

May 26, 2023

EMERGING COMPANY

SPECULATIVE BUY (no change)

Stock code:	POS AU
Price:	A\$0.036
12-month target price:	A\$0.10
Previous target price:	A\$0.11
Up/downside to target price:	177.8%
Dividend yield:	0.0%
12-month TSR*:	177.8%
Market cap:	A\$125.9m
Average daily turnover:	A\$0.18m
Index inclusion:	N/A

* Total stock return – Up/downside to target price + 12-month forward dividend yield.

Price performance

(%)	1M	3M	12M	3Y
Absolute	-5.3	0.0	-49.3	20.0
Rel ASX/S&P200	-2.8	2.3	-49.0	-7.1



Source: IRESS

Related research

[Sector report - 14 Apr 2023](#)

[POS \(SPEC BUY - TP A\\$0.11\) - 28 Nov 2022](#)

Kyle WILLIAMS

(618) 6160 8720

kyle.williams@morgans.com.au

Analyst(s) own shares in the following stocks mentioned in this report:

– N/A

Poseidon Nickel

Refining our view as Black Swan approaches FID

- POS is nearing a Final Investment Decision (FID) on the Black Swan 1.1Mtpa Restart Project, and final negotiations are now underway involving offtake and project financing agreements with two shortlisted parties.
- The Black Swan 1.1Mtpa Bankable Feasibility Study (BFS) released in November 2022 confirmed robust project economics with production scheduled to begin in mid-CY2024 based on the FID being made late June/early July 2023.
- In addition to Black Swan restart activities, POS is progressing with the 2.2Mtpa Expansion Project, which studies a doubling of mill feed rates to produce a lower nickel concentrate product amenable to processing via a high-pressure acid leach (HPAL) or pressure oxidation (POX) plants.
- We have factored in the potential 2.2Mtpa Expansion Project in our DCF model, resulting in a valuation upside versus the 1.1Mtpa Project.
- We attain a price target of A\$0.10/share using our DCF NPV (8% discount rate). Accordingly, we retain our Speculative Buy rating.

Event:

- Incorporating the 2.2Mtpa Expansion Project scenario into our modelling.

Analysis:

- We refresh our DCF model to include the 2.2Mtpa Expansion Project case. Our assumptions include additional talc carbonate disseminate material contained in the Black Swan Resource can be potentially blended as ore feed to increase the annual production of nickel contained in concentrate and extend the mine life compared to the Restart Project (1.1Mtpa feed). We anticipate the transition from a 1.1Mtpa mill feed rate to 2.2Mtpa beginning in FY27.
- The 2.2Mtpa mill feed Expansion Project produces on average 8ktpa of nickel in concentrate per annum and 64.1kt over the modelled 8-year life of the mine (refer to Figure 9).

Forecast and valuation update:

- We apply revised operating assumptions over an upscaled 8-year operating life beginning with 2 years of smelter grade nickel in concentrate production, before increasing mill capacity to ~2.2Mtpa in FY27 by feeding additional talc carbonate disseminated ore beneath the current Black Swan Pit. Key assumptions for the 2.2Mtpa Project are detailed on page 6 and page 9 details our valuation summary.
- We refresh our nickel price deck resulting in an average of ~US\$10/lb over the 2.2Mtpa mine life using an 8% discount rate.
- Our price target adjusts to A\$0.10/share (previously A\$0.11/share) and we retain our Speculative Buy rating on the stock.

Investment view:

- POS is attractively positioned as a potential near-term producer of highly saleable, smelter grade nickel concentrate, with potential optionality to increase the production rate to nameplate 2.2Mtpa under the currently studied Expansion Project to produce a rougher concentrate product.
- The company holds a sizable global JORC Resource as well as strong exploration and development potential at the Lake Johnston and Windarra Nickel Projects.

Price catalysts:

- Resource update for the Black Swan Project expected by early June 2023.
- Updates on offtake and project debt financing terms ahead of the scheduled FID on the Black Swan smelter grade concentrate project (1.1Mtpa feed "Restart Project") in late June/ early July.
- Feasibility Study expected late CY23 on the Black Swan 2.2Mtpa Expansion Project.

Risks:

- General commodity sector risks remain the nickel price & AUD/USD exchange rate. Inflationary pressures causing increased development and operational costs.
- Potential delays to FID for the Black Swan Restart Project.

