

Spec. buy

Current Price \$0.06
Valuation \$0.09

Code: POS
Sector: Materials

* All figures in AUD unless stated otherwise

Shares on Issue (M): 2,809
Market Cap (\$M): 166
- fully diluted (\$M): 166
Net cash (\$M Dec 2020): 20
Enterprise value (\$M): 146

52 wk High/Low (ps): \$0.09 \$0.03
12m av. daily vol. (Mshs): 5.71

Key Metrics

	CY23e	CY24e	CY25e
P/E (x)	8.1	4.3	4.2
EV/EBITDA (x)	3.8	1.9	1.9

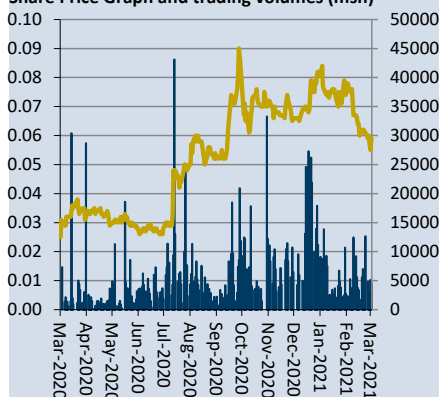
Financials:

	CY23e	CY24e	CY22e
Revenue (\$M)	67	134	134
EBIT (\$M)	29	55	56
NPAT (A\$M)	21	39	39
Net assets (\$M)	148	186	226
Op CF (\$M)	38	60	60

Per share data:

EPS (c)	0.7	1.4	1.4
Dividend (cps)	0.0	0.0	0.0
Yield (%)	-	-	-
CF/Share (cps)	1.4	2.1	2.1
Prod (tNi in concs)	4.7	9.4	9.4

Share Price Graph and trading volumes (msh)



Please refer to important disclosures at end of the report (from page 10)

Monday, 29 March 2021

Poseidon Nickel (POS)

Swans and swings

John Macdonald

Quick Read

A swing nickel player getting impetus towards production. It could lead on to bigger things.

Discovery and development

Underground drilling in April and May: Poseidon is preparing to start the first close range drilling of the Golden Swan nickel discovery. Golden Swan is on a newly identified flow surface, parallel to and 400m from the Silver Swan workings. On early evidence, confined to a 170m by 60m window to the contact, Argonaut estimates circa 10kt extractable nickel at +5% average Ni grade, as a minimum initial target. The potential up dip, down dip, and along strike of the window remains open, with the temptation to measure it against Silver Swan's 138kt Ni production history. In any case Golden Swan is likely to be an 'across the cycle' nickel find that opens up opportunities for the Group.

A 450m long Golden Swan drill drive is due for completion in April 2021. Drilling of Golden Swan, and interpreted footwall EM plates, will follow with first results expected in May. A hole collared in the Silver Swan workings and directed 120m below the Golden Swan discovery intercepts, is in progress with target expected late March or early April.

Low capital cost production: Initially, Poseidon is approaching Golden Swan as a contract mine proposition from which ore will be trucked directly to a third party concentrator. Discussions with potential toll treatment facility owners began in February 2020. Pre-production capital outlays may be kept to less than \$15M, most of which will be mobilisation costs that can also cover plans to access high grade nickel reserves in Silver Swan's depth extensions.

Argonaut presumes Golden Swan will lead to more step out discoveries over time. For valuation purposes we model production of 9ktpa Ni in concentrate for six years, from Golden Swan and Silver Swan.

Getting into full swing: Poseidon owns three project areas, including two nickel concentrator facilities with combined ore processing capacity of 3.5Mtpa. Poseidon's mid-term opportunity is to use early Golden Swan cash flow to explore and develop resources across the portfolio, such as Black Swan, justifying a concentrator re-start.

Recommendation

High grade komatiite hosted nickel discoveries in Western Australia are sweet, particularly when their exploitation coincides with firm nickel prices. Golden Swan, as it stands looks like a stepping-stone to a bigger play and our valuation of 9cps only partly reflects that potential. Argonaut recommends Poseidon Nickel as a speculative buy. Risks to our valuation are high as exploration is at an early stage.

