

Golden Swan – Early Results Outstanding – POS Goes Full Steam Ahead

Golden Swan – Why it is Important

The Golden Swan deposit holds the key to an accelerated start of the Black Swan project. The current resource base of the Black Swan supports a restart of the project at nickel prices of US\$8/lb and above. However, with a significant higher Ni grade contribution from Golden Swan, the increase in resource and grade could lead to a considerably more robust project with lower unit costs and a longer mine life and / or expanded production.

POS Exploration Techniques Pay Early Dividends

An Overview of Electro Magnetic Geophysics within the Black Swan Project

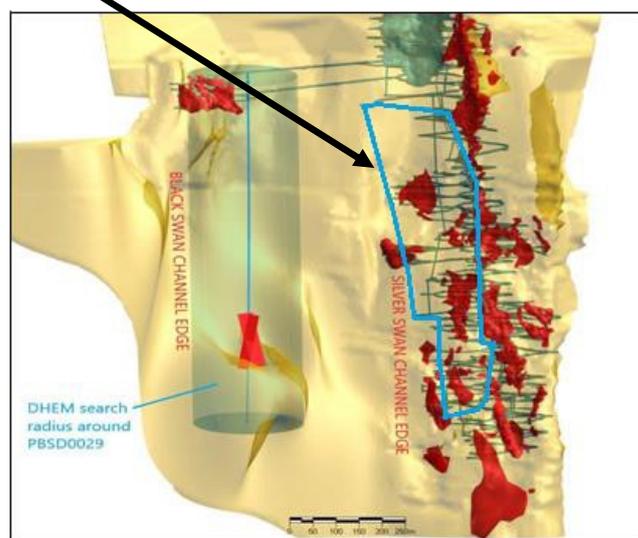
POS has had outstanding early drilling success with Golden Swan. This has been greatly assisted by Electro Magnetic (EM) Surveys applied by POS to target the areas of high Ni potential within the broader Black Swan project.

EM surveys have been used consistently by POS as the key to determining high quality exploration targets. EM is a well-established process which has proven to be a strong indicator of the presence of massive sulphides at Black Swan. The Potential Ni bearing deposits within Black Swan have been consistently detected by what are termed “EM Anomalies”. The EM anomalies have allowed POS to select potentially strong Ni targets and plan the exploration programme accordingly

Expansion of the EM Programme

Due to the continued success of EM surveys, POS has expanded the EM infrastructure within the Black Swan project. POS has installed a permanent underground EM loop at Silver Swan which will be used to assist in determining the potential extent of the Golden Swan mineralisation and explore for other massive sulphide orebodies which may exist in the Southern Terrace or in the vicinity. The loop utilises existing decline, ventilation and escape rise development within the Silver Swan workings (see Exhibit 1 for Loop radius). The alleviation of surface noise and overburden conductive effects by situating the loop underground will markedly increase the sensitivity and accuracy of EM surveys conducted at depth.

Exhibit 1 – EM Loop Radius



Source: POS

Golden Swan Exploration Success – A Review

Golden Swan has already delivered several high-quality exploration results, driven by the EM programme.

Maiden Drill Hole

The maiden drill hole at Golden Swan discovered high-grade Ni massive sulphides in the Black Swan channel adjacent to Silver Swan. **A total interval of 23.1m @ 4.0% Ni and 0.4% copper (Cu)** was obtained from the drilling results, an extremely encouraging result. The drilling included **7.6m @ 8.8% Ni and 2.1m @ 15.9% Ni**. The Ni content is equal to the best ore in the neighbouring Silver Swan and the arsenic content is only one-fifth.

Second Drill Hole Discovery – Identification of “Southern Terrace”

The second exploration hole for Golden Swan also returned very strong results with an interval of **9.0m @ 10.46% Ni including 4.6m @ 13.8% Ni**. This hole was an upward wedge some 50m from the discovery hole. An additional upward wedge was drilled and intersected two separate mineralised zones.

The Golden Swan drilling program to this point had already confirmed mineralisation on multiple surfaces over 130m and remained open up-plunge, down-plunge and also open to the south.

Modelling of the various drill holes within Golden Swan and surrounding EM platform holes has led to the identification of a felsic terrace that extends out into the Black Swan channel on which the Golden Swan massive sulphides are accumulating (see Exhibit 2). This is a similar channel edge formation to that seen at the Silver Swan Mine, Mt Windarra and Cosmos where the terrace interaction with the mineralised komatiite flow facilitates the accumulation of significant amounts of massive sulphides onto the felsic “footwall”, proximal to large, disseminated sulphide bodies. This formation was identified as the “Southern Terrace” and detailed 3D modelling commenced to aid the targeting of additional drill holes and EM platforms to expedite exploration of the Golden Swan discovery.

