

Golden Swan Resource Adds High Grade Nickel Tonnes to “Fill the Mill” Strategy

POS has determined the most economically attractive production scenario is to refurbish the 1.1Mtpa processing Black Swan circuit and ‘fill the mill’ to maximise nickel (Ni) concentrate production. The recently announced Golden Swan (GS) Maiden Resource has added valuable high grade, easily mineable Ni tonnes to the total nickel inventory at Black Swan.

Golden Swan – Maiden Resource Adds High Grade Ni

The GS total Indicated and Inferred Resource is 160,000t @ 3.9% Ni for 6,250t contained Ni. Indicated Resource (can be converted into a reserve) is 111,600t @ 4.7% Ni for 5,200t contained Ni. The current indicated high grade resource at Silver Swan is 108,000t @ 9.4% for 10,130 contained Ni. GS has added 50% to the high grade indicated resource and is only 120m from the drill drive POS completed last year and so will be easily mineable.

Black Swan – Delivering Maximum Nickel

The high-grade resource is an important part of the Black Swan restart strategy as it can be blended with the low grade Black Swan Material to enhance quality, increase recovered nickel tonnes and lower unit costs. POS remains focused on commissioning the 1.1Mtpa capacity Black Swan concentrator in December 2022 as it presents an economically attractive option given the large resource available at Black Swan, the low capital cost and relatively short time required to refurbish the mill, higher levels of payability and a stronger Ni market driven by battery demand.

Silver Swan Drilling - Mixed but Encouraging

The Silver Swan (SS) current drilling programme is to infill drill the known resource to upgrade it and to look for extensions. Initial results have been mixed, with some high-grade intersections at Tundra Mute while Peking Duck showed no economic extension of the resource and appears to have been cut-off by a fault. Three holes drilled in Fledgling Canard have shown no mineralisation to date but will have further geophysics conducted on it.

Southern Terrace Exploration – No Luck So Far but More Work to be Done

Drilling and geophysics had been conducted in the prospective Southern Terrace however no mineralisation has been identified to date. POS remains confident there is prospectivity in the Southern terrace and has paused drilling to assess the current information and plan the next steps.

Valuation A\$0.22 (previous A\$0.21); Golden Swan Adds Value

We have reviewed our valuation as a result of the GS Maiden Resource. We have updated our Black Swan Mill production forecasts incorporating the high-grade GS resource (and the SS tailings announced previously) and have revised Opex and Capex. The resulting change in our estimates has increased our valuation to \$A0.22. We see further upside from SS resource infill and extensions as well as a revised Southern Terrace programme. Disappointing SS resource upgrade and infill results and further Southern Terrace exploration disappointment and delay to the “fill the mill” strategy are key risks.



Poseidon Nickel (POS) owns 100% of the Black Swan, Windarra and Lake Johnston nickel (Ni) assets located in Western Australia’s Goldfields Ni province. The Black Swan project is the focus for POS, with the high-grade Golden Swan and Silver Swan adding high grade Ni tonnes.

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

Stock	ASX: POS
Price	A\$0.086
Market cap	A\$264m
Valuation (per share)	A\$0.22

Next steps

Silver Swan Infill Drilling, Southern Terrace Next Exploration Phase

May 2022: Final Investment Decision (FID) for Black Swan Mill Upgrade

POS share price – 1 year



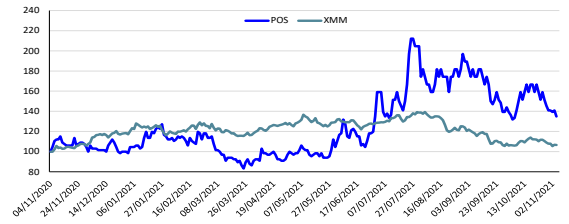
Source: FactSet.

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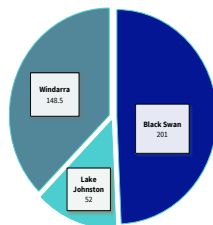
Exhibit 1 – POS company summary (year-end 30 June)
MARKET DATA 5 November 2021

Price	\$	0.09
52 week high / low	\$	0.14-0.05
Valuation (diluted)	\$	0.22
Market Capitalisation	\$m	263.5
Enterprise Value	\$m	256.1
Shares on issue (basic)	m	3064.0
Options / Performance shares	m	8.0
Other equity (assumed issue FY2023)	m	90.9
Potential shares on issue (diluted)	m	3162.9

