
POSEIDON NICKEL LIMITED

ABN 60 060 525 206

NOTICE OF GENERAL MEETING

TIME: 10.00am (AWST)

DATE: Wednesday 20 January 2016

PLACE: KPMG Building
Boardroom 1
Level 8
235 St Georges Terrace
PERTH WA 6000

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary on +61 8 6167 6600.

CONTENTS

Business of the Meeting (setting out the proposed Resolutions)	4
Explanatory Statement (explaining the proposed Resolutions)	6
Glossary	19
Schedule 1 – Material Terms of Convertible Note	20
Schedule 2 – Independent Expert's Report	22
Proxy Form	

IMPORTANT INFORMATION

Time and place of Meeting

Notice is given that the Meeting will be held at 10.00am (AWST) on Wednesday 20 January 2016 at:
KPMG Building, Boardroom 1, Level 8, 235 St Georges Terrace, PERTH WA 6000

Your vote is important

The business of the Meeting affects your shareholding and your vote is important.

Voting eligibility

The Directors have determined pursuant to Regulation 7.11.37 of the Corporations Regulations 2001 (Cth) that the persons eligible to vote at the Meeting are those who are registered Shareholders at 9.00am (AWST) on Monday 18 January 2016.

Voting in person

To vote in person, attend the Meeting at the time, date and place set out above.

Voting by proxy

To vote by proxy, please complete and sign the enclosed Proxy Form and return by the time and in accordance with the instructions set out on the Proxy Form.

- post to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne VIC 3001;
- send by facsimile to Computershare Investor Services Pty Limited on 1800 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)

so that it is received not later than 9.00am (AWST) on Monday 18 January 2016.

Proxy Forms received later than this time will be invalid.

Shareholders and their proxies should be aware that changes to the Corporations Act made in 2011 mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes are set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (ie as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution, the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on, the proxy must vote on a poll, and must vote that way (ie as directed); and
- if the proxy is not the chair, the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (ie as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - the proxy is not recorded as attending the meeting; or
 - the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

BUSINESS OF THE MEETING

AGENDA

1. RESOLUTION 1 - APPROVAL FOR THE ISSUE OF NEW US\$17.5 MILLION CONVERTIBLE NOTE (MATURING 30 SEPTEMBER 2020) TO REPLACE EXISTING US\$35 MILLION CONVERTIBLE NOTES (MATURING 31 MARCH 2017)

To consider, and if thought fit, to pass the following resolution as an **ordinary resolution**:

“That, for the purposes of Section 611 (Item 7) of the Corporations Act, ASX Listing Rule 7.1 and for all other purposes, Shareholder approval is given for:

- (a) *the Company to issue a convertible note with a face value of US\$17,500,000, convertible into fully paid ordinary shares in the Company, to Jefferies LLC (Jefferies) (New Convertible Note);*
- (b) *the Company to issue that number of fully paid ordinary shares in the Company (calculated in accordance with the terms of the New Convertible Note) on conversion of the New Convertible Note and in satisfaction of interest payable under the New Convertible Note; and*
- (c) *the increase in the voting power of Jefferies LLC and its associates as a result of the issue of Shares in the Company under paragraph (b) of this Resolution,*

on (and subject to) the terms and conditions set out in the Explanatory Memorandum accompanying this Notice.”

Expert’s Report: Shareholders should carefully consider the Independent Expert’s Report prepared by Ernst & Young for the purposes of Shareholder approval for Resolution 1 under Section 611 (Item 7) of the Corporations Act. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Jefferies LLC and any of its associates or any other person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

2. RESOLUTION 2 - RATIFICATION OF PRIOR ISSUE OF 10,274,158 SHARES TO JEFFERIES LLC

To consider, and if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the previous issue of 10,274,158 Shares to Jefferies LLC for the purpose (being to meet quarterly interest payments under the Existing Convertible Note) and on the terms and conditions set out in the Explanatory Memorandum”.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Jefferies LLC and any associates of Jefferies LLC. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

3. RESOLUTION 3 - RATIFICATION OF PRIOR ISSUE OF 14,300,000 SHARES

To consider, and if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the previous issue of 14,300,000 Shares by way of private placement to sophisticated and professional investors as described in the Explanatory Memorandum”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who participated in the issue and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

4. RESOLUTION 4 - RATIFICATION OF PRIOR ISSUE OF 534,687 SHARES TO SOMERLEY INTERNATIONAL LIMITED

To consider, and if thought fit, to pass with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purposes of ASX Listing Rule 7.4 and for all other purposes, Shareholders ratify the previous issue of 534,687 Shares to Somerley International Limited for the purpose and on the terms and conditions set out in the Explanatory Memorandum”.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Somerley International Limited and any associates of Somerley International Limited. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

GENERAL BUSINESS

To consider any other business that may be brought forward in accordance with the Constitution of the Company or the Corporation Act.