Poseidon Nickel

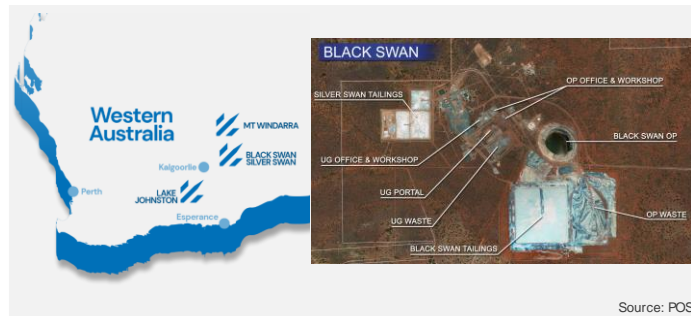
SPECULATIVE BUY

as at May 26, 2023

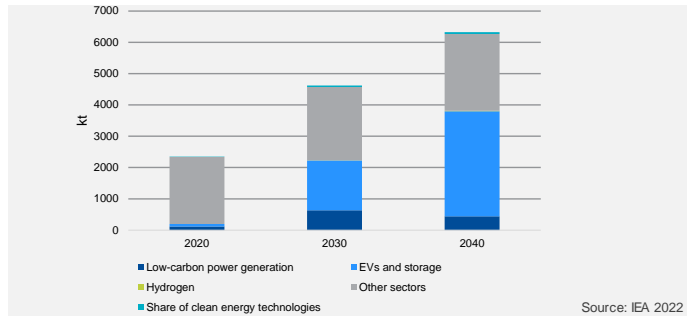
Price (A\$):	0.036	12-month target price (A\$):	0.10
Market cap (A\$m):	125.9	Up/downside to target price (%):	177.8
Free float (%):	80.0	Dividend yield (%):	0.0
Index inclusion:	N/A	12-month TSR (%):	177.8

Poseidon Nickel Limited is a nickel sulphide exploration and development company with three projects located within a radius of 300km from Kalgoorlie in the Goldfields region of Western Australia and a resource base of around 400,000 tonnes of nickel and 180,000 ounces of gold.

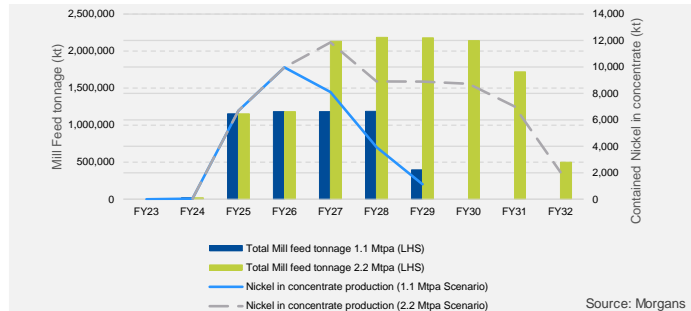
Poseidon Nickel - Project Location and Site Map



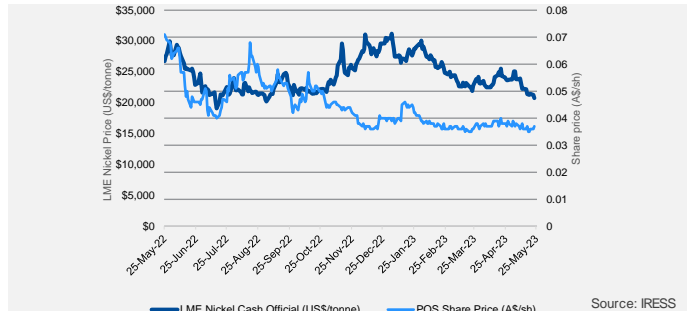
Forecast Nickel Demand in 2030 & 2040



Production scenarios - 1.1Mtpa Restart and 2.2Mtpa Expansion Project cases



LME Nickel Cash Price (US\$/tonne) Vs. POS Share Price (1-Yr)



Bull points



Nickel is a key ingredient in steel making and the lithium ion battery used in electric vehicles. Demand forecast to grow year on year driven by energy transition technology.

Poseidon has access to local grid power, significantly reducing carbon emissions and operating costs over the life of mine. Black Swan 1.1Mtpa mine plan produces a high grade nickel concentrate with <6% MgO and FeMgO ratio of 5:1 giving a highly saleable product for nickel smelters.

Relatively low upfront capital development cost due to the existing Black Swan concentrator, mine infrastructure and underground development.

Poseidon has 100% ownership of the flagship Black Swan Project, along with the Lake Johnston and Windarra, all within the Tier-1 mining jurisdiction of WA.

Bear points



Potential delays to development funding- ability to secure financing for the Black Swan Restart Project.

High inflationary environment - potential overruns in development C1:W54 capital cost and operating costs compared to the Black Swan BFS.

Commodity price and foreign exchange risk - Nickel prices remain volatile following trading disruptions on the LME in March 2022

The 2.2Mtpa production scenario is still under feasibility studies with expected release in late H2 CY23. Key project metrics will be determined once the Expansion Study is released.

Environmental, Social and Governance

ESG

Exposure

Management

Exposure

The Black Swan Project is currently in the development phase and is proposed to begin mining during mid-CY24. The open cut mining operation at Black Swan will utilize a small heavy machinery fleet to mine nickel ore. The mine sites processing facilities, tailings dams, roads and workshops are in place already and therefore eliminating any land clearing to restart operations. Experienced company management is required to support employees, local communities and other key stakeholders linked to the business.

Management

Adopting a low impact approach to mining nickel and significantly minimising any environmental impact. The management team have in-depth experience across mining operations in Western Australia. Environmental management at Black Swan will be comprehensive throughout the life of mine.

