



POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Interim Financial Report

For the six months ended 31 December 2014

Poseidon Nickel Limited Contents

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Poseidon Nickel Limited

Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

Mr C Indermaur
Mr G Brayshaw
Mr R Dennis
Mr D Singleton

Company Secretary

Mr R Kestel

Registered Office

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Subiaco WA 6008

Principal Office

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Subiaco WA 6008
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Postal Address

PO Box 190
West Perth WA 6872

Auditors to the Company

KPMG
Chartered Accountants
235 St George's Terrace
Perth WA 6000

Share Registry

Computershare Investor Services Pty Ltd.
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia

Poseidon Nickel Limited
Directors' report
For the six months ended 31 December 2014

The directors of Poseidon Nickel Limited ("the Company") present their report together with the consolidated interim financial report for the six months ended 31 December 2014 and the auditor's review report thereon.

Contents of Directors' report

- 1. Directors**
- 2. Operating and Financial Review**
- 3. Dividends**
- 4. Events subsequent to reporting date**
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- 6. Rounding off**

Poseidon Nickel Limited

Directors' report (continued)

For the six months ended 31 December 2014

1. Directors

The directors of the Company at any time during or since the end of the interim period are:

Name	Period of directorship
Non-executive Mr Christopher Indermaur <i>Chairman & Independent Non-Executive Director</i>	Appointed 2 July 2007, Resigned 30 September 2008, Re-appointed 2 April 2009
Mr Geoff Brayshaw <i>Independent Non-Executive Director & Chairman of the Audit & Risk Management Committee</i>	Appointed 1 February 2008
Mr Robert Dennis <i>Non-Executive Director</i>	Appointed 24 February 2014
Executive Mr David Singleton <i>Managing Director & Chief Executive Officer</i>	Appointed 1 February 2008

2. Operating and Financial Review

Strategic Overview

The Company has taken several strategic steps to realise the vision of becoming 'Australia's New Nickel' having announced the acquisition of the Black Swan and Lake Johnston Nickel Operations, purchased from OJSC MMC Norilsk Nickel ('Norilsk') for \$1,500,000 and \$1,000,000 respectively. In addition, the Company has secured an ore tolling, concentrate purchase agreement with BHP Billiton's Nickel West ('BHP') in October 2014, whereby Poseidon will now mine and transport Windarra ore to the Nickel West Leinster Operation for toll treating into a smeltable grade concentrate. BHP will purchase all of the concentrate produced under this arrangement for further processing at its smelter in Kalgoorlie. These approaches have not only developed depth to the Company but have removed the capital funding risk associated with the original development plan for the Windarra Nickel Project. Following settlement of the Black Swan acquisition expected by the end of March 2015, Poseidon will have three near production nickel projects requiring only modest funding needs.

Poseidon has now taken significant steps towards enabling the intensive programme of works required to prepare its projects for production during 2015. One of these key steps was the completion of a capital raising for \$30,000,000, before costs, in October 2014 which will allow the recommencement of refurbishment activities at Mt Windarra and early capital works at Lake Johnston to commence. The works include staff recruitment, the progression of numerous engineering activities, liaison with regulatory parties, physical onsite works at Windarra and Lake Johnston.

Windarra Nickel Project Update

Final initiation of the Windarra project requires Poseidon's toll treating party to receive regulatory approval to receive and treat the Windarra ore. Poseidon's regulatory approval to ship ore is linked to this clearance. Both Poseidon and the toll treatment party have been actively involved with the various governmental departments since the offtake deal was signed. Whilst the nature of the approval sought is relatively straightforward, the process is reasonably complex and therefore creates some uncertainty on timescales. Poseidon's current internal working assumption generated through interaction with the off-taker and State Government authorities is that clearances should be complete by the end of the second quarter of 2015 at which time mine development can commence. In the meantime, Poseidon will do what it can reasonably to reduce start up lead times at Windarra.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

Poseidon is also reviewing an option to undertake the bulk sampling of ore for the toll treatment plant from the upper portion of the ore body (see reference to Upper G Shoot below) which is accessible from the already completed decline refurbishment. This bulk sampling will allow R&D work on test samples undertaken last year to be completed at the toll treater to allow for any further optimisation.

The work required to convert the mine dewatering system to a permanent solution has been completed. The two mono pumps installed (which are located approximately 300 metres underground) are being used to continuously pump the remaining mine water to surface via an existing and refurbished rising main. The water is being cleaned through a sand filter before being discharged. This dewatering will enable the final stages of mine refurbishment to be completed ahead of the commencement of production and delivery of ore for toll treating at Leinster into a smeltable grade concentrate. The water level meter on the Poseidon web page is being regularly updated to show progress.

Following the success of the last underground resource drill out at Mt Windarra, the company has chosen to drill an extension of the Upper G Shoot zone. The extension is both near surface and close to existing infrastructure which should provide early cash flow as it is close to the existing decline and at a level already fully rehabilitated. Drilling was completed during February 2015 and the assay results have now been announced. Further information in relation to this drilling programme is provided in the Exploration section of this report. The drilling is confirming that ore production from this area of the mine can occur well before the deeper zones of the ore body, thereby potentially cutting lead times to first ore production.

A Resource and Reserve update for Mt Windarra was completed by Optiro and announced to the market in December 2014. A total resource of 4.4Mt @ 1.64% Ni for 71.5Kt of contained nickel was estimated including a Probable Reserve of 0.5Mt @ 1.78% Ni for 9.0Kt (refer Table 3 & 5).

Poseidon has received multiple responses to the underground mine contract tender and is currently evaluating these responses to determine whether additional cost reductions can be realised given the current market conditions and equipment availability. In addition, firm tender responses for ore haulage costs from Mt Windarra to Leinster have also been received and a formal announcement in relation to ore haulage is due soon.

Lake Johnston Project Update

Poseidon is now progressing plans to return Lake Johnston to production within six months of final financing and successful completion of the Definitive Feasibility Study ('DFS'). As part of this process, Poseidon has completed an interim feasibility study, the results of which were released to the market in December 2014, confirming the viability of Lake Johnston as being a near-term production project. The study has identified a budget estimate for the plant refurbishment and restart capital of \$8,300,000 and an operating cost of A\$6.70/lb on a payable basis (current nickel price circa A\$8.50/lb). Additional work is currently being completed to update the resource modelling and mine plan schedule which will enable operating costs and the DFS to be finalised.

Golder Associates ('Golder') also completed a re-estimate of the Maggie Hays Deposit Mineral Resource estimate to meet JORC 2012 Code requirements which was estimated at 3.8Mt @ 1.41% Ni for 53.1Kt of contained nickel (refer Table 3). Golder was given the work as they are familiar with the drill database and completed previous estimate for Norilsk.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

The primary focus of the Poseidon geology team is to extend the Reserve and Resource life of Lake Johnston. Poseidon believes that Lake Johnston has considerable untapped geological potential both in and around the Maggie Hays ore body as well as regionally. The first priority of the Team is to identify areas underground at Maggie Hays and around the current open mine development areas which are accessible from the existing decline with the intention of extending the project Reserves. This work is progressing well (refer to the exploration section within this report for further details).

