# POSEIDON NICKEL LIMITED

ABN 60 060 525 206

## Interim Financial Report
## For the six months ended 31 December 2012

# Poseidon Nickel Limited
## Contents

# Poseidon Nickel Limited

# Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

**Directors**

Mr A Forrest
Mr G Brayshaw
Mr C Indermaur
Mr R Monti
Mr D Singleton
Mr H Scruggs (Alternative for Mr A Forrest)

**Company Secretary**

Mr R Kestel

**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 9382 8799
Facsimile: +61 8 9382 4760

**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

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 2012 and the auditor's review report thereon.

**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 Andrew Forrest<br>*Chairman & Non-Executive Director* | Appointed 2 July 2007 |
| Mr Geoff Brayshaw<br>*Non-Executive Director* | Appointed 1 February 2008 |
| Mr Christopher Indermaur<br>*Non-Executive Director* | Appointed 2 April 2009 |
| Mr Richard Monti<br>*Non-Executive Director* | Appointed 4 April 2007 |
| Mr Herbert (Bud) Scruggs<br>*Alternate for Mr Andrew Forrest* | Appointed 18 September 2012 |
| **Executive** | |
| Mr David Singleton<br>*Managing Director & Chief Executive Officer* | Appointed 1 February 2008 |

**Review of operations**

The primary objective for 2012 was to bring the Windarra Nickel Project ("WNP") to a Definitive Feasibility Study ("DFS") stage prior to obtaining final financing for operations. In November 2012, Poseidon submitted the DFS to the Independent Technical Expert ("ITE") who have now completed their review and issued a final draft Independent Experts Report ("IER") that is being reviewed by the Company and when finalised, Poseidon will announce the findings of the DFS to the market.

The Company continues to work with a Financial Advisor to provide a capital structure that will complete the financing for the project and ensure the best outcome for shareholders through a commitment to minimise dilution. As the Company enters this final financing phase, discussions are underway with Ratings Agencies and major international banks to enable the project to be funded through a debt and working capital facility. The Company has also received offers for the off-take from the WNP from several international companies and continues to negotiate the most favourable terms prior to financing.

In November 2012 the Company received conditional approval of the application to recommence nickel mining at the WNP from the Premier, The Hon. Colin Barnett MLA, Minister for State Development. The application included all of the necessary environmental and infrastructure approvals which have been assessed by the Department of State Development ("DSD") and other agencies over the past several months. The Premier has given Poseidon until 30 June 2013 to provide reasonable evidence that it has secured its marketing (off-take) and project financing necessary for the fulfilment of the Company's proposals.

The Company is also focused on progressing a number of key short term milestones, making the best use of the additional funding raised through the Rights Issue earlier in the year that will significantly enhance the project. These are:

1. Additional resource drilling at Mt Windarra to delineate a mining reserve.

# Poseidon Nickel Limited
## Directors' report

**Review of operations (continued)**

Poseidon accelerated the decline refurbishment programme and reached the required drilling position in November. Drilling commenced immediately using the Swedish designed Wassara system which has the potential of increasing overall underground drill rates by 3 to 4 times the speed compared to conventional systems with commensurate cost advantages.

2. Complete the next phase of further regional exploration to search for potential new ore bodies along the Windarra ultramafic. In 2008 Poseidon discovered the Cerberus ore body 10kms south of Mt Windarra which eventually led to the decision to double the plant throughput production capacity. Follow up geochemical and geophysical work identified several other zones on the tenements considered prospective and which now make a concerted drill programme necessary. Poseidon undertook further drilling in the Denny Bore area to follow up previous promising initial drill intersections.

3. Risk reduction activities for project construction which includes tendering major areas of surface and subsurface infrastructure and, where appropriate, negotiating and awarding contracts.

Jeffries Bank, a global securities and investment banking group which has been operating for over 50 years in 30 cities around the world, acquired the shares and the Convertible Notes from Harbinger Capital Partners ("Harbinger") in November 2012 following a restructuring of the Harbinger funds. The change of ownership sees the introduction of a significant new shareholder in Poseidon Nickel.

**Operations**

Mine decline refurbishment has progressed to a vertical depth of 400 metres below the surface, some 3.6km from the mine portal. Two original 300m deep mine services holes have been recovered and will be reused for high voltage reticulation and a mine water main. The refurbishment has now met its initial target of accessing a position from underground which will allow resource definition and reserve drilling to take place. This drill work could not be completed technically from surface but the refurbishment has led to the initiation of the drilling programme recently announced and described in this report. This has also enabled access to be established to the mine's underground crusher chamber (Figure 1) and an initial inspection indicates that the walls and backs of the chambers excavation show minimal signs of deterioration with the main structural steel remaining in place.

Power and water service have been extended to the existing underground crusher truck tip and grizzly level enabling the exploration drilling program to commence from that position.

**Exploration**

Poseidon has completed its first underground drill hole into the Windarra Deeps mineralisation. The initial objective of the underground drilling program was to test and commission the Wassara drilling system which is new to Australia and which has, in other overseas applications, shown the potential to dramatically increase drilling rates compared to normal coring practices alone.

During this commissioning phase, Poseidon completed diamond drill hole WUG0013, which intersected nickel sulphides approximately 20m north and beyond WMC's definition of the C Shoot mineralised body (Figure 2). Results for the core samples have now been received and the following intersections were returned from the laboratory:

| Hole_ID | Dip/Azi | From (m) | To (m) | Interval (m) | True Width (m) | Ni% | Comment |
|---|---|---|---|---|---|---|---|
| **WUG0013** | -45/248 | 472.00 | 475.72 | 3.72 | 3.10 | 2.02 | Eastern Zone |
| | | 480.21 | 483.21 | 3.00 | 2.50 | 1.77 | Western Zone |
| | *including* | *482.17* | *483.21* | *1.04* | *0.87* | *3.47* | Basal massive sulphide in Western Zone |