Further EM Surveys show Potential Extension of Golden Swan, Southern Terrace Modelled

POS conducted further electromagnetic surveys which utilised a newly installed in-mine loop which successfully identified an additional high conductance anomaly down dip of the high-grade intersections at Golden Swan. The newly interpreted EM survey at Golden Swan forms part of a contiguous series that have now detected for over a 170m dip extent and 50m wide and is limited in strike extent only by the physical limitations of the EM technique employed.

Remodelling of the Southern Terrace geological surface highlighted a sizable new area with the potential to host additional massive nickel sulphide mineralisation. The modelled Southern Terrace represents a significant new target area approximately 300m in strike extent, and in excess of 600m dip.

Golden Swan – Full Steam Ahead – The Plan Going Forward

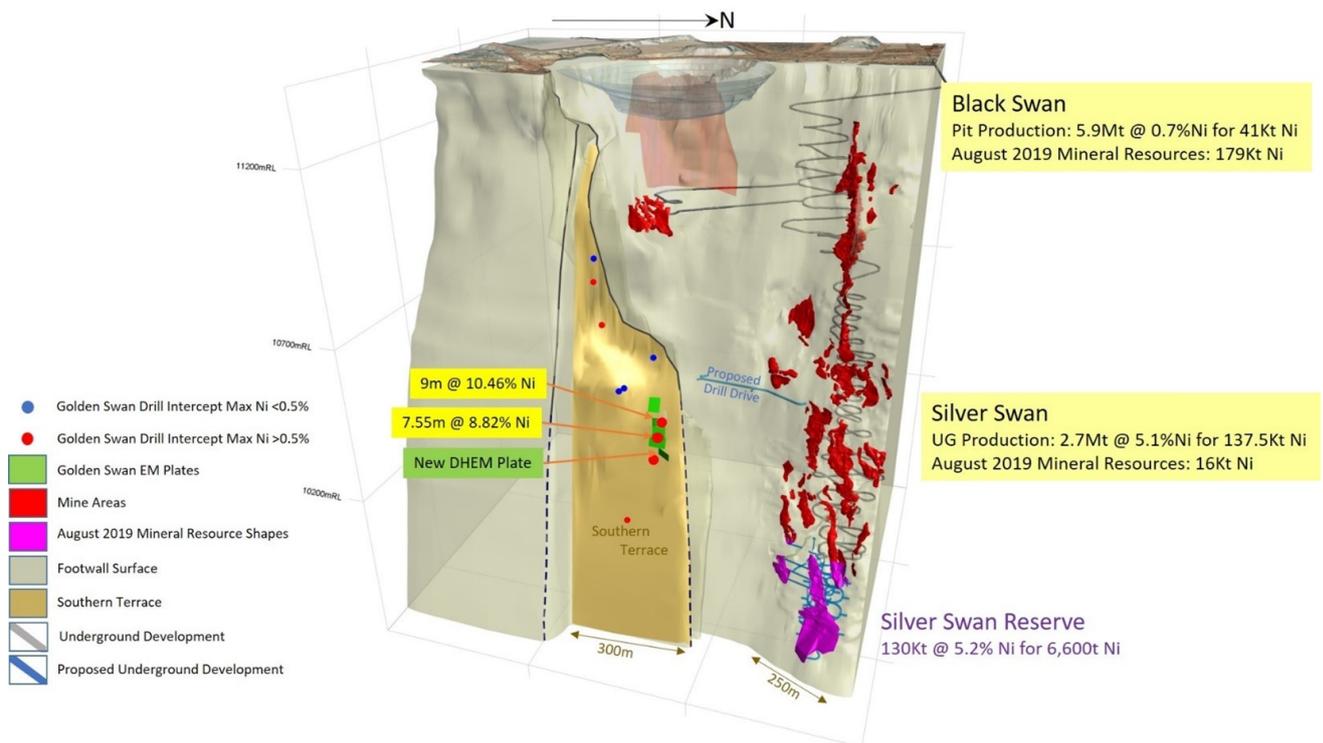
Due to the early exploration success, 3D modelling of the Southern Terrace and further strong EM survey results, POS has the confidence to put into place significant plans for further exploration drilling and resource definition of Golden Swan.

