POSEIDON NICKEL LIMITED
ABN 60 060 525 206

Annual Financial Report
For the year ended 30 June 2010

Poseidon Nickel Limited

Contents

Poseidon Nickel Limited
Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

Mr A Forrest
Mr C Indermaur
Mr R Monti
Mr G Brayshaw
Mr D Singleton

Company Secretary

Mr R Kestel

Registered Office

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Subiaco WA 6008

Principal Office

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Subiaco WA 6008
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Postal Address

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West Perth WA 6872

Auditors to the Company

KPMG
Chartered Accountants
235 St George's Terrace
Perth WA 6000

Share Registry

Computershare Investor Services Pty Ltd.
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia

Poseidon Nickel Limited
Directors' report
For the year ended 30 June 2010

The directors present their report together with the financial report of Poseidon Nickel Limited ('the Company') and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2010 and the auditor's report thereon.

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Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

1. Directors

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

Name, and independence status	Age	Experience, qualifications, special responsibilities and other directorships
Mr Andrew Forrest **Chairman & Non-Executive Director** Appointed 2 July 2007	48	Mr Forrest was elected as Non-Executive Chairman of Poseidon Nickel Ltd at its General Meeting of Shareholders on 2 July 2007. He has been Chief Executive Officer of the Fortescue Metals Group Ltd ("FMG") since July 2003 and was Interim Chairman from then until May 2005. Mr Forrest is Chairman of the Australian Children's Trust. His previous roles include Chief Executive Officer and Deputy Chairman of Anaconda Nickel Limited (now Minara Resources Ltd), Chairman of the Murrin Murrin Joint Venture, Non Executive Chairman of Moly Mines Ltd, Non Executive Chairman of Arafura Pearls Ltd, Non-Executive Director of Sibera Mining Corporation Limited (now Monarch Gold Ltd), Director of the West Australian Chamber of Minerals and Energy and President of Athletics Australia. Mr Forrest has extensive experience in the mining sector with specialist expertise in major project finance. He is an adjunct professor of the China Southern University and is a long-standing fellow of the Australian Institute of Mining and Metallurgy.
Mr Christopher Indermaur **Non-Executive Director** *Member of:* Audit & Risk Management Committee *Chairman of:* Remuneration & Nomination Committee Corporate Governance Committee Appointed 2 July 2007 Resigned 30 September 2008 Re-appointed 2 April 2009	52	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 Richard Monti **Non-Executive Director** *Member of:* Audit & Risk Management Committee Remuneration & Nomination Committee Corporate Governance Committee Appointed 4 April 2007	46	Mr Monti has qualifications in Geology (Bachelor of Science with Honours from the University of Western Australia) and Finance (Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia). He has gained broad experience over a twenty four year career working in the technical, corporate, marketing and financial fields of the international exploration and mining industry. He has worked for a number of international and Australian companies including Anaconda Nickel, RTZ Exploration, the North Group, the Normandy Group and Ashton Gold. During a seven year term at Anaconda Nickel he held General Manager positions in technical, commercial and marketing fields. At Anaconda, Mr Monti led the team that built a 1.8 billion tonne resource base of nickel and cobalt through efficient and innovated resource definition and low-cost acquisition programmes.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2009

1. Directors (continued)

Name, and independence status	Age	Experience, qualifications, special responsibilities and other directorships
Mr Richard Monti (continued)	46	Six years ago he founded Ventnor Capital Pty Ltd, a consultancy which provides corporate advisory and investment banking services to junior and mid-cap listed resource companies. Mr Monti is also a Director of Transit Holdings Ltd, Whinnen Resources Ltd, Jaguar Minerals Ltd and Azimuth Resources Ltd and has previously held positions on the board of Bathurst Resources Ltd and a number of other private mining companies.
Mr Geoff Brayshaw **Non-Executive Director** *Member of:* Remuneration & Nomination Committee Corporate Governance Committee *Chairman of:* Audit & Risk Management Committee Appointed 1 February 2008	60	Mr Brayshaw was formerly an audit partner with the Perth firm of BDO Kendalls, 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 is a director of a number of public and private companies, including independent director and audit committee chairman of both Fortescue Metals Group Limited and AVEA Insurance Limited. He also sits on the board of the Small Business Development Corporation.
Mr David Singleton **Managing Director & Chief Executive Officer** *Member of:* Corporate Governance Committee Appointed 1 February 2008	50	Mr Singleton has a wide range of operational and management experience including as Managing Director and CEO at Clough Limited and CEO of Alenia Marconi Systems based in Rome, Italy. He was also the Group Head of Strategy, Mergers & Acquisitions with BAE SYSTEMS in London, which through consolidation became one of the largest Aerospace and Defence Companies in the world. He has a degree in Mechanical Engineering from University College, London, has recently become a non-executive director of Triton Gold Ltd and was formerly a director of PT Petrosea Tbk. Mr Singleton was appointed as Chief Executive Officer on 2 July 2007.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

2. Company Secretary
Mr Kestel is both a Chartered Accountant and Certified Practising Accountant and was a 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 and Nomination Committee Meetings		Corporate Governance Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**	**A**	**B**
Mr A Forrest	4	4	-	-	-	-	-	-
Mr C Indermaur	4	4	4	4	4	4	4	4
Mr R Monti	4	4	4	4	4	4	4	4
Mr D Singleton	4	4	-	-	-	-	4	4
Mr G Brayshaw	4	4	4	4	4	4	4	4

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

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 2010, after income tax is ($4,050,000) (2009: profit of $7,441,000).

6. Review of Operations

Windarra Nickel Project

Overview
The impact of the GFC that gained momentum during the later stages of 2008 and into 2009 had a significant impact on Poseidon during the financial year. The immediate impact was to curtail and then bring to a close the resource drilling and underground refurbishment work which up until then, had been proceeding at a pace on the site. The GFC had the immediate impact of freezing access to capital to many parts of the industry and was particularly brutal in the exploration business. Poseidon had expected during 2009 to have accessed the US$35m convertible note that had previously been negotiated and was linked to the US$15m drawn in June 2008. These funds would have financed Poseidon's operations through to pre-production including the full refurbishment of the underground mine at Mt Windarra, the completion of underground reserve drilling, the update of the concentrator feasibility study and the regional Windarra exploration programme. Poseidon continued to believe that access to these funds would occur during early 2010 but the uncertainty caused by the unexpected announcement of the RSPT by the Australian Government and continuing issues, particularly in the US credit markets, has meant that whilst we remain engaged with this financing route, the timing of availability of these funds may not meet our needs. As a consequence, Poseidon is now engaged with alternative and potentially complimentary sources of capital and will report on progress in the coming period.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

6. Review of Operations (continued)
Windarra Nickel Project (continued)
Overview (continued)

Notwithstanding this we have made considerable progress especially since late 2009. One of the key beliefs shared by the Board and Management of Poseidon is the tremendous prospectivity of the Windarra nickel belt. To recap, Poseidon holds under a State Act of Parliament, a lease which covers a 24km long ultramafic which has produced 2 of Australia's larger mines in the north at Mt Windarra and 18kms along the strike at South Windarra. The reason for the belief in further ore finds is that crucially there have been 2 major developments in nickel exploration since the 1970's and 1980's. The first of these is the geological understanding of the formation of nickel sulphide ore bodies in this region has changed considerably. Pioneering work by CSIRO and proven in the Kambalda region of WA is that volcanic lava channels are the key hosts to nickel sulphide ore bodies. The geological exercise then becomes to identify these lava channels in the ultramafic rocks and to test them for prospectivity. Such an approach greatly reduces the area of direct interest in any exploration process. Experience in Kambalda and other areas indicates that in host areas, these channels are typically 1.5-2km apart indicating that several would likely be found between Mt Windarra and South Windarra.

The second issue has been the development of underground electromagnetic testing which involves passing a sensor down several hundred metres of drill hole and looking for an electromagnetic coupling. The range of these devices is a radius of 50-100m radius from the drill hole throughout its depth and means that ore bodies missed by the drill hole can be detected.

During 2009, in what has been one of the most significant developments, Poseidon's geology team identified clearly, 7 such lava channels between Mt Windarra and Cerberus. In July 2010, these channels were tested using surface electromagnetics to prioritise the channels for drilling which commenced in August 2010 and has been reported on by Poseidon. Drilling of these targets is now underway.

The Company has undertaken two capital raisings for $2 million and $3 million respectively during the past six months in order to support the exploration programme. The achievements to date and priorities for the near term are:

- Completed a geochemical soil sampling programme over a large portion of the Windarra tenement;
- Initiated detailed mapping and identification of lava channel positions:
- Completed detailed and localised electromagnetic testing of four of the the seven lava channels at surface and determined drilling priorities;
- Undertaking drill testing of the identified lava channels which commenced in August 2010;
- Undertaking additional resource drilling at Cerberus to further assist in defining the resource; and
- Undertake further project evaluation at the Windarra Project including at the Mt Windarra underground mine.

The Company reached agreement to sell its shares and interests in the Salman South and Mame gold prospects located in Southern Ghana to Hodges Resources Ltd ("Hodges"). As consideration, Hodges will pay $750,000 and issue 1,250,000 Ordinary shares. The agreement is contingent on Poseidon obtaining approval of the relevant Minister of the Government of the Republic of Ghana to transfer the prospecting licence to Niagara Wells Mining Company Limited which is currently in progress.

Under the terms of the agreement, Poseidon has an option to buy-back a 30% interest in the project, at market value, upon Hodges defining a JORC compliant 400,000 ounce gold resource. In the event that Poseidon does not make such an election, Hodges will pay a final payment of $500,000 and issue a further 500,000 Ordinary shares.

In addition, throughout the year, the Company has rigorously examined a number of potential acquisitions with the intent to add significant value to the core Windarra Nickel Project. Whilst the Company continues to pursue opportunities, it will never compromise on the key driver to deliver increased shareholder value.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

6. Review of Operations (continued)

Windarra Nickel Project (continued)

Overview (continued)

Underground operations

Dewatering of the underground mine recommenced in May 2010 and the water level has been lowered to approximately 165 metres below surface. The very slow recovery of the water level over the 14 month period when the pumps were not operated confirmed the historical information that water inflow into the mine from ground water sources is low and unlikely to cause problems during the mine refurbishment or future mine development.

Essential equipment has been installed in the underground decline and further heavy mining equipment has been delivered to the site so that decline refurbishment can recommence with a short lead time. The Company has already completed approximately 20% of the necessary refurbishment work at Mt Windarra and will complete the remaining work when financing is completed in order resume drilling the resource.

Exploration

To date, Poseidon has defined the following **Indicated and Inferred Resources** for the Windarra Nickel Project:

6.28MT of JORC compliant resources at an average grade of 1.65% Ni, containing 103,446t of nickel metal.

This comprises the following JORC compliant resource estimations within the Windarra Nickel Project as detailed below:

5,704,574t at 1.71% Ni for 97,331t of contained nickel metal in sulphide ore, and
577,694t at 1.06% Ni for 6,115t of contained nickel metal in oxide ore.

Windarra Nickel Project: Sulphide Resource Statement

Windarra Nickel Project Sulphides	Cut Off Grade	Resource Category								
		Indicated			Inferred			TOTAL		
		Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Mt Windarra	0.75%	1,017,429	1.24	12,578	2,751,087	1.79	49,185	3,768,516	1.64	61,764
South Windarra	0.90%	820,326	1.15	9,434	82,404	1.05	864	902,730	1.14	10,298
Cerberus	1.50%				1,033,328	2.45	25,269	1,033,328	2.45	25,269
Total Sulphide		1,837,755	1.20	22,012	3,866,819	1.95	75,318	5,704,574	1.71	97,331

Windarra Nickel Project: Oxide Resource Statement

Windarra Nickel Project Oxides	Cut Off Grade	Resource Category								
		Indicated			Inferred			TOTAL		
		Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Woodline Well	0.75%				266,382	1.38	3676	266,382	1.38	3676
South Windarra Dumps	0.50%	311,312	0.78	2,439				311,312	0.78	2,439
Total Oxide		311,312	0.78	2,439	266,382	1.38	3676	577,694	1.06	6,115

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

6. Review of Operations (continued)
Windarra Nickel Project (continued)

Exploration (continued)

Following the exciting greenfields discovery of the Cerberus Deposit within the company's Denny Bore Project area in 2008, Poseidon believes that it has discovered the key to unlocking further resources in the Windarra Ultramafic belt. Cerberus was the first discovery at the project since 1971, led by a modern understanding of the formation and location of nickel sulphide mineralisation, as well as the usage of modern exploration techniques such as surface and down-hole electromagnetics, digital databases and 3D computer modelling programs.

The knowledge that the company's geologist gained from the Cerberus discovery led the geological team to go back to basics and implement traditional methods such as soil sampling and field mapping which are commonly overlooked nowadays. With the advancement in technology, traditional exploration methods such as soil geochemistry have taken a massive step forward. The range of elements now offered and the ultra-low detection limits now achievable, present new opportunities even in areas that were historically heavily sampled such as the Windarra belt.

