

mine**life**

WEEKLY RESOURCE REPORT by Gavin Wendt



ISSUE 193

26th November, 2014

In this week's report we're reviewing three of our Portfolio resource holdings – Talisman Mining (ASX: TLM), Minotaur Exploration (ASX: MEP) and Poseidon Nickel (ASX: POS).

- **Talisman Mining** maintains a dominant and enormously prospective acreage position within the Bryah Basin of Western Australia and maintains a farm-out JV with Sandfire Resources (ASX: SFR), where Sandfire can earn up to a 70% stake in three of Talisman's projects by spending at least \$15 million over a 5½-year period. More recently it has secured the advanced Sinclair nickel project from Glencore for \$10 million, which will accelerate its transition to production status.
- **Minotaur Exploration** is one of the sector's best credentialed exploration companies. Most recently it has generated enormously encouraging initial copper-gold results from its Artemis prospect near the Eloise copper mine in Queensland; however the full significance of these results we believe are yet to be fully appreciated and understood by the market. We believe there is strong upside potential as Cloncurry drilling continues and results flow in.
- **Poseidon Nickel** has over the past six months taken aggressive steps to accelerate its path to maiden nickel production status. The company now boasts three significant WA mineral deposits, has finalized a toll-treatment deal with Nickel West to utilize its Leinster nickel smelter, and completed the first stage of a \$30 million capital raising that will fund development and repay debt. All-up development costs have been slashed by 90% from \$300 million to less than \$30 million.

Poseidon Nickel (POS) – Hold recommendation maintained

The company is one of the few major new emerging sulphide nickel producers in the world today. Poseidon has rapidly accelerated its pathway to first production via a series of astute recent acquisitions.

Corporate Details

Status: Emerging Producer
 Size: Small Cap
 Commodity Exposure: Nickel
 Share Price: \$0.155
 12-month Range: \$0.066 - \$0.27
 Shares: 606m, Options: 7m
 Top 20: 47%
 Net Cash: \$3.3m
 Market Value: \$94m



Key Parameters	Rating (✓ out of 5)	Quarterly Statistics
Management Quality	✓✓✓✓✓	Q3 2014 Exploration Spend: \$1.0m
Financial Security	✓✓✓✓	Q3 2014 Admin Spend: \$0.86m
Project Quality	✓✓✓✓✓	Exploration Spend 54%, Admin Spend 46%
Exploration / Resource Potential	✓✓✓✓✓	Q4 2014 Forecast Exploration Spend: \$2.5m
Project Risk	✓✓✓✓✓	Q4 2014 Forecast Admin. Spend: \$1.5m

We introduced emerging nickel producer Poseidon Nickel to our Portfolio during December 2010. Our rationale was based very much on the ‘straw hats in winter’ philosophy, involving the accumulation of a significant position in a high-quality emerging nickel play whilst underlying nickel prices remained low. Of course things have changed dramatically since January 2014, with the Indonesian ore export ban taking effect and nickel prices rising accordingly. Nickel sector interest is the highest it’s been in half a decade.

Poseidon’s primary focus has been the recommissioning of the historic Windarra nickel project, which comprises previously operational open-pit and underground mines at South Windarra and Mount Windarra respectively in Western Australia’s nickel belt. The total current Mineral Resource lies within two positions separated by a distance of around 10km, including an existing brownfields mine at Mt Windarra and a new discovery at Cerberus. The project also boasts substantial existing regional infrastructure.

Poseidon has taken dramatic steps to both accelerate its path to production and slash overall capital development costs, minimizing the funding required to achieve production status. This is reflected in the company’s solidly performing share price. Poseidon has abandoned its original plan to build its own stand-alone processing plant; culminating in the recent acquisition of the Black Swan mine and infrastructure from Russia’s Norilsk, along with a company-making toll-treatment arrangement with BHP Billiton’s Nickel West.

