

9th March 2011

Company Announcements Officer
ASX Limited
Exchange Centre
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir

Re: HALF YEAR REPORT AND ACCOUNTS TO 31 DECEMBER 2010

We enclose herewith the half yearly report and accounts to 31 December 2010 for Poseidon Nickel Limited.

Yours faithfully



David P.A. Singleton
MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER

Enc

CORPORATE DIRECTORY

Director / Senior Management

David Singleton	Managing Director & Chief Executive Officer
Andrew Forrest	Non-Executive Chairman
Geoff Brayshaw	Non-Executive Director
Richard Monti	Non-Executive Director
Chris Indermaur	Non-Executive Director
Ross Kestel	Company Secretary

Corporate Enquiries

Mr David Singleton – MD & CEO
P: 61 8 9382 8799
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E: admin@poseidon-nickel.com.au

Shareholder Enquiries

Enquiries concerning shareholdings should be addressed to:

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GPO Box D182, Perth WA 6840
P: 61 8 9323 2000

Principal Office

Unit 8, Churchill Court
331-335 Hay Street
SUBIACO WA 6008
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F: 61 8 9382 4760

Registered Office

Level 2, Spectrum
100 Railway Road
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Media Enquiries

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FD Third Person
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Home Exchange

The Company's shares are listed
on the Australian Securities Exchange
and the home exchange is Perth
ASX code: POS



POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Interim Financial Report 31 December 2010

Poseidon Nickel Limited

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Poseidon Nickel Limited

Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

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

Company Secretary

Mr R Kestel

Registered Office

Level 2, 100 Railway Road
Subiaco WA 6008

Principal Office

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

Postal Address

PO Box 190
West Perth WA 6872

Auditors to the Company

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

Share Registry

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

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia

Poseidon Nickel Limited

Directors' report

The directors of Poseidon Nickel Limited ("the Company") present their report together with the consolidated interim financial report for the six months ended 31 December 2010 and the auditor's review report thereon.

Directors

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

Name	Period of directorship
Non-executive Mr Andrew Forrest <i>Chairman & Non-Executive Director</i>	Appointed 2 July 2007
Mr Geoff Brayshaw <i>Non-Executive Director</i>	Appointed 1 February 2008
Mr Christopher Indermaur <i>Non-Executive Director</i>	Appointed 2 April 2009
Mr Richard Monti <i>Non-Executive Director</i>	Appointed 4 April 2007
Executive Mr David Singleton <i>Managing Director & Chief Executive Officer</i>	Appointed 1 February 2008

Review of operations

The Company has reported a loss for the period of \$2,211,000 (2009: loss of \$1,105,000) with the increase in expenditure being driven by the write off of exploration costs incurred. At an operating level before finance costs (excluding the movement in the fair value and foreign exchange in relation to the US\$15 million convertible note referred to in note 10 of the interim financial statements), the Company made a loss of \$2,927,000 (2009: loss of \$1,291,000).

On 23 December 2010 Poseidon secured a US\$20 million Convertible Note funding facility from two private investment funds managed by New York-based Harbinger Capital Partners LLC ("Harbinger"). The Convertible Notes are convertible at the Harbinger Funds' election into fully paid ordinary shares at a fixed price of AU\$0.30 per share which represents a significant premium of circa 42% to the 30-day VWAP of Poseidon shares at the time. The Notes have a 6-year term and carry a coupon of 0% per annum for the initial 3 years and 5% thereafter. The capital raising is subject to shareholder approval at a general meeting that will be held on 28 March 2011.

The proceeds of the issue of the Convertible Notes will be used to continue the development of the Windarra Nickel Project as well as ongoing exploration activities and feasibility studies. In particular the Company will:

- Complete the de-water and refurbishment works at the Mt Windarra nickel mine which recommenced in February 2011;
- Continue preparations for the start of mining operations at Mt Windarra;
- Significantly expand the drilling program at Mt Windarra, Cerberus and the South Windarra prospects during 2011 with the aim of increasing resources and reserves;
- Continue to secure the funding required for the concentrator plant.

