

More Options Appear: Revenue Generation by 2nd Half CY22; EV and Nickel Story Gains Momentum

As part of Poseidon Nickel's (POS) Black Swan Project, the Golden Swan discovery continues to deliver high-grade nickel (Ni) intersections. Recent studies on refurbishment of Black Swan present POS with several capital-efficient options to commence production in CY2022. Ni continues to evolve as part of the EV story. A recent deal for BHP to supply Ni to Tesla confirmed the importance of Ni within the EV market supply chain.

Golden Swan Exploration Continues to Deliver

The Resource definition drilling has been completed with 60 holes drilled for a total of 15,968m, and demonstrates high-grade Ni continuity within the trend. POS expects to report a Maiden Resource by Q3 CY2021.

Black Swan Refurbishment – Presents Options

The Black Swan project presents a number of options to POS to process the ore, including direct shipping ore (DSO), processing high-grade ores into concentrate and processing low-grade ores into concentrate. A recent review of the cost to refurbish both the high-and low-grade plants at Black Swan has proved very promising, with both capex and time to refurbish at the low end of expectations. After deciding between the concentrator and DSO options, POS will reach the final investment decision for the project, planned for end of CY21.

BHP and Tesla – A Strong Sign for Nickel and POS

BHP has agreed a long-term supply contract with Tesla for some 18,000 tonnes of Ni per year. Tesla has acted early to secure significant volumes of Ni to fuel its lithium-ion battery demand, with an estimated 50% of Tesla's battery chemistry to be high-Ni cathode. Golden Swan Ni is high-grade and low-impurity Ni and could potentially form an important part of the EV market supply chain.

Windarra Gold – Further Cash-Generating Option

Windarra Gold Tailings could produce approximately 55koz gold. It presents a project which could generate positive cash flows to be invested into the Ni business and be ideal for a partnership-style arrangement or an outright sale.

\$22m Placement – Hitting the Accelerator

POS raised \$22m from an oversubscribed placement (and will also conduct a \$3m Share Purchase Plan). The funds will accelerate the drilling at Golden Swan and Southern Terrace, facilitate drilling to convert additional Silver Swan mineral resources to ore reserves, and allow mining and production studies to be completed at Black Swan. Funds will also be allocated to reviewing the exploration potential of the Lake Johnston and Windarra Ni projects.

Valuation A\$0.21 (Prior \$A0.18); Golden Swan the Key to Further Upside; Spot Valuation A\$0.28

Our valuation is based on the restart of Black Swan. Our valuation has increased based on an increased Ni price assumption. Exploration success, resource definition and the commencement of DSO / High Grade Concentrator at Golden Swan are the key drivers of upside.

Disappointing exploration results or delays to Golden Swan resource definition are 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 looking to deliver a Maiden Resource in Q3 CY2021.

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

Stock	ASX: POS
Price	A\$0.11
Market cap	A\$295m
Valuation (per share)	A\$0.21

Key investment highlights

Ongoing: Golden Swan Resource and Southern Terrace exploration drilling

Q3CY21: Golden Swan Maiden Resource

CY2022: Targeting production of high-grade Ni ore

POS share price – 1 year



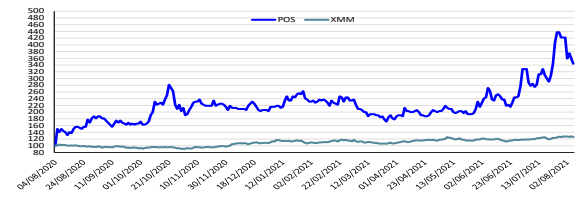
Source: FactSet.

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Exhibit 1 – POS company summary Year End 30 June

MARKET DATA	
Price	\$ 0.11
52 week high / low	\$ 0.14-0.05
Valuation (diluted)	\$ 0.21
Market Capitalisation	\$m 326.4
Enterprise Value	\$m 318.5
Shares on issue (basic)	m 3036.7
Options / Performance shares	m 0.0
Other equity (assumed issue FY2023)	m 90.9
Potential shares on issue (diluted)	m 3127.6

