POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Annual Financial Report

For the year ended 30 June 2011

Poseidon Nickel Limited

Contents

Poseidon Nickel Limited
Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

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

Company Secretary

Mr R Kestel

Registered Office

C/o NKH
Level 2, 100 Railway Road
Subiaco WA 6008

Principal Office

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Subiaco WA 6008
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Telephone: +61 8 9382 8799
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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
For the year ended 30 June 2011

The directors present their report together with the financial statements of Poseidon Nickel Limited ('the Company') and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2011 and the auditor's report thereon.

Contents of Directors' report **Page**

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

Name, and independence status	Age	Experience, qualifications, special responsibilities and other directorships
Mr Andrew Forrest **Chairman & Non-Executive Director** Appointed 2 July 2007	49	Mr Forrest was elected as Non Executive Chairman of Poseidon Nickel Ltd at its General Meeting of Shareholders on 2nd July 2007. Having recently announced his retirement as Chief Executive of Fortescue Metals Group, Mr Forrest will now serve as Fortescue's non-executive Chairman and will continue to serve a number of companies, chambers and charities as in the past. Mr Forrest is Chairman of the Australian Children's Trust. His previous roles include Chief Executive Officer and Deputy Chairman of Anaconda Nickel Limited (now Minara Resources Ltd), Chairman of the Murrin Murrin Joint Venture, Non Executive Chairman of Moly Mines Ltd, Non Executive Chairman of Arafura Pearls Ltd, Non-Executive Director of Sibera Mining Corporation Limited (now Monarch Gold Ltd), Director of the West Australian Chamber of Minerals and Energy and Chairman of Athletics Australia. He is an Adjunct Professor of the China Southern University and a long-standing fellow of the Australian Institute of Mining and Metallurgy. He has been awarded the Australian Centenary Medal, the Australian Sports Medal, Citizen of the Year for Regional Development, Australia's Social Entrepreneur of the Year and won multiple global finance awards. Mr Forrest has extensive experience in the mining sector with specialist expertise in major project finance.
Mr Christopher Indermaur **Non-Executive Director** *Member of:* Audit & Risk Management Committee *Chairman of:* Remuneration & Nomination Committee Corporate Governance Committee Appointed 2 July 2007 Resigned 30 September 2008 Re-appointed 2 April 2009	53	Mr Indermaur has over 30 years of experience in large Australian companies in Engineering or Commercial roles. Amongst these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Ltd. Mr Indermaur holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). Chris also holds a Bachelor of Laws and a Master of Laws from the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University.
Mr Richard Monti **Non-Executive Director** *Member of:* Audit & Risk Management Committee Remuneration & Nomination Committee Corporate Governance Committee Appointed 4 April 2007	47	Mr Monti has qualifications in Geology (Bachelor of Science with Honours from the University of Western Australia) and Finance (Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia). He has gained broad experience over a twenty five year career working in the technical, corporate, marketing and financial fields of the international exploration and mining industry.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

1. Directors (continued)

Name, and independence status	**Age**	**Experience, qualifications, special responsibilities and other directorships**
Mr Richard Monti (continued)	47	He has worked for a number of international and Australian companies including Anaconda Nickel, RTZ Exploration, the North Group, the Normandy Group and Ashton Gold. During a seven year term at Anaconda Nickel he held General Manager positions in technical, commercial and marketing fields. At Anaconda, Mr Monti led the team that built a 1.8 billion tonne resource base of nickel and cobalt through efficient and innovated resource definition and low-cost acquisition programmes. Seven years ago he founded Ventnor Capital Pty Ltd, a consultancy which provides corporate advisory and investment banking services to junior and mid-cap listed resource companies. Mr Monti left Ventnor in 2010. Mr Monti is also a Director of Transit Holdings Ltd, Whinnen Resources Ltd, Jaguar Minerals Ltd, Azimuth Resources Ltd and Triton Gold Ltd and has previously held positions on the board of Bathurst Resources Ltd and a number of other private mining companies.
Mr Geoff Brayshaw **Non-Executive Director** *Member of:* Remuneration & Nomination Committee Corporate Governance Committee *Chairman of:* Audit & Risk Management Committee Appointed 1 February 2008	61	Mr Brayshaw was formerly an audit partner with a major accounting firm in Perth, having been in practice for some 35 years. He has also held a number of positions in commerce and professional bodies including national president of the Institute of Chartered Accountants of Australia in 2002. He is a director of a number of public and private companies, including independent director and audit committee chairman of both Fortescue Metals Group Limited and AVEA Insurance Limited. He has recently retired from the board of the Small Business Development Corporation.
Mr David Singleton **Managing Director & Chief Executive Officer** *Member of:* Corporate Governance Committee Appointed 1 February 2008	51	Mr Singleton has a wide range of operational and management experience including as Managing Director and CEO at Clough Limited and CEO of Alenia Marconi Systems based in Rome, Italy. He was also the Group Head of Strategy, Mergers & Acquisitions with BAE SYSTEMS in London, which through consolidation became one of the largest Aerospace and Defence Companies in the world. He has a degree in Mechanical Engineering from University College, London, is a non-executive director of Triton Gold Ltd and Quickstep Holdings and was formerly a director of PT Petrosea Tbk. Mr Singleton was appointed as Chief Executive Officer on 2 July 2007.

Poseidon Nickel Limited
Directors' report (continued)
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2. Company Secretary
Mr Kestel is both a Chartered Accountant having recently resigned as a Certified Practising Accountant. He was also a director of the accounting practice Nissen Kestel Harford from July 1980 until April 2010.

Mr Kestel has acted as a director and company secretary of a number of public companies involved in mineral exploration, mining, mine services, property development, manufacturing and technology industries.

Mr Kestel is a member of the Australian Institute of Company Directors.

3. Directors' Meetings
The number of directors' meetings (including meetings of committees of directors) and number of meetings attended by each of the directors of the Company during the financial year are:

Director	**Board Meetings**		**Audit and Risk Management Committee Meetings**		**Remuneration, Nomination and Diversity Committee Meetings**		**Corporate Governance Committee Meetings**	
	A	**B***	**A**	**B**	**A**	**B**	**A**	**B**
Mr A Forrest	3	3	-	-	-	-	-	-
Mr C Indermaur	3	3	4	4	4	4	4	4
Mr R Monti	3	3	4	4	4	4	4	4
Mr D Singleton	3	3	-	-	-	-	4	4
Mr G Brayshaw	3	3	4	4	4	4	4	4

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year
***** – The fourth board meeting of the financial year scheduled for June 2011 was deferred until 7 July 2011

4. Principal Activities
It is the intent of the directors that the principal activities of the Company shall be that of exploration, mining and production of Nickel and other minerals.

5. Consolidated Results
The consolidated profit (loss) for the entity for the year ended 30 June 2011, after income tax is $546,000 (2010: loss of $4,050,000).

6. Review of Operations
Windarra Nickel Project

Overview
- **US$20m of Convertible Notes committed in December 2010**
- **Refurbishment of Mt Windarra underground on plan**
- **Refurbishment will allow drilling resource from underground and recommencement of mining**
- **NFC & Arccon preferred supplier to build concentrator and to facilitate funding package. Additional funding required under development**
- **Cerberus drilling and metallurgical testing has progressed and plan to incorporate into Mt Windarra production underway**

Poseidon has taken a number of significant steps to progress the Windarra Nickel Project ("WNP") this financial year since emerging from the effects and impact of the Global Financial Crisis ("GFC"). A key milestone for the Company was the recommencement of underground refurbishment at Mt Windarra which will enable the completion of the remaining 420 vertical meters of decline and access to the lowest previous stoping of the mine. The refurbishment programme is estimated to cost $8 million.

Poseidon has signed a non-binding Memorandum of Understanding ("MOU") with NFC of China and Arccon of Australia, for the financing and construction of a nickel sulphide concentrator and associated infrastructure. Arccon are intended to be the local design and construction engineer. The two parties are currently establishing a fixed price Engineering, Procurement and Construction Contract ("EPC Contract") for the process plant.

Poseidon Nickel Limited
Directors' report (continued)
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6. Review of Operations (continued)
Windarra Nickel Project (continued)

Overview (continued)
This proposal, together with the other studies that are required to be completed for the feasibility study and submission of the Works Approvals for the recommencement of mining and processing operations at Windarra are now well advanced.

The feasibility study will be completed over the coming months and will be supported by the biggest drilling programme to be undertaken at Windarra since the 1980's. Once the mine refurbishment has progressed far enough to allow access to the underground crusher area, drill rigs will commence drilling of the Mt Windarra Deeps. In addition, a two year contract operating on a 24 hours a day basis has been entered into for a diamond drilling programme that will accelerate the development of the Cerberus ore body. This drilling programme is progressing well and in line with achieving the target level of drilling of 20,000 meters.

In December 2010, Poseidon received a commitment for 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, that were subsequently approved by shareholder at an Extraordinary General Meeting ("EGM") held in March 2011, are convertible at the Harbinger Funds' election into fully paid ordinary shares at a fixed price of AU$0.30 per share. This conversion price represented a premium of circa 42% to the 30 day VWAP of Poseidon shares at the time of agreement. The Notes have a 6 year term and carry a coupon of 0% for the initial 3 years and 5% thereafter.

The existing US$15 million Convertible Notes issued in June 2008 were extended for a further 6 years with the same coupon terms as the new Notes. The existing 2008 Notes will, under the terms for the new agreement, have a conversion price of AU$0.40 per share and the interest that would have been payable from June this year, will now therefore be deferred for a further 3 years.

The Company has continued to work with the Minerals Commission in Ghana to satisfy the conditions of the sale agreement of the shares and interests in the Salman South and Mame gold prospects located in Southern Ghana to Hodges Resources Ltd. The extension to the exploration license has recently been approved and the remaining approvals to enable completion of the transaction are expected to be finalised shortly.

Operations
Poseidon entered into an agreement with GSM Mining Pty Ltd ("GSM") to complete the refurbishment of the underground mine at Mt Windarra and to date significant progress has been made. The mine water level has been lowered to below 166m vertically and over 1.2 kilometres of decline has been successfully refurbished.

A 300kw multistage submersible pump and rising main have been installed in the Windarra haulage shaft with the capability of pumping up to 50 litres of water a second. This pump will enable the mine to be dewatered to a vertical depth of 450m. This depth is important as it allows access to the existing underground crusher area and provides a suitable drilling platform intended to be used in completing a reserve estimation.

A refurbished Howden centrifugal surface fan has been installed on the collar of the V544 raised bore to re-commission the mine's ventilation circuit. The fan is drawing air through the decline allowing the 110kw ventilation fan at the portal to be relocated further along the decline just above D300 providing ventilation for the next 1,200m section of decline refurbishment. In conjunction with the fan installation, the 11kV power distribution system was extended to supply power to an underground substation. The power required for the newly installed equipment is being provided by two new 820kVA Cummins diesel generators which were purchased and commissioned during the June quarter.

Sixteen transportable accommodation units to house manpower on the site have been installed and were occupied during July 2011.

Poseidon Nickel Limited
Directors' report (continued)
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6. Review of Operations (continued)
Windarra Nickel Project (continued)

Exploration

Earlier in the year Poseidon announced a 50% upgrade of the Cerberus Resource which now stands at **1.85Mt at 2.05% nickel for 38,000t** of contained nickel metal above a 1.25 %Ni cut-off grade (Table 1). The upgrade was the result of drilling completed at the resource in late 2010 and the completion of an independent resource calculation undertaken by Optiro Pty Ltd. The total nickel sulphide content at the Windarra Nickel Project now stands at 110,470t of contained nickel metal (Table 2). As a result of the additional drilling, the current estimate now includes an Indicated Mineral Resource which represents 40% of the defined deposit. This Indicated resource is based on the improved geological continuity and confidence, the data density and drill spacing as well as the estimation confidence and kriging efficiency within the core zone.

In addition metallurgical test work completed on the Cerberus drill core demonstrated that a greater than 80% nickel recovery could be achieved in less than 5 minutes producing a clean concentrate with an associated nickel head grade of approximately 18%. The flotation test work results confirmed that a high quality smeltable concentrate could be produced with low levels of impurities. This result has supported a decision to significantly expand the drilling programme at Cerberus.

As a result much of the exploration and drilling activities during 2011 have focused on drilling out the Cerberus deposit on an 80m x 80m drill pattern in order to fully evaluate the size and near surface resource potential of the deposit. The drill spacing should allow much of the upper half of the deposit to be converted to an Indicated JORC classification when the resource is re-estimated at the completion of this phase of drilling. To date the mineralisation at Cerberus has been intersected within 70-80m of the surface and the mineralised orebody has a defined width of ~450m across and now extends continuously down plunge for 1,400m. The mineralisation is currently open at depth and the nickel grades increase with depth. The 80m x 80m drillout is nearing completion and will be followed by the resource re-estimation prior to undertaking conceptual mine planning later this year. A decision to infill drill where required will be made following these modelling phases.

Following the Cerberus drilling the drill rig will begin testing the South Windarra lava channel model as interpreted from the conceptual geological modelling and seismic surveying interpretation.

Table 1: Cerberus Resource Statement above cut-off grades of 1.25%

Cerberus Deposit	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
Optimum cut-off grade used	1.25%	756,360	1.62	12,264	1,092,500	2.35	25,707	1,848,816	2.05	37,970

**Note: Minor errors in totals exist due to rounding.*

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

6. Review of Operations (continued)
Windarra Nickel Project (continued)

Exploration (continued)

Table 2: 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	10,300
Cerberus	1.25%	756,360	1.62	12,264	1,092,500	2.35	25,707	1,848,816	2.05	37,970
Total Sulphide		**2,486,686**	**1.33**	**32,998**	**4,129,904**	**1.88**	**77,471**	**6,616,546**	**1.67**	**110,470**

**Note: Minor errors in totals exist due to rounding.*

During the last 12 months, exploration at the WNP has completed the following activities;

- SQUID Fixed Loop Electromagnetic Survey over 4 of the 7 lava channel targets between Mt Windarra and Weebo Well;
- 2 Dimensional (2D) and 3 Dimensional (3D) Seismic Survey at South Windarra and Weebo Well;
- 42 diamond/reverse circulation drill holes for 9,105m of drilling;
- Cerberus Mineral Resource extension.

