POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Interim Financial Report
31 December 2008

Poseidon Nickel Limited

Contents

Poseidon Nickel Limited
Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

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

Company Secretary

Mr R Kestel

Registered Office

Level 2, 100 Railway Road
Subiaco WA 6008

Principal Office

Unit 8, Churchill Court
331-335 Hay Street
Subiaco WA 6008
Website: www.poseidon-nickel.com.au
Email: admin@poseidon-nickel.com.au
Telephone: +61 8 9382 8799
Facsimile: +61 8 9382 4760

Postal Address

PO Box 190
West Perth WA 6872

Auditors to the Company

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

Share Registry

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

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia

Poseidon Nickel Limited

Directors' report

The directors present their report together with the financial report of Poseidon Nickel Limited ('the Company') and of the Group, being the Company and its subsidiaries for the six months ended 31 December 2008 and the auditor's review report thereon.

Directors

The directors of the Company at any time during or since the end of the interim period are:

Name	Period of directorship
Non-executive	
Mr Andrew Forrest *Chairman & Non-Executive Director*	Appointed 2 July 2007
Mr Richard Monti *Non-Executive Director*	Appointed 4 April 2007
Mr Geoff Brayshaw *Non-Executive Director*	Appointed 1 February 2008
Mr Christopher Indermaur *Non-Executive Director*	Appointed 2 July 2007 / Resigned 30 September 2008
Executive	
Mr David Singleton *Managing Director & Chief Executive Officer*	Appointed 1 February 2008

Review of operations

The Company has reported a profit for the six months ended 31 December 2008 of $6,404,000 (2007: Loss of $243,022,000) after reflecting the fair value movement of the US$15 million convertible note. At an operating level before finance costs, which include the significant movement in the fair value and foreign exchange in relation to the convertible note, the Company made a loss for the period of $4,091,000.

During the half year, the Company continued to focus on the exploration of the Denny Bore project and the refurbishment of the Mt Windarra underground mine. During the period the Company announced its intention to temporarily suspended operations due to the global economic uncertainty and has since significantly reduced the level of expenditure in order to preserve the Company's cash reserves. The Company had cash on hand totalling $5.9 million as at 31 December 2008.

Exploration

The first JORC compliant resource was released for the Cerberus deposit, part of the Denny Bore project, which increases the Company's resource base by 40% at an average grade of 2.45% Ni. An Inferred Resource has been calculated for Cerberus of 1,033,328 tonnes of ore at 2.45% Ni for 25,269 tonnes of nickel metal (TNM) at a 1.5% Ni cut-off grade.

This initial resource is the result of completing a campaign of RC and DD drilling at Denny Bore which included 7 diamond holes (including 2 tails) for 2,211.8m and 15 RC holes for 2,783m. Drilling was completed on an average 200m x 200m grid spacing and delineated continuous mineralisation over an area of >1km along strike, >500m in width and between 1m (diluted) to 4.6m in thickness.

The JORC resource for Mt Windarra has also been upgraded to 63,100 TNM (from 60,370 TNM) as a result of the completion of additional drilling, historic drill hole and database validation, as well as reinterpretation and remodelling of the resource. The Mt Windarra deposit now comprises of 3,988,005 tonnes of ore at a grade of 1.58% and provides the Company with a total inferred resource base of 5,021,333 tonnes of ore at an average grade of 1.76% Ni for 88,369 TNM.

Poseidon Nickel Limited
Directors' report (continued)

Review of operations (continued)

Operations

Mine dewatering continued during the period with the water level being lowered to the maximum depth of the current pump at 168 metres enabling the decline to be fully refurbished for 1.1 linear kilometres. Two of the three areas of concern in the decline, which are potentially affected by Charlie sheer zone, were passed without incident and the general condition of the decline has been found to be better than had been expected. This has resulted in a lower refurbishment cost per linear metre being achieved.

The high level of progress and the removal of a significant level of risk has enabled the Company to temporarily suspend further work on the decline although water levels will be maintained at or near the end of October levels when operations ceased.