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


INVESTMENT FUNDAMENTALS		FY21A	FY22E	FY23E	FY24E
Reported NPAT	\$m	(10.9)	(11.3)	16.3	45.9
Underlying NPAT	\$m	(10.9)	(11.3)	16.3	45.9
EPS Reported (undiluted)	¢	-0.36	-0.37	0.53	1.50
EPS Underlying (undiluted)	¢	-0.36	-0.37	0.53	1.50
Underlying EPS growth	%	15%	-4%	244%	-181%
P/E Reported (undiluted)	x	n/m	n/m	16.1	5.7
P/E Underlying (undiluted)	x	n/m	n/m	0.2	0.1
Operating cash flow / share	¢	(0.31)	(0.16)	1.14	2.35
Price to operating cash flow	x	n/m	n/m	7.55	3.66
Free cash flow	\$m	(21.4)	(93.9)	24.9	6.9
Free cash flow per share	¢	(0.7)	(3.1)	0.8	0.2
Price to free cash flow	x	n/m	n/m	10.6	38.0
Free cash flow yield	%	-8.1%	-35.6%	9.4%	2.6%
Book value / share	¢	1.96	2.51	3.37	4.86
Price to book (NAV)	x	4.4	3.4	2.6	1.8
NTA / share	¢	1.96	2.51	3.37	4.87
Price to NTA	x	4.4	3.4	2.6	1.8
Year end shares	m	2,809	3,064	3,155	0
Market cap (Spot)	\$m	263.5	263.5	263.5	263.5
Net debt / (cash)	\$m	(7.4)	62.0	30.8	29.6
Enterprise value	\$m	256	325	294	293
EV/Sales	x	346.99	n/m	3.21	1.72
EV/EBITDA	x	n/m	n/m	8.5	4.1
EV/EBIT	x	n/m	n/m	14.75	5.70
Net debt / EV	x	-0.03	0.24	0.12	0.12
Gearing (net debt / EBITDA)	x	n/m	-12.39	0.88	0.41

PRODUCTION AND PRICING	FY21A	FY22E	FY23E	FY24E
Nickel Production tonnes				
Black Swan	-	-	4,401	9,655
Windarra Gold Production oz	-	-	13,000	13,000
AUD/USD	-	-	0.70	0.70
Price				
Nickel US\$/lb	-	-	7.00	7.53
Gold US\$/oz	-	-	1,800	1,800

Resources (kt) by Asset


Nickel Sulphide Reserves	ORE RESERVE CATEGORY		
	PROBABLE		
Silver Swan Underground	130	5.2	6,800
Black Swan Open pit	3,370	0.63	21,500
Total	3,500	0.81	28,300

PROFIT AND LOSS \$Am	FY21A	FY22E	FY23E	FY24E
Sales	0.7	-	91.7	170.8
COGS	-	-	(51.7)	(93.8)
Gross profit	0.7	-	39.9	77.0
Other income	-	-	-	-
Other operating costs	(10.8)	(5.0)	(5.1)	(5.2)
EBITDA	(10.0)	(5.0)	34.8	71.8
Depreciation & amortisation	(0.4)	(3.0)	(14.9)	(20.4)
EBIT	(10.4)	(8.0)	20.0	51.4
Interest	(0.5)	(3.4)	(3.6)	(5.5)
Tax	-	-	-	-
NPAT	(10.9)	(11.3)	16.3	45.9
Adjustments & Significant items	-	-	-	-
Underlying NPAT	(10.9)	(11.3)	16.3	45.9

BALANCE SHEET \$Am	FY21A	FY22E	FY23E	FY24E
Cash at bank	7.9	7.0	24.4	66.8
Other assets	0.04	0.04	0.04	0.04
Receivables	0.9	0.9	0.9	0.9
Current assets	8.9	8.0	25.4	67.7
PP&E (with accumd dep)	24.6	90.6	80.8	120.4
Exploration and evaluation expenditure	87.4	107.4	112.4	117.5
Other assets	4.1	4.1	4.1	4.1
Non-current assets	116.1	202.2	197.3	242.0
Total Assets	125.0	210.1	222.6	309.8
Trade and Payables	2.6	2.6	2.6	2.6
Employee benefits	0.1	0.1	0.1	0.1
Provisions	3.5	3.5	3.5	3.5
Borrowings	0.1	0.1	0.1	0.1
Current liabilities	6.4	6.4	6.4	6.4
Loans and borrowings	0.5	69.0	55.2	96.4
Convertible note derivative	-	-	-	-
Provisions	57.9	57.9	57.9	57.9
Non-Current liabilities	58.4	126.9	113.1	154.3
Total Liabilities	64.8	133.3	119.5	160.7
Share Capital	238.3	266.3	276.3	276.3
Reserves	0.3	0.3	0.3	0.3
Accumulated losses	(178.5)	(189.8)	(173.5)	(127.6)
Total Equity	60.1	76.8	103.1	149.0

