

Thursday 5th June, 2014

Poseidon Nickel – restarts mine refurbishment activities at Mt Windarra – Hold recommendation

Poseidon Nickel (ASX: POS, Share Price: \$0.085, Market Cap: \$41m) is our preferred Portfolio emerging nickel exposure. We introduced the company to our Portfolio during December 2010 and our most recent coverage was in MLW124 during June 2013. The company 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 WA's nickel belt.

The company has advised that it has restarted mine refurbishment activities at the Windarra Mine site and employed new personnel as it accelerates development towards potential production later in the year.



Market Significance

The stars finally appear to be aligning for Poseidon after a traumatic previous 12 months, during which time a combination of factors saw market interest in nickel plays plummet. Poseidon has managed to overcome broad pessimism with respect to the nickel sector, largely related to the depressing impact on nickel prices of vast exports of low-cost nickel pig iron from Indonesia. As we'd previously highlighted as far back as late 2012, Indonesia was moving towards a ban on exports of bulk ores. With refurbishment work again underway at Windarra, we anticipate more gains like Thursday's 10% share price rise.

Announcement Detail

The company has recommissioned mine refurbishment activities at its Mt Windarra mine-site and has employed new personnel, as it aims to ramp-up development work ahead of a potential return to production later in 2014. Refurbishment activities were suspended during mid-2013 at the completion of the underground drilling program.

Poseidon is now preparing to recommence underground operations and is completing necessary maintenance work on the water-extraction system. The company has also recently purchased additional underground Mono pumps and will be commencing installation.

To manage and expedite this critical path to production, the company has appointed Cathy Cruikshank as General Manager Operations. She has extensive nickel experience, having been the Deputy Underground Mine Manager at the Perseverance Underground Nickel Mine. In addition, Robert Boston has been appointed to assist with the completion of current ore off-take (marketing) contracts and major mining contracts. He is a corporate executive with experience in projects, project finance and resource development.

Technical Significance

There are several reasons for the move to accelerate mine refurbishment. Firstly, Poseidon has previously indicated that it is in negotiations with third parties that could potentially lead to ore processing and off-take agreements. The company says it is confident that one or more of these will ultimately be successful and has therefore taken steps to minimize the lead time to production.

These opportunities have arisen after a number of mine closures within the Goldfields region that have created significant spare nickel concentrator capacity. Whilst ore transport costs to third-party mills will increase the operating costs of the mine, this will be offset by the considerable time delays and capital costs of a new build plant.

Poseidon announced in its March quarter 2014 report that the final refurbishment program would cost approximately \$4 million and can be completed within a 4-6 month period. The cost is a portion of the restart costs of \$11 million previously estimated, with remaining capital associated with increasing mine ventilation suitable for mining, initial mine activities and working capital.

The other consideration that has encouraged Poseidon to resume mine refurbishment is the strengthening nickel price and positive price outlook, which have also provided the company with sufficient confidence to accelerate Mt Windarra's reopening.

Project Background

The Windarra project is situated in the midst of Western Australia's historic nickel mining region and it has seen the company invest \$94 million over the past five years with respect to refurbishment of the existing mine and facilities, along with extending the resource base to support an initial 10-year mine life.

The project operated historically for 16 years under previous ownership and the company has the advantage of a wealth of geological, metallurgical and mining data. The resource is one of the largest for any West Australian nickel sulphide project that has restarted production within the last decade. The project is therefore a low-risk development due to its brownfields nature and conventional mining and processing methodology.



Poseidon Nickel v S&P GSCI Nickel Index Spot (INDEX)

The company’s production strategy involves the commencement of nickel operations at the Mt Windarra brownfields mine through either an ore-toll treatment arrangement with local facilities, or the construction of a stand-alone concentrator facility. Future expansion will come via the mining of the Cerberus greenfields ore body, situated 10km south of the Mt Windarra mine. Cerberus ore could be treated via toll-treatment or by an on-site concentrator.

A second potential earnings stream involves gold production a co-product credit via the reprocessing of tailings from previous operations at Windarra. Processing would be on-site for an initial period of six years and involve the construction of CIL tanks, with smelting taking place off-site at a toll-treatment facility.

Exploration of the 24km long Windarra ultramafic will be ongoing in order to expand production throughput. The first priority targets will be for modelled parallel lodes at the Mt Windarra and Cerberus mines and the potential extension of the South Windarra orebody.

Summary:

Given our strong existing exposure to Poseidon Nickel we retain a Hold recommendation on the stock for the present time, although we retain our extremely positive view on the stock. We are hugely encouraged by recent nickel market developments that have helped accelerate redevelopment at Mt Windarra and we anticipate that heightened activity during the course of 2014 will be reflected in growing sharemarket momentum.

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