BY ORDER OF THE BOARD



Gareth Jones
Company Secretary

11 December 2015

EXPLANATORY MEMORANDUM

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions.

1. RESOLUTION 1 - APPROVAL FOR THE ISSUE OF NEW US\$17.5 MILLION CONVERTIBLE NOTE (MATURING 30 SEPTEMBER 2020) TO REPLACE EXISTING US\$35 MILLION CONVERTIBLE NOTES (MATURING 31 MARCH 2017)

1.1 Background

On 3 November 2015, the Company entered into agreements under which the Company and Jefferies LLC (**Jefferies**) conditionally agreed to the termination of the Company's four existing convertible notes held by Jefferies with a total face value of US\$35 million (**Existing Convertible Notes**) and the issue to Jefferies of a new convertible note with a face value of US\$17.5 million (**New Convertible Note**).

The four Existing Convertible Notes were originally issued in two tranches in June 2008 and March 2011 and were used to finance the development of the Company's assets, most notably resulting in the updated resource at Mt Windarra and the discovery and drill out of the Cerberus nickel deposit.

The Existing Convertible Notes were bought from the original holder by Jefferies in November 2012. They are to be terminated on the issue of the New Convertible Note.

A summary of the material terms and conditions of the New Convertible Note is set out in Schedule 1 to this Explanatory Memorandum. It is on materially the same terms as the Existing Convertible Notes.

The issue of the New Convertible Note (and therefore the termination of the Existing Convertible Notes) is conditional on the Company first obtaining approvals from its Shareholders as set out in this Notice of Meeting. These approvals must be obtained by 31 January 2016 or else the agreements implementing the above transactions will terminate.

Resolution 1 seeks Shareholder approval for the issue and conversion of the New Convertible Note.

The proposed issue of the New Convertible Note to Jefferies and the issue of Shares in accordance with the New Convertible Note (and the termination of the Existing Convertible Notes) will result in various advantages and disadvantages to the Company which Shareholders should consider prior to exercising their vote. Refer to Section 1.6 for details.

Some of the key advantages include:

- (a) **(42 month maturity extension)**: the maturity date of the New Convertible Note is 30 September 2020, being three and a half years longer than the maturity date of the Existing Convertible Notes (31 March 2017), taking the pressure off the Company's financing obligations and allowing it to focus on obtaining funding to bring its assets into production;
- (b) **(reduced face value)**: the face value of the New Convertible Note (US\$17,500,000) is 50% lower than the face value of the Existing Convertible Notes (US\$35,000,000);
- (c) **(reduced interest payments)**: as the face value of the New Convertible Note has been halved but the interest rate (5% per annum) remains unchanged, Jefferies will receive half the interest under the New Convertible Note that it would have received under the Existing Convertible Notes; and

- (d) (**conversion price**): while the conversion price of the New Convertible Note (\$0.09 per Share) is lower than the conversion price of the Existing Convertible Note (US\$15 million at \$0.40 per Share and \$20 million at \$0.30 per Share), it still represents a substantial premium to the current Share price.

Ernst & Young has prepared the Independent Expert's Report (see Schedule 2) and has provided an opinion that it believes the proposal as outlined in Resolution 1 is **fair and reasonable** to the Shareholders of the Company not associated with Jefferies.

The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the proposed issue of Shares under the New Convertible Note, which is designed to assist all non-associated Shareholders in reaching their voting decision in relation to the Resolutions contained within this Notice of Meeting.

The Directors unanimously recommend that all Shareholders:

- (a) read the Independent Expert's Report in full; and
- (b) vote in **favour** of Resolution 1.

1.2 **Shareholder Approval**

Resolution 1 seeks Shareholder approval, for the purpose of Section 611 (item 7) of the Corporations Act, ASX Listing Rule 7.1 and for all other purposes, for the issue of the New Convertible Note to Jefferies and the issue of Shares on conversion of, in satisfaction of interest payable under, or otherwise under a right set out in, the New Convertible Note.

If Resolution 1 is approved by Shareholders, the Company will issue the New Convertible Note (and the Existing Convertible Notes will be terminated) before 31 January 2016.

The Company will also be entitled to issue Shares in accordance with the New Convertible Note without using the Company's 15% annual placement capacity.

