POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Interim Financial Report
For the six months ended 31 December 2013

Poseidon Nickel Limited

Contents

Poseidon Nickel Limited

Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

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

Company Secretary

Mr R Kestel

Registered Office

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Subiaco WA 6008

Principal Office

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Subiaco WA 6008
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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 2013 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 Christopher Indermaur *Chairman & Non-Executive Director*	Appointed as Chairman 24 February 2014, non-executive director since 2 April 2009
Mr Geoff Brayshaw *Non-Executive Director*	Appointed 1 February 2008
Mr Robert Dennis *Non-Executive Director*	Appointed 24 February 2014
Mr Herbert (Bud) Scruggs *Chairman & Non-Executive Director*	Appointed 30 September 2013, Alternate for Mr Andrew Forrest since 18 September 2012, Resigned 24 February 2014
Mr Andrew Forrest *Chairman & Non-Executive Director*	Appointed 2 July 2007, Resigned 27 September 2013
Mr Richard Monti *Non-Executive Director*	Appointed 4 April 2007, Resigned 30 September 2013
Executive	
Mr David Singleton *Managing Director & Chief Executive Officer*	Appointed 1 February 2008

Review of operations

In February 2014, the Company has completed a capital raising with commitments received for a placement of Fully Paid Ordinary Shares to raise approximately $3.8 million. The placement is for approximately 54,285,715 Shares at $0.070 per Share to strategic, professional and sophisticated investors. The purpose of the capital raising is to undertake essential activities prior to potential production start-up. The start-up focus reflects improving market conditions predicted for nickel in the short and medium term. Poseidon Nickel intends to update its current resource and reserve model at Mt Windarra to fully reflect all of the recent drilling. In addition, Poseidon will update its capital and operating studies.

Poseidon has informed the market of negotiations which could lead to an ore tolling agreement. This follows previous announcements made by Poseidon where it outlined the successful results of a Definitive Feasibility Study (DFS) into recommencing mining at the Mt Windarra mine. The refurbishment work carried out on the mine coupled with the existing extensive above ground infrastructure, is expected to allow the start-up of operations during the current calendar year. As a guide for shareholders, the Company believes that the capital costs to restart mining operations could be under $15m primarily as a result of the investment made to date. It is important to note that this estimate has been made by the Company without the use of external independent contractors and is indicative only.

Poseidon Nickel Limited
Directors' report

Review of operations (continued)
Poseidon is also reviewing the potential to commence gold production on site in line with plans outlined above. The gold inventory is in tailings adjacent to the Mt Windarra facilities and would be a standalone operation which could last for up to 6 years, yielding a total of over 50,000 ounces depending on the final design throughput. The gold inventory has been fully drilled to a reserve status and the process plant has been designed and independently reviewed in the DFS previously published by the Company. The cost of the process plant, excluding tailings deposit, has previously been estimated at under $10m by local specialist contractors and the Company would expect that the current cost environment would apply downward pressure on that estimate. The DFS indicated that gold production could be undertaken at under A$800/ounce. The Company notes that the current gold price is over A$1,450/ounce.

Poseidon has received all the necessary development and environmental approvals covering construction and operations at the site, subject to only the company achieving an offtake agreement and the necessary funding to restart operations. It is possible however, that some modifications to the current licences maybe required to reflect the different implementation phasing now envisaged.

Operations
Poseidon has been progressively dewatering the underground mine at Mt Windarra over the last 18 months using a single high power pump connected by approximately 440 metres of steel piping running down the main lift shaft. This has allowed the decline to be refurbished to the 10,030RL (circa 430m vertical from surface).

To date the water has met environmental standards for pumping into a local salt water creek however, 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 due to a number of up-stream and downstream constraints. As the existing pump is now at the limit 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.

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 realised for a modest increase in nickel in concentrate grade. The program is now in its seventh month (see Figure 1).

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.

Poseidon Nickel Limited
Directors' report

Review of operations (continued)

