POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Interim Financial Report
For the six months ended 31 December 2015

Poseidon Nickel Limited
Contents

Poseidon Nickel Limited
Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

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

Company Secretary

Mr G Jones

Registered Office

Level 2, 100 Railway Road
Subiaco WA 6008

Principal Office

8 Churchill Court
331-335 Hay Street
Subiaco WA 6008
Website: www.poseidon-nickel.com.au
Email: admin@poseidon-nickel.com.au
Telephone: +61 8 6167 6600
Facsimile: +61 8 6167 6649

Postal Address

PO Box 190
West Perth WA 6872

Auditors to the Company

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

Share Registry

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

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia

Poseidon Nickel Limited
Directors' report
For the six months ended 31 December 2015

The directors of Poseidon Nickel Limited ("the Company") present their report together with the consolidated interim financial report for the six months ended 31 December 2015 and the auditor's review report thereon.

Contents of Directors' report

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2015

1. Directors

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

Name	Period of directorship
Non-executive	
Mr Christopher Indermaur *Chairman & Independent Non-Executive Director*	Appointed 2 July 2007, Resigned 30 September 2008, Re-appointed 2 April 2009
Mr David Singleton *Non-Executive Director*	Appointed 1 February 2008, Resigned as Managing Director & CEO 31 January 2016
Mr Geoff Brayshaw *Independent Non-Executive Director & Chairman of the Audit & Risk Management Committee*	Appointed 1 February 2008
Mr Robert Dennis *Non-Executive Director*	Appointed 24 February 2014

2. Operating and Financial Review

Strategic Overview

Poseidon's strategy continues to focus on completing the commercial and technical work required to restart the Silver Swan and Lake Johnston operations. Once the commodity markets stabilise, the priority will be to restart Silver Swan due to the extremely high grade nature of the mine and the economic viability of the project as the nickel price rises. The ore offtake agreement with Tsingshan reduces the restart cost of Silver Swan by over 90% by eliminating the need for a local ore concentrator facility. Poseidon is well advanced in developing funding for the mine although the financial needs are not high when compared to the Company's other projects. It is expected that commercial funding will be achieved subject to an assessed economic nickel price for the project.

Given the uncertain timeframe for the nickel market to commence its recovery, the Company is reviewing the options for the Windarra Gold Tailings project. This could involve updating the Definitive Feasibility Study ("DFS") on the retreatment of the gold tailings on a 'stand-alone' basis, dependent upon how the project is funded and the requirements of a potential financier or the sale of the rights to a third party. The original concept for the project was to process the tailings in conjunction with the nickel concentrator plant operating, however, the acquisition of the Lake Johnston and Black Swan assets from OJSC MMC Norilsk Nickel has removed the requirement for a nickel process plant to be built at Windarra. Of the 11.0mt resource, the DFS includes 4.36mt of resource from the North and South tailings dams which contains 101,500oz @ 0.72g/t. Extensive testwork previously undertaken has demonstrated a minimum recovery of 45% for 45,600oz of gold over a 3.2 year period. The tailings will be recovered by hydraulic mining using a standard technique commonly employed in the tailings recovery industry with the resulting slurry pumped to a thickener and then to a bank of conventional carbon-in-leach tanks to recover the gold onto activated carbon. This carbon will be trucked to a custom carbon treatment plant in Kalgoorlie, Western Australia.

