

16th November 2016

POSEIDON & KIDMAN SIGN LAKE JOHNSTON LEASE AGREEMENT

Highlights

- **Poseidon enters into an exclusive Option Deed with Kidman to process Mt Holland lithium ore at Lake Johnston**
- **Forecast throughput is estimated to be between 1.0 to 1.5MTPA to produce over 200,000 tonnes per annum of 6% spodumene concentrate**
- **Kidman to pay Poseidon \$500,000 for the exclusive Option**
- **Upon exercising the Option Kidman will refurbish the Lake Johnston facility at their cost**
- **Poseidon will receive a minimum of \$6M per year for 3 years during production**
- **Kidman and Poseidon take full advantage of the bullish lithium market**
- **Engineering design progressing**
- **Establishes Lake Johnston as a spodumene concentrate producer**
- **Poseidon and Kidman will collaborate on downstream processing options**

Poseidon Nickel Limited (ASX:POS, Poseidon or the Company) is pleased to announce it has entered into an exclusive Option Deed (Agreement) with Kidman Resources Limited (Kidman) to lease the Lake Johnston facility for processing Mt Holland spodumene lithium hosted pegmatites. Poseidon Chairman, Mr Chris Indermaur stated, "Securing the agreement with Kidman is a significant milestone for the Company as it will potentially deliver a minimum of \$6M per year in cash for the duration of the contract. Whilst Poseidon remains focussed on developing its nickel assets, the Company believes the agreement with Kidman offers shareholders a unique opportunity to deliver cash back to the business with little downside risk."

Under the terms of the Agreement Kidman will pay Poseidon \$500,000 immediately in cash as a non-refundable option fee, valid until 31 August 2017. Upon exercising the option, Kidman will pay all costs associated with refurbishing the Lake Johnston facility and 3 months after exercising the option Kidman will begin paying Poseidon a minimum of \$6,000,000 per year for 3 years for the lease of the Lake Johnston facility. The clear benefit for Kidman is the quick path to market taking advantage of the bullish lithium market and becoming a major spodumene concentrate producer well ahead of other potential hard rock lithium producers.

The Lake Johnston 1.5 million tonne per annum process plant, including associated existing infrastructure, has the potential of processing lithium hosted pegmatite ores to produce a spodumene concentrate (Figure 1).

Hard rock spodumene concentrate producers typically apply the lowest capital cost mineral processing plants utilising process flowsheets dominated by dry coarse crushing and fine wet crushing to 100% passing 2 mm then apply gravity circuit's spirals and tables to recover spodumene. Without flotation on the tails, typically 70%-75% lithium recovery is achieved however, with flotation applied overall, recovery increases to over 85%. Micaceous minerals are managed by the application of up flow wet classifiers to reject micaceous minerals.



Figure 1: Lake Johnston 1.5MTPA Process Plant

Upon completion of the lease agreement, Poseidon will have a commissioned and operating plant at no cost to the Company and potentially receive a minimum \$18,500,000 cash injection, an outstanding achievement, which is consistent with the Company's vision of establishing Lake Johnston, with all of its existing plant and infrastructure, as a co-processing facility for the production of spodumene and or nickel concentrate.

Poseidon is aware of the present dispute between Kidman and Marindi Metals.

Whilst there is some evidence of "green shoots," nickel pricing remains relatively soft and LME stocks remain stubbornly high. Approximately half a million tonnes is said to be stockpiled in private warehousing and sentiment generally remains subdued. It is likely that the market could improve within the next 2 years.

If the nickel market improves the Company's strategy is to initially restart Silver Swan as a priority. At 9% nickel in resource, Silver Swan is the world's highest grade nickel sulphide mine and offers Poseidon an advantage when compared to Lake Johnston's Maggie Hays mine at circa 1.5% nickel. Furthermore, refurbishing Maggie Hays and Emily Ann underground mines at Lake Johnston will take up to 18 months to restart and the agreement allows Poseidon to access Lake Johnston to undertake these activities.

Fieldwork undertaken by Poseidon at Lake Johnston to define the Company's lithium hosted pegmatite mineralisation is on-going however, as previously advised to the market, Poseidon have experienced delays in accessing prospective areas identified due to a declared rare flora plant species. It is apparent that there will be significant delays in securing these permits to allow the Company to progress regional exploration for lithium hosted pegmatites on tenements held by Poseidon in Lake Johnston area.

Option Deed Summary

The exclusive Agreement between Poseidon and Kidman (the Parties) grants Kidman the exclusive right to exercise an option to treat Mt Holland lithium hosted pegmatites at the Company's 100% owned Lake Johnston Facility until 31 August 2017.

In return, Kidman will pay Poseidon a non-refundable option fee of \$500,000 for that right within 3 days of executing the Deed.

Upon exercising their right the parties will enter into a Formal Lease Agreement within 3 months. Kidman will refurbish the Lake Johnston Facility to process Mt Holland lithium hosted pegmatites for a minimum period of 3 years. Furthermore, Kidman will pay Poseidon an agreed rate per tonne of ore processed with a minimum amount of \$6,000,000 per annum for that right and make good the plant at the end of the lease agreement.

Background

Poseidon owns the Lake Johnston Nickel Operations located in the Lake Johnston district in the Shire of Dundas, Western Australia (the **Lake Johnston Facility**).

Kidman owns the mining project known as the Mt Holland Project, South East of Southern Cross, Western Australia and have recently discovered lithium on their tenements at Mt Holland (the **Project**).

The Parties have agreed to evaluate the possibility of processing lithium which may be mined by Kidman from Mt Holland, at Poseidon's Lake Johnston processing facility.

The Parties have previously held discussions and entered into a MOU (Memorandum of Understanding) to explore the existing synergies available between the Party's assets to support an early entry into the hard rock lithium market by Kidman.

Term

The option period commences on the date of execution of the Agreement and ends either upon expiry of the agreement or, Kidman exercises its right under the agreement to process Mt Holland lithium hosted pegmatites at the Lake Johnston Facility for a period of 3 years. In addition, Kidman has the option to extend the agreement for a further 2 year period.

CORPORATE DIRECTORY

Director / Senior Management

Chris Indermaur	Non-Executive Chairman
David Singleton	Non-Executive Director
Geoff Brayshaw	Non-Executive Director
Robert Dennis	Non-Executive Director
Gareth Jones	Company Secretary

Corporate Enquiries

P: 61 8 6167 6600
F: 61 8 6167 6649

E: admin@poseidon-nickel.com.au

Shareholder Enquiries

Enquiries concerning shareholdings should be addressed to:

Computershare Investor Services
GPO Box D182, Perth WA 6840
P: 61 8 9323 2000

Principal & Registered Office

Unit 8, Churchill Court
331-335 Hay Street
SUBIACO WA 6008
P: 61 8 6167 6600
F: 61 8 6167 6649

Media Enquiries

P: 61 8 6167 6600
F: 61 8 6167 6649
E: admin@poseidon-nickel.com.au

Home Exchange

The Company's shares are listed on the Australian Securities Exchange and the home exchange is Perth ASX code: POS