Source: Morgans

Financial summary

FINANCIAL SUMMARY						POSEIDON NICKEL LTD		ASX:POS													
Income statement (A\$M)						Market Information															
	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E	Net Cash (debt) (FY23E)	A\$m	7													
Sales Revenue	0	0	0	1	174	12 Month Low	A\$/sh	0.04													
Operating Costs	0	0	0	-1	-107	12 Month High	A\$/sh	0.12													
Gross profit	1	0	0	0	68	Current shares on issue	m	3,404													
Operating expenses	-11	-12	-4	-5	-5	Estimated fully diluted shares on issue in FY24	m	4,843													
EBITDA	-10	-11	-4	-5	62	Valuation summary															
Depreciation	0	0	0	0	-38		A\$m	A\$/share													
EBIT	-10	-11	-4	-5	24	Black Swan Project 2.2 Mtpa Project (NPV8)	\$	241	\$	0.05											
Net interest expense	-1	0	0	-3	-3	Black Swan Resource (outside 2.2mtpa ore inventory)	\$	56	\$	0.01											
Pre-tax profit	-11	-11	-4	-8	21	Lake Johnston Project	\$	78	\$	0.02											
Income tax expense	0	0	0	0	0	Windarra Nickel Project	\$	89	\$	0.02											
After-tax profit	-11	-11	-4	-8	21	Windarra Gold Tailings	\$	12	\$	0.00											
Minority interests	0	0	0	0	0	Exploration	\$	35	\$	0.01											
NPAT	-11	-11	-4	-8	21	Net Cash (debt) (FY23E)	\$	7	\$	0.00											
						Corporate	\$	(34)	\$	(0.01)											
						Target Price	\$	484	\$	0.100											
Cash flow statement (A\$M)						Production															
	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E		Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E										
Cash flow from ops	-10	-11	-4	-8	59	Ore mined - Black Swan (Mt)	0.00	0.00	0.00	0.02	1.15										
Capex	0	0	0	-56	-17	Nickel in concentrate produced (kt)	0.0	0.0	0.0	0.0	6.7										
Incr/(decr) in equity	0	0	0	50	0	Cash Cost (A\$/lb)															
Incr/(decr) in debt	-25	0	0	50	0		Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E										
Ordinary dividend paid	0	0	0	0	0	Black Swan Project	\$0.00	\$0.00	\$0.00	\$6.81	\$6.81										
Other financing cash flow	9	27	0	0	0	Key Metrics															
Forex and disc ops	0	0	0	0	0		Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E										
Incr/(decr) cash	-37	3	-4	36	42	AUD/USD	0.75	0.73	0.67	0.71	0.71										
Equity FCF	-10	-11	-4	-64	42	Nickel price (US\$/lb)	7.28	10.89	11.03	10.10	10.50										
						Nickel price (A\$/lb)	9.8	15.0	16.4	14.2	14.8										
						EPS	0.0	0.0	0.0	0.0	0.0										
						DPS	0.0	0.0	0.0	0.0	0.0										
						Dividend payout ratio (%)	0.0	0.0	0.0	0.0	0.0										
						Dividend yield (%)	0.0	0.0	0.0	0.0	0.0										
						EBITDA Margin	0.0	0.0	0.0	-3.8	0.4										
						P/E	-21.8	-12.8	-28.4	-21.1	8.0										
						EV/EBITDA	-24.2	-11.7	-26.7	-38.2	2.2										
						FCF Yield	0.0	-0.1	0.0	-0.4	0.2										
						Net Debt	-7.8	-10.9	-6.9	7.0	-35.1										
						Net Debt / Equity	-0.1	-0.1	-0.1	0.1	-0.3										
						Revenue (A\$M)															
							Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E										
						Black Swan Project Revenue	0.0	0.0	0.0	1.2	174.3										
						Nickel Price & Cash Cost (US\$/lb) - Morgans base case assumptions															
						Revenue (A\$M) & Payable Nickel (kt)															
Balance sheet (A\$M)						Directors and Management															
	Jun-21A	Jun-22A	Jun-23E	Jun-24E	Jun-25E	<table border="0"> <tr> <td>Peter Harold</td> <td>Managing Director & CEO</td> </tr> <tr> <td>Derek La Ferla</td> <td>Non-Executive Chairman</td> </tr> <tr> <td>Dean Hildebrand</td> <td>Non-Executive Director</td> </tr> <tr> <td>Peter Muccilli</td> <td>Non-Executive Director</td> </tr> <tr> <td>Warren Hallam</td> <td>Non-Executive Director</td> </tr> </table>						Peter Harold	Managing Director & CEO	Derek La Ferla	Non-Executive Chairman	Dean Hildebrand	Non-Executive Director	Peter Muccilli	Non-Executive Director	Warren Hallam	Non-Executive Director
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Cash & deposits	8	11	7	43	85	Resources															
Fixed assets	112	125	125	181	160		Mt	%Ni	Ni Metal (kt)												
Total assets	120	136	132	224	245	Black Swan	29.9	0.7%	206.4												
Short-term debt	0	0	0	0	12	Windarra	9.7	1.5%	148.5												
Long-term borrowings	0	0	0	50	38	Lake Johnston	3.5	1.5%	52.0												
Other liabilities	65	65	65	65	65	TOTAL	43.1	0.9%	406.9												
Total liabilities	65	65	65	115	115																
Share capital	238	265	265	315	315																
Total equity	60	75	71	113	134																
Minority interest	0	0	0	0	0																
Total shareholders' equity	60	75	71	113	134																
Trade payables	2	1	1	1	1																