Note: The information in this report relates to Exploration Results and Mineral Resources based on information compiled by Mr N Hutchison who is a Member of The Australian Institute of Geoscientists. Mr Hutchison has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' He has consented to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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

Dividends
No dividends were paid or proposed during the interim period ended 31 December 2008.

Lead auditor's independence declaration
The lead auditor's independence declaration is set out on page 6 and forms part of the directors' report for the six months ended 31 December 2008.

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

This report is made with a resolution of the directors:

G F Brayshaw

Mr G Brayshaw
Director

Perth
13 March 2009

Poseidon Nickel Limited

Auditor's independence declaration

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Poseidon Nickel Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2008 there have been:

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

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

KPMG

KPMG

B C Fullarton
Partner

Perth

13 March 2009

Poseidon Nickel Limited

Consolidated interim income statement

For the six months ended 31 December 2008		**Consolidated**	
In thousands of AUD	***Note***	**31 Dec 2008**	**31 Dec 2007**
Other income		181	107
Depreciation expense		(17)	(18)
Personnel expenses		(539)	(828)
Exploration costs written off	*10*	(1,810)	(13)
Corporate and administration costs		(1,174)	(845)
Share based payment expense	*13*	(581)	(241,599)
Other expenses		(151)	(160)
Results from operating activities		(4,091)	(243,356)
Finance income		21,102	334
Finance expenses		(10,607)	-
Net finance costs	*9*	10,495	334
Profit / (loss) before income tax		6,404	(243,022)
Income tax expense		-	-
Profit / (loss) after tax		6,404	(243,022)
Profit / (loss) attributable to equity holders of the Company		6,404	(243,022)
Profit / (loss) per share			
Basic and diluted profit / (loss) per share (cents/share)		3.90	(151.73)

The condensed notes on pages 11 to 17 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Consolidated interim statement of changes in equity

For the six months ended 31 December 2008

		Consolidated					
In thousands of AUD	***Note***	**Issued Capital**	**Share based payment reserve**	**Fair value reserve**	**Option premium reserve**	**Accumulated losses**	**Total equity**
Balance at 1 July 2008		71,791	232,354	-	510	(282,686)	21,969
Profit (loss) for the period		-	-	-	-	6,404	6,404
Issue of share capital (net of costs)		1,489	-	-	-	-	1,489
Issue of options (net of costs)		-	337	-	-	-	337
Balance at 31 December 2008		73,280	232,691	-	510	(276,282)	30,199
Balance at 1 July 2007		57,686	1,046	231	-	(27,471)	31,492
Profit (loss) for the period		-	-	-	-	(243,022)	(243,022)
Issue of share capital (net of costs)		3,626	-	-	-	-	3,626
Issue of options (net of costs)		-	241,599	-	511	(166)	241,944
Exercise of options		-	(1,046)	-	-	1,046	-
Gain (loss) on revaluation of investments		-	-	(9)	-	-	(9)
Balance at 31 December 2007		61,312	241,599	222	511	(269,613)	34,031

The condensed notes on pages 11 to 17 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Consolidated interim balance sheet

As at 31 December 2008		**Consolidated**	
In thousands of AUD	***Note***	**31 Dec 2008**	**30 Jun 2008**
Assets			
Cash and cash equivalents		5,922	14,365
Trade and other receivables		512	473
Other		24	24
Total current assets		6,458	14,862
Property, plant and equipment	*8*	2,168	1,904
Exploration and evaluation expenditure	*10*	37,711	31,975
Other		3,500	3,500
Total non-current assets		43,378	37,379
Total assets		49,836	52,241
Liabilities			
Trade and other payables		2,075	2,438
Loans and borrowings	*11*	10,173	6,505
Convertible note derivative	*12*	3,635	17,470
Employee benefits		11	86
Provisions	*14*	3,500	3,500
Total current liabilities		19,394	29,999
Loans and borrowings	*11*	243	273
Total non-current liabilities		243	273
Total liabilities		19,637	30,272
Net assets		30,199	21,969
Equity			
Share capital	*15*	73,280	71,791
Reserves		233,201	232,864
Accumulated losses		(276,282)	(282,686)
Total equity		30,199	21,969

