

On Track for First Ore in CY2022

As part of Poseidon Nickel's (POS), Black Swan Nickel (Ni) project, the Golden Swan discovery (discovered March 2020) continues to deliver high-grade Ni intersections and is the key to POS restarting Ni ore production in CY2022. The recent completion of the Golden Swan drill drive will allow POS to expand drilling of Golden Swan and the Southern Terrace target and to delineate a Maiden Resource by Q3 CY2021.

Milestone Moment – Drill Drive Complete

POS has completed a 465m Golden Swan drill drive from the Silver Swan deposit, allowing POS to significantly increase the speed and efficiency of exploration and resource definition drilling.

Maiden Resource Set for Q3 CY2021

POS has in progress a 13,000m resource drilling program originating from the drill drive, with estimated completion in July 2021. This program aims to deliver a Maiden Resource from the Golden Swan mineralisation and will also allow POS to test for any potential extensions to the deposit. POS expects to report a Maiden Resource by Q3 CY2021.

Golden Swan Exploration Continues to Deliver

POS continues to deliver high-grade intersections at Golden Swan, with the current round of Resource definition drilling demonstrating the high-grade continuity within the trend.

POS' downhole electromagnetic surveys continue to identify potential sources of Ni and have been integral to the discovery of Golden Swan and further exploration potential in the Southern Terrace.

Revenue Generation by Mid-CY2022

POS aims to begin generating revenue through the production of saleable ore by mid-CY2022. All drilling activities are aimed at building high-grade Ni Resource to allow mining to recommence after a 10-year hiatus. The initial plan is to sell Direct Shipping Ore (DSO) to a third-party processor. DSO would minimise capital and keep operating costs low as it requires minimal processing. Discussions are underway with potential buyers of the DSO in Western Australia and internationally.

Valuation: A\$0.18 – Golden Swan the Key to Further Upside; Spot Valuation A\$0.29

Our valuation is based on the restart of the Black Swan project. **Exploration success, resource definition and the commencement of DSO from Golden Swan presents the key driver of valuation upside.** Disappointing exploration results or delays to Golden Swan resource definition are the key risks.



Poseidon Nickel (POS) owns 100% of the Black Swan, Windarra and Lake Johnston nickel assets located in Western Australia's Goldfields Ni province. The Black Swan project is the focus for POS with the high-grade Golden Swan discovery within Black Swan looking to deliver a maiden Resource in Q3 CY2021. POS is in a strong financial position with net cash of \$15.4m on 31 March 2021.

Key investment highlights:

- Golden Swan Maiden Resource in Q3 CY2021
- Targeting production in CY2022 of high-grade Ni Ore
- Potential for low-cost operations

<https://poseidon-nickel.com.au/>

Stock	ASX: POS
Price	A\$0.08
Market cap	A\$225m
Valuation (per share)	A\$0.18

Next steps

Ongoing - Golden Swan Resource and Southern Terrace Exploration Drilling

Q3 CY2021 Golden Swan Maiden Resource

POS share price – 1 year



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Exhibit 1 – POS company summary