Currently, underground exploration at Golden Swan continues with a drillhole in progress targeting approximately 120m to the south of existing massive nickel sulphide intersections reported previously. This hole is designed to intersect the Southern Terrace at a similar level to the existing intersections and should provide an excellent platform for an EM geophysical survey both up and down dip from the intersection point.

POS has committed to the development of a circa 400m drill drive from the existing Silver Swan decline to facilitate resource definition drilling. The drive will be developed in competent rocks and be positioned approximately 200m from the known mineralisation and will provide a platform for resource definition drilling and additional exploration drilling of the highly prospective Southern Terrace. The drill drive could potentially be used for a future production access to Golden Swan. POS plans to commence resource drilling from the exploration drive in early 2021.

Exhibit 2 shows the newly modelled Southern Terrace along with the EM survey results (plates). Pictured to the right of the Southern Terrace is the proposed Golden Swan exploration drive.

Exhibit 2 – Golden Swan Southern Terrace and Proposed Exploration Drive



Source: POS

Conclusion on Golden Swan

Golden Swan has been a successful exploration play to date. With proven EM techniques displaying large potential within the deposit, and a 3D model on the Southern Terrace established, it can be concluded that the Golden Swan is shaping into potentially a large, high grade Ni resource. The establishment of the exploration drive is a positive commitment by the company and it will contribute significantly to both further exploration drilling and resource definition.

Windarra Gold Project – Near Term Cash Generation – Definitive Feasibility Study (DFS) Underway

A Quick Review of the Windarra Gold Project

The high gold price environment has allowed POS to study the viability of reprocessing the tailings from old gold workings at Windarra and extracting the valuable remnant gold (and silver by-product). The project is low technical risk, low capital and operating cost framework, and has attractive project economics. A Pre Feasibility Study (PFS) has been completed and the strong results have allowed the company to proceed with a more detailed DFS which is planned to be completed in Q1 CY2021.

Pre-Feasibility Study (PFS) – low capital option

The Windarra gold project aims to produce approximately 44,000 oz gold. The project has a proposed capital cost of A\$25m. The project is based on simple hydraulic mining of the tailings and straightforward processing of the gold at a rate of 1.5mtpa to recover approximately 42% of the in-situ gold in the tailings. The All In Sustaining Cost (AISC) of the project is estimated to be A\$1291/oz.

The current gold price is A\$2600/oz (PFS price assumption is A\$2500/oz). The project will run for approximately three years based on processing the resource of 4.5mt in the North and South Dam. The PFS estimates net cashflows for the project of A\$30.4m and a payback of 15 months.

POS anticipates the plant could be repurposed for Ni processing at the end of the gold project.

Lancefield Tailings Option

POS has acquired an option to process the Lancefield tailings. The Lancefield Gold tailings are located approximately 17kms from the proposed Windarra Gold facility and cover an area 700m by 500m which equates to 35 hectares. The Lancefield Gold tailings could be trucked to Windarra and processed in the proposed facility and be processed in conjunction with the Company's Windarra tailing or immediately after the North and South Dam tailings have been processed. The option is low cost to POS and the assessment of the option will be included in the Windarra DFS.

Conclusion on Windarra Gold

The Windarra gold project offers POS a low-cost option and can generate strong cash flows in a short time frame. The project is low risk and low cost and capitalises on the high A\$ gold price. The gold price can also be very easily locked in for the project via the use of hedging, giving a guaranteed cash flow.

The attractiveness of the project also presents POS with the option to sell the project to a gold investor, a gold company, a royalty company or Private Equity. The funds generated from a sale of the project would be reinvested into POS high quality Ni portfolio to fund exploration and/ or capital costs of a Black Swan restart.

Debt Repayment – Early Repayment of Convertible Notes

POS has repaid the US\$17.5m convertible note (CN) one month before due date. The CN was due on 30 September 2020, and with the early repayment, POS was not required to pay the last month's interest. The coupon was 5% and it was convertible at A\$0.09, there was no conversion into equity. As at 30 September 2020 we estimate POS to have approximately \$15m in cash.