Black Swan Project Update

Completion of the Black Swan Project acquisition requires Poseidon and Norilsk to satisfy certain conditions precedent. The parties have been working through the transfer of a number of covenants attaching to the tenements associated with historical undertakings. These transfers are in the normal course of business for a transaction of this nature. All of the key consents attaching to these covenants have now been received.

Poseidon continues to work with Norilsk during the completion period to facilitate the handover of the project and continuation of granted mining approvals. The transfer process has not delayed Poseidon in undertaking its technical work and indeed the Company released the results of the feasibility study into restarting the Black Swan Operations in August 2014.

Golder has completed a JORC 2012 resource and reserve estimate for the Black Swan open pit and ROM stockpiles. Golder estimated a total resource of 30.7Mt @ 0.58% Ni for 179.0Kt of contained nickel and a Probable Reserve of 3.4Mt @ 0.63% Ni for 21.5Kt (refer Tables 3 & 5).

The acquisition completion deadline has by mutual agreement been moved to 27 March 2015. At completion, Poseidon will make final payment for the purchase and commence incurring site occupancy costs.

Exploration – Mt Windarra

During the period, two In-situ Acoustic Emission Stress (AE Stress) holes were completed at Mt Windarra by Gilberts Drilling for a total of 393.8m of HQ3 core. The holes were geotechnically logged by Dempers & Seymour Geotechs. The holes were surveyed using a Televue camera to produce optical and acoustic imaging to support the geotech logging. Core samples were selected from vertical depths of 100m, 500m & 700m vertically from surface (see Figure 1). Four samples in total were collected and these were submitted to E-Precision Laboratories for AE Stress testing to provide data to finalise the 3D Mining Rock Mass Modelling work. The testing has been completed and the results are currently being reviewed & reported by Dempers & Seymour. This work will feed into the final geotechnical model and mine design.

A further twelve RC holes were completed by Westdrill Drilling for a total of 982m (Figure 2). RC holes were drilled above and into the top of G Shoot to define the upper limit of G Shoot prior to the commencement of mining operations and to determine if the previously intersected oxide mineralisation is extensive and amenable to small scale open cut mining. Assays are tabulated in Table 1.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

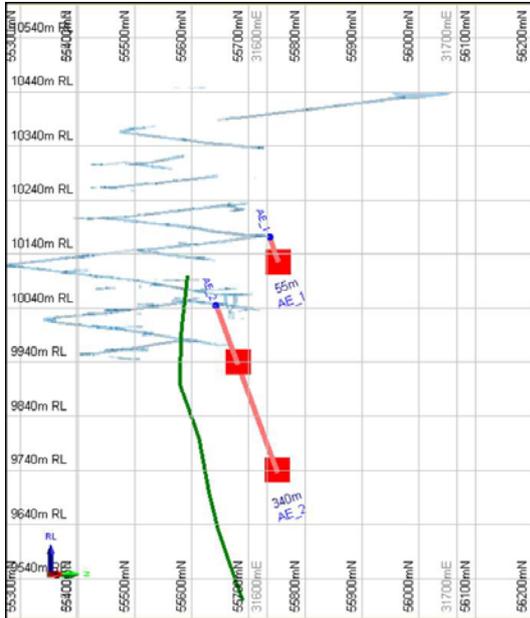


Figure 1: Cross-section showing location and depth of AE samples.

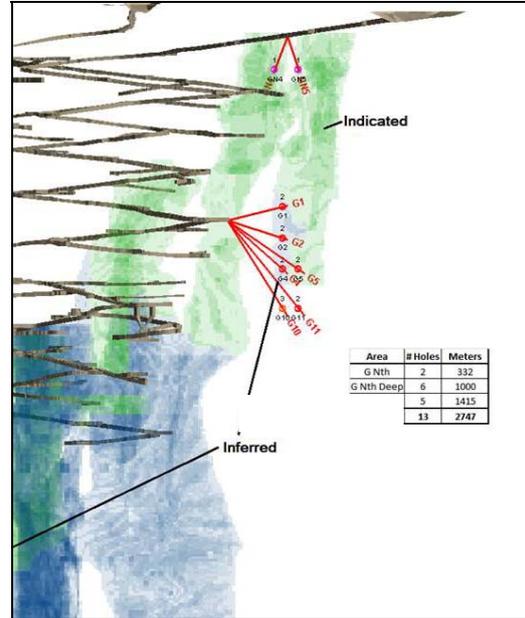


Figure 2: Long Section showing location of Upper G Shoot diamond drill holes.

Hole_Name	Lode	From	To	Interval	%Ni
PNRC0209	Oxide	39.00	40.00	1.00	1.01
PNRC0210	Oxide	23.00	24.00	1.00	1.28
PNRC0211	Oxide	33.00	35.00	2.00	1.54
PNRC0212	Oxide	18.00	19.00	1.00	1.17
PNRC0214	Oxide	19.00	22.00	3.00	1.60
	Oxide	30.00	31.00	1.00	1.53
PNRC0215	Oxide	5.00	7.00	2.00	1.23
	Oxide	28.00	32.00	4.00	2.32
PNRC0216	Oxide	26.00	28.00	2.00	1.84
PNRC0209	Transition	55.00	57.00	2.00	1.44
	Transition	64.00	66.00	2.00	1.68
	Transition	70.00	71.00	1.00	1.50
PNRC0211	Transition	68.00	69.00	1.00	1.14
PNRC0213	Transition	49.00	51.00	2.00	1.10
	Transition	68.00	70.00	2.00	1.48
PNRC0217	Transition	43.00	46.00	3.00	3.26
	Transition	50.00	59.00	9.00	1.43
	Transition	58.00	60.00	2.00	3.31
PNRC0218	Transition	66.00	69.00	3.00	1.20
PNRC0208	Fresh	105.00	106.00	1.00	1.05
	Fresh	115.00	116.00	3.00	1.18

Table 1: Significant RC drilling results (>1% Ni)

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

In addition, five underground NQ2 diamond holes have been completed by Gilberts Drilling for a total of 1,125m into the lower section of Upper G Shoot-North to better define the lower end of the shoot prior to the commencement of mining (see Figure 3) as well as test the depth extensions below Upper G Shoot in an area which has not been drill tested. The initial planned drilling was completed during February however a successful intersection below G Shoot in WUG0061 resulted in an additional 2 holes being approved to test the width and depth potential of the G Shoot extension. Most intersections were in line with the Block Model however WUG0061 intersected highly significant thicknesses and grades ~35m below the last drill hole in Upper G North and 20m below the current resource (Table 2 & Figure 3).

G Shoot looked like it was thinning out and grades dropping off but this hole has demonstrated (as the drilling at C Shoot found) that the shoots pinch and swell. As they pinch the grades drop off, as they swell out they increase again. This hole has opened up a large area of untested opportunity between Upper G and Lower G Shoots (Figure 4). This area is worth perusing in the near future as it provides early and easily accessible ore which is high in the mine and close to existing as well as planned mining infrastructure. The follow up holes below this intersection (WUG0062 & WUG0063) were completed in early March.

