POSEIDON NICKEL

AUSTRALIA'S NEW NICKEL

POSEIDON NICKEL ANNUAL REPORT 2014


WARNING
IN THE EVENT OF A FIRE
UDR

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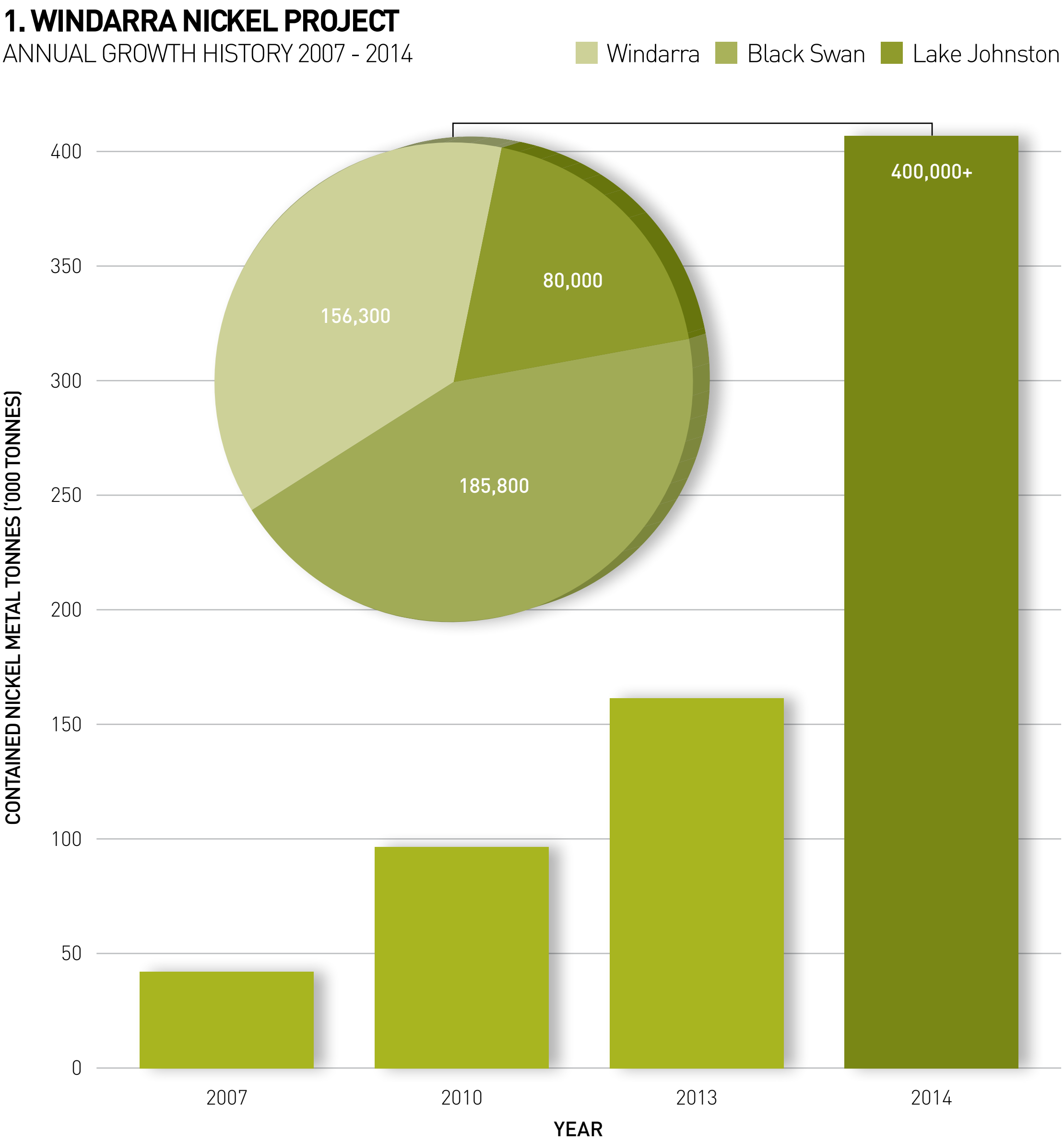
Photography by Craig Kinder (F22) and Poseidon Nickel employees.
Nickel West image on page 6 courtesy of BHP Billiton.

OUR PURCHASE OF LAKE JOHNSTON AND BLACK SWAN GIVES A TREMENDOUS NEW DIMENSION TO OUR COMPANY.



At Poseidon we have never wanted to be just another junior mining company and have always had greater ambitions. Today, I am pleased to report our ambition to become 'Australia's New Nickel' is taking clear and definable shape.

During the Financial year we completed our work at Windarra up to the full Definitive Feasibility Study which was the culmination of six year's tireless work and determination. The delay in developing Windarra, due to nickel price and investment market factors, has been fortuitous, with unexpected superior opportunities arising which we have exploited. The agreement with BHP Nickel West is important in significantly reducing our capital needs and creating certainty to the execution of the project. We look forward to working with BHP Nickel West in the future.

The announcement of our agreement to purchase Lake Johnston and Black Swan gives a tremendous added dimension to our company and has the ability to transform our earnings in the future. Poseidon now has the second largest resource in mainland Australia outside of BHP. The purchase of these assets has advanced our company in a way which would otherwise have taken years. Poseidon is now a nickel company with multiple mines, production plants and income options.

Whilst there is still much to do, I believe that these new projects will come into production in time to take advantage of a strong nickel price. We anticipate the scale and profitability of our operations will reward our shareholders and put the company on a different level of investor appetite.

There is much work to do to bring our three sites into profitable production. The company will be larger and more complex in future. This will require development of the structure, governance, systems and procedures of a larger enterprise. I am confident that our team of high calibre, proven executives is up to this task and will relish it. From a personal perspective I am pleased to have the opportunity to lead this company as its Chairman and I am excited to be able to play an active part in its growth.

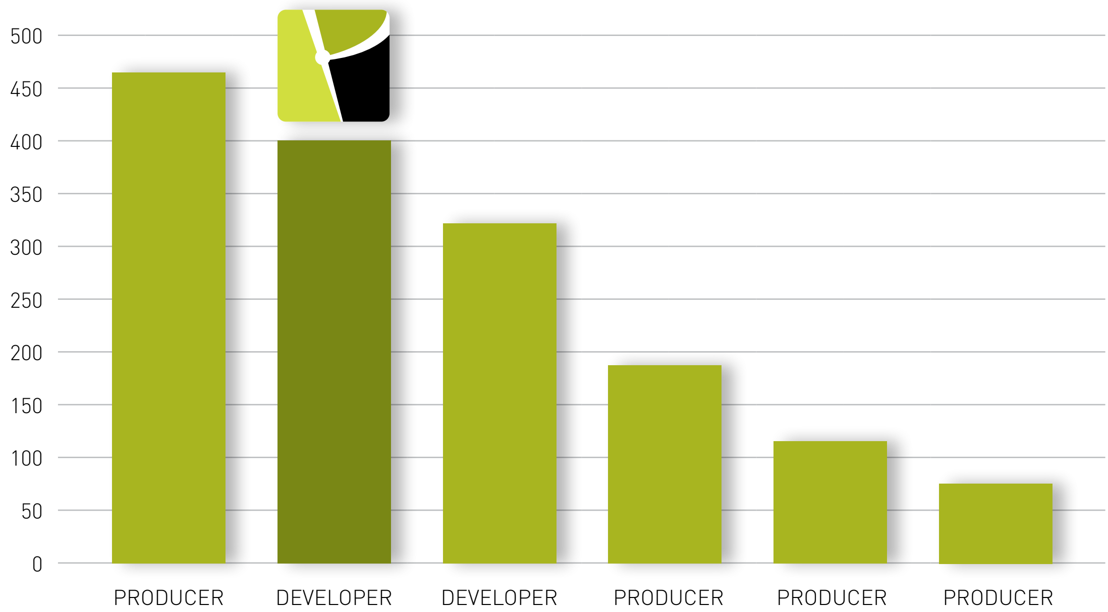
CHRIS INDERMAUR
NON-EXECUTIVE CHAIRMAN

We have built a strong team at Poseidon of high quality people most of whom have been together since the beginning of the project. We want to preserve our culture as our team grows because we know it is a way that works. We have worked to define our culture in a series of value statements and encapsulated that in the "Poseidon way."

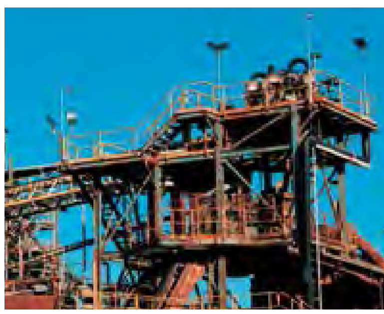
"MT WINDARRA IS A FANTASTIC RESOURCE BLESSED WITH A LOW COST BASE WHICH, WHEN COMBINED WITH THE BLACK SWAN AND LAKE JOHNSTON ACQUISITIONS, WILL SERVE US WELL INTO THE FUTURE."

WHILST LAKE JOHNSTON HAS A SHORTER INITIAL MINE LIFE THAN BLACK SWAN, THE EXPLORATION POTENTIAL AT THE SITE IS ONE OF THE BEST WE HAVE EVER SEEN.

2. PUBLISHED RESOURCES
('000 TONNES NICKEL)



**Australian nickel sulphide producers and developers excluding BHP(B). Data compiled from Deutsche Bank report dated 28.07.2014*



Our Vision has always been to build 'Australia's New Nickel' company and so to be a part of building one of the largest and most diverse nickel sulphide regions in the world.

There has been a dearth of new nickel sulphide producers in Australia since the flurry of new companies that arose from the sale of many Western Mining assets in the early 2000's. The new entrepreneurial miners at that time owe their success in part to unlocking complex resources with new geological understanding and technical tools and they then went on to build valuable and successful companies.

When Poseidon first started the development of Windarra these new but proven capabilities were foremost in our approach. Success came quickly with the discovery of Cerberus, an area that had been diligently explored for over 20 years by Western Mining but without success. Exploration also continued at the existing brownfield mine at Mt Windarra [10kms] north of Cerberus and major extensions to the mine were discovered making the area ready for full development. By June 2013, Poseidon had completed a Definitive Feasibility Study for the Windarra Nickel Project (including Cerberus) which included the construction of a 700,000 tonne per annum concentrator and associated power, water, tailings, accommodation and support facilities. Poseidon announced a $290M development programme to get the two mines into production, supplying concentrates into a hungry smelter market. 2013 however became a materially more difficult year with a general softening in the investment markets for resource developments but particularly for nickel where a sharp decline in nickel prices reduced further the ability to access capital for development.

Underground mining has inherent risks which are obvious and yet the safety record of the industry is very strong. At Poseidon we believe that safety starts at the top and is everyone's responsibility. That's why our values say "Everyone has a voice."

WINDARRA LOW CAPITAL COST DEVELOPMENT

In Poseidon we believe that every cloud has a silver lining and this has indeed been the case. Following the closure of the Perseverance Mine that feeds the Leinster concentrator, in October 2013 we were approached by BHP Billiton Nickel West to supply ore on a toll treatment basis. In early 2014, BHP and Poseidon agreed to develop a proposal to truck ore from Mt Windarra to Leinster and following extensive compatibility testing a contract was signed in October 2014 to do that. With this agreement, not only does Windarra have a clear route to the market but the arrangement has reduced our capital needs by a stunning [$240M] on a like-for-like basis.

"OUR ACQUISITIONS COMPLIMENT THE OBJECTIVE OF QUICKLY GETTING THE MT WINDARRA PROJECT BACK INTO PRODUCTION AT A MUCH LOWER COST AND MORE THAN DOUBLES OUR TOTAL RESOURCE BASE."

DAVID SINGLETON, MANAGING DIRECTOR & CEO

The contract with BHP Nickel West is for an initial period of two years and is constructed around an Ore Tolling, Concentrate Offtake Arrangement (OTCPA). This contract requires Poseidon to deliver ore to Leinster and pay under a tolling arrangement for conversion to a nickel concentrate. BHP then commits to purchase all of the concentrate at an agreed payable percentage of the London Metal Exchange price at the time of delivery. The OTCPA provides for a highly effective and low risk monetisation of the Mt Windarra resource and avoids construction, commissioning and process risk inherent in any new plant. Windarra started the Australian Nickel boom in 1969 and we will be an important part of the next one.

We are conscious that what we do can impact the environment in many ways. We are also clear that we are today's custodians of the land on which we operate and have a duty to pass on these lands to those that follow us in as good a condition as possible.

BLACK SWAN AND LAKE JOHNSTON

Whilst the agreement to acquire the Black Swan and Lake Johnston facilities occurred after the end of the 2013/14 financial year, much of the hard work that led up to the acquisitions went on quietly and unseen in the background during that year.

Black Swan was a pivotal project for Poseidon bringing not only a large resource into the company but also crucially a large modern nickel concentrator plant. The plant at the 2.2 million tonnes per annum of proven throughput is the largest in Australia outside of BHP and has more than enough capacity to process both the local Black Swan ore and the Windarra ore should the OTCPA ever come to an end. The plant was built in 2006/07 but closed shortly afterwards in March 2009 as the world financial crisis hit markets. The owners loss was our gain with what is effectively a two year old plant and an open pit ore resource with more than 10 years of potential mine life. Black Swan will be an important part of our nickel delivery well into the future.

The Lake Johnston project is also a fully integrated mine and concentrator plant which was in production until April 2013. Our analysis indicates that the mine was no longer highly profitable at a then prevailing nickel price of under US$8 per pound but fits the strategy of its owner. Whilst Lake Johnston has a shorter initial mine life than Black Swan, the exploration potential at the site is one of the best we have ever seen in numerous projects reviewed by Poseidon and we are eager to commence work on extending the project's mine life well into the future.

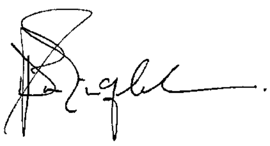
THE FUTURE

Our Mission now is to get all three of these projects back into production quickly and efficiently. We are beginning to build our capacity to manage these projects and execute them brilliantly. Developing projects is one thing, bringing them into operation requires us to bring new team members on board to share our culture of innovation, determination and demonstrating an absolute focus on delivery. Western Australia has many of these people and we are fortunate that we will be able to bring some of them to these projects.

In all this focus on developing a substantial production capability we will never forget our core responsibilities to our people, the community and the land that we as a nation have inherited. In our operations to date we have had a good safety record but that has not happened without daily focus on the subject. We don't believe that safety comes simply from procedures but more so from our culture and how that is driven through our organisation. That culture starts from me as the CEO but is championed by the people that we work with. Our peers in the West Australian mining industry stand tall in their determination to ensure that our people are safe and we will measure ourselves against their high standards.

This focus on people extends to our community and environment. We understand our obligations but more than that we want to add something as we work in the region. We never forget that the environment is shared by all of us, that we are a part of the community and that all of us are neighbours in this great country.

Finally, I would like to recognise my colleagues both on the Board and in the operational team. We have been through much over the last seven years and have enjoyed the highs and lows together. About 2013, it could be said this has been the worst of years but it has also been the best of years. We look forward to the next 12 months with relish and deep anticipation.



DAVID SINGLETON
MANAGING DIRECTOR & CEO

We recognise that we operate in a high cost environment but compete in a competitive global industry. We have always believed that productivity enabled by good management, training and by the application of technology, we can redress this position.

THROUGHOUT THE YEAR WE CONTINUED TO GROW OUR THREE NICKEL PROVINCES AS WE TRANSITION INTO 'AUSTRALIA'S NEW NICKEL'.

This year has been a transformative year for our company. Based on our regional exploration success around Windarra and with the purchase of two significant nickel sulphide concentrators in highly prospective regions of Western Australia, Poseidon Nickel is poised to become 'Australia's New Nickel'.

Last year Poseidon Nickel achieved a zero lost time plus medical treated injury frequency rate (LTMTIFR) and recorded zero environmental incidents at its fully owned Windarra nickel mine site a very pleasing result and a credit to our people and consistent with our safety culture and objectives.

Since dewatering and refurbishment started at Windarra there have been zero lost time injuries an outstanding result for an underground operation. Safety of our people is a key focus for our company and the results confirm the commitment of our staff and contractors to our safety policy "we are safe" at our operations.

Poseidon Nickel is also focussed on minimising its environmental footprint. We completed a flora and fauna study on our tenements. Our licence to operate includes soil sampling, water monitoring and regular analysis of water abstracted from the mine and local aquifer. Our commitment to the environment is demonstrated by our achievement of zero environmental incidents that recorded for the last 12 months.

As part of our Definitive Feasibility Study (DFS) we completed a heritage study on our tenements. The three areas logged had previously been recorded and suitably protected from possible disturbance.

We remain committed to supporting the local community. During the year we attended the local Shire Council Chambers in Laverton and warmly greeted the Honourable Minister for Mines Mr Bill Marmion. Poseidon updated the council on its previous achievements and future strategy for the Windarra nickel project.

At the start of this year we completed the final DFS for the Windarra Nickel Project for a fully integrated nickel sulphide concentrator, gold plant and associated infrastructure an important milestone in the history of our company as we looked to restart Windarra and bring Cerberus on line with an associated output of over 100,000 tonnes of nickel concentrate for 10,000 tonnes of contained nickel. Unfortunately nickel pricing softened during the year making the capital raising required to support the new facility at Windarra difficult to secure.

One of our values is "Imagination to find Solutions." By being innovative in our approach, we have been able to overcome barriers and constantly improve. We apply the most modern geological techniques and understanding to our exploration activities which has allowed us to constantly grow our resource base.

WINDARRA MOVING CLOSER TO PRODUCTION

The focus for Windarra during the year was to secure a path to market for ore mined at Windarra. Negotiations with third parties for the toll treatment of Windarra ore progressed. Our company has now entered into a toll treatment agreement for ore mined at Windarra. This was considered at length by the management team as a low risk path to market for our ore when compared to the construction, commissioning and ramp up of a new nickel sulphide concentrator at Windarra.

THREE NICKEL PROVINCE

During the year we installed underground dewatering pump stations to support mine dewatering, refurbishment and minor works at Windarra. The existing infrastructure and investment at Windarra to date will largely support a restart of the operations however working capital and some minor infrastructure requirements will be required to support the ongoing mining activities planned for Windarra in the year ahead.

During the year a number of strategic assets were also targeted by Poseidon for acquisition. We were pleased to announce our successful acquisition of two significant nickel sulphide concentrators located in highly prospective nickel regions in Western Australia with the capacity to deliver over 150,000 tonnes of nickel concentrate into the market per annum.

Black Swan has a seven year mine life without a cut back of the open pit. The forecast production cost at Black Swan as confirmed in our engineering study of the Black Swan restart completed by Simulus and GR Engineering was in the second quartile. Golder completed a JORC 2012 compliant resource estimate that is tabled (on page 14, overleaf).

"OUR PEOPLE ARE OUR STRENGTH AS THEY SUPPORT OUR TRANSITION INTO 'AUSTRALIA'S NEW NICKEL'."

