

Power Nickel Inc.
(TSXV: PNPN / OTCQB: PPNPF)

Drill Results Indicate Potential for Doubling Resources

BUY

Current Price: C\$0.22

Fair Value: C\$0.48

Risk: 5

Sector / Industry: Junior Resource

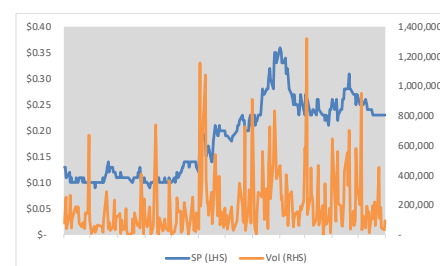
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Highlights

- Power Nickel is **completing a NI 43-101 compliant resource** for its NISK high-grade nickel sulphide project in Quebec. NISK contains class 1 nickel; **the type used in lithium-ion batteries** of electric vehicles/EVs.
- Since our previous report in December 2022, the company has **completed a 15,000 m drill program** that was initiated in H2-2022. The program encountered multiple high-grade zones, and **expanded the known mineralized envelope** from 1.5 km long x 0.50 km wide x 0.35 km deep, to 1.70 km long x 0.50 km wide x 0.65 km deep.
- Based on our review of all the published data and maps, **we believe the Nisku Main zone has potential for 188 Mlbs Nickel Equivalent (NiEq)**. This is in comparison to the project's historic resource of 92 Mlbs, grading 1.4%. We consider grades of >1% NiEq high.
- Initial drilling at the Wildcat target, located 5 km northeast of the Nisku Main zone, has **revealed a new Cu-PGM zone**. We anticipate management will pursue further drilling to explore this discovery.
- PNPN is pursuing a geophysical survey to identify new targets **for a 15,000 m drill program in H2-2023**.
- Despite expectations of downward pressure on nickel prices due to a slowing global economy and increasing supply, **we maintain a positive outlook on juniors focused on EV metals**. Battery/EV manufacturers and miners are actively seeking stable and long-term supply sources of EV metals.
- PNPN is trading at \$0.24/lb vs the comparables average of \$0.60/lb, **implying a 60% discount**.
- Management intends to establish **a new publicly listed company by spinning out** four early-stage exploration projects (three in Chile and one in B.C.), along with its 3% royalty interest in a copper-molybdenum development project held by Teck Resources (TSX: TECK). PNPN investors will receive complimentary shares of this new company.
- **Upcoming catalysts** include drilling, an NI 43-101 compliant resource estimate in Q3, the potential for a spin-off transaction, and positive sentiment towards juniors focused on EV metals.

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Head of Research

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Equity Analyst



	YTD	12M
PNPN	13%	115%
TSXV	8%	2%

Company Data

52 Week Range	C\$0.09–C\$0.36
Shares O/S	132M
Market Cap.	C\$28M
Yield (forward)	N/A
P/E (forward)	N/A
P/B	N/A

Key Financial Data (FYE - Dec 31)

C\$	2022	2023 (3M)
Cash	\$1,275,104	\$1,476,144
Working Capital	-\$766,032	-\$1,371,579
Total Assets	\$1,960,445	\$2,342,770
Net Income (Loss) - adj.	-\$4,245,155	-\$1,746,378
EPS	-\$0.05	-\$0.01

Completed a \$3.1M equity financing subsequent to Q1-2023.

*See last page for important disclosures, rating and risk definitions. All figures in C\$ unless otherwise specified.

