

Spec. buy

Current Price \$0.078
Valuation \$0.091

Code: POS
Sector: Materials

* All figures in AUD unless stated otherwise

Shares on Issue (M):	2,809
Market Cap (\$M):	222
- fully diluted (\$M)	223
Net cash (\$M Mar 2021)	15
Enterprise value (\$M):	207
52 wk High/Low (ps):	\$0.09 \$0.03
12m av. daily vol. (Mshs):	6.60

Key Metrics

	CY23e	CY24e	CY25e
P/E (x)	9.9	5.9	5.9
EV/EBITDA (x)	5.3	2.9	2.9

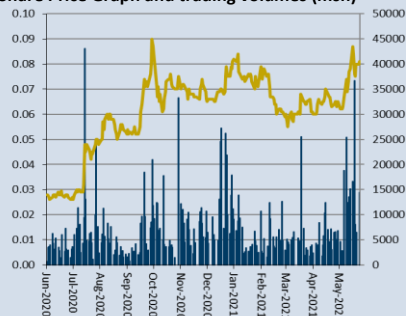
Financials:

	CY23e	CY24e	CY22e
Revenue (\$M)	68	129	129
EBIT (\$M)	32	54	54
NPAT (A\$M)	22	38	38
Net assets (\$M)	151	187	225
Op CF (\$M)	39	55	55

Per share data:

EPS (c)	0.8	1.3	1.3
Dividend (cps)	0.0	0.0	0.0
Yield (%)	-	-	-
CF/Share (cps)	1.4	1.9	2.0
Prod (tNi in concs)	4.5	9.0	9.0

Share Price Graph and trading volumes (msh)



Please refer to important disclosures at end of the report (from page 11)

Wednesday, 16 June 2021

Poseidon Nickel (POS)

In the swing

John Macdonald

Quick Read

Good apparent continuity of nickel sulphide mineralisation across the initial Golden Swan target zone in the early going. Nearby potential the next test.

Discovery and development

Close range drilling: The 450m long Golden Swan drill drive was completed in May 2021. Assays and interpretation from 25 holes drilled into the Southern Terrace were announced in June. Results have so far conformed to the geometry of the interpreted EM plates.

Ten assayed holes intersected massive nickel sulphide mineralisation and another two holes with observed nickel sulphides remain to be assayed. Assayed intervals (near true width) include;

- o PSGD001: 3m at 6.7%Ni
- o PSGD002: 4m at 5.6% Ni
- o PSGD003: 7m at 3.9% Ni
- o PSGD010: 11m at 3.2% Ni
- o PSGD011: 4m at 4.0% Ni
- o PSGD013: 17m at 3.2% Ni
- o PSGD016: 10m at 3.8% Ni, and 31m at 2.4% Ni
- o PSGD017: 1m at 14.5% Ni

The first ten assayed (true width) intervals obtained from the drill drive were lower tenor on average than the true widths of the three long range hole intercepts. All nickel sulphide intercepts to date are within the 60m wide subvertical corridor initially outlined by the EM plates, excepting 0.7m at 1.4% Ni intersected in PSGD008. The separation between upper and lower intercepts (holes PGS012 and PGS025) is at 170m and the up plunge and down plunge limits are open – beyond the interpreted plate boundaries.

Mapping of the Black Swan flow unit shows an irregular contact and potential for more mineralised embayments in the Golden Swan position on the contact. Outer holes in the initial program are being cased for downhole EM to search for new lodes.

Our perspective of the upside surrounding Golden Swan are unchanged for the moment. The new EM survey vantage points provide the next test of nearby potential.