The New Convertible Note is unsecured, has a maturity date of 30 September 2020 with interest of 5% per annum payable from the issue date to the date of maturity. The conversion price of the New Convertible Note will be \$0.09 per Share subject to adjustment as set out in the New Convertible Note Deed. The New Convertible Note may be converted at any time after the date of issue, in whole or in part, subject to and conditional upon compliance with applicable Australian laws. The other material terms of the New Convertible Note are set out in Schedule 1.

1.3 **Section 611 (item 7) of the Corporations Act**

Resolution 1 seeks Shareholder approval for the issue of Shares to Jefferies in accordance with the New Convertible Note for the purposes of Section 611 (item 7) of the Corporations Act.

1.4 **Section 606 of the Corporations Act – Statutory Prohibition**

Section 606(1) of the Corporations Act provides that a person must not acquire a relevant interest in issued voting shares in a listed company if the person acquiring the interest does so through a transaction in relation to securities entered into by or on behalf of the person and, because of the transaction, that person's or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

The voting power of a person in a company is determined in accordance with Section 610 of the Corporations Act. The calculation of a person's voting power in a company involves determining the voting shares in the company in which the person and the person's associates have a relevant interest.

A person (**second person**) will be an "associate" of the other person (**first person**) if:

- (a) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or
 - (iii) a body corporate that is controlled by an entity that controls the first person;
- (b) the second person has entered or proposed to enter in a relevant agreement with the first person for the purpose of controlling or influencing the composition of the company's board or the conduct of the company's affairs; and
- (c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the company's affairs.

Section 608(1) of the Corporations Act provides that a person has a relevant interest in securities if they:

- (a) are the holder of the securities;
- (b) have the power to exercise, or control the exercise of, a right to vote attached to the securities; or
- (c) have power to dispose of, or control the exercise of a power to dispose of, the securities.

It does not matter how remote the relevant interest is or how it arises. If two or more people can jointly exercise one of these powers, each of them is taken to have that power.

Item 7 of Section 611 of the Corporations Act provides an exception to the prohibition in Section 606(1) of the Corporations Act, whereby a person may acquire a relevant interest in a company's voting shares in excess of the prescribed limit with shareholder approval.

1.5 Reason Why Section 611 (item 7) Approval Required

Jefferies currently has a relevant interest in 24,550,967 Shares in the Company, resulting in ownership of 3.35% as at the date of this Notice of Meeting.

In the event that Jefferies is issued Shares in accordance with the New Convertible Note, Jefferies' ownership could exceed 20%.

Section 1.8 below details the potential maximum increase in voting power of Jefferies and its associates as a result of issue of Shares under the New Convertible Note.

Shareholder approval under Item 7 of Section 611 of the Corporations Act is therefore required to enable Jefferies to be issued Shares in accordance with the New Convertible Note.

The information set out below is required to be provided to Shareholders under the Corporations Act and ASIC Regulatory Guide 74 in respect of obtaining approval under Item 7 of Section 611 of the Corporations Act. Shareholders are also referred to the Independent Expert's Report in Schedule 2 of this Explanatory Memorandum.

1.6 Impact on the Company

The proposed issue of the New Convertible Note to Jefferies and the issue of Shares in accordance with the New Convertible Note (and the termination of the Existing Convertible Notes) will result in various advantages and disadvantages to the Company which Shareholders should consider prior to exercising their vote.

The advantages include:

- (a) the maturity date of the New Convertible Note is 30 September 2020, being three and a half years longer than the maturity date of the Existing Convertible Notes (31 March 2017), taking the pressure off the Company's financing obligations and allowing it to focus on obtaining funding to bring its assets into production;
- (b) in the absence of the termination of the Existing Convertible Notes and issue of the New Convertible Note:
 - (i) it is likely the Company will need to repay or refinance the Existing Convertible Notes on 31 March 2017. There can be no assurance the Company will be able to obtain such funding and any equity raising, if successful, would be more dilutionary to Shareholders than the conversion of the New Convertible Note; and
 - (ii) there will be increasing doubts as to the ability of the Company to continue as a going concern in the absence of an ability to source sufficient funds to repay the Existing Convertible Notes;
- (c) while the conversion price of the New Convertible Note (\$0.09 per Share) is lower than the conversion price of the Existing Convertible Note (US\$15 million at \$0.40 per Share and \$20 million at \$0.30 per Share), the conversion price under the New Convertible Note still represents a substantial premium to the current Share price;
- (d) the face value of the New Convertible Note (US\$17,500,000) is 50% lower than the face value of the Existing Convertible Notes (US\$35,000,000) that are to be terminated;
- (e) as the face value of the New Convertible Note has been halved but the interest rate (5% per annum) remains unchanged, Jefferies will receive half the interest under the New Convertible Note that it would have received under the Existing Convertible Notes. To the extent the interest is paid in cash, this will result in greater available cash flow for the Company. To the extent the interest is paid in shares, interest payments under the New Convertible Note will be less dilutive to shareholders than under the Existing Convertible Notes;
- (f) the New Convertible Note is unsecured and does not prevent the Company from assuming additional secured project debt; and
- (g) it is unlikely that any funding obtained by the Company would be on as attractive terms as the proposed New Convertible Note.

