POSEIDONNICKEL

15 March 2012

Company Announcements Officer
ASX Limited
Exchange Centre
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir

Re: INTERIM FINANCIAL REPORT TO 31 DECEMBER 2011

We enclose herewith a copy of an announcement in relation to the above.

Yours faithfully

David P.A. Singleton
MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER

Enc

CORPORATE DIRECTORY

Director / Senior Management

David Singleton	Managing Director & Chief Executive Officer
Andrew Forrest	Non-Executive Chairman
Geoff Brayshaw	Non-Executive Director
Richard Monti	Non-Executive Director
Chris Indermaur	Non-Executive Director
Ross Kestel	Company Secretary

Corporate Enquiries
Mr David Singleton – MD & CEO
P: 61 8 9382 8799
F: 61 8 9382 4760

E: admin@poseidon-nickel.com.au

Shareholder Enquiries
Enquiries concerning shareholdings should be addressed to:

Computershare Investor Securities
GPO Box D182, Perth WA 6840
P: 61 8 9323 2000

Principal Office
Unit 8, Churchill Court
331-335 Hay Street
SUBIACO WA 6008
P: 61 8 9382 8799
F: 61 8 9382 4760

Registered Office
Level 2, Spectrum
100 Railway Road
SUBIACO WA 6008
P: 61 8 9367 8133
F: 61 8 9367 8812

Media Enquiries
Mr Paul Downie
FT Consulting
P: 61 8 9386 1233 M: 0414 947 129
E: paul.downie@fticonsulting.com

Home Exchange
The Company's shares are listed
on the Australian Securities Exchange
and the home exchange is Perth
ASX code: POS

POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Interim Financial Report

31 December 2011

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

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 2011 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 *Chairman & Non-Executive Director*	Appointed 2 July 2007
Mr Geoff Brayshaw *Non-Executive Director*	Appointed 1 February 2008
Mr Christopher Indermaur *Non-Executive Director*	Appointed 2 April 2009
Mr Richard Monti *Non-Executive Director*	Appointed 4 April 2007
Executive	
Mr David Singleton *Managing Director & Chief Executive Officer*	Appointed 1 February 2008

Review of operations

Poseidon's 2012 objective is to commence construction at the Windarra Nickel Project ("WNP"). In the last 4 years, Poseidon has built the largest, high grade nickel sulphide inventory of any exploration company in Australia. In the last 12 months Poseidon has completed many of the activities necessary to submit a final feasibility study in early 2012, including the design of a 700,000 tonne throughput concentrator plant, double the initial proposed throughput, to be built at Mt Windarra, and the completion of a drilling programme at Cerberus aimed at increasing the resource size. Starting in late 2011, the various applications for Government licences were submitted and the Company is seeking approval in the next few months. This throughput increase has resulted from feasibility work carried out by an independent mine planning group which has indicated the potential to increase production rates at the Mt Windarra mine. In addition, the successful resource drilling at the Cerberus nickel deposit has led to the potential to bring forward its initial opening to the same time as the Mt Windarra deposit. As a result Poseidon has placed an engineering contract to update the design of the concentrator process plant to a nominal throughput of 700,000 tonnes per annum through a single train. Studies completed to date have indicated a material reduction in the operating costs and capital intensity of the larger scale concentrator.

Recognising the work completed to date, 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 2012. Poseidon has a track record of developing the project whilst minimising dilution to the current shareholders. The Company is actively pursuing various forms of non equity related financing alternatives to complete its development to profitability. Discussions with various parties continue to progress well and detailed term sheets are presently being negotiated. The financing package for the process plant envisaged under the China Nonferrous Metal Industry's Foreign Engineering and Construction Co Ltd ("NFC") agreement is also well advanced. Poseidon is also progressing discussions with a number of parties in relation to the assignment of off-take from the WNP. Draft off-take terms have been received and are presently being assessed against the requirements of the project.

Review of operations (continued)

Poseidon entered into an earn-in agreement with Magma Metals Limited ("Magma") for nickel, copper and PGE rights to a large tenement package adjoining its Windarra Nickel Project ("WNP"). The new tenements cover 203km2 and include:

- Tenements adjoining the Cerberus high grade nickel deposit which could include potential extensions to currently known mineralisation;
- Tenements to the south east which Poseidon believes could be host at shallow depth to the South Windarra mine channel extension. Poseidon has previously advised that there is evidence from soil sampling and seismic work completed recently of the channel position and intends to commence exploration in this area; and
- A distinct parallel trending and geologically similar ultramafic to the highly productive Windarra ultramafic. The Red Flag ultramafic has had limited nickel exploration to date.