12 month Relative Performance versus S&P/ASX300 Metals and Mining



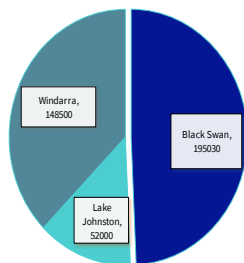
INVESTMENT FUNDAMENTALS	FY19A	FY20A	FY21E	FY22E	FY23E	
Reported NPAT	\$m (10.5)	(12.9)	(13.3)	(10.1)	48.0	
Underlying NPAT	\$m (10.5)	(12.9)	(13.3)	(10.1)	48.0	
EPS Reported (undiluted)	€ -0.35	-0.42	-0.44	-0.33	1.58	
EPS Underlying (undiluted)	€ -0.35	-0.42	-0.44	-0.33	1.58	
Underlying EPS growth	%	-22%	-4%	24%	-573%	
P/E Reported (undiluted)	x	n/m	n/m	n/m	6.8	
P/E Underlying (undiluted)	x	n/m	n/m	n/m	0.1	
Operating cash flow / share	€ (0.31)	(0.33)	(0.13)	(0.13)	2.25	
Price to operating cash flow	x	n/m	n/m	n/m	4.77	
Free cash flow	\$m (46.8)	21.7	(21.3)	(89.1)	8.4	
Free cash flow per share	€ (1.5)	0.7	(0.7)	(2.9)	0.3	
Price to free cash flow	x	n/m	15.0	n/m	38.7	
Free cash flow yield	%	-14.3%	6.7%	-6.5%	-27.3%	2.6%
Book value / share	€ 2.44	2.02	1.89	2.38	4.29	
Price to book (NAV)	x 4.4	5.3	5.7	4.5	2.5	
NTA / share	€	2.44	2.02	1.89	2.38	4.29
Price to NTA	x 4.4	5.3	5.7	4.5	2.5	
Year end shares	m	2,643	2,643	3,128	3,128	3,128
Market cap (Spot)	\$m 326.4	326.4	326.4	326.4	326.4	
Net debt / (cash)	\$m	(37.0)	(45.2)	(7.9)	59.4	47.0
Enterprise value	\$m 289	281	319	386	373	
EV/Sales	x	n/m	n/m	535.34	n/m	2.43
EV/EBITDA	x n/m	n/m	n/m	n/m	5.5	
EV/EBIT	x	n/m	n/m	n/m	n/m	6.93
Net debt / EV	x	-0.12	-0.14	-0.02	0.19	0.15
Gearing (net debt / EBITDA)	x n/m	n/m	n/m	-14.85	0.69	

PROFIT AND LOSS \$Am	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	-	-	0.6	-	153.9
COGS	-	-	-	-	(81.4)
Gross profit	-	-	0.6	-	72.5
Other income	0.4	0.5	-	-	-
Other operating costs	(10.4)	(12.4)	(11.4)	(4.0)	(4.1)
EBITDA	(10.0)	(11.9)	(10.8)	(4.0)	68.4
Depreciation & amortisation	(0.0)	(0.0)	(2.5)	(3.0)	(14.5)
EBIT	(10.0)	(11.9)	(13.2)	(7.0)	53.9
Interest	(0.5)	(1.0)	(0.1)	(3.2)	(5.9)
Tax	-	-	-	-	-
NPAT	(10.5)	(12.9)	(13.3)	(10.1)	48.0
Adjustments & Significant items	-	-	-	-	-
Underlying NPAT	(10.5)	(12.9)	(13.3)	(10.1)	48.0

BALANCE SHEET \$Am	FY19A	FY20A	FY21E	FY22E	FY23E
Cash at bank	60.1	45.2	7.9	5.7	55.1
Other assets	0.01	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	8.6	6.4	55.8
PP&E (with accumd dep)	24.7	24.6	22.4	84.6	125.1
Exploration and evaluation expenditure	60.9	65.7	76.6	96.6	101.6
Other assets	3.5	3.5	3.5	3.5	3.5
Non-current assets	89.2	93.8	102.5	184.7	230.2
Total Assets	150.6	139.7	111.0	191.0	286.0
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	-	-	65.1	102.1
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	113.4	150.3
Total Liabilities	76.5	78.4	53.7	118.8	155.8
Share Capital	228.8	228.8	238.2	263.2	273.2
Reserves	0.0	0.0	0.0	0.0	0.0
Accumulated losses	(154.7)	(167.5)	(180.9)	(191.0)	(143.1)
Total Equity	74.1	61.3	57.4	72.2	130.2

PRODUCTION AND PRICING	FY19A	FY20A	FY21E	FY22E	FY23E
Nickel Production tonnes					
Black Swan	-	-	-	-	8,250
Windarra Gold Production oz	-	-	-	-	6,777
AUD/USD	-	-	-	-	0.70
Price					
Nickel US\$/lb	-	-	-	-	7.00
Gold US\$/oz	-	-	-	-	1,800