# Poseidon Nickel Limited
# Directors' report

**Review of operations (continued)**
**Exploration (continued)**

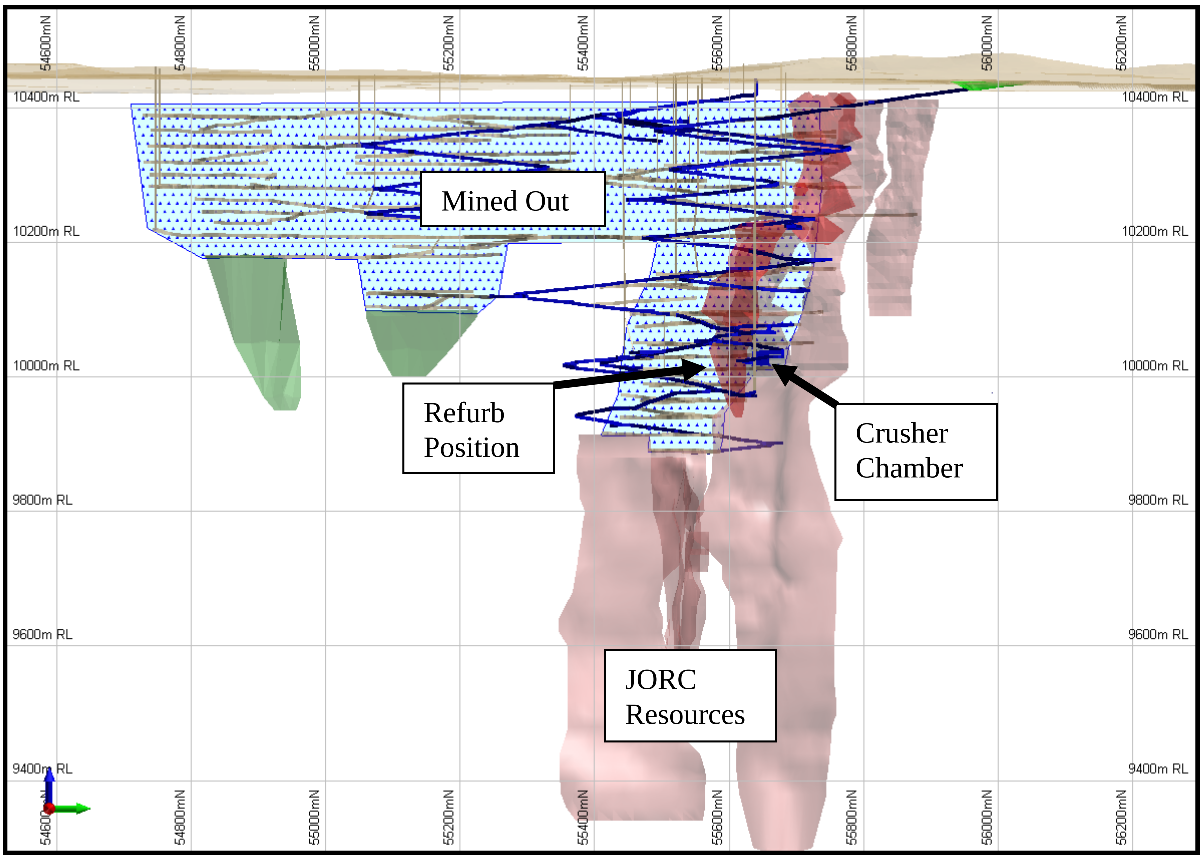


**Figure 1:** Mt Windarra underground mine showing position of decline that has been fully refurbished and the position of the crusher chamber. The drilling platform has been established just above the crusher chamber and drilling commenced in November.

The Eastern and Western zones are split by a 3.7m thick (true width) barren dolerite dyke (Figure 3), which in part defined the limit of WMC's historical interpretation of the C Shoot mineralisation. The overall intersection including the barren dyke is 11.21m (9.33m true width) at 1.20% Nickel from 472.00m depth downhole. The geological interpretation of the C Shoot intersection has the potential to increase the size of the Mt Windarra resource, an area of the deposit, which lies within the hinge of a fold zone (Figure 3), previously untested by WMC and warrants further testing as the drill program continues. Previous drilling by WMC into similar fold hinges within the mine area yielded structurally concentrated higher grade deposits such as E Shoot, which produced 235,000t @ 2.39% Ni for 5,608t of nickel metal when mined by WMC.

# Poseidon Nickel Limited
# Directors' report

**Review of operations (continued)**
**Exploration (continued)**

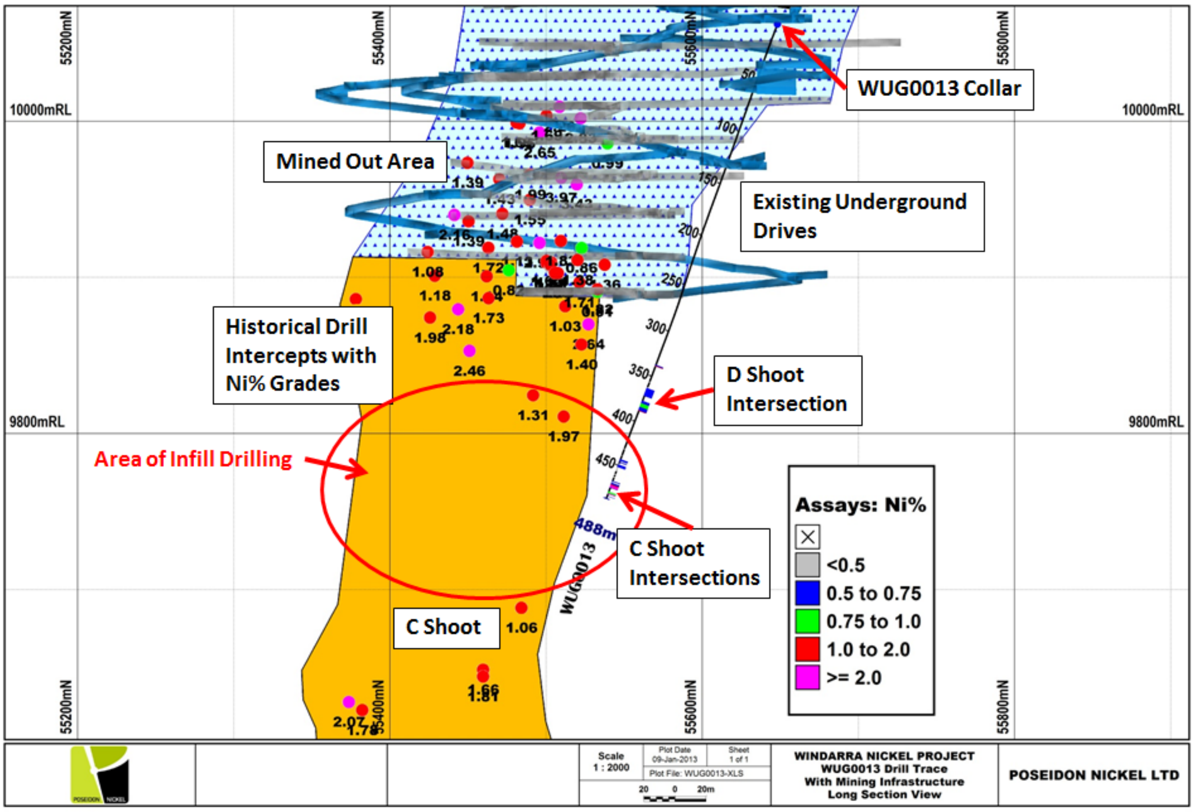


**Figure 2:** Long section (looking west) showing the position of the WUG0013 Intersection outside of the defined zone of mineralisation. Drilling will continue within the defined area shown.

In addition the hole intersected the lower grade northern limits of D Shoot returning 8.57m (7.01m true width) at 0.82% Ni from 380.00m within a broader 25m wide +0.5% nickel halo. This intersection is also cut by a 5m wide barren dolerite dyke. The next round of drill holes will move southwards towards the centre of D Shoot and through to C Shoot within the area shown on Figure 1.

The drilling programme has recommenced following the Christmas break, directed at defining the C and D Shoot mineralisation in order to develop the Company's resource and reserve base at the Windarra Nickel Project. WUG0012 as well as a number of precollars have since been completed and assays are pending for WUG0012 which intersected C Shoot mineralisation. Diamond tailing of the Wassara precollars has recently commenced and will be coring through the ore bodies over the coming weeks. This drilling is expected to continue for several months (Figure 4) as infill drilling of the Windarra Deeps mineralisation continues.

The new drilling programme has been designed to extend the resource and reserve base at Mt Windarra prior to a final decision to commence mining in 2013. Several areas in the mine previously identified as hosting additional ore resources to those already drilled have been identified and will be more extensively tested with the potential for significant expansion of the current resource base. Whilst Mt Windarra has in the past been a highly productive mine, the use of modern exploration techniques such as down hole electromagnetics, which was critical to the Cerberus mine discovery, have never been used underground in this location and are expected to greatly assist the discovery and ore expansion process.