The disadvantages include:

- (a) existing shareholders' voting power is reduced due to the dilution expected if Jefferies is issued Shares in accordance with the New Convertible Note;
- (b) the voting power and control of the Company by Jefferies will increase substantially if the New Convertible Note is converted at a time when the value of the Australian dollar is low in comparison to the US dollar and the existing options in the Company are not exercised; and

- (c) Jefferies may seek representation on the Board of the Company upon issue of Shares following conversion of the New Convertible Note. The extent of voting power of Jefferies may determine the extent of its representation on the Board.

The Independent Expert also notes key advantages to the Company and non-associated Shareholders of the proposed issue of the New Convertible Note and the issue of Shares in accordance with the New Convertible Note.

1.7 Information about Jefferies

Jefferies is a New York based global investment bank. It is a wholly owned subsidiary of Leucadia, a NYSE listed diversified investment company with a market capitalisation of approximately US\$7.3 billion.

Jefferies currently holds 24,550,967 Shares in the Company. As at the date of this Notice, no associates of Jefferies have a relevant interest in shares in the Company.

Additional background information on Jefferies is set out in section 5.2.4 of the Independent Expert's Report.

1.8 Maximum increase in voting power of Jefferies, and its associates, and total voting power, as a result of the acquisition under the New Convertible Note

Shares can be issued under the New Convertible Note in two circumstances:

- (a) upon conversion; and
- (b) as satisfaction of an interest payment.

Each of these circumstances and its impact on the voting power of Jefferies and its associates is discussed below.

The following tables and paragraphs assume that:

- (a) no additional Shares are issued; and
- (b) there is no adjustment to the conversion price of A\$0.09 per Share in accordance with the terms of the New Convertible Note.

Shareholders should note that Jefferies and its associates may increase or decrease its/their voting power prior to the acquisition of Shares under the New Convertible Note. Any increase or decrease prior to the acquisition of Shares under the New Convertible Note will have a corresponding impact on the calculation of the maximum increase in the voting power, and the total voting power, of Jefferies and its associates.

Issue of Shares on Conversion of New Convertible Notes

Set out in Table 1 below is the potential maximum increase in the voting power of Jefferies and its associates upon conversion of the New Convertible Note. The table assumes an exchange rate between the Australian dollar and the United States dollar of A\$0.75:US\$1.00 and is based on the voting power of Jefferies in the Company as at the date of this Notice of Meeting. It assumes that no other Shares are issued before the conversion date.

Table 1 - Conversion of New Convertible Notes

	Total Shares on Issue	Non-associated Shareholders	Jefferies
Current	732,011,258	707,460,291	24,550,967
Shareholding	100%	96.65%	3.35%
Conversion of New Convertible Note	259,259,259	-	259,259,259
Total	991,270,518	707,460,291	283,810,226
Shareholding	100%	71.37%	28.63%

The table shows that, if the New Convertible Note is fully converted, Jefferies' relevant interest would increase from 3.35% to a maximum of 28.63% while the collective relevant interests of non-associated Shareholders would reduce from 96.65% to 71.37%.

The above table does not allow for the possibility of Shares being issued to satisfy interest payments due under the New Convertible Note.

Issue of Shares in lieu of interest under the New Convertible Note

Under the terms of the New Convertible Note, the Company can elect to satisfy interest payable on the unconverted New Convertible Note (converted to AUD\$) by the issue of Shares at the lesser of the conversion price and the average of the volume weighted average price (**VWAP**) of Shares for the five days up to but not including the interest payment date.

The Company may elect to pay cash or issue Shares to satisfy interest payments each time a quarterly interest payment becomes due.

Set out in Table 2 below is the potential maximum increase in the voting power of Jefferies and its associates assuming the New Convertible Note is fully converted and all interest payments for the period 30 September 2015 to 30 September 2020 (the maturity date) are met through the issue of Shares. The table assumes an exchange rate between the Australian dollar and the United States dollar of A\$0.75:US\$1.00 and that no other Shares are issued before the maturity date.

