

NICKEL
Scotia Commodities Conference

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RNC
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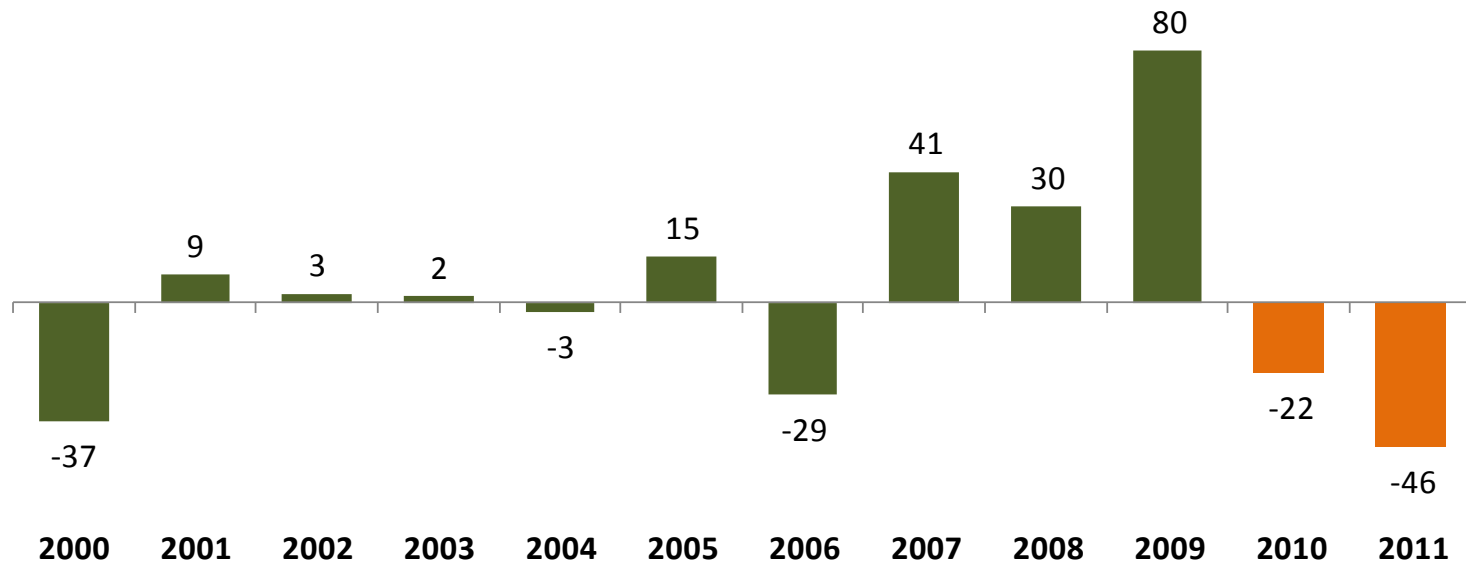
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- 2011 – Key Factors – Another Deficit Year
- 2012 – Significant Supply Forecast = Large Surplus ?
- 2013-2015
 - Too Much New Supply or Just Enough for China ?
- Beyond 2015
 - The “Cupboard is Bare” – Few new projects in project pipeline
 - Laterites – Any appetite for more \$5 billion projects ?
 - NPI – A higher cost, ore constrained option
 - Sulphides - Not enough, and many too early stage

LME nickel inventories have declined for a 2nd year; LME nickel inventories are down 46 kt in 2011 (~3 % of demand) or 77kt since their peak in early 2010.

LME Nickel Inventory Change Year-over-year
2000 - 2011 (Kt)



China's nickel demand continued to grow strongly – growing by more than 100kt for the 3rd consecutive year.

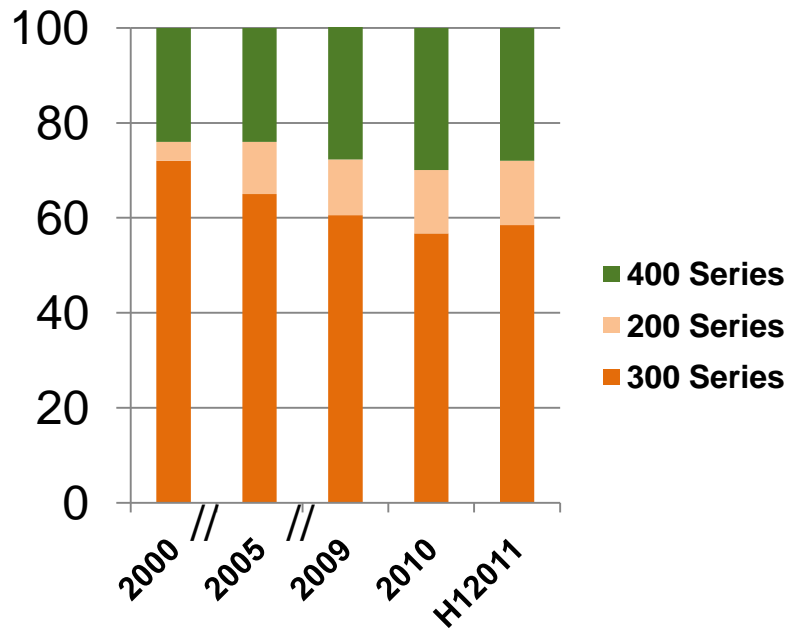
Chinese Nickel Demand 2000–2010 (kt)



