
POSEIDON NICKEL LIMITED

ACN 060 525 206

NOTICE OF GENERAL MEETING

Notice is given that the Meeting will be held at:

TIME: 10.30 am (WST)

DATE: Monday 15 July 2019

PLACE: KPMG, Level 8, 235 St Georges Terrace, Perth WA 6000

The business of the Meeting affects your shareholding and your vote is important.

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 4pm (WST) on Thursday 11 July 2019.

BUSINESS OF THE MEETING

AGENDA

1. RESOLUTION 1 – APPROVAL OF ISSUE OF SHARES TO EDISON METALS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of Section 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for:

- (a) the issue of Shares to Edison Metals Pty Ltd (**Edison Metals**) on conversion of the Convertible Note and in satisfaction of interest payable under the Convertible Note; and*
- (b) the increase in the voting power of Edison Metals and its associates as a result of the issue of Shares in the Company under paragraph (a) of this Resolution,*

on the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Voting Exclusion: No votes may be cast in favour of this Resolution by:

- (a) the person proposing to make the acquisition and their associates; or
- (b) the persons (if any) from whom the acquisition is to be made and their associates.

Accordingly, the Company will disregard any votes cast on this Resolution by Edison Metals and any of its associates.

Expert’s Report: Shareholders should carefully consider the report prepared by the Independent Expert for the purposes of the Shareholder approval required for Resolution 1 under Section 611 Item 7 of the Corporations Act. The Independent Expert’s Report comments on the fairness and reasonableness of the transactions the subject of this resolution to the non-associated Shareholders in the Company.

2. RESOLUTION 2 – REPLACEMENT OF CONSTITUTION

To consider and, if thought fit, to pass the following resolution as a **special resolution**:

“That, for the purposes of section 136(2) of the Corporations Act and for all other purposes, approval is given for the Company to repeal its existing Constitution and adopt a new constitution in its place in the form as signed by the chairman of the Meeting for identification purposes.”

3. RESOLUTION 3 – NON-EXECUTIVE DIRECTOR’S REMUNERATION

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 10.17 and for all other purposes, Shareholders approve an increase of the maximum total aggregate amount of fees payable to non-executive Directors from \$350,000 per annum to \$650,000 per annum in accordance with the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast in favour of the Resolution by or on behalf of a Director or any of their associates. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement

A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (A) a member of the Key Management Personnel; or
 - (B) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (a) the proxy is the Chair; and
- (b) the appointment expressly authorises the Chair to exercise the proxy even though this Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

Dated: 14 June 2019

By order of the Board



Robert Dennis
Managing Director & CEO

Voting in person

To vote in person, attend the Meeting at the time, date and place set out above.

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

In accordance with section 249L of the Corporations Act, Shareholders are advised that:

- each Shareholder has a right to appoint a proxy;
- the proxy need not be a Shareholder of the Company; and
- a Shareholder who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 6167 6600.

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

1. RESOLUTION 1 – APPROVAL OF ISSUE OF SHARES TO EDISON METALS

1.1 General

Pursuant to a convertible note agreement between the Company and Jefferies, LLC (**Jefferies**) dated 3 November 2015, the Company issued a convertible note to Jefferies with a face value of US\$17.5 million (**Convertible Note**).

On or about 17 August 2018, Black Mountain Metals Pty Ltd (**BMM Aus**), a wholly owned subsidiary of Black Mountain Metals LLC (**BMM**), acquired the Convertible Note. Following an internal restructure of the BMM group in December 2018, the Convertible Note was assigned to Edison Metals, a wholly owned subsidiary of BMM Aus, who is the current holder and sole beneficiary of the Convertible Note.

The material terms of the Convertible Note are set out in Schedule 1.

Resolution 1 seeks Shareholder approval for the purpose of Item 7 of Section 611 to issue Shares to Edison Metals upon conversion of the Convertible Note and in satisfaction of interest payable under the Convertible Note (**Conversion Shares**).

1.2 Legislative Regime

(a) Section 606 of the Corporations Act – Statutory Prohibition

Pursuant to Section 606(1) of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and because of the transaction, that person's or someone else's voting power in the company increases:

- (i) from 20% or below to more than 20%; or
- (ii) from a starting point that is above 20% and below 90%,

(Prohibition).

(b) Voting Power

The voting power of a person in a body corporate is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

(c) **Associates**

For the purposes of determining voting power under the Corporations Act, a person (**second person**) is an “associate” of the other person (**first person**) if:

- (i) (pursuant to Section 12(2) of the Corporations Act) the first person is a body corporate and the second person is:
 - (A) a body corporate the first person controls;
 - (B) a body corporate that controls the first person; or
 - (C) a body corporate that is controlled by an entity that controls the person;
- (ii) the second person has entered or proposes to enter into a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company’s board or the conduct of the company’s affairs; or
- (iii) the second person is a person with whom the first person is acting or proposes to act, in concert in relation to the company’s affairs.

Associates are, therefore, determined as a matter of fact. For example where a person controls or influences the board or the conduct of a company’s business affairs, or acts in concert with a person in relation to the entity’s business affairs.

(d) **Relevant Interests**

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (i) are the holder of the securities;
- (ii) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (iii) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

In addition, Section 608(3) of the Corporations Act provides that a person has a relevant interest in securities that any of the following has:

- (i) a body corporate in which the person’s voting power is above 20%;
- (ii) a body corporate that the person controls.

1.3 Reason Section 611 Approval is Required

Item 7 of Section 611 of the Corporations Act provides an exception to the Prohibition, whereby a person may acquire a relevant interest in a company's voting shares with shareholder approval.

Edison Metals (together with its associates) currently has a relevant interest in 522,925,412 Shares in the Company, reflecting a voting power in the Company of 19.79% as at the date of this Notice of Meeting.

Particulars with respect to the relevant interest of Edison Metals and its associates in the Company are set out below (refer also to the Form 604 "Notice of change of interests of substantial holder" lodged by BMM Aus on the Company's ASX Platform on 24 December 2018):

Holder of relevant interest	Registered holder of securities	Nature of relevant interest	Class and number of securities	Person's votes
Edison Metals Pty Ltd	Edison Metals Pty Ltd	Registered holder	522,925,412 Shares	522,925,412
Black Mountain Metals LLC	Edison Metals Pty Ltd	Relevant interest under section 608(3)(a) and/or section 608(3)(b) of the Corporations Act	522,925,412 Shares	522,925,412
Black Mountain Metals Pty Ltd	Edison Metals Pty Ltd	Relevant interest under section 608(3)(a) and/or section 608(3)(b) of the Corporations Act	522,925,412 Shares	522,925,412
Black Mountain Australia Pty Ltd	Edison Metals Pty Ltd	Relevant interest under section 608(3)(a) and/or section 608(3)(b) of the Corporations Act	522,925,412 Shares	522,925,412

In the event that Edison Metals is issued Conversion Shares, the voting power of Edison Metals and its associates could exceed 20%.

Shareholder approval under Item 7 of Section 611 of the Corporations Act is therefore required to enable Edison Metals to be issued Conversion Shares.

Section 1.4(b) below details the potential maximum increase in voting power of Edison Metals and its associates as a result of issue of Conversion Shares.

Pursuant to ASX Listing Rule 7.2 (Exception 16), ASX Listing Rule 7.1 does not apply to an issue of securities approved for the purpose of Item 7 of Section 611 of the Corporations Act. Accordingly, if Shareholders approve the issue of securities pursuant to Resolution 1, the Company will retain the flexibility to issue equity securities in the future up to the 15% annual placement capacity set out in ASX Listing Rule 7.1.

1.4 Specific Information required by Section 611 Item 7 of the Corporations Act and ASIC Regulatory Guide 74

The following information is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval for Item 7 of Section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report prepared by Ernst & Young annexed to this Explanatory Statement.

(a) Identity of the Acquirer and its Associates

Edison Metals is an Australian proprietary limited company and wholly owned subsidiary of BMM Aus, which in turn, is wholly owned by BMM.

Established in 2018, BMM is a US (Texas) based company, focussing on identifying and capturing high growth opportunities within the natural resources space.

BMM's leadership team is currently pursuing a development strategy around Western Australia, targeting world-class battery metal assets.

Details of the respective relevant interests in the Company held by the associates of Edison Metals are set out in section 1.3 above.

(b) Relevant Interest and Voting Power

Shares can be issued under the Convertible Note in two circumstances:

- (i) upon conversion (which is at the election of the holder); and
- (ii) as satisfaction of an interest payment (which is at the election of the Company).

Each of these circumstances and its impact on the voting power of Edison Metals and its associates is discussed below.

The following tables and paragraphs assume that:

- (i) no additional Shares are issued; and
- (ii) there is no adjustment to the conversion price of \$0.09 per Share in accordance with the terms of the Convertible Note.

Shareholders should note that Edison Metals and its associates may increase or decrease its/their voting power prior to the issue of Shares under the Convertible Note. Any increase or decrease prior to the issue of Shares under the Convertible Note will have a corresponding impact on the calculation of the maximum increase in the voting power, and the total voting power, of Edison Metals and its associates.

Issue of Shares on Conversion of the Convertible Note

Set out in Table 1 below is the potential maximum increase in the voting power of Edison Metals and its associates upon conversion of the Convertible Note. The table assumes an exchange rate between the Australian dollar and the United States dollar of A\$0.70:US\$1.00 (being the exchange rate as at 10 May 2019) and is based on the voting power

of Edison Metals and its associates in the Company as at the date of this Notice of Meeting.

Table 1 - Conversion of Convertible Note

	All Shareholders	Non-associated Shareholders	Edison Metals and its associates
Current shareholding	2,642,701,831	2,119,776,419	522,925,412
Current Voting Power	100%	80.21%	19.79%
Conversion of Convertible Note	277,777,778	-	277,777,778
Post-conversion shareholding	2,920,479,609	2,119,776,419	800,703,190
Post-conversion Voting Power	100%	72.58%	27.42%

Table 1 shows that if the Convertible Note is fully converted, the relevant interest of Edison Metals and its associates would increase from 19.79% to a maximum of 27.42% while the collective relevant interests of non-associated Shareholders would reduce from 80.21% to 72.58%.

Table 1 does not allow for the possibility of Shares being issued to satisfy interest payments due under the Convertible Note.

Issue of Shares in lieu of interest under the Convertible Note

Under the terms of the Convertible Note, the Company can elect to satisfy interest payable on the unconverted Convertible Note (converted to A\$) by the issue of Shares at the lesser of the conversion price and the average of the volume weighted average price (**VWAP**) of Shares for the five days up to but not including the interest payment date.

The Company may elect to pay cash or issue Shares to satisfy interest payments each time a quarterly interest payment becomes due. To date, all interest payments have been paid in cash.

Set out in Table 2 below is the potential maximum increase in the voting power of Edison Metals and its associates assuming the Convertible Note is fully converted and all interest payments from 30 June 2019 to 30 September 2020 (the maturity date) are met through the issue of Shares, at a conversion price of \$0.09.

Table 2 assumes an exchange rate between the Australian dollar and the United States dollar of A\$0.70:US\$1.00 (being the exchange rate as at 10 May 2019).

Table 2 - Conversion of Convertible Note and accrued interest

	All Shareholders	Non-associated Shareholders	Edison Metals and its associates
Current shareholding	2,642,701,831	2,119,776,419	522,925,412
Current Voting Power	100%	80.21%	19.79%
Conversion of Convertible Note	277,777,778	-	277,777,778
Conversion of interest component	17,361,111	-	17,361,111
Post-conversion shareholding	2,937,840,720	2,119,776,419	818,064,301
Post-conversion Voting Power	100%	72.15%	27.85%

Table 2 shows that, if the Convertible Note is fully converted and all interest payments for the period 30 June 2019 to 30 September 2020 (the maturity date) are met through the issue of Shares, the relevant interest of Edison Metals and its associates would increase from 19.79% to a maximum of 27.85% while the collective relevant interests of non-associated Shareholders would reduce from 80.21% to 72.15%.

Change in A\$:US\$ exchange rate and Share price

The number of Shares issued to Edison Metals on conversion of the Convertible Note or in satisfaction of interest payments, will ultimately depend on the A\$:US\$ exchange rate at the time of issue and the price of Shares. The following table shows the effect of a change in A\$:US\$ exchange rate on the maximum voting power that Edison Metals and its associates may obtain.

Exchange Rate A\$:US\$	VWAP Share Price		
	\$0.03	\$0.06	\$0.09
\$0.65	41.06%	32.05%	28.40%
\$0.70	39.92%	31.30%	27.85%
\$0.75	38.90%	30.63%	27.36%

(c) **Reasons for the proposed issue of securities**

As set out in Section 1.1 of this Explanatory Statement, the Company is proposing to issue the Conversion Shares to Edison Metals on the potential future conversion of the Convertible Note (together with accrued interest), in accordance with its terms.

(d) **Date of proposed issue of securities**

The Conversion Shares will be issued:

- (i) upon conversion of all or part of the Convertible Note, at the election of Edison Metals; and/or

- (ii) in satisfaction of interest payable on the unconverted Convertible Note, at the election of the Company,

at any time after the Meeting up to the maturity date of the Convertible Note, being 30 September 2020.

(e) **Material terms of proposed issue of securities**

The Conversion Shares will rank *pari passu* with the other Shares of the Company.

(f) **Edison Metals' Intentions**

Edison Metals has informed the Company that as at the date of this Notice of Meeting and on the basis of the facts and information available to it, that it:

- (i) has no present intention of making any significant changes to the business of the Company;
- (ii) has no present intention to inject further capital into the Company;
- (iii) has no present intention regarding the future employment of the present employees of the Company;
- (iv) has no present intention to redeploy any fixed assets of the Company;
- (v) has no present intention to transfer any property between the Company and Edison Metals;
- (vi) has no present intention to change the Company's existing policies in relation to financial matters or dividends; and
- (vii) has no present intention to change the Board.

In its capacity as a major shareholder, and having a Board representative, BMM will continue to provide input regarding the direction of the POS business, including in relation to the above matters where appropriate.

These present intentions may change as new information becomes available, as circumstances change or in light of all material information, facts and circumstances necessary to assess the operational, commercial, taxation and financial implications of those decisions at the relevant time.

(g) **Interests and Recommendations of Directors**

None of the current Board members have a material personal interest in the outcome of Resolution 1. The Company notes that Karl Paganin was appointed as a nominee director of BMM on 1 October 2018, however Mr Paganin is not considered an associate of Edison Metals for the purposes of section 606 of the Corporations Act nor does he exercise any control over the securities held by Edison Metals (or its associates) and vice versa.

Based on the information available, including that contained in this Explanatory Memorandum and the Independent Expert's Report, all of the Directors consider that the issue of the Conversion Shares is in the best interests of the Company.