MICHAEL RODRIGUEZ, CHIEF OPERATING OFFICER

ORE RESERVE STATEMENT

Windarra Nickel Sulphides	Ore Reserve Category (JORC 2004)		
	Probable		
	Tonnes	Ni% Grade	Ni Metal t
Cerberus	1,221,000	1.3	16,000
Mt Windarra	498,000	1.78	9,000
Total	**1,719,000**	**1.44**	**25,000**

Table 1: Windarra Nickel Project Ore Reserve Statement

MINERAL RESOURCE STATEMENT

Windarra Nickel Project Sulphides	Cut Off Grade	Mineral Resource Category (JORC 2004)								
		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	17,000	3,553,000	1.78	63,000	4,770,000	1.68	80,000
South Windarra	0.80%	772,000	0.98	8,000	-	-	-	772,000	0.98	8,000
Cerberus	0.75%	2,773,000	1.25	35,000	1,778,000	1.91	34,000	4,551,000	1.51	69,000
Total Sulphide		**4,762,000**	**1.24**	**60,000**	**5,331,000**	**1.82**	**97,000**	**10,093,000**	**1.55**	**157,000**

Black Swan Nickel Project Sulphides	Cut Off Grade	Mineral Resource Category (JORC 2012)								
		Measured & Indicated			Inferred			TOTAL		
		Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Black Swan	0.40%	9,600,000	0.68	64,900	21,100,000	0.54	113,800	30,700,000	0.58	178,700
Total Black Swan		9,600,000	0.68	64,900	21,100,000	0.54	113,800	30,700,000	0.58	178,700

Table 2: Windarra and Black Swan Nickel Project Mineral Resource Statement

Windarra Gold Tailings Project	Mineral Resource Category (JORC 2004)		
	Indicated		
	Tonnes (kt)	Grade (g/t)	Au (oz)
Total Gold Tailings	**11,000**	**0.52**	**183,000**

Table 3: Windarra Gold Tailings Project Mineral Resource Statement

Competent Person Statement

The information in this report which relates to the Black Swan Mineral Resource is based on information compiled by Andrew Weeks who is a full-time employee of Golder Associates Pty Ltd, and Member of the Australasian Institute of Mining and Metallurgy. Andrew Weeks has sufficient relevant experience to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2012).

The information in this report that relates to the Windarra Nickel Project, Mineral Resources is based on information compiled by Mr N Hutchison, General Manager of Geology at Poseidon Nickel Limited, 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 at the Windarra Nickel Project 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.

Mineral Resources in this document are reported under JORC 2004 Guidelines as there has been no Material Change or Re-estimation of the Mineral Resource since the introduction of the JORC 2012 Codes. Future estimations will be completed to JORC 2012 Guidelines.

The Australian Securities Exchange has not reviewed and does not accept responsibility for the accuracy or adequacy of this release.

Black Swan is located approximately 55kms north of Kalgoorlie a large regional mining centre in Western Australia. The Black Swan plant is a 2.2MTPA nickel sulphide concentrator which went through a $70M expansion in 2007. The concentrator has a single stage jaw crusher and a SAG/Ball mill combination with a pebble crusher. The flowsheet includes flash flotation and a standard downstream flotation circuit. Three filters are available to recover a quality smeltable concentrate. The infrastructure required for the concentrator is in good standing. Power is supplied from the local grid and the workforce for the concentrator will be sourced locally from Kalgoorlie on a drive-in, drive-out basis.

Innovation has saved us time and money. This portable XRF analyser is able to give us critical insights into rock mineralogy in real time rather than in weeks previously. We can now constantly adjust our drilling programmes using fast feedback even as a hole is being drilled.

Our most recent acquisition at Lake Johnson was secured following a detailed due diligence process by our experienced management team. Lake Johnson was shutdown in 2013 following an investment by the previous owners of approximately $15M in refurbishment costs in 2011. The operation ran for less than two years prior to being shutdown.

Lake Johnson is located approximately 330km south west of Kalgoorlie. The Lake Johnson plant is a 1.5MTPA nickel sulphide concentrator. LionOre completed an expansion in 2005. The concentrator has a three stage crushing circuit followed by a single 4.8MW ball mill in closed circuit. The flowsheet includes flash flotation and a standard downstream flotation circuit. Two Larox filters are available to recover a concentrate. A local island power plant supplies the power required for the concentrator. A 180 person village is located a short distance from the mine site with modern recreational facilities. Lake Johnson has historically produced a quality concentrate free of deleterious elements. The workforce for the Lake Johnson concentrator will be sourced locally.

EFFICIENCY GAINS THROUGH INNOVATION

Innovation, research and development are essential pillars for our company. It is through a focus on continuous improvement that Poseidon has secured multiple patents that will be applied at the three nickel provinces. Our commitment to innovation will allow Poseidon to keep downward pressure on costs as efficiency dividends are achieved well into the future operations.

Our people are our strength, during the year we continued to grow our management team to support our transition into a major nickel producer in Western Australia. Our learnings from previous operations and more recently Windarra have placed us in a sound position to develop, manage and operate the three nickel provinces.

THIS IS AN EXCITING TIME FOR POSEIDON AS THE COMPANY HAS INCREASED ITS RESOURCE BASE THREE FOLD TO ~400KT OF NICKEL.

Due to the economic climate over the last 12 months there were financial limitations to undertaking exploration drilling. Instead the focus was shifted to completing the resource upgrades at Mt Windarra and undertaking geological studies of the rock samples that were collected for metallurgical flotation test work. Core samples from the existing drilling of the Windarra ore was supplied to BHPB-Leinster Nickel Operations for metallurgical test work in order to secure the Mt Windarra toll treatment agreement.

In addition the Geology Team was heavily involved in the due diligence process including numerous site visits, which lead to the acquisition of the Black Swan and Lake Johnson Projects. This is an exciting time for Poseidon as the company has increased its resource base three fold to ~400kt of nickel and increased our tenure holdings over four fold to 630km^2 covering the three projects, all within 300km radius of Kalgoorlie. We can now build dedicated Mine Geology Teams that can focus on the details of each of the mine sites, as well as an Exploration Group that can rotate between sites ensuring a continuous progression of exploration programs on each if the projects.

The aim is to evaluate and drill near mine resources and progress them into reserves in order to extend mine life at the existing mine sites. In addition the Exploration Team will evaluate the historical data, identify targets and opportunities, whilst harnessing new technology/geological ideas so as to increase the exploration success process.

WINDARRA NICKEL PROJECT

This past year has been a year of consolidation, pulling together the solid work completed during the resource drill out of the Windarra underground mineralisation. In 2012/2013 the geology team drilled over 15km of underground diamond drill holes into the nickel mineralisation at Windarra resulting in a significant resource upgrade in 2013. Following the resource upgrade, the drilling continued whilst engineering and mining studies evaluated the resource data and converted the resource into the company's first JORC compliant reserves.

Not only did the Geology Team increase the grade and width of the remnant mineralisation left behind at the closure of the mine in the 1990's, but they also discovered two new mineralised nickel shoots. The high grade H Shoot was discovered in the upper sections of the mine as well as the discovery of the larger extension of F Shoot below the development workings. F Shoot was originally discovered when WMC drove the mine decline through a narrow nickel bearing structure lower down in the mine. Limited drilling was completed by WMC and due to its perceived location and narrow nature, it was left alone.

We currently use standard configuration drilling systems both on the surface and underground but have been experimenting with the Wasarra drill system which offers the promise of faster drill times and lower costs.

During Poseidon's underground drilling campaign the geologist discovered that F Shoot extended below the working becoming broader, thicker and higher grade. The additional drilling data has now been added to the resource model and the mineralised shells have been readjusted to include all of the drilling data. This has been used to build a JORC 2012 compliant resource for the Windarra Nickel Project which is currently being finalised. More mineralisation has been converted to the Indicated Resource category which will result in a new reserve estimate and mine schedule being produced for the Windarra Nickel Project.

In addition to the successful expansion and discovery of new resources at the Windarra mine, the geology team has the Cerberus Deposit discovery to advance. The deposit was discovered in 2008 and was rapidly explored and developed into a JORC compliant resource. Reserve estimation and mine scheduling has previously been completed delivering a five year mining operation from the upper portion of Cerberus. With further infill drilling of the already defined Inferred category, mineralisation studies have shown that Cerberus can potentially deliver an additional five years of nickel mining to the project once mineralisation below the current mining reserve is converted to Indicated Resource category.

There is potential for expansion and discovery of new mineralisation within the Cerberus Project area, including the Magma JV ground to the south of Cerberus.

BLACK SWAN AND LAKE JOHNSON ACQUISITIONS

With the success our geologists have had to date at the Windarra Nickel Project, the Geology Team is extremely excited about the recent Black Swan and Lake Johnson acquisitions from Norilsk Nickel. The two new projects have large tenement holdings covering vast sequences of nickel hosting

"THE GEOLOGY TEAM INCREASED THE GRADE AND WIDTH OF THE REMNANT MINERALISATION AND ALSO DISCOVERED TWO NEW MINERALISED NICKEL SHOOTS."

NEIL HUTCHISON, GENERAL MANAGER - GEOLOGY

ultramafics. Whilst both operations have undergone significant quality exploration resulting in mine discoveries during their operational histories; new technology, software, geophysical/geochemical techniques and evolving geological ideas are now available to potentially extend existing mineralisation or to define new targets.

Due to fluctuating nickel prices since the Global Financial Crisis (GFC) both operations have experienced pressure from declining nickel prices resulting in several shut downs and restarts of the mining operations. This has had an effect on resource/reserve drilling, mine planning, mine production schedules and ongoing exploration expenditure. It is evident that improvement can be made to the grade control, mine planning and mining operations of both Black Swan and Lake Johnson operations following a campaign of in-mine drilling to exploit near mine opportunities prior to the recommencement of mining.

Evaluation of the existing drilling data is currently being undertaken using modern specialised software which will highlight favorable areas that require infill drilling and identify trends in the mineralisation which may have been overlooked to date due the financial/production pressures.

Poseidon's geologists are currently reviewing and rebuilding the drilling data sets, geological models and mine models for both operations. Poseidon's Geology Team likes to look at things through a new set of eyes and inject their own ideas and interpretations into all of the projects they look at.

Poseidon's exploration success to date is corner-stoned by our geologist's ability to evaluate opportunities independently, come up with new geological models/ideas and have the confidence to test them. Most of the near-surface mineralisation has been found by the previous owners. We now have to look smarter, deeper and for blind deposits within and under structurally complex zones which have had limited exploration undertaken on them to date. There is no such thing as a failed hole in the Poseidon Geology Team, it's another piece of information to assist in the interpretation and definition of our geological models and exploration targets.

These acquisitions along with the company's flagship Windarra Nickel Project, puts Poseidon in a prime position to be 'Australia's New Nickel'.

Massive nickel bearing sulphide underground at Lake Johnson in a pyrrhotite-pyrite-pentlandite ore. Recent drilling has identified some of the highest grades and widths of ore ever seen at Windarra.

FOCUS.

CHRIS INDERMAUR NON-EXECUTIVE CHAIRMAN

Chris Indermaur (far left) has over 30 years of experience in large Australian companies in Engineering or Commercial roles. Amongst these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Ltd. Chris holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). Chris also holds a Bachelor of Laws and a Master of Laws from the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University. Chris rejoined the Poseidon Board in April 2009 and was appointed Chairman of the Board in February 2014.

ROBERT DENNIS NON-EXECUTIVE DIRECTOR

Rob Dennis (centre left) is a mining engineer with over 40 years' experience in the nickel, copper, gold and alumina industries. In his former role as COO Adita Birla Minerals Ltd he managed the expansion and development of the Nifty Copper Project in the North West of Western Australia and the Mt Gordon operation in North Queensland. Prior to that, he held positions including General Manager Project Development for Lionore Australia, General Manager Operations for Great Central Mines and Chief Mining Engineer for Western Mining Corporation. During his time with Western Mining Corporation, Rob worked at the Windarra Nickel Project as underground mine manager from 1980-1986. Rob joined Poseidon Nickel in June 2007 as Chief Operating Officer and was appointed a Director of the Poseidon Board in February 2014.

DAVID SINGLETON CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

David Singleton (centre right) became the CEO & MD of Poseidon Nickel in July 2007. David was the Chief Executive Officer and Managing Director of Clough Limited between August 2003 and January 2007. Prior to joining Clough, he was the Group Head of Strategy, Mergers and Acquisitions for BAE Systems (formally British Aerospace) based in London. Mr Singleton spent three successful years as the Chief Executive Officer of Alenia Marconi Systems and was based in Rome, Italy.
Mr Singleton has served as a member of the National Defence Industries Council in the UK, and as a board member and Vice-President of Defence for Intellect. He is a non-executive Director of Austal Ships based in Perth WA, a non-executive Director of Quickstep Holdings, which is a technology based carbon fibre manufacturer to the Defence and Aerospace industry. Mr Singleton has international business experience in senior executive roles in Europe, USA and Australia.
Mr. Singleton has a degree in Mechanical Engineering from University College London.

GEOFF BRAYSHAW NON-EXECUTIVE DIRECTOR

Geoff Brayshaw (far right) had over 35 years' experience as a Chartered Accountant in public practice before retiring from practice in June 2005. He practiced primarily in audit and assurance, other areas of practice being corporate finance and litigation support. He gained wide experience in corporate and financial accounting for the exploration and mining industry, including iron ore and nickel. Geoff is a Fellow of the Institute of Chartered Accountants in Australia, and an associate member of the AICD. He was National President of the ICAA in 2002. Until recently he was a Non-executive Director and Chairman of the audit committee of both Fortescue Metals Group Limited and AVEA Insurance Limited and is a former member of the Board of the Western Australian Small Business Development Corporation. Geoff has served on the Poseidon Board since February 2008.

DELIVERY.

MICHAEL RODRIGUEZ CHIEF OPERATING OFFICER

Michael (far left) is a Metallurgical Engineer with over 30 years experience in the Mining and Minerals Processing Industry. During his career he has worked at several major facilities throughout Australia including GoldCorp, Olympic Dam Operations, Kwinana Nickel Refinery and Murrin Murrin Operations. In operations he has been involved in commissioning and ramp up of complex hydrometallurgical and pyrometallurgical plants, similarly in design and construction he has a strong background in the mineral processing and hydrometallurgical and chemical plants. As the inventor and author of a number of Australian and overseas patents and widely published technical papers Michael is well known in the industry. During his tenure at Western Mining Corporation (WMC) he gained extensive knowledge of the mining, concentrating, smelting and refining of uranium, gold, silver, copper and nickel sulphides gaining broad experience in the commercialisation of disseminated and massive copper and nickel sulphides. Whilst at Murrin Murrin Operations Michael held senior positions as Operations Manager, Projects Manager, Technical Services Manager and Corporate Strategic Development Manager reporting to the CEO. He managed over 160 staff and contractors with a budget in excess of AUS$150 million with responsibility as the alternate site registered manager during construction, commissioning, ramp up and through to steady state operation.

GARETH JONES CHIEF FINANCIAL OFFICER

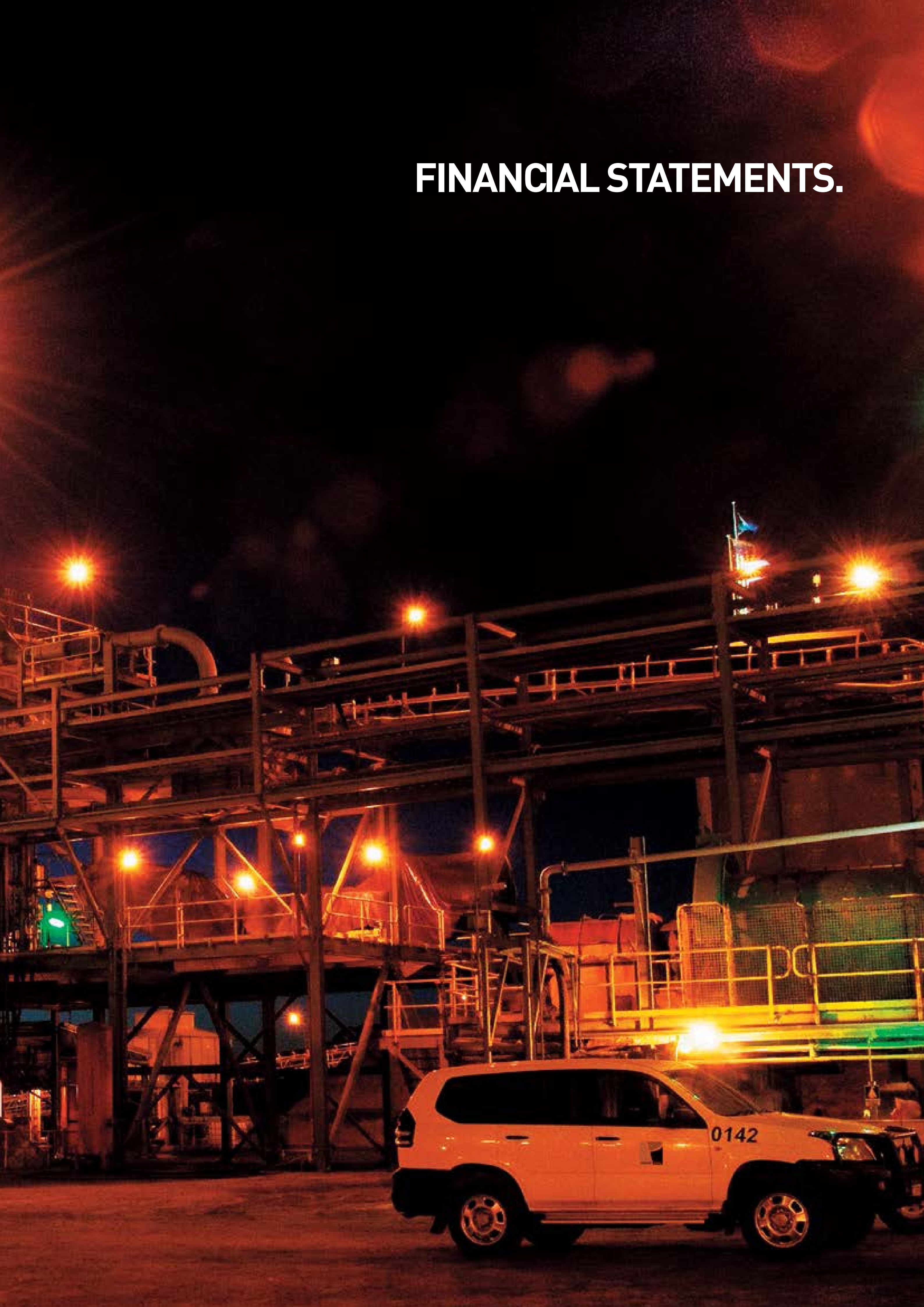
Gareth Jones (centre left) joined Poseidon Nickel in June 2007 as Financial Controller. Gareth has over 25 years experience in accounting and commercial roles and specialises in business performance and project management. He has held a variety of senior commercial and management positions, including Head of Commercial for British Gas Business in the UK and Commercial Manager at Vodafone UK. Gareth is a Fellow of the Association of Chartered Certified Accountants and has an MBA from the University of Warwick.

DAVID SINGLETON (Centre right.) Please refer to the previous page.