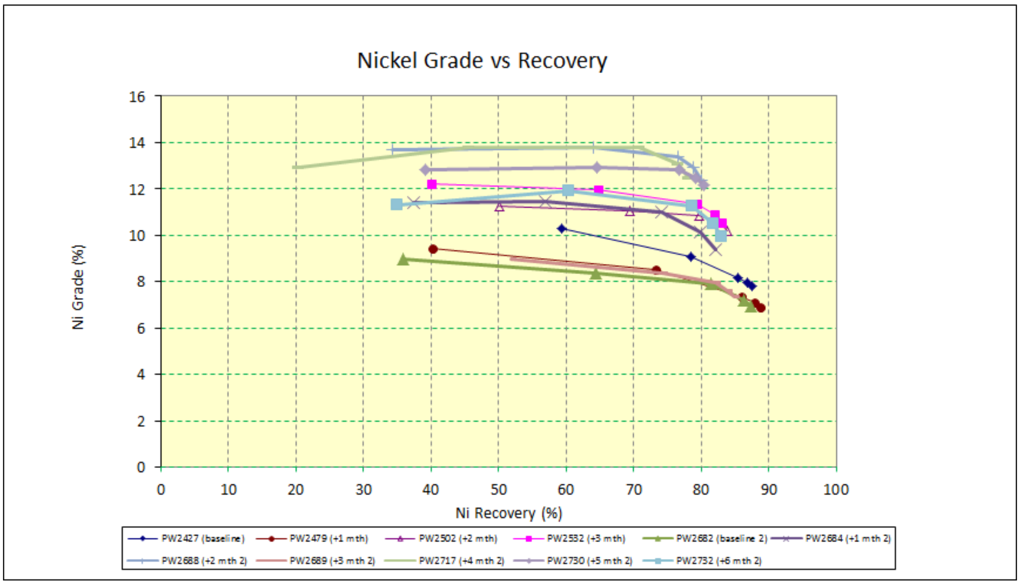

Figure 1: Aging Test Work Results

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.

Exploration

Detailed 3D digitizing and wire framing of the Windarra underground workings was completed to accurately match the WMC level plans in preparation for detailed mine planning. In addition, re-interpretation and digitising of the C & D Shoot mineralisation was completed incorporating drill hole data and knowledge gained from the recent WUG series drilling program. This has improved the mineralisation definition in particularly at depth. The new geological interpretation for C & D Shoot has the two shoots merging together at depth along a structurally controlled fold nose. This will also greatly assist to accurately guide the next round of drilling, as well as mine planning and mine development.

The original C & D Shoot interpretation was based on the reconstructed WMC drill hole database that was completed by Poseidon in 2007. The recent WUG series drilling completed by Poseidon utilised modern, accurate downhole survey equipment along with the north-seeking AziAlligner system for the collar set-up. All of the new C-Shoot intersection positions were supported both in position and intersected geology. It was apparent from the last round of drilling at Mt Windarra that the mid-portion of the original C-Shoot interpretation was in fact incorrectly placed (Figure 2). It was apparent that several intersection positions based on the WMC drilling were incorrectly positioned in 3D space. WMC used inaccurate down hole survey equipment such as single-shot magnetic cameras and acid-etching to survey holes along with manual surface surveys to locate hole collars, as these were the methods available in the 1970's-80's. This was compounded by the fact that Poseidon used poor copies of drill logs printed from microfiche to reconstruct the database along with the exploration long-sections to locate the intersected positions based on WMC's original interpretation. Furthermore the WMC intersected geology from the holes in question in most cases did not reflect the geology from the WUG drilling based on the C-Shoot mineralisation with respect to dykes, basal contact with Inter-BIF sequence nor in relation to the D-Shoot fold.

Poseidon Nickel Limited
Directors' report

Review of operations (continued)

Exploration (cont'd)

Moving North or South from the centre of C-Shoot lava channel mineralisation appears to 'lift' off the basal contact due predominantly to the magmas reduced ability (as compared to the central channel position) to thermally erode the komatiite-liquid chilled margin that first forms across the top of the Inter-BIF prior to the channel development and subsequent massive-sulphide mineralisation. This helped Poseidon's geologists to locate new positions for the old holes whilst honoring the original downhole depths. The results of this reinterpretation are shown in Figures 2 & 3 below.

The updated drill hole database, mineralised wireframes and updated underground workings have been handed over to the companies resource and mine planning consultants in preparation for updating the resource and reserves at Mt Windarra

