Independent Expert's Report and Financial Service Guide

Poseidon Nickel Limited – Replacement of the Existing Convertible Notes

25 November 2015

Building a better working world

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PART 1 – INDEPENDENT EXPERT'S REPORT

The Directors
Poseidon Nickel Limited
Unit 8, 331-335 Hay Street
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25 November 2015

Dear Sirs

Replacement of the Existing Convertible Notes

Introduction

On 4 November 2015, Poseidon Nickel Limited ("Poseidon" or the "Company") announced that it had renegotiated the US$15 million and US$20 million convertible notes (the "Existing Notes") that are held by US based global investment bank, Jefferies, LLC ("Jefferies"). Under the new arrangements it has been agreed that the US$35 million Existing Notes will be terminated and in their place a US$17.5 million new convertible note (the "New Note") will be issued.

Effectively the US$17.5 million being provided under the New Note is being used by Poseidon to repay the US$35 million outstanding under the Existing Notes. In turn, Jefferies is accepting the US$17.5 million New Note in full repayment of the US$35 million Existing Notes.

In addition to the US$35 million principal amount of the Existing Notes being reduced to US$17.5 million with the issue of the New Note the major differences between the terms of the Existing Notes and the terms of the New Note are summarised as follows:

- the Existing Notes mature on 31 March 2017, at which time if they have not been converted into Poseidon shares they will need to be repaid, whereas the New Note will mature on 30 September 2020; and
- the US$15 million Existing Notes are convertible into Poseidon shares at $0.40 per share and the US$20 million Existing Notes are convertible at $0.30 per share. Alternatively, the New Note will be convertible into Poseidon shares at $0.09 per share.

The remaining terms and conditions attaching to the New Note are broadly consistent with those of the Existing Notes.

The Existing Notes were used by Poseidon to assist with financing the continued development of the Windarra Nickel Project with the funds being provided by private investment funds managed by Harbinger Capital Partners LLC ("Harbinger"). The US$15 million Existing Notes were originally issued in June 2008 with a conversion price of $1.00 per share and a maturity date of 24 June 2014. At the same time a further US$20 million amount was made available by Harbinger under the same terms and conditions as the US$15 million Existing Notes however this was never drawn down.

With the onset of the global financial crisis (the "GFC") and the deterioration of world financial markets, in December 2010, Poseidon and Harbinger renegotiated the terms of the US$15 million Existing Notes and the terms under which the second tranche of US$20 million was to be provided. Under the revised terms the conversion price attaching to the US$15 million Existing Notes was reduced from the $1.00 to $0.40 per share and the maturity date was reset to 31 March 2017. The undrawn US$20 million was replaced with a new US$20 million convertible note facility with a conversion price of $0.30 and a maturity date of 31 March 2017. The funds under the US$20 million Existing Notes were provided to Poseidon in March 2011.

In November 2012, it was announced that Jefferies had acquired the Existing Notes from Harbinger. Accordingly, from that time Jefferies has been the owner of the US$15 million Existing Notes and the US$20 million Existing Notes.

Purpose of the Report

Under Section 606 of the Corporations Act (the "Act"), an entity is prohibited from acquiring a greater than 20% interest in the voting shares of a listed company. An exception to the prohibition is item 7 of Section 611 of the Act, which allows for the increase in voting shares above 20% to be approved by shareholders.

Because they carry no ordinary voting rights, the issue of convertible notes by a listed company has no immediate Section 606 consequences as the voting interests in that entity at that time do not change. The Section 606 prohibition only becomes an issue when the holder wishes to convert the convertible notes into shares and that that conversion will increase the holder's voting interest in the listed company to greater than 20%. In these circumstances the holder would be prevented from converting that portion of the notes held that would take their voting interest over 20%. To address this concern, public companies issuing convertible notes often obtain shareholder approval for the issue of shares to the holder of the convertible notes on the possible conversion of those notes at some future time. This 'pre-approval' for the issue of shares on the possible conversion of convertible notes is obtained pursuant to item 7 of Section 611 of the Act.

Pre-approval for the issue of shares to Harbinger on the possible conversion of the US$15 million Existing Notes was obtained from Poseidon shareholders at a general meeting held in September 2008. The issue of shares to Harbinger in relation to the possible conversion of the US$15 million Existing Notes under their revised terms and the possible conversion of the US$20 million Existing Notes were pre-approved by Poseidon shareholders at a general meeting held in March 2011. In the period that Jefferies has held the Existing Notes, no pre-approval has been sought for the issue of shares on the possible conversion of the Existing Notes.

As at the date of this report, Jefferies holds 24,550,967 shares in Poseidon which equates to a 3.35% voting interest. These shares have been issued to Jefferies over time in satisfaction of the interest charged on the Existing Notes. In this regard, after an initial interest free period of three years, interest became payable on the Existing Notes from 1 April 2014 at a rate of 5% per annum, payable quarterly in arrears. At Poseidon's option the interest expense charged on the Existing Notes can be met through the issue of shares at a price equating to the five day volume weighted average price of the Company's shares on the Australian Securities Exchange ("ASX"), converted to US$ using a five day average spot buying price for the A$:US$ exchange rate.

Based on the number of shares Poseidon currently has on issue and the proposed terms of the New Note, if the New Note is converted at some time in the future, all other things being equal, it is highly likely that Jefferies' voting interest in the Company would increase above the 20% allowed under Section 606. Because of this, shareholder approval is being sought pursuant to item 7 of Section 611 for the issue by Poseidon of shares to Jefferies on the possible conversion of the New Note (the "New Note Shares").

Unless the directors of the subject company provide such a report, under the Australian Securities and Investments Commission ("ASIC") Regulatory Guide 111: Content of expert reports ("RG 111"), resolutions proposed for item 7 of Section 611 purposes are required to be accompanied by an independent expert's report which is to provide an opinion as to whether or not the proposed transaction is fair and reasonable to the non-associated shareholders of the company.

Consistent with this requirement, the Directors of Poseidon (the "Directors") have appointed Ernst & Young Transaction Advisory Services Limited ("EY Transaction Advisory Services") as independent expert to prepare a report, the purpose of which is to provide an opinion, as to whether or not the issue of the New Note Shares to Jefferies on the possible conversion of the New Note is fair and reasonable to those shareholders of the Company not associated with Jefferies (the "Non-Associated Shareholders").

RG 111 also requires us to consider whether or not Jefferies, Poseidon or any other party is paying or receiving a premium for control as a result of the issue of the New Note Shares on the possible conversion of the New Note.

At a general meeting of Poseidon shareholders being convened for on or about 20 January 2016 (the "Meeting") the Non-Associated Shareholders will be requested to consider, amongst other things, resolutions seeking approval for the termination of the Existing Notes, the issue of the New Note and the issue of the New Note Shares on the possible future conversion of the New Note. The report is to be included in the Notice of Meeting and Explanatory Statement being sent to Poseidon shareholders in relation to the Meeting.

Basis of Assessment

The Act does not define the term 'fair and reasonable'. RG 111 provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable to shareholders.

Under RG 111 a key matter that an expert needs to consider when determining the appropriate form of analysis to be applied is whether or not the effect of the transaction is comparable to a takeover bid. RG 111 requires that where the outcome of the transaction has a similar effect as a takeover bid then that transaction should be analysed as if it were a takeover bid. A takeover bid generally involves a control transaction where one entity is looking to acquire or increase its shareholding (i.e. voting interest) in another entity to a level greater than 50%. With respect to a takeover bid RG 111 notes that:

- an offer is 'fair' if the value of the offer price or consideration being paid is equal to or greater than the value of the securities that are the subject of the offer; and

- an offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 requires that the comparison of value between the consideration being paid and the securities that are subject of the takeover bid is to be made assuming 100% ownership of the target.

RG 111 considers that all transactions involving an entity increasing its shareholding in another entity to above 20% are control transactions and should be assessed as a takeover bid. In considering the possible conversion of the New Note and the issue of the New Note Shares, the relevant date to assess the value of the New Note Shares would be at or around the time the New Note is converted and Jefferies' voting interest in Poseidon increases.

At the date of this report, no assessment of the value of the New Note Shares can reasonably be made as the possible date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, at the date of their issue the conversion price and the wider terms of the New Note together with the circumstances of Poseidon and the advantages provided by the termination of the Existing Notes and the issue of the New Note are of more significance than the possible value of the Company's assets and liabilities at some future date.

Notwithstanding this, in assessing the issue of the New Note and the issue of the New Note Shares to Jefferies on the possible conversion of the New Note, we have considered the value of a Poseidon share on a controlling interest basis (i.e. assuming 100% ownership) prior to the issue of the New Note and compared that to the pro forma value of a Poseidon share on a minority interest basis post the issue of the New Note and with the conversion price of the New Note.

While RG 111 requires transactions involving a greater than 20% interest to be treated as control transactions, RG 111 does recognise that there may be circumstances where an entity will acquire 20% or more of another entity without obtaining or increasing its practical level of control in that entity.

The termination of the Existing Notes and the issue of the New Note are subject to both being approved by the Non-Associated Shareholders. If either proposal is not approved then neither will proceed.

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Summary of Opinion

Our detailed summary and conclusion is contained in section 6 of this report. It is recommended that our opinion be read in conjunction with the whole of this report, including the appendices.

In relation to the possible issue of the New Note Shares, because the future fair value of the shares to be issued cannot be determined, an assessment of whether or not Jefferies would be paying a premium for control if the New Note is converted is, at the date of this report, not possible. Notwithstanding this, we assessed the value of a Poseidon share prior to the issue of the New Note and on a controlling interest basis (i.e. assuming 100% ownership) to be $0.0676 and the pro forma value of a Poseidon share post the issue of the New Note and on a minority interest to be $0.0766. The difference between the two values represents a 13.3% premium, which is to the benefit of the Non-Associated Shareholders.

It is also of note that the $0.09 conversion price of the New Note was at a premium of 73.1% to the closing price of a Poseidon share on the ASX on 4 November 2015 (the announcement of the termination of the Existing Notes and the issue of the New Note was made after the market closed on that date). It is also relevant that when using the 5 and 10 day, and one, two and three month volume weighted average prices ("VWAP") prior to that date, the premium ranged from 45.7% to 69.3%.The existence of the premium is to the benefit of the Non-Associated Shareholders. On a controlling interest basis, assuming a control premium of 30% to the various VWAPs, the range of premiums of the conversion price over the VWAPs was in the range of 12.1% to 33.1%.

Based on the matters discussed throughout this report and those summarised in section 6, including the positive impact that the termination of the Existing Notes and the issue of the New Note should have on Poseidon's current circumstances, the issue of the New Note Shares to Jefferies on the possible conversion of the New Note at some time in the future is, in our opinion, fair and reasonable to the Non-Associated Shareholders. In stating this, it is our view that the advantages which may accrue if the termination of the Existing Notes and issue of the New Note proceeds outweigh the disadvantages.

Other Matters

This report has been prepared specifically for the Non-Associated Shareholders of Poseidon. As such in respect of this report, including any errors or omissions howsoever caused, neither EY Transaction Advisory Services, EY nor any employee thereof undertakes responsibility to any person other than the Non-Associated Shareholders.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of the Non-Associated Shareholders. The decision as to whether to approve or not approve the issue of the New Note Shares on the possible future conversion of the New Note is a matter for the individual Non-Associated Shareholders of Poseidon. Poseidon shareholders should have regard to the Notice of Meeting and Explanatory Statement prepared by the Directors and management of the Company in relation to the transactions. Poseidon shareholders who are in doubt as to the action they should take in relation to the transactions should consult their own professional adviser.

EY Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Brenda J Moore
Representative

Ken Pendergast
Director and Representative

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1. Introduction

1.1 Background

In June 2008, Poseidon negotiated with Harbinger, a US based funds manager, a US$50 million convertible note facility, of which US$15 million was immediately drawn down to assist the Company with the continued development of the Windarra Nickel Project. The key terms attaching to the notes were as follows:

- a maturity date of six years after the issue date;
- interest free for the first three years, with an interest rate payable thereafter at 5% per annum, payable quarterly in arrears until maturity or the date of conversion;
- interest payable may be satisfied, at the discretion of Poseidon, through the issue of shares.
- a conversion price of $1.00 per share (while the facility was denominated in United States dollars ("US$") the conversion price was in Australian dollars ("A$")), subject to certain dilutionary adjustments;
- the notes can be converted at any time after the closing price of a Poseidon share on the ASX exceeds the conversion price for five consecutive days;
- they are unsecured; and
- if at the date of maturity the notes have not been converted then Poseidon is required to repay the face value plus any interest due.