Poseidon Nickel Limited						POS.AX
Year end 30 June						
MARKET DATA						
Price	\$	0.08				
52 week high / low	\$	0.09-0.03				
Valuation (diluted)	\$	0.18				
Market Capitalisation	\$m	224.8				
Enterprise Value	\$m	211.1				
Shares on issue (basic)	m	2809.4				
Options / Performance shares	m	0.0				
Other equity (assumed issue FY2022)	m	125.0				
Potential shares on issue (diluted)	m	2934.4				
INVESTMENT FUNDAMENTALS						
Reported NPAT	\$m	FY19A	FY20A	FY21E	FY22E	FY23E
Underlying NPAT	\$m	(10.5)	(12.9)	(4.3)	(7.8)	50.5
EPS Reported (undiluted)	¢	-0.37	-0.46	-0.15	-0.28	1.80
EPS Underlying (undiluted)	¢	-0.37	-0.46	-0.15	-0.28	1.80
Underlying EPS growth	%		-22%	67%	-81%	-750%
P/E Reported (undiluted)	x	n/m	n/m	n/m	n/m	4.5
P/E Underlying (undiluted)	x	n/m	n/m	n/m	n/m	0.0
Operating cash flow / share	¢	(0.34)	(0.36)	(0.06)	(0.07)	2.34
Price to operating cash flow	x	n/m	n/m	n/m	n/m	3.42
Free cash flow	\$m	(46.8)	21.8	(16.6)	(63.4)	(14.7)
Free cash flow per share	¢	(1.7)	0.8	(0.6)	(2.3)	(0.5)
Price to free cash flow	x	n/m	10.3	n/m	n/m	n/m
Free cash flow yield	%	-20.8%	9.7%	-7.4%	-28.2%	-6.5%
Book value / share	¢	2.64	2.18	2.38	2.46	4.26
Price to book (NAV)	x	3.0	3.7	3.4	3.2	1.9
NTA / share	¢	2.64	2.18	2.38	2.46	4.26
Price to NTA	x	3.0	3.7	3.4	3.2	1.9
Year end shares	m	2,809	2,809	2,934	2,934	2,934
Market cap (Spot)	\$m	224.8	224.8	224.8	224.8	224.8
Net debt / (cash)	\$m	(37.0)	(45.2)	(13.7)	42.5	63.8
Enterprise value	\$m	188	180	211	267	289
EV/Sales	x	n/m	n/m	n/m	n/m	1.66
EV/EBITDA	x	n/m	n/m	n/m	n/m	4.4
EV/EBIT	x	n/m	n/m	n/m	n/m	5.07
Net debt / EV	x	-0.18	-0.21	-0.06	0.20	0.30
Gearing (net debt / EBITDA)	x	n/m	n/m	n/m	-20.04	0.97
PRODUCTION AND PRICING						
Nickel Production tonnes		FY19A	FY20A	FY21E	FY22E	FY23E
Black Swan		-	-	-	-	11,000
Windarra Gold Production oz		-	-	-	-	6,777
AUD/USD		-	-	-	-	0.70
Price						
Nickel US\$/lb		-	-	-	-	6.00
Gold US\$/oz		-	-	-	-	1,800
Resources and Reserves						
Reserves						
Resources (t) by Asset						
	Nickel Sulphide Reserves	ORE RESERVE CATEGORY				
		PROBABLE				
		Tonnes	Ni%	Ni Metal		
	Silver Swan	130	5.2	6,800		
	Black Swan	3,370	0.63	21,500		
Total	3,500	0.81	28,300			
12 month Relative Performance versus S&P/ASX300 Metals and Mining						
PROFIT AND LOSS \$Am						
		FY19A	FY20A	FY21E	FY22E	FY23E
Sales		-	-	-	-	173.4
COGS		-	-	-	-	(105.6)
Gross profit		-	-	-	-	67.7
Other income		0.4	0.5	-	-	-
Other operating costs		(10.4)	(12.4)	(2.1)	(2.1)	(2.2)
EBITDA		(10.0)	(11.9)	(2.1)	(2.1)	65.5
Depreciation & amortisation		(0.0)	(0.0)	(2.5)	(3.0)	(8.6)
EBIT		(10.0)	(11.9)	(4.5)	(5.1)	56.9
Interest		(0.5)	(1.0)	0.2	(2.7)	(6.4)
Tax		-	-	-	-	-
NPAT		(10.5)	(12.9)	(4.3)	(7.8)	50.5
Adjustments & Significant items		-	-	-	-	-
Underlying NPAT		(10.5)	(12.9)	(4.3)	(7.8)	50.5
BALANCE SHEET \$Am						
		FY19A	FY20A	FY21E	FY22E	FY23E
Cash at bank		60.1	45.2	13.7	13.9	56.6
Other assets		-	0.01	0.01	0.01	0.01
Receivables		1.3	0.6	0.6	0.6	0.6
Current assets		61.5	45.9	14.3	14.5	57.2
PP&E (with accumd dep)		24.7	24.6	27.2	80.6	147.3
Exploration and evaluation expenditure		60.9	65.7	75.7	80.7	85.8
Other assets		3.5	3.5	3.5	3.5	3.5
Non current assets		89.2	93.8	106.3	164.8	236.5
Total Assets		150.6	139.7	120.7	179.3	293.8
Trade and Payables		2.3	1.7	1.7	1.7	1.7
Employee benefits		0.1	0.2	0.2	0.2	0.2
Provisions		3.5	3.5	3.5	3.5	3.5
Borrowings		-	24.7	-	-	-
Current liabilities		5.9	30.2	5.4	5.4	5.4
Loans and borrowings		23.1	-	-	56.4	120.4
Convertible note derivative		1.1	-	-	-	-
Provisions		46.4	48.2	48.2	48.2	48.2
Non-Current liabilities		70.7	48.2	48.2	104.7	168.6
Total Liabilities		76.5	78.4	53.7	110.1	174.0
Share Capital		228.8	228.8	238.8	248.8	248.8
Reserves		0.0	0.0	0.0	0.0	0.0
Accumulated losses		(154.7)	(167.5)	(171.8)	(179.6)	(129.1)
Total Equity		74.1	61.3	67.0	69.2	119.7
CASH FLOW \$Am						
		FY19A	FY20A	FY21E	FY22E	FY23E
Operating Revenue		-	-	-	-	173.4
Sundry receipts		0.1	0.6	-	-	-
Payments to suppliers and employees		(10.2)	(12.0)	(2.1)	(2.1)	(107.8)
Interest received		0.6	1.4	0.5	0.1	0.1
Tax Paid		-	-	-	-	-
Operating cash flow		(9.4)	(10.0)	(1.6)	(2.0)	65.7
Payments for PPE		(0.2)	(0.1)	(5.0)	(56.4)	(75.2)
Proceeds from sale of PPE		0.0	-	-	-	-
Exploration and evaluation expenditure		(2.2)	(3.1)	(10.0)	(5.0)	(5.1)
Payments for term deposits		(35.0)	35.0	-	-	-
Investing cash flow		(37.4)	31.7	(15.0)	(61.4)	(80.3)
Proceeds from the issue of shares		70.9	-	10.0	10.0	-
Proceeds (Repayments) borrowings		-	-	-	56.4	64.0
Repayment of borrowings		(0.0)	-	(24.7)	-	-
Interest paid		(1.0)	(1.7)	(0.2)	(2.8)	(6.6)
Financing cash flow		69.9	(1.7)	(14.9)	63.6	57.4
Net Increase/Decrease		23.1	20.1	(31.6)	0.2	42.7
Cash at Beginning Year		2.0	25.1	45.2	13.7	13.9
Final Cash Balance		25.1	45.2	13.7	13.9	56.6

