

2022 Annual Report

Pacific Nickel Mines Limited (ASX Code: PNM) (**Pacific Nickel** or **Company**) provides its 2022 Annual Report to Shareholders.

Authorised by the Board.

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

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ANNUAL REPORT 2022

ABN 86 075 613 268 ASX: PNM

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Terry Cuthbertson
James A. Dean
Geoffrey R. Hiller
Robert Thomson

CHIEF EXECUTIVE OFFICER

Geoffrey R. Hiller

SECRETARY

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STOCK EXCHANGE LISTING

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CHAIRMAN'S LETTER

It is with great pleasure that I present to you the 2022 Annual Report for Pacific Nickel Mines Limited (ASX:PNM) (Pacific Nickel or the Company).

The past year has again marked a period of significant growth for the Company particularly in respect of its 80% interest in the Kolosori Nickel Project in the Solomon Islands. The Kolsori Project is an advanced nickel exploration opportunity having potential for direct shipping of ore (DSO) providing a fast track pathway to production and cashflow for the Company.

At Kolosori the Company recently announced an updated Mineral Resource estimate of 7.96 million tonnes at 1.44 % Ni at a 1.0% Ni cut off (ca. 113,000 tonnes of contained nickel).

During the year the Company completed significant early works at Kolosori to advance the development of the project. In addition, the Company entered into to a non-binding indicative term sheet with Glencore plc for a 3-year, US\$22 million Pre-Export Finance Facility plus a 4-year offtake arrangement for all of Kolosori's production. Glencore is continuing to work with the Company to finalise the implementation of these financing facilities.

Most importantly, after the year-end the Company was awarded a Mining Lease for the Kolosori Nickel Project by the Minister of the Ministry of Mines, Energy and Rural Electrification. This is a significant milestone achievement for the Company and has enabled us to move ahead with finalisation of the Definitive Feasibility Study.

Subject to completion of financing arrangements, the Company aims to ramp up to full production at Kolosori (around 1.3 million wet metric tonnes per annum of direct shipping nickel ore) during 2023.

On behalf of the Board and Management I would like to emphasise the importance that the Company places on working collaboratively and constructively with the local communities, and provincial and national governments of the Solomon Islands. We are extremely grateful to the traditional landowners for their continued support as 20% holders of the Kolosori project and we look forward to continuing our work together to progress the Kolosori project towards production.

The Company also holds an 80% interest in the Jejevo Nickel Project which is also located on Isabel Island in the Solomon Islands. In the early part of the year the Company completed an initial Mineral Resource estimate for the Jejevo Project confirming a total Mineral Resource estimate of 7.82 million tonnes at 1.46 % Ni at a 1.2% Ni cut off. The Jejevo Nickel Project presents as a nearly identical development opportunity to that which the Company has successfully advanced at Kolosori to date.

As Chairman, I thank you for your continued support throughout the year. I expect that Pacific Nickel will continue to advance both our nickel projects during the upcoming year which has the potential to add material value to your investment in the Company. To my fellow board members and management, in-country staff and other key stakeholders, I thank you for all of your continued efforts and your contribution to the progress achieved over the past 12 months.

TERRY CUTHBERTSON

Non-Executive Chairman

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“The past year has again marked a period of significant growth for the Company particularly in respect of its 80% interest in the Kolosori Nickel Project in the Solomon Islands.”

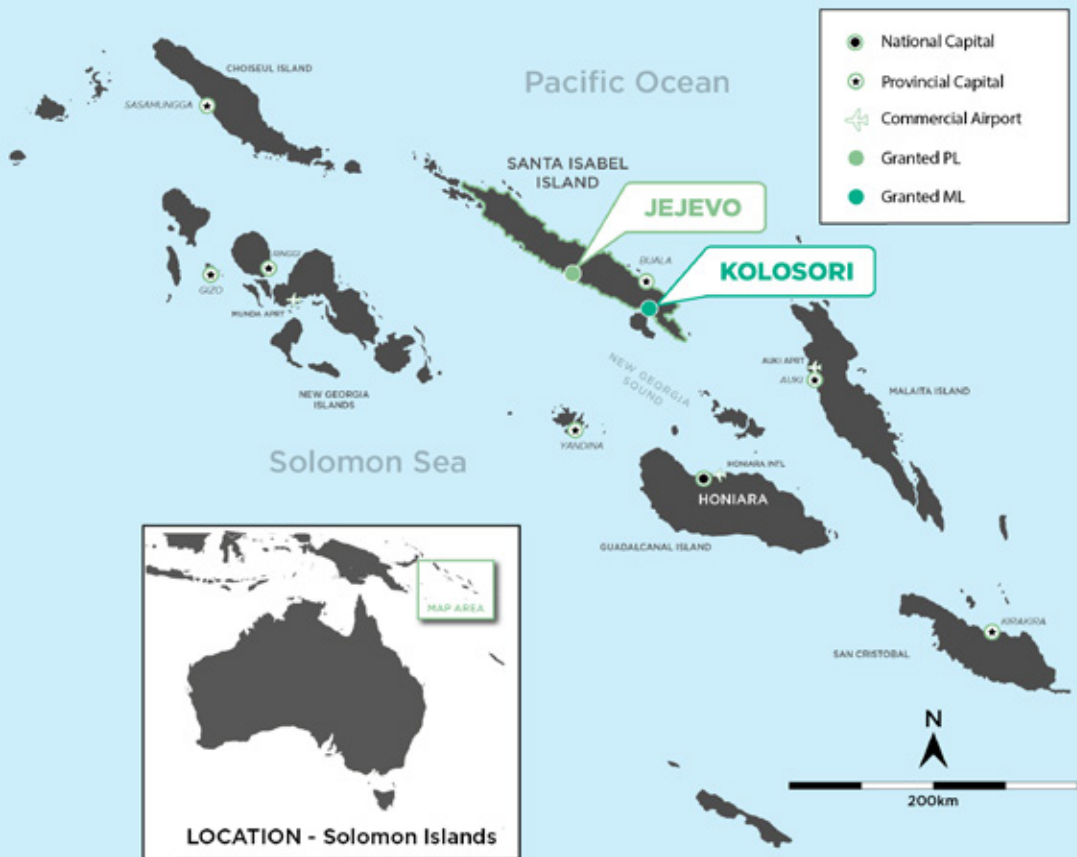
TERRY CUTHBERTSON

REPORT OVERVIEW

The Kolosori and Jejevo Nickel Projects are two advanced stage direct shipping ore nickel laterite projects progressing to development located on Isabel Island in the Solomon Islands. The projects have several positive aspects including their close proximity to the coast, no processing requirements, low capital route to direct shipping ore production and local landowner support.

The Company's immediate focus is on the development of the Kolosori Project following the recent granting of a Mining Lease in September 2022 and a Definitive Feasibility Study currently being finalised.

Figure 1 - Pacific Nickel Mines project locations



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REVIEW OF OPERATIONS

Kolosori Nickel Project

On 26 October 2020, the Company executed a Share Purchase Agreement (Agreement) to formalise the acquisition of an 80% interest in the Kolosori Nickel Project (“Kolosori Project”) located on Santa Isabel Island in the Solomon Islands. The remaining 20% of KNL is held by traditional landowners. The Kolosori Project is within Prospecting Licence PL 02/22 which is held by Pacific Nickel Kolosori Ltd (PNKL) .. PNKL applied for a mining lease (“ML”) for the Kolosori Project in September 2021. Subsequent to the Period, PNMKL was granted a Mining Lease (ML02/22) on 14 September 2022.

On 19 November 2020, the Company announced the results of an initial JORC¹ Mineral Resource Estimate for the Kolosori Project as estimated by its external geological consultant Mining One. The Mineral Resource Estimate is 5.89 million tonnes at 1.55% Ni (at a 1.2% Ni cut-off).

Subsequent to the period, on the 29 September 2022, the Company announced an updated JORC¹ Mineral Resource Estimate for the Kolosori Project for 6.02 million tonnes at 1.52 % Ni (at a 1.2% Ni cut off) for 93,000 tones of contained nickel.²

Table 1 - Updated Kolosori Mineral Resource Estimate

Kolosori Jorc Mineral Resource > 1.0 Ni				
Lithology	Resource Category	Kt ('000)	Ni%	Co%
Transitional	Measured	132	1.78	0.08
	Indicated	884	1.47	0.06
	Inferred	1,575	1.29	0.06
	Sub Total	2,591	1.38	0.06
Saprolite	Measured	711	1.71	0.02
	Indicated	1,801	1.43	0.02
	Inferred	2,856	1.38	0.02
	Sub Total	5,368	1.44	0.02
Total (M+I+I)		7,959	1.42	0.03

Kolosori Jorc Mineral Resource > 1.2 Ni				
Lithology	Resource Category	Kt ('000)	Ni%	Co%
Transitional	Measured	130	1.78	0.08
	Indicated	743	1.54	0.06
	Inferred	855	1.45	0.06
	Sub Total	1,728	1.51	0.06
Saprolite	Measured	667	1.75	0.02
	Indicated	1,439	1.51	0.02
	Inferred	2,192	1.46	0.02
	Sub Total	4,298	1.52	0.02
Total (M+I+I)		6,026	1.52	0.03

Development Drilling

1. Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves, prepared by the Joint Ore Reserves Committee of The Australasian Institute of Mining and Metallurgy, Australian Institute of Geoscientists and Minerals Council of Australia (JORC)

2. ASX Announcement 29 September 2022 - Updated Kolosori JORC Resource Estimate

Development Drilling

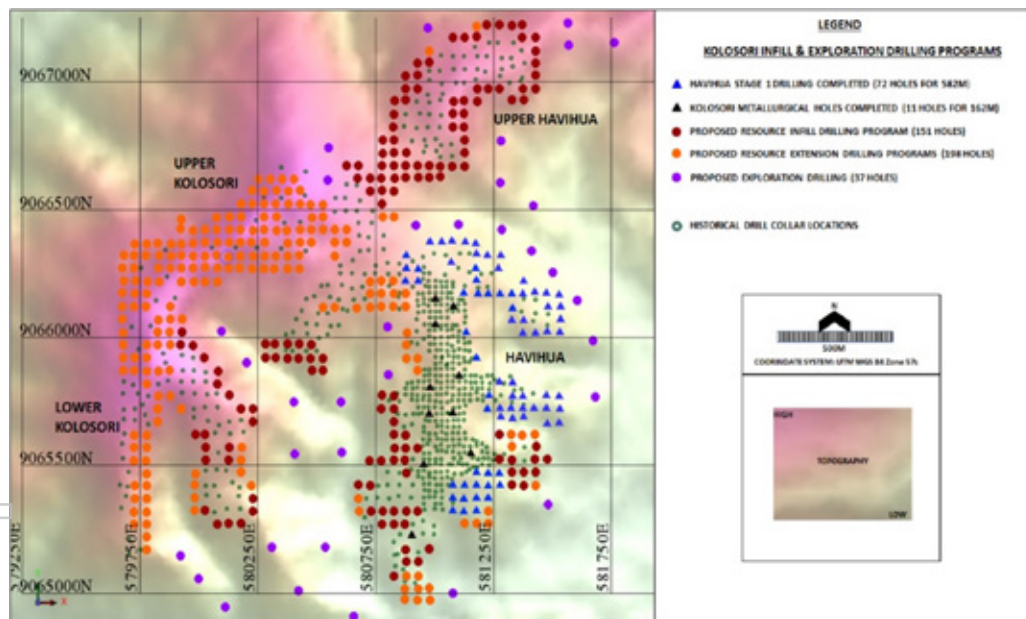
During the Period, the Company completed two phases of drilling an initial 83 hole development drilling program of which 11 were drilled for metallurgical test work and second phase of approximately 150 holes. The holes drilled formed the first stage of infill holes designed to increase the confidence level of the current Mineral Resource in preparation for the development of the Kolosori Project.³

Significant intercepts from drilling carried out by the Company included:⁴

- HAK-S3132: 7m @ 1.82% Ni from 0m
- HAK-M01: 12.5m @ 2.05% Ni from 2.5m (Metallurgical Hole)

- HAK-M03: 11.5m @ 1.99% Ni from 4m (Metallurgical Hole)
- HAK-M04: 12m @ 1.89% Ni from 3.5m (Metallurgical Hole)
- HAK-S3134: 6m @ 1.92% Ni from 1m
- HAK-M05: 7.5m @ 1.89% Ni from 3m (Metallurgical Hole)
- HAK-S3142: 6m @ 1.87% Ni from 2m
- HAK-S348: 5m @ 1.87% Ni from 3m
- HAK-S3107: 5m @ 2.16% Ni from 2m

Figure 2 - Kolosori Drill Program



Importantly, the results from the metallurgical drill holes provide confidence to the thickness and nickel grades encountered from the historical drilling within the Kolosori deposit area.

