

## QUARTERLY REPORT

**31 MARCH 2014**

### 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

- **\$3.8m share placement completed**
- **Options to toll treat ore are under negotiation**
- **Poseidon considering restarting underground refurbishment to reduce production lead time**
- **Nickel prices support early mine operations**
- **Board reorganisation completed in readiness for operational phase**

## OVERVIEW

- Poseidon's strategy is to become a major Australian nickel producer and do this by moving its 100% owned Windarra nickel project into operation. Poseidon's route to production is planned to be as follows:
  - Production commencement at the Mt Windarra brownfield mine either through an ore toll treatment arrangement with local facilities or using a new build concentrator facility.
  - Expansion of output using the Cerberus greenfield ore body discovered by Poseidon in 2008 and located 10kms south of the Mt Windarra mine. Cerberus ore treatment could be by toll treatment but most likely would be through an onsite concentrator.
  - Production of gold as a co-product credit in the Mt Windarra site by the reprocessing of tailings from previous operations. Processing would be onsite for an initial period of 6 years using new build CIL tanks with smelting offsite at a toll treatment facility.
  - Continued exploration drilling of the 24km long Windarra ultramafic to expand production throughput. The first priority targets will be for modelled parallel lodes at the Mt Windarra and Cerberus mines and the potential extension of the South Windarra ore body.
- In February 2014, Poseidon announced that it had identified potential concentrate offtake arrangements which would allow it to toll treat ore to a concentrate within a reasonable trucking distance. These opportunities have arisen after a number of mine closures in the Goldfields region have created significant spare nickel concentrator capacity. Poseidon is in active discussions to determine the best processing option between toll treatment or building a new plant. Whilst ore transport costs to third party mills will increase the operating costs of the mine, this will be offset by the considerable time delays and capital costs of a new build plant.
- The Poseidon Board is currently considering the option of restarting the underground refurbishment activities at the Mt Windarra mine which were curtailed in June 2013. The objective is to reduce the lead time to initiating mining and the delivery of ore to a third party process plant. Given the current strength of the nickel market, Poseidon believes that an early start to production is in the best interests of shareholders. The final refurbishment programme to reach the known ore body will cost approximately A\$4 million and can be completed over a 4-6 month period. This cost is a part of the restart costs of \$11 million previously estimated with remaining capital associated with increasing mine ventilation suitable for mining, initial mine activities and working capital. If operations do recommence, the first activity will be to recommence dewatering activities by installing staged mono pumps in line with the existing sand filter to provide a permanent system suitable for mine operations.

- General market conditions both for nickel and commodities in general moved in an unfavourable direction in the last half of 2013 which delayed the final construction and operations phase of the project. However, as Poseidon predicted last year, the severe supply restrictions overseas are likely to move the nickel market into a moderate supply deficit this year with likely very large deficits in 2015 and beyond. The impending deficits have increased nickel prices from their January 2014 low by circa 40% and well above the breakeven price of the independent WA nickel producers. In 2013, the debate in the nickel market was around the likelihood of the Indonesian's banning nickel exports destined primarily for the fast growing Chinese dominated nickel pig iron market. Against much evidence to the contrary, the market did not factor in a total Indonesian export ban and as a result of a significant surplus of production over demand in 2012 & 2013, the market price of the commodity dropped progressively from US\$8.44/lb in early 2013 to a low of US\$6.02/lb in early January 2014. The implementation of the ban has moved nickel prices to over US\$8.35/lb in late April 2014. The Indonesian ban on exports follows established practice in the country to encourage local added value industries for commodities, a process which has delivered successful results in the past. The export ban identified on 12th January 2014 is reported to have held fast, has cross party political support in Indonesia and is already showing signs of success. The likely outcome of the continuing ban is that nickel supply deficits may be a feature of the next few years driving robust nickel prices and potentially highly profitable WA producers.

## FINANCIAL

- As at 31 March 2014, the Company had cash of \$2.9 million. During 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 Rule 7.1.
- 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.