One nickel project, four copper-gold projects, and a royalty interest in a development-stage copper project owned by Teck

Portfolio Summary

Project	Interest	Commodity	Location
NISK	Option to acquire an 80% interest	Class 1 Nickel	Quebec, Canada
Golden Ivan	100%	Copper/Gold	B.C., Canada
Zulema	100%	Copper/Gold	Atacama, Chile
Palo Negro & Hornitos	100%	Copper/Gold	Atacama, Chile
Tierra de Oro	100%	Copper/Gold	Atacama, Chile
Copaquire (owned by Teck)	3% NSR	Copper/Molybdenum	Chile

Source: Company

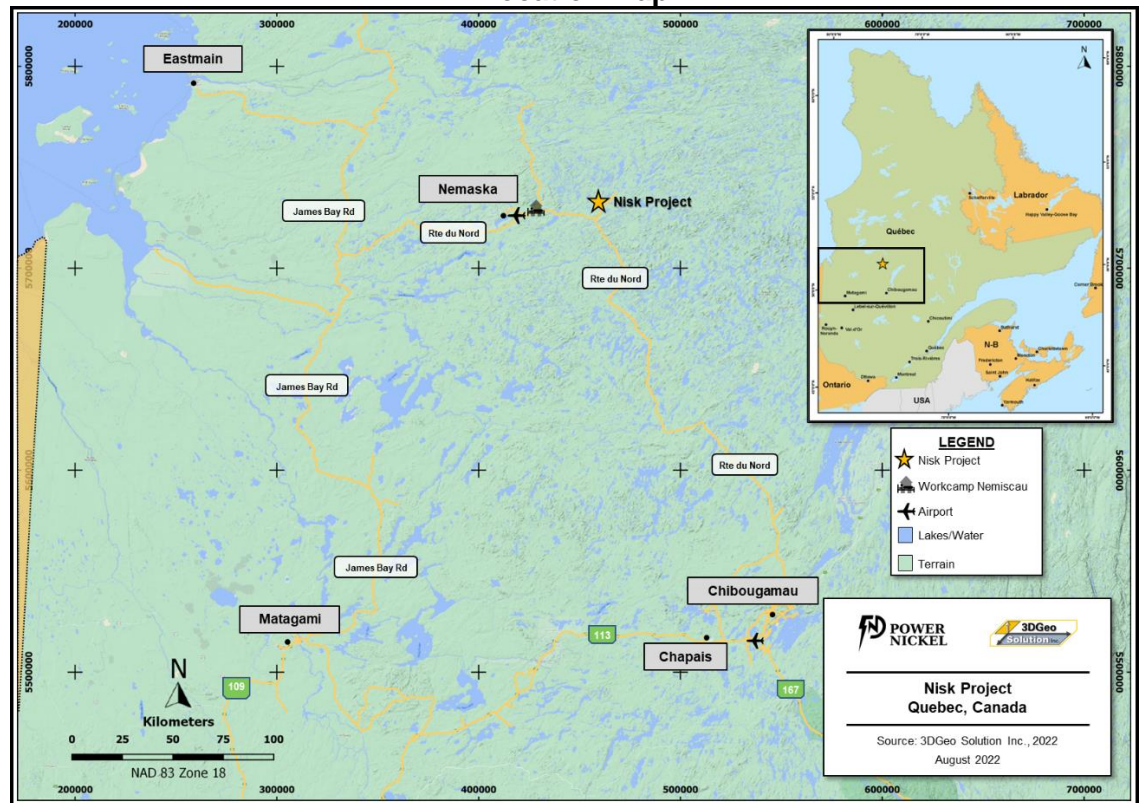
NISK Nickel Sulphide Project

Active mining region, with several advanced stage lithium projects

Excellent infrastructure in place, including access to water and low-cost hydro power

In addition to high-grade nickel, the project has low-medium grade copper, and low-grade gold, silver, PGM, and cobalt

Location Map



Source: Company

The project has a historic resource (completed in 2009) totaling 65 Mlbs indicated (grading 1.5%), and 27 Mlbs inferred (grading 1.2%)