Recommendation

Golden Swan remains both a short term cash generation story and a potential stepping-stone to a bigger play. 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	\$0.078
Valuation	\$0.091

Sector	Metals & Mining
Issued Capital (M)	2,809
Market Cap (M)	\$219
	Wednesday, 16 June 2021

Profit & loss (\$M) 30 June	2021E	2022E	2023E	2024E
Sales Revenue	0	0	68	129
+ 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	39	72
- margin	0%	0%	57%	56%
- D&A	0	0	-7	-18
EBIT	-12	-8	32	54
+ Finance Income/Expense	0	0	0	0
PBT	-12	-8	32	54
- Tax expense	2	2	-10	-16
- Impairments and other	0	0	0	0
NPAT	-9	-6	22	38

Cash flow (\$M)	2021E	2022E	2023E	2024E
+ Revenue	0	0	68	129
- 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	39	55
- 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	8	30

Balance sheet	2021E	2022E	2023E	2024E
Cash	18	0	8	38
Other Current Assets	6	6	6	6
Total current assets	24	6	14	44
Property, plant & equip.	50	60	84	91
Exploration	75	75	75	75
Total non-curr. assets	125	135	159	166
Total assets	149	141	173	210
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	151	187

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	4.80	4.80
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	4691	5383
Sustaining capital (\$M)	0	0	0	0
All in sustaining costs (A\$/t)	0	0	5373	6026
Growth capital (\$M)				
CAIC (\$M)	12	18	60	100
CAIC (A\$/t Ni)				11031

Price assumptions	2021E	2022E	2023E	2024E
AUDUSD	0.75	0.75	0.75	0.75
Nickel US\$/lb	7.39	7.94	7.94	7.48
Nickel US\$/t	16296	17495	17495	16495
Nickel A\$/lb	9.89	10.58	10.58	9.98

Financial metrics		2021E	2022E	2023E	2024E
GCFPS	AC	-0.4	-0.3	1.4	1.9
CFR	X	0.0	0.0	5.6	4.0
EPS	AC	-0.3	-0.2	0.8	1.3
PER	X	0.0	0.0	9.8	5.8
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%	20.1%	32.6%
ROE		-8.1%	-6.1%	21.2%	28.9%
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	0.75	0.75	0.75	0.75
Nickel US\$/lb	7.39	7.94	7.94	7.48
Nickel US\$/t	16296	17495	17495	16495
Nickel A\$/lb	9.89	10.58	10.58	9.98

Valuation summary	A\$M	A\$/sh
Golden Swan, Silver Swan	176	0.06
Windarra	20	0.01
Lake Johnston	30	0.01
Exploration, all sites	57	0.02
Corporate overheads	-42	-0.01
Cash and bullion	15	0.01
Debt	0	0.00
Tax benefit	0	0.00
Option/equity dilution	0	0.00
NAV	256	0.091

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	1.5	4.80	0.7
Golden & Silver Swan underground	1.5	4.80	0.7

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.