CASH FLOW \$Am	FY21A	FY22E	FY23E	FY24E
Operating Revenue	0.6	-	91.7	170.8
Sundry receipts	-	-	-	-
Payments to suppliers and employees	(10.3)	(5.0)	(56.8)	(99.0)
Interest received	0.2	0.1	0.1	0.2
Tax Paid	-	-	-	-
Operating cash flow	(9.5)	(4.9)	34.9	72.0
Payments for PPE	(0.2)	(69.0)	(5.0)	(60.0)
Proceeds from sale of PPE	-	-	-	-
Exploration and evaluation expenditure	(11.6)	(20.0)	(5.0)	(5.1)
Payments for term deposits	-	-	-	-
Investing cash flow	(11.9)	(89.0)	(10.0)	(65.1)
Proceeds from the issue of shares	9.5	28.0	10.0	-
Proceeds (Repayments) borrowings	(0.1)	68.5	(13.8)	41.2
Repayment of borrowings	(25.1)	-	-	-
Interest paid	(0.2)	(3.5)	(3.7)	(5.8)
Financing cash flow	(15.9)	93.0	(7.5)	35.4
Net Increase/Decrease	(37.3)	(0.9)	17.4	42.4
Cash at Beginning Year	45.2	7.9	7.0	24.4
Final Cash Balance	7.9	7.0	24.4	66.8

Source: POS, MST estimates.

Golden Swan Maiden Resource – High Grade Tonnes for “Fill the Mill”

The recently announced Golden Swan (GS) Maiden Resource has added valuable high grade, easily mineable Ni tonnes to the total nickel inventory at Black Swan and supports the ‘fill the mill’ strategy to refurbish the 1.1Mtpa processing Black Swan circuit and to maximise nickel (Ni) concentrate production.

Golden Swan Maiden Indicated Resource Increases High Grade Ni by 50%

The GS maiden Resource is Indicated and Inferred of 160,000t @ 3.9% Ni for 6,250t contained Ni. Indicated Resource (can be converted into a reserve) is 111,600t @ 4.7% Ni for 5,200t contained Ni.

The current indicated high grade resource at Silver Swan is 108,000t @ 9.4% for 10,130 contained Ni, GS has added 50% to the high grade indicated resource and ~40% to total Resource and is only 120m from the drill drive completed last year, and as a result will be easily mineable source of Ni.

Exhibit 2 – Golden Swan Maiden Resource

Nickel Sulphide Resources	Mineral Resource Category								
	INDICATED			INFERRED			TOTAL		
	Tonnes (Kt)	Ni% Grade	Ni Metal (t)	Tonnes (Kt)	Ni% Grade	Ni Metal (t)	Tonnes (Kt)	Ni% Grade	Ni Metal (t)
Contact	111.6	4.7	5,200	8.8	4.7	410	120.4	4.7	5,610
Hanging Wall	-	-	-	39.6	1.6	640	39.6	1.6	640
TOTAL	111.6	4.7	5,200	48.4	2.2	1,050	160.0	3.9	6,250

Source: POS.

Golden Swan – Is it as Good as Expected?

The GS Maiden resource of 6,250 contained Ni is a strong result.

Market expectations may have been as high as 10,000 tonnes of contained Ni to reflect a similar resource size to that of Silver Swan, however to put into perspective an increase of ~40% to a high grade Ni resource in order to supplement a large low grade resource is a net positive outcome for POS.

Golden Swan takes Black Swan Total Resource Over 200,000t of Contained Ni

With the addition of Golden Swan high-grade resource, the total Black Swan Ni Resource is now over 200kt of contained Ni.

The previous Black Swan Feasibility Study conducted in 2018 proposed 8,000tpa production of Ni from the Black Swan Concentrator. The current Resource would support a project life of 25 years based on that level of production.

Exhibit 3 – Black Swan Total Resource – Over 200kt Contained Ni

Nickel Sulphide Resources	Mineral Resource Category								
	INDICATED			INFERRED			TOTAL		
	Tonnes (Kt)	Ni% Grade	Ni Metal (t)	Tonnes (Kt)	Ni% Grade	Ni Metal (t)	Tonnes (Kt)	Ni% Grade	Ni Metal (t)
Black Swan	9,600	0.68	65,000	21,100	0.54	114,000	30,700	0.58	179,000
Silver Swan	108	9.4	10,130	61	9.7	5,900	168	9.5	16,030
Golden Swan	111.6	4.7	5,200	48.4	2.2	1,050	160	3.9	6,250
Silver Swan Tailings	-	-	-	-	-	-	674.9	0.92	6,201
TOTAL	9,820		80,330	21,209		120,950	31,703		207,481

Source: POS.