The seismic surveys along with the conceptual geological modeling has led to the recognition of a potential extension to the South Windarra mineralised lava channel to the east of the mine, not to the south as interpreted by the previous owners, WMC (Figure 1). The edge of the modeled lava channel coincides with several anomalous regional drill holes that WMC drilled, however, due to WMC's differing interpretation they drill tested the intersection in a different direction as to Poseidon's interpreted trend. This is an exciting breakthrough for the company and drilling of this lava channel trend to the east of South Windarra will commence in September/October 2011 following the completion of the current phase of drilling at Cerberus.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

6. Review of Operations (continued)
Windarra Nickel Project (continued)

Exploration (continued)

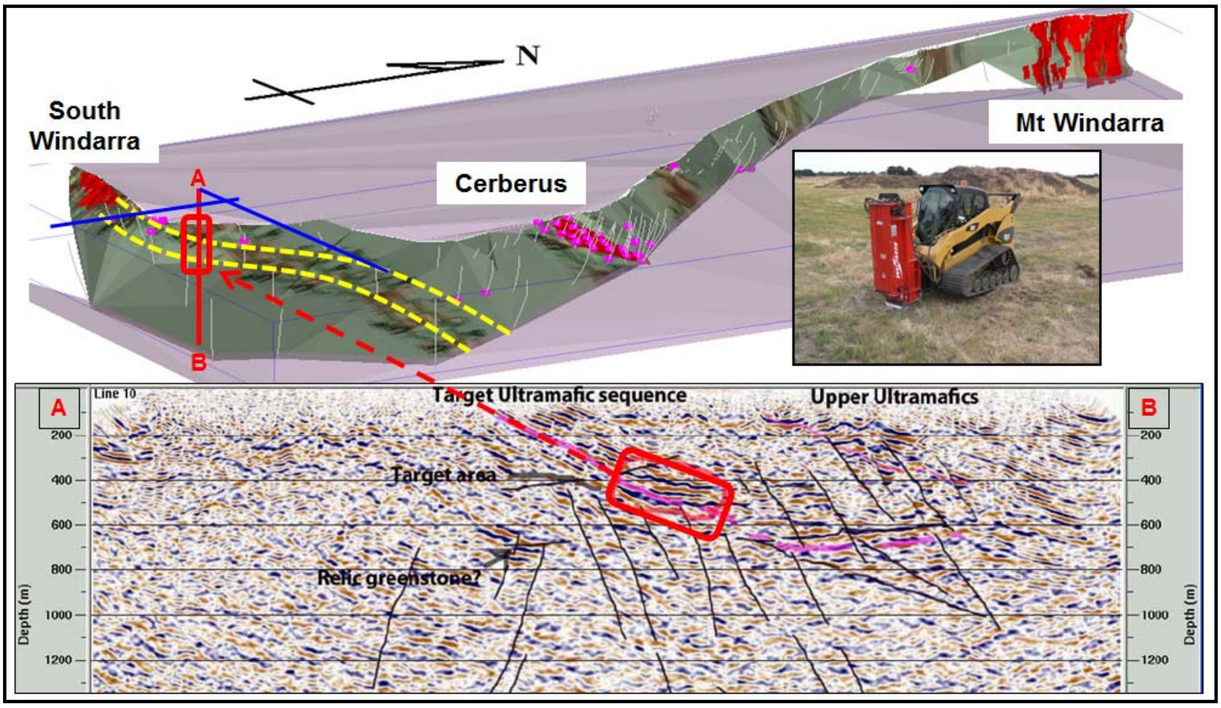

Figure 1*:* 3D image of the Windarra Ultramafic unit showing the 3 nickel deposits and anomalous drill intersections (pink dots). A track mounted bobcat was used during the seismic survey which completed the 3 traverses as shown to the east of South Windarra. The resultant seismic image and interpretation along Traverse A-B shows the position of the interpreted lava channel target. The yellow dotted lines depicted the targeted channel position which coincides with anomalous drill intersections along or near its edge. This will be the focus of the upcoming exploration drilling program.

Late 2010 and early 2011 saw the restart of the regional drilling programme at the WNP with the shallow testing of the regional targets identified during the soil sampling and mapping phase. Favourable rock types indicative of the nickel hosting lava channels (cumulate ultramafics) were mapped at surface and intersected in the drilling at several of the target areas. These targets warrant deeper follow-up drilling to test their potential for hosting nickel mineralisation. The Weebo Well Intrusion was also drill tested with the company receiving a drilling grant from the Western Australian government under the Department of Mines and Petroleum's "Exploration Incentive Scheme". Poseidon was targeting a late ultramafic intrusion model, to the west of the Windarra Belt, similar to the Savannah System in the Pilbara. Whilst the drilling did not return the rock types that fitted the conceptual geological model that was targeted, it provided valuable information about the formation of the Windarra Ultramafic Belt as it was interpreted to be one of the ancient feeder dykes which formed the lava flows that comprise the Windarra Nickel Belt.

Note: The information in this report relates to Exploration Results and Mineral Resources based on information compiled by Mr N Hutchison, General Manager of Geology for Poseidon Nickel, 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 reviewed and does not accept responsibility for the accuracy or adequacy of this release.

7. Corporate Governance Statement

The board of directors of the Company is responsible for the corporate governance of the economic entity. The board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

To ensure that the board is well equipped to discharge its responsibilities, it has established guidelines and accountability as the basis for the administration of corporate governance.

7.1 Corporate Governance Disclosure

The board and management are committed to corporate governance and to the extent that they are applicable to the Company have followed the "Principles of Good Corporate Governance and Best Practice Recommendations" issued by the Australian Securities Exchange ("ASX") Corporate Governance Council.

In summary, the Company does not depart from the guidelines in any areas.

7.2 Role of the Board

The key responsibilities of the board include:

- Appointing, evaluating, rewarding and if necessary, the removal of the Chief Executive Officer ("CEO") and senior management;
- Development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;
- Monitoring actual performance against defined performance expectations and reviewing operating information to understand at all times, the state of health of the Company;
- Overseeing the management of business risks, safety and occupational health, environmental issues and community development;
- Satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- Satisfying itself that there are appropriate reporting systems and controls in place to assure the board that proper operational, financial, compliance, risk management and internal control processes are in place and functioning appropriately. Further, approving and monitoring financial and other reporting;
- Assuring itself that appropriate audit arrangements are in place;
- Ensuring that the Company acts legally and responsibly on all matters and assuring itself that the Company has adopted and that its practice is consistent with a number of guidelines, being:
  - Directors and Executive Officers Code of Conduct;
  - Dealing in Securities; and
  - Reporting and Dealing with Unethical Practices.
- Reporting to and advising shareholders.

7.3 Structure of the Board

Directors of the Company are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with or could reasonably be perceived to materially interfere with the exercise of their unfettered and independent judgment.

An independent director is a non-executive director (i.e. is not a member of management) and:

- Is not a substantial shareholder of the Company or an officer of, or otherwise associated with, a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or its subsidiaries, or been a director after ceasing to hold any such employment;

7.3 Structure of the Board (continued)

- Is not a principal or employee of a professional adviser to the Company or its subsidiaries whose billings are a material part of the advisor's total revenue. A director who is a principal or employee of a professional advisor will not participate in the provision of any service to the Company by the professional adviser;
- Is not a significant supplier or customer of the Company or its subsidiaries, or an officer of or otherwise associated directly or indirectly with a significant supplier or customer. A significant supplier is defined as one whose revenues from the Company are a material part of the supplier's total revenue. A significant customer is one whose amounts payable to the Company are a material part of the customer's total operating costs;
- Has no material contractual relationship with the Company or its subsidiaries other than as a director of the Company;
- Has not served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company;
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

In accordance with the definition of independence above, and the materiality thresholds set, the following directors of Poseidon are considered to be independent:

Name	**Position**
Mr A Forrest	Non-Executive Chairman
Mr C Indermaur	Non-Executive Director
Mr R Monti	Non-Executive Director
Mr G Brayshaw	Non-Executive Director

There are procedures in place, agreed by the board, to enable the directors in furtherance of their duties to seek independent professional advice at the Company's expense.

The term in office held by each director is as follows:

Name	**Term**
Mr A Forrest	4 years
Mr C Indermaur	3 years
Mr R Monti	4 years
Mr G Brayshaw	4 years
Mr D Singleton	4 years

When a board vacancy exists, through whatever cause, or where it is considered that the board would benefit from the service of a new director with particular skills, the Remuneration, Nomination and Diversity Committee will recommend to the board a candidate or panel of candidates with the appropriate expertise.

The board then appoints the most suitable candidate who must stand for election at the next general meeting of shareholders.

7.4 Remuneration, Nomination and Diversity Committee

It is the Company's objective to provide maximum shareholder benefit from the retention of a high quality board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration, Nomination and Diversity Committee links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives;
- Attraction of high quality management to the Company; and
- Performance incentives that allow executives to share in the success of the Company.

For full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the Remuneration report, which is contained within section 7.5 of the Directors' report.

There is no scheme to provide retirement benefits to non-executive directors.

The board is responsible for determining and reviewing compensation arrangements for the directors themselves, the managing director and the executive team. The board has established a Remuneration, Nomination and Diversity Committee comprising three non-executive directors.

The members of the Remuneration, Nomination and Diversity Committee at the date of this report were:

- Mr C Indermaur (Chairman)
- Mr R Monti
- Mr G Brayshaw

For details on the number of meetings of the Remuneration, Nomination and Diversity Committee held during the year and the attendees at those meetings refer to section 3 of the Directors' report.

7.5 Remuneration Report - audited

7.5.1 Principles of compensation – audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company, including directors of the Company and Group and other executives. Key management personnel comprise the directors and executives for the Company and Group including the five most highly remunerated executive officers of the Company and Group in accordance with S300A of the Corporations Act 2001.

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and conforms to market best practice for delivery of reward. The board ensures that executive reward satisfies the following key criteria for good governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage / alignment of executive compensation
- Transparency
- Capital Management

Compensation levels for key management personnel of the Company are competitively set to attract and retain appropriately qualified and experienced directors and executives. The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation. Compensation packages include a mix of fixed and variable compensation and short and long-term performance-based incentives.

7.5 Remuneration report – audited (continued)

7.5.1 Principles of compensation – audited (continued)

Fixed compensation

Fixed compensation ("FC") consists of base compensation which is calculated on a total cost basis and includes employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Remuneration, Nomination and Diversity Committee through a process that considers both individual and overall performance of the Company. In addition, external consultants can be engaged to provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the marketplace. A senior executive's compensation is also reviewed on promotion.

Performance linked compensation

Performance linked compensation is designed to reward key management personnel for meeting or exceeding their financial and personal objectives. The incentive bonus is an 'at risk' bonus provided in the form of cash, however, employees can elect to receive the bonus in shares through the Team Bonus Scheme ("TaBS"). The Company also operates the Poseidon Employee Share Option Plan ("ESOP").

Incentive bonus

The incentive bonus provides compensation to employees when key performance measures are achieved in line with business objectives. These measures will include financial and non-financial measures and are chosen to align the individual's compensation to the performance of the Company. The non-financial objectives will vary with an employee's role and responsibility and will include measures specific to that role as well as satisfying and following Company standards. The broad terms around the quantum of any incentive bonus, under current company practice, is related to a percentage of the FC amount. The Company has set a bonus range of between one month of an individual's FC amount to a maximum of 100% of annual base salary ("the applicable bonus range"), dependent on the individual's role.

The bonus is derived from a series of key performance measures related to business and individual performance. The bonus scheme is designed to reward and recognise performance and to pay an amount of between 0% - 50% of the applicable bonus range in recognition of actual performance levels noting that 100% would only be made in recognition of extraordinary achievement.

The Remuneration, Nomination and Diversity Committee reviews and recommends to the board, the individual bonuses for key management personnel taking into account the achievement of the team and particularly their individual performance. The Remuneration, Nomination and Diversity Committee also recommends a maximum allocation of funds for bonuses to other employees. These funds are then allocated on a strictly individual basis related to personal performance.

The board has adopted a recommendation from the Remuneration, Nomination and Diversity Committee to establish a performance based incentive bonus whereby the aims are to:

- Motivate and reward employees for creating significant value in the company and thereby aligning the interests of employees and shareholders;
- Provide targeted but competitive compensation and a long-term incentive for the retention of key employees; and
- Support a culture of employee share ownership.

As part of the incentive bonus, employees can be provided with the option to elect to receive their bonus in cash or "Participating Shares" under the terms of TaBS. The number of shares will be calculated based upon the pre-tax cash bonus divided by the 5 day VWAP (Volume Weighted Average Price) of the Company's shares prior to the decision to award the bonus being made by the board. The value of the participating shares is disclosed as a Hybrid share based payment in section 7.5.3 of the Directors' report.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.5 Remuneration report – audited (continued)
7.5.1 Principles of compensation – audited (continued)
Incentive bonus (continued)
Members of TaBS who have been provided with the option to elect to receive shares rather than cash will qualify for additional "Special Bonus Shares" in the ratio of 1 additional share for every 2 participating shares. Participation is by invite only and is not a contractual right but will include greater than 75% of all employees. The participating and special bonus shares will be subject to a holding lock for a period of 3 years from the date of issue and the satisfaction of a number of vesting conditions. The value of the participating and special bonus shares relating to the proportion vested in the financial year is included in the Hybrid and Shares, share based payment respectively, in section 7.5.3 of the Directors' report.

In addition, 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.

Consequences of performance on shareholder wealth
In considering the Company's performance and benefits for shareholder wealth, the Remuneration, Nomination and Diversity Committee have regard to the following indices in respect of the current financial year, however the 2006 to 2007 financial years are not considered relevant due to the changes to the key management personnel on 2 July 2007.

In thousands of AUD	**2011**	**2010**	**2009**	**2008**	**2007**
Net profit (loss) attributable to equity holders of the parent	546	(4,050)	7,441	(256,095)	(7,546)
Dividends paid	-	-	-	-	-
Change in share price	$(0.02)	$(0.06)	$(1.11)	$(0.72)	$1.52
% Change in share price	(10.5)%	(24.0)%	(81.6)%	(34.6)%	271.4%

Service contracts
It is the Company's policy that service contracts for key management personnel, excluding the chief executive officer, are unlimited in term but capable of termination with between one and three months' notice, depending on the specific contract terms. The Company retains the right to terminate the contract immediately, by making payment equal to between one and three months' pay in lieu of notice. The key management personnel are also entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long service leave together with any superannuation benefits.

The service contract outlines the components of compensation paid to the key management personnel but does not prescribe how compensation levels are modified year to year. Compensation levels are reviewed each year to take into account cost-of-living changes, any change in the scope of the role performed by the senior executive and any changes required to meet the principles of the compensation policy.

Mr D Singleton, CEO, has an employment agreement dated 2 July 2007 with the Company and was appointed as Managing Director from 1 February 2008. The agreement specifies the duties and obligations to be fulfilled by the CEO and provides that the board and CEO will early in each financial year, consult and agree objectives for achievement during that year. Compensation levels are reviewed each year by the Remuneration, Nomination and Diversity Committee and take into account any change in the scope of the role performed and any changes required to meet the principles of the compensation policy.

7.5 Remuneration report – audited (continued)

7.5.1 Principles of compensation – audited (continued)

Service contracts (continued)

The employment agreement is for a period of 5 years and subject to agreement by the Company, can be extended for a further 5 year term. The agreement is capable of being terminated on three months' notice by the CEO and six months notice by the Company. The Company retains the right to terminate the agreement immediately, by making payment equal to six months' pay in lieu of notice. The CEO has no entitlement to termination payment in the event of removal for misconduct.

Non-executive directors

Total compensation for all non-executive directors, last voted upon by shareholders at the 2 July 2007 General Meeting, is not to exceed $350,000 per annum and is set based on market forces and with reference to fees paid to other non-executive directors of comparable companies. Directors' fees reported for the year to 30 June 2011 are $250,774 (2010: $258,354).

