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PART 1 – INDEPENDENT EXPERT'S REPORT

The Directors
Poseidon Nickel Limited
Unit 8, Churchill Court
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SUBIACO WA 6008

Dear Sirs

Convertible Note Issue and Possible Future Conversion into Shares

1. Introduction

On 26 June 2008 Poseidon Nickel Limited ("Poseidon" or "the Company") announced that it had secured US$50 million of funding through the issue of convertible notes ("the Convertible Notes") to US based fund manager, Harbinger Capital Partners ("Harbinger"), to assist the Company with the evaluation and development of the Windarra Nickel Project. The Convertible Notes have a six year term, are interest free for the first three years and are convertible, subject to a number of conditions, into fully paid ordinary shares at A$1.00 per share.

The Convertible Notes are to be issued in two tranches, one of US$15 million ("Tranche 1") and a second of US$35 million ("Tranche 2"). The US$15 million under Tranche 1 was received on 26 June 2008.

The Convertible Notes are being issued to two funds managed by Harbinger, with US$25 million being taken up by the Harbinger Capital Partners Master Fund I ("the Harbinger Master Fund") and US$25 million being taken up by the Harbinger Capital Partners Special Situations Fund ("the Harbinger Special Situations Fund"). Reference in this report to "Harbinger" incorporates reference to the Harbinger Master Fund and the Harbinger Special Situations Fund.

Under Section 606 of the Corporations Act ("the Act") an entity is prohibited from acquiring a greater than 20% interest in the voting shares of a listed company. An exception to the prohibition is item 7 of Section 611 of the Act, which allows for the acquisition or relevant transaction to be approved by shareholders.

Because they carry no ordinary voting rights the initial issue of the Convertible Notes to Harbinger has no immediate Section 606 consequences. However at the date of this report Harbinger holds 27,610,196 shares in Poseidon which equates to a 17.4% voting interest. While the number of shares that may be issued on the conversion of the Convertible Notes may vary, given the significance of the US$50 million it is highly likely that if all of the Convertible Notes are converted Harbinger's voting interest in Poseidon would exceed the 20% allowed under Section 606. On this basis, shareholder approval is being sought pursuant to item 7 of Section 611 for the issue by Poseidon of fully paid ordinary shares to Harbinger ("the Note Shares") on the possible conversion of the Convertible Notes.

Unless the directors themselves provide such a report, under the Australian Securities and Investments Commission, Regulatory Guide 111: *Content of expert reports* ("RG 111"), resolutions proposed for item 7 of Section 611 purposes are required to be accompanied by an independent expert's report which is to provide an opinion as to whether or not the proposed transaction is fair and reasonable to the non-associated shareholders of the company.

As such, the purpose of this report is to address, as independent expert, whether or not, in our opinion, the issue of the Note Shares to Harbinger on the possible conversion of the Convertible Notes is fair and reasonable to the non-associated shareholders of Poseidon. The "non-associated shareholders" of Poseidon are those not associated with Harbinger ("the Non-Associated Shareholders").

RG 111 also requires us to consider whether or not Harbinger, Poseidon or any other party is paying or receiving a premium for control as a result of the issue of the Note Shares on the possible conversion of the Convertible Notes.

The resolution seeking approval for the issue of the Note Shares to Harbinger are to be put before shareholders at the Company's Annual General Meeting to be held on or about 13 November 2008 ("the Meeting").

While Tranche 1 of the Convertible Notes have been issued and the US$15 million received, the issue of the Convertible Notes under Tranche 2 and the receipt of the US$35 million is subject to the Non-Associated Shareholders approving the issue of the Note Shares. If approval is not granted the issue of the Convertible Notes under Tranche 2 will not proceed.

In addition to this introduction, the report is comprised of the sections, appendices and parts listed below.

Unless otherwise stated all amounts in this report are in A$'s.

2. Opinion

Based upon the detailed discussion and analysis throughout this report, the issue of the Note Shares to Harbinger on the possible conversion of the Convertible Notes is, in our opinion, fair and reasonable to the Non-Associated Shareholders of Poseidon.

In relation to the possible issue of the Note Shares, because the future fair value of the shares to be issued cannot be determined at this time, an assessment of whether or not Harbinger would be paying a premium for control is, at the date of this report, not possible. It is however relevant to note that the A$1.00 conversion price of the Convertible Notes was at a premium to Poseidon's market trading price prior to the date of the announcement of the issue of the Convertible Notes and at a premium to the Company's market trading price at the date of this report. The existence of a premium between the market price and the conversion price is to the benefit of the Non-Associated Shareholders.

Our detailed summary and conclusion is contained in section 9 of this report. It is recommended that this opinion be read in conjunction with the whole of this report, including the sources of information and declarations contained in Appendix 1.

3. Background

3.1 Poseidon's Background

In December 2005, Poseidon, under its former name of "Niagara Mining Limited" ("Niagara"), acquired the Windarra Nickel Project from BHP Billiton Pty Ltd for a consideration of $7 million plus a deferred amount of $1 million and a 1% revenue royalty. The Windarra Nickel Project is located near Laverton in the mid-eastern region of Western Australia. The project has historical significance to the resource sector in Australia in that its discovery in the late 1960's underpinned the nickel boom of the early 1970's. Between 1974 and 1994 mining operations at Windarra produced over 8 million tonnes of ore, recovering approximately 815,000 tonnes of nickel concentrate which contained 84,000 tonnes of nickel metal. The mine was closed in 1994 in response to lower nickel prices and higher costs.

The acquisition of Windarra was considered by Poseidon, as Niagara, as a unique opportunity of being able to apply new exploration and evaluation techniques to previously mined ground. Since acquisition the Company has concentrated its efforts on proving up additional resources through a number of drilling campaigns at different locations across the project area, with the view of re-establishing a nickel mining operation at Windarra.

In April 2007, it was announced that the Company was to undergo a reorganisation whereby the majority of directors and management would stand down and be replaced by a team led by Mr Andrew Forrest, as non-executive Chairman. The reorganisation was in recognition of the significant financial and technical resources that would be required for the successful redevelopment of the Windarra Nickel Project. The reorganisation was completed and approved by shareholders at a general meeting held on 2 July 2007. The Company was renamed "Poseidon Nickel Limited" to reflect the clear focus of developing a viable nickel mining operation at the historic Windarra site.

The significant announcements made by Poseidon between 1 July 2007 and the date of this report include the following:

Key Announcements Over Last 12 Months	
6 Sept 07	The Company announced that GR Engineering Services will carry out a prefeasibility analysis associated with a proposed "Fast Start" processing plant to be located at Mt. Windarra. The "Fast Start" plant is intended to have a design process capability of approximately 300kT of nickel sulphide ore per annum over a period of 12-24 months. It is intended that the plant design will be modular and transportable such that it can be installed efficiently on the site and potentially moved to new operations in the future.
23 Oct 07	The Company announced the successful conclusion of the first stage of its resource drilling program and the assay results received. The drilling program was focussed on the shallower ore bodies with the intent of proving up reserves for the first 12-18 months of operations in support of the "Fast Start" project.
26 Oct 07	Announces that acquired the Laverton Nickel Project tenements from Dynasty Metals Australia Ltd. The acquired land adjoins Poseidon's existing Windarra tenements and brings its total land holding to approximately 470km².
20 Nov 07	The Company announced successful results of its prefeasibility study into the Nickel Concentrator Plant for the "Fast Start" project.
27 Feb 08	The Company announced that it will start removing an estimated 1.5 million tonnes of water from the underground mine in an operation which is expected to take up to 12 months to complete. The removal of the water will allow access to the nickel ore bodies and for underground drilling of the deeper ores.
13 Mar 08	Poseidon announces a 35% increase to its nickel sulphide resource at the Windarra Nickel Project. Poseidon has increased its resources in the Indicated and Inferred category to 60,370 tonnes of contained nickel. In addition, the average grade of the resource has increased significantly to 1.45%.
19 Mar 08	The Company announces it has commenced the rehabilitation of the underground decline at its Windarra Nickel Project as dewatering of the mine has advanced a faster rate than anticipated .
26 Jun 08	Poseidon announced it has finalised a US$50 million funding package with Harbinger, via the issue of the Convertible Notes, that will enable the Company to continue the rapid development of the Windarra Nickel Project.
18 Aug 08	Announces that recent drilling have confirmed the presence of an extensive zone of nickel sulphide mineralisation at Denny Bore, 12kms south of the Mt Windarra nickel mine at Poseidon's flagship Windarra Nickel Project.
29 Aug 08	The Company announced that the first stage of its ore processing tests for Windarra had been successfully completed and that results had exceeded expectations. A continuous process pilot plant testing program was to commence.
4 Sept 08	Poseidon announced that it had appointed Bateman Engineering to conduct pre-feasibility level engineering work for Windarra.
2 Oct 08	While the Company proceeds with the pre-feasibility studies into the optimum development scenario for Windarra, to conserve cash in an uncertain global economic environment Poseidon announced that it intended to temporarily suspend the rehabilitation of the Windarra decline from the end of October 2008.

Source: Dat Analysis, ASX announcements

In announcing the successful completion of a study into the establishment of the 350,000 tonnes per annum project envisaged under the Fast Start concept, Poseidon stated that plant had been designed to be fully upgradeable to 1 million tonnes per annum.

The study identified an overall installed cost for the ball mill and floatation circuit for a 350,000 tonnes per annum plant to be around $35 million to a project accuracy of plus or minus 35%. This cost did not include crushing and screening circuits, process water supply systems, tailings storage capacity, general infrastructure or mine refurbishment costs.

Having completed this study, Poseidon is undertaking a feasibility study into building a concentrator and investigating the most advantageous way forward for the development of the Windarra Nickel Project.

The initial objective of Poseidon is to become a 20,000 tonne per annum nickel metal producer, and thereby re-establishing the Windarra Nickel Project as a world class nickel operation.

Reflecting the increased demand for nickel, in the period since December 2005 when the acquisition of Windarra was completed, nickel prices increased from levels of around US$15,000 per tonne ("/t") to historical highs of around US$55,000/t in May 2007, down to levels of between US$23,000/t and $33,000/t across the period August 2007 to March 2008, with further downward movement to current levels of around US$16,500/t. Prices are expected to strengthen moderately over the short to medium term, with levels of around US$18,000/t expected in 2012.