The drilling campaign completed at Emily Ann resulted in an impressive intersection in the second of a three holes and is a culmination of considerable high quality scientific work between our Geology team and Newexco. The discovery is located close to the Emily Ann mine infrastructure and Lake Johnston nickel concentrator and could develop into an economically viable resource to further enhance the Lake Johnston restart project along with opening up further opportunities for mineralisation to be discovered in other structurally favourable positions along the belt. Whilst this is a significant discovery, it is not envisaged that any further drilling will be undertaken at this time. The duration of the poor nickel market will be used to fully analyse and interpret the results and identify the next steps and target areas for when the Company recommences drilling activities.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2015

2. Operating and Financial Review (continued)

At a General Meeting of shareholders held on 20 January 2016, the changes to the Convertible Notes held by Jefferies LLC were overwhelmingly approved by shareholders. The new Note reduces the face value of the old Notes by 50% from US$35 million to US$17.5 million. As the interest rate of the new Note remains at 5% p.a., this will also halve the future quarterly interest cost to the Company. Equally important is that the maturity date of the new Note has been extended to 30 September 2020 which represents an extension of 42 months to the original date of March 2017.

Poseidon has also taken significant steps to reduce operating expenditure to a minimum across all sites which regrettably, has resulted in a number of further redundancies and placing all sites on a minimal care and maintenance programme. This approach has incorporated the decision to stop dewatering the Windarra and Lake Johnston underground mines in a controlled manner that will minimise the impact on the restart of operations. The Silver Swan mine will continue to be dewatered as this is the Company's priority nickel restart project. This decision is considered to have minimal impact on a mine restart programme given the rehabilitation work already identified as being required through the DFS process for both projects. In addition, a number of employees have reduced the number of days per week they work by taking on other contract work whilst remaining to operate out of Poseidon's office. This approach allows Poseidon to continue to access their extensive skills and project knowledge whilst eliminating much of the costs of employment or alternatively using consultants.

Projects – Lake Johnston

The Company announced that significant nickel sulphide mineralisation has been intersected during the recent diamond drilling program, targeting an area 360m from the Emily Ann mine workings within the recently purchased Lake Johnston Project.

Poseidon acknowledges the West Australian Department of Mines and Petroleum for sponsoring the drilling via the Exploration Incentive Scheme co-funding grant. The EIS grant will contribute up to $150,000 towards drilling costs representing about 50% of the total investment.

The first drill hole of the programme, PLJD0001, intersected a 19cm high grade zone of remobilised nickel sulphide grading 10.20% Ni. A downhole electro-magnetic survey (DHEM) was completed and generated a strong off-hole anomaly close to the hole. Poseidon's geologists in conjunction with Newexco Services Pty Ltd (consulting geoscientists) completed detailed structural, geological and geophysical modelling of the data to target the source of the remobilised sulphides.

The second drill hole, PLJD0002, targeted a geologically & structurally favourable area 45m below PLJD0001 and intersected a new lens comprising 10.48m of massive, stringer and disseminated nickel sulphides grading 3.20% Ni in an intrusive pyroxenite ultramafic between 432.00m to 442.48m downhole depths. This intersection includes a lower massive sulphide unit comprising 2.32m at 7.62% Ni from 439.09m and includes 1.29m @ 10.22% Ni from 440.12m. The third and final hole in the drilling programme, PLJD0003, has just been completed and geological as well as geophysical logging of the hole is in progress.

A complete nickel sulphide intersection summary is tabulated below.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2015

2. Operating and Financial Review (continued)

Table 1: Nickel Sulphide Intersection Summary

Hole ID	From_m	To_m	Width	Ni Grade	Details
PLJD0001	**435.39**	**435.58**	**0.19**	**10.2%**	Remobilised massive sulphide in felsics
PLJD0002	**432.00**	**442.48**	**10.48**	**3.20%**	Felsic, ultramafic and remobilised sulphide in hw & fw
incl	***435.69***	***441.41***	***5.72***	***4.66%***	*Mineralised Ultramafic Interval*
incl	***439.09***	***441.41***	***2.32***	***7.62%***	*Lower Massive Zone*
incl	***440.12***	***441.41***	***1.29***	***10.22%***	*High Grade base*

Table 2: Drill Hole Details

Hole ID	East_MGA	North_MGA	RL	Dip	Azimuth	EOH Depth
PLJD0001	262766.6	6434776.7	1357	-65.0	247.6	513.80m
PLJD0002	262767.5	6434777.0	1357	-70.6	250.3	478.54m
PLJD0003	262766.5	6434778.0	1357	-70.5	260.0	495.10m