NEIL HUTCHISON GENERAL MANAGER, GEOLOGY

Neil Hutchison (far right) is the General Manager of Geology at Poseidon Nickel and was formerly the Exploration Superintendent at the Cosmos Nickel Project with Jubilee Mines. He has over 20 years of experience in the resource/mining industry, working throughout Australia and overseas. He graduated from the University of Southern Queensland with First Class Honours in Geology. Neil has a proven track record of discovery and delineation of ore deposits over his career, and has the ability to successfully progress them through to mining. During his time at Jubilee Mines, Neil developed a solid understanding of the nickel and ultramafic forming processes as well as the associated modern exploration techniques required to explore for nickel in Kambalda style ultramafic systems. Neil joined Poseidon Nickel in 2007, and along with his geology team has since developed the company's resource and reserve base at Mt Windarra. In addition the team made a significant greenfields nickel discovery only 12 months after Neil joined the Company by utilising the skills he developed at Jubilee Mines. The Cerberus Deposit was the first discovery within the Windarra Belt since 1971 and the resource currently contains 68,600 tonnes of nickel metal. A Probable Ore Reserve containing 25,000 tonnes of nickel metal has been estimated by Neil and his geology team at the Windarra Nickel Project, which will continue to grow through underground drilling at Mt Windarra and Cerberus. Neil is a Non-Executive Director of Mining Projects Group), an ASX listed exploration company.

FINANCIAL STATEMENTS.



DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2014

The directors present their report together with the financial statements of Poseidon Nickel Limited ("the Company") and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2014 and the auditor's report thereon.

Contents of Directors' report **Page**

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Mr Christopher Indermaur **Chairman & Independent Non-Executive Director** *Member of:* • Audit & Risk Management Committee *Chairman of:* • Remuneration, Nomination & Diversity Committee • Corporate Governance Committee Appointed 2 July 2007 Resigned 30 September 2008 Re-appointed 2 April 2009	Mr Indermaur has over 30 years of experience in large Australian companies in Engineering or Commercial roles. Amongst these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Ltd. Mr Indermaur holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). Chris also holds a Bachelor of Laws and a Master of Laws from the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University.
Mr Geoff Brayshaw **Independent Non-Executive Director** *Member of:* • Remuneration, Nomination & Diversity Committee • Corporate Governance Committee *Chairman of:* • Audit & Risk Management Committee Appointed 1 February 2008	Mr Brayshaw was formerly an audit partner with a major accounting firm in Perth, having been in practice for some 35 years. He has also held a number of positions in commerce and professional bodies including national president of the Institute of Chartered Accountants of Australia in 2002. He was until recently an independent director and audit committee chairman of both Fortescue Metals Group Limited and AVEA Insurance Limited. He was previously a member of the board of the Small Business Development Corporation.

1. Directors (cont.)

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Mr David Singleton **Managing Director & Chief Executive Officer** *Member of:* • Corporate Governance Committee Appointed 1 February 2008	Mr Singleton was the Chief Executive Officer and Managing Director of Clough Limited between August 2003 and January 2007. Prior to joining Clough, he was the Group Head of Strategy, Mergers and Acquisitions for BAE Systems (formally British Aerospace) based in London. Mr Singleton spent three successful years as the Chief Executive Officer of Alenia Marconi Systems and was based in Rome, Italy. Mr Singleton has served as a member of the National Defence Industries Council in the UK, and as a board member and Vice-President of Defence for Intellect. He is a non-executive Director of Austal Ships based in Perth WA, a non-executive Director of Quickstep Holdings, which is a technology based carbon fibre manufacturer to the Defence and Aerospace industry, Deputy Chair of Council to Methodist Ladies College in Perth and was formerly a non-executive director of Triton Gold Ltd. Mr Singleton has international business experience in senior executive roles in Europe, USA and Australia. Mr Singleton has a degree in Mechanical Engineering from University College London. Mr Singleton was appointed as Chief Executive Officer on 2 July 2007.
Robert Dennis **Independent Non-Executive Director** Appointed 24 February 2014	Mr Dennis is a mining engineer with over 40 years' experience in the nickel, copper, gold and alumina industries and was the Chief Operating Officer at Poseidon Nickel between June 2007 and December 2013 before joining Sirius Resources as COO. Prior to this, Mr Dennis was COO at Adita Birla Minerals Ltd where he managed the expansion and development of the Nifty Copper Project in the North West of Western Australia and the Mt Gordon operation in North Queensland. Prior to that, he held positions including General Manager Project Development for Lionore Australia, General Manager Operations for Great Central Mines and Chief Mining Engineer for Western Mining Corporation. During his time with Western Mining Corporation, Mr Dennis worked at the Windarra Nickel Project as Underground Mine Manager from 1980-1986.
Non-Executive Director Resignations	
Mr Herbert (Bud) Scruggs	Resigned 24 February 2014
Mr Richard Monti	Resigned 28 September 2013
Mr Andrew Forrest	Resigned 27 September 2013

2. Company Secretary

Mr Ross Kestel is a Chartered Accountant and a former director of the accounting practice Nissen Kestel Harford from July 1980 until April 2010.

Mr Kestel has acted as a director and company secretary of a number of public companies involved in mineral exploration, mining, mine services, property development, manufacturing and technology industries. Mr Kestel is a member of the Australian Institute of Company Directors.

3. Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

DIRECTOR	BOARD MEETINGS		AUDIT AND RISK MANAGEMENT COMMITTEE MEETINGS		REMUNERATION, NOMINATION AND DIVERSITY COMMITTEE MEETINGS		CORPORATE GOVERNANCE COMMITTEE MEETINGS**	
	A	B	A	B	A	B	A	B
Mr C Indermaur	8	8	4	4	4	4	2	2
Mr G Brayshaw	8	8	4	4	4	4	2	2
Mr R Dennis	3	3	2	2	2	2	-	-
Mr D Singleton	8	8	-*	-*	-*	-*	2	2
Mr R Monti	1	1	1	1	1	1	1	1
Mr A Forrest	1	0	-	-	-	-	-	-
Mr H Scruggs	4	4	-	-	-	-	-	-

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year

* - The above table is for committee members only however, the MD/CEO has attended these meetings by invite

** - The Corporate Governance committee was incorporated into the Board meeting from November 2013

4. Principal Activities

It is the intent of the directors that the principal activities of the Company shall be that of exploration, mining and production of Nickel and other minerals.

5. Consolidated Results

The consolidated loss for the entity for the year ended 30 June 2014, after income tax is $5,837,000 (2013: loss of $13,382,000).

6. Operating and Financial Review

Company Strategy

The Company's near term strategy is to restart the Windarra Nickel Project and to build 'Australia's New Nickel' company. Following the completion of the Definitive Feasibility Study ("DFS") in early 2013 and the changing nickel and investment market conditions that emerged through mid-2013, the Company has taken several strategic steps to realise that vision through removing the capital funding risk with the acquisition of the Black Swan and Lake Johnson assets, purchased from OJSC MMC Norilsk Nickel. This strategy has not only developed depth to the Company but through ongoing discussions regarding an offtake agreement with a major party, will provide a clear route to market.

A number of detailed studies that will support the restart of these operations are currently being completed. These studies have already confirmed a significant reduction to the capital requirement for restarting operations at Black Swan as compared to the original DFS requirement. The studies will be completed over the coming weeks and will inform and assist the Company in determining the optimal approach to be taken to restarting the assets and how and when to integrate ore from Mt Windarra mine into the Black Swan concentrator.

6. Operating and Financial Review (cont.)

Projects - Black Swan

The Company has agreed to purchase Black Swan in order to access the nickel flotation concentrator on the site and thereby avoiding building a new facility at Mt Windarra with an estimated saving of $240m for the project. The Black Swan concentrator expansion was commissioned in 2006 but only operated until February 2009 when it was put on care and maintenance when commodity prices were negatively impacted by the Global Financial Crisis. The concentrator is in good condition with an independently estimated restart capital cost of circa $9.4 million.

In addition to the plant, the site includes a large, low grade, high volume, open pit nickel sulphide ore body which can be used to supplement higher grade ore from the Mt Windarra mine. The operating plan is based on a total initial concentrator throughput of 1.1 million tonnes of nickel ore compromising 600,000 tonnes from Mt Windarra and a further 500,000 tonnes from the Black Swan open pit. Through the studies undertaken to date, this level of throughput has been selected to reduce the upfront capital cost of the operation utilising approximately 50% of design capacity of the concentrator that has a proven throughput of 2.15 million tonnes of ore per annum. Plant throughout and nickel production can be increased by adding ore from the Cerberus nickel deposit and increasing mining rates at the Black Swan open pit.

The concentrator at Black Swan was built to enable an increase in processing capacity for the Silver Swan underground mine and the Black Swan open pit mine and successfully operated for over 24 months demonstrating both its design capacity and reliability in operation. The plant was designed by Lycopodium who managed construction activities undertaken by Roche Mining and GR Engineering senior staff that were part of the construction team (see Figure 1 Process Flow Diagram).

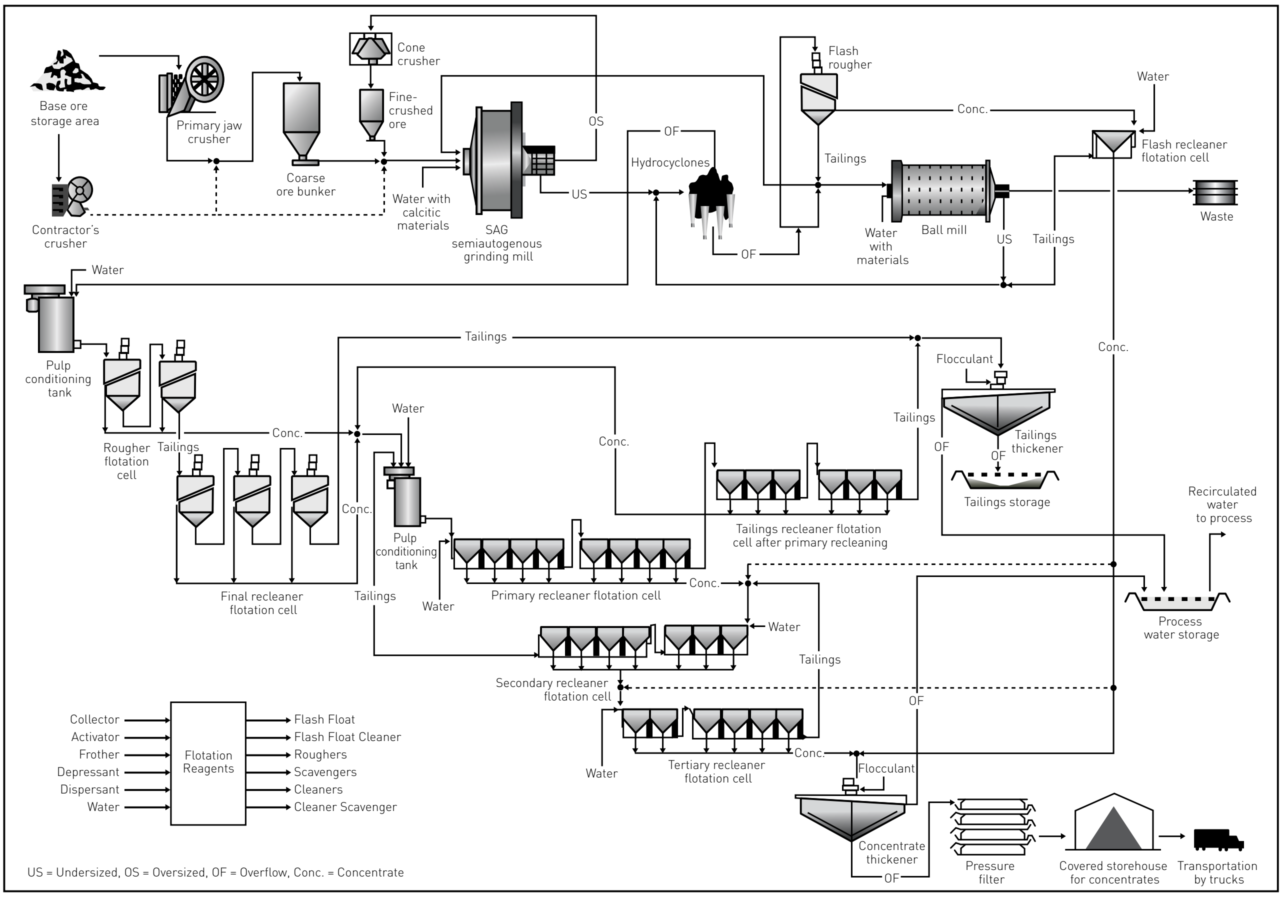


Figure 1: Black Swan overall process flow diagram

The plant design is ideally suited to processing Windarra style nickel ore as well as Black Swan Ore which has been confirmed by the work completed to date. The process plant is shown in figures 2-5 below and comprises of the following major components:

- Single stage jaw crushing circuit (1);
- Two stage grinding through a 4.8MW SAG mill in a closed circuit with 185kW Terex gyracone pebble crusher and a 5.5MW ball mill (2);
- Multi stage flotation circuit (3);
- Concentrate and tailings thickeners (4);
- Ceramic disc concentrate filters as well as concentrate storage and load out facilities;
- Power from the main grid via two separate sub stations;
- Single cell tailings storage facility with an estimated capacity of approximately 4 years before an additional wall lift is required; and
- Water from the Black Swan borefield, Federal pit and mine ingress water.

The plant was designed to have the option to only use the SAG mill for operations which fits with the initial operating plans of a 1.1m tonnes of throughput. The float cells can be reconfigured to the initial operating throughput and progressively brought back into operation as throughput is increased beyond that envisaged in the study.

GR Engineering has produced a detailed estimate of costs to refurbish the plant suitable for operations. This cost estimate was reviewed in line with the initial operating requirements and provided an estimated plant refurbishment cost of circa $9.4m (including infrastructure).

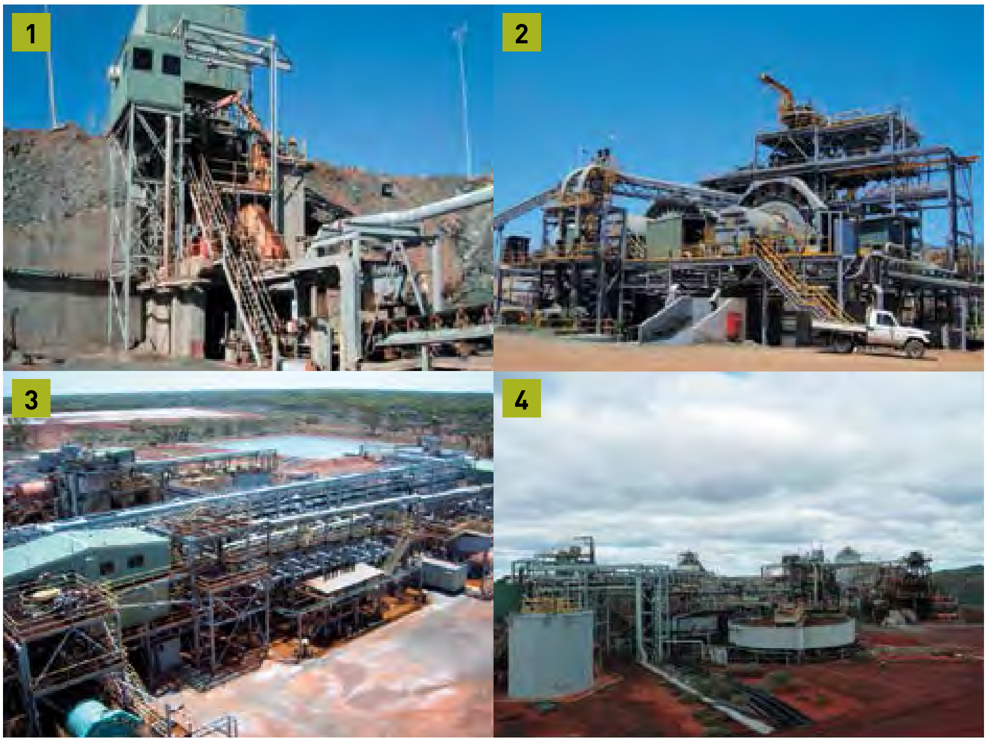


Figure 2: Black Swan Snapshot

1. Primary crushing circuit
2. Grinding circuit
3. Flotation circuit
4. Concentrator thickener

6. Operating and Financial Review (cont.)

Projects - Lake Johnson

The Company has also agreed to purchase Lake Johnston which includes the Maggie Hays underground mine and a 1.5 million tonne per annum concentrator plant. The process plant and mine were placed on care and maintenance in April 2013 and have been maintained to a high standard and are in an operational ready condition.

Poseidon is currently evaluating the restart of Lake Johnston with a view to bringing it back into production shortly after contract completion. The project has historically produced over 12,000 tonnes nickel per annum in a good quality smeltable concentrate.

Lake Johnston is located approximately 440km east of Perth and 117km west of Norseman, Western Australia. The site is accessed by the Hyden-Norseman road with access to project tenements via dirt tracks and gridlines. Operations at Lake Johnston are managed on a fly-in/fly-out basis ("FIFO"). Flights to and from site were most recently operated out of Perth, landing at the Project's air strip located at Lake Johnston.

Infrastructure associated with Lake Johnston includes:

- Maggie Hays boxcut, portals and decline and Emily Ann boxcut, portals and decline;
- Haul roads and site access roads;
- Maggie Hays Run of Mine ("ROM") pad and waste dump and Emily Ann ROM pad and waste dump;
- Crushing, screening and grinding plant;
- Concentrate production plant;
- Concentrate storage shed and weighbridge;
- Concrete production and storage infrastructure;
- Fill Plant;
- Dewatering and potable/process water bore network, including Lake Hope North discharge and settling ponds;
- Windy Hill Camp - 140 person camp (approximately seven kilometres South of Emily Ann Mine);
- Contractor managed five MW diesel generating power station;
- Office, workshops and associated support facilities;
- Two paddock tailings storage facilities (TSF1 & 2);
- Three operational production bores;
- Airstrip;
- Two rising mains collecting water from underground sumps;
- Reverse osmosis plants;
- Process water ponds; and
- A package sewage treatment plant and adjoining evaporation ponds.

Rapallo has been engaged to produce a detailed estimate of costs to refurbish the plant suitable for operations.

Figure 3: Lake Johnson Snapshot

1. 3-stage crushing circuit
2. Primary mill and concentrate storage shed
3. Concentrate regrind circuit
4. Maggie Hays decline
5. Grinding Mill
6. Tailing storage facility

Projects - Windarra Operations

To facilitate the recommencement of operations at Windarra, the Company installed and commissioned two E088 mono pumps in the original underground pumping chamber used in previous operations. The pumps are connected in line with a 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 continue to be reduced over the coming weeks to enable the refurbishment of the mine to continue.

In line with the capital cost estimate in the DFS, the Mt Windarra underground mine can be brought back into operation for circa $11 million plus working capital.

Exploration

The Black Swan Komatiite Complex (BSKC) is a 3.5km long by 0.6km thick arcuate lens of olivine cumulate and spinifex textured thin flows. The complex is enclosed by a broad sequence of proximal facies intermediate felsic lavas and associated volcaniclastic rocks situated on the NE dipping, NE facing limb of the Kanowna-Scotia anticline. The anticline is located in the upper greenschist - lower amphibolite facies Boorara Domain, one of six tectono-stratigraphic domains making up the Kalgoorlie Terrane.

The complex evolved as a series of episodically emplaced komatiite flows. The flows were channelised within a dynamic, coevally erupting calc-alkaline submarine environment, which resulted in the formation of several large felsic bodies (extrusive and intrusive) at various levels within the complex. Early during its evolution, massive and disseminated nickel sulfides accumulated in favourable locations on and adjacent to the basal contact of the complex. Post emplacement alteration, metamorphism and deformation was moderate to extreme and was responsible for the destruction of primary igneous textures throughout much of the complex but without significant structural reconstitution or geochemical modification of the nickel sulfides.