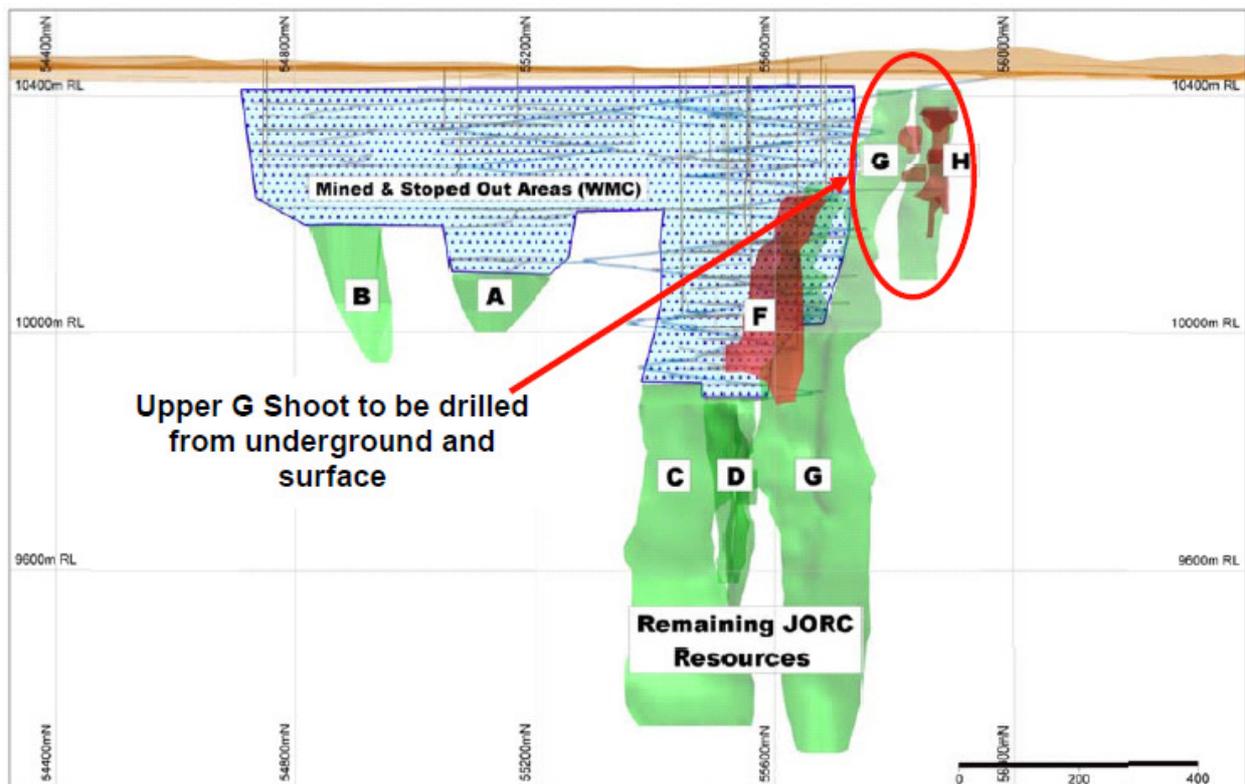
Recent Activity

The stars are well and truly aligning for Poseidon, with renewed interest in nickel as a commodity exposure due to significant supply challenges out of major producer Indonesia, along with resurgent interest in nickel equities as nickel prices have recovered over the past 18 months. Importantly, Poseidon has taken aggressive steps to both accelerate its path to production, as well as slash overall capital development costs. This has reduced risk and also minimized potential dilution for shareholders.

Underground Drilling Recommendations at Mt Windarra

Poseidon has recommenced underground drilling at Mt Windarra to potentially exploit an opportunity identified during the previous drill program that identified a near-surface extension of the Mt Windarra ore body. Importantly, the potential extension is near-surface and close to existing infrastructure.

The drilling will test extensions to the Upper G shoot zone. This defined region of the mineralised ore body could provide early cash flow, as it is close to the existing decline at a level already fully rehabilitated. The program is designed to speed up first ore deliveries in advance of when the main deeper C, D and G Shoot ore bodies can be mined. It is estimated that this drilling program could reduce the development time to first ore production by two months down to a total of 4 months.



It is planned to drill 1,300 metres of relatively short holes from the adjacent decline to bring the zone into mineable reserves and confirm geotechnical conditions. This underground drilling is expected to be completed by the end of the year. The underground drilling program will be complimented by a surface drilling program in order to map the near-surface oxide/sulphide transition zone at G shoot. This surface drilling will be completed after the Christmas break.

Surging Towards Production

Poseidon recently completed the acquisition of the Lake Johnston Nickel Project in Western Australia for a purchase price of \$1 million from Russia's Norilsk Nickel. Poseidon also agreed to purchase the Black Swan Nickel Project from Norilsk during July for \$1.5 million in July 2014, but the deal is still subject to due diligence.

