

**POSEIDON NICKEL LIMITED**  
**AND CONTROLLED ENTITIES**

**ABN 60 060 525 206**

**INTERIM FINANCIAL REPORT**  
**31 DECEMBER 2007**

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# CORPORATE DIRECTORY

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## **DIRECTORS**

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

## **SECRETARY**

Mr Ross Kestel

## **REGISTERED OFFICE**

Spectrum, Level 2  
100 Railway Road  
Subiaco WA 6008

## **PRINCIPAL OFFICE**

Unit 8, Churchill Court  
331-335 Hay Street  
Subiaco WA 6008  
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Email: [admin@poseidon-nickel.com.au](mailto:admin@poseidon-nickel.com.au)  
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## **POSTAL ADDRESS**

PO Box 190  
West Perth WA 6872

## **AUDITORS**

KPMG  
152-158 St George's Terrace  
Perth WA 6000

## **SHARE REGISTRY**

Computershare Registry Services Pty Ltd  
Level 2, 45 St George's Terrace  
Perth WA 6000

## **ASX CODE**

POS

## **COUNTRY OF INCORPORATION AND DOMICILE**

Australia

# DIRECTORS' REPORT

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The directors present their report together with the consolidated financial report of Poseidon Nickel Limited and its controlled entities ("the Group") for the six months ended 31 December 2007 and the review report thereon.

## DIRECTORS

The directors of Poseidon Nickel Limited ("the Company") during or since the end of the interim period are:

	<b>Appointed</b>
Mr A Forrest	Appointed 2 July 2007
Mr C Indermaur	Appointed 2 July 2007
Mr R Monti	Appointed 4 April 2007
Mr D Singleton	Appointed 1 February 2008
Mr G Brayshaw	Appointed 1 February 2008

## 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.

## RESULTS OF OPERATIONS

The loss of the Company for the 6 months after providing for income tax was \$243,022,000 (31 December 2006: \$2,077,000 loss).

## REVIEW OF OPERATIONS

### OVERVIEW

During the period the Company set a series of development milestones for the Windarra Nickel Project. The results of the "Fast Start" production facility were published to the market in October 2007 outlining the cost and schedule of the first implementation stage leading to a planned 1 million tonne processing facility. The Company also indicated that its drilling programme combined with historical assay data would be used to develop the first ever JORC compliant resource statement for Mt Windarra. This was completed and has confirmed that substantial resources exist. The Company has indicated that as a result of these positive outcomes that it now intends to proceed to completing the full project feasibility study. In order to complete this feasibility the following activities are underway:-

- Detailed mine planning of the ore bodies intended for development in the first 12 months of operations
- Process optimisation testing for the "Fast Start" concentrator circuit
- Process testing to define a secondary processing flow sheet
- Environmental protection planning
- Alternative equipment supply options (cost & delivery focus)
- Request for ore crushing and screening tenders

With the completion of the near mine drilling from surface the Company is now focused on pursuing its multiple regional exploration targets. The exploration progress is outlined below.

## WINDARRA NICKEL PROJECT

### Underground Operations

With continued support from the various Government departments the Company has made good progress on gaining the necessary statutory approvals with the licence for dewatering the mine under the Environmental Protection Act being received from the Department of Environment and Conservation in late October 2007. In February 2008 Poseidon confirmed that the final approvals had been received and water removal operations would commence.

In preparation for the commencement of refurbishment of the Mt Windarra underground mine, services including electric power, water and a ventilation fan have now been installed at the 550 portal entrance. The first 100m of decline have been rock bolted and cleaned up to test both equipment and decline rehabilitation methodology.

The existing raise bore holes W568 and V544 have been reopened and inspected with a down hole camera. Both holes appear to be clear to a depth of 150m and capable of being reused as part of the mine's ventilation system.

The Company has obligations to the West Australian Government to provide a development plan for reopening the mine. In agreement with the Government, this development plan is now scheduled for submission by the end of March 2008. The "Fast Start" development plan and associated mine planning, environmental planning and process development will be submitted at that time with completion of the full feasibility and process optimisation continuing into the second quarter.