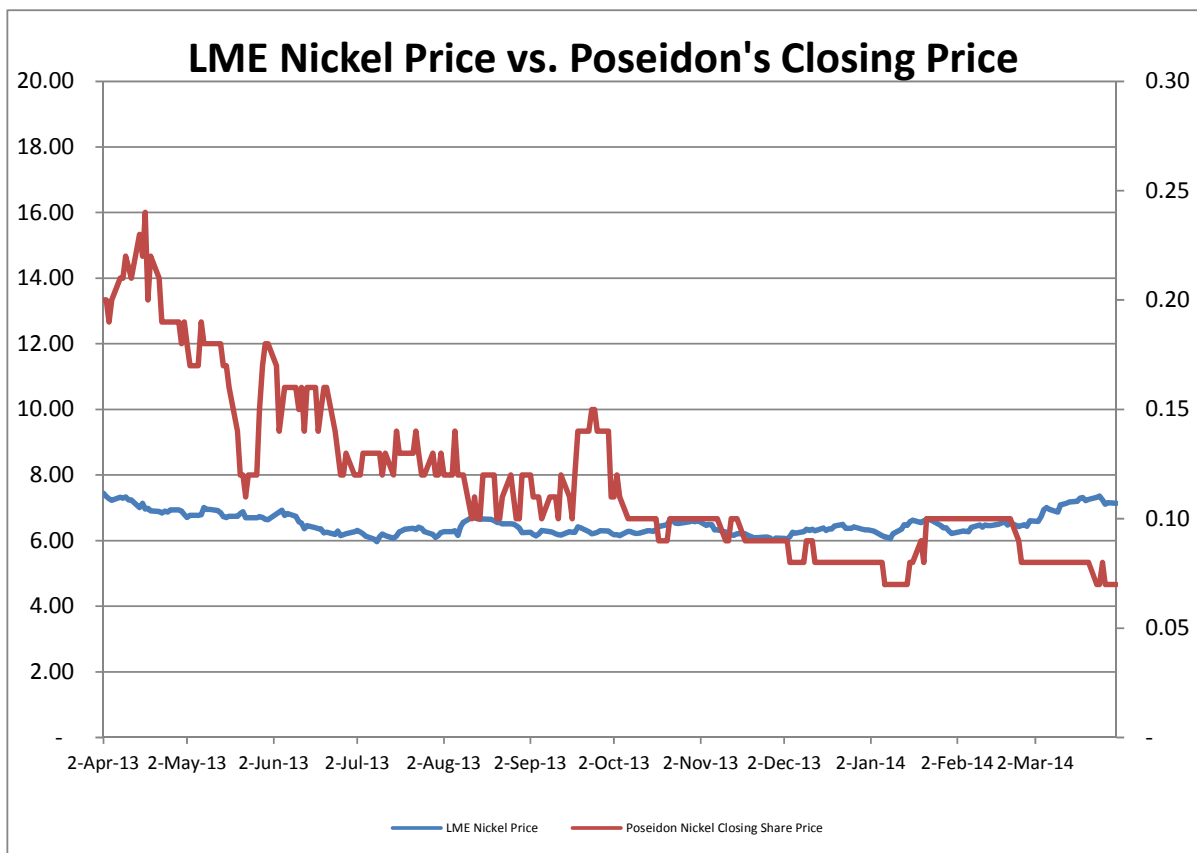
## CORPORATE

- In February, The Company announced a reorganisation of the Board of Directors in readiness for a potential operating stage. The Board 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 joined the Board as a non-executive Director. Rob was previously the Chief Operating Officer at Poseidon.
- Mr H.E. "Bud" Scruggs 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, at this time is no longer critical to the Company as it moves into production and focuses on Australian investors.
- Michael Rodriguez has been appointed Chief Operating Officer for Poseidon Nickel. Michael has been with Poseidon for 6 years and has played a key role in moving the project to its current position.

- In line with Poseidon’s policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 701,979 Fully Paid Ordinary Shares were issued in lieu of Directors fees for the quarters to September and December under the terms of the Director Share Plan. The shares were issued on 16 January 2014 at a deemed issue price of \$0.1201 and \$0.0987 respectively, based upon the volume weighted average sale price (“VWAP”) for the 91 days prior to the expiration of the quarter. The payment of shares as opposed to cash is intended to reduce the cash cost to the Company and was approved by shareholders at the Annual General Meeting held on 28 November 2013.
- During January, the Company issued 802,398 Fully Paid Ordinary Shares in lieu of December and January salary to a senior employee in order to retain the cash reserves of the Company. The shares were issued at a deemed issue price of \$0.085 and \$0.072, based upon the volume weighted average sale price (“VWAP”) for the 15 days up to and including 15 December 2013 and 15 January 2014 respectively.
- In relation to the capital raising undertaken during the quarter, the Company issued 857,142 Fully Paid Ordinary Shares in lieu of part of the broker fees.