The Directors are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 1.

Each of the Directors recommends that Shareholders vote in favour of Resolution 1.

(h) **Capital Structure**

Details of the effects to the Company's capital structure resulting from the issue of the Conversion Shares is set out in section 1.5(b) above.

1.5 Advantages of the Issue – Resolution 1

The Directors are of the view that the following non-exhaustive list of advantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 1:

- (a) If the Company does not have access to sufficient funds to repay the Convertible Note, and BMM is not able to convert the Convertible Note to shares, it will be an event of default under the Convertible Note;
- (b) BMM is a strong institutional shareholder partner who will add value to the Company's strategic goals. Further, BMM has experience in returning nickel assets to operational status and is in the process of returning the Lanfranchi mine in Western Australia to operational status following its purchase in 2018;
- (c) the issue of Shares to Edison Metals upon conversion of the Convertible Note and accrued interest will satisfy the Company's obligations under the Convertible Note and preserve the Company's cash reserves;
- (d) Shareholders have previously provided pre-approval for Shares to be issued on the conversion of prior convertible notes issued by the Company for item 7 of Section 611 purposes. These pre-approvals were provided to the Harbinger Group in March 2011 and to Jefferies when the Convertible Note was first issued and at interest levels not inconsistent with the interest in the Company that Edison may end up with on the potential conversion of the Convertible Note;
- (e) when the Convertible Note was first issued in November 2015, the conversion price of \$0.09 was at a premium to the closing price Shares on 4 November 2015, being the last trading date before the announcement, of 73.1% and a 45.7% premium to the three month volume weighted average price. The premiums at the current date to the conversion price are higher than these figures; and
- (f) the Independent Expert's Report prepared by Ernst & Young concludes that the issue of Shares the subject of Resolution 1 is fair and reasonable to the non-associated shareholders.

1.6 Disadvantages of the Issue – Resolution 1

The Directors are of the view that the following non-exhaustive list of disadvantages may be relevant to a Shareholder's decision on how to vote on proposed Resolution 1:

- (a) the issue of the Conversion Shares to Edison Metals will increase the voting power of Edison Metals from 19.79% up to approximately 28%, reducing the voting power of non-associated Shareholders in aggregate from 80.21% to approximately 72%;
- (b) conversion of the Convertible Note may increase the Company's tax liabilities (refer to section 6 of the Independent Expert's Report for further details); and
- (c) there is no guarantee that the Company's Shares will not fall in value as a result of the issue.

1.7 Independent Expert's Report – Resolution 1

The Independent Expert's Report prepared by Ernst & Young (a copy of which is attached as Annexure A to this Explanatory Statement) assesses whether the transactions contemplated by Resolution 1 are fair and reasonable to the non-associated Shareholders of the Company.

The Independent Expert's Report concludes that the transactions contemplated by Resolution 1 are fair and reasonable to the non-associated Shareholders of the Company.

Shareholders are urged to carefully read the Independent Expert's Report to understand the scope of the report, the methodology of the valuation and the sources of information and assumptions made.

2. RESOLUTION 2 – REPLACEMENT OF CONSTITUTION

2.1 General

A company may modify or repeal its constitution or a provision of its constitution by a special resolution of Shareholders.

Resolution 2 is a special resolution which will enable the Company to repeal its existing Constitution and adopt a new constitution (**Proposed Constitution**) which is of the type required for a listed public company limited by shares updated to ensure it reflects the current provisions of the Corporations Act and ASX Listing Rules.

This will incorporate amendments to the Corporations Act and ASX Listing Rules since the current Constitution was adopted in 2006.

The Directors believe that it is preferable in the circumstances to replace the existing Constitution with the Proposed Constitution rather than to amend a multitude of specific provisions.

The Proposed Constitution is broadly consistent with the provisions of the existing Constitution. Many of the proposed changes are administrative or minor in nature.

The Directors believe these amendments are not material nor will they have any significant impact on Shareholders. It is not practicable to list all of the changes to the Constitution in detail in this Explanatory Statement, however, a summary of the proposed material changes is set out below.

A copy of the Proposed Constitution is available for review by Shareholders at the Company's website www.poseidon-nickel.com.au and at the office of the Company. A copy of the Proposed Constitution can also be sent to Shareholders upon request to the Company Secretary (+61 8 6167 6600). Shareholders are invited to contact the Company if they have any queries or concerns.

2.2 Summary of noteworthy proposed changes

Minimum Shareholding (clause 3)

Clause 3 of the Constitution outlines how the Company can manage shareholdings which represent an "unmarketable parcel" of shares, being a shareholding that is less than \$500 based on the closing price of the Company's Shares on ASX as at the relevant time.

The Proposed Constitution is in line with the requirements for dealing with "unmarketable parcels" outlined in the Corporations Act such that where the Company elects to undertake a sale of unmarketable parcels, the Company is only required to give one notice to holders of an unmarketable parcel to elect to retain their shareholding before the unmarketable parcel can be dealt with by the Company, saving time and administrative costs incurred by otherwise having to send out additional notices.

Clause 3 of the Proposed Constitution continues to outline in detail the process that the Company must follow for dealing with unmarketable parcels.

Fee for registration of off market transfers (clause 8.4(c))

In 2011, ASX amended ASX Listing Rule 8.14 with the effect that the Company may now charge a "reasonable fee" for registering paper-based transfers, sometimes referred to as "off-market transfers".

Clause 8.4 of the Proposed Constitution enables the Company to charge a reasonable fee when it is required to register off-market transfers from Shareholders. The fee is intended to represent the cost incurred by the Company in upgrading its fraud detection practices specific to off-market transfers.

Before charging any fee, the Company is required to notify ASX of the fee to be charged and provide sufficient information to enable ASX to assess the reasonableness of the proposed amount.

Dividends (clause 22)

In 2010 section 254T of the Corporations Act was amended such that there is now a three-tiered test that a company will need to satisfy before paying a dividend replacing the previous test that dividends may only be paid out of profits.

The amended requirements provide that a company must not pay a dividend unless:

- (a) the company's assets exceed its liabilities immediately before the dividend is declared and the excess is sufficient for the payment of the dividend;
- (b) the payment of the dividend is fair and reasonable to the company's shareholders as a whole; and
- (c) the payment of the dividend does not materially prejudice the company's ability to pay its creditors.

The existing Constitution reflects the former profits test and restricts the dividends to be paid only out of the profits of the Company. The Proposed Constitution is updated to reflect the new requirements of the Corporations Act. The Directors consider it appropriate to update the Constitution for this amendment to allow more flexibility in the payment of dividends in the future should the Company be in a position to pay dividends.

Partial (proportional) takeover provisions (new clause 36)

A proportional takeover bid is a takeover bid where the offer made to each shareholder is only for a proportion of that shareholder's shares.

Pursuant to section 648G of the Corporations Act, the Company has included in the Proposed Constitution a provision whereby a proportional takeover bid for Shares may only proceed after the bid has been approved by a meeting of Shareholders held in accordance with the terms set out in the Corporations Act.

This clause of the Proposed Constitution will cease to have effect on the third anniversary of the date of the adoption of last renewal of the clause.

Information required by section 648G of the Corporations Act

Effect of proposed proportional takeover provisions

Where offers have been made under a proportional off-market bid in respect of a class of securities in a company, the registration of a transfer giving effect to a contract resulting from the acceptance of an offer made under such a proportional off-market bid is prohibited unless and until a resolution to approve the proportional off-market bid is passed.

Reasons for proportional takeover provisions

A proportional takeover bid may result in control of the Company changing without Shareholders having the opportunity to dispose of all their Shares. By making a partial bid, a bidder can obtain practical control of the Company by acquiring less than a majority interest. Shareholders are exposed to the risk of being left as a minority in the Company and the risk of the bidder being able to acquire control of the Company without payment of an adequate control premium. These amended provisions allow Shareholders to decide whether a proportional takeover bid is acceptable in principle, and assist in ensuring that any partial bid is appropriately priced.

Knowledge of any acquisition proposals

As at the date of this Notice of Meeting, no Director is aware of any proposal by any person to acquire, or to increase the extent of, a substantial interest in the Company (aside from the proposed issue of Shares to Edison Metals, being the subject of Resolution 1).

Potential advantages and disadvantages of proportional takeover provisions

The Directors consider that the proportional takeover provisions have no potential advantages or disadvantages for them and that they remain free to make a recommendation on whether an offer under a proportional takeover bid should be accepted.

The potential advantages of the proportional takeover provisions for Shareholders include:

- (a) the right to decide by majority vote whether an offer under a proportional takeover bid should proceed;
- (b) assisting in preventing Shareholders from being locked in as a minority;
- (c) increasing the bargaining power of Shareholders which may assist in ensuring that any proportional takeover bid is adequately priced; and
- (d) each individual Shareholder may better assess the likely outcome of the proportional takeover bid by knowing the view of the majority of Shareholders which may assist in deciding whether to accept or reject an offer under the takeover bid.

The potential disadvantages of the proportional takeover provisions for Shareholders include:

- (a) proportional takeover bids may be discouraged;
- (b) lost opportunity to sell a portion of their Shares at a premium; and
- (c) the likelihood of a proportional takeover bid succeeding may be reduced.

Recommendation of the Board

The Directors do not believe the potential disadvantages outweigh the potential advantages of adopting the proportional takeover provisions and as a result consider that the proportional takeover provision in the Proposed Constitution is in the interest of Shareholders and unanimously recommend that Shareholders vote in favour of Resolution 2.

Non-Executive Directors' Remuneration (new clause 14.8)

The Company is also seeking Shareholder approval pursuant to Resolution 3 to increase the total aggregate amount of directors' fees payable to all of its non-executive directors without the approval of holders of its ordinary securities from \$350,000 to \$650,000. Please refer to the Explanatory Statement for Resolution 3 for further details.

3. RESOLUTION 3 – NON-EXECUTIVE DIRECTORS' REMUNERATION

ASX Listing Rule 10.17 provides that an entity must not increase the total aggregate amount of directors' fees payable to all of its non-executive directors without the approval of holders of its ordinary securities.

The Constitution also requires that remuneration payable to the non-executive Directors will not exceed the sum initially set by the Constitution and subsequently increase by ordinary resolution of Shareholders in general meeting.

The maximum aggregate amount of fees payable to all of the non-executive Directors is currently set at \$350,000. Resolution 3 seeks Shareholder approval to increase this figure by \$300,000 to \$650,000.

This amount includes superannuation contributions made by the Company for the benefit of non-executive Directors and any fees which a non-executive Director agrees to sacrifice for other benefits. It does not include reimbursement of genuine out of pocket expenses, genuine "special exertion" fees paid in accordance with the Constitution, or securities issued to a non-executive Director under ASX Listing Rule 10.11 or 10.14 with approval of Shareholders.

The maximum aggregate amount of fees proposed to be paid to the non-executive Directors per annum has been determined after reviewing similar companies listed on ASX and the Directors believe that this level of remuneration is in line with corporate remuneration of similar companies.

Whilst it is not envisaged that the maximum amount sought will be utilised immediately, the proposed limit is requested to ensure that the Company:

- (a) maintains its capacity to remunerate both existing and any new non-executive directors joining the Board;
- (b) remunerates its non-executive Directors appropriately for the expectations placed upon them both by the Company and the regulatory environment in which it operates; and
- (c) has the ability to attract and retain non-executive directors whose skills and qualifications are appropriate for a company of the size and nature of the Company.

In the past 3 years, the Company has issued non-executive Directors an aggregate of 30,324,476 Performance Rights with prior Shareholder approval under ASX Listing Rules 10.11 and 10.14.

Given the interest of the non-executive Directors in this Resolution, the Board makes no recommendation to Shareholders regarding this Resolution.

GLOSSARY

\$ and A\$ means Australian dollars.

ASIC means the Australian Securities & Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the financial market operated by ASX Limited, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

BMM means Black Mountain Metal LLC.

BMM Aus means Black Mountain Metals Pty Ltd (ACN 627 715 735).

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Chair means the chair of the Meeting.

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the Corporations Regulations 2001 (Cth) for the purposes of the definition of 'closely related party' in the Corporations Act.

Company means Poseidon Nickel Limited (ACN 060 525 206).

Conversion Shares means a Share being issued by the Company pursuant to the Issue outlined in Section 1 of the Explanatory Statement.

Constitution means the Company's constitution.

Convertible Note has the meaning given in Section 1.1.

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the current directors of the Company.

Edison Metals means Edison Metals Pty Ltd (ACN 627 759 059).

Explanatory Statement means the explanatory statement accompanying the Notice.

General Meeting or Meeting means the meeting convened by the Notice.

Key Management Personnel has the same meaning as in the accounting standards issued by the Australian Accounting Standards Board and means those persons having authority and responsibility for planning, directing and controlling the activities of the Company, or if the Company is part of a consolidated entity, of the consolidated entity, directly or indirectly, including any director (whether executive or otherwise) of the Company, or if the Company is part of a consolidated entity, of an entity within the consolidated group.

Independent Expert Report means the Independent Experts Report prepared by Ernst & Young which is attached to this Notice as Annexure A.

Notice or **Notice of Meeting** means this notice of meeting including the Explanatory Statement and the Proxy Form.

Prohibition is defined in clause 1.2(a) of the Explanatory Statement.

Proxy Form means the Proxy Form accompanying the Notice.

Resolutions means the resolutions set out in the Notice, or any one of them, as the context requires.

Section means a section of the Explanatory Statement.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a registered holder of a Share.

US\$ means United States dollars.

WST means Western Standard Time as observed in Perth, Western Australia.

SCHEDULE 1 – TERMS AND CONDITIONS OF CONVERTIBLE NOTE

A summary of the material terms and conditions of the Convertible Note is as follows:

- (a) The face value of the Convertible Note is US\$17.5 million.
- (b) The Convertible Note has a maturity date of 30 September 2020.
- (c) The Convertible Note is convertible at any time into Shares at the election of the holder at A\$0.09 per Share subject to certain dilutionary adjustments for dividends and rights issues as set out below.

- (i) Where the Company pays or makes any dividend, the conversion price of the Convertible Note shall be reduced by multiplying the conversion price by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the conversion price then in effect; and

B is the portion of the fair market value (converted to Australian dollars) of the aggregate dividend attributable to one Share.

- (ii) If any Marketable Securities (as defined in the Corporations Act, other than Shares, options or securities convertible into Shares), or rights to such Marketable Securities, are issued or granted to Shareholders as a class by way of rights, the conversion price shall be adjusted by multiplying the conversion price by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the conversion price then in effect; and

B is the fair market value on the trading day immediately preceding the ex-date of the portion of the rights attributable to one Share (translated into Australian Dollars).