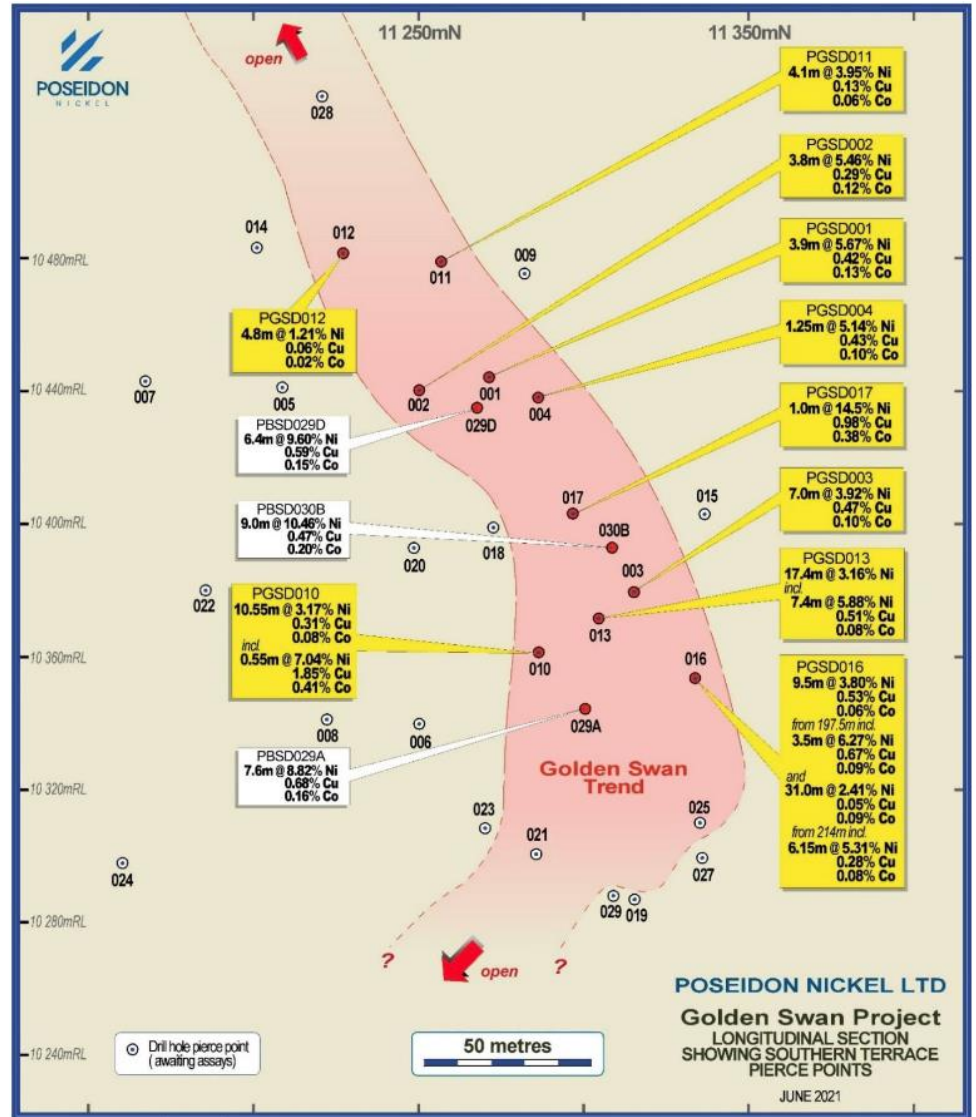
Golden Swan

In 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 was completed in May 2021. Assays and interpretation from the 24 holes drilled into the Southern Terrace were announced in June.

Ten assayed holes intersected massive nickel sulphide mineralisation and another two holes with observed nickel sulphides remain to be assayed. Assayed intervals include;

- o PSGD001: 3m at 6.7%Ni
- o PSGD002: 4m at 5.6% Ni
- o PSGD003: 7m at 3.9% Ni
- o PSGD004: 1m at 5.1% Ni
- o PSGD011: 4m at 4.0% Ni
- o PSGD013: 17m at 3.2% Ni
- o PSGD010: 11m at 3.2% Ni
- o PSGD016: 10m at 3.8% Ni, and 31m at 2.4% Ni
- o PSGD017: 1m at 14.5% Ni