In addition to the Windarra Nickel Project, Poseidon has the right to earn up to an 80% interest in two gold exploration interests in Ghana, West Africa, both projects being located in the Ashanti Gold Belt. The Dadwen project is situated on the Ghanaian coast and covers a total area of $42km^2$ and the Tumentu project is situated directly north of Adamus Resources Limited's Salman Gold Project. At the time of this report, both the Dadwen and Tumentu projects are not being actively pursued by the Company.

The Company has recently announced further nickel exploration opportunities through the formation of two joint ventures; being the Menzies Nickel Project Joint Venture with Proto Resources & Investments Limited ("Proto") and the Waite Kauri Nickel/Cobalt Joint Venture with Eagle Eye Metals Limited ("EEM"). Both are early stage exploration projects in close proximity to Windarra.

In March 2008, Poseidon announced that it had increased its JORC compliant resources at Windarra in the indicated and inferred category to 60,370 tonnes of contained nickel, with the average grade being 1.45%. Dewatering and rehabilitation of the Windarra decline and mine has commenced with further resource definition expected as access to previous worked areas is obtained and further in-mine drilling is undertaken. The Company has continued to undertake regional exploration within its tenements and has reported promising results at Denny Bore and within its joint ventures with Proto and EEM.

In October 2008 Poseidon announced that the dewatering of the Windarra decline was progressing ahead of schedule and approximately 700 metres of the decline had been rehabilitated. The dewatering process confirmed that the decline was in good condition. Because of this and the recent uncertainty in world financial markets, the Company decided that while it proceeded with the pre-feasibility studies into the optimum development scenario for Windarra, in order to conserve cash it would temporarily suspend the rehabilitation of the Windarra decline.

Securing the US$50 million funding from Harbinger through the Convertible Note issue is a significant milestone for Poseidon in that having access to these funds should enable the Company to complete the feasibility study and fully investigate the options available with respect to the bringing Windarra into production.

3.2 The Convertible Notes

Harbinger is a United States based funds manager. The Convertible Notes are being issued to two funds managed by Harbinger, with US$25 million being taken up by the Harbinger Master Fund and US$25 million being taken up by the Harbinger Special Situations Fund. The issue of the Convertible Notes is being made in two tranches as follows:

- Tranche 1: the issue of Convertible Notes to the value of US$15 million (US$7.5 million the Harbinger Master Fund and US$7.5 million to the Harbinger Special Situations Fund); and

- Tranche 2: the issue of Convertible Notes to the value of US$35 million (US$17.5 million the Harbinger Master Fund and US$17.5 million to the Harbinger Special Situations Fund).

The US$15 million under Tranche 1 was received by Poseidon on 26 June 2008. The issue of the Tranche 2 Convertible Notes, and the receipt of the US$35 million, is subject to the approval for the issue of the Note Shares by the Non-Associated Shareholders.

The terms of the Convertible Notes are contained in the Convertible Note Certificates entered into for each Tranche, dated 25 June 2008 ("the Note Certificates"). The terms of the Convertible Notes are essentially the same for both Tranches. The major terms of the Convertible Notes are summarised as follows:

- the Convertible Notes have a maturity date of six years after their issue date;

- interest is payable at a rate of 0% per annum for the initial three year period following the date of issue and 5% per annum on the principal amount thereafter, payable quarterly in arrears until maturity or date of conversion;

- interest payable may be satisfied, at the discretion of Poseidon (at least seven dealing days prior to the relevant interest payment date); and subject to the Act, by the issue of shares. The amount of shares payable will be determined at the lesser of the conversion price or the average volume weighted average price ("VWAP") for the five dealing days on the ASX prior to the relevant interest payment date.

- the Convertible Notes are unsecured;

- the conversion price of the Convertible Notes is A$1.00 per share, subject to any adjustment caused by the issue of other securities at prices below the conversion price or any dividend payments made within in the 180 days following the date of the Note Certificates ("Dilution Factor");

- the Convertible Notes are convertible at any time after the closing price of a Poseidon share on the ASX exceeds the conversion price for five consecutive days;

- conversions are to be based on a US$ to A$ exchange rate (or vice versa) calculated by Australian and New Zealand Banking Group Limited's average spot buying rate for the five business days prior to the relevant conversion date;

- the Convertible Notes are transferrable, albeit the transferee must convert the Convertible Notes to shares within 14 days, subject to any shareholder approvals required; and

- if at the date of maturity the Convertible Notes have not been converted then Poseidon is required to repay the US$50 million to Harbinger.

With respect to the A$1.00 conversion price, Poseidon has on issue 129,815,307 options with exercise prices of less than this amount. If any of these options are exercised within 180 days of the date of the Note Certificates, the shares issued on exercise will not be included in the calculation of the Dilution Factor.

It is of note that for the six consecutive trading days included in the period 27 June 2008 to 4 July 2008 Poseidon shares on the ASX closed at prices above A$1.00. Accordingly, the US$15 million of Convertible Notes issued pursuant to the Tranche 1 are eligible to be converted by Harbinger at any time (subject to the greater than 20% prohibition contained in Section 606 of the Act).

Poseidon has also agreed to issue 1.5 million shares in lieu of a cash fee to the individual who assisted the Company with brokering the issue of the Convertible Notes with Harbinger ("the Broker Shares"). These shares will not be issued until the funds from the issue of Tranche 2 of the Convertible Notes are received by Poseidon. The Broker Shares are excluded from the calculation of the Dilution Factor.

4. The Possible Impact of the Note Shares on the Non-Associated Shareholders

4.1 Capital Structure and Major Shareholders

As at the date of this report, Poseidon had on issue 158,492,279 fully paid ordinary shares (including 626,262 participating bonus employee shares), 5,752,200 partly paid shares, 131,348,307 options, 313,131 special bonus employee shares and 15,906,681 Convertible Notes. The number of Convertible Notes represents the US$15 million received under Tranche 1 converted at a US$:A$ exchange rate of 94.3 cents, being the rate applicable at date the funds were receive in June 2008.

The partly paid shares were issued at a price of 10.2 cents per share and have been paid up to 0.2 cents each, with a call-up schedule of 2 cents per annum over the next five years. Details of the options on issue are as follows:

Options on Issue	Expiry Date	Exercise Price	Number
Exercisable anytime up to	5 Dec 2009	$0.81	6,157,904
Exercisable anytime up to	5 Dec 2011	$0.92	6,157,403
Exercisable anytime up to	2 Jul 2011	$1.96	1,000,000
Exercisable anytime up to	22 Oct 2012	$1.41	533,000
Exercisable subject to conditions up to	31 Jul 2012	$0.40	2,500,000
Exercisable subject to conditions up to	19 Sep 2012	$0.40	115,000,000
			131,348,307

The December 2009 and December 2011 options are listed on the ASX. The July 2012 and the September 2012 40 cent options are divided into five tiers that can only be exercised if and when Poseidon's share price on the ASX trade above certain levels for five consecutive trading days. These pricing levels are 60 cents, 70 cents, 80 cents, 90 cents and $1.00.

The 313,131 special bonus employee shares have a three year vesting period, during which time they do not carry any voting rights.

At 26 September 2008, the Company had approximately 8,000 shareholders with the top 20 shareholders holding approximately 41.9% of the shares on issue. The Company's largest shareholder is Harbinger, holding a 17.4% interest. Other major shareholders include RAB Capital Plc (3.8%), Mr Andrew Forrest (3.1%) and SAS Global Limited (1.8%).

In the period 27 June 2008 to 1 July 2008 Harbinger increased its shareholding in Poseidon through the on-market acquisition of 15,360,196 shares. Prior to acquiring these shares Harbinger had an 8.97% interest in the Company.

Excluding the Convertible Notes, on a fully diluted basis, the number of securities Poseidon has on issue totals 295,905,917. The number of fully paid shares equates to 53.6% of this number.

The holder of the 115 million September 2012 40 cent options is Leaping Joey Pty Ltd as trustee for The Australian Children's Trust ("the ACT"), an independent charitable trust set up in 2001 by Andrew and Nicola Forrest. The primary aim of the ACT is to assist underprivileged children throughout Australia. While chaired by Mr Forrest, the ACT has an independent Board of Directors and an independent Executive Committee. The options were vested to the ACT by Mr Forrest. Shareholder approval under item 7 of Section 611 for the issue of shares to Mr Forrest or his nominee (i.e. the ACT) on the exercise of the options was obtained at a general meeting held by the Company in July 2007.

4.2 Impact on the Non-Associated Shareholders

The table below summarises the position of the existing Non-Associated Shareholders if all of the existing options were exercised, the special bonus employee shares vest and the partly paids became fully paid. The column titled "Other Options, Shares and Partly Paids" includes those options, bonus shares and partly paids not held by Harbinger or the ACT. It is recognised that some of these securities are held by entities who are existing Non-Associated Shareholders. For the purpose of this analysis we have not tried to separately identify these entities.

Shareholdings Assuming Options are Exercised, Bonus Shares Vest and the Partly Paids are Paid Up	**Total Shares**	**Existing Non-Associated Shareholders**	**Harbinger**	**The ACT**	**Other Options, Shares and Partly Paids**
	000's	**000's**	**000's**	**000's**	**000's**
Shares currently on issue	158,492	130,882	27,610	-	-
Voting interest (%)	*100.0%*	*82.6%*	*17.4%*	*0.0%*	*0.0%*
Exercise of all options	131,348			115,000	16,348
Special bonus employee shares vest	313				313
Partly paids become fully paid	5,752				5,752
	137,414	-	-	115,000	22,414
Shares on issue after conversion and exercise	295,906	130,882	27,610	115,000	22,414
Voting interest (%)	*100.0%*	*44.2%*	*9.3%*	*38.9%*	*7.6%*

The table shows that on a fully diluted basis, in the absence of the Convertible Notes, the existing Non-Associated Shareholders collective interest in the Company would reduce from 82.6% to 44.2%. The ACT would become Poseidon's largest shareholder with a 38.9% interest.

Subject to the Dilution Factor, the Convertible Notes are to be converted at A$1.00 per share on the US$50 million converted to A$'s at the date of the conversion. Using the 94.3 cents exchange rate applied to the US$15 million of Convertible Notes already issued, the number of Note Shares that would need to be issued on the conversion of US$50 million would be 53 million. The Dilution Factor will only apply if Poseidon, in the 180 days after the issue of the Convertible Notes, issues shares at a price less than A$1.00 or if the Company pays a dividend.

