POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Annual Financial Report

For the year ended 30 June 2012

-

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
Mr H Scruggs (Alternate for Mr A Forrest)

Company Secretary

Mr R Kestel

Registered Office

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

Principal Office

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

Postal Address

PO Box 190
West Perth WA 6872

Auditors to the Company

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

Share Registry

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

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia

Poseidon Nickel Limited
Directors' report
For the year ended 30 June 2012

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 2012 and the auditor's report thereon.

Contents of Directors' report **Page**

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

1. Directors

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

Name, and independence status	Experience, qualifications, special responsibilities and other directorships
Mr Andrew Forrest **Chairman & Non-Executive Director** Appointed 2 July 2007	Mr Forrest was elected as Non-Executive Chairman of Poseidon Nickel Ltd on 2nd July 2007. He is the founder and Chairman of Fortescue Metals Group and the Australian Children's Trust among other significant charities and companies. As an industry and philanthropic leader, Mr Forrest grew up on a remote Australian sheep and cattle station before attending university. After graduating in economics and politics, he built a career in investment banking, mining and farming. He has created some of the largest raw material exporters in the world, while pursuing major social issues on a domestic and international basis. He is an Adjunct Professor of the China Southern University and fellow of the Australian Institute of Mining and Metallurgy. He was awarded the Australian Centenary Medal, the Australia Sports Medal, Australian Social Entrepreneur of the Year, West Australia Citizen of the Year for his contribution to regional development and The Mining Journal's Mining Lifetime Achievement Award. Recognised widely as family orientated and a strong community and arts supporter and is very active in ventures to protect and help under privileged children locally and internationally.
Mr Christopher Indermaur **Independent Non-Executive Director** *Member of:* Audit & Risk Management Committee *Chairman of:* Remuneration, Nomination & Diversity Committee Corporate Governance Committee Appointed 2 July 2007 Resigned 30 September 2008 Re-appointed 2 April 2009	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 **Independent Non-Executive Director** *Member of:* Audit & Risk Management Committee Remuneration, Nomination & Diversity Committee Corporate Governance Committee Appointed 4 April 2007	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 six 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 2012

1. Directors (continued)

Name, and independence status	**Experience, qualifications, special responsibilities and other directorships**
Mr Richard Monti (continued)	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 Potash Minerals Ltd, Jaguar Minerals Ltd, Azimuth Resources Ltd and Triton Gold Ltd and has previously held positions on the board of White Star Resources Ltd, Bathurst Resources Ltd and a number of other private mining companies.
Mr Geoff Brayshaw **Independent Non-Executive Director** *Member of:* Remuneration, Nomination & Diversity Committee Corporate Governance Committee *Chairman of:* Audit & Risk Management Committee Appointed 1 February 2008	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	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 Austal Ltd and Quickstep Holdings and was formerly a non-executive director of Triton Gold Ltd and a director of PT Petrosea Tbk in Indonesia. He is also the Deputy Chair of the Council for Methodist Ladies College in Perth. Mr Singleton was appointed as Chief Executive Officer on 2 July 2007.

-

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

1. Directors (continued)

Name, and independence status	**Experience, qualifications, special responsibilities and other directorships**
Mr Herbert (Bud) Scruggs **Alternate for Mr Andrew Forrest** Appointed 18 September 2012	Mr Scruggs is an expert in corporate recoveries and step change business improvement. A lawyer by training (BYU 1984), he has held a number of corporate, government, political and civic positions including Chief of Staff to the Governor of Utah and Chairman of the University of Utah Board of Trustees. Mr Scruggs served on a number of boards of public as well as privately held companies including American Investment Bank, Barbados Light and Power, Deseret Morning News, Empire Insurance, MK Gold and Sangart – including service on multiple audit and executive committees. Mr Scruggs recently served as CEO of Huntsman Financial Corporation as well as Huntsman Cancer Foundation and previously worked as President of the Leucadia Asset management Group. He now provides, among other activities, management services to The Metal Group Pty Limited, an entity controlled by Mr Forrest, and the Australian Children's Trust. Mr Scruggs is a non-executive director of Fortescue Metals Group.

2. Company Secretary

Mr Kestel is a Chartered Accountant and a former 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	4	7	-	-	-	-	-	-
Mr C Indermaur	7	7	5	5	4	4	4	4
Mr R Monti	7	7	5	5	4	4	4	4
Mr D Singleton	7	7	-	-	-	-	4	4
Mr G Brayshaw	7	7	5	5	4	4	4	4

A – Number of meetings attended
B – Number of meetings held during the time the director held office during the year

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

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 loss for the entity for the year ended 30 June 2012, after income tax is $3,224,000 (2011: profit of $546,000).

6. Review of Operations

Poseidon's 2012 objective is to commence construction at the Windarra Nickel Project ("WNP"). In the last 4 years, Poseidon has built the largest, high grade nickel sulphide inventory of any exploration company in Australia. Poseidon has now completed the Definitive Feasibility Study ("DFS") for the WNP. The DFS has subsequently been updated and is currently being reviewed by the Independent Technical Experts ("ITE") and Poseidon will publish details of this study when the outcome is confirmed. It had been Poseidon's intention, as announced, to proceed directly to complete the debt funding of the WNP after the ITE report was completed and the equity raising was completed. However, Poseidon is not immune to the current financial market instability and as a result Poseidon announced that final financing maybe postponed. In the meantime Poseidon has decided to undertake some additional activities to further develop and enhance the project and to maximise the use of the time available. Poseidon is therefore bringing forward planned activities which were previously programmed to take place after final financing, as follows:

1. Initiate additional resource drilling at Mt Windarra to delineate a mining reserve.
2. Carry out further regional exploration to search for potential new ore bodies along the Windarra ultramafic. In 2008 Poseidon discovered the Cerberus ore body 10kms south of Mt Windarra which eventually led to the decision to double the plant throughput production capacity. Follow up geochemical and geophysical work identified several other zones on the tenements considered prospective and will now make a concerted drill programme necessary.
3. Risk reduction activities for project construction which includes tendering major areas of surface and subsurface infrastructure and, where appropriate, negotiating contracts.

Poseidon believes that the approach outlined above will make best use of the time afforded by the market financing situation and could lead to significant enhancements to the Project.

The DFS for the WNP now includes additional work undertaken with the various external consultants that have supported the DFS to ensure that the project is fully optimised. The final version of the DFS includes the:

- Recommissioning of the Mt Windarra underground mine;
- Underground mining of the Cerberus ore body;
- A fully optimised mine plan;
- Construction of a new nickel concentrate flotation plant to take ore from both mines and capable of processing in excess of 700,000 tonnes per annum; and
- Reprocessing of stock piled gold tailings with an average probable reserve grade of circa 0.71 grammes/tonne for an initial period of 3+ years.

In June 2012, Poseidon completed a fully underwritten renounceable Rights Issue of 0.965 new fully paid ordinary shares in the Company ("New Shares") for every one fully paid ordinary share held on the record date of 20 April 2012. New Shares under the Rights Issue were offered at $0.10 per New Share. An additional 199,906,923 New Shares were issued to raise $18.9 million (net of costs).

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

6. Review of Operations (continued)

In addition, Poseidon entered into an unsecured Bridge Loan of $8 million with Forrest Family Investments Pty Ltd in March 2012. The loan is intended to fund Poseidon's current technical and funding activities as well as undertaking risk reduction activities for the project itself. The loan must be repaid by the Company on the earlier of 1 July 2013 or as soon as the Company completes a final capital raising.

Poseidon has appointed a Financial Advisor to assist in the completion of the full financing for the project which is targeted for the second half of 2012, subject to satisfactory market conditions. Negotiations with major international banks to fund the project through a debt and working capital facility are underway. Poseidon is also progressing discussions with a number of parties in relation to the assignment of off-take from the WNP.

In September 2011, Poseidon entered into an earn-in agreement with Magma Metals Limited ("Magma") for nickel, copper and PGE rights to a large tenement package adjoining its Windarra Nickel Project ("WNP"). The new tenements cover 203km^2 and include:

- Tenements adjoining the Cerberus high grade nickel deposit which could include potential extensions to currently known mineralisation;
- Tenements to the south east which Poseidon believes could be host at shallow depth to the South Windarra mine channel extension. Poseidon has previously advised that there is evidence from soil sampling and seismic work completed recently of the channel position and intends to commence exploration in this area; and
- A distinct parallel trending and geologically similar ultramafic to the highly productive Windarra ultramafic. The Red Flag ultramafic has had limited nickel exploration to date.

The nickel, copper and PGE rights pertain to a number of tenements at Laverton ("Laverton Tenements") currently held by Magma under a Concurrent Rights Agreement ("CRA") with Crescent Gold Limited ("Crescent"). The outline terms of the Poseidon earn-in agreement are as follows:

- From completion, Poseidon has an exclusive right to earn a 60% interest in the nickel, copper and PGE rights to the tenements during the 3 year earn in period for an expenditure of $3,000,000;
- Magma will, following Poseidon earning a 60% interest and issuing a technical report, have the right to make an election to either contribute its share to further exploration expenditure or assign a further 20% interest (80% in total) to Poseidon;
- Following the completion of a feasibility study on any project on the tenements and if a decision to mine is made, Magma may elect to assign its remaining 20% share to Poseidon in exchange for a 2.5% net smelter royalty. If Magma fails to make such an election, it will be required to enter a formal production JV agreement and be liable for its share of production expenditure;
- Poseidon will have a first right to toll treatment or off-take of any nickel, copper or PGE ore produced, under the agreement, from the tenements.