Whilst WMC drilled areas which had high surface nickel geochemistry, Poseidon is testing areas which have multi-element vectors such as MgO rich rocks with associated Ni-Cu anomalies and coincident Ti dioxide depletion. These areas were not drill tested by WMC. Field inspection and detailed mapping of Poseidon's geochemical anomalies has uncovered olivine-cumulate textured rocks associated with komatiitic lava channels, which are the host rocks associated with nickel sulphide mineralisation at Windarra and throughout WA's productive nickel sulphide belts.

These anomalies have been carefully inspected in the field, mapped in detail and the rocks analysed using the company's XRF Niton gun. This work provides clear confirmation that all targets have the potential to host nickel sulphide mineralisation within the newly identified komatiite lava channels. As predicted, the lava channels are typically 1.5 km to 2 km apart. The presence of a lava channel at Windarra is believed to be essential to the formation of a nickel sulphide resource but does not guarantee it.

From the above work, Poseidon has identified seven prospective lava channel position along the belt between Mt Windarra and South Windarra. The four northern target areas each display geological features which are consistent with potential nickel-bearing lava channel position and were selected accordingly for Fixed Loop Electro Magnetic (FLEM) testing. The selected target areas were surveyed using a deep penetrating SQUID (Superconducting Quantum Interference Device) FLEM method. At each target a fixed Figure 8 loop was positioned over the lava channel position so as to discriminate between signals returned from potential nickel sources within the Windarra Ultramafic host and from signals associated with the underlying, highly magnetic, basal Banded Iron Formation (BIF).

Poseidon has now completed the Figure 8 SQUID survey which was successful in identifying sub-surface electro-magnetic anomalies interpreted as lying inside the identified channels. These plates are interpreted to be located in the down dip positions of the identified lava channels and have the potential to be associated with nickel sulphide mineralisation. Electromagnetics, coupled with understanding of the lava channel geology led to the discovery of the Cerberus ore body at Windarra.

RC drilling of pre-collars has commenced into each of the EM target areas in advance of the diamond drilling, which will complete the holes and intersect each of the targets. The diamond tails will provide more valuable geological information than RC drilling alone and will also provide platforms for Down Hole Electro-Magnetics (DHEM) surveying which will determine the source of the FLEM plates.

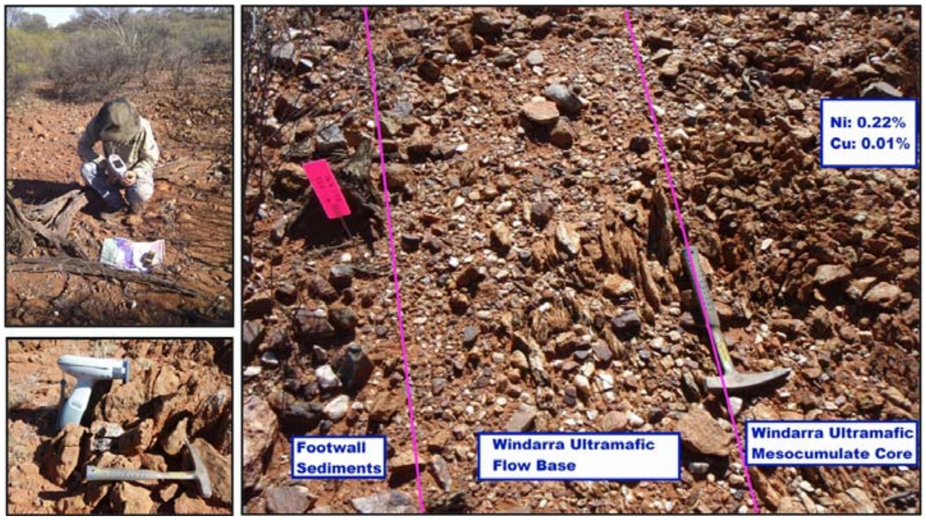
Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

6. Review of Operations (continued)

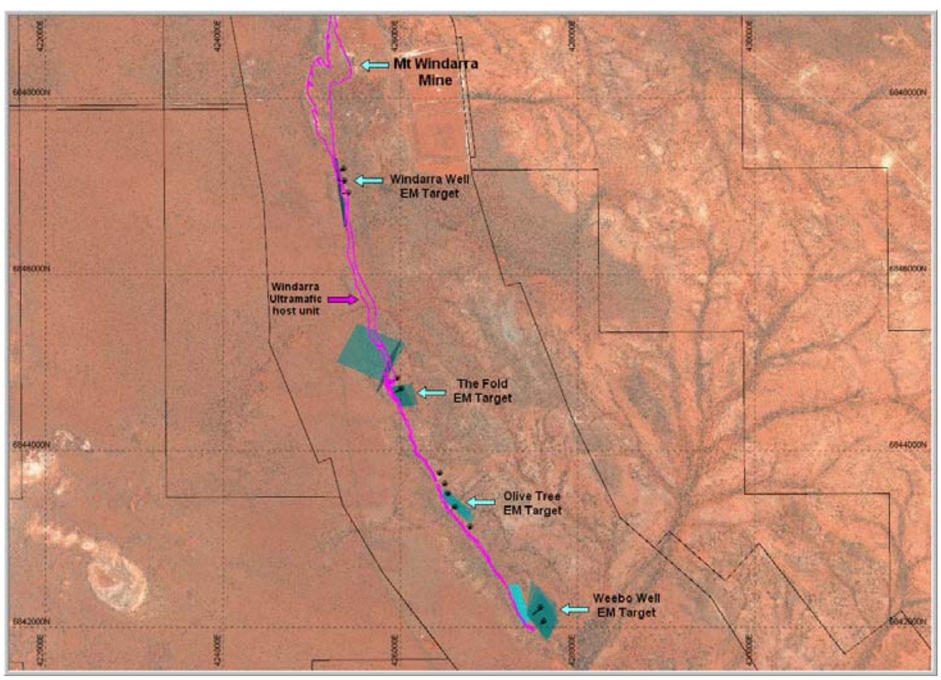
Windarra Nickel Project (continued)

Exploration (continued)

DHEM is a modern and powerful tool which was unavailable to previous explorers at Windarra and thereby severely restricting the potential of the previous explorers to identify sub-surface anomalies. DHEM provides a much larger view of the rocks than can be seen in a narrow drill hole as it can search for nickel sulphide mineralisation within a 50-100m radius of each of the drill holes. DHEM was instrumental in the discovery of the Cerberus Deposit.



Hunting for lava channels



Aerial photo of the Windarra Nickel Project showing EM plates with planned drill hole positions at prospective targets.

Note: The information in this report relates to Exploration Results and Mineral Resources based on information compiled by Mr N Hutchison who is a Member of The Australian Institute of Geoscientists. Mr Hutchison has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is 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.' He has consented to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The Australian Stock Exchange has not received and does not accept responsibility for accuracy or adequacy of this release.

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.

In summary, the Company does not depart from the guidelines in any areas.

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;
- 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;

7.3 Structure of the Board (continued)

- 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 A Forrest	Non-Executive Chairman
Mr C Indermaur	Non-Executive Director
Mr R Monti	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 A Forrest	3 years
Mr C Indermaur	2 years
Mr R Monti	3 years
Mr G Brayshaw	3 years
Mr D Singleton	3 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 and Nomination 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.

7.4 Remuneration and Nomination 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 and Nomination 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 7.5 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 and Nomination Committee comprising three non-executive directors.

The members of the Remuneration and Nominations Committee at the date of this report were:

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

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

7.5 Remuneration Report - audited

7.5.1 Principles of compensation – audited

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 including the five most highly remunerated executive officers of the Company and Group in accordance with S300A of the Corporations Act 2001.

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
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency
- Capital Management

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.

The Company and Group do not have a policy on directors or executives hedging their equity compensation received.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.5 Remuneration report – audited (continued)
7.5.1 Principles of compensation – audited (continued)
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 and Nomination 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.

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 provided in the form of cash, however, employees can elect to receive the bonus in shares through the Team Bonus Scheme ("TaBS"). 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 targets. 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 of an individual's FC amount to a maximum of 100% of annual base salary.

The bonus is derived from a series of key performance measures related to business and individual performance. The aim of the scheme is 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.

The Remuneration and Nomination Committee reviews and recommends to the board, the individual bonuses for key management personnel taking into account the achievement of the team and particularly their individual performance. The Remuneration and Nomination Committee also recommends 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 has adopted a recommendation from the Remuneration and Nomination 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.

As part of the incentive bonus, employees can elect to receive their bonus in cash or "Participating Shares" under the terms of TaBS. 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. The value of the participating shares is disclosed as a Hybrid share based payment in section 7.5.3 of the Directors' report.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.5 Remuneration report – audited (continued)
7.5.1 Principles of compensation – audited (continued)
Incentive bonus (continued)

Members of TaBS who elect to receive shares rather than cash will qualify for additional "Special Bonus Shares" in the ratio of 1 additional share for every 2 participating shares. Participation is by invite only and is not a contractual right but will include greater than 75% of all employees. The participating and special bonus shares will be subject to a holding lock for a period of 3 years from the date of issue and the satisfaction of a number of vesting conditions. The value of the participating and special bonus shares relating to the proportion vested in the financial year is included in the Hybrid and Shares, share based payment respectively, in section 7.5.3 of the Directors' report.

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 2007 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 to be met and must be exercised between 3 and 6 years of issue.

Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the Remuneration and Nomination Committee have regard to the following indices in respect of the current financial year, however the 2006 to 2007 financial years are not considered relevant due to the changes to the key management personnel on 2 July 2007.

In thousands of AUD	**2010**	**2009**	**2008**	**2007**	**2006**
Net profit (loss) attributable to equity holders of the parent	(4,050)	7,441	(256,095)	(7,546)	(920)
Dividends paid	-	-	-	-	-
Change in share price	$(0.06)	$(1.11)	$(0.72)	$1.52	$0.14
% Change in share price	(24.0)%	(81.6)%	(34.6)%	271.4%	33.3%

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 and Nomination 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.

7.5 Remuneration report – audited (continued)

7.5.1 Principles of compensation – audited (continued)

Service contracts (continued)

The employment agreement is for a period of 5 years and subject to agreement by the Company, can be extended for a further 5 year term. 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 advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' fees reported for the year to 30 June 2010 are $258,354 (2009: $198,750) however this includes an amount of $17,225 in relation to 2009.

Non-executive directors receive directors' fees to cover the main board activities. Non-executive director members who sit on more than one committee receive an additional payment of $5,480 per annum for each additional committee of which they are a member. Non-executive director members who chair a committee receive a further additional payment of $5,480 per annum for each committee chaired.

Under the Director Share Plan ("DSP") approved by shareholders at the AGM on 24 November 2009, non-executive directors have elected to receive director fees 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 the table in section 7.5.3 of the Directors' report.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.5 Remuneration report – audited (continued)
7.5.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited

In AUD		Short-term	Post employment	Share-based payments					
		Salary & fees $	Super-annuation benefits $	Options and rights $ (A)	Shares $ (B)	Hybrids $ (C)	Total $	Proportion of remuneration performance related %	Value of options as a proportion of remuneration %
Directors									
Non-executive directors									
Mr A Forrest (Chairman)	2010	-	-	-	-	43,842	43,842	-	-
	2009	-	-	-	-	42,400	42,400	-	-
Mr C Indermaur (resigned 30 September 2008 and re-appointed 2 April 2009)	2010	-	-	-	-	88,468	88,468	-	-
	2009	17,225	-	-	-	-	17,225	-	-
Mr R Monti	2010	-	-	-	-	60,282	60,282	-	-
	2009	-	-	-	-	58,300	58,300	-	-
Mr G Brayshaw	2010	-	-	-	-	65,762	65,762	-	-
	2009	-	-	-	-	63,600	63,600	-	-
Executive directors									
Mr D Singleton, MD & CEO	2010	440,300	25,000	396,442	11,647	23,293	896,682	3.9%	44.2%
	2009	412,844	37,156	563,863	123,203	-	1,137,066	10.8%	49.6%
Executives									
Mr R Dennis, COO	2010	393,679	35,431	79,938	33,722	8,593	551,363	7.7%	14.5%
	2009	365,601	32,904	79,938	29,426	-	507,869	5.8%	15.7%
Mr N Hutchison, GM Geology	2010	219,174	19,726	41,148	20,305	7,247	307,600	9.0%	13.4%
	2009	211,927	19,073	41,148	16,682	-	288,830	5.8%	14.2%
Mr M Rodriguez, Group Technology Manager	2010	294,954	26,546	-	15,999	16,150	353,649	9.1%	-
	2009	285,000	25,650	-	7,924	-	318,574	2.5%	-
Mr G Jones, Financial Controller	2010	185,780	16,720	14,754	15,417	4,141	236,812	8.3%	6.2%
	2009	179,358	16,142	14,754	13,346	-	223,601	6.0%	6.6%
Total compensation: key management personnel (consolidated)	2010	1,533,887	123,423	532,283	97,090	317,777	2,604,460		
	2009	1,489,180	130,926	699,704	190,580	164,300	2,674,690		
Total compensation: key management personnel (company)	2010	1,533,887	123,423	532,283	97,090	317,777	2,604,460		
	2009	1,489,180	130,926	699,704	190,580	164,300	2,674,690		

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.5 Remuneration report – audited (continued)

7.5.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited (continued)

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

(A) 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 in this reporting period. 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
2 July 2007	5 years	$1.9724	$0.40	$2.14	100.00%	6.270%	0%
2 July 2007	4 years	$1.5670	$1.96	$2.14	100.00%	6.270%	0%
29 November 2007	5 years	$0.8660	$1.41	$1.16	100.00%	6.250%	0%
30 November 2007	5 years	$0.8700	$1.41	$1.17	100.00%	6.270%	0%
11 April 2008	5 years	$0.3880	$1.41	$0.62	100.00%	6.020%	0%
27 November 2008	4 years	$0.1052	$0.80	$0.19	115.00%	3.970%	0%

(B) The share based payment expense recognised in the period for executive directors and executives is the difference between the fair value of the shares issued ($0.26 per share) on 24 November 2009 and the purchase price ($Nil per share). The shares were issued under TaBS for the 2009 performance period and the granting of the shares was approved by shareholders at the general meeting held on 24 November 2009.

