



Poseidon Nickel Limited

Poseidon Nickel: Andrew Forrest and David Singleton forging a “New Nickel Force” in Australia

BACKGROUND

Andrew Forrest built a “new force in iron ore” with Fortescue Metals, and now with David Singleton (CEO and MD of [Poseidon Nickel](#)) has combined to forge a “New Nickel Force” in Australia.

[Poseidon Nickel](#) (ASX: POS) is now at the final stage of developing the only new sulphide nickel project in Western Australia in the last 10 years.

The Windarra Nickel Project is a brownfield redevelopment project that exhibits both low risk and low complexity, along with low CAPEX and OPEX when compared to its global peer group.

The multi-mine nickel resources at Windarra are large and have very significant potential for resource extensions that can be fast tracked into production and include a significant gold or co-product credit.

All mining approvals are in place and a DFS is completed. This will lead to a short construction phase, commissioning, and ramp up to re-commencement of sulphide nickel production from Windarra, and maiden production from Cerebus in 2014.

ASX Ticker Code: POS
Share Price: \$0.20
Market Cap: \$81.6M
Issued Shares: 408.5M
Cash: \$17.8M (Sept Qtr)

ANALYSIS

Key Points of Windarra Nickel Project

- Low risk
- Western Australia
- Long operating history
- Standard processing plant
- 12 months from financing to production start up
- DFS finished and project fully permitted
- Nickel concentrate with gold co-product
- Nickel market strength in 2014/15 when project moves into production

The Windarra Nickel Project represents a unique opportunity to invest in a company about to re-commence production of high grade nickel sulphides from the historic Mount Windarra Mine.

The mine had a 20 year operational history under the stewardship of Western Mining Corporation and was one of the largest mines of its kind in Western Australia. In addition to the Mt Windarra mine, the

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company will commence production from a new resource that has been defined at Cerebus, which is located along strike and 10km to the south of the Mount Windarra process plant.

Poseidon has already committed over \$80M to an extensive drilling, engineering and development infrastructure programme at the Project and has committed a further \$20m to fast start the project into production prior to its final financing. In addition the project site includes an extensive infrastructure legacy left over from previous operations which have been independently valued as worth approximately \$58M to the project.

The Company is currently negotiating a funding package rumoured to be over US\$200M to construct a new mine at Cerebus, upgrade the Mount Windarra Mine, and complete a new concentrator capable of processing from 700,000 - 900,000tpa of high grade nickel sulphide feedstock from both resources.

The project is scheduled to produce at a rate of up to 10,000tpa of nickel in concentrate and build up to a rate of 15,000tpa from the third year of operations. The DFS calls for an initial mine life of 10 years which we expect to be easily surpassed as multiple ore systems remain open at depth and along strike at Mt Windarra and Cerberus with multiple drilling targets remaining untested along 24kms of strike.

Total capital, exploration and development spending on the project is estimated at an extremely low \$348M and represents a capital intensity of \$9.94/lb for 35 million pounds of annualised nickel production, and compares extremely favourably with the capital intensity for the development of lateritic nickel deposits at over US\$40.00/lb of annualised nickel production.

Poseidon has a non-binding MOU with a major Chinese engineering firm known as China Non-Ferrous Metal Industry's Foreign Engineering and Construction Co. Ltd, who in conjunction with Perth based Arccon, are negotiating for the construction of an on-site nickel concentrator.

The lump sum turnkey (LSTK) contract, if agreed, would attract an export credit guarantee from the Chinese Government to cover an estimated 80% of the plant construction cost.

The Company has also secured the support of Jefferies Bank of New York (a global securities and investment bank) that has acquired the shares and convertible notes previously held by the Harbinger Capital Partners in Poseidon. In our view, Jefferies could be the right party to secure the balance of funding requirements to complete the Cerebus Mine and upgrade the Mount Windarra Mine prior to the commencement of concentrate nickel shipments and gold sales in the second half of 2014.

BOARD AND MANAGEMENT TEAM

Andrew Forrest serves as Non-Executive Chairman, and is currently the Non-Executive Chairman of [Fortescue Metals Group](#) after recently retiring as the CEO. He was previously CEO of Anaconda Nickel, Chairman of the Murrin Murrin Joint Venture, Non-Executive Chairman of [Moly Mines](#) Ltd, Arafura Pearls Ltd, Non- Executive Director of Siberia Mining Corporation, Director of the West Australian Chamber of Minerals and Energy, and is an Adjunct Professor of the China Southern University. He was awarded the Australian Centenary Medal, Australian Sports Medal, and Citizen of the Year for Regional Development and Social Entrepreneur of the Year.

