

FINANCIAL REPORT HALF YEAR ENDED 31 DECEMBER 2020

Pacific Nickel Mines Limited (ASX Code: PNM) (**Pacific Nickel** or **Company**) provides its Financial Report for the Half Year ended 31 December 2020.

Authorised by the Board.

For further information please contact:

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

(Formally Malachite Resources Limited)

INTERIM FINANCIAL REPORT

FOR THE HALF YEAR ENDED 31 DECEMBER 2020

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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 2020 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 2020 ("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 (Executive Director) (Appointed 3 September 2020)

REVIEW OF RESULTS AND OPERATIONS

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

SOLOMON ISLAND NICKEL PROJECTS

Acquisition of Sunshine Minerals Limited

On 15 July 2020 the Company announced to the ASX that it had executed a Term Sheet to acquire the remaining 85% interest in Sunshine Minerals Limited ("Sunshine") that it does not already own.

Sunshine, a private company incorporated in the Solomon Islands, owns 80% of Sunshine Nickel which holds PL 01/18 located on the south coast of Santa Isabel Island. The remaining 20% of Sunshine Nickel is owned by local land owners.

The Jejevo Nickel Project is located within the PL 01/18 project area.

The Jejevo Nickel Project is an advanced stage direct shipping ore nickel laterite project with excellent potential for development. The project was previously drilled in 2013 and the initial objective is to do sufficient work to confirm a 2012 JORC resource at the earliest opportunity.

The Jejevo Nickel Project has a number of positive aspects including its close proximity to the coast, no processing requirements, low capital route to direct shipping ore production and local landowner support. It is envisaged that mining of the project could potentially commence within 2 years.

On 21 August 2020, the Company announced that it had executed a Share Purchase Agreement (Agreement) formalising the acquisition.

The key terms of the Agreement include:

- An initial payment of \$850,000 to the remaining 85% shareholders in Sunshine by the issue of up to 10,617,954 fully paid ordinary shares in the Company at a deemed issue price of \$0.08 (Upfront Consideration Shares);
- A further payment of \$1,105,000 to the remaining 85% shareholders in Sunshine by the issue of up to 13,803,340 fully paid ordinary shares in the Company at a deemed issued price of \$0.08 (Deferred Consideration Shares) (less any clawback or reduction for adjustments) upon the valid application for a mining lease for PL 01/18 being submitted to the Mines Department; and
- All shares issued to the vendors are subject to voluntary escrow arrangements.

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

DIRECTORS' REPORT (CONTINUED)

REVIEW OF RESULTS AND OPERATIONS (CONTINUED)

The Agreement is subject to conditions precedent, including:

- Sunshine entering into an agreement with Sunshine Nickel Limited (SNL) and the Landholders, on terms satisfactory to the Company, for the provision of funding by the Company to the Landholders (to be repaid from SNL's cash flows and sale proceeds) for their portion of exploration and development costs relating to the Jejevo Nickel Project; and
- The shareholders of the Company approving the transactions contemplated by the Agreement in a general meeting, including a resolution authorising the allotment and issue of the Upfront Consideration Shares and Deferred Consideration Shares to the Vendors in accordance with the ASX Listing Rules and the Corporations Act.

The Agreement is subject to standard warranties and representations for transactions of this nature.

On 14 October 2020, the Company obtained shareholder approval at a General Meeting to acquire the remaining 85% interest in Sunshine and on 31 October 2020 the Company entered into a landowner agreement with SNL on satisfactory terms to the Company. On 4 November 2020, the Company allotted 10,617,954 shares (the Upfront Consideration Shares) in the Company to Sunshine shareholders.

Jejevo Project

During the Period, Pacific Nickel designed a 64 hole initial drilling program (approximately 1,300m) at Jejevo to enhance the geological understanding and provide confirmatory results to allow preparation of a JORC resource estimate. Subsequent to the Period, drilling commenced at Jejevo on the first 25 holes for confirmatory (twin) purposes.