Source: Morgans estimates, company data

Black Swan eyes near-term restart

Final Investment Decision scheduled for June 2023 quarter

The 1.1Mtpa Black Swan Restart Project processes 5.0Mt of ore feed over a ~4.5-year period (post-Black Swan plant refurbishment period) to produce 200kt of smelter grade concentrate containing ~30kt nickel. The 1.1Mtpa operation is based on treating multiple ore feed sources, including the Black Swan disseminated (BSD) open pit, and Silver Swan (SS) and Golden Swan (GS) underground mines, with the addition of Silver Swan tailings and disseminated serpentinite ore from surface stockpiles.

The November 2022 Bankable Feasibility Study (BFS) excludes a large portion of talc carbonate ore currently within the Black Swan Resource; however not included in the current Ore Reserves. POS completed an 11,000-metre reverse circulation (RC) drilling program in the March 2023 quarter to upgrade Inferred Resources to the higher confidence Indicated category while delineating the serpentinite and talc carbonate hosted ore types (Figure 2). The drilling samples are also required to study ore blending strategies, optimise the mining schedule before restarting operations, and provide material for metallurgical test work for the 2.2Mtpa Expansion Study.

Black Swan Restart Project – key near-term deliverables

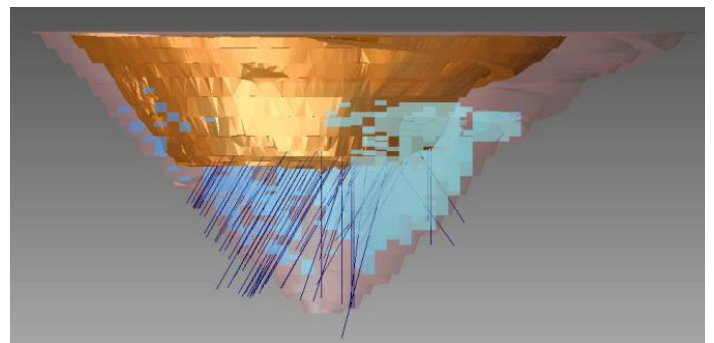
- Mineral Resource upgrade based on March quarter infill drilling results – expected to be completed by Golder by early June 2023.
- Negotiations with GR Engineering for the Black Swan plant refurbishment contract.
- Establish offtake and debt financing terms – expected June 2023.
- Final Investment Decision (FID) scheduled for June 2023, leading to commencement of concentrate production in mid-CY24.
- Personnel onboarding and establishment of accommodation facilities in time for operation restart.

Figure 1: Black Swan in pit drilling activities during the March quarter 2023



Source: POS announcement 31 January 2023

Figure 2: Black Swan open pit infill drilling program during the March 2023 quarter – Inferred blocks in blue & proposed Stage 2 pit (2.2Mtpa) outline in pink



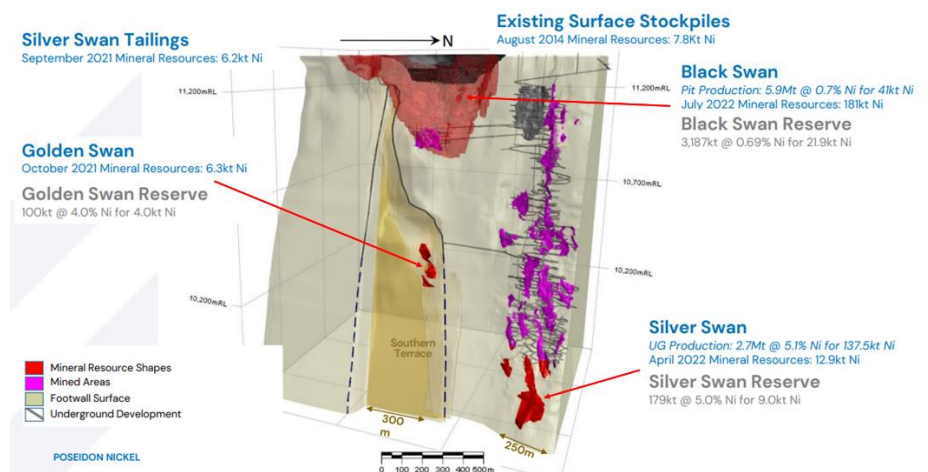
Source: POS announcement 28 April 2023

Black Swan 1.1Mtpa Restart Project paves way for 2.2Mtpa Expansion Project

The Black Swan 1.1Mtpa mill feed Bankable Feasibility Study (BFS) released in November 2022 confirmed robust project economics and set the development path for POS's "fill the mill" strategy with production targeted in mid-CY2024. The 1.1Mtpa Project produces highly saleable smelter grade nickel concentrate over a ~4.5-year mine life, utilising multiple ore feed sources outlined in Figure 3 below.

