

## QUARTERLY REPORT

31 DECEMBER 2013

### COMPANY OVERVIEW

Poseidon Nickel Limited is an Australian Securities Exchange listed nickel development company focused on the restart of the Windarra Nickel Project, located in the heart of Western Australia's premier nickel mining region. Poseidon has invested A\$94m over the last five years in refurbishing the existing mine and facilities and in extending the resource base of the Project to support an initial 10 year mine life. The resource is one of the largest for any West Australian nickel sulphide project that has restarted production in the last decade.

Windarra is a low risk development due to its brownfields nature and conventional mining and processing methodology. The Project operated historically for sixteen years under previous ownership and Poseidon is the beneficiary of this operational track record and has access to extensive geological, metallurgical and other data.

A key feature of this Project is its low operating cost and capital intensity making the Project attractive even in the currently challenged nickel price environment.

ASX CODE: POS



## COMPANY MILESTONES

- **Continuing discussion with potential investors and key stakeholders**
- **Ongoing discussions with parties for funding and potential off-take arrangements**
- **Research and development activities continue to develop innovative approaches to assist with optimisation and cost reductions for the Windarra Nickel Project**

## OVERVIEW

- Poseidon is continuing to review various funding options to support its ongoing activities. A number of discussions are under way with the potential investors and key stakeholders. These discussions remain ongoing and should be supported by the publication of several significant reports from global investment banks indicating a strengthening market position for nickel, driven by Indonesia's ban of unprocessed nickel ore. A significant increase in the nickel price may assist the Company's continuing endeavors to raise additional working capital.
- The Company also continues to hold discussions with parties about potential off-take and funding arrangements. As contemplated by these ongoing discussions, the Company has recently been reviewing its internal operational plans primarily relating to the recommencement of final refurbishment activities at the Company's Windarra Project.
- Poseidon has received a bank credit committee approved term sheet to factor approximately \$4 million of future receivables (see details under Financial section).

## EXPLORATION

The Company continues to progress a number of key research and development programmes including a review of the Wassara drilling results to date, supporting the underground mine water polishing trial as well as detailed 3D digitizing and wire framing of the Windarra underground workings to accurately match the WMC level plans in preparation for detailed mine planning.

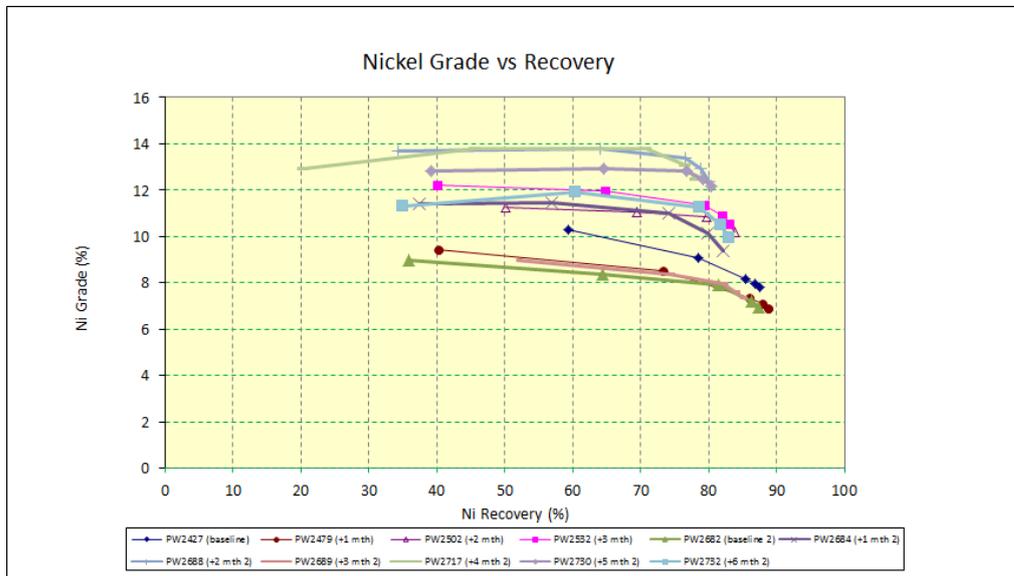
- A new campaign for Wassara drill testing has been planned for a total of 20 holes for ~8100m. The holes are designed to be drilled towards C & F Shoot. These will continue on from and support the previous drill test campaign run during the first half of 2013.
- A larger and more robust 89mm Wassara hammer will be used during the next test campaign as this should keep the holes straighter and increase drill production rates, therefore reducing drilling costs per meter. This campaign will include pushing test holes through Charlie's Shear and casing off with HQ rods to reduce the effects of the shear on the drill production rates.
- In-stream XRF sampling and measuring technology for the Wassara drilling unit has also been investigated as Wassara drilling produces a fast flowing mud-cutting sample which is currently being washed down the decline. Rock samples need to be collected, crushed and sent for analysis and testing by an off-site consultant to determine the suitability of the selected XRF equipment with the Wassara drilling process. In-stream

XRF sampling and measuring could significantly improve the identification of intersected nickel sulphide lenses in the hanging-wall rocks that may be missed in the Wassara pre-collar prior to the commencement of diamond core tails.