Also during the Period, the Company engaged geological consultant, Mining One, who created a block model on historical data to generate an exploration target at Jejevo. This exploration target was announced on the ASX on 24 November 2020.

On 11 December 2020, the High Court of the Solomon Islands ruled that legal proceedings against the Minister of Mines, Energy and Rural Electrification, the Attorney General in the Solomon Islands and Sunshine Nickel Limited shall proceed to trial. The claimant, Axiom Nickel (SI) Limited, has brought proceedings in relation to, among other matters, the decision of the Director of Mines and Minerals Board not to grant a prospecting licence tenement to them which had been applied for some 10 years ago.

In 2018 prospecting licence tenement PL 01/18 was granted to Sunshine Nickel Limited.

In deciding that the proceedings should proceed to trial, the Court noted that it did not assess the merits of the claims. The Company has received legal advice from its Solomon Islands based lawyers that these claims lack merit.

The Company understands that the case primarily relates to judicial review of decisions made by government authorities in the Solomon Islands and that these government authorities will defend these legal proceedings and continue to support the current exploration activities being undertaken by Pacific Nickel.

Kolosori Nickel Project

On 26 October 2020, Pacific Nickel announced that it had executed a Share Purchase Agreement (Agreement) to formalise the acquisition of an 80% interest in Kolosori Nickel (SI) Limited ("KNL"), a company incorporated in the Solomon Islands. The remaining 20% of KNL is held by traditional landowners. KNL currently owns PL 05/19, which comprises the Kolosori Nickel Project located on Santa Isabel Island in the Solomon Islands.

The Kolosori Nickel Project is an advanced stage direct shipping ore nickel laterite project with excellent potential for development. The project has a number of positive aspects including its close proximity to the coast, no processing requirements, low capital route to direct shipping ore production and local landowner support. It is envisaged that mining of the project could potentially commence within 2 years.

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

DIRECTORS' REPORT (CONTINUED)

REVIEW OF RESULTS AND OPERATIONS (CONTINUED)

The key terms of the Agreement include:

- Payment of \$750,000 by the issue of 9,375,000 fully paid ordinary shares in Pacific Nickel at a deemed issue price of \$0.08 (Upfront Consideration Shares);
- Payment of \$1,250,000 (less any debts not disclosed to Pacific Nickel in the Term Sheet) by the issue of up to 15,625,000 fully paid ordinary shares in Pacific Nickel at a deemed issued price of \$0.08 upon the granting of a mining licence for PL 05/19 by the Mines Department and confirmation of a resource with a minimum of 6 million tonnes @ 1.6%Ni including 3.9 million tonnes @ 1.7% Ni to 2012 JORC (Deferred Consideration Shares);
- The Upfront Consideration Shares and the Deferred Consideration Shares are subject to certain clawback or reductions for adjustments; and
- All Pacific Nickel shares issued to the vendors to be subject to voluntary escrow arrangements as follows:
 - For the Upfront Consideration Shares, the earlier of 12 months from their date of issue or 10 business days after the granting of a mining licence for PL 05/19; and
 - For the Deferred Consideration Shares, 12 months from their date of issue.

The Agreement is subject to conditions precedent, including:

- Pacific Nickel entering into an agreement with KNL and the Landholders, on terms satisfactory to Pacific Nickel, for the provision of funding by Pacific Nickel to the Landholders (to be repaid from KNL's cash flows and sale proceeds) for their portion of exploration and development costs relating to the Kolosori Nickel Project; and
- The shareholders of Pacific Nickel approving the transactions contemplated by the Agreement in a general meeting, including a resolution authorising the allotment and issue of the Upfront Consideration Shares and Deferred Consideration Shares to the KNL shareholders in accordance with the ASX Listing Rules and the Corporations Act.

The Agreement is subject to standard warranties and representations for transactions of this nature.

On 10 November 2020 the Company entered into a landowner agreement with KNL on satisfactory terms to the Company.

As announced on 19 November 2020, Mining One completed an initial JORC mineral resource estimate for Prospecting Licence PL 05/19 (Kolosori tenement).