The shares granted to executive directors and executives are the special bonus shares issued in relation to TaBS for the performance bonus earned in the prior reporting period and that vest over a 3 year period from the grant date. The value disclosed is the portion of the fair value of the shares recognised in this reporting period. Refer to TaBS in section 7.5.1 of the Directors' report.

(C) The hybrid share based payment represents the participating shares for the short term incentive bonus for the prior reporting periods issued to executive directors and executives in relation to TaBS for the performance bonus earned in the prior reporting period and shares issued to non-executive directors that allow the individual to choose whether to receive director fees as cash or shares for the current period. Refer to the TaBS plan and the DSP in section 7.5.1 of the Directors' report.

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 7.5.1 of the Directors' report.

7.5.3 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.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited

Options

No options were granted to directors or executives during the reporting period and no options have vested during the reporting period.

No options have been granted to directors and executives since the end of the financial year.

Shares

Details on shares in the Company that were granted as compensation to each key management person during the reporting period are as follows:

	Number of shares granted during 2010	Grant date	Fair value per share at grant date ($)	Purchase price per share at issue date ($)	Total share value ($)
Directors					
Mr D Singleton	225,000	24 November 2009	$0.26	-	58,500
Executives					
Mr R Dennis	83,000	24 November 2009	$0.26	-	21,580
Mr N Hutchison	70,000	24 November 2009	$0.26	-	18,200
Mr M Rodriguez	156,000	24 November 2009	$0.26	-	40,560
Mr G Jones	40,000	24 November 2009	$0.26	-	10,400
	574,000				149,240

The share based payment expense recognised in the period for executive directors and executives is the difference between the fair value of the shares issued ($0.26 per share) and the purchase price ($Nil per share). The shares granted to directors and executives are the Special Bonus Shares issued in relation to the TaBS for the prior reporting period as discussed in section 7.4.1 of the Directors' report and vest over a 3 year period from the grant date of 24 November 2009. No shares were granted to directors or executives since the end of the financial year.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited (continued)

Hybrids

Details on hybrids in the Company that were granted as compensation to each key management person during the reporting period are as follows:

	Number of hybrids granted during 2010	Grant or quarter end date	Fair value per hybrid at grant date ($)	Purchase price per hybrid at issue date ($)	Total hybrid value ($)
Directors					
Mr A Forrest	29,281	30 September 2009	$0.37	$0.37	10,960
	38,927	31 December 2009	$0.28	$0.28	10,961
	38,266	31 March 2010	$0.29	$0.29	10,960
	39,073	30 June 2010	$0.28	$0.28	10,961
	145,547				43,842
Mr C Indermaur	64,935*	30 June 2009	$0.27	$0.27	17,225
	47,582	30 September 2009	$0.37	$0.37	17,811
	63,256	31 December 2009	$0.28	$0.28	17,811
	62,182	31 March 2010	$0.29	$0.29	17,810
	63,494	30 June 2010	$0.28	$0.28	17,811
	301,449				88,468
Mr R Monti	40,282	30 September 2009	$0.37	$0.37	15,070
	53,524	31 December 2009	$0.28	$0.28	15,071
	52,615	31 March 2010	$0.29	$0.29	15,070
	53,726	30 June 2010	$0.28	$0.28	15,071
	200,127				60,282
Mr G Brayshaw	43,922	30 September 2009	$0.37	$0.37	16,440
	58,390	31 December 2009	$0.28	$0.28	16,441
	57,399	31 March 2010	$0.29	$0.29	16,440
	58,610	30 June 2010	$0.28	$0.28	16,441
	218,321				65,762
Mr D Singleton	450,000	24 November 2009	$0.26	$0.25	117,000
Executives					
Mr R Dennis	166,000	24 November 2009	$0.26	$0.25	43,160
Mr N Hutchison	140,000	24 November 2009	$0.26	$0.25	36,400
Mr M Rodriguez	312,000	24 November 2009	$0.26	$0.25	81,120
Mr G Jones	80,000	24 November 2009	$0.26	$0.25	20,800
	2,013,444				556,834

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited (continued)

Hybrids (continued)

The number and value of hybrids issued to non-executive directors in the year is the equivalent to the director fee cash value that has been elected to be received as shares in each quarter. Refer to the DSP in section 7.5.1 of the Directors' report.

*The election made by Mr C Indermaur to receive director fees for the prior reporting period as shares in lieu of cash was approved by shareholders at the general meeting held on 24 November 2009 and granted in the current reporting period.

The number and value of hybrids issued to executive directors and executives represents the incentive bonus for the prior reporting period that allows the individual to choose whether to receive cash or shares. Refer to the TaBS plan in section 7.4.1 of the Directors' report.

No hybrids were issued to directors or executives since the end of the financial year.

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

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.

Exercise of options granted as compensation – audited

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

Details of the vesting profile of options granted to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Options granted			
Directors	**Number**	**Grant date**	**Financial years in which grant vests**	**Total expensed in period ($)**
Mr A Forrest	115,000,000	2 July 2007	2008	-
Mr R Monti	2,500,000	2 July 2007	2008	-
Mr D Singleton	1,000,000	2 July 2007	2011	326,292
Mr D Singleton	2,000,000	27 November 2008	2011	70,150
Executives				
Mr R Dennis	277,000	29 November 2007	2011	79,938
Mr N Hutchison	142,000	30 November 2007	2011	41,148
Mr G Jones	114,000	14 April 2008	2011	14,754
	121,033,000			532,282

No options vested or were forfeited during the reporting period.

7.5 Remuneration report – audited (continued)

7.5.3 Equity instruments (continued)

Options and rights over equity instruments granted as compensation – audited (continued)

Analysis of options and rights over equity instruments granted as compensation – audited

Shares

Details of the vesting profile of shares granted to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Shares granted				
Directors	**Number**	**Grant date**	**% vested in year**	**Financial years in which grant vests**	**Total expensed in period ($)**
Mr D Singleton	225,000	24 November 2009	-	2012	11,647
Executives					
Mr R Dennis	110,246	18 June 2008	-	2011	29,426
	83,000	24 November 2009	-	2012	4,296
Mr N Hutchison	62,500	18 June 2008	-	2011	16,682
	70,000	24 November 2009	-	2012	3,623
Mr M Rodriguez	29,688	18 June 2008	-	2011	7,924
	156,000	24 November 2009	-	2012	8,075
Mr G Jones	50,000	18 June 2008	-	2011	13,346
	40,000	24 November 2009	-	2012	2,071
	826,434				97,090

The value of shares expensed in the period is the portion of the fair value of the shares recognised in the reporting period and the amount allocated to remuneration. No shares have been granted to directors or executives since the end of the financial year.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited (continued)
Analysis of options and rights over equity instruments granted as compensation – audited

Hybrids
Details of the vesting profile of hybrids granted to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Hybrids granted				
	Number	Grant or quarter end date	% vested in year	Financial years in which grant vests	Total expensed in period ($)
Directors					
Mr A Forrest	29,281	30 September 2009	100%	2010	10,960
	38,927	31 December 2009	100%	2010	10,961
	38,266	31 March 2010	100%	2010	10,960
	39,073	30 June 2010	100%	2010	10,961
	145,547				43,842
Mr C Indermaur	64,935	30 June 2009	100%	2010	17,225
	47,582	30 September 2009	100%	2010	17,811
	63,256	31 December 2009	100%	2010	17,811
	62,182	31 March 2010	100%	2010	17,810
	63,494	30 June 2010	100%	2010	17,811
	301,449				88,468
Mr R Monti	40,262	30 September 2009	100%	2010	15,070
	53,524	31 December 2009	100%	2010	15,071
	52,615	31 March 2010	100%	2010	15,070
	53,726	30 June 2010	100%	2010	15,071
	200,127				60,282
Mr G Brayshaw	43,922	30 September 2009	100%	2010	16,440
	58,390	31 December 2009	100%	2010	16,441
	57,399	31 March 2010	100%	2010	16,440
	58,610	30 June 2010	100%	2010	16,441
	218,321				65,762
Mr D Singleton	450,000	24 November 2009	-	2012	23,293
Executives					
Mr R Dennis	166,000	24 November 2009	-	2012	8,593
Mr N Hutchison	140,000	24 November 2009	-	2012	7,247
Mr M Rodriguez	312,000	24 November 2009	-	2012	16,150
Mr G Jones	80,000	24 November 2009	-	2012	4,141
	2,013,444				317,777

No hybrids were granted to directors or executives since the end of the financial year.

7.5 Remuneration report – audited (continued)

7.5.3 Equity instruments (continued)

Options and rights over equity instruments granted as compensation – audited (continued)

Analysis of movements in options – audited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the five named Company executives and relevant group executives and other key management personnel is detailed below.

	Granted in prior periods $ (A)	Granted in 2010 $	Total option value expensed in year $ (B)
Directors			
Mr D Singleton	1,777,450	-	396,442
Executives			
Mr R Dennis	240,034	-	79,938
Mr N Hutchison	123,557	-	41,148
Mr G Jones	44,304	-	14,754
	2,185,345	-	532,282

(A) The value of options granted in prior periods is the fair value of the options calculated at grant date using a binominal option-pricing model. The total value of the options granted is included in the table above.

(B) The total value of options granted in prior and current reporting periods is expensed over the vesting period of the options. The value disclosed is the portion of the fair value of the options that is allocated to remuneration in the reporting period.

There were no options exercised or forfeited during the financial year.

7.6 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 at the date of this report were:

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

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.

7.6 Audit and Risk Management Committee (continued)

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 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 2010 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.

7.7 Best Practice Recommendation

Outlined below are the eight Essential Corporate Governance Principles as outlined by the ASX and the Corporate Governance Council as they applied for the Financial Year ended 30 June 2010. The Company has complied with all of the Corporate Governance Best Practice Recommendations.