In the annual general meeting held in November 2008, Poseidon shareholders approved the issue of the US$15 million notes and, for the purposes of item 7 of Section 611, the issue of shares to Harbinger on the possible conversion of the notes at some future date.

With the onset of the GFC and the deterioration of world financial markets, in December 2010, Poseidon and Harbinger renegotiated the terms of the US$15 million notes and agreed to the issue of a new US$20 million convertible note on similar terms. The US$35 million not drawn down under the original note facility was cancelled.

The key terms attaching to the US$20 million notes and the key revised terms of the US$15 million notes are as follows:

- a maturity date of six years after the issue date (the maturity date on the US$15 million notes was reset to the same date);
- interest free for the first three years, with an interest rate payable thereafter at 5% per annum, payable quarterly in arrears until maturity or the date of conversion (the interest free period on the US$15 million notes was reset);
- interest payable may be satisfied, at the discretion of Poseidon, by the issue of shares.
- the conversion price on the US$20 million notes was set at $0.30 per share and the conversion price on the US$15 million notes was reset to $0.40 per share, both subject to certain dilutionary adjustments;
- the notes can be converted at any time after the closing price of a Poseidon share on the ASX exceeds the conversion price for five consecutive days;

- they are unsecured; and
- if at the date of maturity the notes have not been converted then Poseidon is required to repay the principal amount outstanding plus any interest due.

In a general meeting held in March 2011, Poseidon shareholders approved the issue of the US$20 million and the amendment of the terms of the US$15 million notes, together with approval, for item 7 of section 611 purposes, the issue of shares to Harbinger on the possible conversion of both tranches of notes at some future date.

The funds under the US$20 million notes were received by the Company in March 2011. Unless otherwise converted, both the US$20 million notes and the US$15 million notes (herein referred to as the “Existing Notes”) mature on 31 March 2017.

In November 2012, Poseidon announced that New York headquartered, global investment bank, Jefferies had acquired the Existing Notes from Harbinger together with 20 million shares that Harbinger owned in the Company. At that time, Jefferies was in the process of merging with its then largest shareholder; US based diversified investment company Leucadia National Corporation (“Leucadia”), in a US$2.5 billion transaction. Leucadia is listed on the New York Stock Exchange (“NYSE”) and has a market capitalisation of approximately US$7.5 billion. The 20 million shares acquired from Harbinger were sold by Jefferies across the period July through October 2014.

From 1 April 2014, interest has been charged on the Existing Notes at 5% per annum. To assist in payment of the quarterly interest expense on the Existing Notes, Poseidon has elected to issue shares to Jefferies to meet the amounts owing. To date the Company has issued a total of 24,550,967 shares in satisfaction of the interest payable. These shares are the only shares Jefferies holds in Poseidon, representing a 3.35% interest in the issued shares of the Company.

1.2 The termination of the Existing Notes and the issue of the New Note

In recognition of the approaching maturity date of the Existing Notes and Poseidon’s limited ability to source funding, and given current low nickel prices and the general uncertainty in commodities markets, on 4 November 2015 the Company and Jefferies announced that they had agreed to terminate the Existing Notes and issue the New Note. The New Note has a principal of US$17.5 million and a maturity date of 30 September 2020.

The termination of the Existing Notes is to be implemented via the Convertible Note Termination Deed (the “Termination Deed”) to be entered into between Poseidon and Jefferies. The terms and conditions of the US$17.5 million New Note are detailed in the Convertible Note Certificate (the “Note Certificate”) to be entered into between Poseidon and Jefferies.

Effectively the US$17.5 million being provided under the New Note is being used by Poseidon to repay the US$35 million outstanding under the Existing Notes. In turn, Jefferies is accepting the US$17.5 million New Note as full repayment of the US$35 million Existing Notes.

In addition to significantly reducing the liability owed by Poseidon from US$35 million to US$17.5 million, the issue of the New Note extends the maturity date from approximately 17 months to five years.

The issue of the New Note is conditional on:

- the execution by the Company and Jefferies of the Termination Deed;
- Poseidon obtaining shareholder approval for the issue of the New Note and the future issue of the New Note Shares.

The key terms of the New Note are summarised as follows:

- the principal amount is US$17.5 million;

- the maturity date is 30 September 2020;
- the conversion price is $0.09 per share, subject to certain dilutionary adjustments;
- interest is payable at a rate of 5% per annum from the date of issue, quarterly in arrears until the date of conversion or maturity;
- interest payable may be satisfied, at the election of Poseidon, and subject to the provisions of the Act, by the issue of shares. The number of shares to be issued will be determined based on the conversion of the US$ interest amount to A$ and at the lesser of the conversion price or the average volume weighted average price ("VWAP") for the Company's shares on the ASX for the five trading days prior to the relevant interest payment date;
- conversion into shares is at the discretion of the holder and can be undertaken at any time;
- if at the date of maturity the notes have not been converted, then Poseidon is required to repay the US$17.5 million plus any interest outstanding; and
- they are unsecured and are transferrable.

The underlying terms and conditions of the New Note are not dissimilar to those of the Existing Notes save for the different principal amount, the maturity date and the conversion price.

2. Scope of the Report

2.1 Purpose of the Report

Under Section 606 of the Act, an entity is prohibited from acquiring a greater than 20% interest in the voting shares of a listed company. An exception to the prohibition is item 7 of Section 611 of the Act, which allows for the increase in voting shares above 20% to be approved by shareholders.

Because they carry no ordinary voting rights, the issue of convertible notes by a listed company has no immediate Section 606 consequences as the voting interests in that entity at that time do not change. The Section 606 prohibition only becomes an issue when the holder wishes to convert the convertible notes into shares and that that conversion will increase the holder's voting interest in the listed company to greater than 20%. In these circumstances the holder would be prevented from converting that portion of the notes held that would take their voting interest over 20%. To address this concern, public companies issuing convertible notes often obtain shareholder approval for the issue of shares to the holder of the convertible notes on the possible conversion of those notes at some future time. This 'pre-approval' for the issue of shares on the possible conversion of convertible notes is obtained pursuant to item 7 of Section 611 of the Act.

Pre-approval for the issue of shares to Harbinger on the possible conversion of the US$15 million Existing Notes was obtained from Poseidon shareholders at a general meeting held in September 2008. The issue of shares to Harbinger in relation to the possible conversion of the US$15 million Existing Notes under their revised terms and the possible conversion of the US$20 million Existing Notes were pre-approved by Poseidon shareholders at a general meeting held in March 2011.

As at the date of this report, Jefferies holds 24,550,967 shares in Poseidon which equates to a 3.35% voting interest. These shares have been issued to Jefferies in satisfaction of the interest charged on the Existing Notes. In this regard, after an initial interest free period of three years, interest became payable on the Existing Notes from 1 April 2014 at a rate of 5% per annum, payable quarterly in arrears. At Poseidon's option the interest expense charged on the Existing Notes can be met through the issue of shares at a price equating to the five day volume weighted average price of the Company's shares on the ASX, converted to US$ using a five day average spot buying price for the A$:US$ exchange rate.

Based on the number of shares Poseidon currently has on issue and the proposed terms of the New Note, if the New Note is converted at some time in the future, all other things being equal, it is highly likely that Jefferies' voting interest in Poseidon would increase to something above the 20% allowed under Section 606. Because of this, shareholder approval is being sought pursuant to item 7 of Section 611 for the issue by Poseidon of the New Note Shares.

Unless the directors of the subject company provide such a report, under the RG 111, resolutions proposed for item 7 of Section 611 purposes are required to be accompanied by an independent expert's report which is to provide an opinion as to whether or not the proposed transaction is fair and reasonable to the non-associated shareholders of the company.

Consistent with this requirement, the Directors have appointed EY Transaction Advisory Services as independent expert to prepare a report, the purpose of which is to provide an opinion, as to whether or not the issue of the New Note Shares to Jefferies on the possible conversion of the New Note at some time in the future is fair and reasonable to the Non-Associated Shareholders.

RG 111 also requires us to consider whether or not Jefferies, Poseidon or any other party is paying or receiving a premium for control as a result of the issue of the New Note Shares on the possible conversion of the New Note.

At a general meeting of Poseidon shareholders being convened on or about 20 January 2016 (the "Meeting") the Non-Associated Shareholders will be requested to consider, amongst other things, resolutions seeking approval for the termination of the Existing Notes, the issue of the New Note and the issue of the New Note Shares on the possible future conversion of the New Note. The report is to be included in the Notice of Meeting and Explanatory Statement being sent to Poseidon shareholders in relation to the Meeting.

2.2 Basis of assessment

The Act does not define the term 'fair and reasonable'. RG 111 provides some direction as to what matters an independent expert should consider when determining whether or not a particular transaction is fair and reasonable to shareholders.

Under RG 111 a key matter that an expert needs to consider when determining the appropriate form of analysis to be applied is whether or not the effect of the transaction is comparable to a takeover bid. RG 111 requires that where the outcome of the transaction has a similar effect as a takeover bid then that transaction should be analysed as if it were a takeover bid. A takeover bid generally involves a control transaction where one entity is looking to acquire or increase its shareholding (i.e. voting interest) in another entity to a level greater than 50%. With respect to a takeover bid RG 111 notes that:

- an offer is 'fair' if the value of the offer price or consideration being paid is equal to or greater than the value of the securities that are the subject of the offer; and

- an offer is 'reasonable' if it is fair. It might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for security holders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 requires that the comparison of value between the consideration being paid and the securities that are subject of the takeover bid is to be made assuming 100% ownership of the target.

RG 111 considers that all transactions involving an entity increasing its shareholding in another entity to above 20% are control transactions and should be assessed as a takeover bid. In considering the possible conversion of the New Note and the issue of the New Note Shares, the relevant date to assess the value of the New Note Shares would be at or around the time the New Note is converted and Jefferies' voting interest in Poseidon increases.

At the date of this report, no assessment of the value of the New Note Shares can reasonably be made as the possible date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, at the date of their issue the conversion price and the wider terms of the New Note together with the circumstances of Poseidon and the advantages provided by the termination of the Existing Notes and the issue of the New Note are of more significance than the possible value of the Company's assets and liabilities at some future date.

Notwithstanding this, in assessing the issue of the New Note and the issue of the New Note Shares to Jefferies on the possible conversion of the New Note, we have considered the value of a Poseidon share on a controlling interest basis (i.e. assuming 100% ownership) prior to the issue of the New Note and compared that to the pro forma value of a Poseidon share on a minority interest basis post the issue of the New Note and with the conversion price of the New Note.

On this basis, if the value of a Poseidon share post the issue of the New Note on a minority interest basis is greater than or at least equal to the value assessed for a Poseidon share on a controlling basis prior to the issue of the New Note then the Non-Associated Shareholders will be better off.

In addition to this, in determining whether or not the whether or not the issue of the New Note Shares to Jefferies on the possible conversion of the New Note at some time in the future is fair and reasonable to the Non-Associated Shareholders we have considered, amongst other matters, the following:

- Whether Jefferies is paying a 'premium' on the issue of the New Note and the possible conversion into the New Note Shares in comparison to the value of a Poseidon share prior to the issue of the New Note;
- that the termination of the Existing Notes and the issue of the New Note are subject to the issue of the New Note Shares being approved by the Non-Associated Shareholders;
- Poseidon's ability to repay the US$35 million Existing Notes on 31 March 2017 if the issue of the New Note Shares is not approved;
- the nature of the New Note as a convertible note;
- comparison between the recent trading prices of a Poseidon share on the ASX and the conversion price of the New Note;
- the overall terms of the New Note in comparison to similar issues by other companies in the mining and metals sector;
- Poseidon's ability to repay the Existing Notes;
- that the issue of the New Note will reduce the US$35 million liability owing on the Existing Notes to $17.5 million;
- the level of control likely to be gained by Jefferies from the future possible issue of the New Note Shares on the possible conversion of the New Note;
- that item 7 of Section 611 approvals have been previous been provided by Poseidon shareholders in relation to the Existing Notes;
- alternatives for Poseidon; and
- other significant matters.