LORENA

Lorena Gold Project – (ML7147, MLs 90192 to 90196, EPM 18189, EPM18908)

On 28 July 2020, the Company announced to the ASX that it had entered into a Deed of Release to resolve the long running dispute in respect of the Lorena Project on commercial terms satisfactory to the Company.

Key elements of the dispute resolution agreement include:

- The Company has entered into a Share Sale Agreement (Agreement) with Lorena Gold Mine Pty Ltd and Ore Processing Services Pty Ltd (OPS). Under the Agreement Lorena Gold Mine Pty Ltd will acquire 100% of the issued capital of Volga Elderberry Pty Ltd (Volga). The Deed of Release is conditional on the Share Sale Agreement completing;
- The Company has received an initial payment of \$50,000 and a further \$130,000 within 90 days subject to agreed adjustments;
- Conditions precedent include the Company entering into an agreement to receive a 2% Net Smelter Return on gold produced from future underground operations at Lorena;
- The Lorena joint venture parties have entered into a Deed of Release in respect of obligations and liabilities arising out of the Lorena Gold Project; and
- The Company has also entered into a Deed of Debt Forgiveness with Ore Processing Services Pty Ltd pursuant to which outstanding loan liabilities to OPS have been forgiven. The loan amount that was forgiven by OPS is \$637,342.47 at the time the Deed of Debt Forgiveness was entered.

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

DIRECTORS' REPORT (CONTINUED)

REVIEW OF RESULTS AND OPERATIONS (CONTINUED)

At a General Meeting of the Company held on 14 October 2020, shareholders approved the proposed sale of Volga.

On 27 November 2020, the Company announced that it has completed the Share Sale Agreement (first announced 28 July 2020) relating to the sale of Volga Elderberry Pty Ltd, a wholly owned subsidiary of Pacific Nickel, which held a joint venture interest in the Lorena Gold Project ("Lorena"). Together with the Deed of Release which was executed in July 2020 and other associated documentation, the settlement of the dispute in respect of Lorena has now been finalised on commercial terms satisfactory to Pacific Nickel.

As a result, the Group now holds a 2% Net Smelter Return on gold produced from future underground operations at Lorena and has been released of all obligations and liabilities arising out of the Lorena Gold Project and those associated with Ore Processing Services Pty Ltd.

The Company retains 100% of EPM 18908 which holds the Bloodwood copper/gold and Lady Mary gold prospects where encouraging exploration was previously undertaken by the Company.

CORPORATE

Capital Structure

On 3 August 2020, the Company's Series E converting notes were converted into 15,400,703 ordinary shares at 8c per share. Following this conversion, there are no longer any convertible notes issued by the Company.

The financial position of the Company was also significantly enhanced by a Placement which was undertaken in August 2020 raising \$625,000 (by the issue of 20,833,334 ordinary shares at \$0.03 per share) and a Share Purchase Plan which was concluded in early September 2020 which raised \$611,000 (by the issue of 20,366,659 ordinary shares at \$0.03 per share). An additional \$100,000 (by the issue of 3,333,334 ordinary shares at \$0.03 per share) placement by the Company to an entity associated with director, Mr Rob Thomson was approved by shareholders at a General Meeting on 14 October 2020.

At the General Meeting of the Company on 14 October 2020, approval was given by shareholders to issue 11.5 million options over ordinary shares. The options have a strike price of 6c and expiry of 30 September 2023.

In November 2020, 10,617,954 ordinary shares at \$0.08 were issued for the acquisition of 85% of Sunshine Minerals Limited, and is subject to 12 months escrow till 4 November 2021.

On 17 December 2020, the Company advised a placement to raise \$3.2 million via the issue of 64 million shares at \$0.05 per share in two tranches. The first tranche of 11.2 million shares were allotted on 21 December 2020. The second tranche of 52.8 million shares was subject to shareholder approval at a General Meeting of shareholders of the Company to be held on 10 February 2021. As stated in After Balance Date Events on page 7, this General Meeting has been postponed.