Poseidon Nickel

Equities Research

Analyst: John Macdonald

Recommendation	Speculative buy
Current Price	\$0.06
Valuation	\$0.09

Sector	Metals & Mining
Issued Capital (M)	2,809
Market Cap (M)	\$166
	Monday, 29 March 2021

Profit & loss (\$M) 30 June	2021E	2022E	2023E	2024E
Sales Revenue	0	0	67	134
+ Other income/forwards	0	0	0	0
- Operating costs	0	0	-18	-43
- Royalties	0	0	-3	-6
- Corporate & administration	-12	-8	-8	-8
Total Costs	-12	-8	-29	-57
EBITDA	-12	-8	38	78
- margin	0%	0%	57%	58%
- D&A	0	0	-9	-22
EBIT	-12	-8	29	55
+ Finance Income/Expense	0	0	0	0
PBT	-12	-8	29	55
- Tax expense	2	2	-9	-17
- Impairments and other	0	0	0	0
NPAT	-9	-6	21	39

Cash flow (\$M)	2021E	2022E	2023E	2024E
+ Revenue	0	0	67	134
- Cash costs	-12	-8	-29	-57
- Forwards	0	0	0	0
- Tax payments	0	0	0	-18
+ Interest & other	0	0	0	0
Operating activities	-12	-8	38	60
- Property, plant, mine devel.	0	-10	-31	-25
- Exploration	0	0	0	0
Investment activities	0	-10	-31	-25
+ Investments	0	0	0	0
+ Borrowings	0	0	0	0
- Dividends	0	0	0	0
+ Equity	0	0	0	0
Financing activities	0	0	0	0
Cash change	-12	-18	7	35

Balance sheet	2021E	2022E	2023E	2024E
Cash	18	0	7	42
Other Current Assets	6	6	6	6
Total current assets	24	6	13	48
Property, plant & equip.	50	60	83	86
Exploration	75	75	75	75
Total non-curr. assets	125	135	158	161
Total assets	149	141	171	209
Trade payables	1	1	10	10
Short term borrowings	0	0	0	0
Other	3	6	10	10
Total curr. liabilities	4	7	20	21
Long term borrowings	0	0	0	0
Other	2	2	2	2
Total non-curr. liabil.	2	2	2	2
Total liabilities	6	9	23	23
Net assets	143	132	148	186

Operations summary	2021E	2022E	2023E	2024E
Golden Swan 100%				
Ore processed (Mt)	0.0	0.0	0.1	0.2
Head grade (%Ni)	0.00	0.00	5.00	5.00
Met. recovery	0%	0%	94%	94%
Ni prodn in concentrate (kt)	0	0	5	9
Cost per milled tonne (A\$/t)	0	0	181	214
Cash costs pre royalty (A\$/t Ni)	0	0	4491	5194
Sustaining capital (\$M)	0	0	0	0
All in sustaining costs (A\$/t)	0	0	5135	5837
Growth capital (\$M)				
CAIC (\$M)	12	18	60	100
CAIC (A\$/t Ni)				10609

Financial metrics		2021E	2022E	2023E	2024E
GCFPS	AC	-0.4	-0.3	1.4	2.1
CFR	X	0.0	0.0	4.4	2.8
EPS	AC	-0.3	-0.2	0.7	1.4
PER	X	0.0	0.0	8.1	4.3
DPS	AC	0.0	0.0	0.0	0.0
Yield		0.0%	0.0%	0.0%	0.0%
Interest cover	x	0.0	0.0	0.0	0.0
ROCE		-9.3%	-5.9%	18.6%	34.5%
ROE		-8.1%	-6.1%	19.8%	29.9%
Gearing		0.0%	0.0%	0.0%	0.0%

Shares		2021E	2022E	2023E	2024E
New shs issued/exerciseable	M	0	0	1	1
Average issue price	\$/sh	0.00	0.00	0.10	0.13
Ordinary shares - end	M	2809	2809	2810	2811
Diluted shares - end	M	2811	2817	2817	2817