- 3D digitizing and wire framing of the Windarra underground workings to accurately match the WMC level plans has been completed. This will assist in the detailed interpretation of the orebody in the next resource model update and more accurately guide the drilling, mine planning and mine development.
- Re-digitising of the C Shoot ore body using 0.45% & 0.75% nickel grade shells has commenced utilising the more recent drill holes and the knowledge gained from the recent drilling program. This incorporates recent understanding in the geological and structural trends within the mineralised shoots which will result in a better defined ore body and clearer targeting of structurally controlled high grade zones and extensions within the shoot.

**OPERATIONS**

- Ore aging test work has been commissioned to provide a long term understanding of the impact that ore aging has on the Windarra and Cerberus sulphide minerals. The test work program results indicate that as the sulphide minerals “age” there is a reduction in recovery associated with an increase in nickel reporting to the sulphide concentrate. Ores aged for up to 3 months there is no discernable difference in nickel recovery. For ores aged more than 6 months a nickel recovery loss of 1 to 2% could be realized for a modest increase in nickel in concentrate grade. The program is now in its seventh month.



**Figure 1: Aging Test Work Results**

- The application of ore sorting is being considered for the Cerberus orebody as there are 3 mineralised lenses and due to the relative distances and grade between these lenses, only the lower lens is currently included in the ore reserve calculation and mine plan.

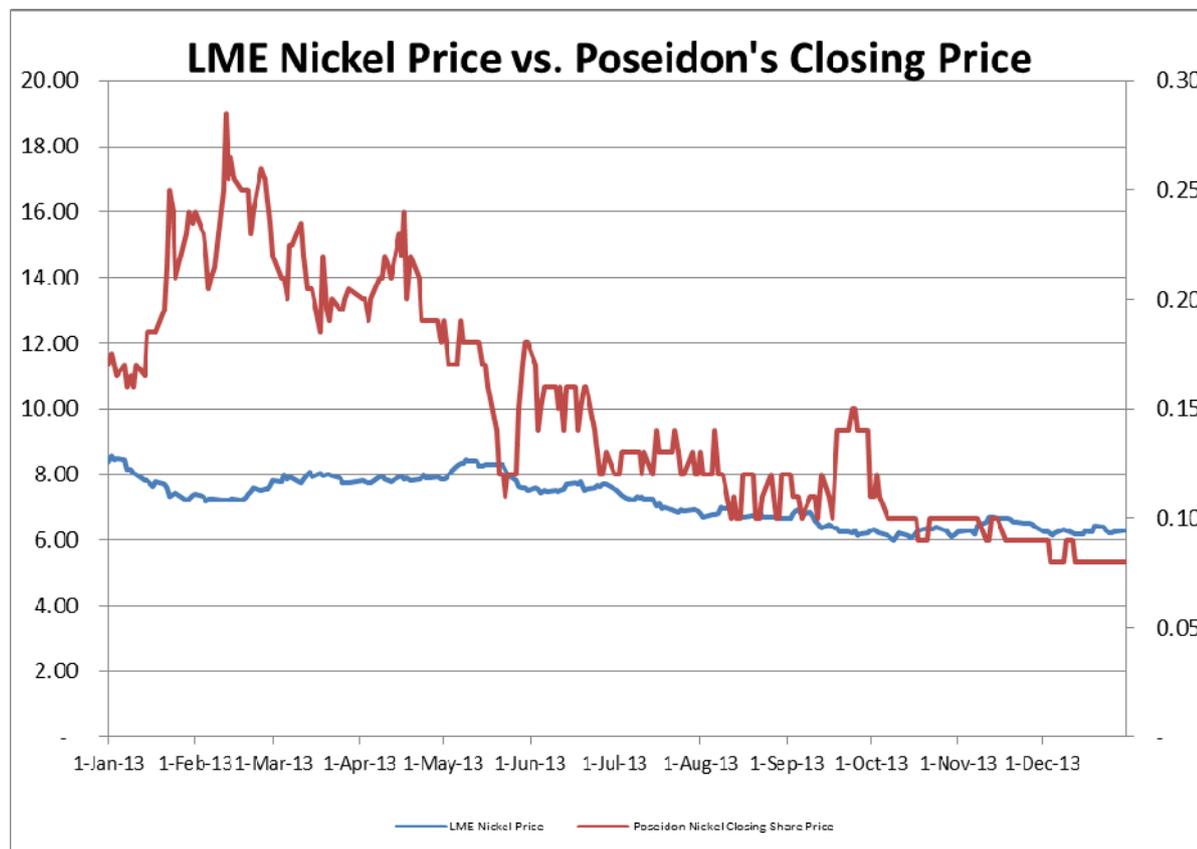
- Ore sorting may be able to be applied to allow these lenses to be mined without a significant drop in grade or recovery. Tomra have recommend proceeding initially with assaying scanned and sorted rock types to better define the upgrade potential of the sensor followed by a bulk ore sorting run to confirm the actual upgrade achievable in a continuous pilot plant ore sorter.
- The application of mechanised miners has also been considered. An initial review on the benefits of mechanised mining was followed by test work being undertaken by Vermeer on typical rock types obtained from Windarra and Cerberus. The results indicated that most of the rock types forecast to be treated could be mined using a mechanised miner. Rock samples will be collected and forwarded to both Vermeer and Sandvik for further test work. Geotechnical and geological models will also be progressed to better understand the likely rock types and volumes that will be mined from Windarra and Cerberus.
- Poseidon has installed a sand filter into the dewatering discharge pipeline to ensure that any drill cuttings produced from the recent diamond drill campaign or settled solids from the mines previous operation are removed from the mine water prior to discharge. The sand filter was commissioned and operated intermittently during the quarter due to a number of up-stream and downstream constraints. As the existing pump is now at the limites of it's pumping capacity, a review of the exisitng dewatering method has been completed with the recommendation to move to a staged pumping solution utilising mono pumps in line with the sand filter in order to overcome these constraints. The planned changes will be implemented over the coming months in order to trial the proposed system and complete the dewatering of the mine.