In assessing whether or not the issue of the New Note Shares to Jefferies is fair and reasonable to the Non-Associated Shareholders we have considered the likely advantages and disadvantages, if any, which may accrue for the purpose of determining whether the Non-Associated Shareholders are likely to be better off, or at least no worse off, as a result of their issue.

Issues of valuation are considered in section 5.2 and the relevant commercial and qualitative factors are considered in section 5.3. Whether Jefferies, Poseidon or any other party is paying or receiving a premium for control is considered in section 5.4. Our summary and conclusion is detailed in section 6.

Our assessment is based on the economic, political, social, market and other conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

Unless otherwise stated all currency amounts are in Australian dollars ("$"). Currency amounts in United States dollars are defined as ("US$").

2.3 Shareholders' decisions

This independent expert's report has been prepared specifically for the Non-Associated Shareholders of Poseidon at the request of the Directors with respect to the future issue of the New Note Shares to Jefferies on the possible conversion of the New Note is fair and reasonable to the Non-Associated Shareholders. As such, Ernst & Young Transaction Advisory Services, EY and any member or employee thereof, take no responsibility to any entity other than the Non-Associated Shareholders, in respect of this report, including any errors or omissions howsoever caused.

This report constitutes general financial product advice only and has been prepared without taking into consideration the individual circumstances of Poseidon shareholders. The decision to approve or not approve the future issue of New Note Shares is a matter for individual shareholders. Poseidon shareholders should consider the advice in the context of their own circumstances, preferences and risk profiles. Poseidon shareholders should have regard to the Notice of General Meeting and Explanatory Statement prepared by the Directors and management of the Company. Poseidon shareholders who are in doubt as to the action they should take in relation to the matters being considered at the Meeting should consult their own professional adviser.

EY Transaction Advisory Services has prepared a Financial Services Guide in accordance with the Act. The Financial Services Guide is included as Part 2 of this report.

2.4 Independence

Prior to accepting this engagement, we considered our independence with respect to Poseidon and Jefferies with reference to Regulatory Guide 112, Independence of experts. In our opinion, we are independent of both entities.

EY Transaction Advisory Services, EY and global affiliations, have not provided any services to Poseidon or Jefferies in relation to the issue of the Existing Notes, the amendment to the terms or the issue of the New Note.

Within the last two years EY Transaction Advisory Services has provided independent expert services to Poseidon in relation to a potential transaction that did not proceed. The conduct of these services has no impact on our ability to provide an independent opinion with respect to the future issue of the New Note Shares to Jefferies on the possible conversion of the New Note.

2.5 Limitations and reliance on information

In the preparation of this independent expert's report, EY Transaction Advisory Services was provided with information in respect of Poseidon and obtained additional information from public sources, as set out in Appendix B.

We have had discussions with the Directors and management of Poseidon in relation to the amendment of the Existing Notes, the issue of the New Note, and the operations, financial position, operating results and outlook of Poseidon.

This independent expert's report is also based upon financial and other information provided by Poseidon. EY Transaction Advisory Services has considered and relied upon this information.

The information provided to us has been evaluated through analysis, enquiry and review for the purposes of forming an opinion as to whether the future issue of the New Note Shares to Jefferies on the possible conversion of the New Note is fair and reasonable to the Non-Associated Shareholders. However, EY Transaction Advisory Services does not warrant that its enquiries have identified all of the matters that an audit, an extensive examination or 'due diligence' and/or tax investigation might disclose.

Preparation of this report does not imply that we have, in any way, audited the accounts or records of Poseidon. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles including the Australian equivalents to International Financial Reporting Standards and International Financial Reporting Standards, as applicable.

In forming our opinion we have also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so, and that there are no material legal proceedings, other than as publicly disclosed;
- the information set out in the Notice of General Meeting and Explanatory Statement to be sent to Poseidon shareholders is complete, accurate and fairly presented in all material respects; and
- the publicly available information relied upon by EY Transaction Advisory Services in its analysis was accurate and not misleading; and
- the issuance of the New Note will be implemented in accordance with its terms.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations and policies, we assume no responsibility and offer no legal opinion or interpretation on any issue.

The statements and opinions given in this independent expert's report are given in good faith and in the belief that such statements and opinions are not false or misleading.

EY Transaction Advisory Services provided draft copies of this report to the Directors and management of Poseidon for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of EY Transaction Advisory Services alone. Amendments made to this report as a result of this review did not change our methodology or the conclusions reached.

This report should be read in the context of the full qualifications, limitations and consents set out in Appendix A of this independent expert's report.

This report has been prepared in accordance with APES 225: Valuation Services issued by the Accounting Professional & Ethical Standards Board Limited in in May 2012.

3. Overview of Poseidon

3.1 Background and current state

Until recently Poseidon's activities were primarily focused on the redevelopment of the Windarra Nickel Project with the aim of re-establishing Mt Windarra as a viable nickel mining operation. The project, which is located approximately 260 kilometres ("km") north northeast of Kalgoorlie, was acquired by the Company in December 2005 from BHP Billiton Ltd ("BHPB") and had been in operation as a nickel mine between 1974 and 1994.

This singular focus changed in July 2014 and subsequently in September 2014, when the Company announced that it was to acquire the Black Swan and Lake Johnston Nickel Projects from OJSC MMC Norilsk Nickel for $1.5 million and $1.0 million, respectively. The acquisition of Lake Johnston was completed in November 2014 and the acquisition of Black Swan was completed in March 2015.

The Lake Johnston acquisition included the Emily Ann and Maggie Hays mines, a recently refurbished 1.5 million tonnes per annum ("Mtpa") processing plant, other on-site infrastructure and a sizeable tenement package. While Emily Ann had been closed for some time, Maggie Hays and the processing plant were in operation up until April 2013. The plant and mine have been under care and maintenance since that time. The Lake Johnston Nickel Project is located approximately 200 km south west of Kalgoorlie.

The Black Swan acquisition included the Black Swan open pit mine, the Silver Swan underground mine and a 2.15 Mtpa processing plant, all of which have been under care and maintenance since February 2009. The Black Swan Nickel Project is located approximately 50 km north east of Kalgoorlie.

Accordingly, Poseidon has evolved from a company looking to develop the Windarra Nickel Project as a single operation at a significant capital cost, to a company that has the opportunity to become a significant nickel producer with multiple operations across a wider region at a substantially lower capital outlay and with lower operating costs.

In an environment that has seen commodity prices, including nickel, fall to their lowest levels for some time, across the period since the acquisition of Lake Johnston and Black Swan, Poseidon has undertaken considerable work revising Ore Reserve and Mineral Resources estimates at those locations to a Code for Reporting of Mineral Resources and Ore Reserves as prescribed by the Australasian Joint Ore Reserves Committee ("JORC") 2012 standard while completing a Bankable Feasible Study ("BFS") at Lake Johnston and an engineering study to test whether ore from Mt Windarra could be blended with ore from the Black Swan open pit for processing through the Black Swan concentrator.

The BFS confirmed that the Lake Johnston Nickel Project is capable of recommencing operations within a four month period at a relatively low cost of approximately $14 million plus working capital and that no regulatory or technological impediments exist. For these reasons, leaving aside low nickel prices, Poseidon has prioritised Lake Johnston as the first of its projects to recommence operations.

Confirmation that Mt Windarra ore is capable of being blended and processed through the Black Swan plant meant that Poseidon's plan of constructing a plant at Windarra at an estimated cost of approximately $240 million had become redundant. Deferred approval has been obtained from the Government with a number of conditions to be met relating to offtake arrangements and Main Roads WA prior to the restart of mining at Mt Windarra and for the transport of Windarra ore to Black Swan by road for processing.

The Black Swan Nickel Project includes 1.7 million tonnes of unprocessed ore which Poseidon is planning to progressively transport to Lake Johnston for processing. The Company recently generated revenues of approximately $1 million through the sale of nickel concentrate from Lake Johnson to a customer in China. The nickel concentrate was sourced on-site and reprocessed through the filtration circuit at Lake Johnson. Black Swan currently holds approvals to operate and is formally in care and maintenance.

In May 2015, Poseidon announced the agreement with Caeneus Minerals Limited (“Caeneus”) for the sale of the right to mine the Silver Swan underground mine for $1.5 million. In September 2015, Caeneus informed Poseidon that it was not able to source the necessary project finance and because of this could not complete the proposed transaction. The Company is investigating alternate strategies for Silver Swan.

With continued low nickel prices Poseidon has scaled back activity to conserve capital. The Company has had, and is in continuing discussions with potential offtake parties for a combined offtake and funding arrangement that would provide the necessary finance to underpin resumption of operations at Lake Johnston. Poseidon believes that this funding will only be completed subject to a recovery in nickel prices to levels above US$6.50/lb. At the date of this report, the spot nickel price was around US$4.80/lb.

Included below is a summary of Poseidon’s net asset position as at 30 June 2015 (“30Jun15”) and 30 June 2014 (“30Jun14”), as extracted from the Company’s audited annual financial report.

Poseidon - Net Asset Position		
$000's	**30Jun15**	**30Jun14**
Current assets		
Cash and cash equivalents	4,857	4,363
Trade and other receivables	689	209
	5,546	4,572
Non-current assets		
Property, plant and equipment	26,844	2,766
Exploration and evaluation expenditure	103,419	73,281
Other investments	119	15
Other	3,500	3,500
	133,882	79,562
Total assets	139,428	84,134
Current liabilities		
Trade and other payables	2,604	1,017
Loans and borrowings	0	8,378
Employee benefits	407	218
Provision for rehabilitation	3,500	3,500
	6,511	13,113
Non-current liabilities		
Loans and borrowings	35,893	26,464
Existing Notes derivative	2,989	1,614
Employee benefits	99	79
Provision for rehabilitation	42,861	0
	81,842	28,157
Total liabilities	88,353	41,270
Net assets	**51,075**	**42,864**

Source: Poseidon’s 2015 Annual Financial Report

To complete remedial work at Mt Windarra, fund the preliminary work required to restart Lake Johnston, repay the $8 million bridging loan and provide on-going working capital, on 10 October 2014, Poseidon announced the successful completion of a $30 million capital raising via a placement of shares at $0.18 each to strategic, professional and sophisticated investors (the “Capital Raising”). The Capital Raising was completed in two tranches, with the first tranche of $15.3 million being completed in October 2014 and the second tranche of $14.7 million being mainly completed in December 2014.

Poseidon’s net asset positon at 30Jun15 reflects the acquisition of the Lake Johnston and Black Swan Nickel Projects, the impact of which is summarised as follows:

Poseidon - Acquisition of Lake Johnston & Black Swan ***$000's***	
Assets acquired:	
- Property, plant and equipment	23,506
- Exploration and evaluation expenditure	22,112
Liabilities assumed:	
- Provision for rehabilitation	(42,861)
Net assets acquired	2,757
Consideration paid:	
- Cash	2,500
- Transaction costs	257
	2,757

Source: Poseidon’s 2015 Annual Financial Report

The balance at 30Jun15 of non-current loans and borrowings represents the amount owing on the Existing Notes. The fall in the A$:US$ exchange rate through the year ended 30Jun15 had a significant impact on the Existing Note liability.

3.2 Capital structure

As at the date of this report, Poseidon had on issue 732,011,258 fully paid ordinary shares and 7,225,000 options. The unlisted options are held by Directors and executives of the Company are subject to the following terms:

- 2,975,000 of the options are exercisable at $0.22 and expire on 31 August 2016; and.
- 4,250,000 of the options are exercisable at $0.22 and expire on 23 November 2016.

At 14 October 2015, Poseidon had approximately 9,200 shareholders with the top 20 shareholders holding approximately 40% of the shares on issue. The Company’s largest shareholder at that date was Mr Andrew Forrest (via associated companies, Forrest Family Investments Pty Ltd and Minderoo Pty Ltd)), the ex-Chairman and long-time supporter of the Company, with a 17.74% interest. JP Morgan Chase is Poseidon’s second largest shareholder with a 3.95% interest, followed by Jefferies with a 3.35% interest.