Price assumptions	2021E	2022E	2023E	2024E
AUDUSD	0.74	0.75	0.75	0.75
Nickel US\$/lb	7.25	7.48	7.48	7.48
Nickel US\$/t	15977	16495	16495	16495
Nickel A\$/lb	9.80	9.98	9.98	9.98

Valuation summary	A\$M	A\$/sh
Golden Swan, Silver Swan	169	0.06
Windarra	15	0.01
Lake Johnston	25	0.01
Exploration, all sites	52	0.02
Corporate overheads	-42	-0.01
Cash and bullion	20	0.01
Debt	0	0.00
Tax benefit	0	0.00
Hedging	0	0.00
Option/equity dilution	0	0.00
NAV	239	0.09

Directors, management	
Derek La Ferla	Non-Executive Chairman
Peter Harold	MD and CEO
Felicity Gooding	Non-Executive Director
Dean Hildebrand	Non-Executive Director
Peter Mucilli	Non-Executive Director

Top shareholders	M shs	%
Edison Metals/Black Mountain	550	19.6
Tattarang Investments	385	13.7

Reserves & resources June '20	Mt	%Ni	Kt
TOTAL RESOURCE (JORC 2004 & 2012)	44.1	0.89	393.7
Measured	-	-	-
Indicated	16.8	1.03	172.8
Inferred	27.3	0.81	220.9
INCLUDES TOTAL RESERVE	0.1	5.00	0.1
Silver Swan underground	0.1	5.00	0.1

Argonaut model February '21	Mt	%Ni	Kt
TOTAL INVENTORY	1.3	5.00	0.7
Golden & Silver Swan underground	1.3	5.00	0.7

Company background

Since 2014 the Company has assessed the commercial prospects from various angles of three separate, shuttered nickel projects; Windarra, Lake Johnston and Black Swan. Major shareholders Black Mountain Metals (up to 20%) and Squadron Resources Ltd (up to 18%, now 14%) have been at times influential in corporate affairs. The current management team at Poseidon Nickel began to take shape in late 2019 with the appointment of Derek La Ferla as Chairman and Peter Harold as Managing Director/CEO.

Black Swan

In September 2014 Poseidon acquired the Black Swan nickel project from Norilsk Nickel for \$1.5M. The acquisition included the Black Swan open pit mine (5.7Mt at 0.7% Ni historical production), the Silver Swan underground mine (2.7Mt at 5.1% Ni past production) and a 2.15 Mtpa concentrator, all under care and maintenance since February 2009. From 2014, Poseidon explored, studied re-start proposals, and contemplated numerous toll treatment arrangements. Drill programs outlined new resource estimates at Silver Swan (16kt cont. Ni) and Black Swan (179kt cont. Ni). Re-start proposals battled generally soft nickel prices and uncertain returns on capital.

Golden Swan

In February 2020 a down hole EM survey returned a clean, late time response consistent with massive sulphides in the basal contact position, 550m below the Gosling massive sulphide deposit (120kt ore mined at 4.4% Ni) at Black Swan. The anomaly was interpreted to be caused by a source greater in extent than Gosling.

In March/April 2020 hole PBSD0029A drilled from the Gosling workings intersected

- 7.6m at 8.8%Ni (true width 4.3m) from 740m down hole (about 1,000m depth from surface).

The new discovery, called Golden Swan, is interpreted to be the first intersection of basal nickel sulphides in the Black Swan channel; not a sulphide accumulation around a felsic raft in the flow, like Gosling.

In August 2020 Poseidon reported assays from a wedge hole at Golden Swan, PBSD0030B, intersecting mineralisation 50m up-plunge from the discovery hole. Assays included

- 9.0m at 10.5 %Ni (true width 4.5m) from 692m down hole.

A second wedge intersected 0.6m at 10.3% Ni in a felsic pinch-out structure near the top of the DHEM response.