6. Operating and Financial Review (cont.)

Exploration (cont.)

The Black Swan deposit (Figures 4 & 5) compromises serpentinite and surrounding talc magnesite and dolomite altered komatiites. The disseminated sulfides at Black Swan form between 2-10% of the host rock and are patchily distributed and less coherent than other members of the BSKC. They generally consist of composite grains of pyrite-millerite-magnetite±violarite in serpentinite areas with vaesite-polydymite becoming significant in the surrounding talc-carbonate altered rocks. Two textural sulfide types are recognised; fine grained interstitial composite grains between olivine pseudomorphs and coarse grained blebby or droplet composites. The fine-grained composites are more widely distributed defining a broad low grade mineralised envelope. The coarse grained composites are much less widely distributed, forming small discrete, higher-grade horizons within the envelope.

[1] The Norilsk 2007, Gipronickel 2010a, Cas 2005 and Hicks 1998 reports contain extensive descriptions of the Black Swan geology. This is an edited extract from Hicks 1998.

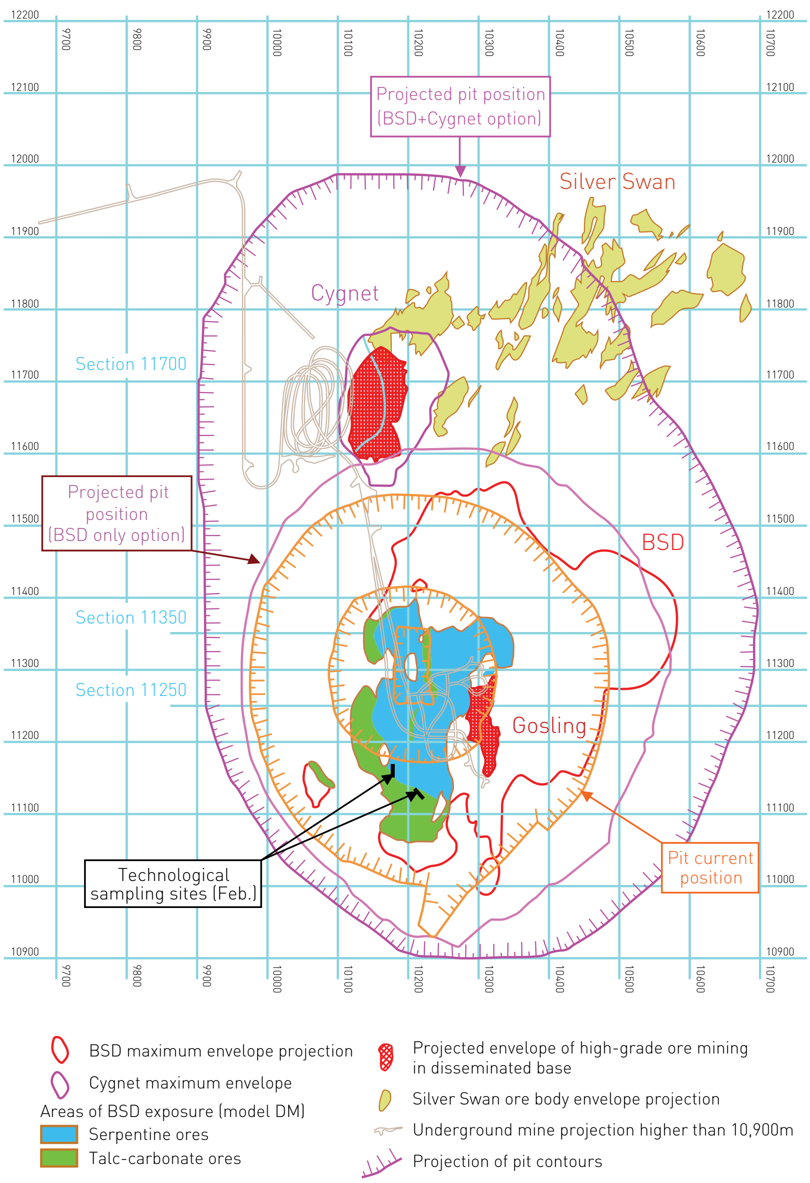


Figure 4: Black Swan Disseminated (BSD) and Cygnet mineralisation with existing mining infrastructure and pit shell options

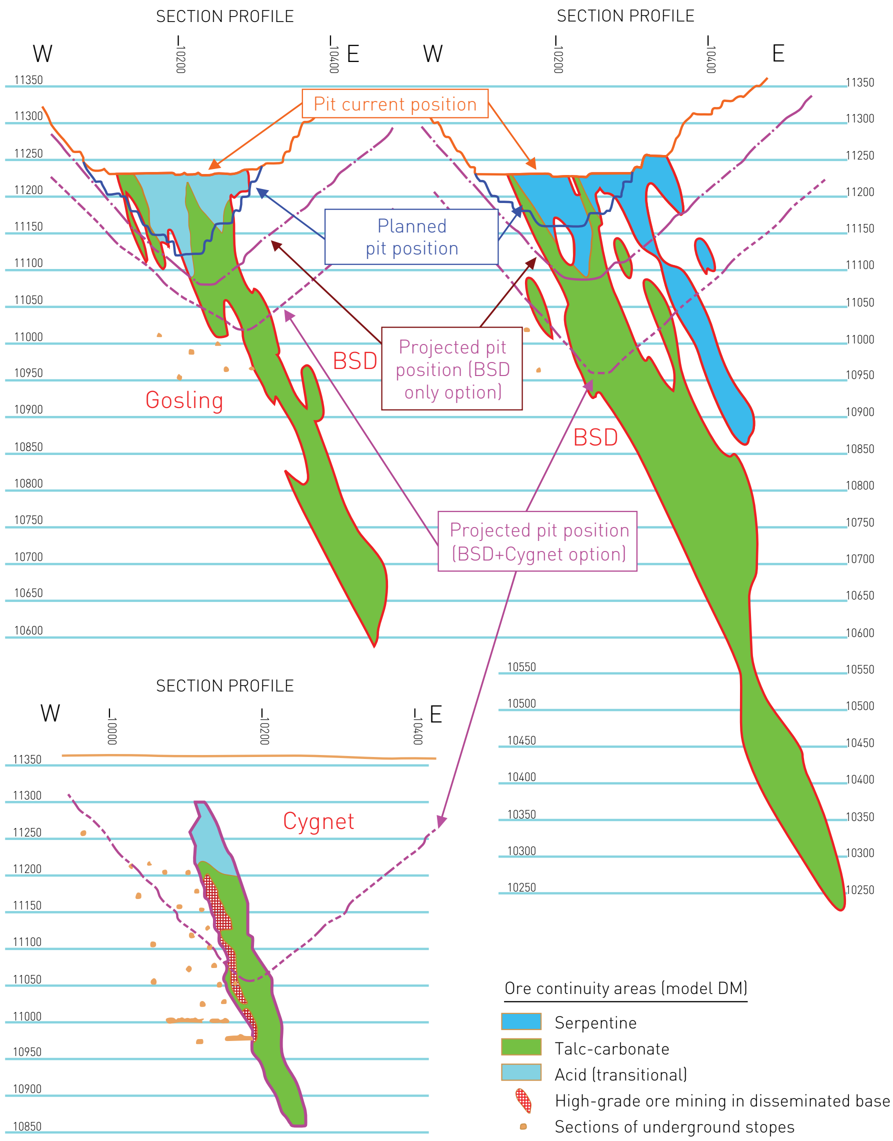


Figure 5: Cross sections of BSD and Cygnet disseminated ore occurrences including pit shell options

The Lake Johnston Nickel Project sits on a series of 11 mining leases, 10 exploration licences and one prospecting licence on which both the Emily Ann and Maggie Hays deposits are located. Poseidon considers that the area has significant exploration potential to support extending the life of the current Lake Johnston Nickel Project. Only limited drilling exploration has taken place in recent years but this has led to several highly prospective areas being identified. Poseidon plans to undertake a major new exploration programme on the tenements guided by the work undertaken to date with the objective of further extending the projects operational life.

6. Operating and Financial Review (cont.)

Resources and Reserves

Golder Associates Pty Ltd ("Golders") has completed a Mineral Resource estimate for Black Swan using available assay data as of 9 July 2014. The Mineral Resource estimate was classifies in accordance with the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Resources (JORC Code, 2012). Golders are currently evaluating a Mineral Reserve for Black Swan.

The Company has initiated the necessary work required to provide a JORC 2012 Resource Statement for Lake Johnson. Until such time as this resource is available, any resource statement will exclude Lake Johnson.

ORE RESERVE STATEMENT

Windarra Nickel Sulphides	Ore Reserve Category (JORC 2004)		
	Probable		
	Tonnes	Ni% Grade	Ni Metal t
Cerberus	1,221,000	1.3	16,000
Mt Windarra	498,000	1.78	9,000
Total	**1,719,000**	**1.44**	**25,000**

Table 1: Windarra Nickel Project Ore Reserve Statement

MINERAL RESOURCE STATEMENT

Windarra Nickel Project Sulphides	Cut Off Grade	Mineral Resource Category (JORC 2004)								
		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	17,000	3,553,000	1.78	63,000	4,770,000	1.68	80,000
South Windarra	0.80%	772,000	0.98	8,000	-	-	-	772,000	0.98	8,000
Cerberus	0.75%	2,773,000	1.25	35,000	1,778,000	1.91	34,000	4,551,000	1.51	69,000
Total Sulphide		**4,762,000**	**1.24**	**60,000**	**5,331,000**	**1.82**	**97,000**	**10,093,000**	**1.55**	**157,000**

Black Swan Nickel Project Sulphides	Cut Off Grade	Mineral Resource Category (JORC 2012)								
		Measured & Indicated			Inferred			TOTAL		
		Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Black Swan	0.40%	9,600,000	0.68	64,900	21,100,000	0.54	113,800	30,700,000	0.58	178,700
Total Black Swan		9,600,000	0.68	64,900	21,100,000	0.54	113,800	30,700,000	0.58	178,700

Table 2: Windarra and Black Swan Nickel Project Mineral Resource Statement

Windarra Gold Tailings Project	Mineral Resource Category (JORC 2004)		
	Indicated		
	Tonnes (kt)	Grade (g/t)	Au (oz)
Total Gold Tailings	11,000	0.52	183,000

Table 3: Windarra Gold Tailings Project Mineral Resource Statement

Competent Person Statement

The information in this report which relates to the Black Swan Mineral Resource is based on information compiled by Andrew Weeks who is a full-time employee of Golder Associates Pty Ltd, and Member of the Australasian Institute of Mining and Metallurgy. Andrew Weeks has sufficient relevant experience to the style of mineralisation and type of deposit under consideration and to the activity for which he is undertaking to qualify as a Competent Person as defined in the JORC Code (2012).

The information in this report that relates to the Windarra Nickel Project, Mineral Resources is based on information compiled by Mr N Hutchison, General Manager of Geology at Poseidon Nickel Limited, 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 at the Windarra Nickel Project 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.

Mineral Resources in this document are reported under JORC 2004 Guidelines as there has been no Material Change or Re-estimation of the Mineral Resource since the introduction of the JORC 2012 Codes. Future estimations will be completed to JORC 2012 Guidelines.

The Australian Securities Exchange has not reviewed and does not accept responsibility for the accuracy or adequacy of this release.

6. Operating and Financial Review (cont.)

Financial Position

For the year ended 30 June 2014 the Company incurred a loss of $5,837,000 (2013: loss $13,382,000) that includes the movement in the valuation and interest of the convertible note liability, derivative liability, depreciation and share-based payment expense which are all non-cash items. If these items are excluded, the underlying loss for the Company for the year is $5,212,000 (2013: $4,964,000). The working capital deficit for the period of $8,541,000 (2013 deficit: $9,008,000) 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 has been extended for a further 6 month period from 1 October 2014 to 1 April 2015 or earlier if the Company completes a capital raising. The Company has agreed to provide security over the loan in exchange for the extension to the maturity date with all other terms remaining the same.

The Company had a net cash outflow used in operating and investing activities of $4,315,000 (2013: outflow $16,953,000), reflecting the reduced level of expenditure during the period on exploration and mine dewatering activities whist the project remained on care and maintenance. The net cash outflow includes the receipt of $4,600,000 for the 2012 and 2013 refundable tax offset from the ATO under the Research and Development Tax Incentive scheme ("R&D"). The Company has also prepared and submitted its 2014 R&D claim which is expected to result in a $1,380,000 refundable tax offset being received in October 2014. As at 30 June 2014, the Company had cash on hand of $4,363,000.

Subsequent to 30 June 2014 (refer note 9 for events subsequent the reporting date) the Company has agreed to acquire nickel assets from OJSC MMC Norilsk Nickel for a total consideration of $2.5 million. In order to meet operating expenditures, complete the acquisition of these assets and progress production plans across the portfolio, including the Windarra Nickel Project, the Company will require further funding. The Board of Directors is aware, having prepared a cash flow forecast, of the Company's project development and working capital requirements. The Company, together with its advisor, Grant Samuel, is developing a number of alternative approaches towards financing the projects. It is envisaged that these alternatives will comprise both debt and equity solutions that will be structured to enable a phased restart strategy for the acquired assets and the Windarra Nickel Project. Detailed discussions are underway with a number of financial institutions in this regard. Petra Capital is mandated and in a position to undertake an equity raising in the near term. Should the Company be unable to raise sufficient funds, it will be necessary to delay the development of the projects 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, there are material uncertainties that may cast significant doubt about whether the Company can continue as a going concern in which case it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in this financial report (refer to note 1.2 in the notes to the consolidated financial statements in relation to going concern and the Auditor's report in relation to an emphasis of matter).

Nickel Market

The Indonesian nickel export ban introduced on 12 January 2104 and the impending supply/demand deficits have increased nickel prices from their January low by more than 40% to over US$8.50/lb in late June 2014 and well above the breakeven price of the independent WA nickel producers. The Indonesian ban on exports followed established practice in the country to encourage local added value industries for commodities, a process which has also delivered successful results in the past. The export ban is reported to have held fast, has cross party political support in Indonesia and is already showing signs of success. The debate in the nickel market has now shifted from the likelihood of the Indonesian's banning nickel exports destined primarily for the fast growing Chinese dominated nickel pig iron market to one of how large will the deficit in supply be in 2015 and 2016. There now appears to be a consensus view across all of the nickel analysts that the ban will be a feature of the next few years driving robust nickel prices.

7. Corporate Governance Statement

The board of directors of the Company is responsible for the corporate governance of the economic entity. The board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure that the board is well equipped to discharge its responsibilities, it has established guidelines and accountability as the basis for the administration of corporate governance.

7.1 Corporate Governance Disclosure

The board and management are committed to corporate governance and to the extent that they are applicable to the Company have followed the "Principles of Good Corporate Governance and Best Practice Recommendations" issued by the Australian Securities Exchange ("ASX") Corporate Governance Council.

Information regarding the eight Essential Corporate Governance Principles as they applied for the financial year ended 30 June 2014 can be found on the Company's website, www.poseidon-nickel.com.au.

7.2 Role of the Board

The key responsibilities of the board include:

- Appointing, evaluating, rewarding and if necessary, the removal of the Chief Executive Officer ("CEO") and senior management;
- Development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- Monitoring actual performance against defined performance expectations and reviewing operating information to understand at all times, the state of health of the Company;
- Overseeing the management of business risks, safety and occupational health, environmental issues and community development;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately. Further, approving and monitoring financial and other reporting;
- Assuring itself that appropriate audit arrangements are in place;

7. Corporate Governance Statement (cont.)

7.2 Role of the Board (cont.)

- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted and that its practice is consistent with a number of guidelines, being:
  - Directors and Executive Officers Code of Conduct;
  - Dealing in Securities; and
  - Reporting and Dealing with Unethical Practices.
- Reporting to and advising shareholders.

7.3 Structure of the Board

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.

An independent director is a non-executive director (i.e. is not a member of management) and:

- Is not a substantial shareholder of the Company or an officer of, or otherwise associated with, a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or its subsidiaries, or been a director after ceasing to hold any such employment;
- Is not a principal or employee of a professional adviser to the Company or its subsidiaries whose billings are a material part of the advisor's total revenue. A director who is a principal or employee of a professional advisor will not participate in the provision of any service to the Company by the professional adviser;
- Is not a significant supplier or customer of the Company or its subsidiaries, or an officer of or otherwise associated directly or indirectly with a significant supplier or customer. A significant supplier is defined as one whose revenues from the Company are a material part of the supplier's total revenue. A significant customer is one whose amounts payable to the Company are a material part of the customer's total operating costs;
- Has no material contractual relationship with the Company or its subsidiaries other than as a director of the Company;
- Has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company;
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Poseidon are considered to be independent:

Name	Position
Mr C Indermaur	Non-Executive Director
Mr G Brayshaw	Non-Executive Director

There are procedures in place, agreed by the board, to enable the directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each director is as follows:

Name	Term
Mr C Indermaur	6 years
Mr G Brayshaw	7 years
Mr D Singleton	7 years
Mr R Dennis	0.5 years

When a board vacancy exists, through whatever cause, or where it is considered that the board would benefit from the service of a new director with particular skills, the Remuneration, Nomination and Diversity Committee will recommend to the board a candidate or panel of candidates with the appropriate expertise. The board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

Following the changes in directors a review of the committee meetings and members was undertaken and the Corporate Governance Committee incorporated into the main board meeting.

7.4 Remuneration, Nomination and Diversity Committee

It is the Company's objective to provide maximum shareholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration, Nomination and Diversity Committee links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of high quality management to the Company; and
- Performance incentives that allow executives to share in the success of the Company.

For full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the Remuneration report, which is contained within section 7.6 of the Directors' report.

There is no scheme to provide retirement benefits to non-executive directors.

The board is responsible for determining and reviewing compensation arrangements for the directors themselves, the managing director and the executive team. The board has established a Remuneration, Nomination and Diversity Committee comprising three non-executive directors.

The members of the Remuneration, Nomination and Diversity Committee during the period and up to the date of this report were:

- Mr C Indermaur (Chairman)
- Mr G Brayshaw
- Mr R Dennis

For details on the number of meetings of the Remuneration, Nomination and Diversity Committee held during the year and the attendees at those meetings refer to section 3 of the Directors' report.

7. Corporate Governance Statement (cont.)

7.4 Remuneration, Nomination and Diversity Committee (cont.)

Diversity

The Group understands the value inherent in a diverse workforce and promotes a high performance culture that draws on the diverse and relevant experience, skills and expertise of its board members and employees. The board is committed to having an appropriate blend of diversity throughout the Group that will provide the benefits of a broader pool of high quality employees, improving employee retention, accessing different perspectives and unique personal attributes.

The board has established a policy regarding gender, age, ethnic and cultural diversity and details of the policy are available on the Company's web site.

The key elements of the diversity policy are as follows:

- Increased gender diversity on the board and senior executive positions and throughout the Group;
- Developing culture and remuneration strategies to assist with improving diversity; and
- Annual assessment of board gender diversity objectives and performance against objectives by the board and remuneration, nomination and diversity committee.

Gender representation

		2014		2013
Representation	Female	Male	Female	Male
Board	0%	100%	0%	100%
Key management personnel	0%	100%	0%	100%
Group	11%	89%	17%	83%

Key management personnel exclude directors which are reported as part of board representation.