3.3 Share price performance

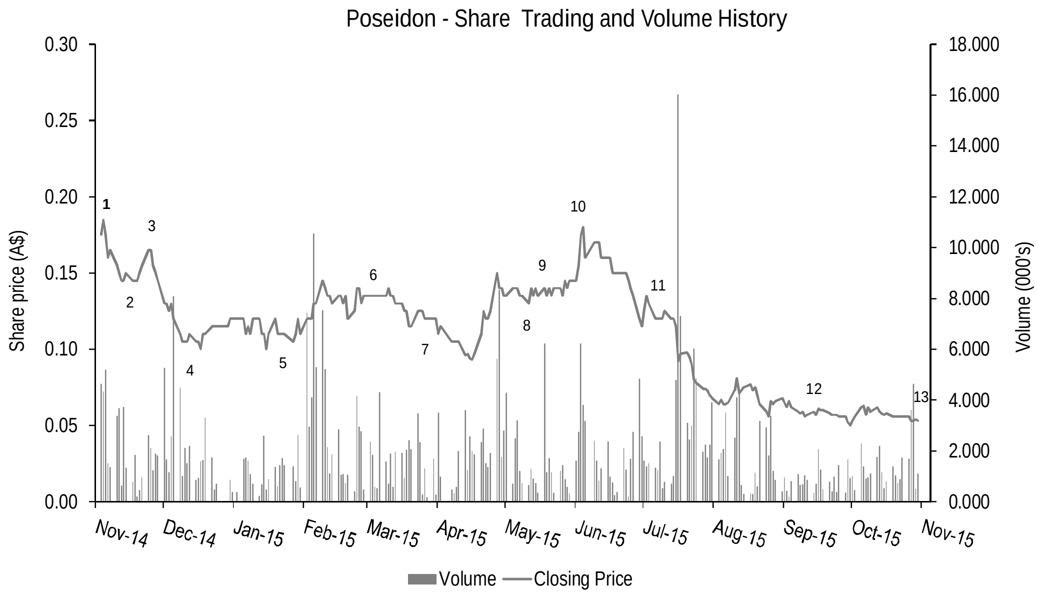
The table below summarises the trading history of Poseidon shares on the ASX over the period 1 November 2014 to 4 November 2015, the last trading day prior to the announcement of the termination of the Existing Notes and the issue of the New Note .

Poseidon - Share Trading History	High $	Low $	Close $	Monthly VWAP	Volume 000's	Liquidity % of Shares on Issue
November 2014	0.20	0.14	0.15	0.16	43,770	7.2%
December 2014	0.15	0.10	0.12	0.12	42,696	6.3%
January 2015	0.13	0.10	0.11	0.11	24,085	3.5%
February 2015	0.16	0.12	0.14	0.13	65,802	9.6%
March 2015	0.15	0.11	0.12	0.13	35,394	5.2%
April 2015	0.17	0.09	0.14	0.12	47,741	6.9%
May 2015	0.15	0.13	0.15	0.14	31,752	4.6%
June 2015	0.19	0.11	0.12	0.15	43,942	6.3%
July 2015	0.14	0.07	0.07	0.10	72,148	10.3%
August 2015	0.08	0.05	0.07	0.07	38,268	5.5%
September 2015	0.07	0.05	0.05	0.06	18,632	2.6%
October 2015	0.06	0.05	0.05	0.06	31,990	4.4%
Up to 4 November 2015	0.05	0.05	0.05	0.05	3,361	0.5%

Source: S&P CapitalIQ, EY analysis

Note - the announcement of the termination of the Existing Notes and the issue of the New Note was made after the market closed on 4 November 2015.

The following chart is a summary of Poseidon's share trading history on the ASX for the same period. The trading price is based on the daily closing price.



Source: S&P CapitalIQ, EY analysis

The analysis shows that over the period considered, Poseidon's shares traded down from a high of $0.20 in November 2014 to $0.09 in mid-April 2015, before recovering to $0.19 in early June 2015 and then decreasing to a new low of $0.05 in September 2015. The closing price of the Company's shares on 4 November 2015 was $0.052. The VWAP across the period 1 November 2014 to 31 October 2015 was $0.116.

In addition to the regular quarterly, interim and annual reporting announcements, the material announcements made by Poseidon that may have had an impact on the Company's share price, as annotated in the chart above, are summarised below:

1. 5 November 2014 – Poseidon announced an Ore Reserve at Black Swan of 3.37Mt at 0.63% for 21,500 tonnes of nickel.

2. 13 November 2014 – Poseidon announced the completion of the purchase of the Lake Johnston Nickel Project.

3. 24 November 2014 – Poseidon announced that resource extension drilling at the Windarra Nickel Project was to commence.

4. 16 December 2014 – Poseidon released the Lake Johnston interim BFS.

5. 29 January 2015 – Poseidon announced a major resource upgrade at Lake Johnston.

6. 5 March 2015 – Poseidon released an update on high grade intersection extends mineralised zones at the Windarra Nickel Project.

7. 30 March 2015 – Poseidon completed the purchase of the Black Swan Nickel Project.

8. 18 May 2015 – Poseidon released the BFS for Lake Johnston, confirming the restart of the mine and processing plant was feasible and is economic.

9. 20 May 2015 – Poseidon entered into a binding agreement with Caeneus for the right to mine the Silver Swan mine on the Black Swan tenements.

10. 9 June 2015 – Poseidon announced that it had received approval to process Windarra ore at the Black Swan plant, as an alternative to the option to process Windarra ore at Nickel West's Leinster concentrator. The agreement with Nickel West lapsed.

11. 16 July 2015 – Poseidon commenced delivery of nickel concentrate to Tsingshan in China from its Lake Johnston operation from which it expected to generate revenues of A$1.5million. As an operational cost reduction, the Directors and management of the Company agreed to a reduction in salaries of 20%.

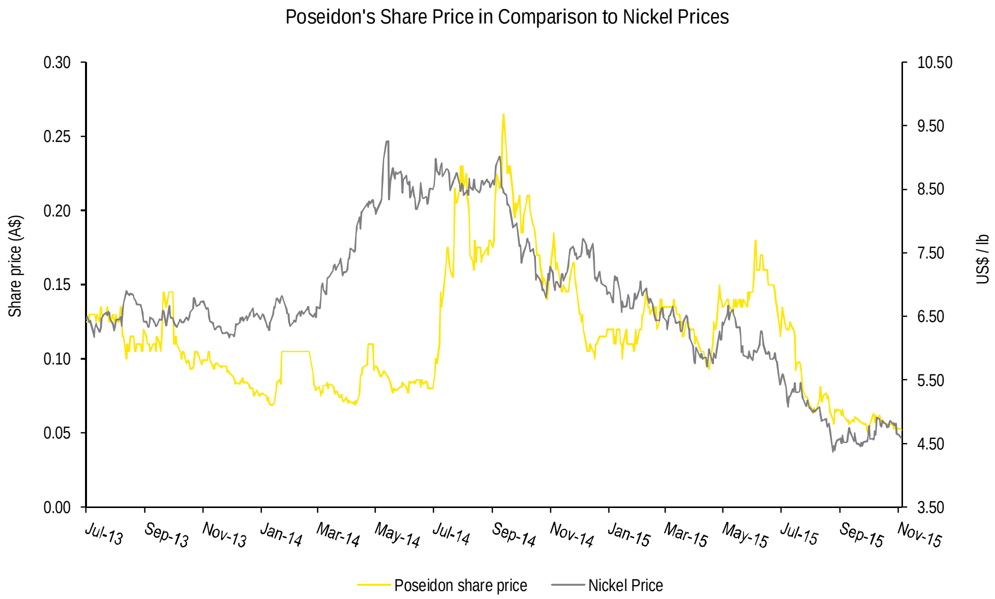
12. 14 September 2015 – Poseidon announced that the agreement with Caeneus in relation to Silver Swan had lapsed because Caeneus could not raise the required funds. It was also announced that the Company had received cash of $1.66 million from the sale of the concentrate to Tsingshan and other activities.

13. 4 November 2015 – Poseidon announced the renegotiated the termination of the Existing Notes and the issue of the New Note.

The monthly volume of Poseidon's shares traded over the period 1 November 2014 to 31 October 2015 fluctuated between 10.3% of the shares on issue in July 2014 to 2.6% in September 2015. Not surprisingly, the volume of shares traded decreased when there was a downward movement in the Company's share price, as shareholders choose to retain their shares.

Given the nature of Poseidon's principal activities as a nickel exploration and development company, it would be expected that there would be some correlation between Poseidon's share price and the price of nickel. At 1 October 2014 nickel was trading at a price of US$7.34/lb, increasing to a one year high early in that month to US$7.72/lb. From then the price steadily decreased into 2015 and across the year to a one year low in late August 2015 of US$4.37/lb, to increase back up to around US$4.62/lb by 30 September 2015. The price at 4 November 2015 was US$4.59/lb.

The following chart details Poseidon's share price and the nickel price over the period from 1 July 2013 to 4 November 2015.



Source: S&P Capital IQ, EY analysis

The chart indicates that over the period considered Poseidon's share price was more volatile than the nickel price. While the movement in Poseidon's share price and nickel prices have generally be correlated since September 2014, across the period from August 2013 to September 2014 the prices were less correlated. The announcement of the acquisition of Lake Johnson in July 2014 and then Black Swan in September 2014 together with progress at Windarra had a positive impact on Poseidon's share price and the increased the correlation of the Company's share price with the nickel price.

3.4 Outlook for nickel

The global mining and metals sector has experienced substantial volatility over the last 18 months. Amongst other factors, a slowing Chinese economy and rising supply contributed to a de-rating of sector valuations from the highs experienced three to four years ago.

More broadly, global economic growth has somewhat recovered from post-GFC lows, with gains being experienced in the US and other developed world economies. Notwithstanding this, shares in global mining and metals companies have underperformed the broader market, reflecting the lack of investor confidence, both in the global demand outlook and in the ability of resource companies to deliver acceptable returns in an environment of weakening margins.

Base metals continue to be challenged by weaker growth and rising supply. The price of most base metals decreased since the second half year of 2014, with nickel prices falling from a peak of around US$8.60/lb in May 2014 to approximately US$4.60/lb around the date of the announcement of the issue of the New Note. In response to lower prices, resource companies have looked to reduce operating costs and capital expenditures, with capital spending falling approximately 50% since 2012.

Nickel demand is mostly driven by the economic conditions in China, which currently accounts for approximately 50% of the world's total consumption. After a consumption growth rate of 20% per annum during the period 2006 to 2014, nickel consumption from China is expected to slow down to a growth rate of 4.5% in 2015 and 4.0% in 2016. Some recovery is expected thereafter although at a lower than historical rate.

Lower nickel prices are expected to limit investment in new mines and therefore restrict mine supply from 2016. The current nickel price has forced approximately 60% of the nickel producers into a loss making condition on a cash basis.

The outlook for global nickel prices shows an upward trend, as analysts expect prices to grow due to an expectation to the end of the heavy destocking in the market in 2016, as well as the reduced availability of nickel as a result of lower nickel prices. While individual forecasts vary, overall, analysts are forecasting nickel prices to grow in a steadily rate at real price levels during 2015 to 2020, with a long-term real price of approximately US$8.00/lb forecast.

For Australian producers, the lower A$ has enabled them to remain profitable in a lower US$ nickel price environment.

4. Possible impact on the Non-Associated Shareholders

At the date of this report, Jefferies holds a 3.35% interest in the issued shares of Poseidon. With the issue of the New Note, Jefferies will have the right to convert the principal of US$17.5 million to shares in the Company at a conversion price of $0.09 per share at any time between the date of issue and 30 September 2020.

As an indication of the likely impact the possible conversion of the New Note may have on the Non-Associated Shareholders, as a collective group, the table below summarises the position if the New Note is converted at $0.09 per share assuming an exchange rate of A$0.75:US$1.00, which implies an A$ balance owing on the New Note of $23.333 million. The analysis also assumes that Poseidon issues no other shares between the date of this report and the date of conversion.

