minelife

WEEKLY RESOURCE REPORT by Gavin Wendt

ISSUE 98 **14th November, 2012**

West African Resources (ASX: WAF) is a highly-credentialed gold exploration play that maintains a dedicated and highly experienced exploration team with a long operational association with Africa. What's particularly encouraging is the fact that the company is now beginning to generate some real market traction and attract serious investor recognition with respect to its results from its Boulsa gold project in Burkina Faso, which is reflected in its outstanding share price performance since early August

Jacka Resources (ASX: JKA) maintains diverse African oil exploration situations right across the African continent, all of which are at varying stages of maturity. Two wells are planned for drilling during 2013, in Nigeria and Tunisia respectively. With exposure to prospective acreage in Africa and Australia, a modest market value and highly-credentialed management team, the company continues to represent an emerging, diversified energy opportunity with an enormous amount of upside.

Poseidon Nickel (ASX: POS) has a relatively unique position as one of the few emerging nickel sulphide miners in the world today. This places the company in a solid position, given the supply-side issues set to impact the nickel industry that aren't currently reflected in the market price of nickel. This week there have been a couple of hugely important developments that help underwrite the development prospects and credibility of the company's emerging Mt Windarra project.

West African Resources (WAF) – Hold around $0.34

West African gold explorer that maintains the biggest Burkina Faso landholding of any ASX-listed resource company, comprising a massive 200km strike length of hugely prospective gold-bearing greenstone belts.

Corporate Details

Status: Grassroots Explorer

Size: Small Cap

Commodity Exposure: Gold

Share Price: $0.34

52-week Range: $0.15 - $0.425

Shares: 186m, Options: 39m

Top 20: 70%

Net Cash: $7m

Market Value: $63m

	Rating (✓out of 5)
Management Quality	✓✓✓✓✓
Financial Security	✓✓✓✓✓
Project Quality	✓✓✓✓✓
Exploration / Resource Potential	✓✓✓✓✓
Project Risk	✓✓✓✓✓

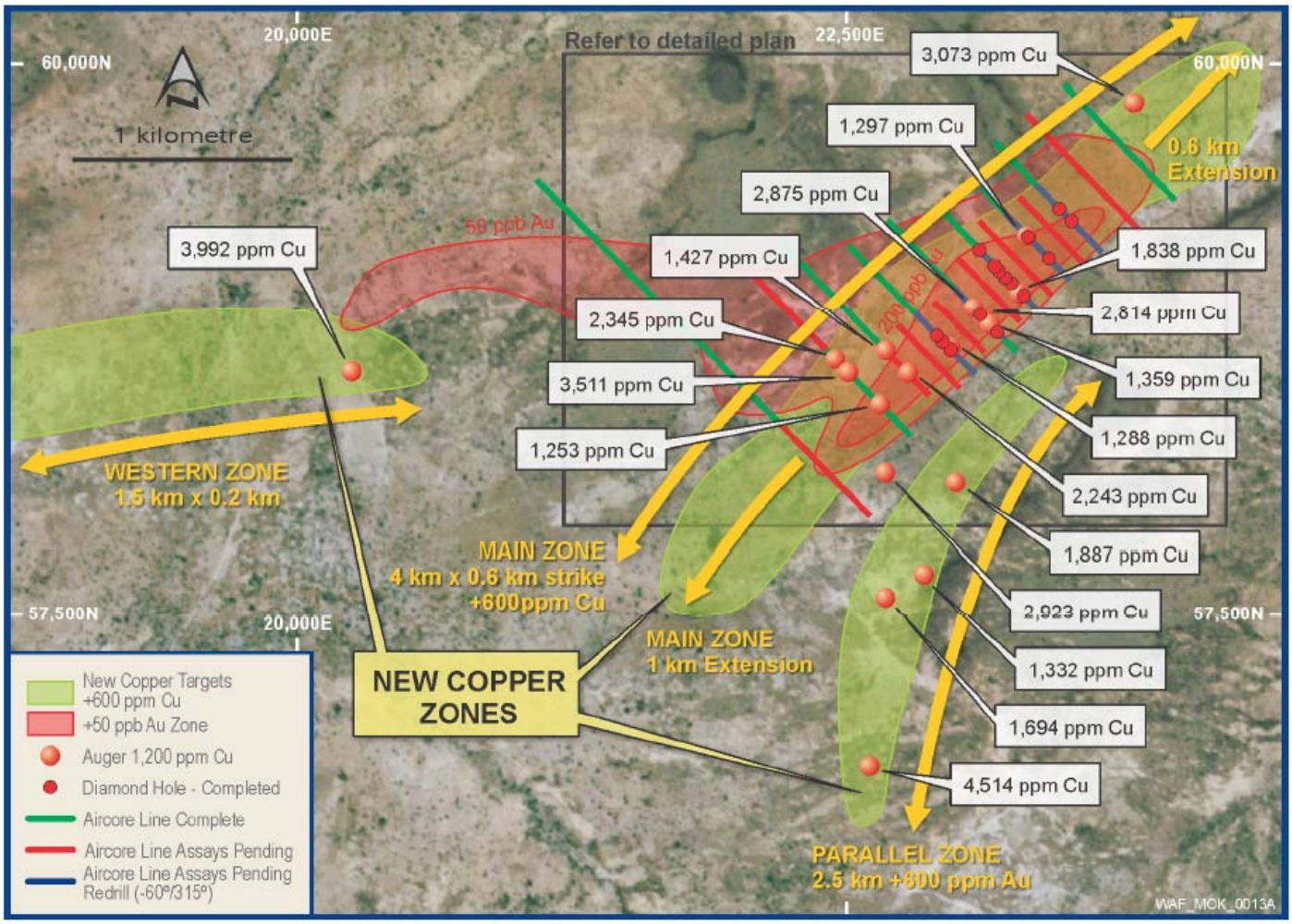
West African Resources is a highly-credentialed gold exploration play that we introduced to our Portfolio back in February 2011 with a Spec Buy recommendation around $0.38. During August 2012 we took advantage of irrational market weakness to purchase additional stock at ultra-low levels, with a Spec Buy recommendation around $0.175. The opportunity to average down our position made sense, particularly in the light of subsequent high-grade gold hits that have led to a doubling in share price in just a few months.

The most crucial aspect with regard to the company's activities is that it maintains a dedicated and highly experienced exploration team with a long operational association with Africa. Whilst many ASX junior companies over the past ten years have simply jumped aboard the West African bandwagon as a result of broker and speculative hype, the key identities associated with West African Resources (like Managing Director Richard Hyde) have a track record of success in West Africa's and understand its potential.

The company has in fact been operating in Burkina Faso since 2007 and this has allowed it to assemble a portfolio series of large-scale gold prospects that rank it as the largest ASX-listed landholder in the country. The company's Boulsa Gold Project encompasses a massive 6,370 sq km landholding, which in turn hosts a whopping 200km of strike length of early Proterozoic Birimian greenstone belts. This is significant, because these are the hugely prospective and primary gold-bearing rocks in the region.

Over recent months we've focused on the steady stream of highly encouraging exploration results that have been generated by the company's recent drilling programs at Boulsa. The most encouraging thing from my perspective is that the company is now beginning to generate some real market traction and attract serious recognition with respect to its results, which is reflected in its strong share price performance since early August, in what has been a particularly difficult market environment for West African resource plays.