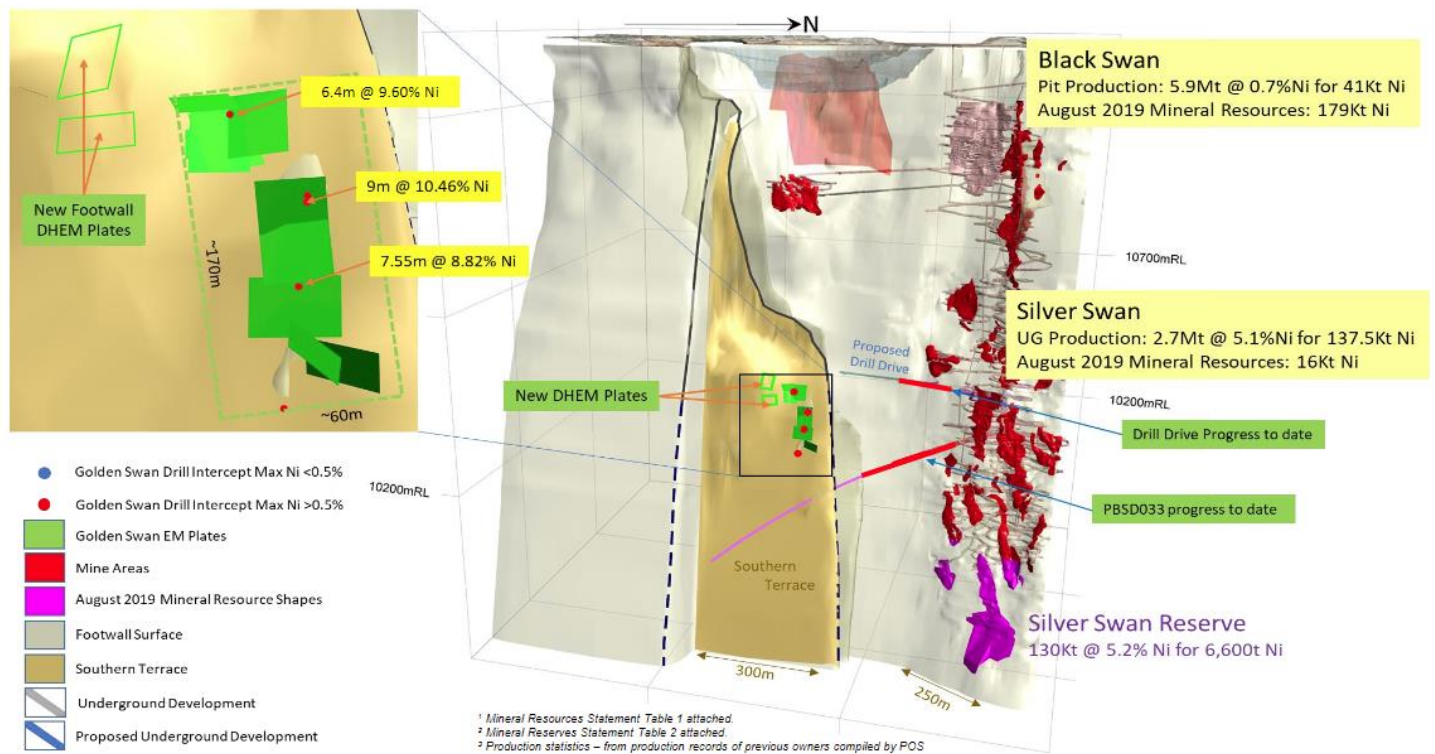
In November a third wedge hole PBSD0029D intersected nickel sulphides 50m up-plunge of the PBSD0030B intercept, and 100m up-plunge of the PBSD0029A intercept. Assays included

- 6.4m at 9.6 %Ni (true width 3.7m) from 656m down hole.

Together, the drill core from the 3 holes and the associated downhole EM plate interpretations indicate potential for a continuous nickel sulphide accumulation on the Southern Terrace, with indicative dimensions of 60m (strike) by 170m (dip).

EM data from two wedge holes drilled to intersect the Southern Terrace 100m south of PBSD0029A, show two conductor plates in the footwall of (beneath) the Southern Terrace.

Fig. 1: Schematic section showing Silver Swan, Black Swan and Golden Swan locations and key elements.