Black Swan – Delivering Maximum Nickel

High Grade Resource Adds Quality to Black Swan

The high- grade resource is an important part of the Black Swan restart strategy. The high grade ore from Silver Swan and Golden Swan can be used to blend with the lower grade Black Swan Ore. The blending of the ore has the potential to have a number of positive outcomes for the Black Swan Project:

- enhance concentrate quality - as the high grade ore contains less impurities than the low grade Black Swan Ore. Higher quality concentrates attract higher “payability” rates and are more in demand as they are used to blend with lower grade and higher impurity concentrates
- increase tonnes – adding higher grade increases the contained Nickel in the concentrate and the metallurgical recoveries are better
- lower costs – adding in higher grade ore increases total nickel contained and could lower the overall per unit cost of Ni.

Better Understanding of Black Swan Low Grade Resource to Further De-risk Black Swan Strategy

In order to further de-risk the Black Swan Fill the Mill strategy it is important to understand the distribution of the more metallurgically favourable mineralised serpentinite ore below the existing Black Swan open pit. The current Serpentinite Model was developed by a previous owner of Black Swan over 10 years ago, on limited information, and is not well defined.

Most of the Black Swan disseminated resource beneath the pit is in the Inferred Resource category.

One of the underground rigs is being redeployed to drill six holes to test the down plunge and north-south striking continuity of the Black Swan serpentinite mineralisation below the current pit model.

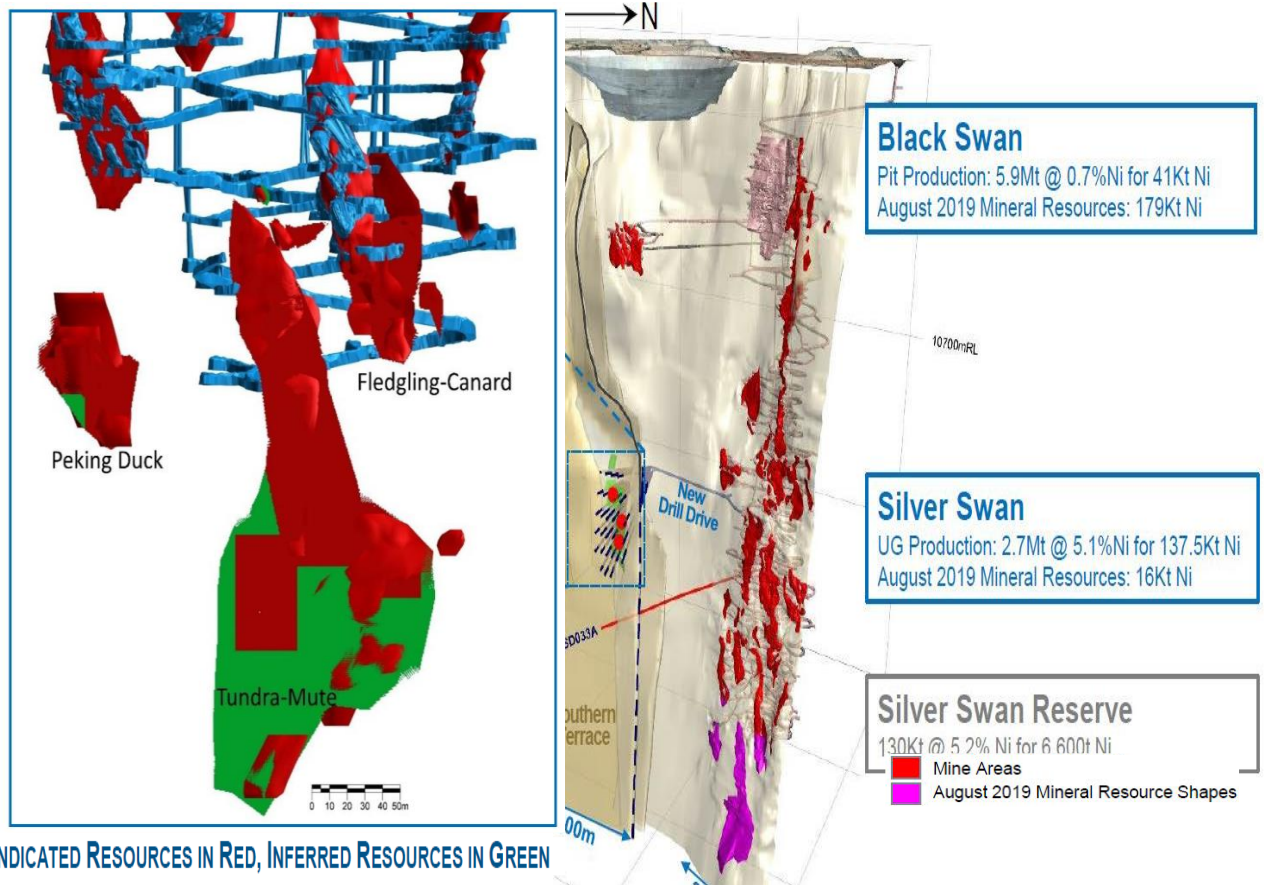
Black Swan Re-Start Still Aiming for December 2022

POS remains focused on commissioning the 1.1Mtpa capacity Black Swan concentrator in December 2022 as it presents an economically attractive option given the large resource available at Black Swan, the low cost and relatively short time required to refurbish the mill, higher levels of payability and a stronger Ni market driven by battery demand.