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy	Action taken and reasons if not adopted
Lay solid foundation for management and oversight	Adopted
Principle 1: Recognise and publish the respective roles and responsibilities of the board and management	
1.1 Formalise and disclose the functions reserved to the Board and those delegated to management	The Company's Corporate Governance Policies include a Board Charter which discloses the specific responsibilities of the board.
1.2 Disclose the process for evaluation the performance of senior executives	The board, through the CEO, monitors performance of senior management including measuring actual performance against planned performance.
1.3 Provide the information indicated in 'Guide to reporting on Principle 1'	The Company will provide details of any departures from Principle 1 in its Annual Report.
Structure the board to add value	Adopted
Principle 2: Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties	
2.1 A majority of the board should be independent	The majority of the board are independent directors.
2.2 The chairperson should be an independent director	The chairman is independent.
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual	The roles of the Chair and the CEO are not exercised by the same individual.
2.4 The board should establish a nomination committee	The board has established a Remuneration and Nomination Committee. The members of the committee comprise three independent directors. The CEO is not a member of the committee but attends the meeting by invitation.
2.5 Disclose the process for evaluating the performance of the board, its committees and the individual directors	The board has adopted a policy to assist in evaluating board performance and a review of the board's and individual directors' performance is undertaken each year.
2.6 Provide the information indicated in 'Guide to Reporting on Principle 2'	The Company will provide details of any departures from Principle 2 in its Annual Report.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy	Action taken and reasons if not adopted
Actively promote ethical and responsible decision-making	Adopted
Principle 3: Promote ethical and responsible decision-making	
3.1 Establish a code of conduct and disclose the code or summary of the code as to: 3.1.1 the practices necessary to maintain confidence in the Company's integrity 3.1.2 the practices necessary to take into account their legal obligations and reasonable expectations of their stakeholders 3.1.3 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices	The Company's Corporate Governance Policies include a Directors' and Executive Officers' Code of Conduct Policy which provides a framework for decisions and actions in relation to ethical conduct in employment.
3.2 Establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy	The Company's Corporate Governance Policies includes a Dealing in Securities Policy which provides comprehensive guidelines on trading in the Company's securities.
3.3 Provide the information indicated in 'Guide to Reporting on Principle 3'	The Company will provide details of any departures from Principle 3 in its Annual Report.
Principle 4: Establish a structure to independently verify and safeguard the integrity in financial reporting	
4.1 The board should establish an Audit Committee	An Audit and Risk Management Committee has been established by the Company.
4.2 Structure the Audit Committee so that it consists of: – Only non-executive directors – A majority of independent directors – An independent chairperson who is not the chairperson of the Board – At least three members	The Audit and Risk Management Committee consists of three independent non-executive directors and is chaired by Mr G Brayshaw who is not the chair of the board.
4.3 The Audit Committee should have a formal operating charter	The Audit and Risk Management Committee has a formal Charter.
4.4 Provide the information indicated in the 'Guide to reporting on Principle 4'	The Company will provide details of any departures from Principle 4 in its Annual Report.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy	Action taken and reasons if not adopted
Promote timely and balanced disclosure	Adopted
Principle 5: Make timely and balanced disclosure of all material matters concerning the Company	
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	The Company has a Continuous Disclosure Policy which is designed to ensure compliance with the ASX Listing Rules requirements on disclosure and to ensure accountability at a board level for compliance and factual presentation of the Company's financial position.
5.2 Provide the information indicated in the 'Guide to reporting on Principle 5'	The Company will provide details of any departures from Principle 5 in its Annual Report.
Respect the rights of shareholders	Adopted
Principle 6: Respect the rights of shareholders and facilitate the effectiveness of those rights	
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings and disclose the policy or a summary of the policy	The Company's Corporate Governance Policies include a Shareholder Communications Policy which aims to ensure that the shareholders are informed of all material developments affecting the Company's state of affairs.
6.2 Provide the information indicated in the 'Guide to reporting on Principle 6'	The Company will provide details of any departures from Principle 6 in its Annual Report.
Recognise and manage risk	Adopted
Principle 7: Establish a sound system of risk oversight and management and internal control	
7.1 The Board or appropriate Board committee should establish policies on risk oversight and management	The Company's Corporate Governance Policies include a Risk Management Policy which aims to ensure that all material business risks are identified and mitigated. The board identifies the Company's 'risk profile' and is responsible for overseeing and approving risk management strategies and policies, internal compliance and internal controls.

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy	Action taken and reasons if not adopted
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks	The board requires that the CEO designs and implements continuous risk management and internal control systems and provides reports at relevant times.
7.3 The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound risk management and internal control and that the system is operating effectively in all material respects in relation to the financial reporting risks	The board seeks, at the appropriate times, these relevant assurances from the individuals appointed to perform the role of Chief Executive Officer and Chief Financial Officer.
7.4 Provide the information indicated in the 'Guide to reporting on Principle 7'	The Company will provide details of any departures from Principle 7 in its Annual Report.
Remunerate fairly and responsibly	Adopted
Principle 8: Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is definition	
8.1 The Board should establish a Remuneration Committee	A Remuneration and Nomination Committee has been established by the Company.
8.2 Clearly distinguish the structure of non-executive directors' remuneration from that of executives	The board distinguishes the structure of non-executive director's remuneration from that of executive directors and senior executives. The Company's Constitution provides that the remuneration of non-executive directors will be not more than the aggregate fixed sum approved by a general meeting of shareholders. The board is responsible for determining the remuneration of any director or senior executive without the participation of the affected director.
8.3 Provide the information indicated in the 'Guide to reporting on Principle 8'	The Company will provide details of any departures from Principle 8 in its Annual Report.

Further information on the Corporate Governance Policies that have been adopted by Poseidon can be referenced at the Company's website: www.poseidonnickel.com.au

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

8. Dividends
The Directors recommend that no dividend be declared or paid.

9. Events subsequent to reporting date
In July 2010 the Company raised $3.2 million, less costs of $161,000, through the placement of Fully Paid Ordinary Shares to professional and sophisticated investors. Poseidon has agreed to place approximately 17,878,893 shares at $0.18 per share with 1 free attaching unlisted option for every 2 shares subscribed for. The options will be exercisable at $0.25 each on or before 31 August 2012.

The placement will occur in two tranches. The first tranche comprised the placement of 10,495,647 shares together with 5,247,827 free attaching options raising $1.9 million utilising the Company's 15% placement capacity under the ASX Listing Rules. The second tranche will comprise the placement of 7,383,246 shares together with 3,691,620 free options to raise a further $1.3 million and is subject to shareholder approval at a General Meeting to be held on 20 September 2010. A placement fee of 5% of the funds raised will be paid to the brokers that participated in the capital raising.

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:

	Poseidon Nickel Limited	
	Ordinary shares	Options over ordinary shares
Mr A Forrest	5,000,000	-
Mr C Indermaur	301,449	-
Mr R Monti (Ventnor Capital)	678,560	1,250,000
Mr G Brayshaw	449,081	-
Mr D Singleton	2,675,000	3,000,000

Mr A Forrest continues to gift shares issued in lieu of director fees to Leaping Joey Pty Ltd as trustee for the Australian Children's Trust.

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 to the five most highly remunerated executives 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
5 December 2011	0.92	6,157,403
2 July 2011	1.96	1,000,000
31 July 2012	0.40	2,500,000
19 September 2012	0.40	115,000,000
22 October 2012	1.41	533,000
27 November 2012	0.80	2,000,000
31 August 2012	0.25	5,581,327
5 September 2016	0.25	2,975,000
		135,746,730

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

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

11. Share options (continued)
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 A Forrest, Mr C Indermaur, Mr R Monti, Mr G Brayshaw, 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.

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. 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.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

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

The board has considered the non-audit services provided during the 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:

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2010

13. Non-audit services (continued)

In AUD	Consolidated 2010	2009
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	36,700	28,150
Accounting assistance and advice	18,000	45,100
	54,700	73,250
Other services		
Forensic services	42,440	-
	97,140	73,250

No other services were provided by KPMG during the year.

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 76 and forms part of the directors' report for financial year ended 30 June 2010.

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
16th September 2010

Poseidon Nickel Limited

Consolidated statement of financial position

As at 30 June 2010

In thousands of AUD	*Note*	Consolidated 2010	2009
Assets			
Cash and cash equivalents	*17*	924	3,552
Trade and other receivables	*16*	122	151
Total current assets		1,046	3,703
Property, plant and equipment	*11*	1,774	2,013
Exploration and evaluation expenditure	*12*	40,692	38,610
Other investments	*13*	945	605
Other	*14*	3,500	3,500
Total non-current assets		46,911	44,728
Total assets		47,957	48,431
Liabilities			
Trade and other payables	*25*	797	1,841
Loans and borrowings	*20*	10,726	9,505
Convertible note derivative	*21*	1,464	1,526
Employee benefits	*22*	13	28
Provisions	*24*	3,500	3,500
Total current liabilities		16,500	16,400
Loans and borrowings	*20*	126	204
Total non-current liabilities		126	204
Total liabilities		16,626	16,604
Net assets		31,331	31,827
Equity			
Share capital	*18*	76,190	73,508
Reserves		234,436	233,564
Accumulated losses		(279,295)	(275,245)
Total equity attributable to equity holders of the Company		31,331	31,827
Total equity		31,331	31,827

The notes on pages 37 to 72 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited

Consolidated statement of comprehensive income

For the year ended 30 June 2010

In thousands of AUD	*Note*	Consolidated 2010	2009
Other income	*7*	802	809
Depreciation expense		(24)	(37)
Personnel expenses	*8*	(953)	(1,078)
Exploration costs written off	*12*	(493)	(2,157)
Corporate and administration costs		(1,186)	(1,652)
Share based payment expense	*23*	(913)	(1,010)
Misappropriation expense		-	(496)
Other expenses		(292)	(424)
Results from operating activities		(3,059)	(6,045)
Finance income		690	22,800
Finance expenses		(1,681)	(9,314)
Net finance costs	*9*	(991)	13,486
Profit / (loss) before income tax		(4,050)	7,441
Income tax expense	*10*	-	-
Profit / (loss) for the period		(4,050)	7,441
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	*13*	340	-
Other comprehensive income for the period, net of income tax		340	-
Total comprehensive income for the period		(3,710)	-
Earnings per share			
Basic profit / (loss) per share (cents/share)	*19*	(2.38)	4.51
Diluted profit / (loss) per share (cents/share)	*19*	(2.38)	2.60

The notes on pages 37 to 72 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited
Consolidated statement of changes in equity

For the year ended 30 June 2009

In thousands of AUD	Issued Capital	Share based payment reserve	Fair value reserve	Option premium reserve	Accumulated losses	Total equity
Balance at 1 July 2008	71,791	232,354	-	510	(282,686)	21,969
Profit / (loss)	-	-	-	-	7,441	7,441
Other comprehensive income						
Total other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	7,441	7,441
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	1,717	-	-	-	-	1,717
Issue of options (net of costs)	-	700	-	-	-	700
Total contributions by and distributions to owners	1,717	700	-	-	-	2,417
Total transactions with owners	1,717	700	-	-	-	2,417
Balance at 30 June 2009	73,508	233,054	-	510	(275,245)	31,827

For the year ended 30 June 2010

In thousands of AUD	Issued Capital	Share based payment reserve	Fair value reserve	Option premium reserve	Accumulated losses	Total equity
Balance at 1 July 2009	73,508	233,054	-	510	(275,245)	31,827
Profit / (loss)	-	-	-	-	(4,050)	(4,050)
Other comprehensive income						
Net change in fair value of available-for-sale assets, net of tax	-	-	340	-	-	340
Total other comprehensive income	-	-	340	-	-	340
Total comprehensive income for the period	-	-	340	-	(4,050)	(3,710)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	2,682	-	-	-	-	2,682
Issue of options (net of costs)	-	532	-	-	-	532
Total contributions by and distributions to owners	2,682	532	-	-	-	3,214
Total transactions with owners	2,682	532	-	-	-	3,214
Balance at 30 June 2010	76,190	233,586	340	510	(279,295)	31,331

The condensed notes on pages 37 to 72 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited

Consolidated statement of cash flows

For the year ended 30 June 2010

In thousands of AUD	***Note***	**Consolidated 2010**	**2009**
Cash flows from operating activities			
Sundry receipts		498	303
Payments to suppliers and employees		(2,452)	(3,639)
Cash generated from operations		(1,954)	(3,336)
Interest received		133	573
Net cash used in operating activities	*17b*	(1,821)	(2,763)
Cash flows from investing activities			
Payments for property, plant and equipment		(14)	(414)
Payments for exploration and evaluation expenditure		(2,875)	(8,904)
Payments of transaction costs for the disposal of non-current assets		(25)	-
Net cash used in investing activities		(2,914)	(9,318)
Cash flows from financing activities			
Proceeds from the issue of shares and options		2,176	1,330
Payment of finance lease liabilities		(69)	(62)
Net cash (used in)/from financing activities		2,107	1,268
Net decrease in cash and cash equivalents		(2,628)	(10,813)
Cash and cash equivalents at 1 July		3,552	14,365
Cash and cash equivalents at 30 June	*17a*	924	3,552

The notes on pages 37 to 72 are an integral part of these consolidated financial statements.

1. Reporting entity

Poseidon Nickel Limited ("the Company") is a company domiciled in Australia. The address of the Company's registered office is Level 2, Spectrum, 100 Railway Road, Subiaco WA 6008. The consolidated financial statements of the Company as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

2. Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 16 September 2010.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following:

- convertible note derivative at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value through equity;
- share based payments are measured at fair value.

The methods used to measure fair values are discussed further in note 5.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the companies within the Group.

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, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

(d) Use of estimates and judgements

The preparation of 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(e) Changes in accounting policies

Overview

Starting as of 1 July 2009, the Group has changed its accounting policies in the following areas:

- Determination and presentation of operating segments
- Presentation of financial statements

(f) Corporations Act amendments

During the year the Company has adopted the recent changes to the Corporations Act opting not to disclose parent company financial statements.

3. Financial Position

The consolidated financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation and extinguishment of liabilities in the ordinary course of business. For the year ended 30 June 2010 the Company incurred a loss of $(4,050,000) (2009: profit $7,441,000) and had a net working capital deficit of $15,454,000 (2009: deficit $12,697,000). The working capital deficit includes the following items: the convertible note liability of $10,648,000 and the convertible note derivative liability of $1,464,000 that can only be settled in shares if called by the note holders prior to its redemption date of 25 June 2014 and a provision for environmental rehabilitation of $3,500,000 that is cash backed.

The Company had a net cash outflow used in investing activities of $2,914,000 (2009: outflow $9,318,000), significantly lower than the previous year following cost reduction measures put in place due to the economic downturn. This has reduced the level of operating expenditure and enabled the Company to preserve its cash position. The Company has completed a capital raising of $3,200,000, less costs of $161,000, subsequent to the reporting date to continue the evaluation of its current projects and to provide interim working capital for the next 3 to 6 months of which $1,200,000 is subject to shareholder approval at its September EGM.