Below is the summary of the drill holes returned to date (Table 2). Assays are pending for three holes which will be reported once completed.

Hole Name	Lode	From	To	Interval	True Width	%Ni	Comments
WUG0061	G + H Shoot	170.00	179.54	9.54	7.00	1.82	Includes dilution between H & G Shoot
	H Shoot	170.00	171.00	1.00	0.75	1.08	H Shoot is starting to reform as well. Low grade in other holes
	G-Shoot	174.00	178.13	4.13	3.10	2.96	
	<i>incl</i>	<i>175.00</i>	<i>178.13</i>	3.13	2.40	3.41	High Grade Zone at base
WUG0055	G-Shoot	125.00	126.04	1.04	1.00	0.86	
WUG0056	G-Shoot	143.00	145.00	2.00	2.00	1.08	
WUG0057	G-Shoot	125.00	125.84	0.84	0.84	1.47	
WUG0058	G-Shoot	TBA					In the labs
WUG0059	G-Shoot	TBA					In the labs
WUG0060	G-Shoot	TBA					In the labs
WUG0062	G-Shoot						In progress
WUG0063	G-Shoot						Next to be drilled

Table 2: Significant Diamond drilling Results (>1m @ 1% Ni)

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

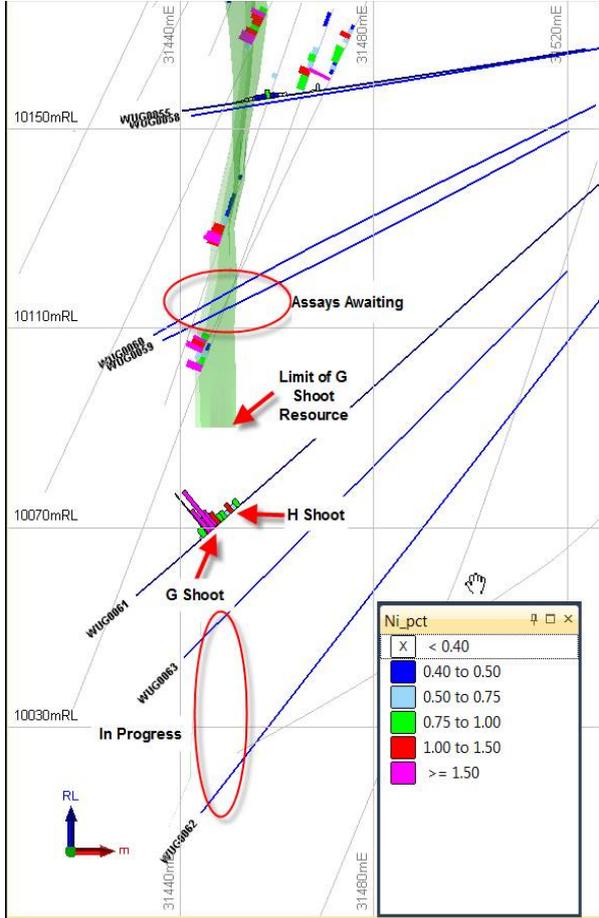


Figure 3: Cross section through Upper G-North Shoot showing existing drilling (grey), new drilling (blue) and the WUG0061 intersection. Follow up holes (WUG0062-63) are targeting the area below and southwards from the intersection

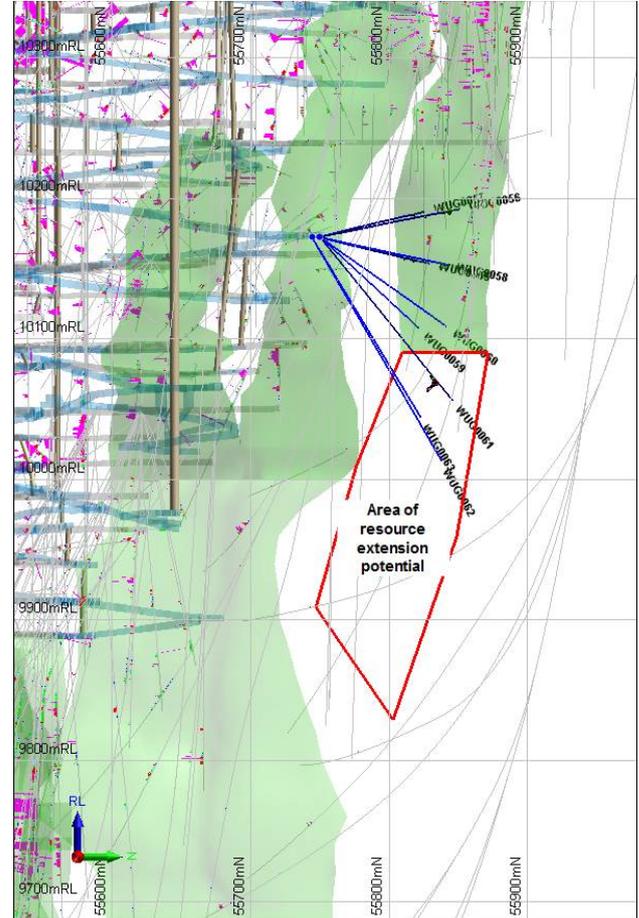


Figure 4: Long section showing the area of untested potential between Upper G-North Shoot and Lower (Deeps) G Shoot. The WUG0061 intersection opens up large area close to the existing workings.

Exploration – Lake Johnston

Resource Model Update

A number of resource database issues meant that Poseidon was unable to produce an updated mining model for Lake Johnston in time for the planned DFS publication. As a result, an intensive programme of work was initiated after the acquisition of the project in November and continued through the Christmas period with the aim of producing a new JORC compliant resource model. A review of the drill database identified that a number of drill holes had been completed but that these had not been included in the resource models. In total circa 100 drill holes were identified and have now been included and a further 29 underground diamond drill holes that were completed prior to the acquisition that required assaying and inclusion in the database. The drill holes were undertaken prior to the mines closure in order to explore beyond the known extent of the current mineralised zones at Maggie Hays as shown in Figure 5.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

The drilling in the southern end of the deposit was particularly targeting newly identified mineralisation to the west of the known ore body as shown in Figure 6. This mineralisation is now recognised as being remobilised nickel sulphide associated with a large scale basal fault which runs under the main Maggie Hays ore body and through the middle of North Shoot (Figure 5). This fault is responsible for remobilising the nickel sulphides from the main ore body into the adjacent banded-iron sediments. Poseidon believes these large scale faults have the potential for developing additional near-mine mineralised zones into offsetting structures around Maggie Hays, as is common in other nickel mines operating in similar geological conditions. The new Western Zone appears to be the first of these identified.