Resources (t) by Asset Reserves



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

CASH FLOW \$Am	FY19A	FY20A	FY21E	FY22E	FY23E
Operating Revenue	-	-	0.6	-	153.9
Sundry receipts	0.1	0.6	-	-	-
Payments to suppliers and employees	(10.2)	(12.0)	(4.7)	(4.0)	(85.5)
Interest received	0.6	1.4	0.2	0.1	0.1
Tax Paid	-	-	-	-	-
Operating cash flow	(9.4)	(10.0)	(3.9)	(3.9)	68.4
Payments for PPE	(0.2)	(0.1)	(0.2)	(65.1)	(55.0)
Proceeds from sale of PPE	0.0	-	-	-	-
Exploration and evaluation expenditure	(2.2)	(3.1)	(17.2)	(20.0)	(5.0)
Payments for term deposits	(35.0)	35.0	-	-	-
Investing cash flow	(37.4)	31.7	(17.4)	(85.1)	(60.0)
Proceeds from the issue of shares	70.9	-	9.4	25.0	10.0
Proceeds (Repayments) borrowings	-	-	-	65.1	37.0
Repayment of borrowings	(0.0)	-	(25.1)	-	-
Interest paid	(1.0)	(1.7)	(0.3)	(3.3)	(6.0)
Financing cash flow	69.9	(1.7)	(16.0)	86.9	41.0
Net Increase/Decrease	23.1	20.1	(37.3)	(2.2)	49.4
Cash at Beginning Year	2.0	25.1	45.2	7.9	5.7
Final Cash Balance	25.1	45.2	7.9	5.7	55.1

Source: POS / MST Estimates

Golden Swan Exploration Success – Maiden Resource Set for Q3 CY2021

New Exploration and Resource Drilling: High-Grade Results Show Potential

The Resource definition drilling program commenced on 28 April 2021, intending to increase confidence in the continuity of the Golden Swan mineralisation. The programme completed on 31 July with 60 holes for 15,968m. There are a number of holes awaiting assay.

Exhibit 2 –Golden Swan drilling results – significant nickel intersections at strong grades

Hole ID	From (m)	Interval (m)	Ni%	Hole ID	From (m)	Interval (m)	Ni%
PGSD001	169.85	3.90	5.67	PGSD021	260.35	5.65	1.97
including	169.85	3.05	6.72	including	260.35	3.15	2.91
including	170.45	0.70	7.31	including	260.35	0.40	8.06
PGSD002	171.50	3.80	5.46	and	276.00	7.00	1.22
including	172.05	2.25	6.65	including	277.00	4.00	1.48
including	172.05	0.35	11.30	PGSD025	246.30	2.10	13.79
PGSD003	179.55	7.00	3.92	including	246.30	1.30	12.07
including	180.15	4.85	4.55	and	247.60	0.80	16.50
PGSD004	177.60	4.40	2.04	and	279.00	14.00	1.16
including	177.60	1.25	5.14	PGSD033	189.35	2.75	1.18
PGSD008	260.30	0.70	1.44	and	216.85	12.15	0.94
PGSD011	167.90	4.10	3.95	including	219.25	4.75	1.18
including	167.90	2.40	5.88	and	239.00	8.00	1.35
including	167.90	0.60	15.20	including	241.00	5.00	1.70
PGSD013	181.20	17.40	3.16	PGSD031	250.20	1.65	2.27
including	181.60	7.40	5.88	PGSD036	216.20	9.80	4.95
including	181.60	5.40	6.97	including	216.20	2.95	11.11
including	181.60	3.40	8.18	including	216.20	0.60	8.15
including	181.60	0.30	13.80	and	216.80	0.95	14.90
PGSD012	218.00	4.80	1.21	and	217.75	0.40	15.80
including	218.00	0.20	4.27	and	262.75	3.25	1.12
PGSD012	191.45	10.55	3.17	including	262.75	0.20	6.26
including	191.45	6.45	4.40	PGSD040	221.00	18.00	2.74
including	191.45	3.25	5.57	including	222.40	11.40	3.49
including	191.45	1.55	6.44	including	222.40	2.60	4.97
including	191.45	0.55	7.04	PGSD041	171.60	4.40	2.97
and	243.60	3.40	1.03	including	171.60	1.80	5.48
including	243.60	0.55	3.07	including	171.60	0.50	9.66
PGSD016	197.50	9.50	3.80	PGSD038	204.40	9.10	3.79
including	197.50	6.70	4.86	including	204.40	3.10	8.33
including	198.50	3.50	6.27	including	204.40	0.60	10.50
including	200.00	1.00	7.42	and	205.00	0.70	16.60
and	214.00	31.00	2.41	and	247.25	5.75	2.39
including	219.25	13.75	3.91	including	247.25	0.75	8.69
including	221.00	6.15	5.31	and	272.00	3.00	3.30
including	222.00	4.00	5.69	including	272.90	1.00	7.03
PGSD017	182.30	1.00	14.50	PGSD039	181.60	17.60	2.86
PGSD019	269.55	8.45	1.05	including	181.60	12.40	3.65
including	270.30	2.70	1.37	including	181.60	6.40	5.79
PGSD027	302.00	3.00	1.02	including	181.60	0.50	16.70
including	303.50	0.90	1.00	and	182.60	0.45	17.70
PGSD023	279.00	5.00	0.65	PGSD049	187.00	4.45	5.86
including	283.00	1.00	1.11	including	187.00	2.10	9.30
				including	187.00	0.90	15.00
				and	191.20	0.25	12.30