The board has determined that no specific measurable objectives will be established due to the size of the Company being less than 10 employees. The board does not consider it practical or meaningful to formerly establish specific targets at this time. The Company will however, continually look for opportunities to increase gender diversity at a board and key management personnel level in future years as the project moves to a steady state operational environment.

7.5 Audit and Risk Management Committee

The board has established an Audit and Risk Management Committee, which operates under a Charter approved by the board. It is the board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of key performance indicators. The board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Management Committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. The board has established an Audit and Risk Management Committee comprising of three non-executive directors.

The members of the Audit and Risk Management Committee during the period and up to the date of this report were:

- Mr G Brayshaw (Chairman)
- Mr C Indermaur
- Mr R Dennis

For qualifications of the Audit and Risk Management Committee members and details on the number of meetings of the committee held during the year and the attendees of those meetings, refer to section 3 of the Directors' report.

The Company policy is to appoint external auditors who clearly demonstrate independence. The performance of the external auditor is reviewed annually by the committee. The auditors have a policy of rotating the partner at least every five years.

The board recognises that the identification and management of risk, including calculated risk taking, is an essential part of creating long-term shareholder value. Management reports directly to the board on the Company's key risks and is responsible through the CEO for designing, maintaining, implementing and reporting on the adequacy of the risk management and internal controls systems.

The Audit and Risk Management Committee monitors the performance of the risk management and internal control systems and reports to the board on the extent to which it believes the risks are being managed and the adequacy and comprehensiveness of risk reporting from management.

The board must satisfy itself, on a regular basis, that risk management and internal control systems for the Company have been fully developed and implemented.

In conjunction with its external advisors, the Company has identified specific risk management areas being strategic, operational and compliance. During the 2014 financial year, the board continued to review the strategic and operational risks on a regular basis.

A detailed risk identification matrix has been prepared and regularly updated by management. High and very high risk issues are reported to the board. An internal officer is responsible for ensuring the Company complies with its regulatory obligations. The executive committee also meets regularly to deal with specific areas of risk.

The CEO and CFO also provide written assurance to the board on an annual basis that to the best of their knowledge and belief, the declaration provided by them in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

The assurances from the CEO and CFO can only be reasonable rather than absolute due to factors such as the need for judgement and possible weaknesses in control procedures. Any material changes in the Company's circumstances are released to the ASX and included on the Company's website.

7. Corporate Governance Statement (cont.)

7.6 Remuneration Report - audited

7.6.1 Principles of compensation

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company, including directors of the Company and Group and other executives. Key management personnel comprise the directors and executives for the Company and Group.

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and conforms to market best practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good governance practices:

- Competitiveness and reasonableness through benchmarking remuneration to industry specific data;
- Shareholder acceptability of remuneration for executives;
- Performance linkage / alignment of executive compensation to Company objectives;
- Transparency of remuneration awarded to executives; and
- Capital Management - the use of share-based remuneration schemes to preserve cash.

Compensation levels for key management personnel of the Company are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation. Compensation packages include a mix of fixed and variable compensation and short and long-term performance-based incentives.

Fixed compensation

Fixed compensation ("FC") consists of base compensation which is calculated on a total cost basis and includes employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration, Nomination and Diversity Committee through a process that considers both individual and overall performance of the Company. In addition, external consultants can be engaged to provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the marketplace. A senior executive's compensation is also reviewed on promotion. No consultants have been used in the current year.

Performance linked compensation

Performance linked compensation is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The incentive bonus is an 'at risk' bonus which, at the discretion of the board, can be provided in the form of cash or shares through the Poseidon Employee Bonus Scheme ("EBS"). The Company also operates the Poseidon Employee Share Option Plan ("ESOP").

Incentive bonus

The incentive bonus provides compensation to employees when key performance measures are achieved in line with business objectives. These measures may include financial and non-financial measures such as share price, project delivery and financing related targets and are chosen to align the individual's compensation to the short-term objectives of the Company. The non-financial objectives will vary with an employee's role and responsibility and will include measures specific to that role as well as satisfying and following Company objectives. The broad terms around the quantum of any incentive bonus, under current company practice, is related to a percentage of the FC amount.

The Company has set a bonus range of between one month and a maximum of 100% of an individual's FC amount ("the applicable bonus range"), dependent on the individual's role. The bonus scheme is designed to reward and recognise performance and to pay an amount of between 0% - 50% of the applicable bonus range in recognition of actual performance levels noting that 100% would only be made in recognition of extraordinary achievement.

At the end of the financial year, the Remuneration, Nomination and Diversity Committee reviews and assesses the actual performance of the Company and management's achievement of its targets and objectives and recommends to the board the individual bonuses for key management personnel, having taken into consideration the individual's performance and contribution to the delivery of those objectives. The performance evaluation in respect of the year ended 30 June 2014 has taken place in accordance with this process.

The Remuneration, Nomination and Diversity Committee also recommend a maximum allocation of funds for bonuses to other employees. These funds are then allocated on a strictly individual basis related to personal performance. The board retains the discretion to vary the final cash incentive if performance is considered to be deserving of either a greater or lesser amount.

The board has adopted a recommendation from the Remuneration, Nomination and Diversity Committee to establish a performance based incentive bonus whereby the aims are to:

- Motivate and reward employees for creating significant value in the company and thereby aligning the interests of employees and shareholders;
- Provide targeted but competitive compensation and a long-term incentive for the retention of key employees; and
- Support a culture of employee share ownership.

Under the terms of the EBS, the board has the right to determine whether to operate the scheme as a cash based scheme or alternatively a share-based scheme in order to retain the cash reserves of the Company. Where the scheme is run as a cash based scheme, the employees are provided with the option to elect to receive their bonus in cash or "Participating Shares". Employees who receive their bonus in shares will qualify for additional "Special Bonus Shares" in the ratio of 1 additional share for every 2 participating shares.

Participation in EBS is by invite only and is not a contractual right but will include greater than 75% of all employees. The bonus shares will be subject to a 3 year continuous service condition from the date of issue. The value of the bonus shares relating to the proportion vested in the financial year is included as a share-based payment in column B in the directors' and executive officers' remuneration table in section 7.6.2 of the Remuneration report. The value of the participating shares is disclosed as a hybrid share-based payment in column C in the directors' and executive officers' remuneration table in section 7.6.2 of the Remuneration report. The number of shares will be calculated based upon the pre-tax cash bonus divided by the 5 day VWAP (Volume Weighted Average Price) of the Company's shares prior to the decision to award the bonus being made by the board.

In addition, the board can decide to grant options to a limited number of senior executives at its discretion under the ESOP (made in accordance with thresholds set in plans approved by shareholders at the 2013 AGM) for no consideration. The ESOP provides for key management personnel to receive up to 100% of compensation as an option package as a competitive incentive and retention mechanism. The ability to exercise the options is conditional on a number of conditions that include continuous service based and share price growth hurdles to be met and must be exercised between 3 and 6 years of issue. The specific conditions are determined at the time of issue in accordance with the plan.

7. Corporate Governance Statement (cont.)

7.6 Remuneration Report - audited (cont.)

7.6.1 Principles of compensation (cont.)

Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the Remuneration, Nomination and Diversity Committee have regard to the following indices in respect of the current financial year.

In thousands of AUD	2014	2013	2012	2011	2010
Net profit (loss) for the period	(5,837)	(13,382)	(3,224)	546	(4,050)
Dividends paid	-	-	-	-	-
Change in share price	$(0.05)	$0.03	$(0.07)	$(0.02)	$(0.06)
% Change in share price	(38.5)%	30.0%	(41.2)%	(10.5)%	(24.0)%

The consolidated entity's performance is impacted not only by market factors, but also by employee performance. However, as the projects of the consolidated entity are currently in exploration, feasibility or development phases, the annual profit performance is not the only measure of the Company's performance and hence remuneration levels for individual key management personnel are not directly linked to the annual profit result.

Service contracts

It is the Company's policy that service contracts for key management personnel, excluding the chief executive officer, are unlimited in term but capable of termination with between one and three months' notice, depending on the specific contract terms. The Company retains the right to terminate the contract immediately, by making payment equal to between one and three months' pay in lieu of notice. The key management personnel are also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long service leave together with any superannuation benefits.

The service contract outlines the components of compensation paid to the key management personnel but does not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

Mr D Singleton, CEO, has an employment agreement dated 2 July 2007 with the Company and was appointed as Managing Director from 1 February 2008. The agreement specifies the duties and obligations to be fulfilled by the CEO and provides that the board and CEO will early in each financial year, consult and agree objectives for achievement during that year. Compensation levels are reviewed each year by the Remuneration, Nomination and Diversity Committee and take into account any change in the scope of the role performed and any changes required to meet the principles of the compensation policy. The CEO did not receive an increase to base salary during the reporting period and no bonus has been awarded under the EBS.

The initial employment agreement, which was for a period of 5 years, has been extended without limitation to the term under the terms of the agreement. The agreement is capable of being terminated on three months' notice by the CEO and six months notice by the Company. The Company retains the right to terminate the agreement immediately, by making payment equal to six months' pay in lieu of notice. The CEO has no entitlement to termination payment in the event of removal for misconduct.

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2 July 2007 General Meeting, is not to exceed $350,000 per annum and is set based on market forces and with reference to fees paid to other non-executive directors of comparable companies. Non-executive director fees do not include options and rights that may be issued from time to time, subject to shareholder approval.

Non-executive directors receive an annual base director fee of $50,317 (except for the chairman who receives a base fee of $70,000) to cover the main board activities. Non-executive director members who sit on more than one committee receive an additional payment of $6,290 for each additional committee of which they are a member. Non-executive director members who chair a committee receive a further additional payment of $6,290 for each committee chaired.

Under the Director Share Plan ("DSP") approved by shareholders at the AGM on 22 November 2011, each non-executive director has elected to receive all director fees for the period as shares in lieu of cash in order to retain the cash reserves of the Company. The value of the shares awarded to non-executive directors has been disclosed as a hybrid share-based payment in column D in the directors' and executive officers' remuneration table in section 7.6.2 of the Directors' report.

7. Corporate Governance Statement (cont.)

7.6 Remuneration Report - audited (cont.)

7.6.2 Directors' and executive officers' remuneration (Company and Consolidated)

In AUD		SHORT-TERM	POST EMPLOY-MENT	SHARE-BASED PAYMENTS						
		Salary and fees $ (A)	Super-annuation benefits $	Options and rights $ (B)	Shares $ (C)	Hybrids $ (D)	Other long-term benefits $ (E)	Total $	Proportion of remuneration performance related %	Value of options as a proportion of remuneration %
Directors										
Non-executive directors										
Mr C Indermaur (Chairman)	2014	-	-	21,400	-	80,750	-	102,150	-	20.9%
	2013	-	-	21,400	-	81,765	-	103,165	-	20.7%
Mr G Brayshaw	2014	-	-	5,350	-	71,551	-	76,901	-	7.0%
	2013	-	-	5,350	-	75,475	-	80,825	-	6.6%
Mr R Dennis[1]	2014	284,361	24,283	13,404	141,858	-	-	463,906	30.6%	2.9%
	2013	440,367	38,998	13,404	110,078	5,755	(8,468)	600,134	19.3%	2.2%
Mr A Forrest[2]	2014	11,553	-	-	-	-	-	11,553	-	-
	2013	-	-	-	-	47,921	-	47,921	-	-
Mr R Monti[3]	2014	16,870	-	1,348	-	-	-	18,218	-	7.4%
	2013	-	-	5,350	-	69,185	-	74,535	-	7.2%
Executive directors										
Mr D Singleton, MD & CEO	2014	516,465	19,450	64,200	124,450	-	65,365	789,930	15.8%	8.1%
	2013	509,000	25,000	64,200	132,250	15,600	16,539	762,589	19.4%	8.4%
Executives										
Mr N Hutchison, GM Geology	2014	252,513	23,003	18,766	77,423	-	33,800	405,505	19.1%	4.6%
	2013	275,229	25,580	18,766	79,850	4,853	8,468	412,747	20.5%	4.5%
Mr M Rodriguez, COO	2014	359,130	20,833	26,809	105,216	-	49,800	561,787	18.7%	4.8%
	2013	353,937	26,063	26,809	110,624	10,816	14,961	543,210	22.4%	4.9%
Mr G Jones, CFO	2014	220,533	20,570	13,404	65,512	-	31,711	351,730	18.6%	3.8%
	2013	220,183	19,750	13,404	66,898	2,773	(847)	322,161	21.6%	4.2%
Total compensation: key management personnel	2014	1,661,424	108,139	164,681	514,458	152,301	180,676	2,781,680		
	2013	1,798,716	135,391	168,683	499,700	314,143	30,653	2,947,287		

1. Mr R Dennis resigned as COO on 31 December 2013 and became a non-executive director on 24 February 2014. In his capacity as COO, Mr Dennis received a total remuneration of $435,420.
2. Mr A Forrest resigned as non-executive Chairman on 27 September 2013. Director fees were paid in cash.
3. Mr R Monti resigned as a non-executive director on 28 September 2013. Director fees were paid in cash.

Notes in relation to the table of directors' and executive officers remuneration

(A) Salary and fees includes base salary and fees.

(B) The fair value of the options is calculated at the date of grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised as remuneration in this reporting period for services performed. In valuing the options, market conditions have been taken into account.

The following factors and assumptions were used in determining the fair value of options issued to key management personnel on grant date:

Grant Date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
21 September 2010	6 years	$0.1610	$0.22	$0.215	90.0%	4.97%	0%
23 November 2010	6 years	$0.1250	$0.22	$0.175	90.0%	5.27%	0%

(C) The shares granted to executive directors and executives are the bonus shares issued in relation to EBS for the performance bonus earned in prior reporting periods and have a 3 year continuous service and vesting period from the grant date. The value disclosed is the portion of the fair value of the shares recognised as remuneration in this reporting period for services performed. Refer to EBS in section 7.6.1 of the Directors' report. The shares granted to Mr M Rodriguez includes salary for the months of December and January elected to be taken as shares in lieu of cash.

(D) The hybrid share-based payment represents the participating shares for the short-term incentive bonus issued to executive directors and executives in relation to EBS for the performance bonus earned in prior reporting periods and shares issued to non-executive directors in relation to the DSP, that allows the individual to elect whether to receive director fees as cash or shares for the current period. Refer to the EBS plan and the DSP in section 7.6.1 of the Directors' report.

(E) Other long-term benefits are the movement in provision for annual and long service leave.

Details of performance related remuneration

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed in section 7.6.1 of the Directors' report.

7. Corporate Governance Statement (cont.)

7.6 Remuneration Report - audited (cont.)

7.6.3 Equity instruments

All options refer to options over ordinary shares of Poseidon Nickel Limited, which are exercisable on a one-for-one basis under the ESOP plan.

Analysis of options and rights over equity instruments granted as compensation

Share Options

No options were granted to directors or executives during the reporting period and no options have been granted to directors or executives since the end of the financial year. Details of the vesting profile of options granted in previous years to each director or executive are detailed below.

	Number	Grant date	Financial years in which grant vests	% forfeited in year	Total expensed in period ($)
Directors					
Mr R Monti	250,000	23 November 2010	2017	100%	1,348
Mr C Indermaur	1,000,000	23 November 2010	2017	-	21,400
Mr G Brayshaw	250,000	23 November 2010	2017	-	5,350
Mr R Dennis	500,000	21 September 2010	2017	-	13,404
Mr D Singleton	3,000,000	23 November 2010	2017	-	64,200
Executives					
Mr N Hutchison	700,000	21 September 2010	2017	-	18,766
Mr M Rodriguez	1,000,000	21 September 2010	2017	-	26,809
Mr G Jones	500,000	21 September 2010	2017	-	13,404
	7,200,000				164,681

The value of options expensed in the period is the portion of the fair value of the option recognised in the reporting period and the amount allocated to remuneration.

No options vested or lapsed during the reporting period. The options issued to Mr R Monti in November 2010 were forfeited during the period following his resignation as a non-executive director.

During the reporting period there were no shares issued on the exercise of options previously granted as compensation.

Shares

Details on shares in the Company that were granted as compensation and the vesting profile of shares granted to each director and executive during the reporting period are detailed below:

	Number	Grant date	% vested in year	Financial years in which grant vests	Fair value of shares issued during the year ($)	Total expensed in period ($)
Directors						
Mr R Dennis	1,461,830	27 October 2011	100%	2014		141,858
Mr D Singleton	1,965,000	22 November 2011	-	2015		124,450
Executives						
Mr N Hutchison	1,055,766	27 October 2011	-	2015		77,423
Mr M Rodriguez	1,434,759	27 October 2011	-	2015		105,216
	367,979	16 January 2014	100%	2014	$0.085	31,278
	434,419	20 January 2014	100%	2014	$0.072	31,278
Mr G Jones	893,341	27 October 2011	-	2015		65,512
	7,613,094					577,015

Shares issued to Mr R Dennis in a prior period vested during the year due to his resignation as COO. Mr Dennis subsequently joined the Board as a non-executive director.

Shares granted to Mr M Rodriguez in January 2014 represent salary for the months of December and January elected to be taken as shares in lieu of cash. The number of shares was calculated using a 15 day VWAP for the relevant month and vested immediately upon grant. The value of shares expensed in the period is the portion of the fair value of shares recognised in the reporting period and the amount allocated to remuneration.

No shares were granted to directors during the reporting period and no shares have been granted to directors or executives since the end of the financial year.

7. Corporate Governance Statement (cont.)

7.6 Remuneration Report - audited (cont.)

7.6.3 Equity instruments (cont.)

Analysis of options and rights over equity instruments granted as compensation (cont.)

Hybrids

Details on hybrids in the Company that were granted as compensation and the vesting profile of hybrids granted to each director and executive during the reporting period are detailed below:

	Number of hybrids granted during 2014	Grant or quarter end date	% vested in year	Financial years in which grant vests	Fair value of shares issued during the year ($)	Total hybrid value ($)
Directors						
Mr C Indermaur	170,331	30 September 2013	100%	2014	$0.12	20,441
	191,220	31 December 2013	100%	2014	$0.10	18,881
	260,559	31 March 2014	100%	2014	$0.07	19,210
	245,698	30 June 2014	100%	2014	$0.09	22,218
	867,808					80,750
Mr G Brayshaw	157,229	30 September 2013	100%	2014	$0.12	18,869
	183,199	31 December 2013	100%	2014	$0.10	18,090
	234,603	31 March 2014	100%	2014	$0.07	17,296
	191,275	30 June 2014	100%	2014	$0.09	17,296
	766,306					71,551
	1,634,114					152,301

The number and value of hybrids issued to non-executive directors in the year is the equivalent to the cash value of the director fee that has been elected to be received as shares in each quarter and vest immediately on grant. Refer to the DSP in section 7.6.1 of the Directors' report.

The value of hybrids expensed in the period is the portion of the fair value of the hybrids recognised in the reporting period and the amount allocated to remuneration.

No hybrids were granted to executives during the reporting period and no hybrids have been issued to directors or executives since the end of the financial year.

Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Options and rights over equity instruments

Share Options

The movement during the reporting period in the number of options over ordinary shares in Poseidon Nickel Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2013	Granted as compensation	Forfeited	Held at 30 June 2014
Directors				
Mr C Indermaur	1,000,000	-	-	1,000,000
Mr R Monti	250,000	-	(250,000)	-
Mr G Brayshaw	250,000	-	-	250,000
Mr R Dennis	500,000	-	-	500,000
Mr D Singleton	3,000,000	-	-	3,000,000
Executives				
Mr N Hutchison	700,000	-	-	700,000
Mr M Rodriguez	1,000,000	-	-	1,000,000
Mr G Jones	500,000	-	-	500,000

No options were exercised during the period and no options held by key management personnel are vested but not exercisable at 30 June 2014 (30 June 2013: nil).

