

## QUARTERLY REPORT

**30 JUNE 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

- Poseidon to purchase the Black Swan nickel project from Norilsk for \$1.5m
- Processing plant will be able to process Windarra ores in addition to the large remaining nickel inventory on site
- Acquisition reduces the Windarra capital requirements by more than \$200m and time to production by one year
- Engineering for restarting Black Swan already underway
- Mine dewatering recommenced at Mt Windarra
- WA State Government Project approval extension secured
- Extension to Laverton Farm-in and Joint Venture Agreement Terms

## OVERVIEW

- The Company has agreed to acquire the Black Swan nickel operation from OJSC MMC Norilsk Nickel ("Norilsk") for \$1.5m. Poseidon has paid an initial deposit of \$150,000 with the remaining amount due when certain conditions precedent are met, as outlined in the original announcement. Poseidon will assume existing and ongoing environmental obligations.
- The acquisition of the project brings with it the Black Swan nickel sulphide plant which is capable of processing ores from Windarra. The plant was upgraded in 2006 and was put on care and maintenance in February 2009 during the financial crisis. The plant has a proven throughput capacity of 2,150,000 tpa compared with the 700,000 tpa plant previously contemplated for Windarra. The impact of this acquisition will be to significantly reduce the capital requirement as previously identified by the Definitive Feasibility Study by more than \$200m and allow Poseidon to be in production at least 1 year earlier.
- Poseidon will have the option to either recommission the plant in its current location to take ore shipped from Windarra, or the plant can be removed and relocated at Windarra creating a considerable cost saving. The current location has the benefit of being connected to the power grid and a nearby workforce in Kalgoorlie. This significant benefit must be weighed against the cost of trucking ore from Windarra to the current Black Swan plant.
- Poseidon has placed several contracts to undertake work prior to restarting the Black Swan concentrator and mine. The contracts will supply key financial and technical data for an integrated operation that includes up to 600,000 tonnes per annum of Windarra ore combined with 500,000 tonnes per annum of Black Swan ore to be processed through the existing plant. Poseidon is intending to have this work completed by the end of July 2014. The scope of work is as follows:

### Geological Review

Golder Associates Pty Ltd has been awarded a scope of work to undertake additional analysis on the Black Swan resource base with the intention of reporting the Mineral Resource estimate to JORC 2012 guidelines. Golder has previously undertaken extensive resource review work at the site for the previous owners. The resource work includes reviewing in pit resources as well as ore currently stockpiled on the ROM pad but not presently included in the Projects resource model. Golder will also seek to verify the condition of the current tailings dam. Poseidon believes that the dam has several years of remaining capacity at the intended throughput

rates before a wall lift is required but wishes to have this independently verified. Golder will also complete a transport and logistics study.

#### Plant Recommissioning

GR Engineering Services Limited has a substantial history with the Black Swan concentrator expansion, completed in 2006, and with the continuing operations until the plant was closed in early 2009. They have been commissioned, by Poseidon, to develop a detailed scope of work, cost estimate and schedule for restarting the processing plant. The upgraded plant ran for less than 2 years until February 2009 and appears to have been adequately maintained since that time.

#### Operating Cost Budget

Simulus Engineers have been commissioned to produce an overall integrated operational mining study for the combined Black Swan and Windarra project. The study will determine the likely operational and capital costs for the facility.

- The previously announced negotiations for the sale of ore from Windarra to another processing plant are continuing to be fruitful and Poseidon anticipates sales to it late in this calendar year. Use of the Black Swan processing plant will complement these sales.
- Poseidon has also received advice from the WA State Premier, The Hon. Colin Barnett, that permission has been given for a further extension to the Project approvals to 31 December 2015, subject only to similar conditions previously announced.

## **OPERATIONS**

- Following completion of the capital raising in May 2014, the Company has purchased, installed and commissioned two EO88 mono pumps. The pumps are connected in line with the sand filter and will provide the staged pumping solution for the continuation of the dewatering process. This solution also provides the permanent system suitable for mine operations. The water level will be reduced over the coming weeks to enable the refurbishment of the mine to continue.

