

# POSEIDON NICKEL **ANNUAL REPORT 2009**





### **Poseidon Nickel Limited**

ABN: 60 060 525 206

Incorporated in Australia

### **Directors**

Mr A Forrest

Mr C Indermaur

Mr R Monti

Mr G Brayshaw

Mr D Singleton

### **Company secretary**

Mr R Kestel

### **Registered office**

Level 2, 100 Railway Road

Subiaco WA 6008

### **Principal office**

Unit 8, Churchill Court

331-335 Hay Street

Subiaco WA 6008

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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



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Poseidon has completed a substantial amount of metallurgical testing to support its prefeasibility work.

Front cover top: Lightning can strike twice in the same place. Storm action over Windarra as work to reopen the site continues. Photography by Stefan Woodtli.

Front cover lower: A jumbo meshing and rock bolting the Windarra decline as refurbishment continues. Photography by Rob Dennis.

Additional photography by Craig Kinder (F22) and Poseidon Nickel employees.





I believe that Windarra is ready to move into the next development stage having both developed the resource and completed an initial prefeasibility study into the operations.

It is with a renewed sense of optimism that I report as Chairman of Poseidon Nickel this year. In part, this is derived from a developing view that the resources industry in Australia is once again moving forward strongly after the ravages of the world's financial crisis. I have, for many years, been optimistic about the developing Asian economies and the very natural link that resources in Australia has to it. Once again, we are seeing Asia move forward with determination and the signs of development in our own industry are apparent for all to see.

My optimism is also related to the progress that we have made at Poseidon Nickel over the last year. I remind myself that when we commenced work at Windarra we had no JORC compliant resources and a belief, but no proof, that the tenements held substantial opportunity for new nickel sulphide discoveries. Today our resource base stands at nearly 100,000 tonnes of nickel and is one of the largest non-operational nickel sulphide resources in Australia. Very significantly, last year we drilled the first of six targets identified by our exploration team and have discovered the Cerberus deposit. Whilst highly significant in itself, it leaves us with five more targets identified with the same processes to follow up in the future.





I believe that Windarra is ready to move into the next developmental stage having both developed the resource and completed an initial prefeasibility study into the operations. We have been studying options on how we move into the next stage and will announce our preferred approach in the next few months.

In parallel to developing Windarra, we have over the past year very closely scrutinised some potential acquisitions which we believe would add great value to the Windarra project. I regret that we have, for reasons beyond our control, not yet been able to complete on these opportunities but we remain committed to taking substantial steps in developing the Company. Both I and the other board members are completely committed to this course of action.

With the difficult market environment of the past year now falling behind us, the Company is poised to enter a new and exciting time of development. I look forward to the year ahead and the development of the historic asset the Company holds at Windarra.

**Andrew Forrest**

Non-executive Chairman



A significant investment in deep hole diamond drilling has been rewarded with the discovery of the Cerberus deposit.





The discovery of the Cerberus massive nickel sulphide deposit follows the identification of six prospective zones on the tenements.



The achievements and progress made during the last 12 months have been satisfying, especially when we consider the severe global downturn that occurred during this period. Poseidon has completed a successful drilling program which has underlined the very prospective nature of the Windarra tenements that we have been promoting over the last 2 years.

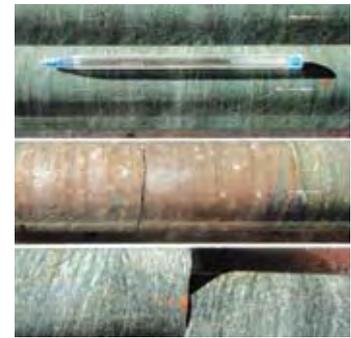
The Company's JORC compliant nickel sulphide resource now stands at 98,667 nickel tonnes which represents a 64% increase on the published number only a year previously and an increase of 121% over the maiden published resource in January 2008. In many ways, the most significant achievement in the period was the publication of the resource statement for the newly defined Cerberus massive sulphide ore body. This is the first discovery on the tenements since the early 1970's and could well be the key that unlocks further potential ore bodies at Windarra.

Poseidon has also progressed the necessary prefeasibility activity at Mt Windarra including the partial rehabilitation of the underground mine in preparation for a mining restart. However in October of 2008, Poseidon chose to terminate all activities on the Windarra site in response to the severe economic downturn. This action was undertaken in an orderly way to ensure that maximum benefit from the planned work was achieved and whilst we regret the impact on our partners and employees the decision was shown to be appropriate and timely.





Poseidon also sought to develop the business by taking corporate actions. First amongst these was the decision to vend the Gold Rights into Triton Gold in exchange for cash and shares in the new float as announced in June this year. This action was a sensible one for Poseidon, which not only maximises the value of the tenements that we own, but importantly reduces our tenement upkeep costs by up to 50% in the next few years. In addition, in March of this year, Poseidon confirmed that it has been in discussions with a third party concerning the acquisition of a major asset which will add value to the core Windarra facility. Whilst this asset has not yet been sold, the process has taken considerably longer than would have been expected and therefore some level of uncertainty exists. Poseidon has however, been looking at other potential asset acquisitions as an adjunct to the Windarra Project and will continue to pursue these over the following months.