**MARKET INFORMATION**

- Figure 1 below shows the underlying correlation between Poseidon’s share price and the LME Nickel price over the last 12 months.



**Figure 1:** Poseidon share price graph compared to LME Nickel price



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

30<sup>th</sup> April 2014

#### **CORPORATE DIRECTORY**

##### **Director / Senior Management**

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

##### **Corporate Enquiries**

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##### **Shareholder Enquiries**

Enquiries concerning shareholdings should be addressed to:

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GPO Box D182, Perth WA 6840  
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##### **Principal Office**

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SUBIACO WA 6008  
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##### **Registered Office**

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##### **Media Enquiries**

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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 – JORC 2004**

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 1: Windarra Nickel Project Reserve Ore Statement**

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
<b>Total Gold Tailings</b>	<b>10,434,000</b>	<b>0.52</b>	<b>173,500</b>

**Table 2: Windarra Gold Tailings Ore Reserve Statement**

**MINERAL RESOURCE STATEMENT – JORC 2004**

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 March 2014**

<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 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 Licence  
L = Miscellaneous Licence

**Mining Tenements Acquired and Disposed during the March 2014 Quarter**

E 38/1752

**Beneficial Percentage Interests Held in Farm-In or Farm-Out Agreements during the March 2014 Quarter**

Nil

**Beneficial Percentage Interests Held in Farm-In or Farm-Out Agreements Acquired or Disposed of during the March 2014 Quarter**

Nil

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 010/7/96. Origin: Appendix 8. Amended 010/7/97, 01/07/98, 30/09/2001, 01/06/2010, 17/12/10, 01/05/2013.

Name of entity

Poseidon Nickel Limited

ABN

60 060 525 206

Quarter ended ("current quarter")

31 March 2014

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration & evaluation	(595)	(4,330)
(b) development	-	-
(c) production	-	-
(d) administration	(778)	(3,161)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	15	73
1.5 Interest and other costs of finance paid	(1)	(515)
1.6 Income taxes paid	-	-
1.7 Other - sundry income	31	128
- research & development	-	4,583
<b>Net Operating Cash Flows</b>	<b>(1,328)</b>	<b>(3,222)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(51)	(57)
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>(51)</b>	<b>(57)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,379)</b>	<b>(3,279)</b>

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(1,379)	(3,279)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	3,800	3,800
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	76
1.17	Repayment of borrowings	(23)	(72)
1.18	Dividends paid	-	-
1.19	Other – share issue costs	(170)	(170)
	<b>Net financing cash flows</b>	<b>3,607</b>	<b>3,634</b>
	<b>Net increase (decrease) in cash held</b>	<b>2,228</b>	<b>355</b>
1.20	Cash at beginning of quarter/year to date	717	2,590
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>2,945</b>	<b>2,945</b>

**Payments to directors of the entity, associates of the directors, 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	107
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

On 15 January 2014, 701,979 ordinary shares were issued at a price of \$0.1201 and \$0.0987 per share as approved by the Shareholders at the November 2013 Annual General Meeting. The shares were issued to the Non-Executive Directors in lieu of Directors Fees for the September and December 2013 quarters. This has not been included in the above cash flow.

**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

+ See chapter 19 for defined terms.

### Financing facilities available

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

	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	500
4.2 Development	-
4.3 Production	-
4.4 Administration	700
<b>Total</b>	<b>1,200</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	2,938	710
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>2,945</b>	<b>717</b>

### Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1 Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed	E 38/1752	Owned	100%	Nil
6.2 Interests in mining tenements and petroleum tenements acquired or increased	N/A			

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

**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 Preference securities (description)				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	466,264,157	466,264,157		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	56,647,249	56,647,249		
7.5 +Convertible debt securities <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 Options			<i>Exercise price</i>	<i>Expiry date</i>
<i>Unlisted</i>	2,975,000	-	\$0.22	31 August 2016
<i>Unlisted</i>	4,250,000	-	\$0.22	23 November 2016
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures (totals only)				
7.12 Unsecured notes (totals only)				

+ See chapter 19 for defined terms.

## 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 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:

  
(Director)

Date: 30 April 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 and petroleum 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 or petroleum 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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: 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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+ See chapter 19 for defined terms.