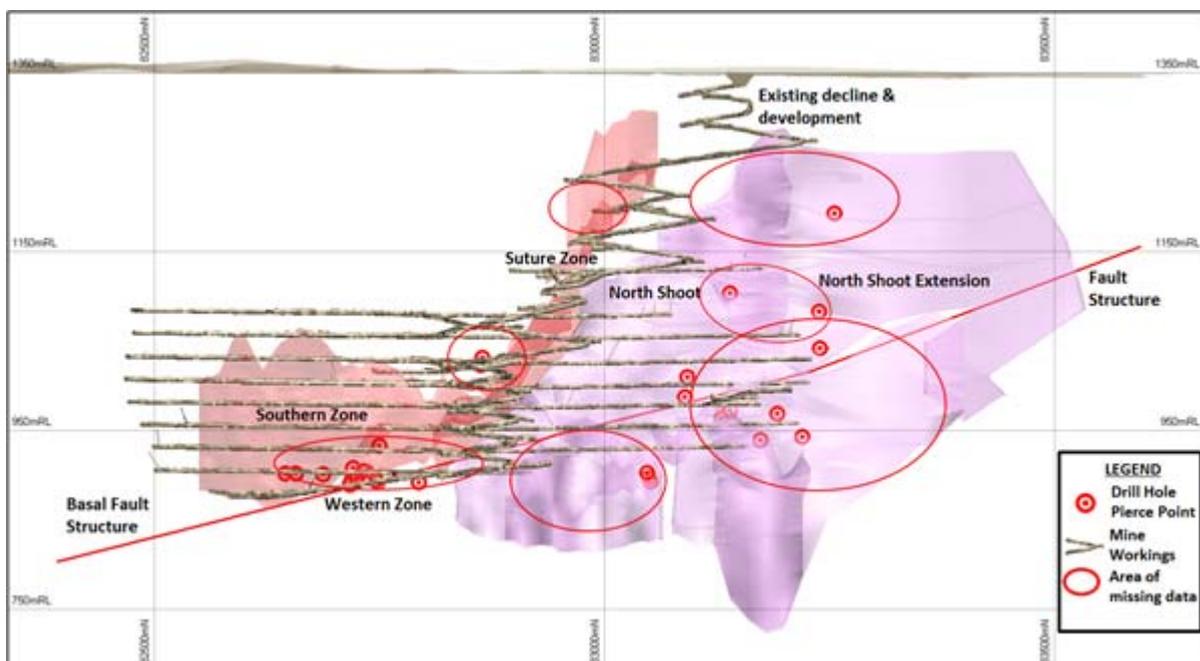


Figure 5: Maggie Hays long section showing location of significant drill hole pierce points which are tabled in this report. The large red circles highlight the area where drill hole data was missing and has now been located and included in the database.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

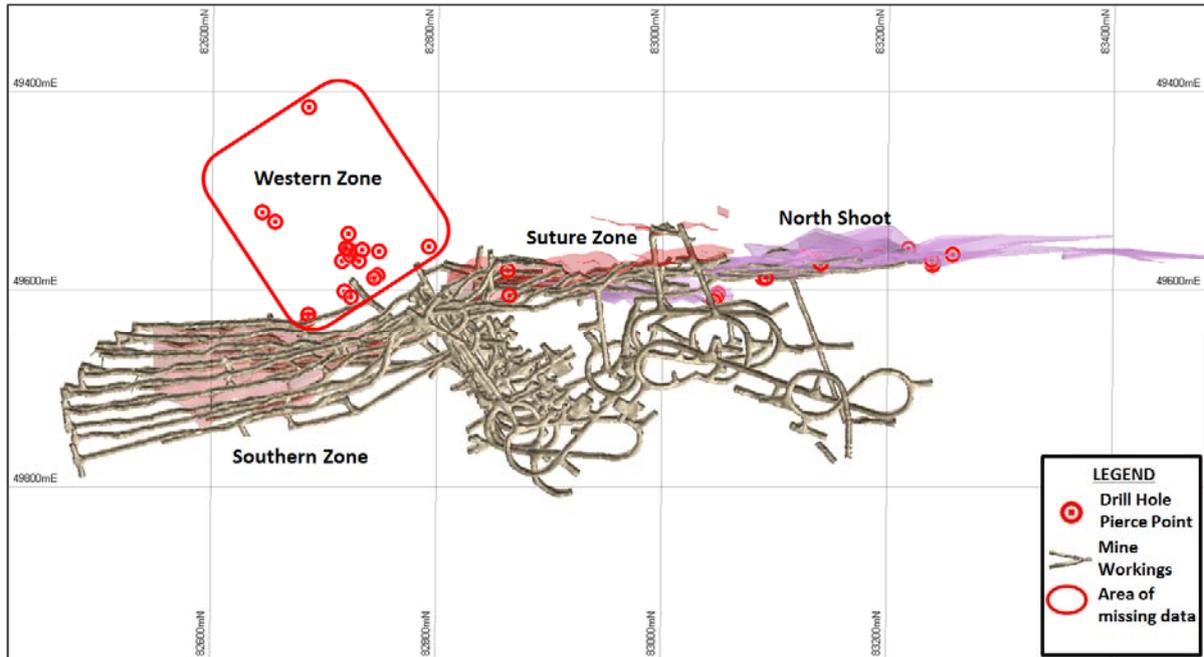


Figure 6: Plan view of Maggie Hays showing location of newly defined Western Zone mineralisation relative to existing mineralisation and infrastructure.

Drilling at Maggie Hays also concentrated on defining extensions within the North Shoot and infilling data. The drilling consistently intersected potentially economic extensions to the mineralised zone. This is likely to lead to an initial mine life significantly beyond that previously expected by Poseidon. The drilling also indicates that further extensions to the ore body are likely when follow up drilling is undertaken.

The inclusion of the face mapping into the geological model has also revealed that a number of the holes in the drill hole database have been incorrectly positioned due to survey errors which led to a lower confidence Inferred resource model. These errors have now been corrected which adds further clarity and confidence to the new resource model.

Mine Planning and Scheduling

Poseidon's aim is to produce a new updated mine plan for Lake Johnston during March 2015 using the revised resource model currently under development. This modelling, aided by the knowledge of recent mine activities, should allow for an accurate prediction of the current mine life (excluding further drilling activities), throughput levels and costs of production. Poseidon expects to shortly announce a new General Manager for Lake Johnston to lead this activity. Initial mine surveys and geotechnical assessments necessary for the mine planning have already been completed.

Poseidon believes that there are potential opportunities to modify the mining methodologies used at Lake Johnston to improve ore recovery levels, particularly in the Suture Zone and the North Shoot. If proven, this could add significantly to the initial project life.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

Production of Concentrate

Since completion of the acquisition of Lake Johnston in November 2014, Poseidon has been recommissioning the concentrate processing facilities on site to recover concentrate stored in the process water dam (Picture 1) and left over from previous operations. These facilities include the Counter Current Decantation ('CCD') (Picture 2), Larox filter (Picture 3), Citect control system and concentrate storage shed and bagging station (Picture 4). These units have now been commissioned and will start to recover the stored concentrate into a saleable form. It is not yet possible to predict accurately the total amount of concentrate to be recovered but an update will be provided when available.