Source: POS / MST Estimates

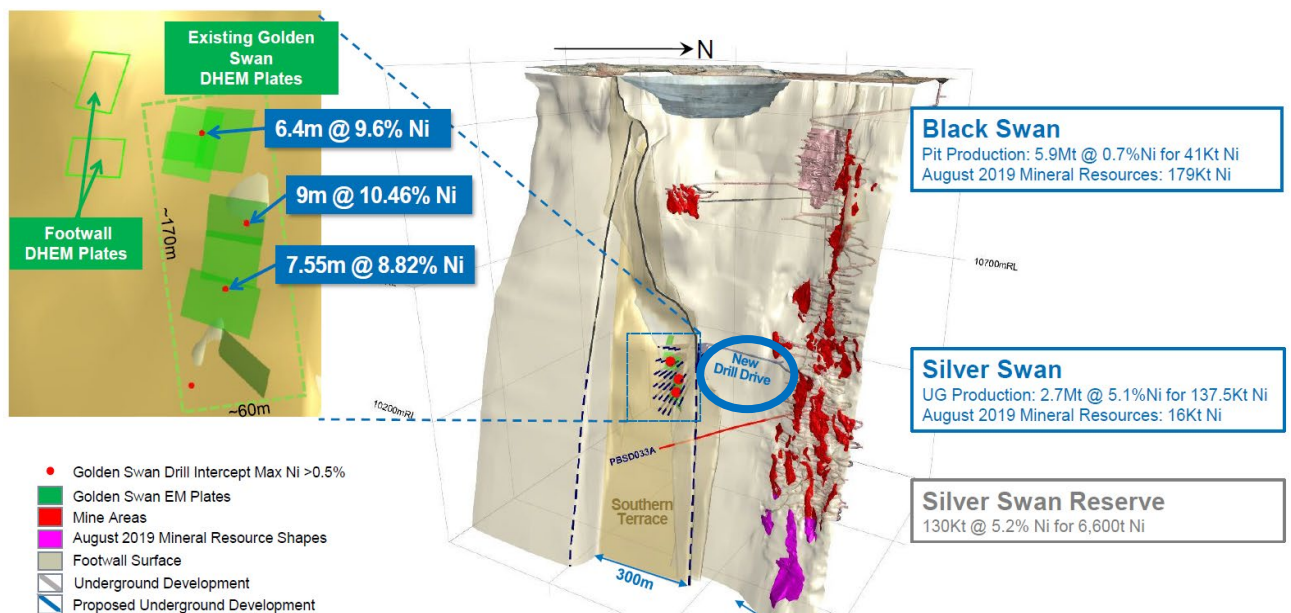
Golden Swan Drill Drive Complete – Optimal Drilling Position

The drill drive development at Golden Swan has been completed. The program included the establishment of two dedicated drill positions to facilitate resource definition drilling of the Golden Swan mineralisation. The drive commenced from the 450m level of the Silver Swan decline, including 421m of drive development and 44m of stockpile development. The structural integrity of the drive ensures that it is suitable to be used as a means of access for any future mining of the Golden Swan mineralisation.

The drill drive allows optimal drilling positions to be selected to undertake resource drilling of the Golden Swan mineralisation at Black Swan.

Additional rehabilitation works in the Silver Swan decline were completed to support the planned Silver Swan infill drilling program which is designed to convert more of the current Silver Swan Resource into Reserve classification. POS expects this drilling program will commence later this year or early in 2022, with the potential to add more high-grade Ni tonnes to the Black Swan mining inventory.

Exhibit 2 – Overview of the Black Swan Project



Source: POS.