In addition, Harbinger has agreed to modify the terms of the existing US\$15 million Convertible Notes issued in June 2008. The modification to the terms of the existing Notes also requires shareholder approval at the 28 March general meeting, with the terms of the new agreement being a conversion price of AU\$0.40 and a 6-year term with a coupon of 0% for 3 years and 5% thereafter. The main benefit from the changes to the terms is that interest previously payable from June 2011 under the existing terms will be deferred for a further 3 years.

Poseidon Nickel Limited

Directors' report

Review of operations (continued)

The Company continues to progress the sale of the Salman South and Mame gold prospects located in Southern Ghana to Hodges Resources. However, delays have been experienced in obtaining the necessary approvals from the relevant Minister of the Government of the Republic of Ghana to transfer the prospecting licence to Niagara Wells Mining Company Limited. The Company continues to work with Hodges Resources and lawyers in Ghana to overcome the delays and expedite settlement of the transaction.

Exploration - Cerberus

The Company completed the drilling programme at Cerberus that comprised of six drill holes which aimed to extend the interpreted boundaries and test the grade and continuity of the upper zone of mineralisation in order to expand the size of the resource as well as potentially increasing its JORC status. A best result of 4.07m @ 3.00% nickel was intersected in PND0104 which includes 1.57m @ 5.42% nickel at the base of the mineralised channel. This intersection occurs within the core of the upper high grade zone of mineralisation and supports the previously announced result in holes PNDRC0088 and PNDRC0089 which returned better than expected nickel grades.

The Cerberus resource currently stands at 1 million tonnes at 2.45% Ni for 25,269 tonnes of Inferred Resources (Table 1) but due to the additional drilling subsequently completed will require a resource re-calculation. Optiro Pty Ltd have been contracted to commence a mineral resource update of the Cerberus deposit on the back of the drilling that the company completed in the later part of 2010. Poseidon are currently completing the interpretation and modelling of the Cerberus deposit to include the results of the recent drilling. These results will be supplied to Optiro to undertake an evaluation and resource estimation in order to produce an updated JORC compliant resource estimation. The company is confident of an increase in the current Cerberus resource based on the previously announced positive results from the drilling campaign.

Exploration - Regional

During the period Poseidon contracted HiSeis Pty Ltd to undertake seismic surveys over the South Windarra Extension (east) and the Weebo Well Intrusion project areas.

HiSeis Pty Ltd is a seismic technology company whose major shareholder is the Curtin University. HiSeis uses the intellectual property developed by the Centre for High Definition Geophysics (CHDG) to provide high resolution hard rock seismic surveying in mining sites.

The seismic work commenced in late November with the geological objective of providing acoustic images of the ultramafic rocks at the Windarra Nickel Project, to help in the targeting of nickel sulphide ore systems. This technology has been highly successful in locating nickel sulphide ore bodies at other locations in Western Australia. Processed results are expected during the first quarter of 2011.

At the Weebo Well Intrusion area, the aim of the survey was to refine drilling targets to support the Exploration Incentive Scheme (EIS) grant of \$150,000 that the company was awarded by the Department of Mines and Petroleum. Drilling of the Weebo Well Intrusion is scheduled for the 2nd quarter of 2011.

Exploration – Independent Geological Review

In October 2010 the Company contracted Optiro Pty Ltd to complete an independent geological review of the Mt Windarra and Cerberus Mineral Resources. The review was intended to provide independent endorsement regarding the veracity and robustness of the estimates originally produced by Poseidon's internal geologists.

Poseidon Nickel Limited

Directors' report

Review of operations (continued)

Exploration – Independent Geological Review (continued)

Optiro used the block models of all ore shoots provided by Poseidon to validate the Mt Windarra and Cerberus Mineral Resources and found that Poseidon's reported numbers are sound. Optiro found the differences in the reported metal content to be negligible, with the Mt Windarra Resource actually increasing by 436 tonnes of nickel metal to 62,200 tonnes of contained nickel metal.