Diamond drill core at Windarra not only reveals the nickel grades in the discovered ore bodies but important geological data about the nature of the lava flows and has led to reinterpretation of the ore bodies themselves.

## Exploration and resource development

As a result of the investment made by Harbinger Capital Partners into Poseidon, the Company initiated an aggressive drilling program focussed on the following three objectives:

1. Diamond drill exploration of the Denny Bore zone for nickel sulphide as a follow up to previous geochemical and drilling activity
2. Augment the previous drilling program at Mt Windarra to extend the known resource in that area
3. Carry out necessary work to bring the South Windarra ore body into a JORC compliant resource

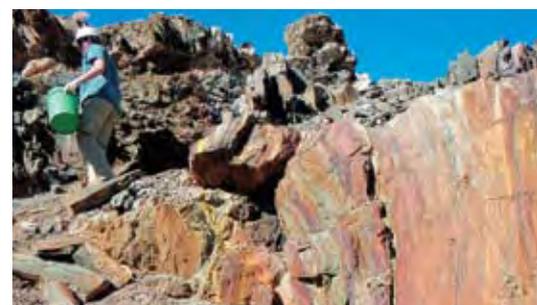




Novel processing technology associated with the blending of nickel sulphides and laterites has led to patents being granted.

The Denny Bore campaign was undertaken following geochemical analysis along the Windarra Ultramafic which, coupled with the Company's geological interpretation, had identified six potential nickel zones (see Figure 3, page 28). These zones have been interpreted by the Company's geologists as lava channels similar in nature to those that host the Mt Windarra and South Windarra deposits. The physical separation of the potential zones, being approximately 2 kilometres apart, stretching from the north to the south of the ultramafic belt, adds credence to this view. The selection of the Denny Bore location from the six potential zones was prioritised because historic exploration drilling at depth had intersected massive nickel sulphide indicating that the interpreted lava channels included nickel sulphides in the system. The drilling program at Denny Bore commenced with the diamond drill holes being planned in the area of the previous intersection and coupled with downhole electromagnetic surveys rapidly identified a nickel bearing sulphide zone. The discovery, name Cerberus, is higher grade than has historically been mined at both Mt Windarra and South Windarra. Cerberus has an average grade of 2.45% which is consistent with Kambalda style komatiite-hosted nickel mineralisation, and the discovery of this 1 million tonne ore deposit has increased the Company's resource base by 40%.

In addition to the discovery of the Cerberus deposit, the JORC resource for Mt Windarra has been upgraded to 63,100 tonnes of Ni metal as a result of the completion of additional drilling, historic drill hole and database validation, as well as reinterpretation and remodelling of the resource. The Mt Windarra deposit is now estimated at 3,988,005 tonnes of ore at a grade of 1.58% Ni for 63,100 TNM.





Modelling of the South Windarra ore body, in conjunction with the knowledge gained from the Cerberus discovery and interpretation, has led Poseidon's geologists to identify and understand the nature of the lava channel which hosts the South Windarra mineralisation. Western Mining Corporation (WMC) interpreted the mineralisation to be south plunging and consequently the mineralisation terminated at depth below the South Windarra workings. The Company's reinterpretation indicates that the lava channel and mineralisation plunge shallowly to the east, and is open along strike and down plunge (see Figure 5, page 30). Now that modelling has been completed, drilling will be planned to test for down plunge mineralisation within the interpreted lava channel. This has the potential to unlock a previously unrealised shallow resource base within the project.



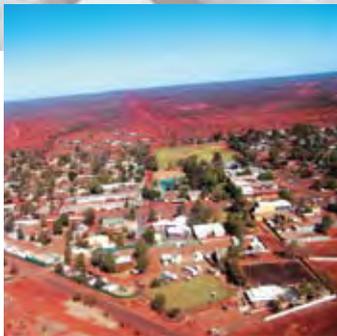
The key to identifying potential new mineralisation zones has been extensive geochemical analysis, painstakingly reviewed over many months by Poseidon's geologists.

## Mt Windarra operations

In addition to the resource drilling at Mt Windarra, Poseidon continued with the underground decline refurbishment trialled in early 2008. The objective of the refurbishment (see Figure 1, page 25) was firstly to test the integrity of the decline after many years of submersion in water and secondly to prepare the decline for manned access enabling drilling and mining operations at depth. The mine dewatering proceeded well with the water level being lowered to the maximum depth of the current pump at 168 metres. This enabled the decline to be refurbished for 1.1 linear kilometres at a lower refurbishment cost per linear metre than anticipated.

Two of the three areas of concern (marked "Expected Broken Rock" in Figure 1, page 25) in the decline, which were potentially affected by Charlie Shear zone, were passed without incident and the general condition of the decline has been found to be better than anticipated.