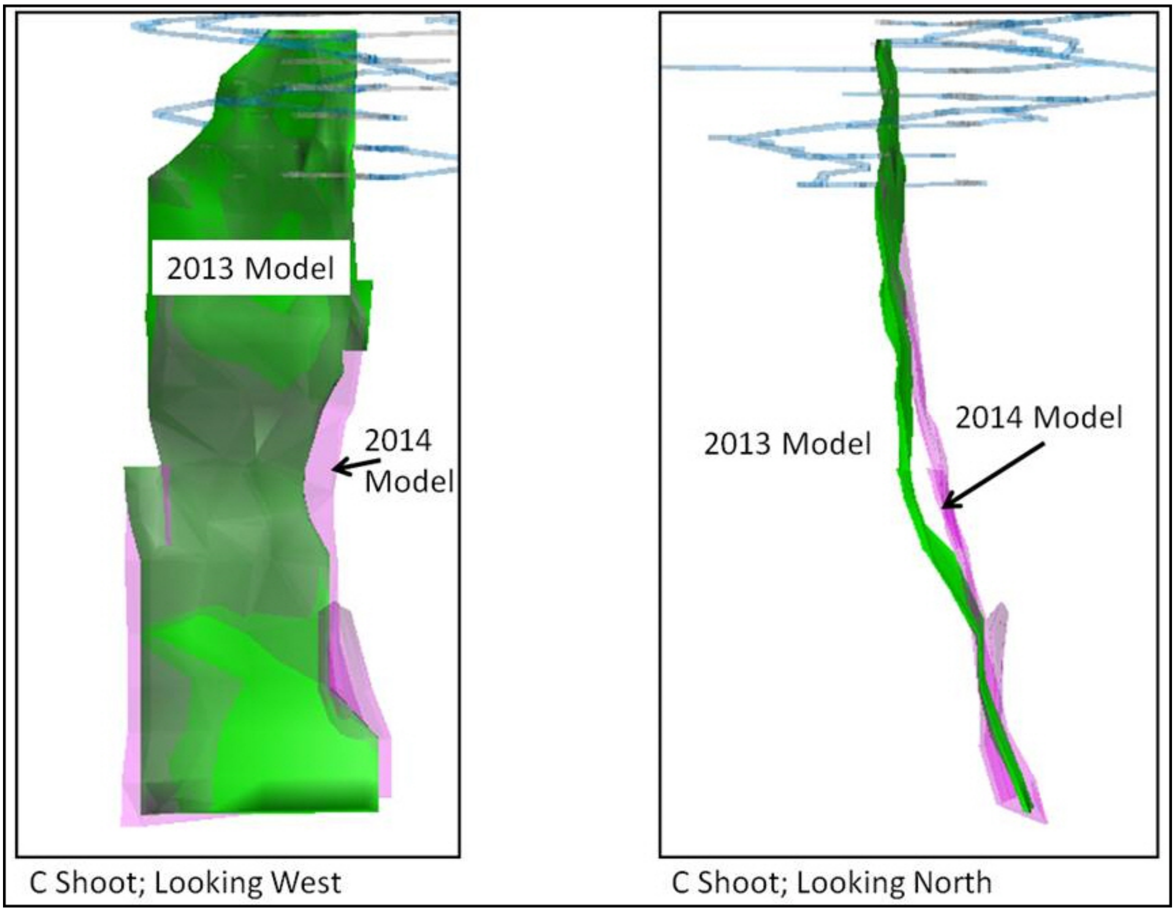

Figure 2

Poseidon Nickel Limited
Directors' report

Review of operations (continued)
Exploration (cont'd)