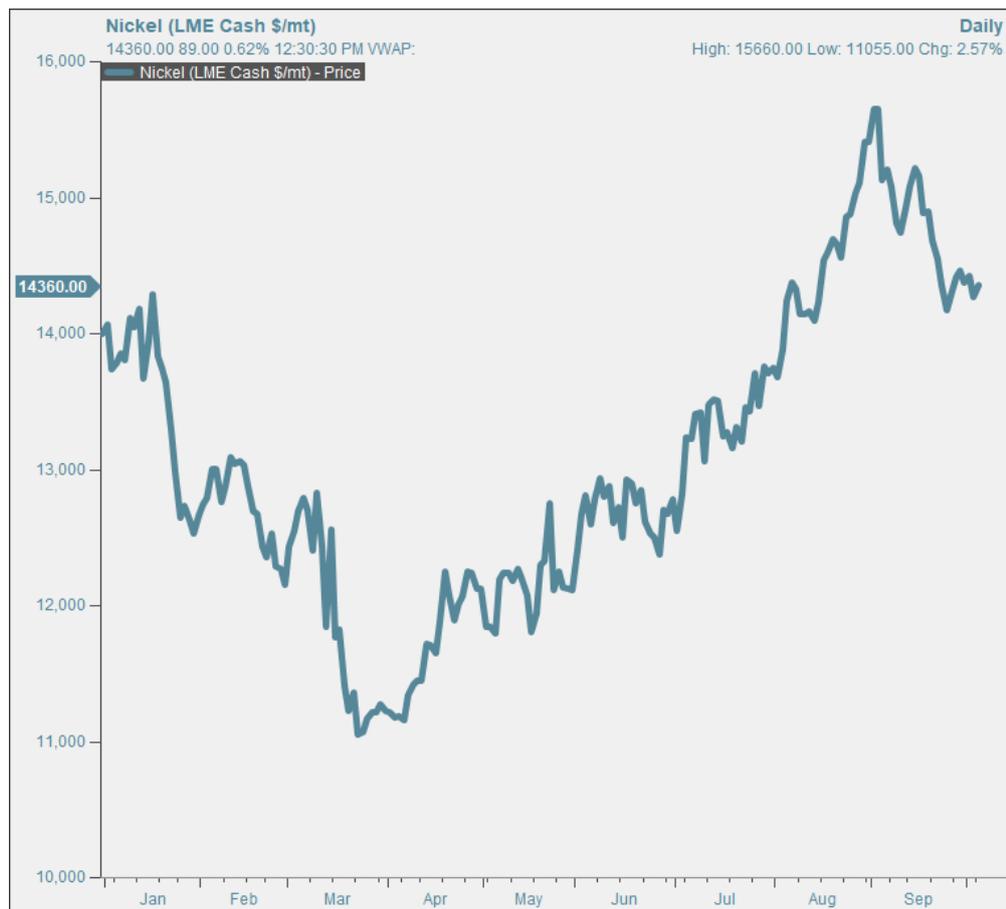
The Nickel Market – A Quick Update

The Nickel price began the year at US\$6.35/lb and after a volatile 9 months is back trading at a similar level of US\$6.50/lb. The lows were during the worst of the COVID-19 market sell-down hitting US\$5.00/lb and recovering to highs of \$7.10 in early September off the back of an improved China demand story.

In the short term the Ni price will be driven by stainless steel demand, driven primarily by China, and on the supply side by Nickel Pig Iron into the market. Over the medium term the demand for Ni will be incrementally driven by the battery market off the back of Electric Vehicle (EV) demand. The recent call for more nickel mining from Tesla’s Elon Musk suggests that the future in batteries for electric cars continues to be bright. Nickel demand from the batteries sector could well account for as much as 25 percent of the total nickel market.

Despite the economic weakening due to the COVID-19 pandemic, Europe and China have strengthened their EV subsidy programs and maintained their CO2 and EV targets, which should continue to support EV adoption and therefore nickel demand from the battery space.

Exhibit 3 – Nickel Price Chart – 2020 Year to Date - \$US/t



Source: Factset

Valuation: Golden Swan Increases Confidence – Valuation Increased to A\$0.18 from \$A0.15 per share.

Valuation Methodology

We value POS at A\$0.18. We have valued POS using a sum of the parts methodology, valuing Black Swan, Windarra Gold and Lake Johnston on a risked NPV basis. Windarra Nickel does not have an existing processing plant on site and as such we have valued Windarra on a multiple of its resource and its exploration potential. We note the potential to use the gold plant for Ni production at Windarra and await further confirmation of the plans for the processing of Ni at Windarra before applying an NPV to it. We see a number of potential scenarios for share price upside driven primarily by exploration success.