Non-executive directors receive directors' fees to cover the main board activities. Non-executive director members who sit on more than one committee receive an additional payment of $5,699 per annum for each additional committee of which they are a member. Non-executive director members who chair a committee receive a further additional payment of $5,699 per annum for each committee chaired.

Under the Director Share Plan ("DSP") approved by shareholders at the AGM on 23 November 2010, non-executive directors have elected to receive director fees as shares in lieu of cash in order to retain the cash reserves of the Company. The value of the shares awarded to non-executive directors has been disclosed as a Hybrid share based payment in the table in section 7.5.3 of the Directors' report.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.5 Remuneration report – audited (continued)
7.5.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited

In AUD		Short-term	Post employment	Share-based payments			Total	Proportion of remuneration performance related %	Value of options as a proportion of remuneration %
		Salary & fees $	Super-annuation benefits $	Options and rights $ (A)	Shares $ (B)	Hybrids $ (C)	$		
Directors									
Non-executive directors									
Mr A Forrest (Chairman)	2011	-	-	-	-	45,595	45,595	-	-
	2010	-	-	-	-	43,842	43,842	-	-
Mr C Indermaur	2011	-	-	12,840	-	74,092	86,932	-	14.8%
	2010	-	-	-	-	88,468	88,468	-	-
Mr R Monti	2011	-	-	3,210	-	62,693	65,904	-	4.9%
	2010	-	-	-	-	60,282	60,282	-	-
Mr G Brayshaw	2011	-	-	3,210	-	68,393	71,603	-	4.5%
	2010	-	-	-	-	65,762	65,762	-	-
Executive directors									
Mr D Singleton, MD & CEO	2011	439,664	25,000	304,294	19,500	39,000	827,458	7.1%	36.8%
	2010	418,106	25,000	396,442	11,647	23,293	874,487	4.0%	45.3%
Executives									
Mr R Dennis, COO	2011	460,933	36,848	43,646	35,571	14,387	591,385	8.4%	7.4%
	2010	413,520	35,431	79,938	33,722	8,593	571,204	7.4%	14.0%
Mr N Hutchison, GM Geology	2011	238,561	20,515	31,747	22,155	12,133	325,111	10.5%	9.8%
	2010	226,203	19,726	41,148	20,305	7,247	314,629	8.8%	13.1%
Mr M Rodriguez, Group Technology Manager	2011	294,600	27,608	20,713	21,161	27,040	391,122	12.3%	5.3%
	2010	289,547	26,546	-	15,999	16,150	348,241	9.2%	-
Mr G Jones, Financial Controller	2011	195,460	17,389	21,917	16,336	6,933	258,036	9.0%	8.5%
	2010	185,354	16,720	14,754	15,417	4,141	236,386	8.3%	6.2%
Total compensation: key management personnel (consolidated)	2011	1,629,218	127,360	441,577	114,723	350,267	2,663,144		
	2010	1,532,729	123,423	532,283	97,090	317,777	2,603,301		
Total compensation: key management personnel (company)	2011	1,629,218	127,360	441,577	114,723	350,267	2,663,144		
	2010	1,532,729	123,423	532,283	97,090	317,777	2,603,301		

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.5 Remuneration report – audited (continued)
7.5.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited (continued)
Notes in relation to the table of directors' and executive officers remuneration – audited

(A) The fair value of the options is calculated at the date of grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period. In valuing the options, market conditions have been taken into account.

The following factors and assumptions were used in determining the fair value of options issued to key management personnel on grant date:

Grant Date	Option life	Fair value per option	Exercise price	Price of shares on grant date	Expected volatility	Risk free interest rate	Dividend yield
2 July 2007	5 years	$1.9724	$0.40	$2.140	100.0%	6.27%	0%
2 July 2007	4 years	$1.5670	$1.96	$2.140	100.0%	6.27%	0%
29 November 2007	5 years	$0.8660	$1.41	$1.160	100.0%	6.25%	0%
30 November 2007	5 years	$0.8700	$1.41	$1.170	100.0%	6.27%	0%
11 April 2008	5 years	$0.3880	$1.41	$0.620	100.0%	6.02%	0%
27 November 2008	4 years	$0.1052	$0.80	$0.190	115.0%	3.97%	0%
21 September 2010	6 years	$0.1610	$0.25	$0.215	90.0%	4.97%	0%
23 November 2010	6 years	$0.1250	$0.25	$0.175	90.0%	5.27%	0%

(B) The shares granted to executive directors and executives are the special bonus shares issued in relation to TaBS for the performance bonus earned in prior reporting periods and that vest over a 3 year period from the grant date. The value disclosed is the portion of the fair value of the shares recognised in this reporting period. Refer to TaBS in section 7.5.1 of the Directors' report.

(C) The hybrid share based payment represents the participating shares for the short term incentive bonus issued to executive directors and executives in relation to TaBS for the performance bonus earned in prior reporting periods and shares issued to non-executive directors in relation to the DSP, that allows the individual to choose whether to receive director fees as cash or shares for the current period. Refer to the TaBS plan and the DSP in section 7.5.1 of the Directors' report.

Details of performance related remuneration

Details of the Group's policy in relation to the proportion of remuneration that is performance related is discussed in section 7.5.1 of the Directors' report.

7.5.3 Equity instruments

All options refer to options over ordinary shares of Poseidon Nickel Limited, which are exercisable on a one-for-one basis under the ESOP plan.

7.5 Remuneration report – audited (continued)

7.5.3 Equity instruments (continued)

Options and rights over equity instruments granted as compensation – audited

Options

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested are as follows:

	Number of options granted during 2011	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	Number of options vested during 2011
Directors						
Mr C Indermaur	1,000,000	23 November 2010	$0.125	$0.25	23 September 2016	-
Mr R Monti	250,000	23 November 2010	$0.125	$0.25	23 September 2016	-
Mr G Brayshaw	250,000	23 November 2010	$0.125	$0.25	23 September 2016	-
Mr D Singleton	3,000,000	23 November 2010	$0.125	$0.25	23 September 2016	-
Executives						
Mr R Dennis	500,000	21 September 2010	$0.161	$0.25	21 September 2016	-
Mr N Hutchison	700,000	21 September 2010	$0.161	$0.25	21 September 2016	-
Mr M Rodriquez	1,000,000	21 September 2010	$0.161	$0.25	21 September 2016	-
Mr G Jones	500,000	21 September 2010	$0.161	$0.25	21 September 2016	-
	7,200,000					-

All options granted in the reporting period were provided to directors and executives at no consideration. No options have vested during the reporting period.

The options issued to directors and executives in the reporting period were granted under the terms of the ESOP and were issued in relation to performance in the 2010 financial year. The director options were approved by shareholders at the general meeting held on 23 November 2010.

All options expire on the earlier of their expiry date or termination of the individual's employment. The options are generally exercisable 3 years from grant date. In addition to a continuing employment service condition, the ability to exercise options is conditional on the Group achieving certain share price performance hurdles. The options issued to directors and executives as part of the ESOP have a share price hurdle of $0.50.

For options granted in the current year, the earliest exercise date is 21 September 2013 and relates to the options issued to executives.

No options have been granted to directors and executives since the end of the financial year.

Shares

No shares were granted to directors or executives during the reporting period and no shares have been granted to directors or executives since the end of the financial year.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited (continued)

Hybrids

Details on hybrids in the Company that were granted as compensation to each key management person during the reporting period are as follows:

	Number of hybrids granted during 2011	Grant or quarter end date	Fair value per hybrid at grant date ($)	Purchase price per hybrid at issue date ($)	Total hybrid value ($)
Directors					
Mr A Forrest	58,520	30 September 2010	$0.19	$0.19	11,399
	53,447	31 December 2010	$0.21	$0.21	11,399
	38,582	31 March 2011	$0.30	$0.30	11,399
	47,155	30 June 2011	$0.24	$0.24	11,398
	197,704				45,595
Mr C Indermaur	95,095	30 September 2010	$0.19	$0.19	18,523
	86,851	31 December 2010	$0.21	$0.21	18,523
	62,696	31 March 2011	$0.30	$0.30	18,523
	76,628	30 June 2011	$0.24	$0.24	18,523
	321,270				74,092
Mr R Monti	80,465	30 September 2010	$0.19	$0.19	15,673
	73,489	31 December 2010	$0.21	$0.21	15,673
	53,050	31 March 2011	$0.30	$0.30	15,673
	64,839	30 June 2011	$0.24	$0.24	15,674
	271,843				62,693
Mr G Brayshaw	87,780	30 September 2010	$0.19	$0.19	17,098
	80,170	31 December 2010	$0.21	$0.21	17,098
	57,873	31 March 2011	$0.30	$0.30	17,098
	70,733	30 June 2011	$0.24	$0.24	17,099
	296,556				68,393
	1,087,373				250,773

The number and value of hybrids issued to non-executive directors in the year is the equivalent to the director fee cash value that has been elected to be received as shares in each quarter. Refer to the DSP in section 7.5.1 of the Directors' report.

No hybrids were granted to executives during the reporting period and no hybrids were issued to directors or executives since the end of the financial year.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Modification of terms of equity-settled share-based payment transactions - audited
No terms of equity-settled share-based payment transactions (including options and rights granted as compensation to a key management person) have been altered or modified by the issuing entity during the reporting period or the prior period.

Exercise of options granted as compensation – audited
During the reporting period there were no shares issued on the exercise of options previously granted as compensation.

Analysis of options and rights over equity instruments granted as compensation - audited

Options
Details of the vesting profile of options granted to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Options granted			
Directors	**Number**	**Grant date**	**Financial years in which grant vests**	**Total expensed in period ($)**
Mr A Forrest	115,000,000	2 July 2007	2008	-
Mr R Monti	2,500,000	2 July 2007	2008	-
Mr D Singleton	1,000,000	2 July 2007	2012	195,624
Mr D Singleton	2,000,000	27 November 2008	2013	70,150
Mr C Indermaur	1,000,000	23 November 2010	2017	12,840
Mr R Monti	250,000	23 November 2010	2017	3,210
Mr G Brayshaw	250,000	23 November 2010	2017	3,210
Mr D Singleton	3,000,000	23 November 2010	2017	38,520
Executives				
Mr R Dennis	277,000	29 November 2007	2013	33,289
Mr N Hutchison	142,000	30 November 2007	2013	17,248
Mr G Jones	114,000	14 April 2008	2013	11,561
Mr R Dennis	500,000	21 September 2010	2017	10,357
Mr N Hutchison	700,000	21 September 2010	2017	14,499
Mr M Rodriguez	1,000,000	21 September 2010	2017	20,713
Mr G Jones	500,000	21 September 2010	2017	10,356
	128,233,000			441,577

The value of options expensed in the period is the portion of the fair value of the option recognised in the reporting period and the amount allocated to remuneration.

No options vested or were forfeited during the reporting period. Options issued to Mr D Singleton in July 2007 have lapsed since the end of the financial year as the share price performance hurdles have not been met.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited (continued)
Analysis of options and rights over equity instruments granted as compensation – audited (continued)

Shares

Details of the vesting profile of shares granted to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Shares granted				
Directors	**Number**	**Grant date**	**% vested in year**	**Financial years in which grant vests**	**Total expensed in period ($)**
Mr D Singleton	225,000	24 November 2009	-	2013	19,500
Executives					
Mr R Dennis	110,246	18 June 2008	100%	2011	28,378
	83,000	24 November 2009	-	2013	7,193
Mr N Hutchison	62,500	18 June 2008	100%	2011	16,088
	70,000	24 November 2009	-	2013	6,067
Mr M Rodriguez	29,688	18 June 2008	100%	2011	7,641
	156,000	24 November 2009	-	2013	13,520
Mr G Jones	50,000	18 June 2008	100%	2011	12,869
	40,000	24 November 2009	-	2013	3,467
	826,434				114,723

The value of shares expensed in the period is the portion of the fair value of the shares recognised in the reporting period and the amount allocated to remuneration. No shares have been granted to directors or executives since the end of the financial year.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited (continued)
Analysis of options and rights over equity instruments granted as compensation – audited

Hybrids

Details of the vesting profile of hybrids granted to each director of the Company and each of the five named Company executives and relevant Group executives and other key management personnel are detailed below.

	Hybrids granted				
	Number	**Grant or quarter end date**	**% vested in year**	**Financial years in which grant vests**	**Total expensed in period ($)**
Directors					
Mr A Forrest	58,520	30 September 2010	100%	2011	11,399
	53,447	31 December 2010	100%	2011	11,399
	38,582	31 March 2011	100%	2011	11,399
	47,155	30 June 2011	100%	2011	11,398
	197,704				45,595
Mr C Indermaur	95,095	30 September 2010	100%	2011	18,523
	86,851	31 December 2010	100%	2011	18,523
	62,696	31 March 2011	100%	2011	18,523
	76,628	30 June 2011	100%	2011	18,523
	321,270				74,092
Mr R Monti	80,465	30 September 2010	100%	2011	15,673
	73,489	31 December 2010	100%	2011	15,673
	53,050	31 March 2011	100%	2011	15,673
	64,839	30 June 2011	100%	2011	15,672
	271,843				62,693
Mr G Brayshaw	87,780	30 September 2010	100%	2011	17,098
	80,170	31 December 2010	100%	2011	17,098
	57,873	31 March 2011	100%	2011	17,098
	70,733	30 June 2011	100%	2011	17,099
	296,556				68,393
Mr D Singleton	450,000	24 November 2009	-	2013	39,000
Executives					
Mr R Dennis	166,000	24 November 2009	-	2013	14,387
Mr N Hutchison	140,000	24 November 2009	-	2013	12,133
Mr M Rodriguez	312,000	24 November 2009	-	2013	27,040
Mr G Jones	80,000	24 November 2009	-	2013	6,933
	2,235,373				350,266

The value of hybrids expensed in the period is the portion of the fair value of the hybrids recognised in the reporting period and the amount allocated to remuneration.

No hybrids were granted to directors or executives since the end of the financial year.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.5 Remuneration report – audited (continued)
7.5.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited (continued)

Analysis of movements in options – audited
The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Company director and each of the five named Company executives and relevant group executives and other key management personnel is detailed below.

	Granted in prior periods $ (A)	Granted in 2011 $ (B)	Total option value expensed in year $ (C)
Directors			
Mr C Indermaur	-	125,000	12,840
Mr R Monti	-	31,250	3,210
Mr G Brayshaw	-	31,250	3,210
Mr D Singleton	1,777,450	375,000	304,294
Executives			
Mr R Dennis	240,034	80,500	43,646
Mr N Hutchison	123,557	112,700	31,747
Mr M Rodriguez	-	161,000	20,713
Mr G Jones	44,304	80,500	21,917
	2,185,345	997,200	441,577

(A) The value of options granted in prior periods is the fair value of the options calculated at grant date using a binominal option-pricing model. The total value of the options granted is included in the table above.

(B) The value of options granted in the current period is the fair value of the options calculated at grant date using a binominal option-pricing model. The total value of the options granted is included in the table above.