Silver Swan Drilling – Tundra Mute Encouraging while Peking Duck and Fledgling Canard

The Silver Swan (SS) programme is designed to infill drill current resource to upgrade existing inferred resources to indicated status and to look for extensions. Three areas at the base of the Silver Swan Channel are being targeted in this current drill program utilising two underground diamond drill rigs. These deposits are known as Tundra-Mute, Peking Duck and Fledgling-Canard and collectively contain 16kt nickel contained averaging 9.5% Ni in Indicated and Inferred Mineral Resources Initial results have been mixed, with some high-grade intersections at Tundra Mute while Peking Duck showed no economic extension of the resource. Three holes drilled in Fledgling Canard have shown no mineralisation to date but will have further geophysics conducted on it.

Exhibit 3 – Silver Swan Drilling – Tundra Mute, Peking Duck and Fledgling Canard (Left) and Position within Greater Black Swan Project (Right)



Source: POS.

Tundra Mute – Some High-Grade Results – Awaiting further results

The Tundra-Mute deposit comprises Inferred and Indicated Mineral Resources totalling 127kt at 9.5% Ni for 12kt Ni contained.

Eleven holes, comprising both infill and extensional holes have been drilled. The infill holes have shown the variable mineralisation. There have been three holes tested and three intersections of Ni, three more in the laboratory for assaying and five holes where no mineralisation detected.

First assays received from Tundra Mute include some highly encouraging high-grade results:

- **1.55m @ 12.98% Ni** from 259.6m
- **0.6m @ 1.31% Ni** from 273.4m
- **1.95m @ 6.66% Ni** from 251.2m

The three holes awaiting assaying logged strong mineralisation.

Five holes in Tundra Mute returned no mineralisation.

Drilling continues and with the increased drill density the information obtained should help to determine the controls and trends of the high-grade mineralisation.

Selected holes have been cased for down hole electromagnetic surveys (DHEM). The results from the DHEM survey will help target potential extensions in the area. The DHEM survey will be conducted as soon as a geophysical crew becomes available.

Peking Duck – Faulting Appears to have Cut-off the Deposit

The planned Peking Duck drilling was primarily targeting Electromagnetic (EM) plates as potential resource extensions.

Nine holes were drilled and the targeted EM plates were tested. Observed results showed no extension of the resource. Current modelling suggests that Peking Duck has been cut off by a fault.

Fledgling Canard – Nothing Yet – But Checking for more Mineralisation

Three holes have been drilled at Fledgling-Canard to test for extensions to the resource. No significant mineralisation has been observed. The holes have been cased so DHEM can be conducted, to identify further areas to test for extensions to the resource.

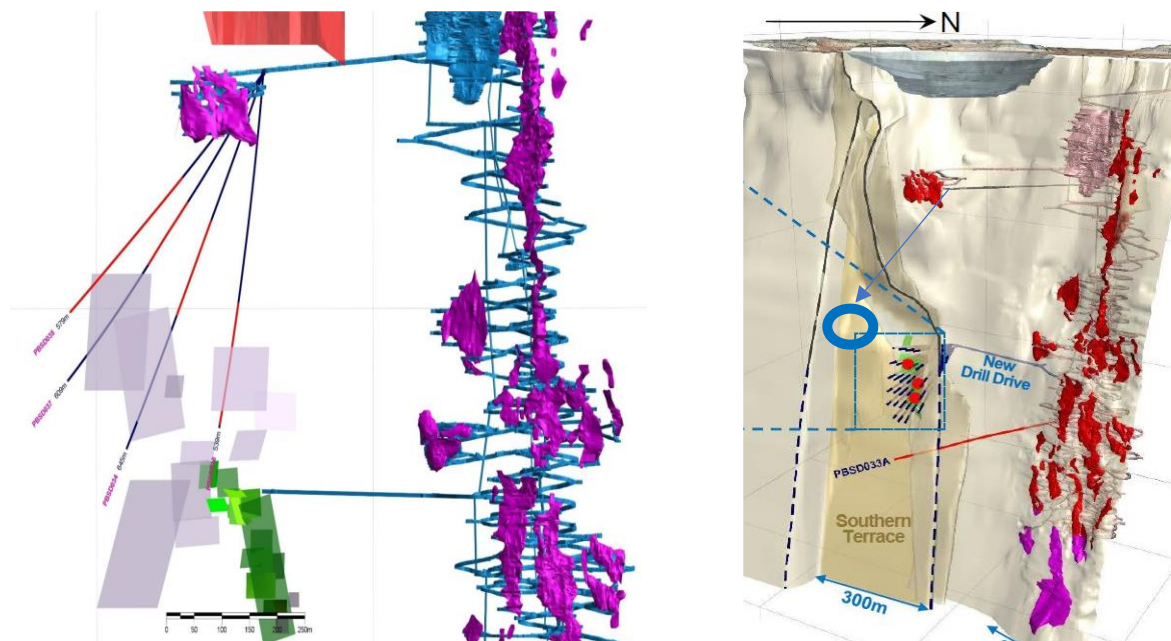
Of the total twelve holes drilled, eight are awaiting assays and four have contained no mineralisation