- (d) Interest is payable at 5% per annum quarterly in arrears on each of 31 March, 30 June, 30 September and 31 December. The Company may elect to satisfy interest payments by the issue of Shares at the lesser of the Conversion Price or the average of the volume weighted average prices of a Share, as quoted on ASX, for five (5) consecutive trading days up to but not including the interest payment date.
 - (e) Shares issued on conversion of the Convertible Note will upon issue be fully paid and rank equally in all respects with existing Shares on issue on the conversion date.
 - (f) The Company will apply for quotation by ASX of all Shares issued pursuant to the conversion of Convertible Note immediately upon issue.

- (g) The Convertible Note is unsecured and no charge or any other form of security will be taken over the Company or its assets.
- (h) The Convertible Note is transferrable in whole or in part in compliance with all applicable laws and regulations.
- (i) In the event that the Company makes an offer of Shares, options or other securities, the Company must, subject to compliance with the Corporations Act and ASX Listing Rules, make an offer to the holder on terms which correspond with the offer the holder would have received, had the offer been made on a pro-rata basis to all Shareholders and the Convertible Note had been converted into Shares immediately before the record date for the offer,
- (j) In the event of a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Shares to be issued upon exercise of the Convertible Note and the conversion price will be reconstructed in the same proportion as the issued capital of the Company is reconstructed and in a manner which will not result in any additional benefits being conferred on or detriment suffered by the holder which are not conferred on or suffered by Shareholders and otherwise in accordance with the ASX Listing Rules.

ANNEXURE A – INDEPENDENT EXPERT’S REPORT



Independent Expert's Report and Financial Services Guide

In relation to the possible issuance of Poseidon Nickel Limited shares to Edison Metals Pty Ltd on conversion of the Convertible Note

14 June 2019



**Building a better
working world**

PART 1 - INDEPENDENT EXPERT'S REPORT

The Directors
Poseidon Nickel Limited
Unit 8, Churchill Court
331-335 Hay Street
SUBIACO WA 6008

14 June 2019

Dear Directors

Pre-approval to issue shares on conversion of the Convertible Note

Background

On 17 August 2018, Black Mountain Metals Pty Ltd ("BMM Aus"), a wholly owned subsidiary of US-based private equity firm Black Mountain Metals LLC ("BMM"), made a binding, conditional offer to acquire 100% of the issued shares in Poseidon Nickel Limited ("Poseidon" or the "Company") at a price of A\$0.06 per share. On or around the same date, BMM Aus also announced that it had purchased the Poseidon US\$17.5 million convertible note ("Convertible Note") and all shares in Poseidon held by US based global investment bank, Jefferies LLC ("Jefferies") for an undisclosed sum.

Following an internal restructure of the BMM group in December 2018, the Convertible Note was transferred to Edison Metals Pty Ltd ("Edison"), a wholly owned subsidiary of BMM Aus, who is the current holder and sole beneficiary of the Convertible Note.

All terms attached to the Convertible Note remain the same as those entered into with Jefferies. The Convertible Note has a maturity date of 30 September 2020 (the "Maturity Date"), at which time if it has not been converted into Poseidon shares (the "Convertible Note Shares") by the holder it will need to be repaid. The conversion price to convert the Convertible Note into Poseidon shares is A\$0.09 per share (the "Conversion Price"). At Poseidon's option, shares can be issued to Edison over time in satisfaction of the interest charged on the Convertible Note. Interest is payable at a rate of 5% per annum on the Convertible Note, payable quarterly in arrears. Payment can be met through the issue of shares at a price equating to the five day volume weighted average price ("VWAP") of the Company's shares on the Australian Securities Exchange ("ASX"), converted to US\$ using a five day average spot buying price for the A\$:US\$ exchange rate. The Convertible Note is unsecured and transferable.

Requirement for an independent expert's report

Under Section 606 of the Corporations Act (the "Act"), an entity is prohibited from acquiring a greater than 20% interest in the voting shares of a listed company subject to a number of exceptions. An exception to the prohibition is item 7 of Section 611 of the Act, which allows for the increase in voting shares above 20% to be approved by shareholders.

Because they carry no ordinary voting rights, the issue of convertible notes by a listed company has no immediate Section 606 consequences as the voting interest in that entity at that time does not change. The Section 606 prohibition only becomes relevant when the holder wishes to convert the convertible notes into shares and that conversion will increase the holder's voting interest in the listed company to greater than 20%. To address this matter, public companies issuing convertible notes often obtain shareholder approval for the issue of shares to the holder of the convertible notes when those notes are issued. This 'pre-approval' for the issue of shares on the potential conversion of convertible notes is obtained pursuant to item 7 of Section 611 of the Act.

As at the date of this report, Edison holds 522,925,412 shares in Poseidon which equates to a 19.79% voting interest. In August 2018, BMM Aus purchased 84,986,534 of those shares representing 7.62% of total shares on issue at the time at A\$0.06 per share. BMM Aus increased their holding to 114,986,534 shares representing 9.17% of total shares on issue 11 days later for A\$0.05 per share. In September 2018, BMM Aus increased their holding to 522,925,412 shares representing 19.82% of shares on issue at the time at A\$0.05 per share. BMM Aus' holding in Poseidon was transferred to Edison in December 2018.

Based on the number of shares Poseidon currently has on issue and under the terms of the Convertible Note, if the Convertible Note is converted at some time in the future, all other things being equal, it is highly likely that Edison's voting interest in Poseidon would increase to something above the 20% allowed under Section 606. Because of this, shareholder approval is being sought pursuant to item 7 of Section 611 for the possible conversion of the Convertible Note and issue of the Convertible Note Shares.

Under the Australian Securities and Investments Commission ("ASIC") Regulatory Guide 111: Content of expert reports ("RG 111"), resolutions proposed for item 7 of Section 611 purposes are required to be accompanied by a report, which is to provide an opinion as to whether or not the proposed transaction is fair and reasonable to the non-associated shareholders of the company. Unless the directors of the subject company provide such a report, an independent expert's report is required to accompany the resolution.

Consistent with this requirement, the Directors of Poseidon (the "Directors") have appointed Ernst & Young Transaction Advisory Services Limited ("EY Transaction Advisory Services") as an independent expert to prepare a report, the purpose of which is to provide an opinion, as to whether or not the issue of shares to Edison on the potential conversion of the Convertible Note (the "Transaction") is fair and reasonable to those shareholders of the Company not associated with Edison (the "Non-Associated Shareholders").

RG 111 also requires us to consider whether or not Edison, Poseidon or any other party is paying or receiving a premium for control as a result of the issue of shares on the potential conversion of the Convertible Note.

At a general meeting of Poseidon shareholders being convened for on or about 15 July 2019 (the "Meeting") the Non-Associated Shareholders will be requested to consider, amongst other things, resolutions seeking approval for the issue of shares on the potential future conversion of the Convertible Note. The report is to be included in the Notice of Meeting and Explanatory Statement being sent to Poseidon shareholders in relation to the Meeting.

Approach

The Act does not define the term 'fair and reasonable'. RG 111 provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable to shareholders.

RG 111 considers that all transactions involving an entity increasing its shareholding in another entity to above 20% are control transactions and should be assessed as a takeover bid. With respect to a takeover bid RG 111 notes that:

- ▶ An offer is 'fair' if the value of the offer price or consideration being paid is equal to or greater than the value of the securities that are the subject of the offer; and
- ▶ An offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 requires that the comparison of value between the consideration being paid and the securities that are subject of the takeover bid is to be made assuming 100% ownership of the target.

In considering the potential conversion of the Convertible Note and the issue of the Convertible Note Shares, the relevant date to assess the value of the Convertible Note Shares would be at or around the time the Convertible Note is converted and Edison's voting interest in Poseidon increases.

At the date of this report, no assessment of the value of the Convertible Note Shares can reasonably be made as the potential date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, the conversion price, the wider terms of the Convertible Note together with the circumstances of Poseidon and the advantages and disadvantages provided by conversion of the Convertible Note are of more significance than the potential value of the Company's assets and liabilities at some future date. It is also relevant that the Convertible Note has already been issued and was approved by shareholders when the original issue to Jefferies occurred.

Notwithstanding this, in assessing the issue of the Convertible Note Shares to Edison on the potential conversion of the Convertible Note, we have considered the current value of a Poseidon share prior to the conversion of the Convertible Note and compared that to the Conversion Price. As additional cross-checks, we have analysed enterprise value ("EV")/ Mineral Resource multiples for comparable companies and guideline transactions and Poseidon's net asset value as at 31 December 2018.

While RG 111 requires transactions involving greater than 20% interest to be treated as control transactions, RG 111 does recognise that there may be circumstances where an entity will acquire 20% or more of another entity without obtaining or increasing its practical level of control in that entity.

Summary of Opinion

Fairness of the Transaction

We have determined whether the Transaction is fair to the Non-Associated Shareholders by considering whether the Transaction as a whole is fair. This has been done by comparing the assessed fair value of Poseidon shares, to the Conversion Price payable by Edison to Poseidon in the event that the Transaction is approved and Edison elects to convert the Convertible Note.

We considered a number of valuation benchmarks in estimating the fair value of Poseidon. These included the historical 3-month VWAP, implied enterprise value/ Mineral Resource multiples and the net asset value. All amounts are in Australian dollars ("A\$") unless otherwise stated. Currency amounts in United States dollars are defined as ("US\$").

The table below presents a summary of the value of Poseidon in comparison to the Conversion Price.

Evaluation of the fairness of the Transaction				
<i>A\$ per share</i>	<i>Reference</i>	<i>Value per share</i>	<i>EV/ Resource multiple</i>	<i>Conversion Price premium</i>
Conversion Price on a minority interest basis		0.090	390.08	-
3-month Poseidon share VWAP	Section 5.2.2	0.039	-	128.7%
Guideline transaction multiples	Section 5.2.3.3	-	87.15 - 158.12	147.1% - 348.4%
Net asset value	Section 5.2.4	0.029	-	207.0%

We note that the Conversion Price is at a significant premium to the values concluded under the various approaches. We note that these premiums are in excess of what would be regarded as normal control premiums in this sector.

We therefore consider the Transaction to be fair.

Reasonableness of the Transaction

A transaction is “reasonable” if it is “fair” or, despite being “not fair”, there are sufficient reasons for shareholders to vote for the proposal.

Consistent with the guidance provided by RG 111, as the Transaction is fair, it is also reasonable to the Non-Associated Shareholders of Poseidon. Notwithstanding, we have also considered other factors that the Non-Associated Shareholders should consider in forming their view on whether to vote in favour of the Transaction. Individual Non-Associated Shareholders may interpret these factors differently depending on their own circumstances.

A summary of these other factors is included below. In identifying factors to be considered, we have had reference to the factors noted in RG 111, as well as having regard to the specific circumstances of the Transaction. The other factors considered include:

- ▶ At the date of this report, no assessment of the value of the Convertible Note Shares can reasonably be made as the potential date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, at the date of their issue the Conversion Price and the wider terms of Convertible Note together with the circumstances of Poseidon are of more significance than the potential value of the Company’s assets and liabilities at some future date.
- ▶ Notwithstanding the above, we have considered the value of a Poseidon share on a current date basis.
- ▶ In the absence of information to the contrary, we have assumed in our calculations that Edison does not increase its equity interest in Poseidon by other means than conversion of the Convertible Note.
- ▶ *The likelihood of conversion is currently low given the current share price relative to the Conversion Price* – A comparison of the Conversion Price of the Convertible Note of \$0.09 to the trading price VWAP of Poseidon shares on the ASX for the 5 and 10 trading days and the one, two and three months prior to 3 June 2019, shows that the Conversion Price is at a premium to trading prices in the range of 128.7% to 143.2%. A premium of the Conversion Price to Poseidon’s share price is an advantage to the Non-Associated Shareholders that would be realised in the unlikely event the Convertible Note is converted into the Convertible Note Shares.
- ▶ *Edison already has board representation through its nominated director, Edison currently holds one of the four board seats* - Having a greater than 20% interest in Poseidon may enable Edison to influence the Company in general meetings. However, this may not necessarily be to the detriment of the Non-Associated Shareholders. With a shareholding of around 27.42%, as long as greater than 38% of the remaining shares are voted, then Edison will not be in the majority.
- ▶ *Shareholders have previously voted in favour of allowing conversion of Poseidon convertible notes* – It is of note that Poseidon shareholders have previously provided pre-approval for shares to be issued on the conversion of the old convertible notes for item 7 of Section 611 purposes. These pre-approvals were provided to Harbinger when the old convertible notes were issued and to Jefferies when the Convertible Note was issued and at shareholding levels not inconsistent with the interest in Poseidon that Edison may end up with on the potential conversion of the Convertible Note.
- ▶ *BMM Aus has experience of returning Nickel assets to operational status* – BMM Aus is in the process of returning the Lanfranchi mine in Western Australia to operational status following its purchase in 2018.
- ▶ *Conversion of the Convertible Note could increase Poseidon’s tax liabilities* – From discussions with Management, we understand that share capital tainting rules may be triggered if conversion occurs while the trading price is below \$0.09, resulting in an estimated \$5.2 million tax charge. Commercial debt forgiveness rules may also apply in instances where the Convertible Note is converted at a

conversion price greater than the prevailing share price at that time. However Management anticipate that any commercial debt forgiveness tax exposure would be offset by existing carry forward tax losses. Additionally, it is noted that where the Convertible Note is settled in cash (rather than conversion to equity), no tax would fall due in relation to share capital tainting or debt forgiveness rules.

- ▶ *If the Transaction is not approved, Poseidon will be required to pay back US\$17.5 million in cash on 30 September 2020* - This however is the same position as will apply in the event that BMM Aus does not elect to convert the Convertible Note into Poseidon shares, which is quite likely given the significant premium of the Conversion Price relative to the current Poseidon share price. Poseidon currently has significant cash, however, this cash was raised for the purpose of restarting the Black Swan operation.
- ▶ In August 2018 Poseidon completed the Entitlement Offer, increasing cash in hand by approximately \$68.8 million. Of this amount \$35.5 million and \$27.0 million has been notionally allocated to activities related to the restart of Silver Swan and Black Swan respectively, whilst \$2.9 million has been allocated to project overruns. Due to these allocations, the cash raised in the entitlement may not readily be available for the repayment of the Convertible Note. It is uncertain whether there will be the requirement to raise additional debt or if the funds raised in the entitlement are substantial enough to repay the Convertible Note. As such, it is possible that cash may need to be generated from operations and/ or additional funding raised in order to repay the Convertible Note in cash to avoid a potential default on its debt. It should be noted that this is Poseidon's current position, and it will continue to exist whether or not the Non-Associated Shareholders approve the possible future issue of shares.

Conclusion

In the absence of a superior alternative, based on the matters outlined above, in our opinion, the Transaction and the Conversion Price are fair and reasonable to Non-Associated Shareholders.