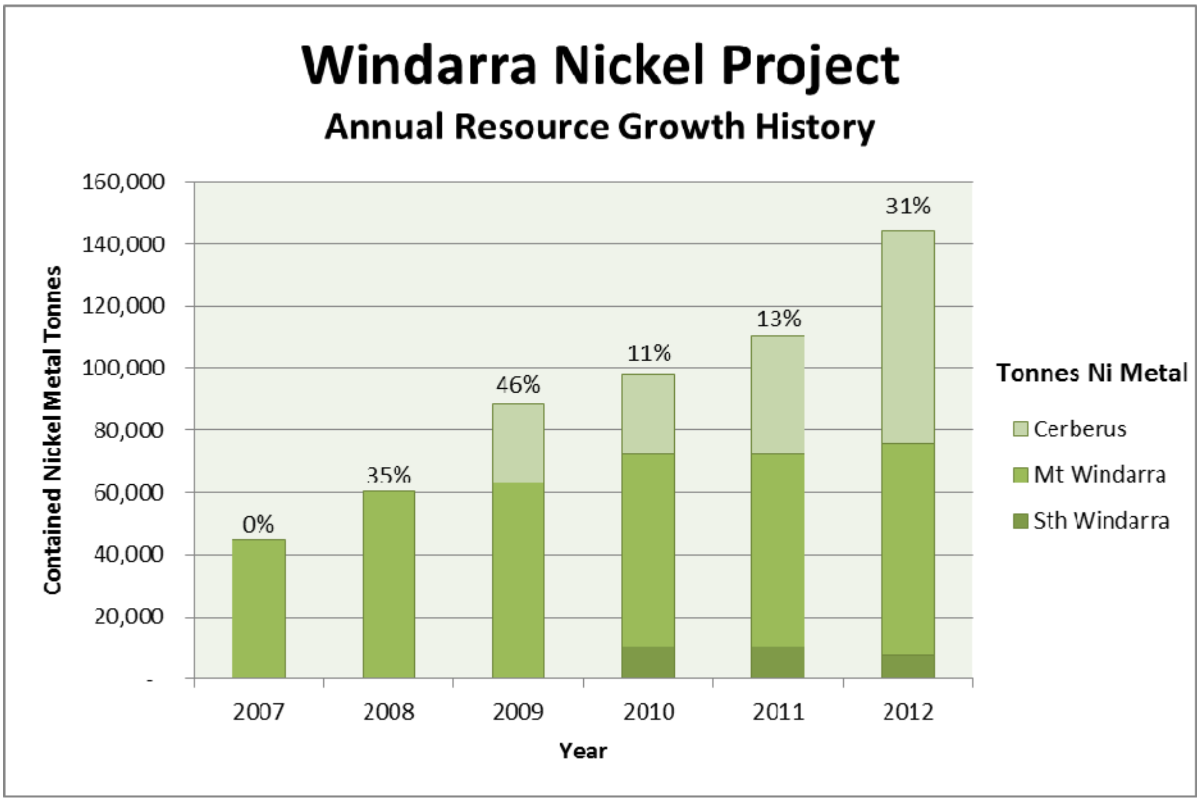
It should be noted that the Laverton Tenements are the subject of a legal dispute between Crescent and Indago Resources Ltd in relation to the validity of a Royalty Deed executed by these parties. The Royalty Deed contains some provisions which appear to be in conflict with the provisions of the earlier CRA and in Magma's view Crescent is in breach of its obligations under the CRA. Magma has taken legal advice and is considering its options in enforcing its rights under the CRA.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

6. Review of Operations (continued)

Exploration

During the year work focussed on completing the DFS following the conclusion of the 2011 drilling campaign which resulted in an upgrade of the Cerberus Resource which now comprises 4.55Mt at 1.51% Ni for 68,600t of contained nickel metal. The latest Cerberus resource estimation has resulted in a 31% increase in Poseidon's nickel resources from 110,470t Ni to 144,400t Ni in the last year. The company has successfully grown its nickel resource at an average of 27% per annum (see following diagram) with Cerberus being a major contributor to the company's resource growth. This history of discovery and delineation underpins the company's growth success and Poseidon is confident that this will continue based on the quality of untested exploration targets.



Joint Venture Ground

Diamond drill hole DBDD001 is located approximately 300m south of Poseidon's tenement boundary which hosts the Cerberus Nickel Deposit and lay inside the new optioned JV ground. DBDD001 was drilled in 2010 on E38/1930 and Poseidon have now re-logged and resampled the hole in the geological position which hosts the Cerberus Deposit. The drill hole displayed the same layered komatiite sequence seen to the north which hosts the Cerberus deposit including channel structures hosting thin, semi-massive sulphide mineralization. This drill hole demonstrates the highly prospective nature of the area immediately to the south which lies within the Magma Metals JV ground.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

6. Review of Operations (continued)

Windarra Nickel Project Resource Statements

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%	974,000	1.25	12,400	2,977,000	1.88	55,900	3,951,000	1.73	68,300
South Windarra	0.80%	772,00	0.98	7,500	-	-	-	772,00	0.98	7,500
Cerberus	0.75%	2,773,000	1.25	34,600	1,778,000	1.91	34,000	4,551,000	1.51	68,600
Total Sulphide		**4,519,000**	**1.21**	**54,000**	**4,755,000**	**1.89**	**89,900**	**9,274,000**	**1.56**	**144,400**

Windarra Gold Tailings Project	Resource Category		
	Indicated		
	Tonnes (kt)	Grade (g/t)	Au (oz)
Total Gold Tailings	**10,993**	**0.52**	**182,500**

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

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 at 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.

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;
- 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;

7.3 Structure of the Board (continued)

- 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 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	5 years
Mr C Indermaur	4 years
Mr R Monti	5 years
Mr G Brayshaw	5 years
Mr D Singleton	5 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 7.6 of the Directors' report.

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

7.4 Remuneration, Nomination and Diversity Committee (continued)

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.

Diversity

The Group understands the value inherent in a diverse workforce and promotes a high performance culture that draws on the diverse and relevant experience, skills and expertise of its board members and employees. The board is committed to having an appropriate blend of diversity throughout the Group that will provide the benefits of a broader pool of high quality employees, improving employee retention, accessing different perspectives and unique personal attributes.

The board has established a policy regarding gender, age, ethnic and cultural diversity and details of the policy are available on the Company's web site.

The key elements of the diversity policy are as follows:

- Increased gender diversity on the board and senior executive positions and throughout the Group;
- Developing culture and remuneration strategies to assist with improving diversity;
- Annual assessment of board gender diversity objectives and performance against objectives by the board and remuneration, nomination and diversity committee.

Gender representation

	2012		2011	
Representation	**Female**	**Male**	**Female**	**Male**
Board	0%	100%	0%	100%
Key management personnel	0%	100%	0%	100%
Group	15%	85%	8%	92%

Key management personnel exclude directors which are reported as part of Board representation.

The board has determined that no specific measurable objectives will be established due to the size of the Company being less than 10 employees. The board does not consider it practical or meaningful to formerly establish specific targets at this time. The Company will however, continually look for opportunities to increase gender diversity at a board and key management personnel level in future years as the project moves to a steady state operational environment.

7.5 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.

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 2012 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.

7.6 Remuneration Report - audited

7.6.1 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.

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 through benchmarking remuneration to industry specific data;
- Shareholder acceptability of remuneration for executives;
- Performance linkage / alignment of executive compensation to Company objectives;
- Transparency of remuneration awarded to executives; and
- Capital Management – the use of share based remuneration schemes to preserve cash.

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.

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. No consultants have been used in the current year.

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 which, at the discretion of the board, can be provided in the form of cash or shares through the Poseidon Employee Bonus Scheme ("EBS"). 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 may include financial and non-financial measures and are chosen to align the individual's compensation to the short term objectives 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 objectives. 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 and a maximum of 100% of an individual's FC amount ("the applicable bonus range"), dependent on the individual's role. 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.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

7.6 Remuneration Report - audited
7.6.1 Principles of compensation – audited
Incentive bonus (continued)

At the end of the financial year, the Remuneration, Nomination and Diversity Committee reviews and assesses the actual performance of the Company and management's achievement of its targets and objectives and recommends to the board the individual bonuses for key management personnel, having taken into consideration the individual's performance and contribution to the delivery of those objectives. The Remuneration, Nomination and Diversity Committee also recommend 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.

Under the terms of the EBS, the board has the right to determine whether to operate the scheme as a cash based scheme or alternatively a share based scheme in order to retain the cash reserves of the Company. Where the scheme is run as a cash based scheme, the employees are provided with the option to elect to receive their bonus in cash or "Participating Shares". Employees who receive their bonus in shares will qualify for additional "Special Bonus Shares" in the ratio of 1 additional share for every 2 participating shares.

Participation in EBS is by invite only and is not a contractual right but will include greater than 75% of all employees. The bonus shares will be subject to a 3 year continuous service condition from the date of issue. The value of the bonus shares relating to the proportion vested in the financial year is included as a share-based payment in column B in the directors' and executive officers' remuneration table in section 7.6.2 of the Directors' report. The value of the participating shares is disclosed as a hybrid share-based payment in column C in the directors' and executive officers' remuneration table in section 7.6.2 of the Directors' report. 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.

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) for no consideration. 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 continuous service based and share price growth 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.

In thousands of AUD	**2012**	**2011**	**2010**	**2009**	**2008**
Net profit (loss) attributable to equity holders of the parent	(3,224)	546	(4,050)	7,441	(256,095)
Dividends paid	-	-	-	-	-
Change in share price	$(0.07)	$(0.02)	$(0.06)	$(1.11)	$(0.72)
% Change in share price	(41.2)%	(10.5)%	(24.0)%	(81.6)%	(34.6)%

7.6 Remuneration Report - audited

7.6.1 Principles of compensation – audited

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.

The initial employment agreement, which was for a period of 5 years, has been extended under the terms of the agreement. 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. Non-executive directors' fees reported for the year to 30 June 2012 are $261,033 (2011: $250,774).

Non-executive directors received a base director fee of $47,875 (except for the chairman who received a base fee of $45,595) to cover the main board activities. Non-executive director members who sit on more than one committee received an additional payment of $5,984 for each additional committee of which they are a member. Non-executive director members who chair a committee received a further additional payment of $5,984 for each committee chaired.

Under the Director Share Plan ("DSP") approved by shareholders at the AGM on 22 November 2011, 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 column C in the directors' and executive officers' remuneration table in section 7.6.2 of the Directors' report.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

7.6 Remuneration report – audited (continued)
7.6.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited

In AUD		Short-term Salary & fees $	Post employment Super-annuation benefits $	Share-based payments Options and rights $ (A)	Shares $ (B)	Hybrids $ (C)	Other $ (D)	Total $	Proportion of remuneration performance related %	Value of options as a proportion of remuneration %
Directors										
Non-executive directors										
Mr A Forrest (Chairman)	2012	-	-	-	-	45,595	-	45,595	-	-
	2011	-	-	-	-	45,595	-	45,595	-	-
Mr C Indermaur	2012	-	-	21,459	-	77,797	-	99,256	-	21.6%
	2011	-	-	12,840	-	74,092	-	86,932	-	14,8%
Mr R Monti	2012	-	-	5,365	-	65,828	-	71,193	-	7.5%
	2011	-	-	3,210	-	62,693	-	65,904	-	4.9%
Mr G Brayshaw	2012	-	-	5,365	-	71,813	-	77,178	-	7.0%
	2011	-	-	3,210	-	68,393	-	71,603	-	4.5%
Executive directors										
Mr D Singleton, MD & CEO	2012	472,872	25,000	93,205	94,905	39,107	26,198	751,287	17.8%	12.4%
	2011	439,664	25,000	304,294	19,500	39,000	-	827,458	7.1%	36.8%
Executives										
Mr R Dennis, COO	2012	481,293	43,317	13,441	79,757	14,426	12,475	644,709	14.6%	2.1%
	2011	460,933	36,848	43,646	35,571	14,387	-	591,385	8.4%	7.4%
Mr N Hutchison, GM Geology	2012	262,877	23,659	18,818	58,476	12,167	-	375,997	18.8%	5.0%
	2011	238,561	20,515	31,747	22,155	12,133	-	325,111	10.5%	9.8%
Mr M Rodriguez, Group Technology Manager	2012	324,027	29,162	26,882	84,758	27,114	12,475	504,418	22.2%	5.3%
	2011	294,600	27,608	20,713	21,161	27,040	-	391,122	12.3%	5.3%
Mr G Jones, Financial Controller	2012	207,408	18,667	13,441	47,809	6,952	6,238	300,515	18.2%	4.5%
	2011	195,460	17,389	21,917	16,336	6,933	-	258,036	9.0%	8.5%
Total compensation: key management personnel (consolidated)	2012	1,748,477	139,805	197,976	365,705	360,799	57,386	2,870,148		
	2011	1,629,218	127,360	441,577	114,723	350,267	-	2,663,144		
Total compensation: key management personnel (company)	2012	1,748,477	139,805	197,976	365,705	360,799	57,386	2,870,148		
	2011	1,629,218	127,360	441,577	114,723	350,267	-	2,663,144		

-

7.6 Remuneration report – audited (continued)

7.6.2 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 as remuneration in this reporting period for services performed. 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%
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 bonus shares issued in relation to EBS for the performance bonus earned in prior reporting periods and have a 3 year continuous service and vesting period from the grant date. The value disclosed is the portion of the fair value of the shares recognised as remuneration in this reporting period for services performed. Refer to EBS in section 7.6.1 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 EBS 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 EBS plan and the DSP in section 7.6.1 of the Directors' report.