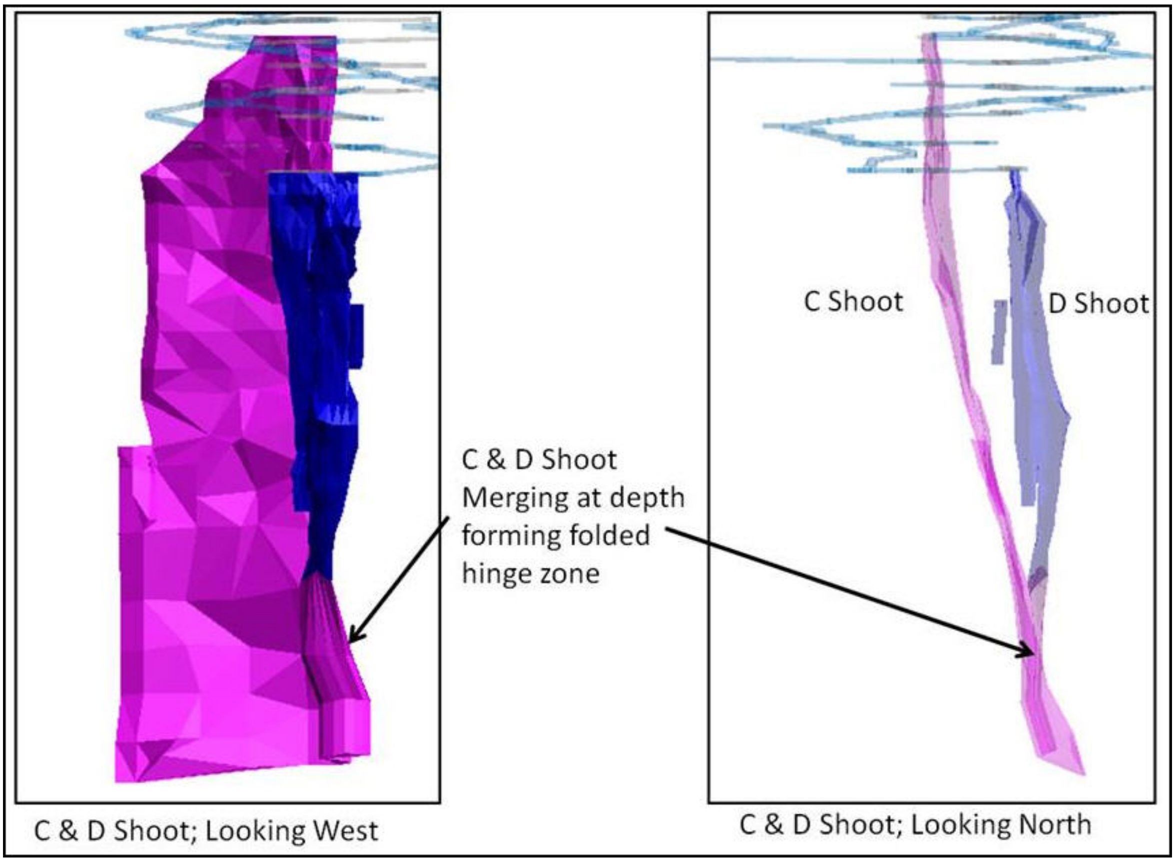

Figure 3

Corporate

The Company also announced a reorganisation of the Board of Directors in readiness for a potential operating stage. The Board has elected Mr Christopher Indermaur as its new Chairman. Chris has been on the Board as a non-executive Director and chair of the Remuneration, Nomination and Diversity and Corporate Governance Committees since April 2009. In addition, Mr Robert Dennis will immediately join the Board as a non-executive Director. Rob was previously the Chief Operating Officer at Poseidon. This will enable the Company to retain the in-depth knowledge that Mr Dennis has of the Windarra Nickel Project and in particular the Mt Windarra mine where he was underground mine manager from 1980 -1986.

Mr H.E. "Bud" Scruggs has resigned as Chairman. Bud is a resident of the USA and was involved in the Company's debt raising in New York given his experience in the US Capital markets however, this is no longer critical to the Company as it moves into production and focuses on Australian investors.

Poseidon Nickel Limited
Directors' report

Review of operations (continued)
Exploration (cont'd)

MINERAL RESOURCE STATEMENT- JORC 2004

Windarra Nickel Project Sulphides	Cut Off Grade	Mineral 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%	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
Total Sulphide		**4,762,000**	**1.24**	**59,200**	**5,331,000**	**1.82**	**97,100**	**10,093,000**	**1.55**	**156,300**

Table 1: Windarra Nickel Project Mineral Resource Statement

ORE RESERVE STATEMENT- JORC 2004

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

Table 2: Windarra Nickel Project Ore Reserve Statement

Poseidon Nickel Limited
Directors' report

Review of operations (continued)
Exploration (cont'd)

MINERAL RESOURCE STATEMENT- JORC 2004

Windarra Gold Tailings Project	Mineral Resource Category - Gold Tailings		
	Indicated		
	Tonnes	Grade (g/t)	Au (oz)
North & South Dams	4,795,000	0.71	109,500
Central Dam	6,198,000	0.37	73,000
Total Gold Tailings	**10,993,000**	**0.52**	**182,500**

Windarra Nickel Tailings & Oxide Project	Cut Off Grade	Mineral 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**

Table 3: Windarra Tailings & Oxide Project Mineral Resource Statement

ORE RESERVE STATEMENT- JORC 2004

Windarra Gold Tailings Project	Ore Reserve Category – Gold Tailings		
	Probable		
	Tonnes	Ni% Grade	Ni Metal t
North & South Dams	4,360,000	0.72	101,500
Central Dam	6,074,000	0.37	72,000
Total Gold Tailings	**10,434,000**	**0.52**	**173,500**

Table 4: Windarra Gold Tailings Ore Reserve Statement

Poseidon Nickel Limited
Directors' report

Review of operations (continued)
Exploration (cont'd)

Competent Person Statement
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.

Dividends
No dividends were paid or proposed during the six months ended 31 December 2013.

Subsequent events
During February 2014 the Company raised $3,800,000, less costs of $190,000, through the placement of Fully Paid Ordinary Shares to professional and sophisticated investors. Poseidon placed 54,285,715 shares at $0.07 per share utilising the Company's 15% placement capacity under the ASX Listing Rules.

Lead auditor's independence declaration
The lead auditor's independence declaration is set out on page 12 and forms part of the directors' report for the six months ended 31 December 2013.