The Lake Johnston and Black Swan Projects include mine and concentrator plant infrastructure, and proven resources. Norilsk acquired the projects in 2007 as part of its takeover of LionOre Mining International. The acquisition of Lake Johnston and Black Swan has more than doubled Poseidon's resource base to over 380,000 tonnes of nickel.

Poseidon estimates the cost of bringing the initial two assets into production at around \$24 million plus working capital, with Black Swan to be funded from operational cashflow. This initial capital requirement for first production of nickel concentrate has been revised down from a previous estimate of \$300 million to restart operations at Mt Windarra on a standalone basis.

This much lower capital intensity is, in part, a result of the recently agreed off-take deal with NickelWest during early October, which has avoided the need for a purpose-built concentrator plant and associated facilities.

Poseidon's overall nickel production capacity is expected to be twice as high as original estimates, which were based solely on Mt Windarra. The Lake Johnston processing plant has capacity of 1.5 Mtpa and the Black Swan nickel plant, which was upgraded in 2006, has proven throughput capacity of 2.15 Mtpa. The return to production of all three projects would give Poseidon the second largest nickel sulphide processing capacity in Australia.

Poseidon's plan is to return Lake Johnston and also its Mt Windarra Nickel Project to production within six months of final financing and successful completion of the Lake Johnston Definitive Feasibility Study. All three sulphide projects will be managed and operated by Poseidon, and are located within a 270km radius of Kalgoorlie. The company is not planning any further equity raises related to the two initial assets.

Completion of \$30 Million Share Offering

Poseidon recently completed a \$30 million raising via a private placement to strategic, professional and sophisticated investors comprising 166.7 million shares at an issue price of \$0.18 each. The share placement is taking place in two tranches, with the first comprising 85 million shares using the company's existing 15% capacity, whilst the balance is subject to shareholder approval on 26th November.

The funds will facilitate the completion of the remaining refurbishments at the company's flagship Mt Windarra project in Western Australia, as well as allowing commencement of capital works at its recently acquired Lake Johnston project. Funding would also be used to repay outstanding debt. Mt Windarra is

expected to cost in the vicinity of \$11 million to restart production, with an estimated \$10 million price tag for Lake Johnston.

Toll-Treatment Arrangement with Nickel West

Poseidon recently made a very significant breakthrough, with the negotiation of a conditional off-take agreement with BHP Billiton's Nickel West. The agreement comprises an ore-tolling and concentrate purchase arrangement (OTCPA) for the supply of ore from Poseidon's Windarra mine to Nickel West's concentrator at Leinster for toll-treatment into a smeltable-grade concentrate. Nickel West will purchase all of the concentrate produced.

The processing of ore at Leinster reduces the costs of commencing operations at Windarra to approximately \$11 million plus working capital – an enormous reduction from the previously reported figure of \$300 million for a stand-alone facility.

The OTCPA is for an initial period of two years (ending in February 2017), with first ore deliveries due no later than February 2015. Nickel West has the option to extend the contract term by one or two contract years. The contract is for a minimum quantity of 350,000 tonnes of ore annually and a maximum of 500,000 tonnes, which can be extended to 700,000 tonnes by mutual agreement. The ore will be mined at the Mt Windarra site and transported to Nickel West's Leinster facility for concentrating.