The second stage drill program was designed to increase the confidence in the resource to levels

sufficient to allow detailed mine planning and reserve assessments to be finalised in support of the proposed project financing. Results from this drilling will be incorporated into the Definitive Feasibility Study (DFS), which is currently being finalised.

3. ASX Announcement 26 July 2021 - Kolosori Nickel Project - Drilling Update

4. ASX Announcement 29 September 2022 - Updated Kolosori JORC Resource Estimat



Scoping Study

A Scoping Study for the Kolosori Project was announced on 18 November 2021 and was conducted by a group of leading independent consultants from Australia and Indonesia including Resindo Resource & Energy Group (Resindo) and Mining One, overseen by in-house Pacific Nickel personnel who are experienced in mining projects in the region.

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 is the 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
- 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

Following a successful drilling program at the Kolosori Project by the end of 2021 and completion of a positive Scoping Study, the Company decided to fast-track the project development timeline by initiating an Early Works program. The program commenced in December 2021 and was completed in early March 2022.

The work was successfully completed using Solomon Island consultants and contractors who are also likely to be involved in the construction and operation of the Kolosori Project. The Company is pleased that the Early Works were able to be completed on time in the Wet Season under trying conditions whereas the Project will normally operate during the course of the Dry Season, which is typically from April to December.

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; and
- An assessment of the quarry sites to provide construction materials for wharf and road construction



Test Pit

One of the key components of the Early Works program was the excavation of a test pit to assess mining and stockpile designs to calibrate grade control methods.

The exploration team completed a series of grade control holes in the test pit area where mining operations are likely to be conducted over the first 2 years of operations. The grade control holes were closely spaced (approximately 10m apart) and enabled a reconciliation of the block model grades and grade control drilling with grades from the mined material.

This test pit has also provided the Company with additional valuable information which will be used in the DFS, including:⁵

- General suitability of the proposed mining equipment (including in wet conditions which may be encountered in the worst-case).
- Confirmation that the ore and overburden are free-dig and will not require blasting, which matches with initial conclusions from the exploration drill holes.
- Confirmation of preferred excavator and truck fleet requirements and associated data for the purpose of finalising aspects of the DFS and for ongoing discussions with potential mining contractors.

Approximately 6,000 tonnes of saprolite ore and 1,500 tonnes of transition saprolite were mined and stockpiled from the test pit.

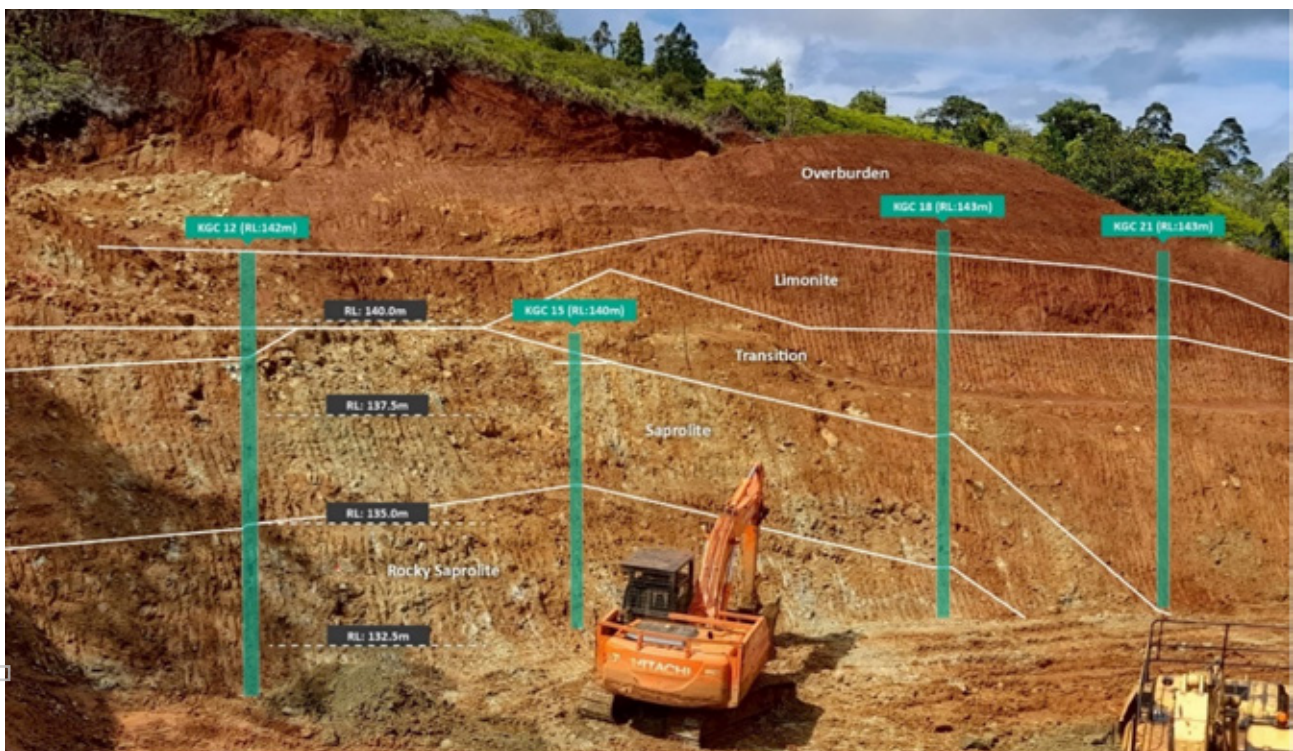


Figure 3 - Test pit with Lithology and Drill Hole Locations Marked

Geotechnical Work

The primary geotechnical focus of the Early Works program was to carry out an assessment of the ground conditions at the wharf site to enable early construction of the wharf and associated facilities. Three geotechnical holes were drilled in the wharf area and the geotechnical team demobilised from site. The visual results from the drilling were

consistent with expectations for the initial port design.⁶

Results from this program have been fed into the DFS, which is currently being undertaken by the Company and design consultants Resindo Engineers.

5. ASX Announcement 3 March 2022 - Kolosori Nickel Project - Early Works Completed Successfully

6. ASX Announcement 9 February 2022 - Early Works Update - Kolosori Nickel Project

Project Approvals

During the Period, Pacific Nickel submitted a Mining Lease Application for the Kolosori Project to the Solomon Islands Ministry of Mines, Energy and Rural Electrification. Two of the key documents attached to the application were prepared for the Company by independent technical consultants:

- the Commercial Discovery report by Mining One; and
- the Engineering Study by Resindo Engineers.

The Environmental and Social Impact Assessment (“ESIA”) for the Kolosori Project was submitted to the Solomon Islands Ministry of Environment in late 2021. The Company engaged local environmental consultants to carry out the main part of the ESIA, which included water sampling, ecology and cultural heritage reviews. The Company advertised the ESIA through a public notice and initiated further awareness meetings as part of the development consent process required by the Ministry of Environment. In December 2021 the Company received development consent for the Kolosori Project from the Environment and Conservation Division of the Solomon Islands Ministry of Environment. The development consent was approved after a workshop and consultation with the various Government departments, stakeholders and landowners to review the Environmental and Social Impact Assessment prepared by the Company.

After the reporting period, the Company was awarded a Mining Lease for the Kolosori Project from the Minister of the Ministry of Mines, Energy and Rural Electrification. On 14 September 2022, the Company received a Mining Lease for the Kolosori Project.⁷

The Mining Lease was awarded after Pacific Nickel successfully entered into a Surface Access Rights Agreement with the landowners and completed remaining regulatory approvals.

Additionally, Pacific Nickel also entered into a Mining Agreement with the Government of the Solomon Islands which sets out the mining, environmental and fiscal terms for the Kolosori Project.

Offtake and Project Finance

During the Period, the Company held discussions with a number of potential financiers and potential offtake agreements for the Kolosori Project. The Company received a number of proposals and after a thorough review entered into a non-binding indicative term sheet with Glencore for a 3-year, US\$22 million Pre-Export Finance Facility plus a 4-year offtake arrangement for all of Kolosori’s production which can be extended by a further 2 years by mutual agreement. The Kolosori nickel laterite DSO offtake pricing will be linked to market prices and subject to standard commercial adjustments for product quality.⁸



Figure 4 – Geotechnical Drilling for Wharf Construction

7. ASX Announcement 15 September 2022 – Mining Lease Awarded for the Kolosori Nickel Project

8. ASX Announcement 15 June 2022 – Kolosori Offtake & Project Debt Mandate Awarded to Glencore

DSO Marketing Study

The Company commissioned a DSO market study from specialist commodity research consultants CM Group to assist the Company in understanding the sea borne DSO nickel market, to identify potential customers, and to evaluate how the Kolosori Project would compete in the global market.⁹

Key results from this study include:

- Nickel laterite (DSO) import volumes into China totalled 43.7 million tonnes in 2021, approximately 90% of which was sourced from mines in the Philippines. Around 60-70% of this demand originates from the Rotary Kiln Electric Furnace (RKEF) industry for the production of nickel pig iron (NPI), a key source of nickel units for stainless steel production.
- At the proposed production rate of ca. 1.3Mtpa, Kolosori will have a negligible impact on supply volumes.
- Typical grades of Philippines saprolite ore is in sharp decline, with average grades of 1.68% in 2018 reducing to 1.44% Ni in 2020 and 1.35% in 2021.
- Kolosori DSO compares very favourably against the Philippines “standard” DSO; and
- On a value-in-use (VIU) adjusted basis, cost and freight (CFR) cost basis, the Kolosori DSO product is forecast to be in the middle of the second cost quartile of global DSO suppliers.