The sulphide comprises nickel bearing pentlandite within a pyrrhotite sulphide matrix. The sulphides are hosted within an intrusive pyroxenite ultramafic sill which demonstrates pyroxene cumulates within its core and sulphide settling at its base. The upper and lower margins exhibit chill zones and alteration halos where it has come into contact with the earlier in-situ felsic rhyolitic and rhyodacitic volcanic tuffs which host the ultramafic intrusion. The felsic volcanic rocks have been overturned during earlier regional deformation, however the ultramafic sill is right-way up and cross-cuts stratigraphy, contradicting the historical recumbent folding model previously used to explain the Emily Ann ore body.

The detailed analysis targeting the potential Emily Ann extension was developed over several months by both the internal Poseidon geological team in parallel with Newexco who were contracted to review the historical geophysical data. Newexco have been credited with targeting numerous nickel discoveries through geophysical techniques, including most recently those of Sirius Resources, one of the largest new finds of its type in recent years. The studies were carried out using existing drilling core data, compilation of historic individual electromagnetic conductor surveys and structural analysis. For the first time this data was looked at in an integrated way to identify the potential positions of mineralisation.

The mineralisation discovered by this current drilling program is offset from Emily Ann vertically and horizontally to the east by a series of late stage faults. The bases of both the Emily Ann and Emily Ann North deposits are sharply terminated by an early flat lying structure which in turn is offset vertically from the Emily Ann North mineralisation by the later Toolangi Fault.

Evidence for this style of ore body displacement has already been demonstrated at Maggie Hays and is apparent in many mines in Australia. Notably, at Western Areas Flying Fox mine, 80km to the west of Emily Ann which has been similarly sheared off and displaced by multiple low-angle fault zones. Poseidon has successfully "discovered" nickel mineralisation within the modelled target zone and aims to delineate an economically viable deposit utilising modern and already successful industry leading exploration techniques.

Projects – Silver Swan

The Company contracted Optiro Pty Ltd (Optiro) to undertake an update to the Mineral Resource for the lower 500 m of the Silver Swan nickel sulphide deposit to JORC 2012 requirements. This included the Goose, Peking Duck, Fledgling-Canard and re-interpreted Tundra-Mute ore bodies (Figure 1).

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2015

2. Operating and Financial Review (continued)

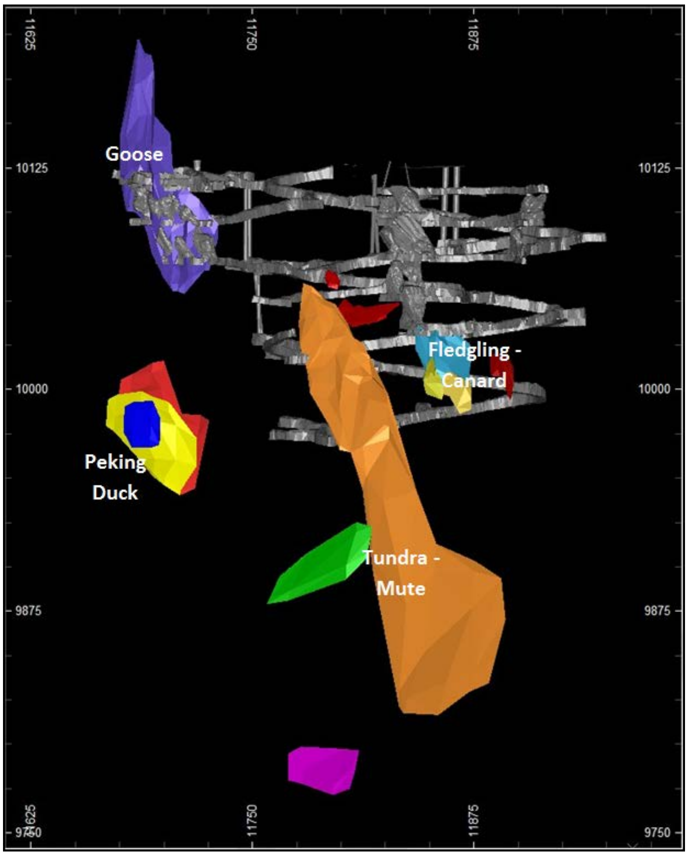

Figure 1: Long section looking west of the in situ lodes at the Silver Swan deposit