The nickel, copper and PGE rights pertain to a number of tenements at Laverton ("Laverton Tenements") currently held by Magma under a Concurrent Rights Agreement ("CRA") with Crescent Gold Limited ("Crescent"). The outline terms of the Poseidon earn-in agreement are as follows:

- From completion, Poseidon has an exclusive right to earn a 60% interest in the nickel, copper and PGE rights to the tenements during the 3 year earn in period for an expenditure of $3,000,000;
- Magma will, following Poseidon earning a 60% interest and issuing a technical report, have the right to make an election to either contribute its share to further exploration expenditure or assign a further 20% interest (80% in total) to Poseidon;
- Following the completion of a feasibility study on any project on the tenements and if a decision to mine is made, Magma may elect to assign its remaining 20% share to Poseidon in exchange for a 2.5% net smelter royalty. If Magma fails to make such an election, it will be required to enter a formal production JV agreement and be liable for its share of production expenditure;
- Poseidon will have a first right to toll treatment or off-take of any nickel, copper or PGE ore produced, under the agreement, from the tenements; and

It should be noted that the Laverton Tenements are the subject of a legal dispute between Crescent and Indago Resources Ltd in relation to the validity of a Royalty Deed executed by these parties. The Royalty Deed contains some provisions which appear to be in conflict with the provisions of the earlier CRA and in Magma's view Crescent is in breach of its obligations under the CRA. Magma has taken legal advice and is considering its options in enforcing its rights under the CRA.

Exploration - Cerberus

Poseidon has completed the drilling programme at Cerberus and the associated recalculation of the resource size. The drilling programme has completed infill drilling between the 64 metres and 400 metres vertical depth which has demonstrated that the zones of mineralisation near to the surface and at depth are in fact linked to a continuous ore body. This outcome was expected but had not been adequately demonstrated from previous drilling that concentrated on the near surface extent of the ore body. In addition the drilling programme was designed to test the limits of the ore body near the surface. This programme adequately demonstrated that the ore body extends from depth to at least 64 metres from the surface. Taken together with the deeper infill drilling the mineralised zone has now been demonstrated to extend continuously from 64 metres below surface to at least 700m below surface which is the current maximum depth drilled. The Cerberus ore body is approximately 1.4kms down dip and 400 metres across strike.

Review of operations (continued)

Exploration – Cerberus (continued)
The drilling programme has also demonstrated that the ore body is made up of at least 3 parallel zones of mineralisation or stacked lodes. The Mt Windarra ore body, 10kms to the north, is made up of 6 similarly stacked lodes (termed "shoots" historically). Poseidon believes that further lodes at Cerberus have been identified to the north and south in largely untested areas and that further resource extension is therefore likely and will be the subject of further future drilling.

The new drilling assay data has been added to the existing drilling data and a resource recalculated by independent consultants Optiro Pty Ltd for Poseidon. The new Cerberus resource is shown in Table 1 and amounts to 68,633 tonnes of nickel at a 0.75% nickel cut off (similar to that used for Mt Windarra for comparison purposes). The Cerberus deposit is now larger than the Mt Windarra resource and further reinforces Poseidon's position as having the largest nickel sulphide resource of any exploration/development company in Australia.

Exploration – Mt Windarra
Poseidon Nickel Limited also announced in 2012 that it has identified a new potentially mineable ore zone at the Windarra Nickel Project. The potential ore body is north of the area currently included in the mine plan for Mt Windarra and appears to commence approximately 50m from the surface, below the main oxidised zone. Poseidon believes that it has intersected the mineralisation to a depth of 240 m with historic drilling indicating that it may continue deeper. The mineralised body is sub vertically plunging and runs parallel to the G Shoot zone (Figure 1) which forms the main part of the current mineralised resource base. The intersections into this zone which is now referred to as "H Shoot", includes a true width intersection of 4.6m at 3.2% nickel which contains 0.65m at 12.20% in WUG0001. WUG0004A intersected H Shoot with a true width of 1.55m at 7.86% nickel and WUG0008 returned a 2.39m intersection (0.9m true width) at a grade of 2.00% nickel.