## **EXPLORATION**

### **Variation to Laverton Farm-in and Joint Venture Agreement**

- Poseidon and Magma Metals Pty Ltd (100% owned by Panoramic Resources) have varied the Laverton Farm-in and Joint Venture Agreement to take account of delays arising as a result of a dispute involving third party claims in relation to certain of the Joint Venture tenements. The dispute has now been settled.
- As a result of the variation, Poseidon has the sole and exclusive right to earn a 60% interest in the tenements by sole funding an additional \$2,700,000 in expenditure in respect of the tenements within the period of 3 years commencing on 3 June 2014 and ending on 2 June 2017. At least 75% of the \$2,700,000 must be incurred on activities in respect of the Target Area. The "Target Area" exists along the western boundary of Magma's E38/1930 and the eastern boundary of Poseidon's M38/261SA. The Target Area extends between 1.5-3.km from these adjoining tenement boundary margins.
- The amount of \$2,700,000 is in addition to the \$300,000 which Poseidon has contributed to this project to date.

- Poseidon must contribute not less than \$700,000 towards expenditure by 12<sup>th</sup> April 2015, after which it may withdraw from the project. This amount is in addition to the \$300,000 Poseidon has contributed to date.

Tenement Number	Owner
Exploration Licence 38/1930	Magma Metals Pty Ltd
Prospecting Licence 38/3717	Magma Metals Pty Ltd
Prospecting Licence 38/3718	Magma Metals Pty Ltd
Prospecting Licence 38/3719	Magma Metals Pty Ltd
Prospecting Licence 38/3496	Magma Metals Pty Ltd
Prospecting Licence 38/3499	Magma Metals Pty Ltd
Mining Lease 38/372	Magma Metals Pty Ltd
Mining Lease 38/694	Magma Metals Pty Ltd
Mining Lease 38/49	Focus Minerals (Laverton) Pty Ltd
Mining Lease 38/101	Focus Minerals (Laverton) Pty Ltd
Mining Lease 38/535	Focus Minerals (Laverton) Pty Ltd

## FINANCIAL

- As at 30 June 2014, the Company had cash of \$4.3 million. During May 2014, the Company raised a further \$3.7 million, less costs of \$172,000, through the placement of Fully Paid Ordinary Shares to professional and sophisticated investors. Poseidon placed 46,708,000 shares at \$0.08 per share utilising the Company's remaining 15% and 10% placement capacities under the ASX Listing Rule 7.1 and 7.1A respectively.

## CORPORATE

- In line with Poseidon's policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 495,158 Fully Paid Ordinary Shares were issued in lieu of Directors fees for the quarter to March under the terms of the Director Share Plan. The shares were issued on 9 April 2014 at a deemed issue price of \$0.0737 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.

## MARKET INFORMATION

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

- The implementation of the Indonesian ore export ban has moved nickel prices by more than 40% from the lows in January 2014 to over US\$8.50/lb in late June 2014. The Indonesian ban 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.