David Singleton serves as CEO and Managing Director and is a Mechanical Engineer with over 20 years of international business experience in senior roles in Europe, USA and Australia. He was previously CEO and MD of [Clough](#) Limited, with earlier appointments as Group Head of Strategy, Mergers and Acquisitions for BAE Systems in London, CEO of Alenia Marconi Systems in Rome, member of the National Defence Industries in the UK, and served as board member and V.P. of Defence for Intellect. He is a Non-Executive Director of Austal Ships and [Quickstep](#) Holdings.

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Geoff Brayshaw is a Non-Executive Director and has over 35 years of experience as a Chartered Accountant in public practice that included audit and assurance, corporate finance and litigation support, and gained wide experience in corporate and financial accounting for the exploration and mining industry. He is a Non-Executive Director and Chairman of the audit committee of [Fortescue Metals Group](#) and AVEA Insurance Limited.

Chris Indermaur is a Non-Executive Director and has over 30 years of experience in Mechanical and Chemical Engineering and Law. He was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Ltd.

Richard Monti is a Non-Executive Director and highly experience geologist with over 25 years of experience. He has held senior positions at the Murrin Murrin Nickel and Cobalt operation, and founded Ventnor Capital which provided technical, marketing, corporate advisory and investment banking services to junior and mid cap listed resource companies. He is currently a Director of Transit Holdings Ltd, [Whinnen Resources](#) Ltd, [Jaguar Minerals](#) Ltd, and [Azimuth Resources](#) Ltd.

The Management Team includes Rob Dennis who is the Chief Operating Officer (COO), an engineer with over 35 years of experience in nickel, copper, gold and alumina industries, who previously ran underground operations at Windarra. Neil Hutchison is the General Manager of Geology and is a leading Australian geologist with over 18 years of experience that includes a solid understanding of the nickel and ultramafic forming processes that occurred at the Windarra Nickel Project, and an understanding of the modern exploration techniques that are required to fully explore the project area. He was involved with many of the discoveries at Jubilee.

Michael Rodriquez is Group Technology Manager and has over 25 years of experience in mining and minerals processing, and includes the direct management responsibility for commissioning the autoclave plant at Murrin Murrin. He is a leading nickel process engineer and metallurgist and has developed several nickel processing patents.

SHAREHOLDING AND FUNDING

The Company has issued 408.45M shares, with the largest shareholders comprising the Forrest Family Trust with 119.99M shares, and HSBC Nominees (Australia) with 27.61M shares and Jefferies Bank with 20M shares.

Unlisted unsecured convertible notes have been issued that convert US\$15M at A\$0.40 for 36.53M shares, and US\$20M at A\$0.30 for 64.96M shares, with both sets of notes converting in March of 2017. These notes were recently acquired by Jefferies Bank of New York from Harbinger Capital Partners.

There are 7.475M unlisted employee options are issued that are exercisable at \$0.22 on 31/8/16 and 23/10/16.

FINANCIALS

The Quarterly Report for September 2012 reported a cash outflow of \$2.84M for exploration and evaluation, and \$0.78M for administration.

Expenditures for the December 2012 quarter are forecast at \$3.5M for exploration and evaluation, and \$0.8M for administration for a total cash outflow of \$4.3M. Cash held at the end of the September quarter was \$17.68M.

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THE GLOBAL NICKEL MARKET

AME Group, CRU Group, Brook Hunt & Macquarie Bank are predicting nickel prices 30% to 50% higher than current levels.

Nickel is primarily used in stainless steel and other high quality steels and is thus highly leveraged to industrial development in China and elsewhere.