In addition as part of the process of converting the Mt Windarra resources into reserves, the drilling into the targeted G Shoot has also returned encouraging results with WUG0002 returning 5.9m (true width) at 2.08% Ni, WUG0003A returned 2.8m at 2.63% nickel, WUG0005 returned 5.3m (true width) at 1.57% nickel and WUG0007 returned 2.3m (true width) at 2.64% nickel. The drilling intersected thicker mineralisation in places than anticipated due to remobilisation of sulphides into the footwall rocks adjoining and below G Shoot. Poddy remobilised mineralisation was also encountered within shear zones between G and H Shoots.

Historic drilling by Western Mining Corp ("WMC") shows sporadic high grade hits to the south and below this drilling which, up until this date, has been difficult to model. This recent drilling has demonstrated continuity between the mineralised intersections in the H Shoot position, which will be developed further with future planned drilling and the aid of 3 dimensional modelling.

Review of operations (continued)

Exploration – Mt Windarra (continued)

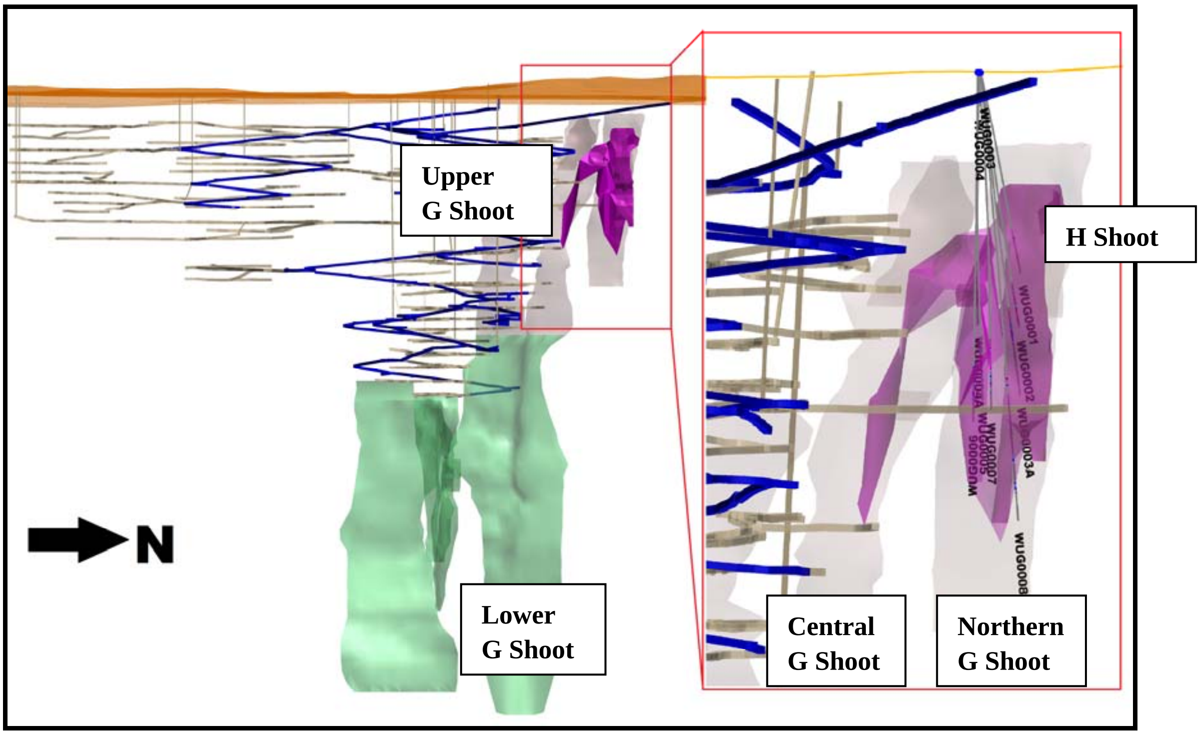

Figure 1: 3D model of the Windarra mine showing the defined ore shoots with respect to the mine decline (blue) and development (grey). The newly defined H Shoot is defined by the dark purple shape, with Upper G Shoot (light grey) and Lower G Shoot (green) shown relative to the H Shoot position. The positions of the reported drill intersection are shown on the expanded inset.