The condensed notes on pages 11 to 17 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Consolidated interim statement of cash flows

For the six months ended 31 December 2008		**Consolidated**	
In thousands of AUD	***Note***	**31 Dec 2008**	**31 Dec 2007**
Cash flows from operating activities			
Sundry receipts		264	215
Cash paid to suppliers and employees		(2,022)	(1,934)
Cash generated from operations		(1,758)	(1,719)
Interest received		443	333
Net cash used in operating activities		(1,315)	(1,386)
Cash flows from investing activities			
Payments for exploration and evaluation expenditure	*10*	(7,911)	(6,393)
Payments for property, plant and equipment	*8*	(406)	(962)
Repayment of loans by other entities		-	921
Net cash used in investing activities		(8,317)	(6,434)
Cash flows from financing activities			
Proceeds from the issue of shares and options		1,219	3,185
Proceeds from borrowings		-	227
Payment of finance lease liabilities	*11*	(30)	(17)
Net cash from financing activities		1,189	3,395
Net decrease in cash and cash equivalents		(8,443)	(4,425)
Cash and cash equivalents at 1 July		14,365	10,485
Cash and cash equivalents at 31 December		5,922	6,060

The condensed notes on pages 11 to 17 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Condensed notes to the consolidated interim financial statements

1. Reporting entity

Poseidon Nickel Limited ("the Company") is a company domiciled in Australia. The consolidated interim financial statements of the Company as at and for the six months ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2008 is available upon request from the Company's registered office at Spectrum Level 2, 100 Railway Road, Subiaco WA 6000 or at www.poseidon-nickel.com.au.

2. Basis of preparation

a) Statement of compliance

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

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2008.

This consolidated interim financial report was approved by the Board of Directors on 13 March 2008.

b) Basis of measurement

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

- convertible note derivative at fair value through profit or loss are measured at fair value;
- share based payments are measured at fair value.

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

c) Functional and presentation currency

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

The Company is of a kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, all financial information presented in Australian dollars has been rounded to the nearest thousand unless otherwise stated.

d) Use of estimates and judgements

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Poseidon Nickel Limited

Condensed notes to the consolidated interim financial statements

3. Financial Position

The consolidated interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2008 the Company incurred a profit of $6,404,000 (2007: loss $243,022,000) and had a net working capital deficit of $12,936,000 (2007: surplus $4,815,000). The working capital deficit includes the following items; the convertible note liability of $10,111,000 that can only be settled in shares if called by the note holders, the convertible note derivative of $3,635,000 and a provision for environmental rehabilitation of $3,500,000 that is cash backed.

The Company had a net cash outflow used in investing activities of $8,317,000 (2007: outflow $6,434,000), however, cost reductions measures were put in place during the last quarter that has significantly reduced the level of expenditure going forward in order to preserve the Company's cash position.

The Board of Directors is aware of the Company's working capital requirements and is satisfied that the Company has sufficient cash reserves to sustain the business whilst exploration and mine rehabilitation activities remain suspended and ensure the realisation of assets and extinguishment of liabilities as and when they fall due for the next 12 months.

The Company has a further US$35 million convertible note facility, which is the second tranche of the funding package secured with Harbinger Capital Partners in June 2008 that can be made available when required. At this date, the specific timing of the draw down of the facility has not been agreed between both parties as the funding is not required at this stage.

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

4. Significant accounting policies

The accounting policies applied by the Group in this consolidated interim financial report are the same as those applied by the Group in its consolidated financial report as at and for the year ended 30 June 2008.

5. Determination of fair values

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

a) Convertible Note Derivatives

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

b) Share-based payment transactions

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

6. Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2008.