Nickel mineralisation at Silver Swan comprises a series of high grade medium tenor massive pentlandite-pyrrhotite sulphide lenses which lie on or are adjacent to the steeply dipping ultramafic footwall contact. Previous model updates by Norilsk Nickel (2008) have used an accumulation method (estimation of grade multiplied by true thickness) to quantify the Silver Swan mineralisation which tends to over-estimate grades. The current Mineral Resource estimation has used an industry standard Ordinary Kriging approach based upon nickel grades within the interpreted wireframes.

New geological interpretations were completed and wireframes were generated by Poseidon's geologist using sectional interpretation of the downhole geology and a grade threshold of 1.2-1.4% Ni. The reinterpretation includes drilling completed by Norilsk Nickel that was not in the previous estimation as well as new sampling data completed by Poseidon Nickel on drill holes that had missing assay data.

The aim of this work is to generate a new, more robust Mineral Resource suitable for Ore Reserve estimation and subsequent pre-feasibility study (PFS) in order to restart the operations and the Silver Swan/ Black Swan complex. This work is nearing completion and will be reported to the market in due course.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2015

2. Operating and Financial Review (continued)

Financial Position

For the six months ended 31 December 2015 the Group incurred a loss of $53,065,000 (2014: loss $12,515,000) and had a net working capital deficit of $997,000 (30 June 2015: deficit $965,000). The working capital deficit includes a provision for environmental rehabilitation of $3,500,000 that is cash backed (non-current asset).

The Company had a net cash outflow from operating activities of $1,082,000 (2014: $3,357,000) and a net cash outflow from investing activities of $1,378,000 (2014: outflow $3,506,000), primarily reflecting ongoing care and maintenance expenditure of the Lake Johnston, Black Swan and Windarra sites. The net cash outflow was reduced following receipt of $2,715,000 for the 2015 refundable tax offset from the ATO under the Research and Development Tax Incentive Scheme.

In January 2016, the Company successfully refinanced and rescheduled its convertible notes, reducing the face value of the notes by 50% to US$17.5 million and extending the maturity date by 42 months to 30 September 2020 (refer note 5.2 on Subsequent Events).

The Company continues to minimise expenditure levels across all sites due to the current poor nickel market conditions. Management forecasts demonstrate a need for additional funding and have put in place a mechanism to issue shares to professional and sophisticated investors on a quarterly basis to raise an estimated $3 million to maintain planned levels of expenditure for the coming 12 months. The Company will continue to review other sources of funding through this period including debt and/or equity instruments.

3. Dividends

No dividends were paid or proposed during the six months ended 31 December 2015.

4. Events subsequent to reporting date

At a General Meeting held on 20 January 2016, shareholders approved the changes to the Convertible Notes held by Jefferies LLC. The new Convertible Note reduced the face value of the old Convertible Notes by 50% from US$35 million to US$17.5 million. The interest rate on the new Note remains the same at 5% p.a. but the maturity date has been extended to 30 September 2020 which represents a 42 month extension in term. The holder can convert in whole or in part to shares at AU$0.09 at any time during the term of the note. The note remains unsecured and contains no negative pledges.

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 10 and forms part of the directors' report for the six months ended 31 December 2015.