Conversion of New Notes	Total Shares	Non-Associated Shareholders	Jefferies
Current	732,011,258	707,460,291	24,550,967
Shareholding	***100.00%***	***96.65%***	***3.35%***
Conversion of the New Notes	259,259,259		259,259,259
Total	991,270,518	707,460,292	283,810,226
Shareholding	***100.00%***	***71.37%***	***28.63%***

Source: EY analysis

This analysis shows that 'all other things being equal', on the conversion of the New Note, Jefferies' interest in Poseidon would increase from 3.35% to 28.63% and the Non-Associated Shareholders' collective interest would decrease from 96.65% to 71.37%.

The above analysis does not take into account the shares that are likely to be issued in satisfaction of the interest expense to be charged on the New Note. Without the ability to generate surplus funds to pay the quarterly interest expense in cash, Poseidon will need to issue shares to Jefferies to meet the interest expense on the New Note.

The following table summarises the position assuming the interest expense on the New Note for the period between 30 September 2015 and the maturity date of 30 September 2020 (i.e. five years) is met through the issue of shares. For illustrative purposes we have assumed an exchange rate of A$0.75:US$1.00 and that Poseidon shares would be issued at $0.06 each.

Conversion of Existing Notes	Total Shares	Non-Associated Shareholders	Jefferies
Current	732,011,258	707,460,291	24,550,967
Shareholding	***100.00%***	***96.65%***	***3.35%***
Interest expense on New Notes	97,222,222		97,222,222
Conversion of New Notes	259,259,259		259,259,259
Total	1,088,492,739	707,460,291	381,032,448
Shareholding	***100.00%***	***64.99%***	***35.01%***

Source: EY analysis

It is of note that under our illustrative analysis, the number of shares needing to be issued each quarter to satisfy the interest expense on the New Note is likely to be less than 3% of the number of shares the Company has on issue at any one time. On this basis, the issue of share to Jefferies would fall within the '*not greater than 3% every six months*' creeping provision allowed under item 9 of Section 611 of the Act and therefore the prohibition contained in Section 606 will not be breached.

This analysis indicates that the additional shares to be issued in satisfaction of the interest expense in this example together with the New Note Shares issued on the conversion of the New Note will increase Jefferies' interest in the Company from 3.35% to 35.01%. The Non-Associated Shareholders' collective interest in Poseidon would reduce from 96.65% to 64.99%.

It is of note that the above examples assume that Poseidon issues no other shares between the date of this report and 30 September 2020. Any issue of shares in which Jefferies does not participate will dilute the interests calculated above for Jefferies. When the US$15 million Existing Note was first issued in June 2008, Poseidon had on issue 158,492,279 shares. By the time the US$20 million Existing Notes were issued in March 2012, the number of shares on issue had increased to 194,876,072. This compares to the 732,011,258 shares the Company currently has on issue, an increase of 573,518,979 shares (i.e. 4.6 times) across seven years. If 500,000,000 shares were issued, Jefferies interest calculated in the table above would decrease from 35.01% to approximately 24%.

Assuming conversion of the New Note, the number of shares in Poseidon that Jefferies will ultimately hold will be dependent on the A$:US$ exchange rate, Poseidon's share price, shares issued in satisfaction of the interest expense on the New Note and the number of shares issued to other parties. The number shares held by the Non-Associated Shareholders will be similarly impacted by these factors. The following table provides a high level illustration of the possible interest in the issue shares in Poseidon Jefferies will have upon conversion based on a number of exchange rate and share price assumptions.

		Poseidon share price at which shares issued as interest payments is calculated		
		$0.03	$0.06	$0.09
A$:US$ rate	$0.65	43.65%	38.12%	36.03%
	$0.75	40.33%	35.01%	33.01%
	$0.85	37.52%	32.40%	30.50%

Source: EY analysis

5. Evaluation of the New Note and the possible issue of the New Note Shares

5.1 The nature of convertible notes

The issue of the New Note Shares will only occur if Jefferies elects to convert the New Note. If Jefferies does not convert the New Note by the maturity date of 30 September 2020, Poseidon will be required to repay the principal amount of US$17.5 million.

As shown in section 4, if the New Note is converted, all other things being equal, it is highly likely that Jefferies' voting interest in Company would increase to something above 20%. In these circumstances, RG 111 requires the issue of the New Note Shares to be assessed as if it was a 'control transaction'. Consistent with this, in determining whether or not the issue by Poseidon of the New Note Shares to Jefferies on the possible conversion of the New Note is 'fair', the value of the consideration being paid by Jefferies needs to be compared to the value of the Poseidon shares being issued.

However, before any assessment of value can be made it is relevant to consider the nature of the New Note as a convertible note and the impact of that on our ability to determine the value of the New Note Shares.

The nature of convertible notes is such that they provide the holder with a future right to convert the principal amount of the debt to shares. A key feature of this conversion right is that it provides the holder with the right but not the obligation to convert the debt to equity. Accordingly, while Jefferies will have the right to convert the New Note, there is no guarantee that they will be converted and the New Note Shares issued.

It follows that, in most circumstances, a rational investor would only exercise the right to convert if the conversion price was at or less than the trading price of the company's underlying shares at the time of conversion. Accordingly, it would be expected that for the New Note to be converted, Poseidon's shares would have to be trading at prices equal to or above the $0.09 conversion price or there was a strong likelihood of that occurring on a sustainable basis.

In considering the possible conversion of the New Note and the issue of the New Note Shares, the relevant date to assess the value of the New Note Shares is at or around the time the New Note is converted and Jefferies' voting interest in Poseidon increases. At the date of this report, no assessment of the value of the New Note Shares can reasonably be made as the possible date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, at the date of their issue the conversion price and the wider terms of the New Note together with the circumstances of Poseidon and the advantages provided by the termination of the Existing Notes and the issue of the New Note are of more significance than the possible value of the Company's assets and liabilities at some future date.

Notwithstanding this, in assessing the issue of the New Note and the issue of the New Note Shares to Jefferies on the possible conversion of the New Note, we have considered the value of a Poseidon share on a controlling interest basis (i.e. assuming 100% ownership) prior to the issue of the New Note and compared that to the pro forma value of a Poseidon share on a minority interest basis post the issue of the New Note and with the conversion price of the New Note.

On this basis, if the value of a Poseidon share post the issue of the New Note on a minority interest basis is greater than or at least equal to the value assessed for a Poseidon share on a controlling basis prior to the issue of the New Note then the Non-Associated Shareholders will be better off.

Our assessment of the fairness of the issuance of the New Note based on a fair value assessment of Poseidon is presented in section 5.2.2.

In addition, while future trading prices may be important to the holder's decision as to whether or not to convert the convertible notes, an important consideration for the shareholders of the company holding the debt is the conversion price in comparison to the trading prices of the company's shares at the date of the issue of the notes. The existence of a premium between recent trading prices and the conversion price is to the benefit of shareholders.

The prices at which Poseidon shares traded over the period leading up to 4 November 2015 is detailed in section 3.3. The comparison of recent trading prices with the conversion price is detailed in section 5.2.3. A discussion of the terms together with consideration of other commercial and qualitative factors, including Poseidon's ability to repay the Existing Notes, is detailed in section 5.3

5.2 Considerations of value

5.2.1 Valuation Approach

In assessing the value of a Poseidon share prior to the issue of the New Note our primary approach is with reference to the trading price of Poseidon shares on the ASX before the announcement of the termination of the Existing Notes and the issue of the New Note. Key factors influencing our selection of a methodology included the following:

- As noted in section 3.3, trading in Poseidon's shares is moderately liquid, with approximately 75% of Poseidon's shares traded in the previous 12 months, with the top 20 shareholders holding in excess of 40% of the shares on issue.
- Poseidon's key assets consist of its interests in various Western Australian nickel projects. Due to the current economic environment, continued low nickel prices and the early stage nature of Poseidon's nickel projects, assessing the value of such assets can be relatively subjective, and as such generally results in a wide range.
- The actual price at which shares trade in the market is generally considered to be a better reflection of value than a theoretical estimate of the potential future value of those shares.

A summary of various valuation methodologies in included in Appendix B.

5.2.2 Valuation assessment pre and post the issue of the New Note

A summary of our calculations of the value of a Poseidon share on a controlling interest basis (i.e. assuming 100% ownership) prior to the issue of the New Note and compared that to the pro forma value of a Poseidon share on a minority interest basis post the issue of the New Note is presented in the table below. Besides assessment of value on a controlling interest versus minority interest basis, the key difference between both scenarios is the reduction in debt brought about by the termination of the Existing Notes and the issue of the New Note.

Consideration of the Value a Poseidon Share		Pre-Transaction Value	Post-Transaction Pro forma Value
Share price pre-announcement (minority interest)	A$	0.0520	
Control premium		30%	
Share price inclusive of control premium	A$	0.0676	
Number of shares currently on issue		732,011,258	
Market capitalisation on 100% basis	A$	49,483,961	
Face value of the Existing Notes / New Notes	US$	35,000,000	17,500,000
Converted to A$'s using 75c exchange rate	A$	46,666,667	23,333,333
Enterprise value - 100% basis	A$	96,150,628	96,150,628
Less: Existing Notes / New Notes	A$	(46,666,667)	(23,333,333)
Equity value - 100% basis	A$	49,483,961	72,817,294
Minority discount (inverse of control premium)			23%
Equity value - minority interest basis	A$		56,069,317
Number of shares on issue		732,011,258	732,011,258
Value per share	A$	0.0676	0.0766

Source: EY analysis

To assess the enterprise value of Poseidon prior to the issue of the New Note we performed the following:

► Based on recent trading of Poseidon's shares, we assessed the value of Poseidon's equity. As shown in section 3.3, in recent months Poseidon's shares have traded down from $0.19 in early June 2015, decreasing to between $0.05 and $0.08 throughout August 2015 to November 2015. The closing price of the Company's shares on 4 November 2015 was $0.052. Since this share price does not reflect the announcement of the replacement of the Existing Notes, which occurred subsequent to the closing of trading on the ASX on that day, and Poseidon's share price has been relatively consistent in the weeks leading to 4 November 2015, we have adopted $0.052 per share as representative of the value of a Poseidon share.

  The trading price of shares as observed on a securities exchange usually reflects the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares. In our assessment of the appropriate control premium applicable to our analysis, we have considered[1]:

  ► The median bid premium paid on global transactions across all industries in the 12 months to September 2015 was 29% based on 104 transactions.

  ► The median bid premium paid on transactions within the Mining industry in the 12 months to September 2015 was 32% based on 40 transactions.

  ► The median bid premium paid on transactions within the Metals Mining sector in the 12 months to September 2015 was 33% based on 11 transactions.

  ► The range of control premiums consistently referred to in Australia is generally between 20% and 40%[2], which recognises that such premiums will vary from circumstance to circumstance.

  Based on the above, for our assessment to be on a 100% controlling basis, we have multiplied the value per share by a notional control premium of 30%.

[1] Refer Mergerstat, *Control Premium Study*, 3rd Quarter, September 2015
[2] Lonergan, W, *The Valuation of Businesses, Shares and Other Equity* 4th Edition, 2003

- Multiplied the value per share on a controlling basis by the total number of shares on issue prior to the replacement of the Existing Notes, being 732,011,258 shares.
- Calculated the enterprise value of the Company by adding the US$35 million face value of the Existing Notes, converted to Australian dollars using an exchange rate of A$0.75:US$1.00. The enterprise value represents the value of Poseidon's total assets.
- Calculated the equity value of Poseidon by deducting the face value of the Existing Notes as stated in Australian dollars.
- Calculated the fair value per share by dividing the equity value on a controlling basis by the number of shares on issue.

In applying the above, we assessed the value of a Poseidon share on a controlling interest basis prior to the issue of the New Note on a controlling basis of $0.0676 per share.

To assess the pro forma enterprise value of Poseidon assuming the New Note is issued and the Existing Notes terminated we have performed the following:

- Adopted the same enterprise value (representing the fair value of Poseidon's total assets) as described above. We have done so as the only difference between the value of Poseidon prior to the issue of the New Note to post the issue of the New Note is the face value of Existing Note of US$35 million and the face value of the New Note of US$17.5 million.
- Calculated the pro forma equity value of Poseidon by deducting the value of New Note as stated in Australian dollars, using the A$0.75:US$1.00 exchange rate.
- Applied a minority discount of 23% (representing the inverse of a 30% control premium), to calculate the pro forma value per share after the issue of the New Note on a minority interest basis.