Southern Terrace Exploration – No Shows this Time, Further Review to look to More Exploration of this Highly Prospective Area

POS has conducted sufficient work on the Southern Terrace to believe it has the potential to host more mineralisation. The Southern Terrace is “greenfield” exploration, and although highly prospective is higher risk than drilling within and around existing resources. The DHEM methodology applied within the broader Black Swan Ni province has successfully defined Golden Swan, and although not successful at first attempt at the Southern Terrace, and POS believes further use of this technique and other geochem and geophysical methods may well lead to the successful discovery of further massive sulphides at the Southern Terrace.

The latest drill information is being reviewed and different target generation methods are being considered to aid future drilling programs.

Exhibit 4 -Southern Terrace Drilling Up Plunge from Golden Swan (Left) and Position within Greater Black Swan Project (Right)



Source: POS.

Next Steps

The following workstreams are underway:

- updating the Black Swan open pit study including determining the optimal pit shell and production rate and estimated capital and operating costs
- undertaking further drilling at Silver Swan to convert additional resource to reserve
- undertaking metallurgical test work on blending all the various ore sources to determine the optimum feed blend and typical concentrate specifications
- seeking indicative offtake terms for the quality and quantity of Ni concentrate expected to be produced
- seeking financing proposals for the debt component of the restart capital
- completing a full Bankable Feasibility Study.

Exhibit 5 shows the timing of the above workstreams in order to achieve production by December 2022.

Exhibit 5 – Black Swan timetable

BIG MILL 1.1 MTPA	Dec Q21	Mar Q22	Jun Q22	Sep Q22	Dec Q22
ORE SOURCES					
GOLDEN SWAN					
Maiden Resource	● Mid October 2021				
Mining Study (Inventory/Reserve)					
DSO Discussions					
SILVER SWAN					
Resource Upgrade Drilling					
Mining Study / Reserve Estimate					
BLACK SWAN DISSEMINATED OPEN PIT					
Mining Study Upgrade					
SILVER SWAN TAILINGS					
Maiden Resource	● Mid September 2021				
Metallurgical Testwork					
PROCESS PLANT (1.1mtpa option)					
Ore Blend Metallurgical Testwork					
Bankable Feasibility Study					
Preliminary Economic Assessment					
Regulatory Approvals					
Final Investment Decision					
PROJECT DEVELOPMENT					
Plant Refurbishment					
Open Pit Dewatering					
Underground Mine Development					
Open Pit Mine Development					
Ore Commissioning					● Mid Dec 2022

Source: POS.

Option to Process Nickel from Windarra Nickel Project

The Windarra Nickel project sits some 250 km due north of Black Swan in WA’s Mt Margaret Goldfields, about 25 km west of Laverton. The project, in a well-established mining precinct, is well serviced by regional infrastructure with a skilled labour and contracting workforce available. Since 2008, POS has completed over 550 drill holes for ~70km of drilling on the project to bring the historical mine resources into JORC-compliant status and has discovered a new resource at Cerberus.

The Windarra deposit consists of three broad geologically based mineralised areas: Mt Windarra, South Windarra and Cerberus. There is a more recent exploration focus lying between Cerberus and Mt Windarra at Crazy Diamond.

Windarra underground mine remnants contain resources of 148,500 t of contained Ni at an average grade of around 1.5%. There are no processing facilities at Windarra.

With the 1.1Mtpa Black Swan mill in operation, the option to process ore from the Windarra deposit opens up, with ore being trucked to Black Swan.

Nickel Market: EV Batteries the Key Driver of Demand, Price Upside

Battery-Related Demand to Play Increasing Role in Overall Ni Demand

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. Market consensus appears to be 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 we expect prices 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.