Figure 3: Current Black Swan Resources and Reserves overview

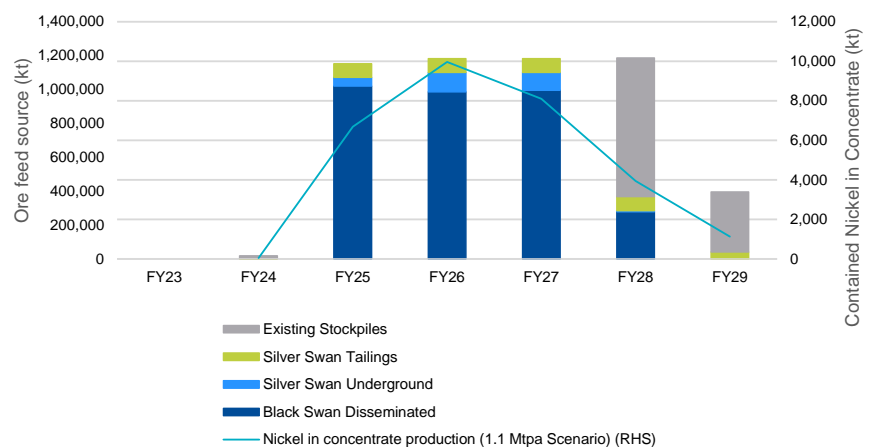
Ore feed from Reserves in the BS, SS, and GS material totals 3.5Mt @ 1.0% Ni for 35.1 kt contained Ni with the remaining feed sourced from Resources contained in the Silver Swan Tailings and existing surface stockpiles brings the total 1.1Mtpa feed source to 5.0Mt @ 0.9% Ni for 43.5kt contained Ni.



Source: Poseidon Nickel ASX Presentation 21 March 2023

Our DCF based on 1.1Mtpa Restart Project assumes first production starting in Q4FY24 and running for ~4.5 years (until Q2FY29) utilising a refurbished 1.1 mtpa concentrator and treating multiple ore feed sources, including the Black Swan disseminated open pit, and Silver Swan and Golden Swan underground mines, with the addition of Silver Swan tailings and disseminated serpentinite ore from surface stockpiles. The Restart Project produces ~30kt of nickel in concentrate.

Figure 4: Black Swan Restart (1.1Mtpa) – Ore feed and nickel in concentrate production profile

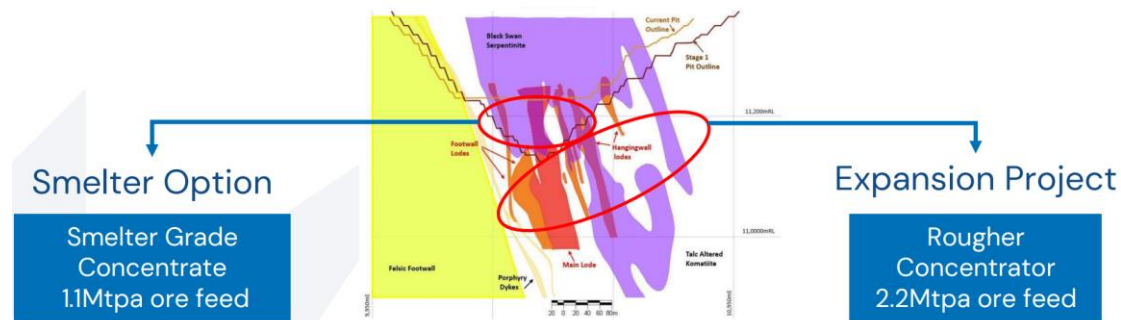


Source: Morgans estimates, company data, Black Swan Bankable Feasibility Study (BFS) released November 2022

2.2Mtpa Project grows nickel production & mine life

POS is progressing work on the Black Swan Expansion Project, which studies a doubling of processing capacity to 2.2Mtpa and producing a lower grade nickel concentrate. Based on the potential value upside we update our DCF and detail our key assumptions on both the 1.1Mtpa Restart Project and the 2.2Mtpa Expansion Project below.

Figure 5: Black Swan development options



Source: Poseidon Nickel ASX Presentation March 2023

Black Swan 1.1Mtpa Restart Project

- Our DCF forecasts production in Q4FY24 and running for ~4.5 years (until Q2FY29) utilising a refurbished 1.1mtpa concentrator and treating multiple ore feed sources including the Black Swan disseminated (BSD) open pit, and Silver Swan (SS) and Golden Swan (GS) underground mines, with the addition of Silver Swan tailings and disseminated serpentinite ore from surface stockpiles.
- Total feed from Ore Reserves in the BS, SS, and GS material totals 3.5Mt @ 1.0% Ni for 35.1 kt contained Ni. The remaining feed sourced from Resources contained in the Silver Swan Tailings and existing surface stockpiles brings the whole 1.1Mtpa feed source to 5.0Mt @ 0.9% Ni for 43.5kt contained Ni.
- Produce ~200kt of conventional smelter grade concentrate averaging 15% nickel containing ~30kt of nickel containing MgO<6%, Fe:MgO >5:1.
- Nickel metal payability of 80%.
- Nickel recovery rates through the plant based on the Black Swan November 2022 BFS.
- C1 operating cost of US\$4.60/lb (pound).
- Average Life of Mine Nickel price of US\$10.0/lb (current spot price ~US\$9.5/lb).
- Flat AUD:USD of 0.71 and a discount rate of 8%.
- We estimate ~A\$50m of pre-production capital expenditure (Nov. 2022 Black Swan BFS determined ~A\$50m pre-production capex).
- We assume a 50:50 debt/equity financing scenario for the Black Swan Restart.