On a fully diluted basis assuming the exercise of all of the options, the vesting of the bonus shares, that all of the partly paids become fully paid, the issue of the Broker Shares and that the Convertible Notes are converted to 53 million shares, the number of shares Poseidon would have on issue would increase to 350,405,917. Of these the existing Non-Associated Shareholders collective interest would be 37.4% and Harbinger's would be 23.0%. The ACT would be the Company's largest shareholder with a 32.8% interest.

The table below summarise the position of the existing Non-Associated Shareholders if the Broker Shares are issued, the Convertible Notes are converted to 53 million shares, all of the options with an exercise price of $1.00 or less are exercised (there are only 1.533 million options with an exercise price greater than $1.00), the special bonus employee shares vest and the partly paids became fully paid.

Shareholdings Assuming Convertible Notes converted, majority of Options are Exercised, Bonus Shares Vest and the Partly Paids are Paid Up	Total Shares 000's	Existing Non-Associated Shareholders 000's	Harbinger 000's	The ACT 000's	Other Options, Shares and Partly Paids 000's
Shares currently on issue	158,492	130,882	27,610	-	-
Voting interest (%)	*100.0%*	*82.6%*	*17.4%*	*0.0%*	*0.0%*
Issue of Broker Shares	1,500				1,500
Conversion of Convertible Notes	53,000		53,000		
Exercise of options with exercise prices less than $1.00	129,815			115,000	14,815
Special bonus employee shares vest	313				313
Partly paids become fully paid	5,752				5,752
	190,381	-	53,000	115,000	22,381
Shares on issue after conversion and exercise	348,873	130,882	80,610	115,000	22,381
Voting interest (%)	*100.0%*	*37.5%*	*23.1%*	*33.0%*	*6.4%*

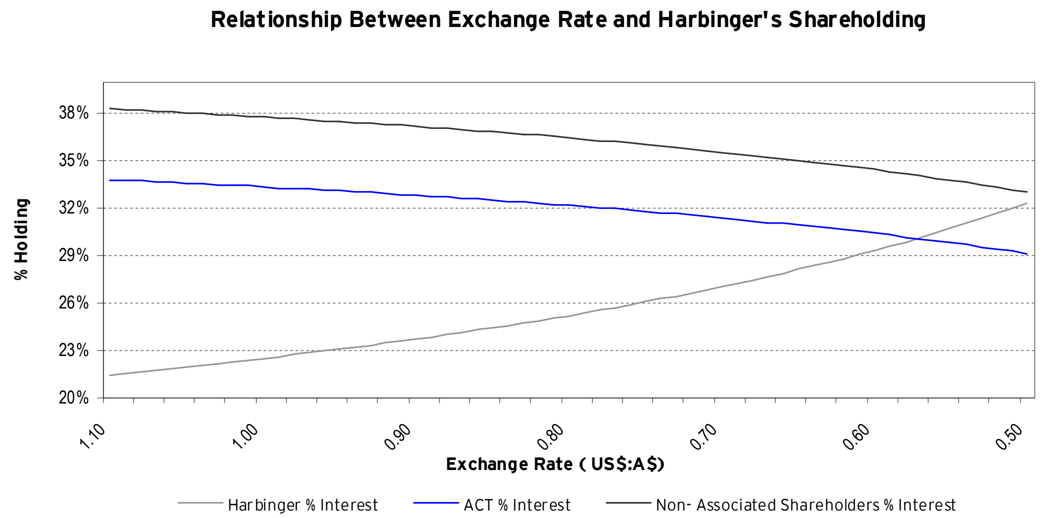
The table shows that on this basis the existing Non-Associated Shareholders collective interest in the Company would reduce from 82.6% to 37.5%, with Harbinger's shareholding increasing from 17.4% to 23.1%. The ACT would be Poseidon's largest shareholder with a 33% interest.

If the US$:A$ exchange rate reduced to 80 cents at the time of conversion then the number of shares that Poseidon would need to issue on conversion of the Convertible Notes would increase from 53 million to 62.5 million. Under the scenario considered in the table above, Harbinger's interest in the Company would be restated from 23.1% to 25.1%. The ACT's shareholding would reduce to 32.1% and the existing Non-Associated Shareholders collective interest would reduce to 36.5%.

For Harbinger's shareholding to increase on the conversion of the Convertible Notes to a position where it equals the ACT's shareholding, the US$:A$ exchange rate would need to reduce to approximately 57 cents. On this basis Harbinger would be issued approximately 88 million shares, which would increase its shareholding in Poseidon to approximately 115 million. Under this scenario, both Harbinger's and the ACT's interest in Poseidon would be 30.0%. The existing Non-Associated Shareholders collective interest would be 34.1%.

If the US$:A$ exchange rate increased to $1.00 then the number of Note Shares issued would be 50 million. Under this scenario Harbinger's interest in the Company would be 22.4%.

The following chart summarises the relationship between the US$:A$ exchange rate and what Harbinger's interest in the Company would be if the Convertible Notes were converted, all of the options with an exercise price of less than $1.00 were exercised, the bonus shares vest and the partly paids become fully paid. At 3 October 2008 the US$:A$ exchange rate was around 78 cents.



As a separate scenario, if none of the options were exercised, bonus shares vest or partly paids paid up, then assuming the number of shares issued on conversion of the Convertible Notes was 53 million, the number of shares Poseidon would have on issue, including the Broker Shares, would increase to 212,992,279, with Harbinger's shareholding being 37.8% and the existing Non-Associated Shareholders collective interests being 61.4%.

If none of the options were exercised or partly paids paid up and the number of shares issued on conversion of the Convertible Notes was 62.5 million (i.e. the US$:A$ exchange rate was 80 cents), the number of shares Poseidon would have on issue, including the Broker Shares, would increase to 225,492,279, with Harbinger's shareholding being 40.5 and the existing Non-Associated Shareholders collective interests being 58.8.

The following table summarises the different scenarios considered above:

Summary of Shareholdings Under Different Scanarios	Existing Non-Associated Shareholders	Harbinger	The ACT	Other Options, Shares and Partly Paids
Present position	82.6%	17.4%	0.0%	0.0%
Convertible Notes converted (using a 94.3 cent exchange rate), options priced at less than $1.00 exercised, bonus shares vest and the partly paids are paid up	37.5%	23.1%	33.0%	6.4%
Convertible Notes converted (using an 80 cent exchange rate), options priced at less than $1.00 exercised, bonus shares vest and the partly paids are paid up	36.5%	25.1%	32.1%	6.3%
Convertible Notes converted (using a 94.3 cent exchange rate), options not exercised, bonus shares do not vest and the partly paids remain unpaid	61.4%	37.8%	0.0%	0.8%
Convertible Notes converted (using an 80 cent exchange rate), options not exercised, bonus shares do not vest and the partly paids remain unpaid	58.8%	40.5%	0.0%	0.7%

The Convertible Notes can be converted at any time after the closing price of a Poseidon share on the ASX exceeds the A$1.00 conversion price for five consecutive days. Assuming this condition is met then all of the conditions for the exercise of the 2.5 million July 2012 40 cent options and the 115 million September 2012 40 cent options would have also been met. On this basis it would be more likely than not for the options to be exercised. Given this, the scenarios where Harbinger's interest increases to 23.1% or 25.1% (i.e. those assuming all options with an exercise price equal to and less than A$1.00 are exercised and the partly paids are paid up) are considered more likely than those scenarios which show Harbinger's interest increasing to 37.8% or 40.5%.

Under the scenarios where Harbinger's interest increases to 23.1% or 25.1%, the ACT would be Poseidon's largest shareholder with a 33.0% or 32.1% interest. The existing Non-Associated Shareholders collective interest would reduce to 37.5% or 36.5%.

With respect to the US$15 million of Convertible Notes issued under Tranche 1, because the closing price of Poseidon's shares on the ASX has exceeded the conversion price for five consecutive days they are eligible to be converted at any time. If Harbinger converted Tranche 1, assuming an exchange rate of 94.3 cents, the number of shares it would be entitled to would be 15,906,681. Based on the number of shares that Poseidon currently has on issue together with the Broker Shares and assuming that none of the options are exercised, Harbinger's interest in the Company would increase to 24.7%.

With regards to the Company being able to elect to satisfy the interest payable through the issue of shares to Harbinger, it is noted that Harbinger's shareholding interest may change beyond the amounts considered in this report. Due to interest only becoming payable three years from the date of issue of the Convertible Notes, analysis on any change in shareholding specific to interest payments being satisfied through the issue of shares is subjective and dependent on a number of variables. Accordingly, no attempt has been made in this report to quantify the number of shares that may be issued in satisfaction of any future interest payment due on the Convertible Notes.

5. Basis of Assessment

The Act does not specifically define the term "fair and reasonable". In assessing whether the issue of the Note Shares to Harbinger on the possible conversion of the Convertible Notes is fair and reasonable to the Non-Associated Shareholders of Poseidon we have had regard to the contents of RG 111.

RG 111 provides guidance in relation to the preparation of independent expert reports for the purposes of the Act and to the term "fair and reasonable". RG 111 states that in deciding on the appropriate form of analysis, the expert needs to keep in mind that the main purpose of the report is to adequately deal with the reasonably anticipated concerns of those persons affected by the proposed transaction (i.e. the shareholders not involved in the transaction). The form of analysis an expert uses to evaluate a transaction should address the issues faced by shareholders.

In the circumstances of a takeover bid or a "control transaction", RG 111 suggests that *"an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer"*. A "control transaction" is a transaction where an entity acquires or increases a controlling interest in a company. In regards to "control", Section 608 (4) of the Act states that an entity has control of a company if that entity has the capacity to determine the outcome of decisions about the company's financial and operating policies.

A concern expressed within RG 111 is where an entity is looking to use a transaction that is being approved by shareholders under item 7 of Section 611 to avoid making a takeover bid for the company. As detailed in section 4.2, if the conversion conditions relevant to the Convertible Notes have been met then the conditions attaching to the exercise of the July and September 2012 40 cent options would have also been met. Accordingly, if the Convertible Notes are converted it is more than likely that the July and September 2012 40 cent options would be exercised. On this basis, while Harbinger's interest in Poseidon would increase to greater than 20%, on the exercise of the options the ACT would become the Company's largest shareholder. With the exercise of the options it is unlikely that Harbinger would be in a position to control Poseidon.