This IER has been prepared to assist Non-Associated Shareholders in assessing the merits of the Transaction. In doing so, the report provides general information only and does not consider the individual situation, objectives and needs of each Non-Associated Shareholder. On this basis, Non-Associated Shareholders should consider whether this report is appropriate for their circumstances, having regard to their own situation, objectives and needs before relying on or taking action based on this report. If there is any doubt, Non-Associated Shareholders should seek their own professional advice.

Other Matters

This independent expert's report has been prepared specifically for the Non-Associated Shareholders of Poseidon. As such in respect to this report, including any errors or omissions howsoever caused, neither EY Transaction Advisory Services, EY nor any employee thereof undertakes responsibility to any person other than the Non-Associated Shareholders.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decision as to whether to approve or not approve the potential future conversion of the Convertible Note is a matter for the individual Non-Associated Shareholders of Poseidon. Poseidon shareholders should have regard to the Notice of Meeting and Explanatory Statement prepared by the Directors and management of Poseidon in relation to the transaction. Poseidon shareholders who are in doubt as to the action they should take in relation to the transactions should consult their own professional advisor.



EY Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this Report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

A handwritten signature in black ink, appearing to read 'Evgeny Khrustalev', written over a horizontal line.

Evgeny Khrustalev
Director and Representative

A handwritten signature in black ink, appearing to read 'Stuart Bright', written over a horizontal line.

Stuart Bright
Director and Representative

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1. Introduction

1.1 Background

On 17 August 2018, BMM Aus, a wholly owned subsidiary of US-based private equity firm BMM, made a binding, conditional offer to acquire 100% of the issued shares in Poseidon at a price of A\$0.06 per share. On or around the same date, BMM Aus also announced that it had purchased the Convertible Note and all shares in Poseidon held by US based global investment bank, Jefferies for an undisclosed sum.

On 22 August 2018, Poseidon announced its intention to launch a material capital raising and advised that BMM Aus had withdrawn its offer for Poseidon. On 24 August 2018, Poseidon announced a placement and a fully underwritten 11 for 10 renounceable entitlement issue (the “Entitlement Offer”) to raise \$74.6 million at \$0.05 per share before costs.

Following an internal restructure of the BMM group in December 2018, the Convertible Note was transferred to Edison, a wholly owned subsidiary of BMM Aus, who is the current holder and sole beneficiary of the Convertible Note.

All terms attached to the Convertible Note remain the same as agreed with Jefferies and the key terms are summarised as follows:

- ▶ the principal amount is US\$17.5 million;
- ▶ the maturity date is 30 September 2020 (the “Maturity Date”);
- ▶ the Conversion Price is \$0.09 per share, subject to certain dilutionary adjustments;
- ▶ interest is payable at a rate of 5% per annum from the date of issue, paid quarterly in arrears until the date of conversion or maturity;
- ▶ interest payable may be satisfied, at the election of Poseidon, and subject to the provisions of the Act, by the issue of shares. The number of shares to be issued will be determined based on the conversion of the US\$ interest amount to A\$ and at the lesser of the conversion price or the VWAP for the Company’s shares on the ASX for the five trading days prior to the relevant interest payment date;
- ▶ conversion into shares is at the discretion of the holder and can be undertaken at any time prior to the Maturity Date;
- ▶ if at the Maturity Date the Convertible Note has not been converted, then Poseidon is required to repay the US\$17.5 million plus any interest outstanding; and
- ▶ the Convertible Note is unsecured and transferable.

On 20 January 2016, Poseidon shareholders voted in favour of the pre-approval of issuing Convertible Note Shares to Jefferies on conversion of the Convertible Note. Similarly, in November 2008 and March 2011, Poseidon shareholders approved the issue of shares to Harbinger, a US based funds manager on the potential future conversion of the convertible notes that were in place at that time, whose underlying terms and conditions were not dissimilar to those of the Convertible Note save for the different principal amount, the maturity date and the conversion price.

2. Scope of the Report

2.1 Purpose of the Report

Under Section 606 of the Act, an entity is prohibited from acquiring a greater than 20% interest in the voting shares of a listed company. An exception to the prohibition is item 7 of Section 611 of the Act, which allows for the increase in voting shares above 20% to be approved by shareholders.

Because they carry no ordinary voting rights, the issue of convertible notes by a listed company has no immediate Section 606 consequences as the voting interests in that entity at that time does not change. The Section 606 prohibition only becomes an issue when the holder wishes to convert the convertible notes into shares and that conversion will increase the holder's voting interest in the listed company to greater than 20%. In these circumstances the holder would be prevented from converting that portion of the notes held that would take their voting interest over 20%. To address this concern, public companies issuing convertible notes often obtain shareholder approval for the issue of shares to the holder of the convertible notes on the potential conversion of those notes at some future time. This 'pre-approval' for the issue of the shares on the potential conversion of convertible notes is obtained pursuant to item 7 of Section 611 of the Act.

As at the date of this report, Edison holds 522,925,412 shares in Poseidon which equates to a 19.79% voting interest. In August 2018 BMM Aus purchased 84,986,534 shares representing 7.62% of total shares on issue at the time at A\$0.06 per share. BMM Aus increased their holding to 114,986,534 shares representing 9.17% of total shares on issue 11 days later for A\$0.05 per share. In September 2018 BMM Aus increased their holding to 522,925,412 shares, representing 19.82% of shares on issue at the time at A\$0.05 per share, following the completion of the Entitlement Offer. BMM Aus' holding in Poseidon were transferred to Edison in December 2018. The table below summarises the movement in Edison's interest in the Company since 16 August 2018.

Poseidon – Summary of Edison's interest in the Company					
Date	Shares acquired	Cumulative Shares Held	Shares outstanding	Percentage acquired	Cumulative percentage acquired
16 August 2018	84,986,534	84,986,534	1,114,561,668	7.63%	7.63%
28 August 2018	30,000,000	114,986,534	1,254,098,891	2.39%	9.17%
19 September 2018	407,938,878	522,925,412	2,637,820,285	15.46%	19.82%
21 September 2018 ¹	-	522,925,412	2,642,701,831	-	19.79%

Source: EY analysis, Capital IQ, ASX announcements

Note:

1. On 21 September 2018 Poseidon announced the issue of 4,881,546 ordinary shares upon conversion of existing performance rights held by a Director.

At Poseidon's option, shares can be issued to Edison over time in satisfaction of the interest charged on the Convertible Note. Interest is payable at a rate of 5% per annum on the Convertible Note, payable quarterly in arrears. Payment can be met through the issue of shares at a price equating to the five day VWAP of the Poseidon's shares on the ASX, converted to US\$ using a five day average spot buying price for the A\$:US\$ exchange rate.

Based on the number of shares Poseidon currently has on issue and under the terms of the Convertible Note, if the Convertible Note is converted at some time in the future, all other things being equal, it is highly likely that Edison's voting interest in Poseidon would increase to something above the 20% allowed under Section 606. Because of this, shareholder approval is being sought pursuant to item 7 of Section 611 for the issue by Poseidon of the Convertible Note Shares.

Under the Australian Securities and Investments Commission Regulatory Guide 111: Content of expert reports, resolutions proposed for item 7 of Section 611 purposes are required to be accompanied by a report, which is to provide an opinion as to whether or not the proposed transaction is fair and reasonable to the non-associated shareholders of the company. Unless the directors of the subject company provide such a report, an independent expert's report is required to accompany the resolution.

Consistent with this requirement, the Directors have appointed EY Transaction Advisory Services as an independent expert to prepare a report, the purpose of which is to provide an opinion, as to whether or not the issue of the Convertible Note Shares to Edison on the potential conversion of the Convertible Note at some time in the future is fair and reasonable to the Non-Associated Shareholders.

RG 111 also requires us to consider whether or not Edison, Poseidon or any other party is paying or receiving a premium for control as a result of the issue of the Convertible Note Shares on the potential conversion of the Convertible Note.

At the Meeting convened for on or about 15 July 2019 the Non-Associated Shareholders will be requested to consider, amongst other things, resolutions seeking approval for the issues of shares on the potential future conversion of the Convertible Note Shares. The report is to be included in the Notice of Meeting and Explanatory Statement being sent to Poseidon shareholders in relation to the Meeting.

2.2 Basis of Assessment

The Act does not define the term 'fair and reasonable'. RG 111 provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable to shareholders.

Under RG 111 a key matter that an expert needs to consider when determining the appropriate form of analysis to be applied is whether or not the effect of the transaction is comparable to a takeover bid. RG 111 requires that where the outcome of a transaction has a similar effect as a takeover bid then that transaction should be analysed as if it were a takeover bid. With respect to a takeover bid, RG 111 notes that:

- ▶ an offer is 'fair' if the value of the offer price or consideration being paid is equal to or greater than the value of the securities that are the subject of the offer; and
- ▶ an offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 requires that the comparison of value between the consideration being paid and the securities that are subject of the takeover bid is to be made assuming 100% ownership of the target.

RG 111 considers that all transactions involving an entity increasing its shareholding in another entity to above 20% are control transactions and should be assessed as a takeover bid. In considering the potential conversion of the Convertible Note and the issue of the Convertible Note Shares, the relevant date to assess the value of the Convertible Note Shares would be at or around the time the Convertible Note is converted and Edison's voting interest in Poseidon increases.

At the date of this report, no assessment of the value of the Convertible Note Shares can reasonably be made as the potential date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, the conversion price, the wider terms of the Convertible Note together with the circumstances of Poseidon and the advantages and disadvantages provided by conversion of the Convertible Note are of more significance than the potential value of the Company's assets and liabilities at some future date. It is also relevant that the Convertible Note has already been issued and was approved by shareholders when the original issue to Jefferies occurred.

Notwithstanding this, in assessing the issue of the Convertible Note Shares to Edison on the potential conversion of the Convertible Note, we have considered the current value of a Poseidon share prior to the conversion of the Convertible Note and compared that to the Conversion Price. As a cross-check, we have analysed EV/ Mineral Resource multiples for comparable companies and guideline transactions and Poseidon's net asset value as at 31 December 2018.

In addition to this, in determining whether or not the issuance of the Convertible Note Shares to Edison on the potential conversion of the Convertible Note at some time in the future is fair and reasonable to the Non-Associated Shareholders we have considered, amongst other matters, the following:

- ▶ whether Edison is paying a 'premium' on the conversion of the Convertible Note into the Convertible Note Shares in comparison to the value of a Poseidon share prior to the conversion of the Convertible Note;
- ▶ comparison between the recent trading prices of a Poseidon share on the ASX and the Conversion Price;
- ▶ the level of control likely to be gained by Edison from the future potential issue of the Convertible Note Shares on the potential conversion of the Convertible Note;
- ▶ that item 7 of Section 611 approvals have been previously provided by Poseidon shareholders in relation to convertible loan notes;
- ▶ comparison of implied multiples at a \$0.09 Conversion Price relative to EV/ Resource multiples;
- ▶ comparison of the Conversion Price to Poseidon's net assets per share;
- ▶ alternatives for Poseidon; and
- ▶ other significant matters.

In assessing whether or not the conversion of the Convertible Note Shares to Edison is fair and reasonable to the Non-Associated Shareholders we have considered the likely advantages and disadvantages, if any, which may accrue for the purpose of determining whether the Non-Associated Shareholders are likely to be better off, or at least no worse off, as a result of their conversion.

Issues of valuation are considered in section 5.2 and the relevant commercial and qualitative factors are considered in section 5.3. Our summary and conclusion is presented in section 6.

Our assessment is based on the economic, political, social, market and other conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

2.3 Shareholders' Decisions

This independent expert's report has been prepared specifically for the Non-Associated Shareholders of Poseidon at the request of the Directors with respect to whether the future issue of the Convertible Note Shares to Edison on the potential conversion of the Convertible Note is fair and reasonable to the Non-Associated Shareholders. As such, Ernst & Young Transaction Advisory Services, EY and any member or employee thereof, take no responsibility to any entity other than the Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Poseidon shareholders. The decision to approve or not approve the future issue of the Convertible Note Shares is a matter for individual shareholders. Poseidon shareholders should consider the advice in the context of their own circumstances, preferences and risk

profiles. Poseidon shareholders should have regard to the Notice of General Meeting and Explanatory Statement prepared by the Directors and management of the Company. Poseidon shareholders who are in doubt as to the action they should take in relation to the matters being considered at the Meeting should consult their own professional adviser.

EY Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

2.4 Independence

Prior to accepting this engagement, we considered our independence with respect to Poseidon and Edison with reference to Regulatory Guide 112, Independence of experts. In our opinion, we are independent of both entities.

EY Transaction Advisory Services, EY and global affiliations, have not provided any services to Poseidon or Edison in relation to the issue of the Convertible Note to Jefferies or the transfer of the Convertible Note to Edison.

Within the last two years EY Transaction Advisory Services has not provided services to Poseidon, BMM, BMM Aus or Edison. Within the last four years EY Transaction Advisory Services has provided independent expert services to Poseidon in relation to the termination of the US\$15 million and US\$20 million convertible notes held by Jefferies, the issue of the Convertible Note and pre-approval for the potential conversion of the Convertible Note into the Convertible Note Shares. The conduct of these services has no impact on our ability to provide an independent opinion with respect to the potential future issue of the Convertible Note Shares to Edison on the potential conversion of the Convertible Note.

2.5 Limitations and Reliance on Information

In the preparation of this independent expert's report, EY Transaction Advisory Services was provided with information in respect of Poseidon and obtained additional information from public sources, as set out in Appendix C.

We have had discussions with the Directors and management of Poseidon in relation to the potential conversion of the Convertible Note and the operations, financial position, operating results and outlook of Poseidon. We also discussed with BMM Aus their future intentions regarding Poseidon and the likelihood of conversion of the Convertible Note.

This independent expert's report is also based upon financial and other information provided by Poseidon. EY Transaction Advisory Services has considered and relied upon this information.

The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the future issue of the Convertible Note Shares to Edison on the potential conversion of the Convertible Note is fair and reasonable to the Non-Associated Shareholders. However, EY Transaction Advisory Services does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and/or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of Poseidon. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

In forming our opinion, we have also assumed that:

- ▶ matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so, and that there are no material legal proceedings, other than as publicly disclosed;

- ▶ the information set out in the Notice of General Meeting and Explanatory Statement to be sent to Poseidon shareholders is complete, accurate and fairly presented in all material respects;
- ▶ the publicly available information relied upon by EY Transaction Advisory Services in its analysis was accurate and not misleading;
- ▶ the conversion of the Convertible Note will be implemented in accordance with its terms; and
- ▶ Edison does not change its equity interest in Poseidon other than potentially converting the Convertible Note.

To the extent that there are legal issues relating to assets, properties, business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading.