Shares

The movement during the reporting period in the number of ordinary shares in Poseidon Nickel Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2013	Granted as compensation	Hybrids vested and reclassified as shares	Held at 30 June 2014
Directors				
Mr C Indermaur	903,605	-	2,564,930	3,468,535
Mr G Brayshaw	998,936	-	2,503,702	3,502,638
Mr R Dennis	2,655,076	-	386,491	3,041,567
Mr D Singleton	5,938,437	-	801,563	6,740,000
Executives				
Mr N Hutchison	1,265,226	-	265,000	1,530,226
Mr M Rodriguez	2,660,447	802,398	371,375	3,834,220
Mr G Jones	1,483,341	-	180,000	1,663,341

7. Corporate Governance Statement (cont.)

7.6 Remuneration Report - audited (cont.)

7.6.3 Equity instruments (cont.)

Options and rights over equity instruments (cont.)

Hybrids

The movement during the reporting period in the number of hybrid shares in Poseidon Nickel Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2013	Granted as compensation	Vested and reclassified as shares	Held at 30 June 2014
Directors				
Mr C Indermaur	1,697,122	867,808	(2,564,930)	-
Mr G Brayshaw	1,737,396	766,306	(2,503,702)	-
Mr R Dennis	386,491	-	(386,491)	-
Mr D Singleton	801,563	-	(801,563)	-
Executives				
Mr N Hutchison	265,000	-	(265,000)	-
Mr M Rodriguez	371,375	-	(371,375)	-
Mr G Jones	180,000	-	(180,000)	-

Hybrids which vest during the reporting period are reclassified as shares in the same reporting period.

8. Dividends

The Directors recommend that no dividend be declared or paid.

9. Events Subsequent to Reporting Date

On 7 July 2014, the Company announced that it has agreed to acquire the Black Swan nickel operation from OJSC MMC Norilsk Nickel for $1,500,000. A 10% deposit has been paid and settlement is expected to occur within a six month period from the signing of the sale agreement.

On 2 September 2014, the Company announced that it has agreed to acquire the Lake Johnson nickel operation from OJSC MMC Norilsk Nickel for $1,000,000. A 10% deposit has been paid and settlement is expected to occur within a six month period from the signing of the sale agreement.

The Company will work through the accounting treatment of these arrangements and the financial impact has not yet been determined.

On 15 September 2014, the Company and the Mindaroo Foundation agreed to extend the maturity date of the $8 million Bridge Loan from Forrest Family Investments for a further 6 months from 1 October 2014 to 1 April 2015. The Company has agreed to provide security over the loan in exchange for the extension. In accordance with ASX listing rules, the Board will provide security over a portion of the loan immediately and will seek the necessary shareholder approval for completion of the security package at a general meeting of shareholders.

10. Directors' Interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Ordinary shares	Options over ordinary shares
Mr C Indermaur	3,468,535	1,000,000
Mr G Brayshaw	3,502,634	250,000
Mr R Dennis	3,041,567	500,000
Mr D Singleton	6,740,000	3,000,000
	16,752,736	4,750,000

11. Share Options

Options granted to directors and officers of the Company

During or since the end of the financial year, no options have been granted to directors or officers of the Company.

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares
31 August 2016	0.22	2,975,000
23 November 2016	0.22	4,250,000
		7,225,000

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Shares issued on exercise of options

During or since the end of the financial year, the Company has not issued any ordinary shares as a result of the exercise of options.

12. Indemnification and Insurance of Officers and Auditors

Insurance premiums

The Company has agreed to indemnify the following current directors of the Company, Mr C Indermaur, Mr G Brayshaw, Mr R Dennis and Mr D Singleton against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

12. Indemnification and Insurance of Officers and Auditors (cont.)

Insurance premiums (cont.)

The Company has paid a premium to insure the directors and officers of the Company and its controlled entities. Details of the premium are subject to a confidentiality clause under the contract of insurance and do not contain details of the premiums paid in respect of individual offers of the Company. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- Other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

13. Non-Audit Services

During the year KPMG, the Company's auditor, has performed other services in addition to their statutory duties.

The board considered the non-audit services provided during the previous year by the auditor and in accordance with the advice provided by the audit committee, is satisfied that the provision of the non-audit services during the year by the auditor is compatible with and did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reason:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	CONSOLIDATED	
In AUD	2014	2013
Audit services		
Auditors of the Group - KPMG		
Audit and review of financial reports	61,580	66,349
	61,580	66,349
Services other than statutory audit		
Non-statutory review of financial reports	5,000	82,475
Accounting assistance and advice	-	-
	5,000	82,475
	66,580	148,824

14. Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 98 and forms part of the directors' report for financial year ended 30 June 2014.

15. 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.

This report is made with a resolution of the directors:

Mr G Brayshaw
Director

Perth
26 September 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

In thousands of AUD	Note	2014	2013 Restated*	1 July 2012 Restated*
Assets				
Cash and cash equivalents	4.1a	4,363	2,590	20,582
Trade and other receivables	4.2	209	2,772	640
Total current assets		4,572	5,362	21,222
Property, plant and equipment	3.2	2,766	2,959	2,532
Exploration and evaluation expenditure	3.1	73,281	71,931	59,550
Other investments		15	44	693
Other	3.3	3,500	3,500	3,500
Total non-current assets		79,562	78,434	66,275
Total assets		84,134	83,796	87,497
Liabilities				
Trade and other payables	4.3	1,017	2,317	1,070
Loans and borrowings	5.2	8,378	8,409	290
Employee benefits		218	144	101
Provisions	3.4	3,500	3,500	3,500
Total current liabilities		13,113	14,370	4,961
Loans and borrowings	5.2	26,464	22,734	24,875
Convertible note derivative	5.3	1,614	6,142	4,507
Employee benefits		79	-	-
Total non-current liabilities		28,157	28,876	29,382
Total liabilities		41,270	43,246	34,343
Net assets		42,864	40,550	53,154
Equity				
Share capital	5.1	108,875	100,896	100,033
Reserves		629	472	235,031
Accumulated losses		(66,640)	(60,818)	(281,910)
Total equity attributable to equity holders of the Company		42,864	40,550	53,154
Total equity		42,864	40,550	53,154

The notes on pages 62 to 94 are an integral part of these consolidated financial statements.

*Refer to note 1.8.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

In thousands of AUD	Note	2014	2013
Other income		340	504
Depreciation expense		(11)	(18)
Personnel expenses		(1,205)	(1,235)
Exploration costs expensed		(347)	(1,334)
Consultancy and advisor fees		(1,967)	(2,043)
Share-based payment expense	6.1	(949)	(1,044)
Other expenses		(1,063)	(1,295)
Results from operating activities		(5,202)	(6,465)
Finance income		5,429	1,799
Finance costs		(6,064)	(8,716)
Net finance costs	2.3	(635)	(6,917)
Loss before income tax		(5,837)	(13,382)
Income tax benefit	2.4	-	-
Loss for the period		(5,837)	(13,382)
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 income for the period, net of income tax		-	(262)
Total comprehensive loss for the period		(5,837)	(13,644)
Earnings per share			
Basic loss per share (cents/share)	2.5	(1.34)	(3.28)
Diluted loss per share (cents/share)	2.5	(1.34)	(3.28)

The notes on pages 62 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

For the year ended 30 June 2013

In thousands of AUD	Share 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	-	-	-	-	(13,382)	(13,382)
Other comprehensive income						
Net change in fair value of available-for-sale assets, net of tax	-	-	(262)	-	-	(262)
Total other comprehensive income	-	-	(262)	-	-	(262)
Total comprehensive income for the period	-	-	(262)	-	(13,382)	(13,644)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	863	-	-	-	-	863
Issue of options (net of costs)	-	177	-	-	-	177
Transfer to accumulated losses upon lapse of options	-	(233,964)	-	(510)	234,474	-
Total contributions by and distributions to owners	863	(233,787)	-	(510)	234,474	1,040
Total transactions with owners	863	(233,787)	-	(510)	234,474	1,040
Balance at 30 June 2013	100,896	472	-	-	(60,818)	40,550

For the year ended 30 June 2014

In thousands of AUD	Share 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	-	-	-	-	(5,837)	(5,837)
Other comprehensive income						
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	(5,837)	(5,837)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	7,979	-	-	-	-	7,979
Issue of options (net of costs)	-	172	-	-	-	172
Transfer to accumulated losses upon lapse of options	-	(15)	-	-	15	-
Total contributions by and distributions to owners	7,979	157	-	-	15	8,151
Total transactions with owners	7,979	157	-	-	15	8,151
Balance at 30 June 2014	108,875	629	-	-	(66,640)	42,864

The condensed notes on pages 62 to 94 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

In thousands of AUD	Note	2014	2013
Cash flows from operating activities			
Sundry receipts		607	225
Payments to suppliers and employees		(4,384)	(5,564)
Cash used in operations		(3,777)	(5,339)
Interest received		104	454
Net cash used in operating activities	4.1b	(3,673)	(4,885)
Cash flows from investing activities			
Proceeds from sale of investments		-	1,581
Payments for property, plant and equipment		(122)	(801)
Proceeds from sale of property, plant and equipment		1	-
Payments for exploration and evaluation expenditure		(4,625)	(12,828)
Proceeds from research and development for exploration and evaluation expenditure		4,104	-
Net cash used in investing activities		(642)	(12,048)
Cash flows from financing activities			
Proceeds from the issue of shares and options (net of costs)		7,142	-
Payment of borrowing costs		-	(120)
Proceeds from borrowings		76	-
Repayment of borrowings		(76)	-
Interest paid		(1,054)	(939)
Net cash from (used in) financing activities		6,088	(1,059)
Net increase / (decrease) in cash and cash equivalents		1,773	(17,992)
Cash and cash equivalents at 1 July		2,590	20,582
Effect of exchange rate fluctuations on cash held		-	-
Cash and cash equivalents at 30 June	4.1a	4,363	2,590

The notes on pages 62 to 94 are an integral part of these consolidated financial statements.

Section 1 - Basis of Preparation

In preparing the 2014 financial statements, Poseidon Nickel Limited has made a number of changes in structure, layout and wording in order to make the financial statements less complex and more relevant for shareholders and other users. We have grouped notes into sections under six key categories:

1. Basis of preparation
2. Results for the year
3. Assets and liabilities supporting Exploration and Evaluation
4. Working capital disclosures
5. Equity and funding
6. Other disclosures

Significant accounting policies specific to one note are included within that note and where possible, wording has been simplified to provide clearer commentary on the financial report of the Group. Accounting policies determined non-significant are not included in the financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

1.1 General information

Poseidon Nickel Limited (the 'Company') is a for profit entity domiciled in Australia. The Company's registered office is located at Level 2, Spectrum, 100 Railway Road, Subiaco WA 6008. The Group is primarily involved in exploration, mining and production of nickel and other minerals.

The consolidated financial statements comprise of the Company and its subsidiaries (collectively the 'Group') and the Group's interest in jointly controlled operations and have been authorised for issue by the Board of Directors on 26 September 2014. The financial statements are general purpose financial statements which:

- Have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- Have been prepared on a historical cost basis, except for the convertible note derivative, available-for-sale financial assets and share-based payments which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- Are presented in Australian Dollars, being the Company's functional currency and the functional currency of the companies within the Group. Amounts are rounded to the nearest thousand, unless otherwise stated, in accordance with ASIC Class Order 98/100 dated 10 July 1998;
- Adopts all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2012. Refer to note 6.10 for further details; and
- Does not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective. Refer to note 6.10 for further details.

1.2 Going concern

The consolidated 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 year ended 30 June 2014 the Company incurred a loss of $5,837,000 (2013: loss $13,382,000) and had a net working capital deficit of $8,541,000 (2013: deficit $9,008,000). 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 has been extended for a further 6 month period from 1 October 2014 to 1 April 2015 or earlier if the Company completes a capital raising. The Company has agreed to provide security over the loan in exchange for the extension to the maturity date with all other terms remaining the same (refer to note 6.3). 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.

The Company had a net cash outflow used in operating and investing activities of $4,315,000 (2013: outflow $16,933,000), reflecting the reduced level of expenditure during the period on exploration and mine dewatering activities whilst the project remained on care and maintenance. The net cash outflow was reduced following receipt of $4,600,000 for the 2012 and 2013 refundable tax offset from the ATO under the Research and Development Tax Incentive scheme ("R&D"). The Company has also prepared and submitted its 2014 R&D claim which is expected to result in a $1,380,000 refundable tax offset being received in October 2014.

Subsequent to 30 June 2014 (refer note 6.7) the Company has agreed to acquire nickel assets from OJSC MMC Norilsk Nickel for a total consideration of $2.5 million. In order to meet operating expenditures, complete the acquisition of these assets and progress production plans across the portfolio, including the Windarra Nickel Project, the Company will require further funding. The Board of Directors is aware, having prepared a cash flow forecast, of the Company's project development and working capital requirements. The Company, together with its advisor, Grant Samuel, is developing a number of alternative approaches towards financing the projects. It is envisaged that these alternatives will comprise both debt and equity solutions that will be structured to enable a phased restart strategy for the acquired assets and the Windarra Nickel Project. Detailed discussions are underway with a number of financial institutions in this regard. Petra Capital is mandated and in a position to undertake an equity raising in the near term. Should the Company be unable to raise sufficient funds, it will be necessary to delay the development of the projects 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, there are material uncertainties that may cast significant doubt about whether the Company can continue as a going concern in which case it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in this financial report.

1.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Where a joint arrangement is classified as a joint operation the Group recognises its proportionate share of revenue, expenditure, assets and liabilities.

1.4 Foreign currencies

The primary economic environment in which the Group operates is Australia. The consolidated financial statements are therefore presented in Australian dollars.

Transactions in foreign currencies are initially recorded in Australian dollars at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into Australian dollars at the year-end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year-end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

Section 1 - Basis of Preparation (cont.)

1.5 Research and development expenditure

The Group undertakes expenditure on activities that are categorised as 'eligible expenditure' under the Research & Development Tax Concession which dependent upon certain criteria may be subject to a tax offset. Under AASB 120, where a tax offset has been received or receivable in cash, the Group accounts for the tax offset as follows:

- Where a grant is received or receivable in relation to research and development costs which have been capitalised, the tax offset shall be deducted from the carrying amount of the asset; or
- Where a grant is received or receivable in relation to research and development costs which have been charged to the profit and loss account during this or a prior financial year, the tax offset shall be credited to the profit and loss account.

1.6 Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Impairment losses on available-for-sale investments are recognised by reclassifying the cumulative loss that has been recognised in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

Non-financial assets, other than deferred tax assets, are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

An impairment test is performed by assessing the recoverable amount of each asset, or cash generating unit ('CGU'). Assets are grouped at the lowest levels for which there are separately identifiable cash flows. The recoverable amount is the higher of an asset's fair value less costs to sell and 'value in use'. The value in use is based on the present value of the future cash flows expected to arise from the asset, taking into account the risks specific to the asset or CGU.

Any impairment identified is recognised in profit or loss. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation or amortisation that would have been charged since the impairment.

1.7 Accounting judgements and estimates

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which estimates are revised and in any future periods affected.

Judgements and estimates which are material to the financial report are found in the following areas:

- Going concern (note 1.2);
- Exploration and evaluation assets (note 3.1);
- Site restoration liability (note 3.4);
- Convertible note derivative (note 5.3); and
- Share-based payments (note 6.1).

1.8 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 5.2 and 5.3. 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 as at 30 June 2014. 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

Section 2 - Results for the Year

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating loss, taxation and earnings per share.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Deferred taxation

The Group has unrecognised carry forward tax losses which can be utilised against future taxable profits. Given that the Group is not yet in production, future taxable profits are not considered probable to utilise carry forward tax losses, as such the tax asset has not been recognised.

2.1 Operating segments

For management purposes the Group has one operating segment, being nickel exploration and evaluation in Australia. Segment results that are reported to the Group chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Information about reportable segments	NICKEL EXPLORATION AND EVALUATION	
In thousands of AUD	2014	2013
For the year ended 30 June		
Reportable segment other income	119	386
Reportable segment exploration costs expensed	(347)	(1,334)
Reportable segment (loss) before income tax	(228)	(948)
Reportable segment assets	79,553	78,422
Capital expenditure	191	779
Reconciliations of reportable segment loss and assets		
Loss		
Total loss for reportable segments	(228)	(948)
Unallocated amounts: other corporate expenses	(4,974)	(5,517)
Net finance income / (costs)	(635)	(6,917)
Loss before income tax	(5,837)	(13,382)
Assets		
Total assets for reportable segments	79,553	78,422
Other assets	4,581	5,374
	84,134	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.

2.2 Personnel expenses

ACCOUNTING POLICY

Short-term employee benefits

Wages, salaries and defined contribution superannuation benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

Share-based payments

The policy relating to share-based payments is set out in note 6.1.

The table below sets out personnel costs expensed during the year.

In thousands of AUD	2014	2013
Wages and salaries	835	902
Superannuation expense	138	180
Other associated personnel expenses	78	110
Increase/(decrease) in liability for annual leave	(63)	43
Increase in liability for long service leave	217	-
	1,205	1,235

2.3 Net financing costs

ACCOUNTING POLICY

Net finance costs comprise income on funds invested, gains / losses on disposal of financial instruments, changes in fair value of financial instruments, interest expense on borrowings, impairment losses on financial assets and foreign exchange gains / losses. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

Section 2 - Results for the Year (cont.)

2.3 Net financing costs (cont.)

Net financing costs can be analysed as follows:

In thousands of AUD	Note	2014	2013
Interest income on bank deposits		82	468
Net gain on disposal of investments		-	1,331
Net foreign exchange gain		790	-
Change in fair value of convertible note derivative	5.3	4,557	-
Finance income		5,429	1,799
Interest expense - convertible note		(5,012)	(3,457)
Interest expense - loan		(1,018)	(1,179)
Interest expense - premium insurance funding		(5)	-
Net foreign exchange loss		-	(3,601)
Impairment of investments		(29)	(162)
Change in fair value of convertible note derivative	5.3	-	(317)
Finance costs		(6,064)	(8,716)
Net finance costs		(635)	(6,917)

2.4 Income tax expenses

ACCOUNTING POLICY

The income tax expense represents the sum of tax currently payable and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Current tax is based on tax rates enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

a. Analysis of tax (credit) / charge in year

In thousands of AUD	2014	2013
Current tax expense		
Current year	-	-
Adjustments for prior periods	(1,640)	265
	(1,640)	265
Deferred tax expense		
Origination and reversal of temporary differences	1,640	(265)
Deferred tax asset recognised on change in fair value of available-for-sale financial asset	-	-
	-	-
Total tax benefit / (expense)	-	-

b. Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	2014	2013
Loss for the year	(5,837)	(13,382)
Total tax expense	-	-
Loss excluding tax	(5,837)	(13,382)
Income tax using the Company's domestic tax rate of 30% (2013: 30%)	(1,751)	(4,015)
Share-based payments	285	313
Deferred tax asset recognised in change in fair value of available-for-sale financial assets	-	-
Other non-deductible expenses	35	255
Under / (over) provided in prior periods	(1,640)	265
	(3,071)	(3,182)
Change in deductible temporary differences	3,071	3,182
Total income tax benefit	-	-

Section 2 - Results for the Year (cont.)