The level of progress coupled with the removal of a significant source of potential risk enabled the Company to temporarily suspend further work on the decline and place the Windarra mine site onto care and maintenance. A low cost operational management and dewatering program has been implemented. The underground water level currently remains below the point in the decline at which the refurbishment was stopped. All infrastructure on site continues to be maintained in good condition.



Poseidon regularly updates the Shire of Laverton on its development activities to ensure that the community stays in touch with the Company's developments.

### Metallurgical test work

During the year Poseidon Nickel completed a major test work program building on previous work and engineering studies.

The test work included batch, semi continuous test work and included a fully continuous piloting program. The focus of the test work was to obtain key technical information for the production of a sulphide concentrate and was expanded to include the co-processing of sulphide and laterite ore which underpins Poseidon Nickel's strategy of achieving 20,000 tonnes per annum of refined nickel.

### Looking to the future

The Company remains committed to the Windarra Nickel Project and believes that through its program of resource drilling, refurbishment and feasibility work has lifted the projects prospectivity considerably. Poseidon intends to open negotiations with potential overseas partners who have an interest in the project offtake in the near future. The Company believes that in the current financial market this approach represents the best opportunity to attract the funding to complete the pre-production activities. In respect of Windarra, the Company's immediate priorities are as follows:

- Undertake additional drilling activities to add to the understanding of the near surface characteristics of the newly discovered Cerberus deposit;
- Review potential for drilling activity to further extend the newly JORC defined resource at South Windarra;





- Identify the next exploration opportunity along the belt previously identified through geochemical activity;
- Update the prefeasibility completed in 2008 to take account of the potential higher throughput tonnages which could lower processing costs;
- Develop an offtake partner to assist in funding the considerable exploration potential of the tenements.



Drill cores from Mt Windarra have been crushed and blended to produce a feed for flotation test work to support the project prefeasibility study.

In addition to the approach outlined above, Poseidon has reported to shareholders over the last 9 months its desire to secure, by acquisition, an additional nickel asset which would be of major significance to the Company and one which could have the potential to add significant value to the core Windarra project. Whilst Poseidon has pursued this opportunity vigorously, shareholders will recognise that the Company is in the hands of the vendor in terms of completion and the associated timing. Whilst Poseidon continues to believe that the proposed acquisition has real potential, it does not believe that completion is necessarily imminent although work on this opportunity will continue in parallel with the development of Windarra.

**David Singleton**

Chief Executive Officer

David Singleton was appointed Chief Executive Officer following the shareholder meeting on 2 July 2007. David was the CEO and MD of Clough Limited between August 2003 and January 2007. Prior to that he was the Group Head of Strategy, Mergers and Acquisitions for BAE Systems (formally British Aerospace) in London and prior to that the CEO of Alenia Marconi Systems and was based in Rome, Italy.





**Andrew Forrest** Non-executive Chairman

Mr Forrest is the founder and Chief Executive Officer of Fortescue Metals Group Ltd. He is an adjunct professor of the China Southern University and a long standing fellow of the Australian Institute of Mining and Metallurgy. His previous roles include founding Chief Executive and Deputy Chairman of Minara Resources Limited, Chairman of the Murrin Murrin Joint Venture, Non-executive Chairman of Moly Mines Limited, Non-executive Chairman of Arafura Pearls Limited, Non-executive Chairman of Siberia Mining Corporation Limited, Director of the West Australian Chamber of Minerals and Energy and President of Athletics Australia. Mr Forrest has extensive experience in the mining sector and has won multiple global finance awards.



**Richard Monti** Non-executive Director

Richard Monti is a highly experienced geologist and has previously worked with Andrew Forrest as General Manager Resources, and was later appointed as Head of Marketing of the Murrin Murrin Nickel Cobalt operation. In 2004 he founded Ventnor Capital Pty Ltd a consultancy which provides technical, marketing, corporate advisory and investment banking services to junior and mid-cap listed resource companies. He has gained broad experience over a 20 year career working in the technical, marketing and financial fields of the international exploration and mining industry. This experience includes exposure to a number of commodities including nickel, base metals, gold, coal, iron-ore, tin-tantalum, platinum group metals and industrial and heavy minerals.



## **Chris Indermaur** Non-executive Director

Chris Indermaur has over 25 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. Chris holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University) and is a Fellow of the Institution of Engineers. 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. Chris rejoined the Poseidon Board in April 2009.



## **Geoff Brayshaw** Non-executive Director

Geoff Brayshaw had over 35 years experience as a Chartered Accountant in public practice before retiring from practice in June 2005. He practiced primarily in audit and assurance, other areas of practice being corporate finance and litigation support. He gained wide experience in corporate and financial accounting for the exploration and mining industry, including iron ore and nickel. Geoff is a Fellow of the Institute of Chartered Accountants in Australia, and an associate member of the AICD. He was National President of the ICAA in 2002. He is a Non-executive Director and Chairman of the audit committee of Fortescue Metals Group Limited and Fortron Insurance Group Limited and a member of the Board of the Small Business Development Corporation.