Optiro was able to reproduce, to a high degree of accuracy, the reported resource figures provided by Poseidon in all cases. Optiro was satisfied that the models presented by Poseidon (and in the case of the Mt Windarra CDG Deeps, revised by Optiro) fairly reflect the geological models and the drilling data provided to Optiro by Poseidon. Moreover, Optiro is satisfied that Poseidon has classified and reported the models in accordance with the JORC Code.

Optiro's revised Mineral Resource for Mt Windarra is summarised in Table 1. This has been reported in accordance with the JORC Code and is endorsed by Optiro for public release.

Table 1: Windarra Nickel Project Resource Statement

Windarra Nickel Project Sulphides	Cut Off Grade	Resource Category								
		Indicated			Inferred			TOTAL		
		Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Mt Windarra	0.75%	910,000	1.24	11,300	2,955,000	1.72	50,900	3,865,000	1.61	62,200
South Windarra	0.90%	820,326	1.15	9,434	82,404	1.05	864	902,730	1.14	10,298
Cerberus	1.50%				1,033,328	2.45	25,269	1,033,328	2.45	25,269
Total Sulphide		1,730,326	1.20	20,734	4,070,732	1.89	77,033	5,801,058	1.69	97,767

Note: The information in this report relates to Exploration Results and Mineral Resources based on information compiled by Mr N Hutchison who is a Member of The Australian Institute of Geoscientists and Mr I Glacken who is a Fellow of the Australasian Institute of Mining and Metallurgy as well as a full time employee of Optiro Pty Ltd. Mr Hutchison and Mr Glacken both have sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Hutchison and Mr Glacken have consented to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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

Poseidon Nickel Limited

Directors' report

Review of operations (continued)

Operations

The Premier and Minister for State Development has approved Poseidon's request for a further two year extension of the development deadline within the Poseidon Nickel State Agreement 1971. This will enable the underground mine refurbishment and necessary studies to be completed and a proposal to be submitted to the Department of State Development as required by this agreement.

Under Poseidon's direction, GSM Mining will complete the refurbishment of the underground mine down to 550 metres below the surface, which is where the previous mining operations came to an end. The completion of the refurbishment will allow the Company to undertake further drilling activity from underground and to complete preparations for the restart of mining operations.

Tenders for the supply and installation of the second stage dewatering pumps required to complete the mine dewatering have been received and this equipment will be operational during the 1st quarter 2011 by which time the first stage of pumping to 165 meters vertically will have been completed. In addition, the Company is undertaking negotiations with a number of other companies for the supply of equipment and consumables required for the refurbishment of underground operations.

Dividends

No dividends were paid or proposed during the six months ended 31 December 2010.

Subsequent events

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

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 8 and forms part of the directors' report for the six months ended 31 December 2010.

Rounding off

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

Signed in accordance with a resolution of the directors:



Mr G Brayshaw
Director

Perth
9 March 2011

Poseidon Nickel Limited
Auditor's independence declaration



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

To: the directors of Poseidon Nickel Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2010 there have been:

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

KPMG

KPMG

G-Hogg

Graham Hogg
Partner

Perth

9 March 2011

Poseidon Nickel Limited

Condensed consolidated interim statement of financial position

As at 31 December 2010

In thousands of AUD

	<i>Note</i>	31 Dec 2010	30 Jun 2010
Assets			
Cash and cash equivalents		737	924
Trade and other receivables		247	122
Total current assets		984	1,046
Property, plant and equipment	8	1,707	1,774
Exploration and evaluation expenditure	11	41,752	40,692
Other investments		1,170	945
Other		3,500	3,500
Total non-current assets		48,129	46,911
Total assets		49,113	47,957
Liabilities			
Trade and other payables		957	797
Loans and borrowings	12	10,194	10,726
Convertible note derivative	13	1,436	1,464
Employee benefits		67	13
Provisions	15	3,500	3,500
Total current liabilities		16,154	16,500
Loans and borrowings	12	88	126
Total non-current liabilities		88	126
Total liabilities		16,242	16,626
Net Assets		32,871	31,331
Equity			
Share capital	16	79,488	76,190
Reserves		234,889	234,436
Accumulated losses		(281,506)	(279,295)
Total equity attributable to equity holders of the Company		32,871	31,331
Total equity		32,871	31,331

