Limited
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DIRECTORS' REPORT (CONTINUED)

IMPACT OF COVID 19

The Company has considered the impact of COVID-19 on its activities. The difficulty of management and consultants to visit the Solomon Islands has impacted on some of the Company's activities.

The Company has local staff who have successfully been able to carry out the Company's required activities in the Solomon Islands since the COVID 19 pandemic. However, this has been recently impacted by the Solomon Islands' first outbreak of COVID-19 in January 2022, which has led to lockdowns and restricted travel between provincial islands. At the time of this report, the restrictions have started to ease.

Given the restrictions on travel internationally and mindful of the spread of the virus within the local communities, the Company will monitor and assess its exploration and development activities.

GOING CONCERN

The Group experienced operating losses of \$0.447 million and negative cash flows from operations of \$2.801 million during the half year ended 31 December 2021.

At 31 December 2021, the Group has current liabilities amounting to \$1.039 million (30 June 2021: \$0.994 million), including an unsecured loan of \$0.195 million from Key Management Personnel.

The Group's cash position at balance date was \$3.513 million, which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 31 March 2023.

The Group currently relies on its nickel projects in the Solomon Islands for its continuing viability and for its ability to continue as a going concern and to meet its debts and commitments.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Group being successful with some or all of the following:

- the development of the Kolosori nickel project in the Solomon Islands, which is dependent on government approvals and construction financing;
- the development of the Jejevo nickel project in the Solomon Islands;
- raising further equity or debt through the capital market; or
- entering into a corporate transaction.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors.

On that basis the directors believe it is reasonable to expect that the Group will be successful in some of the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2021. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

**Pacific Nickel Mines Limited
ABN 86 075 613 268
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DIRECTORS' REPORT (CONTINUED)

AFTER BALANCE DATE EVENTS

In November 2021, the Company announced a Share Purchase Plan to existing eligible shareholders of the Company at \$0.10 per share. On 10 January 2022, the Company issued 3,405,000 ordinary shares at \$0.10 were issued raising \$340,500 before costs under the Share Purchase Plan.

On 2 February 2022, 180,350 ordinary shares were issued on options exercised with exercise price at \$0.09 expiring 17 Jun 2024.

On 3 March 2022, the Company announced that it had successfully completed early works at the Kolosori Nickel Project on Isabel Island, Solomon Islands. The main components of the Early Works program included:

- Construction of infrastructure including an access road, camp site and stockpile site;
- Excavation of a test pit to assess mining and stockpile designs and to calibrate grade control methods;
- Completion of a geotechnical assessment, including drilling, of the proposed nickel DSO load-out wharf site;
- An assessment of the quarry sites to provide construction materials for wharf and road construction.

On 10 March 2022, the Company announced that it had held meetings with several prospective offtakers and project financiers to update them on the progress of the early works program at the Kolosori Nickel Project and requested proposals for an offtake contract for Kolosori's life of mine DSO production plus debt finance and working capital facilities. The Company also announced that an independent DSO market study had indicated that the Kolosori DSO compared very favourably against the Philippines "standard" DSO, offering relatively high grades, relatively low moisture levels and very low phosphorous and sulphur levels.

There are no other matters or circumstances that have arisen since 31 December 2021 which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is attached.

Signed in accordance with a resolution of the directors.



On behalf of the Directors

Terry Cuthbertson

Non-Executive Chairman

Sydney, 11 March 2022

**PACIFIC NICKEL MINES LIMITED
ABN 86 075 613 268
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE
CORPORATIONS ACT 2001
TO THE DIRECTORS OF PACIFIC NICKEL MINES LIMITED**

I declare that, to the best of my knowledge and belief, during the half-year ended 31 December 2021 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and
- ii. any applicable code of professional conduct in relation to the review.