Picture 1: Process Water Dam & Concentrate Storage Shed



Picture 2: CCD



Picture 3: Larox Filter



Picture 4: Concentrate Storage Shed & Bagging Station

Offtake Negotiations

Poseidon has issued tenders and received a number of offers for the nickel sulphide concentrate which is to be produced at Lake Johnston. Negotiations for offtake are underway and are likely to be concluded within the next 3 months.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

Financial Position

For the six months ended 31 December 2014 the Group incurred a loss of \$12,515,000 (2013: loss \$2,210,000) and had a net working capital surplus of \$10,614,000 (2013: deficit \$11,669,000). The working capital surplus includes a provision for environmental rehabilitation of \$3,500,000 that is cash backed (non-current asset).

The Company had a net cash outflow from investing activities of \$3,506,000 (2013: inflow \$544,000), reflecting ongoing exploration and mine refurbishment expenditure and the acquisition of Lake Johnston in November 2014 for a consideration of \$1,000,000. The net cash outflow was reduced following receipt of \$921,000 for the 2014 refundable tax offset from the ATO under the Research and Development Tax Incentive Scheme.

Part of the proceeds from the capital raising was used to repay in full the loan facility with Forrest Family Investments. A total amount of \$8,600,000 was repaid which included accrued interest and associated exit fees under the terms of the agreement.

In order to meet operating expenditures, complete the acquisition of the Black Swan Nickel Operation from Norilsk and progress production plans across the portfolio, including Lake Johnston and the Windarra Nickel Project, the Company will require further funding. The Board of Directors are aware, having prepared a cash flow forecast, of the Company's project development and working capital requirements. The Company, together with its advisor, Grant Samuel, is developing a number of alternative approaches towards financing the projects. It is envisaged that these alternatives will comprise predominantly debt solutions that will be structured to enable a phased restart strategy for the acquired assets and the Windarra Nickel Project. Detailed discussions are underway with a number of financial institutions in this regard.

The Company has engaged with experts to review existing mine closure plans provided as part of the acquisition of Lake Johnston and commissioned an update to the mine closure plan costs using the same scope of works but incorporating current rates for civil works. The report concludes that the probable mine rehabilitation cost of the site at closure is \$18,800,000. Offset against this cost is an estimated sale value of the existing plant and equipment of \$18,200,000 indicating a current net real liability inherited as part of the acquisition of \$600,000. This liability excludes the value of the in-ground resource which the Company is in the process of calculating post the upgrades to the resource model announced to the market. The independent valuation estimates a replacement cost of the plant and equipment of circa \$182,000,000 and a current value when fully refurbished and operational of \$63,000,000. Refurbishment costs for the plant have previously been estimated by Poseidon at \$6,800,000.

The acquisition has been accounted for as an asset acquisition with the allocation of purchase consideration, after recognising the fair value of liabilities, to each of the assets acquired was measured on a pro rata basis determined from the assessment of fair value of the assets acquired as outlined above (refer note 3.2 in the notes to the financial statements).

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

Mineral Resource Statement

Table 3: Nickel Projects Mineral Resource Statement

Nickel Sulphide Resources	JORC Compliance	Cut Off Grade	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
WINDARRA PROJECT											
Mt Windarra	2012	0.90%	922	1.56	14,000	3,436	1.66	57,500	4,358	1.64	71,500
South Windarra	2004	0.80%	772	0.98	8,000	-	-	-	772	0.98	8,000
Cerberus	2004	0.75%	2,773	1.25	35,000	1,778	1.91	34,000	4,551	1.51	69,000
BLACK SWAN PROJECT											
Black Swan	2012	0.40%	9,600	0.68	65,000	21,100	0.54	114,000	30,700	0.58	179,000
LAKE JOHNSTON PROJECT											
Maggie Hays	2012	0.80%	2,000	1.40	27,900	1,800	1.43	25,200	3,800	1.41	53,100
TOTAL											
Total Ni Resources	2004 & 2012		16,067	0.93	149,900	28,114	0.82	230,700	44,181	0.86	380,600

Note: totals may not sum exactly due to rounding

Table 4: Gold Tailings Project Mineral Resource Statement

Gold Tailings Resources	JORC Compliance	Cut Off Grade	Mineral Resource Category								
			Indicated			Inferred			TOTAL		
			Tonnes (Kt)	Grade (g/t)	Au (oz)	Tonnes (Kt)	Grade (g/t)	Au (oz)	Tonnes (Kt)	Grade (g/t)	Au (oz)
WINDARRA GOLD TAILINGS PROJECT											
Gold Tailings	2004	NA	11,000	0.52	183,000	-	-	-	11,000	0.52	183,000
TOTAL											
Total Au Resources	2004		11,000	0.52	183,000	-	-	-	11,000	0.52	183,000

Note: totals may not sum exactly due to rounding.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2014

2. Operating and Financial Review (continued)

Ore Reserve Statement

Table 5: Nickel Project Ore Reserve Statement

Nickel Sulphide Reserves	JORC Compliance	Ore Reserve Category		
		Probable		
		Tonnes (Kt)	Ni% Grade	Ni Metal t
WINDARRA PROJECT				
Mt Windarra	2004	498	1.78	9,000
Cerberus	2004	1,221	1.30	16,000
BLACK SWAN PROJECT				
Black Swan	2012	3,370	0.63	21,500
TOTAL				
Total Ni Reserves	2004 & 2012	5,089	0.91	46,500

Note: totals may not sum exactly due to rounding.

Notes

The information in this report that relates to the Windarra Nickel Project, Mineral Resources is based on information compiled by Neil Hutchison, General Manager of Geology at Poseidon Nickel, who is a Member of The Australian Institute of Geoscientists and Ian Glacken who is a full time employee of Optiro Pty Ltd and is a Fellow of the Australasian Institute of Mining and Metallurgy.

The information in this report that relates to Ore Reserves at the Windarra Nickel Project is based on information compiled by Denis Grubic, who is a Member of The Australasian Institute of Mining and Metallurgy as well as a full time employee of Rock Team Pty Ltd.

The information in this report which relates to the Black Swan Mineral Resource and Ore Reserves is based on information compiled by Andrew Weeks who is a full-time employee of Golder Associates Pty Ltd and Francois Bazin of IMC Mining Pty Ltd who are both Members of the Australasian Institute of Mining and Metallurgy.

Mr Hutchison, Mr Glacken, Mr Weeks, Mr Bazin and Mr Grubic all have sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (the JORC Code 2012). Mr Hutchison, Mr Glacken, Mr Weeks, Mr Bazin and Mr Grubic have consented to the inclusion in the report of the matters based on his information in the form and context in which it appears.

This document contains Mineral Resources and Ore Reserves which are reported under JORC 2004 Guidelines as there has been no Material Change or Re-estimation of the Mineral Resource or Ore Reserves since the introduction of the JORC 2012 Codes. Future estimations will be completed to JORC 2012 Guidelines.

The Australian Securities Exchange has not reviewed and does not accept responsibility for the accuracy or adequacy of this release.