(C) The total value of options granted in prior and current reporting periods is expensed over the vesting period of the options. The value disclosed is the portion of the fair value of the options that is allocated to remuneration in the reporting period.

There were no options exercised or forfeited during the financial year.

7.6 Audit and Risk Management Committee
The board has established an Audit and Risk Management Committee, which operates under a Charter approved by the board. It is the board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of key performance indicators. The board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit and Risk Management Committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. The board has established an Audit and Risk Management Committee comprising of three non-executive directors.

7.6 Audit and Risk Management Committee (continued)

The members of the Audit and Risk Management Committee at the date of this report were:

- Mr G Brayshaw (Chairman)
- Mr C Indermaur
- Mr R Monti

For qualifications of the Audit and Risk Management Committee members and details on the number of meetings of the committee held during the year and the attendees of those meetings, refer to section 3 of the Directors' report.

The Company policy is to appoint external auditors who clearly demonstrate independence. The performance of the external auditor is reviewed annually by the committee. The auditors have a policy of rotating partner at least every five years.

The board recognises that the identification and management of risk, including calculated risk taking, is an essential part of creating long term shareholder value. Management reports directly to the board on the Company's key risks and is responsible through the CEO for designing, maintaining, implementing and reporting on the adequacy of the risk management and internal controls systems.

The Audit and Risk Management Committee monitors the performance of the risk management and internal control systems and reports to the board on the extent to which it believes the risks are being managed and the adequacy and comprehensiveness of risk reporting from management.

The board must satisfy itself, on a regular basis, that risk management and internal control systems for the Company have been fully developed and implemented.

In conjunction with its external advisors, the Company has identified specific risk management areas being strategic, operational and compliance. During the 2011 financial year, the board continued to review the strategic and operational risks on a regular basis.

A detailed risk identification matrix has been prepared and regularly updated by management. High and very high risk issues are reported to the board. An internal officer is responsible for ensuring the Company complies with its regulatory obligations. The executive committee also meets regularly to deal with specific areas of risk.

The CEO and CFO also provide written assurance to the board on an annual basis that to the best of their knowledge and belief, the declaration provided by them in accordance with Section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in relation to financial reporting risks.

The assurances from the CEO and CFO can only be reasonable rather than absolute due to factors such as the need for judgement and possible weaknesses in control procedures.

Any material changes in the Company's circumstances are released to the ASX and included on the Company's website.

7.7 Best Practice Recommendation

Outlined below are the eight Essential Corporate Governance Principles as outlined by the ASX and the Corporate Governance Council as they applied for the Financial Year ended 30 June 2011. The Company has complied with all of the Corporate Governance Best Practice Recommendations.

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy	Action taken and reasons if not adopted
Lay solid foundation for management and oversight	Adopted
Principle 1: Recognise and publish the respective roles and responsibilities of the board and management	
1.1 Formalise and disclose the functions reserved to the Board and those delegated to management	The Company's Corporate Governance Policies include a Board Charter which discloses the specific responsibilities of the board.
1.2 Disclose the process for evaluation the performance of senior executives	The board, through the CEO, monitors performance of senior management including measuring actual performance against planned performance.
1.3 Provide the information indicated in 'Guide to reporting on Principle 1'	The Company had no departures from Principle 1.
Structure the board to add value	Adopted
Principle 2: Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties	
2.1 A majority of the board should be independent	The majority of the board are independent directors.
2.2 The chairperson should be an independent director	The chairman is independent.
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual	The roles of the Chair and the CEO are not exercised by the same individual.
2.4 The board should establish a nomination committee	The board has established a Remuneration, Nomination and Diversity Committee. The members of the committee comprise three independent directors. The CEO is not a member of the committee but attends the meeting by invitation.
2.5 Disclose the process for evaluating the performance of the board, its committees and the individual directors	The board has adopted a policy to assist in evaluating board performance and a review of the board's and individual directors' performance is undertaken each year.
2.6 Provide the information indicated in 'Guide to Reporting on Principle 2'	The Company had no departures from Principle 2.

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy		Action taken and reasons if not adopted
Actively promote ethical and responsible decision-making		Adopted
Principle 3: Promote ethical and responsible decision-making		
3.1	Establish a code of conduct and disclose the code or summary of the code as to: 3.1.1 the practices necessary to maintain confidence in the Company's integrity 3.1.2 the practices necessary to take into account their legal obligations and reasonable expectations of their stakeholders 3.1.3 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices	The Company's Corporate Governance Policies include a Directors' and Executive Officers' Code of Conduct Policy which provides a framework for decisions and actions in relation to ethical conduct in employment.
3.2	Establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy.	The Company's Corporate Governance Policies includes Dealing in Securities which provides comprehensive guidelines on trading in the Company's securities.
3.3	Establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	The Company's Corporate Governance Policies includes Diversity and outlines the Company's commitment to diversity and the active steps the Company takes in implementing the policy, commensurate with a company of its size and the industry within which it operates.
3.4	Disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	As recommendation 3.3 comes into effect for the 2012 financial year, the Company will disclose in its 2012 Annual Report the requirements of Recommendation 3.3.
3.5	Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	As recommendation 3.4 comes into effect for the 2012 financial year, the Company will disclose in its 2012 Annual Report the requirements of Recommendation 3.4.
3.6	Provide the information indicated in 'Guide to Reporting on Principle 3'	The Company had no departures from Principle 3.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy	Action taken and reasons if not adopted
Principle 4: Establish a structure to independently verify and safeguard the integrity in financial reporting	
4.1 The board should establish an Audit Committee	An Audit and Risk Management Committee has been established by the Company.
4.2 Structure the Audit Committee so that it consists of: – Only non-executive directors – A majority of independent directors – An independent chairperson who is not the chairperson of the Board – At least three members	The Audit and Risk Management Committee consists of three independent non-executive directors and is chaired by Mr G Brayshaw who is not the chair of the board.
4.3 The Audit Committee should have a formal operating charter	The Audit and Risk Management Committee has a formal Charter.
4.4 Provide the information indicated in the 'Guide to reporting on Principle 4'	The Company had no departures from Principle 4.
Promote timely and balanced disclosure	Adopted
Principle 5: Make timely and balanced disclosure of all material matters concerning the Company	
5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance	The Company has a Continuous Disclosure Policy which is designed to ensure compliance with the ASX Listing Rules requirements on disclosure and to ensure accountability at a board level for compliance and factual presentation of the Company's financial position.
5.2 Provide the information indicated in the 'Guide to reporting on Principle 5'	The Company had no departures from Principle 5.
Respect the rights of shareholders	Adopted
Principle 6: Respect the rights of shareholders and facilitate the effectiveness of those rights	
6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings and disclose the policy or a summary of the policy	The Company's Corporate Governance Policies include a Shareholder Communications Policy which aims to ensure that the shareholders are informed of all material developments affecting the Company's state of affairs.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy	Action taken and reasons if not adopted
Recognise and manage risk	Adopted
6.2 Provide the information indicated in the 'Guide to reporting on Principle 6'	The Company had no departures from Principle 6.
Principle 7: Establish a sound system of risk oversight and management and internal control	
7.1 The Board or appropriate Board committee should establish policies on risk oversight and management	The Company's Corporate Governance Policies include a Risk Management Policy which aims to ensure that all material business risks are identified and mitigated. The board identifies the Company's 'risk profile' and is responsible for overseeing and approving risk management strategies and policies, internal compliance and internal controls.
7.2 The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks	The board requires that the CEO designs and implements continuous risk management and internal control systems and provides reports at relevant times.
7.3 The Board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound risk management and internal control and that the system is operating effectively in all material respects in relation to the financial reporting risks	The board seeks, at the appropriate times, these relevant assurances from the individuals appointed to perform the role of Chief Executive Officer and Chief Financial Officer.
7.4 Provide the information indicated in the 'Guide to reporting on Principle 7'	The Company had no departures from Principle 7.

7.7 Best Practice Recommendation (continued)

Corporate Governance Policy	Action taken and reasons if not adopted
Remunerate fairly and responsibly	Adopted
Principle 8: Ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is definition	
8.1 The Board should establish a Remuneration Committee	A Remuneration, Nomination and Diversity Committee has been established by the Company.
8.2 The remuneration committee should be structured so that it: • Consists of a majority of independent directors • Is chaired by an independent director • Has at least 3 members	The Remuneration, Nomination and Diversity Committee comprises 3 independent directors, including the Chairman of the Committee.
8.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives	The board distinguishes the structure of non-executive director's remuneration from that of executive directors and senior executives. The Company's Constitution provides that the remuneration of non-executive directors will be not more than the aggregate fixed sum approved by a general meeting of shareholders. The board is responsible for determining the remuneration of any director or senior executive without the participation of the affected director.
8.4 Provide the information indicated in the 'Guide to reporting on Principle 8'	The Company had no departures from Principle 8.

Further information on the Corporate Governance Policies that have been adopted by Poseidon can be referenced at the Company's website: www.poseidonnickel.com.au

8. Dividends

The Directors recommend that no dividend be declared or paid.

9. Events subsequent to reporting date

There has not arisen in the interval between the end of the financial year 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.

10. Directors' interests

The relevant interest of each director in the shares, debentures, interests in registered schemes and rights or options over such instruments issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	Poseidon Nickel Limited	
	Ordinary shares	**Options over ordinary shares**
Mr A Forrest	5,000,000	-
Mr C Indermaur	622,719	1,000,000
Mr R Monti	950,404	1,500,000
Mr G Brayshaw	745,638	250,000
Mr D Singleton	2,675,000	5,000,000
	9,993,761	7,750,000

Mr A Forrest continues to gift shares issued in lieu of director fees to Leaping Joey Pty Ltd as trustee for the Australian Children's Trust. Mr A Forrest and Mr R Monti have previously gifted options issued by the Company.

11. Share options

Options granted to directors and officers of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors and five most highly remunerated executives of the Company as part of their remuneration.

	Number of options granted	Exercise price	Expiry date
Directors			
Mr C Indermaur	1,000,000	0.25	23 November 2016
Mr R Monti	250,000	0.25	23 November 2016
Mr G Brayshaw	250,000	0.25	23 November 2016
Mr D Singleton	3,000,000	0.25	23 November 2016
Executives			
Mr R Dennis	500,000	0.25	21 September 2016
Mr N Hutchison	700,000	0.25	21 September 2016
Mr M Rodriquez	1,000,000	0.25	21 September 2016
Mr G Jones	500,000	0.25	21 September 2016
	7,200,000		

All options were granted during the financial year. No options have been granted since the end of the financial year.

The options issued to directors and executives were in relation to performance in the 2010 financial year.

11. Share options (continued)

Options granted to directors and officers of the Company (continued)

Unissued shares under options

At the date of this report unissued ordinary shares of the Company under option are:

Expiry date	Exercise price	Number of shares
5 December 2011	0.92	6,157,403
31 July 2012	0.40	2,500,000
19 September 2012	0.40	115,000,000
22 October 2012	1.41	533,000
27 November 2012	0.80	2,000,000
31 August 2012	0.25	9,267,436
21 September 2016	0.25	2,975,000
23 November 2016	0.25	4,500,000
		142,932,839

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Shares issued on exercise of options

During or since the end of the financial year, the Company has not issued any ordinary shares as a result of the exercise of options.

12. Indemnification and insurance of officers and auditors

Insurance premiums

The Company has agreed to indemnify the following current directors of the Company, Mr A Forrest, Mr C Indermaur, Mr R Monti, Mr G Brayshaw, Mr D Singleton against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current directors of its controlled entities for all liabilities to another person (other than the company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has paid a premium to insure the directors and officers of the Company and its controlled entities. Details of the premium are subject to a confidentiality clause under the contract of insurance. The insurance premiums relate to:

- costs and expenses incurred by the relevant officers in defending proceedings, whether civil or criminal and whatever their outcome; and
- other liabilities that may arise from their position, with the exception of conduct involving a wilful breach of duty or improper use of information or position to gain a personal advantage.

The insurance policies outlined above do not contain details of the premiums paid in respect of individual officers of the Company.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

13. Non-audit services

During the year KPMG, the Company's auditor, has not performed other services in addition to their statutory duties.

The board considered the non-audit services provided during the previous year by the auditor and in accordance with the advice provided by the audit committee, is satisfied that the provision of the non-audit services during the year by the auditor is compatible with and did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reason:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below. In addition, amounts paid to other auditors for the statutory audit have been disclosed:

	Consolidated	
In AUD	**2011**	**2010**
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	41,883	36,700
Accounting assistance and advice	-	18,000
	41,883	54,700
Other services		
Forensic services	-	42,440
	41,883	97,140

No other services were provided by KPMG during the year.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2011

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 77 and forms part of the directors' report for financial year ended 30 June 2011.

15. Rounding off

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

This report is made with a resolution of the directors:

Mr G Brayshaw
Director

Perth
27th September 2011

Poseidon Nickel Limited

Consolidated statement of financial position

As at 30 June 2011

In thousands of AUD	*Note*	2011	2010
Assets			
Cash and cash equivalents	*17*	14,162	924
Trade and other receivables	*16*	649	122
Total current assets		14,811	1,046
Property, plant and equipment	*11*	2,342	1,774
Exploration and evaluation expenditure	*12*	45,635	40,692
Other investments	*13*	456	945
Other	*14*	3,500	3,500
Total non-current assets		51,933	46,911
Total assets		66,744	47,957
Liabilities			
Trade and other payables	*25*	2,392	797
Loans and borrowings	*20*	13,609	10,726
Convertible note derivative	*21*	10,948	1,464
Employee benefits	*22*	57	13
Provisions	*24*	3,500	3,500
Total current liabilities		30,506	16,500
Loans and borrowings	*20*	17	126
Total non-current liabilities		17	126
Total liabilities		30,523	16,626
Net assets		36,221	31,331
Equity			
Share capital	*18*	79,726	76,190
Reserves		235,244	234,436
Accumulated losses		(278,749)	(279,295)
Total equity attributable to equity holders of the Company		36,221	31,331
Total equity		36,221	31,331

The notes on pages 39 to 73 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited

Consolidated statement of comprehensive income

For the year ended 30 June 2011

In thousands of AUD	*Note*	**2011**	**2010**
Other income	*7*	210	802
Depreciation expense		(12)	(24)
Personnel expenses	*8*	(1,046)	(953)
Exploration costs expensed		(2,370)	(493)
Corporate and administration costs		(1,364)	(1,186)
Share based payment expense	*23*	(886)	(913)
Other expenses		(298)	(292)
Results from operating activities		(5,766)	(3,059)
Finance income		14,409	690
Finance costs		(8,097)	(1,681)
Net finance income / (costs)	*9*	6,312	(991)
Profit / (loss) before income tax		546	(4,050)
Income tax expense	*10*	-	-
Profit / (loss) for the period		546	(4,050)
Other comprehensive income			
Net change in fair value of available-for-sale financial assets reclassified to profit or loss		(340)	340
Other comprehensive income for the period, net of income tax		(340)	340
Total comprehensive income for the period		206	(3,710)
Earnings per share			
Basic profit / (loss) per share (cents/share)	*19*	0.28	(2.38)
Diluted profit / (loss) per share (cents/share)	*19*	0.28	(2.38)