Change of Company Name to Pacific Nickel Mines Limited

At the Annual General Meeting of the Company held on 30 November 2020, shareholders approved by special resolution the change in company name from Malachite Resources Limited to Pacific Nickel Mines Limited.

FINANCIAL PERFORMANCE

During the Period the consolidated net loss of the Group was \$2.110 million (2019: loss of \$0.707 million) which reflected:

- Expenses of \$0.259 million for corporate administration;
- Expenses of \$0.025 million for financing; and
- Loss of \$1.753 million for disposal of non-current assets.

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

DIRECTORS' REPORT (CONTINUED)

REVIEW OF RESULTS AND OPERATIONS (CONTINUED)

CASH FLOWS

During the Period, the Group had negative cash flow from operations of \$0.762 million (2019: negative cash flow of \$0.406 million).

During the Period the Group:

- received net proceeds from share issues of \$1.769 million;
- received a payment in advance for tranche 2 of a capital raising of \$0.241 million;
- repaid unsecured loans of \$0.050 million;
- received proceeds from disposal of investment of \$0.158 million; and
- made investments in nickel projects of \$0.619 million.

Cash at 31 December 2020 was \$0.657 million (2019: \$0.142 million).

FINANCIAL POSITION

Total equity increased from \$0.689 million as at 30 June 2020 to \$2.443 million as at 31 December 2020 as a result of a net loss of \$2.110 million, and shares issued of \$3.864 million from share placements and the conversion of Series E converting notes.

At 31 December 2020, the Group had liabilities in respect of unsecured loans held by Key Management Personnel (KMP) of \$0.095 million and payment in advance of \$0.241 million for the second tranche placement as a part of a capital raising announced on 17 December 2020.

GOING CONCERN

The Group experienced operating losses of \$2.110 million and negative cash flows from operations of \$0.762 million during the half year ended 31 December 2020.

At 31 December 2020, the Group has current liabilities amounting to \$1.032 million (30 June 2020: \$2.636 million), which includes a payment in advance of \$0.241 million for the second tranche shares placement and an unsecured loan of \$0.095 million from Key Management Personnel.

The Group's cash position at balance date was \$0.657 million, which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 31 March 2022.

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:

- continuing to develop the Jejevo nickel project;
- completing tranche 2 of the \$3.2 million share placement announced in December 2020;
- finalising the acquisition of 80% of KNL and continuing to develop the Kolosori project held by KNL;
- resolving the high court case regarding PL 01/18 (Jejevo tenement);
- raising further equity or debt through the capital markets; 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.

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

DIRECTORS' REPORT (CONTINUED)

GOING CONCERN (CONTINUED)

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 2020. 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.

AFTER BALANCE DATE EVENTS

Subsequent to the balance date, the Company received notification from KNL that prospecting licence PL 05/19 had been cancelled by the Solomon Islands' Minister of Mines. As a result, on 3 February 2021, the Company went into voluntary suspension on the ASX 2021 whilst it obtained an understanding of the matter.

On 9 March 2021, the Company was advised by KNL that PL 05/19 had been reinstated.

As a result of the above, the proposed General Meeting of the Company, which was amongst other matters, to approve the 80% acquisition of KNL and to issue tranche 2 placement shares, has been postponed and is now likely to occur in April 2021.

Also subsequent to the Period, the Company commenced drilling at Jejevo with approximately 10 of the initial 25 hole program completed for confirmatory (twin) purposes.

There are no other matters or circumstances that have arisen since 31 December 2020 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.

A handwritten signature in purple ink, appearing to read 'Terry Cuthbertson', with a stylized flourish at the end.