EY Transaction Advisory Services provided draft copies of this report to the Directors and management of Poseidon for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of EY Transaction Advisory Services alone. Amendments made to this report as a result of this review did not change our methodology or the conclusions reached.

This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this independent expert's report. This report has been prepared in accordance with APES 225: Valuation Services issued by the Accounting Professional & Ethical Standards Board Limited in March 2018.

3. Overview of Poseidon

3.1 Background and current state

Poseidon currently hold interests in three Western Australian nickel projects under care and maintenance, the Black Swan operation (“Black Swan”), the Lake Johnston operation (“Lake Johnston”) and the Mt Windarra project (“Windarra”).

Black Swan is located 50km north of Kalgoorlie, and was acquired from Norilsk Nickel Australia in late 2014 for \$1.5 million. Black Swan consists of an open pit and the Silver Swan underground mine (“Silver Swan”). Black Swan had previously been mined before being placed on care and maintenance in 2009 alongside Silver Swan. To date Black Swan contains 191,000 tonnes of nickel Mineral Resources and 24,800 tonnes of nickel Ore Reserves. Poseidon plans to restart operations at Black Swan, and announced on 20 March 2019 that operations refurbishment and drilling was to commence at the project.

Lake Johnston is located 440km east of Perth, and was also acquired from Norilsk Nickel Australia for \$1.0 million. Lake Johnston is currently on care and maintenance, despite successful drilling at the Abi Rose deposit in late 2018 providing a positive outlook for Lake Johnston, Poseidon is assessing its medium to long-term options for the project. Lake Johnston currently contains 52,000 tonnes of nickel Mineral Resources.

Windarra is located 25km west of Laverton. Western Mining Corporation and the original Poseidon NL discovered nickel mineralisation in the belt in the late 1960’s, and Poseidon has completed over 550 drill holes since 2008 to bring the historic mine resource into JORC compliant status. Poseidon has also delineated 183,000 ounces of gold and 670,000 ounces of silver Mineral Resources within the Mt Windarra gold tailings. Windarra is currently on care and maintenance and contains 148,500 tonnes of nickel Mineral Resources, and remains significant to the long-term planning for Poseidon.

3.1.1 Income statement

Included below is a summary of Poseidon’s statement of income for the two financial years ended 30 June 2017 (“FY17”) and 30 June 2018 (“FY18”) and the half-year ended 31 December 2018 (“HY19”) as extracted from the Company’s audited financial statements.

Poseidon – Consolidated income statement summary			
<i>\$’000’s</i>	FY17	FY18	HY19
Other income	870	821	131
Depreciation expense	(60)	(48)	(22)
Personnel expenses	(619)	(227)	(478)
Exploration costs expensed	(4,463)	(3,687)	(2,924)
Consultancy and advisor fees	(504)	(809)	(1,413)
Share based payment expense	(791)	(645)	(37)
Impairment	-	-	-
Other expenses	(553)	(675)	(598)
Results from operating activities	(6,120)	(5,270)	(5,341)
Finance income	8,138	18	396
Finance costs	(1,993)	(4,402)	(2,342)
Loss before income tax	25	(9,654)	(7,287)
Income tax benefit	-	-	-
Loss after income tax	25	(9,654)	(7,287)

Source: Poseidon’s audited and reviewed financial statements

The exploration, evaluation and redevelopment of the Company's projects has been Poseidon's principal focus in recent years. As operations have not yet re-commenced, the trading losses incurred across FY17, FY18 and HY19 reflects Poseidon's position as an advanced stage exploration and evaluation company with no income producing operations.

Finance income in FY17 includes an amount of \$7.219 million relating to the change in the fair value of the derivative with the Convertible Note that Poseidon has on issue, as well as a net foreign exchange gain of \$0.900 million.

Finance costs are primarily composed of the interest expense and changes to the fair value of the Convertible Note. The total finance costs include a net foreign exchange loss of \$1.207 million for HY19 and \$1.014 million for FY18.

3.1.2 Financial position

Included below is a summary of Poseidon's statement of financial position as at 30 June 2017, 30 June 2018 and 31 December 2018 as extracted from the Company's audited financial statements

Poseidon – Consolidated balance sheet summary			
<i>\$'000's</i>	30 June 17	30 June 18	31 Dec 18
Current assets			
Cash and cash equivalents	1,620	2,048	41,157
Trade and other receivables	237	279	573
Other investments – term deposits	-	-	25,016
Total current assets	1,857	2,327	66,746
Non-current assets			
Property, plant and equipment	25,348	24,922	24,835
Exploration and evaluation expenditure	54,056	54,270	56,178
Other investments	-	-	-
Other	3,500	3,500	3,500
Total non-current assets	82,904	82,692	84,513
Total assets	84,761	85,019	151,259
Current liabilities			
Trade and other payables	664	1,442	1,130
Loans and borrowings	48	42	-
Employee benefits	229	148	118
Provisions	3,500	3,500	3,500
Total current liabilities	4,441	5,132	4,748
Non-current liabilities			
Loans and borrowings	19,308	20,944	22,517
Convertible note derivative	1,268	2,888	3,034
Provisions	43,701	42,766	43,478
Total non-current liabilities	64,277	66,598	69,029
Total liabilities	68,718	71,730	73,777
Net assets	16,043	13,289	77,482

Source: Poseidon's audited and reviewed financial statements

The 31 December 2018 cash balance of \$41.157 million reflects the placement that occurred in August 2018, where Poseidon raised approximately A\$74.6 million at A\$0.05 per share. The term deposit reflects the investment of \$25.016 million into a term deposit exceeding 3 months.

Poseidon has a US\$17.5 million Convertible Note outstanding. The Convertible Note was issued in January 2016, when the Non-Associated Shareholders approved the termination of the previous US\$15

million and US\$20 million Old Notes, at the time held by Jefferies. BMM Aus acquired the Convertible Note in August 2018. The Convertible Note is convertible into ordinary shares at the option of the holder at any time up to 30 September 2020, with the US\$17.5 million being convertible at A\$0.09 per share. The Convertible Note was interest free for the first three years, with interest being charged thereafter at a rate of 5% per annum paid quarterly in arrears.

On maturity, if the Convertible Note has not been converted it will be repayable in cash. The carrying amount of the liability at each balance date has been calculated as the discounted original fair value, accrued for interest plus exchange rate adjustments.

3.2 Capital structure

As at 1 April 2019, Poseidon had on issue 2,642,701,830 fully paid ordinary shares between approximately 9,200 shareholders with the top 20 shareholders holding approximately 64.19% of the shares on issue. The Company's largest shareholder at that date was Edison, with a 19.79% interest. Mr Andrew Forrest (via associated company Forrest Family Investments Pty Ltd) was the second largest shareholder with 452,292,204 ordinary shares representing a 17.11% interest, followed by Citicorp Nominees Pty Ltd with 99,205,823 ordinary shares representing a 3.75% interest.

3.3 Share price performance

The table below summarises the trading history of Poseidon shares on the ASX over the period 1 January 2018 to 3 June 2019.

Poseidon – Monthly trading prices								
Period	High (A\$)	Low (A\$)	Close (A\$)	VWAP (A\$)	Shares outstanding (m)	Monthly volume (m)	Average daily liquidity ¹	Monthly liquidity ²
Jan 18	0.052	0.042	0.048	0.049	1,099.34	98.46	0.43%	8.96%
Feb 18	0.049	0.041	0.041	0.044	1,100.55	54.51	0.25%	4.95%
Mar 18	0.041	0.037	0.037	0.039	1,100.55	19.51	0.14%	1.77%
Apr 18	-	-	-	-	-	-	-	-
May 18	-	-	-	-	-	-	-	-
Jun 18	-	-	-	-	-	-	-	-
Jul 18	0.043	0.042	0.043	0.043	1,114.56	39.65	0.40%	3.56%
Aug 18	0.056	0.039	0.050	0.051	1,145.57	114.45	0.56%	9.99%
Sep 18	0.055	0.049	0.054	0.052	1,795.41	98.66	0.32%	5.50%
Oct 18	0.059	0.045	0.048	0.051	2,642.70	69.31	0.11%	2.62%
Nov 18	0.049	0.041	0.041	0.045	2,642.70	74.17	0.13%	2.81%
Dec 18	0.044	0.040	0.042	0.042	2,642.70	78.85	0.16%	2.98%
Jan 19	0.044	0.038	0.039	0.042	2,642.70	36.94	0.07%	1.40%
Feb 19	0.042	0.039	0.039	0.040	2,642.70	40.34	0.08%	1.53%
Mar 19	0.047	0.040	0.042	0.042	2,642.70	35.25	0.06%	1.33%
Apr 19	0.043	0.036	0.036	0.040	2,642.70	26.72	0.05%	1.01%
May 19	0.038	0.035	0.035	0.037	2,642.70	39.65	0.08%	1.50%
Jun 19 ³	0.037	0.037	0.037	0.038	2,642.70	0.30	0.01%	0.01%

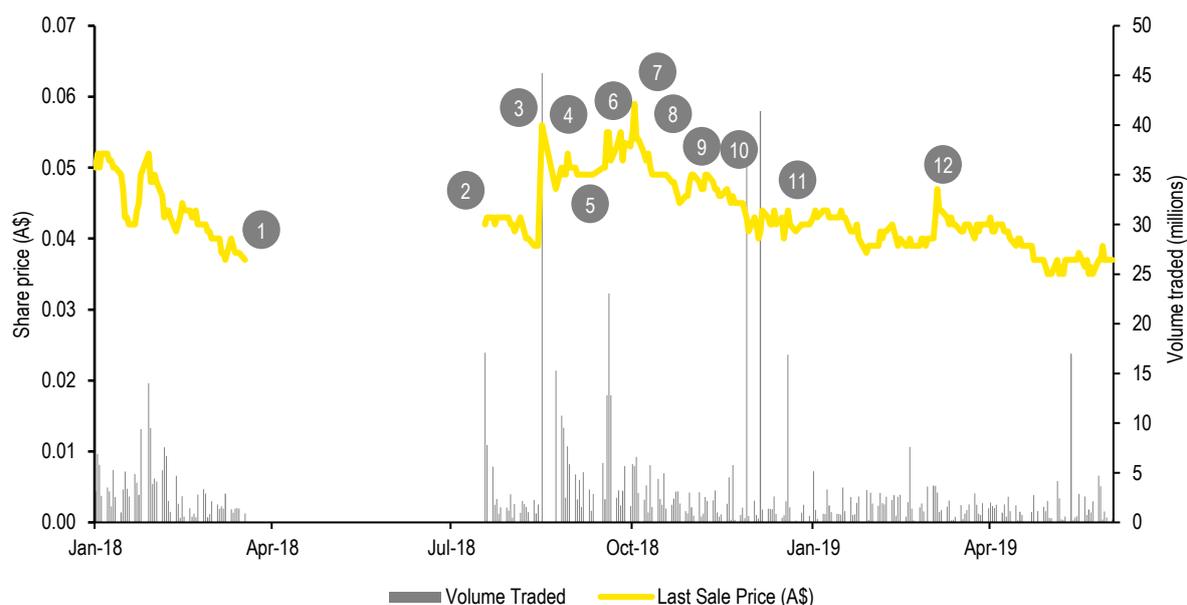
Source: S&P Capital IQ, EY analysis

Notes:

1. Calculated as the average daily volume traded divided by the total number of shares outstanding for that month.
2. Calculated as the monthly volume traded divided by the total number of shares outstanding.
3. Jun 19 refers to the period 1 June 2019 to 3 June 2019.

Poseidon's shares display low monthly liquidity, with a range of 9.99% to 1.01% since 1 January 2018, excluding the three month period when Poseidon was suspended from official quotation between April and June 2018. Despite this, Poseidon underwent a significant Entitlement Offer in August 2018 that raised \$74.6m at a price of \$0.05 per share.

The chart below shows the daily share price and trading volumes for Poseidon between 1 January 2018 and 3 June 2019. The trading price is based on the daily closing price.



Source: S&P Capital IQ

The analysis shows that over the period considered, Poseidon's shares traded between a high of \$0.059 in October 2018 and a low of \$0.035 in May 2019. There was a four-month period between 19 March 2018 and 18 July 2018 where Poseidon was voluntarily suspended from official quotation. The VWAP across the period from 1 January 2018 to 3 June 2019 was \$0.046.

In addition to the regular quarterly, interim and annual reporting announcements, the material announcements made by Poseidon as annotated in the chart above that may have had an impact on the Company's share price are summarised below.

Poseidon – ASX Announcements			
No.	Date/s	Event/s	Share price impact ¹
1	19 Mar 2018	On the 19 March 2018, Poseidon shares were voluntarily suspended from trading on the ASX due to matters related to issuing shares without an accompanying cleansing notice. The ASX advised the Company that its securities would not be reinstated to trading until the Federal Court of Australia validated the on-sale of securities made prior to the issue of the prospectus.	n/a
2	18 Jul 2018	The Company was reinstated to the ASX following the successful outcome of the application to the Federal Court. The Federal Court made orders declaring that any offer for sale or sale of these shares during the period from the respective dates of issue until the lodging of the cleansing prospectus on 5 April 2018 was not invalid.	n/a
3	17 Aug 2018	BMM Aus made a binding, conditional proposal to acquire 100% of the issued shares in Poseidon at A\$0.06 per share.	↑ 43.6%
4	20 Aug 2018	On 20 August 2018 the ASX announced a voluntary pause in trading for the Company pending a future announcement.	n/a

5	22 Aug 2018 & 24 Aug 2018	On 22 August 2018 the Company announced that BMM Aus had withdrawn its proposal from 17 August 2018 and that the Company intended to proceed with a material capital raising. On 24 August 2018 the Company announced a placement and fully underwritten renounceable Entitlement Offer at A\$0.05 per share to raise approximately \$74.6 million. As a result of this placement, Forrest Family Investments increased their holding to approximately 452.3 million shares. This was followed by a reinstatement to official quotation.	↓ 16.1%
6	19 Sep 2018	BMM Aus purchased 377,938,878 of Poseidon's shares at A\$0.05 on issue to increase their interest to 19.82% following the completion of the Entitlement Offer, which increased Poseidon's shares outstanding to 2,637.8 million.	↑ 10.0%
7	3 Oct 2018	BMM Aus announced the completion of the due diligence process announced to the ASX on 22 August 2018 and advised that it had no current intention to continue discussions regarding a control transaction proposal.	↑ 7.3%
8	4 Oct 2018	Credit Suisse Holdings (Australia) Limited announced the sale of 39,369,693 ordinary shares, decreasing its interest in Poseidon to 5.21%.	↓ 8.5%
9	10 Oct 2018	UBS Group AG announced that it had ceased to be a substantial shareholder following the sale of 40,000,000 of Poseidon's shares on 10 October 2018.	↑ 2.0%
10	29 Oct 2018	Credit Suisse Holdings (Australia) Limited announced that it had ceased to be a substantial shareholder following the sale of 40,000,000 of Poseidon's shares on 24 October 2018.	↑ 2.2%
11	6 Dec 2018	UBS Group AG again become a substantial holder with the purchase of 141,764,696 securities, taking its interest in the Company to 5.36%.	↑ 2.5%
12	6 Mar 2019	UBS Group AG announced that it had increased its holding interest in Poseidon to 6.41%.	↑ 9.3%

Source: ASX Announcements, S&P Capital IQ

Note:

- Share price impact is based on the share price movement between the closing share price on the first trading day prior to the announcement, and the closing share price on the day of the announcement. The first trading day prior to the announcement could be impacted by weekends and public holidays.