The notes on pages 39 to 73 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited
Consolidated statement of changes in equity

For the year ended 30 June 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 2009	73,508	233,054	-	510	(275,245)	31,827
Profit / (loss)	-	-	-	-	(4,050)	(4,050)
Other comprehensive income						
Net change in fair value of available-for-sale assets, net of tax	-	-	340	-	-	340
Total other comprehensive income	-	-	340	-	-	340
Total comprehensive income for the period	-	-	340	-	(4,050)	(3,710)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	2,682	-	-	-	-	2,682
Issue of options (net of costs)	-	532	-	-	-	532
Total contributions by and distributions to owners	2,682	532	-	-	-	3,214
Total transactions with owners	2,682	532	-	-	-	3,214
Balance at 30 June 2010	76,190	233,586	340	510	(279,295)	31,331

For the year ended 30 June 2011

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
Profit / (loss)	-	-	-	-	546	546
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss, net of tax	-	-	(340)	-	-	(340)
Total other comprehensive income	-	-	(340)	-	-	(340)
Total comprehensive income for the period	-	-	(340)	-	546	206
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	3,536	691	-	-	-	4,227
Issue of options (net of costs)	-	457	-	-	-	457
Total contributions by and distributions to owners	3,536	1,148	-	-	-	4,684
Total transactions with owners	3,536	1,148	-	-	-	4,684
Balance at 30 June 2011	79,726	234,734	-	510	(278,749)	36,221

The condensed notes on pages 39 to 73 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited

Consolidated statement of cash flows

For the year ended 30 June 2011

In thousands of AUD	***Note***	**2011**	**2010**
Cash flows from operating activities			
Sundry receipts		130	498
Payments to suppliers and employees		(5,217)	(2,945)
Cash used in operations		(5,087)	(2,447)
Interest received		201	133
Net cash used in operating activities	*17b*	(4,886)	(2,314)
Cash flows from investing activities			
Payments for property, plant and equipment		(780)	(14)
Payments for exploration and evaluation expenditure		(2,929)	(2,382)
Payments for other investments		(20)	-
Payments of transaction costs for the disposal of non-current assets		-	(25)
Net cash used in investing activities		(3,729)	(2,421)
Cash flows from financing activities			
Proceeds from the issue of shares and options		3,056	2,176
Proceeds from the issue of convertible notes		19,484	
Payment of finance lease liabilities		(76)	(69)
Net cash from financing activities		22,464	2,107
Net increase / (decrease) in cash and cash equivalents		13,849	(2,628)
Cash and cash equivalents at 1 July		924	3,552
Effect of exchange rate fluctuations on cash held		(611)	-
Cash and cash equivalents at 30 June	*17a*	14,162	924

The notes on pages 39 to 73 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited
Notes to the consolidated financial statements

1. Reporting entity

Poseidon Nickel Limited ("the Company") is a company domiciled in Australia. The address of the Company's registered office is Level 2, Spectrum, 100 Railway Road, Subiaco WA 6008. The consolidated financial statements of the Company as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 27 September 2011.

(b) Basis of measurement

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

- convertible note derivative at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value through equity;
- share based payments are measured at fair value.

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgements

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

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

(e) Changes in accounting policies

(i) Presentation of transactions recognised in other comprehensive income

The Group has applied amendments to AASB 101, *Presentation of Financial Statements* outlined in AASB 2010-4 *Further amendments to Australian Accounting Standards arising from the Annual Improvements Project*. The change in accounting policy only relates to disclosures and had no impact on consolidated earnings per share or net income. The changes have been applied retrospectively and allow the Group to disclose transactions recognised in other comprehensive income.

(ii) Removal of parent entity financial statements

The Group has applied amendments to the Corporations Act (2001) that remove the requirement for the Group to lodge parent entity financial statements. Parent entity financial statements have been replaced by the specific parent entity disclosures in note 32.

3. Financial Position

The consolidated financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation and extinguishment of liabilities in the ordinary course of business. For the year ended 30 June 2011 the Company incurred a profit of $546,000 (2010: loss $4,050,000) and had a net working capital deficit of $15,695,000 (2010: deficit $15,454,000). The working capital deficit includes the following items: the convertible note liability of $13,498,000 and the convertible note derivative liability of $10,948,000 that can only be settled in shares if called by the note holders prior to its redemption date of 28 March 2016 and a provision for environmental rehabilitation of $3,500,000 that is cash backed (non-current asset).

The Company had a net cash outflow used in investing activities of $3,729,000 (2010: outflow $2,421,000), reflecting the increase in exploration and mine refurbishment activity now underway. During the reporting period, the Company completed a capital raising in August 2010 for $3,200,000, less costs of $161,000 and in December 2010 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 were approved by shareholders at a general meeting held on 28 March 2011 and details of the terms can be found in note 20.

The Company will require further funding in order to meet day-to-day obligations as they fall due and to progress its resource to reserve drilling, mine refurbishment and feasibility study for the Windarra Nickel Project (“WNP”) as budgeted. The Board of Directors is aware, having prepared a cashflow budget, of the Company’s working capital requirements and the need to access additional funding within the next 6 months. Should the Company be unable to raise sufficient funds, it may be necessary to reduce exploration and administrative costs.

The Board is confident in securing sufficient additional funding to provide working capital for at least the next 18 months and is negotiating with interested parties regarding a number of funding options that includes further debt and capital raisings.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows and confidence in raising additional funds. Should the Company not be successful in achieving forecast cash flows including the raising of additional funds, it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in this financial report.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Jointly controlled operating assets

The interest of the Group in unincorporated joint ventures and joint controlled assets are brought to account by recognising in its financial statements the assets its controls, the liabilities that it incurs, the expenses it incurs and its share of income that it earns from the sale of goods or services by the joint venture.

Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

4. Significant accounting policies (continued)

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(c) Financial instruments

Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, available-for-sale financial assets and loans and receivables.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Financial assets designated at fair value through profit or loss comprise equity securities that otherwise would have been classified as available for sale.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus and directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables, including service concession receivables

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Poseidon Nickel Limited
Notes to the consolidated financial statements

4. Significant accounting policies (continued)

(c) Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for-sale equity instruments are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Convertible note liability and derivative

Convertible Notes issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder and a convertible note derivative whose fair value changes with the Company's underlying share price.

The liability component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The embedded derivative component is firstly recognised initially at fair value and the liability component is calculated as the difference between the financial instrument as a whole and the value of the derivative at inception. Any directly attributable transaction costs are allocated to the convertible note liability and convertible note derivative in proportion to their initial carrying amounts. The fair value of the derivative portion has been valued using a valuation technique including inputs that include reference to similar instruments and option pricing models. Subsequent to initial recognition, the liability component of the convertible note is measured at amortised cost using the effective interest method. The convertible note derivative is measured at fair value through profit or loss.

The convertible note liability and derivative are removed from the statement of financial position when the obligations specified in the contract are discharged, this can occur upon the option holder exercising their option or the option period lapses requiring the company to discharge the obligation. Both the convertible note liability and derivative are classified as current liabilities as the option holder has the right to convert at anytime.

Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest rate method.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

4. Significant accounting policies (continued)

(d) Property, plant and equipment (continued)
Depreciation
Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

– leasehold improvements	25 years
– computer equipment	2 – 4 years
– plant and equipment	3 – 13 years
– motor vehicles	4 – 6 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(e) Exploration and evaluation expenditure

Exploration and evaluation activity involves the search for mineral resources, the determination of technical feasibility and the assessment of commercial viability of an identified resource.

Exploration and evaluation activity includes:

- researching and analysing historical exploration data
- gathering exploration data through topographical, geochemical and geophysical studies
- exploratory drilling, trenching and sampling
- determining and examining the volume and grade of the resource
- surveying transportation and infrastructure requirements
- conducting market and finance studies

Administration costs that are not directly attributable to specific exploration area are charged to the statement of comprehensive income. Licence costs paid in connection with a right to explore in an existing exploration area are capitalised.

Exploration and evaluation expenditure for each identifiable area of interest is charged to the statement of comprehensive income as incurred except where it has been established the existence of a commercially recoverable mineral resource that will provide a future economic benefit to the Company.

The carrying value of exploration and evaluation assets is assessed annually in accordance with AASB6 Exploration for and Evaluation of Mineral Resources and the Company’s policy in relation to impairment.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the likely resources.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Costs of the environmental rehabilitation of the mine site are included as a rehabilitation asset and recognised in accordance with 4 (i).

4. Significant accounting policies (continued)

(f) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group's statement of financial position.

(g) Impairment

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets, including equity securities are impaired can include the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets and exploration and evaluation expenditure, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4. Significant accounting policies (continued)

(g) Impairment (continued)
Non-financial assets (continued)
An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Employee benefits
Termination benefits
Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Group has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

Short-term benefits
Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax. Non-accumulating non-monetary benefits, such as medical care, housing, cars and free or subsidised goods and services, are expensed based on the net marginal cost to the Group as the benefits are taken by the employees.

A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions
The grant date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do not meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(i) Provisions
A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

The Group has made a provision of $3,500,000 as assessed by the Department of Mines and Petroleum (DMP), in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine site.

(j) Lease payments
Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

4. Significant accounting policies (continued)

(k) Finance income and finance costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains that are recognised in profit or loss. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial liabilities at fair value through profit or loss, impairment losses recognised on financial assets. All borrowing costs are recognised in profit or loss using the effective interest method.

(l) Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the statement of financial position method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

(m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(n) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

4. Significant accounting policies (continued)

(o) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are regularly reviewed by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

(p) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011, but have not been applied in preparing this financial report.

(i) AASB 9 *Financial Instruments* includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Group's 30 June 2014 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2012 or earlier. The Group has not yet determined the potential effect of the standard.

(ii) AASB 124 *Related Party Disclosures* (revised December 2009) simplifies and clarifies the intended meaning of the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities. The amendments, which will become mandatory for the Group's 30 June 2012 financial statements, are not expected to have any impact on the financial statements.

(iii) AASB 2009-5 *Further amendments to Australian Accounting Standards* arising from the Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2012 financial statements, are not expected to have significant impact on the financial statements.

(iv) AASB 11 *Joint Arrangements*, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the classification and measurement of investments in jointly controlled entities. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

(v) Amended AASB 119 *Employee Benefits*, which becomes mandatory for the Group's 30 June 2014 financial statements and could change the definition of short-term and other long-term employee benefits and some disclosure requirements. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

5. Determination of fair values

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

5. Determination of fair values (continued)

(a) Convertible Note Derivatives

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

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

(c) Share-based payment transactions

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

(d) Investments in equity and debt securities

The fair value of financial assets at fair value through the profit or loss, held-to-maturity investments and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. The fair value of held-to-maturity investments us determined for disclosure purposes only.

6. Operating segments

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

Information about reportable segments

	Nickel exploration and evaluation	
In thousands of AUD	**2011**	**2010**
For the year ended 30 June		
Reportable segment profit / (loss) before income tax	(2,268)	205
Reportable segment assets	51,474	45,933
Reconciliations of reportable segment loss and assets		
Loss		
Total profit / (loss) for reportable segments	(2,269)	205
Unallocated amounts: other corporate expenses	(3,497)	(3,264)
Net finance income / (costs)	6,312	(991)
	546	(4,050)
Assets		
Total assets for reportable segments	51,474	45,933
Other assets	15,270	2,024
	66,744	47,957

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

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7. Other Income

In thousands of AUD	2011	2010
Sundry income	108	133
Other income	102	369
Net gain on sale of exploration assets (1)	-	300
	210	802

(1) 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.

8. Personnel expenses

In thousands of AUD	***Note***	2011	2010
Wages and salaries		747	712
Other associated personnel expenses		255	256
Increase/(Decrease) in liability for annual leave	*22*	44	(15)
		1,046	953

9. Finance income and expense

In thousands of AUD	***Note***	2011	2010
Interest income on bank deposits		236	133
Net foreign exchange gain		3,349	557
Change in fair value of convertible note derivative	*21*	8,276	-
Profit on de-recognition of convertible note		2,548	-
Finance income		14,409	690
Interest expense – convertible note		(1,889)	(1,671)
Interest expense on bank accounts		(4)	(2)
Net foreign exchange loss		(404)	-
Impairment of available-for-sale financial assets		(509)	-
Change in fair value of available-for-sale financial assets transferred to profit or loss		340	-
Change in fair value of convertible note derivative	*21*	-	(8)
Loss on recognition of convertible note derivative	*21*	(5,631)	-
Finance costs		(8,097)	(1,681)
Net finance income / (costs)		6,312	(991)

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10. Income tax expense
Numerical reconciliation between tax-expense and pre-tax net profit

In thousands of AUD	**2011**	**2010**
Profit (loss) for the year	546	(4,050)
Total income tax expense	-	-
Profit (loss) excluding income tax	546	(4,050)
Income tax using the Company's domestic tax rate of 30% (2010: 30%)	164	(1,215)
Share based payments	266	274
Change in fair value of convertible note derivative	(2,483)	2
Change in fair value of available-for-sale financial assets	51	-
Net loss on recognition of convertible note and derivative	925	-
Non tax deductible expenses	3	11
Under (over) provided in prior periods	(78)	(996)
	(1,152)	(1,924)
Current year losses for which no deferred tax asset was recognised	1,152	1,924
Total income tax expense	-	-

11. Property, plant and equipment

In thousands of AUD	**Leasehold improve-ments**	**Plant and equipment**	**Plant and equipment – mining**	**Motor vehicles – mining**	**Total**
Cost					
Balance at 1 July 2009	1,006	169	1,148	283	2,606
Additions	-	-	15	-	15
Transfers	-	-	-	-	-
Disposals	-	-	(1)	-	(1)
Balance at 30 June 2010	1,006	169	1,162	283	2,620
Balance at 1 July 2010	1,006	169	1,162	283	2,620
Additions	-	17	776	-	793
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at 30 June 2011	1,006	186	1,938	283	3,413

In thousands of AUD	**Leasehold improve-ments**	**Plant and equipment**	**Plant and equipment – mining**	**Motor vehicles – mining**	**Total**
Depreciation and impairment losses					
Balance at 1 July 2009	68	102	320	103	593
Depreciation for the year	41	23	149	40	253
Disposals	-	-	-	-	-
Balance at 30 June 2010	109	125	469	143	846
Balance at 1 July 2010	109	125	469	143	846
Depreciation for the year	40	12	143	30	225
Disposals	-	-	-	-	-
Balance at 30 June 2011	149	137	612	173	1,071

11. Property, plant and equipment (continued)

Carrying amounts

In thousands of AUD	Leasehold improve-ments	Plant and equipment	Plant and equipment – mining	Motor vehicles – mining	Total
At 1 July 2009	938	67	828	180	2,013
At 30 June 2010	897	44	693	140	1,774
At 1 July 2010	897	44	693	140	1,774
At 30 June 2011	857	49	1,326	110	2,342

12. Exploration and evaluation expenditure

In thousands of AUD	2011	2010
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	45,635	40,692
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of year	40,692	38,610
Additions	4,943	2,082
	45,635	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.