MNSA PTY LTD

MNSA Pty Ltd



Allan Facey
Director

Sydney
Dated this 11th day of March 2022

Pacific Nickel Mines Limited
ABN 86 075 613 268
and Controlled Entities

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR 31 DECEMBER 2021

	Note	31 December 2021 \$	31 December 2020 \$
Revenue from continuing operations	2	2,207	2,470
Accounting and audit expense		(48,750)	(33,575)
Corporate expenses		(263,407)	(259,492)
Depreciation and amortisation expense		(749)	(4,320)
Employee benefits expense		(125,679)	(35,354)
Evaluation and Exploration expenditure expensed		(1,509)	(1,399)
Finance costs		(9,050)	(25,329)
Loss on disposal of non-current assets		-	(1,753,116)
Loss before income tax		(446,937)	(2,110,115)
Income tax expense		-	-
Net loss for the period		(446,937)	(2,110,115)
Other comprehensive income			
Other comprehensive income/(loss)		-	-
Total comprehensive loss for the period		(446,937)	(2,110,115)
Total comprehensive loss attributable to members of the Company		(446,937)	(2,110,115)
		Cents	Cents
		per share	per share
Basic and diluted (loss) per share		(0.20)	(1.4)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Pacific Nickel Mines Limited
ABN 86 075 613 268
and Controlled Entities

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Note	31 December 2021 \$	30 June 2021 \$
CURRENT ASSETS			
Cash and cash equivalents		3,513,176	1,807,116
Trade and other receivables		73,570	47,304
TOTAL CURRENT ASSETS		3,586,746	1,854,420
NON-CURRENT ASSETS			
Receivables	7	27,650	27,650
Property, plant and equipment		415,972	175,663
Exploration and evaluation expenditure	3	4,561,919	2,119,643
Investments	4	3,158,020	3,079,060
TOTAL NON-CURRENT ASSETS		8,163,561	5,402,016
TOTAL ASSETS		11,750,307	7,256,436
CURRENT LIABILITIES			
Trade and other payables	5	843,753	798,847
Borrowings	6	195,000	195,000
TOTAL CURRENT LIABILITIES		1,038,753	993,847
TOTAL LIABILITIES		1,038,753	993,847
NET ASSETS		10,711,554	6,262,589
EQUITY			
Contributed equity	9	74,718,256	69,874,608
Reserves		846,433	794,179
Accumulated losses		(64,853,135)	(64,406,198)
TOTAL EQUITY		10,711,554	6,262,589

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Pacific Nickel Mines Limited
ABN 86 075 613 268
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR 31 DECEMBER 2021

	Contributed Equity \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2020	62,696,576	2,207,581	(64,215,248)	688,909
Loss for the period	-	-	(2,110,115)	(2,110,115)
Other comprehensive income/(loss)	-	-	-	-
Shares issued during the period	3,977,492	-	-	3,977,492
Shares issue cost	(113,091)	-	-	(113,091)
Balance at 31 December 2020	66,560,977	2,207,581	(66,325,363)	2,443,195
Balance at 1 July 2021	69,874,608	794,179	(64,406,198)	6,262,589
Loss for the period	-	-	(446,937)	(446,937)
Other comprehensive income/(loss)	-	-	-	-
Shares issued during the period	5,261,592	-	-	5,261,592
Share-based payments	-	53,800	-	53,800
Options exercised during the period	1,546	(1,546)	-	-
Shares issue cost	(419,490)	-	-	(419,490)
Balance at 31 December 2021	74,718,256	846,433	(64,853,135)	10,711,554

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Pacific Nickel Mines Limited
ABN 86 075 613 268
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CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR 31 DECEMBER 2021

	31 December 2021 \$	31 December 2020 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers and employees	(561,315)	(380,499)
Exploration and evaluation expenditure	(2,223,097)	(349,160)
Interest received	2,207	2,470
Interest paid	(18,342)	(34,876)
Net cash (used in) operating activities	<u>(2,800,547)</u>	<u>(762,065)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment	-	158,935
Payment of Investments	(35,254)	(618,592)
Payment for property, plant and equipment	(265,291)	(108,899)
Net cash (used in) investing activities	<u>(300,545)</u>	<u>(568,556)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of shares	5,225,000	1,896,001
Proceeds from exercise of options	11,592	-
Deposit for unissued shares	-	241,321
Repayment of unsecured loan	-	(50,000)
Transaction costs paid for shares issue	(429,440)	(127,244)
Net cash provided by financing activities	<u>4,807,152</u>	<u>1,960,078</u>
NET INCREASE IN CASH HELD	<u>1,706,060</u>	<u>629,457</u>
CASH AT THE BEGINNING OF THE FINANCIAL PERIOD	<u>1,807,116</u>	<u>27,998</u>
CASH AT THE END OF THE FINANCIAL PERIOD	<u>3,513,176</u>	<u>657,455</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