Exhibit 4 – Valuation Summary

VALUATION	Current Valuation		Valuation at Initiation		Valuation Methodology
	A\$m	EQUITY VALUE A\$/SHARE FULLY DILUTED	A\$m	EQUITY VALUE A\$/SHARE FULLY DILUTED	
Equity Valuation of Black Swan	\$379.5	\$0.13	\$269.1	\$0.10	Risked NPV
Equity Valuation of Lake Johnston	\$74.0	\$0.03	\$74.0	\$0.03	Risked NPV
Equity Valuation of Windarra Gold	\$22.0	\$0.01	\$22.0	\$0.01	Risked NPV
Equity Valuation of Windarra Nickel	\$35.3	\$0.01	\$35.3	\$0.01	EV/Resource plus Exploration
EQUITY VALUE	\$510.8	\$0.18	\$400.4	\$0.15	
Add: Cash	\$15.0	\$0.01	\$45.2	\$0.02	Cash at 30/09/2020
Less: Debt	\$0.0	\$0.00	-\$23.1	-\$0.01	Convertible Note repaid 01/09/2020
EQUITY VALUE PRE SG&A	\$525.8	\$0.19	\$422.5	\$0.16	
SG&A	-\$15.2	-\$0.01	-\$15.2	-\$0.01	NPV of Corporate Costs
EQUITY VALUE	\$510.6	\$0.18	\$407.3	\$0.15	

Source: MST estimates

What has Changed Since Initiation?

The increase in our valuation has been driven by the exploration success at Golden Swan increasing our confidence in the Black Swan project. We have not changed our valuations of Windarra Gold, Windarra Nickel or Lake Johnston.

In reviewing our valuation of Black Swan, the following assumptions have changed from our initiation.

Operating Costs

- Our cost estimates have been reduced from US\$3.18/lb to 2.80/lb in the first 2 years of operations due to our view that Golden Swan will contribute more to the overall project and lower unit operating costs. Our costs decrease to US\$2.75/lb from the 3rd year of operation and then adjust with inflation going forward.

Ni Grade

- Our overall average Ni grade for the Black Swan project has been lifted reflecting a greater contribution from Golden Swan.

Project Timing

- We have reviewed our start time for the project. We originally started the project in H2FY2022. We now start the project in H1FY2023. A review of the timeline including exploration, approval and construction was the driver of this review. This is a reflection of a change in MST's estimates, not a reflection of our view of POS's ability to deliver.
- As a result of review of the timeline the capital expenditure has been pushed back also, with the majority of the capex in FY2022 and the remainder in FY2023

Exploration

- We have increased our exploration spend assumption for FY2021 from A\$5m to \$A10m, focused on Golden Swan

Equity Capital in FY2021

- Poseidon is in a strong cash position as at 30 September 2020 with ~A\$15m in the bank and no debt. We have been conservative and have assumed a small equity raising in FY2021 of A\$15m to cover working capital requirements, our increased exploration spend and general corporate needs prior to Black Swan commencement

Project Risk Factor

- Due to the success of Golden Swan we now have a Black Swan project risk factor of 80% versus 66% at initiation

Core Assumptions in our Valuation: Project Progress, Nickel Price, Costs

Our core modelling assumptions remain unchanged from initiation.

Exhibit 5 -Core Modelling Assumptions

CORE ASSUMPTIONS	
Price and Currency	
AUD/ USD	0.70
Nickel Price US\$/lb	6.00
Gold Price US\$/oz	1,800
Cost and Financing	
Discount Rate Nickel Projects %	10%
Discount Rate Gold Projects %	8%
Inflation %	2.5%
Interest on Cash %	1%
Interest on Borrowings %	6%
Modelling	
Depreciation	LOM
Taxation Rate	30%

Source: MST estimates.

Nickel price assumptions

We have a view that the Ni price will continue to increase over the next decade. We base this assumption on the demand from electric vehicles and the subsequent pull through of demand for Ni to enhance battery life.

Our base price assumption is US\$6/lb and hold that for the first 2 years, then increasing the price at 5%per annum onwards.

We consider given the potential demand for Ni flowing form EV demand and batteries, there is risk

Gold Price Assumptions

We have assumed a gold price of US\$1800/oz.

Spot Price Valuation \$A0.21

Our spot price valuation is A\$0.21 per share using an A\$/US\$ exchange rate of 0.7141, a Ni price of US\$6.61/lb and a gold price of US\$1884/oz.

Key Sensitivities: Ni Prices, Costs, Capex and USD

The key sensitivity is the Ni price. The valuation is also sensitive to changes in capital and operating costs and the US\$ exchange rate.

The key sensitivities, including discount rate, are set out in Exhibits 6–8.