13. Other investments

In thousands of AUD	2011	2010
Non-current investments		
Available-for-sale financial assets	456	945
	456	945

The Company holds 9,000,000 ordinary shares in Triton Gold Ltd that listed on the Australian Securities Exchange in August 2009 at a listing price of $0.20. The share price as at 30 June 2011 was $0.05 (2010: $0.105). The shares in Triton were held in escrow for a period of 2 years due to the ASX Listing Rules as the shareholding is greater than 10% of the voting securities and were released in August 2011.

In May 2010 the Company reached agreement to sell its shares and interests in the Salman South and Mame gold prospects located in South Ghana to Hodges Resources Ltd (“Hodges”) for $750,000 plus 1,250,000 shares in the company. The agreement is contingent on the Company obtaining approval to transfer the prospecting licence to Niagara Wells Mining Company Ltd, the company that holds interests in Ghana. The carrying value of the subsidiary company as at 30 June 2011 is the issued share capital of $1.00 (2010: $1.00). No amount is recognised in these financial statements for this transaction which has not been completed and the investment in these projects are held in the subsidiary company, Wells Gold Corporation (International) Pty Ltd and recorded at nil value.

The Company has continued to work with the Minerals Commission in Ghana to satisfy the conditions of the sale agreement of the shares and interests in the Salman South and Mame gold prospects. The extension to the exploration license has recently been approved and the remaining approvals to enable completion of the transaction with Hodges are expected to be finalised shortly.

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14. Other non-current assets

In thousands of AUD	2011	2010
Security deposit – environmental bond	3,500	3,500
	3,500	3,500

The Company holds a cash collaterised security deposit of $3,500,000 to cover the provision (see note 24) made in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine sites.

15. Deferred tax assets and liabilities

Unrecognised deferred tax assets and liabilities

Deferred tax assets and liabilities have not been recognised in respect of the following items:

In thousands of AUD	2011	2010
Deductible temporary differences	152	108
Tax losses	7,461	7,278
	7,613	7,386

The tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	2011	2010
Exploration and evaluation asset	6,956	3,054
Tax loss carry-forwards	(6,956)	(3,054)
	-	-

Movement in recognised deferred assets and liabilities during the year

	Balance 1 July 09	Additions	Balance 30 June 10	Additions	Balance 30 June 11
Exploration and evaluation expenditure	(2,971)	(83)	(3,054)	(3,902)	(6,956)
Tax loss carry-forwards	2,971	83	3,054	3,902	6,956
	-	-	-	-	-

Included in Additions is an adjustment of $2,420,000 relating to prior periods following a Company initiated review of the 2006 income tax return which resulted in an additional $8,065,000 of exploration expenditure being identified as deductible.

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16. Trade and other receivables

Current

In thousands of AUD	**2011**	**2010**
Goods and services tax receivable	420	48
Fuel tax credits receivable	47	11
Other receivables	80	2
Other assets and prepayments	102	61
	649	122

17. Cash and cash equivalents

17a. Cash and cash equivalents

In thousands of AUD	**2011**	**2010**
Bank balances	6,158	921
Call deposits	8,004	3
Cash and cash equivalents in the statement of cash flows	14,162	924

The effective interest rate on call deposits in 2011 was 5.92 percent (2010: 5.40 percent). The deposits had an average maturity of 75 days (2010: 180 days).

17b. Reconciliation of cash flows from operating activities

In thousands of AUD	**2011**	**2010**
Cash flows from operating activities		
Profit / (Loss) for the period	546	(4,050)
Adjustments for:		
Depreciation	12	24
Interest expenses - convertible note derivative	1,889	1,671
Change in fair value of convertible note derivative	(8,276)	8
Net loss on recognition of convertible note	3,190	-
Change in fair value of available-for-sale financial assets	509	-
Change in fair value of available-for-sale financial assets transferred to profit or loss	(340)	-
Proceeds from sale of gold rights	-	(300)
Net foreign exchange gain	(2,899)	(528)
Equity-settled share-based payment transactions	886	913
Operating profit before changes in working capital and provisions	(4,483)	(2,263)
Change in trade and other receivables	(529)	54
Change in trade payables and employee benefits	126	(105)
Net cash used in operating activities	(4,886)	(2,314)

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18. Capital and reserves
Share capital

	Ordinary shares	
In thousands of shares	**2011**	**2010**
Ordinary shares		
Fully paid	195,401	176,491
Partly paid	425	425
Total share capital on issue at 30 June	195,826	176,916
Movements in ordinary shares on issue:		
On issue at 1 July	176,916	165,952
Shares issued and expensed during the period:		
Issued for cash	17,867	8,000
Granted as a share based payment	-	1,914
Issued for directors fees	828	651
Issued for consultancy fees	-	244
Shares issued but expensed during the prior period:		
Issued for directors fees	215	155
On issue at 30 June	195,826	176,916

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share based payment reserve

The share based payment reserve is used to record the value of shares, options and hybrids issued to directors and employees and shares and options issued as consideration for goods or services received.

Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

Option premium reserve

The option premium reserve is used to record the value of equity received from the issue of options.

19. Earnings (loss) per share
Basic earnings (loss) per share

The calculation of basic earnings (loss) per share at 30 June 2011 was based on the profit (loss) attributable to ordinary shareholders of $546,000 (2010: loss $4,050,000) and a weighted average number of ordinary shares outstanding of 191,822,000 (2010: 169,902,000), calculated as follows:

19. Earnings (loss) per share (continued)

Basic earnings (loss) per share (continued)

Profit (loss) attributable to ordinary shareholders

In thousands of AUD	2011			2010		
	Continuing Operations	**Discontinued operation**	**Total**	**Continuing Operations**	**Discontinued operation**	**Total**
Net profit (loss) attributable to ordinary shareholders	546	-	546	(4,050)	-	(4,050)

Weighted average number of ordinary shares

In thousands of shares	*Note*	2011	2010
Issued ordinary shares at 1 July	*18*	176,916	165,952
Effect of shares issued		14,906	3,950
Weighted average number of ordinary shares at 30 June		191,822	169,902

Diluted earnings (loss) per share

The Company does not have any potential ordinary shares whose conversion to ordinary shares would have a dilutive effect on basic earnings (loss) per share and as such diluted earnings (loss) per share is equal to basic earnings (loss) per share. Potential ordinary shares of the Company consist of 134,506,000 dilutive share options issued.

In accordance with AASB 133 ‘Earnings per Share’ these options have been excluded from the calculation of diluted earnings (loss) per share due to their anti-dilutive effect.

20. Loans and borrowings

This note provides information about the contractual terms of the Group’s interest-bearing loans and borrowings. For more information about the Group’s exposure to interest rate and foreign currency risk, see note 26.

In thousands of AUD	2011	2010
Current liabilities		
Current portion of finance lease liabilities	111	78
Convertible note liability	13,498	10,648
	13,609	10,726
Non-current liabilities		
Finance lease liabilities	17	126
	17	126

20. Loans and borrowings (continued)

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

In thousands of AUD	Currency	Nominal interest rate	Year of maturity	30 June 2011 Face value	30 June 2011 Carrying amount	30 June 2010 Face value	30 June 2010 Carrying amount
Convertible note liability	USD	5.00%	2017	32,643	13,498	15,629	10,648
Finance lease liabilities	AUD	10.21%	2012	128	128	234	204
Total interest-bearing liabilities				32,771	13,626	15,863	10,852

Convertible notes

In thousands of AUD		2011	2010
Carrying amount of liability at beginning of period		10,648	9,436
De-recognition of original convertible note		(10,149)	-
Recognition of revised convertible note		7,708	-
Proceeds on issue of new convertible note		19,484	-
Amount classified as a convertible note derivative	*21*	(13,250)	-
Transaction costs on new convertible note		(442)	-
Exchange rate effects		(2,390)	(459)
Accrued interest capitalised		1,889	1,671
Carrying amount of liability at end of period		13,498	10,648

The Company issued US$20 million of new Convertible Notes on 28 March 2011. The notes are convertible into ordinary shares of the Company at the option of the holder at anytime up to 28 March 2016. The conversion rate is fixed at AU$0.30. 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, the Company extended the term of the original US$15 million of Convertible Notes issued on 25 June 2008 for a further 3 years with the same coupon terms as the new notes. The original notes will, under the terms of the new agreement, have a conversion price of AU$0.40 per share rather than AU$1.00 however, interest payable from June 2011 will now be deferred for a further 3 year term. The nature of the change to the terms of the original Convertible Notes requires that the notes are derecognised in the financial statements and replaced with the recognition of the replacement US$15 million Convertible Notes.

The issue of the new US$20 million Convertible Notes and the changes to the terms of the original Convertible Notes were approved by shareholders at a general meeting held on 28 March 2011.

Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

In thousands of AUD	Minimum lease payments 2011	Interest 2011	Principal 2011	Minimum lease payments 2010	Interest 2010	Principal 2010
Less than one year	119	8	111	97	19	78
Between one and five years	18	1	17	136	10	126
More than five years	-	-	-	-	-	-
	137	9	128	233	29	204

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20. Loans and borrowings (continued)
Finance lease liabilities (continued)

The Company has entered into commercial hire purchase agreements on certain motor vehicles and equipment. These contracts have an average life of 5 years. There are no restrictions placed upon the lessee by entering into these contracts. Lease liabilities are secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

21. Convertible Note Derivative

In thousands of AUD		**2011**	**2010**
Carrying amount of liability at beginning of period		1,464	1,526
De-recognition of original convertible note derivative		(1,304)	-
Recognition of revised convertible note derivative		6,935	-
Allocated proceeds from issue of new convertible notes	*20*	13,250	-
Fair value movement		(8,276)	8
Exchange rate effects		(1,121)	(70)
Carrying amount of liability at end of period		10,948	1,464

Pursuant to accounting standards the option component of the convertible notes are classified as a 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), 28 March 2011 when the new note was approved by shareholders (share price $0.265) and 30 June 2011 (share price $0.17) is reflected in the fair value movement.

As the convertible notes are 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 30 June 2011, 1.0722:1.

22. Employee benefits

Current

In thousands of AUD	**2011**	**2010**
Liability for annual leave	57	13
Total employee benefits – current	57	13

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23. Share-based payments

Options

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 2 July 2007	117,500,000	Subject to various share price hurdles that have been met	5 years
Options granted to executive director on 2 July 2007	1,000,000	2 years' service and subject to various share price hurdles	4 years
Options granted to executive on 29 November 2007	277,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive on 30 November 2007	142,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive on 11 April 2008	114,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive director on 27 November 2008	2,000,000	3 years' service and subject to various share price hurdles	4 years
Options granted to executives and employees on 21 September 2010	2,975,000	3 years' service and subject to share price hurdle	6 years
Options granted to non-executive directors on 23 November 2010	4,500,000	3 years' service and subject to share price hurdle	6 years
Total share options	128,508,000		

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2011	Number of options 2011	Weighted average exercise price 2010	Number of options 2010
Outstanding at 1 July	$0.424	121,033,000	$0.424	121,033,000
Exercised during the period	-	-	-	-
Granted during the period	$0.250	7,475,000	-	-
Outstanding at 30 June	$0.414	128,508,000	$0.424	121,033,000
Exercisable at 30 June	$0.400	117,500,000	$0.400	117,500,000

The options outstanding at 30 June 2011 have an exercise price in the range of $0.25 to $1.96 and a weighted average remaining contractual life of up to 5.5 years.

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.

23. Share-based payments (continued)

Options (continued)

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:

	Directors	Directors	Executives	Executives
Fair value of share options and assumptions	**2011**	**2010**	**2011**	**2010**
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)	6 years	-	6 years	-
Expected dividends	0%	-	0%	-
Risk-free interest rate (based on government bonds)	5.27%	-	4.97%	-

Shares

The terms and conditions of share grants are as follows:

Grant date / employees entitled	**Number of Instruments**	**Vesting conditions**
Shares granted to executive director and employees on 24 November 2009	225,000	The shares have a 3 year vesting period
Shares granted to executives and employees on 24 November 2009	413,000	The shares have a 3 year vesting period
Total shares	638,000	

The number and weighted average purchase price of shares is as follows:

	Weighted average purchase price	**Number of shares**	**Weighted average purchase price**	**Number of shares**
	2011	**2011**	**2010**	**2010**
Outstanding at 1 July	-	920,476	-	282,476
Vested during the period	-	(282,476)		
Forfeited during the period	-	-	-	-
Granted during the period	-	-	-	638,000
Outstanding at 30 June	-	638,000	-	920,476

The board can decide to issue shares and hybrids in relation to the short term performance bonus under the TaBS scheme whereby the employee has elected to receive their cash bonus in shares. The shares are subject to a holding lock for a period of 3 years from the date of issue. No shares were issued in the current reporting period.

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23. Share-based payments (continued)

Shares (continued)

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

	Directors	Directors	Executives & Employees	Executives & Employees
Fair value of shares and assumptions	**2011**	**2010**	**2011**	**2010**
Fair value of grant	-	$0.26	-	$0.26

Hybrids

The terms and conditions of hybrid grants 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	293,957	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 March 2011	212,201	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 30 June 2011	259,355	The hybrids vested immediately upon grant
Total shares	1,087,373	

The number and weighted average purchase price of hybrids is as follows:

	Weighted average purchase price	Number of hybrids	Weighted average purchase price	Number of hybrids
	2011	**2011**	**2010**	**2010**
Granted during the period	$0.23	1,087,373	$0.27	2,141,444
Outstanding at 30 June	$0.25	1,276,000	$0.25	1,276,000

The hybrids purchased as at 30 June 2011 have a purchased price in the range of $0.1948 to $0.2954.

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23. Share-based payments (continued)

Hybrids (continued)

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

	Directors	Directors	Executives	Executives
Fair value of hybrids and assumptions	**2011**	**2010**	**2011**	**2010**
Fair value of grant	$0.23	$0.29	-	$0.26

Share based payment expense

In thousands of AUD	**2011**	**2010**
Share options granted in 2011	119	-
Share options granted in 2009	70	70
Share options granted in 2008	258	462
Shares granted in 2010	55	33
Shares granted in 2008	73	75
Hybrids granted in 2011	251	-
Hybrids granted in 2010	111	325
Shares based payment capitalised	(51)	(52)
Total expenses recognised as employee costs	886	913

24. Provisions

In thousands of AUD	**2011**	**2010**
Site restoration	3,500	3,500
	3,500	3,500

The provision of $3,500,000 is in respect of the Group's on-going obligation for the environmental rehabilitation of the Windarra mine sites. The Company continues to work with the Department of Mines and Petroleum with regards to the planning and timing of rehabilitation.

25. Trade and other payables

In thousands of AUD	**2011**	**2010**
Trade payables	2,179	208
Other payables	213	589
	2,392	797

26. Financial risk management

Overview

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital.