Black Swan 2.2Mtpa Expansion Project

- Our DCF forecasts production beginning in Q4FY24 producing conventional smelter grade nickel concentrate for the first ~2 years utilising a refurbished 1.1mtpa concentrator until the end of Q4FY26. Our DCF forecasts the 2.2Mtpa feed option starting production of a rougher concentrate in Q1FY27 and extending until mid-FY32.
- From Q4FY24 to Q2FY29 our DCF assumes multiple ore feed sources including BSD open pit SS and GS underground mines, with the addition of SS tailings and disseminated serpentinite ore from surface stockpiles. From Q3FY29 to Q2FY32 we assume a blended feed containing Black Swan higher talc content serpentinite and talc carbonate disseminated ores to reach ~2.2Mtpa capacity. Production rates ramp-down from FY31 to FY32.
- Produce 64.1kt of nickel in concentrate over an 8-year life of mine. Target customer/s local downstream processing in Western Australia (i.e. HPAL, POX, Pure Battery Technologies).
- We estimate ~A\$50m of pre-production capex and estimate an additional A\$20m capex between FY27-FY32 to supplement larger mill feed rates.
- Nickel metal payability of 80% from FY24-FY26 (smelter grade) and 70% between FY27-FY32 (rougher concentrate). Nickel recovery from FY24-FY26 is based on the Black Swan November BFS and we estimate 68% recovery from FY27-FY32.
- C1 operating cost of US\$4.60/lb. Average Life of Mine Nickel price of US\$10/lb. Flat AUD:USD of 0.71 and a discount rate of 8%.

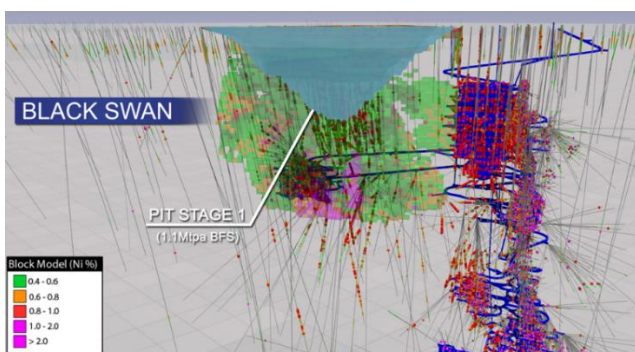
What the 2.2Mtpa Expansion Study could look like

Following the robust 1.1Mtpa Black Swan BFS, POS began feasibility studies focused on the 2.2Mtpa mill feed Expansion Project which aims to increase nickel in concentrate production and extend the overall mine operating life. Increasing the processing capacity to 2.2Mtpa could be enabled by processing talc carbonate disseminated ore not classified in current Ore Reserves. Importantly, we forecast smelter grade concentrate production for the first ~2 years and model the potential 2.2Mtpa Expansion Project from FY27-FY32 (Figure 8). Since December 2022, POS has continued metallurgical test work to determine the rougher concentrate's average nickel grade, recovery rates and the potential processing route through external HPAL or POX plants in Western Australia. The company has reported significant interest in the rougher concentrate product to date.

The infill drilling program conducted through the March quarter of 2023 produced material for POS to undertake flotation test work on the serpentinite and talc carbonate ore types toward attaining the optimum grade versus recovery. The company also prepared bulk rougher concentrate samples during the March quarter for potential off-takers for assessment.

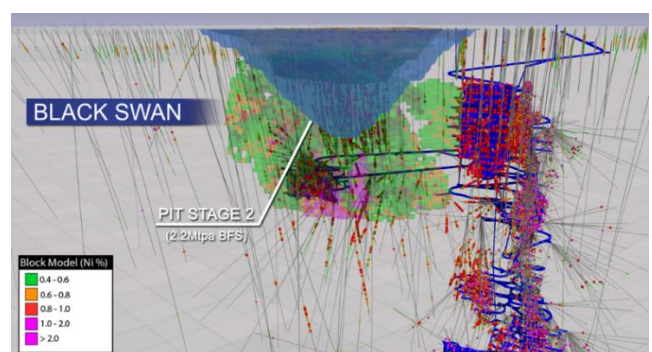
We see a relatively low capital requirement for the 2.2Mtpa case and estimate a A\$20m cost to bring on extra milling capacity and open pit mine development. POS has modelled a preliminary Stage 2 (2.2Mtpa) pit design shown in Figure 7 (below), which requires a cutback and extends below the Stage 1 (1.1Mtpa BFS pit design) to capture a more significant portion of the higher talc content serpentinite and talc carbonate disseminated ore. Our DCF assumes a total capital expenditure of A\$120m and a C1 unit cost of US\$4.6/lb.