A key consideration of the shareholders of a company entering into a substantial transaction is generally whether or not they will be better or worse off because of the transaction. Part of the rationale of the prohibition contained in Section 606 of the Act is to ensure, as far as practicable, that the non-associated shareholders are no worse off because of a substantial transaction.

Accordingly, in assessing whether or not the issue of the Note Shares to Harbinger on the possible conversion of the Convertible Notes is fair and reasonable to the Non-Associated Shareholders we have considered the likely advantages and disadvantages, if any, which may accrue if the issue of the Note Shares is approved. Part of this analysis will be consideration of the issue of the Convertible Notes and the receipt by Poseidon of the US$50 million. Under this assessment, the issue of the Note Shares would be considered "fair and reasonable" if the Non-Associated Shareholders are considered to be better off, or at least no worse off, as a result of their issue. The Non-Associated Shareholders would be better off if the expected advantages of the issue of the Note Shares outweigh the possible disadvantages.

The matters considered in our analysis include the following:

- the nature of the Convertible Notes and their conversion terms;
- the trading price on the ASX of Poseidon's shares prior to the announcement of the Convertible Note issue;
- comparison of the trading price of a Poseidon share with the conversion price of the Convertible Notes;
- the trading price of Poseidon's shares since the announcement of the Convertible Note issue;
- the overall terms of the Convertible Notes;
- the level of control likely to be gained by Harbinger from the issue of the Note Shares;
- consideration of Harbinger's track record in investing in other ASX listed resource companies;
- Poseidon's need for funding and alternative sources; and
- other significant matters.

Issues relevant to valuation are detailed in section 6, whereas other matters considered are detailed in section 7. Whether Harbinger, Poseidon or any other party is paying or receiving a premium for control is considered in section 8.

Our assessment is based on the economic, political, social, market and other conditions prevailing at the date of this report. These conditions can change significantly over relatively short periods of time.

6. Issues of Valuation

6.1 The Nature of the Convertible Notes

The issue of the Note Shares will only occur if Harbinger elects to convert the Convertible Notes. The Convertible Notes have a six year life and are convertible at any time after the closing price of a Poseidon share on the ASX has exceeded the A$1.00 conversion price (assuming that there is no dilution by the issue of shares or the payment of a dividend by Poseidon in the 180 days after the issue of the Convertible Notes) for five consecutive trading days. While this condition has been met for Tranche 1, there is no certainty as to whether Harbinger will be able to convert Tranche 2.

In considering the possible conversion of the Convertible Notes and the issue of the Note Shares, the relevant date to assess the value of the Note Shares is at the time the shares are issued and Harbinger's voting interest in Poseidon increases. At the date of this report, no such assessment can reasonably be made as the possible date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, at the time of their issue the conversion price and the wider terms of the Convertible Notes are more important than the underlying value of the Company's assets and liabilities. This is especially so in the circumstances of a transaction which does not reflect a change of control.

On this basis, in considering the possible issue of the Note Shares we have considered the following matters:

- the nature of convertible debt securities; and
- the price at which the Convertible Notes are to be converted compared to Poseidon's market trading prices on the ASX.

The nature of the convertible debt securities is such that it provides the holder with a right to convert the face value of the debt to shares in the issuer at a particular price at some time in the future. A key feature of the conversion right is that it generally provides the holder with the right but not the obligation to convert the debt to equity. Accordingly, while Harbinger has the right to convert the Convertible Note there is no guarantee that it will.

It follows that, in most circumstances, a rational investor would only exercise the right to convert if the conversion price was less than the market trading price of the company's underlying shares at the time of conversion. Accordingly, it would be expected that for the Convertible Notes to be converted, at the time of conversion Poseidon's shares would have to be trading at prices equal to or above the conversion price of A$1.00 (assuming no dilution) or there was a strong likelihood of that occurring on a sustainable basis.

While future market trading prices are an important factor in the holder of a convertible debt securities decision as to whether or not to convert, an important consideration for the shareholders of the company issuing the security is the conversion price in comparison to recent trading prices at the time the security is issued. The existence of a premium between recent trading prices and the conversion price is to benefit of shareholders.

The prices at which Poseidon shares traded at prior to the announcement of the Convertible Note issue is considered in section 6.2 and the comparison of these prices with the conversion price is detailed in section 6.3. Section 6.4 summarises Poseidon's share trading performance following the announcement of the issue of the Convertible Notes.

6.2 Consideration of Market Trading Prices Prior to the Announcement

The table below summarises the trading history of Poseidon shares on the ASX for the period 1 January 2007 through to 25 June 2008, the last trading day prior to the ASX announcement on 26 June 2008 regarding the issue of the Convertible Notes to Harbinger. The Company's closing price on 25 June 2008 was 74 cents.

Poseidon Share Trading History		Share Price		Volume	Monthly	Shares	Liquidity on
	High	Low	Last	('000s)	VWAP	On Issue	Listed Shares
Jan-07	0.65	0.43	0.52	17,180	0.5395	115,904	14.82%
Feb-07	0.60	0.40	0.43	15,722	0.5178	129,600	12.13%
Mar-07	0.49	0.43	0.49	9,933	0.4515	134,590	7.38%
Apr-07	2.17	0.86	2.48	128,963	1.5027	134,864	95.62%
May-07	3.59	1.90	2.48	87,986	2.6637	143,062	61.50%
Jun-07	2.88	1.63	2.08	31,301	2.3023	147,996	21.15%
Jul-07	2.25	1.64	1.65	12,050	1.8541	149,319	8.07%
Aug-07	1.63	0.75	0.87	17,297	0.9533	151,881	11.39%
Sep-07	1.10	0.65	0.95	17,154	0.8466	151,946	11.29%
Oct-07	1.53	0.82	1.37	41,743	1.3000	156,521	26.67%
Nov-07	1.39	1.09	1.18	10,053	1.2398	157,175	6.40%
Dec-07	1.18	0.84	1.03	4,166	1.0340	157,186	2.65%
Jan-08	1.15	0.55	0.66	7,461	0.8895	157,219	4.75%
Feb-08	0.92	0.52	0.66	6,248	0.6497	157,268	3.97%
Mar-08	0.70	0.51	0.61	5,122	0.6033	157,268	3.26%
Apr-08	0.81	0.58	0.66	9,268	0.6990	157,287	5.89%
May-08	0.95	0.66	0.95	14,511	0.8109	157,324	9.22%
Jun-08	0.90	0.69	0.74	10,830	0.7955	157,324	6.88%

Source: Bloomberg
Note: Volume Weighted Average Price (VWAP)

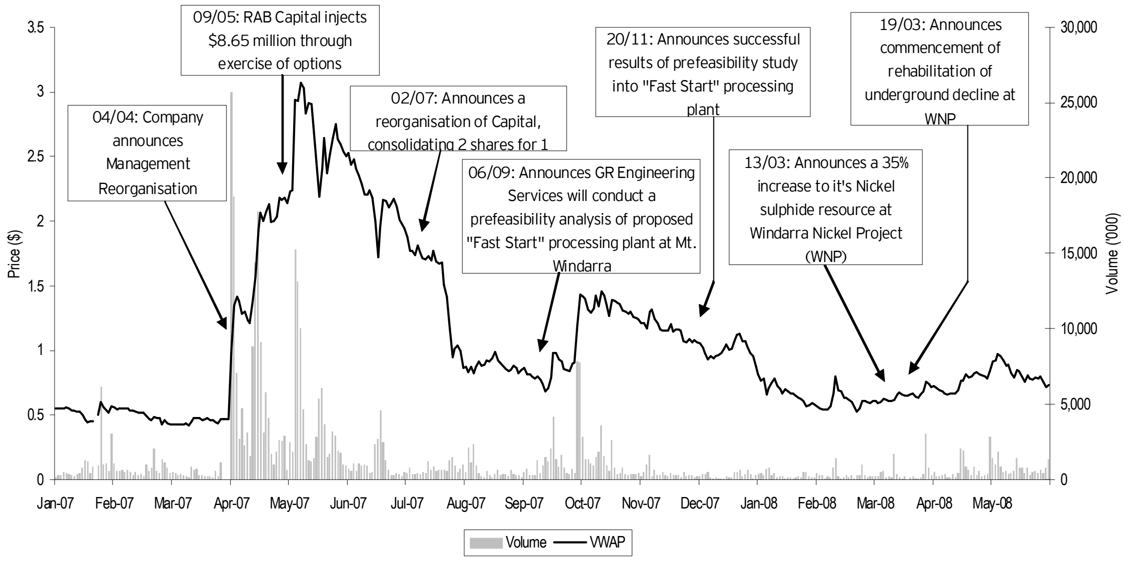
The significant increase in Poseidon's share price experienced in April 2007 coincided with the announcement by the Company of the management reorganisation, with Mr Forrest being appointed as non-executive Chairman and a new and experienced management team being appointed to run the Company. The stated strategy of the new management team was to fast track the development of the Windarra Nickel Project with the objective of building a 20,000 tonnes per annum nickel operation. The Company's share price increased from a close of 49 cents on 30 March 2007, being the last trading day before the announcement of the reorganisation, to $1.15 on the day the reorganisation was announced.

In addition to the speculation and publicity surrounding the Company's management reorganisation, it would be expected that Poseidon's share price would have been influenced by movements in nickel prices. In this regard, across the period from January 2007 to May 2007 nickel prices increased from levels of around US$33,000/t to all time high prices of over US$50,000/t. From the middle of May 2007 until the end of June 2007 the price decreased from around US$55,000/t to around US$36,000/t. By the end of July 2007, nickel prices were down to around US$30,000/t. Between August 2007 and May 2008 prices generally moved in the range of US$25,000/t to US$30,000/t.

The liquidity of the Company's shares varied over the period with the monthly volume traded being higher in those month's which experienced high prices. In April 2007, the shares traded represented 95.6% of the shares listed. Between May and October 2007 the monthly volume of shares traded was generally high. From November 2007 through to June 2008, monthly volumes ranged from 2.7% in December 2007 to 9.2% in May 2008. Over the past six months of trading, average liquidity has been 5.66%.