6. Rounding off

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

Signed in accordance with a resolution of the directors:

Mr G F Brayshaw, FCA
Director

Perth
14th March 2016

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

To: the directors of Poseidon Nickel Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2015 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Trevor Hart
Partner

Perth

14 March 2016

Poseidon Nickel Limited
Condensed consolidated interim statement of financial position
As at 31 December 2015

In thousands of AUD	***Note***	**31 Dec 2015**	**30 Jun 2015**
Assets			
Cash and cash equivalents		3,978	4,857
Trade and other receivables		377	689
Total current assets		4,355	5,546
Property, plant and equipment		26,671	26,844
Exploration and evaluation expenditure	*3.1*	55,670	103,419
Other investments		12	119
Other		3,500	3,500
Total non-current assets		85,853	133,882
Total assets		90,208	139,428
Liabilities			
Trade and other payables		1,456	2,604
Employee benefits		396	407
Provisions		3,500	3,500
Total current liabilities		5,352	6,511
Loans and borrowings	*4.2*	40,524	35,893
Convertible note derivative	*4.3*	159	2,989
Employee Benefits		109	99
Provisions		42,861	42,861
Total non-current liabilities		83,653	81,842
Total liabilities		89,005	88,353
Net Assets		1,203	51,075
Equity			
Share capital	*4.1*	141,424	138,387
Reserves		955	799
Accumulated losses		(141,176)	(88,111)
Total equity attributable to equity holders of the Company		1,203	51,075
Total equity		1,203	51,075

The condensed notes on pages 15 to 22 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
Condensed consolidated interim statement of profit or loss and other comprehensive income
For the six months ended 31 December 2015

In thousands of AUD	***Note***	**31 Dec 2015**	**31 Dec 2014**
Other income		1,155	588
Depreciation expense		(31)	(3)
Personnel expenses		(874)	(708)
Exploration and evaluation costs expensed		(130)	(1,112)
Consultancy and advisor fees		(436)	(1,097)
Share based payment expense	*5.1*	(386)	(393)
Impairment	*3.2*	(48,600)	-
Other expenses		(470)	(679)
Results from operating activities		(49,772)	(3,404)
Finance income		3,030	95
Finance costs		(6,323)	(9,206)
Net finance costs	*2.2*	(3,293)	(9,111)
Loss before income tax		(53,065)	(12,515)
Income tax benefit		-	-
Total comprehensive loss for the period		(53,065)	(12,515)
Earnings per share			
Basic loss per share (cents/share)		(7.43)	(2.22)
Diluted loss per share (cents/share)		(7.43)	(2.22)

The condensed notes on pages 15 to 22 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
Condensed consolidated interim statement of changes in equity

For the six months ended 31 December 2014

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

For the six months ended 31 December 2015

In thousands of AUD	**Share Capital**	**Share based payment reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2015	138,387	799	(88,111)	51,075
Loss	-	-	(53,065)	(53,065)
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	(53,065)	(53,065)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital (net of costs)	3,037	-	-	3,037
Issue of options (net of costs)	-	86	-	86
Issue of performance rights	-	70	-	70
Total contributions by and distributions to owners	3,037	156	-	3,193
Total transactions with owners	3,037	156	-	3,193
Balance at 31 December 2015	141,424	955	(141,176)	1,203

The condensed notes on pages 15 to 22 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
Condensed consolidated interim statement of cash flows
For the six months ended 31 December 2015

In thousands of AUD	***Note***	**31 Dec 2015**	**31 Dec 2014**
Cash flows from operating activities			
Sundry receipts		720	544
Payments to suppliers and employees		(1,832)	(3,983)
Cash used in operations		(1,112)	(3,439)
Interest received		30	82
Net cash used in operating activities		(1,082)	(3,357)
Cash flows from investing activities			
Payments for property, plant and equipment		(187)	(423)
Proceeds from sale of property, plant and equipment		108	-
Payments for exploration and evaluation expenditure		(3,684)	(2,739)
Payments for asset acquisition		-	(1,115)
Proceeds from research and development for exploration and evaluation expenditure		2,269	921
Proceeds from sale of investments		116	-
Other – deposit paid		-	(150)
Net cash used in investing activities		(1,378)	(3,506)
Cash flows from financing activities			
Proceeds from issue of shares and options (net of costs)		1,694	27,051
Payment of borrowing costs		-	(120)
Repayment of borrowings		-	(8,000)
Interest paid		(113)	(1,071)
Net cash received from financing activities		1,581	17,860
Net decrease in cash and cash equivalents		(879)	10,997
Cash and cash equivalents at 1 July		4,857	4,363
Cash and cash equivalents at 31 December		3,978	15,360

