

POSEIDONNICKEL

POSEIDON NICKEL LIMITED

ABN 60 060 525 206

NOTICE OF GENERAL MEETING

TIME: 10:00am (WST)

DATE: 28 March 2011

PLACE: The Boardroom
Nissen Kestel Harford
Level 2, Spectrum
100 Railway Road
SUBIACO WA 6008

This is an important document. If you are in any doubt as to how to act, you should consult your financial or legal adviser as soon as possible.

NOTICE OF GENERAL MEETING

Notice is hereby given that a General Meeting of Poseidon Nickel Limited (the **Company**) will be held at:

Venue: The Boardroom
Nissen Kestel Harford
Level 2, Spectrum
100 Railway Road
SUBIACO WA 6008

Date: 28 March 2011

Time: 10.00am (WST)

This Notice of Meeting should be read in conjunction with the accompanying Explanatory Memorandum.

AGENDA

1. RESOLUTION 1 - APPROVAL FOR THE ISSUE OF NEW CONVERTIBLE NOTES AND SHARES UNDER NEW CONVERTIBLE NOTES

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

"That, subject to and conditional upon the passing of Resolution 2, for the purposes of ASX Listing Rule 10.11 and Sections 208 and 611 (Item 7) of the Corporations Act and for all other purposes, Shareholder approval is given for:

- (a) *the Company to allot and issue convertible notes issued at a face value of US\$20,000,000 convertible into fully paid ordinary shares in the Company to Blue Line Fund (US\$10,000,000) and Breakaway (US\$10,000,000) (**New Convertible Notes**);*
- (b) *the Company to allot and issue that number of fully paid ordinary shares in the Company (calculated in accordance with the terms of the New Convertible Notes) on conversion of the New Convertible Notes;*
- (c) *the Company to allot and issue that number of fully paid ordinary shares in the Company (calculated in accordance with the terms of the New Convertible Notes) in satisfaction of participation rights under the New Convertible Notes; and*
- (d) *the increase in the voting power of Blue Line Fund and Breakaway and their associates as a result of the issue of Shares in the Company under paragraphs (b) to (d) of this Resolution,*

referred to in the Explanatory Memorandum accompanying this Notice."

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

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

2. RESOLUTION 2 - APPROVAL TO VARY HARBINGER TRANCHE 1 CONVERTIBLE NOTES AND ISSUE OF SHARES UNDER VARIED CONVERTIBLE NOTES

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

“That, subject to and conditional upon the passing of Resolution 1, for the purposes of ASX Listing Rule 10.11 and Sections 208 and 611 (Item 7) of the Corporations Act and for all other purposes, approval is given for:

- (a) the Company to vary the terms and conditions of the Harbinger Tranche 1 Convertible Notes issued to Harbinger Master Fund and Harbinger Special Situations Fund (**Varied Convertible Notes**);
- (b) the Company to allot and issue that number of fully paid ordinary shares in the Company (calculated in accordance with the terms of the Varied Convertible Notes) on conversion of the Varied Convertible Notes;
- (c) the Company to allot and issue that number of fully paid ordinary shares in the Company (calculated in accordance with the terms of the Varied Convertible Notes) in satisfaction of participation rights under the Varied Convertible Notes; and
- (d) the increase in the voting power of Harbinger Master Fund and Harbinger Special Situations Fund and their associates as a result of the issue of Shares in the Company under paragraphs (b) to (d) of this Resolution,

referred to in the Explanatory Memorandum accompanying this Notice.”

Expert’s Report: Shareholders should carefully consider the Independent Expert’s Report prepared by Ernst & Young for the purposes of Shareholder approval for Resolution 2 under Section 611 (Item 7) of the Corporations Act. The Independent Expert’s Report comments on the fairness and reasonableness of the transaction to the non-associated Shareholders in the Company.

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any party to the transaction, any person who may participate in the proposed issue, any person to whom the proposed issue is to be made and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the Resolution is passed and any associates of any of them. However, the Company need not disregard a vote if it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or if it is cast by a person chairing the meeting as proxy for a person who is entitled to vote in accordance with a direction on the proxy form to vote as the proxy decides.

3. RESOLUTION 3 - APPROVAL FOR ISSUE OF SHARES

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

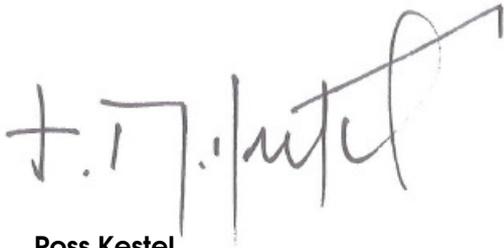
"That, subject to and conditional upon the passing of Resolution 1, for the purpose of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to allot and issue up to 2,608,863 fully paid ordinary shares in the capital of the Company to Mr Kenneth Ambrecht (or his nominee or nominees) for the purposes and on the terms set out in the Explanatory Memorandum accompanying this Notice."

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

GENERAL BUSINESS

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

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'R. Kestel', written over a horizontal line.

Ross Kestel
Company Secretary
16 February 2011

EXPLANATORY MEMORANDUM

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the General Meeting of Shareholders to be held on 28 March 2011 at 10:00am (WST).

The purpose of this Explanatory Memorandum is to provide Shareholders with all information known to the Company which is material to a decision on how to vote on the Resolutions in the accompanying Notice of General Meeting.

1. BACKGROUND INFORMATION TO RESOLUTIONS 1 AND 2

On 15 July 2008, the Company issued the US\$7.5 million Tranche 1 MF Convertible Note to Harbinger Master Fund and the US\$7.5 million Tranche 1 SSF Convertible Note to Harbinger Special Situations Fund (**Harbinger Tranche 1 Convertible Notes**). The Company subsequently obtained Shareholder approval for the ratification of the issue and the conversion of the Harbinger Tranche 1 Convertible Notes.

In December 2010, the Company announced that it had entered into a number of agreements to do the following, subject to obtaining Shareholder approvals:

- (a) issue unsecured convertible notes totalling US\$20 million, comprising an unsecured US\$10 million convertible note to Blue Line Fund (**Blue Line Convertible Note**) and an unsecured US\$10 million convertible note to Breakaway (**Breakaway Convertible Note**) (together the **New Convertible Notes**). These entities are managed by New York-based Harbinger Capital Partners LLC and its affiliates, and are associated under the Corporations Act with each other and with Harbinger Master Fund and Harbinger Special Situations Fund;
- (b) vary the terms of the Harbinger Tranche 1 Convertible Notes, predominantly to amend the conversion price to \$0.40 per Share and to extend the interest free period and maturity date of these convertible notes (**Varied Convertible Notes**); and
- (c) terminate the conditional agreements to issue the Harbinger Tranche 2 Convertible Notes, as these convertible notes have not yet been issued.

A summary of the material terms and conditions of the New Convertible Notes is set out in Annexure A to this Explanatory Memorandum while the material terms and conditions of the Varied Convertible Notes are set out in Annexure B to this Explanatory Memorandum.

The issue of the New Convertible Notes, the variation of the Harbinger Tranche 1 Convertible Notes and the termination of the Harbinger Tranche 2 Convertible Notes are all conditional on the Company first obtaining approvals from its Shareholders as set out in this Notice of Meeting. These approvals must be obtained by 31 March 2011 or else the agreements implementing the above transactions will terminate.

2. RESOLUTION 1 – APPROVAL FOR ISSUE OF NEW CONVERTIBLE NOTES AND SHARES UNDER THE NEW CONVERTIBLE NOTES

2.1 General

Resolution 1 seeks Shareholder approval, for the purpose of ASX Listing Rule 10.11 and Sections 208 and 611 (item 7) of the Corporations Act and for all other purposes, for:

- (a) the issue of the Blue Line Convertible Note to Blue Line Fund and the issue of Shares on conversion of, or otherwise under a right set out in, the Blue Line Convertible Note; and
- (b) the issue of the Breakaway Convertible Note to Breakaway and the issue of Shares on conversion of, or otherwise under a right set out in, the Breakaway Convertible Note.

If Resolution 1 is approved by Shareholders, the Company will issue and allot the New Convertible Notes within one (1) month after the date of the meeting at which the approval is obtained (or a longer period, if allowed by ASX). In addition, subject to any other necessary approvals (including under the *Foreign Acquisitions and Takeovers Act 1975* (Cth)), the Company will also be entitled to issue and allot Shares in accordance with the New Convertible Notes without using the Company's 15% annual placement capacity.

Resolution 1 is conditional on Resolution 2 also being approved by Shareholders.

The New Convertible Notes are unsecured, have a six (6) year term and are interest free for the first three (3) years with interest of 5% per annum payable thereafter. The conversion price of the New Convertible Notes will be \$0.30 per Share, with the conversion price subject to adjustment as set out in the New Convertible Notes. The New Convertible Notes may only be converted after the closing price of the Company's Shares has exceeded the conversion price for at least 5 consecutive trading days. The other material terms of the New Convertible Notes are set out in Annexure A.

2.2 ASX Listing Rule 10.11

ASX Listing Rule 10.11 requires a listed company to obtain shareholder approval by ordinary resolution prior to the issue of securities to a related party of the Company.

Blue Line Fund and Breakaway can be considered related parties of the Company on the basis that they have reasonable grounds to believe they will become related parties in the future, being that there is a reasonable prospect that sufficient Shares will be issued on conversion of, or otherwise under, the New Convertible Notes and the Varied Convertible Notes for Blue Line Fund and Breakaway to acquire a relevant interest (with their associates under the Corporations Act) in up to approximately 48% of the Company's Shares, as detailed in Section 2.11 of this Notice of Meeting. This would give Blue Line Fund and Breakaway control of the Company.

Accordingly, approval for the issue of the New Convertible Notes is being sought under to ASX Listing Rule 10.11.

2.3 Section 208 of the Corporations Act

Under Chapter 2E of the Corporations Act, a public company cannot give a “financial benefit” to a “related party” unless one of the exceptions to the section apply or shareholders have in general meeting approved the giving of that financial benefit to the related party.