Exploration – South Windarra

Poseidon completed a ground seismic analysis to assist with the location of the potential extension to the South Windarra ore body in early 2011. Poseidon believes that significant evidence exists for an extension that if identified, would provide additional concentrator feed in future years. South Windarra includes a small residual resource at the base of the existing pit which was not believed by the Company to be significant and an eastern extension to the pit which is believed to demonstrate the trend of the main ore channel. In late 2011, Poseidon sought to verify its evaluation of the resource at the base of the pit prior to determining a reuse for the pit as a tailings dam.

Poseidon Nickel commissioned an independent scoping mining study of the remnant nickel resources below the South Windarra pit and underground workings. For the purpose of this study the area below the current workings as well as an area to the west of the South Windarra pit was evaluated. The East Lode portion of the ore body was not accessed in this study as there is potential for further exploration in the vicinity of the East Lode to possibly extend this resource. The East Lode is separated from the mined out South Windarra ore bodies and the study included the assessment of a suitable portal location and decline design for access to this area. Based on the mine design and schedule produced for South Windarra it is uneconomical for mining to recommence underground at the South Windarra project.

Poseidon Nickel Limited
Directors' report

Review of operations (continued)

Exploration – South Windarra (continued)
Consequently approval was sort and has been approved for in-pit tailings disposal of the generated tailings waste from the proposed nickel concentrator at Mt Windarra. This will be pumped via pipeline down to South Windarra and deposited into the flooded pit.

The in-pit tailings will sterilise the remnant nickel resources below the South Windarra pit and underground workings as well as an area to the west of the South Windarra pit. The nickel mineralisation relating to this has been removed from the company's Resource Statement Table (Table 1). The East Lode mineralisation remains in the Resource Table under the South Windarra Project.

Table 1: Windarra Nickel Project Resource Statement

Windarra Nickel Project Sulphides	Cut Off Grade	Resource Category								
		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%	910,000	1.24	11,300	2,955,000	1.72	50,900	3,865,000	1.61	62,200
South Windarra	0.80%	771,665	0.98	7,533	-	-	-	771,665	0.98	7,533
Cerberus	0.75%	2,773,041	1.25	34,637	1,777,743	1.91	33,996	4,550,784	1.51	68,633
Total Sulphide		**4,454,706**	**1.20**	**53,470**	**4,732,743**	**1.79**	**84,896**	**9,187,449**	**1.51**	**138,366**

**Note: Minor errors in totals exist due to rounding.*

Operations
The installation of the 300kW pump has allowed the dewatering program to be ahead of plan with the Mt Windarra underground mine now being successfully dewatered to a depth of 400 metres. The rate of pumping will now be reduced until it is appropriate to install the next stage of pumping which will require an underground fixed pumping station and a series of stage pumps.

Mine decline refurbishment has progressed to a depth of 240 metres below the surface, some 2.2 km from the mine portal. The refurbishment crews have successful negotiated through several areas in which the original ground support has had to be replaced as a result of degradation over the past 20 years. Mine services have been extended with the high voltage power supply now located at the 10200 level. The original D300 explosives magazine has now been refurbished and applications for the necessary magazine licence and dangerous good licences have been made to the appropriate bodies.

Given the extent of the water extraction, openings into the original ventilation system have been exposed and allowed flow through ventilation to be achieved in the decline using the surface ventilation fan. As a result, the forced ventilation of the decline using the 110kW underground fan will not be required until such time as the refurbishment reaches those openings.

Review of operations (continued)

Operations (continued)

Following the withdrawal of Triton Gold Ltd from the Windarra gold rights transfer agreement entered into in June 2009, Poseidon has progressed preliminary testwork and a feasibility study to establish if the Windarra gold tailings can be commercially co-treated where is can be leveraged of substantial new infrastructure to be installed as part of the WNP. The gold reprocessing is financially entirely dependent on the nickel facilities being in place to support it.

Note: The information in this report relates to Exploration Results and Mineral Resources 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 and 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. Mr Hutchison and Mr Glacken both 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 Hutchison and Mr Glacken 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 2011.

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 10 and forms part of the directors' report for the six months ended 31 December 2011.