# DIRECTORS' REPORT

## Exploration

The first half of the financial year saw a solid input into resource definition and reserve calculations at the Windarra Nickel Project, as well as continuing regional exploration away from Mt Windarra. Drilling completed during the period included:

Diamond drilling:	25 holes <i>incl</i> wedges for 6,847.5m at Mt Windarra and Denny Bore.
RC Drilling:	277 holes for 11,104m at Mt Windarra, South Windarra and Woodline Well defining oxide nickel resources.
RAB Drilling:	40 holes for 609m on E38/1450 for sterilisation of proposed tails pond area, and water monitoring bores around the tails pond site.
	8 holes for 168m at Mt Windarra sampling the WMC Ni tailings dump.
	27 exploration holes for 438m at Weebo Well over a differentiated ultramafic intrusion.

In addition to the above drilling, the Company has completed a further 8 diamond drill holes for 2,796.4m during the March quarter. These holes were drilled into the A Hanging Wall and Windarra Deeps ore zones and are included in the resource statement below.

As a result of the above work, the Company has announced a JORC compliant Indicated and Inferred resource of 60,370 tonnes of contained nickel sulphide.

The JORC compliant resource is made up as follows:

Sulphide Deposits	Tonnes	Ni% Grade	Ni Metal t	Resource Category
Mt Windarra CDG Deeps	2,816,895	1.57	44,310	Inferred
Mt Windarra A Shoot	166,625	1.74	2,899	Inferred
Mt Windarra B Shoot	68,810	1.36	936	Inferred
Mt Windarra A HW Extended	112,393	1.15	1,296	Inferred
Mt Windarra Upper G Shoot	552,441	1.03	5,701	Indicated
Mt Windarra A HW Shoot	339,500	0.99	3,361	Indicated
Mt Windarra F Shoot	111,186	1.68	1,868	Indicated
<b>Total Indicated</b>	<b>1,003,127</b>	<b>1.09</b>	<b>10,930</b>	<b>Indicated</b>
<b>Total Inferred</b>	<b>3,164,723</b>	<b>1.56</b>	<b>49,441</b>	<b>Inferred</b>
<b>Total All Categories</b>	<b>4,167,850</b>	<b>1.45</b>	<b>60,370</b>	

**The following parameters were used in the Indicated and Inferred Resource calculations:**

*Inferred Resource: cut-off grade of 1.0% Ni using IDW<sup>2</sup> block modelling.*

*Indicated Resource: cut-off grade of 0.75% Ni using IDW<sup>2</sup> block modelling.*

Oxide Deposits	Tonnes	Ni% Grade	Ni Metal t	Resource Category
Woodline Well Oxide	266,382	1.38	3,676	Inferred
South Windarra Oxide Dump 1	149,872	0.83	1,244	Indicated
South Windarra Oxide Dump 2	161,440	0.74	1,195	Indicated
<b>Total Indicated</b>	<b>311,312</b>	<b>0.78</b>	<b>2,439</b>	<b>Indicated</b>
<b>Total Inferred</b>	<b>266,382</b>	<b>1.38</b>	<b>3,676</b>	<b>Inferred</b>
<b>Total All Categories</b>	<b>577,694</b>	<b>1.06</b>	<b>6,115</b>	

**The following parameters were used in the Indicated and Inferred Oxide Resource calculations:**

*Cut-off grade of 0.5% Ni using IDW<sup>2</sup> block modelling.*

# DIRECTORS' REPORT

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The resources statement has been derived from historical assay results and confirmatory drilling undertaken to date. It should be noted that the resource stated does not include all of the known mineralisation at Mt Windarra or any of the mineralisation at South Windarra. In these areas, confirmatory drilling has not yet been undertaken and therefore the company is not in a position to define associated JORC compliant resources.

Near mine and regional exploration programmes are currently underway and will continue through to the end of the financial year with initial progress focussed on Denny Bore, Weebo Well and Woodline Well, all of which have provided encouraging anomalous nickel results to date.