On behalf of the Directors
Terry Cuthbertson
Non-Executive Chairman
Sydney, 15 March 2021



**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 2020 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 15th day of March 2021

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 2020

	Note	31 December 2020 \$	31 December 2019 \$
Revenue from continuing operations	2	2,470	5,101
Accounting and audit expense		(33,575)	(19,942)
Corporate expenses		(259,492)	(121,687)
Depreciation and amortisation expense		(4,320)	(5,151)
Employee benefits expense		(35,354)	(60,349)
Evaluation and Exploration expenditure expensed	3	(1,399)	(13,631)
Finance costs		(25,329)	(491,188)
Loss on disposal of non-current assets		(1,753,116)	-
Loss before income tax		(2,110,115)	(706,847)
Income tax expense		-	-
Net loss for the period		(2,110,115)	(706,847)
Other comprehensive income			
Other comprehensive income/(loss)		-	-
Total comprehensive loss for the period		(2,110,115)	(706,847)
Total comprehensive loss attributable to members of the Company		(2,110,115)	(706,847)
		per share	per share
Basic and diluted (loss) per share		(0.014)	(0.05)*

* Basic and diluted loss per share has been restated to reflect the 100:1 consolidation which occurred in April 2020.

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 2020

	Note	31 December 2020 \$	30 June 2020 \$
CURRENT ASSETS			
Cash and cash equivalents		657,455	27,998
Trade and other receivables		4,555	8,920
TOTAL CURRENT ASSETS		662,010	36,918
NON-CURRENT ASSETS			
Receivables	7	2,500	387,759
Property, plant and equipment		4,722	41,794
Exploration and evaluation expenditure	3	1,079,644	2,548,023
Investments	4	1,726,734	310,062
TOTAL NON-CURRENT ASSETS		2,813,600	3,287,638
TOTAL ASSETS		3,475,610	3,324,556
CURRENT LIABILITIES			
Trade and other payables	5	696,094	627,229
Payment in advance		241,321	-
Borrowings	6	95,000	2,008,418
TOTAL CURRENT LIABILITIES		1,032,415	2,635,647
TOTAL LIABILITIES		1,032,415	2,635,647
NET ASSETS		2,443,195	688,909
EQUITY			
Contributed equity	9	66,560,977	62,696,576
Reserves		2,207,581	2,207,581
Accumulated losses		(66,325,363)	(64,215,248)
TOTAL EQUITY		2,443,195	688,909

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
and Controlled Entities

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR 31 DECEMBER 2020

	Contributed Equity \$	Reserves \$	Accumulated Losses \$	Total Equity \$
Balance at 1 July 2019	57,306,800	2,207,581	(58,911,801)	602,580
Loss for the period	-	-	(706,847)	(706,847)
Other comprehensive income/(loss)	-	-	-	-
Shares issued during the period	762,659	-	-	762,659
Shares issue cost	-	-	-	-
Balance at 31 December 2019	58,069,459	2,207,581	(59,618,648)	658,392
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 2019	66,560,977	2,207,581	(66,325,363)	2,443,195

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
and Controlled Entities

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR 31 DECEMBER 2020

	31 December 2020 \$	31 December 2019 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from joint venture	-	131
Payments to suppliers and employees	(380,499)	(211,300)
Exploration and evaluation expenditure	(349,160)	(7,494)
Interest received	2,470	4,970
Interest paid	(34,876)	(192,001)
Net cash (used in) operating activities	<u>(762,065)</u>	<u>(405,694)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of investment	158,935	-
Payment of Investments	(618,592)	(112,220)
Payment for property, plant and equipment	(108,899)	-
Net cash (used in) investing activities	<u>(568,556)</u>	<u>(112,220)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issues of shares	1,896,001	-
Deposit for unissued shares	241,321	-
Repayment of unsecured loan	(50,000)	(36,000)
Transaction costs paid for shares issue	(127,244)	-
Net cash provided by/ (used in) financing activities	<u>1,960,078</u>	<u>(36,000)</u>
NET INCREASE/(DECREASE) IN CASH HELD	629,457	(553,914)
CASH AT THE BEGINNING OF THE FINANCIAL PERIOD	<u>27,998</u>	<u>695,947</u>
CASH AT THE END OF THE FINANCIAL PERIOD	<u>657,455</u>	<u>142,033</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 2020

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 2020 and has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

In the half-year ended 31 December 2020, the Company adopted new accounting standards and interpretations, including AASB 16 (Leases) effective from 1 July 2019. It has been determined that there is no material impact to the Group as a result of adopting AASB 16 Leases on the financial statements. Otherwise, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

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 2020 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*.