Source: Poseidon Nickel

In October 2020 Poseidon committed to a drill drive from the existing Silver Swan decline to facilitate resource definition drilling. The 450m long Golden Swan drill drive is due for completion in April 2021. Drilling will follow with first results expected in May. Both the Southern Terrace, and interpreted footwall plates will be drilled from the drill drive. The hole collared in the Silver Swan workings and directed 120m below the Golden Swan discovery intercepts (PBSD033A), is still in progress with target now expected late March or early April. Ground conditions have been challenging for the drillers.

Golden Swan in context

Based on simple geometry, Argonaut expects a minimum, within the 170m by 60m EM plate space, of 180kt at 5% Ni extractable (9,000t contained Ni). The upside question is more complex. Poseidon sees no constraints through to potential for the equivalent of another Silver Swan sized system (2.7Mt at 5.1% Ni, containing 138,000t Ni) extending up and down dip of the discovery holes at Golden Swan, and in footwall positions corresponding to interpreted EM plates. Geological interpretation is flexible enough, and data outside the window of drilling and EM information at Golden Swan is sparse enough.

For valuation purposes, we presume an eventual inventory of 1Mt at 5% extractable (50,000t contained nickel) on the Southern Terrace between 500 and 1200m depth. In the normal course of development, drill access to such a height of the Golden Swan terrace will take some years to establish (50-100m vertical per year).

Development

From 2014 to 2020, despite some successful exploration work, Poseidon's nickel assets stayed beneath commercial thresholds. Golden Swan is potentially the first discovery or development target in the portfolio that can withstand across-the-cycle nickel prices. The

breach of A\$20,000/t nickel price (post September 2020) has increased the development incentive.

Poseidon plans to start mining Golden Swan as part of a toll treatment operation rather than re-commission the Silver Swan concentrator. High grade ore with high Fe:MgO is transportable and highly sought after, most notably within the BHP Nickel West system but also further afield. BHP's Kambalda concentrator is within 100km trucking distance and Western Areas' (WSA-ASX) Cosmos concentrator is 500km from Silver Swan. The sub-\$5M capital cost prior to first revenue of toll treatment, contrasts with >\$25M for the Silver Swan concentrator re-start. Poseidon began discussions with third party concentrators over potential processing terms in February 2021.

Mobilisation of a contractor to Golden Swan would bring the Silver Swan depth extensions into production calculations. In March 2020 Silver Swan reserves were estimated at 130kt at 5.2% Ni (7kt contained Ni). Poseidon's drilling and reinterpretation work outlined the Silver Swan resources and established lode continuity, at the base of historical development (1400-1600m depth from surface), after 2009. In 2019 Poseidon began refurbishing the Silver Swan decline, ventilation systems and mine services as part of broader project re-start plans, before management changes, and Golden Swan's discovery, intervened. Corporate objectives were subsequently re-set to the low capital cost toll treatment start-up approach, potentially financing the concentrator re-start and Black Swan development down the track.

Argonaut's playbook for Golden Swan and Silver Swan.

- 1.3Mt at 5% Ni underground eventual mined inventory combined Golden Swan, Silver Swan.
- Start of development July 2022.
- Infrastructure establishment cost \$10M
- Peak mining rate 200ktpa
- Mining cost including capital of A\$230-240/t ore. Long hole open stoping.
- Surface ore trucking 100km at 12c/t/km
- Toll ore crush-mill-concentrate costs of \$70/t
- Metallurgical recovery 92%
- Concentrate freight cost \$150/t of concentrate
- Payability for nickel in concentrate of 65%.
- Nickel price of US\$16,500/t. AUDUSD 0.75.

Poseidon's swing production nickel assets, including the two concentrators, the Black Swan reserve, and the Maggie Hays resource, will be assessed once the Company has reduced the cost of capital, and in the prevailing nickel market. The main operating cost savings to the above numbers from re-starting a concentrator would be ore trucking (reduced to negligible), and milling and flotation (reduced to \$45/t ore on a campaign milled basis), equivalent to about \$50M over six years.

Lake Johnston

Poseidon acquired Lake Johnston from Norilsk Nickel for \$1M in 2014. Lake Johnston includes the Emily Ann and Maggie Hays mines, a 1.5 Mtpa processing plant, infrastructure and tenure centred 200 km south west of Kalgoorlie. Maggie Hays and the processing plant were in operation up until April 2013. Resumption of substantive exploration for komatiite hosted nickel deposits along the 20km belt under tenure is subject to funding.