(D) The other share based payment represents personal loans made to executive directors and executives by Forrest Family Investments Pty Ltd ("FFI"), a company controlled by the Company's non-executive chairman and major shareholder Mr Andrew Forrest. The loans were provided to financially assist in the purchase of shares in the Company to which existing shareholders were entitled under the terms of a Rights Issue undertaken in May 2012.

The arrangement constitutes a share-based payment transaction because the loans have only been provided to employees of the Company and the employee is required to remain in employment for the three year term of the loan. The employee is therefore being compensated for providing services to the Company through an arrangement set up by a shareholder of Poseidon. The share-based payment has been measured with reference to the fair value of the benefit received. The fair value at the grant date was determined using a Monte Carlo simulation model and using the following factors and assumptions:

Grant Date	Loan term	Fair value per option	Exercise price	Price of shares on grant date	Limited personal guarantee	Expected volatility	Risk free interest rate
18 May 2012	3 years	$0.012	$0.10	$0.095	$0.04	70.0%	3.08%

-

7.6 Remuneration report – audited (continued)

7.6.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited (continued)

Notes in relation to the table of directors' and executive officers remuneration – audited (continued)

As there is no service or other restriction on the issue of the shares, the transaction is fully vested at the grant date and the share based payment expense recognised in full in the current reporting period

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 7.6.1 of the Directors' report.

7.6.3 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.

Options and rights over equity instruments granted as compensation – audited

Options

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

Shares

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

	Number of shares granted during 2012	Grant date	Fair value per share at grant date ($)	Purchase price per share at issue date ($)	Total share value ($)
Directors					
Mr D Singleton	1,965,000	22 November 2011	$0.19	-	373,350
Executives					
Mr R Dennis	1,461,830	27 October 2011	$0.22	-	321,603
Mr N Hutchison	1,055,766	27 October 2011	$0.22	-	232,269
Mr M Rodriguez	1,434,759	27 October 2011	$0.22	-	315,647
Mr G Jones	893,341	27 October 2011	$0.22	-	196,535
	6,810,696				1,439,404

The share based payment expense recognised in the period for executive directors and executives is the difference between the fair value of the shares issued ($0.19 per share for executive directors and $0.22 for executives) and the purchase price ($Nil per share). The shares granted to executive directors and executives are Bonus Shares issued in relation to the EBS as discussed in section 7.6.1 of the Directors' report and have a 3 year continuous service and vesting period from the grant date of 22 November 2011 for executive directors and 27 October 2011 for executives. No shares have vested or were forfeited during the year.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

7.6 Remuneration report – audited (continued)
7.6.3 Equity instruments (continued)
Options and rights over equity instruments granted as compensation – audited (continued)
Shares (continued)

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

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 2012	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	62,904	30 September 2011	$0.18	$0.18	11,399
	58,023	31 December 2011	$0.20	$0.20	11,399
	62,901	31 March 2012	$0.18	$0.18	11,399
	104,516	30 June 2012	$0.11	$0.11	11,398
	288,344				45,595
Mr C Indermaur	107,330	30 September 2011	$0.18	$0.18	19,449
	99,001	31 December 2011	$0.20	$0.20	19,449
	107,325	31 March 2012	$0.18	$0.18	19,449
	178,331	30 June 2012	$0.11	$0.11	19,450
	491,987				77,797
Mr R Monti	90,818	30 September 2011	$0.18	$0.18	16,457
	83,770	31 December 2011	$0.20	$0.20	16,457
	90,813	31 March 2012	$0.18	$0.18	16,457
	150,896	30 June 2012	$0.11	$0.11	16,457
	416,297				65,828
Mr G Brayshaw	99,074	30 September 2011	$0.18	$0.18	17,953
	91,386	31 December 2011	$0.20	$0.20	17,953
	99,069	31 March 2012	$0.18	$0.18	17,953
	164,613	30 June 2012	$0.11	$0.11	17,954
	454,142				71,813
	1,650,770				261,033

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 7.6.1 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 2012

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

Other

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

	Number of other shares granted during 2012	Grant date	Fair value per share at grant date ($)	Purchase price per share at issue date ($)	Total share value ($)
Directors					
Mr D Singleton	2,100,000	18 May 2012	$0.012	$0.10	26,198
Executives					
Mr R Dennis	1,000,000	18 May 2012	$0.012	$0.10	12,475
Mr M Rodriguez	1,000,000	18 May 2012	$0.012	$0.10	12,475
Mr G Jones	500,000	18 May 2012	$0.012	$0.10	6,238
	4,600,000				57,386

These share-based payments relate to the loans provided by FFI as detailed in section 7.6.2 of this report and vested immediately on grant date. No other shares were granted to directors or executives since the end of the financial year.

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**	**% Lapsed in Year**	**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	2008	100%	-
Mr D Singleton	2,000,000	27 November 2008	2013	-	28,829
Mr C Indermaur	1,000,000	23 November 2010	2017	-	21,459
Mr R Monti	250,000	23 November 2010	2017	-	5,365
Mr G Brayshaw	250,000	23 November 2010	2017	-	5,365
Mr D Singleton	3,000,000	23 November 2010	2017	-	64,376

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

7.6 Remuneration report – audited (continued)
7.6.3 Equity instruments (continued)
Analysis of options and rights over equity instruments granted as compensation – audited (continued)

Options (continued)

Executives	Options granted: Number	Grant date	Financial years in which grant vests	% Lapsed in Year	Total expensed in period ($)
Mr R Dennis	277,000	29 November 2007	2013	-	-
Mr N Hutchison	142,000	30 November 2007	2013	-	-
Mr G Jones	114,000	14 April 2008	2013	-	-
Mr R Dennis	500,000	21 September 2010	2017	-	13,441
Mr N Hutchison	700,000	21 September 2010	2017	-	18,818
Mr M Rodriguez	1,000,000	21 September 2010	2017	-	26,882
Mr G Jones	500,000	21 September 2010	2017	-	13,441
	128,233,000				197,976

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. The 1,000,000 options issued to Mr D Singleton in July 2007 lapsed during the reporting period as the share price performance hurdles had not been met. The value of the options of $1,567,000 had been expensed in full over the vesting period.

Options issued to Mr R Monti in July 2007, which have an exercise price of $0.40, have lapsed since the end of the financial year.

Shares

Details of the vesting profile of shares granted to each director and executive of the Company are detailed below.

	Shares granted: Number	Grant date	Financial years in which grant vests	Total expensed in period ($)
Directors				
Mr D Singleton	225,000	24 November 2009	2013	19,553
	1,965,000	22 November 2011	2015	75,352
Executives				
Mr R Dennis	83,000	24 November 2009	2013	7,213
	1,461,830	27 October 2011	2015	72,544
Mr N Hutchison	70,000	24 November 2009	2013	6,083
	1,055,766	27 October 2011	2015	52,393
Mr M Rodriguez	156,000	24 November 2009	2013	13,557
	1,434,759	27 October 2011	2015	71,201
Mr G Jones	40,000	24 November 2009	2013	3,477
	893,341	27 October 2011	2015	44,332
	7,384,696			365,705

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

7.6 Remuneration report – audited (continued)
7.6.3 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

Shares (continued)

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.

Hybrids

Details of the vesting profile of hybrids granted to each director and executive of the Company 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	62,904	30 September 2011	100%	2012	11,399
	58,023	31 December 2011	100%	2012	11,399
	62,901	31 March 2012	100%	2012	11,399
	104,516	30 June 2012	100%	2012	11,398
	288,344				45,595
Mr C Indermaur	107,330	30 September 2011	100%	2012	19,449
	99,001	31 December 2011	100%	2012	19,449
	107,325	31 March 2012	100%	2012	19,449
	178,331	30 June 2012	100%	2012	19,450
	491,987				77,797
Mr R Monti	90,818	30 September 2011	100%	2012	16,457
	83,770	31 December 2011	100%	2012	16,457
	90,813	31 March 2012	100%	2012	16,457
	150,896	30 June 2012	100%	2012	16,457
	416,297				65,828
Mr G Brayshaw	99,074	30 September 2011	100%	2012	17,953
	91,386	31 December 2011	100%	2012	17,953
	99,069	31 March 2012	100%	2012	17,953
	164,613	30 June 2012	100%	2012	17,954
	454,142				71,813
Mr D Singleton	450,000	24 November 2009	-	2013	39,107
Executives					
Mr R Dennis	166,000	24 November 2009	-	2013	14,426
Mr N Hutchison	140,000	24 November 2009	-	2013	12,167
Mr M Rodriguez	312,000	24 November 2009	-	2013	27,114
Mr G Jones	80,000	24 November 2009	-	2013	6,952
	2,798,770				360,799

7.6 Remuneration report – audited (continued)

7.6.3 Equity instruments (continued)

Options and rights over equity instruments granted as compensation – audited (continued)

Hybrids (continued)

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.

Other

Details of the vesting profile of other share-based payments granted to each director and executive of the Company 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	2,100,000	18 May 2012	100%	2012	26,198
Executives					
Mr R Dennis	1,000,000	18 May 2012	100%	2012	12,475
Mr M Rodriguez	1,000,000	18 May 2012	100%	2012	12,475
Mr G Jones	500,000	18 May 2012	100%	2012	6,238
	4,600,000				57,386

The value of other share-based payments expensed in the period is the portion of the fair value of the other shares recognised in the reporting period and the amount allocated to remuneration.

No other shares have been granted to directors or executives since the end of the financial year.

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 2012.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

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 a substantial shareholder and is not 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 one departure from Principle 2 – refer 2.2.