Poseidon Nickel Limited

Condensed notes to the consolidated interim financial statements

7. Segment reporting

The Group predominately operates in only one business segment being exploration and one geographical segment being Australia.

8. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2008 the Group acquired assets with a cost of $410,000 (2007: $1,597,000).

No assets were disposed of during the six months ended 31 December 2008 or 31 December 2007.

9. Finance income and expense

	Consolidated	
In thousands of AUD	**31 Dec 2008**	**31 Dec 2007**
Interest income on bank deposits	443	334
Change in fair value of convertible note derivative	20,659	-
Finance income	21,102	334
Interest expense – convertible note	(1,151)	-
Net foreign exchange loss	(9,456)	-
Finance expense	(10,607)	-
Net finance income and expense	10,495	334

10. Exploration and evaluation expenditure

	Consolidated	
In thousands of AUD	**31 Dec 2008**	**30 Jun 2008**
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	37,711	31,975
Reconciliations:		
Exploration and evaluation phase		
Carrying amount at beginning of year	31,975	17,301
Additions	7,546	14,486
Rehabilitation asset	-	3,500
Exploration expenditure written off	(1,810)	(2,704)
Expenditure transferred to property, plant and equipment	-	(608)
	37,711	31,975

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

Poseidon Nickel Limited

Condensed notes to the consolidated interim financial statements

11. Loans and borrowings

	Consolidated	
In thousands of AUD	**31 Dec 2008**	**30 Jun 2008**
Current liabilities		
Current portion of finance lease liabilities	62	62
Convertible note liability	10,111	6,443
	10,173	6,505
Non-current liabilities		
Finance lease liabilities	243	273
	243	273

Convertible Notes

	Consolidated	
In thousands of AUD	**31 Dec 2008**	**30 Jun 2008**
Carrying amount of liability at beginning of period	6,443	-
Proceeds from issue of convertible notes	-	15,730
Transaction costs	-	(454)
Net proceeds	6,443	15,276
Amount classified as a convertible note derivative (note 12)	-	(9,078)
Transaction costs allocated to the convertible note derivative	-	262
Exchange rate effects	2,517	(47)
Accreted interest capitalised	1,151	30
Carrying amount of liability at end of period	10,111	6,443

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

12. Convertible note derivative

	Consolidated	
In thousands of AUD	**31 Dec 2008**	**30 Jun 2008**
Carrying amount of liability at beginning of period	17,470	-
Allocated proceeds from issue of convertible notes (note 11)	-	9,078
Transaction costs	-	(262)
Net proceeds	17,470	8,816
Fair value movement	(20,659)	8,718
Exchange rate effects	6,824	(64)
Carrying amount of liability at end of period	3,635	17,470

The Company has on issue a convertible note for US$15 million. Pursuant to accounting standards the option component of the convertible note is classified as a derivative liability. The value of the derivative fluctuates with the Company's underlying share price and the difference in the Company's share price between 30 June 2008 (share price $1.36) and 31 December 2008 (share price $0.34) is reflected in the fair value movement.

As the convertible note is denominated in United States dollars (USD), the change in the exchange rate with the Australian dollar (AUD) is also taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2008 was 0.9605:1 and at 31 December 2008, 0.6907:1.

Poseidon Nickel Limited

Condensed notes to the consolidated interim financial statements

13. Share-based payments

Options

The board can decide to grant options to a limited number of senior executives at its discretion under the ESOP (made in accordance with thresholds set in plans approved by shareholders at the 2007 AGM). The ESOP provides for key management personnel to receive up to 100% of compensation as an option package as a competitive incentive and retention mechanism. The ability to exercise the options is conditional on a number of conditions that include service based and share price performance hurdles to be met and must be exercised between 3 and 5 years of issue.