# Poseidon Nickel Limited

## Directors' report

**Review of operations (continued)**
**Exploration (continued)**

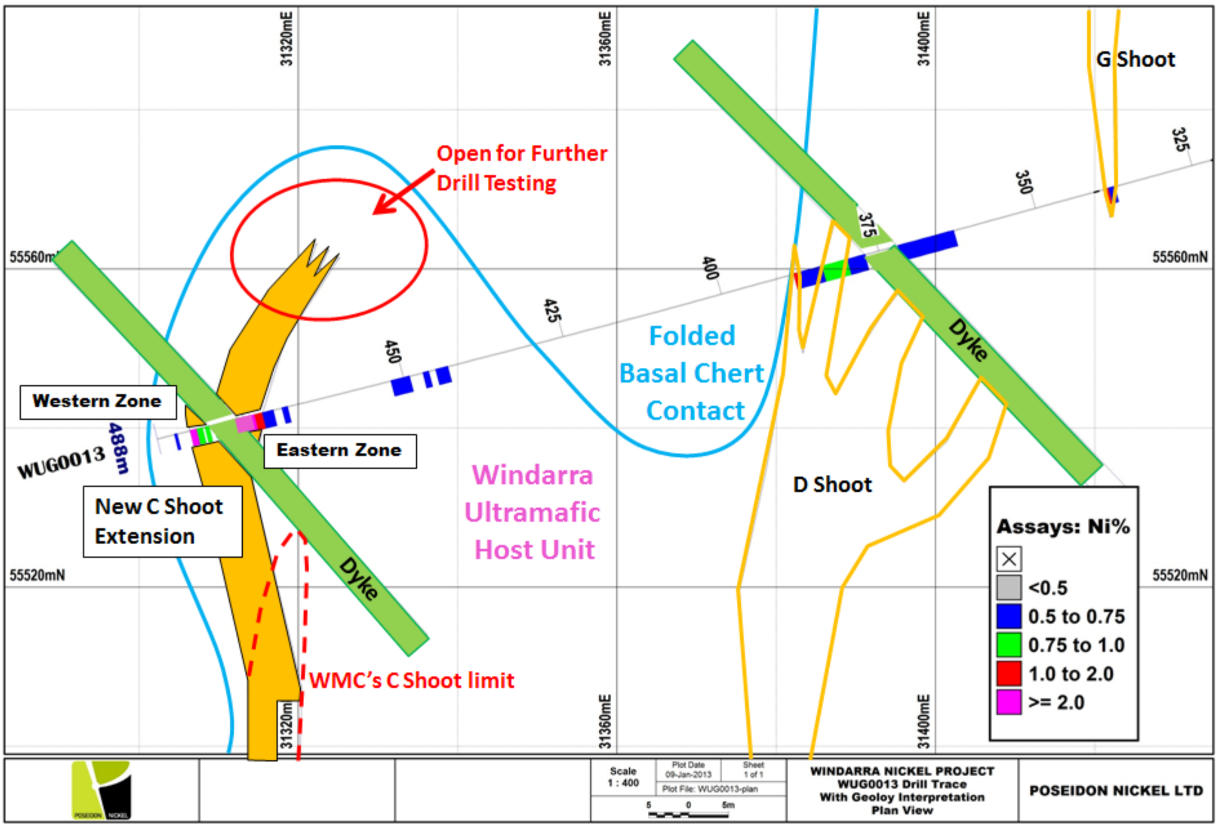


**Figure 3:** Plan view showing the WUG0013 intersections and geological interpretation. The hinge zone of the fold offers a new target position for higher grade resource extension of the C Shoot mineralisation.

Previous drilling at depth has yielded high grade nickel intersections including DE546 No1 10.00m @ 2.68%, EE554 No 4D 14.3m @ 4.02%, NMD0001 9.82m @ 6.06%, PND0010 5.00m @ 1.74% and PND0010C 1.55m @ 5.33%, which gives confidence in the quality of the ore body. Phase 1 of the drilling programme will follow up these results with sufficient intersections to increase the Reserves for the first 2 years of operation. Poseidon is planning up to 31,000 metres of drilling over the next few months. The first drill hole to target has been completed and results will be announced when reliable assay data is received. The current anticipated drill hole programme is shown in the attached diagram.

In Phase 2 of the programme, Poseidon will be specifically targeting extension to the recently discovered H Shoot announced earlier this year. H Shoot sits to the north of the current ore zone beyond a shear zone known as "Charlie's" and previously thought to be beyond the outer range of mineralisation. H shoot is believed to extend to the surface. Running parallel to H Shoot and the other side of Charlie's is G Shoot which Poseidon believes may extend much deeper than originally thought and therefore, if proven, could increase ore tonnes per vertical metre available to the current mine plan.

# Poseidon Nickel Limited
## Directors' report

**Review of operations (continued)**
**Exploration (continued)**
Of great interest to Poseidon are the potential extensions to A & B Shoots (Figure 4) previously believed to have been mined out by WMC. Geological theory indicates that A & B Shoots sit in channelised lava systems, which in Windarra's case, extend for at least 1km underground. For A & B Shoots to terminate at approximately 300m vertical depth would be highly unusual in this setting. WMC believed that A & B Shoots have further mineralisation at depth but did not exhaustively test the theory. Access to modern underground electromagnetics and even radar imagining techniques has meant that if the mineralisation is there, it will be found. An extension to A & B Shoots could dramatically improve the vertical ore mining rate being positioned so close to the current decline.

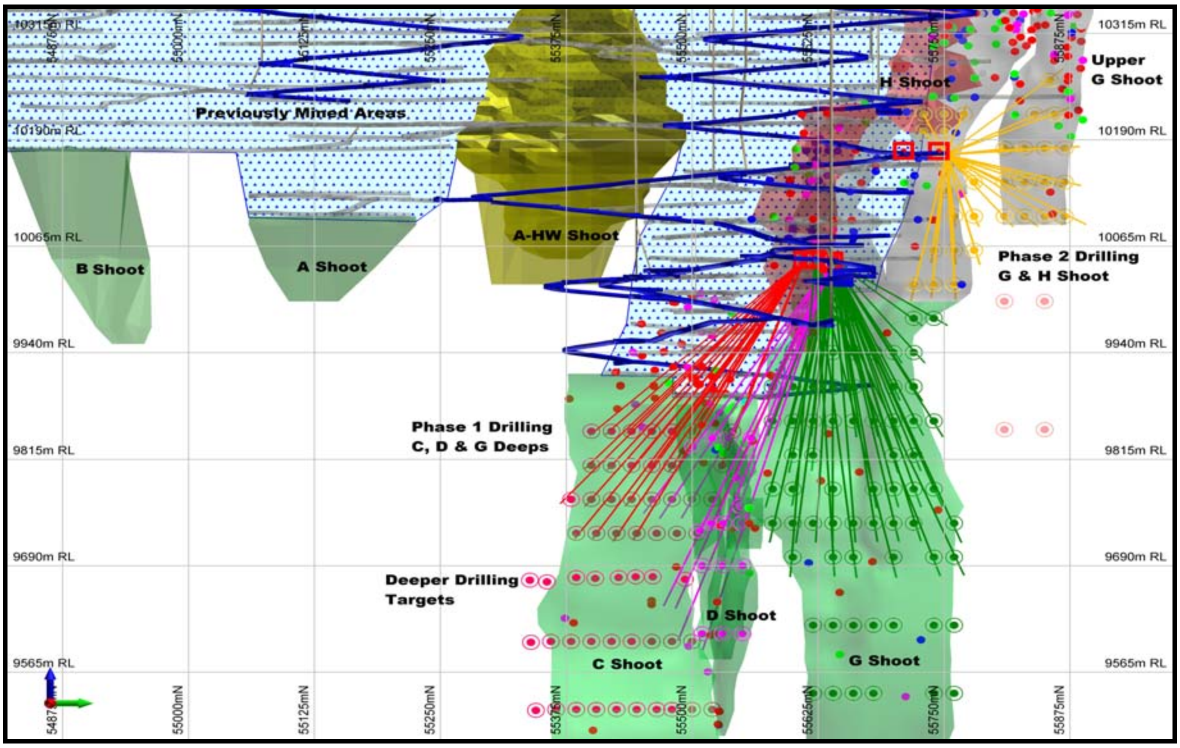


**Figure 4:** Long section (looking west) showing the planned underground drilling program and drill target positions required to define the known mineralisation ready for reserve estimation.