The Company will require further funding in order to meet day-to-day obligations as they fall due and to progress its exploration and mine development projects as budgeted. The Board of Directors is aware, having prepared a cashflow budget, of the Company's working capital requirements and the need to access additional funding within the next 6 months. Should the Company be unable to raise sufficient funds, it may be necessary to reduce exploration and administrative costs.

The Board is confident in securing sufficient additional funding to provide working capital for at least the next 18 months and is negotiating with interested parties regarding a number of funding options that includes further debt and capital raisings.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and confidence in raising additional funds. Should the Company not be successful in achieving forecast cash flows including the raising of additional funds, it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in this financial report.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's financial statements, investments in subsidiaries are carried at cost.

Jointly controlled operating assets

The interest of the Group in unincorporated joint ventures and joint controlled assets are brought to account by recognising in its financial statements the assets its controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

4. Significant accounting policies (continued)

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(c) Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus and directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables, including service concession receivables

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group’s investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for-sale equity instruments are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

4. Significant accounting policies (continued)

(c) Financial instruments (continued)

Convertible note liability and derivative

Convertible Notes issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder and a convertible note derivative whose fair value changes with the Company's underlying share price.

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 firstly 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. The fair value of the derivative portion has been valued using a valuation technique including inputs that include reference to similar instruments and option pricing models. Subsequent to initial recognition, the liability component of the convertible note is measured at amortised cost using the effective interest method. The convertible note derivative is measured at fair value through profit or loss.

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 anytime.

Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Share capital

Ordinary shares

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.

(d) Property, plant and equipment

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. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

4. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)

Depreciation

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

The estimated useful lives for the current and comparative periods are as follows:

– leasehold improvements	25 years
– computer equipment	2 – 4 years
– plant and equipment	3 – 13 years
– motor vehicles	4 – 6 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity includes:

- researching and analysing historical exploration data
- gathering exploration data through topographical, geochemical and geophysical studies
- exploratory drilling, trenching and sampling
- determining and examining the volume and grade of the resource
- surveying transportation and infrastructure requirements
- conducting market and finance studies

Administration costs that are not directly attributable to specific exploration area are charged to the statement of comprehensive income. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised.

Exploration and evaluation expenditure for each identifiable area of interest is charged to the statement of comprehensive income as incurred except where it has been established the existence of a commercially recoverable mineral resource that will provide a future economic benefit to the Company.

The carrying value of exploration and evaluation assets is assessed annually in accordance with AASB6 Exploration for and Evaluation of Mineral Resources and the Company's policy in relation to impairment.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the likely resources.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of the environmental rehabilitation of the mine site are included as a rehabilitation asset and recognised in accordance with 4 (i).

4. Significant accounting policies (continued)

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(g) 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.

Objective evidence that financial assets, including equity securities are impaired can include the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and exploration and evaluation expenditure, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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4. Significant accounting policies (continued)

(g) Impairment (continued)
Non-financial assets (continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Employee benefits
Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans 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.

Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(i) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. 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.

The Group has made a provision of $3,500,000 as assessed by the Department of Mines and Petroleum (DMP), in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine site.

(j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

4. Significant accounting policies (continued)

(k) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial liabilities at fair value through profit or loss, impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal, or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is restated as if the operation had been discontinued from the start of the comparative period.

4. Significant accounting policies (continued)

(o) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(p) Segment reporting

Determination and presentation of operating segments

As of 1 July 2009 the Group determines and presents operating segments based on the information that internally is provided to the CEO, who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 *Operating Segments*. Previously operating segments were determined and presented in accordance with AASB 114 *Segment Reporting*. The new accounting policy in respect of segment operating disclosures is presented as follows.

Comparative segment information has been re-presented in conformity with the transitional requirements of such standard. Since the change in accounting policy only impacts presentation and disclosure aspects, there is no impact on earnings per share.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO 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.

(q) Presentation of financial statements

The Group applies revised AASB 101 *Presentation of Financial Statements (2007)*, which became effective as at 1 January 2009. As a result, the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standards. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

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4. Significant accounting policies (continued)
(r) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2010, but have not been applied in preparing this financial report.

- AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 *Financial Instruments: Recognition and Measurement.*

  AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

- AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

- AASB 2009-5 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Process* affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

- AASB 2009-8 *Amendments to Australian Accounting Standards - Group Cash-settled Share-based Payment Transaction*s resolves diversity in practice regarding the attribution of cash-settled share-based payments between different entities within a group. As a result of the amendments AI 8 *Scope of AASB 2* and AI 11 *AASB 2 - Group and Treasury Share Transactions* will be withdrawn from the application date. The amendments, which become mandatory for the Group's 30 June 2011 financial statements, are not expected to have a significant impact on the financial statements.

- AASB 2009-10 *Amendments to Australian Accounting Standards - Classification of Rights Issue* [AASB 132] (October 2010) clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments, which will become mandatory for the Group's 30 June 2011 financial statements, are not expected to have any impact on the financial statements.

- AASB 2009-14 *Amendments to Australian Interpretation - Prepayments of a Minimum Funding Requirement - AASB 14* make amendments to Interpretation 14 AASB 119 - *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* removing an unintended consequence arising from the treatment of the prepayments of future contributions in some circumstances when there is a minimum funding requirement. The amendments will become mandatory for the Group's 30 June 2012 financial statements, with retrospective application required. The amendments are not expected to have any impact on the financial statements.

- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. IFRIC 19 will become mandatory for the Group's 30 June 2011 financial statements, with retrospective application required. The Group has not yet determined the potential effect of the interpretation.

5. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Convertible Note Derivatives

The fair value of the convertible note derivative has been determined by firstly computing the fair value per convertible option feature multiplied by the number of outstanding options. The fair value per option is computed using a binomial option pricing model that takes account of the exercise price, the term of the option, the company's share price at 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.

(b) Non-derivative financial liabilities

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.

(c) Share-based payment transactions

The fair value of employee share options is measured using the binomial option pricing model, incorporating the probability of the respective vesting conditions being met. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information) and weighted average expected life of the instruments (based on historical experience).

(d) Investments in equity and debt securities

The fair value of financial assets at fair value through the profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments us determined for disclosure purposes only.

6. Operating segments

The Group has one reportable segment, being nickel exploration and evaluation in Australia.

Information about reportable segments	**Consolidated**	
	Nickel exploration and valuation	
In thousands of AUD	**2010**	**2009**
For the year ended 30 June		
Reportable segment profit / (loss) before income tax	205	(1,958)
Reportable segment assets	45,933	44,063
Reconciliations of reportable segment loss and assets		
Loss		
Total profit / (loss) for reportable segments	205	(1,958)
Unallocated amounts: other corporate expenses	(3,264)	(4,088)
Net finance costs	(991)	13,487
	(4,050)	7,441
Assets		
Total assets for reportable segments	45,933	44,063
Other assets	2,024	4,368
	47,957	48,431

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2009.

7. Other Income

	Consolidated	
In thousands of AUD	**2010**	**2009**
Sundry income	133	5
Other income	369	199
Net gain on sale of exploration assets	300	605
	802	809

Other income includes an amount of $100,000 received by the Company as a result of an insurance claim made in relation to the misappropriation of funds disclosed in the 2009 financial statements.

On 5 August 2009 the Company received $300,000 from Triton Gold Ltd following the successful completion of its Initial Public Offering ("IPO") and as part of the agreement for the sale of gold rights entered into in March 2009.

8. Personnel expenses

	Note	Consolidated	
In thousands of AUD		**2010**	**2009**
Wages and salaries		712	706
Other associated personnel expenses		256	430
(Decrease) in liability for annual leave	*22*	(15)	(58)
		953	1,078

9. Finance income and expense

	Note	Consolidated	
In thousands of AUD		**2010**	**2009**
Interest income on bank deposits		133	573
Net foreign exchange gain		557	-
Change in fair value of convertible note derivative	*21*	-	22,227
Finance income		690	22,800
Interest expense – convertible note		(1,671)	(1,980)
Interest expense on bank accounts		(2)	-
Net foreign exchange loss		-	(7,334)
Change in fair value of convertible note derivative	*21*	(8)	-
Finance expense		(1,681)	(9,314)
Net finance income and expense		(991)	13,486

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10. Income tax expense
Numerical reconciliation between tax-expense and pre-tax net profit

	Consolidated	
In thousands of AUD	**2010**	**2009**
Profit (loss) for the year	(4,050)	7,441
Total income tax expense	-	-
Profit (loss) excluding income tax	(4,050)	7,441
Income tax using the Company's domestic tax rate of 30% (2009: 30%)	(1,215)	2,232
Share based payments	274	303
Change in fair value of convertible note derivative	2	(6,668)
Non tax deductible expenses	11	23
Under (over) provided in prior periods	(996)	208
Losses written off on deregistration of subsidiaries	-	-
	(1,924)	(3,902)
Current year losses for which no deferred tax asset was recognised	1,924	3,902
Total income tax expense	-	-

11. Property, plant and equipment

	Consolidated				
In thousands of AUD	**Leasehold improve- ments**	**Plant and equipment**	**Plant and equipment – mining**	**Motor vehicles – mining**	**Total**
Cost					
Balance at 1 July 2008	950	138	860	245	2,193
Additions	56	31	288	38	413
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at 30 June 2009	1,006	169	1,148	283	2,606
Balance at 1 July 2009	1,006	169	1,148	283	2,606
Additions	-	-	15	-	15
Transfers	-	-	-	-	-
Disposals	-	-	(1)	-	(1)
Balance at 30 June 2010	1,006	169	1,162	283	2,620

	Consolidated				
In thousands of AUD	**Leasehold improve- ments**	**Plant and equipment**	**Plant and equipment – mining**	**Motor vehicles – mining**	**Total**
Depreciation and impairment losses					
Balance at 1 July 2008	29	65	141	54	289
Depreciation for the year	39	37	179	49	304
Disposals	-	-	-	-	-
Balance at 30 June 2009	68	102	320	103	593
Balance at 1 July 2009	68	102	320	103	593
Depreciation for the year	41	23	149	40	253
Disposals	-	-	-	-	-
Balance at 30 June 2010	109	125	469	143	846

11. Property, plant and equipment (continued)

Carrying amounts

In thousands of AUD	Leasehold improve-ments	Plant and equipment	Plant and equipment – mining	Motor vehicles – mining	Total
			Consolidated		
At 1 July 2008	921	73	719	191	1,904
At 30 June 2009	938	67	828	180	2,013
At 1 July 2009	938	67	828	180	2,013
At 30 June 2010	897	44	693	140	1,774

12. Exploration and evaluation expenditure

	Consolidated	
In thousands of AUD	**2010**	**2009**
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	40,692	38,610
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of year	38,610	31,975
Additions	2,575	8,792
Exploration expenditure written off	(493)	(2,157)
	40,692	38,610

The ultimate recoupment of costs carried forward for exploration and evaluation is dependant on the successful development and commercial exploitation or sale of the respective areas of interest.

13. Other investments

	Consolidated	
In thousands of AUD	**2010**	**2009**
Non-current investments		
Available-for-sale financial assets	945	605
	945	605

The Company holds 9,000,000 ordinary shares in Triton Gold Ltd that listed on the Australian Securities Exchange in August 2009 at a listing price of $0.20. The share price as at 30 June 2010 was $0.105. The shares in Triton will be held in escrow for a period of 2 years due to the ASX Listing Rules as the shareholding is greater than 10% of the voting securities.

In May 2010 the Company reached agreement to sell its shares and interests in the Salman South and Mame gold prospects located in South Ghana to Hodges Resources Ltd for $750,000 plus 1,250,000 shares in the company. The agreement is contingent on the Company obtaining approval to transfer the prospecting licence to Niagara Wells Mining Company Ltd, the company that holds interests in Ghana. The carrying value of the subsidiary company as at 30 June 2010 is the issued share capital of $1.00. No amount is recognised in these financial statements for this transaction which has not been completed and the investment in these projects are held in the subsidiary company, Wells Gold Corporation (International) Pty Ltd and recorded at nil value.

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14. Other non-current assets

In thousands of AUD	Consolidated 2010	2009
Security deposit – environmental bond	3,500	3,500
	3,500	3,500

The Company holds a cash collaterised security deposit of $3,500,000 to cover the provision (see note 24) made in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine sites.

15. Deferred tax assets and liabilities

Unrecognised deferred tax assets and liabilities

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

In thousands of AUD	Consolidated 2010	2009
Taxable temporary differences	(3,054)	(2,971)
Deductible temporary differences	108	170
Tax losses	10,332	7,845
	7,386	5,044

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.

Recognised deferred tax assets and liabilities

There were no recognised deferred tax assets or liabilities during the year.