Figure 6: Black Swan 1.1Mtpa Restart pit shell design



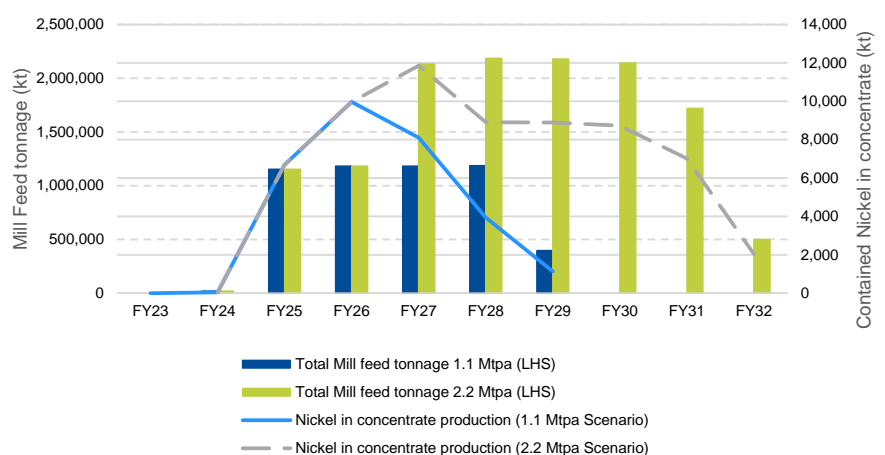
Source: Poseidon Nickel website

Figure 7: Black Swan 2.2Mtpa Expansion preliminary pit shell design



Source: Poseidon Nickel website

Figure 8: Production cases - 1.1Mtpa Restart Project and 2.2Mtpa Expansion Project



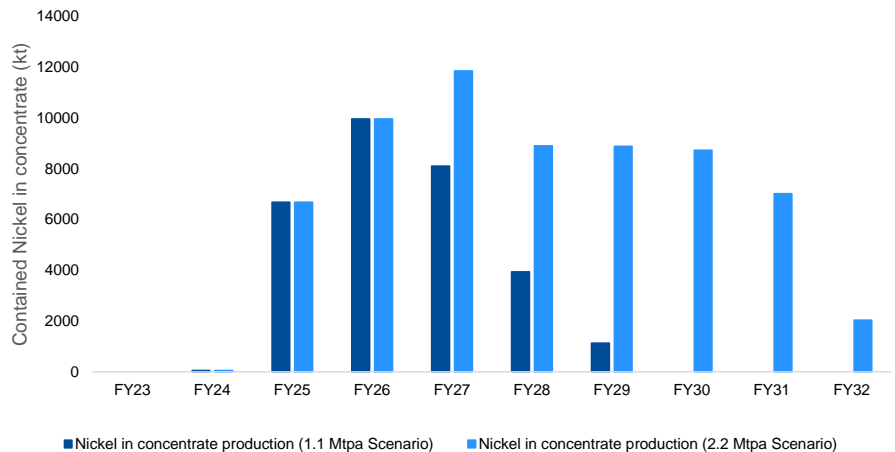
Source: Morgans estimates, Black Swan BFS November 2022 data

Our DCF models plant capacity reaching ~2.2Mtpa from FY27-FY30 while averaging 9,600t per annum of nickel in concentrate production. Mill feed then ramps down during FY31-FY32.

Additional ore feed from POS's Windarra Nickel assets (9.5Mt @ 1.5% for 148.5kt Ni) could potentially supplement the Black Swan feed in future years, however we have not modelled this scenario until further studies are completed.

Figure 9: Nickel in concentrate production – 1.1Mtpa Vs. 2.2Mtpa case

Under the 2.2Mtpa Expansion Project we estimate **average annual nickel in concentrate production of ~8 thousand tonnes (kt)**, producing ~64 thousand tonnes (kt) of nickel in concentrate over the ~8-year life of mine.



Source: Morgans estimates, Black Swan BFS November 2022 data

Key sensitivities to our valuation relate to the nickel price and the AUD:USD FX rate which can be seen in Figures 10 and 11 (below). Based on a higher nickel price of US\$11/lb. over the life of the 2.2Mtpa Project at today's AUD:USD of ~0.65, the valuation for POS increases to ~\$0.14/share.

Figure 10: POS share price sensitivity to nickel pricing and exchange rate

		Nickel Price US\$/lb				
		\$8.5	\$9.5	MorgE	\$11.0	\$13.0
AUD:USD FX	0.73	0.060	0.081	0.094	0.113	0.155
	0.72	0.063	0.084	0.097	0.116	0.159
	0.71	0.065	0.087	0.100	0.120	0.163
	0.67	0.076	0.099	0.113	0.134	0.179
	0.65	0.082	0.106	0.120	0.141	0.188

Source: Morgans estimates, company data

Figure 11: POS share price sensitivity to nickel pricing and discount rate

		Nickel Price US\$/lb				
		\$8.5	\$9.5	MorgE	\$11.0	\$13.0
Discount Rate (%)	10%	0.064	0.083	0.095	0.113	0.152
	9%	0.064	0.085	0.098	0.116	0.157
	8%	0.065	0.087	0.100	0.120	0.163
	7%	0.066	0.089	0.103	0.124	0.169
	6%	0.067	0.091	0.106	0.128	0.175

Source: Morgans estimates, company data

Valuation

We use a sum of the parts methodology based on an NPV8 valuation for our modelled 2.2Mtpa Expansion Project scenario while assigning a value for Lake Johnston of \$78m for its processing infrastructure and existing nickel Resource. We apply a valuation of \$89m for the Mt Windarra Nickel Resource based on an industry average EV/Resource multiple and assign \$35m exploration upside valuation across POS's three key assets.

