

Poseidon Nickel Ltd (POS): Lake Johnston Project update

Poseidon Nickel Ltd (POS), \$0.12, Speculative Buy, Valuation: \$0.62

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Event : Major resource update on the way and parts of concentrator plant recommissioned

POS made a very positive announcement regarding the forthcoming Lake Johnston Project resource update. In addition, parts of the nickel concentrator have been recommissioned on remnant concentrate. Offers for nickel concentrate offtake have been received and POS is in discussion with a number of parties regarding product sales.

Key Points

New resource in 4 weeks: As foreshadowed late last year, the Lake Johnston Project will shortly undergo a resource update at the Maggie Hays deposit. Through the review of the existing drill database last year POS identified a number of holes and other assay information not included in the latest version of the resource estimate. In addition it has become evident that some survey information had been incorrectly entered into the database. These anomalies have been rectified and will contribute to the resource update, scheduled for approximately 4 weeks. This work coincided with the provision of an interim DFS for the project in December 2014. The new information will be used to update the interim study with a view towards a final DFS shortly after the new resource estimate. Importantly, a new mining model will be produced

Significant missing data: POS believe that up to 100 drill holes were missing from the drill hole database in the vicinity of the North Shoot, Sub Level Cave and Suture Zone areas. The impact of the additional data around the North Shoot could be material, in that it has the potential to alter the mining schedule once production from the mine recommences given its proximity to existing infrastructure and being relatively close to surface. The existing resource estimate in this vicinity had been classified as Inferred due to a low confidence in the model. With this now rectified POS believe that resources in these areas will be upgraded to the Indicated category and hence, can be included in reserves and the mine plan.

Plant recommissioning: In order to prepare the concentrator for recommencement of operations, POS has been undertaking a number of recommissioning activities on remnant concentrate left in various parts of the circuit. A number of plant components are now operational and remnant concentrate is now being converted into saleable product. POS has issued tenders and received a number of offers for the Lake Johnston nickel sulphide concentrate with POS expecting to conclude discussions within the next 3 months.

Financing progress: POS has the financing required to start the Windarra operation. Lake Johnston only requires working capital financing as the capex requirements have already been covered. However, POS will need the final DFS to be completed prior to finalising funding arrangements. A completed offtake agreement will also be taken positively by debt providers.

Our View

We believe the new assay information and corrected surveys will have a positive impact on the resource estimate especially in the vicinity of the North Shoot. We believe this could materially change the mine plan during the first years of operation given the proximity to existing development and the increased confidence resulting from the new data. **The inference here is that resource to reserve conversion will be higher than had been envisaged and that mine life could be significantly extended.**

Also, as we are seeing currently in the gold industry, operating costs are decreasing. Timing seems to be on POS's side given they are likely to be receiving very competitive quotes on mining costs etc as preparations for recommencement of operations continue.

POS continue to progress the Lake Johnston Project at a fairly rapid rate but we still assume that production will ramp up in the 2H15. We note the recent falls in the nickel price but also note the currency effect which translates into a A\$18,930 per tonne nickel price, equivalent to A\$8.60/lb. We believe the USD denominated nickel price recovery thematic for 2015 is still intact and that the AUDUSD rate is unlikely to have much of a negative impact over the short to medium term. We therefore maintain our Speculative Buy recommendation on POS and note POS's very low capital intensity, production ramp up during 2015 from two operations (Windarra and Lake Johnston) and exploration upside.

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