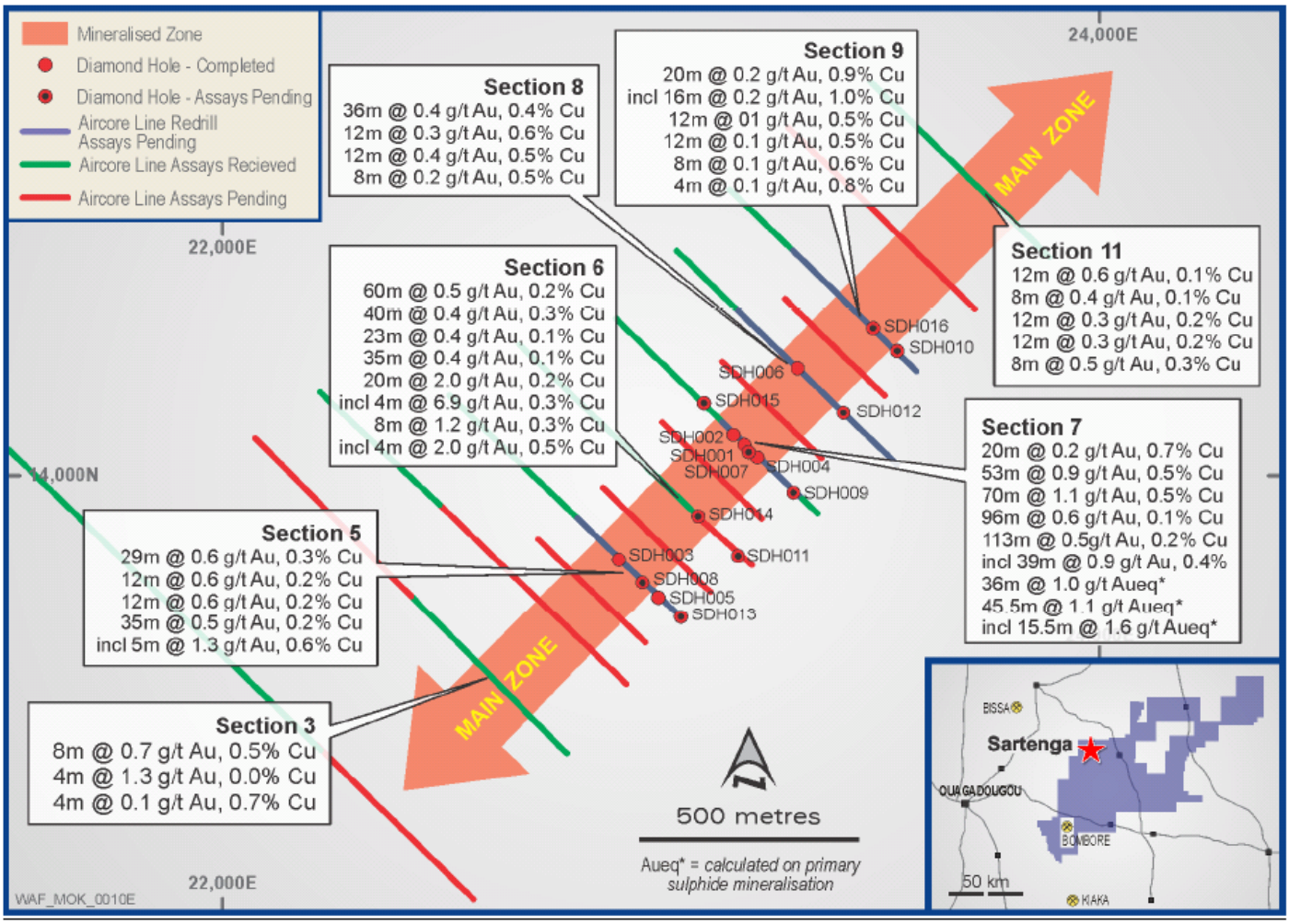
In terms of recent exploration activity the news continues to be extremely encouraging. On Tuesday this week the company announced the results of multi-element assaying of auger sampling from its Sartenga prospect, which have identified multiple new copper targets and extended the cumulative target strike length of the Sartenga copper-gold discovery to 8km. In addition the first batch of air-core drill samples has been air-freighted to Perth, with results expected within the next fortnight.



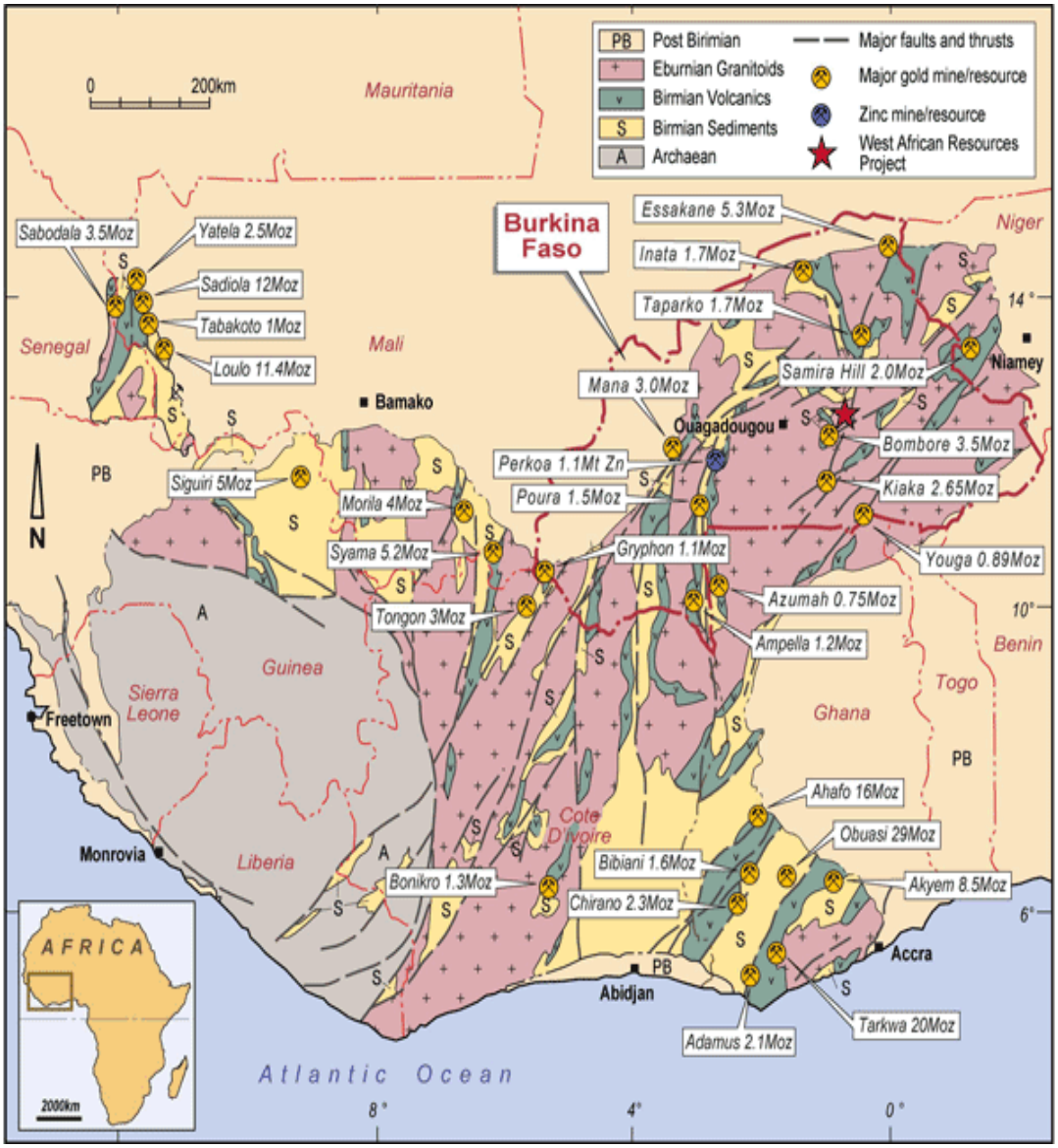
The Sartenga main zone has been extended by 1.6km – comprising a 1km extension to the southwest and a 0.6km extension to the northeast, at 600ppm copper contour level. The majority of the main zone gold and copper auger anomalism is coincident; however the company also highlights the fact that copper targets persist outside of the area that has so far been targeted by air-core and diamond drilling. This has been highlighted by a significant result of 0.3% (3,073ppm copper) from within the northeastern extension – which is clearly identifiable in the graphic above. Not surprisingly the company has identified this location for priority follow-up air-core drilling, as well as the two newly-identified zones highlighted in the graphic.