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

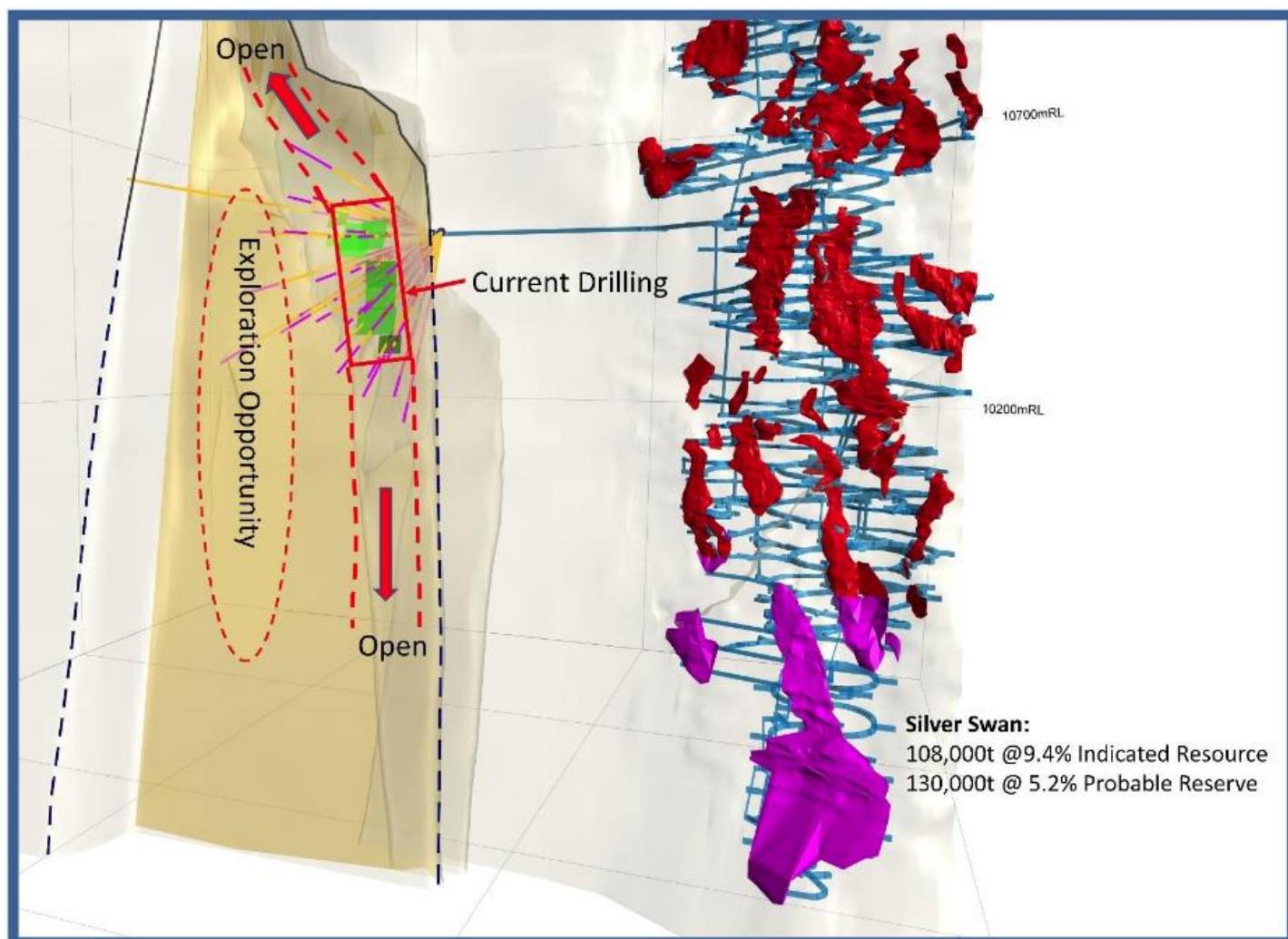


Source: Poseidon Nickel

Poseidon’s initial drilling, which includes observation of unassayed core, conforms broadly with the interpreted 60m wide, 170m high EM plate interpretation, although the up and down plunge extents are not yet closed off. The uppermost intercepts are outside the EM plates, and further drilling in this area is in progress. Mapping of the Black Swan flow unit shows an irregular contact and potential for more embayments in the Golden Swan position. Outer holes in the initial program are being cased for downhole EM to search for new lodes.

Compared to the three discovery holes drilled from long range, assay intervals drilled from the drill drive were generally lower tenor over true widths, except for two encouraging intervals (15m at 3.2% Ni and 26m at 2.4% Ni).

Fig. 2: Schematic section showing Silver Swan and Golden Swan locations and key elements. Surface is about 11400m RL.



Source: Poseidon Nickel

Golden Swan in context

Based on simple geometry and subject to further drilling, Argonaut expects the 170m by 60m EM plate space to contain between 120-200kt at 4-5% Ni extractable (5-10kt contained Ni).