Poseidon Nickel Limited
Directors' report
For the six months ended 31 December 2014

3. Dividends

No dividends were paid or proposed during the six months ended 31 December 2014.

4. Events subsequent to reporting date

There has not arisen in the interval between the end of the reporting period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 18 and forms part of the directors' report for the six months ended 31 December 2014.

6. Rounding off

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:



Mr G F Brayshaw, FCA
Director

Perth
12th March 2015



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Poseidon Nickel Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

Trevor Hart
Partner

Perth

12 March 2015

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Poseidon Nickel Limited
Condensed consolidated interim statement of financial position
As at 31 December 2014

In thousands of AUD

	Note	31 Dec 2014	30 Jun 2014
Assets			
Cash and cash equivalents		15,360	4,363
Trade and other receivables		938	209
Total current assets		16,298	4,572
Property, plant and equipment		16,860	2,766
Exploration and evaluation expenditure	3.1	82,382	73,281
Other investments		16	15
Other		3,500	3,500
Total non-current assets		102,758	79,562
Total assets		119,056	84,134
Liabilities			
Trade and other payables		1,804	1,017
Loans and borrowings	4.2	-	8,378
Employee benefits		380	218
Provisions		3,500	3,500
Total current liabilities		5,684	13,113
Loans and borrowings	4.2	31,832	26,464
Convertible note derivative	4.3	4,066	1,614
Employee Benefits		51	79
Provisions	3.2	19,227	-
Total non-current liabilities		55,176	28,157
Total liabilities		60,860	41,270
Net Assets		58,196	42,864
Equity			
Share capital		136,636	108,875
Reserves		715	629
Accumulated losses		(79,155)	(66,640)
Total equity attributable to equity holders of the Company		58,196	42,864
Total equity		58,196	42,864

The condensed notes on pages 23 to 32 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
 Condensed consolidated interim statement of profit or loss and other
 comprehensive income
 For the six months ended 31 December 2014

In thousands of AUD

	Note	31 Dec 2014	31 Dec 2013
Other income		588	299
Depreciation expense		(3)	(6)
Personnel expenses		(708)	(463)
Exploration and evaluation costs expensed		(1,112)	(180)
Consultancy and advisor fees		(1,097)	(1,325)
Share based payment expense	5.1	(393)	(461)
Other expenses		(679)	(628)
Results from operating activities		(3,404)	(2,764)
Finance income		95	4,060
Finance costs		(9,206)	(3,506)
Net finance income / (costs)	2.2	(9,111)	554
Loss before income tax		(12,515)	(2,210)
Income tax expense		-	-
Loss for the period		(12,515)	(2,210)
Total comprehensive loss for the period		(12,515)	(2,210)
Loss per share			
Basic and diluted loss per share (cents/share)		(2.22)	(0.54)

The condensed notes on pages 23 to 32 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
Condensed consolidated interim statement of changes in equity

For the six months ended 31 December 2013

In thousands of AUD

	Issued Capital	Share based payment reserve	Accumulated losses	Total equity
Balance at 1 July 2013	100,896	472	(60,818)	40,550
Loss	-	-	(2,210)	(2,210)
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive income / (loss) for the period	-	-	(2,210)	(2,210)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital (net of costs)	366	-	-	366
Issue of options	-	87	-	87
Transfer to accumulated losses upon lapse of options	-	(15)	15	-
Total contributions by and distributions to owners	366	72	15	453
Total transactions with owners	366	72	15	453
Balance at 31 December 2013	101,262	544	(63,013)	38,793

For the six months ended 31 December 2014

In thousands of AUD

Balance at 1 July 2014	108,875	629	(66,640)	42,864
Loss	-	-	(12,515)	(12,515)
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive income / (loss) for the period	-	-	(12,515)	(12,515)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital (net of costs)	27,761	-	-	27,761
Issue of options	-	86	-	86
Transfer to accumulated losses upon lapse of options	-	-	-	-
Total contributions by and distributions to owners	27,761	86	-	27,847
Total transactions with owners	27,761	86	-	27,847
Balance at 31 December 2014	136,636	715	(79,155)	(58,196)

The condensed notes on pages 23 to 32 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
 Condensed consolidated interim statement of cash flows
 For the six months ended 31 December 2014

In thousands of AUD

	Note	31 Dec 2014	31 Dec 2013
Cash flows from operating activities			
Sundry receipts		544	576
Payments to suppliers and employees		(3,983)	(2,564)
Cash used in operations		(3,439)	(1,988)
Interest received		82	58
Net cash used in operating activities		(3,357)	(1,930)
Cash flows from investing activities			
Payments for property, plant and equipment		(423)	(6)
Payments for exploration and evaluation expenditure		(2,739)	(3,554)
Payments for asset acquisition	3.2	(1,115)	-
Proceeds from research and development for exploration and evaluation expenditure		921	4,104
Other – deposit paid		(150)	-
Net cash received from / (used in) investing activities		(3,506)	544
Cash flows from financing activities			
Proceeds from issue of shares and options (net of costs)		27,051	-
Payment of borrowing costs		(120)	-
Proceeds from borrowings		-	76
Repayment of borrowings		(8,000)	(49)
Interest paid		(1,071)	(514)
Net cash received from / (used in) financing activities		17,860	(487)
Net decrease in cash and cash equivalents		10,997	(1,873)
Cash and cash equivalents at 1 July		4,363	2,590
Cash and cash equivalents at 31 December		15,360	717

The condensed notes on pages 23 to 32 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 1 – Basis of Preparation

In preparing the condensed consolidated interim financial statements, Poseidon Nickel Limited has made a number of changes in structure, layout and wording in order to make the financial statements less complex and more relevant for shareholders and other users. We have grouped notes into sections under five key categories:

1. Basis of preparation
2. Results for the year
3. Assets and liabilities supporting Exploration and Evaluation
4. Equity and funding
5. Other disclosures

Poseidon Nickel Limited (“the Company”) is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2014 comprises the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled operations.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2014.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2014 is available upon request from the Company’s registered office at Spectrum Level 2, 100 Railway Road, Subiaco WA 6000 or at www.poseidon-nickel.com.au.

1.1 Statement of compliance

The consolidated interim financial report is a general purpose financial report prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* and with IAS 34 *Interim Financial Reporting*.

This consolidated interim financial report was approved by the Board of Directors on 12 March 2015.

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the consolidated interim financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

1.2 Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company’s 2014 annual financial report for the financial year ended 30 June 2014. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

There have been no new and revised Standards and Interpretations applicable for the current half-year which have resulted in changes to the Group’s presentation of, or disclosure in, its half-year financial statements.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

1.3 Financial position

The condensed consolidated interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2014 the Group incurred a loss of \$12,515,000 (2013: loss \$2,210,000) and had a net working capital surplus of \$10,614,000 (2013: deficit \$11,669,000).