Interestingly, a new parallel zone has also been discovered 500 metres southeast of the main zone, covering a strike length of 2.5km and a width of 400 metres, grading 600ppm copper. This new zone has recorded the highest copper-in-auger samples to date, with 0.5% copper (4,514 ppm Cu) returned from the southern portion of the zone. This area also contains numerous +1,200ppm copper results and will therefore be subject to priority air-core drilling following completion of the drilling at the Sartenga main zone.

A further new zone has also been discovered 2km west of the main zone, comprising a 1.5km strike length and width of 0.6km, grading 600ppm copper with a peak result of 0.4% copper (3,992 ppm Cu) – and will naturally be targeted in the upcoming air-core drilling program. Both of the newly discovered copper zones have significantly enhanced the exploration appeal of the Sartenga prospect and naturally represent exciting priority drill targets.



The company has utilized up to four rigs in continuous operation at Sartenga since October, completing 10 deep diamond holes along a 1.2km strike length, along with 275 air-core holes. The first airfreight shipment is currently in transit to Perth and comprises 1,720 samples from 6,000 metres (108 holes) of air-core drilling, whilst a second batch containing 1,728 diamond and air-core samples are awaiting government export approval prior to air-freighting to Perth, which is expected to occur this week.



In terms of the bigger picture, the company's Boulsa Project is situated within central Burkina Faso's Manga-Sebba belt, a prolific geological structure that plays host to numerous gold deposits. Work by the company has so far tested 30km strike length of highly prospective Birimian greenstone belts in the southwest portion of the Boulsa project area, but this still represents less than 13% of the overall current strike extent. This work alone has identified 25 robust exploration targets.

In terms of the regional context, the southwest corner of the company's project area lies immediately adjacent to the 3.5Moz Au Bombore deposit, whilst the belt also extends into Niger where it hosts the 2.0Moz Au Samira Hill mine. The project is also bisected from southwest to northeast by the Markoye Fault, which is a major crustal-scale shear zone that's associated with a number of gold deposits, including the 1.7Moz Taparko-Bouroum deposit, the 5.3Moz Essakane deposit and the 2.65Moz Kiaka deposit.

West African Resources continues to represents a hugely attractive exploration play that is highly leveraged to success through its 100% stake in its Boulsa Project, which contains multiple high-quality prospects situated within a stone's throw of major multi-million ounce gold discoveries. The company owns and operates a fleet of six drilling rigs that are in continuous operation and there will be an initial JORC resource announced for its Sartenga prospect before the end of 2012.

Importantly, the company is gaining sharemarket recognition at a time when many West African plays have gone off the boil as far as the investment community is concerned. Given our strong existing exposure, we are comfortable maintaining a Hold recommendation on WAF for now.

Jacka Resources (JKA) – Hold around $0.185

Oil explorer with stakes in a variety of highly prospective offshore projects of varying maturity within Africa and Australia. The company has two wells scheduled for drilling in Nigeria and Tunisia during 2013.

Corporate Details

Status: Grassroots Explorer

Size: Small Cap

Commodity Exposure: Oil & Gas

Share Price: $0.185

12-month Range: $0.125 - $0.245

Shares: 248m, Options: 71m

Top 20: 30%

Net Cash: $4m

Market Value: $46m

	Rating (✓out of 5)
Management Quality	✓✓✓✓✓
Financial Security	✓✓✓✓
Project Quality	✓✓✓✓✓
Exploration / Resource Potential	✓✓✓✓✓
Project Risk	✓✓✓✓✓

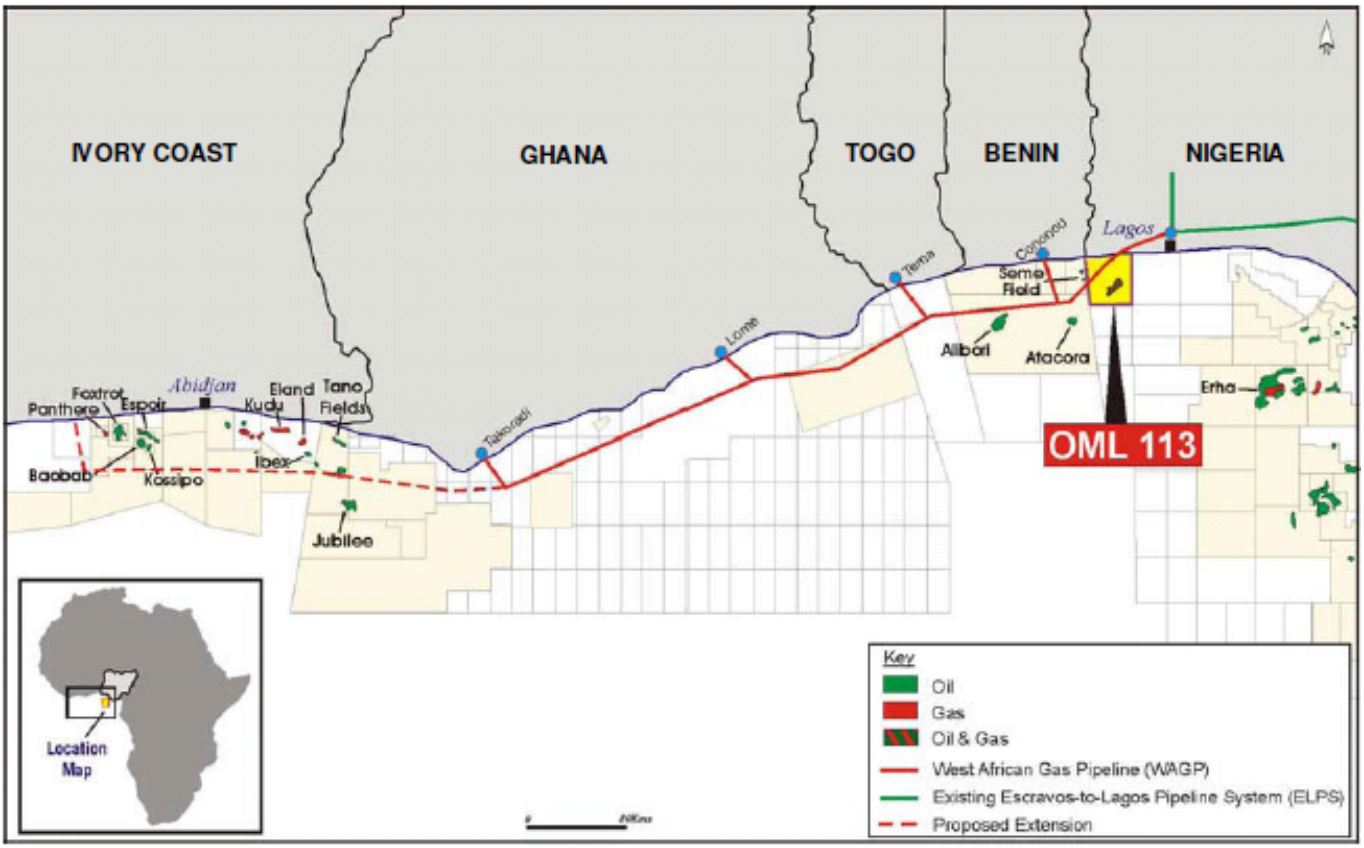
We introduced Jacka Resources to our Portfolio during July 2011 with a Speculative Buy recommendation around $0.13 and then a follow-up Speculative Buy recommendation around $0.125 during October 2011. These proved to be prudent buy-in opportunities and we currently sit with a tidy gain on our position as the company's African exploration opportunities continue to evolve. The company maintains diverse African oil exploration situations right across the continent, which are at varying stages of maturity.