Figure 12: Morgans sum of the parts valuation

	A\$m	A\$/share		A\$m	A\$/share
Black Swan Project 1.1 Mtpa (NPV8)	\$ 136	\$ 0.03	Black Swan Project 2.2 Mtpa Project (NPV8)	\$ 241	\$ 0.05
Black Swan Resource (outside 1.1Mtpa ore inventory)	\$ 75	\$ 0.02	Black Swan Resource (outside 2.2mtpa ore inventory)	\$ 56	\$ 0.01
Lake Johnston Project	\$ 78	\$ 0.02	Lake Johnston Project	\$ 78	\$ 0.02
Windarra Nickel Project	\$ 89	\$ 0.02	Windarra Nickel Project	\$ 89	\$ 0.02
Windarra Gold Tailings	\$ 12	\$ 0.00	Windarra Gold Tailings	\$ 12	\$ 0.00
Exploration	\$ 35	\$ 0.01	Exploration	\$ 35	\$ 0.01
Net Cash (debt) (FY23E)	\$ 7	\$ 0.00	Net Cash (debt) (FY23E)	\$ 7	\$ 0.00
Corporate	\$ (23)	\$ (0.00)	Corporate	\$ (34)	\$ (0.01)
Total	\$ 409	\$ 0.085	Total	\$ 484	
			Target Price	\$	0.10

We attain a valuation of \$484m or \$0.10/share (fully diluted) for POS

Source: Morgans estimates

Key opportunities and risks

- Established mining and processing infrastructure** – The existing Black Swan concentrator requires a relatively low refurbishment cost, therefore reducing the development risk and allows for near term production potential. Existing heavy vehicle workshops, administration buildings, and underground development are in good condition.
- POS studying the 2.2Mtpa Expansion Project** – POS is working on a BFS for the 2.2Mtpa mill feed option which aims to introduce new feed sources to the LOM blend. This option involves blending and processing the serpentinite and talc-carbonate disseminated ore types to produce a rougher concentrate containing a lower nickel grade and higher magnesium oxide content. This would substantially increase the production profile and we model an extension to the life of mine to total ~8 years. The rougher concentrate could potentially be transported to a nearby third-party HPAL, or POX plants. Additional ore supply to supplement the Black Swan feed could potentially be sourced from Poseidon's Windarra asset, remote mines, or toll-treating third-party ore.
- Offtake and development funding** – Significant investment within the WA Nickel Industry toward development assets in recent years is a clear indicator of the robustness in the sector and the strong pricing outlook. POS has been in discussion with potential offtake partners throughout the BFS process with indicative terms from a number of parties including smelters and traders.
- Operating risks** – The Black Swan mine has historically produced saleable, smelter grade nickel in concentrate, and therefore the metallurgical risk in the 1.1Mtpa Restart Project is considered low. POS achieved strong outcomes from metallurgical test work in 2022 involving the addition of rougher concentrate regrind stage in the processing flowsheet and blending in Silver Swan Tailings confirmed a marketable nickel concentrate product. During operation, there is potential for lower than estimated recovery through the processing plant and therefore reduce the operation's profitability and negatively affect our valuation. Metallurgical test work for the Expansion Project is ongoing to confirm the grade and recovery of the rougher concentrate as well as flotation test work. We make estimations in our DCF valuation for mill feed rates, nickel grade and recovery rates and apply a risk weighted NPV on the 2.2Mtpa Expansion Project to account for potential execution risks.

- **Inflation and costs** - Ongoing supply chain challenges continue to affect mining operations globally. Significant cost inflation on freight charges, diesel and labour may continue to persist in the coming years.
- **Commodity price and foreign exchange risk** - Any adverse nickel pricing movements could affect the profitability of the Black Swan operation and therefore negatively impact our valuation. The nickel price can be highly volatile which may impact overall project economics.

Queensland

Brisbane	+61 7 3334 4888
Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677
Brisbane: Tynan Partners	+61 7 3152 0600
Brisbane: North Quay	+61 7 3245 5466
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Darwin	+61 8 8981 9555
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Sydney	+61 2 9043 7900
Stockbroking, Corporate Advice, Wealth Management	
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Australian Capital Territory

Canberra	+61 2 6232 4999
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Melbourne	+61 3 9947 4111
Stockbroking, Corporate Advice, Wealth Management	
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Western Australia

West Perth	+61 8 6160 8700
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Perth	+61 8 6462 1999

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Exchange Place	+61 8 7325 9200
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Analyst owns shares in the following mentioned company(ies): N/A

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