Windarra

Windarra was acquired by Poseidon in December 2005 from BHP Billiton. The Windarra mine produced 8Mt at 1.2% Ni between 1974 and 1993. Remnant resources of 4.4Mt at 1.6% Ni were assessed for a restart in 2011 and the mine was partially refurbished before the nickel price slumped from relative highs. Mine designs from 2014 are also in place for the Cerberus deposit and its estimated 4.6Mt at 1.5% Ni resource. Poseidon contemplated a plan to extract 45kcozs of gold from a tailings resource in mid 2020.

Resources

Fig. 2: Poseidon Nickel resource estimates, June 2020

PROJECT Resource (compliance)	CutOff grade	Tonnes kt	INDICATED		INFERRED		TOTAL				
			Grade Ni%	Cont. Ni t	Tonnes kt	Grade Ni%	Cont. Ni t	Tonnes kt	Grade Ni%	Cont. Ni t	
BLACK SWAN PROJECT											
Black Swan (2012)	0.4%	9,600	0.7	64,900	21,100	0.5	113,800	30,700	0.6	179,000	
Silver Swan (2012)	4.5%	108	9.4	10,130	61	9.7	5,900	168	9.5	16,030	
LAKE JOHNSTON PROJECT											
Maggie Hays (2012)	0.8%	2,600	1.6	41,900	900	1.2	10,100	3,500	1.5	52,000	
WINDARRA PROJECT											
Mt Windarra (2012)	0.9%	922	1.6	14,500	3,436	1.7	57,500	4,358	1.6	72,000	
South Windarra (2004)	0.8%	772	1.0	7,500				772	1.0	7,500	
Cerberus (2004)	0.8%	2,773	1.3	34,600	1,778	1.9	34,000	4,551	1.5	69,000	
TOTAL											
Total Ni Resources 2004 & 2012		16,775	1.0	173,530	27,275	0.8	221,300	44,049	0.9	395,530	

Source: Poseidon Nickel

Directors and management

Derek La Ferla – Non-Executive Chairman. Appointed December 2019

Corporate lawyer and company director. Also a director of Sandfire Resources NL and Threat Protect Australia Ltd. Ex-director of Veris Ltd (2011 to 2019) and BNK Banking Corporation Ltd (2015 to 2019).

Peter Harold – Managing Director and CEO. Appointed March 2020.

Process engineer and corporate manager/director. Co-founder and ex-Managing Director of Panoramic Resources (2001-2019). Non-executive chairman of Ocean Grown Abalone Ltd, ex director of Pacifico Minerals Ltd (2013 to 2020), Peak Resources Ltd (2015 to 2017) and Horizon Gold Ltd (2016 to 2019).

Felicity Gooding – Non-Executive Director. Appointed October 2018.

Accountant. Deputy CEO of the Minderoo Foundation. Previously Chief Financial Officer and Chief Operating Officer of the Minderoo Group. Ex director of Impact Minerals Limited (2016 to 2017).

Dean Hildebrand – Non-Executive Director. Appointed July 2020.

Corporate financier. Director of Black Mountain Metals Pty Ltd and CFO of Black Mountain's mining and oil & gas businesses.

Peter Mucilli - Non-Executive Director. Appointed August 2020.

Geologist. Ex executive at Mincor Resources Ltd (2004-2019) including Managing Director (2016 to 2019). Technical director of Constellation Resources Ltd.

Fig. 3: Poseidon Nickel board and management holdings, 2021

	Position	Opts	Perf. rights	Shares	Exposure	%
		M	M	M	M	
Derek La Ferla	Chair	2.0			2.0	0.1%
Peter Harold	CEO	6.0		0.3	6.3	0.2%
Felicity Gooding	NED				0.0	0.0%
Dean Hildebrand	NED				0.0	0.0%
Peter Mucilli	COO				0.0	0.0%
Total		8.0		0.3	8.3	0.3%

Source: Poseidon Nickel ASX announcements

Financial

At the end of December 2020, Poseidon had \$20M cash. The June 2020 balance sheet included provisions for \$4M current rehabilitation obligation at Windarra, and \$46M in estimated non-current rehabilitation obligations at Lake Johnston and Black Swan nickel mine sites.