Significant matters relating to the ongoing viability of operations

GOING CONCERN

The Group experienced operating losses of \$2.110 million and negative cash flows from operations of \$0.762 million during the half year ended 31 December 2020.

At 31 December 2020, the Group has current liabilities amounting to \$1.032 million (30 June 2020: \$2.636 million), which includes a payment in advance of \$0.241 million for the second tranche shares placement and an unsecured loan of \$0.095 million from Key Management Personnel.

The Group's cash position at balance date was \$0.657 million, which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 31 March 2022.

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:

- continuing to develop the Jejevo nickel project;
- completing tranche 2 of the \$3.2 million share placement announced in December 2020;
- finalising the acquisition of 80% of KNL and continuing to develop the Kolosori project held by KNL;
- resolving the high court case regarding PL 01/18 (Jejevo tenement);
- raising further equity or debt through the capital markets; 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2020

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2020. 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.

	31 December 2020	31 December 2019
	\$	\$

2 REVENUE

From continuing operations and other income

Interest	2,470	5,101
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	31 December 2020	30 June 2020
	\$	\$

3 EXPLORATION AND EVALUATION EXPENDITURE

Costs carried forward in respect of areas of interest in exploration and evaluation phases	1,079,644	2,548,023
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Movement for period		
Balance at beginning of period	2,548,023	6,805,104
Current period expenditure	681,043	-
Lorena - Impairment	-	(4,250,000)
Reversal of security deposit		(7,081)
Expenditure expensed in current period	(1,399)	-
Disposal of investment	(2,148,023)	-
Balance at end of period	1,079,644	2,548,023

4 INVESTMENTS

Investments in Sunshine Nickel	1,522,421	310,062
Investments in Kolosori	190,813	-
Investments in Other Tenements	13,500	-
	1,726,734	310,062

5 CURRENT LIABILITIES

Trade and other payables

Trade creditors	128,215	114,329
Other creditors	567,879	512,900
	696,094	627,229

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	31 December 2020 \$	30 June 2020 \$
6 BORROWINGS		
Current		
Unsecured converting note (a)	-	1,227,925
Unsecured loan (b)	95,000	780,493
	<u>95,000</u>	<u>2,008,418</u>

a) The Series "E" Converting Notes have a face value of \$1,215,800 and capitalised interest of \$16,256 had converted to shares in August 2020 at \$0.08 per share.

b) The Group had a balance of \$95,000 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 \$65,000 have an interest rate of 12% per annum with interest paid at maturity and unsecured loans totalling \$30,000 have an interest rate of 10% per annum with interest paid quarterly in arrears.

The Group has an unsecured loan from OPS of \$500,000 with accrued interest of \$135,493 on 30 June 2020, which had a maturity date of 31 January 2019. In July 2020, the Company has also entered into a Deed of Debt Forgiveness with Ore Processing Services Pty Ltd pursuant to which outstanding loan liabilities to OPS have been forgiven. The loan amount that was forgiven by OPS is \$637,342.47 at the time the Deed of Debt Forgiveness was entered.

	31 December 2020 \$	30 June 2020 \$
7 RECEIVABLES		
Tenement Security Deposits	<u>2,500</u>	<u>387,259</u>

8 CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2020 (June 2020: nil).

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9 CONTRIBUTED EQUITY

	31 December 2020 \$	30 June 2020 \$
149,774,588 fully paid ordinary shares (30 June 2020: 68,022,604)	66,560,977	62,696,576