Resource Drilling the Focus – Maiden Resource Set for Q3 CY2021

POS has in progress a 13,000m resource drilling program originating from the drill drive, with estimated completion in July 2021. This program aims to deliver a Maiden Resource from the Golden Swan mineralisation and will also allow POS to test for any potential extensions beneath and adjacent to the current discovery.

POS expects to report a Maiden Resource by Q3 CY2021.

Golden Swan Exploration – New Drill Drive Delivers Results

New Exploration and Resource Drilling

The Resource Definition drilling program commenced on the 28th of April 2021, intending to increase confidence in the continuity of the Golden Swan mineralisation. The aggressive exploration plan involves drilling of up to 57 holes for 13,000 metres. (Vs 6,599m to date).

There has been 6,599m of drilling completed to date and the first assays have returned a series of high-grade nickel intersections within the Golden Swan Trend. Key results from drilling include:

- 3.05 metres at 6.75% Ni
- 3.80 metres at 5.56% Ni
- 7.00 metres at 3.92% Ni
- 1.25 metres at 5.14% Ni
- 4.10 metres at 3.95% Ni
- 17.40 metres at 3.16% Ni including 3.4 metres at 8.18% Ni.

It is important to note that not all assays from the current drilling have been received and that there is still a further 6,400m to be drilled.

These high-grade results are very promising and show the potential of POS' maiden resource definition which is expected for Q3CY21. Additionally, POS have indicated that with drilling progressing rapidly, the resource definition plan should be completed ahead of schedule, allowing for a switch over to drill testing of the very prospective Southern Terrace.

Southern Terrace – More Potential Upside

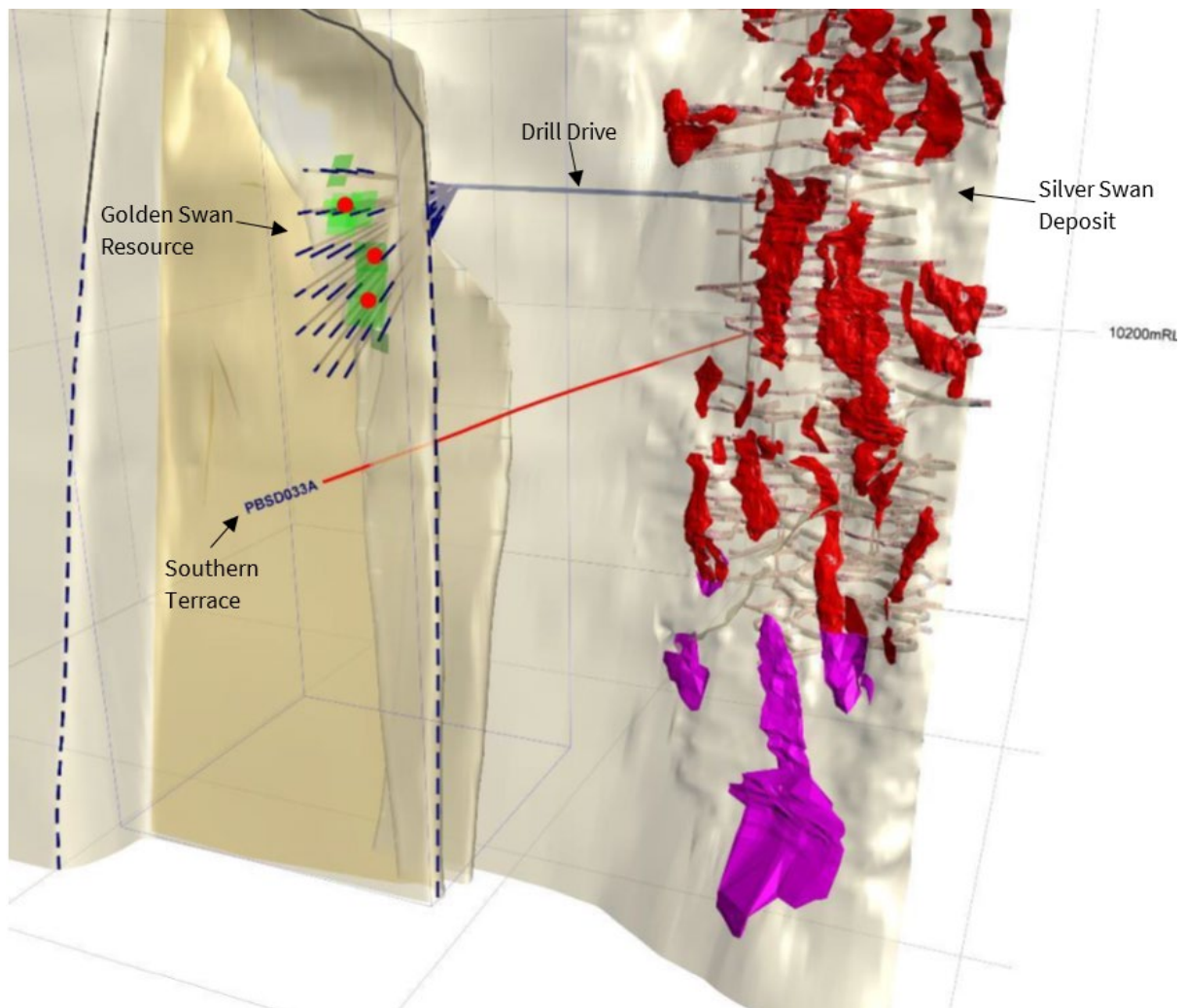
This highly prospective opportunity could host further undiscovered massive sulphide trends along its path and requires further testing. POS is setting up for further testing of the Southern Terrace once the Resource drilling is complete.