As noted above, Blue Line Fund and Breakaway can be considered to be related parties of the Company.

The issue of the New Convertible Notes and the issue of Shares in accordance with the New Convertible Notes may constitute a “financial benefit” as defined in the Corporations Act.

While the Directors consider that the arms length exception may well apply to the issue of the New Convertible Notes and to the issue of Shares in accordance with the New Convertible Notes, the Directors have decided to seek Shareholder approval under Section 208 of the Corporations Act.

2.4 Prescribed information under Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13

Pursuant to Sections 217 to 227 of the Corporations Act, and ASX Listing Rules 10.13, the Company provides the following information to Shareholders in respect of the proposed financial benefit to be given to Blue Line Fund and Breakaway on issue of the New Convertible Notes and on the issue of Shares in accordance with the New Convertible Notes:

- (a) the related parties to whom the financial benefit will be given are Blue Line Fund and Breakaway, who can be considered related parties of the Company on the basis that they have reasonable grounds to believe they will become related parties in the future, being that there is a reasonable prospect that sufficient Shares will be issued on conversion of, or otherwise in accordance with, the New Convertible Notes and the Varied Convertible Notes for Blue Line Fund and Breakaway to acquire (with their associates under the Corporations Act) a relevant interest in up to approximately 48% of the Company’s Shares, as detailed in Section 2.11 of this Notice of Meeting. This would give Blue Line Fund and Breakaway control of the Company;
- (b) the nature of the financial benefit to be provided comprises the issue of the New Convertible Notes and the issue of Shares in accordance with the New Convertible Notes;
- (c) one Blue Line Note will be issued to Blue Line Fund while one Breakaway Note will be issued to Breakaway;
- (d) the Company is not seeking approval under ASX Listing Rules 10.11 for the issue of Shares on conversion of the New Convertible Notes, as the exception in ASX Listing Rule 10.12(7) will apply at the time of the issue;
- (e) the maximum number of Shares that may be issued on conversion of, or otherwise under a right set out in, the New Convertible Notes is set out in Section 2.10 of this Explanatory Memorandum. This includes the

maximum number of Shares that may be issued to satisfy interest payments due under the New Convertible Notes;

- (f) the issue price of the Shares on conversion of the New Convertible Notes will be \$0.30 per Share (subject to amendment in accordance with the New Convertible Notes);
- (g) the material terms of the New Convertible Notes are set out in Annexure A to this Notice of Meeting;
- (h) the Shares issued in accordance with the New Convertible Notes will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (i) the New Convertible Notes will be issued to Blue Line Fund and Breakaway no later than one month after the date of the general meeting (or such later date as permitted by any ASX waiver or ASIC relief) and it is anticipated that the New Convertible Notes will be issued within 3 Business Days of Shareholder approval being obtained to Resolutions 1 and 2;
- (j) Shares may be issued as and when specified in the New Convertible Notes. Shares may be issued, at the Company's election, in satisfaction of quarterly interest payments due under the New Convertible Notes from the start of the fourth year of the term of the New Convertible Notes and up to the maturity date of the New Convertible Notes, being six (6) years after the date of the issue of the New Convertible Notes. The maximum number of Shares that may be issued to satisfy interest payments, assuming a range of Share prices, is set out in Section 2.10 of this Explanatory Memorandum;
- (k) the Company requires approval under ASX Listing Rule 10.11 to issue Shares in satisfaction of interest payments. The Company is not seeking this approval at this time. The Company will seek to obtain this approval closer to the time when interest becomes payable;
- (l) \$20 million will be raised from the issue of the New Convertible Notes;
- (m) no additional funds will be raised from the issue of the Shares in accordance with the New Convertible Notes;
- (n) Blue Line Fund and Breakaway have a relevant interest in 17,375,459 Shares in the Company, resulting in a voting power of 8.90% as at the date of this Notice of Meeting;
- (o) the Company has not paid Blue Line Fund or Breakaway, or their associates any remuneration and emoluments and (inclusive of superannuation) in the last financial year, and has not agreed to pay Blue Line Fund or Breakaway, or their associates any remuneration and emoluments and (inclusive of superannuation) in the current financial year;
- (p) if Shareholders approve the issue of the New Convertible Notes to Blue Line Fund and Breakaway, and the issue of Shares in accordance with the New Convertible Notes, Sections 2.10 and 2.11 of this Notice of

Meeting sets out the total number of Shares that may be allotted and issued to Blue Line Fund and Breakaway, and the dilutive effect this would have on the shareholding of existing Shareholders:

- (q) in the 12 months before the date of this Notice the highest, lowest and latest trading price of Shares on ASX are as set out below:

	Date	Price
Highest	8 April 2010	\$0.390
Lowest	2 September 2010	\$0.145
Last	16 February 2011	\$0.35

- (r) the primary purpose for the provision of the financial benefit, being the issue of the New Convertible Notes, is to raise funds to progress the development of the Company's Windarra nickel deposit. The funds will be used for:
- (i) completing the de-water and refurbishment works at the Mt Windarra Nickel mine with commencement scheduled to take place in early 2011;
 - (ii) significantly expanding the drilling program at Mt Windarra, Cerberus and the South Windarra prospects with a view to increasing mineral resources and reserves; and
 - (iii) pursuing the proposed concentrator funding;
- (s) the primary purpose for the issue of Shares to Blue Line Fund and Breakaway is to satisfy the Company's obligation to issue Shares in accordance with the New Convertible Notes;
- (t) the Company will not incur any costs or fees in relation to issuing the New Convertible Notes to Blue Line Fund or Breakaway (other than the obligation to issue Shares as set out in Resolution 3). The Company will not incur any costs or fees in relation to issuing Shares to Blue Line Fund or Breakaway in accordance with the New Convertible Notes, other than listing fees will be payable to ASX;
- (u) the ASIC, in reviewing documents lodged under section 218 relating to the giving of a financial benefit to a related party of a public company, requires explanatory information regarding the value of the financial benefit and the value of the asset being acquired. Shareholders should refer to the evaluation in the Independent Expert's Report prepared by Ernst & Young which forms part of this Explanatory Statement;
- (v) the Directors, who do not have a material interest in the outcome of Resolution 1, recommend that shareholders approve Resolution 1 on the basis that the New Convertible Notes to be issued to Blue Line Fund and Breakaway, and the issue of Shares in accordance with the New Convertible Notes, are necessary to obtain funding from Blue Line Fund and Breakaway; and

- (w) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the New Convertible Notes to Blue Line Fund and Breakaway as approval is being obtained under ASX Listing Rule 10.11.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue Shares to Blue Line Fund and Breakaway in accordance with the New Convertible Notes as approval for the issue of these Shares is being obtained under Section 611, item 7 of the Corporations Act (see the exception in ASX Listing Rule 7.2(16)).

Shareholders should note that the issue of the New Convertible Notes, and the issue of Shares in accordance with the New Convertible Notes, will not be included in the 15% calculation for the purposes of ASX Listing Rule 7.1.

2.5 Section 611 (item 7) of the Corporations Act

Resolution 1 also seeks Shareholder approval for the issue of Shares to Blue Line Fund and Breakaway in accordance with the New Convertible Notes for the purposes of Section 611 (item 7) of the Corporations Act.

2.6 Section 606 of the Corporations Act – Statutory Prohibition

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

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

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

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

- (a) the first person is a body corporate and the second person is:
 - (i) a body corporate the first person controls;
 - (ii) a body corporate that controls the first person; or
 - (iii) a body corporate that is controlled by an entity that controls the first person;
- (b) the second person has entered or proposed to enter in a relevant agreement with the first person for the purpose of controlling or

influencing the composition of the company's board or the conduct of the company's affairs; and

- (c) the second person is a person with whom the first person is acting or proposed to act, in concert in relation to the company's affairs.

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

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

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

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

2.7 Reason Why Section 611 (item 7) Approval Required

Blue Line Fund and Breakaway are associates of each other under the Corporation Act and are associates under the Corporations Act with the entities set out in Annexure C (the **Harbinger Group**).

Blue Line Fund and Breakaway are also associated under the Corporations Act with Harbinger Master Fund and Harbinger Special Situations Fund which hold the existing Harbinger Tranche 1 Convertible Notes and which are associates under the Corporations Act with the entities in the Harbinger Group.

The entities in the Harbinger Group (including Blue Line Fund, Breakaway, Harbinger Master Fund and Harbinger Special Situations) currently have a relevant interest in 17,375,459 Shares in the Company, resulting in a voting power of 8.90% as at the date of this Notice of Meeting.

In the event Blue Line Fund and Breakaway are issued Shares in accordance with the New Convertible Notes, the voting power of the Harbinger Group:

- (a) could exceed 20%; or
- (b) will increase above 20% in the event the Harbinger Group has already acquired voting power above 20% as a result of Harbinger Master Fund and Harbinger Special Situations Fund being issued Shares in accordance with the existing Harbinger Tranche 1 Convertible Notes (as varied by Resolution 2).

Shareholder approval under Item 7 of Section 611 of the Corporations Act is therefore required to enable Blue Line and Breakaway to be issued Shares in accordance with the New Convertible Notes.

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

2.8 Impact on the Company

The proposed issue of the New Convertible Note to Blue Line Fund and Breakaway and the issue of Shares in accordance with the New Convertible Notes will result in various advantages and disadvantages to the Company which Shareholders should consider prior to exercising their vote.

The advantages include:

- (a) the terms of the New Convertible Notes are considered attractive given the interest free period of 3 years and an interest rate of 5% thereafter;
- (b) securing funding of US\$20 million on attractive terms is a significant step for the Company to continue to develop the Mt Windarra Nickel Project towards production;
- (c) the key benefit of raising money by issuing convertible notes is a reduced cash interest payment;
- (d) the track record of investments in the Company of the Harbinger Group have proven that they are exceptionally supportive of the Poseidon Board and management team and they believe Poseidon are well poised to develop Windarra into an effective and profitable project;
- (e) it is unlikely that any funding obtained by the Company would be on as attractive terms as the proposed New Convertible Note issue; and
- (f) the conversion price of the New Convertible Notes represents a substantial premium of circa 42%, to the 30-day Volume-Weighted Average Price (VWAP) of Poseidon Shares prior to the announcement of the issue. This is considered advantageous to the non-associated Shareholders as the price of the Company's shares on ASX will need to increase substantially before conversion of the New Convertible Notes is likely to occur and any increase in the Share price would be to the benefit of the non-associated Shareholders.