In applying the above, we assessed the pro forma value of a Poseidon share after the termination of the Existing Notes and the issues of the new Note on a minority interest basis to be $0.0778 per share.

Accordingly, based on this analysis the Non-Associated Shareholders will be $0.009 of a cent better off, representing a premium over the value of a Poseidon share on a controlling interest basis of 13.3%. Any premium is to the benefit of the Non-Associated Shareholders.

5.2.3 Comparison of Poseidon's trading price and the conversion price

The table in section 3.3 summarising the prices at which Poseidon's shares traded on the ASX over the period 1 November 2014 to 4 November 2015 shows that the Company's shares traded down from a high of $0.20 in November 2014 to $0.09 in mid-April 2015, before recovering to $0.19 in early June 2015 and then decreasing to a new low of $0.05 in September 2015. The closing price of the Company's shares on 4 November 2015 was $0.052. The VWAP across the period 1 October 2014 to 30 September 2015 was $0.129.

The VWAPs for Poseidon shares on the ASX for the 5 and 10 trading days and the one, two and three months prior to 4 November 2015, together with the closing price on 4 November 2015, in comparison to the $0.09 conversion price of the New Note, are detailed below. Also included in the table is the VWAP's inclusive of a 30% control premium and a comparison to the conversion prices.

Comparison of Trading Prices to Conversion Price

		Premium over trading price	Trading price with 30% premium	Premium over control Value
Conversion price	$0.090			
Closing price on 4 November 2015	$0.052	73.1%	$0.068	33.1%
5 day VWAP	$0.053	69.3%	$0.069	30.2%
10 day VWAP	$0.055	64.4%	$0.071	26.4%
1 Month VWAP	$0.057	58.7%	$0.074	22.1%
2 Month VWAP	$0.057	57.5%	$0.074	21.1%
3 Month VWAP	$0.062	45.7%	$0.080	12.1%

Source: EY analysis, S&P Capital IQ

The analysis shows that the conversion price of the New Note of $0.09 is at a premium to the prices at which Poseidon's shares had traded on the ASX over the preceding three months, both on a minority and controlling interest basis. Based on the closing price of the Company's shares on 4 November 2015, the premium was 73.1% on a minority interest basis and 33.1% on a controlling interest basis.

It is of note that when the Existing Notes were amended in March 2011, the conversion price of $0.30 for the US$15 million Existing Notes was at a premium to the closing price of Poseidon shares on 23 December 2010, being the last trading date before the announcement, of 36.4%, a 28.1% premium to the 10 day VWAP and a 36.8% premium to the one month VWAP (all on a minority interest basis). With a conversion price of $0.40, the premiums of the conversion price over the closing price for the US$20 million Existing Notes were significantly higher. The premiums over the conversion price on the New Note are not inconsistent with these previous premiums. It is of further note that the Existing Notes were approved by the non-associated shareholders at that time.

On the premise that the New Note will only be converted if the trading price of a Poseidon share is at or above their conversion price, having a conversion price which is at a premium to the trading prices at the time of issue is to the advantage of the Non-Associated Shareholders on the basis that the Company's trading price will need to increase substantially before conversion is likely. Any increase in Poseidon's underlying trading price on the ASX would be to the benefit of the Non-Associated Shareholders.

5.3 Commercial and qualitative factors

5.3.1 Terms of the New Note and comparison to market information

As noted in section 1.2, the termination of the US$35 million Existing Notes and the issue of the US$17.5 million New Note were negotiated and agreed between Poseidon and Jefferies in recognition of the approaching maturity date of the Existing Notes together with the Company's limited cash resources and ability to source alternative funding, current low nickel prices and the general uncertainty in commodities markets.

To consider the terms on which the New Note is to be provided, we analysed the key terms of convertible notes that have been issued by mining and metal companies listed on the ASX over the past 36 months. The key terms of the 16 convertible notes observed are summarised in the following table:

Date Issued	Amount (A$m)	Term	Interest rate	Conversion price (A$)	Premium / (discount) to trading price one day prior to announcement	Premium / (discount) to trading price 30 days prior to announcement
05-Nov-12	9.6	3 years	5%	$0.05	(87%)	(89%)
14-Dec-12	8.0	1 year	7%	$0.22	33%	10%
08-May-13	150.0	5 years	8%	$1.50	50%	50%
04-Jun-13	30.0	4 years	0%	$1.00	0%	0%
01-Jul-13	15.0	NA	0%	$0.34	(25%)	(22%)
10-Jul-13	6.0	3 years	8%	$0.11	22%	22%
04-Dec-13	4.4	1 year	9%	$0.08	7%	(45%)
27-Mar-14	7.5	1.5 years	14%	$0.14	33%	33%
03-Sep-14	40.0	3 years	0%	$0.10	18%	15%
29-Sep-14	2.6	2 years	NA	$0.10	11%	18%
29-Oct-14	5.6	2 years	0%	$0.14	40%	40%
24-Nov-14	12.9	2 years	5%	$0.12	(7%)	59%
28-Nov-14	6.0	NA	10%	$0.20	(70%)	(75%)
18-Feb-15	5.0	1 year	6%	$0.20	(13%)	(9%)
22-May-15	1.0	1 year	8%	$0.30	(18%)	28%
01-Jun-15	5.7	1.5 years	15%	$0.05	(20%)	(20%)
Low					(87%)	(89%)
Average					(2%)	1%
Median					3%	12%
High					50%	59%

Source: EY analysis, company announcements

Based on the data observed, the convertible notes identified had conversion prices that were at a premium to the company's share price the day before the date the issues were announced in the range of 0% to 50%, with some conversion prices representing a discount to the trading price. When the premium is calculated using the share price 30 days prior to the announcement, the premiums range from 0% to 59%, with six of the 17 issued at a discount. In comparison, the conversion price of the New Note was at a 73.1% premium to the trading price of Poseidon on 4 November 2015, and a 58.7% premium to the one month VWAP.

While the conversion price is one of the key terms of the convertible notes, other relevant factors include the term and the interest rate. As indicated in the table, only one of the convertible notes has a term as long as the New Note. With the exception of one issue, all convertible notes with an interest rate at or below the 5% interest rate of the New Note have premiums (or discounts) below the premium for the New Note.

Compared to other convertible note issues over the past 36 months by other mining and metals companies, the terms of the New Note are more favourable, which in the circumstances of the issue of the New Note, is to the benefit of the Non-Associated Shareholders.

5.3.2 Poseidon's ability to repay the Existing Notes

The US$35 million Existing Notes mature and are repayable on 31 March 2017, less than 17 months from the date of this report. The conversion price of the US$15 million Existing Notes is $0.40 and $0.30 for the US$20 million Existing Notes.

Following the logic that a rational investor would only exercise the right to convert if the conversion price was at or less than the trading price of the company's underlying shares at the time of conversion, for the Existing Notes to be converted, Poseidon's shares would need to be trading at or above $0.40. The last date that Poseidon's share price on the ASX closed at prices at or above $0.40 was 12 September 2008, prior to the onset of the GFC and at a time when nickel prices were around US$8.70/lb. The closing price of the Company's shares on 4 November 2015 was $0.052.

The ability of Poseidon's shares to trade at levels of around $0.40 over the period prior to the Existing Notes maturing will be dependent on, amongst other factors, the turnaround of the nickel price, the Company's ability to successfully recommence operations at Lake Johnston and the continued development of Black Swan and Windarra.

Given the continued low nickel price environment it is unlikely that between the date of this report and 31 March 2017 Poseidon's shares will trade at prices that would see the Existing Notes converted. On this basis, in the absence of Jefferies agreeing to effectively replace the Exiting Notes with the New Note, the Company would be required to repay US$35 million on 31 March 2017. Using an exchange rate of A$0.75:US$1.00 this equates to a debt of $46.667 million.

At 30 September 2015, Poseidon had a cash balance of approximately $2.9 million. In the 46 months since 1 January 2012, the Company has raised new equity in cash of approximately $58.036 million through various capital raisings, placements and share issues, issuing a total of 484,529,782 shares at an average price of approximately $0.12. Without significant market support it is unlikely that Poseidon would be able to raise sufficient funds to repay the US$35 million Existing Notes. At current prices, the dilutionary impact of raising equity to repay the Existing Notes, even if it could be completed, would be significantly greater than the dilutionary impact of the conversion of the New Note and the issue of the New Note Shares.

The ability of Poseidon to source sufficient funds to repay the Existing Notes is uncertain. Continuation of this uncertainty is to the disadvantage of the Non-Associated Shareholders. The termination of the Existing Notes and the issue of the New Note, which is conditional on Poseidon shareholder approval for the future issue of the New Note Shares, will remove this uncertainty in that, besides reducing the principal amount owing by US$17.5 million, the maturity date is extended from 17 months to five years. Removal of the uncertainty around the Company's ability to repay the Existing Notes should be to the advantage of the Non-Associated Shareholders.

Without the ability to source sufficient funds to repay the Existing Notes, there would be a serious question in relation to Poseidon's ability to continue to operate as a going concern. The general going concern emphasis of Poseidon was recognised in Note 1.2 of the 30Jun15 financial statements where it was stated that "*should the Company not be successful in achieving forecast cash flows, including the raising of addition funds, there is material uncertainty that may cast significant doubt about whether the Company can continue as a going concern*". The independent audit report for 30Jun15 referenced this "*material uncertainty*".

With concern over Poseidon's ability to source sufficient funds to repay the Existing Notes, it would be expected the Company's share price would be negatively impacted as the maturity date of the Existing Notes gets closer. Any negative impact on share price would be a disadvantage to the Non-Associated Shareholders.

5.3.3 Reduction of US$17.5 million of debt

With the relatively short term until the maturity date of the Existing Notes and ignoring the need to fund the repayment of those notes in the absence of the issue of the New Note, the ability of Poseidon to secure new debt funding to finance the recommencement of operations at Lake Johnston and the continued development of its other operations is severely restricted. While the Company has had discussions with potential offtake parties for a combined offtake and funding arrangement for Lake Johnston, the presence of the Existing Notes makes this challenging.

At present share prices, for Poseidon to raise the necessary $14 million to finance the recommencement of operations at Lake Johnston and to provide ongoing working capital through the issue of new shares would continue to be dilutive to the Company's existing shareholders.

In agreeing to forgo US$17.5 million of the balance owing on the Existing Notes and to a five year term for the New Note, Jefferies has provided Poseidon with the opportunity to concentrate efforts on getting Lake Johnston, Black Swan and Windarra into operation.

At 30Jun15, the total liability in relation to the Existing Notes per Poseidon's accounts was $38.882 million, with the Company's net assets totalling $51.075 million. In simplistic terms removing 50% of the liability to account for the $US17.5 million New Note reduces the liability by $19.441 million and increases net assets to $70.516 million. Accordingly, the financial position of Poseidon should improve through the reduction of debt.

Based on the closing price of Poseidon's shares on the ASX of $0.052, the Company's market capitalisation totalled approximately $38 million. At the A$:US$ exchange rate at that date of A$0.72:US$1.00, the US$17.5 million equated to an A$ amount of $24.3 million.

Jefferies effectively forgoing US$17.5 million of the balance of the Existing Notes is to the advantage the Non-Associated Shareholders. The reduction of the principal amount is to the detriment of Jefferies.

5.3.4 Jefferies

Jefferies is an US global investment bank headquartered in New York and a wholly owned subsidiary of NYSE listed diversified investment company, Leucadia. As at October 2015, Jefferies had total assets of US$42.9 billion and represented the largest segment of Leucadia's business. Leucadia has a market capitalisation of approximately US$7.5 billion. It is evident that Jefferies investment in Poseidon by way of the Existing Notes, shares issued in satisfaction of the interest expense and the agreement to terminate the Existing Notes and accept the New Note is not material to its ongoing business.

Based on publically available information, Jefferies does not appear to have any shareholdings or interests in any other ASX listed metal and mining companies. While Jefferies' intentions for its investment in Poseidon are not known, it is expected that Jefferies will continue to take a passive role as an investor in Poseidon. This is further evidenced by Jefferies selling the 20 million shares that it originally acquired from Harbinger on market.