The Company also announced that as a result of the DFS an initial ore reserve has been assessed at the Company's planned Cerberus underground mine (Figure 5). The upper portion of the Cerberus deposit, which is included in the life of mine plan, has been classified as a **Probable Ore Reserve** under the JORC code guidelines comprising:

**1,221,000 ore tonnes at an average diluted grade of 1.30% nickel for 15,880 contained nickel metal tonnes.**

The initial ore reserve extends from 60 meters below the surface to a depth of 380 metres below the surface. The conversion of the resource to ore reserve only includes the upper portion of the deposit that has been drilled to JORC Indicated Resource level. The Cerberus deposit contains a total resource (Indicated and Inferred) of **4,551,000t at an average grade of 1.51% for 68,600t of nickel metal**. The remaining deposit that is classified as Inferred Resource, lies below the ore reserve and requires additional infill drilling to convert it to an Indicated level then it will be eligible for reserve estimation. The drilling programme at Cerberus included a number of holes required to understand the geotechnical condition at the proposed site due to low rock strengths identified in the Cerberus ore.

# Poseidon Nickel Limited
## Directors' report

**Review of operations (continued)**
**Exploration (continued)**
A total of 46% of the Indicated Resource was converted to Probable Reserves. The near surface-low grade halo at the southern end of the deposit and the thinner high-grade hanging-wall lodes were excluded from the reserve but may be included as nickel prices improve in the future. Poseidon is expecting a higher resource to reserve conversion for the remaining Inferred Resources which are situated below the defined reserves. The deeper Inferred Resources comprises higher total ore grades that are increasing with depth within the Cerberus ore body, replicating the grade distribution that is also seen at the Mt Windarra ore body. Cerberus has only been drilled to a depth of 700m below surface to date and is open at depth. Poseidon believes that the Cerberus ore body will continue to grow in width and depth with additional drilling.

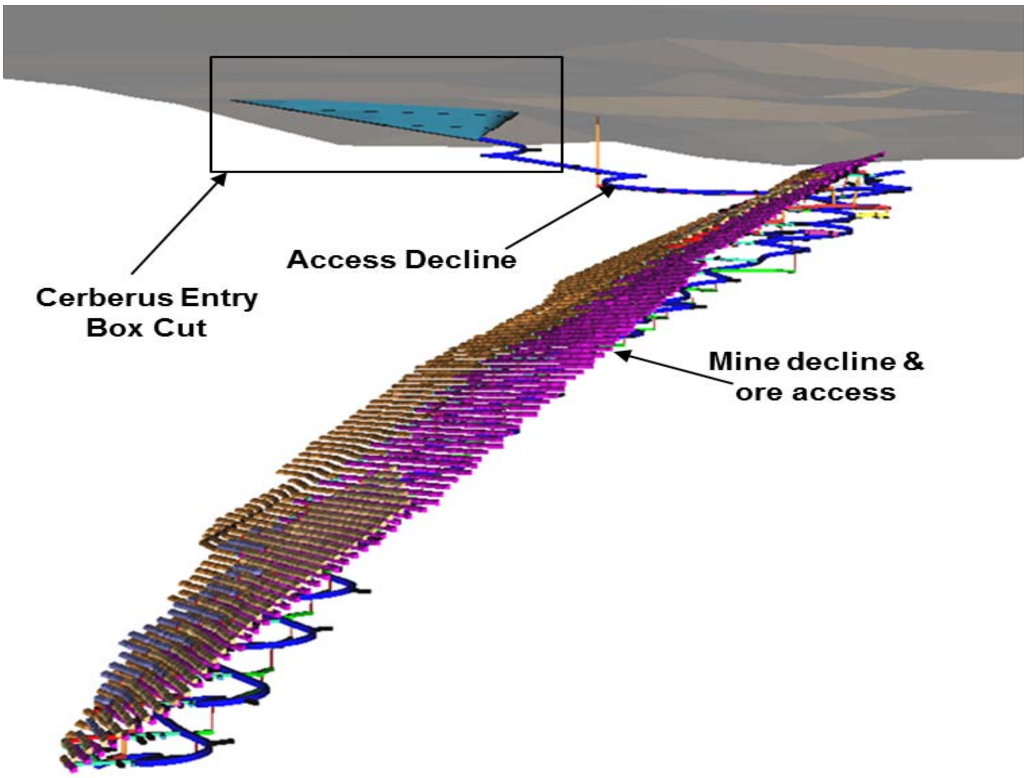


**Figure 5:** Graphic of mine plan for the Cerberus ore body developed by Poseidon's independent mining consultants

Cerberus will be mined in conjunction with Mt Windarra, with a total output from both mines in excess of 700,000 tonnes per annum. Ore will be processed through a new build concentrator at Mt Windarra. Poseidon has previously announced that the Cerberus ore body, which was discovered in 2008, has good flotation characteristics, with a recovery of circa 83% producing a low impurity nickel concentrate with an average grade of 16% (excluding Mt Windarra ore).

In addition, regional exploration drilling was completed during the quarter at the Denny Bore Project which hosts the 68,600t Cerberus Nickel Deposit. Topdrive Drilling complete 12 holes for 3,872m of drilling at Denny Bore North and at Ziggy Flats to the south, utilising a UDR650 multi-purpose rig (RC & DD capability).

The program comprised drilling RC drill precollars and completing the holes with diamond core tails to test an area 1km long north of Cerberus, to a depth of 450m below surface. Mt Windarra mineralisation comprises of 8 parallel ore bodies, so it's anticipated that parallel mineralisation may exist near Cerberus.

# Poseidon Nickel Limited
# Directors' report

**Review of operations (continued)**
**Exploration (continued)**
Assays are awaiting for several holes, however results received to date include:

0.97m @ 1.02% Ni from 105.75m in PNRCD0192 at Denny Bore North
1.75m @ 0.76% Ni from 176.00m in PNRCD0184 at Denny Bore North
0.70m @ 0.55% Ni from 271.00m in PNRCD0195A at Ziggy Flats

The rock types observed in the drill core and the anomalous intersections returned to date indicate that a lava channel system is beginning to develop to the north. The northern most drill holes of this program appear to have intersected the edge of the lava channel which is interpreted to thicken to the north and results to date indicate that it hosts traces of nickel sulphides and may contain thicker accumulations towards the centre and base of the channel warranting further drill testing.

Down Hole Electro-Magnetics (DHEM) were completed on the drill holes, testing for nickel sulphide mineralisation away from the drill holes. An off-hole conductor was detected in holes PNRCD0192 and 193 which was not effectively explained by the drilling or the mineralisation intersected in PNRCD0192. Geophysical modelling of the data is not conclusive in terms of the orientation but the anomaly was detected in both holes. Rock types observed in the drill core and the anomalous intersections indicate that a lava channel system is beginning to develop to the north and this DHEM anomaly may be the start of a mineralised lava channel. The DHEM target as well as the area highlighted to the north (Figure 6) warrant additional drill testing.