The condensed notes on pages 15 to 22 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 1 – Basis of Preparation

In preparing the condensed consolidated interim financial statements, Poseidon Nickel Limited has grouped notes into sections under five key categories:

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

Poseidon Nickel Limited ("the Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2015 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2015.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2015 is available upon request from the Company's registered office at Spectrum Level 2, 100 Railway Road, Subiaco, WA 6000 or at www.poseidon-nickel.com.au.

1.1 Statement of compliance

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

This consolidated interim financial report was approved by the Board of Directors on 14 March 2016.

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

1.2 Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2015 annual financial report for the financial year ended 30 June 2015. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

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

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

1.3 Going concern

The condensed consolidated interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2015 the Group incurred a loss of $53,065,000 (2014: loss $12,515,000) and had a net working capital deficit of $997,000 (30 June 2015: deficit $965,000).

The Company had a net cash outflow from operating activities of $1,082,000 (2014: $3,357,000) and a net cash outflow from investing activities of $1,378,000 (2014: outflow $3,506,000), primarily reflecting ongoing care and maintenance expenditure of the Lake Johnston, Black Swan and Windarra sites. The net cash outflow was reduced following receipt of $2,715,000 for the 2015 refundable tax offset from the ATO under the Research and Development Tax Incentive Scheme.

In January 2016, the Company successfully refinanced and rescheduled its convertible notes, reducing the face value of the notes by 50% from US$35 million to US$17.5 million and extending the maturity date by 42 months to 30 September 2020 (refer note 5.2 on Subsequent Events).

The Company continues to minimise expenditure levels across all sites due to the current poor nickel market conditions. Management forecasts demonstrate a need for additional funding and have put in place a mechanism to issue shares to professional and sophisticated investors on a quarterly basis to raise an estimated $3 million to maintain planned levels of expenditure for the coming 12 months. The Company will continue to review other sources of funding through this period including debt and/or equity instruments. The Directors believe that nickel prices will ultimately improve in the future, which will enable one or more of its projects to be developed but acknowledges there is significant market and development risks.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows for the next 12 months, which includes raising additional funds to meet forecast minimum expenditure required to maintain tenements and meet ongoing costs. The ability of the Company to achieve its forecast cash flows, including the raising of additional funds, represents material uncertainty that may cast significant doubt about whether the Company can continue as a going concern in which case it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

1.4 Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying this Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2015.

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 2 – Results for the Year

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

2.1 Operating segments

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

Information about reportable segments

In thousands of AUD	**Nickel exploration and evaluation**	
For the six months ended 31 December	**2015**	**2014**
Reportable segment other income	1,143	588
Reportable segment exploration costs expensed	(48,730)	(1,112)
Reportable segment profit / (loss) before income tax	(47,587)	(524)
Reportable segment assets	85,406	102,450
Capital expenditure	39	13,928
Reconciliations of reportable segment profit / (loss) and assets		
Loss		
Total profit / (loss) for reportable segments	(47,587)	(524)
Unallocated amounts: other corporate expenses	(2,185)	(2,880)
Net finance costs	(3,293)	(9,111)
Loss before income tax	(53,065)	(12,515)

Assets	**31 Dec 2015**	**30 Jun 2015**
Total assets for reportable segments	85,406	133,455
Other assets	4,802	5,973
	90,208	139,428

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2015.