Loan Extension with Andrew Forrest

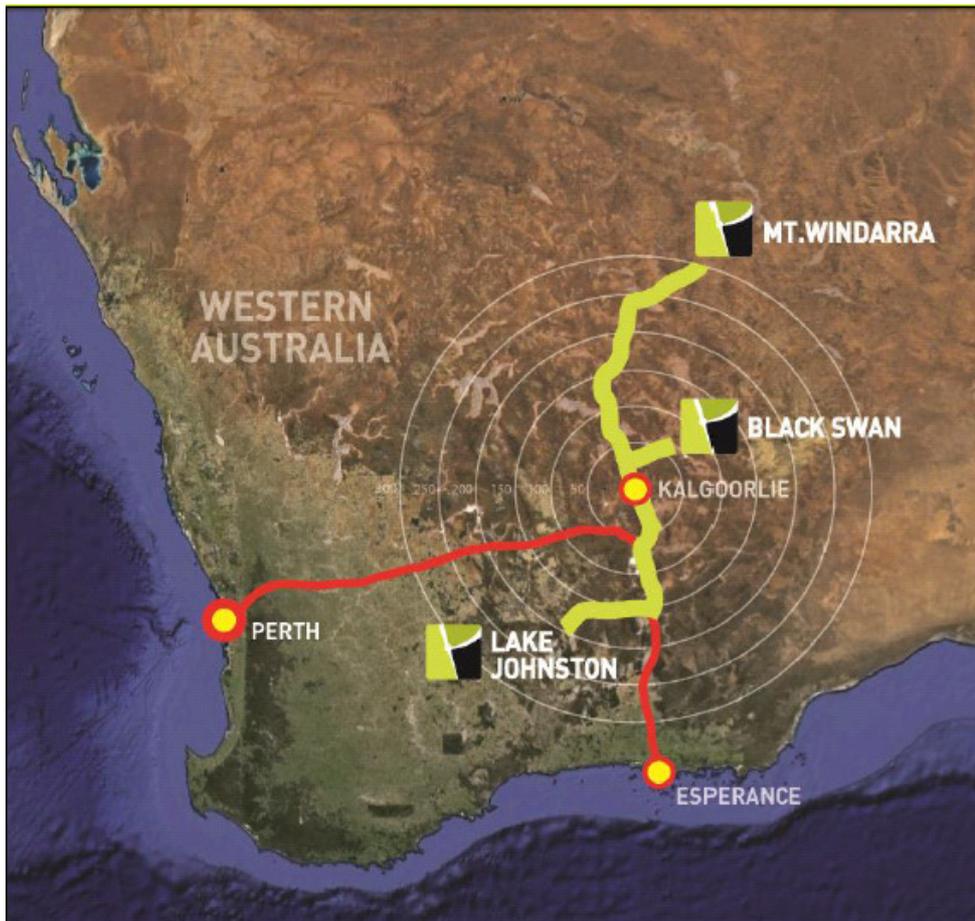
Poseidon recently reached agreement to extend the terms of the loan facility with Andrew Forrest's Munderoo Foundation. The current loan is for \$8 million, maturing on 1 October 2014; however Munderoo have agreed to extend the repayment date until 1 April 2015.

This is important for a couple of important reasons. Firstly, it gives Poseidon additional flexibility around the proposed development of its Windarra, Black Swan and Lake Johnston nickel projects. Secondly, it removes a major near-term uncertainty factor that had been occupying the market's mind.

Poseidon Nickel has agreed to provide security over the loan in exchange for the extension. In accordance with ASX listing rules, Poseidon's board will provide security over a portion of the loan immediately and will seek the necessary shareholder approval for completion of the security package at the company's AGM on 26th November 2014.

Project Overview

As we outlined earlier, Poseidon maintains three nickel projects all within 270km of Kalgoorlie. Importantly, all three projects have the mines and access to infrastructure to enable production to be brought on-line quickly and at low levels of capital investment. All projects are situated in well-endowed mining regions and have demonstrated resource extension potential that could lead to extended production life.



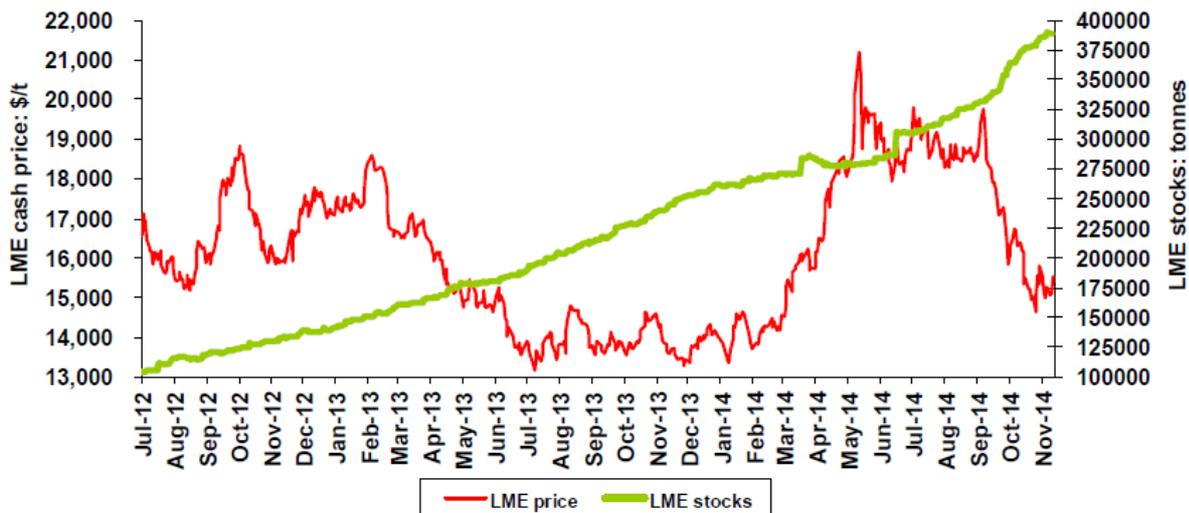
During early September Poseidon announced the acquisition of the Lake Johnston Nickel Project from Norilsk Nickel, following on from the purchase of the Black Swan project from Norilsk during July. Lake Johnston includes the Maggie Hays underground mine and a 1.5 million tonne per annum concentrator plant, which were placed on care and maintenance during April 2013.