## **Process Testing**

The Company has previously indicated that it intends to review the economic and metallurgical advantages of secondary processing the initial flotation product. This has a number of potential advantages associated with improving recovery and capturing a higher economic value for the produced nickel. In December 2007 the Company drilled a large test core in the G Shoot body and this material is now being subjected to a series of metallurgical tests to optimise flotation characteristics and to develop a secondary refining flow sheet. In addition the Company drilled composite samples in the tailings on the site and these are also being metallurgically tested.

*Note: The information in this report relates to Exploration Results and Mineral Resources based on information compiled by Mr N Hutchison and Mr M O'Mara who are both Members 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 the accuracy or adequacy of this release.*

# DIRECTORS' REPORT

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## DIVIDENDS

No dividends were paid or proposed during the interim period ended 31 December 2007.

## ROUNDING OFF

The Company is of a kind referred to as ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report and director's report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## LEAD AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration is set out on page 5 and forms part of the directors' report for the six months ended 31 December 2007.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'G. Brayshaw', written in a cursive style.

**Mr G Brayshaw**  
**Director**

Dated this 14<sup>th</sup> day of March 2008

# AUDITOR'S INDEPENDENCE DECLARATION

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*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 review for the financial half-year ended 31 December 2007 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

A handwritten signature in black ink that reads 'KPMG'.

KPMG

A handwritten signature in black ink that reads 'B C Fullarton'.

B C Fullarton  
*Partner*

Perth  
14 March 2008



# CONSOLIDATED INTERIM INCOME STATEMENT

for the six months ended 31 December 2007

	Consolidated	
Note	31 December 2007 \$'000	31 December 2006 \$'000
Other income	107	131
Depreciation expense	(18)	(11)
Employee expenses	(828)	(254)
Exploration costs written off	(13)	(1,122)
Impairment of non-current assets	-	(203)
Corporate and administration costs	(845)	(462)
Share based payment expense	8 (241,599)	(73)
Other expenses	(160)	(151)
<b>Loss before financial income</b>	<b>(243,356)</b>	<b>(2,145)</b>
Financial income	334	68
<b>Loss before income tax</b>	<b>(243,022)</b>	<b>(2,077)</b>
Income tax expense	-	-
<b>Loss after income tax</b>	<b>(243,022)</b>	<b>(2,077)</b>
<b>Loss attributable to equity holders of the Company</b>	<b>(243,022)</b>	<b>(2,077)</b>
<b>Earnings per share</b>		
Basic and diluted loss per share (cents)	(151.73)	(0.93)

The condensed notes on pages 11 to 16 are and integral part of these consolidated interim financial statements.

# CONSOLIDATED INTERIM BALANCE SHEET

As at 31 December 2007

	Notes	Consolidated	
		31 December 2007 \$'000	30 June 2007 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		6,060	10,485
Trade and other receivables		528	1,530
Available-for-sale financial assets		302	311
Other		24	24
<b>Total current assets</b>		<b>6,914</b>	<b>12,350</b>
<b>Non-current assets</b>			
Property, plant and equipment		1,907	403
Exploration and evaluation expenditure	5	27,614	17,301
Other		3,500	3,500
<b>Total non-current assets</b>		<b>33,021</b>	<b>21,204</b>
<b>Total assets</b>		<b>39,935</b>	<b>33,554</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		1,947	1,904
Borrowings		59	19
Provisions		93	5
<b>Total current liabilities</b>		<b>2,099</b>	<b>1,928</b>
<b>Non-current liabilities</b>			
Borrowings		305	134
Provisions	9	3,500	-
<b>Total non-current liabilities</b>		<b>3,805</b>	<b>134</b>
<b>Total liabilities</b>		<b>5,904</b>	<b>2,062</b>
<b>Net assets</b>		<b>34,031</b>	<b>31,492</b>
<b>Equity</b>			
Share capital	6	61,312	57,686
Reserves	7	242,332	1,277
Accumulated losses		(269,613)	(27,471)
<b>Total equity</b>		<b>34,031</b>	<b>31,492</b>

The condensed notes on pages 11 to 16 are an integral part of these consolidated interim financial statements.

# CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2007

	Attributable to equity holders			Total equity \$'000
	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	
<b>At 1 July 2007</b>	<b>57,686</b>	<b>1,277</b>	<b>(27,471)</b>	<b>31,492</b>
Loss for the period	-	-	(243,022)	(243,022)
	<b>57,686</b>	<b>1,277</b>	<b>(270,493)</b>	<b>(211,530)</b>
Issue of share capital (net of issue costs)	3,626	-	-	3,626
Issue of options (net of costs)	-	511	(166)	345
Exercise of options	-	(1,046)	1,046	-
Share based payment expense	-	241,599	-	241,599
Gain (loss) on revaluation of investments	-	(9)	-	(9)
<b>At 31 December 2007</b>	<b>61,312</b>	<b>242,332</b>	<b>(269,613)</b>	<b>34,031</b>

	Attributable to equity holders			Total equity \$'000
	Issued capital \$'000	Reserves \$'000	Accumulated losses \$'000	
<b>At 1 July 2006</b>	<b>38,130</b>	<b>1,041</b>	<b>(20,386)</b>	<b>18,784</b>
Loss for the period	-	-	(2,077)	(2,077)
	<b>38,130</b>	<b>1,041</b>	<b>(22,463)</b>	<b>16,707</b>
Issue of share capital (net of issue costs)	2,225	-	-	2,225
Share based payment expense	-	73	-	73
Gain (loss) on revaluation of investments	-	(873)	-	(873)
<b>At 31 December 2006</b>	<b>40,355</b>	<b>241</b>	<b>(22,463)</b>	<b>18,132</b>

The condensed notes on pages 11 to 16 are an integral part of these consolidated interim financial statements.

# CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

for the six months ended 31 December 2007

Notes	Consolidated	
	31 December 2007 \$'000	31 December 2006 \$'000
<b>Cash flows from operating activities</b>		
Sundry receipts	215	46
Payments to suppliers and employees	(1,934)	(745)
Interest received	333	68
<b>Net cash used in operating activities</b>	<b>(1,386)</b>	<b>(631)</b>
<b>Cash flows from investing activities</b>		
Proceeds on sale of property, plant and equipment	-	64
Proceeds on sale of investments	-	530
Payments for exploration and evaluation expenditure	(6,393)	(1,712)
Payments for property, plant and equipment	(962)	(9)
Repayment of loans by other entities	921	-
Other – security deposits (environmental/rental bonds)	-	(3,523)
<b>Net cash outflow from investing activities</b>	<b>(6,434)</b>	<b>(4,650)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issue of shares and options	3,185	2,321
Payments for share and option issue expenses	-	(70)
Proceeds from borrowings	227	-
Repayment of borrowings	(17)	(5)
<b>Net cash inflow from financing activities</b>	<b>3,395</b>	<b>2,246</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(4,425)</b>	<b>(3,035)</b>
Cash and cash equivalents at 1 July	10,485	3,126
<b>Cash and cash equivalents at 31 December</b>	<b>6,060</b>	<b>91</b>

The condensed notes on pages 11 to 16 are an integral part of these consolidated interim financial statements.

# CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 1. REPORTING ENTITY

Poseidon Nickel Limited (the "Company") is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2007 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2007 is available upon request from the Company's registered office at Spectrum Level 2, 100 Railway Road, Subiaco WA 6008 or at [www.poseidon-nickel.com.au](http://www.poseidon-nickel.com.au).

## 2. STATEMENT OF COMPLIANCE

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the Corporations Act 2001.

This consolidated interim financial report does not include all the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2007.

This consolidated interim financial report was approved by the Board of Directors on 14 March 2008.