Let's begin with Nigeria in West Africa, where the Aje joint venture has continued to progress a range of technical studies, including 3D seismic reprocessing and remapping; drilling planning and oil development studies working towards the drilling of the Aje-5 well during the middle of 2013, and work is continuing within the joint venture on the sourcing of a drilling rig. This well is expected to form part of an extended well-test project that will also include the previously drilled and suspended Aje-4 well.

Jacka earlier this year finalized its involvement in a previously-announced Heads of Agreement with Providence Resources Plc, which allowed Jacka to acquire a direct equity stake in the Aje oil and gas field within Nigerian petroleum licence OML 113 for total consideration of US$16 million. The joint venture comprises Jacka, YFP (project operator), Chevron (Technical Advisor), Vitol and Panoro Energy. The acquisition boosted the company's 2P contingent resources from 16.6M bbls to 26.6M bbls of oil equivalent.

Aje is an advanced and highly attractive emerging production asset. Four wells have so far been drilled within the Aje field and encouragingly all of them have encountered hydrocarbons, with logging and testing demonstrating significant net hydrocarbon-bearing sections within three of the wells. In fact, the project partners have declared the field commercial following the successful drilling and flow-testing of the most recent well, Aje-4.

Jacka's technical review of Aje has estimated that the acquisition will deliver net P50 contingent resources of around 10 million barrels of oil equivalent to the company. Jacka will receive a net 5% revenue-earning interest in the Aje oil & gas field (paying 6.675% of the costs relating to the Aje development) and will also receive a 2.667% interest within the OML 113 petroleum licence itself, which is situated within the prolific structure known as the West African Transform Margin (WATM).

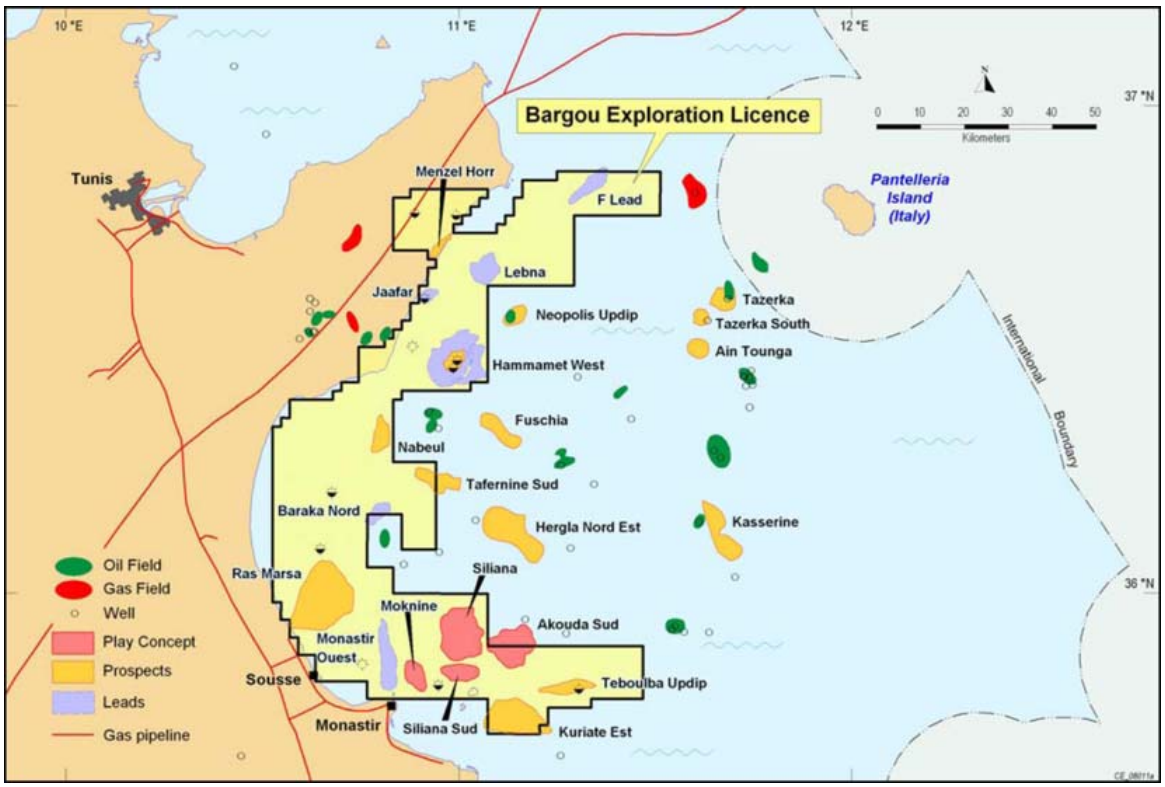


Jacka's OML 113 licence contains a number of leads and prospects that are mapped on-trend with proven oil accumulations, providing further exploration upside and possible tie-back opportunities. Geophysical data coverage over OML 113 includes 915km of 2D seismic, 700 sq km of 3D seismic (including full 3D seismic over the Aje field) and an electromagnetic survey.

Jacka also maintains a strong North African exploration presence, with a 15% equity stake in the Bargou block within the Gulf of Hammamet, offshore Tunisia. The Bargou block is located within the Pelagian Basin and covers an area of 4,616 sq km, with predominantly offshore prospects and leads. The Pelagian basin is a prolific producing basin spanning Tunisia and Libya and contains some of Tunisia's most prolific oil and gas fields.

Preparation for the drilling of the Hammamet West-3 appraisal well continued during the September quarter, culminating in the award of a drilling contract to the jack-up rig GSP Jupiter. The rig is currently drilling in the Black Sea, offshore Romania and will make its way to Tunisia for use by the Bargou JV upon completion of the contract. The operator is progressing all other service contracts and equipment in preparation to spud the well during early 2013.

The Hammamet West-3 well is designed to test the productivity of the naturally-fractured Abiod formation. The joint venture has conducted a number of subsurface studies using 3D seismic to identify regions of best fracture development within the Abiod formation and these studies have been integrated by the joint venture to select optimum well paths for the pilot hole and horizontal sidetrack, which should allow the venture to penetrate and test a representative section of the fractured reservoir.