Outer holes to the Golden Swan trend are being drilled and cased with PVC to allow for future Down Hole Electro Magnetic (DHEM) surveys to test outside of the known mineralisation. DHEM surveys will be conducted in the next few weeks with follow up drilling, if new DHEM anomalies are detected.

Previous work on the Southern Terrace included drilling conducted to test the plunge extension of Golden Swan mineralisation from the Silver Swan Decline. Hole PBS033A passed just over the modelled Southern Terrace position, clipping the Southern Terrace felsic at its northernmost position. The hole finished at 602.8m (planned 800m). Additionally, the subsequent downhole electromagnetic survey (DHEM) survey did not return strong anomalies. POS decided not to continue the hole to its planned depth due to adverse ground conditions.

Exhibit 3 below shows the Golden Swan Resource drilling, the drill drive and the first Southern Terrace exploration hole.

Exhibit 3 – Detailed View of Golden Swan and Southern Terrace.



Source: POS.

Summary of Previous Golden Swan Drilling Results

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. 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.

Second drill hole discovery – identification of ‘Southern Terrace’

The second exploration hole for Golden Swan also returned extraordinarily 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.

Third drill hole discovery – further mineralisation in the Southern Terrace

The third discovery hole returned a result of **6.4m @ 9.60% Ni including 1.6m @ 14.89% Ni**, 50m and 120m up dip from the previous two successful results.

Exhibit 4 – Golden Swan drilling summary

Hole Id	Geology	Metres From	Metres To	Interval True	Width	Ni %	Cu %	Co ppm	As ppm
PBSD0029A	Massive + Stringer Sulphides	740.2	747.75	7.55	4.3	8.82	0.68	1633	425
Including	Massive Sulphides	743.65	747.75	2.1	1.2	15.86	0.52	2819	445
PBSD0029A	Matrix Sulphides	761.55	762.45	0.9	0.5	6.52	2.04	1750	700
PBSD0029A	Matrix Sulphides	810.6	811.55	0.95	0.4	1.5	0.06	346	73
PBSD0030B	Massive + Stringer Sulphides	691.94	700.94	9	4.5	10.46	0.47	2022	118
Including	Massive Sulphides	691.94	696.5	4.56	2.3	13.81	0.41	2769	50
Including	Massive Sulphides	700.2	700.94	0.74	0.4	17.35	1.24	2400	50
PBSD0030C	Stringer Sulphides	669.8	672.5	0.5	0.25	2.47	0.73	700	50
PBSD0030C	Semi-Massive Sulphides	692.45	693	0.55	0.3	10.04	0.4	2150	700
PBSD0029D	Massive + Net-textured Sulphides	656.35	662.75	6.4	3.7	9.6	0.59	1455	558
Including	Massive Sulphides	656.35	657.95	1.6	0.9	14.89	0.65	2250	428

Source: POS.

What's Next at Golden Swan?

With the drill drive completed, POS has set a firm path to first production from Golden Swan in CY2022.

Resource Definition – Q3 CY2021

The resource definition is a key step towards production. The size and grade of the Golden Swan deposit will be defined and will allow POS to work towards defining a detailed mine plan and a subsequent Reserve for commercial mining.

Met Test Work – Q3 CY2021

POS has conducted preliminary metallurgical testing on Golden Swan Ore. The testing was to determine the quality of the Ni concentrate that would be produced as well as its metallurgical properties. The results were achieved using a conventional flotation process.

Key findings of the test work included:

- Ni recovery > 90%
- Ni grade >13% in concentrate
- negligible arsenic in concentrate
- attractive Fe:MgO ratio (>50:1)

Further extensive metallurgical testing will be conducted on a larger sample of ore to ensure that it can be highly amenable to conventional sulphide flotation techniques, yielding high Ni recoveries and saleable grade Ni concentrate.

Detailed Mine Design and Reserve Definition – Q3 CY2021

POS will conduct a study on detailed mine plans, processing, metallurgical, economic, and other relevant factors that demonstrate that economic extraction of the ore can be justified. A Reserve refers to the economically mineable part of a Measured or Indicated Mineral Resource.