The Company is of a kind referred to as ASIC Class Order 98/100 dated 10 July 1998 and in accordance with the Class Order, amounts in the financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

## 3. FINANCIAL POSITION

The consolidated interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2007 the Company incurred a loss of \$243,022,000 (2006: \$2,077,000) and had a net working capital surplus of \$4,815,000 (2006: \$10,422,000). The net loss included a non-cash, non-recurring share based payment of \$241,599,000.

The Company will require further funding in order to meet day-to-day obligations as they fall due and progress its exploration and mine development projects as budgeted. The Board of Directors is aware of the Company's working capital requirements and the need to access additional working capital funds in the next 12 months to enable the Company to continue its normal business activities and ensure the realisation of assets and extinguishment of liabilities as and when they fall due.

The Board is confident in securing sufficient additional equity and/or debt funding to provide working capital for at least the next 12 months.

The Company considers the going concern basis of preparation to be appropriate for this financial report.

## 4. SEGMENT INFORMATION

### Geographical Segments

The following table presents the revenue and profit information regarding geographical segments for the six month periods ended 31 December 2007 and 31 December 2006.

	Australia	Ghana	Eliminations	Economic Entity
	\$'000	\$'000	\$'000	\$'000
<b>2007</b>				
Total Segment Revenue	441	-	-	441
Segment Result	(243,009)	(13)	-	(243,022)
<b>2006</b>				
Total Segment Revenue	199	-	-	199
Segment Result	(2,077)	-	-	(2,077)

# CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 5. EXPLORATION AND EVALUATION EXPENDITURE

	Consolidated	
	31 December 2007 \$'000	30 June 2007 \$'000
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	<u>27,614</u>	<u>17,301</u>
<b>Reconciliations:</b>		
<b>Exploration and evaluation phase</b>		
Carrying amount at beginning of year	17,301	13,403
Additions	7,434	8,192
Rehabilitation asset	3,500	-
Exploration expenditure written off	(13)	(4,294)
Expenditure transferred to property, plant and equipment	<u>(608)</u>	<u>-</u>
	<u><b>27,614</b></u>	<u><b>17,301</b></u>

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

# CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 6. SHARE CAPITAL

	Consolidated		Consolidated	
	31 December 2007	30 June 2007	31 December 2007	30 June 2007
	Shares	Shares	\$	\$
<b>(a) Share capital</b>				
Ordinary shares				
Fully paid	157,211,446	297,091,283	61,254	57,092
Partly paid	5,777,200	11,554,700	58	594
<b>Total Contributed Equity</b>	<b>162,988,646</b>	<b>308,645,583</b>	<b>61,312</b>	<b>57,686</b>