Source: CRU, RNC Analysis

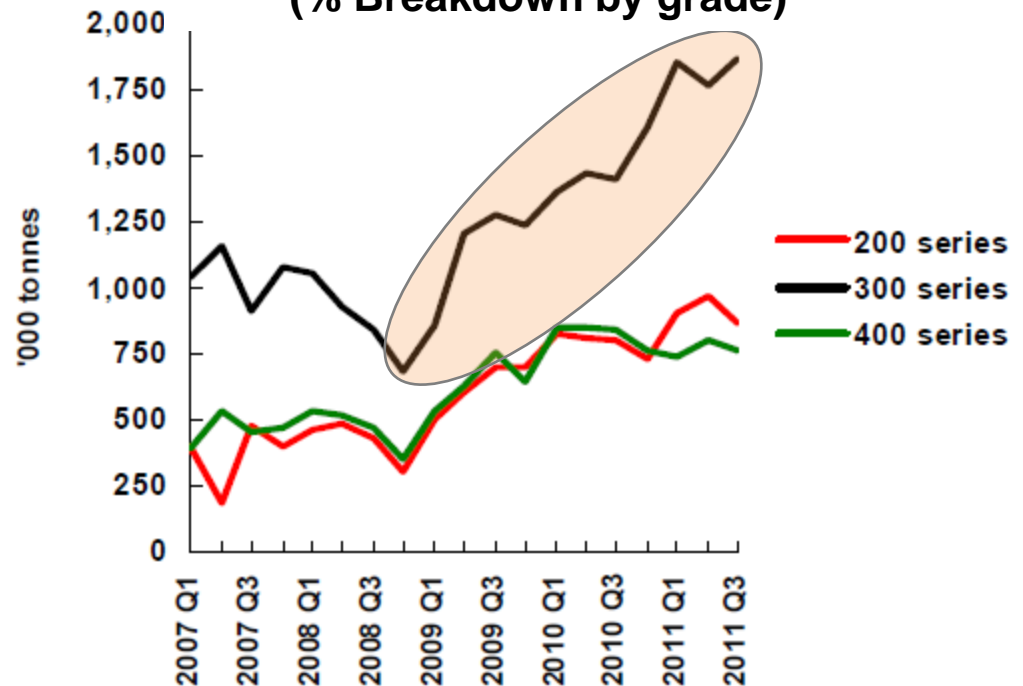
With lower nickel prices and increased nickel availability, 300 series nickel demand has rebounded sharply driven by significant increases in China.

Global Stainless Steel Production
(% Breakdown by grade)



Source: ISSF, Macquarie May 2011, Pariser May 2007

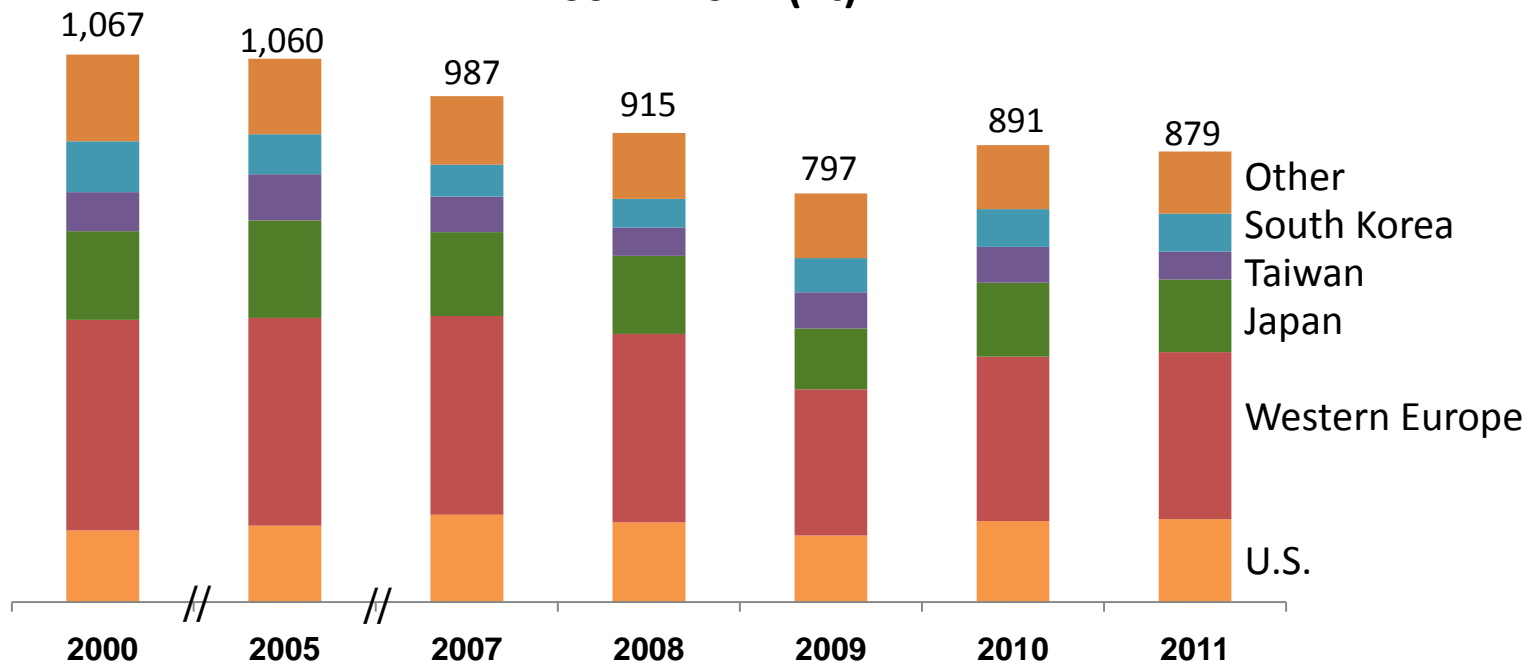
Chinese Stainless Steel Production
(% Breakdown by grade)



Source: Macquarie November 2011

Rest of World (“ROW”) demand has largely stabilized in 2011 as declines in demand in Europe, Korea, Taiwan, and Japan have slowed as demand displacement from China slows.

