

mine**life**

WEEKLY RESOURCE REPORT by Gavin Wendt



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

Poseidon Nickel (POS) – Maintain Spec Buy around \$0.185

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 at present.

Corporate Details

Status: Emerging Producer
 Size: Small Cap
 Commodity Exposure: Nickel
 Share Price: \$0.19
 12-month Range: \$0.071 - \$0.30
 Shares: 409m, Options: 7.5m
 Top 20: 40%
 Net Cash: \$8.6m
 Market Value: \$76m



Key Parameters	Rating (✓ out of 5)	Quarterly Statistics
Management Quality	✓✓✓✓✓	Q1 2013 Exploration Spend: \$2.767m
Financial Security	✓✓✓✓✓	Q4 2012 Admin Spend: \$0.677m
Project Quality	✓✓✓✓✓	Exploration Spend 80%, Admin Spend 20%
Exploration / Resource Potential	✓✓✓✓✓	Q2 2013 Forecast Exploration Spend: \$3.2m
Project Risk	✓✓✓✓✓	Q2 2013 Forecast Admin. Spend: \$0.8m

We introduced emerging nickel producer, Poseidon Nickel, to our Portfolio during December 2010 with a Speculative Buy recommendation around \$0.22. Over recent times we've taken advantage of positive news-flow on a number of fronts to add to our existing position, at what we consider to be ultra-cheap price levels. Accordingly, we added to our position with a Speculative Buy recommendation around \$0.115 during November 2012 and again with a further Spec Buy recommendation around \$0.185 during January 2013.

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's nickel belt. The total current Mineral Resource is located within two positions separated by a distance of around 10km and includes an existing brownfields mine at Mt Windarra and a new discovery at Cerberus. The project also boasts substantial existing regional infrastructure.

During our most recent coverage during January, the company was in the final stages of reviewing its Definitive Feasibility Study (DFS) with respect to its Windarra Project. Just this week, the company has advised that it has successfully completed the DFS and is readying financing options to complete construction and commissioning. Poseidon will be the first new nickel sulphide producer for a decade in Western Australia, one of the world's most productive and reliable nickel provinces.

Mt Windarra

DFS Results

Poseidon has just announced the encouraging results it's received from the completion of the DFS on its Windarra nickel project. The study demonstrates robust project viability through low capital and mining costs, incorporating the development of the existing brownfields Mt Windarra underground mine, the nearby greenfields Cerberus underground mine, a nickel sulphide concentrator plant and a retreatment plant. It also details the development of gold production facility on the site.

The DFS establishes a robust financial position for the project, with second-quartile operating costs and favourable capital intensity per pound of nickel produced. The DFS estimates average annual production of 9,600 tonnes of contained nickel-in-concentrate at an average operating cost of US\$3.35/lb (net of gold credits) over an initial 10-year life of mine. The financial results assume use an average nickel price of US\$8.46 for 2013 compared to the average spot price during the year to date of US \$7.68.

The DFS also shows that the gold processing facility will produce over 45,000 ounces of gold within the first three years. Total EBITDA is expected to be US\$1.8 billion, with an estimated NPV of US\$546 million over an initial 10-year mine life. The total pre-start capital cost for the project is estimated at A\$197 million (excluding nickel tailings reprocessing which is planned to commence three years later). Poseidon expects to return the Mt Windarra Nickel Mine to production in 2014, assuming final financing this financial year.

Poseidon Nickel, who is being advised by Grant Samuel, has engaged Credit Suisse to assist in developing the various alternatives towards financing the project. Credit Suisse is a major international investment bank which recently led a successful major debt financing for Fortescue Metals Group (FMG).

Production Specifics

The DFS proposes the parallel mining of the Mt. Windarra brownfields ore body and the greenfields Cerberus ore body (in an approximate life-of-mine (LOM") ratio of 3:2) to supply feed to the concentrator over an initial 10-year period. The plant will possess approximately 30% more nameplate capacity than required for the proposed mine throughput of circa 700,000tpa in order to give flexibility on increased mining rates anticipated from further exploration activities.

In addition to the nickel ore, the project includes a 4.36 million tonne gold tailings reserve within the North and South tailings dams, which will be reprocessed through a standard CIL plant to be constructed adjacent to the nickel sulphide concentrator facility. The combined nickel and gold plant tailings will be pumped via pipeline and deposited into the South Windarra pit, avoiding the need for surface tailing facilities and reducing the environmental footprint of the project.

Following completion of the DFS, a number of option studies were conducted on additionally identified opportunities, including a study to reprocess nickel tailings and the use of gas for power from year four onwards. These options have been included in the projected financial results below.