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

a) Movement in ordinary share capital

		Number of shares	Issue price \$	Share capital \$
1 July 2019	Opening balance	1,387,823,262		57,306,800
30 April 2020	Shares issued for Directors fees	716,590,296	\$0.001	716,590
30 April 2020	Shares issued for consultant fees	192,094,520	\$0.001	192,094
30 April 2020	Conversion of convertible note	4,450,000,000	\$0.001	4,450,000
30 April 2020	Convertible note rollover fees	55,725,470	\$0.001	55,725
30 April 2020	Shares consolidation on a 100:1 basis	(6,734,210,944)		
	Transaction costs relating to share issues			(24,634)
30 June 2020	Balance at end of year	68,022,604		62,696,576
1 July 2020 to 31 December 2020				
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
22 December 2020	Placement – Tranche 1	11,200,000	\$0.05	560,000
	Transaction costs relating to share issues			(113,091)
31 December 2020	Balance at end of period	149,774,588		66,560,977

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 two segments within mineral exploration and development in Australia and Solomon Islands. The Group has two reportable segments, as described below, for which the Board of Directors (the chief operating decision maker) reviews internal management reports on a monthly basis.

Lorena

The Group's interest in the Lorena Gold Project ("Lorena") near Cloncurry in northwest Queensland.

Solomon Islands

The Group's interest in the Jejevo Nickel Project ("Jejevo") near the south coast of Santa Isabel Island.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2020

10 SEGMENT INFORMATION (CONTINUED)

Segment assets

Information about reportable segments

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

	31 December 2020	30 June 2020
Exploration	\$	\$
Lorena	400,000	2,548,023
Solomon Islands	679,644	-
	<u>1,079,644</u>	<u>2,548,023</u>

	Lorena	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>

	Lorena	Solomon Islands	Corporate	Total
	\$	\$	\$	\$
31 December 2019				
Revenue from continuing operations	4,067	-	1,034	5,101
Accounting and audit expense	-	-	(19,942)	(19,942)
Corporate expenses	(19,028)	-	(102,659)	(121,687)
Depreciation and amortisation expense	(3,791)	-	(1,360)	(5,151)
Employee benefits expense	-	-	(60,349)	(60,349)
Evaluation and Exploration expenditure expensed	(13,631)	-	-	(13,631)
Finance costs	-	-	(491,188)	(491,188)
Loss before income tax	<u>(32,383)</u>	<u>-</u>	<u>(674,464)</u>	<u>(706,847)</u>
Income tax expense	-	-	-	-
Net loss for the period	<u>(32,383)</u>	<u>-</u>	<u>(674,464)</u>	<u>(706,847)</u>

**Pacific Nickel Mines Limited
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR 31 DECEMBER 2020

11 EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to the balance date, the Company received notification from KNL that prospecting licence PL 05/19 had been cancelled by the Solomon Islands' Minister of Mines. As a result, on 3 February 2021, the Company went into voluntary suspension on the ASX 2021 whilst it obtained an understanding of the matter.

On 9 March 2021, the Company was advised by KNL that PL 05/19 had been reinstated.

As a result of the above, the proposed General Meeting of the Company, which was amongst other matters, to approve the 80% acquisition of KNL and to issue tranche 2 placement shares, has been postponed and is now likely to occur in April 2021.

Also subsequent to the Period, the Company commenced drilling at Jejevo with approximately 10 of the initial 25 hole program completed for confirmatory (twin) purposes.

There are no other matters or circumstances that have arisen since 31 December 2020 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.

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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 2020 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, 15 March 2021



**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 2020, 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 2020 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.

Matters Relating to Electronic Publication of the Audited Financial Report

This review report relates to the financial report of Pacific Nickel Mines Limited for the half-year ended 31 December 2020 included on the website of Pacific Nickel Mines Limited. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on its integrity. This review report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of the financial report are concerned with the inherent risk arising from publication on a website, they are advised to refer to the

hard copy of the reviewed financial report to confirm the information contained in this website version of the financial report.

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 2020 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 \$2.110 million and negative cash flows from operations of \$0.762 million during the period. In addition, the consolidated entity has current liabilities amounting to \$1.032 million, as at 31 December 2020.

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 complete tranche 2 of the \$3.2 million share placement as well as other items listed in Note 1.

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 15th day of March 2021