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:

G F Brayshaw

Mr G Brayshaw
Director

Perth
15 March 2012

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

To: the directors of Poseidon Nickel Ltd

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2011 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
15 March 2012

Poseidon Nickel Limited

Condensed consolidated interim statement of financial position

In thousands of AUD	***Note***	**31 Dec 2011**	**30 Jun 2011**
Assets			
Cash and cash equivalents		4,854	14,162
Trade and other receivables		711	649
Total current assets		5,565	14,811
Property, plant and equipment	*8*	2,681	2,342
Exploration and evaluation expenditure	*11*	52,272	45,635
Other investments		319	456
Other		3,500	3,500
Total non-current assets		58,772	51,933
Total assets		64,337	66,744
Liabilities			
Trade and other payables		2,519	2,392
Loans and borrowings	*12*	15,580	13,609
Convertible note derivative	*13*	11,506	10,948
Employee benefits		74	57
Provisions	*15*	3,500	3,500
Total current liabilities		33,179	30,506
Loans and borrowings	*12*	-	17
Total non-current liabilities		-	17
Total liabilities		33,179	30,523
Net Assets		31,158	36,221
Equity			
Share capital		80,718	79,726
Reserves		234,676	235,244
Accumulated losses		(284,236)	(278,749)
Total equity attributable to equity holders of the Company		31,158	36,221
Total equity		31,158	36,221

The condensed notes on pages 15 to 21 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 *In thousands of AUD*	***Note***	**2011**	**2010**
Other income	*9*	257	86
Depreciation expense		(9)	(6)
Personnel expenses		(637)	(546)
Exploration costs expensed		(1,596)	(1,181)
Corporate and administration costs		(685)	(729)
Share based payment expense	*14*	(417)	(444)
Other expenses		(124)	(107)
Results from operating activities		(3,211)	(2,927)
Finance income		413	1,726
Finance costs		(2,689)	(1,010)
Net finance income / (costs)	*10*	(2,276)	716
Loss before income tax		(5,487)	(2,211)
Income tax expense		-	-
Loss for the period		(5,487)	(2,211)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		-	225
Other comprehensive income for the period, net of income tax		-	225
Total comprehensive income for the period		(5,487)	(1,986)
Earnings per share			
Basic and diluted loss per share (cents/share)		(2.76)	(1.18)

The condensed notes on pages 15 to 21 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 2010 *In thousands of AUD*	**Issued Capital**	**Share based payment reserve**	**Fair value reserve**	**Option premium reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2010	76,190	233,586	340	510	(279,295)	31,331
Loss	-	-	-	-	(2,211)	(2,211)
Other comprehensive income						
Net change in fair value of available-for-sale assets, net of tax	-	-	225	-	-	225
Total other comprehensive income	-	-	225	-	-	225
Total comprehensive income for the period	-	-	225	-	(2,211)	(1,986)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	3,298	-	-	-	-	3,298
Issue of options (net of costs)	-	228	-	-	-	228
Total contributions by and distributions to owners	3,298	228	-	-	-	3,526
Total transactions with owners	3,298	228	-	-	-	3,526
Balance at 31 December 2010	79,488	233,814	565	510	(281,506)	32,871

For the six months ended 31 December 2011 *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						
Net change in fair value of available-for-sale assets, net of tax	-	-	-	-	-	-
Total other comprehensive income	-	-		-	-	-
Total comprehensive income 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 in prior periods (net of costs)	-	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

The condensed notes on pages 15 to 21 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 *In thousands of AUD*	***Note***	**2011**	**2010**
Cash flows from operating activities			
Sundry receipts		225	86
Payments to suppliers and employees		(3,152)	(1,442)
Cash used in operations		(2,927)	(1,356)
Interest received		286	86
Net cash used in operating activities		(2,641)	(1,270)
Cash flows from investing activities			
Payments for property, plant and equipment	*8*	(495)	-
Payments for exploration and evaluation expenditure		(6,287)	(1,934)
Net cash used in investing activities		(6,782)	(1,934)
Cash flows from financing activities			
Proceeds from the issue of shares and options (net of costs)		7	3,055
Payment of finance lease liabilities	*12*	(40)	(38)
Net cash from/(used in) financing activities		(33)	3,017
Net decrease in cash and cash equivalents		(9,456)	(187)
Cash and cash equivalents at 1 July		14,162	924
Effect of exchange rate fluctuations on cash held		148	-
Cash and cash equivalents at 31 December		4,854	737

The condensed notes on pages 15 to 21 are an integral part of these consolidated interim financial statements.