Source: POS.

These high-grade results are very promising and show the potential of POS' Maiden Resource definition.

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 now the Resource drilling is complete.

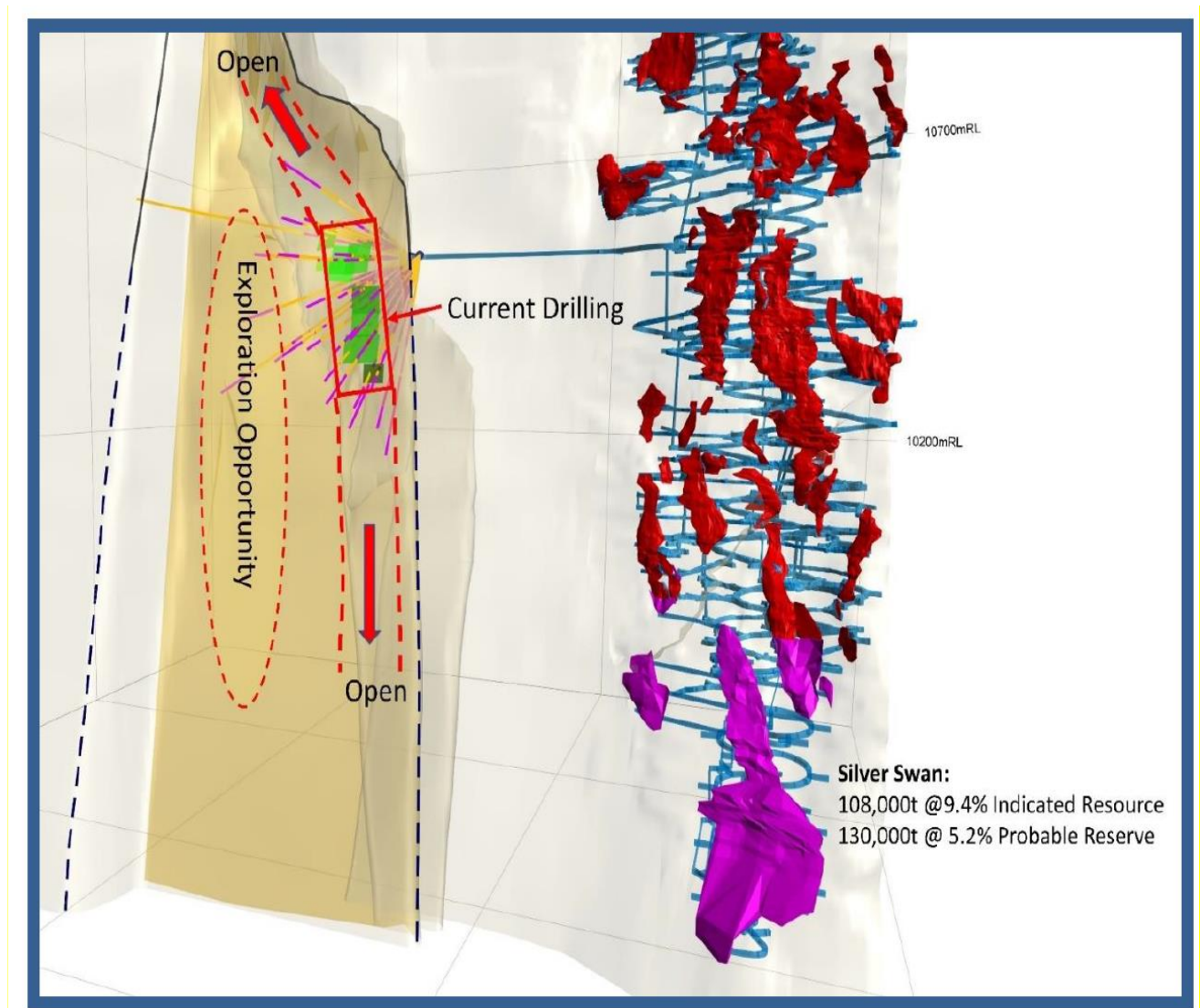
Maiden Resource After Drilling – Q3 CY2021

POS expects to report a Maiden Resource by end of Q3 CY2021.