The condensed notes on pages 13 to 20 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Condensed consolidated interim statement of comprehensive income

For the six months ended 31 December 2010

In thousands of AUD

	<i>Note</i>	31 Dec 2010	31 Dec 2009
Other income	9	86	759
Depreciation expense		(6)	(13)
Personnel expenses		(546)	(438)
Exploration costs written off	11	(1,181)	(318)
Corporate and administration costs		(729)	(751)
Share based payment expense	14	(444)	(433)
Other expenses		(107)	(97)
Results from operating activities		(2,927)	(1,291)
Finance income		1,726	1,169
Finance expenses		(1,010)	(983)
Net finance income	10	716	186
Loss before income tax		(2,211)	(1,105)
Income tax expense		-	-
Loss for the period		(2,211)	(1,105)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		225	1,240
Other comprehensive income for the period, net of income tax		225	1,240
Total comprehensive income for the period		(1,986)	135
Earnings per share			
Basic and diluted loss per share (cents/share)		(1.18)	(0.66)

The condensed notes on pages 13 to 20 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
Condensed consolidated interim statement of changes in equity

For the six months ended 31 December 2009

In thousands of AUD

	Issued Capital	Share based payment reserve	Fair value reserve	Option premium reserve	Accumulated losses	Total equity
Balance at 1 July 2009	73,508	233,054	-	510	(275,245)	31,827
Loss	-	-	-	-	(1,105)	(1,105)
Other comprehensive income						
Net change in fair value of available-for-sale assets, net of tax	-	-	1,240	-	-	1,240
Total other comprehensive income	-	-	1,240	-	-	1,240
Total comprehensive income for the period	-	-	1,240	-	(1,105)	135
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	193	-	-	-	-	193
Issue of options (net of costs)	-	267	-	-	-	267
Total contributions by and distributions to owners	193	267	-	-	-	460
Total transactions with owners	193	267	-	-	-	460
Balance at 31 December 2009	73,701	233,321	1,240	510	(276,350)	32,422

For the six months ended 31 December 2010

In thousands of AUD

	Issued Capital	Share based payment reserve	Fair value reserve	Option premium reserve	Accumulated losses	Total equity
Balance at 1 July 2010	76,190	233,586	340	510	(279,295)	31,331
Loss	-	-	-	-	(2,211)	(2,211)
Other comprehensive income						
Net change in fair value of available-for-sale assets, net of tax	-	-	225	-	-	225
Total other comprehensive income	-	-	225	-	-	225
Total comprehensive income for the period	-	-	225	-	(2,211)	(1,986)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	3,298	-	-	-	-	3,298
Issue of options (net of costs)	-	228	-	-	-	228
Total contributions by and distributions to owners	3,298	228	-	-	-	3,526
Total transactions with owners	3,298	228	-	-	-	3,526
Balance at 31 December 2010	79,488	233,814	565	510	(281,506)	32,871

The condensed notes on pages 13 to 20 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Condensed consolidated interim statement of cash flows

For the six months ended 31 December 2010

In thousands of AUD

	<i>Note</i>	31 Dec 2010	31 Dec 2009
Cash flows from operating activities			
Sundry receipts		86	459
Payments to suppliers and employees		(1,442)	(1,309)
Cash used in operations		(1,356)	(850)
Interest received		86	73
Net cash used in operating activities		(1,270)	(777)
Cash flows from investing activities			
Payments for property, plant and equipment	8	-	(14)
Payments for exploration and evaluation expenditure	11	(1,934)	(2,019)
Proceeds from sale of non-current assets		-	300
Net cash used in investing activities		(1,934)	(1,733)
Cash flows from financing activities			
Proceeds from the issue of shares and options (net of costs)		3,055	-
Proceeds from borrowings		-	47
Repayment of borrowings		-	(19)
Payment of finance lease liabilities	12	(38)	(34)
Net cash from/(used in) financing activities		3,017	(6)
Net decrease in cash and cash equivalents		(187)	(2,516)
Cash and cash equivalents at 1 July		924	3,552
Cash and cash equivalents at 31 December		737	1,036