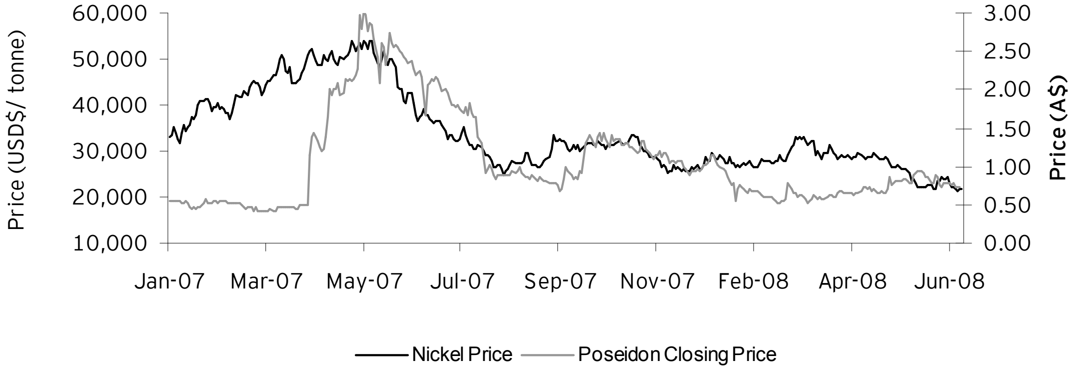
The chart below summarises Poseidon's share trading price and volume over the period from 1 January 2007 to 25 June 2008. The price is based on the daily VWAP.

Poseidon Trading VWAP and Volume 1 January 2007 - 25 June 2008



The chart below shows the correlation between Poseidon's share price and nickel prices over the period 1 January 2007 to 25 June 2008. It shows that prior to the announcement of the Company's management reorganisation in April 2007 there was no correlation between Poseidon's share price and nickel prices. Since April 2007 movements have been more closely aligned. From January 2008 through to June 2008 it is likely that that the Company's share price would also have been impacted be weaker world equity markets in general.

LME Nickel CLosing Prices vs. Poseidon Closing Price



6.3 Comparison Between Market Trading Prices and the Conversion Price

Over the six months prior to the announcement of the issue of the Convertible Notes to Harbinger for US$50 million, Poseidon's shares on the ASX generally traded in the range of 60 cents and 90 cents. The VWAP of Poseidon shares over the 20, 40 and 60 trading days prior to the announcement on 26 June 2008, together with the closing price on 25 June 2008 are detailed below.

Poseidon Share Price Prior to Announcement on 26 June 2008	($'s)
20 Day VWAP	0.83
40 Day VWAP	0.82
60 Day VWAP	0.79
Closing price 25 June 2008 (last day before announcement)	0.74

The table below compares the VWAP's and closing price on 25 June 2008 with the conversion price of the Convertible Notes.

Comparison of Conversion Price to Share Price		Premium/ (Discount)
Conversion price	$1.00	
20 Day VWAP		20.2%
40 Day VWAP		22.0%
60 Day VWAP		26.4%
Closing price 25 June 2008 (last day before announcement)		35.1%

The analysis indicates that at the time of the announcement of the issue of the Convertible Notes to Harbinger for US$50 million, the conversion price of the Convertible Notes of A$1.00 was at a significant premium to the prices at which Poseidon's shares had traded at on the ASX over the preceding three months.

On the premise that the Convertible Notes will only be converted if the trading price of a Poseidon share is at or above the conversion price, having a conversion price which is at a significant premium to trading price at the time of issue is to the advantage of the Non-Associated Shareholders on the basis that the Company's trading price will need to increase substantially before conversion is likely. Any increase in Poseidon's underlying market trading price on the ASX would be to the benefit of the Non-Associated Shareholders.

6.4 Poseidon's Market Trading Prices Since the Announcement

The table below summarises the market trading performance of Poseidon shares for the eight trading days following the announcement of the issue of the Convertible Notes to Harbinger on 26 June 2008, the total trading for the last three trading days of June 2008 and the monthly trading information for July, August and September 2008.

The announcement of the Convertible Note issue appears to have had an immediate positive impact on Poseidon's share price with the 91 cents closing price on 26 June 2008 representing an increase of 23% from the previous day's closing price of 74 cents.

Poseidon Share Trading Post Announcement	High ($'s)	Share Price Low ($'s)	Last ($'s)	Volume ('000s)	VWAP ($'s)	Liquidity on Shares Listed
8 trading days post Announcement:						
26/06/2008	0.97	0.85	0.91	4,210	0.90	2.7%
27/06/2008	1.33	0.89	1.18	10,650	1.16	6.8%
28/06/2008	1.45	1.18	1.36	10,716	1.31	6.8%
29/06/2008	1.51	1.33	1.38	12,063	1.40	7.7%
2/07/2008	1.39	1.19	1.23	2,201	1.28	1.4%
3/07/2008	1.28	1.09	1.10	2,715	1.16	1.7%
4/07/2008	1.16	0.99	1.02	1,977	1.06	1.3%
Last 3 days of June 2008	1.45	0.85	1.36	25,576	1.18	16.3%
Jul-08	1.51	0.71	0.76	31,823	1.13	20.2%
Aug-08	0.78	0.50	0.70	6,701	0.62	4.2%
Sep-08	0.77	0.31	0.35	8,554	0.52	5.4%

The Company's share price traded up substantially over the following three trading days on high volumes. However trading in Poseidon's shares was impacted by Harbinger moving into the market and acquiring a significant number of shares, details of which are summarised in the following table:

Harbinger - On Market Acquisitions	Shares Acquired ('000s)	Amount Paid ($000's)	VWAP ($'s)	Interest Acquired %	% of Shares Traded
27/06/2008	1,385	1,807	1.30	0.9%	13.0%
30/06/2008	5,476	6,709	1.23	3.5%	51.1%
1/07/2008	8,499	11,799	1.39	5.4%	70.5%
	15,360	20,315	1.32	9.7%	45.9%

The summary shows that in the three trading days after the announcement, Harbinger acquired 45.9% of the Poseidon shares traded on the ASX. The acquisition of the shares increased Harbinger's interest in the Company at that time to 17.5%. The purpose and rationale of Harbinger acquiring an additional interest in Poseidon after committing to the US$50 million Convertible Note issue is not known.

From 2 July 2008, Poseidon's shares have traded down from a high on that date of $1.39 to a low of 22 cents on 2 October 2008, before closing on 3 October 2008 at 24 cents. This significant decline in Poseidon's share price is consistent with the significant downturn and volatility experienced in global equity markets over that period. The ASX All Ordinaries Metals & Mining Index decreased 27.8% from 5636 points in early July 2008 to 4068 points on 30 September 2008.

In the absence of Harbinger entering the market and acquiring shares, it could be concluded that the increase in Poseidon's share price post the announcement reflected the market's positive reaction to the Convertible Note issue. However, given the significance of the number of shares acquired by Harbinger and the prices paid, no such conclusion on the market's reaction to the Convertible Note issue can be made.

The closing price of a Poseidon share on 3 October 2008 of 24 cents is at a 76% discount to the conversion price of the Convertible Notes of A$1.00. On the assumption that the Company's share price would need to increase to the A$1.00 level before conversion is likely, any increase in Poseidon's underlying trading price on the ASX would be to the benefit of the existing Non-Associated Shareholders.

7. Other Significant Matters

7.1 Consideration of the Terms of the Convertible Notes

Included in the table below is a selection of convertible note issues undertaken by Australian resource companies over the last two years. This list is not meant to be all inclusive; its purpose is to provide recent examples of the terms that convertible notes have been issued on. In providing the list it is recognised that the circumstances and operations of each company are different.

Company	Share Price at Time	Market Cap. ($m's)	Amount Raised ($m's)	Summary of Terms
Aurox Resources	$0.88	85	47.8	Approx. Term: 3 Years Interest Rate: 7% Conversion Price: $0.95 (1:1 Basis) Quoted on ASX as of 3 September 2007.
Paladin Energy	$5.93	3,494	325 USD	Approx. Term: 5 Years Interest Rate: 5% p.a. payable semi-annually in arrears Conversion Price: US$6.59 per share (premium of approximately 25%) Other terms: Unsecured. Paladin can redeem at their principal amount on or after 1 April 2011 if the Paladin share price, translated into US dollars at the prevailing exchange rate, exceeds for a specified period of time 130% of the conversion price.
Norton Gold Fields	$0.24	17	40.0	Approx. Term: 4 Years Interest Rate: 11% pa paid quarterly Conversion Price: Conversion Price 25% premium to the equity placement offer. Other terms: Secured.Mandatory Conversion at option of Issuer. The bonds can be converted at the option of Norton at the earliest 21st January 2009, if the average closing price of Norton's shares on ASX for 20 days prior to conversion is greater than 150% of the conversion price.
St Barbara	$0.52	414.76	100 USD	Approx. Term: 5 Years Interest Rate: 8% p.a Conversion Price: A$0.726 Other terms: Unquoted
Heemskirk Consolidated	$1.53	100.25	14	Approx. Term: 3.5 years Interest Rate: 8% p.a. paid semi annually. Offer Price: A$3 Conversion Price: Notes convert to one HSK share and $1.75 cash

Company	Share Price at Time	Market Cap. ($m's)	Amount Raised ($m's)	Summary of Terms
Beaconsfield Gold	$0.28	71.69	0.5	Approx. Term: 2 Years Interest Rate: 6% p.a., payable six-monthly in arrears. Conversion Price: A$0.25 Other terms: Notes are redeemable at the end of two years if not converted; each note is convertible into one Beaconsfield Gold fully paid share at any time during the two years.
Takoradi	$0.60	33.43	3.25	Approx. Term: 3 years Interest Rate: 8% Conversion Price: A$0.015 Other terms: If Takoradi's share price trade at a 60 day weighted average price of 1.8cents per share, Takoradi can elect to call for the conversion of the Note into equity at 1.5cents per share.
Heemskirk Consolidated	$1.52	89.11	24	Approx. Term: 4 years Interest Rate: 8% p.a. paid semi annually. Offer Price: A$3 Conversion Price: Notes convert to one HSK share and $1.75 cash
CBH Resources	$0.50	384	200	Approx. Term: 5 years Interest Rate: 7.25% pa payable semi-annually Conversion Price:$0.67 per share (representing a premium of approximately 32.5%) Other Terms: Convertible Notes at their principal amount after May 2010 if the CBH share price exceeds, for a specified period of time, 130% of the conversion price.
Capral Aluminium	$0.91	179	50	Approx. Term: 5 years Interest Rate: 10% p.a. payable six-monthly Offer Price:$100 per Convertible Note Conversion Price:Convertible to ordinary shares at a strike price of $1.20. Other Terms: Unsecured and subordinated to the rights of First Creditors.
Renison Consolidated	$0.18	60	6.6	Approx. Term: <1 year Interest Rate:10% per annum Offer Price: 20 cents per convertible note Conversion Price: 22 cents Other Terms:The convertible notes are unsecured.