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
4th March 2014

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 2013 there have been:

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

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

KPMG

KPMG

Trevor Hart
Partner

Perth

4 March 2014

Poseidon Nickel Limited

Condensed consolidated interim statement of financial position

In thousands of AUD	*Note*	31 Dec 2013	30 Jun 2013 Restated*
Assets			
Cash and cash equivalents		717	2,590
Trade and other receivables		222	2,772
Total current assets		939	5,362
Property, plant and equipment, net		2,774	2,959
Exploration and evaluation expenditure	*11*	71,988	71,931
Other investments		38	44
Other		3,500	3,500
Total non-current assets		78,300	78,434
Total assets		79,239	83,796
Liabilities			
Trade and other payables		526	2,317
Loans and borrowings	*12*	8,436	8,409
Employee benefits		146	144
Provisions		3,500	3,500
Total current liabilities		12,608	14,370
Loans and borrowings	*12*	25,568	22,734
Convertible note derivative	*13*	2,270	6,142
Total non-current liabilities		27,838	28,876
Total liabilities		40,446	43,246
Net Assets		38,793	40,550
Equity			
Share capital		101,262	100,896
Reserves		544	472
Accumulated losses		(63,013)	(60,818)
Total equity attributable to equity holders of the Company		38,793	40,550
Total equity		38,793	40,550

The condensed notes on pages 17 to 26 are an integral part of these consolidated interim financial statements.
** See note 5*

Poseidon Nickel Limited

Condensed consolidated interim statement of profit or loss and other comprehensive income

For the six months ended 31 December *In thousands of AUD*	***Note***	**2013**	**2012**
Other income		299	141
Depreciation expense		(6)	(8)
Personnel expenses		(463)	(554)
Exploration costs expensed		(180)	(1,278)
Consultancy and advisor fees		(1,325)	(747)
Share based payment expense	*14*	(461)	(558)
Other expenses		(628)	(549)
Results from operating activities		(2,764)	(3,553)
Finance income		4,060	2,092
Finance costs		(3,506)	(5,908)
Net finance income / (costs)	*10*	554	(3,816)
Loss before income tax		(2,210)	(7,369)
Income tax expense		-	-
Loss for the period		(2,210)	(7,369)
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss			
Net change in fair value of available-for-sale financial assets		-	(262)
Other comprehensive loss for the period, net of income tax		-	(262)
Total comprehensive loss for the period		(2,210)	(7,631)
Loss per share			
Basic and diluted loss per share (cents/share)		(0.54)	(1.81)

The condensed notes on pages 17 to 26 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 2012 *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

For the six months ended 31 December 2013 *In thousands of AUD*	**Issued Capital**	**Share based payment reserve**	**Fair value reserve**	**Option premium reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2013	100,896	472	-	-	(60,818)	40,550
Loss	-	-	-	-	(2,210)	(2,210)
Other comprehensive income						
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income / (loss) for the period	-	-	-	-	(2,210)	(2,210)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	366	-	-	-	-	366
Issue of options	-	87	-	-	-	87
Transfer to accumulated losses upon lapse of options	-	(15)			15	-
Total contributions by and distributions to owners	366	72	-	-	15	453
Total transactions with owners	366	72	-	-	15	453
Balance at 31 December 2013	101,262	544	-	-	(63,013)	38,793

The condensed notes on pages 17 to 26 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***	**2013**	**2012**
Cash flows from operating activities			
Sundry receipts		576	88
Payments to suppliers and employees		(2,564)	(3,172)
Cash used in operations		(1,988)	(3,084)
Interest received		58	329
Net cash used in operating activities		(1,930)	(2,755)
Cash flows from investing activities			
Proceeds from sales of investments		-	1,581
Payments for property, plant and equipment		(6)	(670)
Payments for exploration and evaluation expenditure		(3,554)	(5,701)
Proceeds from research and development for exploration and evaluation expenditure		4,104	-
Net cash received from / (used in) investing activities		544	(4,790)
Cash flows from financing activities			
Payment of borrowing costs		-	(120)
Proceeds from borrowings		76	-
Repayment of borrowings		(49)	-
Interest paid		(514)	(444)
Net cash used in financing activities		(487)	(564)
Net decrease in cash and cash equivalents		(1,873)	(8,109)
Cash and cash equivalents at 1 July		2,590	20,582
Cash and cash equivalents at 31 December		717	12,473

The condensed notes on pages 17 to 26 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 2013 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 2013 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 2013.

This consolidated interim financial report was approved by the Board of Directors on 4th March 2014.

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 Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 July 2013.