Given the nature of Poseidon's principal activities as a nickel exploration and development company, it would be expected that there would be some correlation between Poseidon's share price and the price of nickel. The following chart details Poseidon's share price and the nickel price over the period from 1 January 2018 to 3 June 2019.



Source: S&P Capital IQ, EY analysis

The chart indicates fluctuating degrees of correlation between Poseidon's share price and the nickel price over the period. Poseidon's share price appeared uncorrelated to the Nickel Price in the period leading up to and immediately following Poseidon's voluntary suspension from the ASX. Between September 2018 and January 2019, the two prices appear to be closely correlated, with the correlation weakening from January 2019 until the date of this report.

3.4 Outlook for Nickel

The nickel market has continued to display significant volatility across the period from 1 January 2018 to date. At 1 January 2018 nickel was trading at a price of US\$5.68/lb, increasing to a high of US\$7.26/lb on 7 June 2018. From then the price steadily declined in the second half of 2018, reaching a low of US\$4.97/lb on 31 December 2018, before increasing back up in early 2019 to reach US\$6.21/lb on 1 April 2019. The price at 3 June 2019 was US\$5.57/lb.

China remains the world's primary consumer of nickel, accounting for 56%¹ of global demand. As stainless steel producers account for two-thirds of total nickel demand, nickel prices are closely related to production of stainless steel products. A decrease in the production of nickel-based stainless-steel goods in China has resulted in decreased demand and falling nickel prices, compounded by a decrease in infrastructure projects in China.²

Increased nickel supply by global producers has also oversupplied the nickel market, with stock levels high enough to place downward pressure on prices³.

There is long-term optimism for nickel's outlook through expectations of future demand for electric vehicles, with nickel acting as a key input in the production of traction batteries⁴.

Stainless-steel production is expected to recover over the remainder of 2019 due to government-led stimulus measures implemented to boost China's construction and infrastructure sections. The removal of subsidies for electric car production in China will decrease nickel demand.

Global nickel production is expected to increase, which would limit the growth of Australian producers. Australian nickel production is expected to fall 4.0% in 2019, partly due to an expected decrease at BHP Billiton's Leinster mine, although in the long term, a weak A\$ forecast against the US\$ is expected to benefit Australian producers, enabling them to receive a greater return on US\$ traded nickel products.

3.5 Outlook for A\$:US\$ exchange rate

The A\$:US\$ exchange rate has fallen across the period from 1 January 2018 to 3 June 2019. At 1 January 2018 the exchange rate was trading at A\$1.00:US\$0.78, increasing to a high of A\$1.00:US\$0.81 on 26 January 2018. From then the exchange rate steadily declined for the remainder of 2018, reaching A\$1.00:US\$0.70 on 2 January 2019. The exchange rate briefly rose back to A\$1.00:US\$0.72 in early 2019 before closing at \$0.70 on 3 June 2019. The exchange rate averaged A\$1.00:US\$0.74 across the period.

Given the Australian economy's reliance on the metals & mining and oil & gas industries, the A\$:US\$ exchange rate is heavily influenced by fluctuations in commodity prices. The decrease in commodity prices post-2015 has seen a 20% depreciation in the value of the A\$, which has seen the exchange rate trade in a tight band around A\$1.00:US\$0.71. The A\$ is forecast to be boosted in the medium to long-term by an expected recovery of commodity prices and Australia's relatively strong growth outlook.

¹ Source: S&P Global Market Intelligence - Commodity Briefing Service Nickel - April 2019

² Source: IBISWorld industry report - Nickel Ore Mining in Australia - October 2018

³ Source: S&P Global Market Intelligence - Commodity Briefing Service Nickel - April 2019

⁴ Source: Consensus Economics - Energy & Metals Consensus Forecasts - March 2019

4. Potential impact on the Non-Associated Shareholders

At the date of this report, Edison holds a 19.79% interest in the issued shares of Poseidon. Subject to the approval of the Non-Associated Shareholders, Edison will have the right to convert the principal of US\$17.5 million to shares in the Company at a conversion price of \$0.09 per share at any time until 30 September 2020.

As an indication of the likely impact of the potential conversion of the Convertible Note may have on the Non-Associated Shareholders as a collective group, the table below summarises the position if the Convertible Note is converted at \$0.09 per share assuming an exchange rate A\$1.00:US\$0.70, which implies an A\$ balance owing on the Convertible Note of \$25.0 million. The analysis also assumes that Poseidon issues no other shares between the date of this report and the date of conversion and Edison makes no change to its equity interest in Poseidon other than conversion of the Convertible Note.

Poseidon – Impact of Conversion of Convertible Note			
	Total Shares	Non-Associated Shareholders	Edison
Current	2,642,701,830	2,119,776,418	522,925,412
Shareholding	100.00%	80.21%	19.79%
Conversion of the Convertible Note	277,777,778	-	277,777,778
Post-conversion	2,902,479,608	2,119,776,418	800,703,190
Shareholding	100.00%	72.58%	27.42%

Source: EY analysis

This analysis shows that ‘all other things being equal’ on the conversion of the Convertible Note, Edison’s interest in Poseidon would increase from 19.79% to 27.42% and the Non-Associated Shareholders’ collective interest would decrease from 80.21% to 72.58%.

In January 2016, the Non-Associated Shareholders approved the issue of the Convertible Note which if converted at that time would have given Jefferies an interest in Poseidon of 28.63%.

The above analysis does not take into account the shares that are able to be issued in satisfaction of the interest expense to be charged on the Convertible Note. As a condition of the Convertible Note, the Company has the right to elect to issue shares to Edison in place of interest payments. This would further increase Edison’s interest in Poseidon and dilute the holdings of the Non-Associated Shareholders. We note that to date all interest payments have been paid in cash and Poseidon continues to have significant cash reserves. Therefore, in the above calculations we assume that this continues to occur. Given the relatively short term to the Maturity Date of the Convertible Note, the impact of Poseidon electing to pay the interest on the Convertible Note in shares would not be significant.

As an illustrative example the following table summarises the position assuming the interest expense on the Convertible Note for the period between 30 June 2019 and 30 September 2020 is met through the issue of shares. For illustrative purposes we have assumed an exchange rate of A\$1.00:US\$0.70 and that Poseidon shares would be issued at \$0.04 each.

Poseidon – Impact of Conversion of Convertible Note with Interest Paid in Shares			
	Total Shares	Non-Associated Shareholders	Edison
Current	2,642,701,830	2,119,776,418	522,925,412
Shareholding	100.00%	80.21%	19.79%
Interest expense on the Convertible Note	39,303,654	-	39,303,654
Conversion of the Convertible Note	277,777,778	-	277,777,778
Post-conversion	2,959,783,262	2,119,776,418	840,006,844
Shareholding	100.00%	71.62%	28.38%

Source: EY analysis

This indicative analysis indicates that the additional shares to be issued in satisfaction of the interest expense in this example together with the Convertible Note Shares issued on the conversion of the Convertible Note will increase Edison's interest in the Company from 19.79% to 28.38%. Consequently, the Non-Associated Shareholders' collective shareholding in Poseidon would reduce from 80.21% to 71.62%.

5. Evaluation of Poseidon relative to the Conversion Price

5.1 The nature of convertible notes

The issue of the Convertible Note Shares will only occur if Edison elects to convert the Convertible Note. If Edison does not convert the Convertible Note by the maturity date on 30 September 2020, Poseidon will be required to repay the principal amount of US\$17.5 million.

As shown in section 4, if the Convertible Note is converted, all other things being equal, it is highly likely that Edison's voting interest in the Company would increase to something above 20%. In these circumstances, RG 111 requires the issue of the Convertible Note Shares to be assessed as if it was a 'control transaction'. Consistent with this, in determining whether or not the issue by Poseidon of the Convertible Note Shares to Edison on the potential conversion of the Convertible Note is 'fair', the value of the consideration being paid by Edison needs to be compared to the value of the Poseidon shares being issued.

However, before any assessment of value can be made it is relevant to consider the nature of the Convertible Note as a convertible note and the impact of that on our ability to determine the value of the Convertible Note Shares.

The nature of convertible notes is such that they provide the holder with a future right to convert the principal amount of the debt to shares. A key feature of this conversion right is that it provides the holder with the right, but not the obligation to convert the debt to equity. Accordingly, while Edison will have the right to convert the Convertible Note, there is no guarantee that they will be converted and the Convertible Note Shares issued.

It follows that, in most circumstances, a rational investor would only exercise the right to convert if the conversion price was at or less than the trading price of the company's underlying shares at the time of conversion. Accordingly, it would be expected that for the Convertible Note to be converted, Poseidon's shares would have to be trading at prices equal to or above the \$0.09 conversion price or there was a strong likelihood of that occurring on a sustainable basis.

In considering the potential conversion of the Convertible Note and the issue of the Convertible Note Shares, the relevant date to assess the value of the Convertible Note Shares is at or around the time the Convertible Note is converted and Edison's voting interest in Poseidon increases. At the date of this report, no assessment of the value of the Convertible Notes Shares can reasonably be made as the potential date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, the Conversion Price and the wider terms of the Convertible Note together with the circumstances of Poseidon are of more significance than the potential value of the Company's assets and liabilities at some future date.

Future trading prices are important to the holder's decision as to whether or not to convert the convertible notes. The existence of a premium between recent trading prices and the conversion price indicates a potential benefit to shareholders. As noted in section 5.2.2, with Poseidon's share price being significantly below conversion price, the possibility of any such conversion is remote.

The prices at which Poseidon shares traded over the period leading up to 3 June 2019 is detailed in section 3.3. The comparison of recent trading prices with the conversion price is detailed in section 5.2.2. A discussion of the terms together with consideration of other commercial and qualitative factors, including Poseidon's ability to repay the Convertible Note, is detailed in section 5.3.

5.2 Considerations of Value

5.2.1 Valuation Approach

In assessing the value of a Poseidon share prior to the conversion of the Convertible Note we have considered the trading price of Poseidon shares on the ASX before the announcement of the meeting to vote on Edison's right to convert the Convertible Note to shares; Enterprise Value/ Resource multiples for comparable quoted companies and transactions; and the net asset value of Poseidon.

Key factors influencing our selection of a methodology included the following:

- ▶ As noted in section 3.3, trading in Poseidon's shares have low liquidity, with approximately 50% of Poseidon's shares traded since January 2018, with the top 20 shareholders holding in excess of 64% of the shares on issue. Poseidon's monthly liquidity has ranged between 9.99% in January 2018 and 1.01% in April 2019. While market liquidity is low, there was a significant Entitlement Offer in August 2018 at \$0.05 per share, which gives further support to the validity of the share price.
- ▶ Poseidon's key assets consist of its interest in various Western Australian nickel projects under care and maintenance. Due to the current economic environment, continued low nickel prices and the early stage nature of Poseidon's nickel projects, identification of comparable quoted companies and acquisitions is problematic.
- ▶ For non-operating nickel assets, it is unlikely that the net asset value in isolation would be a primary indicator of fair value.

We have therefore considered three valuation approaches in comparison to the Conversion Price. A summary of various valuation methodologies is included in Appendix B.

5.2.2 Comparison of Poseidon's trading price and the Conversion Price

The table in section 3.3 summarising the prices at which Poseidon's shares traded on the ASX over the period 1 January 2018 to 3 June 2019 shows that over the period considered, Poseidon's shares traded between a high of \$0.059 in October 2018 and a low of \$0.035 in May 2019. There was a four-month period between 19 March 2018 and 18 July 2018 where Poseidon was voluntarily suspended from official quotation. The VWAP of across the period from 1 January 2018 to 3 June 2019 was \$0.046.

Trading in Poseidon's share has displayed low liquidity across the period, with monthly liquidity averaging 3.7% since 1 January 2018. The most recent and significant transaction in shares was the Entitlement Offer in August 2018, which raised \$74.6 million at \$0.05 per share and closely approximates Poseidon's share price.

Detailed below are the VWAP for Poseidon shares on the ASX for the 5 and 10 trading days and the one, two and three months prior to 3 June 2019 together with the closing price on 3 June 2019, in comparison to the \$0.09 Conversion Price of the Convertible Note, are detailed below.

Poseidon – Comparison of Trading Prices to Conversion price

	Poseidon share price (A\$)	Premium of over trading price (%)
Conversion price	\$0.0900	
Closing price on 3 June 2019	\$0.0370	143.2%
5 day VWAP	\$0.0385	133.9%
10 day VWAP	\$0.0374	140.9%
1 month VWAP	\$0.0372	142.2%
2 month VWAP	\$0.0379	137.2%
3 month VWAP	\$0.0394	128.7%

Source: EY analysis, S&P Capital IQ

The analysis shows that the conversion price of the Convertible Note of \$0.09 is at a premium to the prices at which Poseidon's shares had traded on the ASX over the preceding three months. Based on the closing price of the Company's shares on 3 June 2019 the premium was 143.2% and based on the 3-month VWAP of \$0.0394, the premium was 128.7%.

It is of note that when the Convertible Note was issued in November 2015, the conversion price of \$0.090 was at a premium to the closing price of Poseidon shares on 4 November 2015, being the last trading date before the announcement, of 73.1% and a 45.7% premium to the three month VWAP. The premiums at the current date to the Conversion Price are higher than these figures. It is of further note that the Convertible Note was approved by the Non-Associated Shareholders at the time.

On the premise that the Convertible Note will only be converted if the trading price of a Poseidon share is at or above the Conversion Price, having a conversion price which is at a premium to the trading prices at the time of issue is to the advantage of the Non-Associated Shareholders on the basis that the Company's trading price will need to increase substantially before conversion is likely. Any increase in Poseidon's underlying trading price on the ASX would be to the benefit of the Non-Associated Shareholders.

5.2.3 Comparison of Implied Multiples from the Conversion Price to Enterprise Value to Resource multiples

To cross-check the Conversion Price, we have compared it to market evidence of comparable EV to contained nickel equivalent Mineral Resource multiples ("Resource Multiples") from publicly listed comparable companies and guideline transactions. These are discussed in further detail below.