Once the Maiden Resource is estimated, POS will conduct extensive metallurgical testing on a large 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.

POS will also 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.

Exhibit 3 – Detailed view of Golden Swan and Southern Terrace drilling and exploration opportunity



Source: POS.

Black Swan – Concentrator Capex and Opex Study Opens up Options

POS is studying the options available for Ni production from the Black Swan project and in particular high-grade ore. The two key options that POS is looking at are (1) concentrate and (2) direct shipping ore.

Exhibit 4 – Concentrate vs. direct shipping ore options

1. Concentrate



2. Direct shipping ore (DSO)



Source: MST Access.

Option 1: Concentrator Study – Opening Up Options to Higher Payability

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 feasibility study

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.

Scoping study post-FS to update refurbishment costs – Black Swan Low Grade Concentrator and Silver Swan High Grade Circuit

POS conducted a scoping study on the estimated capital cost for the refurbishment and operation of two processing plant configurations at Black Swan, looking specifically at:

- 150,000 tonne per annum (tpa) Silver Swan circuit for treating high-grade sulphide ore; and
- 1.1 million tpa Black Swan circuit for treating lower-grade open-pit disseminated ore and potentially ore from Windarra.

The results from the scoping study have demonstrated that refurbishment costs are relatively low and can be completed in a relatively short time (around six months). We had estimated a 12-month refurbishment time for Black Swan. The revised capital costs compare favourably with the original FS.

Three possible plant configurations are being considered:

- **150ktpa plant (the original Silver Swan high-grade circuit) with contract crushing:**
capex of A\$13.4m and opex of A\$91.60/tonne
- **150ktpa plant with the secondary and tertiary crusher refurbished:**
capex of A\$15.9m and opex of A\$79.09/tonne
- **1.1Mtpa plant (the original 2Mtpa Black Swan plant for treating low-grade disseminated open pit ore)**
derated to process 1.1Mtpa of lower-grade ore
capex of \$22m and opex of A\$29.39.

The original FS had the following parameters:

- 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.

Strong options created by scoping study

This creates strong optionality for POS allowing it to consider producing concentrate from high-grade resources like Silver Swan and potentially Golden Swan. The benefit of producing concentrate compared to selling ore would be the ability to obtain higher payability for the contained Ni and improve overall project economics.

In addition, with a strong Ni price environment, POS considers it timely to review mining and processing of the lower-grade Black Swan disseminated ore and potentially combine that feed with Windarra ore from Mt Windarra and/or Cerberus.

Option 2: Direct Shipping Ore (DSO) – Lower Cost but Lower Payability

POS has also 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.

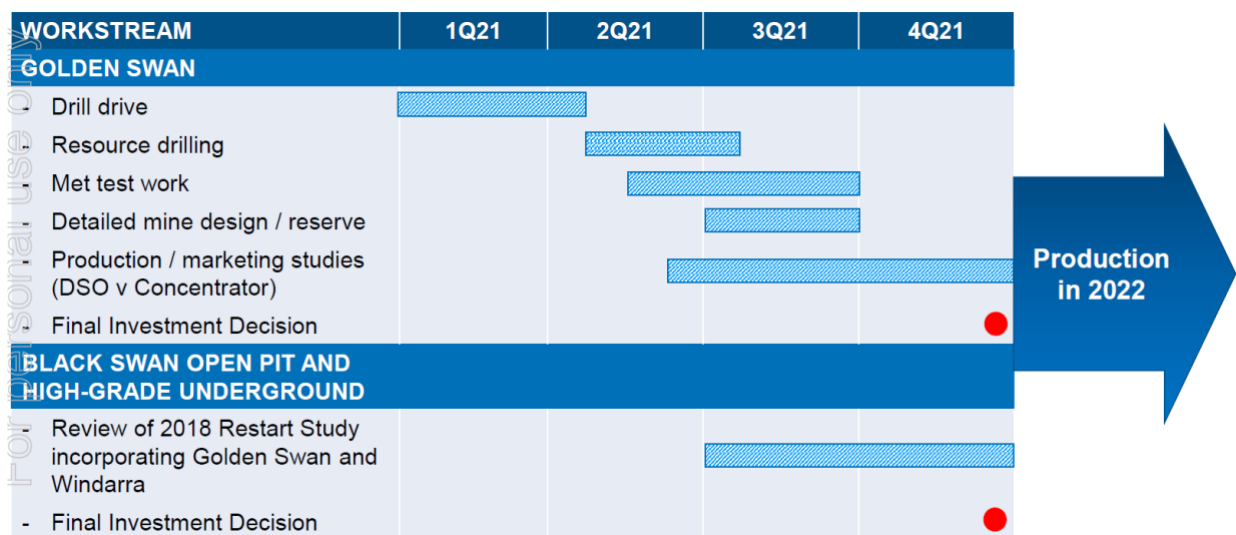
DSO can be shipped via one of two methods: (1) via an Ore Treatment Processing Agreement, whereby the ore is simply crushed before being on-sold to a processor; or (2) an arrangement whereby ore is sorted and a higher-quality material is sold to the processor.