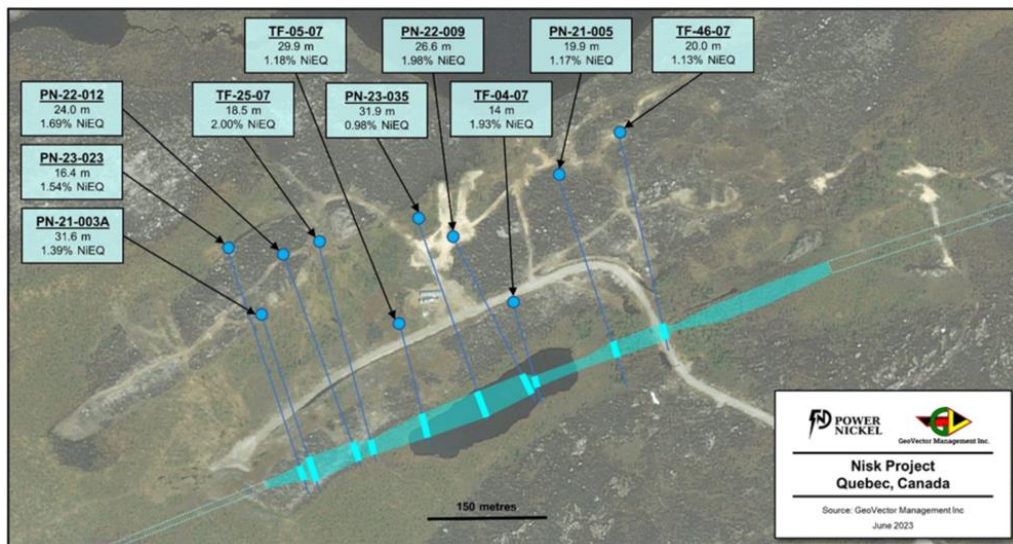
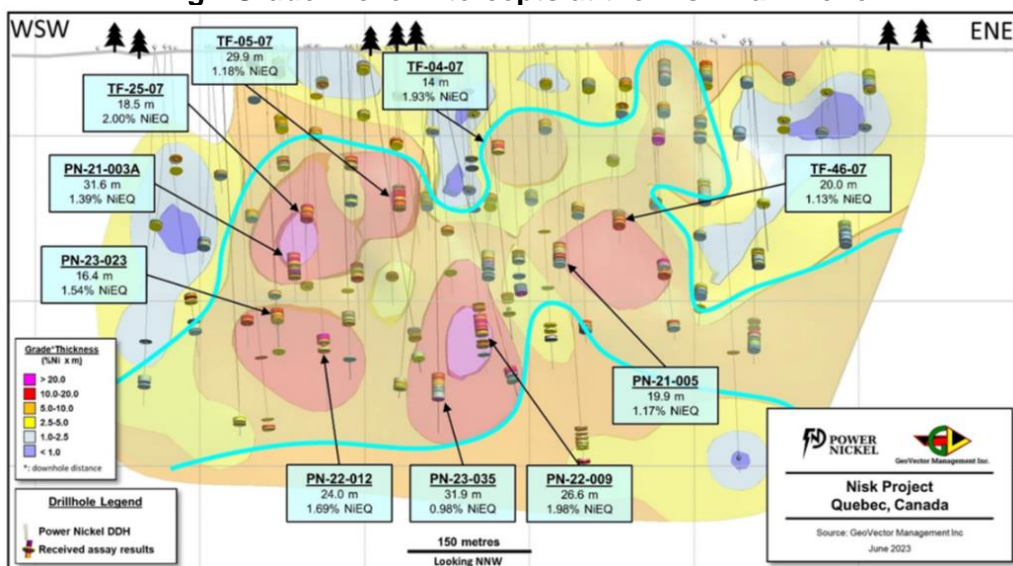
2009 Historic Resource Estimate

	Tonnage	NIeq	NIeq (lbs)	Ni	Ni (lbs)	Cu	Cu (lbs)
M&I	2,038,000	1.45%	64,969,314	1.06%	47,420,330	0.55%	24,643,051
Inf.	1,053,000	1.16%	26,846,225	0.81%	18,803,888	0.32%	7,428,696
100% M&I + 50% Inf.	2,564,500	1.39%	78,392,426	1.01%	56,822,274	0.50%	28,357,399
100% M&I + 100% Inf.	3,091,000	1.35%	91,815,539	0.97%	66,224,217	0.47%	32,071,747

Source: FRC / Company

A recently completed 15,000 m drill program returned multiple high-grade nickel/copper intercepts, plus cobalt and PGM values.