Table 2 - Conversion of New Convertible Notes and issue of Shares for interest

	Total Shares on Issue	Non-associated Shareholders	Jefferies
Current	732,011,258	707,460,291	24,550,967
Shareholding	100%	96.65%	3.35%
Interest Payment Shares	97,222,222	-	97,222,222
Conversion of New Convertible Note	259,259,259	-	259,259,259
Total	1,088,492,739	707,460,291	381,032,448

Shareholding	100%	64.99%	35.01%
--------------	------	--------	--------

The table shows that, if the New Convertible Note is fully converted, and all interest payments for the period 30 September 2015 to 30 September 2020 (the maturity date) are met through the issue of Shares, Jefferies' relevant interest would increase from 3.35% to a maximum of 35.01% while the collective relevant interests of non-associated Shareholders would reduce from 96.65% to 64.99%.

Change in A\$:US\$ exchange rate and Share price

The number of Shares issued to Jefferies and conversion of the New Convertible Note, or in satisfaction of interest payments, will ultimately depend on the A\$:US\$ exchange rate at the time of issue and the price of Shares. The following table shows the effect of a change in A\$:US\$ exchange rate on the maximum voting power Jefferies may obtain.

	VWAP Share Price		
A\$:US\$	\$0.03	\$0.06	\$0.09
\$0.65	43.65%	38.12%	36.03%
\$0.75	40.33%	35.01%	33.01%
\$0.85	37.52%	32.40%	30.50%

1.9 Intentions in relation to the Company

Jefferies has informed the Company that as at the date of this Notice of Meeting and on the basis of the facts and information available to it, if Shareholders approve Resolution 1 that it:

- (a) has no current intention of making any significant changes to the business of the Company in a manner that may be detrimental to non-associated Shareholders;
- (b) does not intend to redeploy any fixed assets of the Company;
- (c) does not have any current intention to inject further capital into the Company;
- (d) does not intend to transfer any property between the Company and Jefferies or any person associated with it other than as set out in this Notice;
- (e) has no current intention to change the Company's existing policies in relation to financial matters or dividends in a manner that may be detrimental to non-associated Shareholders;
- (f) has no current intentions regarding the future employment of the present employees of the Company; and
- (g) has no current intention to change the Board.

1.10 ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

The effect of Resolution 1 will be to allow the Company to issue the New Convertible Note during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using any of the Company's 15% annual placement capacity.

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the New Convertible Note:

- (a) the maximum number of securities to be issued is one, being the New Convertible Note;
- (b) the Convertible Note is convertible into Shares at A\$0.09 per Share. Assuming an exchange rate of A\$0.75AUD:US\$1.00, the US\$17.5 million New Convertible Note would have a face value of A\$23,333,333 and could be converted into a maximum of 259,259,259 Shares. The actual number of Shares into which the New Convertible Note can be converted will depend on the exchange rate at the time of conversion;
- (c) if all of the interest payments due over the life of the New Convertible Note are satisfied through the issue of Shares, assuming an exchange rate of A\$0.75AUD:USD\$1.00, and an issue price of A\$0.06 per Share, a maximum of 97,222,222 Shares would be issued. The actual number of Shares issued will depend whether the Company elects to meet interest payments by the issue of Shares and the exchange rate at the time of conversion;
- (d) the New Convertible Note will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules);
- (e) the issue price of the New Convertible Note will be US\$17,500,000;
- (f) the New Convertible Note will be issued to Jefferies, which is not a related party of the Company;
- (g) a summary of the material terms of the New Convertible Note are set out in Schedule 1; and
- (h) the funds raised from the issue of the New Convertible Note will be used to repay the Existing Convertible Notes. This will occur via a book entry round robin of funds, with no cash actually being exchanged.

1.11 **Interests and Recommendations of Directors**

None of the Directors have any personal interest in the outcome of Resolution 1.

Based on the information available, including that contained in this Explanatory Memorandum and the Independent Expert's Report, all of the Directors consider that the issue of the New Convertible Note and issue of Shares to Jefferies in accordance with the New Convertible Note the subject of Resolution 1 is in the best interests of the Company.

The Directors are not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 1.

Each of the Directors approved the proposal to put Resolution 1 to Shareholders and each of the Directors recommends that Shareholders vote in favour of Resolution 1.

1.12 **Role of the Independent Expert**

The Independent Expert's Report, which is provided in Schedule 2, assesses whether the proposal outlined in Resolution 1 is fair and reasonable to the Shareholders who are not associated with Jefferies.