Fig. 4: Cash flow statements, FY2019-December 2020, all figures A\$M

Year to June 30	2019	2020	SeptQ'20	DecQ'20
P'ments to supp's & empl's	-10.2	-12.0	-3.5	-2.4
Interest received	0.6	1.4	0.2	0.0
Sundry income	0.1	0.6		
Cash from ops	-9.5	-10.0	-3.4	-2.4
Plant, prop., equipment	-0.2	-0.1	0.0	0.0
Exploration	-2.2	-3.1	-1.4	-2.1
GST				
Cash from Investing	-2.4	-3.3	-1.4	-2.1
Equity	70.9			10.0
Borrowings	0.0		-25.1	
Interest/transaction	-1.0	-1.7		-0.6
Cash from financing	69.9	-1.7	-25.1	9.5
Cash at start	2.0	60.0	45.1	15.2
Change	58.0	-14.9	-29.8	4.9
Cash at end	60.0	45.1	15.2	20.1

Source: Poseidon Nickel ASX announcements

Peer comparison table

Fig. 5: Selected ASX nickel focused companies, March 2021

Company	Security	Last	Iss shs	Mkt cap	2020 prodn & I	June '20 resource	June '20 Reserve	Net cash Dec'20	EV	Dormant concentrator capacity
		cps	M	\$M	kt Ni	kt Ni	kt Ni	\$M	\$M	ktpa
Western Areas	WSA-au	2.05	315	645	15	910	265	180	465	900
Mincor	MCR-au	0.98	432	423		169	71	93	330	
Legend Mining	LEG-au	0.12	2755	331				27	304	
Panoramic	PAN-au	0.135	2051	277		164	102	31	246	1000
Centaurus	CTM-au	0.78	329	257		223		24	233	
Poseidon Nickel	POS-au	0.057	2809	160		130	28	20	140	3500

Source: ASX announcements, Factset

Valuation

The valuation is based on a discounted cash flow valuation of a presumed Golden Swan/Silver Swan mining campaign under the assumptions set out on page 5. A real, after tax discount rate of 7% is used in net present value estimation. Poseidon's other mineral assets are assigned nominal values. An estimate of the NPV of corporate overhead costs is included in the valuation. Future tax benefits are added back as an estimate of their present value. Argonaut's commodity and currency forecasts are set out in the summary table on page 2.

Fig. 6: Valuation summary

Valuation summary	A\$M	A\$/sh
Golden Swan, Silver Swan	169	0.06
Windarra	15	0.01
Lake Johnston	25	0.01
Exploration, all sites	52	0.02
Corporate overheads	-42	-0.01
Cash and bullion	20	0.01
Debt	0	0.00
Tax benefit	0	0.00
Hedging	0	0.00
Option/equity dilution	0	0.00
NAV	239	0.09

Source: Argonaut research

Key risks to valuation

Exploration success/geological risk

Golden Swan is in the early stages of discovery, and we assume from only a few data points that extensive, continuous nickel mineralisation will be outlined. Argonaut's valuation also relies on positive returns made from future exploration expenditure on the total portfolio.

Nickel price

Poseidon's mine plans and cash flows are sensitive to the nickel price. Each 10% change in the Australian dollar nickel price changes our valuation by 15%. In addition to our model sensitivity, by virtue of its nickel resources and dormant processing capacity, Poseidon has value as a call option on the nickel price. Subjective value is attributed to exploration assets.

Costs.

Operating and capital cost assumptions are based on Argonaut's broad estimates according to Argonaut's understanding of industry standards and rates. Cost assumptions are based on incomplete information or informal estimates.

Finance

We assume that Poseidon will have access to external funds at rates and costs that will not be dilutive to existing shareholders. Poseidon has sufficient funds for its short term objectives. There is a reasonable expectation that Golden Swan can be brought into production with no further equity funding.

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Information Disclosure

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