2.4 Income tax expenses (cont.)

c. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	2014	2013
Deferred Tax Liabilities		
Exploration expenditure	(15,086)	(14,681)
Fair value movement of convertible note derivative	(1,367)	-
Unrealised foreign exchange	(237)	-
Other items	(8)	(8)
Deferred Tax Assets		
Carry forward tax losses recognised	16,162	12,934
Unrealised foreign exchange	-	1,080
Fair value movement of convertible note derivative	-	95
Other items	536	580
Net Deferred Tax (Asset) Liability	-	-

d. Unrecognised deferred tax assets and liabilities

Deferred tax assets have not been recognised in respect of the following items:

In thousands of AUD	2014	2013
Tax losses	14,987	17,166
	14,987	17,166

At 30 June 2014, the Company has carry-forward tax losses of $31,149,000 at 30% (30 June 2013: $30,100,000) of which $16,162,000 (30 June 2013: $12,934,000) has been recognised.

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

2.5 Earnings (loss) per share

Basic earnings (loss) per share

Earnings (loss) per share ('EPS') is the amount of post-tax profit attributable to each share.

The calculation of basic EPS at 30 June 2014 was based on the loss attributable to ordinary shareholders of $5,837,000 (2013: loss $13,382,000) and a weighted average number of ordinary shares outstanding of 435,679,000 (2013: 408,409,000).

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

Earnings (loss) per share

In thousands of AUD	2014	2013
Net loss attributable to ordinary shareholders	(5,837)	(13,382)
Issued ordinary shares at 1 July	408,409	407,064
Effect of shares issued	27,270	1,345
Weighted average number of ordinary shares at 30 June	435,679	408,409
Basic loss per share (cents)	(1.34)	(3.28)
Diluted loss per share* (cents)	(1.34)	(3.28)

*The Company does not have any potential ordinary shares whose conversion to ordinary shares would have a dilutive effect. Potential ordinary shares of the Company consist of 7,225,000 dilutive share options issued. In accordance with AASB 133 'Earnings per Share' these options have been excluded from the calculation of diluted earnings (loss) per share due to their anti-dilutive effect.

Section 3 - Assets and Liabilities Supporting Exploration and Evaluation

This section focuses on the exploration and evaluation assets which form the core of the business, including those assets and liabilities which support ongoing exploration and evaluation as well as capital commitments existing at the year end.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Indicators of impairment for exploration and evaluation assets

The Company has reviewed exploration and evaluation assets for indicators of impairment in accordance with AASB 6 and concluded that impairment indicators did not exist at year end. In making this assessment, management is required to make assessments on the status of each project and the future plans towards successful development and commercial exploitation, or alternatively sale, of the respective areas of interest.

Site restoration

Provisions for the costs of rehabilitation, decommissioning and restoration of the area disturbed during mining activities depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied. Site restoration provisions are reviewed and updated as necessary each year to reflect management's best estimates of future cost estimates and timings.

3.1 Exploration and evaluation expenditure

ACCOUNTING POLICY

Acquisition of a right to explore is capitalised. Subsequently, expenditure on exploration and evaluation activities relating to each area of interest is capitalised as incurred only where a commercially recoverable JORC compliant resource has been identified. Expenditure incurred on activities that precede establishing the existence of a commercially recoverable mineral resource is expensed as incurred. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Exploration and evaluation assets are classified as tangible or intangible according to the nature of the assets. Costs incurred in relation to exploration and evaluation includes acquisition of rights to explore, gathering exploration data through topographical, geochemical and geophysical studies and exploratory drilling, trenching and sampling. Directly attributable administration costs are treated as exploration and evaluation expenditure insofar as they relate to specific exploration activities. Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred, as well as borrowing costs in connection with financing exploration and evaluation activities.

Exploration and evaluation assets are transferred to Development Assets once technical feasibility and commercial viability of an area of interest is demonstrable. Exploration and evaluation assets are assessed for impairment and any impairment loss is recognised prior to being reclassified.

Impairment

Non-current assets are tested for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. Such triggering events are defined in AASB 6 'Exploration for and Evaluation of Mineral Resources' in respect of exploration and evaluation assets and include consideration of commercial viability and technical feasibility.

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than an area of interest. The Company performs impairment testing in accordance with note 1.7.

Details of assets in the Exploration and evaluation phase can be found below:

In thousands of AUD	2014	2013
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	73,281	71,931
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of year	71,931	59,550
Additions, net of research and development proceeds	1,350	12,381
	73,281	71,931

The ultimate recoupment of costs carried forward for exploration and evaluation is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. Exploration expenditure of $347,000 (2013: $1,334,000) was expensed as incurred through the Income Statement for the period.

3.2 Property, plant and equipment

ACCOUNTING POLICY

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

Items of PPE are depreciated from the date that they are installed and are ready for use. The estimated useful lives for the current and comparative periods are as follows:

- Leasehold improvements 25 years
- Plant and equipment 3 - 13 years
- Motor vehicles 4 - 6 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

Section 3 - Assets and Liabilities Supporting Exploration and Evaluation (cont.)

3.2 Property, plant and equipment (cont.)

In thousands of AUD	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
Cost					
Balance at 1 July 2012	1,006	188	2,433	283	3,910
Additions	-	22	779	-	801
Balance at 30 June 2013	1,006	210	3,212	283	4,711
Balance at 1 July 2013	1,006	210	3,212	283	4,711
Additions	-	1	191	-	192
Transfers	-	-	-	-	-
Disposals	-	-	-	(20)	(20)
Balance at 30 June 2014	1,006	211	3,403	263	4,883

In thousands of AUD	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
Depreciation and impairment losses					
Balance at 1 July 2012	189	155	837	197	1,378
Depreciation for the year	40	18	297	19	374
Balance at 30 June 2013	229	173	1,134	216	1,752
Balance at 1 July 2013	229	173	1,134	216	1,752
Depreciation for the year	40	11	318	14	383
Disposals	-	-	-	(18)	(18)
Balance at 30 June 2014	269	184	1,452	212	2,117

Carrying amounts

In thousands of AUD	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
At 1 July 2012	817	33	1,596	86	2,532
At 30 June 2013	777	37	2,078	67	2,959
At 30 June 2014	737	27	1,951	51	2,766

3.3 Other non-current assets

The Company holds a cash collateralised security deposit of $3,500,000 (2012: $3,500,000) to cover the provision for site restoration made in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine sites.

3.4 Provisions

ACCOUNTING POLICY

Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

Site restoration provision

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration is recognised in respect of the estimated cost of rehabilitation and restoration of the area previously disturbed during mining activities up to the reporting date, but not yet rehabilitated.

At each reporting date the site restoration provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and re added to, or deducted from, the related asset where it is possible that future economic benefits will flow to the entity.

The site restoration provision of $3,500,000 (2012: $3,500,000) is in respect of the Group's on-going obligation for the environmental rehabilitation of the Windarra mine sites. The Company continues to work with the Department of Mines and Petroleum with regards to the planning and timing of rehabilitation.

3.5 Capital and other commitments

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company and Group are required to perform minimum exploration work to meet the minimum expenditure requirements specified by the State Government. These obligations are subject to renegotiation when application for a mining lease is made and at other times. In addition, the commitments include $3 million of expenditure for the earn-in agreement with Panoramic Resources Limited (refer note 6.5). These obligations are not provided for in the financial report and are payable as follows:

In thousands of AUD	2014	2013
Less than one year	802	3,260
Between one and five years	2,361	520
More than five years	1,030	1,115
	4,193	4,895

Section 4 - Working Capital Disclosures

This section focuses on the cash funding available to the Group and working capital position at year end.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

There were no key estimations or assumptions in this section.

4.1 Cash and cash equivalents

ACCOUNTING POLICY

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than or equal to three months from the date of acquisition. The carrying value of cash and cash equivalents is considered to approximate fair value.

a. Cash and cash equivalents

In thousands of AUD	2014	2013
Bank balances	4,355	2,583
Term deposits	8	7
Cash and cash equivalents in the statement of cash flows	4,363	2,590

The effective interest rate on term deposits in 2014 was 3.75% (2013: 4.75%). The deposits had an average maturity of 365 days (2013: 365 days).

b. Reconciliation of cash flows from operating activities

In thousands of AUD	2014	2013
Cash flows from operating activities		
Loss for the period	(5,837)	(13,382)
Adjustments for:		
Depreciation	11	18
Interest expenses - convertible note derivative	5,012	3,457
Interest expenses - borrowings	1,023	1,179
Change in fair value of convertible note derivative	(4,557)	317
Change in fair value of available-for-sale financial assets	29	162
Net gain on disposal of investments	-	(1,331)
Net foreign exchange (gain) loss	(790)	3,601
Equity-settled share-based payment transactions	949	1,041
Operating profit before changes in working capital and provisions	(4,160)	(4,938)
Change in trade and other receivables	711	(306)
Change in trade payables and employee benefits	(224)	359
Net cash used in operating activities	(3,673)	(4,885)

4.2 Trade and other receivables

ACCOUNTING POLICY

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost). Where there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to the income statement.

Current

In thousands of AUD	2014	2013
Goods and services tax receivable	125	555
Fuel tax credits receivable	33	69
Research and development receivable	-	2,095
Other receivables	4	4
Other assets and prepayments	47	49
	209	2,772

4.3 Trade and other payables

ACCOUNTING POLICY

Trade payables are recognised at the value of the invoice received from a supplier.

In thousands of AUD	2014	2013
Trade payables	392	1,610
Other payables	163	707
Accrued interest - convertible note derivative	462	-
	1,017	2,317

Section 5 - Equity and Funding

This section focuses on the debt and equity funding available to the Group at year end, most notably covering share capital, loans and borrowings and convertible note derivatives.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Convertible note derivative

The fair value of the convertible note derivative is determined using a binomial option pricing model that takes account of the exercise price, the term of the option, the Company's share price at the end of the reporting period, the expected volatility of the underlying share price and the risk-free interest rate (based on government bonds). The expected volatility is based upon historic volatility (based on the remaining life of the options) adjusted for abnormal spikes in the Company's share price.

Convertible note liability

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

5.1 Capital and reserves

ACCOUNTING POLICY

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Share capital

	ORDINARY SHARES	
In thousands of shares	2014	2013
Ordinary shares		
Fully paid	513,467	409,241
Total share capital on issue at 30 June	513,467	409,241
Movements in ordinary shares on issue:		
On issue at 1 July	409,241	407,064
Shares issued and expensed during the period:		
Issued for cash	100,994	-
Issued for directors fees	1,197	1,579
Issued for employee salary	802	-
Issued for professional broker fees	857	-
Shares issued but expensed during the prior period:		
Issued for directors fees	376	598
On issue at 30 June	513,467	409,241

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Purpose of reserves

Share-based payment reserve

The share-based payment reserve is used to record the fair value of equity benefits provided to directors and employees as part of their remuneration.

5.2 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 6.2.

In thousands of AUD	2014	2013 Restated*	1 July 2012 Restated*
Current			
Borrowings	8,378	8,409	290
Total borrowings - current	8,378	8,409	290
Non-current			
Convertible note liability	26,464	22,734	24,875
Total borrowings - non-current	26,464	22,734	24,875

*Refer to note 1.8.

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30 JUNE 2014		30 JUNE 2013	
In thousands of AUD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Convertible note*	USD	5.00%	2017	37,127	26,464	38,302	22,734
Borrowings	AUD	12.34%	2015	8,378	8,378	8,409	8,409
Total interest-bearing liabilities				45,505	34,842	46,711	31,143

*This includes the convertible note liability and derivative disclosed at note 5.3.

Refer to note 6.3 for detailed terms of the unsecured Bridge Loan included in borrowings.

Section 5 - Equity and Funding (cont.)

5.2 Loans and borrowings (cont.)

Convertible note liability

ACCOUNTING POLICY

The liability component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The embedded derivative component is recognised initially at fair value and the liability component is calculated as the difference between the financial instrument as a whole and the value of the derivative at inception. Any directly attributable transaction costs are allocated to the convertible note liability and convertible note derivative in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the convertible note is measured at amortised cost using the effective interest method.

In thousands of AUD	2014	2013
Carrying amount of liability at beginning of period	22,734	16,995
Exchange rate effects	(820)	2,282
Accrued interest capitalised	5,012	3,457
Payment of interest	(462)	-
Carrying amount of liability at end of period	26,464	22,734

The Company has on issue a US$15,000,000 and a US$20,000,000 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 was interest free for the first three years and then bears a coupon rate of 5% thereafter until maturity. On maturity the notes will be repayable in cash. The carrying amount of the liability has been calculated as the discounted original fair value, accrued for interest plus exchange adjustments.

5.3 Convertible note derivative

ACCOUNTING POLICY

Derivative financial instruments are stated at fair value. The fair value of the derivative has been valued using a valuation technique including inputs that include reference to similar instruments and option pricing models which is updated each period. Gains and losses arising out of changes in fair value of these instruments together with settlements in the period are accounted for through the income statement through net finance costs.

The convertible note liability and derivative are removed from the statement of financial position when the obligations specified in the contract are discharged, this can occur upon the option holder exercising their option or the option period lapses requiring the Company to discharge the obligation. Both the convertible note liability and derivative are classified as current liabilities as the option holder has the right to convert at any time.

In thousands of AUD	2014	2013 Restated*	1 July 2012 Restated*
Carrying amount of derivative at beginning of period	6,142	4,507	10,948
Fair value movement	(4,557)	317	(7,020)
Exchange rate effects	29	1,318	579
Carrying amount of derivative at end of period	1,614	6,142	4,507

*Refer to note 1.8.

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 30 June 2014 (share price $0.08) is reflected in the fair value movement. A decrease in the share price of the Company decreases the carrying amount of the derivative.

As the convertible notes are denominated in United States dollars (USD), the change in the exchange rate with the Australian dollar (AUD) is also taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2013 was 0.9138:1 and at 30 June 2014, 0.9427:1.

Refer to note 6.2 for details of fair value and sensitivities analysis.

5.4 Capital management

Capital consists of ordinary share capital, retained earnings, reserves and net debt. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may issue new shares or allow employees to participate in a share rather than cash bonus scheme.

The Group encourages employees to be shareholders and has put in place a scheme whereby employees can convert their cash bonuses into shares. This ensures that an optimal cash balance can be maintained whilst ensuring strong employee retention.

The Group management defines net debt as total borrowings (note 5.2) less cash and cash equivalents (note 4.1) and equity as the sum of share capital, reserves and retained earnings as disclosed in the statement of financial position. The gearing ratio for the current year was 71% (2013: 71%) for the Group. Refer to note 1.2 for the Group's capital management as it implies to going concern.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Section 6 - Other Disclosures

The disclosures in this section focus on share schemes in operation and financial risk management of the Group. Other mandatory disclosures, such as details of related party transactions, can also be found here.

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Share-based payments

The fair value of employee share options is measured using the binomial option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the Company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends and the risk free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

6.1 Share-based payments arrangements

ACCOUNTING POLICY

The Group annual short-term incentive (STI) program provides share-based payment arrangements where the employees have the choice of settling the STI in cash or equity. The directors can also elect to take their annual remuneration in cash or equity. These represent compound financial instruments with potential debt and equity components.

The fair value of the compound instrument is determined by reference to the Director Share Plan and approved annual director fees and is allocated fully to the debt component when the fair value of the cash and equity settlement alternatives are equal. The Group recognises an expense for the debt component and an equivalent liability as services are provided by employees and directors during the performance year, based on the approved STI bonus if any, and director fees (i.e. recognised progressively over the vesting period). If the Group issues shares to settle the liability, the liability is transferred to equity at settlement date.

Where the fair value of an employee share option has been recognised as a share-based payment and the option lapses at expiry, the total amount of the share-based payment expense is transferred from the Shares Based Payment Reserve to Accumulated Losses.

The share-based payment expense included within the Income Statement can be broken down as follows:

In thousands of AUD	2014	2013
Share options expense	172	176
Shares granted expense	625	549
Hybrids expense	152	319
Total expenses recognised as employee costs	949	1,044

Share Options

The board can decide to grant options to a limited number of senior executives at its discretion under the Poseidon Employee Option Plan ("ESOP") (made in accordance with thresholds set in plans approved by shareholders at the 2013 AGM). The ESOP provides for key management personnel to receive up to 100% of compensation as an option package as a competitive incentive and retention mechanism. The ability to exercise the options is conditional on a number of conditions that include service based and share price performance hurdles and must be exercised between 3 and 6 years of issue.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2014	Number of options 2014	Weighted average exercise price 2013	Number of options 2013
Outstanding at 1 July	$0.220	7,475,000	$0.400	117,500,000
Exercised during the period	-	-	-	-
Granted during the period	-	-	-	-
Lapsed or forfeited during the period	$0.220	(250,000)	$0.408	(120,033,000)
Outstanding at 30 June	$0.220	7,225,000	$0.220	7,475,000
Exercisable at 30 June	-	-	-	-

Options issued to Mr R Monti in November 2010 were forfeited during the period as Mr Monti resigned as a director.

The options outstanding at 30 June 2014 were issued to directors on 23 November 2010 and executives on 21 September 2010 and have an exercise price of $0.22 (2013: $0.22) and a remaining weighted average contractual life of 3 years (2013: 4 years). The options are subject to a three year service period and share price hurdles.

Shares

The board can decide to issue shares and hybrids in relation to the short-term performance bonus under the Poseidon Employee Bonus Scheme ("EBS") scheme whereby the employee has elected to receive their cash bonus in shares. The shares are subject to a three year continuous service condition from the date of issue.

The fair value of services received in return for shares granted is based on the fair value of shares granted, which is measured using the difference between the purchase price and the share price on the grant date.

The terms and conditions related to share grants are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Shares granted to an executive and employee on 20 January 2014	802,398	The shares vested immediately
Total shares	802,398	

Shares granted to Mr M Rodriguez in January 2014 represent salary for the months of December and January elected to be taken as shares in lieu of cash at a 15 day VWAP for the relevant month. These shares were not issued under the EBS. The fair value of these shares was equal to $0.08.

Section 6 - Other Disclosures (cont.)

6.1 Share-based payments arrangements (cont.)

Shares (cont.)

The number and weighted average purchase price of shares is as follows:

	Weighted average fair value 2014	Number of shares 2014	Weighted average fair value 2013	Number of shares 2013
Outstanding at 1 July	$0.21	7,460,398	$0.22	8,098,398
Vested during the period	$0.08	(802,398)	$0.26	(638,000)
Forfeited during the period	-	-	-	-
Granted during the period	$0.08	802,398	-	-
Outstanding at 30 June	$0.21	7,460,398	$0.21	7,460,398

The shares outstanding at the end of 30 June 2014 were issued to directors on 22 November 2011 and executives on 27 October 2011 and have a remaining weighted average contractual life of 1 year (2013: 2 years).

The fair value of services received in return for shares granted is based on the fair value of shares granted, which is measured using the difference between the purchase price and the share price on the grant date.

Hybrids

The fair value of hybrids granted is equal to the value of cash compensation that has been elected to be taken as shares by non-executive directors under the terms of the Director Share Plan ("DSP"). The number of hybrids granted is calculated by dividing the value of cash compensation by the 5 days volume weighted average price of the Company's shares at the date of grant.