### (b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
1 July 2006	Opening balance	243,133,322		38,130
15 August 2006	Conversion of partly paid shares	-		128
7 September 2006	Conversion of partly paid shares	-		146
21 September 2006	Conversion of partly paid shares	-		50
21 September 2006	Issue of shares for services rendered	65,000	0.40	26
3 October 2006	Conversion of partly paid shares	-		12
24 October 2006	Conversion of partly paid shares	-		15
27 October 2006	Placement of fully paid shares	3,781,572	0.38	1,437
17 November 2006	Conversion of options to fully paid shares	275,000		55
17 November 2006	Conversion of partly paid shares	-		21
17 November 2006	Issue of shares for placement fee	115,789	0.38	44
30 November 2006	Conversion of options to fully paid shares	1,725,000		345
8 December 2006	Conversion of partly paid shares	-		13
18 December 2006	Conversion of partly paid shares	-		27
31 January 2007	Issue of fully paid shares	35,000,000	0.22	7,700
9 February 2007	Conversion of partly paid shares	-		87
15 February 2007	Conversion of partly paid shares	-		30
26 March 2007	Issue of fully paid shares	200,000	0.24	48
27 March 2007	Conversion of partly paid shares	-		15
12 April 2007	Conversion of partly paid shares	-		55
24 April 2007	Conversion of partly paid shares	-		7
26 April 2007	Conversion of options to fully paid shares	2,200,000	0.001	2
9 May 2007	Conversion of partly paid shares	-		65
9 May 2007	Conversion of options to fully paid shares	10,075,000	0.46	4,634
9 May 2007	Conversion of options to fully paid shares	10,075,000	0.405	4,080
29 May 2007	Conversion of partly paid shares	-		30
14 June 2007	Conversion of options to fully paid shares	2,000,000	0.50	1,000
30 June 2007	Correction to fully paid shares on issue	300		-
				58,202
	Less: Transaction costs arising on share issue			(516)
30 June 2007	Balance	308,645,983		57,686
2 July 2007	Conversion of options to fully paid shares	4,800,000	0.001	5
		313,445,983		57,691
2 July 2007	Capital Consolidation 2:1	(156,722,991)		-
2 July 2007	Correction to fully paid shares on issue	294		-
		156,723,286		57,691
20 July 2007	Issue of fully paid shares (refer note 8)	500,000	1.96	980
31 July 2007	Issue of fully paid shares (refer note 8)	500,000	0.40	200
28 September 2007	Placement approved at general meeting (refer note 8)	5,000,000	0.40	2,000
18 October 2007	Conversion of options to fully paid shares	500	0.92	-
26 October 2007	Issue of shares for tenement acquisition	227,978	1.755	400
14 December 2007	Issue of shares for directors fees	36,882	1.118	41
				61,312
	Less: Transaction costs arising on share issue			-
31 December 2007	Balance	162,988,646		61,312

# CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 7. RESERVES

	Consolidated	
	31 December 2007	30 June 2007
	\$	\$
Employee benefit reserve	241,599	1,046
Option premium reserve	511	-
Available-for-sale investments revaluation reserve	222	231
	<u>242,332</u>	<u>1,277</u>
<b>Movements:</b>		
<i>Employee benefit reserve</i>		
Balance at beginning of year	1,046	187
Option expense	241,599	1,320
Options exercised	(1,046)	(461)
	<u>241,599</u>	<u>1,046</u>
<i>Option premium reserve</i>		
Balance at beginning of year	-	-
Options issued	511	-
	<u>511</u>	<u>-</u>
The above options were issued to third parties as consideration for marketing and corporate advisory services provided.		
<i>Available-for-sale investments revaluation reserve</i>		
Balance at beginning of year	231	854
Revaluation increment/(decrements)	(9)	(623)
	<u>222</u>	<u>231</u>

## 8. SHARE BASED PAYMENTS

Under AASB 2 *Share Based Payments*, the Company is required to recognise an expense equal to the fair value of share based payments made to directors and employees. The fair value of the options are calculated at the grant date using either the binomial lattice or Black Scholes option-pricing models, which ever is most appropriate, and recognised in the income statement over the vesting period.

During the 6 months ended 31 December 2007, a number of share based payments were made to directors and employees. The key terms and conditions are as follows:

### a) Director Options

At the shareholder meeting held on 2 July 2007, shareholders approved the issue of 115,000,000 options and 5,000,000 shares to Andrew Forrest or his nominees and 2,500,000 options and 500,000 shares to Ventnor Capital Pty Ltd or its nominees, a company associated with Richard Monti.

These options were subject to certain market conditions which have all been met subsequent to the grant date. Accordingly, the whole payment vested within the current period.

The key assumptions of the option valuation are as follows:

	Grant Date	Option Life	Fair Value per Option	Exercise Price	Price of Shares on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield
A Forrest	2 Jul 2007	5 Years	1.9724	0.40	2.14	100%	6.27%	0%
Ventnor Pty Ltd	2 Jul 2007	5 Years	1.9724	0.40	2.14	100%	6.27%	0%



# CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

## 8. SHARE BASED PAYMENTS (CONTINUED)

### b) Employee Options

During the period the Company issued 1,000,000 options to D Singleton, 277,000 options to R Dennis and 142,000 options to N Hutchison. The options are subject to share price performance hurdles over the life of the options.

It is expected that the vesting conditions, including the share price performance hurdles, will be met over the option life.