The Company had a net cash outflow from investing activities of \$3,506,000 (2013: inflow \$544,000), reflecting ongoing exploration, mine refurbishment expenditure and the acquisition of the Lake Johnston Nickel Operation In November 2014 from OJSC MMC Norilsk Nickel ("Norilsk") for a consideration of \$1,000,000. The net cash outflow was reduced following receipt of \$921,000 for the 2014 refundable tax offset from the ATO under the Research and Development Tax Incentive Scheme.

In order to meet operating expenditures, complete the acquisition of the Black Swan Nickel Operation from Norilsk and progress production plans across the portfolio, including Lake Johnston and the Windarra Nickel Project, the Company will require further funding. The Board of Directors is aware, having prepared a cash flow forecast, of the Company's project development and working capital requirements. The Company, together with its advisor, Grant Samuel, is developing a number of alternative approaches towards financing the projects. It is envisaged that these alternatives will comprise debt solutions that will be structured to enable a phased restart strategy for the acquired assets and the Windarra Nickel Project. Detailed discussions are underway with a number of financial institutions in this regard.

1.4 Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this consolidated interim financial report, the significant judgements made by management in applying this Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2014.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 2 – Results for the Year

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating loss, taxation and earnings per share.

2.1 Operating segments

For management purposes the Group has one operating segment, being nickel exploration and evaluation in Australia.

Information about reportable segments

In thousands of AUD

For the six months ended 31 December

Reportable segment other income	588	290
Reportable segment exploration costs expensed	(1,112)	(180)
Reportable segment profit / (loss) before income tax	(524)	110
Reportable segment assets	102,450	78,252
Capital expenditure	13,928	5

Nickel exploration and evaluation

Reconciliations of reportable segment profit / (loss) and assets

Loss

Total profit / (loss) for reportable segments	(524)	110
Unallocated amounts: other corporate expenses	(2,880)	(2,874)
Net finance income / (costs)	(9,111)	554
Loss before income tax	(12,515)	(2,210)

2014	2013
588	290
(1,112)	(180)
(524)	110
102,450	78,252
13,928	5
(524)	110
(2,880)	(2,874)
(9,111)	554
(12,515)	(2,210)

Assets

Total assets for reportable segments	102,450	79,553
Other assets	16,606	4,581
	119,056	84,134

31 Dec 2014	30 Jun 2014
102,450	79,553
16,606	4,581
119,056	84,134

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2014.

2.2 Net financing costs

Net financing costs can be analysed as follows:

In thousands of AUD

Interest income on bank deposits	94	36
Change in fair value of convertible note derivative	-	4,024
Change in fair value of investments	1	-
Finance income	95	4,060
Interest expense – convertible note	(2,358)	(2,271)
Interest expense – loan	(343)	(512)
Interest expense – premium insurance funding	-	(2)
Unrealised foreign exchange loss	(4,300)	(715)
Impairment of investments	-	(6)
Change in fair value of convertible note derivative	(2,205)	-
Finance costs	(9,206)	(3,506)
Net finance income / (costs)	(9,111)	554

31 Dec 2014	31 Dec 2013
94	36
-	4,024
1	-
95	4,060
(2,358)	(2,271)
(343)	(512)
-	(2)
(4,300)	(715)
-	(6)
(2,205)	-
(9,206)	(3,506)
(9,111)	554

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 3 – Assets and Liabilities Supporting Exploration and Evaluation

This section focuses on the exploration and evaluation assets which form the core of the business, including those assets and liabilities which support ongoing exploration and evaluation as well as capital commitments existing as at 31 December 2014.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Indicators of impairment for exploration and evaluation assets

The Company has reviewed exploration and evaluation assets for indicators of impairment in accordance with AASB 6 and concluded that impairment indicators did not exist at period end. In making this assessment, management is required to make assessments on the status of each project and the future plans towards successful development and commercial exploitation, or alternatively sale, of the respective areas of interest.

Site restoration

Provisions for the costs of rehabilitation, decommissioning and restoration of the area disturbed during mining activities depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied. Site restoration provisions are reviewed and updated as necessary each year to reflect management's best estimates of future cost estimates and timings.

3.1 Exploration and evaluation expenditure

In thousands of AUD

Costs carried forward in respect of areas of interest in the following phase:

Exploration and evaluation phase

Reconciliations: Exploration and evaluation phase

Carrying amount at beginning of period

Additions, net of research and development proceeds

Assets acquired

	31 Dec 2014	30 Jun 2014
Exploration and evaluation phase	82,382	73,281
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of period	73,281	71,931
Additions, net of research and development proceeds	2,635	1,350
Assets acquired	6,466	-
	82,382	73,281

The ultimate recoupment of costs carried forward for exploration and evaluation is dependant on the successful development and commercial exploitation or sale of the respective areas of interest. Exploration expenditure of \$1,112,000 (2013: \$180,000) was expensed as incurred through the Income Statement for the period.

3.2 Asset Acquisition

On 12 November 2014 the Group acquired the assets of the Lake Johnston Nickel Operation from OJSC MMC Norilsk Nickel for a cash consideration of \$1,000,000.

The transaction is not a business combination as the assets acquired did not meet the definition of a business as defined in the Australian Accounting Standards as at the date of acquisition, no economic resource could be established. The acquisition of the net assets meets the definition of, and has been accounted for, as an asset acquisition.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

The allocation of purchase consideration, after recognising the fair value of liabilities, to each of the assets acquired was measured on a pro rata basis determined from the assessment of fair value of the asset acquired.

In thousands of AUD

Assets

Property, plant & equipment
Exploration and evaluation

Liabilities

Provision for rehabilitation
Value of net assets acquired

Consideration

Cash consideration
Transaction costs
Total consideration

	31 Dec 2014
	13,876
	6,466
	(19,227)
	<u>1,115</u>
	1,000
	115
	<u>1,115</u>

The Group has engaged with experts to assist with establishing the fair value of assets and liabilities acquired.

The Group incurred acquisition-related costs of \$115,000 relating to stamp duty, advisory and legal fees which are included in asset acquisition transaction costs.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 4 – Equity and Funding

This section focuses on the debt and equity funding available to the Group at year end, most notably covering share capital, loans and borrowings and convertible note derivatives.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Convertible note derivative

The fair value of the convertible note derivative is determined using a binomial option pricing model that takes account of the exercise price, the term of the option, the Company's share price at the end of the reporting period, the expected volatility of the underlying share price and the risk-free interest rate (based on government bonds). The expected volatility is based upon historic volatility (based on the remaining life of the options) adjusted for abnormal spikes in the Company's share price.