The terms and conditions of the option grants made during the six months ended 31 December 2008 are as follows; all options are to be settled by physical delivery of shares:

Grant date / employees entitled	Number of Instruments	Vesting conditions	Contractual life of the options
Options granted to executive directors on 27 November 2008	2,000,000	2 years' service and subject to various share price hurdles	4 years
Total share options	2,000,000		

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

Fair value at grant date	$0.11
Share price at grant date	$0.19
Exercise price	$0.80
Expected volatility (expressed as weighted average volatility used in the modelling under binomial lattice model)	115%
Option life (expressed as weighted average life used in the modelling under binomial lattice model)	4.0 years
Expected dividends	-
Risk-free interest rate (based on government bonds)	3.97%

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2008.

Shares

The terms and conditions of share grants made during the six months ended 31 December 2008 are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Shares granted to executive director on 27 November 2008	648,437	The shares vested immediately upon grant
Total shares	648,437	

Poseidon Nickel Limited

Condensed notes to the consolidated interim financial statements

13. Share-based payments (continued)

Shares (continued)

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

	Directors
Fair value of shares and assumptions	**31 Dec 2008**
Fair value and share price of grant	$0.19

Hybrids

The terms and conditions of hybrid grants made during the six months ended 31 December 2008 are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Hybrids granted to non-executive directors on 27 November 2008	70,691	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 December 2008 (Shares issued post 31/12/08)	178,440	The hybrids vested immediately upon grant
Total shares	249,131	

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

	Directors
Fair value of hybrids and assumptions	**31 Dec 2008**
Fair value and share price of grant	$0.19

Share based payment expense

	Consolidated	
In AUD	**31 Dec 2008**	**31 Dec 2007**
Share options granted – equity settled	336,284	232,029,202
Shares granted	162,290	9,570,000
Hybrids granted	82,150	82,500
Total expenses recognised as employee costs	580,724	241,681,702

Poseidon Nickel Limited

Condensed notes to the consolidated interim financial statements

14. Provisions

	Consolidated	
In thousands of AUD	**31 Dec 2008**	**30 Jun 2008**
Site restoration	3,500	3,500
	3,500	3,500

A provision of $3,500,000 was made during the year ended 30 June 2008 in respect of the Group's on-going commitment for the environmental rehabilitation of the Windarra mine site.

15. Share Capital

	Consolidated Ordinary shares	
In thousands of shares	**31 Dec 2008**	**30 Jun 2008**
Ordinary shares		
Fully paid	159,748	157,324
Partly paid	5,567	5,752
Total share capital	165,315	163,076
Movements in ordinary shares on issue:		
On issue at 1 July 2008	163,076	
Shares issued and expensed during the period:		
Issued for cash	500	
Granted as a share based payment	648	
Issued for directors fees	41	
Shares issued but expensed during the prior period:		
Issued for cash	352	
Issued for employee bonuses	626	
Issued for directors fees	72	
On issue at 31 December 2008	165,315	

16. Subsequent events

There has not arisen in the interval between the end of the reporting period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Poseidon Nickel Limited
Directors' declaration

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

1. the financial statements and notes set out on pages 7 to 17, are in accordance with the Corporations Act 2001 including:
    (a) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the six month period ended on that date; and

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

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

This report is made with a resolution of the directors:

G F Brayshaw

Mr G Brayshaw
Director

Perth
13 March 2009

Poseidon Nickel Limited

Independent audit report

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

Report on the financial report

We have reviewed the accompanying interim financial report of Poseidon Nickel Limited, which comprises the consolidated interim balance sheet as at 31 December 2008, income statement, statement of changes in equity and cash flow statement for the interim period ended on that date, a statement of accounting policies and other explanatory notes 1 to 16 and the directors' declaration of the Group comprising the Company and the entities it controlled at the half-year's end or from time to time during the interim period.

Directors' responsibility for the interim financial report

The directors of the Company are responsible for the preparation and fair presentation of the interim financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the interim financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2008 and its performance for the interim period ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Poseidon Nickel Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2008 and of its performance for the interim period ended on that date; and

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

KPMG

B C Fullarton
Partner

Perth

13 March 2009