Production and Marketing Study: Concentrator v DSO – Q4 CY2021

1. Concentrate



2. Ore Treatment Concentrate Purchase Agreement (OTCPA)



3. Direct Shipped Ore (DSO)



Concentrator study

Prior to the discovery of Golden Swan, POS had conducted a study into restarting the Black Swan Concentrator and completed a feasibility study (FS) in July 2018, assessing the potential restart of the Silver Swan underground, Black Swan open pit mine and processing plant at Black Swan.

The study was initiated to update previously completed studies and included an analysis of the geological model, resource model, geotechnical studies, a re-design of the mining methodologies used for the orebody and an analysis of the necessary work required to restart the process plant and infrastructure.

Findings of the FS: The FS found that the project's Resource and Reserve support a 3.5-year project, producing ~7,500t of Ni concentrate pa. The FS determined that the operations can be restarted quickly (within 12 months of project authorisation) when the Ni price is consistently above US\$8.00/lb and processing 1mtpa.

Estimated costs of the project from the FS:

- Development capital cost of A\$30m, working capital of A\$25m.
- C1 cash cost of US\$3.18/lb: operating cash costs including mining, processing, geology, OHSE, site G&A, concentrate transport, royalties, less by-product credits divided by Ni in concentrate produced (100% payable basis)
- All-in sustaining cost of production (AISC) of US\$5.10/lb payable equivalent (C1 cash costs plus mine development and sustaining capital)
- Breakeven Ni price for the project (including capex): US\$5.91/lb.

Direct shipping ore (DSO)

POS has begun the study into DSO – selling the ore straight from the mine to a third party for processing into a concentrate and subsequent further refining.

DSO can be shipped via one of two methods. An Ore Treatment Processing Agreement, the ore is simply crushed before being on-sold to a processor, whereas with the second option ore is sorted and a higher-quality material is sold to the processor.

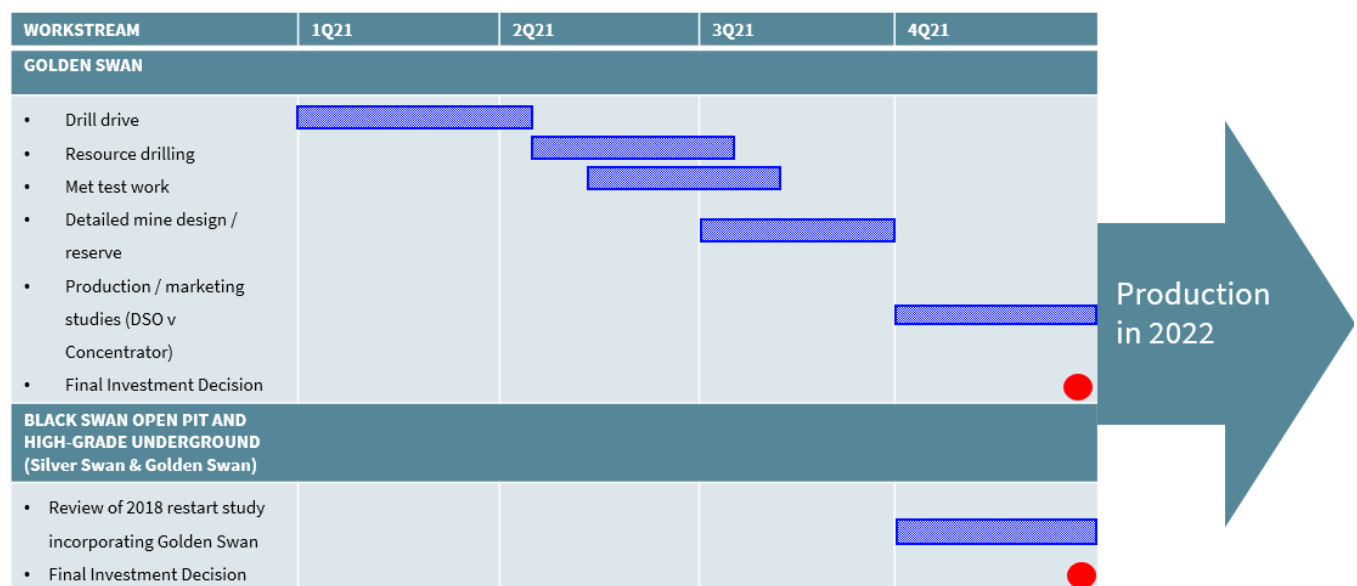
The DSO model represents a low-capital and low-cost option compared to restarting the concentrator.

POS will compare the two options prior to the end of CY2021.

Final Investment Decision (FID) – End of CY 2021

After deciding between the concentrator and DSO options, POS will reach the FID for the project. FID is the point where the company approves the project’s future development. The FID typically launches the execution phase of the project and is the beginning of engineering, procurement, and construction.