The Audit and Risk Management Committee has overall responsibility for the establishment and oversight of the risk management framework. Management monitors and manages the financial risks relating to the operations of the group through regular reviews of the risks.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from other third parties, investments, banks and financial institutions.

Investments, banks and financial institutions

The Group limits its exposure to credit risk by limiting transactions to only high credit quality financial institutions that have an external credit rating, set down by Standard and Poors (S&P), of at least AA and AAA category for long term investing and at least a short term rating of A-1 and A-1+, excluding available-for-sale financial assets. With respect to investments, the Group limits it's exposure by investing in liquid investments that are principally exchange traded. The Audit and Risk Management Committee monitor and make adjustments to individual portfolios based upon current economic outlooks in order to maximise returns on the individual portfolios.

Trade and other receivables

As the Group operates in the mining exploration sector, the Group generally does not have trade receivables (only fuel tax and GST), therefore is not generally exposed to credit risk in relation to trade receivables. The Group however, provides security deposits as part of its exploration activities which exposes the Group to credit risk.

Presently, the Group undertakes exploration and evaluation activities exclusively in Australia. At the reporting date there are generally no significant concentrations of credit risk other than the transaction disclosed above.

Exposure to credit risk

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

		Carrying amount	
In thousands of AUD	***Note***	**2011**	**2010**
Cash and cash equivalents	*17a*	14,162	924
Other investments	*13*	456	945

Financial assets past due but not impaired

As the Group are not trading there are no financial assets past due and there is no management of credit risk through performing an aging analysis, therefore an aging analysis has not been disclosed.

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26. Financial risk management (continued)

Financial assets neither past due nor impaired

The Group's credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or past history:

In thousands of AUD	**2011**	**2010**
Cash and cash equivalents		
AA	7,209	924
AA-	5,953	-
A	1,000	-

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Group also manages liquidity risk by producing monthly cash-flow forecasts for the current and future financial year to ensure that there is a clear and up to date view of the short term to medium term funding requirements. These are regularly reviewed by management and the board, where the implications on funding requirements and the possible sources of those funds are discussed, decisions taken where necessary and action taken to secure funding if required. The Group manages liquidity risk by maintaining adequate reserves through continuous monitoring of forecast and actual cash flows. The Group has a policy of raising both convertible debt and equity fundraising in order to manage its liquidity risk.

The following are the earliest contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Consolidated
30 June 2011

In thousands of AUD	**Carrying amount**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Finance lease liabilities	128	44	74	14	-	-
Trade and other payables	2,392	2,392	-	-	-	-
Convertible note liability	13,498	-	-	-	-	32,643
	16,018	2,436	74	14	-	32,643

Consolidated
30 June 2010

In thousands of AUD	**Carrying amount**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Finance lease liabilities	204	48	48	118	14	-
Trade and other payables	797	797	-	-	-	-
Convertible note liability	10,648	-	-	-	-	17,254
	11,649	845	48	118	14	17,254

1. The balances above will not always agree to the financial statements as the contracted cash-flows above are undiscounted. The carrying amount is the balance as recognised in the statement of financial position;
2. The only exceptions are financial liabilities, trade and other payables and the convertible note liability. The Group believes these positions to be a true reflection of what would be paid assuming the positions had to be paid out immediately. However, as the convertible note liability can only be paid out in shares and not cash during its term, the repayment is shown at maturity in 2017;

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26. Financial risk management (continued)
Liquidity risk (continued)

3. The analysis assumes a worst case scenario if the Company were required to repay all financial liabilities early. The Group believes the likelihood of this as being remote. The maturity analysis has assumed the earliest contractual maturity, of the convertible notes, for a payment in cash. Interest on the convertible note is not due until year 4 of the 6 year term and at the Group's discretion, can be settled in shares. As such, no interest payments have been included in the analysis.

Market Risk

Market risk is the risk that fluctuations in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(a) Currency risk

The Group is exposed to currency risk on investments, cash and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the Australian dollar (AUD). The currency in which these transactions are denominated are United States dollars (USD).

Exposure to currency risk

The Group's exposure to foreign currency risk at balance date was as follows, based on notional amounts:

	30 June 2011		**30 June 2010**	
In thousands of AUD	**USD**	**Total**	**USD**	**Total**
Convertible note derivative	(10,948)	**(10,948)**	(1,464)	**(1,464)**
Convertible note liability	(13,498)	**(13,498)**	(10,648)	**(10,648)**
Cash and cash equivalents	4,999	**4,999**	-	**-**
Gross statement of financial position exposure	(19,447)	**(19,447)**	(12,112)	**(12,112)**

Sensitivity analysis

The following sensitivities have been applied for 2011 based upon published 12 month forward rates:

– A 5% strengthening of AUD against the USD with the equal effect in the opposite direction.

The following sensitivities have been applied for 2010 based upon published 12 month forward rates:

– A 3% weakening of AUD against the USD with the equal effect in the opposite direction.

In thousands of AUD	**Equity**	**Profit or loss**
30 June 2011		
USD	-	(1,018)
30 June 2010		
USD	-	326

The opposite effects have not been shown, as it equates the opposite amounts shown above.

(b) Interest rate risk

The Group is exposed to interest rate risk due to variable interest being earned on its interest bearing bank accounts and the value of the convertible note derivative (as the derivative fluctuates both with the underlying company share price and the risk free rate of interest).

The Group adopts a policy of periodically reviewing interest rates to ensure the Group is earning the optimal interest income.

26. Financial risk management (continued)
Market risk (continued)

Profile
At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was:

In thousands of AUD	**2011**	**2010**
Fixed rate instruments		
Cash and cash equivalents	8,004	3
Convertible note derivative	10,948	1,464
In thousands of AUD		
Variable rate instruments		
Cash and cash equivalents	6,158	921

Cash flow sensitivity analysis for variable rate instruments
As at 30 June 2010 and 2011 a sensitivity analysis has not been disclosed in relation to the floating interest deposits and convertible note for the Group as the results are immaterial to the statement of comprehensive income.

(c) Equity price risk
The Group is exposed to equity price rate risk on its financial liabilities and equity investments. The convertible note derivative fluctuates with the Company's underlying share price until either the convertible note is repaid by the Company, or the option holder converts.

The Group has no policy for mitigating potential adversities associated with its own equity price risk given its dependence on market fluctuations. In relation to equity price risk arising on other investments balances, the Group regularly reviews the prices to ensure a maximum return.

Profile
At the reporting date, the equity price risk profile of the Group's financial instruments was:

In thousands of AUD	**Carrying amount**	
	2011	**2010**
Variable rate instruments		
Convertible note derivative	10,948	1,464
Other investments	456	945

Price risk sensitivity

2011 Equity Price Risk
In relation to the convertible note derivative, the Group have used an equity price change of 90% upper and lower representing a reasonable possible change based upon the Company's historic share price volatility over the last 3 years of trading.

In relation to the available-for-sale financial assets, the Group have used an equity price change of 105% upper and lower representing a reasonable possible change based upon the company's historic share price volatility over the last 12 months.

26. Financial risk management (continued)
Market risk (continued)
(c) Equity price risk (continued)
Price risk sensitivity (continued)

2010 Equity Price Risk
In relation to the convertible note derivative, the Group have used an equity price change of 115% upper and lower representing a reasonable possible change based upon the Company's historic share price volatility over the last 3 years of trading.

In relation to the available-for-sale financial assets, the Group have used an equity price change of 85% upper and lower representing a reasonable possible change based upon the company's historic share price volatility over the last 12 months.

	Profit or loss		Equity	
In thousands of AUD	**90% increase**	**90% decrease**	**105% increase**	**105% decrease**
30 June 2011				
Convertible note derivative	(8,861)	10,554	-	-
Available-for-sale financial assets	-	-	479	(456)
Cash flow sensitivity (net)	(8,861)	10,554	479	(456)

	Profit or loss		Equity	
In thousands of AUD	**115% increase**	**115% decrease**	**85% increase**	**85% decrease**
30 June 2010				
Convertible note derivative	(2,421)	1,464	-	-
Available-for-sale financial assets	-	-	803	(803)
Cash flow sensitivity (net)	(2,421)	1,464	803	(803)

Fair values
Fair values versus carrying amounts

Cash and cash equivalents
The carrying amount is fair value due to the liquid nature of these assets.

Other Receivables
Due to the short-term nature of these financial rights, their carrying amounts are deemed to represent their fair values.

Available-for-sale financial assets
The available-for-sale financial asserts have been recorded at its fair value therefore there is no difference between its fair value and carrying value.

Convertible Note Liability
The carrying amount and fair value of the convertible note at balance date is:

	Carrying amount		Fair value	
In thousands of AUD	**2011**	**2010**	**2011**	**2010**
On statement of financial position				
Convertible note liability	13,498	10,648	30,585	16,601

The fair value of the convertible note liability is based on the cash flows discounted using an appropriate discount rate.

26. Financial risk management (continued)

Fair values (continued)
Fair values versus carrying amounts (continued)

Convertible Note Derivative
The convertible note derivative liability is recorded at its fair value therefore there is no difference between fair value and carrying value.

Fair values versus carrying amounts
The following tables classify financial instruments recognised in the statement of financial position of the Group according to the hierarchy stipulated in AASB 7 as follows:

(a) Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;
(b) Level 2 – a valuation technique is used using inputs other than quoted prices within Level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices); or
(c) Level 3 – a valuation technique is used using inputs that are not based on observable market data (unobservable inputs).

Comparative information has not been provided as permitted by the transitional provisions of the new rules.

In thousands of AUD	**Level 1**	**Level 2**	**Level 3**	**Total**
Fair value through profit or loss				
Convertible note derivative	-	10,948	-	10,948
Available-for-sale financial assets				
Listed equity securities	456	-	-	456

The fair value of financial instruments traded in active markets is based upon quoted market prices at the end of the reporting period. The quoted market price is the quoted bid price which is included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group makes a number of assumptions based upon observable market data existing at each reporting period. The fair value of the convertible note derivative is determined using an option pricing model based upon various inputs at the end of the reporting period. These instruments are included in Level 2.

Capital Management
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so as to maintain a strong capital base sufficient to maintain future exploration and development of its projects. In order to maintain or adjust the capital structure, the Group may issue new shares or allow employees to participate in a share rather than cash bonus scheme.

The Group encourages employees to be shareholders and has put in place a scheme whereby employees can convert their cash bonuses into shares. This ensures that an optimal cash balance can be maintained whilst ensuring strong employee retention.

The Group management defines net debt as total borrowings (note 20) less cash and cash equivalents (note 17) and equity as the sum of share capital, reserves and retained earnings as disclosed in the statement of financial position. The gearing ratio for the current year was (2)% (2010: 32%) for the Group.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

27. Operating leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	**2011**	**2010**
Less than one year	155	159
Between one and five years	309	-
More than five years	-	-
	464	159

The Group leases business office premises under non-cancellable operating leases expiring in 3 years. The leases have varying terms, escalation clauses and renewal rights. The terms of the leases were renegotiated from 1 July 2011 for a 3 year term.

28. Capital and other commitments

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Company and Group are required to perform minimum exploration work to meet the minimum expenditure requirements specified by the State Government. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the financial report and are payable as follows:

In thousands of AUD	**2011**	**2010**
Less than one year	254	269
Between one and five years	453	454
More than five years	1,250	710
	1,957	1,433

29. Related parties

The key management personnel compensation included in ‘personnel expenses’ (note 8) and ‘share based payments’ (note 23), is as follows:

In thousands of AUD	**2011**	**2010**
Short-term employee benefits	1,596	1,534
Post-employment benefits	127	123
Share-based payments	907	947
	2,630	2,604

The remuneration report in section 7.5.2 of the Directors’ report, includes an additional amount of share based payment for $50,585 (2010: $52,458) that has been capitalised as part of exploration expenditure and not expensed through the statement of comprehensive income.

Individual directors and executives compensation disclosures

Information regarding individual directors and executive’s compensation and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors’ report in section 7.5.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors’ interests existing at year end.

Loans to key management personnel and their related parties

There were no loans outstanding at the reporting date to key management personnel and their related parties or at any time in the reporting period.

Poseidon Nickel Limited
Notes to the consolidated financial statements

29. Related parties (continued)

Other key management personnel transactions

There were no other transactions with key management persons, or their related parties during the financial period.

There were no amounts receivable from, or payable to, key management personnel and other related parties, arising from these transactions at the reporting date.

Options and rights over equity instruments

The movement during the reporting period in the number of options over ordinary shares in Poseidon Nickel Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2010	Granted as compensation	Exercised	Other changes	Held at 30 June 2011	Vested during the year	Vested and exercisable at 30 June 2011
Directors							
Mr A Forrest	-	-	-	-	-	-	-
Mr C Indermaur	-	1,000,000	-	-	1,000,000	-	-
Mr R Monti	1,250,000	250,000	-	-	1,500,000	-	1,250,000
Mr G Brayshaw	-	250,000	-	-	250,000	-	-
Mr D Singleton	3,000,000	3,000,000	-	-	6,000,000	-	-
Executives							
Mr R Dennis	277,000	500,000	-	-	777,000	-	-
Mr N Hutchison	142,000	700,000	-	-	842,000	-	-
Mr M Rodriguez	-	1,000,000	-	-	1,000,000	-	-
Mr G Jones	114,000	500,000	-	-	614,000	-	-

Options and rights over equity instruments (continued)

The options were granted to Mr D Singleton under the terms of the ESOP. Refer to section 7.5.1 of the Directors' report.

	Held at 1 July 2009	Granted as compensation	Exercised	Other changes	Held at 30 June 2010	Vested during the year	Vested and exercisable at 30 June 2010
Directors							
Mr A Forrest	-	-	-	-	-	-	-
Mr C Indermaur	-	-	-	-	-	-	-
Mr R Monti	1,250,000	-	-	-	1,250,000	-	1,250,000
Mr G Brayshaw	-	-	-	-	-	-	-
Mr D Singleton	3,000,000	-	-	-	3,000,000	-	-
Executives							
Mr R Dennis	277,000	-	-	-	277,000	-	-
Mr N Hutchison	142,000	-	-	-	142,000	-	-
Mr M Rodriguez	-	-	-	-	-	-	-
Mr G Jones	114.000	-	-	-	114,000	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2011.

Poseidon Nickel Limited
Notes to the consolidated financial statements

29. Related parties (continued)

Movements in shares

The movement during the reporting period in the number of ordinary shares in Poseidon Nickel Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2010	Granted as compensation	Received on exercise of options	Purchases, sales or donations	Held at 30 June 2011
Directors					
Mr A Forrest	5,000,000	-	-	-	5,000,000
Mr C Indermaur	-	-	-	-	-
Mr R Monti	237,500	-	-	-	237,500
Mr G Brayshaw	-	-	-	-	-
Mr D Singleton	1,873,438	-	-	-	1,873,438
Executives					
Mr R Dennis	193,246	-	-	-	193,246
Mr N Hutchison	135,000	-	-	-	135,000
Mr M Rodriguez	225,688	-	-	-	225,688
Mr G Jones	90,000	-	-	-	90,000

The shares were granted to directors and executives under the terms of TaBS. Refer to section 7.5.1 of the Directors' report.