**Pacific Nickel Mines Limited
ABN 86 075 613 268
and Controlled Entities**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2021

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report is for Pacific Nickel Mines Limited and its controlled entities (together, the "Group") in respect of the interim half-year reporting period ended 31 December 2021 and has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by Pacific Nickel Mines Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

New or amended Accounting Standards and Interpretations adopted

The Company has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standard Board ("AASB") that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Significant matters relating to the ongoing viability of operations

GOING CONCERN

The Group experienced operating losses of \$0.447 million and negative cash flows from operations of \$2.801 million during the half year ended 31 December 2021.

At 31 December 2021, the Group has current liabilities amounting to \$1.039 million (30 June 2021: \$0.994 million), including an unsecured loan of \$0.195 million from Key Management Personnel.

The Group's cash position at balance date was \$3.513 million, which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 31 March 2023.

The Group currently relies on its nickel projects in the Solomon Islands for its continuing viability and for its ability to continue as a going concern and to meet its debts and commitments.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Group being successful with some or all of the following:

- the development of the Kolosori nickel project in the Solomon Islands, which is dependent on government approvals and construction financing;
- the development of the Jejevo nickel project in the Solomon Islands;
- raising further equity or debt through the capital market; or
- entering into a corporate transaction.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors.

On that basis the directors believe it is reasonable to expect that the Group will be successful in some of the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 31 December 2021. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

Pacific Nickel Mines Limited
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and Controlled Entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2021

	31 December 2021	31 December 2020
	\$	\$
2 REVENUE		
From continuing operations and other income		
Interest	2,207	2,470
	<hr/>	<hr/>
	31 December 2021	30 June 2021
	\$	\$
3 EXPLORATION AND EVALUATION EXPENDITURE		
Costs carried forward in respect of areas of interest in exploration and evaluation phases	4,561,919	2,119,643
	<hr/>	<hr/>
Movement for period		
Balance at beginning of period	2,119,643	2,548,023
Current period expenditure	2,442,276	2,069,643
Reversal of security deposit	-	(234,987)
Transfer to investment on Lorena Gold Royalty	-	(350,000)
Proceeds from disposal of equity investment	-	(158,935)
Loss on disposal of investment	-	(1,754,101)
Balance at end of period	<hr/> 4,561,919	<hr/> 2,119,643
4 INVESTMENTS		
Investments in Jejevo Nickel	1,564,355	1,564,355
Investments in Kolosori Nickel	1,050,555	1,050,555
Investments in Other Tenements	193,110	114,150
Investments in Lorena Gold Royalty	350,000	350,000
	<hr/> 3,158,020	<hr/> 3,079,060
5 CURRENT LIABILITIES		
Trade and other payables		
Trade creditors	347,137	237,466
Director and management payable	252,453	482,126
Other payable	244,163	79,255
	<hr/> 843,753	<hr/> 798,847

Pacific Nickel Mines Limited
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2021

6 BORROWINGS	31 December 2021 \$	30 June 2021 \$
Current		
Unsecured loan	195,000	195,000

The Group had a balance of \$195,000 in unsecured loans from Directors. The Group reached agreement with the loans from Key Management Personnel to extend the term of the existing loan to 1 October 2022. Unsecured loans totalling \$120,000 have an interest rate of 10% per annum and unsecured loans totalling \$75,000 have an interest rate of 12% per annum.