Movement in unrecognised deferred assets and liabilities during the year

	Balance 1 July 08	Additions	Balance 30 June 09	Additions	Balance 30 June 10
Consolidated					
Exploration and evaluation expenditure	(2,703)	(268)	(2,971)	(83)	(3,054)
Loans and borrowings	15	-	15	-	15
Other items	392	(237)	155	(62)	93
Tax loss carry-forwards	5,393	2,452	7,845	2,487	10,332
	3,097	1,947	5,044	2,342	7,386

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16. Trade and other receivables

Current	**Consolidated**	
In thousands of AUD	**2010**	**2009**
Trade receivables	-	60
Goods and services tax receivable	48	58
Fuel tax credits receivable	11	7
Other receivables	2	2
Other assets and prepayments	61	24
	122	151

17. Cash and cash equivalents

17a. Cash and cash equivalents

	Consolidated	
In thousands of AUD	**2010**	**2009**
Bank balances	921	1,549
Call deposits	3	2,003
Cash and cash equivalents in the statement of cash flows	924	3,552

The effective interest rate on call deposits in 2010 was 5.40 percent (2009: 4.50 percent). The deposits had an average maturity of 180 days (2009: 30 days).

17b. Reconciliation of cash flows from operating activities

	Consolidated	
In thousands of AUD	**2010**	**2009**
Cash flows from operating activities		
Profit for the period	(4,050)	7,441
Adjustments for:		
Depreciation	24	37
Interest expenses - convertible note derivative	1,670	1,980
Change in fair value of convertible note derivative	8	(22,227)
Proceeds from sale of gold rights	(300)	-
Exploration expenditure written off	493	2,157
Net foreign exchange loss	(528)	7,296
Equity settled transactions	-	(605)
Equity-settled share-based payment transactions	913	1,035
Operating profit before changes in working capital and provisions	(1,770)	(2,886)
Change in trade and other receivables	54	345
Change in trade payables and employee benefits	(105)	(222)
Net cash from operating activities	(1,821)	(2,763)

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18. Capital and reserves
Share capital

	Consolidated Ordinary shares	
In thousands of shares	**2010**	**2009**
Ordinary shares		
Fully paid	176,491	160,200
Partly paid	425	5,752
Total share capital on issue at 30 June	176,916	165,952
Movements in ordinary shares on issue:		
On issue at 1 July	165,952	163,076
Shares issued and expensed during the period:		
Issued for cash	8,000	500
Granted as a share based payment	1,914	648
Issued for employee special bonuses	-	313
Issued for directors fees	651	365
Issued for consultancy fees	244	-
Shares issued but expensed during the prior period:		
Issued for cash	-	352
Issued for employee bonuses	-	626
Issued for directors fees	155	72
On issue at 30 June	176,916	165,952

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

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.

19. Earnings (loss) per share
Basic earnings (loss) per share

The calculation of basic earnings (loss) per share at 30 June 2010 was based on the loss attributable to ordinary shareholders of ($4,050,000) (2009: profit $7,441,000) and a weighted average number of ordinary shares outstanding of 169,902,000 (2009: 165,060,000), calculated as follows:

Profit (loss) attributable to ordinary shareholders

	Consolidated					
In thousands of AUD	**2010**			**2009**		
	Continuing Operations	**Discontinued operation**	**Total**	**Continuing Operations**	**Discontinued operation**	**Total**
Net profit (loss) attributable to ordinary shareholders	(4,050)	-	(4,050)	7,441	-	7,441

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19. Earnings (loss) per share (continued)
Basic earnings (loss) per share (continued)

Weighted average number of ordinary shares

In thousands of shares	*Note*	Consolidated 2010	2009
Issued ordinary shares at 1 July	*18*	165,952	163,076
Effect of shares issued		3,950	1,984
Weighted average number of ordinary shares at 30 June		169,902	165,060

Diluted earnings (loss) per share

The Company does not have any potential ordinary shares whose conversion to ordinary shares would have a dilutive effect on basic loss per share and as such diluted loss per share is equal to basic loss per share. Potential ordinary shares of the Company consist of 127,452 dilutive share options issued to directors of the Company.

In accordance with AASB 133 'Earnings per Share' these options have been excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

20. Loans and borrowings
This note provides information about the contractual terms of the Company's and Group's interest-bearing loans and borrowings. For more information about the Company's and Group's exposure to interest rate and foreign currency risk, see note 26.

In thousands of AUD	Consolidated 2010	2009
Current liabilities		
Current portion of finance lease liabilities	78	69
Convertible note liability	10,648	9,436
	10,726	9,505
Non-current liabilities		
Finance lease liabilities	126	204
	126	204

Terms and debt repayment schedule
Terms and conditions of outstanding loans were as follows:

				Consolidated			
				30 June 2010		30 June 2009	
In thousands of AUD	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount	Face value	Carrying amount
Convertible note liability	USD	5.00%	2014	15,629	10,648	15,629	9,436
Finance lease liabilities	AUD	10.21%	2012	234	204	330	273
Total interest-bearing liabilities				15,863	10,852	15,959	9,709

Poseidon Nickel Limited
Notes to the consolidated financial statements

20. Loans and borrowings (continued)
Convertible notes

In thousands of AUD	Consolidated 2010	2009
Carrying amount of liability at beginning of period	9,436	6,443
Exchange rate effects	(459)	1,013
Accrued interest capitalised	1,671	1,980
Carrying amount of liability at end of period	10,648	9,436

The Company issued 15,000,000 AU$1.00 Convertible Notes for US$15 million on 25 June 2008. The notes are convertible into ordinary shares of the Company at the option of the holder at anytime up to 25 June 2014 or repayable on 25 June 2014. The conversion rate is fixed at AU$1.00. The instrument is interest free for the first three years and then bears a coupon rate of 5% thereafter until maturity.

Finance lease liabilities
Finance lease liabilities of the Group are payable as follows:

	Consolidated					
In thousands of AUD	Minimum lease payments 2010	Interest 2010	Principal 2010	Minimum lease payments 2009	Interest 2009	Principal 2009
Less than one year	97	19	78	97	28	69
Between one and five years	136	10	126	233	29	204
More than five years	-	-	-	-	-	
	233	29	204	330	57	273

The Company has entered into commercial hire purchase agreements on certain motor vehicles and equipment. These contracts have an average life of 5 years. There are no restrictions placed upon the lessee by entering into these contracts. Lease liabilities are secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

21. Convertible Note Derivative

In thousands of AUD	Consolidated 2010	2009
Carrying amount of liability at beginning of period	1,526	17,470
Fair value movement	8	(22,227)
Exchange rate effects	(70)	6,283
Carrying amount of liability at end of period	1,464	1,526

Pursuant to accounting standards the option component of the convertible note is classified as a liability. 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 2009 (share price $0.25) and 30 June 2010 (share price $0.19) is reflected in the fair value movement.

As the convertible note is 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 2009 was 0.8114:1 and at 30 June 2010, 0.8563:1.

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22. Employee benefits

Current	**Consolidated**	
In thousands of AUD	**2010**	**2009**
Liability for annual leave	13	28
Total employee benefits – current	13	28

23. Share-based payments

Options

The terms and conditions of the option grants are as follows; all options are to be settled by physical delivery of shares:

Grant date / employees entitled	Number of Instruments	Vesting conditions	Contractual life of the options
Options granted to non-executive directors on 2 July 2007	117,500,000	Subject to various share price hurdles that have been met	5 years
Options granted to executive director on 2 July 2007	1,000,000	2 years' service and subject to various share price hurdles	4 years
Options granted to executive on 29 November 2007	277,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive on 30 November 2007	142,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive on 11 April 2008	114,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive director on 27 November 2008	2,000,000	3 years' service and subject to various share price hurdles	4 years
Total share options	121,033,000		

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

	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
	2010	**2010**	**2009**	**2009**
Outstanding at 1 July	$0.424	121,033,000	$0.418	119,033,000
Exercised during the period	-	-	-	-
Granted during the period	-	-	$0.800	2,000,000
Outstanding at 30 June	$0.424	121,033,000	$0.424	121,033,000
Exercisable at 30 June	$0.400	117,500,000	$0.400	117,500,000

The options outstanding at 30 June 2010 have an exercise price in the range of $0.40 to $1.96 and a weighted average remaining contractual life of 3 years.

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 2007 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 to be met and must be exercised between 3 and 6 years of issue.

23. Share-based payments (continued)

Options (continued)

The fair value of services received in return for share options granted is based on the fair value of share options granted, which is measured using a binomial lattice model with the following inputs:

	Directors	Directors	Executives	Executives
Fair value of share options and assumptions	**2010**	**2009**	**2010**	**2009**
Fair value at grant date	-	$0.11	-	-
Share price at grant date	-	$0.19	-	-
Exercise price	-	$0.80	-	-
Expected volatility (weighted average volatility)	-	115%	-	-
Option life (expected weighted average life)	-	5.0 years	-	-
Expected dividends	-	-	-	-
Risk-free interest rate (based on government bonds)	-	3.97%	-	-

Shares

The terms and conditions of share grants are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Shares granted to executives and employees on 18 June 2008	282,476	The shares have a 3 year vesting period
Shares granted to executive director and employees on 24 November 2009	225,000	The shares have a 3 year vesting period
Shares granted to executives and employees on 24 November 2009	413,000	The shares have a 3 year vesting period
Total shares	920,476	

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

	Weighted average purchase price	Number of shares	Weighted average purchase price	Number of shares
	2010	**2010**	**2009**	**2009**
Outstanding at 1 July	-	282,476	-	313,132
Forfeited during the period	-	-	-	(30,656)
Granted during the period	-	638,000	-	648,438
Outstanding at 30 June	-	920,476	-	282,476

The shares purchased as at 30 June 2010 have a nil purchase price as they are the special bonus shares issued in the ratio of 1 additional share for every 2 participating shares (hybrids). The shares and hybrids are issued in relation to the short term performance bonus for the prior period under the TaBS scheme whereby the employee has elected to receive their cash bonus in shares at $0.25 per share. The shares are subject to a holding lock for a period of 3 years from the date of issue.

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23. Share-based payments (continued)
Shares (continued)

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 inputs are as follows:

	Directors	**Directors**	**Executives & Employees**	**Executives & Employees**
Fair value of shares and assumptions	**2010**	**2009**	**2010**	**2009**
Fair value of grant	$0.26	$0.19	$0.26	-

Hybrids

The terms and conditions of hybrid grants are as follows:

Grant date / employees entitled	**Number of Instruments**	**Vesting conditions**
Hybrids granted to non-executive directors on 24 November 2009	225,982	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 December 2009	214,097	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 March 2010	210,462	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 30 June 2010	214,903	The hybrids vested immediately upon grant
Hybrids granted to executive directors on 24 November 2009	450,000	The hybrids have a 3 year vesting period
Hybrids granted to executives and employees on 24 November 2009	826,000	The hybrids have a 3 year vesting period
Total shares	2,141,444	

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

	Weighted average purchase price	**Number of hybrids**	**Weighted average purchase price**	**Number of hybrids**
	2010	**2010**	**2009**	**2009**
Granted during the period	$0.27	2,141,444	$0.30	549,673
Outstanding at 30 June	$0.25	1,276,000	-	-

The hybrids purchased as at 30 June 2010 have a purchased price in the range of $0.2500 to $0.3743.

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23. Share-based payments (continued)

Hybrids (continued)

The fair value of services received in return for hybrids granted is based on the fair value of hybrids granted, which is measured using the difference between the purchase price and the share price on the grant date. The inputs are as follows:

	Directors	Directors	Executives	Executives
Fair value of hybrids and assumptions	**2010**	**2009**	**2010**	**2009**
Fair value of grant	$0.29	$0.30	$0.26	-

Share based payment expense

	Consolidated	
In thousands of AUD	**2010**	**2009**
Share options granted in 2009 – equity settled	70	41
Share options granted in 2008 – equity settled	462	658
Shares granted in 2010	33	-
Shares granted in 2009	-	123
Shares granted in 2008	75	75
Hybrids granted in 2010	325	-
Hybrids granted in 2008	-	164
Shares based payment capitalised	(52)	(52)
Total expenses recognised as employee costs	913	1,010

24. Provisions

	Consolidated	
In thousands of AUD	**2010**	**2009**
Site restoration	3,500	3,500
	3,500	3,500

The provision of $3,500,000 is in respect of the Group's on-going obligation for the environmental rehabilitation of the Windarra mine sites. It is expected that the Company will commence the rehabilitation within the next 12 months.

25. Trade and other payables

	Consolidated	
In thousands of AUD	**2010**	**2009**
Trade payables	208	1,246
Other payables	589	595
	797	1,841

26. Financial risk management

Overview

The Group has 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 Audit and Risk Management Committee has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

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 other third parties, investments, banks and financial institutions.

Investments, banks and financial institutions

The Group limits its exposure to credit risk by limiting transactions to only high credit quality financial institutions that have an external credit rating, set down by Standard and Poors (S&P), of at least AA and AAA category for long term investing and at least a short term rating of A-1 and A-1+, excluding available-for-sale financial assets. With respect to investments, the Group limits it's exposure by investing in liquid investments that are principally exchange traded. The Audit and Risk Management Committee monitor and make adjustments to individual portfolios based upon current economic outlooks in order to maximise returns on the individual portfolios.

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.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

		Carrying amount	
In thousands of AUD	***Note***	**2010**	**2009**
Cash and cash equivalents	*17a*	924	3,552
Other investments	*13*	945	605

Financial assets past due but not impaired

As the Group are 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.