The projected financial results for the Windarra project are expected to be as follows:

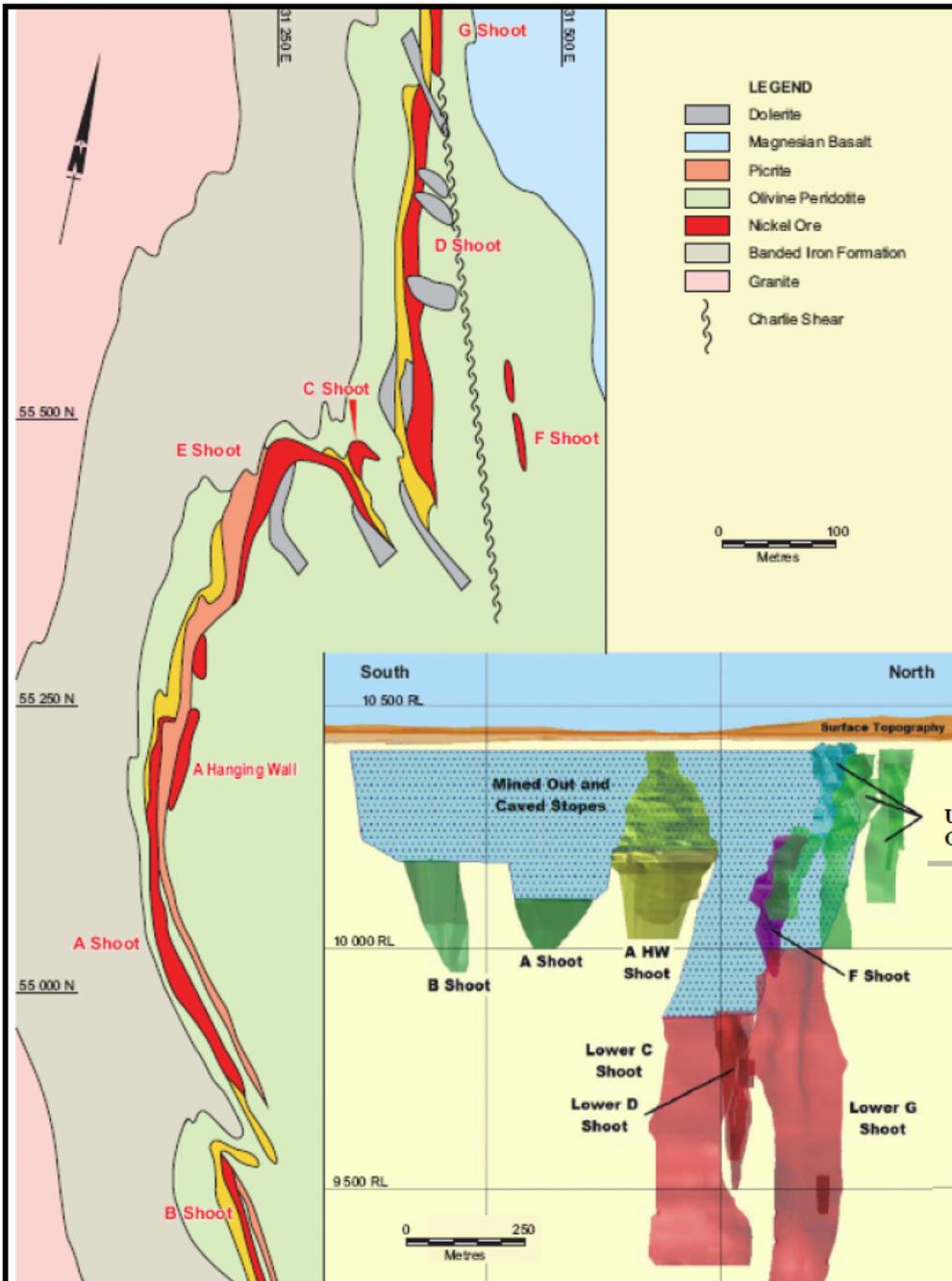
	Full Project Economics (DFS plus options)
Total Nickel Ore Processed ¹	7.2mt @ 1.57% Nickel
Total Gold Tailings Retreatment ²	4.4mt @ 0.71g/t
Total Nickel Tailings Retreatment ³	10.1mt @ 0.32%
Pre-Start Capital Cost ⁴	A\$197m
Average Operating Cost ⁵	US\$3.35/lb
Mining Cost (Operating) ⁶	A\$64.11/t
Processing Cost ⁷	A\$37.70/t
Total Revenue ⁸	US\$3,431m
EBITDA ⁹	US\$1,834m
NPV @ 8% Discount Rate ¹⁰	US\$546m
Project IRR (pre-tax) ¹¹	31%

Mt Windarra Underground Mine

Approximately 61% or 440,000tpa of the annual ore production for the project is planned to be mined from the existing underground mine at Mt Windarra. During 2008, Poseidon commenced a surface drilling program in order to augment drilling results obtained by the previous operator, Western Mining Corporation (WMC), which define an Indicated and Inferred Resource comprising 3.95 Mt at 1.73% Ni for 68,300 tonnes of contained nickel.