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 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.
3.3 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.	No measurable objectives have been set at this time due to the size of the Company being less than 10 employees (see section 7.4).
3.4 Disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	The portion of women employees has been disclosed in section 7.6 of the Directors Report.
3.5 Provide the information indicated in 'Guide to Reporting on Principle 3'	The Company had one departure from Principle 3 – refer 3.3.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

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 2012

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

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

8. Dividends
The Directors recommend that no dividend be declared or paid.

9. Events subsequent to reporting date
Since the end of the financial year the Company has completed the transaction with Hodges Resources Ltd ("Hodges") for the sale of the Ghana gold project having received the final Ministerial consent from the Minerals Commission in Ghana. On 10 July 2012 the sale proceeds of $750,000 plus interest accrued during the period that the funds have been held in escrow, was released to the Company together with the allotment of 1,250,000 ordinary shares in Hodges to the Company. The project was held in a subsidiary company, Wells Gold Corporation (International) Pty Ltd which has a carrying value of its issued share capital of $1.00. The Company will recognise a pre-tax profit of $937,500 profit on the sale of the subsidiary which includes the market value of the shares issued in Hodges at the time of allotment.

In addition, the Company has sold 5,806,705 of the 9,115,384 shares held in Triton Gold Limited ("Triton") which has realised net sales proceeds of $563,000 and a pre-tax profit of $121,000.

Since the end of the financial year, 126,767,436 unlisted options have lapsed. The options had expiry dates of 31 July, 31 August and 19 September 2012 and exercise prices ranging from $0.25 to $0.40.

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	129,824,875	-
Mr C Indermaur	2,018,311	1,000,000
Mr R Monti	2,539,951	1,500,000
Mr G Brayshaw	2,198,716	250,000
Mr D Singleton	6,740,000	5,000,000
	143,321,853	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, no options have been granted to directors or to the five most highly remunerated executives of the Company.

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
22 October 2012	1.41	533,000
27 November 2012	0.80	2,000,000
21 September 2016	0.25	2,975,000
23 November 2016	0.25	4,500,000
		10,008,000

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

11. Share options (continued)

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

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.

13. Non-audit services

During the year KPMG, the Company's auditor, has 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.

Poseidon Nickel Limited
Directors' report (continued)
For the year ended 30 June 2012

13. Non-audit services (continued)

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	**2012**	**2011**
Audit services		
Auditors of the Group - KPMG		
Audit and review of financial reports	65,954	41,883
	65,954	41,883
Services other than statutory audit		
Non-statutory review of financial reports	58,744	-
Accounting assistance and advice	10,000	-
	68,744	-
	134,698	41,883

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 85 and forms part of the directors' report for financial year ended 30 June 2012.

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
20th September 2012

Poseidon Nickel Limited

Consolidated statement of financial position

As at 30 June 2012

In thousands of AUD	***Note***	**2012**	**2011**
Assets			
Cash and cash equivalents	*16a*	20,582	14,162
Trade and other receivables	*15*	640	649
Total current assets		21,222	14,811
Property, plant and equipment	*10*	2,532	2,342
Exploration and evaluation expenditure	*11*	59,550	45,635
Other investments	*12*	693	456
Other	*13*	3,500	3,500
Total non-current assets		66,275	51,933
Total assets		87,497	66,744
Liabilities			
Trade and other payables	*24*	1,070	2,392
Loans and borrowings	*19*	17,285	13,609
Convertible note derivative	*20*	4,507	10,948
Employee benefits	*21*	101	57
Provisions	*23*	3,500	3,500
Total current liabilities		26,463	30,506
Loans and borrowings	*19*	7,880	17
Total non-current liabilities		7,880	17
Total liabilities		34,343	30,523
Net assets		53,154	36,221
Equity			
Share capital	*17*	100,033	79,726
Reserves		235,031	235,244
Accumulated losses		(281,910)	(278,749)
Total equity attributable to equity holders of the Company		53,154	36,221
Total equity		53,154	36,221

The notes on pages 38 to 76 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited

Consolidated statement of comprehensive income

For the year ended 30 June 2012

In thousands of AUD	*Note*	**2012**	**2011**
Other income		379	210
Depreciation expense		(18)	(12)
Personnel expenses	*7*	(1,194)	(1,046)
Exploration costs expensed		(2,354)	(2,370)
Corporate and administration costs		(1,880)	(1,364)
Share based payment expense	*22*	(1,044)	(886)
Other expenses		(320)	(298)
Results from operating activities		(6,431)	(5,766)
Finance income		7,450	14,005
Finance costs		(4,355)	(7,693)
Net finance income	*8*	3,095	6,312
(Loss) / profit before income tax		(3,336)	546
Income tax benefit	*9*	112	-
(Loss) / profit for the period		(3,224)	546
Other comprehensive income			
Net change in fair value of available-for-sale financial assets		262	(340)
Other comprehensive income for the period, net of income tax		262	(340)
Total comprehensive loss for the period		(2,962)	206
Earnings per share			
Basic (loss) / profit per share (cents/share)	*18*	(1.32)	0.25
Diluted (loss) / profit per share (cents/share)	*18*	(1.32)	0.25

The notes on pages 38 to 76 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited
Consolidated statement of changes in equity

For the year ended 30 June 2012

In thousands of AUD	Share 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	-	-	-	-	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

For the year ended 30 June 2012

In thousands of AUD	Share Capital	Share based payment reserve	Fair value reserve	Option premium reserve	Accumulated losses	Total equity
Balance at 1 July 2011	79,726	234,734	-	510	(278,749)	36,221
(Loss)	-	-	-	-	(3,224)	(3,224)
Other comprehensive income						
Net change in fair value of available-for-sale assets, net of tax	-	-	262	-	-	262
Total other comprehensive income	-	-	262	-	-	262
Total comprehensive income for the period	-	-	262	-	(3,224)	(2,962)
Transactions with owners recorded directly in equity						
Contributions by and distributions to owners						
Issue of share capital (net of costs)	20,307	(691)	-	-	-	19,616
Issue of options (net of costs)	-	216	-	-	63	279
Total contributions by and distributions to owners	20,307	(475)	-	-	63	19,895
Total transactions with owners	20,307	(475)	-	-	63	19,895
Balance at 30 June 2012	100,033	234,259	262	510	(281,910)	53,154

The condensed notes on pages 38 to 76 are an integral part of these consolidated financial statements.

Poseidon Nickel Limited

Consolidated statement of cash flows

For the year ended 30 June 2012

In thousands of AUD	***Note***	**2012**	**2011**
Cash flows from operating activities			
Sundry receipts		437	130
Payments to suppliers and employees		(5,799)	(5,217)
Cash used in operations		(5,362)	(5,087)
Interest received		454	201
Net cash used in operating activities	*16b*	(4,908)	(4,886)
Cash flows from investing activities			
Payments for property, plant and equipment		(509)	(780)
Payments for exploration and evaluation expenditure		(15,024)	(2,929)
Payments for other investments		-	(20)
Net cash used in investing activities		(15,533)	(3,729)
Cash flows from financing activities			
Proceeds from the issue of shares and options		18,842	3,056
Proceeds from the issue of convertible notes		-	19,484
Proceeds from borrowings		8,000	-
Payment of finance lease liabilities		(129)	(76)
Net cash from financing activities		26,713	22,464
Net increase / (decrease) in cash and cash equivalents		6,272	13,849
Cash and cash equivalents at 1 July		14,162	924
Effect of exchange rate fluctuations on cash held		148	(611)
Cash and cash equivalents at 30 June	*16a*	20,582	14,162

The notes on pages 38 to 76 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 2012 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

The Group is a for-profit entity and primarily is involved in exploration, mining and production of nickel and other minerals.

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) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were approved by the Board of Directors on 20 September 2012.

(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. Set out below is information about:

- critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements; and
- assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Critical judgements

(i) Going concern

A key assumption underlying the preparation of the financial statements is that the entity will continue as a going concern. An entity is a going concern when it is considered to be able to pay its debts as and when they are due and to continue in operation without any intention or necessity to liquidate or otherwise wind up its operations. A significant amount of judgement has been required in assessing whether the entity is a going concern as set out in note 3.

2. Basis of preparation (continued)

(d) Use of estimates and judgements (continued)

Estimates and assumptions

(ii) Exploration and evaluation assets

Determining the recoverability of exploration and evaluation expenditure capitalised in accordance with the Group's accounting policy (refer note 4(e)), require estimates and assumptions as to future events and circumstances, in particular, whether successful development and commercial exploitation, or alternatively sale, of the respective areas of interest will be achieved. Critical to this assessment is estimates and assumptions as to ore reserves, the timing of expected cash flows, exchange rates, commodity prices and future capital requirements. Changes in these estimates and assumptions as new information about the presence or recoverability of an ore reserve becomes available, may impact the assessment of the recoverable amount of exploration and evaluation assets. If, after having capitalised the expenditure under accounting policy 4(e), a judgement is made that recovery of the expenditure is unlikely, an impairment loss is recorded in the income statement in accordance with accounting policy 4(g). The carrying amounts of exploration and evaluation assets are set out in note 11.

(iii) Site Restoration liability

Determining the cost of rehabilitation, decommissioning and restoration of the area disturbed during mining activities in accordance with the Group's accounting policy (refer note 4(i)), requires the use of significant estimates and assumptions, including: the appropriate rate at which to discount the liability, the timing of the cash flows and expected life of the relevant area of interest, the application of relevant environmental legislation and the future expected costs of rehabilitation, decommissioning and restoration.

Changes in the estimates and assumptions used to determine the cost of rehabilitation, decommissioning and restoration could have a material impact on the carrying value of the site restoration provision and related asset. The provision recognised for each site is reviewed at each reporting date and updated based on the facts and circumstances available at the time. The carrying amount of the provision for site restoration and related asset are set out in note 23.

(iv) Convertible note derivative

An option pricing model is used to calculate the fair value of the convertible note derivative that is dependent upon a number of estimates and assumptions. The types of estimates and assumptions used are set out in note 5(a). Changes to the estimates and assumptions used in the pricing model could have a material impact on fair value of the convertible note derivative.

(v) Share-based payments

A binomial option pricing model is used to calculate the fair value of employee share options that is dependent upon a number of estimates and assumptions. The types of estimates and assumptions used are set out in note 5(c).

(e) Changes in accounting policies

(i) Presentation of transactions recognised in other comprehensive income

From 1 July 2011 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.

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 2012 the Company incurred a loss of $3,224,000 (2011: profit $546,000) and had a net working capital deficit of $5,241,000 (2011: deficit $15,695,000). The working capital deficit includes the following items: the convertible note liability of $16,995,000 and the convertible note derivative liability of $4,507,000 that can only be settled in shares if called by the note holders prior to its redemption date of 28 March 2017 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 $15,533,000 (2011: outflow $3,729,000), reflecting the increase in exploration and mine refurbishment activity and the completion of a Definitive Feasibility Study ("DFS") for the Windarra Nickel Project ("WNP"). These investing activities were financed by available cash balances and an unsecured $8,000,000 Bridge Loan provided by Forrest Family Investments Pty Ltd ("FFI"), an entity controlled by the Company's Chairman, Mr Andrew Forrest. The loan was negotiated with up front transaction costs of $120,000. The loan must be repaid by the Company on the earlier of 1 July 2013 or as soon as the Company completes a final capital raising. The lender has the right to demand that the Bridge Loan is repaid through a mandatory capital raising at the end of the 15 month term if it has not been repaid by that time. Interest of 11% per annum is payable 6 monthly in arrears, with the interest rate increasing if the Bridge Loan is not repaid after 6 months by 100 basis points each quarter until fully repaid. A further 1.5% exit fee is payable on the Bridge Loan amount when the principal is repaid.