High-Grade Nickel Intercepts at the Nisk Main Zone



Source: Company

Multiple holes intersected high-grade nickel intercepts

A step-out hole located 800 m east of the Nisk Main zone encountered a new zone

Key intercepts:

- PN-22-009: **0.88% Ni, 0.56% Cu**, 0.06% Co, 1.64 g/t Pd, and 0.15 g/t Pt **over 40.3 m**
- PN-23-028: **1.01% Ni**, 0.27% Cu, 0.07% Co, 0.88 g/t Pd, and 0.13 g/t Pt over 14.4m; this hole expanded the high-grade zone delineated in PN-22-009 by 150 m along strike, and 75 m along depth
- PN-22-012: **1.40% Ni, 0.88% Cu**, 0.09% Co, 2.52 g/t Pd, 0.56 g/t Pt over 10.2M; this hole extended mineralization by 150 m along depth
- PN-22-020: 0.22% Ni, 0.42% Cu, 0.01% Co, **0.71 g/t Pd, 0.31 g/t Pt** over 4.9 m; this step-out hole (800 m east of the Nisk Main zone) intersected three sulphide zones
- PN-23-023: **0.97% Ni**, 0.45% Cu, 0.07% Co, 0.80 g/t Pd, 0.27 g/t Pt over 16.4 m; this hole confirmed high-grade mineralization between two previously drilled high-grade holes
- PN-23-035: **0.60% Ni, 0.39% Cu**, 0.50 g/t Pd, and 0.11 g/t Pt **over 31.86 m**

Source: FRC/Company

Preliminary Speculative Target (FRC Estimate)

The following table summarizes our preliminary resource estimate, which we are introducing in this report.

FRC’s Preliminary / Speculative Estimate for the Nisku Main Zone

	Nisk Main Zone
Length (m)	1,700
Width (m)	500
Depth (m)	650
Tonnage (assuming 5% mineralization)	71,825,000
Mineable Tonnage (10%)	7,182,500
Ni grade	1.00%
Contained Ni (lbs)	158,347,018
Cu grade	0.50%
Contained Cu (lbs)	79,173,509
Contained NiEq (lbs)	188,037,084

Source: FRC

Resource Expansion Potential

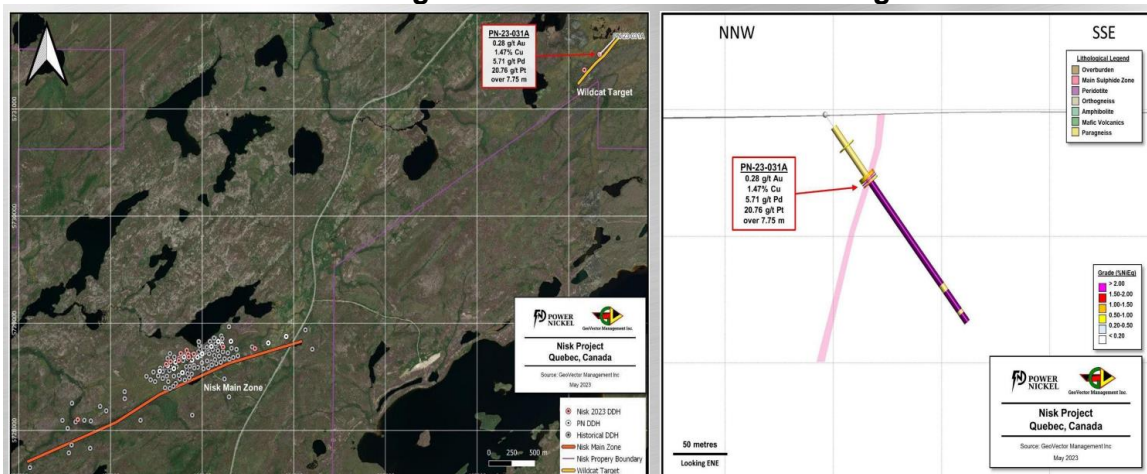
Management is aiming to expand the historic resource estimate by testing additional targets. Initial drilling at the Wildcat target, located 5 km northeast of the Nisk Main zone, identified a new high-grade Cu-PGM zone.