The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the proposed issue of Shares under the New Convertible Note, which is designed to assist all non-associated Shareholders in reaching their voting decision in relation to the Resolutions contained within this Notice of Meeting.

Ernst & Young has prepared the Independent Expert's Report and has provided an opinion that it believes the proposal as outlined in Resolution 1 is **fair and reasonable** to the Shareholders of the Company not associated with Jefferies.

The Directors recommend that all Shareholders read the Independent Expert's Report in full.

2. **RESOLUTION 2 - RATIFICATION OF PRIOR ISSUE OF 10,274,158 SHARES TO JEFFERIES**

2.1 **General**

In accordance with the terms and conditions of the Existing Convertible Notes, interest of 5% per annum is payable quarterly in arrears, payable at the Company's election in cash or through the issue of Shares in the Company.

Resolution 2 seeks ratification by Shareholders pursuant to ASX Listing Rule 7.4 for the issue of 10,274,158 Shares which have already been issued by the Company to Jefferies representing the September 2015 quarter interest payment under the Existing Convertible Notes.

The Shares were issued under the Company's annual 15% placement capacity in accordance with ASX Listing Rule 7.1.

ASX Listing Rule 7.1 provides that subject to certain exceptions, (none of which are relevant here) prior approval of shareholders is required for an issue of securities by a company if the securities will, when aggregated with the securities issued by the company during the previous 12 months, exceed 15% of the number of the Shares on issue at the commencement of that 12 month period.

ASX Listing Rule 7.4 allows an issue of securities, for which Shareholder approval was not first obtained, to not be counted towards the 15% placement capacity when Shareholder approval for that issue is subsequently obtained. It provides that an issue of securities is deemed to have been made with Shareholder approval if ASX Listing Rule 7.1 is not breached at the time the securities were issued and Shareholders subsequently approve (ratify) the issue.

Immediately prior to the issue of Shares to Jefferies, Poseidon had 61,947,330 Shares available under its annual 15% placement capacity, therefore the issue did not breach ASX Listing Rule 7.1 and the issue had not previously been approved by the Shareholders of the Company in general meeting.

If Shareholders ratify the issue of the 10,274,158 Shares, these Shares will not be counted as a new issue for the purposes of the annual 15% placement capacity.

2.2 **Technical information required by ASX Listing Rule 7.4**

ASX Listing Rule 7.5 requires the following information to be provided to Shareholders so that they can assess the merits of Resolution 2:

- (a) the total number of Shares that were issued to Jefferies was 10,274,158 Shares;
- (b) the deemed interest payment for the September quarter payable in Shares was as follows:

Number of Shares	Deemed Issue Price	Deemed Interest Payment	Issue Date
10,274,158	0.055	\$565,077 for September 2015 quarter	5 October 2015

- (c) the deemed Issue Price of the Shares was \$0.055 per Share;
- (d) the Shares issued were all fully paid ordinary shares in the capital of the Company and issued on the same terms and conditions as the Company's existing Shares on the 5 October 2015;
- (e) the Shares were issued to Jefferies;
- (f) no funds were raised from the issue of the Shares as they were issued in lieu of a cash payment for the September 2015 interest due and payable under the Existing Convertible Notes;
- (g) Jefferies is not a related entity of Poseidon.

The Board recommends Shareholders vote in favour of Resolution 2 as it allows the Company to retain the flexibility to issue further securities representing up to 15% of the Company's share capital during the next 12 months without the requirement to obtain prior Shareholder approval.

Furthermore, the Company was able to preserve its cash reserves as a result of being able to offer Shares in payment of quarterly interest payments.

The Company, in consultation and agreement with Jefferies, intends to satisfy, for the foreseeable future, the quarterly interest payment through the issue of Shares, thereby reserving the Company's cash balance.

3. RESOLUTION 3 - RATIFICATION OF PRIOR ISSUE OF 14,300,000 SHARES

3.1 General

Poseidon announced on 12 October 2015 through the release of an Appendix 3B that it had completed a private placement as part of the Company's ongoing capital raising initiatives to raise working capital.

Resolution 3 now seeks ratification by Shareholders pursuant to ASX Listing Rule 7.4 for the issue of 14,300,000 Shares, which have already been issued by the Company.

The fully paid Ordinary Shares were issued under the Company's annual 15% placement capacity in accordance with ASX Listing Rule 7.1.

A summary of ASX Listing Rule 7.4 has been disclosed in Resolution 2 above.