Poseidon's third project, Windarra, is its flagship project and it is situated in the midst of Western Australia's historic nickel mining region. It has seen investment of close to \$100 million over the past five years with respect to refurbishment of the existing mine and facilities, along with extension of the resource base to support an initial ten-year mine life. The project is in our view a low-risk development due to its brownfields nature and conventional mining and processing methodology.

Stronger Nickel Prices Ahead

Nickel has confirmed its reputation for being the most volatile of the LME metals during the course of 2014, with a spectacular rally being followed by an equally spectacular crash. The price extremes reflect the interaction of funds and fundamentals. The initial catalyst for the price rise was the January 2014 ban on exports of nickel ore from Indonesia, eventually taking up to 25% of supply out of the market (although the impact was always going to be delayed due to around nine months of high-grade ore use in stocks at the end of January 2014).

Fig 1 LME nickel stocks and price (official cash)



Around 70% of nickel is used to make stainless steel and nickel accounts for 50-60% of the cost of making the main 304 (18% Cr, 8% Ni) grade of stainless steel. When nickel prices rose sharply during the first five months of this year, stainless steel buyers over-ordered (restocked) in anticipation of higher stainless steel prices. Global stainless production growth peaked during 2Q 2014 at 15% year-on-year and Macquarie forecasts that 4Q growth will be at best 2.5%.

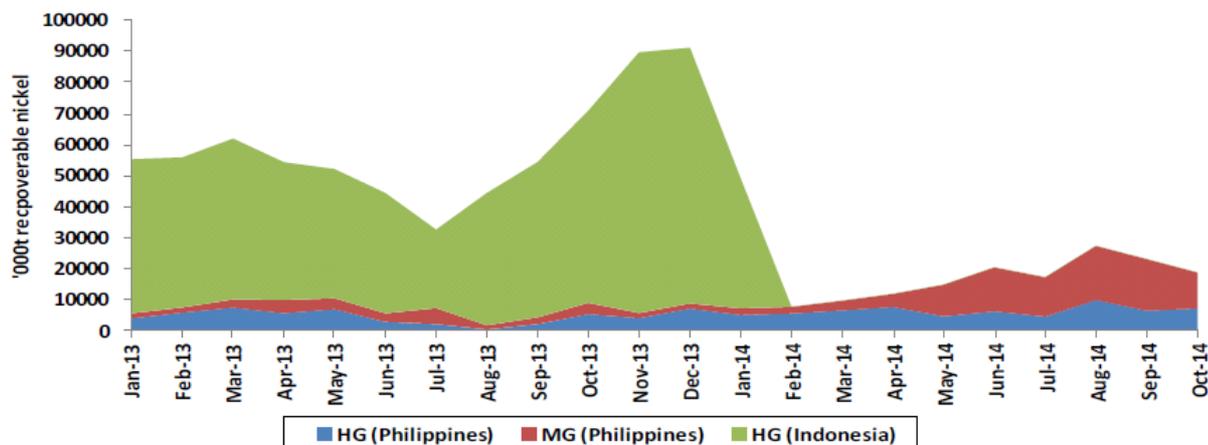
The demand slowdown is probably the most important reason for the continued price weakness over recent weeks. The initial weakness from mid-year was driven by fund liquidation, rising LME stocks and a surge in ore exports from the Philippines. The rise in LME nickel stocks followed the Qingdao financing scandal in May, where it was discovered that metal stocks were being pledged as collateral for multiple bank loans. Banks insisted on better collateral for loans, which prompted a large outflow of nickel units from Chinese to LME warehouses.