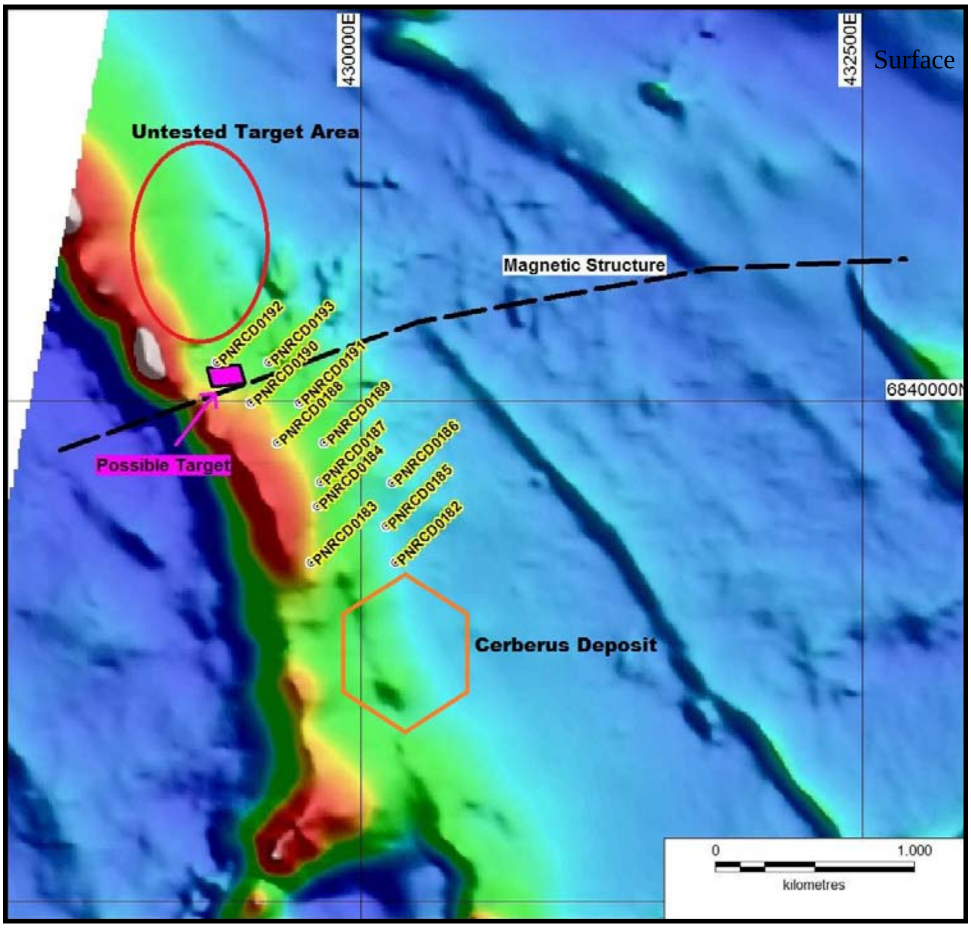


**Figure 6:** Aeromagnetic image showing location of recent drilling north of Cerberus. The DHEM target as well as the prospective untested area to the north is highlighted.

# Poseidon Nickel Limited
# Directors' report

**Review of operations (continued)**
**Exploration (continued)**

## RESERVE STATEMENT

| Cerberus Nickel Project | Reserve Category - Nickel Sulphides | | |
|---|---|---|---|
| | Probable | | |
| | Tonnes | Ni% Grade | Ni Metal t |
| **Total Sulphide** | **1,221,000** | **1.30** | **15,880** |

## RESOURCE STATEMENT

| Windarra Nickel Project Sulphides | Cut Off Grade | Resource Category - Nickel Sulphides | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Indicated | | | Inferred | | | TOTAL | | |
| | | Tonnes | Ni% Grade | Ni Metal t | Tonnes | Ni% Grade | Ni Metal t | Tonnes | Ni% Grade | Ni Metal t |
| **Mt Windarra** | 0.75% | 974,000 | 1.25 | 12,400 | 2,977,000 | 1.88 | 55,900 | 3,951,000 | 1.73 | 68,300 |
| **South Windarra** | 0.80% | 772,00 | 0.98 | 7,500 | - | - | - | 772,00 | 0.98 | 7,500 |
| **Cerberus** | 0.75% | 2,773,000 | 1.25 | 34,600 | 1,778,000 | 1.91 | 34,000 | 4,551,000 | 1.51 | 68,600 |
| **Total Sulphide** | | **4,519,000** | **1.21** | **54,500** | **4,755,000** | **1.89** | **89,900** | **9,274,000** | **1.56** | **144,400** |

| Windarra Gold Tailings Project | Resource Category - Gold Tailings | | |
|---|---|---|---|
| | Indicated | | |
| | Tonnes | Grade (g/t) | Au (oz) |
| **Total Gold Tailings** | **10,993,000** | **0.52** | **182,500** |

# Poseidon Nickel Limited
# Directors' report

**Review of operations (continued)**
**Exploration (continued)**

| Windarra Nickel Tailings & Oxide Project | Cut Off Grade | Resource Category – Nickel Oxide & Tailings | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Indicated | | | Inferred | | | TOTAL | | |
| | | Tonnes | Ni% Grade | Ni Metal t | Tonnes | Ni% Grade | Ni Metal t | Tonnes | Ni% Grade | Ni Metal t |
| **Woodline Well** | 0.50% | - | - | - | 344,000 | 1.25 | 4,300 | 344,000 | 1.25 | 4,300 |
| **Sth Windarra Dumps** | 0.00% | 2,976,000 | 0.41 | 12,200 | - | - | - | 2,976,000 | 0.41 | 12,200 |
| **Central Tailings Dam** | 0.00% | 9,602,000 | 0.34 | 32,600 | - | - | - | 9,602,000 | 0.34 | 32,600 |
| **Total Oxide** | | **12,578,000** | **0.36** | **44,800** | **344,000** | **1.25** | **4,300** | **12,922,000** | **0.38** | **49,100** |

*Note: The information in this report relates to Exploration Results, Mineral Resources and Ore Reserves based on information compiled by Mr N Hutchison, General Manager of Geology at Poseidon Nickel, who is a Member of The Australian Institute of Geoscientists, Mr I Glacken who is a Fellow of the Australasian Institute of Mining and Metallurgy as well as a full time employee of Optiro Pty Ltd and Mr D Grubic, Technical Services Manager at Rock Team Pty Ltd. Mr Hutchison and Mr Glacken have sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.'*

*Mr Grubic is a full time employee of Rock Team Pty Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australian Code for Reporting Ore Reserves."*

*Mr Hutchison, Mr Glacken and Mr Grubic have consented to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

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

### Dividends
No dividends were paid or proposed during the six months ended 31 December 2012.

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

### Lead auditor's independence declaration
The lead auditor's independence declaration is set out on page 15 and forms part of the directors' report for the six months ended 31 December 2012.