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26. Financial risk management (continued)

Financial assets neither past due nor impaired

The Group's credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or past history:

In thousands of AUD	**2010**	**2009**
Cash and cash equivalents		
AA	924	3,552

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 liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company'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 where necessary and action taken to secure funding if required. 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 2010

In thousands of AUD	**Carrying amount**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Finance lease liabilities	204	48	48	118	14	-
Trade and other payables	797	797	-	-	-	-
Convertible note liability	10,648	-	-	-	17,254	-
	11,649	845	48	118	17,268	-

Consolidated
30 June 2009

In thousands of AUD	**Carrying amount**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Finance lease liabilities	273	48	48	97	131	-
Trade and other payables	1,841	1,841	-	-	-	-
Convertible note liability	9,436	-	-	-	17,911	-
	11,550	1,889	48	97	18,042	-

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. The only exceptions are trade and other payables, financial liabilities and the convertible note liability. The Group believes these positions to be a true reflection of what would be paid assuming the positions had to be paid out immediately. However, it is not expected the convertible note will be paid out in the next six months but rather at the end of the term in 2014;
3. The analysis assumes a worst case scenario if they were required to repay all financial liabilities early. The Group believes the likelihood of this as being remote. As the maturity analysis assumes the earliest contractual maturity, no interest payments would be due therefore these amounts have been excluded.

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26. Financial risk management (continued)
Market Risk
Market risk is the risk that fluctuations 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 investments, cash and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily 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, based on notional amounts:

	30 June 2010		30 June 2009	
In thousands of AUD	**USD**	**Total**	**USD**	**Total**
Convertible note derivative	(1,464)	**(1,464)**	(1,526)	**(1,526)**
Convertible note liability	(10,648)	**(10,648)**	(9,436)	**(9,436)**
Gross statement of financial position exposure	(12,112)	**(12,112)**	(10,962)	**(10,962)**

Sensitivity analysis
The following sensitivities have been applied for 2010 based upon published 12 month forward rates:
– A 3% strengthening of AUD against the USD with the equal effect in the opposite direction.

The following sensitivities have been applied for 2009 based upon published 12 month forward rates:
– A 3% weakening of AUD against the USD with the equal effect in the opposite direction.

	Consolidated	
In thousands of AUD	**Equity**	**Profit or loss**
30 June 2010		
USD	-	326
30 June 2009		
USD	-	(366)

The opposite effects have not been shown, as it equates the opposite amounts shown above.

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26. Financial risk management (continued)
Market risk (continued)
(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:

	Consolidated Carrying amount	
In thousands of AUD	**2010**	**2009**
Fixed rate instruments		
Cash and cash equivalents	3	2,003
In thousands of AUD		
Variable rate instruments		
Cash and cash equivalents	921	1,549
Convertible note derivative	1,464	1,526

Cash flow sensitivity analysis for variable rate instruments

As at 30 June 2009 and 2010 a sensitivity analysis has not been disclosed in relation to the floating interest deposits and convertible note for the Group as the results are immaterial to the statement of comprehensive income.

(c) Equity price risk

The Group is exposed to equity price rate risk on its financial liabilities and equity investments. The convertible note derivative fluctuates with the Company's underlying share price until either the convertible note is repaid by the Company, 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.

Profile

At the reporting date, the equity price risk profile of the Group's financial instruments was:

In thousands of AUD	Consolidated Carrying amount	
	2010	**2009**
Variable rate instruments		
Convertible note derivative	1,464	1,526
Other investments	945	605

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26. Financial risk management (continued)
Market risk (continued)
(c) Equity price risk (continued)
Price risk sensitivity

2010 Equity Price Risk
In relation to the convertible note derivative, the Group have used an equity price change of 115% upper and lower representing a reasonable possible change based upon the Company's historic share price volatility over the last 3 years of trading.

In relation to the available-for-sale financial assets, the Group have used an equity price change of 85% upper and lower representing a reasonable possible change based upon the company's historic share price volatility over the last 12 months.

2009 Equity Price Risk
In relation to the convertible note derivative the Group have used an equity price change of 80% upper and lower representing a reasonable possible change based upon the Company's historic share price volatility over the last 3 years of trading.

In the prior year, as Triton Gold Ltd was not traded on the ASX, the analysis of the available-for-sale assets is based upon the historic volatility of comparable companies with similar market capitalisation. The volatility has been analysed based upon the August listing price of the investment of $0.20 compared with the fair value per share of $0.067 at 30 June 2009. The downward sensitivity represents the maximum exposure of the investment being its carrying value at balance date.

	Profit or loss		**Equity**	
In thousands of AUD	**115% increase**	**115% decrease**	**85% increase**	**85% decrease**
30 June 2010				
Convertible note derivative	(2,421)	1,464	-	-
Available-for-sale financial assets	-	-	803	(803)
Cash flow sensitivity (net)	(2,421)	1,464	803	(803)

	Profit or loss		**Equity**	
In thousands of AUD	**80% increase**	**80% decrease**	**655% increase**	**100% decrease**
30 June 2009				
Convertible note derivative	(2,012)	1,419	-	-
Available-for-sale financial assets	-	-	3,355	(605)
Cash flow sensitivity (net)	(2,012)	1,419	3,355	(605)

Fair values
Fair values versus carrying amounts

Cash and cash equivalents
The carrying amount is fair value due to the liquid nature of these assets.

Other Receivables
Due to the short-term nature of these financial rights, their carrying amounts are deemed to represent their fair values.

Available-for-sale financial assets
The available-for-sale financial asserts have been recorded at its fair value therefore there is no difference between its fair value and carrying value.

26. Financial risk management (continued)

Fair values (continued)

Fair values versus carrying amounts (continued)

Convertible Note Liability

The carrying amount and fair value of the convertible note at balance date is:

	Consolidated Carrying amount		Consolidated Fair value	
In thousands of AUD	**2010**	**2009**	**2010**	**2009**
On statement of financial position				
Convertible note liability	10,648	9,436	16,601	16,637

The fair value of the convertible note liability is based on the cash flows discounted using an appropriate discount rate.

Convertible Note Derivative

The convertible note derivative liability is recorded at its fair value therefore there is no difference between fair value and carrying value.

Fair values versus carrying amounts

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

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

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

In thousands of AUD	Level 1	Level 2	Level 3	Level 4
Fair value through profit or loss				
Convertible note derivative	-	1,464	-	1,464
Available-for-sale financial assets				
Listed equity securities	945	-	-	945

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

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

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26. Financial risk management (continued)

Capital Management

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 20) less cash and cash equivalents (note 17) 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 32% (2009: 19%) for the Group.

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.

27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Consolidated	
In thousands of AUD	**2010**	**2009**
Less than one year	159	153
Between one and five years	-	153
More than five years	-	-
	159	306

The Group leases business office premises under non-cancellable operating leases expiring in 1 year. The leases have varying terms, escalation clauses and renewal rights. The terms of the leases were renegotiated from 1 July 2008 for a 3 year term.

28. 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. These obligations are not provided for in the financial report and are payable as follows:

	Consolidated	
In thousands of AUD	**2010**	**2009**
Less than one year	269	257
Between one and five years	454	748
More than five years	710	768
	1,433	1,773

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29. Related parties

The key management personnel compensation included in 'personnel expenses' (note 8) and 'share based payments' (note 23), is as follows:

	Consolidated	
In thousands of AUD	**2010**	**2009**
Short-term employee benefits	1,534	1,489
Post-employment benefits	123	131
Share-based payments	947	1,055
	2,604	2,675

The remuneration report in section 7.5.2 of the Directors' report, includes an additional amount of share based payment for $52,458 (2009: $52,212) that has been capitalised as part of exploration expenditure and not expensed through the statement of comprehensive income.

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 on pages 13 to 24.

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.

Loans to key management personnel and their related parties

There were no loans outstanding at the reporting date to key management personnel and their related parties or at any time in the reporting period.

Other key management personnel transactions

There were no other transactions with key management persons, or their related parties during the financial period.

There were no amounts receivable from, or payable to, key management personnel and other related parties, arising from these transactions at the reporting date.

Options and rights over equity instruments

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 2009	Granted as compensation	Exercised	Other changes	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors							
Mr A Forrest	-	-	-	-	-	-	-
Mr C Indermaur	-	-	-	-	-	-	-
Mr R Monti	1,250,000	-	-	-	1,250,000	-	1,250,000
Mr G Brayshaw	-	-	-	-	-	-	-
Mr D Singleton	3,000,000		-	-	3,000,000	-	-
Executives							
Mr R Dennis	277,000	-	-	-	277,000	-	-
Mr N Hutchison	142,000	-	-	-	142,000	-	-
Mr M Rodriguez	-	-	-	-	-	-	-
Mr G Jones	114,000	-	-	-	114,000	-	-

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29. Related parties (continued)

Options and rights over equity instruments (continued)

The options were granted to Mr D Singleton under the terms of the ESOP. Refer to section 7.5.1 of the Directors' report.

	Held at 1 July 2008	Granted as compensation	Exercised	Other changes	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
Directors							
Mr A Forrest	-	-	-	-	-	-	-
Mr C Indermaur	-	-	-	-	-	-	-
Mr R Monti	1,250,000	-	-	-	1,250,000	-	1,250,000
Mr G Brayshaw	-	-	-	-	-	-	-
Mr D Singleton	1,000,000	2,000,000	-	-	3,000,000	-	-
Executives							
Mr R Dennis	277,000	-	-	-	277,000	-	-
Mr N Hutchison	142,000	-	-	-	142,000	-	-
Mr M Rodriguez	-	-	-	-	-	-	-
Mr G Jones	114.000	-	-	-	114,000	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2010.

Movements in 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 2009	Granted as compensation	Received on exercise of options	Purchased, sales or donations	Held at 30 June 2010
Directors					
Mr A Forrest	5,000,000	-	-	-	5,000,000
Mr C Indermaur	-	-	-	-	
Mr R Monti	237,500	-	-	-	237,500
Mr G Brayshaw	-	-	-	-	
Mr D Singleton	1,648,438	225,000	-	-	1,873,438
Executives					
Mr R Dennis	110,246	83,000	-	-	193,246
Mr N Hutchison	65,000	70,000	-	-	135,000
Mr M Rodriguez	69,688	156,000	-	-	225,688
Mr G Jones	50,000	40,000	-	-	90,000

The shares were granted to directors and executives under the terms of TaBS. Refer to section 7.5.1 of the Directors' report.

Poseidon Nickel Limited
Notes to the consolidated financial statements

29. Related parties (continued)

Movements in shares (continued)

	Held at 1 July 2008	Granted as compensation	Received on exercise of options	Purchased, sales or donations	Held at 30 June 2009
Directors					
Mr A Forrest	5,000,000	-	-	-	5,000,000
Mr C Indermaur	-	-	-	-	-
Mr R Monti	237,500	-	-	-	237,500
Mr G Brayshaw	-	-	-	-	-
Mr D Singleton	500,000	648,438	-	500,000	1,648,438
Executives					
Mr R Dennis	110,246	-	-	-	110,246
Mr N Hutchison	65,000	-	-	-	65,000
Mr M Rodriguez	69,688	-	-	-	69,688
Mr G Jones	50,000	-	-	-	50,000

Movements in 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 2009	Granted as compensation	Received on exercise of options	Purchased, sales or donated	Held at 30 June 2010
Directors					
Mr A Forrest	-	145,547	-	(145,547)	-
Mr C Indermaur	-	301,449	-	-	301,449
Mr R Monti	240,933	200,127	-	-	441,060
Mr G Brayshaw	230,761	218,321	-	-	449,082
Mr D Singleton	351,563	450,000	-	-	801,563
Executives					
Mr R Dennis	220,491	166,000	-	-	386,491
Mr N Hutchison	125,000	140,000	-	-	265,000
Mr M Rodriguez	59,375	312,000	-	-	371,375
Mr G Jones	100,000	80,000	-	-	180,000

Poseidon Nickel Limited
Notes to the consolidated financial statements

29. Related parties (continued)

Movements in hybrids (continued)

	Held at 1 July 2008	Granted as compensation	Received on exercise of options	Purchased, sales or donated	Held at 30 June 2009
Directors					
Mr A Forrest	-	134,279	-	(134,279)	-
Mr C Indermaur	69,210	-	-	(69,210)	-
Mr R Monti	56,300	184,633	-	-	240,933
Mr G Brayshaw	-	230,761	-	-	230,761
Mr D Singleton	351,563	-	-	-	351,563
Executives					
Mr R Dennis	220,491	-	-	-	220,491
Mr N Hutchison	125,000	-	-	-	125,000
Mr M Rodriguez	59,375	-	-	-	59,375
Mr G Jones	100,000	-	-	-	100,000

30. Group entities

Significant subsidiaries

	Country of incorporation	Ownership interest	
Parent entity		**2010**	**2009**
Poseidon Nickel Ltd			
Significant subsidiaries			
Poseidon Nickel Atlantis Operations Pty Ltd	Australia	100%	100%
Poseidon Nickel Olympia Operations Pty Ltd	Australia	100%	100%
Wells Gold Corporation (International) Pty Ltd	Australia	100%	-

The Company re-registered its 100% owned subsidiary, Wells Gold Corporation (International) Pty Ltd during the reporting period due to the Company's interests in projects in Ghana being held in this subsidiary company. The subsidiary company had been deregistered during the prior reporting period.