AASB 10 *Consolidated Financial Statements* (2011)
AASB 11 *Joint Arrangements*
AASB 13 *Fair Value Measurement*
AASB 119 *Employee Benefits* (2011)
Annual Improvements to Australian Accounting Standards 2009-2011 Cycle

The changes as a result of these revised standards have had no impact to the Groups interim financial report, except for the amendment to Segment information (note 8) whereby the Group needs to disclose any material changes to the amounts of total assets and liabilities. As there has been no material change to the amounts disclosed in the last annual financial statements, there is no additional disclosure.

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 2013.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

5. Reclassification of liabilities

Previously the Company classified the convertible note liability and convertible note derivative ("the Note") amounts as current liabilities in the consolidated statement of financial position. Details of these liabilities are disclosed at note 12 and 13. However, as the note holders' ability to require conversion on demand is restricted to conversion to equity shares, this feature does not require current classification. The note holders' ability to require conversion to cash is restricted to requiring conversion at maturity date being March 2017 which results in a non-current classification. Accordingly, the following restatements have been made:

The 30 June 2013 total current liabilities amount of $43,246,000 (1 July 2012: $26,463,000) included the amounts for the convertible note liability and derivative of $22,734,000 (1 July 2012: $24,875,000) and $6,142,000 (1 July 2012: $4,507,000) respectively. In the 30 June 2013 restated statement of financial position, total current liabilities has been reduced and total non-current liabilities increased by the total of these two items, $28,876,000 (1 July 2012: $29,382,000).

The impact of the reclassification on the prior period and at the beginning of that period is shown in the table below:

	As at 1 July 2012		As at 30 June 2013	
In thousands of AUD	**Before Reclassification**	**After Reclassification**	**Before Reclassification**	**After Reclassification**
Liabilities				
Loans and borrowings	17,285	290	31,143	8,409
Convertible note derivative	4,507	-	6,142	-
Total current liabilities	26,463	4,961	43,246	14,370
Loans and borrowings	7,880	24,875	-	22,734
Convertible note derivative	-	4,507	-	6,142
Total non-current liabilities	7,880	29,382	-	28,876
Total liabilities	34,343	34,343	43,246	43,246

Certain other comparative disclosures have been reclassified to conform to the current year's presentation.

6. 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 2013.

7. 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 2013 the Group incurred a loss of $2,210,000 (2012: loss $7,369,000) and had a net working capital deficit of $11,669,000 (2012: deficit $174,000). The working capital deficit includes the following items: 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 former Chairman, Mr Andrew Forrest.

The maturity date of the loan had been extended initially from 1 July 2013 to 1 October 2013 and subsequently for a further 12 months to 1 October 2014 or earlier if the Company completes a capital raising. FFI has also exercised its right to demand that the Bridge Loan is repaid through the proceeds of an equity raising as soon as reasonably practicable but no later than the maturity date. 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.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

7. Financial position (cont'd)

The Company had a net cash inflow from investing activities of $544,000 (2012: outflow $4,790,000), reflecting the receipt of a refundable tax offset from the ATO under the Research and Development Tax Incentive scheme in relation to the 2012 and 2013 tax years, offsetting the ongoing exploration and mine refurbishment costs.

In February 2014 the Company raised $3.8 million, less costs of $190,000, through the placement of Fully Paid Ordinary Shares to professional and sophisticated investors. Poseidon placed 54,285,715 shares at $0.07 per share utilising the Company's 15% placement capacity under the ASX Listing Rules.

In addition, the Company is in negotiations to enter an ore tolling and concentrate purchase agreement. If finalised the agreement would allow Poseidon to deliver 350,000 – 700,000 tonnes of ore per annum for an initial period of up to 2 years. The ore would be mined from the existing Mt Windarra mine and shipped for treatment to a third party facility. Under such an arrangement, the Company would require further funding in order to complete development and commence mining operations at Mt Windarra. The Board of Directors is aware, having developed a definitive feasibility study and prepared a cash flow budget, of the Company's project development and working capital requirements which includes the repayment of the FFI Bridge Loan by the maturity date and the need to access additional funding within the next six months. Poseidon is being advised by Grant Samuel to assist in developing the various alternatives towards financing the project through a combination of debt and equity. 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.

8. 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	**2013**	**2012**
Reportable segment other income	290	137
Reportable segment exploration costs expensed	(180)	(1,278)
Reportable segment profit / (loss) before income tax	110	(1,141)
Reportable segment assets	78,252	72,467
Capital expenditure	5	653
Reconciliations of reportable segment profit / (loss) and assets		
Loss		
Total profit / (loss) for reportable segments	110	(1,141)
Unallocated amounts: other corporate expenses	(2,874)	(2,412)
Net finance income / (costs)	554	(3,816)
Loss before income tax	(2,210)	(7,369)

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

8. Operating segments (cont'd)

Assets	**31 Dec 2013**	**30 Jun 2013**
Total assets for reportable segments	78,252	78,422
Other assets	987	5,374
	79,239	83,796

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2013.

9. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2013 the Group acquired assets with a cost of $6,000 (2012: $787,000). No assets were disposed of during the six months ended 31 December 2013 or 31 December 2012.

10. Finance income and expense

In thousands of AUD	**31 Dec 2013**	**31 Dec 2012**
Interest income on bank deposits	36	327
Net foreign exchange gain	-	434
Net gain on disposal of investments	-	1,331
Change in fair value of convertible note derivative	4,024	-
Finance income	4,060	2,092
Interest expense – convertible note	(2,271)	(1,600)
Interest expense – loan	(512)	(582)
Interest expense – premium insurance funding	(2)	-
Net foreign exchange loss	(715)	-
Impairment of investments	(6)	(81)
Change in fair value of convertible note derivative	-	(3,645)
Finance costs	(3,506)	(5,908)
Net finance income / (costs)	554	(3,816)

11. Exploration and evaluation expenditure

In thousands of AUD	**31 Dec 2013**	**30 Jun 2013**
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	71,988	71,931
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of period	71,931	59,550
Additions, net of research and development proceeds	57	12,381
	71,988	71,931

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.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

12. Loans and borrowings

In thousands of AUD	**31 Dec 2013**	**30 Jun 2013 Restated***
Current liabilities		
Borrowings – loan	8,391	8,409
Borrowings – premium insurance funding	45	-
Non-current liabilities		
Convertible note liability (i)	25,568	22,734
	34,004	31,143

In thousands of AUD	**31 Dec 2013**	**30 Jun 2013**
(i) Convertible notes		
Carrying amount of liability at beginning of period	22,734	16,995
Exchange rate effects	563	2,282
Accrued interest capitalised	2,271	3,457
Carrying amount of liability at end of period	25,568	22,734

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$0.40 and AU$0.30 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 7 and 17 for detailed terms of the AU$8,391,000 unsecured bridge loan included in borrowings.
*See note 5.

13. Convertible note derivative

In thousands of AUD	**31 Dec 2013**	**30 Jun 2013**
Carrying amount of liability at beginning of period	6,142	4,507
Fair value movement	(4,024)	317
Exchange rate effects	152	1,318
Carrying amount of liability at end of period	2,270	6,142

The option component of the convertible notes is classified as a derivative. 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 2013 (share price $0.13) and 31 December 2013 (share price $0.076) 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 2013 was 0.9138:1 and at 31 December 2013, 0.8917:1.

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 R Monti in November 2010 which had an exercise price of $0.22 have lapsed during the reporting period following his resignation from the board as a non-executive director on 28 September 2013. The options that have been cancelled are detailed below:

	Options granted		Financial years in which	
Directors	**Number**	**Grant date**	**grant vests**	**% Lapsed in Year**
Mr R Monti	250,000	23 November 2010	2017	100%
	250,000			

Shares

No shares were granted to directors during the current and comparative reporting period. During the reporting period an employee elected to receive their December salary in shares in lieu of cash with 367,979 shares being granted at a fifteen day Volume Weighted Average Price of $0.085.

Hybrids

The terms and conditions of hybrid grants made during the six months ended 31 December 2013 are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Hybrids granted to non-executive directors on 30 September 2013 (Shares issued post 31/12/13)	327,560	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 December 2013 (Shares issued post 31/12/13)	374,419	The hybrids vested immediately upon grant
Total shares	701,979	

The hybrids granted for the period 31 December 2013 have a purchase price in the range of $0.0987 to $0.1201.

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:

	Directors
Fair value of hybrids and assumptions	**31 Dec 2013**
Fair value of grant	0.11

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

14. Share-based payments (cont'd)

Share based payment expense

In thousands of AUD	31 Dec 2013	31 Dec 2012
Share options granted in FY2011 – equity settled	88	89
Shares granted in FY2014	31	-
Shares granted in FY2012	266	266
Shares granted in FY2010	-	22
Hybrids granted in FY2014	76	-
Hybrids granted in FY2013	-	137
Hybrids granted in FY2010	-	44
Total expenses recognised as employee costs	461	558

15. Share Capital

	Ordinary shares	
In thousands of shares	31 Dec 2013	30 Jun 2013
Ordinary shares		
Fully paid	409,985	409,241
Total share capital	409,985	409,241
Movements in ordinary shares on issue:		
On issue at 1 July 2013	409,241	407,064
Shares issued and expensed during the period:		
Issued for directors fees	-	1,578
Issued for employee salary	368	-
Shares issued but expensed during the prior period:		
Issued for directors fees	376	598
On issue at 31 December 2013	409,985	409,241

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Notes to the condensed consolidated interim financial statements

16. Fair value measurement of financial statements

Fair value hierarchy

The following tables classify financial instruments recognised in the statement of financial positions of the Group according to the hierarchy stipulated in AASB 7 as follows:

(a) Level 1 - the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;
(b) Level 2 - a valuation technique is used using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices); or
(c) Level 3 - a valuation technique is used using inputs that are not based on observable market data (unobservable inputs).