# Poseidon Nickel Limited
## Directors' report

**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 Brayshaw**
**Director**

Perth
28 February 2013

KPMG

***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 2012 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

Graham Hogg
*Partner*

Perth

28 February 2013

# Poseidon Nickel Limited

## Condensed consolidated interim statement of financial position

| *In thousands of AUD* | ***Note*** | **31 Dec 2012** | **30 Jun 2012** |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | 12,473 | 20,582 |
| Trade and other receivables | | 693 | 640 |
| **Total current assets** | | 13,166 | 21,222 |
| Property, plant and equipment, net | | 3,163 | 2,532 |
| Exploration and evaluation expenditure | *10* | 65,775 | 59,550 |
| Other investments | *11* | 125 | 693 |
| Other | | 3,500 | 3,500 |
| **Total non-current assets** | | 72,563 | 66,275 |
| **Total assets** | | 85,729 | 87,497 |
| **Liabilities** | | | |
| Trade and other payables | | 1,468 | 1,070 |
| Loans and borrowings | *12* | 26,559 | 17,285 |
| Convertible note derivative | *13* | 8,061 | 4,507 |
| Employee benefits | | 64 | 101 |
| Provisions | *15* | 3,500 | 3,500 |
| **Total current liabilities** | | 39,652 | 26,463 |
| Loans and borrowings | *12* | - | 7,880 |
| **Total non-current liabilities** | | - | 7,880 |
| **Total liabilities** | | 39,652 | 34,343 |
| **Net Assets** | | 46,077 | 53,154 |
| **Equity** | | | |
| Share capital | | 100,497 | 100,033 |
| Reserves | | 385 | 235,031 |
| Accumulated losses | | (54,805) | (281,910) |
| **Total equity attributable to equity holders of the Company** | | 46,077 | 53,154 |
| **Total equity** | | 46,077 | 53,154 |

*The condensed notes on pages 20 to 27 are an integral part of these consolidated interim financial statements.*

# Poseidon Nickel Limited

## Condensed consolidated interim statement of comprehensive income

| **For the six months ended 31 December**<br>*In thousands of AUD* | ***Note*** | **2012** | **2011** |
|---|---|---|---|
| Other income | | 141 | 257 |
| Depreciation expense | | (8) | (9) |
| Personnel expenses | | (554) | (637) |
| Exploration costs expensed | | (1,278) | (1,596) |
| Corporate and administration costs | | (1,090) | (685) |
| Share based payment expense | *14* | (558) | (417) |
| Other expenses | | (206) | (124) |
| **Results from operating activities** | | (3,553) | (3,211) |
| | | | |
| Finance income | | 2,092 | 265 |
| Finance costs | | (5,908) | (2,541) |
| **Net finance income / (costs)** | *9* | (3,816) | (2,276) |
| | | | |
| **Loss before income tax** | | (7,369) | (5,487) |
| | | | |
| Income tax expense | | - | - |
| | | | |
| **Loss for the period** | | (7,369) | (5,487) |
| | | | |
| **Other comprehensive income** | | | |
| Net change in fair value of available-for-sale financial assets | | (262) | - |
| **Other comprehensive income / (loss) for the period, net of income tax** | | (262) | - |
| **Total comprehensive income / (loss) for the period** | | (7,631) | (5,487) |
| | | | |
| **Loss per share** | | | |
| Basic and diluted loss per share (cents/share) | | (1.81) | (2.40) |

*The condensed notes on pages 20 to 27 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 2011** <br> *In thousands of AUD* | **Issued Capital** | **Share based payment reserve** | **Fair value reserve** | **Option premium reserve** | **Accumulated losses** | **Total equity** |
|---|---|---|---|---|---|---|
| Balance at 1 July 2011 | 79,726 | 234,734 | - | 510 | (278,749) | 36,221 |
| Loss | - | - | - | - | (5,487) | (5,487) |
| **Other comprehensive income** | | | | | | |
| Total other comprehensive income | - | - | | - | - | - |
| Total comprehensive income / (loss) for the period | - | - | | - | (5,487) | (5,487) |
| **Transactions with owners recorded directly in equity** | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Issue of share capital (net of costs) | 992 | (691) | - | - | - | 301 |
| Issue of options | - | 123 | - | - | - | 123 |
| Total contributions by and distributions to owners | 992 | (568) | - | - | - | 424 |
| Total transactions with owners | 992 | (568) | - | - | - | 424 |
| Balance at 31 December 2011 | 80,718 | 234,166 | - | 510 | (284,236) | 31,158 |

| **For the six months ended 31 December 2012** <br> *In thousands of AUD* | **Issued Capital** | **Share based payment reserve** | **Fair value reserve** | **Option premium reserve** | **Accumulated losses** | **Total equity** |
|---|---|---|---|---|---|---|
| Balance at 1 July 2012 | 100,033 | 234,259 | 262 | 510 | (281,910) | 53,154 |
| Loss | - | - | - | - | (7,369) | (7,369) |
| **Other comprehensive income** | | | | | | |
| Net change in fair value of available-for-sale assets, net of tax | - | - | (262) | - | - | (262) |
| Total other comprehensive income | - | - | (262) | - | (7,369) | (7,631) |
| Total comprehensive income / (loss) for the period | - | - | (262) | - | (7,369) | (7,631) |
| **Transactions with owners recorded directly in equity** | | | | | | |
| **Contributions by and distributions to owners** | | | | | | |
| Issue of share capital (net of costs) | 464 | - | - | - | - | 464 |
| Issue of options | - | 90 | - | - | - | 90 |
| Transfer to accumulated losses upon lapse of options | - | (233,964) | - | (510) | 234,474 | - |
| Total contributions by and distributions to owners | 464 | (233,874) | - | (510) | 234,474 | 554 |
| Total transactions with owners | 464 | (233,874) | - | (510) | 234,474 | 554 |
| Balance at 31 December 2012 | 100,497 | 385 | - | - | (54,805) | 46,077 |

*The condensed notes on pages 20 to 27 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**<br>*In thousands of AUD* | ***Note*** | **2012** | **2011** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Sundry receipts | | 88 | 225 |
| Payments to suppliers and employees | | (3,172) | (3,152) |
| Cash used in operations | | (3,084) | (2,927) |
| Interest received | | 329 | 286 |
| **Net cash used in operating activities** | | (2,755) | (2,641) |
| | | | |
| **Cash flows from investing activities** | | | |
| Proceeds from sales of investments | | 1,581 | - |
| Payments for property, plant and equipment | | (670) | (495) |
| Payments for exploration and evaluation expenditure | | (5,701) | (6,287) |
| **Net cash used in investing activities** | | (4,790) | (6,782) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from the issue of shares and options (net of costs) | | - | 7 |
| Payment of borrowing costs | | (120) | - |
| Payment of finance lease liabilities | | - | (40) |
| Interest paid | | (444) | - |
| **Net cash used in financing activities** | | (564) | (33) |
| | | | |
| **Net decrease in cash and cash equivalents** | | (8,109) | (9,456) |
| Cash and cash equivalents at 1 July | | 20,582 | 14,162 |
| Effect of exchange rate fluctuations on cash held | | - | 148 |
| **Cash and cash equivalents at 31 December** | | 12,473 | 4,854 |

*The condensed notes on pages 20 to 27 are an integral part of these consolidated interim financial statements.*

# Poseidon Nickel Limited

## Notes to the condensed consolidated interim financial statements

**1. Reporting entity**

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 2012 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2012 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.

**2. 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*.

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 2012.

This consolidated interim financial report was approved by the Board of Directors on 28 February 2013.

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.

**3. Significant accounting policies**

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2012.

**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 2012.

**5. Financial risk management**

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2012.

# Poseidon Nickel Limited

# Notes to the condensed consolidated interim financial statements

**6. Financial position**

The condensed consolidated interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2012 the Group incurred a loss of $7,369,000 (2011: loss $5,487,000) and had a net working capital deficit of $26,486,000 (2011: deficit $27,614,000). The working capital deficit includes the following items: the convertible note liability of $18,251,000 and the convertible note derivative liability of $8,061,000 that can only be settled in shares if called by the note holders prior to its redemption date of 28 March 2017, a provision for environmental rehabilitation of $3,500,000 that is cash backed (non-current asset) and an unsecured $8,000,000 Bridge Loan provided by Forrest Family Investments Pty Ltd (“FFI”), an entity controlled by the Company’s Chairman, Mr Andrew Forrest. The repayment date of the loan is 1 July 2013 or as soon as the Company completes a final capital raising. The lender has the right to demand that the Bridge Loan is repaid through a mandatory capital raising at the end of the term if it has not been repaid by that time. The Directors believe that for these collective liabilities there will be no requirement to repay the obligation from current available cash because of the terms of the above arrangements and the financing plans discussed below.