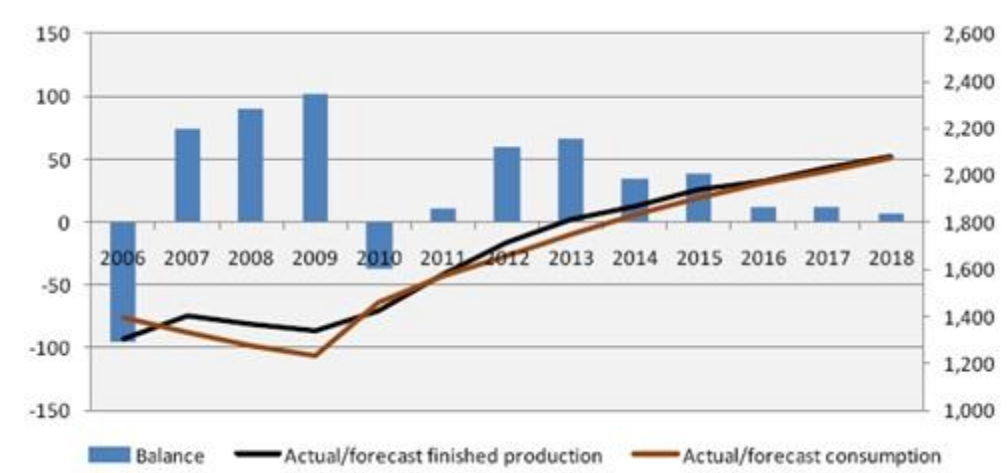
Nickel is utilised in many alloys that find their way into hundreds of thousands of consumer products. Other nickel alloys are used uniquely in specialised applications in industrial, aerospace and military settings and to slow corrosion in coins, electronics and as a catalyst in batteries.

Approximately 40% of all global nickel production is currently sourced from high grade sulphide mines found in Russia, Canada and Australia, with the balance of production sourced from lower grade lateritic deposits. The latter are highly capital intensive with typically higher operating costs than sulphide plants and because of their complexity have had a very poor development history.

The Sherritts Ambatovy Nickel Cobalt Project in Madagascar is a typical lateritic HPAL nickel project that is under delayed development, and requires a massive CAPEX of US\$5.5 billion to produce 60,000 tonnes per annum of nickel. The capital intensity at Ambatovy is estimated at US\$41.66/lb, and is uneconomic with the current spot LME nickel price at US\$7.88/lb.

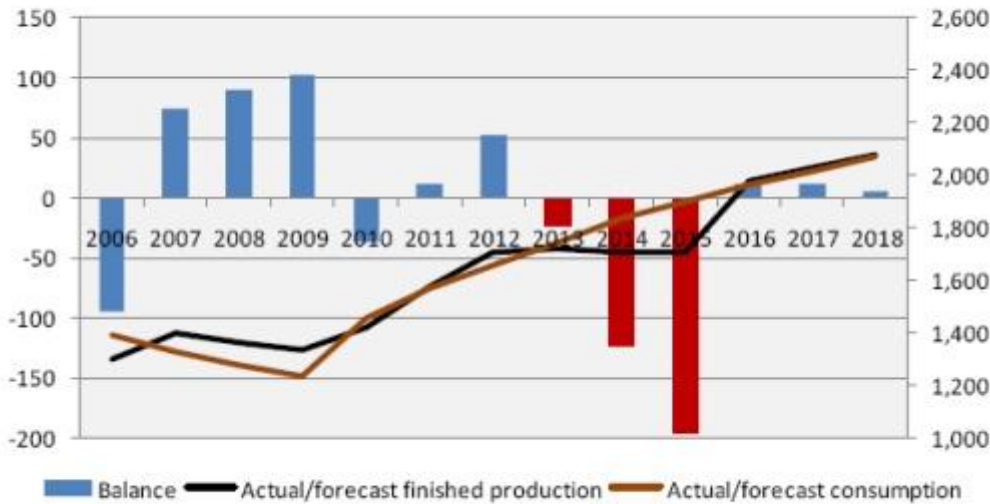
HPAL plants at Ravensthorpe and Murrin in Western Australia have been plagued by technical issues and cost blow-outs, and other major nickel producers such as [Xstrata](#), Vale and [BHP Billiton](#) have cut production of nickel as nickel continues to trade at depressed levels.

The Chinese have been filling near term market demand with production of nickel pig iron produced from lateritic nickel sources in Indonesia and the Philippines. Indonesia is now implementing a ban in the sale of unprocessed nickel feedstock which has resulted in approximately 50% of China's raw nickel feedstock being stopped. AME Group estimates that the cost of this Chinese nickel pig iron production falls within a range of US\$8.75 – US\$9.50/lb and is unprofitable at current LME spot pricing.