Exhibit 5 – Proposed timetable for the Black Swan Project



Source: POS.

The Ni Market – A Quick Update

Ni started the year at US\$7.50/lb, with strong performance in the opening months of 2021. Ni reached its year high of US\$8.90/lb on 24 February before a sharp decline and hitting a year low of US\$7.20/lb in April. The price recovered and is currently trading at \$US8.30/lb.

Short-term Ni Price Factors – Stainless Steel and Supply of Ni Pig Iron

The short-term Ni price will be driven by stainless steel demand with approximately 68% of the world’s Ni production used in this industry. This short-term demand is driven primarily by China. Short-term supply is highly influenced by Ni pig iron. In March, Tsingshan Holding Group (the world’s top stainless-steel producers) announced plans to produce Ni sulphate from Ni pig iron for EV batteries. This announcement saw a drop in the Ni price from a seven-year high of US\$8.90/lb on February 22 to US\$7.20/lb on March 30.

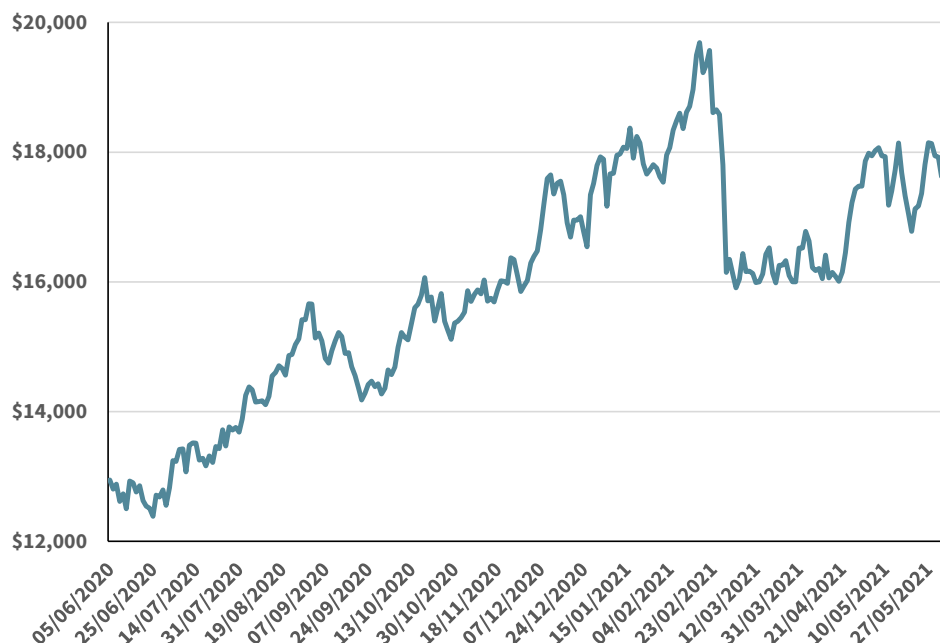
The low-grade characteristics of Ni pig iron restrict its use. Ni pig iron is considered a cheap and low-quality alternative used in the construction of basic materials. Ni’s high-grade qualities provide a clear competitive advantage for use in production.

Electric Vehicles Driving Medium- to Long-Term Demand

Over the medium to long term, Ni demand will be incrementally driven by the battery market off the back of electric vehicle (EV) demand. Recent shifts in legislation that favour EVs will likely result in a surge in demand for Ni units to be used in battery production. Despite the adverse conditions encountered in 2020, EV battery sales exceeded all expectations. 2020 saw EV batteries consume around 200,000 tonnes of Ni, with well over 300,000 expected this year.

The use of high-quality Ni in EV batteries represents a long-term driver for demand and upside to the Ni price. Battery manufacturers are now adopting battery chemistries with higher Ni content. Ni demand from the battery sector could account for as much as 25 percent of the total Ni market within the next decade. The Ni market is likely to encounter significant supply deficits over the next decade and prices are expected to rise to incentivise new production capacity. A recent announcement by Jaguar, outlining how the Land Rover-owned business will be all-electric by 2025, demonstrates the scale growth Ni will likely encounter in the near future. The UK’s goal to outlaw the sale of wholly petrol and diesel cars from 2030 is an indication of where the global motor vehicle industry is heading and will drive Ni demand.

Exhibit 6 – Ni price chart: 1 Year (US\$/T)



Source: FactSet.

Valuation: Golden Swan the Key to Further Upside – Valuation A\$0.18

Valuation of Black Swan: Concentrator Option – Upside Potential from DSO

Our current valuation is based on POS adopting the concentrator model. We do however include some Golden Swan ore in the concentrator model as a lift to overall grade and a reduction of operating costs.