The disadvantages include:

- (a) existing shareholders' voting power is reduced due to the dilution expected if Blue Line Fund and Breakaway are issued Shares in accordance with the New Convertible Notes;
- (b) the voting power and control of the Company by the Harbinger Group will increase substantially if the New Convertible Notes are converted at

a time when the value of the Australian dollar is low in comparison to US dollar and the existing options in the Company are not exercised; and

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

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

2.9 Identity of the person proposing to make the acquisition, and their associates

Blue Line Fund and Breakaway are exempted companies formed under the laws of the Cayman Islands and both commenced operations as private investment funds on April 1, 2009.

The associates under the Corporations Act of Blue Line Fund and Breakaway are set out in Annexure C (**Harbinger Group**). Additional background information on the Harbinger Group is set out in the Independent Expert's Report.

2.10 Maximum increase in voting power of Blue Line Fund and Breakaway, and their associates, and total voting power, as a result of the acquisition under the New Convertible Notes

Blue Line Fund and Breakaway do not hold any Shares of the Company as at the date of this Notice of Meeting.

The entities in the Harbinger Group are associates under the Corporations Act of Blue Line Fund and Breakaway. The entities comprising the Harbinger Group have a relevant interest in 17,375,459 of Company's Shares as at the date of this Notice of Meeting, resulting in a voting power of 8.90%. Blue Line Fund and Breakaway, as associates under the Corporations Act of the Harbinger Group, are deemed to have this same relevant interest and voting power in the Company as at the date of this Notice of Meeting.

The voting power of each associate under the Corporations Act of Blue Line and Breakaway will be the same as the voting power of Blue Line and Breakaway. Therefore, the Harbinger Group will acquire a relevant interest in the Shares to be issued to Blue Line Fund and Breakaway in accordance with the New Convertible Notes, and the voting power of the Harbinger Group entities will increase accordingly.

The maximum extent of the increase in the voting power held by Blue Line Fund and Breakaway (and the Harbinger Group) following the issue of Shares in accordance with the New Convertible Notes will be determined under the terms of the New Convertible Notes.

Shares can be issued under the New Convertible Notes in three circumstances:

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

- (c) if the holder of a New Convertible Note elects to acquire Shares under its participation right upon an issue by the Company.

Each of these circumstances and its impact on the voting power of the Blue Line Fund and Breakaway (and the Harbinger Group) is discussed below.

The following tables and paragraphs assume that:

- (a) no additional Shares are issued;
- (b) there is no adjustment to the conversion price of A\$0.30 per Share in accordance with the terms of the New Convertible Notes;
- (c) the Harbinger Group has initial voting power of 8.90%; and
- (d) the 450,000 partly paid currently on issue become fully paid.

Shareholders should note that the Blue Line Fund and Breakaway (and the Harbinger Group) may increase or decrease its/their voting power prior to the acquisition of Shares under the New Convertible Notes. Any increase or decrease prior to the acquisition of Shares under the New Convertible Notes will have a corresponding impact on the calculation of the maximum increase in the voting power, and the total voting power, of the Blue Line Fund and Breakaway (and the Harbinger Group).

Issue of Shares on Conversion of New Convertible Notes

The maximum increase in voting power of the Blue Line Fund and Breakaway (and the Harbinger Group) in the Company upon conversion of the New Convertible Notes is determined having regard to:

- (a) the prevailing exchange rate between the Australian dollar and the United States dollar at the time of conversion; and
- (b) any variation to the conversion price in accordance with the terms of the New Convertible Notes.

Set out in Table 1 below, for the purposes of Shareholder understanding, is the potential maximum increase in the voting power of the Blue Line Fund and Breakaway (and the Harbinger Group) upon conversion of the New Convertible Notes, applying a range of exchange rates between the Australian dollar and the United States dollar and based on the voting power of the Blue Line Fund and Breakaway (and the Harbinger Group) in the Company as at the date of this Notice of Meeting.

Table 1 also provides the total voting power of the Blue Line Fund and Breakaway (and the Harbinger Group) upon conversion of the New Convertible Notes.

Section 2.11 of this Explanatory Memorandum separately identifies the maximum increase in voting power, and total voting power, of the Harbinger Group which would result if both the New Convertible Notes and the Varied Convertible Notes were converted.

Table 1 - Conversion of New Convertible Notes

Exchange Rate	Number of Shares issued	Total Shares on Issue	Total Voting Power	Maximum increase in Voting Power / Dilution of Existing Shareholders
A\$1 = US\$1	66,666,667	261,967,739	32.08%	23.18%
A\$1 = US\$0.90	74,074,074	269,375,146	33.95%	25.05%
A\$1 = US\$0.80	83,333,333	278,634,405	36.14%	27.25%

The total voting power included in Table 1 assumes that Shares are not issued in satisfaction of interest under the New Convertible Notes and that there is no change to the conversion price or number of Shares issued under a participation right under the New Convertible Notes.

The Independent Expert's Report included with this Notice of Meeting, in evaluating the change in voting power of the Harbinger Group in the event the New Convertible Notes are converted, concludes that the total voting power will equal 30.7% (assuming an exchange rate of A\$1 = US\$1).

Table 1 above states that, for the same exchange rate, the total voting power of the Harbinger Group will be 32.08%. The difference is due to the fact that the Independent Expert Report reasonably assumes that the following additional Shares will be on issue at the time the New Convertible Notes are converted:

- (a) 9,267,436 Shares on the exercise of that number of existing Options with an exercise price of \$0.30 or less;
- (b) 313,131 special bonus employee shares vest; and
- (c) 2,608,863 Shares are issued to Mr Kenneth Ambrecht (or his nominee or nominees) in accordance with Resolution 3,

resulting in a total of 274,157,169 Shares being on issue.

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

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

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

As noted previously, the Company requires approval under ASX Listing Rule 10.11 to issue Shares in satisfaction of interest payments. The Company is not seeking this approval at this time. The Company will seek to obtain this approval closer to the time when interest becomes payable.

Subject to obtaining any Shareholder approval under ASX Listing Rule 10.11, if the Company elects to issue Shares to Blue Line Fund and Breakaway in satisfaction of all interest payments on the New Convertible Notes, the maximum increase in the voting power, and the total voting power, of the Blue Line Fund and Breakaway (and the Harbinger Group) is set out in Table 2 below.

Table 2 also sets out the maximum number of Shares that may be issued in satisfaction of all interest payments under the New Convertible Notes, both over the life of the New Convertible Notes and each quarter. The maximum number in total and per quarter for each New Convertible Note is half of the totals set out in the table.

Section 2.11 of this Explanatory Memorandum separately identifies the maximum increase in voting power, and total voting power, of the Harbinger Group which would result if interest due on both the New Convertible Notes and the Varied Convertible Notes were satisfied through the issue of Shares.

Table 2 – Interest payments satisfied by issue of Shares

	Assuming 5 day VWAP Share price is A\$0.30		Assuming 5 day VWAP Share price is A\$0.20	
	Max. voting power increase (A\$1 = US\$1)	Max voting power increase (A\$1 = US\$0.80)	Max voting power increase (A\$1 = US\$1)	Max voting power increase (A\$1 = US\$0.80)
Years 1 - 3	N/A – interest free	N/A – interest free	N/A – interest free	N/A – interest free
Years 4 - 6	4.44%	5.48%	6.50%	7.98%
Max Shares issued (total)	10,000,000	12,500,000	15,000,000	18,750,000
Max Shares issued (per quarter)	833,333	1,041,667	1,250,000	1,562,500
Total Voting Power	13.33%	14.38%	15.39%	16.88%
Dilution of Existing Shareholders	4.44%	5.48%	6.50%	7.98%

The total voting power included in Table 2 assumes that Shares are not issued on conversion of the New Convertible Notes and that there is no change to the conversion price or number of Shares issued under a participation right under the New Convertible Notes.

Participation rights

Under the New Convertible Notes, the Company has granted the holder of a New Convertible Note a right to participate in issues of Shares, options and other securities (including convertible securities) on terms which correspond with the offer the holder would have received if the offer was made on a pro-rata basis to all Shareholders and the holder held the number of shares acquirable on conversion of a New Convertible Note.

If the holder exercises this participation right, its proportionate interest in the Company calculated on a fully diluted basis will only increase if, and to the extent that, other offerees do not take up their rights to participate in the offer. The holder's voting power calculated on the basis of Shares actually issued would increase by the number of Shares issued in the offer acquired by the holder in excess of Shares corresponding to the holder's then voting power divided by the Shares on issue following the offer.

2.11 **Maximum increase in voting power of the Harbinger Group, and total voting power of the Harbinger Group, as a result of the acquisition under the New Convertible Notes and Varied Convertible Notes**

Table 3 below sets out the total increase in voting power, and total voting power, of the Harbinger Group in the event that both the New Convertible Notes and the Varied Convertible Notes are converted and any interest due on both the New Convertible Notes and the Varied Convertible Notes is satisfied through the issue of Shares.

The table assumes that:

- (a) no additional Shares are issued;
- (b) there is no adjustment to the conversion price of A\$0.30 per Share in accordance with the terms of the New Convertible Notes, and there is no adjustment to the conversion price of A\$0.40 per Share in accordance with the terms of the Varied Convertible Notes;
- (c) the Share price is at least \$0.40 per Share;
- (d) the Harbinger Group retains its existing 8.90% voting power (but note that the Harbinger Group could acquire further shares before acquiring shares on conversion or under a right set out in the New Convertible Notes or varied Convertible Notes); and
- (e) there is no adjustment to the conversion price or number of Shares issued under any participation rights in the New Convertible Notes and Varied Convertible Notes.