Exhibit 6 – Valuation sensitivity: Ni price US\$/lb

\$4.00	\$5.00	\$6.00	\$7.00	\$8.00
0.06	0.12	0.18	0.23	0.29

Source: MST estimates.

Exhibit 7 – Valuation sensitivity: USD exchange rate

\$0.60	\$0.65	\$0.70	\$0.75	\$0.80
0.21	0.19	0.18	0.16	0.15

Source: MST estimates.

Exhibit 8 – Sensitivity: Operating costs and capex

		CAPITAL COST				
		-10%	-5%	0%	5%	10%
OPERATING COST	-10%	0.23	0.22	0.22	0.22	0.22
	-5%	0.21	0.21	0.20	0.20	0.20
	0%	0.18	0.18	0.18	0.18	0.17
	5%	0.16	0.16	0.15	0.15	0.15
	10%	0.12	0.12	0.12	0.12	0.11

Source: MST estimates.

Positive Catalysts for the Share Price

Key drivers of share price upside

Golden Swan exploration

The Golden Swan prospect is a potential high-grade Ni deposit. Continued exploration success at Golden Swan could lead to an enhanced Black Swan project and significant valuation upside.

DFS Windarra gold project and approval of project

The DFS for the Windarra gold project will provide further detailed analysis of the project and will lead to likely approval of the project. The short lead time to development of the project and low capital cost could lead to valuation upside.

Exploration success at Lake Johnston/Windarra Nickel

The Lake Johnston and Windarra projects both have exploration potential. Exploration success at either project accelerates the potential to develop the project and adds to valuation.

Approval of restart of Black Swan

The restart of Black Swan could be triggered by either significant exploration success or higher Ni prices, either of which represents upside for POS.

Ni price increases

POS is directly leveraged to higher Ni prices. A sustainable increase in the Ni price would accelerate the potential start of Black Swan in particular, even without exploration success.

Other potential share price catalysts

Exploration success at other Black Swan deposits

Silver Swan, Cygnet and Black Swan present further exploration potential beyond the highly prospective Golden Swan.

Offtake agreements for Ni production

Any agreements to purchase Ni from POS is a positive indication of the Ni market's acceptance the product.

Potential processing of third-party ores at Black Swan/Lake Johnston

Black Swan and Lake Johnston have processing facilities. Any agreements to process third-party ore could generate cash at high margins.

Gold price increase

Increased gold prices would make the Windarra gold project a higher-value project.

Risks to the Share Price and Valuation

Key risks to share price

Disappointing Golden Swan exploration results

As the key to exploration success, any disappointing result in the Golden Swan exploration programme could lead to delays in the Black Swan project development.

Delays in Black Swan Project

As one of the key drivers of valuation, any delays in the commencement of the Black Swan project would be negative for the valuation.

Extended period of low Ni prices

As the key driver of POS's valuation, Ni prices are the key to valuation. Extended periods of low Ni prices could delay projects, even with exploration success.

Lower gold prices

Lower gold prices may delay or cancel the Windarra gold project, reducing the valuation.

Disappointing exploration at Windarra Nickel/Lake Johnston

As longer-term drivers of value, any disappointing exploration results at Lake Johnston/Windarra could lead to a decrease in share price/valuation.

Other potential risks to share price and valuation

Capital cost increases for projects

Capital cost increases lead to direct valuation decreases. Capital costs at the POS projects are relatively low, and therefore have a lesser effect on valuation but can be negative to stock sentiment.

Operating cost increases

Any increase in operating costs has a direct negative effect on valuation.

Appreciating A\$ vs US\$

An increasing A\$ against the US\$ leads to a decreased A\$ Ni price, reducing cashflow and valuation.

Financials – Exploration at Golden Swan the Focus

Exploration Spend to Drive Value

Cash Position

The company has a cash position of A\$15m. MST has assumed the cash can be utilised to fund an extensive exploration programme, which we estimate to be A\$10m in FY2021 due to a focused Golden Swan exploration programme.

Black Swan Funding and Equity

We have assumed the Black Swan project is funded predominantly by debt, but to be conservative and to allow for a working capital buffer and general corporate requirements, we have assumed a small equity capital raising of A\$15m in 2HFY2021. We have increased the fully diluted share base accordingly.

Windarra Gold Funding

The Windarra gold project may be funded by a gold loan, without any need to use any of the company’s cash position, but we have assumed cash and debt for the funding. POS could also investigate the sale of the Windarra Gold Project in order to generate immediate cash to assist in funding the Nickel project pipeline.