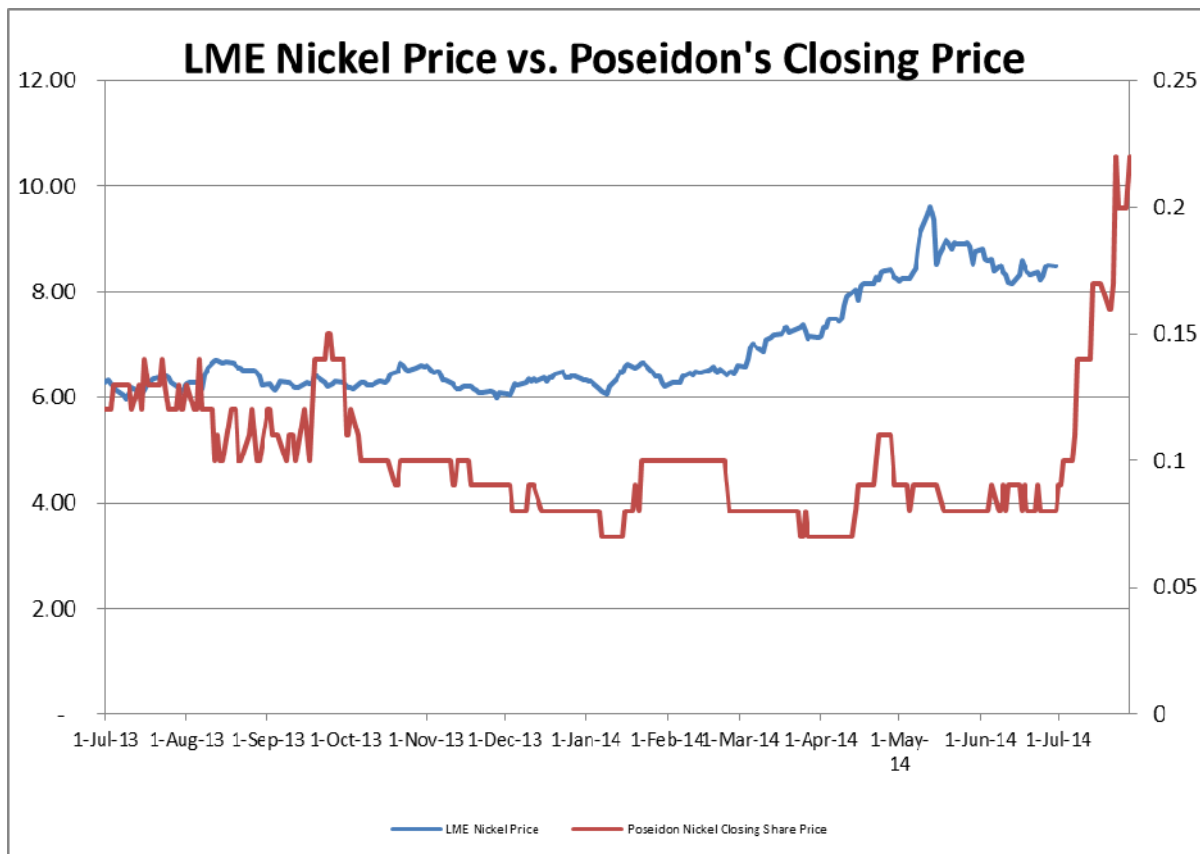


Figure 1: Poseidon share price graph compared to LME Nickel price

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

29 July 2014



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

David Singleton	Managing Director & Chief Executive Officer
Chris Indermaur	Non-Executive Chairman
Geoff Brayshaw	Non-Executive Director
Robert 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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**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 30 June 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, G38/21, L38/121, L39/184, L38/199, L38/218, L39/221	100%
- Windarra South	L38/119, L38/122, L38/220	100%
- Woodline Well	M39/1075, L39/224	100%
- Pool Well	M38/1243, M38/1244, M38/1245, L38/118	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 June 2014 Quarter**

Disposed of E39/1325, E39/1326

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

Nil

**Beneficial Percentage Interests Held in Farm-In or Farm-Out Agreements Acquired or Disposed of during the June 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")

30 June 2014

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration & evaluation	(642)	(4,972)
(b) development	-	-
(c) production	-	-
(d) administration	(876)	(4,037)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	31	104
1.5 Interest and other costs of finance paid	(539)	(1,054)
1.6 Income taxes paid	-	-
1.7 Other - sundry income	-	128
- research & development	-	4,583
<b>Net Operating Cash Flows</b>	<b>(2,026)</b>	<b>(5,248)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(65)	(122)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	1	1
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>(64)</b>	<b>(121)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,090)</b>	<b>(5,369)</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)	(2,090)	(5,369)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	3,736	7,536
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	76
1.17	Repayment of borrowings	(4)	(76)
1.18	Dividends paid	-	-
1.19	Other – share issue costs	(224)	(394)
	<b>Net financing cash flows</b>	<b>3,508</b>	<b>7,142</b>
	<b>Net increase (decrease) in cash held</b>	<b>1,418</b>	<b>1,773</b>
1.20	Cash at beginning of quarter/year to date	2,945	2,590
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>4,363</b>	<b>4,363</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	134
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 9 April 2014, 495,158 ordinary shares were issued at a price of \$0.073727 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 March 2014 quarter. 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

**Financing facilities available**

+ See chapter 19 for defined terms.

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	600
4.2 Development	-
4.3 Production	-
4.4 Administration	1,000
<b>Total</b>	<b>1,600 *</b>

\* In addition, it is estimated that "Interest and other costs of finance" of \$465,000 will also be paid in the next quarter.

### 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	4,355	2,938
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other – Term Deposits	8	7
<b>Total: cash at end of quarter (item 1.22)</b>	<b>4,363</b>	<b>2,945</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	E39/1325, E39/1326	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 <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	513,467,315	513,467,315		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	47,203,158	47,203,158		
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>Unlisted</i>	2,975,000	-	<i>Exercise price</i> \$0.22	<i>Expiry date</i> 31 August 2016
	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 <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

**Compliance statement**

+ See chapter 19 for defined terms.

- 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: 29 July 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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