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

31. Joint ventures

The Group has entered into the following joint venture arrangements:

		Equity Interest		Carrying Value	
		2010	2009	2010	2009
Project	**Activities**	%	%	$	$
Waite Kauri	Nickel / Cobalt	-	-	16,773	100,901
Menzies	Nickel	-	-	-	27,124

The carrying value in the above joint ventures represents exploration expenditure and is included in the total exploration expenditure written off of $493,000 (2009: $2,157,000) at note 12. This exploration has been accounted for in accordance with note 4(e).

Poseidon Nickel Limited
Notes to the consolidated financial statements

31. Joint ventures (continued)

The Company and Eagle Eye Metal Limited (“Eagle Eye”) entered into an agreement on 24 October 2008, to form a joint venture for the Waite Kauri Nickel/Cobalt project. To date, work undertaken has identified that the size and style of the mineralisation does not meet the requirements of the Windarra Nickel Project and the Company has notified Eagle Eye that it will not be seeking to formalise the agreement. As at 30 June 2010, a total of $16,773 has been incurred.

32. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2010 the parent company of the Group was Poseidon Nickel Limited.

		Consolidated	
In thousands of AUD	***Note***	**2010**	**2009**
Results of the parent entity			
Profit (loss) for the period		(4,050)	7,441
Other comprehensive income		340	-
Total comprehensive income for the period		(3,710)	7,441
Financial position of the parent entity at year end			
		2010	**2009**
Current assets		1,046	3,703
Total assets		47,957	48,431
Current liabilities		16,500	16,400
Total liabilities		16,626	16,604
		2010	**2009**
Total equity of the parent entity comprising of:			
Share capital		76,190	73,508
Share based payments reserve		233,586	233,054
Fair value reserve		340	-
Option premium reserve		510	510
Accumulated losses		(279,295)	(275,245)
Total equity		31,331	31,827

33. Subsequent event

In July 2010 the Company raised $3.2 million, less costs of $161,000, through the placement of Fully Paid Ordinary Shares to professional and sophisticated investors. Poseidon has agreed to place approximately 17,878,893 shares at $0.18 per share with 1 free attaching unlisted option for every 2 shares subscribed for. The options will be exercisable at $0.25 each on or before 31 August 2012.

The placement will occur in two tranches. The first tranche comprised the placement of 10,495,647 shares together with 5,247,827 free attaching options raising $1.9 million utilising the Company’s 15% placement capacity under the ASX Listing Rules. The second tranche will comprise the placement of 7,383,246 shares together with 3,691,620 free options to raise a further $1.3 million and is subject to shareholder approval at a General Meeting to be held on 20 September 2010. A placement fee of 5% of the funds raised will be paid to the brokers that participated in the capital raising.

Poseidon Nickel Limited
Notes to the consolidated financial statements

34. Auditors' remuneration

In AUD	Consolidated 2010	2009
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	36,700	28,150
Accounting assistance and advice	18,000	45,100
	54,700	73,250
Other services		
Forensic services	42,440	-
	97,140	73,250

No other services were provided by KPMG during the year.

Poseidon Nickel Limited
Directors' declaration

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

   (a) the financial statements and notes and the remuneration disclosures that are contained in section 7.5 of the Remuneration report in the Directors' report, set out on pages 13 to 24, 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 2010 and of their 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;

   (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);

   (c) 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 financial controller for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the directors:

Mr G Brayshaw
Director

Perth
16th September 2010

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 the Group comprising Poseidon Nickel Limited (the Company) and the entities it controlled at the year's end or from time to time during the financial year, which comprises the consolidated statement of financial position as at 30 June 2010, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 34 and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies 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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a 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.

KPMG

Independence

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

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 2010 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Report on the remuneration report

We have audited the Remuneration Report included in section 7.5 of the directors' report for the year ended 30 June 2010. 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 2010, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Graham Hogg
Partner

Perth

16 September 2010

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 2010 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

Graham Hogg
Partner

Perth

16 September 2010

Poseidon Nickel Limited
ASX Additional information

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 31 August 2010.

A. Distribution of equity securities

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

	Class of equity security	
	Ordinary Shares	Options December 2011
1 - 1000	2,201	4
1,001 - 5,000	2,589	19
5,001 - 10,000	949	14
10,001 - 100,000	1,473	59
100,001 and over	223	15
	7,435	**111**

There were 3,897 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**
HSBC Custody Nominees (Australia) Limited-GSCO ECA	14,340,373	7.66
Citicorp Nominees Pty Limited	9,699,721	5.18
UBS Nominees Pty Ltd	8,102,882	4.33
National Nominees Limited	7,024,915	3.75
Minderoo Pty Ltd <Andrew & Nicola Forrest Family>	5,000,000	2.67
ANZ Nominees Limited <Cash Income A/c>	4,858,616	2.60
Mr Martinus Coolen	3,407,137	1.82
NEFCO Nominees Pty Ltd	2,855,000	1.53
HSBC Custody Nominees (Australia) Limited	2,808,184	1.50
Mr David Singleton	2,575,000	1.38
Public Trustee <IFTC Broking Services Ltd A/c>	2,050,000	1.10
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/c>	1,960,763	1.05
J & F James Brothers Holdings Pty LTd	1,725,000	0.92
Wavenet International Limited	1,705,759	0.91
Mr David & Mrs Deborah Lacey	1,363,750	0.73
Mr John Lemke	1,200,000	0.64
Mr Bruno & Mrs Coralie Sceresini <Sceresini Super Fund A/c>	1,118,500	0.60
Saggio Investments Pty Ltd <Saggio Investment A/c>	1,000,000	0.53
Pine Valley Enterprises Pty Ltd	900,000	0.48
Mrs Robyn & Mr Steven Watts <WTown Smetal Super Fund A/c>	860,000	0.46
TOTAL	**74,555,600**	**39.83**

Poseidon Nickel Limited
ASX Additional information (continued)

B. Equity security holders (continued)

Twenty largest quoted option holders

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

	December 2011 Options	
Name	**Number held**	**Percentage of issued shares**
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/c>	699,112	11.35
Avon Management CO Pty Ltd <Diermajer Family S/F A/C>	312,500	5.08
Tadea Pty Ltd	300,000	4.87
Mr Don Evans	275,000	4.47
KR Properties Pty Ltd	266,038	4.32
Illawong Investments Pty Ltd <Cocks Family A/c>	250,000	4.06
Paraway Pty Ltd	250,000	4.06
Mr Zygmund & Mrs Nola Wolski <Te Wolski Super Fund A/c>	250,000	4.06
Geoviz Pty Ltd	214,690	3.49
Mr Josephus Verheggen <The Verheggen Super Fund A/C>	193,750	3.15
Peto Pty Ltd <1953Super Fund A/c>	167,434	2.72
Mr John & MRs Lynetter Hayes <Hayes Super Fund A/c>	163,642	2.66
Mr Simon & Mrs Margot Austerberry <Hellenback Executive S/F A/c>	160,000	2.60
Geoviz Pty Ltd <Simon Brown Family A/c>	146,560	2.38
Mr Kevin Griffin & Ms Jill Johnston <Manor Gorve Staff S/F A/c>	125,000	2.03
Mr Ian Murie <The Alevan A/c>	100,000	1.62
Canonbar Investments Pty Ltd	98,500	1.60
GT Le Page & Associates Pty Ltd <Superannuation Fund>	96,184	1.56
Mr Brian Ryan	90,000	1.46
Sabre Power Pty Ltd	85,527	1.39
TOTAL	**4,243,937**	**68.93**

Poseidon Nickel Limited
ASX Additional information (continued)

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
HSBC Custody Nominees (Australia) Limited-GSCO ECA	14,340,373	7.66
Citicorp Nominees Pty Limited	9,699,721	5.18
December 2011 options		
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/c>	699,112	11.35
Avon Management Co Pty Ltd <Diermajer Family S/F A/c>	312,500	5.08

D. Unquoted equity security holders (as at 31 August 2010)

Options

Mr David Singleton holds 3,000,000 options representing 100% of the total number of July 2011 and December 2012 options on issue.

Greatcity Corporation Pty Ltd holds 1,250,000 options representing 50% of the total number of July 2012 options on issue.

Mr John Andrew Hannaford holds 625,000 options representing 25% of the total number of July 2012 options on issue.

Mrs Emma Kate Hannaford holds 625,000 options representing 25% of the total number of July 2012 options on issue.

Leaping Joey Pty Ltd ATF The Australian Children's Trust holds 115,000,000 options representing 100% of the total number of September 2012 options on issue.

Mr Bill Laister holds 3,260,620 options representing 58.42% of the total number of August 2012 options on issue.

Mr Kevin Hansen holds 383,378 options representing 6.87% of the total number of August 2012 options on issue.

Mr Michael Buys holds 382,994 options representing 6.87% of the total number of August 2012 options on issue.

Mr Thomas Sharp holds 333,500 options representing 5.97% of the total number of August 2012 options on issue.

Mr Barry Wanford holds 191,497 options representing 3.43% of the total number of August 2012 options on issue

Mr Paul Xiradis holds 191,497 options representing 3.43% of the total number of August 2012 options on issue.

Partly paid shares to $0.002

Bluefirm Pty Ltd holds 50,000 partly paid shares to $0.002 ($0.10 to pay) representing 100% of the total number on issue in this class.

Partly paid shares to $0.082

Bellstar Holdings Pty Ltd holds 350,000 representing 93.33% of the total number on issue in this class and Our Barnyard Pty Ltd holds 25,000 representing 6.67% of the total number on issue in this class of partly paid shares to $0.082 ($0.02 to pay)

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.

E. Voting rights (continued)

Partly Paid shares

(a) The Partly Paid shares shall be allotted and issued at an issue price of $0.102 each and the holder will, at the allotment date, have paid $0.002 for each Partly Paid share leaving $0.10 payable.

(b) Subject to the payment of any unpaid capital, the Partly Paid shares shall rank equally with, and have all the rights, benefits and obligations as existing shares.

(c) The Company shall not make any call in respect of the unpaid capital owing on the Partly Paid shares until that date which is 36 months after the allotment date. Thereafter the Company will make calls on the unpaid capital owing on the Partly Paid shares at a rate of $0.02 per Partly Paid share per annum pursuant to the timetable below:

Call	
12 months after allotment	NIL
24 months after allotment	NIL
36 months after allotment	$0.02
48 months after allotment	$0.02
60 months after allotment	$0.02
72 months after allotment	$0.02
84 months after allotment	$0.02

Calls on the Partly Paid shares made in accordance with the above terms will be conducted in accordance with the Company's constitution. Failure by a holder of Partly Paid shares to pay any call made in accordance with the above terms and the Company's constitution will result in the shares in respect to which the call was made to be liable for forfeiture. The Company's constitution deals with the procedure and liability of the shareholder should a share be forfeited.

(d) The holder of Partly Paid shares may, at any time prior to a call being made by the Company to pay up any unpaid capital of the Partly Paid shares in accordance with clause (c), at its sole and absolute discretion, elect to pay up all of the unpaid capital.

(e) As soon as practicable after receipt of payment of the outstanding amount owing on the Partly Paid shares, and as required by Chapter 2 of ASX Listing Rules, the company will apply for quotation on ASX for the Partly Paid shares that become fully paid.

(f) In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the Partly Paid shares shall be reorganised in accordance with the Listing Rules, the Company's Constitution and Corporations Act.

(g) Holders of Partly Paid shares are entitled to receive notice of, attend and vote at shareholders meetings. Resolutions of shareholders will be decided by a show of hands unless a poll is demanded. On a show of hands each holder of a Partly Paid share present in person or by proxy has one vote. On a poll, each holder of a Partly Paid share present in person or by proxy has a fraction of a vote for each Partly Paid share determined by the amount paid up on that share.

The rights attaching to Partly Paid shares (including dividend rights), other than those listed above, shall be consistent, notwithstanding any differences in the amounts that the shares are paid up to, with shares in the Company.

F. Schedule of Tenements

Areas of Interest	**Tenements**	**Economic Entity's Interest**
Poseidon Nickel Limited		
Western Australia		
- Windarra Nickel Assets	MSA 38/261, G 38/21, L 39/184	100%
- Windarra South	L 38/118, L 38/119, L 38/121, L 38/122	100%
- Woodline Well	PL 39/4493, PL 39/4494, PL 39/4495	100%
- Pool Well	M 38/1243, M 38/1244, M 38/1245	100%
- The Boats	E 38/2060	100%
- Laverton	E 38/1450, E 38/1587, E 39/930, E 38/1752, E 38/1622	100%
- Tyson Resources	E 39/1325, E 39/1326	100%
- Naretha	E 28/1969	100%

E = Exploration Licence M = Mining Lease MSA = Mining Tenement State Act PL = Prospecting License