The condensed notes on pages 13 to 20 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

1. Reporting entity

Poseidon Nickel Limited ("the Company") is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2010 comprises the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2010 is available upon request from the Company's registered office at Spectrum Level 2, 100 Railway Road, Subiaco WA 6000 or at www.poseidon-nickel.com.au.

2. Statement of compliance

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001 and also complies with IAS 34 Interim Financial Reporting.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2010.

This consolidated interim financial report was approved by the Board of Directors on 9 March 2011.

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

3. Significant accounting policies

The accounting policies applied by the Group in these consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 30 June 2010.

4. Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying this Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2010.

5. Financial risk management

The Group's financial risk management objectives and policies are consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2010.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

6. Financial position

The condensed consolidated interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2010 the Group incurred a loss of \$2,211,000 (2009: loss \$1,105,000) and had a net working capital deficit of \$15,170,000 (2010: deficit \$15,454,000). The working capital deficit includes the following items; the convertible note liability of \$10,116,000 and the convertible note derivative of \$1,436,000 that if called by the note holders can only be settled in shares prior to its redemption date of 25 June 2014, and a provision for environmental rehabilitation of \$3,500,000 that is cash backed. The Group had a net cash outflow used in investing activities of \$1,934,000 (2009: outflow \$1,733,000).

The Group will require further funding in order to meet day-to-day obligations as they fall due and progress its exploration and mine development projects as budgeted. The Board of Directors is aware of the Company's working capital requirements and the need to access additional funding and has secured a US\$20 million Convertible Note funding facility from two private investment funds managed by New York based Harbinger Capital Partners LLC ("Harbinger"). The Convertible Notes are convertible at the Harbinger funds' election into fully paid ordinary shares at a fixed price of AU\$0.30 per share which represents a significant premium of circa 42% to the 30-day VWAP of Poseidon shares at the time the transaction was completed on 21 December 2010. The Notes have a 6 year term and carry a coupon of 0% per annum for the initial 3 years and 5% thereafter. Harbinger has also agreed to extend the term of the existing US\$15 million Convertible Notes issued in June 2008 for a further 3 years with the same coupon as the new notes.

The capital raising is subject to shareholder approval at a general meeting that will be held on 28 March 2011. In view of the timing of the approval process and the working capital requirements of the Company, a bank overdraft facility for \$500,000 has been put in place in order to ensure that liquidity can be maintained during this period.

The Directors consider the going concern basis of preparation to be appropriate for this financial report based on a high level of confidence in securing shareholder support and approval for the Harbinger capital raising at the forthcoming general meeting. Should the Company not be successful in achieving approval for the capital raising or secure other funds through debt or capital raisings, it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in this interim financial report.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

7. Operating segments

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

Information about reportable segments

<i>In thousands of AUD</i>	Nickel exploration and evaluation	
	31 Dec 2010	31 Dec 2009
For the six months ended 31 December 2010		
Reportable segment profit / (loss) before income tax	(1,148)	324
Reconciliations of reportable segment loss and assets		
Loss		
Total profit / (loss) for reportable segments	(1,148)	324
Unallocated amounts: other corporate expenses	(1,779)	(1,615)
Net finance income	716	186
	<u>(2,211)</u>	<u>(1,105)</u>
	31 Dec 2010	30 June 2010
Assets		
Total assets for reportable segments	46,932	45,933
Other assets	2,181	2,024
	<u>49,113</u>	<u>47,957</u>

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2010.

8. Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2010 the Group acquired assets with a cost of \$31,000 (2009: \$14,000). No assets were disposed of during the six months ended 31 December 2010 or 31 December 2009.

9. Other income

<i>In thousands of AUD</i>	31 Dec 2010	31 Dec 2009
Sundry income	53	116
Other income	33	343
Net gain on sale of exploration assets	-	300
	<u>86</u>	<u>759</u>

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

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

10. Finance income and expense

<i>In thousands of AUD</i>	31 Dec 2010	31 Dec 2009
Interest income on bank deposits	86	73
Net foreign exchange gain	1,640	1,096
Finance income	1,726	1,169
Interest expense – convertible note	(848)	(780)
Change in fair value of convertible note derivative	(162)	(203)
Finance expense	(1,010)	(983)
Net finance income and expense	716	186

11. Exploration and evaluation expenditure

<i>In thousands of AUD</i>	31 Dec 2010	30 Jun 2010
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	41,752	40,692
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of year	40,692	38,610
Additions	2,241	2,575
Exploration expenditure expensed	(1,181)	(493)
	41,752	40,692

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

12. Loans and borrowings

<i>In thousands of AUD</i>	31 Dec 2010	30 Jun 2010
Current liabilities		
Current portion of finance lease liabilities	78	78
Convertible note liability	10,116	10,648
	10,194	10,726
Non-current liabilities		
Finance lease liabilities	88	126
	88	126

Poseidon Nickel Limited

Note to the condensed consolidated interim financial statements

12. Loans and borrowings (continued)

<i>In thousands of AUD</i>	31 Dec 2010	30 Jun 2010
Convertible notes		
Carrying amount of liability at beginning of period	10,648	9,436
Exchange rate effects	(1,381)	(459)
Accrued interest capitalised	849	1,671
Carrying amount of liability at end of period	<u>10,116</u>	<u>10,648</u>

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

In conjunction with the new funding facility for US\$20 million entered into on 23 December 2010, Harbinger have agreed to extend the term of the existing US\$15 million Convertible Notes for a further 3 years with the same coupon terms as the original and new Notes. The existing Notes will, under the new terms of the agreement, have a conversion price of AU\$0.40 rather than AU\$1.00 however, the interest payable from June 2011 will now be deferred for a further 3 year term.

The changes to the terms of the existing Convertible Notes are subject to shareholder approval at the general meeting to be held on 28 March 2011 as well as the approval of the new US\$20 million Convertible Notes.

13. Convertible note derivative

<i>In thousands of AUD</i>	31 Dec 2010	30 Jun 2010
Carrying amount of liability at beginning of period	1,464	1,526
Fair value movement	162	8
Exchange rate effects	(190)	(70)
Carrying amount of liability at end of period	<u>1,436</u>	<u>1,464</u>

The Company has on issue a Convertible Note for US\$15 million. Pursuant to accounting standards the option component of the Note is classified as a derivative liability. The value of the derivative fluctuates with the Company's underlying share price and the difference in the Company's share price between 30 June 2010 (share price \$0.19) and 31 December 2010 (share price \$0.26) is reflected in the fair value movement for the 31 December 2010 period.

As the Convertible Note is denominated in United States dollars (USD), the change in the exchange rate with the Australian dollar (AUD) is also taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2010 was 0.8563:1 and at 31 December 2010, 0.9840:1.

Poseidon Nickel Limited

Note to the condensed consolidated interim financial statements

14. Share-based payments

Options

The board can decide to grant options to a limited number of senior executives at its discretion under the ESOP (made in accordance with thresholds set in plans approved by shareholders at the 2010 AGM). The ESOP provides for key management personnel to receive up to 100% of compensation as an option package as a competitive incentive and retention mechanism. The ability to exercise the options is conditional on a number of conditions that include service based and share price performance hurdles to be met and must be exercised between 3 and 6 years of issue.