## FINANCIAL

- The Company is currently developing a bank financing arrangement that can provide up to an additional \$1.44 million as a pre-payment of the 2014 research and development claim that the Company expects to lodge with the Australian Taxation Office in August 2014.
- As at 31 December 2013, the Company had cash of \$0.72 million and is in discussions with potential investors regarding funding options.
- The Company is continuing to work with the Department of State Development to progress the recovery of the \$3.5 million bond held by the State Government through transferring to the Mine Rehabilitation Fund ("MRF") scheme. The Minister for State Development and Premier, Colin Barnett, has responded positively to the Company's request to terminate the State Agreement and to join the MRF. Under the State Agreement, Parliament is required to repeal the Poseidon Nickel State Act through both houses of the Western Australian Parliament. As this process is likely to take between 6 to 9 months, the Company expects to be able to also include the bond in the bank financing facility which would provide up to 80% of the value of the bond as a pre-payment.

**MARKET INFORMATION**

- Figure 4 below shows the underlying correlation between Poseidon’s share price and the LME Nickel price over the last 12 months.



**Figure 4:** Poseidon share price graph compared to LME Nickel price

**David P.A. Singleton**  
 Managing Director & CEO

31<sup>st</sup> January 2014

**CORPORATE DIRECTORY****Director / Senior Management**

David Singleton	Managing Director & Chief Executive Officer
Bud Scruggs	Non-Executive Chairman
Geoff Brayshaw	Non-Executive Director
Chris Indermaur	Non-Executive Director
Ross Kestel	Company Secretary

**Corporate Enquiries**

Mr David Singleton – MD & CEO  
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E: admin@poseidon-nickel.com.au

**Shareholder Enquiries**

Enquiries concerning shareholdings should be addressed to:

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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  
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**Media Enquiries**

Mr Cameron Morse  
FTI Consulting  
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E: Cameron.Morse@fticonsulting.com

**Home Exchange**

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

*Note: The information in this report that relates to Mineral Resources is 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.*

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

*Mr Hutchison, Mr Glacken and Mr Grubic all have sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' (the JORC Code 2004) 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.*

**ORE RESERVE STATEMENT**

Windarra Nickel Sulphides	Reserve Category		
	Probable		
	Tonnes	Ni% Grade	Ni Metal t
Cerberus	1,221,000	1.3	15,900
Mt Windarra	498,000	1.78	8,850
<b>Total</b>	<b>1,719,000</b>	<b>1.44</b>	<b>24,750</b>