### **Gareth Jones** Financial Controller

Gareth has over 20 years experience in accounting and commercial roles and specialises in business performance and project management. He has held a variety of senior commercial and management positions, including Head of Commercial for British Gas Business in the UK and Commercial Manager at Vodafone UK. Gareth is a Fellow of the Association of Chartered Certified Accountants and has an MBA from the University of Warwick.



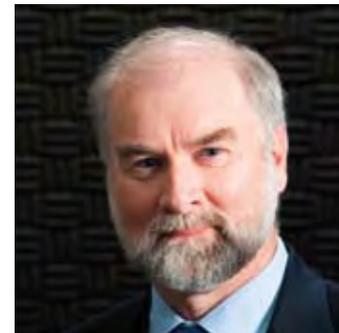
### **Neil Hutchison** General Manager - Geology

Neil is a highly experienced exploration geologist, the former exploration superintendent at the Cosmos Nickel Project with Jubilee Mines, and previously a senior geologist with Troy Resources. He has over 15 years experience in the mining industry, where he gained a working knowledge and the practical experience to explore for nickel and gold. Neil has worked throughout the goldfields region of Western Australia, as well as the Northern Territory, Queensland and Mongolia. Neil spent 5 years with Jubilee Mines conducting regional exploration, project reviews and evaluations, as well as managing the nickel exploration group at the highly successful Cosmos Nickel Project. During his time at Jubilee Mines, Neil developed a solid understanding of the nickel and ultramafic forming processes and the associated modern exploration techniques required to explore the Windarra Nickel Project. He has strong management skills and has drawn together an outstanding exploration team, which is supported by a strong network of reputable contractors and service providers.



## **Robert Dennis** Chief Operating Officer

Rob Dennis is a mining engineer with 35 years experience in the nickel, copper, gold and alumina industries. In his former role as COO Aditya Birla Minerals Ltd, he managed the expansion and development of the Nifty Copper Sulphide Project in Western Australia and the Mt Gordon operation in Queensland. Prior to that, he held positions including General Manager Project Development for LionOre Australia, General Manager Operations for Great Central Mines and Chief Mining Engineer for Western Mining Corporation. During his time with Western Mining Corporation, Rob worked at Windarra Nickel Project as underground mine manager from 1980-1986.



## **Michael Rodriguez** Group Technology Manager

Michael is a metallurgical engineer with over 25 years experience in the mining and minerals processing industry. During his career he has worked at several major facilities throughout Australia including Olympic Dam Operations, Kwinana Nickel Refinery and Murrin Murrin Operations. In operations Michael has been involved in commissioning and ramp up of complex hydrometallurgical and pyrometallurgical plants, similarly in design and construction he has a strong background in the mineral processing and hydrometallurgical plants. During his tenure at Western Mining Corporation (WMC) he gained extensive knowledge of the mining, concentrating, smelting and refining of nickel sulphides and he gained broad experience in the commercialisation of disseminated and massive nickel sulphides. Whilst at Murrin Murrin Operations Michael held senior positions as Operations Manager, Projects Manager, Technical Services Manager and Corporate Strategic Development Manager. He was responsible for the development of their heap leach technology and the management and execution of the significant Research & Development program concluding with the successful demonstration of the technology at Murrin Murrin. As the inventor and author of a number of Australian and overseas patent applications and widely published technical papers Michael is well known in the industry.





## **Stainless Steel Sink** *(above)*

The formability characteristics of nickel-containing stainless steel provides versatility for the design of kitchen sinks. Double bowls and integral draining boards are a great convenience compared to earlier sinks.

## **Nickel-Chromium Plated**

### **Automotive Wheels** *(below left)*

Electroplating of nickel and then chromium onto surfaces such as these car wheels creates bright finishes that are smooth and durable.

### **Commercial Kitchen** *(below right)*

Nickel-containing stainless steels have become a favourite material in commercial and domestic kitchens. This hygienic and durable material is used in many food and beverage applications because its smooth surface is easily cleaned and it can withstand the aggressive chemicals that are used to clean and sterilise them.

As an organisation representing industry, it is our responsibility to offer the best information so that society can ultimately make the best decisions.

60% of all nickel is used to make stainless steel. If you look around you, there will be countless examples of how this beautiful, strong and flexible material helps to improve the quality of your life, every single day. Metals are natural components of the Earth's crust: to a small extent they enter our bodies via food, drinking water and air. Nickel is one of them. But also, nickel in stainless steel makes the production, the preparation and the consumption of food and drinks safe, easy and pleasurable.

We now live far longer than our predecessors for many different reasons, but mainly because there have been huge advances in the technologies that keep us healthy - more effective medicines, cleaner water, new technologies and better surgical tools. The best and cleanest surgical materials and equipment are essential - and many of them involve nickel.