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

Grant date / employees entitled	Number of Instruments	Vesting conditions	Contractual life of the options
Options granted to non-executive directors on 23 November 2010	1,500,000	3 years' service and subject to various share price hurdles	6 years
Options granted to executive director on 23 November 2010	3,000,000	3 years' service and subject to various share price hurdles	6 years
Options granted to executives and employees on 21 September 2010	2,975,000	3 years' service and subject to various share price hurdles	6 years
Total share options	<u>7,475,000</u>		

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

<i>Fair value of share options and assumptions</i>	Directors	Executives
Fair value at grant date	\$0.125	\$0.161
Share price at grant date	\$0.175	\$0.215
Exercise price	\$0.250	\$0.250
Expected volatility (weighted average volatility)	90%	90%
Option life (expected weighted average life)	5.84 years	6.0 years
Expected dividends	-	-
Risk-free interest rate (based on government bonds)	5.27%	4.97%

The basis of measuring fair value is consistent with that disclosed in the consolidated financial report as at and for the year ended 30 June 2010.

Shares

No shares were granted to directors or executives during the reporting period.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

14. Share-based payments (continued)

Hybrids

The terms and conditions of hybrid grants made during the six months ended 31 December 2010 are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Hybrids granted to non-executive directors on 23 November 2010	321,860	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 December 2010 (Shares issued post 31/12/10)	293,957	The hybrids vested immediately upon grant
Total shares	<u>615,817</u>	

The hybrids purchased as at 31 December 2010 have a purchase price in the range of \$0.1948 to \$0.2133.

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

<i>Fair value of shares and assumptions</i>	Directors
	31 Dec 2010
Fair value of grant	0.20

Share based payment expense

<i>In AUD</i>	31 Dec 2010	31 Dec 2009
Share options granted in 2011 – equity settled	32,095	-
Share options granted in 2009 – equity settled	35,363	35,363
Share options granted in 2008 – equity settled	155,788	231,625
Shares granted in 2010	27,874	5,605
Shares granted in 2008	38,009	38,008
Hybrids granted in 2011	125,387	-
Hybrids granted in 2010	55,748	149,000
Shares based payment capitalised	(26,445)	(26,445)
Total expenses recognised as employee costs	<u>443,819</u>	<u>433,156</u>

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

15. Provisions

<i>In thousands of AUD</i>	31 Dec 2010	30 Jun 2010
Site restoration	3,500	3,500
	<u>3,500</u>	<u>3,500</u>

A provision of \$3,500,000 was made during the year ended 30 June 2009 in respect of the Group's on-going commitment for the environmental rehabilitation of the Windarra mine site. There has been no change to the provision at 31 December 2010.

16. Share Capital

<i>In thousands of shares</i>	Ordinary shares	
	31 Dec 2010	30 Jun 2010
Ordinary shares		
Fully paid	194,895	176,491
Partly paid	425	425
Total share capital	<u>195,320</u>	<u>176,916</u>
Movements in ordinary shares on issue:		
On issue at 1 July 2010	176,916	
<i>Shares issued and expensed during the period:</i>		
Issued for cash	17,867	
Issued for directors fees	322	
<i>Shares issued but expensed during the prior period:</i>		
Issued for directors fees	215	
On issue at 31 December 2010	<u>195,320</u>	

17. Subsequent events

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

Poseidon Nickel Limited

Directors' declaration

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

1. the financial statements and notes set out on pages 9 to 20, are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the six month period ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Mr G Brayshaw
Director

Perth
9 March 2011



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

We have reviewed the accompanying interim financial report of Poseidon Nickel Limited, which comprises the condensed consolidated statement of financial position as at 31 December 2010, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half year ended on that date, notes 1 to 17 comprising a statement of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half year's end or from time to time during the half year.

Directors' responsibility for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2010 and its performance for the half year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Poseidon Nickel Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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



Conclusion

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

- (a) giving a true and fair view of the Group's financial position as at 31 December 2010 and of its performance for the half year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

KPMG

KPMG

GTH

Graham Hogg
Partner

Perth

9 March 2011