The table below calculates the implied EV/ Resource multiple based on the Conversion Price.

Poseidon – Implied multiple based on Conversion Price

	Unit	Value
Conversion Price	A\$	0.090
Shares outstanding	Million	2,642.70
Implied market capitalisation ¹	A\$m	237.84
Less net cash (excl. Convertible Note) ²	A\$m	-66.17
EV	A\$m	171.67
Nickel – Equivalent contained	Mt	0.44
Implied multiple	A\$/t	390.08

Source: EY analysis, Poseidon's audited and reviewed financial statements

Notes:

1. Implied market capitalisation has been calculated as Conversion Price multiplied by shares outstanding.
2. Net cash has been taken from 31 December 2018 balance sheet.

We have calculated an implied EV/ Resource multiple of \$390.08/t based on the Conversion Price.

5.2.3.1 Identification of comparable companies

As a further assessment of the value of Poseidon, we have analysed the trading multiples of comparable nickel companies to Poseidon. We have determined the trading multiples as EV/ Resource Multiples held by the companies across all projects at the date of this report.

We initially screened for worldwide companies whose primary commodity was nickel. We then refined our list to include only companies with projects on care & maintenance and non-producing assets. Our screening revealed three comparable companies. A description of each comparable company is provided in Appendix E.

Due to the advanced stage of Mincor Resources NL (“Mincor”) and Panoramic Resources Limited (“Panoramic”), Panoramic’s focus on multiple commodities and the low liquidity and lack of available information regarding CaNickel Mining Limited (“CaNickel”), we do not believe our screened quoted companies are comparable to Poseidon and have not relied on trading multiple analysis.

5.2.3.2 Identification of comparable transactions

In addition to comparable companies, we have also screened for guideline transactions in the nickel sector. We screened for transactions in developed countries with publicly released information for nickel companies and projects under care and maintenance or temporarily suspended awaiting improved market conditions, which were announced between 1 April 2016 and 3 June 2019. The table below outlines the four transactions identified as holding assets comparable to those held by Poseidon.

Poseidon – Guideline transactions ¹						
Target / Buyer	Announcement Date	Percentage acquired (%)	Implied EV (A\$m)	Contained Resources - Ni (Mt)	Contained Resources - Ni equivalent (Mt)	EV/ Resource multiple – Ni equivalent (A\$/t)
Lanfranchi / Black Mountain Metals	13-Sep-18	100%	15.10	0.10	0.10	158.12
Alexo-Kelex Nickel Project / VaniCom	28-Aug-18	100%	0.53	0.01	0.01	87.15
Radio Hill / Artemis Resources Limited	16-Dec-16	100%	3.52	0.02	0.04	91.16
Avebury Nickel Mine / Dundas Mining	28-Sep-16	100%	27.50	0.25	0.25	109.34
Min			0.53	0.01	0.01	87.15
Mean			11.66	0.09	0.10	111.44
Median			9.31	0.06	0.07	100.25
Max			27.50	0.25	0.25	158.12

Source: Capital IQ, EY analysis

Descriptions of the selected guideline transactions can be found in Appendix E. The EV/ Resource multiple range for our guideline transactions is between \$87.15/t to \$158.12/t, with a mean of \$111.44/t.

5.2.3.3 Comparison to EV/ Resource Multiple implied by the Conversion Price

Based on the Conversion Price, the implied EV/ Resource multiple of \$390.08/t falls above the range determined by our guideline transactions of \$87.15/t and \$158.12/t. This provides further evidence that the Conversion Price represents a premium to the current value of Poseidon.

5.2.4 Net assets cross-check

As a further cross-check to value, we have also considered the net asset value per share of Poseidon as follows:

Poseidon – Net asset value cross-check		
	Unit	Value
Net assets	A\$m	\$77.482
Shares outstanding	Million	2,642.702
Implied per share net asset value	A\$	\$0.029
Conversion Price	A\$	\$0.090
Conversion Price premium	%	207.0%

Source: EY analysis, Poseidon's audited and reviewed financial statements

We note the significant premium of the Conversion Price of the Convertible Note over the implied per share net asset value. As discussed in section 3.1.2, the Company held a significant amount of cash at 31 December 2018, which represents a large proportion of its net assets.

5.3 Commercial and qualitative factors

5.3.1 Edison Metal Pty Ltd

Edison is a wholly owned subsidiary of Black Mountain Metals Pty Ltd, which is itself owned by US-based private equity company Black Mountain Metals LLC, headquartered in Fort Worth, Texas. Edison attempted to purchase Poseidon for A\$64.5 million on 17 August 2018, before withdrawing the offer on 22 August 2018.

Based on publicly available information, BMM Aus also holds an interest in the Lanfranchi nickel project, which it announced in September 2018 for a purchase price of \$15.1 million. Whilst we anticipate that Edison/ BMM Aus' intentions for Poseidon may be commercially confidential, we have had discussions with BMM Aus regarding their future plans for Poseidon. From this, we understand that BMM Aus wishes to assist Poseidon with restarting the Black Swan project and that BMM Aus does not consider it rational to convert the Convertible Note at \$0.09 whilst the trading price is \$0.037 at 3 June 2019.

5.3.2 Control issues

As at the date of this report, Poseidon had on issue 2,642,701,830 fully paid ordinary shares. Edison is currently the largest shareholder with a 19.79% interest. Poseidon's second largest shareholder has a 17.11% interest. Edison currently has representation on the Poseidon Board of Directors (the "Board").

With the Convertible Note having a conversion price of \$0.09, assuming a A\$:US\$ exchange rate of A\$1.00:US\$0.70, on conversion, Poseidon would need to issue 277,777,778 Convertible Note Shares to Edison. Assuming no other shares are issued, this would increase Edison's interest in the Company to 27.42%.

Under the Act, an entity is considered to be able to control a company if it has the capacity to determine the outcome of decisions about the company's financial and operating policies. Section 608 (5) states that the determination of whether an entity has the capacity to control a company is based on the "practical influence" that the entity can exert on a company as opposed to the "rights they can enforce".

Being the largest shareholder with a 27.42% shareholding in the Company, it is unlikely that that level of shareholding would enable Edison to gain majority representation on the Board. Without the ability to control the Board, it is unlikely that Edison would have the capacity to control the financial and operating

activities of Poseidon. In stating that, Edison would be in a position to exert significant influence on the Company as the dominant shareholder.

Having a greater than 20% interest in Poseidon may enable Edison to influence the Company in general meetings. However, this may not necessarily be to the detriment of the Non-Associated Shareholders. With a shareholding of around 28%, as long as greater than 39% of the remaining shares are voted, then Edison will not be in the majority.

If Edison was looking to dispose of a greater than 20% interest to a single purchaser or a number of related entities, shareholder approval would need to be obtained under item 7 of Section 611 of the Act.

As discussed in Section 4, if the Convertible Note Shares are issued to Edison, then the interests of existing Non-Associated Shareholders will be diluted.

5.3.3 Previous approvals

It is of note that Poseidon shareholders have previously provided pre-approval for shares to be issued on the conversion of convertible notes for item 7 of Section 611 purposes held by both Harbinger and Jefferies.

In this regard, in November 2008 shareholders were asked to approve the issue of shares to Harbinger on the potential conversion of a US\$15 million convertible note. Based on the number of shares and other securities the Company had on issue at that time, Harbinger's interest in Poseidon on potential conversion could have been in the range of 23.1% to 40.5%.

Similarly, when in March 2011, shareholders were asked to approve the issue of shares to Harbinger on the potential conversion of the US\$15 million and the US\$20 million convertible notes, if converted Harbinger's interest in Poseidon could have been in the range of 28.3% to 32.5%.

Shareholders again gave approval in January 2016, when shareholders agreed to issue the Convertible Note to replace the convertible notes previously in place and approved the potential conversion of the Convertible Note, which if converted would have given Jefferies an interest in the Company in the range of 28.6% to 35.0%.

In all instances Poseidon shareholders provided pre-approval for the notes to be converted to shares.

As noted in section 4, 'all other things being equal' (i.e. assuming no other shares are issued to any other entity) Edison's shareholding in Poseidon on the conversion of the Convertible Note may increase to 27.42%, an interest not inconsistent with the level of shareholdings previously approved by shareholders.

While the Company is now seeking pre-approval for Edison to be able to convert the Convertible Note, the financial circumstances of Poseidon are not significantly different from previous periods. As previously noted, the continuation of this uncertainty is to the disadvantage of the Non-Associated Shareholders.

5.3.4 Alternatives

If the potential future conversion of the Convertible Note into the Convertible Note Shares is not approved, the Convertible Note will remain in place and Poseidon will be required to repay US\$17.5 million on 30 September 2020. This may be required in any event if the Convertible Note is not converted, although shareholders taking this decision would remove any possibility of the conversion at a premium.

In August 2018 Poseidon completed the Entitlement Offer, increasing cash in hand by approximately \$68.8 million. Of this amount \$35.5 million and \$27.0 million has been allocated to activities related to the restart of Silver Swan and Black Swan respectively, whilst \$2.9 million has been allocated to project overruns. Due to these allocations, the cash raised in the entitlement may not readily be available for the repayment

of the Convertible Note. It is uncertain whether there will be the requirement to raise additional debt or if the funds raised in the entitlement are substantial enough to repay the Convertible Note. As such, we understand that cash may need to be generated from operations and/ or additional funding raised in order to repay the Convertible Note in cash.

5.4 Premium for control

A “premium for control” generally represents the difference between the price per share which one party would be prepared to pay to obtain a controlling interest in a company and the price at which a share that does not carry with it control of that company could be acquired. In the case of the issue of shares, the entity receiving the shares is paying a premium if the value of the shares being issued is less than the value of the consideration being paid. The greater the premium the better off the Non-Associated Shareholders in the transaction will be.

In relation to the potential issue of the Convertible Note Shares, because the future value of the shares to be issued cannot be determined at this time, an assessment of whether or not Edison would be paying a premium for control is, at the date of this report, not possible. It is however relevant to note that the \$0.09 conversion price of the Convertible Note is at a premium 143.2% to the closing price of a Poseidon share on the ASX on 3 June 2019. It is also relevant that when using the 5 and 10 day, and one, two and three month VWAPS prior to that date, the premium ranged from 128.7% to 143.2%. The existence of the premium is to the benefit of the Non-Associated Shareholders in the unlikely event that the Convertible Note is converted into the Convertible Note Shares. We consider the above premiums to exceed any likely control premium and therefore the Conversion Price represents a controlling price.

6. Summary and conclusion

In forming our opinion as to whether the potential conversion of the Convertible Note by Edison is fair and reasonable to the Non-Associated Shareholders of Poseidon, we have considered the following matters:

- ▶ At the date of this report, no assessment of the value of the Convertible Note Shares can reasonably be made as the potential date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, at the date of their issue the Conversion Price and the wider terms of Convertible Note together with the circumstances of Poseidon are of more significance than the potential value of the Company's assets and liabilities at some future date.
- ▶ Notwithstanding the above, we have considered the value of a Poseidon share on a current date basis.
- ▶ In the absence of information to the contrary, we have assumed in our calculations that Edison does not increase its equity interest in Poseidon by other means than conversion of the Convertible Note.
- ▶ *The likelihood of conversion is currently low given the current share price relative to the Conversion Price* – A comparison of the Conversion Price of the Convertible Note of \$0.09 to the trading price VWAP of Poseidon shares on the ASX for the 5 and 10 trading days and the one, two and three months prior to 3 June 2019, shows that the Conversion Price is at a premium to trading prices in the range of 128.7% to 143.2%. A premium of the Conversion Price to Poseidon's share price is an advantage to the Non-Associated Shareholders that would be realised in the unlikely event the Convertible Note is converted into the Convertible Note Shares.
- ▶ *Edison already has board representation through its nominated director, Edison currently holds one of the four board seats*- Having a greater than 20% interest in Poseidon may enable Edison to influence the Company in general meetings. However, this may not necessarily be to the detriment of the Non-Associated Shareholders. With a shareholding of around 27.42%, as long as greater than 38% of the remaining shares are voted, then Edison will not be in the majority.
- ▶ *Shareholders have previously voted in favour of allowing conversion of Poseidon convertible notes* – It is of note that Poseidon shareholders have previously provided pre-approval for shares to be issued on the conversion of the old convertible notes for item 7 of Section 611 purposes. These pre-approvals were provided to Harbinger when the old convertible notes were issued and to Jefferies when the Convertible Note was issued and at shareholding levels not inconsistent with the interest in Poseidon that Edison may end up with on the potential conversion of the Convertible Note.
- ▶ *BMM Aus has experience of returning Nickel assets to operational status* – BMM Aus is in the process of returning the Lanfranchi mine in Western Australia to operational status following its purchase in 2018.
- ▶ *Conversion of the Convertible Note could increase Poseidon's tax liabilities* – From discussions with Management, we understand that share capital tainting rules may be triggered if conversion occurs while the trading price is below \$0.09, resulting in an estimated \$5.2 million tax charge. Commercial debt forgiveness rules may also apply in instances where the Convertible Note is converted at a conversion price greater than the prevailing share price at that time. However Management anticipate that any commercial debt forgiveness tax exposure would be offset by existing carry forward tax losses. Additionally, it is noted that where the Convertible Note is settled in cash (rather than conversion to equity), no tax would fall due in relation to share capital tainting or debt forgiveness rules.
- ▶ *If the Transaction is not approved, Poseidon will be required to pay back US\$17.5 million in cash on 30 September 2020* - This however is the same position as will apply in the event that BMM Aus does not elect to convert the Convertible Note into Poseidon shares, which is quite likely given the

significant premium of the Conversion Price relative to the current Poseidon share price. Poseidon currently has significant cash, however, this cash was raised for the purpose of restarting the Black Swan operation.

- ▶ In August 2018 Poseidon completed the Entitlement Offer, increasing cash in hand by approximately \$68.8 million. Of this amount \$35.5 million and \$27.0 million has been notionally allocated to activities related to the restart of Silver Swan and Black Swan respectively, whilst \$2.9 million has been allocated to project overruns. Due to these allocations, the cash raised in the entitlement may not readily be available for the repayment of the Convertible Note. It is uncertain whether there will be the requirement to raise additional debt or if the funds raised in the entitlement are substantial enough to repay the Convertible Note. As such, it is possible that cash may need to be generated from operations and/ or additional funding raised in order to repay the Convertible Note in cash to avoid a potential default on its debt. It should be noted that this is Poseidon's current position, and it will continue to exist whether or not the Non-Associated Shareholders approve the possible future issue of shares.

In the absence of a superior alternative, based on the matters outlined above, in our opinion, the Transaction and the Conversion Price are fair and reasonable to Non-Associated Shareholders.