The DSO model represents a lower-capital and lower-cost option compared to restarting the concentrator, but this is offset by lower payability than with producing a Ni concentrate. With DSO it is likely that POS would not benefit from by-product credits (copper and cobalt).

Final Investment Decision (FID) – End of CY2021

POS will compare the concentrator and DSO options prior to the end of CY2021. After deciding between the two options, POS will reach the FID for the project – the point at which 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 **RENEW**



Source: POS.

BHP and Tesla: EVs Need Nickel – A Potential Positive for POS

The BHP Deal with Tesla – A Sign of Nickel Demand to Come

BHP has announced that it will supply Tesla, one of the world's leading electric vehicle (EV) and energy storage producers, with Ni from BHP's Nickel West asset in Western Australia. BHP has agreed a long-term supply contract which we estimate is worth up to 18,000 tonnes of Ni per year starting in 2022. It adds to two more Ni supply deals that Tesla has looked to have secured with Prony Resources and Vale to lock up its expected demand from 2022 onwards.

In addition to the supply agreement, BHP and Tesla will collaborate on ways to make the battery supply chain more sustainable, with a focus on end-to-end raw material traceability using blockchain; technical exchange for battery raw materials production; and promotion of the importance of sustainability in the resources sector, including identifying partners who are most aligned with BHP and Tesla's principles. BHP will also collaborate with Tesla on energy storage solutions to identify opportunities to lower carbon emissions in their respective operations through increased use of renewable energy paired with battery storage.

BHP's Nickel West is a fully integrated mine-to-market Ni business. All Ni operations (open-cut and underground mines, concentrators, a smelter and refinery) are located in Western Australia. Nickel West's concentrator plant in Kambalda processes ore and concentrate purchased from third parties. A plant is nearing completion, and is in the final stages of commissioning at the Kwinana Nickel Refinery, which will produce nickel sulphate, a product used in the lithium-ion batteries that power EVs.

Tesla has acted early to secure significant volumes of Ni to fuel its lithium ion demand with cell partner LG Energy Solution (LGES) for vehicles produced in China in the near term, and its own upcoming lithium ion battery cell production in Austin, Texas and Berlin, Germany.

EV Battery Market to Be Key Driver of Ni Demand and Price Upside

Over the medium to long term, Ni demand will be incrementally driven by the battery market off the back of 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 economic 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 total Ni demand is around 2.4mt. Observing market commentary we see consensus that by 2030, battery-related demand for Ni will be around 1.7mt, or 35% of total forecast Ni demand.