5.3.5 Control issues

As at the date of this report, Poseidon had on issue 732,011,258 fully paid ordinary shares and 7,225,000 options. Mr Andrew Forrest is the Company's largest shareholder with a 17.74% interest. As at 14 October 2015, Poseidon's second largest shareholder had a 3.95% interest, followed by Jefferies with a 3.35% interest. The top 20 shareholders hold approximately 40% of the shares on issue.

With the New Note having a conversion price of $0.09, assuming a A$:US$ exchange rate of A$0.75:US$1.00, on conversion, Poseidon would need to issue 259,259,259 New Note Shares to Jefferies. Assuming no other shares are issued, this would increase Jefferies' interest in the Company to 28.63%. Taking into account an estimate of shares that may be issued in satisfaction of the interest payments on the New Note, this interest would increase to 35.01%, again assuming no other shares are issued.

Under the Act, an entity is considered to be able to control a company if it has the capacity to determine the outcome of decisions about the company's financial and operating policies. Section 608 (5) states that the determination of whether an entity has the capacity to control a company is based on the "*practical influence*" that the entity can exert on a company as opposed to the "*rights they can enforce*".

Being the largest shareholder with a 35.01% shareholding in the Company, if Jefferies sought a position on the Board it is unlikely that that level of shareholding would enable Jefferies to gain majority representation. Without Board representation or the ability to control the Board, it is unlikely that Jefferies would have the capacity to control the financial and operating activities of Poseidon. In stating that, Jefferies would be in a position to exert significant influence on the Company as the dominant shareholder.

Given the nature of Jefferies as an US based investment bank with no other interest in any ASX listed mining and metal companies and its 'investment' in Poseidon being immaterial, it is unlikely that Jefferies would look to control the Company.

Having a greater than 20% interest in Poseidon may enable Jefferies to influence the Company in general meetings. However, this may not necessarily be to the detriment of the Non-Associated Shareholders. With a shareholding of around 35%, as long as greater than 54% of the remaining shares are voted, then Jefferies will not be in the majority.

If Jefferies was looking to dispose of a greater than 20% interest to a single purchaser or a number of related entities, shareholder approval would need to be obtained under item 7 of Section 611 of the Act.

While being the largest shareholder without having Board representation, it is unlikely that Jefferies will be in a position to control Poseidon's financial and operating policies.

5.3.6 Previous approvals

It is of note that Poseidon shareholders have previously provided pre-approval for shares to be issued on the conversion of the Existing Notes for item 7 of Section 611 purposes. These pre-approvals were provided to Harbinger when the Existing Notes were issued.

In this regard, in November 2008 shareholders were asked to approve the issue of shares to Harbinger on the possible conversion of the US$15 million Existing Notes. Based on the number of shares and other securities the Company had on issue at that time, in converting the Existing Notes, Harbinger's interest in Poseidon could have been in the range of 23.1% to 40.5%.

Similarly, when in March 2011, shareholders were asked to approve the issue of shares to Harbinger on the possible conversion of the US$15 million Existing Notes and the US$20 million Existing Notes, if converted Harbinger's interest in Poseidon could have been in the range of 28.3% to 32.5%.

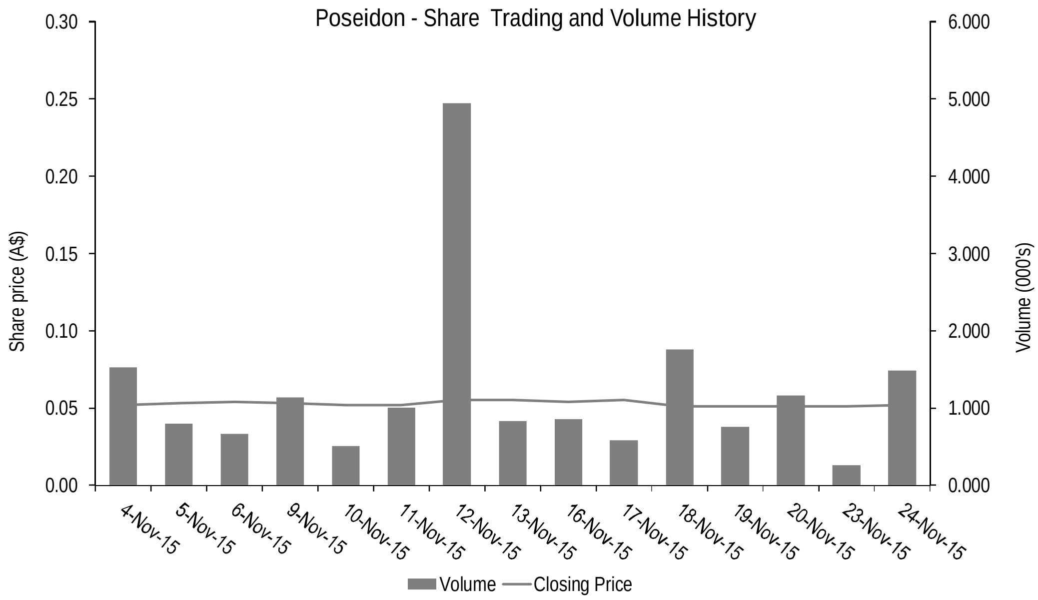
In both instances Poseidon shareholders provided pre-approval for the Existing Notes to be converted to shares.

As noted in section 4, 'all other things being equal' (i.e. assuming no other shares are issued to any other entity) Jefferies' shareholding in Poseidon on the conversion of the New Note may increase to 35.01%, an interest not inconsistent with the level of shareholdings previously approved by shareholders.

While the Company is now seeking the pre-approval for Jefferies to be able to convert the New Note, the financial circumstances of Poseidon are not significantly different from previous periods, albeit the relatively short maturity date of the Existing Notes has created an additional level of uncertainty. As previously noted, the continuation of this uncertainty is to the disadvantage of the Non-Associated Shareholders.

5.3.7 Share trading since the announcement of the New Note

The following chart is a summary of Poseidon's share trading history on the ASX for the period from 4 November 2015 to 24 November 2015. The trading price is based on the daily closing price.

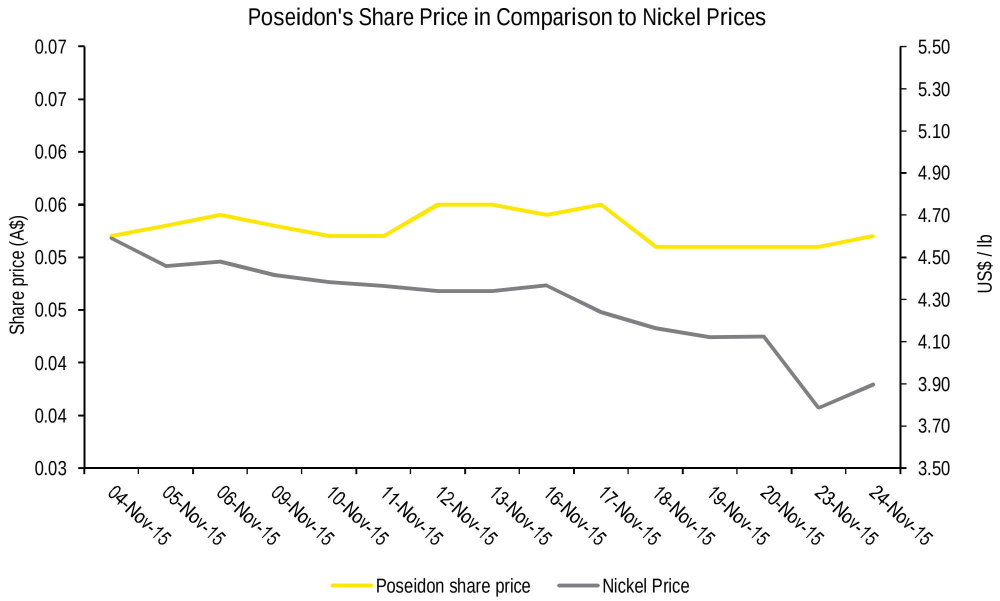


Source: S&P CapitalIQ, EY analysis

The analysis shows that over the period considered, Poseidon's shares price has remained consistent between a high of $0.055 and a low of $0.051. The closing price of the Company's shares on 24 November 2015 was $0.052. These prices are based on relatively low trading volumes.

In section 5.2.2 we determined the pro forma value of a Poseidon share post the issue of the New Note to be $0.0766, which is higher than the prices at which the Company's shares have traded at since the announcement of the termination of the Existing Notes and the issue of the New Note. This differential may be due to any uncertainly around Poseidon's ability to complete the transaction together with the ongoing uncertainties associated with continued low nickel prices and commodities in general

The following chart details Poseidon's share price and the nickel price over the period from 4 November 2015 to 24 November 2015, which shows that Poseidon's share price has not been recently impacted by the continued weakening of the nickel price.



Source: S&P Capital IQ, EY analysis

5.3.8 Alternatives

If the issue of the New Note Shares to Jefferies on the possible future conversion of the New Note is not approved, the termination of the Existing Notes and the issue of the New Note will not proceed. If this occurs the Existing Notes will remain in place and, unless otherwise converted, the requirement to repay the US$35 million on 31 March 2017 will continue.

As noted above, at the prices at which Poseidon shares are currently trading, the dilutionary impact of raising equity to repay the Existing Notes, even if it could be completed, would be significantly greater than the dilutionary impact of the conversion of the New Note and the issue of the New Note Shares.

With no ability to repay the Existing Notes, the closer to the maturity date, the more uncertain Poseidon's position will become from a financial and operational perspective. In these circumstances, the Company's ability to negotiate a better position than that presented by the issue of the New Note and the termination of the Existing Notes is unlikely.

The lack of any viable alternatives for Poseidon if the current proposal does not proceed underpins the importance of the Non-Associated Shareholders approving the termination of the Existing Notes, the issue of the New Note and the issue of the New Note Shares. If any of these components of the proposal does not occur then Poseidon will continue to owe US$35 million on the Existing Notes.

5.4 Premium for control

A "premium for control" generally represents the difference between the price per share which one party would be prepared to pay to obtain a controlling interest in a company and the price at which a share that does not carry with it control of that company could be acquired. In the case of the issue of shares, the entity receiving the shares is paying a premium if the value of the shares being issued is less than the value of the consideration being paid. The greater the premium the better off the shareholders not involved in the transaction will be.

In section 5.2.2 we assessed the pro forma value of a Poseidon share on a minority interest basis after the issue of the New Note to be at a 13.3% premium to the value of a Poseidon share on a controlling interest basis (i.e. assuming 100% ownership) prior to the issue of the New Note. Any premium is to the benefit of the Non-Associated Shareholders.

In relation to the possible issue of the New Note Shares, because the future value of the shares to be issued cannot be determined at this time, an assessment of whether or not Jefferies would be paying a premium for control is, at the date of this report, not possible. It is however relevant to note that the $0.09 conversion price of the New Note is at a premium of 73.1% to the closing price of a Poseidon share on the ASX on 4 November 2015 on a minority interest basis and a premium of 33.1% on a controlling interest basis . It is also relevant that when using the 5 and 10 day, and one, two and three month VWAPs prior to that date, the premium ranged from 45.7% to 69.3% on a minority interest basis and a premium range of 12.1% to 30.2% on a controlling interest basis. The existence of the premium is to the benefit of the Non-Associated Shareholders.

6. Summary and conclusion

In forming our opinion as to whether the issue of the New Note Shares to Jefferies on the possible conversion of the New Note is fair and reasonable to the Non-Associated Shareholders of Poseidon, we have considered the following matters:

- At the date of this report, no assessment of the value of the New Note Shares can reasonably be made as the possible date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, at the date of their issue the conversion price and the wider terms of the New Note together with the circumstances of Poseidon and the advantages provided by the termination of the Existing Notes and the issue of the New Note are of more significance than the possible value of the Company's assets and liabilities at some future date.

- Notwithstanding the above, we have considered the value of a Poseidon share on a controlling interest basis (i.e. assuming 100% ownership) prior to the issue of the New Note and compared that to the pro forma value of a Poseidon share on a minority interest basis post the issue of the New Note. We assessed the value of a Poseidon share prior to the issue of the New Note and on a controlling interest basis (i.e. assuming 100% ownership) to be $0.0676 and the pro forma value of a Poseidon share post the issue of the New Note and on a minority interest to be $0.0766. The difference between the two values represents a 13.3% premium, which is to the benefit of the Non-Associated Shareholders.