The key differential between the convertible notes listed and the Convertible Notes being issued to Harbinger is that Harbinger is providing Poseidon with US$50 million on an interest-free basis for three years. At an interest rate of 6% to 8% per annum this is a saving to the Company of US$9 million to US$12 million across the three years. The 5% per annum interest rate for the final three years of the Convertible Note period is also attractive. The saving of interest will enable Poseidon to redirect funds that otherwise would be required to meet interest payments towards the Windarra Nickel Project and its other mineral projects.

It is assumed that the willingness of Harbinger to provide the funds to Poseidon on an interest free basis reflects the expected capital appreciation in the Company's share price as the development of Windarra progresses. The expectation is that, all other things equal (i.e. nickel prices, demand, etc) the spending of the US$50 million by Poseidon should add substantial value to the Windarra Nickel Project and to the Company's underlying share price. If this is the case then the Non-Associated Shareholders will benefit.

The provision of the US$50 million is not without risk in that Windarra or any of Poseidon's other projects may not ultimately be developed. On this basis it is unlikely that the Convertible Notes will be converted. Under this scenario, it would be unlikely that the Company would have the financial capacity to repay the US$50 million. The existence of this risk and Harbinger's willingness to provide the funding on the terms that it has may reflect the confidence Harbinger has in the Windarra Nickel Project being successfully developed.

The convertible notes considered above generally have conversion prices that were at a premium to the company's share price around the date the issues were announced. The premium of the conversion price of the Convertible Notes over the market price of a Poseidon share, and the benefits, are detailed in section 6.2.

The terms of the Convertible Notes are extremely attractive when compared to other convertible note issues and to normal terms on which debt facilities are generally provided. Securing funding under these terms is a significant benefit to the Non-Associated Shareholders.

Included in the following table is a summary of the terms of the Convertible Notes in comparison to other sources of funding:

Type of Financing	Interest Free Period	Interest Rate at 5%	Available to Developing Resource Companies	Dilutionary on Issue	Issued at Premium to Market Price	Secured
Bond market	no	higher	no	no	n/a	varied
Equity market	n/a	n/a	yes	yes	n/a	n/a
Debt financing	no	higher	no	no	n/a	yes
Recent convertible note issues	no	higher	yes	no	varied	varied
The Convertible Notes	yes	yes	yes	no	yes	no

On each measure, the terms of the Convertible Notes are more attractive than the other sources referred to. The ability of Poseidon to source alternative funding is further considered in section 7.4.

7.2 Control Issues

At the date of this report, Harbinger holds 17.4% of issued shares in Poseidon, making it the Company's largest shareholder. As at 26 September 2008, Poseidon's second largest shareholder had a 3.8% interest.

If none of the options that Poseidon has on issue are exercised, none of the special bonus employee shares vest or none of the partly paid shares become fully paid, based on the number of shares the Company currently has on issue and assuming an exchange rate of 94.3 cents, Harbinger's interest in Poseidon on the conversion of the Convertible Notes would be 37.8%. If the exchange rate was 80 cents Harbinger's interest would be 40.5%.

With Poseidon having 129,815,307 options that have exercise prices and share price conditions of less than or equal to a $1.00 it is more than likely that not that if the Convertible Notes are converted at $1.00 then the options would also be converted. With the 5,752,200 partly paids having an issue price of 10.2 cents it is more than likely that these will become fully paid.

If the options with exercise prices of less than or equal to $1.00 are exercised and the partly paids become fully paid, based on the number of shares the Company currently has on issue and assuming an exchange rate of 94.3 cents, Harbinger's interest in Poseidon on the conversion of the Convertible Notes would be 23.1%.

Under this scenario while Harbinger would hold a 23.1% interest, the ACT would be Poseidon's largest shareholder with a 33.0% interest, having exercised its 115 million September 2012 40 cent options.

If the exchange rate was 80 cents at the time of conversion, Harbinger's interest would be 25.1% and the ACT's interest would be 32.1%.

Under the Act an entity is consider to have control of a company if it has the capacity to determine the outcome of decisions about the company's financial and operating policies. Section 608 (5) states that determining whether someone has the capacity to control is based on "*the practical influence*" that can be exerted on a company as opposed to "*the rights they can enforce*". Being the second largest shareholder it would be difficult for Harbinger to exert any significant level of control on Poseidon.

At the date of this report Harbinger has no representation on Poseidon's Board of Directors. While it is not known what Harbinger's intentions may be in relation to future Board representation, with a shareholding of around 25% it is unlikely that Harbinger will be able to have sufficient representation to control the Board.

To exercise all of its options the ACT would need to pay to Poseidon $46 million. Being a charitable trust the ACT's ability to source this level of funding may be limited. In stating this it is recognised that the ACT does hold a number of shares in Fortescue Metals Group Limited, which based on the closing price at 3 October 2008 have a market value of approximately $50 million. If funds were borrowed it may mean that subsequent to the exercise the ACT would look to sell part of its shareholding in the Company to repay the amount borrowed. Assuming none of the shares are acquired by Harbinger, any sell down by the ACT would not impact Harbinger's interest in Poseidon. The main impact would be that Harbinger may become the Company's largest shareholder. However with a shareholding of around 25% and no ability to control the Board, Harbinger's ability to control the financial and operating activities of Poseidon would continue to be limited.

On the assumption that the options with an exercise price of less than or equal to $1.00 will be exercised, the special bonus employee shares vest and the partly paids become fully paid, Harbinger's ability to control Poseidon on the possible conversion of the Convertible Notes and the issue of the Note Shares will be limited. This should be to the advantage of the existing Non-Associated Shareholders as the existence of Harbinger as a shareholder with around a 25% interest should not prevent the opportunity of Poseidon receiving a takeover offer. In stating this, the success of any takeover offer may depend on Harbinger's willingness to accept the proposal put forward.

The nature of Harbinger as a hedge fund and consideration of Harbinger's investment activity in ASX listed companies is detailed in Section 7.3.

If Harbinger was looking to dispose of it's greater than 20% interest to a single purchaser or a number of related entities shareholder approval would need to be obtained under item 7 of Section 611 of the Act. Similarly if the ACT was looking to dispose it's greater than 20% interest in the same circumstances it would also need obtain shareholder approval.

Having a greater than 20% interest in Poseidon may enable Harbinger to influence the Company in general meetings. However, this may not be to the detriment of the Non-Associated Shareholders. With a shareholding of around 25%, as long as greater than 25% of the remaining shares are voted then Harbinger will not be in the majority.

In not being Poseidon's largest shareholder and having no Board representation it is unlikely that Harbinger will be in a position to control the Company's financial and operating policies. Harbinger not looking to control the Company reflects, in part, its confidence in Poseidon's current management team. This confidence in the current management team to be able to bring Windarra to production should be to the advantage of the Non-Associated Shareholders.

7.3 Harbinger and Its Investment in ASX Listed Resource Companies

Harbinger is a US based hedge fund which at March 2008 was managing investments valued at over US$20 billion. Commencing in 2001, Harbinger has followed a strategy of identifying and investing in undervalued assets, special situation assets or assets that are distressed. It is not unusual for the two funds managed by Harbinger, being the Harbinger Master Fund and the Harbinger Special Situations Fund to co-invest in opportunities. Harbinger's parent company is Harbert Management Corporation, a private investment and funds management firm.

In addition to Poseidon, over recent years Harbinger has invested in a number of other mineral and resource companies listed on the ASX. A summary of these investments are included below. It is of note the market capitalisation of each investee company has been significantly impacted by the severe downturn in world equity and financial markets experienced since July 2008.

- **Fortescue Metals Group Limited** ("FMG"): In February 2005 Harbinger provided FMG with US$50 million of funding via a convertible note issue. This issue was on similar terms to the Convertible Note issue being made by Poseidon to Harbinger, in that they were unsecured, had a term of six years, were interest free for the first three years and thereafter at 5% per annum and had attaching trading price conditions. The convertible notes were converted in May 2005.

  From that time Harbinger has increased its shareholding in FMG to 15.8%. At around the time Harbinger first invested in FMG, FMG's market capitalisation totalled approximately $750 million. Reflecting its transformation into an iron ore producer, at the date of this report FMG's market capitalisation was approximately $14 billion. There is some current speculation that Harbinger is considering the sale of its interest in FMG. Furthermore, industry speculation has indicated Harbinger is thought to be the likely source of FMG stock loaned to short sellers- compounding a recent share price decline.

- **Po Valley Energy Limited** ("PVE"): Harbinger first invested in PVE in November 2005 via the take-up of a share issue representing 15% of the company's expanded share capital. PVE is developing a number of oil and gas concessions in Italy. Harbinger continued to acquire shares in PVE and at March 2008 its interest in the company was 17.9%. At the time of Harbinger's initial in PVE the company's market capitalisation was approximately $40 million, at the date of this report it was approximately $130 million.

- **Murchison Metals Limited** ("Murchison"): Harbinger has a 19.98% interest in Murchison, which is developing the Jack Hills iron ore project located in the mid-west region of Western Australia. This interest has been built up over the period since July 2007 through on-market share purchases. Over that time Murchison's market capitalisation has decreased from around $1.9 billion to around $450 million.

- **Moly Mines Limited** ("Moly Mines"): Harbinger invested in Moly Mines via a capital raising completed in December 2007, whereby Harbinger subscribed for 17.1 million shares at $4.00 each. Moly is developing the Spinifex Ridge molybdenum mine in north-west Western Australia. Harbinger has a 19.9% interest in Moly Mines. At the time of investing in November 2007, Moly Mines' market capitalisation was approximately $235 million; at the date of this report the company's market capitalisation was approximately $80 million.

- **Midwest Corporation Limited** ("Midwest"): In late May/early June 2008 Harbinger acquired a 9.3% interest in Midwest, a company which like Murchison is developing a number of iron ore projects in the mid-west region of Western Australia. At the time Midwest was subject to a takeover offer by Sinosteel Corporation ("Sinosteel"), one of China's largest iron ore trading and investment companies, and a proposed merger with Murchison by way of a scheme of arrangement.