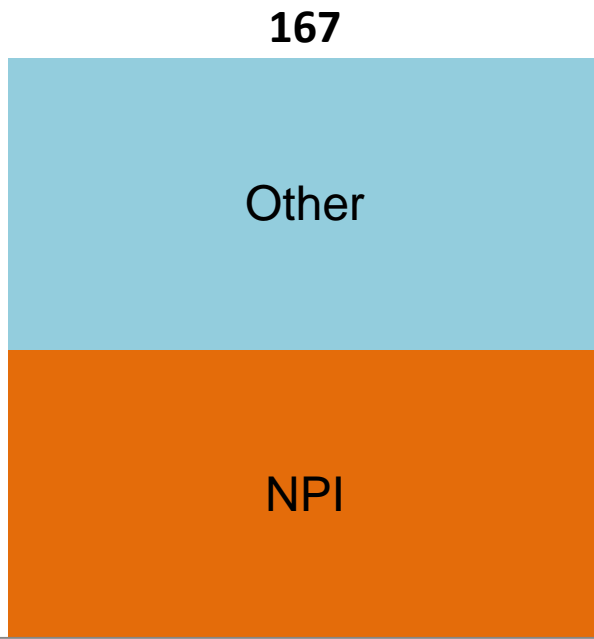
**Global Nickel Demand ex-China
2007 – 2011 (Kt)**



Source: CRU

Significant market deficits in late 2010/early 2011 pushed nickel prices to \$10-\$13/lb to stimulate enough NPI production to close market gap.
NPI production represented almost 50% of supply growth in 2011.

Global Nickel Supply Growth 2010 – 2011 (Kt)



Source: Macquarie

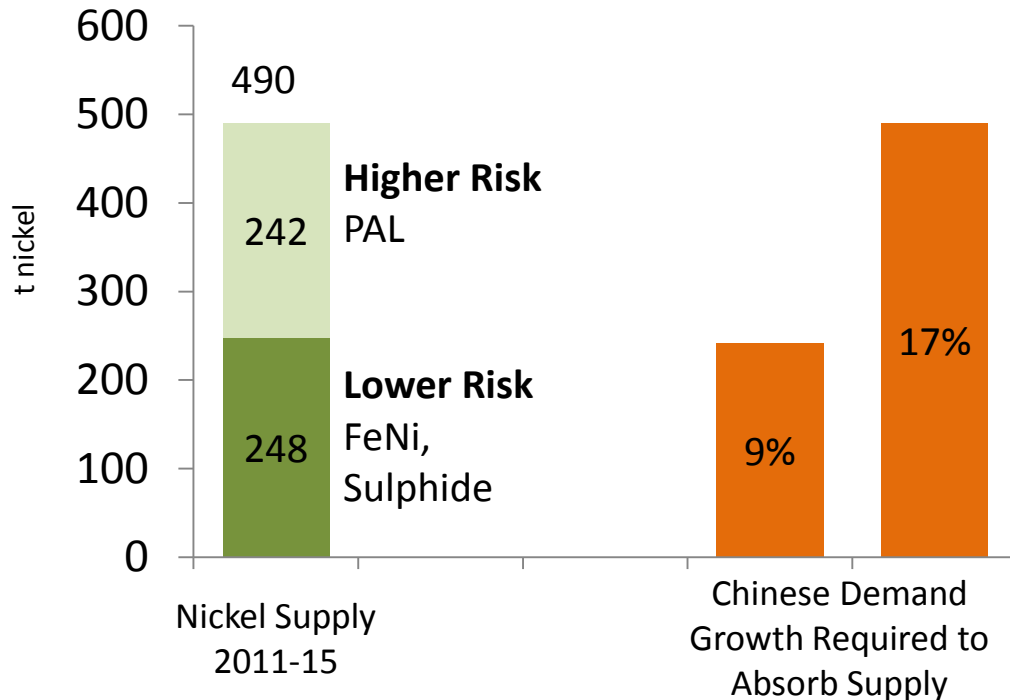
Despite a *10+%* increase in nickel production:

- Nickel prices *rose* to an average of \$10.36/lb in 2011 from \$9.89/lb in 2010
- *Nickel forecasts must consider amount/production cost of NPI required to balance market*

- Many market commentators are pointing to large surpluses in 2012. Are they properly considering?
 - Cost pressures on NPI (lower grades, higher coal/energy costs, higher RMB) will require *higher* nickel prices each year to generate *same* level of production
(By contrast, year-end 2011 nickel prices were 37% lower than 1st half peak of \$13.17/lb)
 - Multi-year project ramp-ups particularly for higher risk PAL projects
- RNC 2012 view predicated on a rebound in global metal demand driven by an end to monetary tightening in China as government policy achieves its inflation and housing price targets
- RNC estimates that 2012 nickel supply will grow by ~100 kt as a number of projects that began construction at end of last decade are now beginning to ramp up
 - Barro Alto, Onca Puma, Goro, Ravensthorpe, Kevitsa, Santa Rita, Talvivaara
- RNC expects that Chinese 2012 demand will utilize all of this supply although at slightly slower than trend growth rates as stockpiles that were built up in 2nd half 2011 are utilized. ROW demand growth is expected to be 0-20 kt.
- Any further demand increase in China or ROW will require further LME inventory drawdown and/or higher nickel prices to create incentives to further increase NPI production
- As a result, RNC expects a balanced to small surplus in 2012 with surplus only generated in scenario where higher nickel prices are required to generate excess NPI production

Even with all of the projects under construction, China *alone* will consume all of their production *EVEN* if all higher-risk projects successfully ramp up.