- A comparison of conversion price of the New Note of $0.09 to the trading price VWAPs of Poseidon shares on the ASX for the 5 and 10 trading days and the one, two and three months prior to 4 November 2015 (being the last trading day before the termination of the Existing Notes and the issue of the New Note was announced), shows that conversion price is at a premium to trading prices in the range of 45.7% to 69.3%. The premium of the conversion price to the closing price on 4 November 2015 was 73.1%. The premium of the conversion price to Poseidon's share price is an advantage to the Non-Associated Shareholders. On a controlling interest basis, assuming a control premium of 30% to the various VWAPs, the range of premiums of the conversion price over the VWAPs was in the range of 12.1% to 33.1%.

- An analysis of convertible note issues made by other mining and metals companies over the past 36 months shows that the terms of the New Note are more favourable, which in the circumstances of the issue of the New Note is to the benefit of the Non-Associated Shareholders

- Given the continued low nickel price environment it is unlikely that between the date of this report and 31 March 2017 Poseidon's shares will trade at prices that would see the Existing Notes converted. On this basis, in the absence of Jefferies agreeing to effectively replace the Exiting Notes with the New Note, the Company would be required to repay the US$35 million Existing Notes on 31 March 2017. Using an exchange rate of A$0.75:US$1.00 this equates to a debt in A$'s of $46.667 million.

- Without significant market support it is unlikely that Poseidon would be able to raise sufficient funds by way of equity issues to be in a position to repay the US$35 million Existing Notes and to fund ongoing activities. At current prices, the dilutionary impact of raising equity to repay the Existing Notes, even if it could be completed, would be significantly greater than the dilutionary impact of the conversion of the New Note and the issue of the New Note Shares.

- The ability of Poseidon to source sufficient funds to repay the Existing Notes is uncertain. Continuation of this uncertainty is to the disadvantage of the Non-Associated Shareholders.

- Without the ability to source sufficient funds to repay the Existing Notes, there is likely to be a serious question in relation to Poseidon's ability to continue to operate as a going concern.

- It would be expected the Company's share price would be negatively impacted as the maturity date of the Existing Notes gets closer. Any negative impact on share price would be to the disadvantage of the Non-Associated Shareholders.

- The termination of the Existing Notes and the issue of the New Note (which is conditional on the issue of the New Note Shares being issued) will remove this uncertainty in that, besides reducing the principal amount owing by US$17.5 million, the maturity date is extended from 17 months to five years. Removal of the uncertainty around the Company's short term ability to repay the Existing Notes should be to the advantage of the Non-Associated Shareholders

- In agreeing to forgo US$17.5 million of the balance owing on the Existing Notes and to a five year term for the New Note, Jefferies has provided Poseidon with the opportunity to concentrate efforts on getting Lake Johnston, Black Swan and Windarra into operation.

- Jefferies effectively forgoing US$17.5 million of the balance of the Existing Notes is to the advantage the Non-Associated Shareholders. The reduction of the principal amount represents a cost to Jefferies.

- Having a greater than 20% interest in Poseidon may enable Jefferies to influence the Company in general meetings. However, this may not necessarily be to the detriment of the Non-Associated Shareholders. With a shareholding of around 35%, as long as greater than 54% of the remaining shares are voted, then Jefferies will not be in the majority.

- It is of note that Poseidon shareholders have previously provided pre-approval for shares to be issued on the conversion of the Existing Notes for item 7 of Section 611 purposes. These pre-approvals were provided to Harbinger when the Existing Notes were issued and at shareholding levels not inconsistent with the interest in the Company that Jefferies may end up with on the possible conversion of the New Note.

- With no ability to repay the Existing Notes, the closer to the maturity date, the more uncertain Poseidon's position will become from a financial and operational perspective. In these circumstances, the Company's ability to negotiate a better position than that presented by the issue of the New Note and the termination of the Existing Notes is unlikely.

- The lack of any viable alternatives for Poseidon if the current proposal does not proceed underpins the importance of the Non-Associated Shareholders approving the termination of the Existing Notes, the issue of the New Note and the issue of the New Note Shares. If any of these components of the proposal does not occur then Poseidon will continue to owe US$35 million on the Existing Notes.

Based on the matters discussed throughout this report and those summarised above, including the positive impact that the termination of the Existing Notes and the issue of the New Note should have on Poseidon's current circumstances, the issue of the New Note Shares to Jefferies on the possible conversion of the New Note at some time in the future is, in our opinion, fair and reasonable to the Non-Associated Shareholders.

Appendix A Statement of qualifications and declarations

EY Transaction Advisory Services, which is wholly owned by EY, holds an Australian Financial Services Licence under the Act and its representatives are qualified to provide this report. The directors of EY Transaction Advisory Services responsible for this report have not provided financial advice to Poseidon.

Prior to accepting this engagement, EY Transaction Advisory Services considered its independence with respect to Poseidon with reference to Regulatory Guide 112: *Independence of experts*.

This report has been prepared specifically for Poseidon shareholders in relation to the Proposed Transaction. Neither EY Transaction Advisory Services, EY and any employee thereof undertakes responsibility to any person, other than Poseidon shareholders, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report we have relied upon and considered information believed after due inquiry to be reliable and accurate. EY Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. EY Transaction Advisory Services has evaluated the information provided to it by Poseidon, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. EY Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose. The information relied upon in the preparation of this report is set out in Appendix B.

Poseidon has provided an indemnity to EY Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

EY Transaction Advisory Services provided draft copies of this report to Poseidon for comments as to factual accuracy, as opposed to opinions, which are the responsibility of EY Transaction Advisory Services alone. Changes made to this report as a result of this review by the Directors and management of Poseidon have not changed the methodology or conclusions reached by EY.

EY Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report estimated at approximately $30,000 (exclusive of GST). EY Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Ms Brenda Moore, a representative of EY Transaction Advisory Services and an Executive Director of EY and Mr Ken Pendergast, a Director and representative of EY Transaction Advisory Services and a partner of EY and have assumed overall responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other EY staff has been consulted in the preparation of this report where appropriate.

It is not intended that the report should be used for any other purpose other than to be included in the Explanatory Statement to be sent to Poseidon shareholders with respect to the proposed transaction. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the issue of the New Note Shares to Jefferies on the possible conversion of the New Note is fair and reasonable to the Non-Associated Shareholders.

EY Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notice of Meeting and Explanatory Statement.

Appendix B Valuation Methodologies

RG 111 provides guidance on the valuation methods that an independent expert should consider when valuing a company. These methods include the:

- DCF method and the estimated realisable value of any surplus assets.
- Application of earnings multiples (appropriate to the business or industry in which the entity operates) to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets.
- Amount that would be available for distribution to security holders on an orderly realisation of assets.
- Quoted price for listed securities, when there is a liquid and active market and allowing for the fact that the quoted price may not reflect their value, should 100% of the securities be available for sale.
- Recent genuine offers, if any, received by the target for any business units or assets as a basis for valuation of those business units or assets, and
- Amount that any alternative acquirer might be willing to offer if all the securities in the target were available for purchase.

Each methodology is appropriate in certain circumstances. The decision as to which methodology to apply generally depends on the nature of the asset being valued, the methodology most commonly adopted in valuing such an asset and the availability of appropriate information.

The discounted cash flow methodology involves calculating the net present value of cash flows that are expected to be derived from future activities. The forecast cash flows are discounted by a discount rate that reflects the time value of money and the risk inherent in the cash flows. This methodology is particularly appropriate in valuing projects, businesses and companies that are in a start-up phase and are expecting considerable volatility and/or growth in earnings during the growth phase, as well as businesses with a finite life (such as oil and gas projects). The utilisation of this methodology generally requires that the asset be sufficiently advanced to enable management to provide long term cash flows with some degree of robustness.

The capitalisation of earnings methodology involves capitalising the earnings of a project, a business or a company at an appropriate multiple, which reflects the risks underlying the earnings together with growth prospects. This methodology is theoretically most appropriate where a company or business is expected to generate a relatively stable level of earnings but in practice, is also frequently used in a range of other circumstances.

The net asset backing methodology involves consideration of the net realisable value of the assets of a business or company on a going concern basis, assuming an orderly realisation of those assets. This value includes a discount to allow for the time value of money and for reasonable costs of undertaking the realisation. It is not a valuation on the basis of a forced sale, where assets may be sold at values materially different to their fair value.

Market based assessments relate to the valuation of companies, the shares of which are traded on a stock exchange. While the relevant share price would, prima facie, constitute the market value of the shares, such market prices usually reflect the prices paid for small parcels of shares and as such do not include a control premium relevant to a significant parcel of shares.

Appendix C Sources of information

In preparing this report, we have had regard to the following sources of information:

- Various presentations prepared by Poseidon in relation to its operations and the Windarra Nickel Project;
- Poseidon shareholder information at various dates, as provided by the Company's share registry and share register analysis provided by Thomson Reuters;
- various schedules of all Poseidon securities on issue provided by the Company;
- The Termination Deed for the termination of the Existing Notes and the Note Certificate for the New Note;
- Discussions with Poseidon management;
- Various public disclosure documents lodged by Poseidon with the ASX, including Poseidon's annual reports for the years ended 30 June 2014 and 2015;
- Information from Poseidon's website, http://www.poseidon-nickel.com.au/;
- ASIC Regulatory Guides;
- Capital IQ;
- Thompson Research;
- DatAnalysis;
- Various broker reports from September 2015 used as a source of nickel price forecasts;
- The Corporations Act;
- Independent Expert's Report prepared by EY Transaction Advisory Services to Poseidon shareholders dated 21 January 2011, in relation to the Existing Note issue to Harbinger and the amendment to the Existing Notes; and
- Other publicly available information.

Appendix D Glossary

Abbreviation	Full Title / Description
$ or A$	Australian dollars
30JunXX	30 June 20XX
ASIC	The Australian Securities & Investments Commission
ASX	Australian Securities Exchange
Act	The Corporations Act
BFS	Bankable Feasible Study
BHPB	BHP Billiton Ltd
Caeneus	Caeneus Minerals Limited
Capital Raising	The $30 million capital raising via a placement of shares at $0.18 each on 10 October 2014
Directors	The Directors of Poseidon
EY Transaction Advisory Services" or "we," or "us" or "our"	Ernst & Young Transaction Advisory Services Limited
Existing Notes	The US$15 million notes and the US$20 million notes that mature on 31 March 2017
FSG	Financial Services Guide
GFC	Global financial crisis
Harbinger	Harbinger Capital Partners LLC
Jefferies	Jefferies, LLC
JORC Code	Code for Reporting of Mineral Resources and Ore Reserves as prescribed by the Australasian Joint Ore Reserves Committee
km	kilometre
Leucadia	Leucadia National Corporation
m	Million
Mtpa	Million tonnes per annum
Meeting	The meeting to be held on or about 20 January 2016
New Note Shares	The shares to be issued on the conversion of the New Note
New Note	The new US$17.5 million convertible note facility
Nickel West	BHP Billiton Nickel West Pty Ltd
Non-Associated Shareholders	Shareholders of Poseidon are those not associated with Jefferies
Poseidon or the Company	Poseidon Nickel Limited
RG 111	ASIC Regulatory Guide 111: Content of expert reports
t	Tonne
/t	Per tonne
Termination Deed	the Convertible Note Termination Deed
US$	United States dollars
VWAP	Volume weighted average price

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THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

25 November 2015

PART 2 – Financial Services Guide

1. Ernst & Young Transaction Advisory Services Limited

Ernst & Young Transaction Advisory Services Limited (EY Transaction Advisory Services" or "we," or "us" or "our) has been engaged to provide general financial product advice in the form of an Independent Expert's Report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

EY Transaction Advisory Services is ultimately owned by EY, which is a professional advisory and accounting practice. EY may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, EY Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

EY Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of EY Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Ombudsman Service Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting EY Transaction Advisory Services	**Contacting the Independent Dispute Resolution Offer:**
AFS Compliance Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Ombudsman Service Limited PO Box 3 Melbourne VIC 3001 Telephone: 1300 78 08 08

This Financial Services Guide has been issued in accordance with ASIC Class Order CO 04/1572