Nickel plays several different roles in technologies that have revolutionised the way in which humans communicate. Mobile phones, laptops, handheld devices and other wireless devices continue to appear on the market in faster and savvier models and continue to modernise our lives.

We live in a world that never stops. Nickel plays a role in many of our key modes of transportation. Be it nickel alloys in the batteries of hybrid cars or in the turbines of jet engines, or nickel-containing stainless steel in passenger trains and subways, nickel is a crucial element enabling us all to get from place to place.





Nickel's unique combination of properties allows industry to do things it otherwise couldn't do.

Nickel helps industry remain productive and profitable, even in extreme environments. At the same time, nickel provides the properties to enable innovation, helping to advance the goals of sustainable production and consumption.

Global warming is one of the major challenges facing the world today. In recent years, we have seen initiatives to curb carbon emissions by developing renewable energy sources.

“Nickel and nickel alloys play a crucial role in the production of renewable energy - enabling clean power to be a central part of our effort to tackle global warming.”

The production and use of nickel supports quality employment and generates wealth on six of the world's continents. At the same time, the state of knowledge about nickel in relation to human health and the environment has never been higher, and neither has the industry's commitment to the management of nickel throughout its life cycle.

**Making sustainable choices should be easy. The Nickel Institute's new publication, *Nickel in Society*, highlights the most important applications of nickel, of which there are over 300,000, and explores how these applications contribute to innovation and sustainability in our daily lives. For your copy visit [www.nickelinstitute.org](http://www.nickelinstitute.org)**



**Rechargeable Battery Recycling**

*(above)* About 3% of annual primary nickel production goes to making rechargeable batteries. At end of life, these batteries are usually returned to point of sale and transported to a recycling plant, such as this one in the U.S.A., to recover the valuable nickel.

**Cloud Gate Sculpture, Chicago**

*(below left)* Mirror finished stainless steel (containing 12% nickel) was used to create this spectacular sculpture in a high-traffic area of downtown Chicago.

**Nickel Electroforming *(below right)***

Nickel, electroformed onto a mandrel, meets the highly demanding manufacturing conditions needed to make millions of polycarbonate CDs and DVDs in high-speed injection moulding machines.



Data kindly provided by the Nickel Institute. For further information visit [www.nickelinstitute.org](http://www.nickelinstitute.org)





# FINANCIAL STATEMENTS

# Directors' Report

For the year ended 30 June 2009

The directors present their report together with the financial report of Poseidon Nickel Limited ('the Company') and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2009 and the auditor's report thereon.

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# Directors' Report

For the year ended 30 June 2009

## 1. Directors

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

Name and independence status	Age	Experience, qualifications, special responsibilities and other directorships
<p><b>Mr Andrew Forrest</b>  <b>Chairman &amp; Non-Executive Director</b>            Appointed 2 July 2007</p>	47	<p>Mr Forrest was elected as Non-Executive Chairman of Poseidon Nickel Ltd at its General Meeting of Shareholders on 2 July 2007. He has been Chief Executive Officer of the Fortescue Metals Group Ltd ("FMG") since July 2003 and was Interim Chairman from then until May 2005. Mr Forrest is Chairman of the Australian Children's Trust. His previous roles include Chief Executive Officer and Deputy Chairman of Anaconda Nickel Limited (now Minara Resources Ltd), Chairman of the Murrin Murrin Joint Venture, Non-Executive Chairman of Moly Mines Ltd, Non-Executive Chairman of Arafura Pearls Ltd, Non-Executive Director of Sibera Mining Corporation Limited (now Monarch Gold Ltd), Director of the West Australian Chamber of Minerals and Energy and President of Athletics Australia.</p> <p>Mr Forrest has extensive experience in the mining sector with specialist expertise in major project finance. He is an adjunct professor of the China Southern University and is a long-standing fellow of the Australian Institute of Mining and Metallurgy.</p>
<p><b>Mr Christopher Indermaur</b>  <b>Non-Executive Director</b>  <i>Member of:</i></p> <ul style="list-style-type: none"> <li>Audit &amp; Risk Management Committee</li> </ul> <p><i>Chairman of:</i></p> <ul style="list-style-type: none"> <li>Remuneration &amp; Nomination Committee</li> <li>Corporate Governance Committee</li> </ul> <p>Appointed 2 July 2007            Resigned 30 September 2008            Re-appointed 2 April 2009</p>	51	<p>Mr Indermaur has over 25 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.</p> <p>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) and is a Fellow of the Institution of Engineers. 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.</p>
<p><b>Mr Richard Monti</b>  <b>Non-Executive Director</b>  <i>Member of:</i></p> <ul style="list-style-type: none"> <li>Audit &amp; Risk Management Committee</li> <li>Remuneration &amp; Nomination Committee</li> <li>Corporate Governance Committee</li> </ul> <p>Appointed 4 April 2007</p>	45	<p>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 three year career working in the technical, corporate, marketing and financial fields of the international exploration and mining industry.</p> <p>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 programs.</p>