The slowdown in nickel demand has been even stronger than the slowdown in stainless steel production due to greater use of nickel in scrap, a faster slowdown in the nickel-containing grades than overall production and because of heavy destocking of nickel by stainless steel producers.

With mid-year demand euphoria giving way to short-term gloom, extreme destocking is now prevalent all the way from nickel ore to stainless steel, however once prices are perceived to have bottomed, there could be a significant pick-up in demand. Macquarie also envisages a sharp fall in nickel pig iron output during 2015 due to a final depletion of Indonesian high-grade ore stocks (by 2Q 2015) and limited availability of mid and high-grade ores.

Exports of nickel in mid and high-grade Pilipino ores were estimated at around 160kt during the period from January to October, around 90kt higher than the same period during 2013. However, Indonesian exports were around 455kt during January to October 2013 and are now zero (and are still likely to stay that way during 2015).

Fig 8 Exports of mid and high grade nickel ores from Indonesia and the Philippines to China (recoverable nickel) – the Philippines export surge in context



Source: Trade and port despatch statistics, Macquarie Research, November 2014

There is an expectation of some growth in nickel ore exports from the Philippines next year, since 2014 saw only a partial-year supply growth (from around April). In particular, the giant Tawi Tawi mine in the south of the Philippines is expected to continue to increase exports of high-grade ores (1.8% Ni). This mining complex supplied around 1mt of ore last year (10kt Ni) and is on track to supply 6mt this year (63kt Ni) and could grow to 10mt in 2015 (105kt Ni). Nevertheless, once the Indonesian ore stocks are depleted, Chinese nickel pig iron production should fall sharply.

Even after allowing for weaker demand growth and higher nickel pig iron production than previously expected, the likely global nickel supply/demand balance still points to the emergence of a significant deficit between supply and demand during 2015. By year-end, most of the excess stocks in the system will be in LME warehouses.

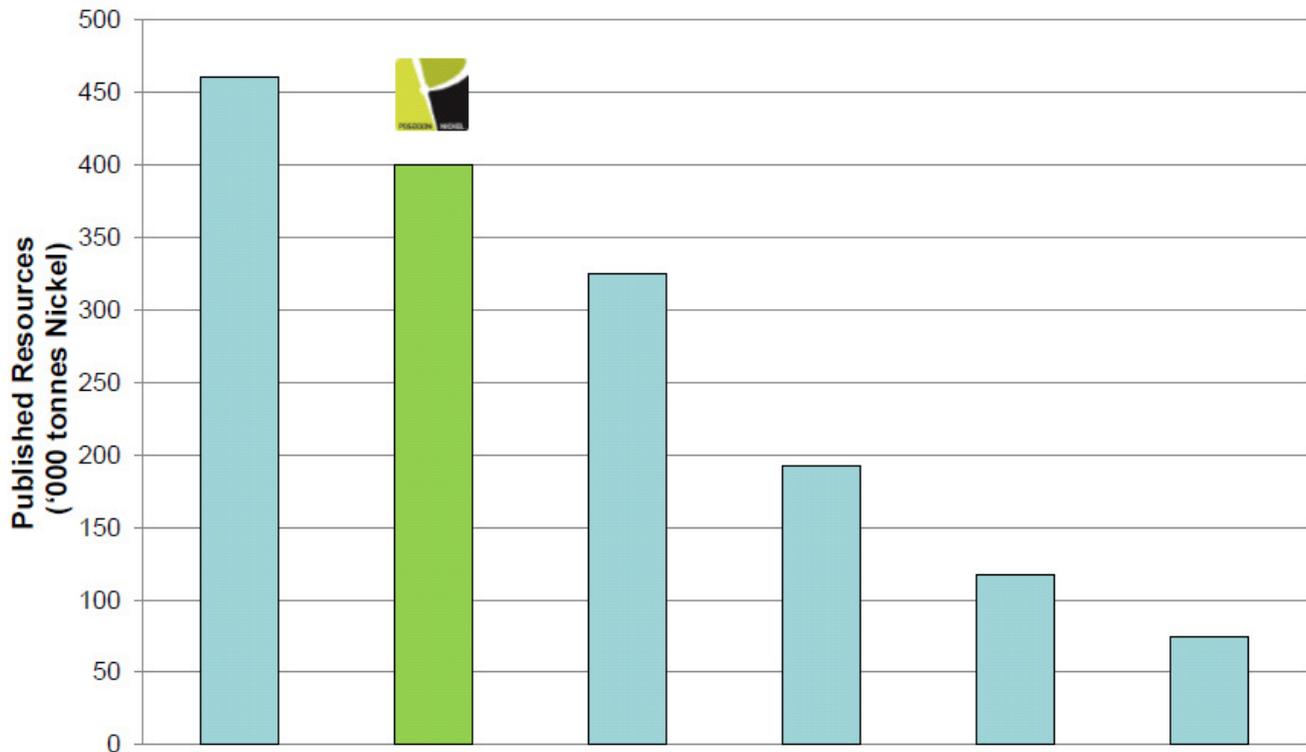
There is strong potential for a sharp rise in Chinese primary nickel imports during 2015 when compared with 2014, due to the fact that a significant portion of Chinese primary demand has been met by destocking during 2014. With the potential for destocking much reduced and NPI production likely to fall, a growing part of Chinese primary demand will have to be met by refined imports.