2.2 Net financing costs

Net financing costs can be analysed as follows:

In thousands of AUD	**31 Dec 2015**	**31 Dec 2014**
Interest income on bank deposits	27	94
Change in fair value of convertible note derivative	3,003	-
Change in fair value of investments	-	1
Finance income	3,030	95
Interest expense – convertible note	(3,785)	(2,358)
Interest expense – loan	-	(343)
Net foreign exchange loss	(2,247)	(4,300)
Net loss on disposal of investments	(291)	-
Change in fair value of convertible note derivative	-	(2,205)
Finance costs	(6,323)	(9,206)
Net finance costs	(3,293)	(9,111)

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 3 – Assets and Liabilities Supporting Exploration and Evaluation

This section focuses on the exploration and evaluation assets which form the core of the business, including those assets and liabilities which support ongoing exploration and evaluation.

3.1 Exploration and evaluation expenditure

In thousands of AUD	**31 Dec 2015**	**30 Jun 2015**
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	55,670	103,419
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of period	103,419	73,281
Additions, net of research and development proceeds	851	8,026
Assets acquired	-	22,112
Impairment (Refer to note 3.2)	(48,600)	-
	55,670	103,419

The ultimate recoupment of costs carried forward for exploration and evaluation is dependant on the successful development and commercial exploitation or sale of the respective areas of interest. Exploration expenditure of $130,000 (2014: $1,112,000) was expensed as incurred through the Income Statement for the period.

Plant and Equipment

Plant and equipment associated with the Lake Johnston and Black Swan nickel operations remains on care and maintenance. Both projects remain in the exploration and evaluation phase and accordingly associated plant and equipment items are not installed and ready for use. No depreciation has been charged on these assets.

3.2 Impairment

The continuation of a depressed nickel market during the half year has led the Group to recognise an impairment charge against the carrying value of the Windarra project. The impairment of $48.6 million to a recoverable amount of $30.0 million was determined using a fair value less cost to sell basis. The recoverable amount was measured by comparing implied valuations per resource and reserve tonnes of comparable projects.

The fair value methodology adopted is categorised as Level 3 in the fair value hierarchy.

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 4 – Equity and Funding

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

4.1 Capital and reserves

Share capital

	Ordinary shares	
In thousands of shares	**31 Dec 2015**	**30 Jun 2015**
Ordinary shares		
Fully paid	732,011	693,343
Total share capital on issue at 31 December	732,011	693,343
Movements in ordinary shares on issue:		
On issue at 1 July	693,343	513,467
Shares issued and expensed during the period:		
Issued for cash(i)	23,640	159,989
Issued for directors fees	-	1,361
Issued for professional advisory fees	535	-
Issued for interest on convertible notes	14,081	10,470
Issued for employees performance bonus	-	4,525
Issued for managing director performance bonus	-	2,230
Issued for professional fees re asset acquisition	-	864
Shares issued but expensed during the prior period:		
Issued for directors fees	412	437
On issue at 31 December	732,011	693,343

(i) During the reporting period, the Company issued 23,640,135 Ordinary Shares at $0.073 per share to raise $1,726,173. The capital raising incurred transaction costs of $22,428.

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

4.2 Loans and borrowings

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

In thousands of AUD	31 Dec 2015	30 Jun 2015
Non-current		
Convertible note liability	40,524	35,893
Total borrowings – non-current	40,524	35,893

Convertible note liability

In thousands of AUD	31 Dec 2015	30 Jun 2015
Carrying amount of liability at beginning of period	35,893	26,464
Exchange rate effects	2,074	5,986
Accrued interest capitalised	3,785	5,613
Payment of interest	(1,228)	(2,170)
Carrying amount of liability at end of period	40,524	35,893

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

In January 2016 the Company refinanced the Convertible Notes. Refer to note 5.2 for further information.