After reviewing all the published data and maps, we are introducing our preliminary / speculative resource estimate of 188 Mlbs NiEq, which is 104% higher than the historic resource estimate

Identified a High-Grade Zone at the Wildcat Target

Drilling at the Wildcat target intersected 7.75 m of 1.47% Cu, 13.1 g/t Ag, 0.28 g/t Au, 5.71 g/t Pd, 20.76 g/t Pt

Pursuing a geophysical survey to identify new targets for a 15,000 m drill program in H2-2023



Source: Company

Financials

Subsequent to Q1-2023, PNP raised \$3.1M through equity financings

In-the-money options and warrant can bring in \$6.5M

C\$ (FYE - Dec 31)	2022	2023 (3M)
Cash	\$1,275,104	\$1,476,144
Working Capital	-\$766,032	-\$1,371,579
Current Ratio	0.72	0.63
LT Debt / Assets	-	-
Monthly Burn Rate (incl. G&A)	-\$164,760	-\$330,270
Exploration Expenses	-\$1,967,520	-\$1,347,109
Cash from Financing Activities	\$4,273,726	\$1,879,620

Options	#	Exercise Price	Amount
Total	11,025,000	\$0.25	\$2,730,500
In-the-Money	4,200,000	\$0.16	\$692,250

Warrants	#	Exercise Price	Value
Total	33,898,830	\$0.24	\$8,284,290
In-the-Money	28,883,750	\$0.20	\$5,776,750

Source: FRC / Company

FRC Valuation and Rating

The following table compares PNP to other juniors with high-grade nickel projects.

High-Grade Ni Projects

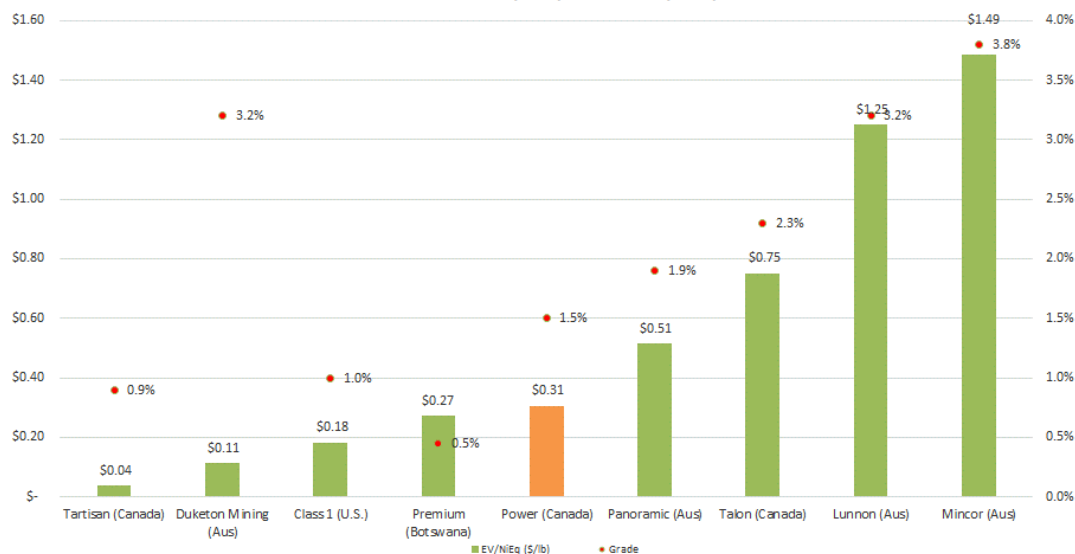
Project	Kambalda	Duketon	Savannah	Cassini
Location	Australia	Australia	Australia	Australia
Company	Lunnon Metals	Duketon Mining	Panoramic Resources	Mincor Resources
Enterprise Value (\$M)	\$147	\$22	\$243	\$626
Stage	Resource	Resource	Producer	Producer
Resource - NiEq	Ind: 93 Mlbs (3.2%) + Inf: 49 Mlbs (2.5%)	Ind: 121 Mlbs (3.2%) + Inf: 144 Mlbs (1.6%)	M&I: 401 Mlbs (1.9%) + Inf: 144 Mlbs (2.0%)	M&I: 391 Mlbs (3.8%) + Inf: 61 Mlbs (3.9%)
Ni Equiv. (M&I Res.) - Mlbs	118	194	473	422
EV/Resource	\$1.251	\$0.113	\$0.514	\$1.485