Table 3 – Maximum increase in voting power and total voting power of Harbinger Group under New Convertible Notes and Varied Convertible Notes

	Shares Issued (A\$1 = US\$1)	Shares Issued (A\$1 = US\$0.80)
Conversion		
- New Convertible Notes	66,666,667	83,333,333
- Varied Convertible Notes	37,500,000	46,875,000
Shares in lieu of interest		
- New Convertible Notes	10,000,000	12,500,000
- Varied Convertible Notes	5,625,000	7,031,250
Total Shares Issued	119,791,667	149,739,583
Total Shares on Issue	315,0927,739	345,040,655
Maximum increase in Voting Power	34.64%	39.54%
Total Voting Power	43.53%	48.43%
Total Dilution of Existing Shareholders	34.64%	39.54%

The Independent Expert's Report included with this Notice of Meeting, in evaluating the change in voting power of the Harbinger Group in the event the New Convertible Notes and the Varied Convertible Notes are converted, concludes that the total voting power will equal 28.3% (assuming an exchange rate of A\$1 = US\$1).

Table 3 above states that, for the same exchange rate, the total voting power of the Harbinger Group will be 43.59%. The difference is due to the fact that the Independent Expert Report assumes that no Shares are issued in lieu of interest payments and reasonably assumes that the following additional Shares will be on issue at the time the Convertible Notes are converted:

- (a) 126,767,436 Shares on the exercise of that number of existing Options with an exercise price of \$0.40 or less;
- (b) 313,131 special bonus employee shares vest; and
- (c) 2,608,863 Shares are issued to Mr Kenneth Ambrecht (or his nominee or nominees) in accordance with Resolution 3,

resulting in a total of 429,157,169 Shares being on issue.

2.12 Intentions in relation to the Company

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

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

The intentions of the Harbinger Group and its associates above are stated as at the date of this Notice of Meeting, although they have reserved their right to reassess their position on these points from time to time. In particular, from time to time their position on the composition of the Board will be determined by the extent of their voting power in the Company.

2.13 Interests and Recommendations of Directors

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

Based on the information available, including that contained in this Explanatory Memorandum and the Independent Expert's Report, all of the Directors consider that the issue of the New Convertible Notes and issue of Shares to Blue Line Fund and Breakaway in accordance with the New Convertible Notes the subject of Resolution 1 is in the best interests of the Company as it will primarily result in the injection of up to US\$20 million which will be used by the Company to continue the development of the Mt Windarra Nickel Project towards production.

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

2.14 Role of the Independent Expert

The Independent Expert's Report assesses whether the proposal outlined in Resolution 1 is fair and reasonable to the Shareholders who are not associated with Blue Line Fund and Breakaway and its associates.

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

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

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

3. RESOLUTION 2 – APPROVAL TO ISSUE SHARES UNDER THE VARIED CONVERTIBLE NOTES

3.1 General

In July 2008, the Company announced that it entered into agreements with Harbinger Master Fund and Harbinger Special Situations Fund for the issue of convertible notes in the Company to the value of US\$50 million (US\$25 million to Harbinger Master Fund and US\$25 million to Harbinger Special Situations Fund). The agreements provided that the convertible notes would be issued in two tranches:

- (a) Tranche 1 comprising the issue of convertible notes to the value of US\$15 million (US\$7.5 million to Harbinger Master Fund, and US\$7.5 million to Harbinger Special Situations Fund) (**Harbinger Tranche 1 Convertible Notes**). The Harbinger Tranche 1 Convertible Notes were issued on 15 July 2008. The issue and conversion of the Harbinger Tranche 1 Convertible Notes was subsequently ratified and approved by Shareholders at the Company's November 2008 Annual General Meeting; and
- (b) Tranche 2 comprising the issue of convertible notes to the value of US\$35 million (US\$17.5 million to Harbinger Master Fund, and US\$17.5 million to Harbinger Special Situations Fund) (**Harbinger Tranche 2 Convertible Notes**). The issue of these convertible notes was also approved by the Company's Shareholders at the Company's November 2008 Annual General Meeting but, as at the date of this Notice of Meeting, the Harbinger Tranche 2 Convertible Notes have not been issued.

In December 2010, the Company announced that it had agreed, subject to Shareholder approval to vary the terms of the Harbinger Tranche 1 Convertible Notes (**Varied Convertible Notes**) by;

- (a) extending the maturity date to 6 years from the date the Company becomes unconditionally required to issue the New Convertible Notes;
- (b) reducing the conversion price from AUD\$1.00 per Share to AUD\$0.40 per Share;
- (c) extending the interest free period to the date that is 3 years after the date the Company becomes required to issue the New Convertible

Notes, with interest of 5% per annum payable thereafter until the maturity date;

- (d) providing for an adjustment to the conversion price if (i) the Company issues Shares, or securities convertible into Shares, at a price less than A\$0.40 in the period commencing on 22 December 2010 and ending 180 days later; or (ii) if a dividend is declared, in each case to protect the holder against any dilutive effect to its shareholding (subject to a number of exceptions); and
- (e) allowing for the Varied Convertible Notes to be tradeable in whole or in part.

The Company also agreed, subject to obtaining the Shareholder approvals set out in this Notice of Meeting, to terminate the Harbinger Tranche 2 Convertible Notes, as these convertible notes have not yet been issued.

Resolution 2 seeks Shareholder approval, for the purpose of ASX Listing Rule 10.11 and Sections 208 and 611 (item 7) of the Corporations Act and for all other purposes, to vary the Harbinger Tranche 1 Convertible Notes and to the issue of Shares to Harbinger Master Fund and Harbinger Special Situations Fund in accordance with the Varied Convertible Notes.

If Resolution 2 is approved by Shareholders, the Company will be entitled to amend the Harbinger Tranche 1 Convertible Notes within one (1) month after the date of the meeting at which the approval is obtained (or a longer period, if allowed by ASX). In addition, subject to any other necessary approvals (including under the *Foreign Acquisitions and Takeovers Act 1975* (Cth)), the Company will be entitled to issue and allot Shares in accordance with the Varied Convertible Notes without using the Company's 15% annual placement capacity.

Resolution 2 is conditional on Resolution 1 also being approved by Shareholders.

The Varied Convertible Notes are unsecured, have a six (6) year term from the date of amendment and are interest free for the first three (3) years with interest of 5% per annum payable thereafter. The conversion price of the Varied Convertible Notes will be \$0.40 per Share, with the conversion price subject to adjustment as set out in the Varied Convertible Notes. The Varied Convertible Notes may only be converted after the closing price of the Company's Shares has exceeded the conversion price for at least 5 consecutive trading days (this requirement has been satisfied). The other material terms of the Varied Convertible Notes are set out in Annexure B.

3.2 ASX Listing Rule 10.11

ASX Listing Rule 10.11 requires a listed company to obtain shareholder approval by ordinary resolution prior to the issue of securities to a related party of the Company.

Harbinger Master Fund and Harbinger Special Situations Fund can be considered related parties of the Company, on the basis that they have reasonable grounds to believe they will become related parties in the future, being that there is a reasonable prospect that sufficient Shares will be issued on

conversion of, or otherwise under the New Convertible Notes and the Varied Convertible Notes for Harbinger Master Fund and Harbinger Special Situations Fund to acquire (with their associates under the Corporations Act) a relevant interest in up to approximately 48% of the Company's Shares, as detailed in Section 2.11 of this Notice of Meeting. This would give Harbinger Master Fund and Harbinger Special Situations Fund control of the Company.

Accordingly, approval for the variation of the Harbinger Tranche 1 Convertible Notes is being sought under ASX Listing Rule 10.11.

3.3 Section 208 of the Corporations Act

Under Chapter 2E of the Corporations Act, a public company cannot give a "financial benefit" to a "related party" unless one of the exceptions to the section apply or shareholders have in general meeting approved the giving of that financial benefit to the related party.

As noted above, Harbinger Master Fund and Harbinger Special Situations Fund could be considered related parties of the Company on the basis that they have reasonable grounds to believe they will become related parties in the future (through the issue of Shares in accordance with the New Convertible Notes and the Varied Convertible Notes).

The amendment of the Harbinger Tranche 1 Convertible Notes and the issue of Shares in accordance with the Varied Convertible Notes may constitute a "financial benefit" as defined in the Corporations Act.

While the Directors consider that the arms length exception may well apply to the amendment of the Harbinger Tranche 1 Convertible Notes and the issue of Shares in accordance with the Varied Convertible Notes, the Directors have decided to seek Shareholder approval under Section 208 of the Corporations.