Nickel 2011–2015 Supply Growth vs. Chinese Demand Growth Required to Absorb it

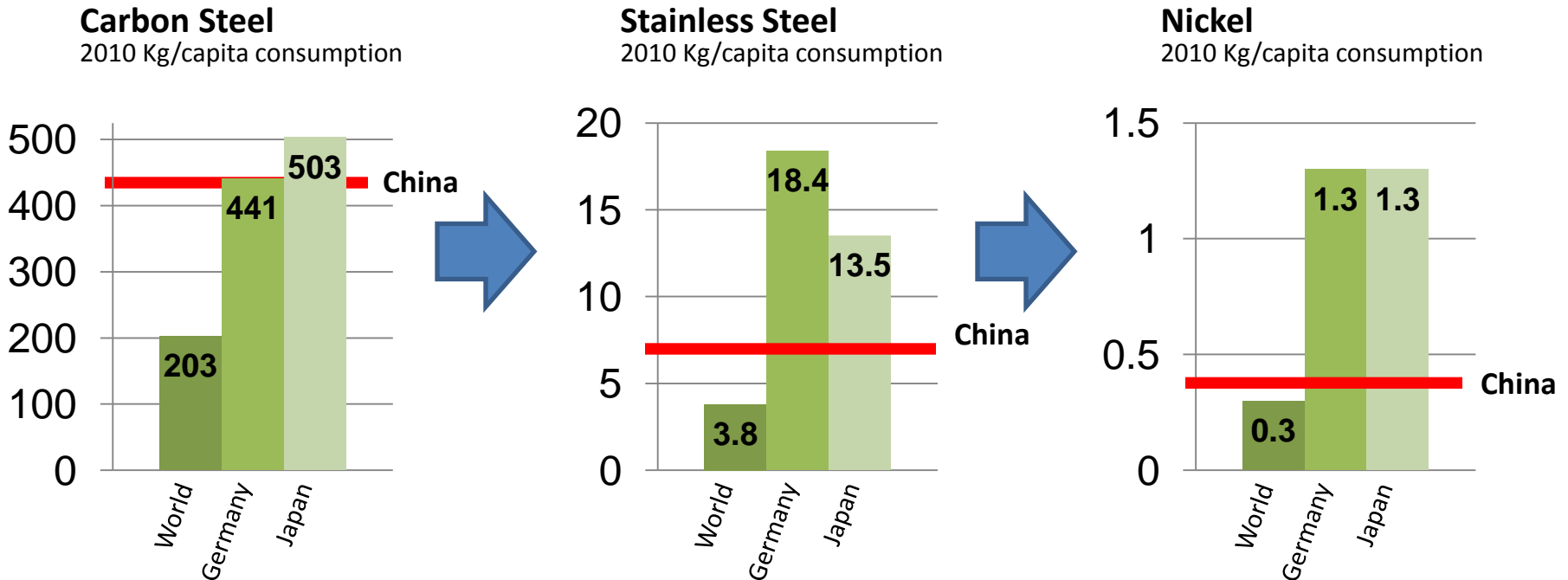


Source: Brook Hunt – A Wood Mackenzie Company, RNC Analysis

- Low risk projects only permit 9% per year growth in Chinese demand (~1/3 of trend growth of 25%)
- Including all higher risk projects, only 17% demand growth possible (still only 2/3 of trend growth)
 - Assumes no demand growth in the rest of the world, mine supply from existing operations will not decline
- NPI supply effectively is swing production for the nickel market and a positive market force by tightening prices through cycles

- China is going to need 1+ MILLION tonnes more nickel before the end of this decade
 - Rest of world led by Brazil, India, Russia will also need more
- Current set of projects under construction, AT BEST, will only provide ~500,000 tonnes or half of that amount
- By mid-decade, the nickel market has the potential to once again face significant supply shortfalls as:
 - Few large scale greenfield exploration discoveries
 - Significant cost and technical challenges associated with laterite projects have led to little early-stage project development in the nickel industry and resulted in the current set of projects under construction cleaning out the project “cupboard”
 - Indonesia’s stated ban on exports of ore by 2014, currently ~15% of world nickel supply, is likely to result in some form of export restriction or export duties
 - Indonesia has played an active role in the tin market
 - Lower cost NPI capacity is expected to be limited by higher grade ore availability
- By 2015-16, only a few new large scale projects, such as RNC’s Dumont and First Quantum’s Enterprise nickel sulphide projects, is expected to be ready to meet the world’s growing demand for nickel