Definitive Feasibility Study

The Company appointed Australian Mine Design and Development (AMDAD) to review the DFS and to prepare a reserve estimate for the purposes of the DFS. AMDAD have focussed on a number of key issues including the water moisture content of the DSO and haul road location and design.¹⁰

Subsequent to the reporting the Company announce that with the re-opening of the Solomon Islands and with no COVID related restrictions from early July 2022, the Company and its consultants are focused on the completion of the Kolosori DFS and the development of the Kolosori Project. In summary:¹¹

- the Company has been concentrating on the design of the haul road and the initial mining area. This mine design work has led to

discussions with established mining contractors predominantly in PNG.

- The Company has engaged with HBS PNG Pty Ltd, a well-established PNG mining contractor, in an early contractor involvement arrangement which will provide actual mining contractor rates to be incorporated into the DFS. The Company believes that PNG mining contractors have the most relevant mine pioneering and operating experience in similar geographical and tropical mining conditions. They also have the ability to work in the Solomon Islands, including also being able to work with our existing local contractors.
- A detailed timber wharf design has recently been completed. This has been undertaken with our design consultants, Resindo Engineers, based in Indonesia, and experienced in the design and construction of SE Asian nickel laterite operations. A timber wharf, normal for these types of operations, will use locally available timbers to minimise cost and construction time.
- When the DSO loadout wharf and haul road to the mining area are in place, and the mining contractor mobilised, the Kolosori Project is expected to ramp up to full production (around 1.3 million wet metric tonnes per annum of direct shipping nickel ore) during 2023. Mining DSO operations are expected to commence in the second quarter of 2023 after the wet season.
- One of the key components of the DFS is confirmation of the water content of the DSO ore, which is stockpiled prior to shipping. Laboratory testing by consultants ATC Williams has demonstrated that moisture content of Kolosori ore appears to be consistent with other laterite/saprolite ores mined elsewhere in tropical environments.
- The Company has recently constructed a trial ore stockpile which has been designed to blend ore types and approximate the characteristics of stockpiles expected during DSO production and shipping. This follows previous test pitting and test stockpiles constructed in the Early Works Program which established that the ore was suitable for commercial DSO shipping. The results from this trial will be incorporated into the DFS.

9. ASX Announcement 10 March 2022 - Kolosori Nickel - Debt Financing & Nickel Marketing Study

10. ASX Announcement 29 July 2022 - Quarterly Activities and Cashflow Reports - June 2022 Qtr

11. ASX Announcement 27 September 2022 - Kolosori Nickel Project Update

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JEJEVO NICKEL PROJECT (80%)

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

The Company holds an 80% equity interest in Pacific Nickel Vareli Limited, which holds PL 01/18 located on the south coast of Santa Isabel Island in the Solomon Islands. The remaining 20% of SNL is owned by traditional land owners. The Jejevo Project is located within the PL 01/18 project area. On 4 October 2021 Prospecting License 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.

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

On 7 October 2021 the Company announced an initial JORC (2012) Mineral Resource estimate for the Jejevo Nickel Project. The total JORC mineral resource estimate at the Jejevo Project is 7.82 million tonnes at 1.46 % Ni at a 1.2% Ni cut off.¹²

Table 3 - JEJEVO JORC (2012) RESOURCE ESTIMATE (0.5% Ni Cut-Off)

JEJEVO JORC MINERAL RESOURCES > 0.5 % Ni				
Lithology	Resource Category	Kt ('000)	Ni%	Co%
Limonite	Measured	-	-	-
	Indicated	2,079	1.06	0.14
	Inferred	3,421	1.00	0.15
	Sub Total	5,500	1.02	0.15
Transitional	Measured	-	-	-
	Indicated	1,063	1.50	0.07
	Inferred	1,320	1.33	0.08
	Sub Total	2,383	1.41	0.08
Saprolite	Measured	-	-	-
	Indicated	5,085	1.34	0.02
	Inferred	5,093	1.19	0.02
	Sub Total	10,178	1.26	0.02
Total (M+I+I)		18,060	1.21	0.07

12. ASX Announcement 7 October 2021 - Initial JORC (2012) Resource Estimate at Jejevo

Table 4 - JEJEVO JORC (2012) RESOURCE ESTIMATE (1.0% Ni Cut-Off)

Jejevo JORC Mineral Resource > 1.0 % Ni				
Lithology	Resource Category	Kt ('000)	Ni%	Co%
Limonite	Measured	-	-	-
	Indicated	1,410	1.12	0.15
	Inferred	2,070	1.07	0.15
	Sub Total	3,480	1.09	0.15
Transitional	Measured	-	-	-
	Indicated	1,051	1.51	0.07
	Inferred	1,263	1.35	0.08
	Sub Total	2,313	1.42	0.08
Saprolite	Measured	-	-	-
	Indicated	4,482	1.40	0.02
	Inferred	4,147	1.25	0.02
	Sub Total	8,630	1.33	0.02
Total (M+I+I)		14,424	1.29	0.06

Table 5 - JEJEVO JORC (2012) RESOURCE ESTIMATE (1.2% Ni Cut-Off)

Jejevo JORC Mineral Resource > 1.2 % Ni				
Lithology	Resource Category	Kt ('000)	Ni%	Co%
Limonite	Measured	-	-	-
	Indicated	249	1.27	0.13
	Inferred	62	1.27	0.13
	Sub Total	311	1.27	0.13
Transitional	Measured	-	-	-
	Indicated	969	1.54	0.07
	Inferred	911	1.43	0.08
	Sub Total	1,880	1.49	0.07
Saprolite	Measured	-	-	-
	Indicated	3,3430	1.49	0.02
	Inferred	2,200	1.40	0.02
	Sub Total	5,630	1.45	0.02
Total (M+I+I)		7,822	1.46	0.04

The Jejevo Project is expected to be developed once the Kolosori Project is developed. The Company intends to apply for a mining lease for the Jejevo Project in the second half of 2022.

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 (name changed to Pacific Nickel Varej 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 on PL 01/18 by the Company. At the date of this report these legal proceedings are ongoing.

QUEENSLAND PROJECTS

EPM18908

The Company holds 100% of EPM 18908, which is near the Lorena Gold Project.

The Group also holds a 2% Net Smelter Return on gold produced from future underground operations at the Lorena Gold Project, near Cloncurry.

JORC COMPETENT PERSONS STATEMENT

The information in this report that relates to Exploration Results and Mineral Resource estimates at the Kolosori Project and the Jejevo Project are based on, and fairly represents, information and supporting documentation prepared by Mr Stuart Hutchin a Member of the Australian Institute of Geoscientists. Mr Hutchin is a full-time employee of Mining One Consultants and has sufficient experience which is relevant to the style of mineralisation and type of deposit and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves".

The company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcements referred to herein and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The company confirms that the form and context in which the Competent Person's findings are presented have not been materially modified from the original market announcement.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Pacific Nickel Mines Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2022.

BOARD OF DIRECTORS

The names and positions of the directors of the consolidated entity in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated, are:

Terry Cuthbertson
Non-Executive Chairman

Mr Cuthbertson has extensive corporate finance expertise, having advised several businesses and government organisations in relation to mergers, acquisitions and financing. Formerly, a Partner of KPMG Corporate Finance and NSW Partner in Charge of Mergers and Acquisitions. He was formerly Group Finance Director of Tech Pacific Holdings Limited (one of the largest information technology distributors in Asia) and also formerly Non-Executive Chairman of Symbio Holdings Limited. He is currently Non-Executive Chairman of ASX listed Austpac Resources Limited.

James Dean ACIP
Non-Executive Director

Mr Dean is a Corporate Advisor and Professional Investor with over 30 years professional experience in the finance industry and investment in mining, construction equipment, property development, feature film and biotech. Most of his experience has been related to evaluating the operational and financial performance of numerous businesses and then aptly negotiating and matching risk profiles with investment criteria. For more than 25 years he has held fiduciary positions with regard to shareholders and beneficiaries of various investment vehicles. He is extensively travelled and possesses a worldwide network of business collaborators.

Robert Thomson
Non-Executive Director

Mr Thomson is a Mining Engineer with extensive experience (gold and base metals) in site operations, the development of exploration projects into sustainable mining operations and businesses in Asia, Africa and Australia. He also has extensive corporate and industry experience with local and international mining companies in sector executive roles and as a director of publicly listed companies on the ASX and formerly on the AIM Exchange and the TSX Venture Exchange. He is currently the Non-Executive Director of Southern Palladium Limited and Bayrock Resources Limited. Mr Thomson was a Non-Executive Director of Theta Gold Mines (Resigned 13 August 2021).

Geoff Hiller
Executive Director and CEO

Mr Hiller is mining/civil engineer with over 25 years of mining industry experience including feasibility, financing, development and construction of projects. Mr Hiller holds a Bachelor of Engineering Mining (Hons) from the University of Melbourne, a Bachelor of Civil Engineering (Hons) from the University of Sydney and MBA from the Australian Graduate School of Management (University of New South Wales). Mr Hiller is currently the Chief Executive Officer of Pacific Nickel Mines Limited and a Non-Executive Director of ASX listed companies, Southern Palladium Limited and Austpac Resources NL.

COMPANY SECRETARY

Andrew J. Cooke LLB

Mr Cooke is a lawyer with over 30 years' experience in law, corporate finance and as a Company Secretary of listed resource companies. He is responsible for corporate administration together with stock exchange and regulatory compliance.

DIRECTORS' REPORT (CONT.)

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

	Board of Directors		Audit Committee		Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr T Cuthbertson	12	12	6	6	-	-
Mr J Dean	12	12	6	6	-	-
Mr G Hiller	12	12	-	-	-	-
Mr R Thomson	12	12	-	-	-	-

DIRECTORS' INTERESTS

The following tables set out the number of securities, options and performance rights held by directors in the Company as at 30 June 2022.

	Ordinary Shares	
	Direct	Indirect
Mr T Cuthbertson	-	14,209,489
Mr J Dean	-	15,408,186
Mr G Hiller	-	8,772,313
Mr R Thomson	-	6,389,564

	Performance Rights	Options exercise price at \$0.06 expiring 30 September 2023		Options exercise price at \$0.09 expiring 17 June 2024	
		Direct	Indirect	Direct	Indirect
Mr T Cuthbertson	-	-	-	-	2,610,633
Mr J Dean	-	-	-	-	2,990,000
Mr G Hiller	2,650,000	-	2,750,000	-	2,150,000
Mr R Thomson	-	-	1,250,000	-	2,129,855

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the financial year was the exploration and development of mineral deposits in Solomon Islands.

No significant changes in the nature of the principal activities occurred during the financial year.

OPERATING RESULTS

The loss of the Group for the financial year after providing for income tax amounted to \$772,200 (2021: \$2,398,531).

DIVIDENDS

No dividends have been paid or declared since the start of the financial year. The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2022 (2021: Nil).

DIRECTORS' REPORT (CONT.)

CORPORATE

As part of an 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. PNMK was issued PL 02/22 in June 2022 upon the expiry of PL 05/19.

On 4 October 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 internal restructuring. The Company holds an 80% interest in PNMV, with the remaining 20% interest held by local landowners.

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 26 October 2021, 128,803 ordinary shares were issued on options exercised with exercise price at \$0.09 expiring 17 June 2024.

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.