Other Financial

POS has repaid the US\$17.5m convertible note on 01 September 2020.

We have assumed that any further projects such as Lake Johnston or Windarra Nickel can be funded from Black Swan cash flow or via debt funding.

POS has at 30 June 2020 ~ A\$34.6m in accumulated tax losses, these losses have been applied to earnings, with cash tax being paid from FY2026 going forward.

Project cash flow and EBITDA

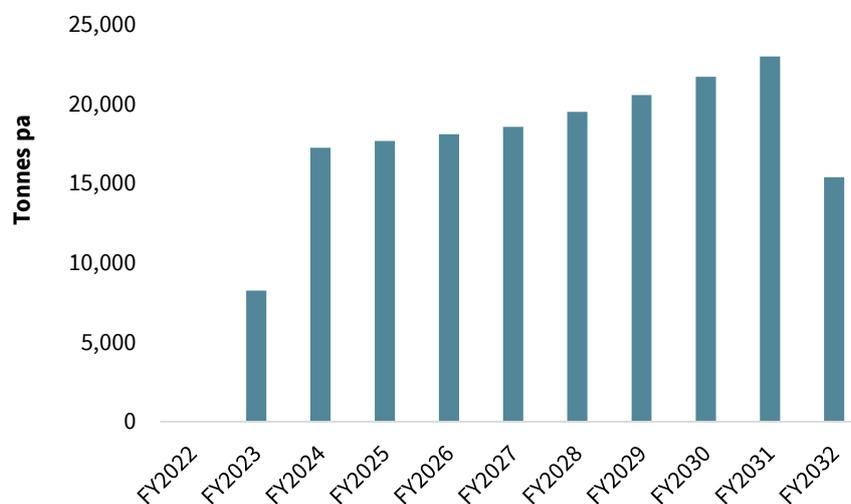
On our assumptions, the Black Swan project will commence production in FY2023. We have assumed the capital expenditure for the project will be spent in FY2022 and FY2023.

We have assumed full gold production at Windarra will start from the beginning of CY2022.

Black Swan is a relatively low-cost project, which will generate EBITDA margins of +30% on our estimates.

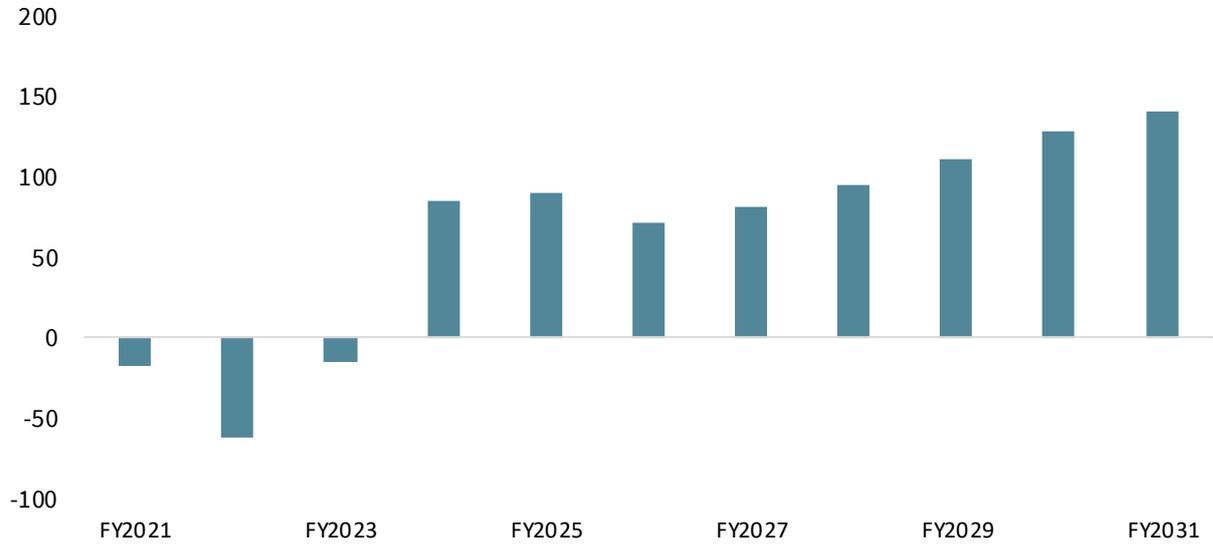
We have assumed the Lake Johnston project commences production by FY2024 on the assumption of exploration success.