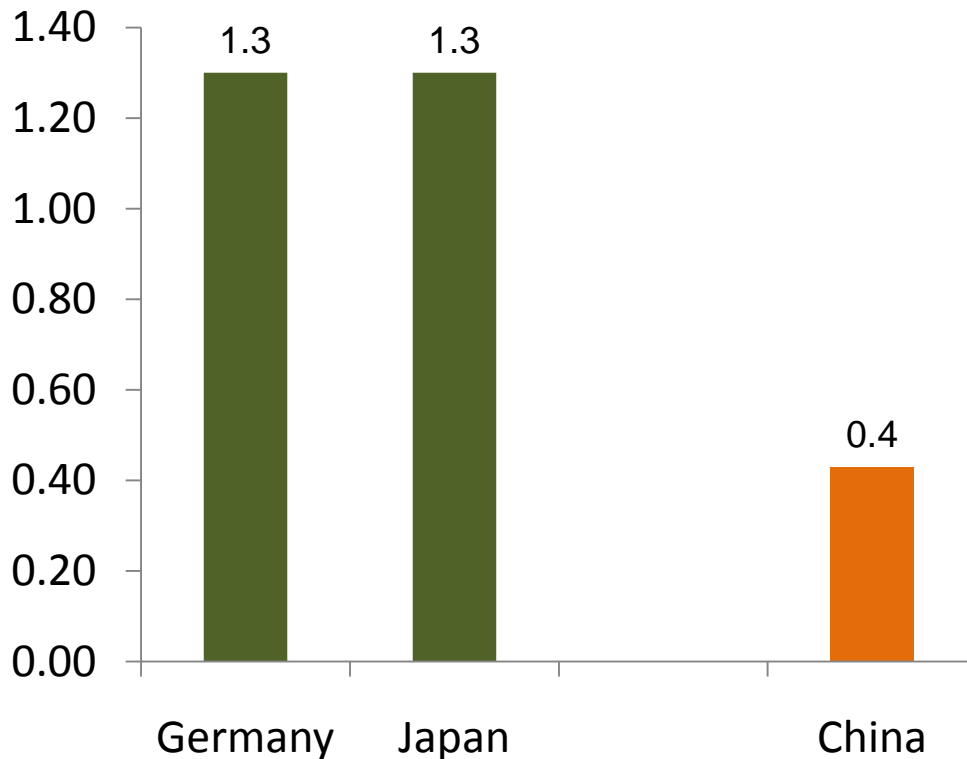
As an economy industrializes, demand moves from more basic materials like carbon steel into stainless steels and ultimately into specialty alloys that require a lot of nickel and will drive non-stainless nickel consumption in China.



Source: World Steel Association, ICSG, World Stainless Steel Statistics, Brook Hunt – A Wood Mackenzie Company, RNC Analysis

Despite huge growth in demand, Chinese per capita consumption is still less than half of that of industrial economies such as Western Europe and Japan.

Nickel Consumption per Capita
2010 (kg/capita)



- At Japanese and German per capita consumption levels, Chinese nickel demand would *increase by +1 million tonnes*
 - This is equivalent to **20+** Dumont scale projects

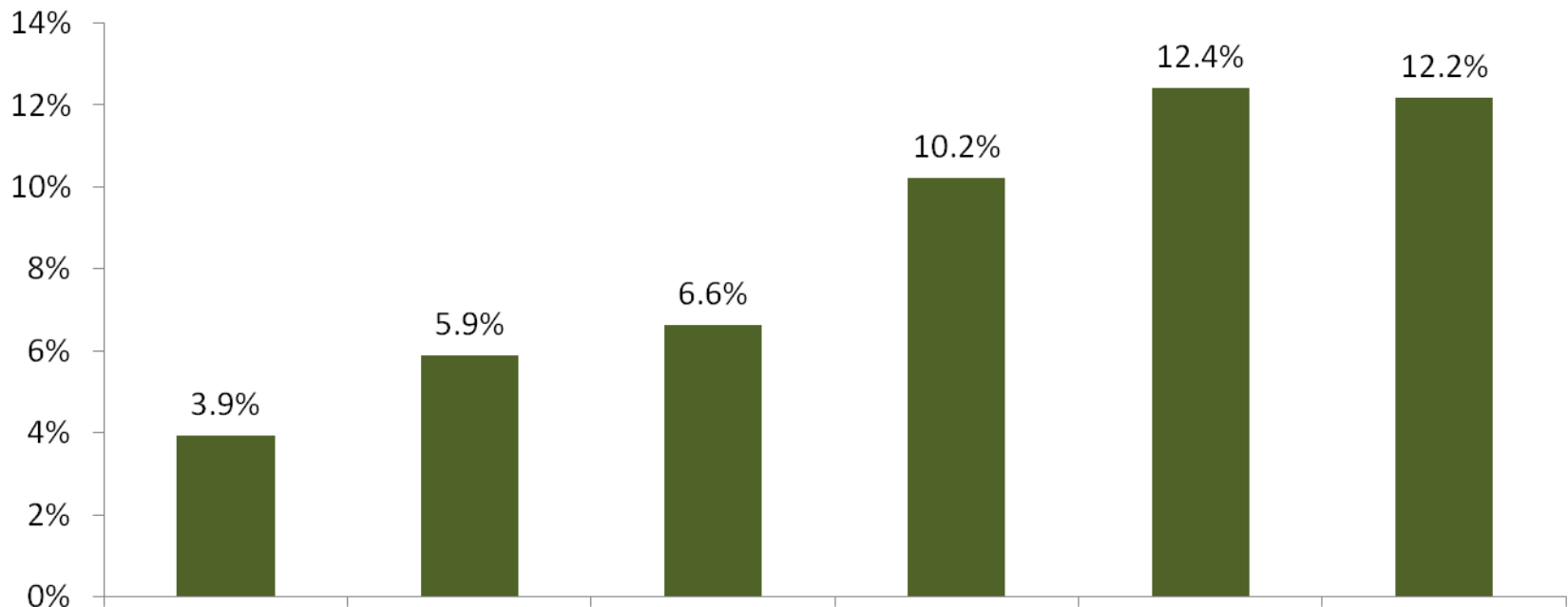
Source: CRU, RNC Analysis

With 1 million tonnes of nickel required and only ~500,000 tonnes under construction, where will the additional 500,000+ tonnes of nickel come from?

- NPI is a permanent fixture of the market, but will ultimately reach a production limit driven by constraints on high grade ore availability and structural cost increases (power, labour, currency) in China
- Large laterite projects, particularly PAL projects, have faced large cost overruns (3 projects now \$5+ billion), delays, and commissioning issues. Industry will have little appetite for new laterite projects until one or more ramp-up successfully which won't occur until 2014 at the earliest
 - Given 3-5 year development horizon once go-ahead decision made, difficult for additional production from large scale laterite projects to reach market before end of the decade
- Low grade sulphide deposits were ignored in the market rush into PAL/laterite projects. With few high grade laterite/sulphide discoveries during the last few decades, these lower grade sulphide deposits, particularly in low risk political jurisdictions with infrastructure in place, represent an increasingly important source of nickel in the future

Ore imports for nickel production have quickly become a large share of overall global mine production – tripled in 4 years.