This IER has been prepared to assist Non-Associated Shareholders in assessing the merits of the Transaction. In doing so, the report provides general information only and does not consider the individual situation, objectives and needs of each Non-Associated Shareholder. On this basis, Non-Associated Shareholders should consider whether this report is appropriate for their circumstances, having regard to their own situation, objectives and needs before relying on or taking action based on this report. If there is any doubt, Non-Associated Shareholders should seek their own professional advice.

Appendix A Statement of qualifications and declarations

EY Transaction Advisory Services, which is wholly owned by EY, holds an Australian Financial Services License under the Act and its representatives are qualified to provide this report. The directors of EY Transaction Advisory Services responsible for this report have not provided financial advice to Poseidon.

Prior to accepting this engagement, EY Transaction Advisory Services considered its independence with respect to Poseidon with reference to Regulatory Guide 112: *Independence of experts*.

This report has been prepared specifically for Poseidon shareholders in relation to the Proposed Transaction. Neither EY Transaction Advisory Services, EY and any employee thereof undertakes responsibility to any person, other than Poseidon shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report we have relied upon and considered information believed after due inquiry to be reliable and accurate. EY Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. EY Transaction Advisory Services has evaluated the information provided to it by Poseidon, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base its report. EY Transaction Advisory Services does not imply and it should be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose. The information relied upon in preparation of this report is set out in Appendix C.

Poseidon has provided an indemnity to EY Transaction Advisory Services for any claims arising out of any misstatement or omission in any material or information provided to it in the preparation of this report.

EY Transaction Advisory Services provided draft copies of this report to Poseidon for comments as to factual accuracy, as opposed to opinions, which are the responsibility of EY Transaction Advisory Services alone. Changes made to this report as a result of this review by the Directors and management of Poseidon have not changed the methodology or conclusions reached by EY.

EY Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report estimated at approximately \$44,880 (inclusive of GST). EY Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Evgeny Khrustalev, a Director and representative of EY Transaction Advisory Services and a partner of EY and Mr Stuart Bright, a Director and representative of EY Transaction Advisory Services and a partner of EY have assumed responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other EY staff has been consulted in the preparation of this report where appropriate.

It is not intended that the report should be used for any other purpose than to be included in the Explanatory Statement to be sent to Poseidon shareholders with respect to the proposed transaction. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the issue of the Convertible Note Shares on the potential conversion of the Convertible Note is fair and reasonable to the Non-Associated Shareholders.

EY Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the notice of Meeting and Explanatory Statement.

Appendix B Valuation methodologies

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company. These methods include the:

- ▶ DCF method and the estimated realisable value of any surplus assets.
- ▶ Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- ▶ Amount that would be available for distribution to security holders on an orderly realisation of assets.
- ▶ Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale.
- ▶ Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets, and
- ▶ Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of the appropriate information.

The discounted cash flow methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discount by a discount rate that reflects the time value of money and the risk inherent in the cash flows. This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start-up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as oil and gas project). The utilisation of this methodology generally requires that the asset be sufficiently advanced to enable management to provide long term cash flows with some degree of robustness.

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

The net asset backing methodology involves consideration of the net realisable value of the assets of a business or company on a going concern basis, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair value.

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

Appendix C Sources of information

In preparing this report, we have had regard to the following sources of information:

- ▶ Various presentations prepared by Poseidon in relation to its operations;
- ▶ Poseidon shareholder information at 1 April 2019 as provided by the Company's share registry;
- ▶ The signed Convertible Note deed;
- ▶ The Convertible Note and share sale agreement between BMM Aus and Jefferies (redacted);
- ▶ Discussions with Poseidon management;
- ▶ Discussions with BMM Aus management;
- ▶ Various public disclosure documents lodged by Poseidon with the ASX, including Poseidon's annual reports for the years ended 30 June 2017 and 2018, and the half-yearly report for the half-year ended 31 December 2018;
- ▶ A financial model prepared by Poseidon forecasting cash flows for Black Swan;
- ▶ Information from Poseidon's website, <http://www.poseidon-nickel.com.au/>;
- ▶ ASIC Regulatory Guides;
- ▶ Capital IQ;
- ▶ Thompson Research;
- ▶ DatAnalysis;
- ▶ The Corporations Act;
- ▶ Independent Expert's Report prepared by EY Transaction Advisory Services to Poseidon shareholders dated 25 November 2015, in relation to the termination of the previous convertible note and issue of the current Convertible Note; and
- ▶ Other publicly available information.

Appendix D Glossary

Glossary	
Abbreviation	Full Title / Description
\$ or A\$	Australian dollars
30 June XX	30 June 20XX
Act	The Corporations Act
Alexo-Kelex	The Alexo-Kelex project purchased by VaniCom
ASIC	The Australian Securities & Investments Commission
ASX	the Australian Securities Exchange
Avebury	The Avebury nickel min purchased by Dundas Mining
Black Swan	The Black Swan project owned by Poseidon
BMM	Black Mountain Metals LLC
BMM Aus	Black Mountain Metals Ltd Pty
Board	Poseidon's Board of Directors
CaNickel	CaNickel Mining Limited
Conversion Price	The A\$0.09 price of conversion of the Convertible Note Shares
Convertible Note	The US\$17.5 million convertible note
Convertible Note Shares	The shares to be issued on the conversion of the Convertible Note
Directors	The Directors of Poseidon
Edison	Edison Metals Pty Ltd
Entitlement Offer	The placement and fully underwritten 11 for 10 renounceable entitlement issue on 22 August 2018
EV	Enterprise Value
EY Transaction Advisory Services or "we", or "us", or "our"	Ernst & Young Transaction Advisory Services Limited
FYXX	Financial year 20XX
HYXX	Half financial year 20XX
Jefferies	Jefferies LLC
km	Kilometre
Lake Johnston	The Lake Johnston project owned by Poseidon
Lanfranchi	The Lanfranchi project purchased by BMM
m	Million
Maturity Date	The maturity date of the Convertible Note on 30 September 2020
Meeting	The meeting to be held on or about 15 July 2019
Mincor	Mincor Resources NL
MMG	MMG Limited
Non-Associated Shareholders	Shareholders of Poseidon that are not associated with Edison
Panoramic	Panoramic Resources Limited
Poseidon or the Company	Poseidon Nickel Limited
Resource Multiples	Contained nickel equivalent Mineral Resources
RG 111	ASIC Regulatory Guide 111: Content of expert reports
Silver Swan	The Silver Swan sub-project of Black Swan
Tartisan	Tartisan Nickel Corporation
Transaction	The potential conversion of the Convertible Note
US\$	United States Dollars
VaniCom	VaniCom Resources Limited
VWAP	Volume weighted average price
Windarra	The Windarra project owned by Poseidon

Appendix E Comparable companies and guideline transactions descriptions

Comparable company business descriptions

Mincor is an ASX listed nickel development company which is focused on re-establishing sustainable high-grade nickel production in Western Australia. Mincor produced 180,000 tonnes of nickel metal ore over a 14-year period before placing operations on care and maintenance in 2016 on account of historically low nickel prices. Mincor holds tenements covering more than 300 km² in Western Australia, with estimated Mineral Resources of 118,000 tonnes of contained nickel at 3.6% Ni and Ore Reserves of 28,000 tonnes of contained nickel at 2.5% Ni. Mincor's nickel restart strategy is underpinned by its four key nickel production hubs at Cassini, Durkin North, Ken/McMahon and Miitel/Burnett. Mincor has embarked on an integrated mine restart plan, targeting a 5-year mine life. Mincor also holds an interest in the producing Widgiemooltha Gold Project, although due to a shift in focus toward its nickel project, Mincor is considering strategic options to realise value from the Widgiemooltha Gold Project.

Panoramic is an ASX listed base metal mining and exploration company with a focus on nickel, copper and cobalt sulphide projects. Panoramic is primarily focused on the 100% owned Savannah underground nickel sulphide mine and processing plant located in Western Australia. Panoramic had previously mined continuously at Savannah between 2003 to 2016, with a processing plant being commissioned in August 2014, before placing the project on care and maintenance in May 2016. Panoramic has restarted operations at Savannah and is targeting the first shipment of nickel concentrate in Q1 2019.

CaNickel is a Canadian junior mining company that owns the Bucko Lake Nickel Mine in Canada. CaNickel purchased Bucko Lake in 2007 and began commercial production in June 2009, although production was frequently suspended. Bucko Lake was placed under care and maintenance soon after due to the low nickel price. Information in developments by CaNickel since 2016 is not available and traded shares display low liquidity.

Guideline transaction descriptions

On 13 September 2018, Panoramic announced an agreement to sell the Lanfranchi Nickel Project ("Lanfranchi") located in Western Australia to BBM Aus for a total cash consideration of A\$15.1 million. Panoramic had purchased Lanfranchi in 2005 and restarted production shortly thereafter. Lanfranchi was placed under care and maintenance a decade later in November 2015 pending a sustained recovery in the nickel price. The sale of Lanfranchi was used to strengthen Panoramic's balance sheet and to increase cash available for investment into exploration activities in and around their Savannah Project.

Tartisan Nickel Corporation ("Tartisan") announced the sale of the Alexo-Kelex Project ("Alexo-Kelex") located in Ontario, Canada, to VaniCom Resources Limited ("VaniCom") on 28 August 2018. Alexo-Kelex produced over 30,000 tonnes of ore averaging 1.92% nickel in 2004 and 2005, and also contains copper and cobalt at lower grades. Tartisan had received ownership of Alexo-Kelex in 2018 with their purchase of Canadian Arrow Mines Limited, who had previously placed the project under care and maintenance in 2012.

Artemis Resources Limited announced the purchase of the Radio Hill mining operations and associated infrastructure in Western Australia on 16 December 2016. The infrastructure includes the 425,000 tonnes per annum processing plant, tailings storage facility and fully developed underground mine placed on care and maintenance in 2008.

MMG Limited announced the sale of the Avebury nickel mine (“Avebury”) to Dundas Mining on 28 September 2016. Located in Tasmania, the first nickel concentrates were produced at Avebury in July 2008, before declining nickel prices during the global financial crisis led to it being placed under care and maintenance in 2009. QCG Resources had previously reached an agreement to purchase the project in 2014, although the deal was terminated when they were unable to raise the finance needed to complete the deal.

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE
INDEPENDENT EXPERT'S REPORT**

14 June 2019

PART 2 - FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services” or “we,” or “us” or “our”) has been engaged to provide general financial product advice in the form of an Independent Expert’s Report (“Report”) in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide (“FSG”) provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- ▶ financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- ▶ arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$44,880 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

<p>Contacting Ernst & Young Transaction Advisory Services</p> <p>AFS Compliance Manager Ernst & Young 200 George Street Sydney NSW 2000</p> <p>Telephone: (02) 9248 5555</p>	<p>Contacting the Independent Dispute Resolution Scheme:</p> <p>Australian Financial Complaints Authority Limited GPO Box 3 Melbourne, VIC 3001</p> <p>Telephone: 1800 931 678</p>
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This Financial Services Guide has been issued in accordance with ASIC Corporations (Financial Services Guides) Instrument 2015/541.

PROXY FORM

PROXY FORMPOSEIDON NICKEL LIMITED
ACN 060 525 206**GENERAL MEETING**I/We of:

being a Shareholder entitled to attend and vote at the Meeting, hereby appoint:

Name: **OR:** the Chair of the Meeting as my/our proxy.

or failing the person so named or, if no person is named, the Chair, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Meeting to be held at 10.30 am on Monday 15 July 2019 at KPMG, Level 8, 235 St Georges Terrace, Perth WA 6000, and at any adjournment thereof.

AUTHORITY FOR CHAIR TO VOTE UNDIRECTED PROXIES ON REMUNERATION RELATED RESOLUTIONS

Where I/we have appointed the Chair as my/our proxy (or where the Chair becomes my/our proxy by default), I/we expressly authorise the Chair to exercise my/our proxy on Resolution 3 (except where I/we have indicated a different voting intention below) even though Resolution 3 is connected directly or indirectly with the remuneration of a member of the Key Management Personnel, which includes the Chair.

CHAIR'S VOTING INTENTION IN RELATION TO UNDIRECTED PROXIES

The Chair intends to vote undirected proxies in favour of all Resolutions. In exceptional circumstances the Chair may change his voting intention on any Resolution. In the event this occurs an ASX announcement will be made immediately disclosing the reasons for the change.

Voting on business of the Meeting

		FOR	AGAINST	ABSTAIN
Resolution 1	Approval of Issue of Shares to Edison Metals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Replacement of Constitution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Non-Executive Director's Remuneration	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is: _____ %

Signature of Shareholder(s):

Individual or Shareholder 1

Sole Director/Company Secretary

Shareholder 2

Director

Shareholder 3

Director/Company Secretary

Date: _____

Contact name: _____

Contact ph (daytime): _____

E-mail address: _____

Consent for contact by e-mail
in relation to this Proxy Form: YES NO

Instructions for completing Proxy Form

1. **(Appointing a proxy):** A Shareholder entitled to attend and cast a vote at the Meeting is entitled to appoint a proxy to attend and vote on their behalf at the Meeting. If a Shareholder is entitled to cast 2 or more votes at the Meeting, the Shareholder may appoint a second proxy to attend and vote on their behalf at the Meeting. However, where both proxies attend the Meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A Shareholder who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a Shareholder appoints 2 proxies and the appointments do not specify the proportion or number of the Shareholder's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a Shareholder.
2. **(Direction to vote):** A Shareholder may direct a proxy how to vote by marking one of the boxes opposite each item of business. The direction may specify the proportion or number of votes that the proxy may exercise by writing the percentage or number of Shares next to the box marked for the relevant item of business. Where a box is not marked the proxy may vote as they choose subject to the relevant laws. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing instructions):**
 - **(Individual):** Where the holding is in one name, the Shareholder must sign.
 - **(Joint holding):** Where the holding is in more than one name, all of the Shareholders should sign.
 - **(Power of attorney):** If you have not already provided the power of attorney with the registry, please attach a certified photocopy of the power of attorney to this Proxy Form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held. In addition, if a representative of a company is appointed pursuant to Section 250D of the Corporations Act to attend the Meeting, the documentation evidencing such appointment should be produced prior to admission to the Meeting. A form of a certificate evidencing the appointment may be obtained from the Company.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual Shareholders from attending the Meeting in person if they wish. Where a Shareholder completes and lodges a valid Proxy Form and attends the Meeting in person, then the proxy's authority to speak and vote for that Shareholder is suspended while the Shareholder is present at the Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) post to Ms Eryn Kestel, PO Box 1592, Booragoon WA 6954; or
 - (b) email to at eryn@kestelcorp8.com.au,so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy Forms received later than this time will be invalid.