7 RECEIVABLES

Tenement security deposits	2,500	2,500
Receivables – Customs & duties	25,150	25,150
	27,650	27,650

8 CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2021 (June 2021: nil).

9 CONTRIBUTED EQUITY

	31 December 2021 \$	30 June 2021 \$
267,523,839 fully paid ordinary shares (30 June 2021: 214,895,036)	74,718,256	69,874,608

Fully paid ordinary shares carry one vote per share and carry the right to dividends and have no par value,

Pacific Nickel Mines Limited
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2021

9 CONTRIBUTED EQUITY (CONTINUED)

a) Movement in ordinary share capital

		Number of shares	Issue price \$	Share capital \$
1 July 2020	Opening balance	68,022,604		62,696,576
03 August 2020	Conversion of Series E converting notes	15,400,703	0.08	1,232,056
14 August 2020	Share placement	20,833,334	0.03	625,000
07 September 2020	Share purchase plan	20,366,659	0.03	611,000
16 October 2020	Placement	3,333,334	0.03	100,000
04 November 2020	Shares issued for acquisition of Sunshine Minerals Limited	10,617,954	0.08	849,436
21 December 2020	Placement – Tranche 1	11,200,000	0.05	560,000
16 April 2021	Placement – Tranche 2	52,800,000	0.05	2,640,000
16 April 2021	Shares issued for Directors and consultant fees	3,545,448	0.05	177,272
16 April 2021	Shares issued for acquisition of drillings rigs	400,000	0.05	20,000
12 May 2021	Shares issued for acquisition of 80% interest in Kolosori Nickel Project	8,375,000	0.08	670,000
	Transaction costs relating to share issues			(306,732)
30 June 2021	Balance at end of year	214,895,036		69,874,608
1 July 2021 to 31 December 2021				
1 July 2021	Opening balance	214,895,036		69,874,608
26 October 2021	Conversion of PNMAT option expiring 17 June 2024	128,803	\$0.09	11,592
26 October 2021	Transfer from option reserves			1,546
5 November 2021	Share placement – Tranche 1	30,000,000	\$0.10	3,000,000
20 December 2021	Share placement – Tranche 2	22,500,000	\$0.10	2,250,000
	Transaction costs relating to share issues			(419,490)
31 December 2021	Balance at end of period	267,523,839		74,718,256

b) The Group's objective when managing capital is to safeguard its ability to continue as a going concern (refer to note 1), so that it can continue to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on a regular basis in order to achieve the objectives. The Group's strategy has remained unchanged from the prior year.

10 SEGMENT INFORMATION

The economic entity operates in segment within mineral exploration and development in Solomon Islands. The Group has two development interests, the Kolosori Nickel Project ("Kolosori") and Jejevo Nickel Project ("Jejevo"), on the Santa Isabel Island, for which the Board of Directors (the chief operating decision maker) reviews internal management reports on a monthly basis.

Pacific Nickel Mines Limited
ABN 86 075 613 268
and Controlled Entities

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2021

10 SEGMENT INFORMATION (CONTINUED)

Segment assets

Information about reportable segments

The key segment assets as reported to the Board are as follows:

	31 December 2021 \$	30 June 2021 \$
Exploration		
Solomon Islands	4,511,919	2,069,643
Australia	50,000	50,000
	<u>4,561,919</u>	<u>2,119,643</u>

	Solomon Islands \$	Corporate \$	Total \$
31 December 2021			
Revenue from continuing operations	-	2,207	2,207
Accounting and audit expense	-	(48,750)	(48,750)
Corporate expenses	-	(263,407)	(263,407)
Depreciation and amortisation expense	-	(749)	(749)
Employee benefits expense	-	(125,679)	(125,679)
Evaluation and Exploration expenditure expensed	(2,442,276)	(1,509)	(2,443,785)
Evaluation and Exploration expenditure capitalised	2,442,276	-	2,442,276
Finance costs	-	(9,050)	(9,050)
Loss before income tax	<u>-</u>	<u>(446,937)</u>	<u>(446,937)</u>
Income tax expense	-	-	-
Net loss for the period	<u>-</u>	<u>(446,937)</u>	<u>(446,937)</u>