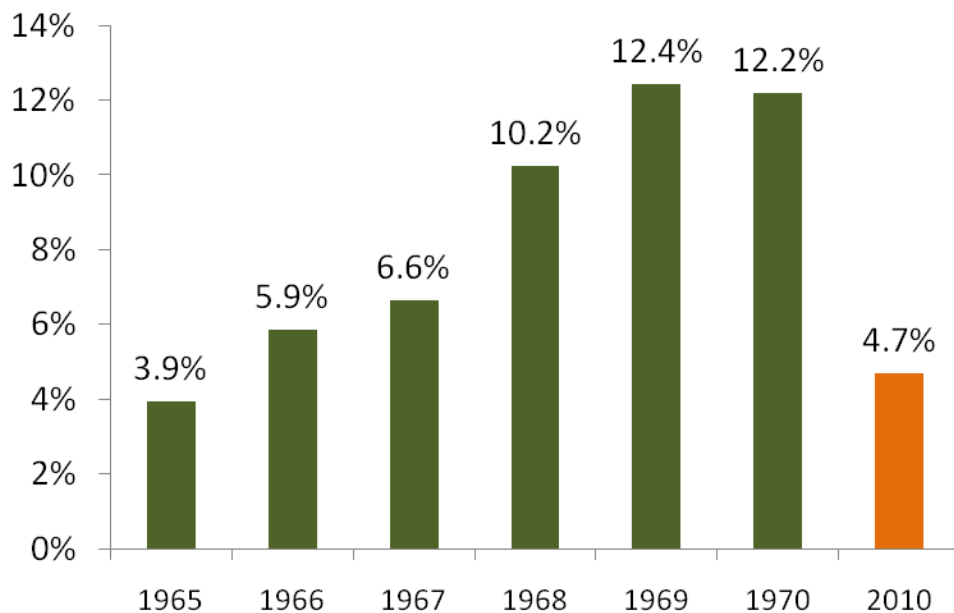
Nickel Ore Imports—% Share of World Mine Production



Source: USGS, Brook Hunt – A Wood Mackenzie Company

Ore imports for nickel production have quickly become a large share of overall global mine production.

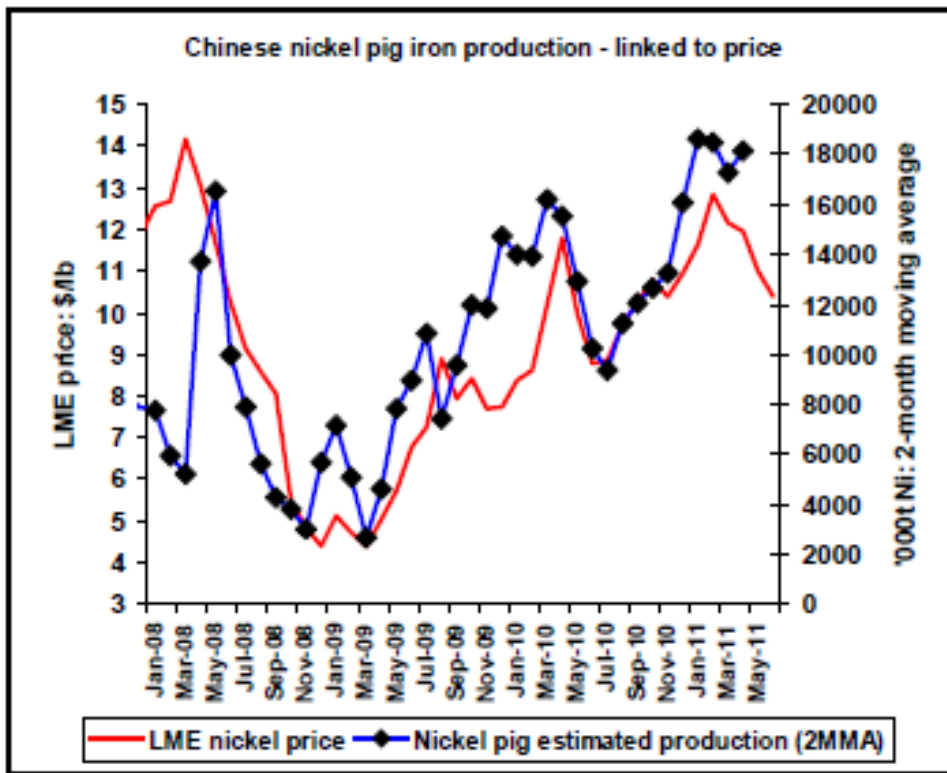
Japan Nickel Ore Imports
% Share of World Mined Nickel Production



Source: USGS, Brook Hunt – A Wood Mackenzie Company

- NPI is not new, it is effectively same process as Japan in 1960s. First time was France in the 1880s–1920s
- Even by 1960s, ore grades in New Caledonia were falling. Minimum ore grade imported to Japan in 1963 was 3%. By 1970, it was down to 2.5% and is trending to 2% today
- By 1970, ore imports into Japan leveled off. By 2010, ore imports were still at 1970 levels of approximately 4.5 Mt
 - Due to a combination of lower ore grades, higher energy costs, and rising input costs in Japan