Sinosteel lodged an application with the Takeovers Panel claiming, amongst other things, that because of Harbinger's 19.98% interest in Murchison and because Murchison already had a 9.98% interest in Midwest, in acquiring the shares in Midwest, Harbinger had breached the Foreign Acquisitions and Takeovers Act ("FATA") by not obtaining approval from the Treasurer for going over the 15% threshold. The Takeovers Panel found in favour of Sinosteel with respect to Harbinger not obtaining FATA approval from the Treasurer in relation to the acquisition of 4.27% of its interest in Midwest. Harbinger was given order that unless FATA approval was obtained it would have to dispose of the 4.27% interest. Harbinger subsequently received approval.

Following an announcement on 7 July 2008 that the proposed merger between Midwest and Murchison had been terminated, Harbinger continued to acquire Midwest shares, with the Company's stake increasing to 16.2%. On 7 August 2008, Sinosteel announced that via the takeover offer, its interest in Midwest had increased to 58.44%.

On 11 September 2008, Harbinger accepted the Sinosteel offer and sold its remaining 15.2% shareholding to Sinosteel for approximately $225 million.

Harbinger also has a 20.1% interest in Housewares International Limited ("HIL"), an ASX listed company which imports and distributes a range of electrical and consumer products in a number of different geographical markets. Harbinger first acquired shares in HIL in January 2007.

On the basis of Harbinger's investment in FMG, Moly Mines and Poseidon it does appear that Harbinger is a supporter of companies in which Mr Forrest has or has had an involvement in.

Over the periods of its investment in each of the ASX listed companies Harbinger has not had or looked to obtain any board representation and has had no involvement in the management of any of the companies.

In stating this, there are examples where Harbinger has acted or spoken out on the direction the management of some of its investee company's are taking. In this regard, in March 2008 Harbinger, together with another hedge fund, was successful in having two of their nominees appointed to the 15 member Board of Directors of The New York Times Company. At the time Harbinger had a 15.6% interest in the company. The impetus for the board appointments was, in part, that Harbinger and the other hedge fund believed that the performance of the company was below expectations. Harbinger who with an 18.2% interest is the largest shareholder of US based iron and coal company, Cleveland-Cliffs Inc. ("Cleveland-Cliffs"), has spoken out against that company's proposed US$10 billion acquisition of coal group, Alpha Natural Resources Inc. ("Alpha"). It is believed that Harbinger is of the opinion that rather than undertaking the Alpha transaction, which Harbinger considered expensive, Cleveland-Cliffs shareholders would be better off if it presented itself as a potential takeover target.

From this analysis it appears that in general Harbinger takes a passive role as an investor and does not act to influence the management of its investee companies. However, it is clear that if Harbinger believes the investee company is underperforming or is contemplating a transaction that Harbinger believes is not necessarily in the best interest of shareholders then it will take action to protect its position. While this action, to date, has not appeared to have included acting to gain control of an investee company it has included obtaining a minority position on the board of directors and using its shareholding interest to influence the outcome of proposed transactions. Given the nature of Harbinger as a hedge fund, it is likely that any action taken by Harbinger would, in the first instance, be to protect its position rather than the position of all shareholders as a whole, albeit any improved performance of an investee company would be to the benefit of all shareholders.

While Harbinger's intentions for its investment in Poseidon are not known, its track record with its investment in ASX listed resource companies shows that it is supportive of management and their endeavours to bring mineral projects into production. For Poseidon which is looking to develop the Windarra Nickel Project, having Harbinger's support should be to the advantage of all shareholders.

7.4 Poseidon's Need for Funding and Alternative Sources of Funding

Following the pre-feasibility into the establishment of a 350,000 tonne per annum operation at Windarra under the Fast Start initiative being successfully completed in November 2007, Poseidon has announced its intention to:

- Complete dewatering and rehabilitation of the Windarra decline to enable further drilling with the outlook of increasing the indicated resource and to prepare for mining operations.
- Continue its regional exploration programs on existing tenements to increase its resource base.
- Move forward on a full project feasibility study towards becoming a 20,000/t per annum nickel metal producer.

The cost of establishing the size of operation envisaged under Fast Start at Windarra was estimated as part of the pre-feasibility to be A$35 million (at an accuracy of ± 35%).

At 31 March 2008, Poseidon's cash balance totalled $2.552 million. The net operating cash outflows over the nine months to that date totalled $11.413 million, the majority of which was incurred on exploration and evaluation, including the pre-feasibility study, associated with the Windarra Nickel Project. It was clear to Poseidon management at that time that the Company would need to secure significant funding if it was to continue to pursue the development of Windarra as anticipated under the Fast Start approach.

The provision of the US$50 million by Harbinger under the issue of the Convertible Note on the attractive terms negotiated is a significant step for Poseidon being able to continue the development of Windarra and its other projects in an economic environment that over recent times has become less certain.

With the sub-prime credit issues impacting markets across the world over the last 12 months, the securing of funding, either debt or equity, has become increasingly difficult. While the demand for resources from China and other emerging countries continues to benefit Australian resource companies, high oil prices, exchange rates and input costs has put pressure on project viability. The economic slowdown in the US has lead to further volatility in world financial markets.

In respect to equity markets, since reaching a high in November 2007 of approximately 6,875 points, the ASX All Ordinaries Index closed at the date of this report at approximately 4,703, a decrease of 31.6%. Similarly, the S&P/ASX 300 Resources Index reached a high in May 2008 of approximately 7200 closed down at approximately 4640 on 3 October 2008, a decrease of 35.6%. In the US, the Dow Jones reached a high of approximately 14150 in October 2007 and closed at 3 October 2008 at approximately 10325, a decrease of 27.0%. The reduction in Australian equity markets has seen the level of capital raisings and new listings over the last 12 months significantly reduce compared to previous years.

Coupled with the slowdown in financial markets, nickel prices have steadily reduced from historical highs in May 2007 of over US$50,000/t to more recent levels of around US$16,500/t. The short to medium term expectations are for prices to move moderately upwards to levels of around US$18,000/t over the period to 2012.

As an alternative to the issue of the Convertible Notes, the volatility of Australian and world equity markets would have made it difficult for Poseidon to source the same level of funding through a share offer. Ignoring the likely success of any share offer, on the basis that the Company's share price at the time of the announcement of the Convertible Note issue was well below $1.00, the pricing of any capital raising would have been significantly more dilutionary than the Convertible Note issue. At a share price of 24 cents, even without the application of a discount to raise A$53 million, Poseidon would have to issue approximately 220 million shares. While it is recognised that the full amount may not have to be raised at once, the continued need for ongoing funding would expose the Company to the ongoing uncertainty in financial markets. Given this and the greater dilutionary impact of any equity raising, the offer of shares as an alternative source of funding for Poseidon at this time would be to the disadvantage of the Non-Associated Shareholders.

Prior to negotiating the Convertible Notes with Harbinger, Poseidon had approached a number of banks with respect to different funding options. Because of the relatively early stage of development of the Windarra Nickel Project and the absence of a bankable feasibility study none of the banks were willing to provide funding to the Company. Poseidon also had discussions with another US based hedge fund for the provision of an equity line of credit and a convertible note facility, the terms of which were substantially less attractive than the Convertible Notes. The interest rate proposed under the convertible note facility was 10%.

Given the recent and ongoing state of uncertainty in Australian and global financial markets, alternative sources of funding available to Poseidon are considered to be limited. In these circumstances the issue of the Convertible Notes to raise US$50 million of funding to advance the Windarra Nickel Project should be to the benefit of the Non-Associated Shareholders.

Regardless of whether or not Poseidon has available alternative sources, it is unlikely that any funding would be on as attractive terms as the terms on which Harbinger has provided the Convertible Notes.

8. Premium for Control

A "premium for control" generally represents the difference between the price per share which one party would be prepared to pay to obtain a controlling interest in a company and the price at which a share that does not carry with it control of that company could be acquired. In the case of the issue of shares, the entity receiving the shares is paying a premium if the value of the shares being issued is less than the value of the consideration being paid. The greater the premium the better off the shareholders not involved in the transaction will be.

In relation to the possible issue of the Note Shares, because the future fair value of the shares to be issued cannot be determined at this time, an assessment of whether or not Harbinger would be paying a premium for control is, at the date of this report, not possible. It is however relevant to note that the A$1.00 conversion price of the Convertible Notes is at a significant premium to the trading price of a Poseidon share on the ASX of 24 cents, current at 3 October 2008. It is also relevant that when using the 20 day, 40 day and 60 day VWAPs prior to the date the issue of the Convertible Notes to Harbinger for US$50 million was announced, a premium ranging from 20.2% to 26.4% is implied. The existence of the premium is to the benefit of the Non-Associated Shareholders.

9. Summary and Conclusion

In forming our opinion as to whether the issue of the Note Shares to Harbinger on the possible conversion of the Convertible Notes is fair and reasonable to the Non-Associated Shareholders of Poseidon, we have considered the following matters:

Matters of Control

- If the conversion conditions relevant to the Convertible Notes are met then the conditions attaching to the exercise of the July and September 2012 40 cent options would have also been met. Accordingly, if the Convertible Notes are converted it is more than likely that the July and September 2012 40 cent options would be exercised.

  Assuming the options with an exercise price equal to or less than A$1.00 are exercised and the partly paids are paid up, at an exchange rate of between 80 cents and 94.3 cents Harbinger's interest in Poseidon would be between 23.1% and 25.1% while the ACT would be the Company's largest shareholder with an interest between 32.1% and 33.0%.

  At the date of this report Harbinger has no representation on Poseidon's Board of Directors.

  Not being the largest shareholder it is unlikely that Harbinger would be in a position to control Poseidon. While it is not known what Harbinger's intentions may be in relation to future Board representation, with a shareholding of around 25% it is unlikely that Harbinger will be able to have sufficient representation to control the Board.

The Nature of Convertible Securities

- In considering the possible conversion of the Convertible Notes and the issue of the Note Shares, the relevant date to assess the value of the Note Shares is at the time the shares are issued and Harbinger's voting interest in Poseidon increases. At the date of this report, no such assessment can reasonably be made as the possible date of conversion cannot be predicted and the value of a Poseidon share at any future date cannot be determined. Because of this, at the time of their issue the conversion price and the wider terms of the Convertible Notes are more important than the underlying value of the Company's assets and liabilities.