Convertible note liability

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

4.1 Capital and reserves

Share capital

<i>In thousands of shares</i>	Ordinary shares	
	31 Dec 2014	30 Jun 2014
Ordinary shares		
Fully paid	680,251	513,467
Total share capital	680,251	513,467
Movements in ordinary shares on issue:		
On issue at 1 July 2014	513,467	409,241
<i>Shares issued and expensed during the period:</i>		
Issued for cash ⁽ⁱ⁾	156,911	100,994
Issued for directors fees	560	1,197
Issued for employee salary	-	802
Issued for professional broker fees	-	857
Issued for interest on convertible notes	2,121	-
Issued for employees performance bonus	4,525	-
Issued for managing directors performance bonus	2,230	-
<i>Shares issued but expensed during the prior period:</i>		
Issued for directors fees	437	376
On issue at 31 December 2014	680,251	513,467

- (i) During the reporting period, the Company issued 156,911,216 Ordinary Shares at \$0.18 per share to raise \$28,244,000. The capital raising incurred transaction costs of \$1,193,000.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

4.2 Loans and borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings.

<i>In thousands of AUD</i>	31 Dec 2014	30 Jun 2014
Current		
Borrowings – loan	-	8,378
Total borrowings - current	-	8,378
Non-current		
Convertible note liability	31,832	26,464
Total borrowings – non-current	31,832	26,464

Convertible note liability

<i>In thousands of AUD</i>	31 Dec 2014	30 Jun 2014
Carrying amount of liability at beginning of period	26,464	22,734
Exchange rate effects	4,053	(820)
Accrued interest capitalised	2,358	5,012
Payment of interest	(1,043)	(462)
Carrying amount of liability at end of period	31,832	26,464

The Company has on issue a US\$15,000,000 and US\$20,000,000 Convertible Note that were issued on 28 March 2011. The notes are convertible into ordinary shares of the Company at the option of the holder at any time up to 28 March 2017. The conversion rates for the notes are fixed at AU\$0.40 and AU\$0.30 respectively. The instrument was interest free for the first three years and then bears a coupon rate of 5% thereafter until maturity. On maturity the notes will be repayable in cash. The carrying amount of the liability has been calculated as the discounted original fair value, accrued for interest plus exchange adjustments.

4.3 Convertible note derivative

<i>In thousands of AUD</i>	31 Dec 2014	30 Jun 2014
Carrying amount of liability at beginning of period	1,614	6,142
Fair value movement	2,205	(4,557)
Exchange rate effects	247	29
Carrying amount of liability at end of period	4,066	1,614

The value of the derivative fluctuates with the Company's underlying share price and the difference in the Company's share price between 30 June 2014 (share price \$0.08) and 31 December 2014 (share price \$0.12) is reflected in the fair value movement. An increase in the share price of the Company increases the carrying amount of the derivative.

As the convertible notes are denominated in United States dollars (USD), the change in the exchange rate with the Australian dollar (AUD) is taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2014 was 0.9427:1 and at 31 December 2014, 0.8175:1.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 5 – Other Disclosures

The disclosures in this section focus on share schemes in operation and financial risk management of the Group. Other mandatory disclosures, such as details of related party transactions, can also be found here.

5.1 Share-based payments arrangements

The share-based payment expense included within the Income Statement can be broken down as follows:

<i>In thousands of AUD</i>	31 Dec 2014	31 Dec 2013
Share options expense	86	88
Shares granted expense	192	297
Hybrids granted expense	115	76
Total expenses recognised as employee costs	393	461

Share Options

No options were granted to directors or executives during the reporting period.

Shares

The board can decide to issue shares and hybrids in relation to the short term performance bonus under the Poseidon Employee Bonus Scheme ("EBS") scheme whereby the employee has elected to receive their cash bonus in shares. The shares are subject to a three year continuous service condition from the date of issue.

The fair value of services received in return for shares granted is based on the fair value of shares granted, which is measured using the difference between the purchase price and the share price on the grant date. The fair value of shares granted to executives and employees and executive director was \$0.165 and \$0.155 respectively.

The terms and conditions of share grants made during the six months ended 31 December 2014 are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Shares granted to executives and employees on 7 November 2014	4,525,000	The shares have a 3 year vesting period
Shares granted to executive director on 26 November 2014	2,230,000	The shares have a 3 year vesting period
Total shares	6,755,000	

Hybrids

The fair value of hybrids granted is equal to the value of cash compensation that has been elected to be taken as shares by non-executive directors under the terms of the Director Share Plan ("DSP"). The number of hybrids granted is calculated by dividing the value of cash compensation by the 90 days volume weighted average price of the Company's shares at the date of grant.

During the six months ended 31 December 2014, there were 655,577 hybrids granted under the terms of the DSP. There were no hybrids outstanding at the end of the period (2013: nil) as the hybrids vested immediately upon grant. The hybrids granted during the period have a purchase price and fair value in the range of \$0.1624 to \$0.1892 (2013: \$0.0987 to \$0.1200).

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

5.2 Financial risk management

Fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The different valuation methods are called hierarchies and they are described below:

<i>In thousands of AUD</i>	Level	Carrying amount		Fair value	
		31 Dec 2014	30 Jun 2014	31 Dec 2014	30 Jun 2014
Financial assets & liabilities measured at fair value					
Convertible note derivative	Level 2	4,066	1,614	4,066	1,614
Listed equity securities	Level 1	16	15	16	15
		<u>4,082</u>	<u>1,629</u>	<u>4,082</u>	<u>1,629</u>
Financial assets & liabilities not measured at fair value					
Convertible note liability	Level 2	<u>31,832</u>	<u>26,464</u>	<u>43,338</u>	<u>35,142</u>

Fair value hierarchy

Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – the fair values are measured using inputs (other than quoted prices) that are observable for the asset or liability either directly or indirectly; or

Level 3 – the fair values are measured using inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors and accruals have been excluded from the above analysis as their fair values are equal to the carrying values.

The fair value of convertible note derivatives is determined using a binomial option pricing model. The key drivers of this value include the Company's own share price and the foreign exchange rate.

The fair value of the convertible note liability is based on discounted cashflows using 4% - 5%.

5.3 Related parties

Other key management personnel transactions

In March 2012 and subsequently varied on 25 June 2013 and 30 September 2013, the Company entered into an \$8,000,000 unsecured Bridge Loan with Forrest Family Investments Pty Ltd ("FFI" or "the Lender"). The loan was negotiated on commercial terms and conditions and has been repaid in full on 29 October 2014.

5.4 Subsequent events

There has not arisen in the interval between the end of the reporting period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

5.5 Commitments

The Company has agreed acquire the Black Swan nickel operation from OJSC MMC Norilsk Nickel for \$1,500,000. A 10% deposit has been paid and the balance of \$1,350,000 is expected to be paid upon settlement which is likely to occur by 27 March 2015.

Poseidon Nickel Limited Directors' declaration

In the opinion of the directors of Poseidon Nickel Limited ("the Company"):

1. the financial statements and notes set out on pages 19 to 32 are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the six month period ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Mr G F Brayshaw, FCA
Director

Perth
12th March 2015



Independent auditor's review report to the members of Poseidon Nickel Limited

We have reviewed the accompanying interim financial report of Poseidon Nickel Limited, which comprises the condensed consolidated interim statement of financial position as at 31 December 2014, condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the half-year ended on that date, notes 1 to 5.5 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Poseidon Nickel Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Poseidon Nickel Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in blue ink, appearing to be 'KPMG' written in a stylized, cursive font.

KPMG

A handwritten signature in blue ink, appearing to be 'T. Hart' written in a cursive style.

Trevor Hart
Partner

Perth

12 March 2015