LME Nickel Prices & Chinese Nickel Pig Iron Production 2008 to 2011



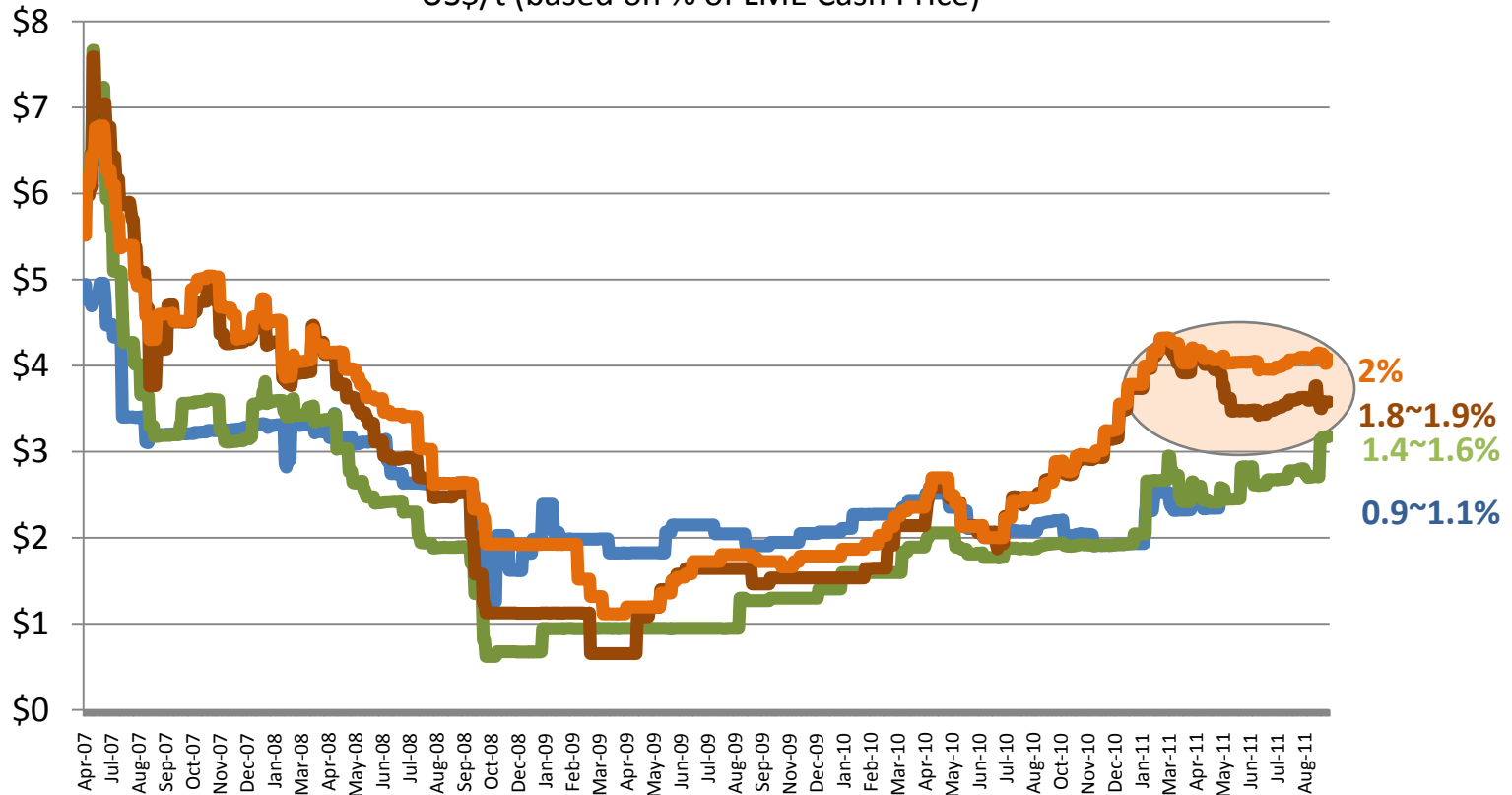
Source: Macquarie

- Effective swing producer as nickel pig iron production is very price sensitive requiring nickel prices towards \$10/lb to expand
- NPI producers will face increased cost pressure going forward which will push trigger price higher
 - Coke, electricity availability and prices, RMB appreciation, environmental compliance
- Please note that over *6 million tonnes* of imported nickel ore was used to produce pig iron for steel rather than NPI

NPI - Already Seeing Pressure on Ore Availability

When NPI production was growing earlier this year, highest grade ore prices (1.8-2.0%) decoupled from other grades and reached \$4/lb as supply could not keep pace. Increased demand should mean even higher prices during next NPI growth cycle ?

Nickel Laterite Ore Prices – China
 US\$/t (based on % of LME Cash Price)