In 2 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 24 March 2022, 166,667 ordinary shares were issued on options exercised with exercise price at \$0.09 expiring 17 Jun 2024.

FINANCIAL PERFORMANCE

During the 2022 financial year the consolidated net loss of the Group of \$0.772 million (2021: loss of \$2.399 million) reflected:

- Expenses of \$0.440 million for operating;
- Expenses of \$0.263 million for employment;
- Expenses of \$0.015 million for financing;
- Expenses of \$0.054 million for share-based payment.

FINANCIAL POSITION

Total equity of the Group increased from \$6.263 million as at 30 June 2021 to \$10.738 million as at 30 June 2022 as a result of a net loss of \$0.772 million, a net increase in reserves of \$0.048 million and a net increase in contributed equity of \$5.199 million.

At 30 June 2022, the Group had liabilities in respect of unsecured loans held mainly by Key Management Personnel (KMP) of \$0.065 million. (2021: \$0.195 million)

CASH FLOWS

Cash flows from operating activities for the Group was negative \$5.846 million (2021: negative \$2.331 million).

Cash flows from investing and financing activities for the Group included:

- Received net proceeds of \$5.193 million from the issue of shares and options;
- Made an investment in Jejevo and Kolosori Nickel projects of \$0.267 million;
- Others tenement investment in Solomon Islands of \$0.076 million; and
- Received net loan of \$0.130 million.

Cash as at 30 June 2022 was \$0.681 million (2021: \$1.807 million).

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 and Queensland 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.

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.

Subsequent to the Period, the Solomon Islands Government removed the restrictions on international travel in July 2022.

DIRECTORS' REPORT (CONT.)

GOING CONCERN

The Group experienced operating losses of \$0.772 million and negative cash flows from operations of \$5.846 million during the period ended 30 June 2022.

At 30 June 2022, the Group has current liabilities amounting to \$0.932 million (30 June 2021: \$0.994 million), including unsecured loans of \$0.065 million from Key Management Personnel.

The Group's cash position at balance date was \$0.681 million, which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 30 September 2023.

The Group currently relies on its nickel projects in the Solomon Islands 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 Kolosori nickel project in the Solomon Islands;
- continuing to develop 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 non-binding agreement for a US\$22 million debt facility with Glencore to develop the Kolosori Project.

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 30 June 2022. 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.

The financial report for the year ended at 30 June 2022 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year.

AFTER BALANCE DATE EVENTS

In August 2022, loans facilities in total of \$440,000 from Directors are provided to the Company to fund the working capital of the Company. The loans are unsecured with 10% interest per annum and is payable from the drawdown date or five days after the date on which the Company completes a capital raising, whichever is the shorter. On the date of this report, \$275,000 has been drawn.

On 14 September 2022, the Company received a Mining Lease for the Kolosori Project.

No other matters or circumstances have arisen since the end of the financial year 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.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Group's main focus is progressing its nickel projects in the Solomon Islands and reviewing its exploration property in Queensland.

The Company will also consider other possible opportunities in the exploration / mining sector.

ENVIRONMENTAL REGULATIONS

The Group has an environmental rehabilitation policy that is applied to each tenement upon grant. The policy has been adhered to and no breaches have occurred during the period.

SHARE OPTIONS AND PERFORMANCE RIGHTS

Share options

At the date of this report, the unissued ordinary shares of the Company under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
31 August 2020	30 September 2023	\$0.06	11,500,000
16 June 2021	17 June 2024	\$0.09	71,156,464

Shares issued on the exercise of options

The following ordinary shares of Pacific Nickel Mines Limited were issued during the year ended 30 June 2022 and up to the date of this report on the exercise of options granted:

Grant Date	Date of Expiry	Exercise Price	Number of shares issued
16 June 2021	17 June 2024	\$0.09	475,820

Performance Rights

At the date of this report, the unissued performance rights of the Company under performance right are as follows:

Grant Date	Performance Milestones	Exercise Price	Number under Option
22 December 2021	A	Nil	4,400,000
22 December 2021	B	Nil	2,000,000

INDEMNIFICATION OF OFFICERS AND AUDITORS

Indemnification

In accordance with the Constitution of Pacific Nickel Mines Limited each director and officer was indemnified on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by them as officers of Pacific Nickel Mines Limited or a related body corporate. The consolidated entity has not indemnified or agreed to indemnify the auditor of the consolidated entity against any liabilities incurred as auditor.

Insurance Policies

The consolidated entity has paid premiums in respect of directors' and executive officers' liability and legal expenses insurance contracts. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the parent entity.

Directors have not included details of the nature of the liabilities covered, or the amount of the premium paid, as such disclosure is prohibited under the terms of the insurance contract.

DIRECTORS' REPORT (CONT.)

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- a) Principles used to determine the nature and amount of remuneration
- b) Details of remuneration
- c) Share based compensation
- d) Additional information
- e) Other transactions of Key Management Personnel
- f) Equity instrument disclosures relating to Directors and Key Management Personnel

The information provided in this remuneration report has been audited in accordance with the requirements of the *Corporations Act 2001*.

a) Principles used to determine the nature and amount of remuneration

The Group's policy for determining the nature and amount of emoluments of board members and senior executives of the consolidated entity is as follows:

The objective of the entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of executive compensation
- Transparency
- Capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

Alignment to shareholders' interests:

- attracts and retains well qualified and suitably experienced applicants
- has the goal of economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of growth in share price, and, in the longer term, payment of dividends and delivering an adequate return on assets as well as focusing the executive on key non-financial drivers of value.
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short (STI) and long-term (LTI) incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

Executive remuneration includes a base salary that is set with reference to the market, a short term incentive that comprises of an at risk bonus payable to reflect performance and a long term incentive that provides scope for equity participation over the longer term.

REMUNERATION REPORT (CONTINUED)

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also drawn on external sources of information to ensure non-executive directors' fees and payments are appropriate and in line with the market.

Directors' fees

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 per annum and was approved by shareholders at the AGM on 30 November 2015.

b) Details of remuneration

Cash remuneration packages are set at levels that are intended to attract and retain executives capable of managing and enhancing the consolidated entity's operations. Remuneration of individual Non-Executive Directors is determined by the Board and may be varied from time to time but always such that the aggregate is within the maximum amount (currently \$300,000 per annum) for which prior approval of the shareholders has been received.

Details of the nature and amount of each element of the emoluments of each of the directors and the key management personnel of Pacific Nickel Mines Limited during the year ended 30 June 2022 are set out below.

2022	Salary & Fees	Accrued Salary & Fees	Super-annuation(i)	Share-based payments (ii)	Total
	\$	\$	\$	\$	\$
Non-Executive Directors:					
Mr T Cuthbertson (Chairman)	-	55,800	6,000	-	61,800
Mr J Dean	-	39,600	-	-	39,600
Mr R Thomson	100,000	66,000	3,690	-	169,690
Executive Directors:					
Mr G Hiller	246,382	90,368	6,000	21,200	363,950
Total Key Management Personnel	346,382	251,768	15,690	21,200	635,040

- i. Including superannuation expenses for prior years.
- ii. The amount disclosed in the table relates to non-cash value ascribed to share options using the Black Scholes valuation methodologies and allocated to each reporting period.

2021	Salary & Fees	Accrued Salary & Fees	Superannuation	Share-based payments (ii)	Total
	\$	\$	\$	\$	\$
Non-Executive Directors:					
Mr T Cuthbertson (Chairman)	-	55,800	5,301	-	61,101
Mr J Dean	19,710	19,710	-	-	39,420
Mr R Thomson	127,812	18,000	1,710	8,750	156,272
Executive Directors:					
Mr G Hiller	84,000	165,667	-	19,250	268,917
Total Key Management Personnel	231,522	259,177	7,011	28,000	525,710

Key management personnel are the same for the Group and the Company.

There is no link between key management personnel remuneration and the share price or dividends.

There is no relationship between the performance of the Group and remuneration over the past five years.

All of the top paid executives are shown above.

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (CONTINUED)

b) Details of remuneration (Continued)

The outstanding accrual for Directors and consultant fees is set out in the table below.

Directors and consultant fees accrual	Opening balance 01.07.2021	Accrual/(paid) current year	Converted to shares	Closing balance 30.06.2022
Directors				
Mr T Cuthbertson	91,650	61,800	-	153,450
Mr J Dean	19,710	39,690	-	59,400
Mr G Hiller	245,587	(104,989)	(50,230)	90,368
Mr R Thomson	34,710	54,690	-	89,400
	391,657	51,191	(50,230)	392,618

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
Mr T Cuthbertson	100%	100%	-	-	-	-
Mr J Dean	100%	100%	-	-	-	-
Mr G Hiller	94.18%	92.84%	5.82%	7.16%	-	-
Mr R Thomson	100%	94.4%	-	5.6%	-	-

c) Share based compensation

Equity Incentive Plan

The Company operates an Equity Incentive Plan ("EIP") and approved by shareholders at the AGM on 26 November 2021. The EIP is designed to provide long-term incentives for an employee, officer, director or consultant (Employee) of the Company and/or any of its associated bodies corporate (Group Company). The EIP provides for the ability to offer options, performance rights and acquisition loans funded shares to Employee. The EIP is administered by the Board.

Performance Rights are granted under the EIP for rights to be issued a share in the Company for nil exercise price upon the satisfaction of certain vesting conditions and which may have restrictions on their sale and disposal. Each performance rights entitles the holder to be issued one ordinary fully paid share in the capital of the Company.

On 22 December 2021, 2,650,000 performance rights granted to Mr Hiller are approved by Annual General Meeting 26 November 2021 and the vesting conditions are summarised below:

Percentage of Performance Rights to vest	Vesting Conditions - Performance Milestones A
20%	Financing secured for development capital of Kolosori Project sufficient to commence commercial operations
20%	Financing secured for development capital of Jejevo Project sufficient to commence commercial operations
30%	DSO shipments of product equal to or in excess of project specifications and not less than 400,000 tonnes within 12 months of commencement of operations
30%	Volume Weighted Average Price of the Company's share price of not less than \$0.15 over a period of 3 consecutive months

The value of the performance right is using a probability weighted valuation analysis based on a 30-day VWAP of the Company share price as at 30 June 2021.

REMUNERATION REPORT (CONTINUED)

c) Share based compensation (continued)

Employee Option Plan

The Company operates an Employees and Contractors Option Plan ("Plan"). The Plan is administered by the Board. Only eligible persons (and their associates) may be invited to participate in the Plan. Eligible persons include full time employees of the Company, permanent part-time employees, qualifying contractors and persons who may be a director, alternate director or company secretary of the Company or an entity in the Group. The Plan is designed to provide long term incentives for executives to deliver shareholder value.

Options are granted under the plan for no consideration. Options granted under the Plan carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The exercise price is determined by the Directors at the time of issuing an invitation to participate in the Plan.