In addition, the Company completed a pro-rata renounceable Rights Issue in June 2012 of 0.965 new fully paid ordinary shares for every one fully paid ordinary share that raised a further $19,991,000 (gross). The Rights Issue was fully underwritten by FFI Ltd and subject to a 5% underwriting fee amounting to $1,073,000. The underwriting agreement was deemed by the Company to be on normal arms length terms. The proceeds from the Rights Issue are not intended to repay the Bridge Loan.

The Company will require further funding in order to fully fund the development of the WNP as budgeted. The Board of Directors is aware, having developed a DFS and prepared a cashflow budget, of the Company's project development and working capital requirements and is in negotiations with major international banks to fund the project through a debt and working capital facility. Poseidon has appointed a Financial Advisor to assist in the completion of the full financing for the project which is targeted for the second half of 2012, subject to satisfactory market conditions. The Company may also seek to raise additional funds through capital raisings should the need arise as it has done so successfully in the past. Should the Company be unable to raise sufficient funds, it may be necessary to delay the development of the project and reduce exploration and administrative costs.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows for the next 12 months. Should the Company not be successful in achieving forecast cash flows including the raising of additional funds through debt or equity, 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.

Poseidon Nickel Limited
Notes to the consolidated financial statements

4. Significant accounting policies (continued)

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.

(b) Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency 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.

(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 and cash and cash equivalents.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less that are subject to an insignificant risk of changes in their fair value and are used by the Group in the management of its short term commitments.

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 or are not classified in any of the previous categories. The Group's investments in equity securities are classified as available-for-sale financial assets. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, 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.

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.

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.

Poseidon Nickel Limited
Notes to the consolidated financial statements

4. Significant accounting policies (continued)

(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.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic associated with the expenditure will flow to the Group and its cost can be measured reliably. The costs of on-going repairs and maintenance of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

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

Items of PPE are depreciated from the date that they are installed and are ready for use. 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 each reporting date and adjusted if appropriate.

(e) Exploration and evaluation expenditure

Exploration for and evaluation of mineral resources is the search for mineral resources after the entity has obtained legal right to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Accordingly, exploration and evaluation expenditure are those expenditures incurred by the Company in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable.

Accounting for exploration and evaluation expenditures is assessed separately for each ‘area of interest’. An ‘area of interest’ is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Expenditure incurred on activities that precede establishing the existence of a commercially recoverable mineral resource that will provide a future economic benefit to the Company, including all expenditures incurred prior to securing legal rights to explore an area, is expensed as incurred.

Poseidon Nickel Limited
Notes to the consolidated financial statements

4. Significant accounting policies (continued)

(e) Exploration and evaluation expenditure (continued)

Exploration and evaluation assets include:

- Acquisition of rights to explore;
- Gathering exploration data through topographical, geochemical and geophysical studies;
- Exploratory drilling, trenching and sampling; and
- Activities in relation to evaluating the technical feasibility and commercial viability of extracting the mineral resource.

General and administration costs are allocated to and included in the cost of exploration and evaluation assets only to the extent that this cost can be related directly to the operational activities in the area of interest to which the exploration and evaluation assets relate. In all other instances, these costs are expensed as incurred.

Exploration and evaluation assets are classified as tangible or intangible according to the nature of the assets. As the assets are not yet ready for use, they are not depreciated. Assets that are classified as intangible assets include:

- Drilling rights;
- Acquired rights to explore;
- Exploratory drilling costs; and
- Trenching and sampling costs.

Borrowing costs incurred in connection with the financing of exploration and evaluation activities are expensed as incurred.

Exploration and evaluation assets are transferred to Development Assets once technical feasibility and commercial viability of an area of interest is demonstrable. Exploration and evaluation assets are assessed for impairment and any impairment loss is recognised prior to be reclassified.

The carrying amount of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective area of interest.

Impairment testing of exploration and evaluation assets

Exploration and evaluation assets are assessed for impairment if sufficient data exists to determine technical feasibility and commercial viability or facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Exploration and evaluation assets are tested for impairment when any of the following facts and circumstances exist:

- The term of exploration license in the specific area of interest has expired during the reporting period or will expire in the near future and is not expected to be renewed;
- Substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is not budgeted nor planned; and
- Sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than an area of interest. The Company performs impairment testing in accordance with accounting policy 4(g).

Poseidon Nickel Limited
Notes to the consolidated financial statements

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 are impaired can include default by a debtor, indications a debtor or issuer will enter bankruptcy, economic conditions that correlate with default or 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 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 reclassifying the cumulative loss that has been recognised in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. 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, 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.

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)

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 Group annual short term incentive (STI) program provides share-based payment arrangements where the employees have the choice of settling the STI in cash or equity. The directors can also elect to take their annual remuneration in cash or equity. These represent compound financial instruments with potential debt and equity components. The fair value of the compound instrument is determined by reference to the Director Share Plan and approved annual director fees and is allocated fully to the debt component when the fair value of the cash and equity settlement alternatives are equal. The Group recognises an expense for the debt component and an equivalent liability as services are provided by employees and directors during the performance year, based on the approved STI bonus if any, and director fees. If the Group issues shares to settle the liability, the liability is transferred to equity at settlement date.

(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.

Site restoration provision

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site restoration is recognised in respect of the estimated cost of rehabilitation and restoration of the area previously disturbed during mining activities up to the reporting date, but not yet rehabilitated. Such activities include dismantling infrastructure, removal and treatment of waste material and land rehabilitation, including contouring, topsoiling and revegetation of the disturbed area.

4. Significant accounting policies (continued)

(i) Provisions (continued)

The amount recognised as a liability represents the estimated future costs discounted to present value at a pre-tax rate that reflects current (estimated costs arising within twelve months from balance date) and non-current components based on expected timing of cash flows.

At each reporting date the site restoration provision is re-measured to reflect any changes in discount rates and timing or amounts of the costs to be incurred. Such changes in the estimated liability are accounted for prospectively from the date of the change and re added to, or deducted from, the related asset where it is possible that future economic benefits will flow to the entity.

(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.

(k) Finance income and finance costs

Finance income comprises interest income on funds invested, gains on the disposal of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues, using the effective interest method.

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

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

(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 or recoverable on the taxable income or loss 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 in respect of 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 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets plus liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they 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.

4. Significant accounting policies (continued)

(l) 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.

(m) 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.

(n) 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.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2011 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for AASB 9 *Financial Instruments*, which becomes mandatory for the Group's 2016 consolidated financial statements and could change the classification and measurement of financial assets. 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.

(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 the end of the 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.

Poseidon Nickel Limited
Notes to the consolidated financial statements

5. Determination of fair values (continued)

(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. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends and the risk free interest rate (based on government bonds). Service and non-market conditions are not taken into account in determining fair value.

(d) Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

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	**2012**	**2011**
For the year ended 30 June		
Reportable segment other income	331	102
Reportable segment exploration costs expensed	(2,354)	(2,370)
Reportable segment (loss) before income tax	(2,023)	(2,268)
Reportable segment assets	65,570	51,474
Reconciliations of reportable segment loss and assets		
Loss		
Total (loss) for reportable segments	(1,943)	(2,269)
Unallocated amounts: other corporate expenses	(4,488)	(3,497)
Net finance income	3,095	6,312
Income tax benefit	112	-
	(3,224)	546
Assets		
Total assets for reportable segments	65,570	51,474
Other assets	21,927	15,270
	87,497	66,744

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2011.

7. Personnel expenses

In thousands of AUD	***Note***	**2012**	**2011**
Wages and salaries		819	747
Superannuation expense		183	173
Other associated personnel expenses		148	82
Increase/(Decrease) in liability for annual leave	*21*	44	44
		1,194	1,046

Poseidon Nickel Limited
Notes to the consolidated financial statements

8. Finance income and expense

In thousands of AUD	***Note***	**2012**	**2011**
Interest income on bank deposits		430	236
Net foreign exchange gain		-	2,945
Change in fair value of convertible note derivative	*20*	7,020	8,276
Profit on de-recognition of convertible note		-	2,548
Finance income		7,450	14,005
Interest expense – convertible note		(2,806)	(1,889)
Interest expense on bank accounts		-	(4)
Interest expense on loan		(290)	-
Net foreign exchange loss		(1,122)	-
Impairment of available-for-sale financial assets		(137)	(509)
Change in fair value of available-for-sale financial assets transferred to profit or loss		-	340
Loss on recognition of convertible note derivative	*20*	-	(5,631)
Finance costs		(4,355)	(7,693)
Net finance income / (costs)		3,095	6,312

9. Income tax expense

In thousands of AUD	**2012**	**2011**
Current tax expense		
Current year	-	-
Adjustments for prior periods	41	(78)
	41	(78)
Deferred tax expense		
Origination and reversal of temporary differences	(41)	78
Deferred tax asset recognised on change in fair value of available-for-sale financial asset	112	-
	112	-
Total tax benefit / (expense)	112	-
Tax recognised directly in equity		
Available-for-sale financial assets	(112)	-

Numerical reconciliation between tax expense and pre-tax accounting profit

In thousands of AUD	**2012**	**2011**
(Loss) / profit for the year	(3,224)	546
Total tax expense	(112)	-
(Loss) / profit excluding tax	(3,336)	546
Income tax using the Company's domestic tax rate of 30% (2011: 30%)	(1,025)	164
Share-based payments	337	266
Deferred tax asset recognised in change in fair value of available-for-sale financial assets	112	-
Net loss on recognition of convertible note and derivative	-	925
Other non-deductible expenses	2	3
Under (over) provided in prior periods	41	(78)
	(533)	1,280
Change in recognised deductible temporary differences	421	(1,280)
Total income tax (benefit)/expense	(112)	-

Poseidon Nickel Limited
Notes to the consolidated financial statements

10. 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 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
Balance at 1 July 2011	1,006	186	1,938	283	3,413
Additions	-	2	495	-	497
Transfers	-	-	-	-	-
Disposals	-	-	-	-	-
Balance at 30 June 2012	1,006	188	2,433	283	3,910

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 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
Balance at 1 July 2011	149	137	612	173	1,071
Depreciation for the year	40	18	225	24	307
Disposals	-	-	-	-	-
Balance at 30 June 2012	189	155	837	197	1,378

Carrying amounts

In thousands of AUD	Leasehold improve-ments	Plant and equipment	Plant and equipment – mining	Motor vehicles – mining	Total
At 1 July 2010	897	44	693	140	1,774
At 30 June 2011	857	49	1,326	110	2,342
At 30 June 2012	817	33	1,596	86	2,532

11. Exploration and evaluation expenditure

In thousands of AUD	2012	2011
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	59,550	45,635
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of year	45,635	40,692
Additions	13,915	4,943
	59,550	45,635

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

12. Other investments

In thousands of AUD	2012	2011
Non-current investments		
Available-for-sale financial assets	693	456
	693	456

On 30 June 2012 the Company held 9,115,384 ordinary shares in Triton Gold Ltd ("Triton") and the share price was $0.076 (2011: $0.05). Since the reporting date the Company has sold 5,806,705 shares in Triton realising a pre-tax profit of $121,000 on the sale transaction.