The Company had a net cash outflow used in investing activities of $4,790,000 (2011: outflow $6,782,000), reflecting the ongoing exploration and mine refurbishment activity and the completion of a Definitive Feasibility Study (“DFS”) for the Windarra Nickel Project (“WNP”). These investing activities were financed by available cash balances from a Rights Issue of $19,991,000 (gross) undertaken in June 2012 and the unsecured $8,000,000 Bridge Loan provided by FFI on 9 March 2012. An interest rate of 11% per annum was payable for the first 6 months to the end of September 2012, with the rate increasing by 100 basis points each quarter until fully repaid. A 1.5% exit fee is payable on the Bridge Loan amount when the principal is repaid.

The Company will require further funding in order to fully fund the development of the WNP as planned. The Board of Directors is aware, having developed a DFS and prepared a cashflow budget, of the Company’s project development and working capital requirements and is in negotiations with international banks to fund the project through a debt and working capital facility. Poseidon has appointed a Financial Advisor to assist in the completion of the full financing for the project which is targeted for the first half of 2013, subject to satisfactory market conditions. The Company may also seek to raise additional funds through capital raisings should the need arise as it has done so in the past. Should the Company be unable to raise sufficient funds, it will be necessary to delay the development of the project and significantly reduce exploration and administrative costs.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows for the next 12 months which incorporate raising additional funds via issue of debt and/or equity instruments. Should the Company not be successful in achieving forecast cash flows including the raising of additional funds, it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in this financial report.

# Poseidon Nickel Limited

# Notes to the condensed consolidated interim financial statements

**7. Operating segments**

The Group has one reportable segment, being nickel exploration and evaluation in Australia.

**Information about reportable segments**

| | Nickel exploration and evaluation | |
|---|---|---|
| *In thousands of AUD* | | |
| **For the six months ended 31 December** | **2012** | **2011** |
| Reportable segment other income | 137 | 229 |
| Reportable segment exploration costs expensed | (1,278) | (1,596) |
| Reportable segment (loss) before income tax | (1,141) | (1,368) |
| Reportable segment assets | 72,467 | 58,521 |
| **Reconciliations of reportable segment profit / (loss) and assets** | | |
| **Loss** | | |
| Total loss for reportable segments | (1,141) | (1,368) |
| Unallocated amounts: other corporate expenses | (2,412) | (1,843) |
| Net finance income / (costs) | (3,816) | (2,276) |
| Loss before income tax | (7,369) | (2,655) |
| **Assets** | **31 Dec 2012** | **30 Jun 2012** |
| Total assets for reportable segments | 72,467 | 65,570 |
| Other assets | 13,262 | 21,927 |
| | 85,729 | 87,497 |

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2012.

**8. Property, plant and equipment**

**Acquisitions and disposals**

During the six months ended 31 December 2012 the Group acquired assets with a cost of $787,000 (2011: $495,000). No assets were disposed of during the six months ended 31 December 2012 or 31 December 2011.

# Poseidon Nickel Limited

## Notes to the condensed consolidated interim financial statements

### 9. Finance income and expense

| *In thousands of AUD* | **31 Dec 2012** | **31 Dec 2011** |
|---|---|---|
| Interest income on bank deposits | 327 | 265 |
| Net foreign exchange gain | 434 | - |
| Net gain on disposal of investments | 1,331 | - |
| Finance income | 2,092 | 265 |
| Interest expense – convertible note | (1,600) | (1,342) |
| Interest expense on loan | (582) | - |
| Net foreign exchange loss | - | (1,055) |
| Impairment of investments | (81) | (137) |
| Change in fair value of convertible note derivative | (3,645) | (7) |
| Finance costs | (5,908) | (2,541) |
| Net finance income / (costs) | (3,816) | (2,276) |

### 10. Exploration and evaluation expenditure

| *In thousands of AUD* | **31 Dec 2012** | **30 Jun 2012** |
|---|---|---|
| Costs carried forward in respect of areas of interest in the following phase: | | |
| Exploration and evaluation phase | 65,775 | 59,550 |
| | | |
| **Reconciliations: Exploration and evaluation phase** | | |
| Carrying amount at beginning of period | 59,550 | 45,635 |
| Additions | 6,225 | 13,915 |
| | 65,775 | 59,550 |

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.

### 11. Other investments

| *In thousands of AUD* | **31 Dec 2012** | **30 Jun 2012** |
|---|---|---|
| **Non-current investments** | | |
| Available-for-sale financial assets | 125 | 693 |
| | 125 | 693 |

During the period, the Company has completed the sale of its shares and interests in the Salman South and Mame gold prospects located in South Ghana to Hodges Resources Ltd ("Hodges") for $750,000 plus 1,250,000 shares in the company and has recognised a pre-tax profit of $881,000 profit on the sale which includes the value of the shares issued by Hodges.

The Company has sold all 9,115,384 shares held in Triton Gold Limited ("Triton") for net proceeds of $881,000 which has realised a pre-tax profit of $450,000.

# Poseidon Nickel Limited

## Notes to the condensed consolidated interim financial statements

### 12. Loans and borrowings

| *In thousands of AUD* | 31 Dec 2012 | 30 Jun 2012 |
|---|---|---|
| **Current liabilities** | | |
| Convertible note liability | 18,251 | 16,995 |
| Borrowings | 8,308 | 290 |
| | 26,559 | 17,285 |
| **Non-current liabilities** | | |
| Borrowings | - | 7,880 |
| | - | 7,880 |

| *In thousands of AUD* | 31 Dec 2012 | 30 Jun 2012 |
|---|---|---|
| **Convertible notes** | | |
| Carrying amount of liability at beginning of period | 16,995 | 13,498 |
| Exchange rate effects | (344) | 691 |
| Accrued interest capitalised | 1,600 | 2,806 |
| Carrying amount of liability at end of period | 18,251 | 16,995 |

The Company has on issue a US$15 million and US$20 million 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$0.30 and AU$0.40 respectively. The instrument is interest free for the first three years and then bears a coupon rate of 5% thereafter until maturity.

Refer to note 6 and 17 for detailed terms of the AU$8 million unsecured bridge loan included on borrowings.

### 13. Convertible note derivative

| *In thousands of AUD* | 31 Dec 2012 | 30 Jun 2012 |
|---|---|---|
| Carrying amount of liability at beginning of period | 4,507 | 10,948 |
| Fair value movement | 3,645 | (7,020) |
| Exchange rate effects | (91) | 579 |
| Carrying amount of liability at end of period | 8,061 | 4,507 |

The option component of the convertible notes is classified as a liability. 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 2012 (share price $0.10) and 31 December 2012 (share price $0.17) is reflected in the fair value movement.

As the convertible notes are denominated in United States dollars (USD), a change in the exchange rate with the Australian dollar (AUD) is taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2012 was 1.0184:1 and at 31 December 2012, 1.0394:1.