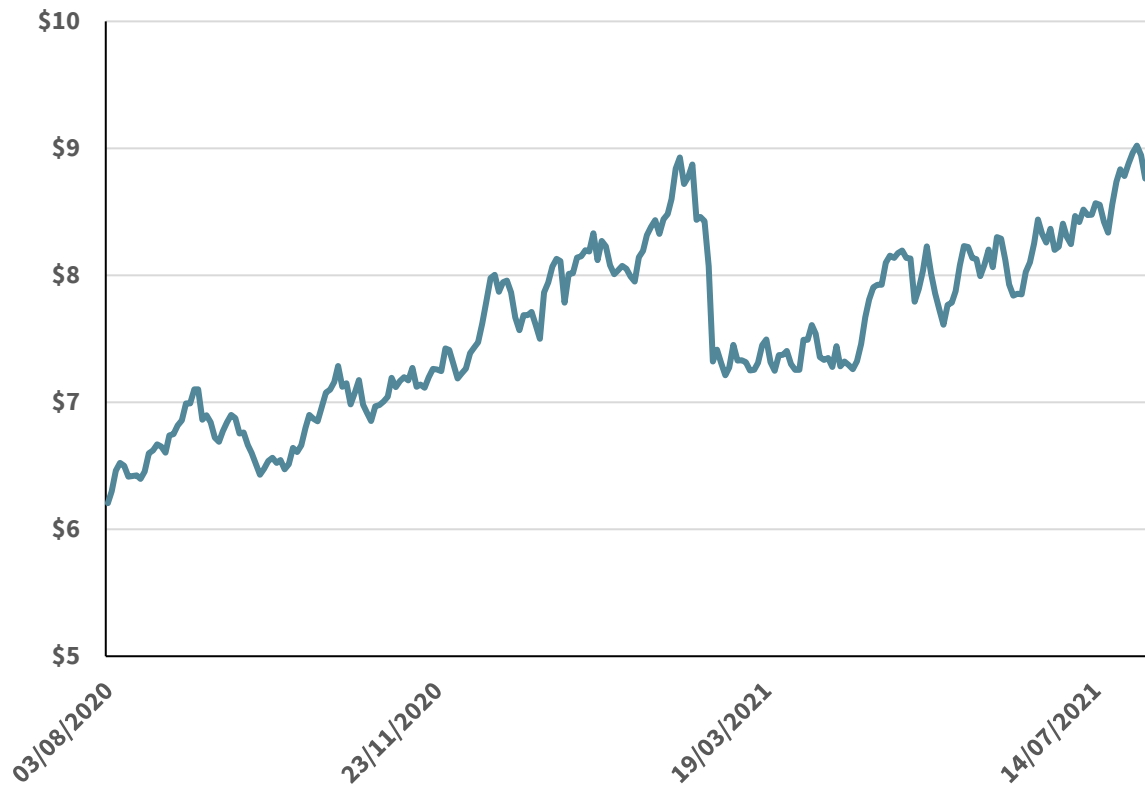
The use of high-quality Ni in EV batteries represents a long-term driver for demand and upside to the Ni price. Battery manufacturers are now adopting battery chemistries with higher Ni content. Ni demand from the battery sector could account for as much as 35% of the total Ni market within the next decade. The Ni market is likely to encounter significant supply deficits over this time and prices are expected to rise, incentivising 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 the forces which will drive Ni demand.

BHP's view on Ni supports this view, with its Chief Commercial Officer stating: 'Demand for nickel in batteries is estimated to grow by over 500 per cent over the next decade, in large part to support the world's rising demand for electric vehicles.' 85% of BHP's Ni is now sold to global battery material suppliers.

The Tesla deal can be seen positively for the WA Ni market in general, but also provides long-term impetus for BHP and other suppliers into the EV supply chain to acquire nickel sulphide concentrates from third parties.

The Golden Swan ore has been metallurgically tested and is high quality with few impurities; it potentially would be ideal for Nickel Ion batteries. There is also potential, given the developing demand for Ni in the battery market, that high-grade nickel sulphides destined for batteries will be subject to a price split from lower-grade nickels supplied to steel makers.

Exhibit 6 – Ni price chart: 1 year (US\$/pound)



Source: FactSet.

Windarra Gold Tailings Project – Further Cash-Generating Option

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.

POS has completed a DFS on the project with the key metrics as follows:

- Ore Reserve of 5.54–5.73Mt, subject to mining method, grading 0.84 g/t gold and 2.1 g/t silver for approximately 150koz of contained gold and 375koz of contained silver
- production of approximately 53.5–55.2koz gold over a 45-month period, utilising low-cost, low-risk tailings mining methods and a conventional 1.5Mtpa modular designed processing facility
- net operating cashflow of \$30.6m, net present value (NPV8) of \$21.7m and IRR of 50.6%, assuming gold price of US\$1,750/oz and exchange rate of A\$1.00 = US\$0.75
- all in sustaining cost (AISC) for the project of A\$1,393/oz
- capital cost of \$25.8–\$29.5m
- payback of 27–28 months from start of construction
- Environmental Approval for the project received, conditional upon receipt of an approved Mining Proposal within six months.

The Windarra gold tailings present a project that can generate positive cash flows to be invested into the Ni business. The project is ideal for a partnership-style arrangement or an outright sale and is an attractive cash-generating option for POS.