The Bargou block is considered to be one of the most prospective exploration plays in Tunisia. As well as the Hammamet West field that's estimated to contain 111 million barrels of P50 Contingent Resources, the block has multiple independent structures that represent follow-up exploration opportunities. These include Ras Marsa and Kuriate Est, which are expected to be matured into prospects by further technical work.

Contingent Resources as at 30-Jun-11	Licence / Permit	Jacka %	2C Gross (MMboe)	2C Jacka Share (MMboe)
Hammamet West	Bargou Tunisia	15%	111	16.6
Total			111	16.6

The Bargou block has independently-verified Mean Prospective Resources of more than 600 million barrels of oil (of which +90 million barrels is net to Jacka). The P50 contingent resource target for Hammamet West-3 well is ~111 million barrels (JV 100% over two formations), with an upside of up to 213 million barrels (JV 100%, filled-to-spill-point scenario).

A conceptual development plan has been prepared by Worley Parsons that shows ~15-20 million barrels would likely be commercial under the development scheme. The operator of the Bargou block, AIM-listed Dragon Oil, will earn a 55% participating interest in the Bargou permit (with Cooper Energy 30% and Jacka 15%) by funding 75% of the Hammamet West-3 well.

Prospective Resources as at 30-Jun-11*	Licence / Permit	Jacka %	Mean Gross (MMboe)	Mean Jacka Share (MMboe)
Tunisia	Bargou	15%	612	92
Totals			**612**	**92**

* based on RPS Independent Assessment August 2008

The Hammamet West-3 (HW3) well will appraise the discoveries made on the previous Hammamet West 1 and 2 wells. The plan for HW3 will be to utilise horizontal drilling to access the carbonate reservoir fractures before conducting a flow-test. HW3 will target and test the section of the Hammamet West structure that encountered a 192-metre oil column in HW2. An approximate 500-metre horizontal section will be drilled within the column in a direction designed to optimally access open fractures.

Turning our attention to east Africa, Jacka maintains a 50% equity interest in the 22,000 sq km Odewayne block in Somaliland. The company has continued with its plans for early-stage exploration as per its obligations under the production-sharing and farm-out agreements, with the execution of an agreement with Fugro for high-resolution, airborne gravity and magnetic surveying that will be undertaken during Q4 2012. This data will be used to define a 2D seismic exploration program planned for Q1 2013.

Encouragingly, Somaliland is receiving increased attention from international oil companies. The UK's Genel Energy recently entered the country and acquired a 75% interest in the block immediately east of Jacka's Odewayne block. And on Monday this week, Jacka announced that it had entered into an agreement with Genel Energy involving a 50% equity farm-out 50%, with Genel becoming the Operator of its Odewayne block.

Under the key terms of the transaction, Genel will earn a 50% interest in the block by carrying Jacka and Petrosoma through the minimum work program in phases III and IV of the PSA (including 1,500 km of 2D seismic and the drilling of an exploration well), paying for all PSA-related expenditure in exploration phases III and IV, and paying a pro-rata share of back costs of ~ US$0.7 million to Jacka. The farm-in remains

subject to normal governmental approvals and if approved, the equity interests will be Genel 50% (Operator), Jacka 30% and Petrosoma 20%.

The Odewayne block lies in the south west of Somaliland and covers an area of some 22,000 sq km enclosing a Jurassic/Cretaceous rift basin, estimated to be 120km long and 50km wide. Based on existing gravity and magnetics data, these are typical rift segment dimensions, amply demonstrated in the modern East African Rift including the Albertine graben in Uganda. The Odewayne and other rift basins within the block are genetically related to and a continuation of the prolific Jurassic rift basins of Yemen, where 9.8 billion barrels of oil equivalent have been discovered or are to be discovered (per USGS 2002).

An active petroleum system is demonstrated within the Odewayne basin by numerous identified individual oil seeps to date. Geochemical analysis points to an original light oil or condensate, consistent with the oils produced in Yemen. The 20km - 40km migration distance implied by the location of some of the seeps suggests potential for a prolific source kitchen and a regional seal.

Finally, much closer to home the company has a sizeable holding in offshore block WA-399-P in Western Australia. During 2010, Jacka reduced its holding in the block from 20% to 15% through the introduction into the joint venture of US independent oil player, Apache, as operator with a 60% working interest. The permit is located within the northern offshore Carnarvon Basin and more specifically within a prospective sector of Exmouth sub-basin, which is one of Australia's premier oil basins, generating several commercial discoveries over the past five to ten years.

The government recently approved a variation of the drilling commitment by 12 months into the year commencing September 2013. This allows the joint venture to better co-ordinate drilling activity with other programs that the operator, Apache, will conduct across the region. A number of prospects and leads have been identified in WA-399-P, with total gross prospective resources in excess of 30 million barrels. Further technical and commercial work will be undertaken as these prospects have potential as both standalone and joint developments with nearby discoveries.

Fields such as the Macedon gas field (BHP Billiton) (1.2Tcf), Stybarrow/Eksdale (BHP Billiton) (60-90Mbbls) and the Enfield, Vincent and Laverda oil fields (Woodside Petroleum) (125Mbbl) that were discovered in the early 1990's and mid 2000's, are producing hydrocarbons or have reached the development stage. Other companies with nearby discoveries and production include Chevron and Apache Energy. The region remains one of the major areas of focus in the Australian oil and gas sector.

Apache has advised that the Gazelle 3D seismic acquisition that was completed successfully during Q1 2011 is expected to be completed during H2 2012. We will await the results of seismic processing and interpretation in order to identify potential drill targets in this block. The 3D seismic data acquisition exceeded the existing minimum exploration commitment obligation under the exploration permit terms.