**Table 2: Windarra Nickel Project Reserve Ore Statement**

**MINERAL 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%	1,217,000	1.39	17,100	3,553,000	1.78	63,100	4,770,000	1.68	80,200
South Windarra	0.80%	772,000	0.98	7,500	-	-	-	772,000	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
<b>Total Sulphide</b>		<b>4,762,000</b>	<b>1.24</b>	<b>59,200</b>	<b>5,331,000</b>	<b>1.82</b>	<b>97,100</b>	<b>10,093,000</b>	<b>1.55</b>	<b>156,300</b>

**Table 3: Windarra Nickel Project Mineral Resource Statement**

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

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
<b>Total Oxide</b>		<b>12,578,000</b>	<b>0.36</b>	<b>44,800</b>	<b>344,000</b>	<b>1.25</b>	<b>4,300</b>	<b>12,922,000</b>	<b>0.38</b>	<b>49,100</b>

**Table 4: Windarra Tailings & Oxide Project Mineral Resource Statement**

**TENEMENTS****Mining Tenements Held as at 31 December 2013**

<b>Areas of Interest</b>	<b>Tenements</b>	<b>Economic Entity's Interest</b>
<b>Western Australia</b>		
- Windarra Nickel Assets	MSA 38/261, G 38/21, L 38/121, L39/184, L38/199, L38/218, L39/221	100%
- Windarra South	L 38/119, L 38/122, L38/220	100%
- Woodline Well	M39/1075, L39/224	100%
- Pool Well	M 38/1243, M 38/1244, M 38/1245, L38/118	100%
- Laverton	E 38/1752, E 39/1325, E 39/1326	100%
- East Laverton	E38/2705, E38/2706, E38/2707	100%
- Brown Well	P38/3989, P38/3990, P38/3991	100%

E = Exploration Licence M = Mining Lease MSA = Mining Tenement State Act PL = Prospecting License  
L = Miscellaneous Licence

**Mining Tenements Acquired and Disposed during the December 2013 Quarter**

Nil

**Beneficial Percentage Interests Held in Farm-In or Farm-Out Agreements during the December 2013 Quarter**

Nil

**Beneficial Percentage Interests Held in Farm-In or Farm-Out Agreements Acquired or Disposed of during the December 2013 Quarter**

Nil

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/2010.

Name of entity

**Poseidon Nickel Limited**

ABN

**60 060 525 206**

Quarter ended ("current quarter")

**31 December 2013**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(644)	(3,735)
(b) development	-	-
(c) production	-	-
(d) administration	(904)	(2,383)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	15	58
1.5 Interest and other costs of finance paid	(514)	(514)
1.6 Income taxes paid	-	-
1.7 Other - sundry income	24	97
- research & development	-	4,583
<b>Net Operating Cash Flows</b>	<b>(2,023)</b>	<b>(1,894)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	(6)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,023)</b>	<b>(1,900)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,023)	(1,900)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	76	76
1.17	Repayment of borrowings	(49)	(49)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	<b>27</b>	<b>27</b>
	<b>Net increase (decrease) in cash held</b>	<b>(1,996)</b>	<b>(1,873)</b>
1.20	Cash at beginning of quarter/year to date	2,713	2,590
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>717</b>	<b>717</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	118
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

N/A

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

+ See chapter 19 for defined terms.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	43,103	43,103
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	300
4.2 Development	-
4.3 Production	-
4.4 Administration	600
<b>Total</b>	<b>900</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	700	2,706
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other – Term Deposits	7	7
<b>Total: cash at end of quarter (item 1.22)</b>	<b>717</b>	<b>2,713</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements relinquished, reduced or lapsed	N/A			
6.2 Interests in mining tenements acquired or increased	N/A			

+ See chapter 19 for defined terms.

### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> <i>(description)</i>			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>*Ordinary securities</b>	409,616,908	409,616,908	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	-	-	
7.5	<b>*Convertible debt securities</b> <i>Unsecured</i>	36,531,904 This is an estimate only based on an average exchange rate of 1.0265.	-	\$0.40 The Notes have a March 2011 six year term convertible into fully paid ordinary shares.
		64,945,608 This is an estimate only based on an average exchange rate of 1.0265.	-	\$0.30 The Notes have a March 2011 six year term convertible into fully paid ordinary shares.
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted			
7.7	<b>Options</b> <i>Unlisted</i> <i>Unlisted</i>	2,975,000 4,250,000	- -	<i>Exercise price</i> \$0.22 \$0.22 <i>Expiry date</i> 31 August 2016 23 November 2016
7.8	Issued during quarter			
7.9	Exercised during quarter			
7.10	Expired during quarter	(250,000)	-	\$0.22 23 November 2016
7.11	<b>Debentures</b> <i>(totals only)</i>			

+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)				
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## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

(Director)

Date: 31 January 2014

Print name: Geoff Brayshaw

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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