During the financial year, share options granted to Directors are approved by Shareholders General Meeting 14 October 2020 are as follows:

	No. of options granted	Grant date	Fair Value per option at grant date	Exercise price per option	Expiry date	Number of options vested
Directors						
Mr G Hiller	2,750,000	15 October 2020	\$0.007	\$0.06	30 September 2023	2,750,000
Mr R Thomson	1,250,000	15 October 2020	\$0.007	\$0.06	30 September 2023	1,250,000

The value of the options is estimated at the date of grant using Black-Scholes option pricing model. Refer to Note 27 of the financial statements for model inputs for the options granted during the year.

d) Additional information

The Group's projects are at a stage of advanced exploration progressing to development and as a result, the Group does not yet have earnings from mining. In view of that, shareholder wealth is based on the market's view of the value of future production, the Group's potential for future discovery success, and the quality and experience of its people. This is reflected in market capitalisation, which is also influenced by factors outside the Group's control, such as commodity prices and general market behaviour.

Accordingly, remuneration policy for key management personnel is based primarily on the extent to which the corporate exploration and evaluation objectives are met, recognising that the timeframe for success commonly exceeds one year.

e) Other transactions of Key Management Personnel

Unsecured Loans

The Group had an opening balance of \$195,000 in unsecured loans and accrued interest of \$25,834 from Key Management Personnel. During the Period, \$220,000 of unsecured loans were repaid with \$37,510 of accrued interest being paid. During the Period \$90,000 of unsecured loans were received by the Group. As at 30 June 2022, the Group had \$65,000 in unsecured loans with accrued interest of \$2,895 from Key Management Personnel.

DIRECTORS' REPORT (CONT.)

REMUNERATION REPORT (CONTINUED)

f) Equity instrument disclosures relating to Directors and Key Management Personnel

The number of shares in the Company held during the financial year by each director of Pacific Nickel Mines Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

Shares	Number held 1 July 2021	Subscribed (i)	Purchased	Shares issued on the exercised options in lieu of fees	Shares issued in lieu of fees	Number held 30 June 2022
2022						
Mr T Cuthbertson	12,409,489	1,800,000	-	-	-	14,209,489
Mr J Dean	15,408,186	-	-	-	-	15,408,186
Mr G Hiller	8,091,984	100,000	50,000	280,329	250,000	8,772,313
Mr R Thomson	6,389,564	-	-	-	-	6,389,564
Options						
Options	Number held 1 July 2021	Subscribed	Purchased	Option issued	Option exercised (ii)	Number held 30 June 2022
2022						
Mr T Cuthbertson	2,610,633	-	-	-	-	2,610,633
Mr J Dean	2,990,000	-	-	-	-	2,990,000
Mr G Hiller	5,180,329	-	-	-	(280,329)	4,900,000
Mr R Thomson	3,379,855	-	-	-	-	3,379,855

(i) shares subscribed for \$0.10 per share in the Share Placement and Share Purchase Plan.

(ii) 280,329 options with an exercise price of 9c with maturity 17 June 2024 were exercised.

End of remuneration report.

AUDITORS

Non-audit Services

No amounts paid or payable to the auditor for non-audit services provided during the year.

Auditor's independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* can be found on the next page.

Signed in accordance with a resolution of the directors.



On behalf of the Directors

Terry Cuthbertson
Non-Executive Chairman
Sydney, 28 September 2022

AUDITORS INDEPENDENCE DECLARATION



**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF
THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF PACIFIC NICKEL MINES LIMITED AND CONTROLLED ENTITIES
ABN 86 075 613 268**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Pacific Nickel Mines Limited.

As the auditor for the audit of the financial report of Pacific Nickel Mines Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

MNSA Pty Ltd

Allan Facey
Director

Sydney

Dated this 28 September 2022

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 \$	2021 \$
Revenue from continuing operations	5	7,549	2,472
Accounting and audit expense		(102,941)	(86,725)
Corporate expenses		(304,242)	(377,351)
Depreciation and amortisation expense	6	(40,372)	(13,280)
Employee benefits expense		(263,823)	(103,902)
Evaluation and Exploration expenditure expensed/reversed	6	-	(4,564)
Finance costs	6	(14,571)	(33,080)
Share based payments		(53,800)	(28,000)
Loss on disposal of investment	13	-	(1,754,101)
Loss before income tax expense		(772,200)	(2,398,531)
Income tax expense	7	-	-
Net loss for the year	19	(772,200)	(2,398,531)
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive loss for the year		(772,200)	(2,398,531)
Loss for the year is attributable to owners of the Company		(772,200)	(2,398,531)
Total comprehensive loss is attributable to owners of the Company		(772,200)	(2,398,531)
Basic/diluted (loss) per share (cents per share) from continuing operations		(0.31)	(0.45)
Basic/diluted (loss) per share (cents per share) from discontinued operations		-	(1.20)
Basic/diluted (loss) per share (cents per share) from continuing and discontinued operations	25	(0.31)	(1.65)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2022

	Note	2022 \$	2021 \$
CURRENT ASSETS			
Cash and cash equivalents	8	681,243	1,807,116
Trade and other receivables	9	21,294	47,304
TOTAL CURRENT ASSETS		702,537	1,854,420
NON-CURRENT ASSETS			
Receivables	11	27,650	27,650
Property, plant and equipment	12	396,293	175,663
Exploration and evaluation expenditure	13	7,343,636	2,119,643
Investments	14	3,199,133	3,079,060
TOTAL NON-CURRENT ASSETS		10,966,712	5,402,016
TOTAL ASSETS		11,669,249	7,256,436
CURRENT LIABILITIES			
Trade and other payables	15	866,636	798,847
Borrowings	16	65,000	195,000
TOTAL CURRENT LIABILITIES		931,636	993,847
TOTAL LIABILITIES		931,636	993,847
NET ASSETS		10,737,613	6,262,589
EQUITY			
Contributed equity	17	75,073,743	69,874,608
Reserves	18	842,268	794,179
Accumulated losses	19	(65,178,398)	(64,406,198)
TOTAL EQUITY		10,737,613	6,262,589

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2022

Consolidated Group	Contributed Equity \$	Accumulated Losses \$	Option Reserves \$	Total Equity \$
Balance at 1 July 2020	62,696,576	(64,215,248)	2,207,581	688,909
Total comprehensive loss for the year	-	(2,398,531)	-	(2,398,531)
Options expired	-	2,207,581	(2,207,581)	-
Options issued during the year (net of cost)	-	-	766,179	766,179
Share-based payments	-	-	28,000	28,000
Shares issued during the year	7,484,764	-	-	7,484,764
Shares issue cost	(306,732)	-	-	(306,732)
Balance at 30 June 2021	69,874,608	(64,406,198)	794,179	6,262,589
Total comprehensive loss for the year	-	(772,200)	-	(772,200)
Share-based payments	-	-	53,800	53,800
Options exercised	48,534	-	(5,711)	42,823
Shares issued during the year	5,590,500	-	-	5,590,500
Shares issue cost	(439,899)	-	-	(439,899)
Balance at 30 June 2022	75,073,743	(65,178,398)	842,268	10,737,613

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2022

	Note	2022 \$	2021 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		(897,892)	(261,421)
Exploration and evaluation expenditure		(4,918,074)	(2,064,834)
Interest received		7,549	2,473
Interest paid	5	(37,511)	(6,794)
Net cash (used in) operating activities	26 (b)	<u>(5,845,928)</u>	<u>(2,330,576)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for property, plant and equipment		(267,002)	(165,961)
Payment of Investments		(76,367)	(899,562)
Proceeds from disposal of equity investment		-	158,935
Net cash (used in) investing activities		<u>(343,369)</u>	<u>(906,588)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from shares issue		5,590,500	4,535,983
Proceeds from exercise of options		42,823	-
Proceeds from options (net of cost)		-	737,033
Proceeds from unsecured loans		-	50,000
Repayment to unsecured loans		(130,000)	-
Equity raising expenses		(439,899)	(306,734)
Net cash provided by financing activities		<u>5,063,424</u>	<u>5,016,282</u>
NET INCREASE/(DECREASE) IN CASH HELD		(1,125,873)	1,779,118
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		<u>1,807,116</u>	<u>27,998</u>
CASH AT THE END OF THE FINANCIAL YEAR	8, 26 (a)	<u>681,243</u>	<u>1,807,116</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Pacific Nickel Mines Limited and its subsidiaries.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Pacific Nickel Mines Limited is a for-profit entity for the purposes of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of Pacific Nickel Mines Limited also comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates that are significant to the financial statements, are disclosed in note 3.

Significant Matters relating to the ongoing viability of operations

Consistent with the nature of the Group's activities and its ongoing investment of funds into projects the Group has experienced operating losses of \$0.772 million and negative cash flows from operations of \$5.846 million during the period ended 30 June 2022.

At 30 June 2022, the Group has current liabilities amounting to \$0.932 million (30 June 2021: \$0.994 million), comprising unsecured loans of \$0.065 million from Key Management Personnel.

The Group's cash position at balance date was \$0.681 million, which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 30 September 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a) Basis of preparation (continued)

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 Kolosori nickel project in the Solomon Islands;
- continuing to develop 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 non-binding agreement for a US\$22 million debt facility with Glencore to develop the Kolosori Project.

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 30 June 2022. 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.

The financial report for the year ended at 30 June 2022 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Nickel Mines Limited ("company" or "parent entity") as at 30 June 2022 and the results of all subsidiaries for the year then ended. Pacific Nickel Mines Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Pacific Nickel Mines Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Cash and cash equivalents

For the purpose of the cash flows statements, cash and cash equivalents includes:

- cash on hand and at call deposits with banks or financial institutions; and
- investments in money market instruments with less than 90 days to maturity that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

c) Employee benefits

(i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and all other short-term employee benefit obligations are presented as other payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

(iii) Share based compensation

Share based compensation benefits are provided to employees via the Pacific Nickel Mines Limited Employee Option Plan. Information relating to the plan is set out in note 27.

The fair value of options granted under the Pacific Nickel Mines Limited Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d) Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditure comprises direct costs and depreciation and does not include general overheads or administrative expenditure not having a nexus with a particular area of interest.

These costs are only carried forward where there is current or planned activity and rights of tenure, and one of the following conditions is met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale.
- exploration and evaluation activities in the area of interest at the reporting date have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, but, nevertheless, active and significant operations in, or in relation to, the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off, in full, in the year in which the decision to abandon the area is made or where it fails to meet the conditions outlined above for the carry-forward of these costs as an asset.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources and the Group's impairment policy (note 1(g)).

e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

f) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Impairment of assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax assets are realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation legislation

Pacific Nickel Mines Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Income Tax (Continued)

The head entity, Pacific Nickel Mines Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amount, Pacific Nickel Mines Limited also recognises the current liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets and liabilities arising under tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution (or distribution from) wholly-owned tax consolidated entities.

i) Trade payable

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

j) Investments and other financial assets

Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the consolidated statement of financial position (notes 9 and 11).

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designed as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Borrowings

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

l) Leases

Except for short term leases and leases of low value assets, the Group applies a single recognition and measurement approach for all leases representing the right to use the underlying asset. Right-of-Use recognised at the commencement date of the lease and corresponding lease liabilities measured at the present value of lease payments over the lease term are recognised in the statement of financial position. Depreciation charges of Right-of-Use assets, and interest expenses on the lease liability replaces straight line operating expenses.

m) Loss per share

(i) Basic loss per share is calculated by dividing:

- the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares.
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

n) Revenue Recognition

(i) Interest income

Interest income is recognised on a time proportion basis, taking into account the interest rates applicable to financial assets.