# Directors' Report

For the year ended 30 June 2009

## 1. Directors (cont.)

Name and independence status	Age	Experience, qualifications, special responsibilities and other directorships
<b>Mr Richard Monti (cont.)</b>	45	<p>Five 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.</p> <p>Mr Monti is also a Director of Transit Holdings Ltd, Whinnen Resources Ltd and Epsilon Energy and has previously held positions on the board of Bathurst Resources Ltd and a number of other Australian Stock Exchange listed and private mining companies.</p>
<b>Mr Geoff Brayshaw</b> <b>Non-Executive Director</b> <i>Member of:</i> <ul style="list-style-type: none"> <li>• Remuneration &amp; Nomination Committee</li> <li>• Corporate Governance Committee</li> </ul> <i>Chairman of:</i> <ul style="list-style-type: none"> <li>• Audit &amp; Risk Management Committee</li> </ul> Appointed 1 February 2008	59	<p>Mr Brayshaw was formerly an audit partner with the Perth firm of BDO Kendalls, 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.</p> <p>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 Fortron Insurance Group Limited. He also sits on the board of the Small Business Development Corporation.</p>
<b>Mr David Singleton</b> <b>Managing Director &amp; Chief Executive Officer</b> <i>Member of:</i> <ul style="list-style-type: none"> <li>• Corporate Governance Committee</li> </ul> Appointed 1 February 2008	49	<p>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 &amp; Acquisitions with BAE SYSTEMS in London, which through consolidation became one of the largest Aerospace and Defence Companies in the world.</p> <p>He has a degree in Mechanical Engineering from University College, London, has recently become a Non-Executive Director of Triton Gold Ltd and was formerly a Director of PT Petrosea Tbk.</p> <p>Mr Singleton was appointed as Chief Executive Officer on 2 July 2007.</p>

## 2. Company secretary

Mr R Kestel was appointed to the position of company secretary on 20 February 2004. He is both a Chartered Accountant and Certified Practising Accountant and has been a director of the accounting practice Nissen Kestel Harford since July 1980.

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 Registered Company Auditor and a member of the Institute of Company Directors.

# Directors' Report

For the year ended 30 June 2009

## 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 AND NOMINATION COMMITTEE MEETINGS		CORPORATE GOVERNANCE COMMITTEE MEETINGS	
	A	B	A	B	A	B	A	B
Mr A Forrest	3	3	-	-	-	-	-	-
Mr C Indermaur	1	1	1	1	1	1	1	1
Mr R Monti	3	3	2	2	2	2	2	2
Mr D Singleton	3	3	-	-	-	-	2	2
Mr G Brayshaw	3	3	2	2	2	2	2	2

A - Number of meetings attended

B - Number of meetings held during the time the director held office during the year

## 4. Principal activities

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

## 5. Consolidated results

The consolidated profit (loss) for the consolidated entity for the year ended 30 June 2009, after income tax is \$7,441,000 (2008: \$(256,095,000)).

## 6. Review of operations

### Windarra Nickel Project

#### Overview

During the first half of the financial year, the Company systematically progressed the redevelopment of the Windarra Nickel Project ("WNP") as planned and previously outlined, using the first tranche of the funding package secured with Harbinger Capital Partners in June 2008. This period saw the Company discover a new nickel deposit and release a JORC resource statement for the Cerberus deposit, part of the Denny Bore project and make significant progress on the refurbishment of the Mt Windarra underground mine. However, the Global Financial Crisis ("GFC") led to the announcement by the Company of its intention to temporarily suspend operations and significantly reduced the level of expenditure in order to preserve cash reserves.

The Company has and will continue with the work which has seen the very positive results of a concerted exploration and drilling program at Windarra with the aim of restarting operations on the site. This program has seen the published JORC compliant nickel sulphide resource on the tenements increase by 121% to 98,667 tonnes of nickel and the discovery of a new nickel ore body with a maiden resource of 25,269 tonnes of nickel at 2.45% Ni. Importantly the geochemical analysis on the site suggests a further 5 drilling target areas with the potential for nickel mineralisation which require follow up.

# Directors' Report

For the year ended 30 June 2009

## 6. Review of operations (cont.)

### Windarra Nickel Project (cont.)

#### Overview (cont.)

The Company's immediate priorities are therefore as follows:

- Undertake additional drilling activities to add to the understanding of the near surface characteristics of the newly discovered Cerberus deposit;
- Review potential for drilling activity to further extend the newly JORC defined resource at South Windarra;
- Identify the next exploration opportunity along the belt previously identified through geochemical activity;
- Update the pre-feasibility completed in 2008 to take account of the potential higher throughput tonnages which could lower processing costs;
- Develop an off-take partner to assist in funding the considerable exploration potential of the tenements.