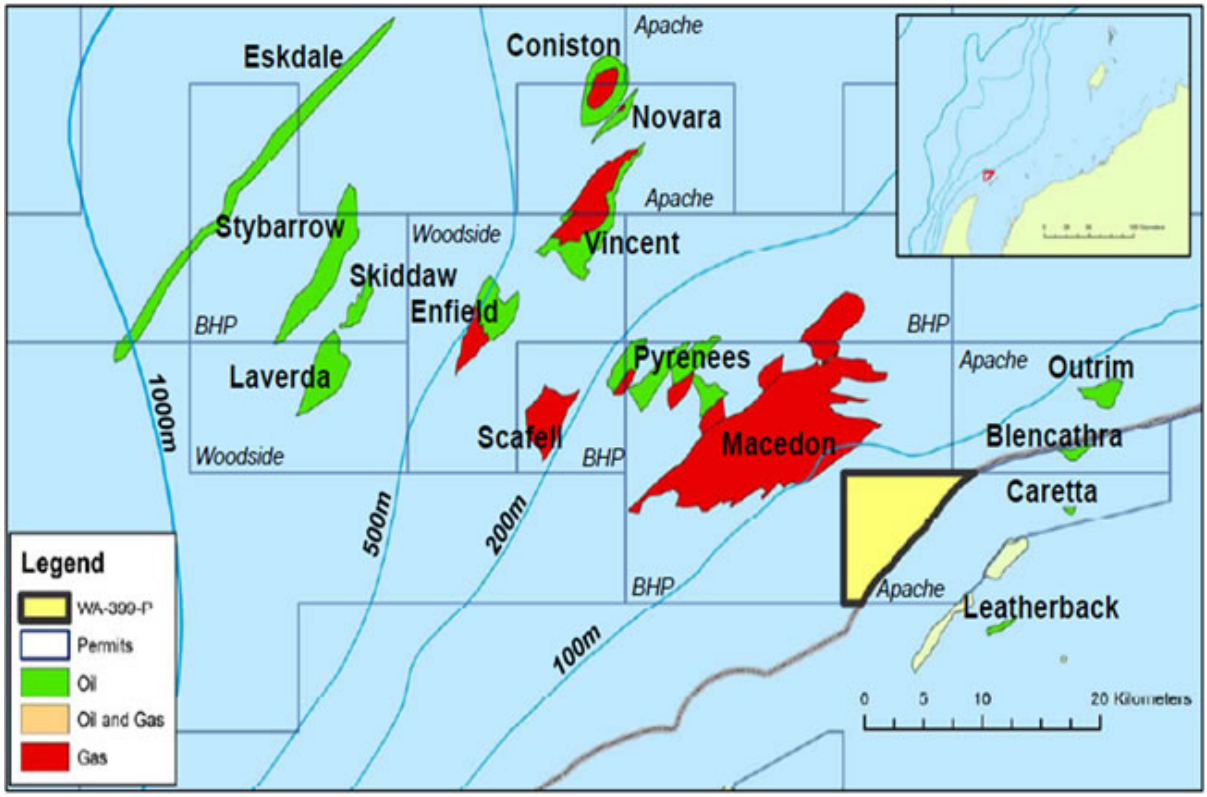
The current lead prospect is called Gazelle and is conceptual in nature, but with well-defined structural/stratigraphic traps, including the prospective Macedon Member sandstones within WA-399-P.The

company's assessment of Prospective Resources for the Gazelle Lead prior to the acquisition of the Gazelle 3D seismic dataset was as follows:

Prospective Resources as at 30-Jun-11*	Licence / Permit	Jacka %	Mean Gross (MMboe)	Mean Jacka Share (MMboe)	Comments
Gazelle Lead	WA399P	15%	56	8.4	2D "flat spot" to be confirmed in 3D
Total Prospective Resources			56	8.4	

* WA399P Independent Geologist Review March 2010

The Macedon Member Sandstones at the Gazelle Lead have direct play analogs with recent hydrocarbon discoveries within the region. More specifically, the Gazelle Lead exhibits multiple amplitude-supported seismic attributes: depth-consistent flat spot (coincident with depth structural spill and possible oil/gas contacts) and crestal amplitude diming (consistent with local rock property trends).



With exposure to highly prospective offshore oil acreage in Africa and Australia, a modest market value of under $50 million and a highly-credentialed Chairman in Scott Spencer, Jacka Resources continues to represent an emerging, diversified energy opportunity with an enormous amount of upside. With appraisal/pre-production drilling in Tunisia and Nigeria, the company has the prospect of bookable reserves and near-term revenue that can support its more frontier exploration efforts.

Given our strong current exposure to the stock, I maintain a Hold recommendation on Jacka Resources.

Poseidon Nickel (POS) – Maintain Spec Buy around $0.115

Emerging nickel producer that is advancing redevelopment of the historic Mt Windarra project in Western Australia. The company is one of the few new emerging sulphide producers in the world today.

Corporate Details

Status: Emerging Producer

Size: Small Cap

Commodity Exposure: Nickel

Share Price: $0.115

12-month Range: $0.071 - $0.23

Shares: 408m, Options: 10m

Top 20: 40%

Net Cash: $17m

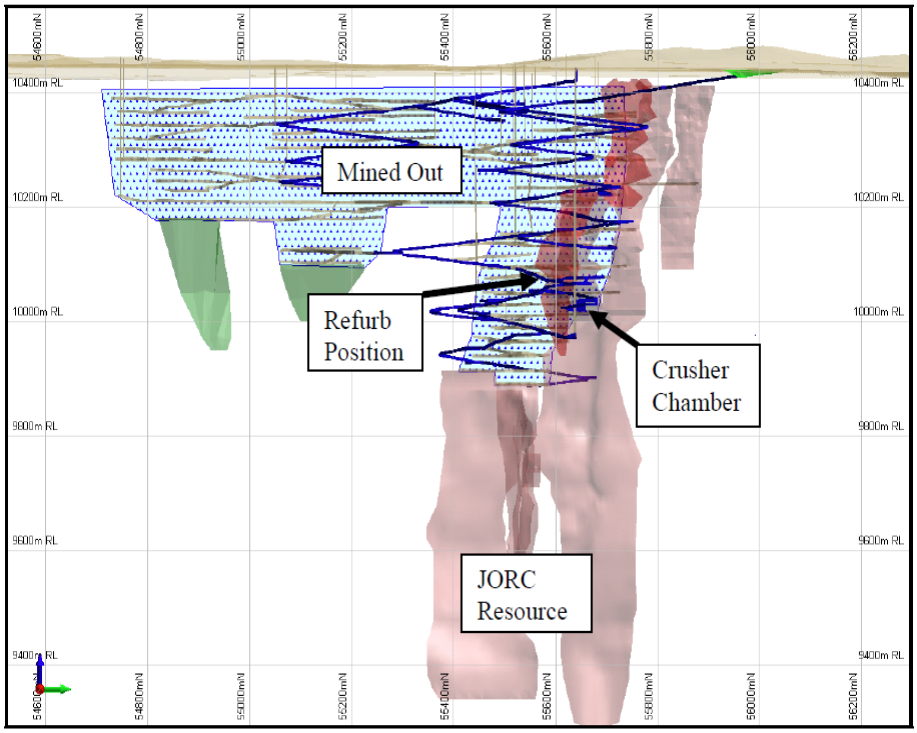
Market Value: $47m

	Rating (✓out of 5)
Management Quality	✓✓✓✓✓
Financial Security	✓✓✓✓✓
Project Quality	✓✓✓✓✓
Exploration / Resource Potential	✓✓✓✓✓
Project Risk	✓✓✓✓✓

We introduced emerging nickel producer, Poseidon Nickel, to our MineLife Portfolio during December 2010 with a Speculative Buy recommendation around $0.22. We've recently elected to take advantage of positive news on the resource, shareholder, approvals and project appraisal fronts - to add to our existing position at what we believe to be ultra-cheap prices. Accordingly, we maintain our Speculative Buy recommendation on Poseidon Nickel to both new and existing shareholders around $0.115.