\$22m Placement and \$3m SPP – Hitting the Accelerator

POS is positioned strongly to establish production in CY2022. In order to achieve this, and to ensure that it could thoroughly explore all options available to produce Ni and build a high-grade Ni inventory, POS raised \$22m in an oversubscribed placement at an issue price of 11 cents per share. This price represented a 10% discount to the 10-day volume weighted average share price (VWAP) and an 18.5% discount to the last closing price before the trading halt.

Post placement, the company is very strongly positioned and has approximately \$27.0m in cash. The company is in the process of raising an additional \$3m in an SPP.

The capital raised will be utilised for:

- exploration drilling at Golden Swan to explore the Southern Terrace and parallel structures
- resource drilling at Silver Swan to convert existing mineral resources to ore reserves
- undertaking mining and production studies to consider the potential recommencement of operations at Black Swan
- reviewing exploration and development potential of Lake Johnston and Windarra
- drilling to immediately commence as the company sources additional drill rigs to further accelerate its proposed program of works.

Valuation: A\$0.21 vs Previous A\$0.18 – Increased Nickel Price Assumption - Golden Swan the Key to Further Upside

Black Swan Valuation: Black Swan Concentrator Option; Upside Potential from DSO or Refurbishment of High-Grade Concentrator

Our current valuation is based on POS adopting the Black Swan low grade concentrator model. We have assumed extension of low grade mine life in this model. We have not included a DSO option/upgraded high-grade concentrator for Golden Swan in our valuation at this stage as there is no Resource defined and we cannot legitimately estimate the potential production or cost structure for such options at this early stage.

Upon definition of a Resource for Golden Swan, and with an understanding of potential volumes and grades, we consider **there is potential substantial upside to our valuation if the DSO or upgraded high grade concentrator option proceeds.**

We have upgraded our Ni price assumption from US\$6.00/lb to US\$7.00/lb. We consider the Ni market’s underlying fundamentals have improved strongly, driven by battery demand. We also consider that high-quality sulphide deposits, such as POS Black Swan, will attract a premium in the market going forward. The recent BHP/Tesla deal demonstrates the underlying demand for quality Ni.

We have also adjusted the share count to reflect the recent placement and planned SPP.

Valuation Methodology: SOTP

We value POS at A\$0.21. 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 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	EQUITY VALUE A\$/SHARE FULLY DILUTED	Previous Valuation	Valuation Methodology
Equity Valuation of Black Swan	\$0.16	\$0.13	Risked NPV
Equity Valuation of Lake Johnston	\$0.03	\$0.03	Risked NPV
Equity Valuation of Windarra Gold	\$0.01	\$0.01	Risked NPV
Equity Valuation of Windarra Nickel	\$0.01	\$0.01	EV/Resource plus Exploration
EQUITY VALUE PROJECTS	\$0.21	\$0.18	
Add: Cash	\$0.01	\$0.01	Cash after raising
EQUITY VALUE PRE SG&A	\$0.22	\$0.19	
SG&A	-\$0.01	-\$0.01	NPV of Corporate Costs
EQUITY VALUE	\$0.21	\$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 operations.
- **Ni price assumptions:** We believe that the Ni price will be strong over the next decade. We base this assumption on the demand from EVs and the subsequent pull through of demand for Ni to enhance battery life. We also acknowledge that the Nickel price is volatile and subject to short term swings. The current spot price is at a multi-year high of US\$8.50/lb, substantially higher than our current forecast. We have been deliberately conservative with our base price assumption in order to take into consideration this volatility and have used US\$7.00/lb for the first two years, increasing at 5% per annum onwards.
- **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. POS is aiming for production in CY2022.

Core Assumptions in our Valuation

Exhibit 8 - Core modelling assumptions

CORE ASSUMPTIONS	
Price and Currency	
AUD/ USD	0.70
Nickel Price US\$/lb	7.00
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
Depreciation Rate	10.00%
Taxation Rate	30%

Source: MST estimates.

Spot Price Valuation of A\$0.28

Our spot price valuation is A\$0.28per share using an A\$/US\$ exchange rate of 0.73, a Ni price of US\$8.50/lb and a gold price of US\$1,723/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 and Southern Terrace 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. We see both options as providing upside to the valuation.

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 and Southern Terrace 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 30 June 2021 of A\$7.9m. In July 2021 POS raised A\$22m through a placement at A\$0.11 per share. The company has a \$3m SPP in progress to raise a total of A\$25m. 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 further small equity issue of \$10m (at the current share 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 Nickel 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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