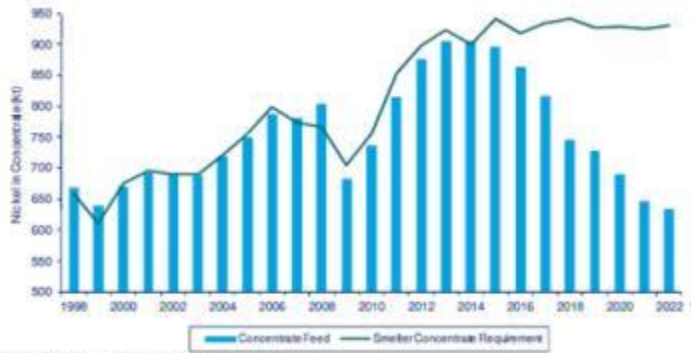
Since 2007 global nickel pricing has been affected by weak demand caused by poor economic conditions and a build-up in supply. This is now dissipating in the face of rising demand that is rapidly absorbing surplus supplies.

Finished Nickel Market Balance, 2006 – 2018e



Source: AME

The last time that nickel reached a major deficit was in 2006 at which time it hit an all time high of around US\$25 per pound.



Source: Brook Hunt - A Wood Mackenzie Company

Mining Consultant CRU Group has nickel as a 'hot' metal in the 2016 timeframe.

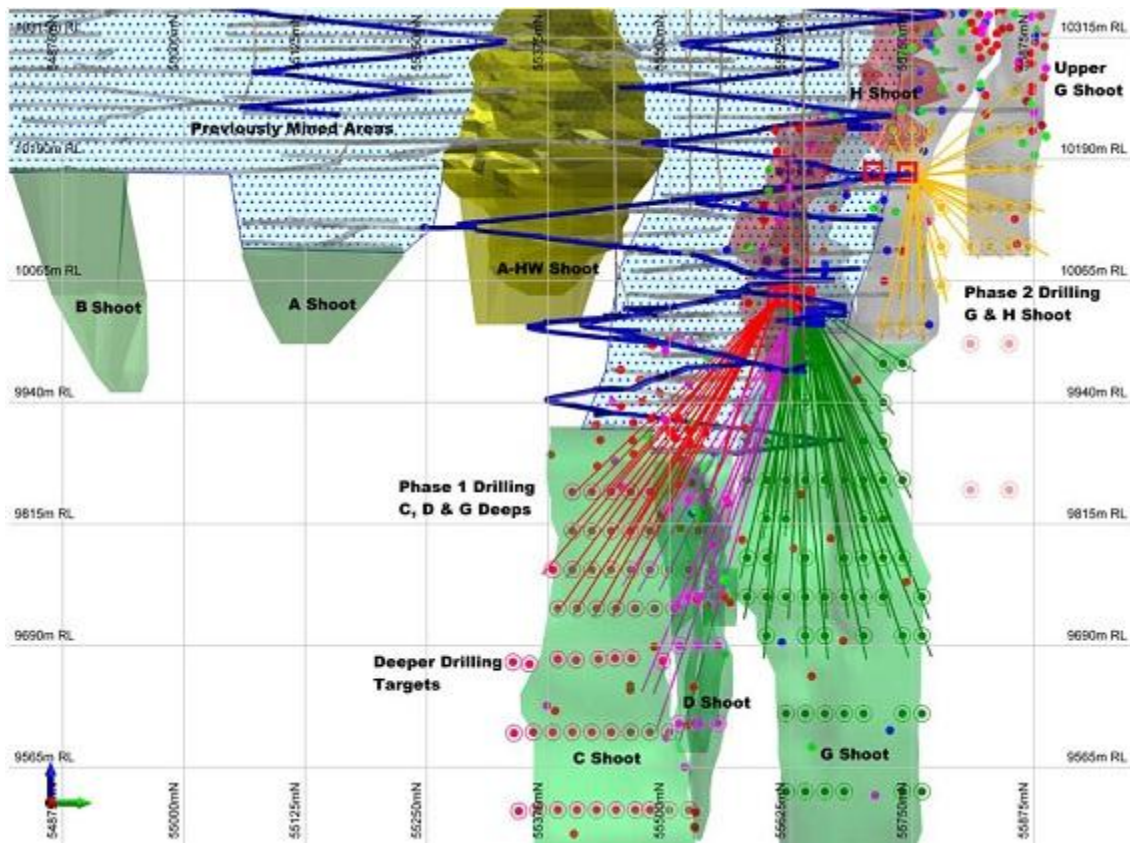
WINDARRA NICKEL PROJECT

The Windarra Nickel Project is 100% owned and encompasses the historic Mount Windarra underground mine, 7 exploration targets, Cerebus green-field ore body, South Windarra open pit and economic gold tailings stored within 3 contiguous dams that are located next to the process plant at Mount Windarra.