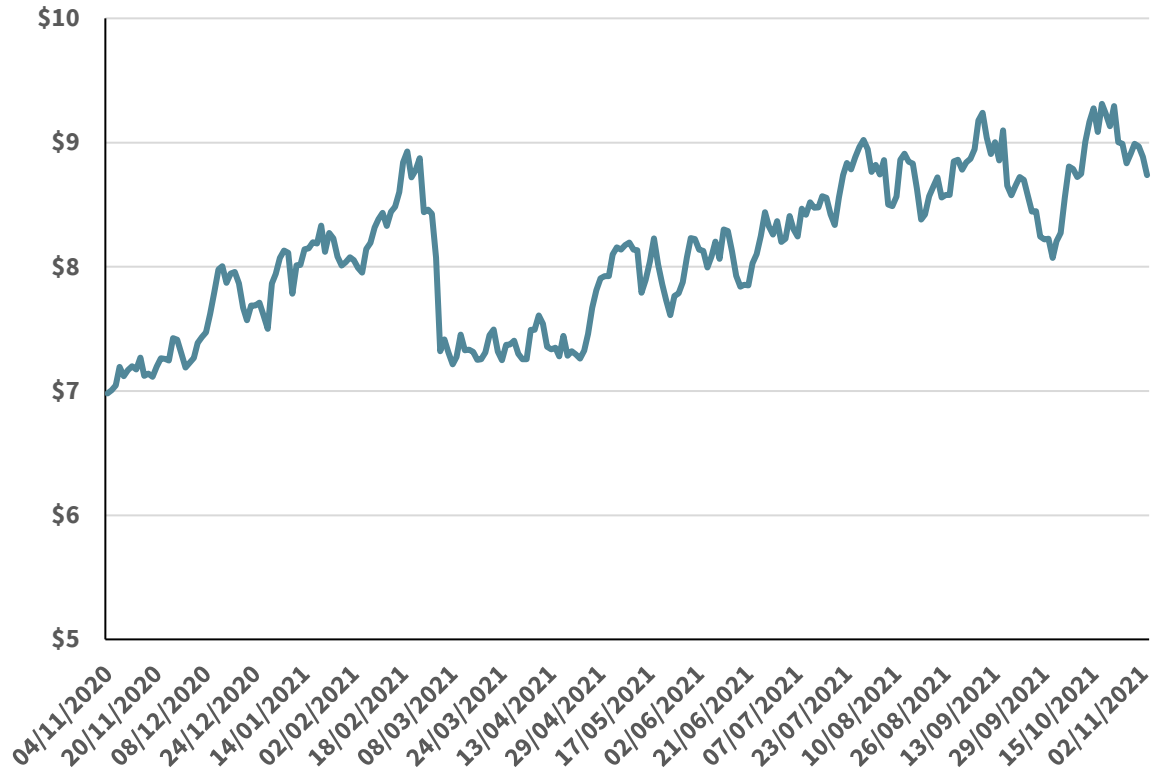
BHP's recently agreed with Tesla for long-term supply of some 18,000 tonnes of Ni per year. Tesla has acted early to secure significant volumes of Ni to fuel its lithium-ion battery demand, with an estimated 50% of Tesla's battery chemistry to be high-Ni cathode. POS's Ni inventory is high quality with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

BHP's deal with 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.

POS Ore Could Be Ideal for Nickel Ion Batteries

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 for high-grade nickel sulphides destined for batteries to 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.

Valuation: A\$0.22 (Previous A\$0.21) – Golden Swan Incorporated

Black Swan Valuation: Black Swan Concentrator Option; Upside Potential from Silver Swan Resource Drilling and Southern Terrace Exploration Success

Our current valuation is based on POS adopting the Black Swan low-grade concentrator model inclusive of the Silver Swan current resource. We have assumed a 20-year low-grade mine life in this model and have now included the Golden Swan resource and Silver Swan tailings in our model. We have also included the option of processing Windarra Nickel through the Black Swan Mill. We have not included any Silver Swan resource infill and extensional drilling resource and reserve increase or Southern Terrace success in our valuation at this stage.

Our Ni price assumption is 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.

The share count reflects the recent placement and upsized SPP.

Valuation Methodology: SOTP

We value POS at A\$0.22. We have valued POS using a sum-of-the-parts methodology, valuing Black Swan, Windarra Gold and Lake Johnston on a risked NPV basis. We have incorporated Windarra Nickel into the Black Swan production model. We see a number of potential scenarios for share price upside driven primarily by exploration success at Silver Swan and the Southern Terrace.