(ii) Other income

Other income is measured at the fair value of the consideration received or receivable.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on plant and equipment is calculated on a diminishing value basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

Motor Vehicles	5-6 years
Plant and equipment	4-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

p) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

q) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

r) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

s) Parent entity financial information

The financial information for the parent entity, Pacific Nickel Mines Limited, disclosed in note 28 has been prepared on the same basis as the consolidated financial statements.

t) Inventories

Inventories are stated at the lower of cost and net realisable value on a first in first out basis. Cost comprises direct materials and the cost of mining and stockpiling the gold from the joint operations. Cost is determined on an average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

u) New accounting standards for application in future periods

The following new accounting standards and interpretations, have been published that are not mandatory for 30 June 2022 reporting periods and have not yet been adopted in the financial statements:

AASB 17: Insurance Contracts

AASB 2020-1: Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current.

AASB 2020-3: Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments.

AASB 2021-2: Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates.

AASB 2021-5: Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The above accounting standards are effective for annual reporting periods on or after 1 January 2023. None of these are expected to have a material impact on the financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk, credit risk, liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Board and the financial risks faced by the Group other than liquidity risk are considered minimal at this stage.

Cash is held at one of the big four banks in Australia that is exposed to variable rates. This is managed through holding the cash in a high interest bearing account and is transferred to ordinary account as required.

The Group holds the following financial instruments:

	2022 \$	2021 \$
Financial assets		
Cash and cash equivalents	681,243	1,807,116
Trade and other receivables	21,294	47,304
	702,537	1,854,420
Financial liabilities		
Trade and other payables	866,636	798,847
Borrowings	65,000	195,000
	931,636	993,847

a) Market risk

(i) Interest rate risk

The Group's and Parent's main interest rate risk arises from cash and cash equivalents and deposits with banks.

Sensitivity

At 30 June 2022, if interest rates had changed by lower/higher 100 basis points from the year-end rates with other variables held constant, post-tax loss for the year would have been \$6,812 lower/higher (2021: change of 100 bps: \$18,071 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

(ii) Foreign Exchange Risk

The Group operates domestically in Australian dollar (AUD) and Solomon Islands in Solomon Islander dollar (SBD), hence exposures to exchange fluctuations arise. The Group does not hedge this exposures. The cash at bank held by the Company currently comprises AUD and SBD funds. The Group managed the foreign currency transactions on a monthly basis to avoid the fluctuation on the exchange rate, while the Group does not have any material foreign currency risk exposure. Where exposures do arise, forward foreign exchange contracts will be applied.

(iii) Price Risk

The Group is not exposed to equity securities price risk. The Group is indirectly exposed to commodity price rise to the extent of its operations which are undertaken in the mineral sector.

b) Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Liquidity Risk

The Group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash to fund operations. Surplus funds are generally only invested in short term deposits with Australian Banks.

The Group's position with respect to going concern is outlined in note 1(a).

Maturities of financial liabilities

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Consolidated	Less than 6 Months	6-12 Months	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total contractual cash flows	Carrying amount liabilities
	\$	\$	\$	\$	\$	\$	\$
2022							
Non-derivatives							
Non-interest bearing	790,629	76,007	-	-	-	866,636	866,636
Fixed rate							
Borrowings	65,000	-	-	-	-	65,000	65,000
Total Non-derivatives	855,629	76,007	-	-	-	931,636	931,636

Consolidated	Less than 6 Months	6-12 Months	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total contractual cash flows	Carrying amount liabilities
	\$	\$	\$	\$	\$	\$	\$
2021							
Non-derivatives							
Non-interest bearing	615,811	183,036	-	-	-	798,847	798,847
Fixed rate							
Borrowings	195,000	-	-	-	-	195,000	195,000
Total Non-derivatives	810,811	183,036	-	-	-	993,847	993,847

d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2022

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

e) Capital risk management

The Group has no long term debt therefore capital is raised as and when it is required to do further exploration and development activities.

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Exploration and evaluation expenditure

Certain exploration and evaluation expenditure is capitalised where it is considered likely that the expenditure will be recovered by future exploitation or sale, or where activities have reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves. This process necessarily requires management to make certain estimates and assumptions regarding future commodity prices and level of demand for these commodities, production rates, metallurgical recovery and cost of production, which will affect the viability of the operations. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy it is concluded unlikely that the expenditure will be recovered by future exploitation or sale, the relevant amount capitalised is written off to the consolidated statement of comprehensive income. Carried forward exploration and evaluation expenditures amounting to \$5,223,993 are disclosed in note 13 and relate primarily to capitalisation and evaluation costs from activities in the Solomon Islands.

Share-based payment transactions

The Group measures the cost of equity settled transactions with employees and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimate and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Note 27 details the assumptions that have been used in determining the fair value of the options that have been granted.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

4 SEGMENT INFORMATION

The economic entity operates in one segment within mineral exploration and development in Australia. The Group has one reportable segment, as described below, for which the Board of Directors (the chief operating decision maker) reviews internal management reports on a regular basis.

Solomon Islands

The development of the Group's interest in the Kolosori Nickel Project ("Kolosori") and Jejevo Nickel Project ("Jejevo") on the Santa Isabel Island.

Segment assets

Information about reportable segments

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

<i>Exploration</i>	2022 \$	2021 \$
Solomon Islands	7,293,636	2,069,643
Lorena	50,000	50,000
	<u>7,343,636</u>	<u>2,119,643</u>

	Solomon Islands \$	Corporate \$	Total \$
2022			
Revenue from continuing operations	-	7,549	7,549
Accounting and audit expense	-	(102,941)	(102,941)
Corporate expenses	-	(304,242)	(304,242)
Share based payments	-	(53,800)	(53,800)
Depreciation and amortisation expense	(38,310)	(2,062)	(40,372)
Employee benefits expense	-	(263,823)	(263,823)
Evaluation and Exploration expenditure expensed	(5,223,993)	-	(5,223,993)
Evaluation and Exploration expenditure capitalised	5,223,993	-	5,223,993
Finance costs	-	(14,571)	(14,571)
Loss before income tax expense	<u>(38,310)</u>	<u>(733,890)</u>	<u>(772,200)</u>
Income tax expense	-	-	-
Net loss for the year	<u>(38,310)</u>	<u>(733,890)</u>	<u>(772,200)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

4 SEGMENT INFORMATION (CONTINUED)

	Lorena \$	Solomon Islands \$	Corporate \$	Total \$
2021				
Revenue from continuing operations	2,025	-	447	2,472
Accounting and audit expense	-	(15,500)	(71,225)	(86,725)
Corporate expenses	(4,099)	-	(373,252)	(377,351)
Share based payments	-	-	(28,000)	(28,000)
Depreciation and amortisation expense	(2,046)	(9,724)	(1,510)	(13,280)
Employee benefits expense	-	-	(103,902)	(103,902)
Evaluation and Exploration expenditure reversed	(4,564)	-	-	(4,564)
Loss on disposal of investment	-	-	(1,754,101)	(1,754,101)
Finance costs	(4)	-	(33,076)	(33,080)
Loss before income tax expense	(8,688)	(25,224)	(2,364,619)	(2,398,531)
Income tax expense	-	-	-	-
Net loss for the year	(8,688)	(25,224)	(2,364,619)	(2,398,531)

5 REVENUE

	2022 \$	2021 \$
From continuing operations and other income		
Interest	7,549	2,472

6 EXPENSES

The loss before income tax includes the following expenses:

Depreciation of non-current assets:		
- Property, plant & equipment	40,372	12,669
- Motor vehicles	-	611
Total Depreciation	40,372	13,280
Exploration expenditure expensed	-	4,564
Finance costs	14,571	33,080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

7 INCOME TAX

	2022 \$	2021 \$
a) The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax amount in the financial statements as follows:		
Loss from ordinary activities	(772,200)	(2,398,531)
Prima facie income tax benefit calculated at 25% (2021: 26%) of taxable loss	(193,050)	(623,618)
Non-deductible items		
Movement in unrecognised temporary differences	15,191	103,468
Taxable losses not recognised	177,859	520,150
Income tax expense	-	-
b) Franking account balance	230	230
c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised.	58,230,196	57,457,996
Potential tax benefit at 25% (2021: 26%)	14,557,549	14,939,079

The Tax losses may be carried forward indefinitely subject to the condition imposed by Law.

8 CASH AND CASH EQUIVALENTS

Cash at bank and on hand	681,243	1,807,116
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9 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

GST receivables	-	29,096
Prepayments	21,294	18,208
	21,294	47,304

a) Impaired receivables

The creation and release of the provision for impaired receivables is included in 'Impairment of exploration assets and other receivables' in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of receiving additional cash.

There are no impaired receivables for the Group or Parent and there were no receivables past due for the Group or Parent.

b) Interest rate risk

Information about the Group's exposure to interest rate risk in relation to receivables is provided in note 2.

c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair values.

The maximum exposure to credit risk at the reporting date is their carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

10 AUDITORS' REMUNERATION

	2022	2021
	\$	\$
Remuneration of the auditor of the Group for: Audit services Audit and review of financial reports	40,000	40,000

11 TRADE AND OTHER RECEIVABLES

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

12 PROPERTY, PLANT AND EQUIPMENT

Plant and equipment at cost	446,964	185,961
accumulated depreciation	(50,671)	(10,298)
Total property, plant and equipment	396,293	175,663

	Motor Vehicles	Property, Plant & Equipment	Total
	\$	\$	\$
Movement in property, plant and equipment			
2022			
Balance at 01 July 2021	-	175,663	175,663
Addition	-	261,002	261,002
Depreciation Expense	-	(40,372)	(40,372)
Balance at 30 June 2022	-	396,293	396,293
2021			
Balance at 01 July 2020	7,820	33,974	41,794
Addition	-	185,961	185,961
Asset written down	(7,209)	(31,603)	(38,812)
Depreciation Expense	(611)	(12,669)	(13,280)
Balance at 30 June 2021	-	175,663	175,663

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

13 EXPLORATION AND EVALUATION EXPENDITURE

	2022 \$	2021 \$
Costs carried forward in respect of areas of interest in exploration and evaluation phases	7,343,636	2,119,643
Movement for year		
Balance at beginning of year	2,119,643	2,548,023
Current period expenditure	5,223,993	2,069,643
Reversal of security deposit	-	(234,987)
Transfer to investment on Lorena tenement/Gold Royalty	-	(350,000)
Proceeds from disposal of equity investment	-	(158,935)
Loss on disposal of investment	-	(1,754,101)
Balance at end of year	7,343,636	2,119,643

The Group has reviewed its exploration assets for impairment at reporting date in accordance with the accounting policy stated in note 1 (g). As a result of this review and having regards to the current market conditions the following impairments have been made to the carrying value of assets.