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 investment in these projects is held in the subsidiary company, Wells Gold Corporation (International) Pty Ltd which is recorded at nil value. Since the end of the financial year the Company has completed the transaction with Hodges having received the final Ministerial consent from the Minerals Commission in Ghana. As the carrying value of the subsidiary company is $1.00, the Company will recognise a pre-tax profit of $937,500 profit on the sale which includes the value of the shares issued by Hodges at the time of allotment. No amount has been recognised in these financial statements for this transaction.

13. Other non-current assets

In thousands of AUD	2012	2011
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 23) made in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine sites.

14. Deferred tax assets and liabilities

Unrecognised deferred tax assets and liabilities

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

In thousands of AUD	2012	2011
Tax losses	11,860	6,340
	11,860	6,340

The Company has carry-forward tax losses of $80,566,000 at 30 June 2012 (30 June 2011: $58,290,000).

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.

Poseidon Nickel Limited
Notes to the consolidated financial statements

14. Deferred tax assets and liabilities (continued)

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	**2012**	**2011**	**Net movement**
Deferred Tax Liabilities			
Exploration expenditure	(10,967)	(6,956)	(4,011)
Unrealised foreign exchange	-	(1,004)	1,004
Fair value movement of convertible note derivative	(2,106)	(2,483)	377
Available-for-sale financial assets (recognised in equity)	(112)	-	(112)
Other items	(43)	(11)	(32)
Deferred Tax Assets			
Tax losses	24,170	16,642	7,528
Unrealised foreign exchange	380	-	380
Available-for-sale financial assets	112	-	112
Other items	426	152	274
Net Deferred Tax Asset not brought to account	11,860	6,340	5,520

Following a Company initiated review of income tax returns, an additional $2,953,000 (2011: $8,065,000) of exploration expenditure was identified as deductible and is included within the Company's tax losses above. The Company has sought a private ruling from the ATO which is currently under review.

15. Trade and other receivables

Current *In thousands of AUD*	**2012**	**2011**
Goods and services tax receivable	508	420
Fuel tax credits receivable	21	47
Other receivables	22	80
Other assets and prepayments	89	102
	640	649

16. Cash and cash equivalents

16a. Cash and cash equivalents

In thousands of AUD	**2012**	**2011**
Bank balances	20,576	6,158
Term deposits	6	8,004
Cash and cash equivalents in the statement of cash flows	20,582	14,162

The effective interest rate on term deposits in 2012 was 6% (2011: 5.92%). The deposits had an average maturity of 365 days (2011: 75 days).

Poseidon Nickel Limited
Notes to the consolidated financial statements

16. Cash and cash equivalents (continued)

16b. Reconciliation of cash flows from operating activities

In thousands of AUD	2012	2011
Cash flows from operating activities		
Profit / (Loss) for the period	(3,224)	546
Adjustments for:		
Income tax benefit	(112)	-
Depreciation	18	12
Interest expenses - convertible note derivative	2,806	1,889
Interest expenses - borrowings	290	-
Change in fair value of convertible note derivative	(7,020)	(8,276)
Net loss on recognition of convertible note	-	3,190
Change in fair value of available-for-sale financial assets	137	509
Change in fair value of available-for-sale financial assets Transferred to profit or loss	-	(340)
Net foreign exchange movement	1,122	(2,899)
Equity-settled share-based payment transactions	1,044	886
Operating profit before changes in working capital and provisions	(4,939)	(4,483)
Change in trade and other receivables	9	(529)
Change in trade payables and employee benefits	22	126
Net cash used in operating activities	(4,908)	(4,886)

17. Capital and reserves
Share capital

	Ordinary shares	
In thousands of shares	2012	2011
Ordinary shares		
Fully paid	407,064	195,401
Partly paid	-	425
Total share capital on issue at 30 June	407,064	195,826
Movements in ordinary shares on issue:		
On issue at 1 July	195,826	176,916
Shares issued and expensed during the period:		
Issued for cash	199,907	17,867
Issued for directors fees	1,052	828
Issued for 2011 employee performance bonus	5,495	-
Issued for managing director incentive	1,965	-
Cancelled party paid shares	(50)	-
Shares issued but expensed during the prior period:		
Issued for directors fees	260	215
Issued for professional broker fees	2,609	-
On issue at 30 June	407,064	195,826

During the period, the Company undertook a Rights Issue of 0.965 new fully paid ordinary shares for every 1 fully paid ordinary share held on the record date of 20 April 2012. An additional 199,906,923 new ordinary shares were issued.

Poseidon Nickel Limited
Notes to the consolidated financial statements

17. Capital and reserves (continued)

Share capital (continued)

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 fair value of equity benefits provided to directors and employees as part of their remuneration.

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.

18. Earnings (loss) per share

Basic earnings (loss) per share

The calculation of basic earnings (loss) per share at 30 June 2012 was based on the loss attributable to ordinary shareholders of $3,304,000 (2011: profit $546,000) and a weighted average number of ordinary shares outstanding of 213,248,000 (2011: 191,822,000), calculated as follows:

Profit (loss) attributable to ordinary shareholders

In thousands of AUD	2012	2011
Net profit (loss) attributable to ordinary shareholders	(3,224)	546

Weighted average number of ordinary shares

In thousands of shares	2012	2011
Issued ordinary shares at 1 July	224,811	176,916
Effect of shares issued	18,464	43,299
Weighted average number of ordinary shares at 30 June	243,275	220,215

The weighted average number of ordinary shares for the current period has been adjusted to take account of the rights issue. The prior year weighted average number of ordinary shares has also been restated in accordance with AASB 1027 *Earnings per share*.

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 136,775,000 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.

Poseidon Nickel Limited
Notes to the consolidated financial statements

19. 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 25.

In thousands of AUD	**2012**	**2011**
Current liabilities		
Current portion of finance lease liabilities	-	111
Convertible note liability	16,995	13,498
Borrowings	290	-
	17,285	13,609
Non-current liabilities		
Finance lease liabilities	-	17
Borrowings	7,880	-
	7,880	17

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

				30 June 2012		**30 June 2011**	
In thousands of AUD	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**	**Face value**	**Carrying amount**
Convertible note liability	USD	5.00%	2017	34,368	16,995	32,643	13,498
Finance lease liabilities	AUD	10.21%	2012	-	-	128	128
Borrowings	AUD	15.35%	2013	8,170	8,170	-	-
Total interest-bearing liabilities				42,538	25,165	32,771	13,626

Refer to note 3 and 28 for detailed terms of the $8 million unsecured bridge loan included in borrowings.

Convertible notes

In thousands of AUD		**2012**	**2011**
Carrying amount of liability at beginning of period		13,498	10,648
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	*20*	-	(13,250)
Transaction costs on new convertible note		-	(442)
Exchange rate effects		691	(2,390)
Accrued interest capitalised		2,806	1,889
Carrying amount of liability at end of period		16,995	13,498

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 any time up to 28 March 2017. 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% from 28 March 2014 until maturity.

Poseidon Nickel Limited
Notes to the consolidated financial statements

19. Loans and borrowings (continued)

Convertible notes (continued)

In conjunction with the above 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 has been deferred for a further 3 year term. The nature of the change to the terms of the original Convertible Notes required 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 2012	Interest 2012	Principal 2012	Minimum lease payments 2011	Interest 2011	Principal 2011
Less than one year	-	-	-	119	8	111
Between one and five years	-	-	-	18	1	17
More than five years	-	-	-	-	-	-
	-	-	-	137	9	128

The hire purchase agreements on certain motor vehicles and equipment previously entered into by the Company were settled in full during the reporting period.

20. Convertible Note Derivative

In thousands of AUD		2012	2011
Carrying amount of liability at beginning of period		10,948	1,464
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	*19*	-	13,250
Fair value movement		(7,020)	(8,276)
Exchange rate effects		579	(1,121)
Carrying amount of liability at end of period		4,507	10,948

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 2011 (share price $0.17) and 30 June 2012 (share price $0.10) 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 2011 was 1.0722:1 and at 30 June 2012, 1.0184:1.

21. Employee benefits

Current

In thousands of AUD	2012	2011
Liability for annual leave	101	57
Total employee benefits – current	101	57

Poseidon Nickel Limited
Notes to the consolidated financial statements

22. Share-based payments arrangements

Options

The terms and conditions related to 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 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	127,508,000		

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

	Weighted average exercise price 2012	Number of options 2012	Weighted average exercise price 2011	Number of options 2011
Outstanding at 1 July	$0.414	128,508,000	$0.424	121,033,000
Exercised during the period	-	-	-	-
Granted during the period	-	-	$0.250	7,475,000
Lapsed during the period	$1.960	(1,000,000)	-	-
Outstanding at 30 June	$0.402	127,508,000	$0.414	128,508,000
Exercisable at 30 June	$0.400	117,500,000	$0.400	117,500,000

The options outstanding at 30 June 2012 have an exercise price in the range of $0.25 to $1.41 (2011: $0.25 to $1.96) and a weighted average contractual life of 5 years (2011: 5.1 years).

The board can decide to grant options to a limited number of senior executives at its discretion under the Poseidon Employee Option Plan ("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 and must be exercised between 3 and 6 years of issue.

Poseidon Nickel Limited
Notes to the consolidated financial statements

22. Share-based payment arrangements (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:

Fair value of share options and assumptions	Directors 2012	Directors 2011	Executives 2012	Executives 2011
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 related to share grants are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Shares granted to executive director 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
Shares granted to executives and employees on 27 October 2011	5,495,398	The shares have a 3 year vesting period
Shares granted to executive director on 22 November 2011	1,965,000	The shares have a 3 year vesting period
Total shares	8,098,398	

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

	Weighted average fair value 2012	Number of shares 2012	Weighted average fair value 2011	Number of shares 2011
Outstanding at 1 July	$0.26	638,000	$0.43	920,476
Vested during the period	-	-	$0.80	(282,476)
Forfeited during the period	-	-	-	-
Granted during the period	$0.21	7,460,398	-	-
Outstanding at 30 June	$0.22	8,098,398	$0.26	638,000

The board can decide to issue shares and hybrids in relation to the short term performance bonus under the Poseidon Employee Bonus Scheme (“EBS”) scheme whereby the employee has elected to receive their cash bonus in shares. The shares are subject to a 3 year continuous service condition from the date of issue.