	Held at 1 July 2009	Granted as compensation	Received on exercise of options	Purchases, sales or donations	Held at 30 June 2010
Directors					
Mr A Forrest	5,000,000	-	-	-	5,000,000
Mr C Indermaur	-	-	-	-	-
Mr R Monti	237,500	-	-	-	237,500
Mr G Brayshaw	-	-	-	-	-
Mr D Singleton	1,648,438	225,000	-	-	1,873,438
Executives					
Mr R Dennis	110,246	83,000	-	-	193,246
Mr N Hutchison	65,000	70,000	-	-	135,000
Mr M Rodriguez	69,688	156,000	-	-	225,688
Mr G Jones	50,000	40,000	-	-	90,000

Poseidon Nickel Limited
Notes to the consolidated financial statements

29. Related parties (continued)

Movements in hybrids

The movement during the reporting period in the number of hybrid shares in Poseidon Nickel Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

	Held at 1 July 2010	Granted as compensation	Received on exercise of options	Purchases, sales or donations	Held at 30 June 2011
Directors					
Mr A Forrest	-	197,704	-	(197,704)	-
Mr C Indermaur	301,449	321,270	-	-	622,719
Mr R Monti	441,060	271,843	-	-	712,903
Mr G Brayshaw	449,082	296,556	-	-	745,638
Mr D Singleton	801,563	-	-	-	801,563
Executives					
Mr R Dennis	386,491	-	-	-	386,491
Mr N Hutchison	265,000	-	-	-	265,000
Mr M Rodriguez	371,375	-	-	-	371,375
Mr G Jones	180,000	-	-	-	180,000

	Held at 1 July 2009	Granted as compensation	Received on exercise of options	Purchases, sales or donations	Held at 30 June 2010
Directors					
Mr A Forrest	-	145,547	-	(145,547)	-
Mr C Indermaur	-	301,449	-	-	301,449
Mr R Monti	240,933	200,127	-	-	441,060
Mr G Brayshaw	230,761	218,321	-	-	449,082
Mr D Singleton	351,563	450,000	-	-	801,563
Executives					
Mr R Dennis	220,491	166,000	-	-	386,491
Mr N Hutchison	125,000	140,000	-	-	265,000
Mr M Rodriguez	59,375	312,000	-	-	371,375
Mr G Jones	100,000	80,000	-	-	180,000

30. Group entities

Significant subsidiaries

Parent entity	**Country of incorporation**	**Ownership interest**	
Poseidon Nickel Ltd		**2011**	**2010**
Significant subsidiaries			
Poseidon Nickel Atlantis Operations Pty Ltd	Australia	100%	100%
Poseidon Nickel Olympia Operations Pty Ltd	Australia	100%	100%
Wells Gold Corporation (International) Pty Ltd	Australia	100%	100%

In the financial statements of the Company, investments in subsidiaries are measured at cost. The Company has no jointly controlled entities.

Poseidon Nickel Limited
Notes to the consolidated financial statements

31. Joint ventures

The Group has entered into the following joint venture arrangements:

		Equity Interest		Carrying Value	
		2011	2010	2011	2010
Project	**Activities**	%	%	$	$
Waite Kauri	Nickel / Cobalt	-	-	-	16,773

The Company and Eagle Eye Metal Limited ("Eagle Eye") entered into an agreement on 24 October 2008 to form a joint venture for the Waite Kauri Nickel/Cobalt project. Work undertaken identified that the size and style of the mineralisation did not meet the requirements of the Windarra Nickel Project and the Company notified Eagle Eye in February 2010 that it would not be seeking to formalise the agreement. As at 30 June 2011, no further expenditure had been incurred (2010: $16,773).

32. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2011 the parent company of the Group was Poseidon Nickel Limited.

In thousands of AUD	***Note***	**2011**	**2010**
Results of the parent entity			
Profit (loss) for the period		546	(4,050)
Other comprehensive income		(340)	340
Total comprehensive income for the period		206	(3,710)
Financial position of the parent entity at year end			
Current assets		14,811	1,046
Total assets		66,744	47,957
Current liabilities		30,506	16,500
Total liabilities		30,523	16,626
Total equity of the parent entity comprising of:			
Share capital		79,726	76,190
Share based payments reserve		234,734	233,586
Fair value reserve		-	340
Option premium reserve		510	510
Accumulated losses		(278,749)	(279,295)
Total equity		36,221	31,331

33. Subsequent events

There has not arisen in the interval between the end of the financial year 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
Notes to the consolidated financial statements

34. Auditors' remuneration

In AUD	2011	2010
Audit services		
Auditors of the Company		
KPMG Australia:		
Audit and review of financial reports	41,883	36,700
Accounting assistance and advice	-	18,000
	41,883	54,700
Other services		
Forensic services	-	42,440
	41,883	97,140

No other services were provided by KPMG during the year.

Poseidon Nickel Limited
Directors' declaration

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

   (a) the consolidated financial statements and notes that are set out on pages 35 to 73 and the Remuneration report in section 7.5 in the Directors' report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

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

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and financial controller for the financial year ended 30 June 2011.

3. The directors draw attention to note 2(a) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Mr G Brayshaw
Director

Perth
27th September 2011

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

Report on the financial report

We have audited the accompanying financial report of Poseidon Nickel Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2011, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 34 comprising a summary 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

Report on the remuneration report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Poseidon Nickel Limited for the year ended 30 June 2011, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Graham Hogg
Partner

Perth
27 September 2011

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 audit for the financial year ended 30 June 2011 there have been:

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

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

KPMG

KPMG

Graham Hogg
Partner

Perth
27 September 2011

Poseidon Nickel Limited
ASX Additional information

Additional information required by the Australian Securities Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

The shareholder information set out below was applicable as at 31 August 2011.

A. Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security	
	Ordinary Shares	Options December 2011
1 - 1000	2,105	4
1,001 - 5,000	2,434	20
5,001 - 10,000	933	12
10,001 - 100,000	1,503	58
100,001 and over	236	16
	7,211	**110**

There were 3,429 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest holders of quoted equity securities are listed below:

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
HSBC Custody Nominees (Australia) Limited	22,672,123	11.59%
National Nominees Limited	9,116,025	4.66%
UBS Nominees Pty Ltd	7,017,235	3.59%
JP Morgan Nominees Australia Limited <Cash Income A/C>	5,659,021	2.89%
Minderoo Pty Ltd <Andrew & Nicola Forrest Family>	5,000,000	2.56%
NEFCO Nominees Pty Ltd	3,514,178	1.80%
ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	3,476,390	1.78%
Citicorp Nominees Pty Limited	2,606,616	1.33%
Mr David Singleton	2,475,000	1.26%
HSBC Custody Nominees (Australia) Limited-GSCO ECA	2,080,000	1.06%
Australian Executor Trustees Limited (No 1 Account>	1,955,000	1.00%
J & F James Brothers Holdings Pty Ltd	1,725,000	0.88%
Mr Martinus Coolen	1,721,366	0.88%
Wavenet International Limited	1,705,759	0.87%
Mr David & Mrs Deborah Lacey	1,503,300	0.77%
Mr John Lemke	1,200,000	0.61%
Mr Bruno & Mrs Coralie Sceresini <Sceresini Super Fund A/c>	1,118,500	0.57%
Mr Daniel Anders	1,000,000	0.51%
Saggio Investments Pty Ltd <Saggio Investment A/c>	1,000,000	0.51%
J P Morgan Nominees Australia Limited	995,928	0.51%
TOTAL	**77,541,441**	**39.63%**

B. Equity security holders (continued)

Twenty largest quoted option holders

The names of the twenty largest holders of quoted options are listed below:

	December 2011 Options	
Name	**Number held**	**Percentage of issued shares**
Geoviz Pty Ltd>	528,290	8.58%
Tadea Pty Ltd <Richardson Family S/F A/C>	370,000	6.01%
Avon Management Co Pty Ltd <Diermajer Family S/F A/C>	312,500	5.08%
Mr Simon Brown	287,025	4.66%
Mr Don Evans	275,000	4.47%
Illawong Investments Pty Ltd <Cocks Family A/c>	250,000	4.06%
Paraway Pty Ltd	250,000	4.06%
Mr Zygmund & Mrs Nola Wolski <Te Wolski Super Fund A/c>	250,000	4.06%
Mr Josephus Verheggen <The Verheggen Super Fund A/C>	193,750	3.15%
Peto Pty Ltd <1953Super Fund A/c>	167,434	2.72%
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/C>	167,237	2.70%
Kelray Properties Pty Ltd <Super Fund A/C>	166,038	2.66%
Mr John & Mrs Lynette Hayes <Hayes Super Fund A/c>	163,642	2.60%
Mr Simon & Mrs Margot Austerberry <Hellenback Executive S/F A/c>	160,000	2.66%
Geoviz Pty Ltd <Simon Brown Family A/c>	146,560	2.38%
Mr Kevin Griffin & Ms Jill Johnston <Manor Gorve Staff S/F A/c>	125,000	2.03%
Mr Ian Murie <The Alevan A/c>	100,000	1.62%
Canonbar Investments Pty Ltd	98,500	1.60%
GT Le Page & Associates Pty Ltd <Superannuation Fund>	96,184	1.56%
Mr Brian Ryan	90,000	1.46%
TOTAL	**4,197,160**	**68.16%**

Poseidon Nickel Limited
ASX Additional information (continued)

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
HSBC Custody Nominees (Australia) Limited	22,672,123	11.59
National Nominees Limited	9,116,025	4.66
December 2011 options		
Geoviz Pty Ltd	528,290	8.58
Tadea Pty Ltd <Richardson Family S/F A/C>	370,000	6.01

D. Unquoted equity security holders (as at 31 August 2011)

Options

Mr David Singleton holds 5,000,000 options representing 100% of the total number of December 2012 and November 2016 options on issue.

Greatcity Corporation Pty Ltd holds 1,250,000 options representing 50% of the total number of July 2012 options on issue.

Mr John Andrew Hannaford holds 625,000 options representing 25% of the total number of July 2012 options on issue.

Mrs Emma Kate Hannaford holds 625,000 options representing 25% of the total number of July 2012 options on issue.

Leaping Joey Pty Ltd ATF The Australian Children's Trust holds 115,000,000 options representing 100% of the total number of September 2012 options on issue.

National Nominees Limited holds 4,725,000 options representing 50.98% of the total number of August 2012 options on issue.

BT Portfolio Services Ltd <Warrell Holdings S/F A/c> holds 555,000 options representing 5.99% of the total number of August 2012 options on issue.

Ashabia Pty Ltd <Superannuation A/C> holds 500,000 options representing 5.40% of the total number of August 2012 options on issue.

Mr Paul Xiradis holds 444,445 options representing 4.80% of the total number of August 2012 options on issue.

ABN AMRO Clearing Sydney Nominees Pty Ltd <Settlement A/C> holds 417,500 options representing 4.51% of the total number of August 2012 options on issue

Neo Synergy Ltd holds 383,378 options representing 4.14% of the total number of August 2012 options on issue.

Partly paid shares to $0.002

Bluefirm Pty Ltd holds 50,000 partly paid shares to $0.002 ($0.10 to pay) representing 100% of the total number on issue in this class.

Partly paid shares to $0.082

Bellstar Holdings Pty Ltd holds 350,000 representing 93.33% of the total number on issue in this class and

E. Voting rights

Ordinary shares

Subject to any rights or restrictions for the time being attached to any class or classes (at present there are none) at general meetings of shareholders or classes of shareholders:

(a) each shareholder entitled to vote, may vote in person or by proxy, attorney or representative;

(b) on a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote; and

(c) on a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each Fully Paid share held, or in respect of which he/she has appointed a proxy, attorney or representative, have one vote per share, but in respect of Partly Paid shares shall have a fraction of a vote equivalent to the proportion which the amount paid up bears to the total issue price for the share.

E. Voting rights (continued)

Partly Paid shares

(a) The Partly Paid shares shall be allotted and issued at an issue price of $0.102 each and the holder will, at the allotment date, have paid $0.002 for each Partly Paid share leaving $0.10 payable.

(b) Subject to the payment of any unpaid capital, the Partly Paid shares shall rank equally with, and have all the rights, benefits and obligations as existing shares.

(c) The Company shall not make any call in respect of the unpaid capital owing on the Partly Paid shares until that date which is 36 months after the allotment date. Thereafter the Company will make calls on the unpaid capital owing on the Partly Paid shares at a rate of $0.02 per Partly Paid share per annum pursuant to the timetable below:

Call	
12 months after allotment	NIL
24 months after allotment	NIL
36 months after allotment	$0.02
48 months after allotment	$0.02
60 months after allotment	$0.02
72 months after allotment	$0.02
84 months after allotment	$0.02

Calls on the Partly Paid shares made in accordance with the above terms will be conducted in accordance with the Company's constitution. Failure by a holder of Partly Paid shares to pay any call made in accordance with the above terms and the Company's constitution will result in the shares in respect to which the call was made to be liable for forfeiture. The Company's constitution deals with the procedure and liability of the shareholder should a share be forfeited.

(d) The holder of Partly Paid shares may, at any time prior to a call being made by the Company to pay up any unpaid capital of the Partly Paid shares in accordance with clause (c), at its sole and absolute discretion, elect to pay up all of the unpaid capital.

(e) As soon as practicable after receipt of payment of the outstanding amount owing on the Partly Paid shares, and as required by Chapter 2 of ASX Listing Rules, the company will apply for quotation on ASX for the Partly Paid shares that become fully paid.

(f) In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the Partly Paid shares shall be reorganised in accordance with the Listing Rules, the Company's Constitution and Corporations Act.

(g) Holders of Partly Paid shares are entitled to receive notice of, attend and vote at shareholders meetings. Resolutions of shareholders will be decided by a show of hands unless a poll is demanded. On a show of hands each holder of a Partly Paid share present in person or by proxy has one vote. On a poll, each holder of a Partly Paid share present in person or by proxy has a fraction of a vote for each Partly Paid share determined by the amount paid up on that share.

Poseidon Nickel Limited
ASX Additional information (continued)

The rights attaching to Partly Paid shares (including dividend rights), other than those listed above, shall be consistent, notwithstanding any differences in the amounts that the shares are paid up to, with shares in the Company.

F. Schedule of Tenements

Areas of Interest	Tenements	Economic Entity's Interest
Poseidon Nickel Limited		
Western Australia		
- Windarra Nickel Assets	MSA 38/261, G 38/21, L 39/184	100%
- Windarra South	L 38/118, L 38/119, L 38/121, L 38/122, L38/199	100%
- Woodline Well	PL 39/4493, PL 39/4494, PL 39/4495	100%
- Pool Well	M 38/1243, M 38/1244, M 38/1245, M39/1075, M39/1076	100%
- The Boats	E 38/2060	100%
- Laverton	E 38/1450, E 38/1587, E 39/930, E 38/1752, E 38/1622	100%
- Tyson Resources	E 39/1325, E 39/1326	100%
- Naretha	E 28/1969	100%

E = Exploration Licence   M = Mining Lease   MSA = Mining Tenement State Act   PL = Prospecting License