As at the respective issue date, the Company had sufficient Shares available under its annual 15% placement capacity, therefore the issues did not breach ASX Listing Rule 7.1 and the issue had not previously been approved by the Shareholders of the Company in general meeting.

If shareholders ratify the issue of the 14,300,000 Shares, these Shares will not be counted as a new issue for the purposes of the annual 15% placement capacity.

3.2 **Technical information required by ASX Listing Rule 7.4**

ASX Listing Rule 7.5 requires the following information to be provided to Shareholders so that they can assess the merits of Resolution 3:

- (a) the total number of Shares issued in the private placement was 14,300,000 Shares;
- (b) the issue price was \$0.0525 (being the five (5) day VWAP to 2 October 2015) per Share for a total cash consideration of \$750,750;
- (c) the Shares issued were all fully paid ordinary shares in the capital of the Company and issued on the same terms and conditions as the Company's existing Shares;
- (d) the Shares were issued to sophisticated and investor clients of Pershing Australia Nominees Pty Ltd, none of whom were related parties of the Company. Pershing Australia Nominees Pty Ltd is not a related entity of the Company; and
- (e) funds raised from the private placement have been applied to care and maintenance programs.

The Board considers that the ratification of the issue of the Shares described above is beneficial for the Company as it provides the flexibility to issue up to the maximum number of securities permitted under ASX Listing Rules 7.1 in the next 12 months without further shareholder approval should it be required.

4. **RESOLUTION 4 - RATIFICATION OF PRIOR ISSUE OF 534,687 SHARES TO SOMERLEY INTERNATIONAL LIMITED**

4.1 **General**

During the last twelve (12) months the Company has completed a number of capital raising initiatives and have received assistance from several entities regarding introductions to networks and brokering services. In recognition of these professional services involved in securing introductions, the Company has entered into arrangements with a number of entities whereby the payment of the fees are to be satisfied through the issue of Shares, thereby retaining the Company's cash balances.

Resolution 4 now seeks ratification by Shareholders pursuant to ASX Listing Rule 7.4 for the issue of 534,687 Shares, which have already been issued by the Company to Somerley International Limited in satisfaction of a cash consulting fee for financial advice on public and private transactions in the Asia region.

The 534,687 fully Shares were issued under the Company's annual 15% placement capacity in accordance with ASX Listing Rule 7.1.

A summary of ASX Listing 7.4 has been disclosed in Resolution 2.

As at the date of issue, the Company had 76,247,330 Shares available under its annual 15% placement capacity, therefore the issue did not breach ASX Listing Rule 7.1 and the issue had not previously been approved by the Shareholders of the Company in general meeting.

If shareholders ratify the issue of the 534,687 Shares, these Shares will not be counted as a new issue for the purposes of the annual 15% placement capacity.

4.2 **Technical information required by ASX Listing Rule 7.4**

ASX Listing Rule 7.5 requires the following information to be provided to Shareholders so that they can assess the merits of the Resolutions:

- (a) 534,687 Shares were issued at a deemed issue price of \$0.05317 per Share which equated to a broker fee of \$28,429;
- (b) Shares issued were all fully paid ordinary shares in the capital of the Company and issued on the same terms and conditions as the Company's existing Shares;
- (c) the 534,687 Shares were issued to Somerley International Limited or their nominee(s), a leading overseas independent corporate finance advisory house;
- (d) no funds will be raised from the issue as the Shares were issued to Somerley International Limited in satisfaction of a consulting fee; and
- (e) Somerley International Limited is not a related entity of the Company.

The Board considers that the approval of the issue of the Shares to Somerley International Limited described above is beneficial for the Company as it provides the flexibility to issue further Shares under ASX Listing Rule 7.1 in the next 12 months (without further shareholder approval), should it be required.

Furthermore the decision to issue Shares for consulting fees resulted in the preservation of cash resources by the Company.

4.3 **Summary**

If Resolutions 2 to 4 are not passed, the Shares the subject of these Resolutions will be counted towards the 15% limits under ASX Listing Rule 7.1 and the Company's available capacity will be reduced until 12 months has passed from the date of the last of these issues.

Accordingly, the Directors unanimously recommend that Shareholders vote in favour of Resolutions 2 to 4 and the Directors themselves will be voting in favour of Resolutions 2 to 4.

RESPONSIBILITY FOR INFORMATION

The information concerning the Company contained in this Explanatory Memorandum, including information as to the views and recommendations of the Directors has been prepared by the Company and is the responsibility of the Company.