The nickel resources and exploration targets are all located along a 24km strike line which is in a well understood and attractive geological setting.

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MOUNT WINDARRA UNDERGROUND NICKEL MINE



The historic Mount Windarra underground mine currently contains JORC compliant Indicated Resources of 974,000 tonnes at 1.25% Ni, and Inferred Resources of 2,977,000 tonnes at 1.88% Ni for a total of 3,951,000 tonnes at 1.73% Ni containing a total of 68,300 tonnes at a cut-off of 0.75% Ni.

The orebody consists of seven distinct and steeply dipping shoots that vary in thickness from 2m to 20m, and have been defined over a strike length of 50m to 350m. The down dip extent is known to extend below 950m, and is open to the south.

Drilling has also defined additional fresh and shallow nickel mineralisation that have the potential to provide higher grades in the early mining phase and extend the mine life of the project.

An independent technical review completed by Rock Team and Dempers & Seymour has confirmed that sub level caving is appropriate for mining the nickel resources at Mount Windarra which was the same mining method employed by WMC prior to the closure of the mine. The ore will be crushed underground and then hoisted to the surface where a concentrate will be produced in a conventional flotation plant.

The flotation plant will recover 82% of the nickel in a 12% concentrate that is generally free of penalty impurities and will be shipped to nickel refineries several of whom have already made off-take offers.

The project has already undertaken refurbishment of the decline by-pass development to de-risk the development.

This leverages the existing mine infrastructure which has now advanced to a depth of 550m below the surface, and makes use of the existing vertical ore lift system, head frame and ventilation shafts.

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The project makes use of \$58M that was invested in existing infrastructure and is supported by an additional \$80M that was invested to upgrade nickel resources, mine infrastructure including accommodation for mining personnel, power and other support facilities.

An initial DFS was completed early in 2012 that confirmed a Life of Mine of 10 years at an output of approximately 10,000tpa of nickel concentrate (varies year to year) that increases in the third year of the project to 15,000tpa of nickel concentrate.

The OPEX is estimated at an average of US\$3.57/lb over the Life of Mine. The DFS has been optimised and an independent technical consultant has completed a review that will be released to the market shortly.

CEREBUS GREENFIELD NICKEL MINE

Cerebus is one of the few new Australian nickel sulphide discoveries made in the last few years and was delineated during Poseidon's first regional drilling campaign at the Windarra Nickel Project in 2008.

Cerebus contains an underground nickel deposit that commences 64m from the surface, and is a high grade ore body that extends over a strike length of 1,400m and is up to 400m wide and to a depth of at least 700m, with drilling indicating that significant resource expansion is likely.

A total of 110 holes for 32,000m of drilling were completed to bring approximately 50% of the Cerebus resource into a JORC compliant Probable Reserve of 1,221,000 tonnes at 1.30% Ni containing 15,880 tonnes of nickel; and additional Indicated Resources of 2,773,000 tonnes at 1.25% Ni, and Inferred Resources of 1,778,000 tonnes at 1.91% Ni for a total of 4,551,000 tonnes at 1.51% Ni containing 68,600 tonnes of nickel, at a cut-off of 0.75% Ni.

An additional 15 holes for 14,000m of drilling will be required to define resources and reserves at depth, with mineralisation remaining open in several directions.

Cerebus is located 10km to the south of Mount Windarra and contains relatively flat lying and disseminated nickel sulphide mineralisation that is similar in nature to Mount Windarra, can be extracted by low cost Longitudinal Sub Level Cave mining method and shipped to Mount Windarra for processing.

Life of Mine modeling indicates an initial 10 year life with a current 4 year reserve, with additional potential available from ongoing studies and further drilling.

GOLD TAILINGS REPROCESSING

A JORC Indicated Resource of 10,993,000 tonnes at 0.52 g/t au containing 182,500 ounces of gold have been defined within tailings contained in three contiguous dams known as North Dam, Central Dam and South Dam that are located 300m from the Mount Windarra processing plant.

Metallurgical testing to DFS level has been completed and estimates a yield of 51,000 ounces of gold over 3 years at a cash cost of ~US\$620/ounce for the first two years.