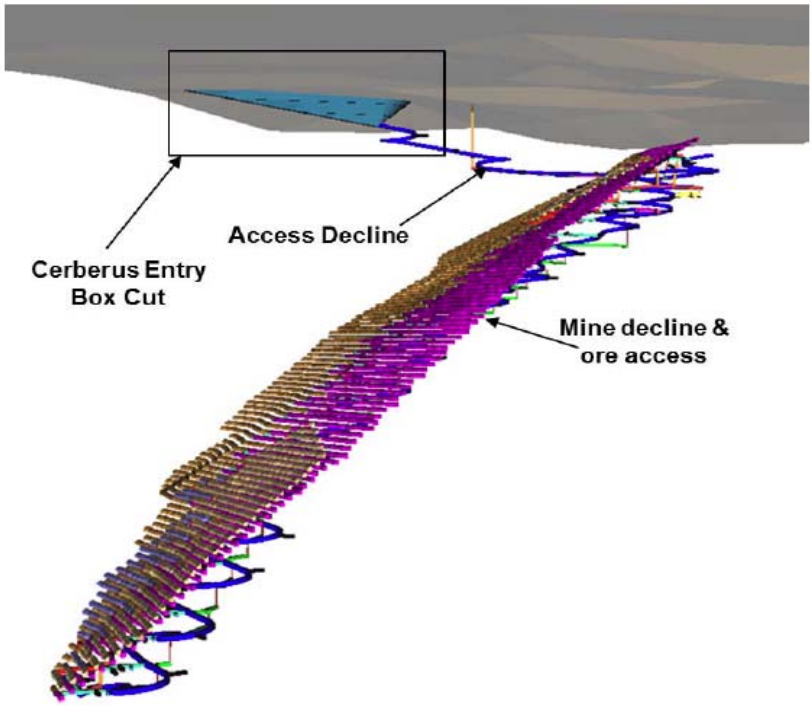
Poseidon Nickel is focused on the recommissioning of the historic Windarra nickel project, which comprises previously operational open-pit and underground mines at South Windarra and Mount Windarra respectively in Western Australia. The total current Mineral Resource is located at two positions approximately 10km apart and includes the existing brownfields mine at Mt Windarra and a new discovery at Cerberus. The project also boasts substantial existing infrastructure within the area.

The company has recently reiterated that its primary objective for 2012 is to bring its Windarra nickel project to a Definitive Feasibility stage prior to obtaining final financing for operations. The company plans to complete the final review of the Definitive Feasibility Study (DFS) and will submit it to the independent technical experts who will in turn provide a final report to be used for project financing. Work will include reserve definition drilling at Mt Windarra and also regional exploration for potential new ore bodies.



With respect to its planned reserve definition drilling program at Mt Windarra, the company has recently accelerated the decline refurbishment program and expects to reach the required drilling position during November. The company also aims to complete the next phase of regional exploration drilling in order to search for potential new ore-bodies along the Windarra ultramafic. The company will base its drilling program on the results of geochemical and geophysical work that has identified several target zones.

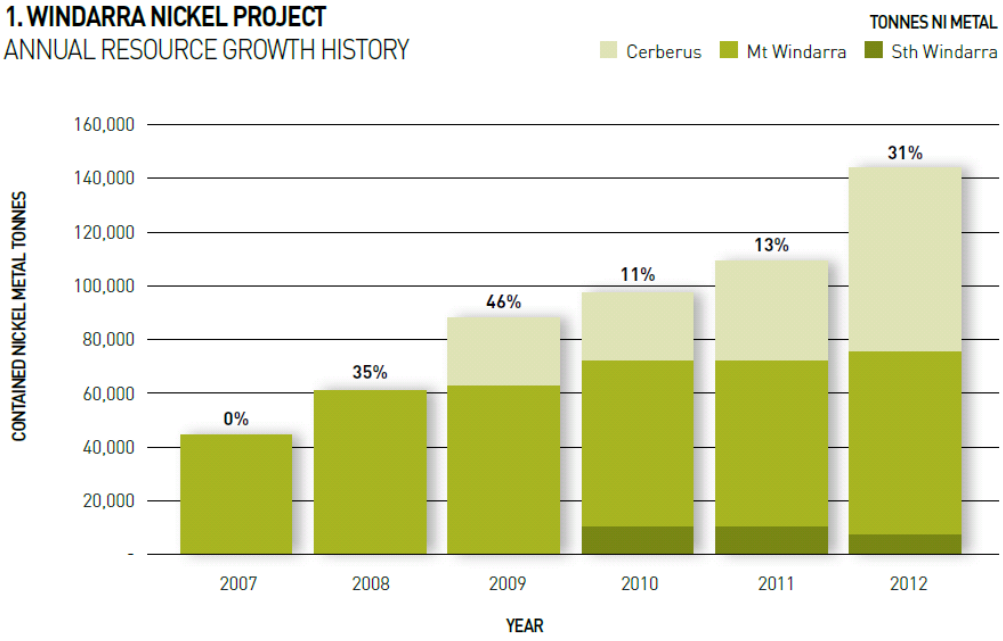
Poseidon has also recently announced that as a result of the completion of the Windarra DFS (prior to final review), an initial ore reserve has been assessed for the company's planned Cerberus underground mine. The upper portion of the Cerberus deposit, which is included in the life-of-mine plan, has been classified as a Probable Ore Reserve under the JORC code guidelines, comprising 1.22 million tonnes at an average diluted grade of 1.30% nickel for 15,880 tonnes of contained nickel metal.



Graphic of mine plan for the Cerberus ore body developed by Poseidon's independent mining consultants

The initial ore reserve extends from 60 metres below surface to a depth of 380 metres below surface. The conversion of the resource to ore reserve only includes the upper portion of the deposit that has been drilled to JORC Indicated resource level. The Cerberus deposit contains a total resource (Indicated and Inferred) of 4,551,000t at an average grade of 1.51% for 68,600t of nickel metal. A total of 46% of the Indicated Resource was converted to Probable Reserves. The near-surface, low-grade halo at the southern end of the deposit and the thinner high-grade hanging-wall lodes were excluded from the reserve, but may be included as nickel prices improve in the future.

The company anticipates a higher resource to reserve conversion for the remaining Inferred Resources, which are situated below the defined reserves. The deeper Inferred Resources comprise higher total ore grades that are increasing with depth within the Cerberus ore body, replicating the distribution seen Mt Windarra. Cerberus has so far only been drilled to a depth of 700 metres below surface and remains open at depth and will be mined in conjunction with ore from Mt Windarra.



In terms of a likely production scenario, the current forecast is for an initial 7 - 10 year mine life at Mt Windarra, but with considerable scope for expansion over time. Total output from both the Windarra and Cerberus mines is anticipated to be in excess of 700,000tpa, with ore to be processed through a new concentrator at Mt Windarra. Annualised production is forecast at ~10,000 tonnes, with a low cash operating cost of around US$3.20/lb at full output, with total refurbishment costs of around $55 million.

5. WINDARRA NICKEL PROJECT - SULPHIDE RESOURCE STATEMENT

Windarra Nickel Project Sulphides	Cut Off Grade	INDICATED Tonnes	INDICATED Ni% Grade	INDICATED Ni Metal t	INFERRED Tonnes	INFERRED Ni% Grade	INFERRED Ni Metal t	RESOURCE CATEGORY TOTAL Tonnes	RESOURCE CATEGORY TOTAL Ni% Grade	RESOURCE CATEGORY TOTAL Ni Metal t
Mt Windarra	0.75%	974,000	1.25	12,400	2,977,000	1.88	55,900	3,951,000	1.73	68,300
South Windarra	0.80%	772,000	0.98	7,500	-	-	-	772,000	0.98	7,500
Cerberus	0.75%	2,773,000	1.25	34,600	1,778,000	1.91	34,000	4,551,000	1.51	68,600
Total Sulphide		4,519,000	1.21	54,500	4,755,000	1.89	89,900	9,274,000	1.56	144,400

In terms of development potential, the Windarra story is an excellent one. Site infrastructure has been refurbished, with a fully functioning mining camp. Poseidon maintains a non-binding MOU with one of China's major construction and engineering groups, China Nonferrous Metal Industry's Foreign Engineering and Construction Co (NFC), for the construction of an on-site nickel concentrator. Formal agreements with respect to financing and construction of the concentrator and associated infrastructure are anticipated.