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 2011 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 2011 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 2011.

This consolidated interim financial report was approved by the Board of Directors on 15 March 2012.

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 2011.

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 2011.

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 2011.

6. 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 2011 the Group incurred a loss of $5,487,000 (2010: loss $2,211,000) and had a net working capital deficit of $27,614,000 (2010: deficit $15,170,000). The working capital deficit includes the following items; the convertible note liability of $15,492,000 and the convertible note derivative of $11,506,000 that if called by the note holders can only be settled in shares prior to its redemption date of 28 March 2016, and a provision for environmental rehabilitation of $3,500,000 that is cash backed (non-current asset). The Company had a net cash outflow used in investing activities of $6,782,000 (2010: outflow $1,934,000), reflecting the increase in exploration and mine refurbishment activity now underway.

The Company will require further funding in order to meet day-to-day obligations as they fall due and to progress its resource to reserve drilling, mine refurbishment and feasibility study for the Windarra Nickel Project ("WNP") as budgeted. The Board of Directors is aware, having prepared a cashflow budget, of the Company's working capital requirements and the need to access additional funding within the next 6 months. Should the Company be unable to raise sufficient funds, it may be necessary to reduce exploration and administrative costs.

The Board is confident in securing sufficient additional funding to provide working capital for at least the next 18 months and is negotiating with interested parties regarding a number of funding options that includes further debt and capital raisings.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and confidence in raising additional funds. 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.

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	**2011**	**2010**
For the six months ended 31 December		
Reportable segment loss before income tax	(1,368)	(1,148)
Reconciliations of reportable segment loss and assets		
Loss		
Total loss for reportable segments	(1,368)	(1,148)
Unallocated amounts: other corporate expenses	(1,843)	(1,779)
Net finance income / (costs)	(2,276)	716
	(5,487)	(2,211)
	31 Dec 2011	**30 June 2011**
Assets		
Total assets for reportable segments	58,521	51,474
Other assets	5,816	15,270
	64,337	66,744

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2011.

8. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2011 the Group acquired assets with a cost of $495,000 (2010: $31,000). No assets were disposed of during the six months ended 31 December 2011 or 31 December 2010.

9. Other income

In thousands of AUD	**31 Dec 2011**	**31 Dec 2010**
Sundry income	28	53
Other income	229	33
	257	86

10. Finance income and expense

In thousands of AUD	**31 Dec 2011**	**31 Dec 2010**
Interest income on bank deposits	265	86
Foreign exchange gain	148	1,640
Finance income	413	1,726
Interest expense – convertible note	(1,342)	(848)
Foreign exchange loss	(1,203)	-
Impairment of available-for-sale financial assets	(137)	-
Change in fair value of convertible note derivative	(7)	(162)
Finance costs	(2,689)	(1,010)
Net finance income / (costs)	(2,276)	716

11. Exploration and evaluation expenditure

In thousands of AUD	**31 Dec 2011**	**30 Jun 2011**
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	52,272	45,635
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of year	45,635	40,692
Additions	6,637	4,943
	52,272	45,635

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.

12. Loans and borrowings

In thousands of AUD	31 Dec 2011	30 Jun 2011
Current liabilities		
Current portion of finance lease liabilities	88	111
Convertible note liability	15,492	13,498
	15,580	13,609
Non-current liabilities		
Finance lease liabilities	-	17
	-	17

In thousands of AUD	31 Dec 2011	30 Jun 2011
Convertible notes		
Carrying amount of liability at beginning of period	13,498	10,648
De-recognition of original convertible note	-	(10,149)
Recognition of revised convertible note	-	7,708
Proceeds on issue of new convertible note	-	19,484
Amount classified as a convertible note derivative	-	(13,250)
Transaction costs on new convertible note	-	(442)
Exchange rate effects	653	(2,390)
Accrued interest capitalised	1,341	1,889
Carrying amount of liability at end of period	15,492	13,498

The Company issued US$20 million of new Convertible Notes 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 2016. The conversion rate is fixed at AU$0.30. The instrument is interest free for the first three years and then bears a coupon rate of 5% thereafter until maturity.