Comparative information has not been provided as permitted by the transitional provisions of the new rules.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 31 December 2013 and 30 June 2013 on a recurring basis:

31 December 2013

In thousands of AUD	**Level 1**	**Level 2**	**Level 3**	**Total**
Fair value through profit or loss:				
Convertible note derivative	-	2,270	-	2,270
Available for sale financial assets:				
Listed equity securities	38	-	-	38

30 June 2013

In thousands of AUD	**Level 1**	**Level 2**	**Level 3**	**Total**
Fair value through profit or loss:				
Convertible note derivative	-	6,142	-	6,142
Available for sale financial assets:				
Listed equity securities	44	-	-	44

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 31 December 2013. There were no transfers between hierarchy levels in the period to 31 December 2013.

Valuation techniques used to derive fair values

The fair value of financial instruments traded in active markets is based upon quoted market prices at the end of the reporting period. The quoted market price is the quoted bid prices which are included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group makes a number of assumptions based upon observable market data existing at each reporting period. The fair value of the convertible note derivative is determined using an option pricing model based upon various inputs at the end of the reporting period. These instruments are included in Level 2.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

16. Fair value measurement of financial statements (continued)

Fair value hierarchy (continued)

Fair values of other financial instruments

The Group also has a number of financial instruments which are not measured at fair value in the statement of financial position. These had the following fair values as at 31 December 2013:

In thousands of AUD	**Carrying amount**	**Fair value**
On statement of financial position		
Non-current assets		
Security bond – environmental bond	3,500	3,500
Current liabilities		
Borrowings – loan	8,391	8,391
Borrowings – premium insurance funding	45	45
Non-current liabilities		
Convertible note liability	25,568	35,238

Due to their short term nature the carrying amount of the current receivables, current payables and current borrowings is assumed to approximate their fair value.

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:

In March 2012 and subsequently varied on 25 June 2013 and 30 September 2013, the Company entered into an $8,000,000 unsecured Bridge Loan with Forrest Family Investments Pty Ltd ("FFI" or "the Lender"). The loan was negotiated on commercial terms and conditions, the key terms being as follows:

- The drawdown date for the loan was 30 March 2012;
- The loan was to be repaid by the Company on the earlier of 1 July 2013 and as soon as the Company completes a capital raising sufficient to repay the loan. On 25 June 2013 the parties agreed to vary the terms of the agreement and extend the maturity date to 1 October 2013. On 30 September a further extension to the maturity date was agreed between the parties to 1 October 2014;
- The Lender has exercised their right to demand that the Bridge Loan is repaid through the proceeds of an equity raising as soon as reasonably practicable but not later than the maturity date;
- The loan is unsecured and the Company may not grant security while the loan remains outstanding;
- The Lender has the right to demand that the loan is repaid through a mandatory capital raising at the end of the extended term if it has not been repaid by that time;
- Interest of 13% per annum is currently payable on the loan, and
- A 1.5% commitment fee is payable upfront and a 1.5% exit fee is payable on the loan amount when the principal is repaid.

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Notes to the condensed consolidated interim financial statements

18. Subsequent events

During February 2014 the Company raised $3,800,000, less costs of $190,000, through the placement of Fully Paid Ordinary Shares to professional and sophisticated investors. Poseidon placed 54,285,715 shares at $0.07 per share utilising the Company's 15% placement capacity under the ASX Listing Rules.

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 17 to 26, 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 2013 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:

G F Brayshaw

Mr G Brayshaw
Director

Perth
4th March 2014

KPMG

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 2013, condensed consolidated statement of profit or loss and other 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 interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity,* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2013 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 2013 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*.

Restatement of comparative balances

Without modification to the opinion expressed above, we draw attention to Note 5 of the interim financial report, which discloses the comparative balances which have been restated to comply with Australian Accounting Standards.

Material uncertainty regarding continuation as a going concern

Without modifying our conclusion expressed above, we draw attention to Note 7 of the interim financial report. The matters set forth in Note 7 indicate the existence of material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Trevor Hart
Partner

Perth

4 March 2014