In addition to the approach outlined above, Poseidon has reported to shareholders over the last 9 months its desire to secure, by acquisition, an additional nickel asset which would be of major significance to the Group and one which could have the potential to add significant value to the core Windarra project. Whilst the Company has pursued this opportunity vigorously, shareholders will recognise that the Company is in the hands of the vendor in terms of completion and the associated timing. Whilst Poseidon continues to believe that the proposed acquisition has real potential it does not believe that completion is necessarily imminent although work on this opportunity will continue in parallel with the above.

The Company announced its intention to sell the rights for gold exploration and development on its tenements to Triton Gold which intended to seek an Initial Public Offering ("IPO") on the Australian Stock Exchange. The IPO was successfully completed in late July with an oversubscribed offering and the company officially listing in August 2009. Poseidon Nickel shareholders were given a priority offering in the float.

Poseidon transferred the gold rights in exchange for the following:

A \$300,000 cash payment received in August upon the successful IPO completion and listing of Triton Gold IPO and the issue of 9,000,000 ordinary shares in Triton. At listing, Poseidon owns approximately 11% of the issued share capital of Triton and its CEO has been appointed as a non-executive director to the Triton board. Triton will be obliged to meet approximately 50% of the minimum commitments on each of the tenements in which it retains an interest and the Company will have access to all drilling and testing carried out on its tenements.

As a requirement of the Poseidon Nickel Agreement the Company was required to submit further details in respect to the proposal for the development of the Windarra site to the Minister by 31 August 2009. As a result of placing the mine on care and maintenance and after consultation with DMP, a request for a 12 month extension of time (allowed under the terms of the agreement), has been approved. This will enable the necessary details to be finalised.

#### Underground operations

All expectations for mine refurbishment were surpassed during the first half of the year with the water level being lowered to the maximum depth of the current pump at 168 meters and enabling the decline to be fully refurbished for 1.1 linear kilometers at a lower refurbishment cost per liner meter than planned.

Two of the three areas of concern (marked "Expected Broken Rock" in Figure 1) in the decline, which were potentially affected by Charlie sheer zone, were passed without incident and the general condition of the decline has been found to be better than expected.

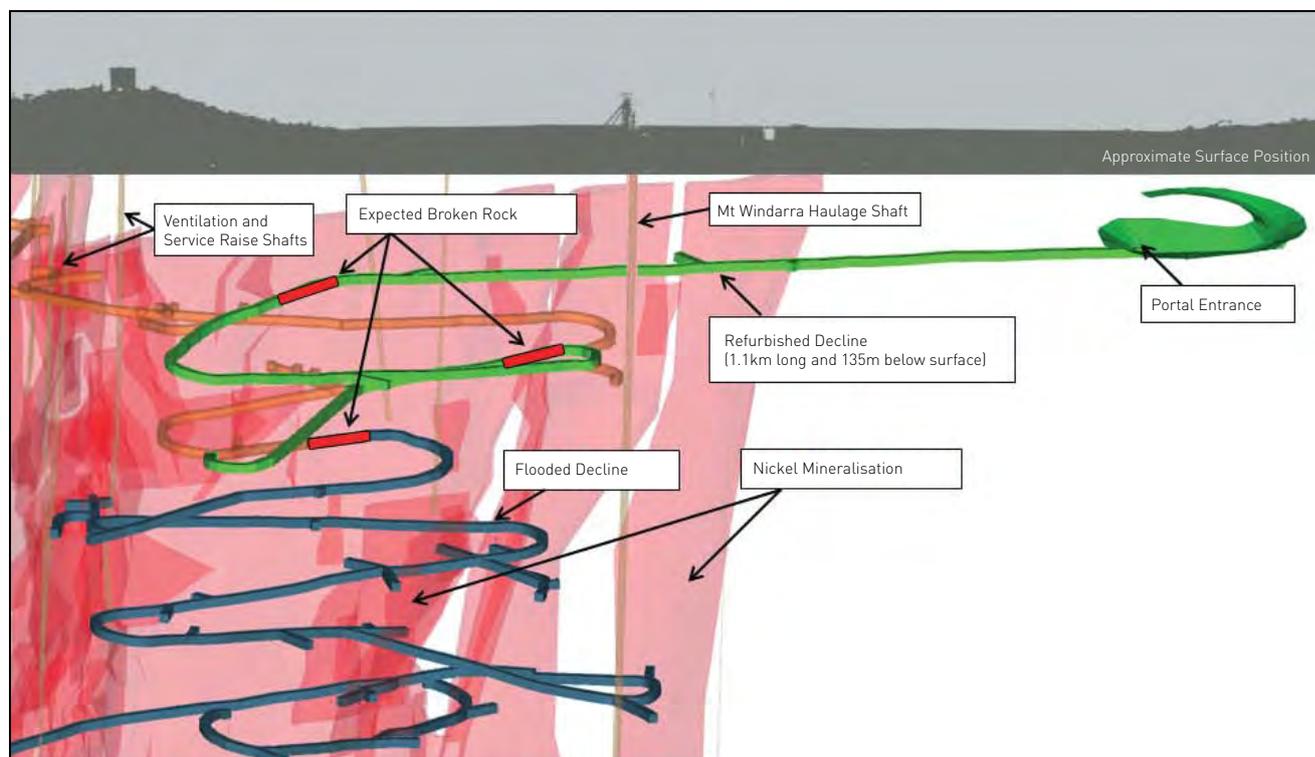


Figure 1: Long Section showing rehabilitation progress of the Mt Windarra mine decline.