# Poseidon Nickel Limited

# Notes to the condensed consolidated interim financial statements

## 14. Share-based payments

***Options***

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

Options issued to Mr Forrest and Mr Monti in July 2007 which had an exercise price of $0.40 have lapsed during the reporting period. Options issued to Mr Dennis, Mr Hutchison and Mr Jones in November 2007and to Mr Singleton in December 2008 that did not meet the share price performance hurdles have lapsed during the reporting period. These options have been cancelled and are detailed below:

| | Options lapsed | | | |
|---|---|---|---|---|
| **Directors** | **Number** | **Grant date** | **Financial years in which grant vests** | **% Lapsed in Year** |
| Mr A Forrest | 115,000,000 | 2 July 2007 | 2008 | 100% |
| Mr R Monti | 2,500,000 | 2 July 2007 | 2008 | 100% |
| Mr D Singleton | 2,000,000 | 27 November 2008 | 2013 | 100% |
| **Executives** | | | | |
| Mr R Dennis | 277,000 | 29 November 2007 | 2013 | 100% |
| Mr N Hutchison | 142,000 | 30 November 2007 | 2013 | 100% |
| Mr G Jones | 114,000 | 14 April 2008 | 2013 | 100% |
| | 120,033,000 | | | |

Details of the vesting profile of the current outstanding options granted to each director and executive of the Company are detailed below:

| | Options granted | | | | |
|---|---|---|---|---|---|
| **Directors** | **Number** | **Grant date** | **Financial years in which grant vests** | **% Lapsed in Year** | **Total expensed in period ($)** |
| Mr C Indermaur | 1,000,000 | 23 November 2010 | 2017 | - | 10,788 |
| Mr R Monti | 250,000 | 23 November 2010 | 2017 | - | 2,697 |
| Mr G Brayshaw | 250,000 | 23 November 2010 | 2017 | - | 2,609 |
| Mr D Singleton | 3,000,000 | 23 November 2010 | 2017 | - | 32,364 |
| **Executives** | | | | | |
| Mr R Dennis | 500,000 | 21 September 2010 | 2017 | - | 6,757 |
| Mr N Hutchison | 700,000 | 21 September 2010 | 2017 | - | 9,460 |
| Mr M Rodriguez | 1,000,000 | 21 September 2010 | 2017 | - | 13,515 |
| Mr G Jones | 500,000 | 21 September 2010 | 2017 | - | 6,757 |
| | 7,200,000 | | | | 84,947 |

***Shares***

No shares were granted to directors or executives during the current and comparative reporting period.

# Poseidon Nickel Limited

# Notes to the condensed consolidated interim financial statements

## 14. Share-based payments (continued)

***Hybrids***

The terms and conditions of hybrid grants made during the six months ended 31 December 2012 are as follows:

| Grant date / employees entitled | Number of Instruments | Vesting conditions |
|---|---|---|
| Hybrids granted to non-executive directors on 21 November 2012 | 784,741 | The hybrids vested immediately upon grant |
| Hybrids granted to non-executive directors on 31 December 2012 (Shares issued post 31/12/12) | 493,783 | The hybrids vested immediately upon grant |
| Total shares | 1,278,524 | |

The hybrids purchased as at 31 December 2012 have a purchase price in the range of $0.0874 to $0.1389.

The fair value of services received in return for hybrids granted is based on the fair value of hybrids granted, which is measured using the share price on the grant date. The inputs are as follows:

| *Fair value of hybrids and assumptions* | Directors 31 Dec 2012 |
|---|---|
| Fair value of grant | 0.11 |

**Share based payment expense**

| *In thousands of AUD* | 31 Dec 2012 | 31 Dec 2011 |
|---|---|---|
| Share options granted in FY2011 – equity settled | 89 | 89 |
| Share options granted in FY2009 – equity settled | - | 29 |
| Shares granted in FY2012 | 266 | 85 |
| Shares granted in FY2010 | 22 | 28 |
| Hybrids granted in FY2012 | 137 | 130 |
| Hybrids granted in FY2010 | 44 | 56 |
| Total expenses recognised as employee costs | 558 | 417 |

## 15. Provisions

| *In thousands of AUD* | 31 Dec 2012 | 30 Jun 2012 |
|---|---|---|
| Site restoration | 3,500 | 3,500 |
| | 3,500 | 3,500 |

A provision of $3,500,000 was made during the year ended 30 June 2009 in respect of the Group's on-going commitment for the environmental rehabilitation of the Windarra mine site. There has been no change to the provision at 31 December 2012.

# Poseidon Nickel Limited

# Notes to the condensed consolidated interim financial statements

## 16. Share Capital

| | Ordinary shares | |
|---|---|---|
| *In thousands of shares* | **31 Dec 2012** | **30 Jun 2012** |
| Ordinary shares | | |
| Fully paid | 408,447 | 407,064 |
| Total share capital | 408,447 | 407,064 |
| | | |
| Movements in ordinary shares on issue: | | |
| On issue at 1 July 2012 | 407,064 | 195,826 |
| | | |
| *Shares issued and expensed during the period:* | | |
| Issued for cash | - | 199,907 |
| Issued for directors fees | 785 | 1,052 |
| Issued for 2011 employee performance bonus | - | 5,495 |
| Issued for managing director incentive | - | 1,965 |
| Cancelled party paid shares | - | (50) |
| | | |
| *Shares issued but expensed during the prior period:* | | |
| Issued for directors fees | 598 | 260 |
| Issued for professional broker fees | - | 2,609 |
| On issue at 31 December 2012 | 408,447 | 407,064 |

## 17. Related Parties

**Transactions with key management personnel**

Key management personnel, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities. These entities may enter into transactions with the Company or its subsidiaries. The terms and conditions of such transactions are no more favourable than those available, or which might reasonably be expected to be available, to a non-director related entities dealing at arm's length with the Company. These are detailed below:

During the six months ended 31 December 2012, the Company made the first interest payment on the $8,000,000 unsecured Bridge Loan secured in March 2012 with Forrest Family Investments Pty Ltd ("FFI"), an entity controlled by the Company's Chairman, Mr Andrew Forrest. The loan must be repaid by the Company on the earlier of 1 July 2013 or as soon as the Company completes a final capital raising. The lender has the right to demand that the Bridge Loan is repaid through a mandatory capital raising at the end of the term if it has not been repaid by that time. An interest rate of 11% per annum was payable for the first 6 months to the end of September 2012, with the rate increasing by 100 basis points each quarter until fully repaid. A 1.5% exit fee is payable on the Bridge Loan amount when the principal is repaid. As at 31 December 2012 the outstanding loan amounted to $8,308,000 as a result of interest accrued during the period.

The total amount of fees and compensation (including share based payments expense) referrable to key executives and directors during the 6 months ended 31 December 2012 was $1,664,000 (31 December 2011: $1,468,000).

## 18. Subsequent events

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

# Poseidon Nickel Limited
## Directors' declaration

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

1. the financial statements and notes set out on pages 16 to 27, 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 2012 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 Brayshaw**
**Director**

Perth
28 February 2013

## 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 financial position as at 31 December 2012, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes 1 to 18 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

*Directors' responsibility for the half-year 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 2012 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 a interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

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

KPMG

*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 2012 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 qualification to the conclusion expressed above, attention is drawn to the following matter. The interim financial report has been prepared on a going concern basis as discussed in Note 6 which assumes continuity of normal business activities, the realisation of assets and the settlement of liabilities in the ordinary course of business. In Note 6 the directors state why they consider the going concern basis used in preparation of the financial report is appropriate. It is noted that without the securing of further working capital by the issue of additional financing facilities or equity referred to by the directors, there is a material uncertainty that may cast significant doubt as to whether the Group will be able to continue as a going concern and therefore the company may be unable to realise its assets and discharge it liabilities in the normal course of business.

KPMG

KPMG

Graham Hogg
*Partner*

Perth

28 February 2013