We anticipate a formal fixed-priced Engineering, Procurement and Construction (EPC) Contract under which Poseidon will appoint NFC as the principal contractor. Under a separate financing agreement, NFC can also provide at least 80% of the necessary financing for the concentrator plant. Importantly, NFC's credentials are well-established, with the Beijing-based group listed on the Shenzen Stock Exchange, with a strong operating track record in international base metal projects.

This week there have been a couple of hugely important developments in terms of the development prospects and credibility of the Mt Windarra project. Firstly on Tuesday, the company announced that Jefferies Bank, headquartered in New York, had become a significant shareholder in Poseidon Nickel. Jefferies Bank has acquired shares and the Convertible Notes from Harbinger Capital Partners, who have been a long-standing shareholder and supporter of Poseidon.

Some restructuring of the Harbinger Funds had been underway and this move removes any speculation about their position in Poseidon. Jefferies is a global securities and investment banking group which has been operating for more than 50 years in 30 cities around the world. Poseidon has apparently been in active discussion with Jefferies about its financing needs with respect to bringing the Windarra nickel project into production.

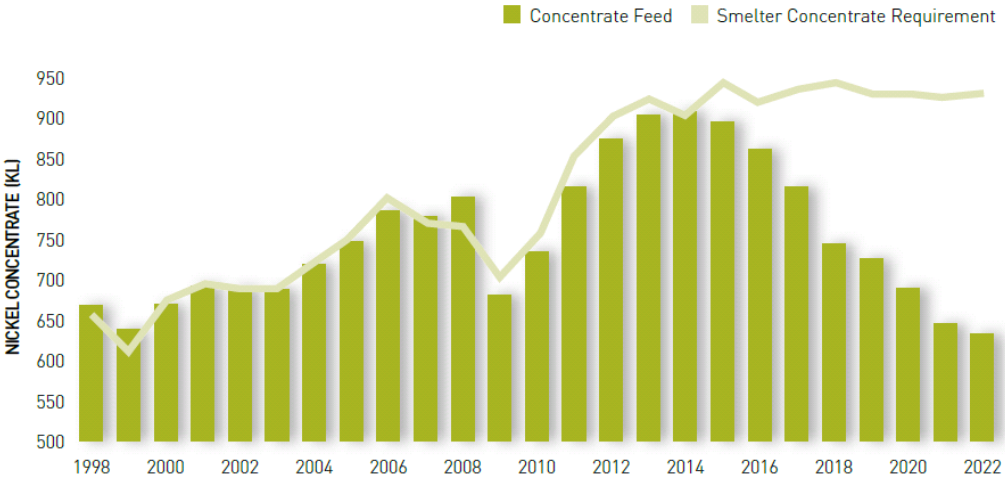
The second major development took place on Monday, with the announcement that the Western Australian government had indicated conditional approval for the company's application to recommence nickel mining at the Mt Windarra site. The application included all of the necessary environmental and infrastructure approvals which have been assessed by the Department of State Development and other agencies over the past few months.

Over the past 12 months or so we've highlighted the difficult time that most nickel producers and explorers have been experiencing. The major contributor of course has been the fact that nickel itself has endured some fairly dramatic headwinds - both in terms of a fluctuating demand side, corresponding with a plentiful supply of cheap, Asian 'pig nickel.' Since the GFC the nickel price has firmed, but not to the same extent as many other commodities, meaning nickel has pretty much been out of favour with investors generally.

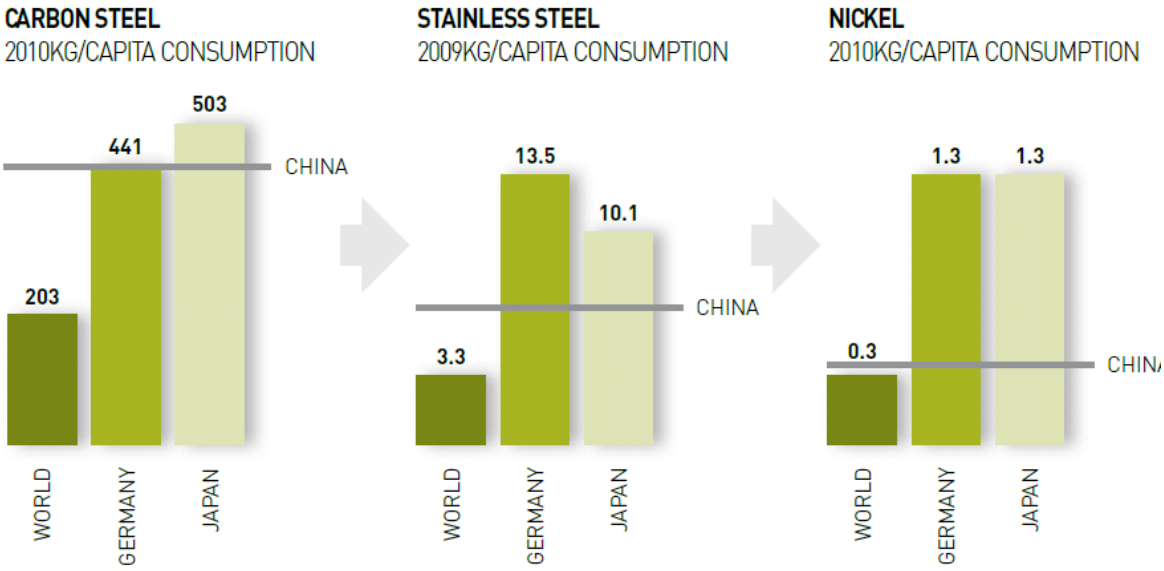
Nickel has been on the nose as far as investors are concerned largely due to plentiful supplies of cheaper nickel pig iron, sourced predominantly from Indonesia and The Philippines. Chinese nickel and stainless steel producers have been able to drastically cut their input costs by sourcing this low-cost, low-grade type of nickel. At the same time it's also meant that both margins and profitability for virtually all sulphide and laterite nickel producer have slumped, causing many to shut or scale down operations.

Importantly, I believe there's room for optimism based on a changing supply-side picture that's taking place without much market fanfare or recognition. One of the biggest potential game-changers in my view relates to Indonesia's implementation of nickel export restrictions, which have the potential to significantly impact cheap supplies of nickel. Indonesia has banned exports of 21 unprocessed minerals, except for companies planning to build local refineries.

3. FORECASTED GAP BETWEEN SMELTER CAPACITY AND SULPHIDE CONCENTRATE AVAILABILITY



Even prior to Indonesia's large-scale entry into the nickel market with respect to nickel pig iron, the nickel industry worldwide was going through an interesting phase, with traditional, higher-grade nickel sulphide deposits becoming more difficult to identify. Inevitably this will present significant supply-side challenges for the nickel industry, although these are not yet apparent due to the near-term abundance of cheap nickel pig iron. 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, RMC Analysis

The much-heralded complement for sulphide nickel production, namely lateritic nickel, has in many instances ruled itself out as any sort of reliable, low-cost alternative; instead projects have become hugely expensive white elephants that have sucked up shareholder funds and destroyed enormous sums of company and shareholder value. Poseidon by contrast has the distinct advantage of being a relatively straightforward, low-risk nickel sulphide play.

Whilst project funding in the current market environment isn't easy, I'm comfortable that a conclusion will be reached during 2013, with first production during 2014. Accordingly, I maintain our Spec Buy recommendation on Poseidon Nickel to both new and existing holders around $0.115.

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