Impairment of costs carried forward in respect of areas of interest in exploration and evaluation phases:

	Lorena(i) \$	Jejevo \$	Kolosori \$	Solomon Island \$	Total \$
2022					
Balance at 01 July 2021	50,000	1,266,286	803,357	-	2,119,643
Exploration and evaluation expenditure carried forward	-	393,181	4,806,169	24,643	5,223,993
Transfer expenditure prior year	-	(233,552)	212,686	20,866	-
Balance at 30 June 2022	50,000	1,425,915	5,822,212	45,509	7,343,636
2021					
Balance at 01 July 2020	2,548,023	-	-	-	2,548,023
Exploration and evaluation expenditure carried forward	-	1,266,286	803,357	-	2,069,643
Transfer to investment on Lorena Gold Royalty	(350,000)	-	-	-	(350,000)
Reversal of security deposit	(234,987)	-	-	-	(234,987)
Proceeds from disposal of equity investment	(158,935)	-	-	-	(158,935)
Loss on disposal of investment	(1,754,101)	-	-	-	(1,754,101)
Balance at 30 June 2021	50,000	1,266,286	803,357	-	2,119,643

- i. The sale of Volga, a wholly owned subsidiary of the Company, on 27 November 2020. As a result, the Group now holds a 2% Net Smelter Return on gold produced from future underground operations at Lorena, and a value of \$350,000 has been justified to carried forward for the investment in Lorena Gold Project. The Company retains 100% of EPM 18908.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

14 INVESTMENTS

	2022	2021
	\$	\$
Investments in Jejevo Nickel	1,564,355	1,564,355
Investments in Kolosori Nickel	1,050,555	1,050,555
Investments in Other Tenements	234,223	114,150
Investments in Lorena Gold Royalty	350,000	350,000
13(i)	3,199,133	3,079,060

15 CURRENT LIABILITIES

Trade and other payables

Trade creditors	201,382	237,466
Other creditors	665,254	561,381
	866,636	798,847

16 BORROWINGS

Current

Unsecured loans	65,000	195,000
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Unsecured loans

The Group had a balance of \$65,000 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 \$50,000 have an interest rate of 12% per annum with interest paid at maturity and unsecured loans totalling \$15,000 have an interest rate of 10% per annum with interest paid quarterly in arrears.

17 CONTRIBUTED EQUITY

271,275,856 fully paid ordinary shares (2021: 214,895,036)	75,073,743	69,874,608
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Fully paid ordinary shares carry one vote per share and carry the right to dividends and have no par value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

17 CONTRIBUTED EQUITY (CONTINUED)

a) Movement in ordinary share capital		Number of shares	Issue price \$	Share capital \$
2021				
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
2022				
1 July 2021	Balance at end of year	214,895,036		69,874,608
26 October 2021	Conversion of options expiring 17 June 2024	128,803	0.09	11,592
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
10 January 2022	Share purchase plan	3,405,000	0.10	340,500
2 February 2022	Conversion of options expiring 17 June 2024	180,350	0.09	16,232
24 March 2022	Conversion of option expiring 17 June 2024	166,667	0.09	15,000
	Transfer from options reserve			5,710
	Transaction costs relating to share issues			(439,899)
30 June 2022	Balance at end of year	271,275,856		75,073,743

b) Share options	2022 Number	2021 Number
Balance at beginning of year	83,132,284	83,132,284
Options exercised – directors	(280,329)	-
Options exercised – other	(195,491)	-
Balance at end of year	82,656,464	83,132,284

At 30 June 2022 the Company had 82,656,464 unlisted options on issue under the following terms and conditions:

	Number	Expiry Date	Issue Price \$	Exercise Price \$
Unlisted	11,500,000	30 September 2023	-	0.06
Unlisted	71,156,464	17 June 2024	0.012	0.09

The Group's objective when managing capital is to safeguard its ability to continue as a going concern (refer to note 1(a)), 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

18 RESERVES

	2022 \$	2021 \$
Share based payments reserve	28,000	28,000
Options revenue reserve	760,468	766,179
Performance rights reserve	53,800	-
	842,268	794,179

	Share based payments	Options revenue reserve (net of cost)	Performance rights reserve	Total
	\$	\$	\$	\$
Movement in reserve				
2022				
Balance at 01 July 2021	28,000	766,179	-	794,179
Options exercised	-	(5,711)	-	(5,711)
Options issued	-	-	53,800	53,800
Balance at 30 June 2022	28,000	760,468	53,800	842,268
2021				
Balance at 01 July 2020	2,207,581	-	-	2,207,581
Options expired	(2,207,581)	-	-	(2,207,581)
Options issued	28,000	766,179	-	794,179
Balance at 30 June 2021	28,000	766,179	-	794,179

19 ACCUMULATED LOSSES

	2022 \$	2021 \$
Accumulated losses at beginning of financial year	(64,406,198)	(64,215,248)
Option expired	-	2,207,581
Loss for the period	(772,200)	(2,398,531)
Accumulated losses at the end of financial year	(65,178,398)	(64,406,198)

20 CONTINGENT LIABILITIES

There are no material contingent liabilities for the year ended 30 June 2022 (2021: Nil).

21 RELATED PARTY TRANSACTIONS

a) Parent entity

The parent entity within the Group is Pacific Nickel Mines Limited.

b) Key management personnel

Disclosures relating to key management personnel are set out in note 22.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

22 KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Directors and executives

The directors and executives of Pacific Nickel Mines Limited during the year were:

Mr Terry Cuthbertson – Non-Executive Director
 Mr James Dean – Non-Executive Director
 Mr Geoffrey Hiller – Executive Director & Chief Executive Officer
 Mr Robert Thomson – Non-Executive Director

b) Key Management Personnel compensation

	2022	2021
	\$	\$
Short-term employee benefits	598,150	490,699
Post-employment benefits	15,690	7,011
Share-based payments	21,200	28,000
	635,040	525,710

Detailed remuneration disclosures can be found in section (a) – (f) of the remuneration report contained in the Directors Report.

c) Related party transactions

Unsecured loans

Terry Cuthbertson	52,151	140,423
Geoffrey Hiller	15,744	80,657

23 COMMITMENTS FOR EXPENDITURE

a) Capital Expenditure Commitments

There are no capital commitments at the end of the financial year ended 30 June 2022 (2021: Nil).

b) Lease Commitments

There are no lease commitments at the end of the financial year ended 30 June 2022 (2021: Nil)

c) Tenement Commitments

	2022	2021
	\$	\$
Tenement Expenditure required under tenement licence EPM 18908		
Not later than one year	47,000	18,000
Later than 1 year but not later than 2 years	-	29,000
	47,000	47,000

A Mining Lease for PL 01/18 Jejevo Prospecting License will be applied for in the next twelve months – there is no minimum expenditure commitment.

An application for a Mining Lease for PL 02/22 Kolosori Prospecting License has been submitted – there is no minimum expenditure commitment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

24 INVESTMENT IN CONTROLLED ENTITY

Name of controlled entity	Country of incorporation	Ownership interest 2022 %	Ownership interest 2021 %
Subsidiaries			
Conrad Silver Mines Pty Ltd	Australia	100	100
Pacific Nickel Mines International Pty Ltd (i)	Australia	100	100
(i) Subsidiaries of Pacific Nickel Mines International Pty Ltd			
Pacific Nickel Mines (SI) Limited (ii)	Solomon Islands	100	100
(ii) Subsidiaries of Pacific Nickel Mines (SI) Limited			
Sunshine Nickel Limited	Solomon Islands	80	80
Kolosori Nickel (SI) Limited ¹	Solomon Islands	0	80
Pacific Nickel Mines Kolosori Limited	Solomon Islands	80	80
Pacific Nickel Mines Varei Limited ²	Solomon Islands	80	0
Pacific Nickel Mines Moumolu Limited ³	Solomon Islands	100	0
Sunshine Moumolu Limited	Solomon Islands	100	100

¹ Ownership interests transferred from Kolosori Nickel (SI) Limited to Pacific Nickel Mines Kolosori Limited on 22 September 2021.

² Established on 23 September 2021.

³ Established on 5 July 2021.

25 LOSS PER SHARE

	2022	2021
	Cents	Cents
Basic/diluted (loss) per share (cents per share) from continuing and discontinued operations	(0.31)	(1.65)
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic/diluted loss per share	248,164,479	145,057,472
	2022	2021
	\$	\$
Loss attributable to ordinary shareholders		
Loss attributable to ordinary shareholders from continuing operations	772,200	647,518
Loss attributable to ordinary shareholders from discontinued operations	-	1,751,013
Loss attributable to ordinary shareholders for the basic earnings	<u>772,200</u>	<u>2,398,531</u>
Loss attributable to ordinary shareholders adjusted for effect of dilution	<u>772,200</u>	<u>2,398,531</u>

Diluted loss per share has not been disclosed as the impact from options is anti-dilutive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

26 NOTES TO STATEMENT OF CASH FLOWS

a) Reconciliation of Cash

For the purposes of the statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	2022	2021
	\$	\$
Cash	681,243	1,807,116

b) Reconciliation of operating profit after income tax to net cash flows from operating activities.

Operating loss after income tax	(772,200)	(2,398,531)
Non cash		
Depreciation	40,372	13,280
Loss on disposal of investment	-	1,754,101
Exploration and evaluation expenditure carried forward	(5,223,993)	(2,069,643)
Share based payments	53,800	28,000
Other non-cash transactions	(37,706)	(151,126)
Changes in assets and liabilities		
Decrease in receivables	29,096	331,013
(Increase) in prepayments	(3,086)	(9,288)
Increase in payables	67,789	171,618
Net cash (outflow) from operating activities	(5,845,928)	(2,330,576)

27 SHARE-BASED PAYMENTS

a) Options issued to Employees and Directors

(i) Employee Option Plan

No options were granted to Employees for the year ended 30 June 2022 (2021: Nil).

(ii) Directors Options

No options were granted to directors during the year ended 30 June 2022 (2021: 4,000,000):

The fair value of the options is estimated at the date of grant using a Black-Scholes option-pricing model. The following table give the assumptions made in determining the fair value of the options granted during the year.

	2022	2021
Average share price at grant date	-	\$0.03
Exercise price	-	\$0.06
Expected volatility	-	65%
Option life	-	3
Expected dividend	-	-
Risk-free interest rate	-	0.65%
Valuation per option	-	\$0.007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

27 SHARE-BASED PAYMENTS (CONTINUED)

b) Performance Rights issued to Employees and Directors.

(i) Employee Performance Rights

3,850,000 performance rights were granted to Employees for the year ended 30 June 2022 (2021: Nil). The Company has attributed a value of \$32,600 to the Performance Rights using a probability weighted valuation analysis based on a 30-day VWAP of the Company share price as at 30 June 2021.

(ii) Directors Performance Rights

2,650,000 performance rights were granted to directors during the year ended 30 June 2022 (2021: Nil), were approved by shareholder in Annual General Meeting 26 November 2021. Each performance rights entitle to be issued an ordinary share in the Company for nil exercise price upon the satisfaction of certain vesting conditions. The vesting conditions are summarised below:

Percentage of Performance Rights to vest	Vesting Conditions - Performance Milestones
20%	Financing secured for development capital of Kolosori Project sufficient to commence commercial operations
20%	Financing secured for development capital of Jejevo Project sufficient to commence commercial operations
30%	DSO shipments of product equal to or in excess of project specifications and not less than 400,000 tonnes within 12 months of commencement of operations
30%	Volume Weighted Average Price of the Company's share price of not less than \$0.15 over a period of 3 consecutive months

The Company has attributed a value of \$21,200 to the Performance Rights using a probability weighted valuation analysis based on a 30-day VWAP of the Company share price as at 30 June 2021.

c) Shares issued for services under a share based payment arrangement during the year.