	Australia \$	Solomon Islands \$	Corporate \$	Total \$
31 December 2020				
Revenue from continuing operations	2,025	-	445	2,470
Accounting and audit expense	-	(6,000)	(27,575)	(33,575)
Corporate expenses	(4,099)	(9,005)	(246,388)	(259,492)
Depreciation and amortisation expense	(2,657)	-	(1,663)	(4,320)
Employee benefits expense	(1,314)	-	(34,040)	(35,354)
Evaluation and Exploration expenditure expensed	(1,399)	-	-	(1,399)
Finance costs	(4)	-	(25,325)	(25,329)
Loss on disposal of investment	(1,753,116)	-	-	(1,753,116)
Loss before income tax	<u>(1,760,564)</u>	<u>(15,005)</u>	<u>(334,546)</u>	<u>(2,110,115)</u>
Income tax expense	-	-	-	-
Net loss for the period	<u>(1,760,564)</u>	<u>(15,005)</u>	<u>(334,546)</u>	<u>(2,110,115)</u>

**Pacific Nickel Mines Limited
ABN 86 075 613 268
and Controlled Entities**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2021

11 EVENTS SUBSEQUENT TO REPORTING DATE

In November 2021, the Company announced a Share Purchase Plan to existing eligible shareholders of the Company at \$0.10 per share. On 10 January 2022, the Company issued 3,405,000 ordinary shares at \$0.10 were issued raising \$340,500 before costs under the Share Purchase Plan.

On 2 February 2022, 180,350 ordinary shares were issued on options exercised with exercise price at \$0.09 expiring 17 Jun 2024.

On 3 March 2022, the Company announced that it had successfully completed early works at the Kolosori Nickel Project on Isabel Island, Solomon Islands. The main components of the Early Works program included:

- Construction of infrastructure including an access road, camp site and stockpile site;
- Excavation of a test pit to assess mining and stockpile designs and to calibrate grade control methods;
- Completion of a geotechnical assessment, including drilling, of the proposed nickel DSO load-out wharf site;
- An assessment of the quarry sites to provide construction materials for wharf and road construction.

On 10 March 2022, the Company announced that it had held meetings with several prospective offtakers and project financiers to update them on the progress of the early works program at the Kolosori Nickel Project and requested proposals for an offtake contract for Kolosori's life of mine DSO production plus debt finance and working capital facilities. The Company also announced that an independent DSO market study had indicated that the Kolosori DSO compared very favourably against the Philippines "standard" DSO, offering relatively high grades, relatively low moisture levels and very low phosphorous and sulphur levels.

There are no other matters or circumstances that have arisen since 31 December 2021 which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**Pacific Nickel Mines Limited
ABN 86 075 613 268
and Controlled Entities**

DIRECTORS' DECLARATION

In the directors' opinion:

- 1) The financial statements and notes, as set out on pages 9 to 18, are in accordance with the Corporations Act 2001 and:
 - a) Comply with Australian Accounting Standards AASB134: Interim Financial Reporting, the Corporations Regulations 2001; and
 - b) Give a true and fair view of the Group's consolidated financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- 2) In the directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Terry Cuthbertson

Non-Executive Chairman

Sydney, 11 March 2022



**PACIFIC NICKEL MINES LIMITED
ABN 86 075 613 268
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF
PACIFIC NICKEL MINES LIMITED**

Report on the Half-year Financial Report

We have reviewed the accompanying half-year financial report of Pacific Nickel Mines Limited, which comprises the consolidated statement of financial position as at 31 December 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

The directors of Pacific Nickel Mines Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of Pacific Nickel Mines Limited's financial position as at 31 December 2021 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*. As the auditor of Pacific Nickel Mines Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and 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*.

Conclusion

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

- i. giving a true and fair view of Pacific Nickel Mines Limited's financial position as at 31 December 2021 and of its performance for the half-year ended on that date; and
- ii. complying with AASB 134: Interim Financial Reporting and the *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our conclusion, we draw your attention to Note 1 in the financial report which indicates that the consolidated entity has incurred an operating loss of \$0.447 million and negative cash flows from operations of \$2.801 million during the period.

As of that date, the continuing viability of the consolidated entity and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the consolidated entity's ability to develop its nickel projects in the Solomon Islands, raise further equity or debt through the capital market or entering into a corporate transaction.

These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast doubt about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise assets and settle its liabilities in the normal course of business and at the amounts stated in the financial report.

MNSA PTY LTD

MNSA Pty Ltd



Allan Facey
Director

Sydney
Dated this 11th day of March 2022