3.4 Prescribed information under Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13

Pursuant to Sections 217 to 227 of the Corporations Act, and ASX Listing Rules 10.13, the Company provides the following information to Shareholders in respect of the proposed financial benefit to be given to Harbinger Master Fund and Harbinger Special Situations Fund with respect to the Varied Convertible Notes:

- (a) the related parties to whom the financial benefit will be given are Harbinger Master Fund and Harbinger Special Situations Fund, who could be considered related parties of the Company on the basis that they have reasonable grounds to believe they will become related parties in the future (through the issue of Shares in accordance with the New Convertible Notes and the Varied Convertible Notes);
- (b) the nature of the financial benefit to be provided comprises the amendment of the Harbinger Tranche 1 Convertible Notes and the issue of Shares in accordance with the Varied Convertible Notes;
- (c) the Company is not seeking approval under ASX Listing Rules 10.11 for the issue of Shares on conversion of the Varied Convertible Notes, as the exception in ASX Listing Rule 10.12(7) will apply at the time of the issue;

- (d) the maximum number of Shares that may be issued on conversion of, or otherwise under a right set out in, the Varied Convertible Notes is set out in Section 3.10 of this Explanatory Memorandum. This includes the maximum number of Shares that may be issued to satisfy interest payments due under the Varied Convertible Notes;
- (e) the issue price of the Shares on conversion of the Varied Convertible Notes will be \$0.40 per Share (subject to amendment in accordance with the Varied Convertible Notes);
- (f) the material terms of the Varied Convertible Notes are set out in Annexure B to this Notice of Meeting;
- (g) the Shares issued in accordance with the Varied Convertible Notes will be fully paid ordinary shares in the capital of the Company issued on the same terms and conditions as the Company's existing Shares;
- (h) the Harbinger Tranche 1 Convertible Notes will be varied on the date the New Convertible Notes are issued;
- (i) Shares may be issued as and when specified in the Varied Convertible Notes. Shares may be issued, at the Company's election, in satisfaction of quarterly interest payments due under the Varied Convertible Notes from the start of the fourth year of the term of the Varied Convertible Notes and up to the maturity date of the Varied Convertible Notes, being six (6) years after the date of amendment of the Varied Convertible Notes. The maximum number of Shares that may be issued to satisfy interest payments, assuming a range of Share prices, is set out in Section 3.10 of this Explanatory Memorandum;
- (j) the Company requires approval under ASX Listing Rule 10.11 to issue Shares in satisfaction of interest payments. The Company is not seeking this approval at this time. The Company will seek to obtain this approval closer to the time when interest becomes payable;
- (k) no additional funds will be raised from the amendment of the Harbinger Tranche 1 Convertible Notes or the issue of Shares in accordance with the Varied Convertible Notes;
- (l) Harbinger Master Fund and Harbinger Special Situations Fund have a relevant interest in 17,375,459 Shares in the Company, resulting in a voting power of 8.90% as at the date of this Notice of Meeting;
- (m) the Company has not paid Harbinger Master Fund or Harbinger Special Situations Fund, or their associates under the Corporations Act any remuneration and emoluments and (inclusive of superannuation) in the last financial year, and has not agreed to pay Harbinger Master Fund or Harbinger Special Situations Fund, or their associates under the Corporations Act any remuneration and emoluments and (inclusive of superannuation) in the current financial year;
- (n) if Shareholders approve the amendment to the Harbinger Tranche 1 Convertible Notes and the issue of Shares to Harbinger Master Fund and Harbinger Special Situations Fund in accordance with the Varied Convertible Notes, Sections 2.11 and 3.10 of this Notice of Meeting sets

out the total number of Shares that may be allotted and issued to Harbinger Master Fund and Harbinger Special Situations Fund, and the dilutive effect this would have on the shareholding of existing Shareholders:

- (o) in the 12 months before the date of this Notice the highest, lowest and latest trading price of Shares on ASX are as set out below:

	Date	Price
Highest	8 April 2010	\$0.390
Lowest	2 September 2010	\$0.145
Last	16 February 2011	\$0.35

- (p) the primary purpose for the provision of the financial benefit, being the amendment of the Harbinger Tranche 1 Convertible Notes, is to secure additional funding of US\$20 million under the New Convertible Notes;
- (q) the primary purpose for the issue of Shares to Harbinger Master Fund and Harbinger Special Situations Fund is to satisfy the Company's obligation to issue Shares in accordance with the Varied Convertible Notes;
- (r) the Company will not incur any costs or fees in relation to amending the Harbinger Tranche 1 Convertible Notes or the issuing the Shares to Harbinger Master Fund and Harbinger Special Situations Fund in accordance with the Varied Convertible Notes, other than listing fees will be payable to ASX;
- (s) the ASIC, in reviewing documents lodged under section 218 relating to the giving of a financial benefit to a related party of a public company, requires explanatory information regarding the value of the financial benefit and the value of the asset being acquired. Shareholders should refer to the evaluation in the Independent Expert's Report prepared by Ernst & Young which forms part of this Explanatory Statement;
- (t) the Directors, who do not have a material interest in the outcome of Resolution 2, recommend that shareholders approve Resolution 2 on the basis that the amendments to the Harbinger Tranche 1 Convertible Notes and the issue of Shares in accordance with the Varied Convertible Notes, is necessary to obtain funding from Blue Line Fund and Breakaway under the New Convertible Notes and to terminate the Harbinger Tranche 2 Convertible Notes;
- (u) the Board is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass the Resolution.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to vary the Harbinger Tranche 1 Convertible Notes as approval is being obtained under ASX Listing Rule 10.11.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Shares to Harbinger Master Fund and Harbinger Special Situations Fund in accordance with the Varied Convertible Notes as approval is being obtained under Section 611, item 7 of the Corporations Act (see the exception in ASX Listing Rule 7.2(16)).

Shareholders should note that the variation of the Harbinger Tranche 1 Convertible Notes and the issue of these Shares in accordance with the Varied Convertible Notes will not be included in the 15% calculation for the purposes of ASX Listing Rule 7.1.

3.5 Section 611 (item 7) of the Corporations Act

Resolution 2 also seeks Shareholder approval for the issue of Shares to Harbinger Master Fund and Harbinger Special Situations Fund in accordance with the Varied Convertible Notes for the purposes of Section 611 (item 7) of the Corporations Act.

3.6 Section 606 of the Corporations Act – Statutory Prohibition

A summary of Section 606 of the Corporations Act is set out in Section 2.6 of this Notice of Meeting.

3.7 Reason Why Section 611 (item 7) Approval Required

Harbinger Master Fund and Harbinger Special Situations Fund are associates under the Corporations Act of each other and are associates under the Corporations Act with the entities set out in Annexure C (the **Harbinger Group**). Harbinger Master Fund and Harbinger Special Situations Fund are also associated under the Corporations Act with Blue Line Fund and Breakaway, which are to be issued the New Convertible Notes (subject to Shareholder approval) and which are associates under the Corporations Act of the entities in the Harbinger Group.

The Harbinger Group (including Blue Line Fund, Breakaway, Harbinger Master Fund and Harbinger Special Situations) currently have a relevant interest in 17,375,459 Shares in the Company, resulting in a voting power of 8.90% as at the date of this Notice of Meeting.

In the event Harbinger Master Fund and Harbinger Special Situations Fund are issued Shares in accordance with the Varied Convertible Notes, the voting power of the Harbinger Group:

- (a) could exceed 20%; or
- (b) will increase above 20% in the event the Harbinger Group has already acquired voting power above 20% as a result of Blue Line Fund and Breakaway being issued Shares in accordance with the New Convertible Notes.

Shareholder approval under Item 7 of Section 611 of the Corporations Act is therefore required to enable Harbinger Master Fund and Harbinger Special Situations Fund to be issued Shares in accordance with the Varied Convertible Notes.

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

3.8 Impact on the Company

The proposed variation of the Harbinger Tranche 1 Convertible Notes and the issue of Shares in accordance with the Varied Convertible Notes will result in various advantages and disadvantages to the Company which Shareholders should consider prior to exercising their vote.

The advantages include:

- (a) the terms of the Varied Convertible Notes are considered attractive given the interest free period of 3 years and an interest rate of 5% thereafter;
- (b) the track record of investments in the Company of the Harbinger Group have proven that they are exceptionally supportive of the Poseidon Board and management team and they believe Poseidon are well poised to develop Windarra into an effective and profitable project;
- (c) it is unlikely that any funding obtained by the Company would be on as attractive terms as the proposed Varied Convertible Note issue; and
- (d) the conversion price of the Varied Convertible Notes represents a substantial premium of circa 90%, to the 30-day Volume-Weighted Average Price (**VWAP**) of Poseidon Shares prior to the announcement of the proposed variation. This is considered advantageous to the non-associated Shareholders as the price of the Company's shares on ASX will need to increase substantially before conversion of the Varied Convertible Notes is likely to occur and any increase in the Share price would be to the benefit of the non-associated Shareholders.

The disadvantages include:

- (a) the shareholder's voting power is reduced due to the expected if Harbinger Master Fund and Harbinger Special Situations Fund are issued Shares in accordance with the Varied Convertible Notes;
- (b) the voting power and control of the Company by the Harbinger Group will increase substantially if the Varied Convertible Notes are converted at a time when the value of the Australian dollar is low in comparison to US dollar and the existing options in the Company are not exercised; and
- (c) the Harbinger Group may seek representation on the Board of the Company upon issue of Shares following conversion of the Varied Convertible Notes. The extent of voting power of Harbinger Group may determine the extent of representation on the Board.

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

3.9 The identity of the person proposing to make the acquisition and their associates

Harbinger Master Fund is an exempted company formed under the laws of the Cayman Islands and commenced operations as an investment company on 1 January 2003.

Harbinger Special Situations Fund is a limited partnership constituted under the laws of Delaware in the United States of America and commenced operations as an investment company on 1 August 2006.

The associates under the Corporations Act of Harbinger Master Fund and Harbinger Special Situations Fund are set out in Annexure C (the **Harbinger Group**). Additional background information on the Harbinger Group is set out in the Independent Expert's Report.

3.10 The maximum extent of the increase in the voting power of Harbinger Master Fund and Harbinger Special Situations Fund, and their associates, and total voting power, as a result of the acquisition under the Varied Convertible Notes

Harbinger Master Fund and Harbinger Special Situations Fund do not hold any Shares of the Company as at the date of this Notice of Meeting.

The entities in the Harbinger Group are associates under the Corporations Act of Harbinger Master Fund and Harbinger Special Situations Fund. These entities have a relevant interest in 17,375,459 of Company's Shares as at the date of this Notice of Meeting, resulting in a voting power of 8.90%. Harbinger Master Fund and Harbinger Special Situations Fund are deemed to have this same relevant interest and voting power in the Company as at the date of this Notice of Meeting.

The voting power of each associate under the Corporations Act of Harbinger Master Fund and Harbinger Special Situations Fund will be the same as the voting power of Harbinger Master Fund and Harbinger Special Situations Fund. Therefore, the Harbinger Group entities will acquire a relevant interest in the Shares to be issued to Harbinger Master Fund and Harbinger Special Situations Fund in accordance with the Varied Convertible Notes, and the voting power of the Harbinger Group entities will increase accordingly.