4.3 Convertible note derivative

In thousands of AUD	31 Dec 2015	30 Jun 2015
Carrying amount of derivative at beginning of period	2,989	1,614
Fair value movement	(3,003)	881
Exchange rate effects	173	494
Carrying amount of derivative at end of period	159	2,989

The value of the derivative fluctuates with the Company's underlying share price and the difference in the Company's share price between 30 June 2015 (share price $0.115) and 31 December 2015 (share price $0.046) is reflected in the fair value movement. An increase in the share price of the Company increases the carrying amount of the derivative.

As the convertible notes are denominated in United States dollars (USD), the change in the foreign exchange rate with the Australian dollar (AUD) is taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2015 was 0.7707:1 and at 31 December 2015, 0.7286:1.

In January 2016 the Company refinanced the Convertible Notes. Refer to note 5.2 for further information.

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 5 – Other Disclosures

5.1 Share-based payments arrangements

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

In thousands of AUD	**31 Dec 2015**	**31 Dec 2014**
Share options expense	86	86
Shares granted expense	185	192
Hybrids expense	-	115
Performance rights expense	115	-
Total expenses recognised as employee costs	386	393

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

Employee Performance Rights
The board can decide to issue performance rights in relation to the Incentive Performance Rights Plan whereby employees can receive an STI and/or LTI in performance rights. The STI and LTI performance rights are subject to individual, Company and market KPIs and service related vesting conditions.

The fair value of services received in return for performance rights granted is based on the fair value of performance rights granted, which is measured using a combination of hybrid employee share option pricing models and Monte-Carlo simulation. The fair value of performance rights granted to employees was $0.037 and $0.049.

The terms and conditions of performance right grants made during the six months ended 31 December 2015 are as follows:

Grant date / employees entitled	**Number of Instruments**	**Vesting conditions**
STI performance rights granted to employees on 18 December 2015	5,145,918	The rights have internal KPIs and vest on 30 June 2016
LTI performance rights granted to employees on 18 December 2015	3,188,771	The rights have a TSR KPI and vest on 30 June 2018
Joining performance rights granted to employees on 18 December 2015	1,131,945	The rights vest on 6 November 2017
Total Performance Rights	9,466,634	

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

5.1 Share-based payment arrangements (continued)

Director Fee Performance Rights

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

During the six months ended 31 December 2015, there were 1,465,045 performance rights granted under the terms of the plan. There were no performance rights outstanding at the end of the period (2014: nil) as the performance rights vested immediately upon grant. The performance rights granted during the period have a purchase price and fair value in the range of $0.0536 to $0.814 (2014: $0.1624 to $0.1892).

5.2 Subsequent events

At a General Meeting held on 20 January 2016, shareholders approved the changes to the Convertible Notes held by Jefferies LLC. The new Convertible Note reduced the face value of the old Convertible Notes by 50% from US$35 million to US$17.5 million. The interest rate on the new Note remains the same at 5% p.a. but the maturity date has been extended to 30 September 2020 which represents a 42 month extension in term. The holder can convert in whole or in part to shares at AU$0.09 at any time during the term of the note. The note remains unsecured and contains no negative pledges.

The effective forgiveness of debt will lead to the recognition of a material gain in the profit and loss during the second half of the 2016 financial year.

Poseidon Nickel Limited
Directors' declaration

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

1. the financial statements and notes set out on pages 15 to 22 are in accordance with the Corporations Act 2001 including:

   (a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the six month period ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

Mr G F Brayshaw, FCA
Director

Perth
14th March 2016

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

We have reviewed the accompanying interim financial report of Poseidon Nickel Limited, which comprises the condensed consolidated statement of interim financial position as at 31 December 2015, condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the half-year ended on that date, notes 1 to 5.2 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Poseidon Nickel Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 200.*

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without modifying our opinion expressed above, attention is drawn to Note 1.3 in the financial report. The matters set forth in Note 1.3 indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Trevor Hart
Partner

Perth

14 March 2016