Ernst & Young has prepared the Independent Expert's Report in relation to Resolution 1 and takes responsibility for that report and has consented to the inclusion of that report in this Explanatory Memorandum. Ernst & Young is not responsible for any other information contained within the Explanatory Memorandum.

Shareholders are urged to read the Independent Expert's Report to understand the scope of the report, the methodology of the assessment, the sources of information and the assumptions made.

Certain statements in the Explanatory Memorandum relate to the future. Those statements involve known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by those statements. These statements reflect views only as of the date of the Explanatory Memorandum. Neither the Company nor any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward looking statements in the Explanatory Memorandum will actually occur and you are cautioned not to place undue reliance on those forward looking statements.

The Explanatory Memorandum does not take into account the individual investment objectives, financial situation and particular needs of individual Shareholders. If you are in doubt as to what you should do you should consult your legal, financial or professional adviser prior to voting.

GLOSSARY

\$ or AUD\$ means Australian dollars.

General Meeting or **Meeting** means the meeting convened by the Notice of Meeting.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited or the Australian Securities Exchange, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

AWST means Western Standard Time as observed in Perth, Western Australia.

Board means the current board of directors of the Company.

Business Days means any day other than a Saturday, Sunday or public holiday in the State of Western Australia.

Company means Poseidon Nickel Limited (ABN 60 060 525 206).

Constitution means the Company's constitution.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a current director of the Company.

Ernst & Young means Ernst & Young Transaction Advisory Services Limited.

Explanatory Memorandum means the Explanatory Memorandum accompanying the Notice of Meeting.

Existing Convertible Notes means the two convertible notes originally issued on 25 June 2008 (as amended) and two convertible notes originally issued 30 March 2011.

Jefferies means Jefferies LLC.

New Convertible Note means the convertible note the Company has conditionally agreed to issue to Jefferies with a face value of US\$17.5 million.

New Convertible Note Deed means the New Convertible Note Deed between the Company and Jefferies executed 3 November 2015.

Notice of Meeting or **Notice of General Meeting** means this notice of general meeting including the Explanatory Memorandum.

Resolutions means the resolutions set out in the Notice of Meeting or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

US\$ means United States dollars.

SCHEDULE 1 – MATERIAL TERMS OF NEW CONVERTIBLE NOTE

A summary of the material terms and conditions of the New Convertible Note is as follows:

- (a) The face value of the New Convertible Note is US\$17.5 million.
- (b) The New Convertible Note has a maturity date of 30 September 2020.
- (c) The New Convertible Note is convertible at any time into Shares at the election of the holder at A\$0.09 per Share subject to certain dilutionary adjustments for dividends and rights issues as set out below.

- (i) Where the Company pays or makes any dividend, the conversion price of the New Convertible Note shall be reduced by multiplying the conversion price by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the conversion price then in effect; and

B is the portion of the fair market value (converted to Australian dollars) of the aggregate dividend attributable to one Share.

- (ii) If any Marketable Securities (as defined in the Corporations Act, other than Shares, options or securities convertible into Shares), or rights to such Marketable Securities, are issued or granted to Shareholders as a class by way of rights, the conversion price shall be adjusted by multiplying the conversion price by the following fraction:

$$\frac{A - B}{A}$$

where:

A is the conversion price then in effect; and

B is the fair market value on the trading day immediately preceding the ex-date of the portion of the rights attributable to one Share (translated into Australian Dollars).

- (d) Interest is payable at 5% per annum quarterly in arrears on each of 31 March, 30 June, 30 September and 31 December. The Company may elect to satisfy interest payments by the issue of Shares at the lesser of the Conversion Price or the average of the volume weighted average prices of a Share, as quoted on ASX, for five (5) consecutive trading days up to but not including the interest payment date.
- (e) Shares issued on conversion of the New Convertible Note will upon issue be fully paid and rank equally in all respects with existing Shares on issue on the conversion date.
- (f) The Company will apply for quotation by ASX of all Shares issued pursuant to the conversion of New Convertible Note immediately upon issue.
- (g) The New Convertible Note is unsecured and no charge or any other form of security will be taken over the Company or its assets.
- (h) The New Convertible Note is transferrable in whole or in part in compliance with all applicable laws and regulations.

- (i) In the event of a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company, the number of Shares to be issued upon exercise of the New Convertible Note and the conversion price will be reconstructed in the same proportion as the issued capital of the Company is reconstructed and in a manner which will not result in any additional benefits being conferred on or detriment suffered by the holder which are not conferred on or suffered by Shareholders and otherwise in accordance with the ASX Listing Rules.

SCHEDULE 2 – INDEPENDENT EXPERT’S REPORT