WMC had consistently achieved above 80% resource conversion to a diluted mining reserve (which was the pre-JORC equivalent of a reserve). This pre-JORC resource to reserve conversion factor has been modelled, tested and applied by Poseidon's independent consultants to the resource, resulting in an estimated initial LOM of 7.3 years at Mt Windarra. In order to attain additional resource definition for mine planning purposes, re-commissioning of the decline portal is continuing.

Geotechnical assessment has indicated that a sub-level caving mining method for the lower mine shoots is preferred, which is a cost-effective solution and was the methodology previously used in the later years of mining at Mt Windarra by previous operators WMC. The DFS has estimated Mt Windarra mining costs of A\$57 per tonne over the LOM. The Mt Windarra orebody has an initial life based on the resource conversion used of 7.3 years.



In addition a modelled 2.7-year extension has been applied based on Poseidon's assumption that extensions will be added as a result of infill drilling at Mt Windarra, which remains undrilled in several significant areas. For example, drilling results have supported continuing mineralisation particularly around A & B Shoots, recent extensions of F Shoot and mineralisation at depth, where the new geological models indicate a likelihood of further mineralisation.

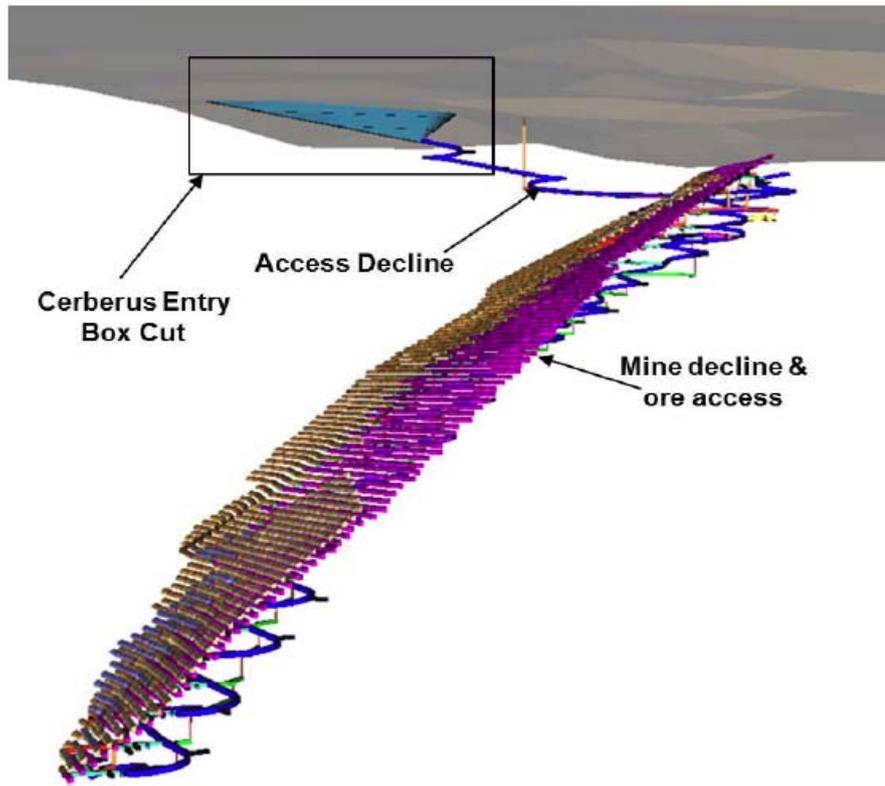
The existing Mt Windarra infrastructure includes a vertical hoisting shaft approximately 460 metres deep and includes the associated surface, head-frame, winder and ore haulage bins. Existing underground facilities include a crusher chamber and associated

infrastructure. The final refurbishment of this infrastructure is included in the capital cost estimate for the project. The use of the vertical hoist system eliminates the need for truck haulage of ore and waste up the decline from the mines 10060RL (approx. 390 metres below the surface) and significantly reduces the operating cost of the mine.

Poseidon has rehabilitated the access decline with the objective of accessing underground drilling positions to a depth of approximately 425 metres below surface during the development phase of the project, exposing the underground crusher.