During the year ended 30 June 2014, there were 1,634,114 hybrids granted under the terms of the DSP. There were no hybrids outstanding at the end of the period (2013: nil) as the hybrids vested immediately upon grant. The hybrids granted during the period have a purchase price and fair value in the range of $0.074 to $0.120 (2013: $0.087 to $0.229).

6.2 Financial risk management

ACCOUNTING POLICY

Classification of financial instruments

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with IAS 39 Financial Instruments:

- 'Loans and receivables' - separately disclosed as cash and cash equivalents and trade and other receivables;
- 'Available-for-sale financial assets' - measured at fair value through other comprehensive income;
- 'Financial assets/liabilities at fair value through profit or loss' - separately disclosed as derivative financial instruments in assets/liabilities and included in non-current other payables; and
- 'Financial liabilities measured at amortised cost' - separately disclosed as borrowings and trade and other payables.

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

Recognition and de-recognition of financial assets and liabilities

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

Overview

The Group have exposure to the following risks from their use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board has established the Audit and Risk Management Committee which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Section 6 - Other Disclosures (cont.)

6.2 Financial risk management (cont.)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

The carrying amount of financial assets represents the maximum credit exposure.

Investments, banks and financial institutions

The Group limits its exposure to credit risk by only transacting with high credit quality financial institutions. The Group had cash and cash equivalents of $4,363,000 (2013: $2,590,000) and other assets, a security deposit of $3,500,000 (2013: $3,500,000) that were held with bank and financial institution counterparties which are rated A to AA-, based on Standard and Poors ratings.

Trade and other receivables

As the Group operates in the mining exploration sector, the Group generally does not have trade receivables (only fuel tax and GST), therefore is not generally exposed to credit risk in relation to trade receivables. The Group however, provides security deposits as part of its exploration activities which exposes the Group to credit risk.

Presently, the Group undertakes exploration and evaluation activities exclusively in Australia. At the reporting date there are generally no significant concentrations of credit risk other than the transaction disclosed above.

As the Group is not trading there are no financial assets past due and there is no management of credit risk through performing an aging analysis, therefore an aging analysis has not been disclosed.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group also manages liquidity risk by producing monthly cash-flow forecasts for the current and future financial year to ensure that there is a clear and up-to-date view of the short-term to medium term funding requirements. These are regularly reviewed by management and the board where the implications on funding requirements and the possible sources of those funds are discussed, decisions taken when necessary and action taken to secure funding if required (refer to note 1.2 on going concern). The Group manages liquidity risk by maintaining adequate reserves through continuous monitoring of forecast and actual cash flows. The Group has a policy of raising both convertible debt and equity fundraising in order to manage its liquidity risk.

The following are the earliest contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Consolidated

30 June 2014

In thousands of AUD	Carrying amount	CONTRACTED 6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	1,017	1,017	-	-	-	-
Bridge loan	8,378	8,641	-	-	-	-
Convertible note	26,464	-	-	-	37,127	-
	35,859	9,658	-	-	37,127	-

Consolidated

30 June 2013

In thousands of AUD	Carrying amount	CONTRACTED 6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	2,317	2,317	-	-	-	-
Bridge loan	8,409	8,682	-	-	-	-
Convertible note	22,734	-	-	-	38,302	-
	33,460	10,999	-	-	38,302	-

1. The balances above will not always agree to the financial statements as the contracted cash-flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position;
2. As the convertible note liability (including the associated derivative) can only be paid out in shares and not cash during its term, the repayment is shown at maturity in 2017;
3. The maturity analysis has assumed the earliest contractual maturity of the convertible notes for a payment in cash. Interest on the convertible note is not due until year 4 of the 6 year term and at the Group's discretion, can be settled in shares. As such, no interest payments have been included in the analysis;
4. On 27 September 2013, the Company signed an extension on the Bridge Loan with Forrest Family Investments Pty Ltd. The Parties agreed that with effect from the date of the Agreement the Bridging Loan is varied by replacing the maturity Date of "October 1, 2013" with "October 1, 2014". The parties confirmed that the Coupon Rate payable during this extension of the term is 13% per annum (refer note 6.3).

Section 6 - Other Disclosures (cont.)

6.2 Financial risk management (cont.)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(a) Currency risk

The Group is exposed to currency risk on cash and borrowings that are denominated in a currency other than the functional currency of Group entities, the Australian dollar (AUD). The currency in which these transactions are denominated are United States Dollars (USD).

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows:

	30 JUNE 2014		30 JUNE 2013	
In thousands of AUD	USD	Total	USD	Total
Convertible note derivative	(1,614)	(1,614)	(6,142)	(6,142)
Convertible note liability	(26,464)	(26,464)	(22,734)	(22,734)
Gross statement of financial position exposure	(28,078)	(28,078)	(28,876)	(28,876)

Sensitivity analysis

The following sensitivities have been applied for 2014 and 2013 based upon published 12 month forward rates:

- A 5% weakening of AUD against the USD with the equal effect in the opposite direction will increase the fair value of the convertible note derivative and liability by $1,403,000 (2013: $1,377,000).

(b) Interest rate risk

The Group is exposed to interest rate risk due to variable interest being earned on its interest bearing bank accounts and the value of the convertible note derivative (as the derivative fluctuates both with the underlying company share price and the risk free rate of interest). The Group adopts a policy of periodically reviewing interest rates to ensure the Group is earning the optimal interest income.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of AUD	2014	2013
Fixed rate instruments		
Cash and cash equivalents	8	7
Convertible note liability	26,464	22,734
In thousands of AUD		
Variable rate instruments		
Cash and cash equivalents	4,334	2,573
Convertible note derivative	1,614	6,142
Security deposits - environmental bond	3,521	3,510

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets or financial liabilities at fair value through profit or loss.

Cash flow sensitivity analysis for variable rate instruments

As at 30 June 2013 and 2014 a sensitivity analysis has not been disclosed in relation to the floating interest deposits and convertible note derivative as the results have been determined to be immaterial to the statement of profit or loss and other comprehensive income.

(c) Equity price risk

The Group is exposed to equity price risk on its financial liabilities and equity investments. The liability fluctuates with the Group's underlying share price until either the convertible note is repaid by the Group or the option holder converts.

The Group has no policy for mitigating potential adversities associated with its own equity price risk given its dependence on market fluctuations. In relation to equity price risk arising on other investments balances, the Group regularly reviews the prices to ensure a maximum return.

Price risk sensitivity

Equity Price Risk

In relation the convertible note derivative, the Group have used an equity price change of 80% (2013: 85%) upper and lower representing a reasonable possible change based upon the Company's historic share price volatility over the last 3 years of trading. At the reporting date an increase of this magnitude would have increased profit and loss by $3,218,000 (2013: $8,809,000). An equal and opposite decrease would have reduced profit and loss by $1,575,000 (2013: $5,914,000).

In relation to the available-for-sale assets, the Group is exposed to equity price risk, however it is not considered to be material.

Section 6 - Other Disclosures (cont.)

6.2 Financial risk management (cont.)

Fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The different valuation methods are called hierarchies and they are described below:

In thousands of AUD	LEVEL	CARRYING AMOUNT 2014	CARRYING AMOUNT 2013	FAIR VALUE 2014	FAIR VALUE 2013
Financial assets & liabilities measured at fair value					
Convertible note derivative	Level 2	1,614	6,142	1,614	6,142
Listed equity securities	Level 1	15	44	15	44
		1,629	6,186	1,629	6,186
Financial assets & liabilities not measured at fair value					
Convertible note liability	Level 2	26,464	22,734	35,142	35,107

Fair value hierarchy

Level 1 - the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - the fair values are measured using inputs (other than quoted prices) that are observable for the asset or liability either directly or indirectly; or

Level 3 - the fair values are measured using inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors and accruals have been excluded from the above analysis as their fair values are equal to the carrying values.

The fair value of convertible note derivatives is determined using a binomial option pricing model. The key drivers of this value include the Company's own share price and the foreign exchange rate. Sensitivities considering reasonably possible movements in these assumptions are included above.

The fair value of the convertible note liability is based on discounted cashflows using 4% - 5% and is classified as level 3 value in the fair value hierarchy due to unobservable input, including own credit risk.

6.3 Related parties

The key management personnel compensation included in 'personnel expenses' (note 2.2) and 'share-based payments' (note 6.1), is as follows:

In thousands of AUD	2014	2013
Short-term employee benefits	1,661	1,798
Other long-term benefits	181	31
Post-employment benefits	108	135
Share-based payments	832	983
	2,782	2,947

Individual directors and executives compensation disclosures

Information regarding individual directors and executive's compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' report in section 7.6.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year end.

Other key management personnel transactions

In March 2012 and subsequently varied on 25 June 2013, 27 September 2013 and 16 September 2014, the Company entered into an $8,000,000 unsecured Bridge Loan with Forrest Family Investments ("FFI"). 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 completed a final capital raising. On 25 June 2013 the parties agreed to vary the terms of the agreement and extend the maturity date to 1 October 2013. On 27 September a further extension to the maturity date was agreed between the parties to 1 October 2014;
- On 15 September 2014 the parties agreed to vary the terms of the agreement and extend the maturity date a further 6 months to 1 April 2015 and subject to the approval of shareholder at a general meeting, grant security over the assets of the Company;
- The lender has previously exercised their 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;
- Interest of 13% per annum is currently payable on the loan; and
- A 1.5% commitment fee was payable upfront and a 1.5% exit fee is payable on the loan amount when the principal is repaid.

6.4 Group entities

Significant subsidiaries

	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
Parent entity			
Poseidon Nickel Ltd		2014	2013
Significant subsidiaries			
Poseidon Nickel Atlantis Operations Pty Ltd	Australia	100%	100%
Poseidon Nickel Olympia Operations Pty Ltd	Australia	100%	100%

In the financial statements of the Company, investments in subsidiaries are measured at cost. The Company has no jointly controlled entities.

Section 6 - Other Disclosures (cont.)

6.5 Joint arrangements

The Company has an agreement with Panoramic Resources Limited ("Panoramic") (who acquired Magma Metals Limited with whom the original agreement was entered into), for Poseidon to earn into the nickel, copper and PGE rights to a large tenement package adjoining the Windarra Nickel Project. The Company can earn a 60% interest in the rights during the earn in period to June 2017 for an expenditure of $3,000,000, following which Panoramic have the right to make an election to either contribute its share to further exploration expenditure, or assign a further 20% interest to Poseidon. The Company currently hold 0% equity interest in the joint venture.

Following the completion of a feasibility study on any project on the tenements and if a decision to mine is made, Panoramic may elect to assign its remaining 20% share to Poseidon in exchange for a 2.5% net smelter royalty.

An amount of $157,069 (2013: $23,566) has been incurred in relation to the joint arrangement which represents exploration expenditure and is included in the total exploration costs expensed in the Statement of Comprehensive Income of $347,000 (2013: $1,334,000). A further $700,000 is required to be incurred before April 2015.

6.6 Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2014 the parent company of the Group was Poseidon Nickel Limited.

In thousands of AUD	2014	2013 Restated*
Results of the parent entity		
Loss for the period	(5,837)	(13,382)
Other comprehensive income / (loss)	-	(262)
Total comprehensive loss for the period	(5,837)	(13,644)
Financial position of the parent entity at year end		
Current assets	4,572	5,362
Total assets	84,134	83,796
Current liabilities	13,113	14,370
Total liabilities	41,270	43,246
Total equity of the parent entity comprising of:		
Share capital	108,875	100,896
Share-based payments reserve	629	472
Accumulated losses	(66,640)	(60,818)
Total equity	42,864	40,550
Exploration expenditure commitments of the parent		
Less than one year	802	3,260
Between one and five years	2,361	520
More than five years	1,030	1,115
	4,193	4,895

*Refer to note 1.8.

6.7 Subsequent events

On 7 July 2014, the Company announced that it has agreed to acquire the Black Swan nickel operation from OJSC MMC Norilsk Nickel for $1,500,000. A 10% deposit has been paid and settlement is expected to occur within a six month period from the signing of the sale agreement.

On 2 September 2014, the Company announced that it has agreed to acquire the Lake Johnson nickel operation from OJSC MMC Norilsk Nickel for $1,000,000. A 10% deposit has been paid and settlement is expected to occur within a six month period from the signing of the sale agreement.

The Company will work through the accounting treatment of these arrangements and the financial impact has not yet been determined.

On 15 September 2014, the Company and the Mindaroo Foundation agreed to extend the maturity date of the $8 million Bridge Loan from Forrest Family Investments for a further 6 months from 1 October 2014 to 1 April 2015. The Company has agreed to provide security over the loan in exchange for the extension. In accordance with ASX listing rules, the Board will provide security over a portion of the loan immediately and will seek the necessary shareholder approval for completion of the security package at a general meeting of shareholders.

6.8 Auditors' remuneration

	CONSOLIDATED	
In AUD	2014	2013
Audit services		
Auditors of the Group - KPMG		
Audit and review of financial reports	61,580	66,349
	61,580	66,349
Services other than statutory audit		
Non-statutory review of financial reports	5,000	82,475
Accounting assistance and advice	-	-
	5,000	82,475
	66,580	148,824

6.9 Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies as set out in the notes to the consolidated financial statements to all periods presented in these consolidated financial statements.

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

a. *Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7);*
b. *AASB 10 Consolidated Financial Statements (2011);*
c. *AASB 11 Joint Arrangements;*
d. *AASB 12 Disclosure of Interests in Other Entities;*
e. *AASB 13 Fair Value Measurement;*
f. *AASB 119 Employee Benefits (2011); and*
g. *Recoverable Amount Disclosures for Non-Financial Assets (amendments to AASB 136) (2013).*

These revised standards have had no material impact on the Group's Financial Statements.

Section 6 - Other Disclosures (cont.)

6.10 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

IFRS 9 *Financial Instruments (2010)*, IFRS 9 *Financial Instruments (2009)*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010) and (2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of these standards is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities, but no impact on the Group's financial liabilities.

IFRS 15 *Revenue from Contracts with Customers*

The AASB has yet to issue the Australian equivalent of this Standard. It is expected that the AASB will issue the Australian Accounting Standard that incorporates IFRS 15 Revenue from Contracts with Customers without modification, as soon as practicable. Once issued in Australia, the effective date for entities with June year-end, will be reporting period commencing 1 July 2017.

The core principle of IFRS 15 Revenue from Contracts with Customers is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

(i) Identify the contract(s) with a customer;
(ii) Identify the performance obligations in the contract;
(iii) Determine the transaction price;
(iv) Allocate the transaction price to the performance obligations in the contract; and
(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group is in the process of assessing the impact of this standard on the financial statements, which has not yet been finalised.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2014

1. In the opinion of the directors of Poseidon Nickel Limited ("the Company"):

   (a) the consolidated financial statements and notes that are set out on pages 58 to 94 and the Remuneration report in section 7.6 in the Directors' report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2014.

3. The directors draw attention to note 1.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

G F Brayshaw

Mr G Brayshaw
Director

Perth
26 September 2014

KPMG

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

Report on the financial report

We have audited the accompanying financial report of Poseidon Nickel Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2014, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1.1 to 6.10 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement whether due to fraud or error. In note 1.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

KPMG

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.1.

Material uncertainty regarding continuation as a going concern

Without modifying our conclusion expressed above, attention is drawn to Note 1.2 in the financial report. The matters set forth in Note 1.2 indicate the existence of a 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.

Restatement of comparative balances

Without modifying our opinion expressed above, we draw attention to Note 1.8 of the financial report which describes certain amounts disclosed in the 30 June 2013 financial report relating to convertible notes and derivatives which have been restated in the comparatives in this financial report.

Report on the remuneration report

We have audited the Remuneration Report included in section 7.6 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Poseidon Nickel Limited for the year ended 30 June 2014, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Trevor Hart
Partner

Perth

26 September 2014

LEAD AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 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 audit for the financial year ended 30 June 2014 there have been:

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

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

KPMG

KPMG

Trevor Hart
Partner

Perth

26 September 2014

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

ASX ADDITIONAL INFORMATION

FOR THE YEAR ENDED 30 JUNE 2014

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

The shareholder information set out below was applicable as at 19 September 2014.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	CLASS OF EQUITY SECURITY	
	Number of Holders	Fully Paid Ordinary Shares
1 - 1,000	1,876	864,029
1,001 - 5,000	2,119	6,212,047
5,001 - 10,000	887	7,234,125
10,001 - 100,000	1,880	66,010,939
100,001 and over	517	433,583,148
	7,279	513,904,288

There were 2,635 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	ORDINARY SHARES	
Name	Number held	Percentage of issued shares
Forrest Family Investments Pty Ltd <Peepingee A/c>	119,999,874	23.35
HSBC Custody Nominees (Australia) Limited	11,534,984	2.24
UBS Nominees Pty Ltd	10,759,104	2.09
Gwynvil Trading Pty Ltd	10,714,286	2.08
National Nominees Limited	10,178,777	1.98
J P Morgan Nominees Australia Limited	9,973,569	1.94
Minderoo Pty Ltd <Andrew & Nicola Forrest Family>	9,825,000	1.91
Citicorp Nominees Pty Limited	8,480,369	1.65
Ong Lay Ann	6,607,143	1.29
Mr David Singleton	5,940,000	1.16
Mr David Graham Lacey & Mrs Deborah Fiona Lacey	5,468,000	1.06
Nefco Nominees Pty Ltd	4,900,000	0.95
R A Pierce Pty Ltd <Roger A Pierce S/F A/c>	4,783,950	0.93
Mr Christopher & Mrs Rena Indermaur <Indermaur Family S/F A/c>	3,468,535	0.67
J & F James Brothers Holdings Pty Ltd	3,389,625	0.66
Mr Roger Anthony Pierce	3,320,100	0.65
Wisegroup Investments Pty Ltd	3,129,040	0.61
Mr Robert Dennis	3,041,567	0.59
Mr John Barry Lemke	3,000,000	0.58
Mr Colin Graham Kimber	2,962,843	0.58
TOTAL	241,476,766	47.00%

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Ordinary shares		
Forrest Family Investments Pty Ltd <Peepingee A/c>	119,999,874	23.35

D. Unquoted equity security holders (as at 19 September 2014)

Options

Mr David Singleton holds 3,000,000 options representing 70% of the total number of November 2016 unlisted options on issue.

Mr Michael Rodriguez holds 1,000,000 options representing 34% of the total number of August 2016 unlisted options on issue.

E. Voting rights

Ordinary shares

Subject to any rights or restrictions for the time being attached to any class or classes (at present there are none) at general meetings of shareholders or classes of shareholders:

(a) each shareholder entitled to vote, may vote in person or by proxy, attorney or representative;

(b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and

(c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each Fully Paid share held, or in respect of which he/she has appointed a proxy, attorney or representative, have one vote per share, but in respect of Partly Paid shares shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

F. Schedule of Tenements

Areas of Interest	Tenements	Economic Entity's Interest
Poseidon Nickel Limited Western Australia		
- 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 License

L = Miscellaneous Licence

CORPORATE DIRECTORY.

Poseidon Nickel Limited

ABN: 60 060 525 206

Incorporated in Australia

Directors

Mr C Indermaur

Mr G Brayshaw

Mr R Dennis

Mr D Singleton

Company secretary

Mr R Kestel

Registered office

Level 2, 100 Railway Road

Subiaco WA 6008

Principal office

Unit 8, Churchill Court

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Subiaco WA 6008

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Email: admin@poseidon-nickel.com.au

Telephone: +61 8 9382 8799

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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

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ABN 60 060 525 206