No shares issued for services under a share based payment arrangement during the year ended 30 June 2022 (2021: Nil).

d) Options issued for services under a share based payment arrangement during the year.

No options issued for services under a share based payment arrangement during the year ended 30 June 2022 (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

28 PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

Statement of Financial Position	2022 \$	2021 \$
Current assets	702,537	1,825,323
Non-current assets	17,524,637	11,922,259
Total assets	18,227,174	13,747,582
Current liabilities	931,636	964,750
Total liabilities	931,636	964,750
Net Assets	17,295,538	12,782,832
Equity		
Contributed equity	75,073,743	69,874,608
Option reserve	842,269	794,179
Accumulated losses	(58,620,474)	(57,885,955)
Total equity	17,295,538	12,782,832
Loss for the year	(734,519)	(2,393,615)
Total comprehensive income	(734,519)	(2,393,615)

b) Guarantees entered into by the parent entity

The parent entity did not have any financial guarantees as at 30 June 2022.

c) Contingent liability of parent entity

The parent entity did not have any contingent liabilities as at 30 June 2022.

29 EVENTS SUBSEQUENT TO REPORTING DATE

In August 2022, loans facilities in total of \$440,000 from Directors are provided to the Company to fund the working capital of the Company. The loans are unsecured with 10% interest per annum and is payable from the drawdown date or five days after the date on which the Company completes a capital raising, whichever is the shorter. On the date of this report, \$275,000 has been drawn.

On 14 September 2022, the Company received a Mining Lease for the Kolosori Project.

No other matters or circumstances have arisen since the end of the financial year 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.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Pacific Nickel Mines Limited, the directors of the company declare that:

- 1) The financial statements and notes, as set out on pages 17 to 45, are in accordance with the *Corporations Act 2001* and:
 - a) Comply with Australian Accounting Standards, which, as stated in accounting policy Note 1(a) to the financial statements, constitutes compliance with International Financial Reporting Standards; and
 - b) Give a true and fair view of the Company's consolidated financial position as at 30 June 2022 and of its performance for the year ended on that date; and
- 2) In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- 3) This declaration has been made after receiving the declarations required to be made in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2022.

On behalf of the Board



Terry Cuthbertson

Non-Executive Chairman

Sydney, 28 September 2022

INDEPENDENT AUDITOR'S REPORT



**INDEPENDENT AUDITOR'S REPORT TO THE OWNERS OF
PACIFIC NICKEL MINES LIMITED AND CONTROLLED ENTITIES
ABN 86 075 613 268**

Report on the Financial Report

Opinion

We have audited the financial report of Pacific Nickel Mines Limited (the Company) and its controlled entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those Standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110: *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter Regarding to Going Concern

Without qualifying our conclusion, we draw your attention to Note 1 in the financial report which indicates that the Group's cash position as at 30 June 2022 was \$681,243 (2021: \$1,807,116), experienced an operating loss of \$772,200 (2021: \$2,398,531) and cash outflows from operating activities of \$5,845,928 (2021: \$2,330,576) during the year.

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

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 Group's ability to continue as a going concern.

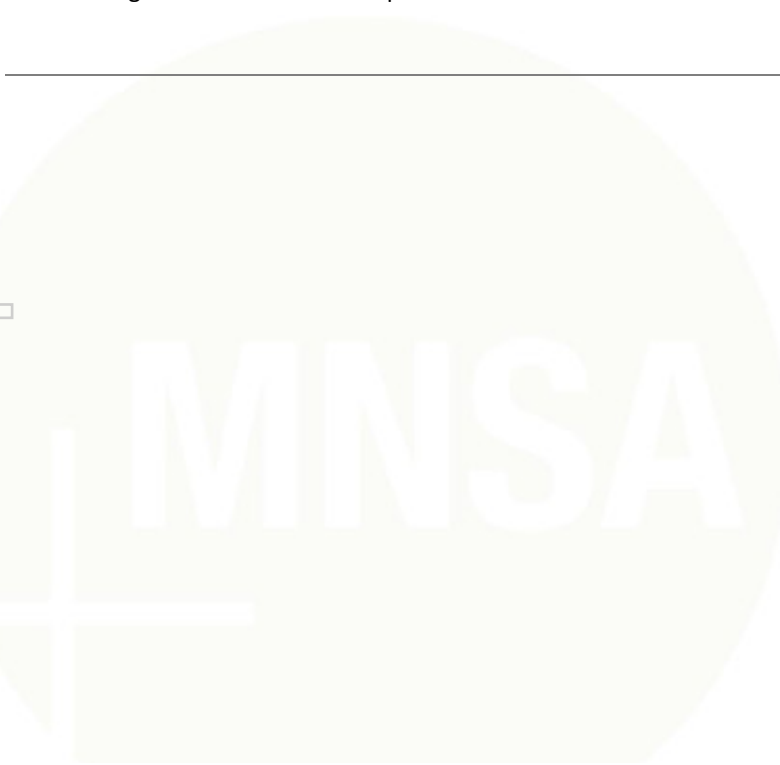


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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the year ended 30 June 2022. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><i>Carrying value of capitalised exploration and evaluation</i></p> <p>As at 30 June 2022, the carrying value of capitalised exploration and evaluation expenditure was \$7,343,636 as disclosed in Note 13.</p> <p>The assessment of the carrying value of capitalised exploration and evaluation expenditure requires management to make significant judgements and estimates to determine whether there are any facts or circumstances that suggest the carrying amount exceeds its recoverable amount that would require impairment in accordance with Australian Accounting Standard AASB 136 Impairment.</p>	<p>We have evaluated the appropriateness of management's judgements that there are no facts or circumstances that suggest the carrying amount of exploration and evaluation expenditure exceeds its recoverable amount.</p>



INDEPENDENT AUDITOR'S REPORT



Key Audit Matters (Continued)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p data-bbox="159 593 327 616">Going concern</p> <p data-bbox="159 638 734 884">Following continuing operating losses and cash flow deficits, there is a degree of judgement as to the Group's ability to continue as a going concern through the assessment period. Accordingly, we considered the appropriateness of the going concern assumption, the question as to whether there is a material uncertainty and the adequacy of management's disclosure to be a key risk.</p>	<p data-bbox="758 638 1276 761">We have challenged the key assumptions in management's forecast cash flows for the next 12 months (base case and downside possibilities) by:</p> <ul data-bbox="758 784 1276 1747" style="list-style-type: none"> • comparing the cash flow forecasts with the Board approved budget, and obtaining explanations for any significant differences; • ensuring consistency between the forecasts in the Group going concern model and those used in the asset value-in-use calculations for impairment assessment purposes; • assessing the historical accuracy of forecasts prepared by management; • testing the mechanical accuracy of the model used; • performing stress tests for a range of reasonably possible scenarios on management's cash flow for the going concern period; • challenging management's plans for mitigating any identified exposures, obtain additional sources of financing; • considering whether the disclosures relating to going concern referred to in the basis of preparation section of the accounting policies are balanced, proportionate and clear; and • Consider COVID-19 impacts cash flow forecast assumptions. <p data-bbox="758 1769 1276 1892">We have determined that there are no material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.</p>

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Key Audit Matters (Continued)

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><i>Carrying value of Investments</i></p> <p>As at 30 June 2022, the Group held investments at a cost of \$3,199,133.</p> <p>The assessment of the carrying value of capitalised investments requires management to make significant judgements and estimates determine whether the assets require impairment in accordance with Australian Accounting Standard AASB 136 Impairment.</p>	<p>We have evaluated the appropriateness of management's judgements that there are no indicators that suggest the carrying amount of investments exceeds its recoverable amount.</p>

There were no restrictions on our reporting of Key Audit Matters.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon. In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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INDEPENDENT AUDITOR'S REPORT



Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of Pacific Nickel Mines Limited for the year ended 30 June 2022 complies with s 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with s 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

MNSA Pty Ltd

A handwritten signature in black ink, appearing to read 'Allan Facey', written over a large, faint, light green circular watermark of the MNSA logo.

Allan Facey
Director

Sydney
Dated this 28 September 2022

ADDITIONAL ASX INFORMATION

AS AT 21 OCTOBER 2022

Fully paid ordinary shares:

- (a) Total shares issued 358,329,428
- (b) Percentage held by 20 largest shareholders 51.75%
- (c) Shareholders with less than marketable parcel of shares 1,120
- (d) There is not a current on-market buy-back
- (e) Voting rights: Every shareholder present personally or by proxy or attorney etc. shall, on a show of hands, have one vote and on a poll shall have one vote for every share held. No voting rights attach to options.
- (f) Distribution schedule of fully paid ordinary shares:

Number of Shares	Total holders	Total Shares Held	% of Issued Capital
1 - 1,000	809	220,083	0.06
1,001 - 5,000	257	704,489	0.20
5,001 - 10,000	146	1,171,187	0.33
10,001 - 100,000	381	14,150,606	3.95
100,001 Over	224	342,083,063	95.47
Total	1,817	358,329,428	100.00

Top 20 Shareholders:

Rank	Name	Number of Shares Held	% of Issued Capital
1	HSBC Custody Nominees (Australia) Limited	28,274,623	7.89
2	Elliott Services Pty Ltd <The Elliott Family A/C>	15,568,858	4.34
3	Citicorp Nominees Pty Limited	14,262,735	3.98
4	Agio Solutions Pty Ltd	11,159,688	3.11
5	Michael John McCahill <ATF MJ McCahill Ta/C>	11,142,575	3.11
5	Sean McCahill Properties Ltd	11,142,575	3.11
7	Wilson Mapuru	10,964,218	3.06
8	Kore Management Services P/L <Cuthbertson Super Fund>	9,307,388	2.60
9	Merrill Lynch (Australia) Nominees Pty Limited	8,837,692	2.47
10	HSBC Custody Nominees (Australia) Limited - A/C 2	7,739,411	2.16
11	Clifton Likoho Bazil	6,864,218	1.92
12	Monterey Consolidated Services P/L <Lorodaca Super Fund>	6,589,564	1.84
13	BNP Paribas Noms Pty Ltd <DRP>	6,205,453	1.73
14	J P Morgan Nominees Australia Pty Limited	6,182,492	1.73
15	Dixtru Pty Limited	6,017,143	1.68
16	Heavy Duty Superannuation P/L <Heavy Duty Super Fund>	5,637,037	1.57
17	Clarkson's Boathouse Pty Ltd <Clarkson Super Fund Account>	5,212,148	1.45
18	Kore Management Services P/L <Cuthbertson Pension Fund>	4,902,101	1.37
19	Highshaw Pty Ltd <Highshaw No 2 A/C>	4,836,563	1.35
20	Andrew McMillan + Sally McMillan <The McMillan Super Fund>	4,579,398	1.28
Total		185,425,880	51.75

Unquoted Securities:

Security Type	Number	Terms
Options	11,500,000	Exercise Price \$0.06 Expiry Date 30 September 2023
Options	71,156,464	Exercise Price \$0.09 Expiry Date 17 June 2024
Performance Rights	6,400,000	PNM Equity Incentive Plan

Substantial Holders:

Substantial Holder	Number of Shares Held	Voting Power
HSBC Custody Nominees (Australia) Limited	28,274,789	7.89

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