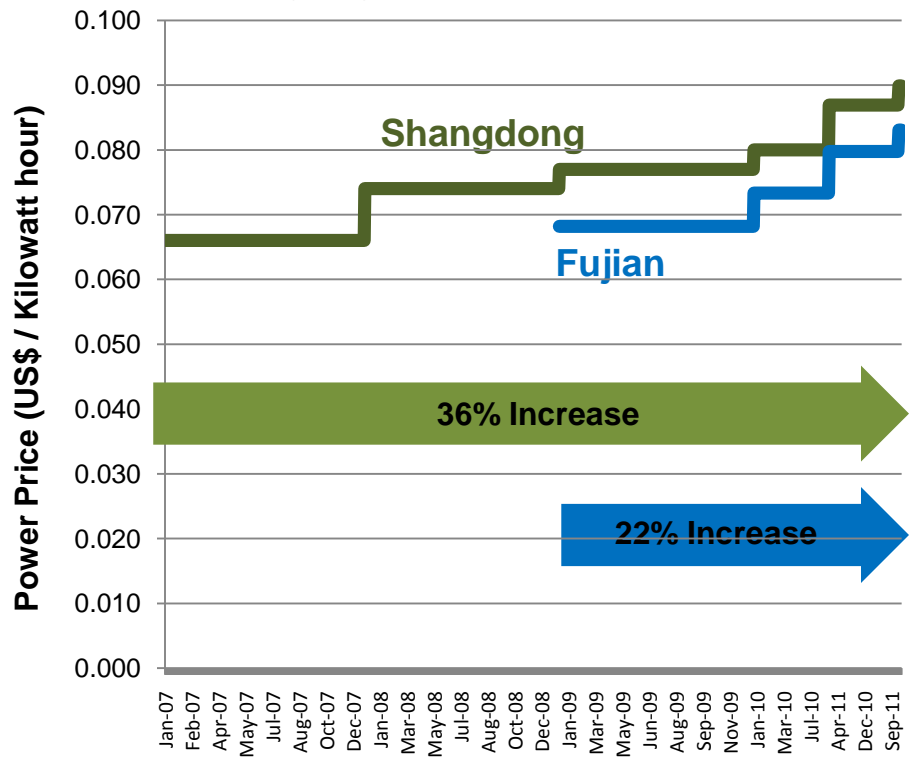


Source: Metallgence

Input costs have climbed significantly since NPI was first produced in China in early 2007

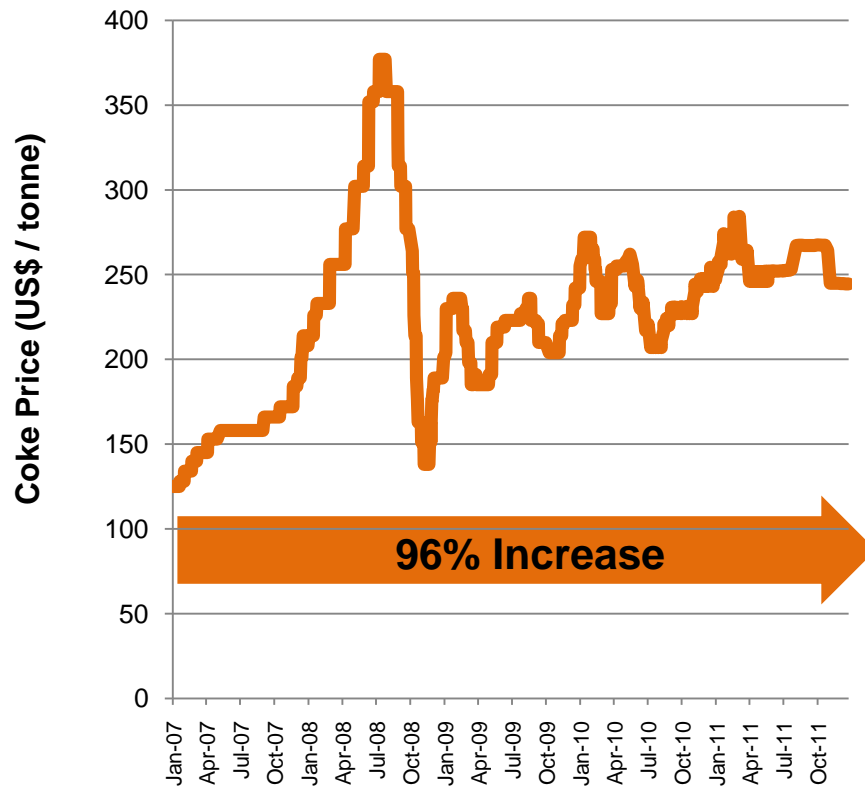
China Electricity Prices

(Shangdong and Fujian Provinces)



China Coke Prices

(Shangdong Province)



Source: Metallgence

- The bulk of the current wave of projects have been known for many decades: either discovered/developed too late during the 1965–75 period or inferior to other projects that were developed
- Most of current project wave has sat “in the cupboard” for many decades (even back to the beginning of the last century)

Project	Discovery
Koniambo	Early 1900s
Goro	Early 1900s
Ramu	Early 1960s
Ambatovy	Early 1960s
Barro Alto	Early 1960s
Onca Puma	Mid 1970s
Talvivaara	Early 1980s

- Since cupboard was full in 1975, there was very little need to do “new shopping” for new projects with greenfield development and exploration, which resulted in a very poorly structured project pipeline
 - Since 1990, only large greenfield discoveries have occurred when exploration was occurring for other metals: Voisey’s Bay (diamonds), Kabanga (gold), Enterprise (copper)
- Very little project development and exploration has been done over past few years. As a result, the current set of projects has now developed all saprolite deposits with large resource of 2.2% average grade or higher (Koniambo, Onca Puma, Barro Alto)
- ***No new high grade laterite discoveries have been made to replace these projects in the project pipeline***
- ***If Koniambo with an average ore grade of 2.6% required \$5+ Billion to develop, how much would similar output from a 1.8% saprolite greenfield project cost ?!?***
 - ***Remember that a number of modules for this plant were constructed in China !***
 - ***Remember today’s new NPI plants are the same as a traditional RKEF FeNi plant !!***

- Simpler mine/mill operations rather than fully integrated smelting/refining operations
- Conventional mine/mill operations have a long track record. Breakthrough by BHP Billiton (originally WMC Resources) at Mt. Keith in processing ultramafic ores has now operated successfully for almost 20 years
- Capital intensity a fraction of largest scale laterite projects
For examples, RNC Dumont's upfront capital estimate of \$1.1 billion and \$30 per tonne of nickel output is a fraction of the \$5+ billion and capital intensity of ~\$90 per tonne spent at Goro, Koniambo, Ambatovy
- Inherently, sulphide minerals require much less energy to liberate nickel than laterites
- Deposits in more politically stable jurisdictions (e.g. Canada, Finland, Sweden, Australia) versus (Indonesia, Philippines, PNG, New Caledonia)

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