We have not included a DSO option in our valuation at this stage as there is no Resource defined and we cannot legitimately estimate the potential production or cost structure for a DSO option at this early stage.

Upon definition of a Resource, and with an understanding of potential volumes and grades, **we consider there is potential substantial upside to our valuation if the DSO option proceeds.**

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 Ni 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 any value to it. We see a number of potential scenarios for share price upside driven primarily by exploration success.

Exhibit 7 – Valuation summary

VALUATION	A\$m	EQUITY VALUE A\$/SHARE FULLY DILUTED	Valuation Methodology	% OF ENTERPRISE VALUE
Equity Valuation of Black Swan	\$393.0	\$0.13	Risked NPV	73%
Equity Valuation of Lake Johnston	\$74.0	\$0.03	Risked NPV	14%
Equity Valuation of Windarra Gold	\$37.5	\$0.01	Risked NPV	7%
Equity Valuation of Windarra Nickel	\$35.3	\$0.01	EV/Resource plus Exploration	7%
EQUITY VALUE	\$539.8	\$0.18		100%
Add: Cash	\$15.4	\$0.01	Cash at 31/03/2021	
EQUITY VALUE PRE SG&A	\$555.2	\$0.19		
SG&A	-\$15.2	-\$0.01	NPV of Corporate Costs	
EQUITY VALUE	\$540.0	\$0.18		

Source: MST estimates.

The current inputs into our Black Swan model are as follows:

- **Operating costs:** Our cost estimates are US\$2.80/lb in the first two years of operations and US\$2.75/lb from the third year of operation.
- **Ni grade:** Our overall average Ni grade for the Black Swan project has been lifted reflecting a greater contribution from Golden Swan.
- **Ni price assumptions:** We believe 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\$6.00/lb for the first two years, increasing at 5% per annum onwards. Current Ni prices are US\$8.00/lb, substantially higher than our current forecast.
- **Project timing:** Our start time for the project is H1FY2023. We have assumed the majority of the capex in FY2022 and the remainder in FY2023.

Core Assumptions in our Valuation

Exhibit 8 -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.

Spot Price Valuation of A\$0.29

Our spot price valuation is A\$0.29 per share using an A\$/US\$ exchange rate of 0.77, a Ni price of US\$8.30/lb and a gold price of US\$1877/oz.

Positive Catalysts for the Share Price

Key drivers of share price upside

Golden Swan/Southern Terrace exploration

The Golden Swan prospect is a potential high-grade Ni deposit. Continued exploration success at Golden Swan could enhance the project and add significant valuation upside.

Resource definition

The resource definition is a key step towards production and represents a major milestone for POS. Size and grade of the deposit will be broadly defined off this announcement.

Met test work

POS has conducted preliminary metallurgical testing on Golden Swan ore. Further testing will show the quality of the ore and the potential for it to be accepted by buyers.

Detailed mine design and reserve definition

POS will conduct a study on detailed mine plans, processing, metallurgical, economic, and other relevant factors that demonstrate that economic extraction of the ore can be justified. This is a significant step towards the approval of the project.

Production and marketing study – concentrator v DSO and FID

The results of this study will determine the production path for POS and will be a key catalyst for the stock.

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 Ni

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

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 would be a positive indication of the Ni market's acceptance of 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/Southern Terrace 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.

Delay in resource definition

The resource definition is a key step towards production and represents a major milestone for POS. Any delay or deferment of this would be a negative for the stock.

Poor results from met test work

POS has conducted preliminary metallurgical testing on Golden Swan ore. Poor-quality results would decrease the possibility of a buyer adopting a DSO model with POS.

Delays or discontinuation of detailed mine design and reserve definition

As a key step in the process to production, any delay to this would be a negative for the stock.

Production and marketing study – concentrator v DSO and FID

Delay to FID for the project would be a major negative to POS's valuation and stock price.

Extended period of low Ni prices

As the key driver of POS's valuation, Ni prices are the key to its 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 Ni/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 increases could nonetheless be negative to stock sentiment.

Operating cost increases

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

Appreciating A\$ vs US\$

An increasing A\$ against the US\$ would lead 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 as at 31 March 2021 of A\$15.4m. We assume the cash will be utilised to fund further exploration, resource definition drilling, production, and marketing studies, mine planning and reserve definition and the DSO vs concentrator FID.

Black Swan Funding and Equity

We have assumed the Black Swan project is funded predominantly by debt.

The DSO programme and / or the concentrator option could be funded in a number of ways:

- project / bank finance
- pre-sale agreement
- trader / customer finance

We have assumed a small equity issue of \$10m (at current price) as part of the funding.

Windarra Gold Funding

The Windarra gold project could also be funded in a number of ways:

- project / debt financing
- funded by a gold loan, without a need to use any of the company's cash position
- partnership agreement, with partner taking a share in the project

Other Financials

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

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

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