

Poseidon Nickel Limited

Quick Note- Site Visit

Sleeping giant awakens in 2013

Overview

Poseidon Nickel is an ASX listed company advancing its 100% owned Windarra Nickel Project. Management is aggressively advancing the Windarra project to first production with Poseidon likely to be the only new nickel sulphide producer, ahead of a potential supply shortfall of nickel in 2014/2015. In February POS completed an initial DFS-findings include an initial life of circa 10 years, and output increases from year 3 from 10,000 to approximately 15,000 tonnes nickel in concentrate. Expected capex is in the order of A\$210m (pre-production capital). Production operations includes the construction of a nickel flotation concentrator plant which is capable of minimum throughput of 700,000 tonnes of ore per annum. State government conditional approval has been received, which includes all environmental and construction licenses.

Outlook

Regarded as a low complexity project with short construction, commissioning and ramp-up. Progress in 2012 included the DFS completed in Feb, with the DFS submitted in March to banking institutions.

Throughout 2012 the quality of the DFS was significantly improved and the cash balance bolstered through a \$20M rights issue fully underwritten. Underground drilling at Mt Windarra commenced from 400 meters underground in Dec 2012 and 31,000 metres is planned. The drilling is targeting an extension of the current resource and reserves at C & D shoots and the phase 2 program will explore additional mineralisation beneath A, B, G & H shoots. This is the first drilling conducted here in twenty years and steady news flow is expected over the coming months.

An innovative drilling technique is being utilised from Sweden where drilling speeds can be increased up to 4-5 times resulting in a shorter drill time of 6 months versus 18 months of traditional drilling.

Updates to the DFS are complete and the independent technical expert has completed their review with funding of the project targeted to take place in the early part of 2013.

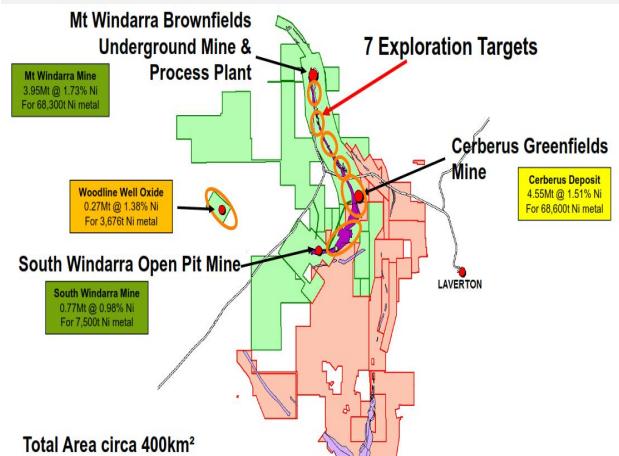
Supply shortages in the nickel market have been predicted by AME group with forecast shortage in 2014/2015. Supply risks are present owing to the majority of nickel production in the world coming from high cost laterite or nickel pig iron operation. The world currently requires at least 60-80,000 tonnes of new nickel production per annum. High grade sulphide mines such as Mt Windarra are extremely rare. Forecasting from the AME group suggest the deficit of Nickel could be as high as 10% of demand by 2015.

- Brook Hunt forecast a longer term nickel price at US \$13/lb.
- Cash costs from the initial DFS finding are US\$3.57/lb after co-products.
- Mt Windarra has 20 year operating history with low capital intensity and is a 2nd quartile cash producer.