The maximum extent of the increase in the voting power held by Harbinger Master Fund and Harbinger Special Situations Fund (and the Harbinger Group) following the issue of Shares in accordance with the Varied Convertible Notes will be determined under the terms of the Varied Convertible Notes.

Shares can be issued under the Varied Convertible Notes in three circumstances:

- (a) upon conversion;
- (b) as satisfaction of an interest payment; and
- (c) if the holder of a Varied Convertible Note elects to acquire Shares under its participation right upon an issue by the Company.

Each of these circumstances and its impact on the voting power of Harbinger Master Fund and Harbinger Special Situations Fund (and the Harbinger Group) is discussed below.

The following tables and paragraphs assume that:

- (a) no additional Shares are issued;
- (b) there is no adjustment to the conversion price of A\$0.40 per Share in accordance with the terms of the Varied Convertible Notes; and
- (c) the Harbinger Group has initial voting power of 8.90%.

Shareholders should note that the Harbinger Master Fund and Harbinger Special Situations Fund (and the Harbinger Group) may increase or decrease its/their voting power prior to the acquisition of Shares under the Varied Convertible Notes. Any increase or decrease prior to the acquisition of Shares under the Varied Convertible Notes will have a corresponding impact on the calculation of the maximum increase in the voting power, and the total voting power, of the Harbinger Master Fund and Harbinger Special Situations Fund (and the Harbinger Group).

Issue of Shares on Conversion of Varied Convertible Notes

The maximum increase in voting power of Harbinger Master Fund and Harbinger Special Situations Fund (and the Harbinger Group) in the Company upon conversion of the Varied Convertible Notes is determined having regard to:

- (a) the prevailing exchange rate between the Australian dollar and the United States dollar at the time of conversion; and
- (b) any variation to the conversion price in accordance with the terms of the Varied Convertible Notes.

Set out in Table 4 below, for the purposes of Shareholder understanding, is the potential maximum increase in the voting power of the Harbinger Master Fund and Harbinger Special Situations Fund (and the Harbinger Group) upon conversion of the Varied Convertible Notes applying a range of exchange rates between the Australian dollar and the United States dollar and based on the voting power of Harbinger Master Fund and Harbinger Special Situations Fund (and the Harbinger Group) in the Company as at the date of this Notice of Meeting.

Table 4 also provides the total voting power of the Harbinger Master Fund and Harbinger Special Situations Fund (and the Harbinger Group) upon conversion of the Varied Convertible Notes.

Section 2.11 of this Explanatory Memorandum separately identifies the maximum increase in voting power, and total voting power, of the Harbinger Group which would result if both the New Convertible Notes and the Varied Convertible Notes were converted.

Shareholders should note that the Harbinger Group may increase or decrease its/their voting power prior to conversion of the Varied Convertible Notes. Any increase or decrease prior to conversion of the Varied Convertible Notes will

have a corresponding impact on the calculation of the maximum increase in the voting power of the Harbinger Group.

Table 4 - Conversion of Varied Convertible Notes

Exchange Rate	Number of Shares issued	Total Number of Shares Issued	Total Voting Power	Maximum increase in Voting Power / Dilution of Existing Shareholders
A\$1 = US\$1	37,000,000	232,801,072	23.57%	14.68%
A\$1 = US\$0.90	41,666,667	236,967,739	24.92%	16.02%
A\$1 = US\$0.80	46,875,000	242,176,072	26.53%	17.63%

The total voting power included in Table 4 assumes that Shares are not issued in satisfaction of interest under the Varied Convertible Notes and that there is no change to the conversion price or number of Shares issued under a participation right under the Varied Convertible Notes.

The Independent Expert's Report included with this Notice of Meeting, in evaluating the change in voting power of the Harbinger Group in the event the Varied Convertible Notes are converted, concludes that the total voting power will equal 15.2% (assuming an exchange rate of A\$1 = US\$1).

Table 4 above states that, for the same exchange rate, the total voting power of the Harbinger Group will be 23.61%. The difference is due to the fact that the Independent Expert Report reasonably assumes that the following additional Shares will be on issue at the time the Varied Convertible Notes are converted:

- (a) 126,767,436 Shares on the exercise of that number of existing Options with an exercise price of \$0.40 or less; and
- (b) 313,131 special bonus employee shares vest,

resulting in a total of 359,881,639 Shares being on issue.

Issue of Shares in lieu of interest under the Varied Convertible Notes

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

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

As noted previously, the Company requires approval under ASX Listing Rule 10.11 to issue Shares in satisfaction of interest payments. The Company is not seeking this approval at this time. The Company will seek to obtain this approval closer to the time when interest becomes payable.

Subject to obtaining any Shareholder approval under ASX Listing Rule 10.11, if the Company elects to issue Shares to Harbinger Master Fund and Harbinger Special Situations Fund in satisfaction of all interest payments on the Varied Convertible Notes, the voting power of Harbinger Master Fund and Harbinger Special Situations Fund (including the Harbinger Group) will increase proportionately as set out in Table 5 below.

Table 5 also sets out the maximum number of Shares that may be issued in satisfaction of all interest payments under the Varied Convertible Notes, both over the life of the Varied Convertible Notes and each quarter. The maximum number in total and per quarter for each Varied Convertible Note is half of the totals set out in the table.

Section 2.11 of this Explanatory Memorandum separately identifies the maximum increase in voting power, and total voting power, of the Harbinger Group which would result if interest due on both the New Convertible Notes and the Varied Convertible Notes were satisfied through the issue of Shares.

Table 5 – Interest payments satisfied by issue of Shares

	Assuming 5 day VWAP Share price is A\$0.40		Assuming 5 day VWAP Share price is A\$0.30	
	Max. voting power increase (A\$1 = US\$1)	Max. voting power increase (A\$1 = US\$0.80)	Max. voting power increase (A\$1 = US\$1)	Max. voting power increase (A\$1 = US\$0.80)
Years 1 - 3	N/A – interest free	N/A – interest free	N/A – interest free	N/A – interest free
Years 4 - 6	2.55%	3.17%	3.37%	4.17%
Max Shares issued (total)	5,625,000	7,031,250	7,500,000	9,375,000
Max Shares issued (per quarter)	468,750	585,938	625,000	781,250
Total Voting Power	11.45%	12.06%	12.27%	13.07%
Dilution of Existing Shareholders	2.55%	3.17%	3.37%	4.17%

The total voting power included in Table 5 assumes that Shares are not issued on conversion of the Varied Convertible Notes and that there is no change to the conversion price or number of Shares issued under a participation right under the Varied Convertible Notes.

Participation rights

Under the Varied Convertible Notes, the Company has granted the holder a Varied Convertible Note a right to participate in issues of Shares, options and other securities (including convertible securities) on terms which correspond with the offer the holder would have received if the offer was made on a pro-rata basis to all Shareholders and the holder held the number of shares acquirable on conversion of a Varied Convertible Note.

If the holder exercises this participation right, its proportionate interest in the Company calculated on a fully diluted basis will only increase if, and to the extent that, other offerees do not take up their rights to participate in the offer. The holder's voting power calculated on the basis of Shares actually issued would increase by the number of Shares issued in the offer acquired by the holder in excess of Shares corresponding to the holder's then voting power divided by the Shares on issue following the offer.

3.11 Intentions in relation to the Company

The Harbinger Group has informed the Company that, as at the date of this Notice of Meeting and on the basis of the facts and information available to it, if Shareholders approve Resolution 2 that it and its associates under the Corporations Act:

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

The intentions of the Harbinger Group and its associates under the Corporations Act above are stated as at the date of this Notice of Meeting, although they have reserved their right to reassess their position on these points from time to time. In particular, from time to time their position on the composition of the Board will be determined by the extent of their voting power in the Company.

3.12 Interests and Recommendations of Directors

None of the Directors have any personal interest in the outcome of Resolution 2.

Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors consider that the variation of the terms and conditions of Harbinger Tranche 1 Convertible Notes the subject of Resolution 2 is in the best interests of the Company as it enables the Company to reset all funding to new terms of six (6) years with the first three (3) years at 0% interest, which in today's environment is attractive to a company the size of Poseidon.

Each of the Directors approved the proposal to put Resolution 2 to Shareholders and each of the Directors recommends that Shareholders vote in favour of Resolution 2.

Shareholders should note that if Resolution 2 is not passed, the New Convertible Notes will not be issued as the passing of Resolution 1 is subject to the passing of Resolution 2.

3.13 Role of the Independent Expert

The Independent Expert's Report assesses whether the proposal outlined in Resolution 2 is fair and reasonable to the Shareholders who are not associated under the Corporations Act with Harbinger Master Fund and Harbinger Special Situations Fund and its associates.

The Independent Expert's Report also contains an assessment of the advantages and disadvantages of the proposed variation of the Harbinger Tranche 1 Convertible Notes, which is designed to assist all non-associated Shareholders in reaching their voting decision in relation to the Resolutions contained within this Notice of Meeting.

Ernst & Young has prepared the Independent Expert's Report and has provided an opinion that it believes the proposal as outlined in Resolution 2 is **fair and reasonable** to the Shareholders of the Company not associated under the Corporations Act with Harbinger Master Fund and Harbinger Special Situations Fund.

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

4. RESOLUTION 3 – APPROVAL FOR PLACEMENT OF SHARES

4.1 General

Resolution 3 seeks Shareholder approval for the Company to issue and allot 2,608,863 fully paid Ordinary shares to Mr Kenneth Ambrecht, a New York Broker from KCA Associates, LLC or his nominee or nominees.

In recognition of Mr Ambrecht's professional broking services and negotiation skills involved in securing the New Convertible Notes the subject of Resolution 1 and the Harbinger Tranche 1 Convertible Notes secured in 2008, the Company entered into a fee arrangement with Mr Ambrecht under which he is entitled to a placement fee of 2.5% of total funds received from the issue of the Harbinger

Tranche 1 Convertible Notes and the New Convertible Notes (being 2.5% of US\$35 million, or US\$875,000), to be paid in Shares.