In conjunction with the new funding facility, the Company extended the term of the original US$15 million of Convertible Notes issued on 25 June 2008 for a further 3 years with the same coupon terms as the new notes. The original notes will, under the terms of the new agreement, have a conversion price of AU$0.40 per share rather than AU$1.00 however, interest payable from June 2011 will now be deferred for a further 3 year term. The nature of the change to the terms of the original Convertible Notes requires that the notes are derecognised in the financial statements and replaced with the recognition of the replacement US$15 million Convertible Notes.

The issue of the new US$20 million Convertible Notes and the changes to the terms of the original Convertible Notes were approved by shareholders at a general meeting held on 28 March 2011.

12. Convertible note derivative

In thousands of AUD	31 Dec 2011	30 Jun 2011
Carrying amount of liability at beginning of period	10,948	1,464
De-recognition of original convertible note derivative	-	(1,304)
Recognition of revised convertible note derivative	-	6,935
Allocated proceeds from issue of new convertible notes	-	13,250
Fair value movement	7	(8,276)
Exchange rate effects	551	(1,121)
Carrying amount of liability at end of period	11,506	10,948

Pursuant to accounting standards the option component of the convertible notes are 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 2011 (share price $0.17) and 31 December 2011 (share price $0.18) is reflected in the fair value movement.

As the convertible notes are denominated in United States dollars (USD), the change in the exchange rate with the Australian dollar (AUD) is also taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2011 was 1.0722:1 and at 31 December 2011, 1.0209:1.

13. Share-based payments

Options

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

Shares

The terms and conditions of share grants made during the six months ended 31 December 2011 are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Shares granted to executive director on 22 November 2011	1,965,000	The shares have a 3 year vesting period
Shares granted to executives and employees on 27 October 2011	5,495,398	The shares have a 3 year vesting period
Total shares	7,460,398	

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

	Directors	Executives
Fair value of shares and assumptions	31 Dec 2011	31 Dec 2011
Fair value of grant	$0.19	$0.22

14. Share-based payments (continued)

Hybrids

The terms and conditions of hybrid grants made during the six months ended 31 December 2011 are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Hybrids granted to non-executive directors on 22 November 2011	360,126	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 December 2011 (Shares issued post 31/12/11)	332,180	The hybrids vested immediately upon grant
Total shares	692,306	

The hybrids purchased as at 31 December 2011 have a purchase price in the range of $0.1812 to $0.1965.

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 2011
Fair value of grant	0.19

Share based payment expense

In AUD	31 Dec 2011	31 Dec 2010
Share options granted in 2011 – equity settled	88,752	32,095
Share options granted in 2009 – equity settled	28,829	35,363
Share options granted in 2008 – equity settled	-	155,788
Shares granted in 2012	85,064	-
Shares granted in 2010	27,874	27,874
Shares granted in 2008	-	38,009
Hybrids granted in 2012	130,516	-
Hybrids granted in 2011	-	125,387
Hybrids granted in 2010	55,748	55,748
Shares based payment capitalised	-	(26,445)
Total expenses recognised as employee costs	416,783	443,819

15. Provisions

In thousands of AUD	31 Dec 2011	30 Jun 2011
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 2011.

16. Share Capital

	Ordinary shares	
In thousands of shares	**31 Dec 2011**	**30 Jun 2011**
Ordinary shares		
Fully paid	206,465	195,401
Partly paid	-	425
Total share capital	206,465	195,826
Movements in ordinary shares on issue:		
On issue at 1 July 2011	195,826	
Shares issued and expensed during the period:		
Issued for directors fees	360	
Issued for 2011 employee performance bonus	5,495	
Issued for managing director incentive	1,965	
Cancelled partly paid shares	(50)	
Shares issued but expensed during the prior period:		
Issued for directors fees	260	
Issued for professional broker fees	2,609	
On issue at 31 December 2011	206,465	

17. 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 15 to 21, 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 2011 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
15 March 2012

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

Report on the financial report

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 2011, 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 17 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such 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 2011 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Poseidon Nickel Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2011 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 equity or financing facilities 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 its liabilities in the normal course of business.

KPMG

KPMG

G-T Hogg

Graham Hogg
Partner

Perth
15 March 2012