Exhibit 7 – Valuation summary

VALUATION	A\$m	EQUITY VALUE A\$/SHARE FULLY DILUTED	Valuation Methodology	% OF ENTERPRISE VALUE
Equity Valuation of Black Swan	\$560.6	\$0.18	Risked NPV	83%
Equity Valuation of Lake Johnston	\$81.6	\$0.03	Risked NPV	12%
Equity Valuation of Windarra Gold	\$30.2	\$0.01	Risked NPV	4%
EQUITY VALUE PROJECTS	\$672.4	\$0.22		100%
Add: Cash	\$28.4	\$0.01	At 30 September 2021	
EQUITY VALUE PRE SG&A	\$700.8	\$0.23		
SG&A	-\$31.7	-\$0.01	NPV of Corporate Costs	
EQUITY VALUE	\$669.1	\$0.22		

Source: MST estimates.

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

- **Operating costs:** Our cost estimates are US\$3.97/lb on a 100% basis. We have increased our cost assumptions given wage and supply pressures in WA.
- **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 Ni price is volatile and subject to short-term swings. The current spot price is at US\$8.74/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 5% per annum subsequently. We assume 80% payability for Nickel.
- **Project timing:** Our start time for the project is 2HFY2023 and assume one quarter of production. We have assumed the majority of the capex in FY2022 and the remainder in FY2023. POS is aiming for commissioning in December 2022.
- **Capex:** Our Capex assumptions are tabled in Exhibit xxx. It should be noted that these estimates are preliminary MST estimates and will be refined further as POS comes to market with feasibility studies.

Exhibit 8 – Capex assumptions Black Swan Restart.

BLACK SWAN PROJECT CAPEX ESTIMATES (A\$M)	FY2022
Pre-Production - Silver Swan Underground	10,000,000
Pre-Production - Black Swan Processing Plant	22,000,000
Black Swan Mine Development	5,000,000
Golden Swan Mine Development	12,000,000
Windarra Mine Development	20,000,000
	\$69,000,000

Source: MST estimates.

Core Assumptions in our Valuation

Exhibit 9 – 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.

Key Sensitivities

The key sensitivities for POS are Ni price, USD and operating costs.

Exhibit 10– \$US Ni Price Sensitivity

-\$2	-\$1	Forecast	+\$1	+\$2
0.11	0.16	0.22	0.27	0.33

Source: MST estimates.

Exhibit 11– AUD USD Sensitivity

-10c	-5c	Forecast	+5c	+10c
0.26	0.24	0.22	0.20	0.19

Source: MST estimates.

Exhibit 12– Operating Cost Sensitivity (A\$ per pound)

-\$1	-50c	Forecast	+50c	+\$1
0.25	0.24	0.22	0.20	0.18

Source: MST estimates.

Spot Price Valuation of A\$0.30

Our spot price valuation is A\$0.30 per share using the following base assumptions:

- A\$/US\$ exchange rate of 0.74
- Ni price of US\$8.74/lb
- gold price of US\$1,816/oz.

Positive Catalysts for the Share Price

Key drivers of share price upside

Southern Terrace exploration

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

Resource definition and extension Silver Swan

The resource definition is a key step towards production and represents a major milestone for POS. The 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.

FID for Black Swan Mill Refurbishment

The FID for the Black Swan mill refurbishment will mark a major milestone for the steps towards first production and will be a positive catalyst.

First Production from Black Swan Mill

The first production from the Black Swan mill refurbishment will mark the start of cash flow generation for POS and will be a positive catalyst.

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 the share price

Disappointing Southern Terrace / Silver Swan exploration results

As the key to exploration success, any disappointing result in the Southern Terrace And Silver Swan exploration / resource programme could lead to delays in the Black Swan project development.

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 leading to production, any delay to this would be a negative for the stock.

Delays to or not achieving FID for Black Swan Mill Refurbishment

The FID for the Black Swan mill refurbishment will mark a major milestone. Any delay or non-achievement of FID would be a negative catalyst for the stock.

Delay to First Production from Black Swan Mill

The first production from the Black Swan mill refurbishment will mark the start of cash flow generation for POS and any delay to that will be a negative for the stock.

Extended period of low Ni prices

Ni prices are the key driver of POS's 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 the 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 smaller 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 had a cash position on 30 September 2021 of A\$28.4m. In August 2021 POS raised A\$22m through a placement and a further \$6m through an SPP at A\$0.11 per share to raise a total of A\$28m. The cash will be utilised to fund further exploration, resource definition drilling, production and marketing studies, mine planning, reserve definition and the “fill the mill” feasibility.

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 a partner taking a share in the project.

Other Financials

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

POS had, at 30 June 2021, approximately A\$38.1m in accumulated tax losses. These losses have been applied to earnings, with cash tax forecast to be paid from FY2025 going forward.

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