7th February 2013

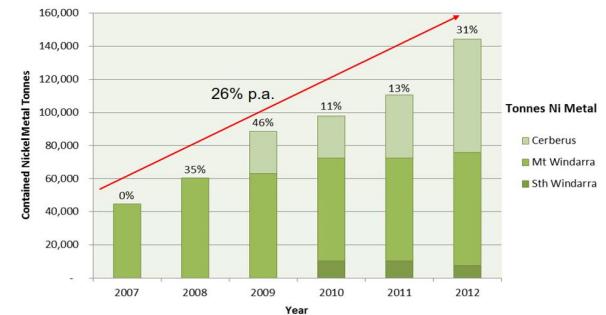
Share price:	\$0.22
Recommendation:	BUY
ASX Code:	POS
Market Cap: (undiluted)	\$89.9M
Shares on Issue: (undiluted)	408.94M
Principal activities:	Nickel

Analyst: Dennis Trlin



Project overview

Windarra Nickel Project Annual Resource Growth History



Resource Growth History

Future Milestones

Dewatering, refurbish decline and infrastructure	H1 2013
Increase Mt Windarra Reserve	H1 2013
Plant construction complete	H1 2014
First saleable concentrate	H2 2014

Discussion / Forecast Target Price

DFS findings released so far include an initial mine life circa 10 years with an output increase from 22m lbs in 2015 to circa 33m lbs nickel concentrate in year three.

Off take terms are being finalised- likely Ni payability for concentrate is approximately 70% of the nickel price (LME).

Production forecast				
Ni Tonnes-base case	2014e	2015e	2016e	2017e
Mt Windarra	1600	5000	5100	8000
Cerberus	1500	4900	5000	6000
Total	3100	9900	10100	14000

Life on mine cash costs are estimated at US \$3.57/lb after co products.

Assuming 70% of a \$10/lb payment from refiners this would result in revenues of \$152M at full production increasing to approximately \$216M in revenues in 2017.

After deducting an estimated cash cost of \$3.57 this results in EBITDA of approximately \$74M- potentially in excess of \$100M at full ramp up in 2017. This does not include additional gold credits of approximately 17,000 ounces per annum assuming OPEX of \$620 per ounce which would increase EBITDA by at least \$10M per annum. The cash flow ramp up is supported by a gold retreatment circuit with expected output of 51,000 ounces in the first three years.

Peer group comparisons for a valuation include Mincor (3.7x EBITDA), Western Areas (8.8 x EBITDA) and Panoramic Resources (1.9x EBITDA). Assuming 5 x EBITDA and a forecast EBITDA of \$74m at full production, this derives a valuation of \$370M (not including gold credits) or 71 cents, not accounting for additional dilution for project financing.

Conclusion: At the recent site visit we were impressed with the significant existing infrastructure that Poseidon holds and see this as a major factor in reducing project risk and complexity. The current resource size is significant and is likely to increase going forward as drilling continues.

A new nickel sulphide producer of this size coupled with an exceptional management team is rare and we see POS as highly undervalued at these levels. Catalysts for a re-rating include news of project financing, release of an Independent Technical report and announcement of findings of the DFS, and upcoming drilling results from current drilling at Mt Windarra. We rate Poseidon Nickel a BUY.



Majority of the underground infrastructure refurbished ready for mining use.



Continuing to carry out extensive drilling to build the reserve base.



Drill core yard - on site facilities for processing core prior to final lab assaying.

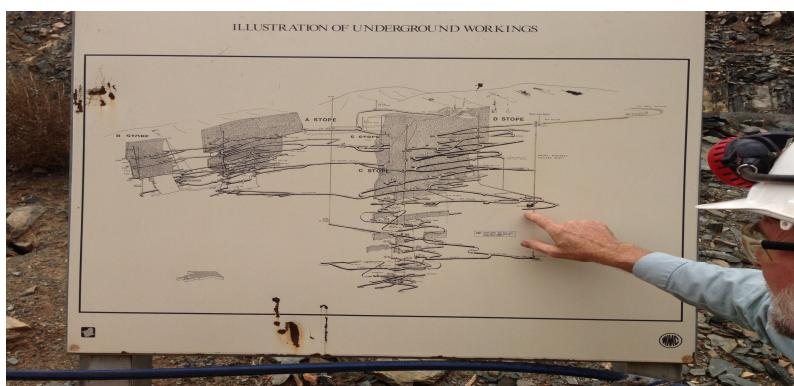


Diagram of entrance portal showing extensive existing infrastructure.

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