Exhibit 9 – POS Forecast Consolidated Ni Production Annual Tonnes



Source: MST estimates.

Exhibit 10 – POS Forecast Cash Flow \$Am



Source: MST estimates.

Financial Statements

Exhibit 11 – Summary financial statements

KEY MODEL ASSUMPTIONS	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E
Nickel Production tonnes							
Black Swan	-	-	-	-	8,250	8,250	8,663
Lake Johnston	-	-	-	-	-	9,000	9,000
Windarra				6.8	16.5	14.2	6.8
Gold Production oz	-	-	-	6,777	16,488	14,161	6,751
AUD/USD				0.70	0.70	0.70	0.70
Price							
Nickel US\$				6.00	6.00	6.30	6.62
Gold US\$				1,800	1,800	1,800	1,800
PROFIT AND LOSS STATEMENT A\$'000	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E
Revenue	366	502	0	17,426	144,724	261,065	258,918
Operating Costs	-10,358	-12,385	-2,081	-10,751	-86,828	-168,250	-161,629
EBITDA	-9,992	-11,883	-2,081	6,675	57,895	92,816	97,289
Depreciation	-43	-19	-2,462	-2,962	-17,214	-34,738	-35,863
EBIT	-10,035	-11,902	-4,543	3,713	40,682	58,078	61,426
Net Interest	-460	-950	20	-3,451	-7,908	-6,873	-4,936
Profit before Tax	-10,495	-12,852	-4,523	262	32,774	51,205	56,490
NPAT	-10,495	-12,852	-4,523	262	32,774	51,205	56,490
BALANCE SHEET A\$'000	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E
Cash	25,133	45,236	23,459	21,683	45,676	85,523	131,551
Trade and other receivables	1,312	633	633	633	633	633	633
Other investments - term deposits	35,012	12	12	12	12	12	12
Current Assets	61,457	45,881	24,104	22,328	46,321	86,168	132,196
PP&E	24,744	24,618	39,456	106,444	164,471	139,733	113,995
Exploration and Evaluation Expenditure	60,946	65,659	75,659	80,659	85,759	90,961	96,267
Other Assets/Investments	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Non-Current Assets	89,190	93,777	118,615	190,603	253,730	234,194	213,762
Total Assets	150,647	139,658	142,719	212,931	300,051	320,362	345,958
Trade and payables	2,254	1,729	1,729	1,729	1,729	1,729	1,729
Employee benefits	115	207	207	207	207	207	207
Provisions	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Loans and Borrowings		24,716					
Current Liabilities	5,869	30,152	5,436	5,436	5,436	5,436	5,436
Loans and borrowings	23,142	0	17,300	87,250	141,596	110,702	79,808
Convertible note derivative	1,108	0	0	0	0	0	0
Provisions	46,418	48,235	48,235	48,235	48,235	48,235	48,235
Non-Current Liabilities	70,668	48,235	65,535	135,485	189,831	158,937	128,043
Total Liabilities	76,537	78,387	70,971	140,921	195,267	164,373	133,479
Share Capital & Reserves	228,798	228,811	243,811	243,811	243,811	243,811	243,811
Accumulated losses	-154,688	-167,540	-172,063	-171,801	-139,027	-87,822	-31,332
Total Equity	74,110	61,271	71,748	72,010	104,784	155,989	212,479
CASH FLOW STATEMENT A\$'000	FY19A	FY20A	FY21E	FY22E	FY23E	FY24E	FY25E
Operating Cash Flow	-9,418	-9,981	-1,628	6,909	58,112	93,272	98,144
Capex	-2,374	-3,262	-27,300	-74,950	-80,340	-15,202	-15,431
Other Investments	-35,012	35,000	0	0	0	0	0
Investing Cash Flow	-37,386	31,738	-27,300	-74,950	-80,340	-15,202	-15,431
Equity Issued	70,915	0	15,000	0	0	0	0
Debt Issued (Repaid)	-42	0	-7,416	69,950	54,346	-30,894	-30,894
Finance Costs	-984	-1,654	-432	-3,686	-8,125	-7,330	-5,791
Financing Cash Flow	69,889	-1,654	7,152	66,264	46,222	-38,224	-36,685
Change in Cash Balance	23,085	20,103	-21,777	-1,777	23,994	39,847	46,028
Opening Cash Balance	2,048	25,133	45,236	23,459	21,683	45,676	85,523
Final Cash Balance	25,133	45,236	23,459	21,683	45,676	85,523	131,551

Source: MST estimates

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