Poseidon Nickel Limited
Notes to the consolidated financial statements

22. Share-based payment arrangements (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
	2012	**2011**	**2012**	**2011**
Fair value of grant	$0.19	-	$0.22	-
Share price at grant date	$0.19	-	$0.22	-

Hybrids

All hybrids are settled by the physical delivery of shares. The terms and conditions related to hybrid grants are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions	Fair value of grant
Hybrids granted to non-executive directors on 22 November 2011	360,126	The hybrids vested immediately upon grant	$0.18
Hybrids granted to non-executive directors on 31 December 2011	332,180	The hybrids vested immediately upon grant	$0.20
Hybrids granted to non-executive directors on 31 March 2012	360,108	The hybrids vested immediately upon grant	$0.18
Hybrids granted to non-executive directors on 30 June 2012	598,356	The hybrids vested immediately upon grant	$0.11
Total shares	1,650,770		

The fair value of hybrids granted is equal to the value of cash compensation that has been elected to be taken as shares by non-executive directors under the terms of the Director Share Plan ("DSP"). The number of hybrids granted is calculated by dividing the value of cash compensation by the 5 days volume weighted average price of the Company's shares at the date of grant.

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

	Weighted average fair value	Number of hybrids	Weighted average fair value	Number of hybrids
	2012	**2012**	**2011**	**2011**
Granted during the period	$0.16	1,650,770	$0.23	1,087,373
Outstanding at 30 June	$0.25	1,276,000	$0.25	1,276,000

The hybrids granted during year ended 30 June 2012 have a purchase price in the range of $0.1091 to $0.1965 (2011: $0.1948 to $0.2954).

Poseidon Nickel Limited
Notes to the consolidated financial statements

22. Share-based payment arrangements (continued)

Other – equity settled

The terms and conditions related to loans used to purchase shares are as follows:

Grant date / employees entitled	Number of Instruments	Vesting conditions
Loans for shares purchased by executive director on 18 May 2012	2,100,000	The shares vested immediately upon grant
Loans for shares purchased by executives on 18 May 2012	2,500,000	The shares vested immediately upon grant
Loans for shares purchased by employees on 18 May 2012	450,000	The shares vested immediately upon grant
Total shares	5,050,000	

The number and weighted average exercise prices of the loan shares are as follows:

	Weighted average exercise price 2012	Number of options 2012	Weighted average exercise price 2011	Number of options 2011
Granted during the period	$0.10	5,050,000	-	-
Vested during the period	$0.10	5,050,000	-	-
Outstanding at 30 June	-	-	-	-

The loan shares were purchased at $0.10 per share and fully vested upon grant.

During the year, loans were made to executive directors and employees by Forrest Family Investments Pty Ltd (“FFI”), a company controlled by the Company’s non-executive chairman and major shareholder Mr Andrew Forrest. The loans were provided to financially assist in the purchase of shares in the Company to which existing shareholders were entitled under the terms of a Rights Issue undertaken in May 2012. The arrangement constitutes a share-based payment transaction because the loans have only been provided to employees of the Company and the employee is required to remain in employment for the three year term of the loan. The employee is therefore being compensated for providing services to the Company through an arrangement set up by a shareholder of Poseidon. Refer to note 28 for further details of the terms of the loans.

The fair value of services received for the loans granted is based on the fair value of shares granted, which is measured using a Monte Carlo simulation model with the following inputs:

Fair value of loan shares and assumptions	2012	2011
Fair value at grant date	$0.012	-
Share price at grant date	$0.095	-
Exercise price	$0.100	-
Personal guarantee	$0.040	
Expected volatility (weighted average volatility)	70%	-
Risk free rate	3.08%	
Loan term	3 years	-

Poseidon Nickel Limited
Notes to the consolidated financial statements

22. Share-based payment arrangements (continued)

Share based payment expense

In thousands of AUD	2012	2011
Share options granted in 2011	177	119
Share options granted in 2009	29	70
Share options granted in 2008	-	258
Shares granted in 2012	348	-
Shares granted in 2010	55	55
Shares granted in 2008	-	73
Hybrids granted in 2012	261	-
Hybrids granted in 2011	-	251
Hybrids granted in 2010	111	111
Other granted in 2012	63	
Shares based payment capitalised	-	(51)
Total expenses recognised as employee costs	1,044	886

23. Provisions

In thousands of AUD	2012	2011
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.

24. Trade and other payables

In thousands of AUD	2012	2011
Trade payables	687	2,179
Other payables	383	213
	1,070	2,392

Poseidon Nickel Limited
Notes to the consolidated financial statements

25. Financial risk management

Overview

The Group have 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 Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The board has established the Audit and Risk Management Committee which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the board on its activities.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Audit and Risk Management Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

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 only limiting transactions with 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, it limits its 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**	**2012**	**2011**
Cash and cash equivalents	*16a*	20,582	14,162
Other investments	*12*	693	456
Other assets	*14*	3,500	3,500

Poseidon Nickel Limited
Notes to the consolidated financial statements

25. Financial risk management (continued)

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.

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	**2012**	**2011**
Cash and cash equivalents		
AA	-	7,209
AA-	80	5,953
A	20,502	1,000
Other non-current assets		
Security deposit – environmental bond	3,500	3,500
Other investments	693	456

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, is that it will always have sufficient funds 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 when 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 2012

		Contracted				
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	-	-	-	-	-	-
Trade and other payables	1,005	1,005	-	-	-	-
Bridge loan	8,170	444	495	8,409	-	-
Convertible note	16,995	-	-	-	34,368	-
	26,170	**1,449**	**495**	**8,409**	**34,368**	**-**

Consolidated

30 June 2011

		Contracted				
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	13,498	-	-	-	-	32,643
	16,018	**2,436**	**74**	**14**	**-**	**32,643**

25. Financial risk management (continued)

Liquidity risk (continued)

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. 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;
3. 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 changes 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 cash and borrowings that are denominated in a currency other than the functional currency of Group entities, 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:

	30 June 2012		30 June 2011	
In thousands of AUD	**USD**	**Total**	**USD**	**Total**
Convertible note derivative	(4,507)	(4,507)	(10,948)	(10,948)
Convertible note liability	(16,995)	(16,995)	(13,498)	(13,498)
Cash and cash equivalents	-	-	4,999	4,999
Gross statement of financial position exposure	(21,502)	(21,502)	(19,447)	(19,447)

Sensitivity analysis

The following sensitivities have been applied for 2012 based upon published 12 month forward rates:

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

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

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

25. Financial risk management (continued)

Market risk (continued)

(a) Currency risk (continued)

Sensitivity analysis (continued)

	Consolidated	
In thousands of AUD	**Equity**	**Profit or (loss)**
30 June 2012		
USD	-	(286)
30 June 2011		
USD	-	(1,018)

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.

Profile

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

In thousands of AUD	**2012**	**2011**
Fixed rate instruments		
Cash and cash equivalents	6	8,004
Convertible note derivative	4,507	10,948
In thousands of AUD		
Variable rate instruments		
Cash and cash equivalents	20,576	6,158

Cash flow sensitivity analysis for variable rate instruments

As at 30 June 2011 and 2012 a sensitivity analysis has not been disclosed in relation to the floating interest deposits and convertible note for the Group as the results are not material to the statement of comprehensive income.

(c) Equity price risk

The Group is exposed to equity price 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.

25. Financial risk management (continued)

Market risk (continued)

(c) Equity price risk (continued)

Profile

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

In thousands of AUD	Carrying amount	
	2012	**2011**
Variable Rate Instruments		
Convertible note derivative	4,507	10,948
Other investments	693	456

Price risk sensitivity

Equity Price Risk

In relation the convertible note derivative, the Group have used an equity price change of 75% (2011: 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 assets, the Group have used an equity price change of 105% (2011: 105%) 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	**increase**	**decrease**	**increase**	**decrease**
30 June 2012				
Convertible note derivative	(5,326)	3,990	(5,326)	3,990
Available-for-sale financial assets	-	-	727	(693)
Cash flow sensitivity (net)	(5,326)	3,990	(4,599)	3,297

Price risk sensitivity (continued)

	Profit or (loss)		Equity	
In thousands of AUD	**increase**	**decrease**	**increase**	**decrease**
30 June 2011				
Convertible note derivative	(8,861)	10,554	(8,861)	10,554
Available-for-sale financial assets	-	-	479	(456)
Cash flow sensitivity (net)	(8,861)	10,554	(8,382)	10,098

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.

25. Financial risk management (continued)

Fair values (continued)

Fair values versus carrying amounts (continued)

Bridge Loan

Due to the short-term nature of the loan, its carrying amount is deemed to represent its fair value.

Available-for-sale financial assets

The available-for-sale financial assets 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	**2012**	**2011**	**2012**	**2011**
On statement of financial position				
Convertible note liability	16,995	13,498	33,777	30,585

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

Convertible Note Derivative

The convertible note derivative liability has been recorded at its fair value therefore there is no difference between its fair value and carrying value.

Fair values hierarchy

The following tables classify financial instruments recognised in the statement of financial positions 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	-	4,507	-	4,507
Available for sale financial assets:				
Listed equity securities	693	-	-	693

25. Financial risk management (continued)

Fair values (continued)

Fair values versus carrying amounts (continued)

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 prices which are 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

Capital consists of ordinary share capital, retained earnings, reserves and net debt. 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 19) less cash and cash equivalents (note 16) 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 9% (2011: (2)%) 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.

26. Operating leases

Non-cancellable operating lease rentals are payable as follows:

In thousands of AUD	**2012**	**2011**
Less than one year	160	155
Between one and five years	166	309
More than five years	-	-
	326	464

The Group leases business office premises under non-cancellable operating leases expiring in 2 years. The lease has varying terms, escalation clauses and renewal rights. The terms of the lease were renegotiated from 1 July 2011 for a 3 year term.

27. 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. In addition, the commitments include a $3 million of expenditure for the earn in agreement with Magma Metals Limited (refer note 30). These obligations are not provided for in the financial report and are payable as follows:

In thousands of AUD	**2012**	**2011**
Less than one year	1,125	254
Between one and five years	2,480	453
More than five years	617	1,250
	4,222	1,957

28. Related parties

The key management personnel compensation included in ‘personnel expenses’ (note 7) and ‘share based payments’ (note 22), is as follows:

In thousands of AUD	**2012**	**2011**
Short-term employee benefits	1,748	1,596
Post-employment benefits	140	127
Share-based payments	982	907
	2,870	2,630

The remuneration report in section 7.6.2 of the Directors’ report, includes an additional amount of share based payment for $Nil (2011: $50,585) 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 7.6.

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

During the financial period, personal loans were made to a number of key management personnel and employees by Forrest Family Investments Pty Ltd (“FFI”), a company controlled by the Company’s non-executive chairman and major shareholder Mr Andrew Forrest. The loans were provided to financially assist in the purchase of shares in the Company to which existing shareholders were entitled under the terms of a Rights Issue undertaken in May 2012. The key terms of the loans are as follows:

- The shares acquired are placed into a holding lock escrow arrangement with the Company’s share registry;
- The term of the loan is three years;
- A fixed interest rate of 5% per annum;
- The loan is interest only for the term of the loan;
- The Lender will provide a limited personal guarantee of $0.04 per share acquired under the agreement in the event that the shares are sold below the $0.10 acquisition price; and
- The loan becomes immediately repayable if the employee ceases to be an employee of the Company

28. Related parties (continued)

Loans to key management personnel and their related parties (continued)

Loans amounting to $505,000 have been provided by FFI to key management personnel and employees and are outstanding at 30 June 2012 (2011: $nil). The fair value of this transaction has been recognised as an equity contribution by the Group from a shareholder.