Perspectives of the upside are unchanged for the moment. The new EM survey vantage points will be the next test of nearby potential at Golden Swan. At this stage the Company 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) in the southern terrace. 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 amend our target to 1Mt at 4.6% extractable (46kt contained nickel) on the Southern Terrace between 500 and 1200m depth. Previously, we had 1Mt at 5% Ni (50kt contained Ni).

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 4.7% 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%.
- LT 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. 3: Poseidon Nickel resource estimates, June 2020

PROJECT Resource (compliance)	CutOff grade	INDICATED		INFERRED		TOTAL	
		Tonnes kt	Grade Ni%	Tonnes kt	Grade Ni%	Tonnes kt	Grade Ni%
BLACK SWAN PROJECT							
Black Swan (2012)	0.4%	9,600	0.7	64,900	21,100	0.5	113,800
Silver Swan (2012)	4.5%	108	9.4	10,130	61	9.7	5,900
LAKE JOHNSTON PROJECT							
Maggie Hays (2012)	0.8%	2,600	1.6	41,900	900	1.2	10,100
WINDARRA PROJECT							
Mt Windarra (2012)	0.9%	922	1.6	14,500	3,436	1.7	57,500
South Windarra (2004)	0.8%	772	1.0	7,500			772
Cerberus (2004)	0.8%	2,773	1.3	34,600	1,778	1.9	34,000
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. 4: Poseidon Nickel board and management holdings, 2021

	Position	Opts M	Perf. rights M	Shares M	Exposure 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 March 2020, Poseidon had \$15M 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. 5: Cash flow statements, FY2019-March 2021, all figures A\$M

Year to June 30	2019	2020	SeptQ'20	DecQ'20	MarQ'21
P'ments to supp's & empl's	-10.2	-12.0	-3.5	-2.4	-2.1
Interest received	0.6	1.4	0.2	0.0	0.0
Sundry income	0.1	0.6			
Cash from ops	-9.5	-10.0	-3.4	-2.4	-2.1
Plant, prop., equipment	-0.2	-0.1	0.0	0.0	-0.1
Exploration	-2.2	-3.1	-1.4	-2.1	-2.4
GST					
Cash from Investing	-2.4	-3.3	-1.4	-2.1	-2.5
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	0.0
Cash at start	2.0	60.0	45.1	15.2	20.1
Change	58.0	-14.9	-29.8	4.9	-4.6
Cash at end	60.0	45.1	15.2	20.1	15.5

Source: Poseidon Nickel ASX announcements

Peer comparison table

Fig. 6: Selected ASX nickel focused companies, March 2021

Company	Security	Last cps	Iss shs M	Mkt cap \$M	2021 prodn kt Ni	Latest M&I Resrc kt Ni	Latest Reserve kt Ni	Net cash Mar'21 \$M	EV \$M	Dormant concentrator capacity ktpa
Western Areas	WSA	2.55	322	820	15	770	291	153	667	900
Mincor	MCR	1.00	432	432		169	71	77	355	
Legend Mining	LEG	0.13	2755	344				31	313	
Panoramic	PAN	0.16	2051	328		164	102	24	304	1000
Centaurus	CTM	0.72	334	238		223		24	214	
Poseidon Nickel	POS	0.077	2809	216		130	28	15	201	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 6. 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. 7: Valuation summary

Valuation summary	A\$M	A\$/sh
Golden Swan, Silver Swan	176	0.06
Windarra	20	0.01
Lake Johnston	30	0.01
Exploration, all sites	57	0.02
Corporate overheads	-42	-0.01
Cash and bullion	15	0.01
Debt	0	0.00
Tax benefit	0	0.00
Option/equity dilution	0	0.00
NAV	256	0.091

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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Important Disclosure

Argonaut participated in the Placement to raise \$10M in December 2020 and will receive fees commensurate with this service.

Information Disclosure

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