When LME stocks start falling (probably not until 2Q 2015), this could be the catalyst for a reversal of fund positions in the market and if nickel prices start rising this could be the catalyst for another surge in stainless steel orders and restocking.

Another important consideration relates to the fact that current nickel prices represent levels where probably more than 30% of existing producers are losing money. If prices were to stay at these levels for an extended period, significant production cuts would be likely, and not just in China. So whilst nickel prices are likely to remain somewhat subdued over the near-term, there is the strong prospect of speculative buying and restocking once prices have bottomed during 2015, which is likely to generate a strong uptick.

Poseidon has the second largest published nickel sulphide resource in Australia* (excluding BHP)

POSEIDON NICKEL



Private & Confidential

*Australian nickel sulphide producers and developers excluding BHP(B). Data compiled from Deutsche Bank report dated 28.07.14.

5

Summary:

Poseidon now has three high-quality nickel assets and substantial processing infrastructure in near working order. Its resource base has more than doubled with the recent acquisitions of Lake Johnston and Black Swan. It has the capacity to bring three projects into production within a relatively short timeframe, and within a manageable funding requirement. We are hugely encouraged by the company's recent corporate activity, as well as the 2015 outlook and beyond for overall nickel sector fundamentals and for nickel prices. All of this helps reinforce our confidence in the company's capacity to deliver on its production timeline. Heightened project activity will also help drive sharemarket interest well into 2015. In terms of upcoming news-flow we look ahead to drilling results from Mt Windarra that could extend near-surface mineralization, whilst the company confirms that it is on track to publish interim details of the feasibility study into the restart of the Lake Johnston nickel project this month.

Accordingly, we retain our positive outlook with respect to the company, but given our strong existing exposure we currently maintain a Hold recommendation on Poseidon Nickel.

Disclaimer: Gavin Wendt, who is a Financial Services Representative of Summit Equities Ltd ACN 097 771 634, and is a director of Mine Life Pty Ltd ACN 140 028 799, compiled this document. In preparing the general advice of this report, no account was taken of the investment objectives, financial situation and particular needs of any particular person. Before making an investment decision on the basis of the advice in this report, investors and prospective investors need to consider, with or without the assistance of a securities adviser, whether the advice is appropriate in light of the particular investment needs, objectives and financial circumstances of the investor or the prospective investor. Although the information contained in this publication has been obtained from sources considered and believed to be both reliable and accurate, no responsibility is accepted for any opinion expressed or for any error or omission in that information.

MineLife Portfolio: Please refer to our Portfolio page for a full listing of all our stocks held, including purchase prices and dates.



 **Summit Equities Ltd**

From active trading to access to quality capital raisings. If you wish to take advantage of high returns offered by share market Summit Equities offers you wealth of experience and dedication to help you achieve your investment objectives.

Summit Equities Trading Team

www.summitequities.com.au

Level 38, Australia Square Tower, 264-278 George Street, SYDNEY
Telephone (02) 8243 7510, Fax (02) 8243 7599