- The nature of the convertible debt securities is such that it provides the holder with a right to convert the face value of the debt to shares in the issuer at a particular price at some time in the future. A key feature of the conversion right is that it generally provides the holder with the right but not the obligation to convert the debt to equity. Accordingly, while Harbinger has the right to convert the Convertible Note there is no guarantee that it will. If the Convertible Note is not converted, Harbinger's interest in the Company does not increase.

- Because of this right but not the obligation to convert, it follows that in most circumstances, a rational investor would only exercise the right to convert if the conversion price was less than the market trading price of the company's underlying shares at the time of conversion.

Consideration of the Market trading Price of a Poseidon Share with the Conversion Price

- The table below compares Poseidon's VWAP's for various periods up until the announcement of the US$50 million Convertible Notes issue to Harbinger and closing price on 25 June 2008, being the date before the announcement:

Comparison of Conversion Price to Share Price		**Premium/ (Discount)**
Conversion price	$1.00	
20 Day VWAP		20.2%
40 Day VWAP		22.0%
60 Day VWAP		26.4%
Closing price 25 June 2008 (last day before announcement)		35.1%

Accordingly, prior to the announcement of the Convertible Note issue, the conversion price was at a substantial premium to the prices at which Poseidon's shares had been trading at on the ASX.

- On the premise that the Convertible Notes will only be converted if the trading price of a Poseidon share is at or above the conversion price, having a conversion price which is at a premium to trading price at the time of issue is to the advantage of the Non-Associated Shareholders on the basis that the Company's trading price will need to increase substantially before conversion is likely. Any increase in Poseidon's underlying market trading price on the ASX would be to the benefit of the Non-Associated Shareholders.

- In the period between the announcement and 3 October 2008, Poseidon's share price has traded in the range of between 22 cents and $1.51, closing on that date at 24 cents. The high of $1.51 was experienced at a time when Harbinger was in the market acquiring shares to increase its interest in the Company from 9.0% to 17.4%. The low reflects the significant downturn in world equity and financial markets experienced since July 2008. The conversion price of A$1.00 is at a substantial premium to the closing price of a Poseidon share on 3 October 2008 of 24 cents. On the assumption that the Company's share price would need to increase to a level of A$1.00 before conversion is likely, any increase in Poseidon's underlying trading price on the ASX would be to the benefit of the existing Non-Associated Shareholders.

The Attractive Terms of the Convertible Notes

- With an interest free period of three years and an interest rate of 5% per annum thereafter, the terms of the Convertible Notes are extremely attractive when compared to other convertible note issues and to normal terms on which debt facilities are generally provided. Securing funding under the terms of the Convertible Notes is a significant benefit to the Non-Associated Shareholders.

Harbinger's Track Record

- While Harbinger's intentions for its investment in Poseidon are not known, its track record with its investment in ASX listed resource companies shows that it is supportive of management and their endeavours to bring mineral projects into production. For Poseidon, which is looking to develop the Windarra Nickel Project, having Harbinger's support should be to the advantage of all shareholders.

  Harbinger's significant investment in Poseidon without having Board representation indicates that it has confidence in the Company's current management team this should be to the advantage of the Non-Associated Shareholders.

Poseidon's Need for Funding and Alternative Sources

- The provision of the US$50 million by Harbinger under the issue of the Convertible Note on the attractive terms negotiated is a significant step for Poseidon being able to continue the development of Windarra and its other projects in an economic environment that has become less certain.

- With a share price less than the conversion price, raising capital through the issue of shares would be more dilutionary to the Non-Associated shareholders than the issue of the Convertible Notes.

- Given the recent and ongoing state of uncertainty in Australian and global financial markets, alternative sources of funding available to Poseidon are considered to be limited. In these circumstances the issue of the Convertible Notes to raise US$50 million of funding to advance the Windarra Nickel Project should be to the benefit of the Non-Associated Shareholders.

- Regardless of whether or not Poseidon has available alternative sources, it is unlikely that any funding would be on as attractive terms as the terms on which Harbinger has provided the Convertible Notes.

Based on the matters summarised above and detailed discussion and analysis throughout this report, the issue of the Note Shares to Harbinger on the possible conversion of the Convertibles Notes is, in our opinion, fair and reasonable to the Non-Associated Shareholders of Poseidon.

In relation to the possible issue of the Note Shares, because the future fair value of the shares to be issued cannot be determined at this time, an assessment of whether or not Harbinger would be paying a premium for control is, at the date of this report, not possible. It is however relevant to note that the A$1.00 conversion price of the Convertible Notes was at a premium to Poseidon's market trading price prior to the date of the announcement of the issue of the Convertible Note issue and at a premium to the Company's market trading price at the date of this report. The existence of a premium between the market price and the conversion price is to the benefit of the Non-Associated Shareholders.

Yours faithfully
Ernst & Young Transaction Advisory Services Limited

Ken Pendergast
Director and Representative

Brenda J Moore
Representative

Appendix 1 – Sources of Information and Declarations

1. Sources of information

In preparing this report, we have had regard to the following sources of information:

- the Note Certificates entered between Poseidon and Harbinger with respect to Tranche 1 and Tranche 2 of the Convertible Notes;
- details of Poseidon's top 20 shareholder information as at 26 September 2008;
- the Company's Annual Financial Report as at 30 June 2008;
- a copy of the draft Notice of Annual General Meeting and Explanatory Memorandum prepared in relation to the Meeting;
- variously publicly available information relating to Poseidon, Harbinger and a number of other companies; and
- discussions with Poseidon management.

2. Declarations

Ernst & Young Transaction Advisory Services, which is wholly owned by Ernst & Young, holds an Australian Financial Services Licence under the Corporations Act and its representatives are qualified to provide this report. The directors of Ernst & Young Transaction Advisory Services responsible for this report have not provided financial advice to Poseidon.

Prior to accepting this engagement Ernst & Young Transaction Advisory Services considered its independence with respect to Poseidon and Harbinger with reference to the ASIC Regulatory Guide 112 entitled "Independence of experts". In Ernst & Young Transaction Advisory Services' opinion it is independent of Poseidon and Harbinger.

This report has been prepared specifically for the Non-Associated Shareholders of Poseidon. Neither Ernst & Young Transaction Advisory Services, Ernst & Young nor any member or employee thereof undertakes responsibility to any person, other than a shareholder, in respect of this report, including any errors or omissions howsoever caused.

The statements and opinions given in this report are given in good faith and the belief that such statements and opinions are not false or misleading. In the preparation of this report Ernst & Young Transaction Advisory Services has relied upon and considered information believed after due inquiry to be reliable and accurate. Ernst & Young Transaction Advisory Services has no reason to believe that any information supplied to it was false or that any material information has been withheld from it. Ernst & Young Transaction Advisory Services has evaluated the information provided to it by Poseidon, its advisors, as well as other parties, through inquiry, analysis and review, and nothing has come to its attention to indicate the information provided was materially mis-stated or would not afford reasonable grounds upon which to base its report. Ernst & Young Transaction Advisory Services does not imply and it should not be construed that it has audited or in any way verified any of the information provided to it, or that its inquiries could have verified any matter which a more extensive examination might disclose.

The information relied upon in the preparation of this report is set out above. Poseidon has provided an indemnity to Ernst & Young Transaction Advisory Services for any claims arising out of any mis-statement or omission in any material or information provided to it in the preparation of this report.

Ernst & Young Transaction Advisory Services provided draft copies of this report to the directors and management of Poseidon for their comments as to factual accuracy, as opposed to opinions, which are the responsibility of Ernst & Young Transaction Advisory Services alone. Changes made to this report as a result of this review by the directors and management have not changed the methodology or conclusions reached by Ernst & Young Transaction Advisory Services.

Ernst & Young Transaction Advisory Services will receive a professional fee based on time spent in the preparation of this report. Ernst & Young Transaction Advisory Services will not be entitled to any other pecuniary or other benefit whether direct or indirect, in connection with the making of this report.

Mr Ken Pendergast, a director and representative of Ernst & Young Transaction Advisory Services and a partner of Ernst & Young and Ms Brenda Moore, representative of Ernst & Young Transaction Advisory Services and executive director of Ernst & Young have assumed overall responsibility for this report. Both have the necessary experience and professional qualifications appropriate to the advice being offered. Other Ernst & Young Transaction Advisory Services staff have been consulted in the preparation of this report where appropriate.

It is not intended that the report should be used for any other purpose other than to accompany the Notice of Annual General Meeting and Explanatory Memorandum to be sent to Poseidon shareholders. In particular, it is not intended that this report should be used for any other purpose other than as an expression of its opinion as to whether or not the issue of the Note shares to Harbinger on the possible conversion of the Convertible Notes is fair and reasonable to the Non-Associated Shareholders of Poseidon.

Ernst & Young Transaction Advisory Services will receive a professional fee based on the time spent in the preparation of this report, estimated at approximately $40,000. Ernst & Young Transaction Advisory Services or Ernst & Young will not be entitled to any other pecuniary or other benefit, whether direct or indirect, in connection with the making of this report.

Ernst & Young Transaction Advisory Services consents to the issue of this report in the form and context in which it is included in the Notice of Annual General Meeting and Explanatory Memorandum to be sent to Poseidon shareholders.

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THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT EXPERT'S REPORT

PART 2 – FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited ("Ernst & Young Transaction Advisory Services" or "we," or "us" or "our") has been engaged to provide general financial product advice in the form of an independent expert's report ("Report") in connection with a financial product of another person. The Report is set out in Part 1.

2. Financial Services Guide

This Financial Services Guide ("FSG") provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits referred to above, neither Ernst & Young Transaction Advisory Services, nor any of its directors, employees or associated entities receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process

As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the Compliance and Legal Manager and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Financial Industry Complaints Service or the Insurance Brokers Disputes Limited for general insurance product advice.

Contacting Ernst & Young Transaction Advisory Services	**Contacting the Independent Dispute Resolution Schemes:**
Compliance and Legal Manager Ernst & Young 680 George Street Sydney NSW 2000 Telephone: (02) 9248 5555	Financial Industry Complaints Service Limited PO Box 579 – Collins Street West Melbourne VIC 8007 Telephone: 1800 335 405 Insurance Brokers Disputes Limited Level 10 99 William Street Melbourne VIC 3000 Telephone 1800 064 169

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