Capital expenditure of US\$10M is estimated to establish a pumping operation and conventional low risk carbon in leach circuit for capture of gold on activated carbon. The pregnant carbon will be shipped to Kalgoorlie for stripping and toll treating into doré bars, and then sent to a refinery for final processing.

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Gold production is scheduled to get underway 3 months prior to nickel ramp-up to reduce commissioning risk and improve early cash-flow.

OTHER DEFINED RESOURCES AT WINDARRA

Woodine Well, South Windarra Dumps, and the Central Tailings Dam contain nickel oxides with a JORC compliant 12,922,000 tonnes of Indicated and Inferred Resources at 0.38% Ni, containing 49,100 tonnes of oxide nickel that will be available for future processing.

South Windarra contains a JORC compliant Indicated Resource of 772,000 tonnes at 0.98% for 7,500 tonnes of nickel sulphides at a cut-off of 0.80%.

TIMELINE AND CATALYSTS 2012 – 2014

- Optimised DFS is completed.
- Drilling programme underway that is expected to significantly increase nickel resources in H1 of 2013.
- Project off-take agreements and funding completed in H1 of 2013.
- De-water and refurbish decline and infrastructure in H1 of 2013.
- Fixed price contract with 12 month construction completed in H1 of 2014.
- First nickel concentrates and gold production in H2 of 2014

ANALYSIS

Production from the Windarra Nickel Project will place Poseidon in a very strong competitive position as OPEX to produce nickel is estimated at US\$3.57/lb on an average Life of Mine basis and is extremely competitive with Chinese nickel pig iron which currently exhibits an OPEX of US\$8.75 – US\$9.50/lb.

First nickel production will commence in 2014, reach an annualised output of 22M/ lb in 2015 and rise to 35M/lb in the third year of production. This should produce annualised nickel revenue of \$154.0M in the first full year of production, and assumes payment of 70% of a projected nickel price of ~\$10.00/lb from nickel refiners. Deduction of an estimated OPEX of \$3.30/lb should produce an EBITDA of \$72.6M.

A gold credit of 17,000 ounces per year, for the first 3 years, produces an additional EBITDA of \$13.326M after deduction of OPEX of \$620 per ounce and produces a total EBITDA of \$94.726M for both nickel and gold production. Additional gold credits may be generated in later years from treatment of Lancefield gold tailings and other resources located at other nearby historic gold mines.

EBITDA will rise much higher when annualised production hits 35M/lb in the third year of mining operations and may be further supported by nickel pricing that is forecast to reach \$13.00/lb in the medium term.

[Poseidon Nickel](#) currently has a resource base of 144,000 tonnes of nickel that has expanded over the last 6 years at an average pace of 26% per year. This exceeds the average annualised growth rate reported by its peer group that fell into a range of 12 - 43%.

The Company reports a rolling 3 year discovery cost of \$0.10/lb within a peer group that historically averaged \$0.24/lb and clearly demonstrates the high prospectivity within the Windarra Project area.

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Underpinning the projected valuation is the fact that Poseidon is completing the only new sulphide nickel mining project in Western Australia in 10 years. Project risk is at a low level as it encompasses the redevelopment of the historically successful Windarra mine and construction of a new and shallow underground mine that mirrors the historic re-development effort.

This also includes additional cash flow from production of established gold resources that can be recovered from tailings dumps at low cost. Underground drilling at Mount Windarra has already commenced and is utilising a new high speed drilling technology that can rapidly advance the delineation of additional resources.

This drilling is already reporting the presence of nickel sulphide resources outside the currently known boundaries of nickel mineralisation and augurs well for the continued and rapid growth of additional resources.

Peer Group Comparison

A peer group comparison with Western Australian based nickel producers currently produces an average market valuation of 4.79 x EBITA. This includes:

- [Panoramic Resources](#) (1.87 x EBITDA),
- Western Areas (8.78 x EBITDA) and
- Mincor Resources (EBITDA x 3.72)

On this basis, there is a projected valuation of \$453.73M, or \$1.11 per [Poseidon Nickel](#) share (unadjusted for mine funding) at an annualised production rate of 22M/lb in 2015. EBITDA will rise much higher when annualised production hits 35M/lb in the third year of mining operations and may be further supported by nickel pricing that is forecast to reach \$13.00/lb in the medium term.

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[Poseidon Nickel](#) represents a rare opportunity to be an owner of the only 'new' nickel sulphide producer ready to meet supply shortfalls in 2014/2015. This is at a valuation that does not take into account the near term production and growing cash flow metrics.

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