	Grant Date	Option Life	Fair Value per Option	Exercise Price	Price of Shares on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield
D Singleton	2 Jul 2007	5 Years	1.5670	1.96	2.14	100%	6.27%	0%
R Dennis	29 Nov 2007	5 Years	0.8687	1.41	1.16	100%	6.415%	0%
N Hutchison	30 Nov 2007	5 Years	0.8721	1.41	1.17	100%	6.415%	0%

### c) Director Shares

The difference between the fair value of the shares issued on 2f July 2007, \$2.14 per share, and the cash paid for the shares, \$0.40 per share, issued to A Forrest and Ventnor Capital Pty Ltd (refer note (a)) has been recognised as a share based payment expense.

### d) Employee Shares

On 2 July 2007, the Board approved the issue of 1,000,000 fully paid ordinary shares to David Singleton, or his nominees, as consideration for anticipated performance of work in the position of Chief Executive Officer. The shares are to be issued in two tranches, the first 500,000 shares issued 7 days after signing the employment agreement with the Company and the second tranche on 1 January 2008. The shares will be issued at a purchase price equal to the Volume Weighted Average Price ("VWAP") for the 5 trading days immediately prior to the issue date.

The first tranche of 500,000 shares have been issued at \$1.96 per share during the six months ended 31 December 2007 and payment has been received. No share based payment expense has been recognised for this payment as the purchase price approximated the fair value of the shares.

### e) Total Value of Share Based Payments

The total share based payment expense recognised in the Income Statement during the six months is as follows:

	No. of Options	Option Value Disclosed in Period (\$) a	No. of Shares	Share Value in Period (\$) b	Total Expense Recognised in Period (\$) a + b
A Forrest	115,000,000	226,826,000	5,000,000	8,700,000	235,526,000
Ventnor Pty Ltd	2,500,000	4,931,000	500,000	870,000	5,801,000
D Singleton	1,000,000	261,271	-	-	261,271
R Dennis	277,000	7,292	-	-	7,292
N Hutchison	142,000	3,639	-	-	3,639
<b>Total</b>	<b>118,919,000</b>	<b>232,029,202</b>	<b>5,500,000</b>	<b>9,570,000</b>	<b>241,599,202</b>

## 9. NON-CURRENT PROVISIONS

A provision of \$3,500,000 was recognised during the period to reflect the contractual obligation to rehabilitate the Windarra mine site. The Rehabilitation asset has been included in Exploration and evaluation expenditure (refer note 5).

# CONDENSED NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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## 10. EVENTS SUBSEQUENT TO BALANCE DATE

Mr David Singleton, CEO since 2 July 2007, and Mr Geoff Brayshaw have been appointed to the Board of Directors as Managing Director and Non-Executive Director respectively. The appointments are effective from 1 February 2008.

On 21 February 2008, the Company sold all its shares in a listed company, classified as Available-for-sale financial assets on the balance sheet realising a profit of \$182,000.

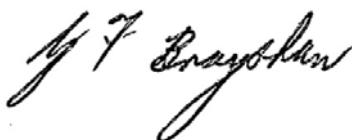
# DIRECTORS' DECLARATION

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

1. the financial statements and notes as set out on page 6 to 15 are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the Group's financial position as at 31 December 2007 and of its performance, for the six month ended on that date; and
  - (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting* and the Corporations Act 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors.



**Mr G Brayshaw**  
Director

Dated this 14<sup>th</sup> day of March 2008

# INDEPENDENT REVIEW REPORT

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

### **Report on the financial report**

We have reviewed the accompanying half-year financial report of Poseidon Nickel Limited, which comprises the consolidated interim balance sheet as at 31 December 2007, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a statement of accounting policies and other explanatory notes 1 to 10 and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year 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.

#### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Poseidon Nickel Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Poseidon Nickel Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and

# INDEPENDENT REVIEW REPORT

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- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

  
KPMG



B C Fullarton  
*Partner*

Perth  
14 March 2008