Cerberus Underground Mine

Cerberus was discovered by Poseidon during 2008 and will provide the balance of the ore-feed to the nickel sulphide concentrator plant. Cerberus has a total Indicated and Inferred resource comprising 4.55 Mt at



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

1.51% Ni for 68,600 tonnes of contained nickel, including a Probable reserve of 1.22 Mt at 1.3% Ni for 15,880 tonnes of contained nickel. The mining cost has been estimated at A\$76/t in the DFS. The Cerberus development plan includes the excavation of a box-cut to a depth of 40 metres and a decline and return airway to the orebody.

Geotechnical assessment has indicated that the mining method for Cerberus is likely to be longitudinal sublevel caving, which is a combination of long-hole stoping and sub-level caving. The Cerberus resource has a reserve

life of approximately 4.5 years. Infill resource drilling of the higher-grade Cerberus Deeps is anticipated to extend the Cerberus reserve, with LOM modelling supporting an additional 5.5 years of ore-feed for a total LOM of around 10 years for the deposit.

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. A total of 46% of the Indicated Resource has been 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.

5. WINDARRA NICKEL PROJECT - SULPHIDE RESOURCE STATEMENT

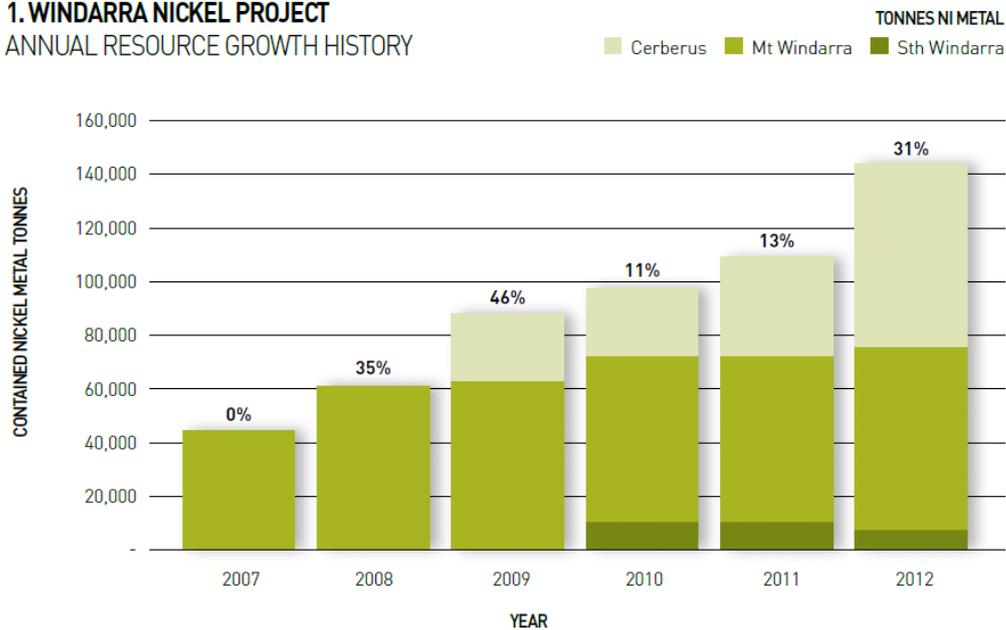
Windarra Nickel Project Sulphides	Cut Off Grade	Tonnes	INDICATED			INFERRED			RESOURCE CATEGORY	
			Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Mt Windarra	0.75%	974,000	1.25	12,400	2,977,000	1.88	55,900	3,951,000	1.73	68,300
South Windarra	0.80%	772,000	0.98	7,500	-	-	-	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

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.

1. WINDARRA NICKEL PROJECT

ANNUAL RESOURCE GROWTH HISTORY



Favourable Market Fundamentals

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 – relating to a fluctuating demand side, coinciding with a plentiful supply of cheap, Asian 'pig nickel.'

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.

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.

3. FORECASTED GAP BETWEEN SMELTER CAPACITY AND SULPHIDE CONCENTRATE AVAILABILITY



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-cost, low-risk nickel sulphide play. The chart below highlights how Poseidon has dramatically outperformed the S&P Nickel Index.



Summary:

Whilst project funding in the current market environment isn't easy, we're comfortable that a project of Mt Windarra's quality will ensure a successful outcome during 2013, allowing first production prior to the end of 2014. The company's immediate objective is to move to finance completion, construction and production. The company is in the fortunate position of expecting to have two-thirds of the required capital items secured in signed contracts by the time financing is completed. I'm comfortable maintaining our Spec Buy recommendation on Poseidon Nickel around \$0.185.

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