The Shares are to be issued at a deemed issue price of A\$0.336 per Share (representing the weighted average of the conversion price of A\$0.40 for the existing Harbinger Tranche 1 Convertible Notes and the conversion price of A\$0.30 for the New Convertible Notes).

The US\$875,000 placement fee, converted into A\$ using the A\$:US\$ exchange rate as at the date the funding fee arrangement was signed (being 0.9982), equals A\$876,578. Applying the deemed share issue price of \$0.336 per Share provides a total of 2,608,863 Shares to be issued.

The passing of Resolution 3 is dependent upon Shareholders approving Resolution 1.

4.2 ASX Listing Rule Requirements

ASX Listing Rule 7.1 provides that a company must not, without prior approval of its Shareholders, issue securities if the securities will in themselves or when aggregated with the securities issued by a company during the previous 12 months, exceed 15% of the number of securities on issue at the commencement of that 12 month period.

Resolution 3 has been included so that Shareholders approve, for the purposes of ASX Listing Rule 7.1 the issue of Shares to Mr Kenneth Ambrecht. By obtaining Shareholder approval Poseidon Nickel Limited can during the next three (3) months after this General Meeting (or a longer period if allowed by ASX), issue the Shares without using the Company's 15% placement capacity and ultimately retaining flexibility with future issues.

The Shares to be issued under Resolution 3 represents 1.3% of the Company's share capital (as at current date).

The following information is provided to Shareholders in accordance with ASX Listing Rule 7.3 to assess the merits of the Resolution:

- (a) 2,608,863 Ordinary Shares will be allotted;
- (b) the Securities will be issued no later than three (3) months after the date of the General Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules). It is intended that allotment of the Shares will occur on one date;
- (c) the Shares will be issued at a deemed share price of \$0.336;
- (d) the Shares will be issued to Mr Kenneth Ambrecht (or his nominee or nominees);
- (e) the Shares are to be issued on the same terms and rank equally with all existing Shares;
- (f) no funds will be raised from the issue as the Shares are being issued to Mr Ambrecht in consideration for professional broking services and

negotiation skills in securing the funding facility with the Harbinger Group; and

(g) Mr Ambrecht is not a related party of the Company.

4.3 Interests and Recommendations of Directors

Based on the information available, including that contained in this Explanatory Memorandum, all of the Directors consider that the issue of Shares the subject of Resolution 3 to Mr Ken Ambrecht (or his nominee or nominees) is in the best interests of the Company as Poseidon Nickel Limited was able to gain through the professional services of Mr Ambrecht access to the Harbinger Group to allow funding facility negotiations that resulted in favourable terms to the Company and will enable the Company to continue development of a significant project.

RESPONSIBILITY FOR INFORMATION

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

Ernst & Young has prepared the Independent Expert's Report in relation to Resolutions 1 and 2 and takes responsibility for that report and has consented to the inclusion of that report in this Explanatory Memorandum. Ernst & Young is not responsible for any other information contained within the Explanatory Memorandum.

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

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

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

GLOSSARY

\$ or **AUD\$** means Australian dollars.

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

ASIC means the Australian Securities and Investments Commission.

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

ASX Listing Rules means the Listing Rules of ASX.

Blue Line Convertible Note means the convertible note the Company has conditionally agreed to issue to Blue Line Fund with a face value of US\$10.0 million.

Blue Line Fund means Credit Distressed Blue Line Master Fund Ltd.

Board means the current board of directors of the Company.

Breakaway means Global Opportunities Breakaway Ltd.

Breakaway Convertible Note means the convertible note the Company has conditionally agreed to issue to Breakaway with a face value of US\$10.0 million.

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

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

Constitution means the Company's constitution.

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

Director means a current director of the Company.

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

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

Harbinger Group means the Harbinger entities listed in Annexure C, and any other entities associated under the Corporations Act with Harbinger Master Fund, Harbinger Special Situations Fund, Blue Line Fund and Breakaway from time to time.

Harbinger Master Fund means Harbinger Capital Partners Master Fund I, Ltd.

Harbinger Special Situations Fund means Harbinger Capital Partners, Special Situations Fund, L.P.

Harbinger Tranche 1 Convertible Notes means the Tranche 1 MF Convertible Note and the Tranche 1 SSF Convertible Note.

Harbinger Tranche 2 Convertible Notes means the Tranche 2 MF Convertible Note and the Tranche 2 SSF Convertible Note.

New Convertible Notes means the Breakaway Convertible Note and the Blue Line Convertible Note.

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

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

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

Shareholder means a holder of a Share.

Tranche 1 MF Convertible Note means the convertible note with a face value of US\$7.5 million issued by the Company to Harbinger Master Fund.

Tranche 1 SSF Convertible Note means the convertible note with a face value of US\$7.5 million issued by the Company to Harbinger Special Situations Fund.

Tranche 2 MF Convertible Note means the convertible note with a face value of US\$17.5 million that the Company has conditionally agreed to issue to Harbinger Master Fund, but which has not yet been issued.

Tranche 2 SSF Convertible Note means the convertible note with a face value of US\$17.5 million that the Company has conditionally agreed to issue to Harbinger Special Situations Fund, but which has not yet been issued.

US\$ means United States dollars.

Varied Convertible Notes means the Tranche 1 MF Convertible Note and the Tranche 1 SSF Convertible Note as varied in accordance with this Notice of Meeting.

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

ANNEXURE A – MATERIAL TERMS OF NEW CONVERTIBLE NOTES

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

- (a) The Convertible Notes have a six (6) year term maturing on the date that is 6 years after the date the Company is unconditionally required to issue the New Convertible Notes (**Maturity Date**). The Company will repay the face value of the Convertible Note to the holder at the maturity date, unless the Convertible Note has been converted into Shares in accordance with these terms or repaid upon an earlier event of default.
- (b) The Convertible Notes are convertible into Shares at the election of the holder at A\$0.30 per Share (**Conversion Price**). The Conversion Price may be adjusted if: (i) the Company issues Shares, or securities convertible into Shares, at a price less than A\$0.30 in the period commencing on the date the Company is unconditionally required to issue the New Convertible Notes and ending 180 days later; or (ii) if a dividend is declared, in each case to protect the holder against any dilutive effect to its shareholding or the Company's assets.
- (c) The Convertible Notes are convertible into Shares at any time after the closing price of Shares, as quoted on ASX, exceeds the Conversion Price for five (5) consecutive trading days during the term of the Convertible Notes.
- (d) Shares issued on conversion of the Convertible Note will upon issue be fully paid and rank pari passu in all respects with existing Shares on issue on the conversion date. The Company will apply for quotation by ASX of all Shares allotted pursuant to the conversion of Convertible Notes immediately upon issue.
- (e) No interest is payable for the first three (3) years of the term and thereafter interest is payable at 5% per annum quarterly in arrears. The Company may elect to satisfy interest payments by the issue of Shares at the lesser of the Conversion Price or the average of the volume weighted average prices of a Share, as quoted on ASX, for five (5) consecutive trading days up to but not including the interest payment date.
- (f) The Convertible Notes are unsecured and no charge or any other form of security will be taken over the Company or its assets.
- (g) The Convertible Notes are transferrable in whole or in part in compliance with all applicable laws and regulations.
- (h) In the event of a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company: (i) the number of Shares to be issued upon exercise of the Convertible Notes; and (ii) the Conversion Price, will be reconstructed in the same proportion as the issued capital of the Company is reconstructed and in a manner which will not result in any additional benefits being conferred on or detriment suffered by the holder which are not conferred on or suffered by Shareholders and otherwise in accordance with the ASX Listing Rules. In all other material respects, the terms for the exercise of the Convertible Notes will remain unchanged.
- (i) Subject to compliance with the Corporations Act and the ASX Listing Rules, if at any time before the expiry of the term of the Convertible Notes, the Company

makes an offer of Shares, Options or other securities (including convertible securities) in the Company then the Company must make to the holder an offer on terms which correspond with the offer the holder would have received if the offer was made on a pro-rata basis to Shareholders and the holder had held the number of Shares acquirable upon conversion of the Convertible Note (without taking into account any limitations or restrictions on the convertibility of the Convertible Note or the ability to redeem the Convertible Note) immediately before the date on which participants are to be determined for the offer.

- (j) Subject to compliance with the Corporations Act and the ASX Listing Rules, if Shareholders are entitled to receive stock, securities or other assets with respect to or in exchange for Shares (a **Corporate Event**), the Company shall make appropriate provision to ensure that the holder will have the right to receive upon such a Corporate Event such stock, securities or other assets to which the holder would have been entitled if the holder had held the number of Shares acquirable upon conversion of the Convertible Note (without taking into account any limitations or restrictions on the convertibility of the Convertible Note or the ability to redeem the Convertible Note) immediately before the date on which the record holders of Shares are to be determined for such receipt of stock, securities or other assets.