PNPN is trading at \$0.24/lb NiEq (previously \$0.27/lb) vs the sector average of \$0.60/lb (previously \$0.73/lb)

Project	Kenbridge	NISK	Alexo-Dundonald	Tamarack	Selebi
Location	Ontario	Quebec	Ontario	Minnesota	Botswana
Company	Tartisan Nickel	Power Nickel (80%)	Class 1 Nickel	Talon Metals (60% interest)	Premium Nickel
Enterprise Value (\$M)	\$6	\$23	\$9	\$250	\$188
Stage	PEA	Resource	Resource	PEA	Resource
Resource - NiEq	M&I: 137 Mlbs (0.9%) + Inf: 39 Mlbs (1.7%)	Ind: 65 Mlbs (1.5%) + Inf: 27 Mlbs (1.2%) / FRC Est: 188 Mlbs NiEq	Ind: 27 Mlbs (1.0%) + Inf: 45 Mlbs (1.0%)	Ind: 444 Mlbs (2.3%) + Inf: 223 Mlbs (1.2%)	Inferred: 1,381 Mlbs (0.45%)
Ni Equiv. (M&I Res.) - Mlbs	157	98	50	333	691
EV/Resource	\$0.038	\$0.235	\$0.182	\$0.750	\$0.272
Average	\$0.600				

*EV/lb was calculated based on 100% of M&I + 50% of Inferred Resources

EV/Resource (LHS) vs Grades (RHS)



Source: FRC / S&P Capital IQ / Various Companies

As shown in the table, juniors with higher grades generally exhibit higher EV/lb

We note that the EV/lb of juniors with high-grades (>1%) is at least 10x higher than that of juniors with low-grades (<0.4%)

Based on a sum-of-parts valuation model, we arrived at a fair value estimate of \$0.48/share (previously \$0.44/share)

Our valuation increased as we are using a higher resource estimate for Nisk, partially offset by the impact of share dilution since our previous report

We are maintaining our risk rating of 5 (Highly Speculative)

Valuation Summary	\$M	\$ per share
NISK - Comparables Valuation	\$58.66	\$0.43
Copaquire - AT-NPV12%	\$5.35	\$0.04
Working Capital	\$0.74	\$0.01
Fair Value	\$64.75	\$0.48

Source: FRC

We are reiterating our BUY rating, and raising our fair value estimate from \$0.44 to \$0.48/share. Upcoming catalysts include drilling, an NI 43-101 compliant resource estimate in Q3, the potential for a spin-off transaction, and positive sentiment towards juniors focused on EV metals.

Risks

We believe the company is exposed to the following key risks (not exhaustive):

- The value of the company is primarily **dependent on nickel prices**
- Exploration and development
- Access to capital and potential for share dilution
- **No NI 43-101 compliant resource or economic studies**
- No assurance that the company can advance all of its projects simultaneously

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues and may rely on external funding. These stocks are considered highly speculative.

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