Other key management personnel transactions

In March 2012, the Company entered into an $8,000,000 unsecured Bridge Loan with FFI. The loan was negotiated on commercial terms and conditions, the key terms being as follows:

- The drawdown date for the loan was 30 March 2012;
- The loan must be repaid by the Company on the earlier of 1 July 2013 and as soon as the Company completes a final capital raising;
- The loan is unsecured and the Company may not grant security while the loan remains outstanding;
- The Lender has the right to demand that the loan is repaid through a mandatory capital raising at the end of the 15 month term if it has not been repaid by that time;
- Interest of 11% per annum is payable 6 monthly in arrears with the interest rate increasing if the loan is not repaid after 6 months by 100 basis points each quarter until the loan is repaid; and
- A 1.5% commitment fee is payable upfront and a 1.5% exit fee is payable on the loan amount when the principal is repaid.

In June 2012, the Company completed a fully underwritten renounceable Rights Issue of 0.965 new fully paid ordinary shares in the Company for every one fully paid ordinary share held on the records date of 20 April 2012. The new shares under the Rights Issue were offered at $0.10 per share. The Rights Issue was fully underwritten by FFI and the Company paid a 5% underwriting fee for the underwritten shares (excluding shares held by the underwriter or its related parties), less the amount the underwriter or its associates would have to pay if it subscribed for its full entitlement under the offer and also less broker fees payable on trading the rights. This amounted to an underwriting fee payable of $1,073,000.

This underwriting has been deemed by the Company to be on arms length terms and the Underwriting Agreement contains standard commercial terms and conditions.

Poseidon Nickel Limited
Notes to the consolidated financial statements

28. Related parties (continued)

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 2011	Granted as compensation	Lapsed	Other changes	Held at 30 June 2012	Vested during the year	Vested and exercisable at 30 June 2012
Directors							
Mr A Forrest	-	-	-	-	-	-	-
Mr C Indermaur	1,000,000	-	-	-	1,000,000	-	-
Mr R Monti	1,500,000	-	-	-	1,500,000	-	1,250,000
Mr G Brayshaw	250,000	-	-	-	250,000	-	-
Mr D Singleton	6,000,000	-	(1,000,000)	-	5,000,000	-	-
Executives							
Mr R Dennis	777,000	-	-	-	777,000	-	-
Mr N Hutchison	842,000	-	-	-	842,000	-	-
Mr M Rodriguez	1,000,000	-	-	-	1,000,000	-	-
Mr G Jones	614,000	-	-	-	614,000	-	-

No options were exercised during the period. The 1,000,000 options issued to Mr D Singleton in July 2007 lapsed during the reporting period as the share price performance hurdles had not been met.

	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	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2012 (30 June 2011: nil).

Poseidon Nickel Limited
Notes to the consolidated financial statements

28. 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 2011	Granted as compensation	Received on exercise of options	Purchases, sales or donations	Held at 30 June 2012
Directors					
Mr A Forrest	5,000,000	-	-	124,824,875	129,824,875
Mr C Indermaur	-	-	-	903,605	903,605
Mr R Monti	237,500	-	-	1,173,250	1,410,750
Mr G Brayshaw	-	-	-	998,936	998,936
Mr D Singleton	1,873,438	1,965,000	-	2,100,000	5,938,438
Executives					
Mr R Dennis	193,246	1,461,830	-	1,000,000	2,655,076
Mr N Hutchison	135,000	1,055,766	-	74,460	1,265,226
Mr M Rodriguez	225,688	1,434,759	-	1,000,000	2,660,447
Mr G Jones	90,000	893,341	-	500,000	1,483,341

The shares were granted to directors and executives under the terms of EBS. Refer to section 7.6.1 of the Directors' report.

	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

Poseidon Nickel Limited
Notes to the consolidated financial statements

28. 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 2011	Granted as compensation	Donations	Held at 30 June 2012
Directors				
Mr A Forrest	-	288,344	(288,344)	-
Mr C Indermaur	622,719	491,987	-	1,114,706
Mr R Monti	712,903	416,297	-	1,129,200
Mr G Brayshaw	745,638	454,142	-	1,199,780
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 2010	Granted as compensation	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

29. Group entities

Significant subsidiaries

Parent entity	**Country of incorporation**	**Ownership interest**	
Poseidon Nickel Ltd		**2012**	**2011**
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.

30. Joint ventures

The Company and Magma Metals Limited ("Magma"), recently acquired by Panoramic Resources Ltd, entered into an agreement on 28 September 2011 for Poseidon to earn into the nickel, copper and PGE rights to a large tenement package adjoining the Windarra Nickel Project. The Company can earn a 60% interest in the rights during a 3 year earn in period for an expenditure of $3,000,000 following which Magma have the right to make an election to either contribute its share to further exploration expenditure, or assign a further 20% interest to Poseidon. The Company currently hold 0% equity interest in the joint venture.

Following the completion of a feasibility study on any project on the tenements and if a decision to mine is made, Magma may elect to assign its remaining 20% share to Poseidon in exchange for a 2.5% net smelter royalty.

An amount of $76,849 has been incurred in relation to the joint venture which represents exploration expenditure and is included in the total exploration costs expensed in the Statement of Comprehensive Income of $2,354,000 (2011: $2,370,000). This exploration has been accounted for in accordance with note 4(e).

31. Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2012 the parent company of the Group was Poseidon Nickel Limited.

In thousands of AUD	***Note***	**2012**	**2011**
Results of the parent entity			
Profit / (loss) for the period		(3,224)	546
Other comprehensive income		262	(340)
Total comprehensive income for the period		(2,962)	206
Financial position of the parent entity at year end			
Current assets		21,222	14,811
Total assets		87,497	66,744
Current liabilities		26,463	30,506
Total liabilities		34,343	30,523
Total equity of the parent entity comprising of:			
Share capital		100,033	79,726
Share based payments reserve		234,259	234,734
Fair value reserve		262	-
Option premium reserve		510	510
Accumulated losses		(281,910)	(278,749)
Total equity		53,154	36,221
Exploration expenditure commitments of the parent			
Less than one year		1,125	254
Between one and five years		2,480	453
More than five years		617	1,250
		4,222	1,957

Poseidon Nickel Limited
Notes to the consolidated financial statements

32. Subsequent events

Since the end of the financial year the Company has completed the transaction with Hodges Resources Ltd ("Hodges") for the sale of the Ghana gold project having received the final Ministerial consent from the Minerals Commission in Ghana. On 10 July 2012 the sale proceeds of $750,000 plus interest accrued during the period that the funds have been held in escrow, was released to the Company together with the allotment of 1,250,000 ordinary shares in Hodges to the Company. The project was held in a subsidiary company, Wells Gold Corporation (International) Pty Ltd which has a carrying value of its issued share capital of $1.00. The Company will recognise a pre-tax profit of $937,500 profit on the sale of the subsidiary which includes the market value of the shares issued in Hodges at the time of allotment.

In addition, the Company has sold 5,806,705 of the 9,115,384 shares held in Triton Gold Limited ("Triton") which has realised net sales proceeds of $563,000 and a pre-tax profit of $121,000.

Since the end of the financial year, 126,767,436 unlisted options have lapsed. The options had expiry dates of 31 July, 31 August and 19 September 2012 and exercise prices ranging from $0.25 to $0.40.

33. Auditors' remuneration

	Consolidated	
In AUD	**2012**	**2011**
Audit services		
Auditors of the Group - KPMG		
Audit and review of financial reports	65,954	41,883
	65,954	41,883
Services other than statutory audit		
Non-statutory review of financial reports	58,744	-
Accounting assistance and advice	10,000	-
	68,744	-
	134,698	41,883

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 34 to 76 and the Remuneration report in section 7.6 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 2012 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 2012.

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
20th September 2012

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 2012, 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 33 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(a), 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*.

KPMG

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 2012 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(a).

Report on the remuneration report

We have audited the Remuneration Report included in section 7.6 of the directors' report for the year ended 30 June 2012. 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 2012 complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Graham Hogg
Partner

Perth

20 September 2012

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 2012 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

20 September 2012

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 6 September 2012.

A. Distribution of equity securities

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

	Class of equity security Ordinary Shares
1 - 1000	1,935
1,001 - 5,000	2,183
5,001 - 10,000	882
10,001 - 100,000	1,572
100,001 and over	336
	6,908

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**
Forrest Family Investments Pty Ltd <Peepingee A/c>	119,999,874	29.84
HSBC Custody Nominees (Australia) Limited	27,614,247	6.87
UBS Nominees Pty Ltd	12,313,517	3.06
Minderoo Pty Ltd <Andrew & Nicola Forrest Family>	9,825,000	2.44
ABN AMRO Clearing System Nominees Pty Ltd <Custodian A/c>	8,598,691	2.14
JP Morgan Nominees Australia Limited <Cash Income A/c>	7,526,877	1.87
Mr David Lacey & Mrs Deborah Lacey	6,094,400	1.52
Mr David Singleton	5,940,000	1.48
NEFCO Nominees Pty Ltd	4,309,509	1.07
The Trust Company (Superannuation) Limited <The Grimaldi Super Fund A/c>	4,150,000	1.03
HSBC Custody Nominees (Australia) Limited – GSCO ECA	4,087,200	1.02
J & F James Brothers Holdings Pty Ltd	3,389,625	0.84
Mr John Lemke	3,000,000	0.75
Citicorp Nominees	2,805,745	0.70
Mr Kenneth Ambrecht	2,608,863	0.65
Mr Martinus Coolen	2,606,466	0.65
Greatcity Corporation Pty Ltd <Richard Monti A/c>	2,539,950	0.63
Mr Christopher Indermaur & Mrs Rena Indermaur <Indermaur Family S/F A/c>	2,018,311	0.50
Saggio Investments Pty Ltd <Saggio Investment A/c>	2,000,000	0.50
Mr Geoff Brayshaw	1,798,717	0.45
TOTAL	**233,226,992**	**57.99**

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Forrest Family Investments Pty Ltd <Peepingee A/c>	119,999,874	29.84
HSBC Custody Nominees (Australia) Limited	27,614,247	6.87

D. Unquoted equity security holders (as at 6 September 2012)

Options

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

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.

Poseidon Nickel Limited
ASX Additional information (continued)

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, L38/199	100%
- Windarra South	L 38/118, L 38/119, L 38/121, L 38/122	100%
- Woodline Well	PL 39/4493, PL 39/4494, PL 39/4495	100%
- Pool Well	M 38/1243, M 38/1244, M 38/1245	100%
- Laverton	E 38/1752	100%
- Tyson Resources	E 39/1325, E 39/1326	100%

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

-