ANNEXURE B - MATERIAL TERMS OF VARIED CONVERTIBLE NOTES

A summary of the material terms and conditions of the Varied Convertible Notes is as follows:

- (a) The Convertible Notes have a six (6) year term maturing on the date that is 6 years after the date the Company is unconditionally required to issue the New Convertible Notes (**Maturity Date**). The Company will repay the face value of the Convertible Note to the holder at the maturity date, unless the Convertible Note has been converted into Shares in accordance with these terms or repaid upon an earlier event of default.
- (b) The Convertible Notes are convertible into Shares at the election of the holder at A\$0.40 per Share (**Conversion Price**). The Conversion Price may be adjusted if: (i) the Company issues Shares, or securities convertible into Shares, at a price less than A\$0.40 in the period commencing on the date the Company is unconditionally required to issue the New Convertible Notes and ending 180 days later; or (ii) if a dividend is declared, in each case to protect the holder against any dilutive effect to its shareholding or the Company's assets.
- (c) The Convertible Notes are convertible into Shares at any time after the closing price of Shares, as quoted on ASX, exceeds the Conversion Price for five (5) consecutive trading days during the term of the Convertible Notes.
- (d) Shares issued on conversion of the Convertible Note will upon issue be fully paid and rank pari passu in all respects with existing Shares on issue on the conversion date. The Company will apply for quotation by ASX of all Shares allotted pursuant to the conversion of Convertible Notes immediately upon issue.
- (e) No interest is payable for the first three (3) years of the term and thereafter interest is payable at 5% per annum quarterly in arrears. The Company may elect to satisfy interest payments by the issue of Shares at the lesser of the Conversion Price or the average of the volume weighted average prices of a Share, as quoted on ASX, for five (5) consecutive trading days up to but not including the interest payment date.
- (f) The Convertible Notes are unsecured and no charge or any other form of security will be taken over the Company or its assets.
- (g) The Convertible Notes are transferrable in whole or in part in compliance with all applicable laws and regulations.
- (h) In the event of a reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company: (i) the number of Shares to be issued upon exercise of the Convertible Notes; and (ii) the Conversion Price, will be reconstructed in the same proportion as the issued capital of the Company is reconstructed and in a manner which will not result in any additional benefits being conferred on or detriment suffered by the holder which are not conferred on or suffered by Shareholders and otherwise in accordance with the ASX Listing Rules. In all other material respects, the terms for the exercise of the Convertible Notes will remain unchanged.
- (i) Subject to compliance with the Corporations Act and the ASX Listing Rules, if at any time before the expiry of the term of the Convertible Notes, the Company makes an offer of Shares, Options or other securities (including convertible securities) in the Company then the Company must make to the holder an offer on terms which correspond with the offer the holder would have received if the

offer was made on a pro-rata basis to Shareholders and the holder had held the number of Shares acquirable upon conversion of the Convertible Note (without taking into account any limitations or restrictions on the convertibility of the Convertible Note or the ability to redeem the Convertible Note) immediately before the date on which participants are to be determined for the offer.

- (j) Subject to compliance with the Corporations Act and the ASX Listing Rules, if Shareholders are entitled to receive stock, securities or other assets with respect to or in exchange for Shares (a **Corporate Event**), the Company shall make appropriate provision to ensure that the holder will have the right to receive upon such a Corporate Event such stock, securities or other assets to which the holder would have been entitled if the holder had held the number of Shares acquirable upon conversion of the Convertible Note (without taking into account any limitations or restrictions on the convertibility of the Convertible Note or the ability to redeem the Convertible Note) immediately before the date on which the record holders of Shares are to be determined for such receipt of stock, securities or other assets.

ANNEXURE C - HARBINGER GROUP AS AT THE DATE OF THIS NOTICE OF MEETING

- Credit Distressed Blue Line Master Fund, Ltd.
- Credit Distressed Blue Line Fund, L.P.
- Credit Distressed Blue Line Intermediate Fund, Ltd.
- Credit Distressed Blue Line Offshore Fund, Ltd.
- Credit Distressed Blue Line GP, L.L.C.
- Harbinger Capital Partners II GP LLC
- Harbinger Capital Partners II LP
- Harbinger Capital Partners Pte Ltd.
- Global Opportunities Breakaway MM, L.L.C.
- Global Opportunities Breakaway GP, L.L.C.
- Global Opportunities Breakaway Ltd.
- Global Opportunities Breakaway Fund, L.P.
- Harbinger Capital Partners Master Fund I, Ltd.
- Harbinger Capital Partners Fund I, L.P.
- Harbinger Capital Partners Fund II, L.P.
- Harbinger Capital Partners Intermediate Fund I, Ltd.
- Harbinger Capital Partners Intermediate Fund II, Ltd.
- Harbinger Capital Partners Offshore Fund I, Ltd.
- Harbinger Capital Partners Offshore Fund II, Ltd.
- Harbinger Holdings, LLC
- Harbinger Capital Partners LLC
- Harbinger Capital Partners GP, L.L.C.
- Harbinger Capital Partners Special Situations Fund, L.P.
- Harbinger Capital Partners Special Situations Offshore Fund, L.P.
- Harbinger Capital Partners SSF CFF, Ltd.
- Harbinger Capital Partners Special Situations GP, LLC
- Harbinger Capital Partners Special Situations Offshore GP, LLC
- Spectrum Brands Holdings, Inc.
- Harbinger Group Inc.
- Philip Falcone

Poseidon Nickel Limited
ABN 60 060 525 206

Proxy Form
Please return this Proxy Form to the Company Secretary's Office:

Nissen Kestel Harford
Level 2, Spectrum, 100 Railway Road SUBIACO WA
or
PO Box 8281 SUBIACO WA 6008
or
Facsimile on +61 8 9 367 8812

Member Details

Name:

Address:

Contact Telephone No:

Appointment of Proxy

I/We being a Member/s of Poseidon Nickel Limited and entitled to attend and vote hereby appoint

A

Mark the above with an "X" if the Chairman of the Meeting is to be your Proxy

OR

Write here the name of the person you are appointing if this person is someone other than the Chairman of the Meeting.

Or failing the person named, or if no person is named, the Chairman of the Meeting, as my/our proxy to attend and act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, as the proxy sees fit) at the General Meeting of Poseidon Nickel Limited to be held at the Nissen Kestel Harford Boardroom, Level 2 Spectrum, 100 Railway Road Subiaco, Perth WA 6008 on 28 March 2011 at 10.00am (WST) and at any adjournment of that meeting.

IMPORTANT: FOR RESOLUTIONS 1 TO 3 AS VOTING EXCLUSIONS APPLY

By marking the box on the left hand side, you acknowledge that the Chairman of the Meeting may exercise your proxy even though he may have an interest in the outcome of these Resolutions and that votes cast by him for these Resolutions, other than as proxy holder, would be disregarded because of that interest.

If you do not mark the box AND you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your vote on Resolutions 1 to 3 and your vote will not be counted in calculating the required majority if a poll is called on these Resolutions.

The Chairman of the Meeting intends to vote undirected proxies in favour of the resolution.

If the Chairman of the Meeting is your Proxy and you ARE NOT directing him how to vote on Resolutions 1 to 3;

Mark the below box with an "X"

B

- Resolution 1. Approval for the issue of New Convertible Notes and issue Shares under the New Convertible Notes
- Resolution 2. Approval to Vary the Harbinger Tranche 1 Convertible Notes and issue Shares under the Varied Convertible Notes
- Resolution 3. Approval for the Issue of Shares

For	Against	Abstain*
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

*If you mark the Abstain box for resolutions 1 to 3 you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

If you wish to appoint a second proxy, state the % of your voting rights applicable to the proxy appointed by this form.

%

PLEASE SIGN HERE

Individual or Member 1

--

Sole Director and
Sole Company Secretary

Member 2

--

Director

Member 3

--

Director/Company
Secretary

VOTING

Voting entitlements

In accordance with the Corporations Act, the Company has determined that the shareholding of each person for the purpose of determining entitlements to attend and vote at the General Meeting will be the entitlement of that person set out in the Company's share register as at 11:00am (WST) on (*) March 2011. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

Voting exclusions apply to Resolutions 1 to 3 (inclusive) of this Notice as set out under the relevant heading "Voting Exclusions" under the Resolutions.

Voting in person

A Shareholder that is an individual may attend and vote in person at the Meeting. If you wish to attend the Meeting, please bring the attached Proxy Form to the Meeting to assist in registering your attendance and number of votes. Please arrive 15 minutes prior to the start of the Meeting to facilitate this registration process.

A Shareholder that is a corporation may appoint an individual to act as its representative to vote at the meeting in accordance with section 250D of the Corporations Act. The appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission. A form of the Certificate is enclosed with this Notice of Meeting.

Voting by proxy

Shareholders should complete the Proxy Form if they do not wish to attend the Meeting and wish to appoint a proxy to attend and vote on their behalf. If you intend to attend the Meeting, you do not need to complete the Proxy Form. However, please bring the Proxy Form with you to the Meeting to assist with your registration.

You may still attend the Meeting even if you have appointed a proxy. However, your proxy's authority is suspended in relation to any Resolutions on which you choose to vote personally.

Appointing a second proxy

You may appoint up to 2 persons to act as your proxy to attend and vote on your behalf. If you wish to do this you must use a separate proxy form in respect of each proxy and indicate the percentage of your voting rights or the number of Shares that each proxy is appointed in respect of each Proxy Form. You should photocopy the enclosed Proxy Form or request an additional Proxy Form to be sent to you.

Directing your proxy how to vote

If you wish to direct your proxy how to vote on any or all of the Resolutions, place a mark "X" in the "For", "Against" or "Abstain" box. If you do not direct your proxy how to vote, your proxy may vote as he, she or it sees fit. If you mark the abstain box, you are directing your proxy not to vote on your behalf in respect of that Resolution and your votes will not be included on a show of hands or on a poll.

If you appoint the Chairman of the Meeting as your proxy, but do not give directions on how to vote on a particular Resolution, the Chairman will vote in favour of that Resolution even if he has an interest in the outcome of the Resolution and votes cast by him other than as proxy holder will be disregarded because of that interest.

Signing instructions

- | | |
|-------------------|---|
| Individuals | The individual, who is the Shareholder, or his or her attorney, must sign the form. |
| Joint holding | Each person who is a joint Shareholder, or their attorneys, must sign the form. |
| Companies | The company that is the Shareholder must sign the form in accordance with section 127 of the Corporations Act either by a director jointly with either another director or a company secretary, or where the company has a sole director who is also the sole company secretary (or there is no company secretary), by that director. |
| Power of attorney | Any Shareholder signing under a power of attorney must attach a certified photocopy of the power of attorney document to this form. |

Lodging your proxy form

To be valid, your Proxy Form (and any power of attorney under which it is signed) must be received at the address given below no later than 10:00am (WST) on 26 March 2011. Any Proxy Form received after that time will not be valid for the scheduled meeting.

- | | |
|-----------|---|
| In person | Nissen Kestel Harford
Level 2, Spectrum
100 Railway Road
SUBIACO WA 6008 |
| By mail | Nissen Kestel Harford
PO Box 8281
SUBIACO WA 6904 |
| By fax | +61 8 9367 8812 |