The level of progress coupled with the removal of a significant source of potential risk enabled the Company to temporarily suspend further work on the decline and place the Windarra mine site onto care and maintenance. A low cost operational management and dewatering program has been implemented. The underground water level currently remains below the point in the decline at which the refurbishment was stopped. All infrastructure on site continues to be maintained in good condition.

### Test work

During the year Poseidon Nickel successfully completed a major test work program building on previous test work and engineering studies undertaken.

The test work undertaken included batch and semi-continuous test work. Following the initial batch and semi-continuous test work a continuous piloting program was also completed. The focus of the test work was to obtain key technical information for the co-processing of sulphide and laterite ore which underpins Poseidon Nickel's strategy of achieving 20,000 tonnes per annum of refined nickel.

The majority of the test work was completed at Lakefield Orestest facilities at Malaga however HRL Testing, CSIRO and Curtin University were used to support the test work program.

A scoping study was completed during the year to establish the overall flowsheet, mass and energy balance data. The flowsheet development was necessary to define the test work program.

# Directors' Report

For the year ended 30 June 2009

## 6. Review of operations (cont.)

### Windarra Nickel Project (cont.)

#### Test work (cont.)



Figure 2: Continuous 4 Pot Pilot Plant.

### Exploration

Exploration continued its run of success with the announcement of an increase in the Company's resource base to 98,667 tonnes of contained nickel sulphide from its wholly owned Windarra tenements. This is an overall increase of 121% in the sulphide resource base further underpinning the importance of the Windarra Nickel Project (WNP) as the cornerstone of the Company's assets.

This resource increase of 38,297 tonnes of contained nickel includes 25,269 tonnes of nickel from the discovery of the high grade Cerberus Deposit at Denny Bore, and 10,298 tonnes of nickel at South Windarra.

Both **Indicated and Inferred Resources** have been calculated for the Windarra Nickel Project with the total sulphide resource base now standing at:

**5,924,063t @ 1.67% Ni for 98,667 tonnes of nickel metal** as detailed below:

# Directors' Report

For the year ended 30 June 2009

## Windarra Nickel Project: Sulphide Resource Statement

Windarra Nickel Project Sulphides	Cut Off Grade	Tonnes	INDICATED			INFERRED			RESOURCE CATEGORY TOTAL	
			Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Mt Windarra	1.0%	1,159,509	1.15	13,389	2,828,496	1.76	49,711	3,988,005	1.58	63,100
South Windarra	0.9%	820,326	1.15	9,434	82,404	1.05	864	902,730	1.14	10,298
Cerberus	1.5%				1,033,328	2.45	25,269	1,033,328	2.45	25,269
Total Sulphide		1,979,835	1.15	22,823	3,944,228	1.92	75,844	5,924,063	1.67	98,667

In addition, there has been no change in the calculated resource for nickel oxide mineralisation at the Windarra Nickel Project. The oxide resources include both **Indicated and Inferred Resources** which stands at:

**577,694t @ 1.06% Ni for 6,115 tonnes of nickel metal** as detailed below:

## Windarra Nickel Project: Oxide Resource Statement

Windarra Nickel Project Oxides	Cut Off Grade	Tonnes	INDICATED			INFERRED			RESOURCE CATEGORY TOTAL	
			Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Woodline Well	0.5%				266,382	1.38	3676	266,382	1.38	3676
South Windarra Dumps	0.5%	311,312	0.78	2,439				311,312	0.78	2,439
Total Oxide		311,312	0.78	2,439	266,382	1.38	3676	577,694	1.06	6,115

Poseidon is pleased with the exciting delivery of the Cerberus deposit at the Company's Denny Bore project, which is located 11 kilometres to the south-southeast of Mt Windarra (Figure 3). This is the first major nickel discovery within the WNP since the discovery of the South Windarra Deposit in 1971, and comprises a total of 1,033,328t @ 2.45% Ni for 25,269 tonnes of nickel metal. The Cerberus deposit has an average grade of 2.45% Ni which is higher grade than both Mt Windarra and South Windarra, and is consistent with Kambalda style komatiite-hosted nickel mineralisation.

The nickel sulphide mineralisation at Cerberus (Figure 4) is interpreted to still be open down dip (to the east) and down plunge (to the northeast) and requires infill drilling around the higher grade zones to better define the mineralisation. Poseidon is confident of further resource increases as drilling continues to test the extent of the Cerberus mineralisation down dip and down plunge.

# Directors' Report

For the year ended 30 June 2009

## 6. Review of operations (cont.)

### Windarra Nickel Project (cont.)

#### Exploration (cont.)

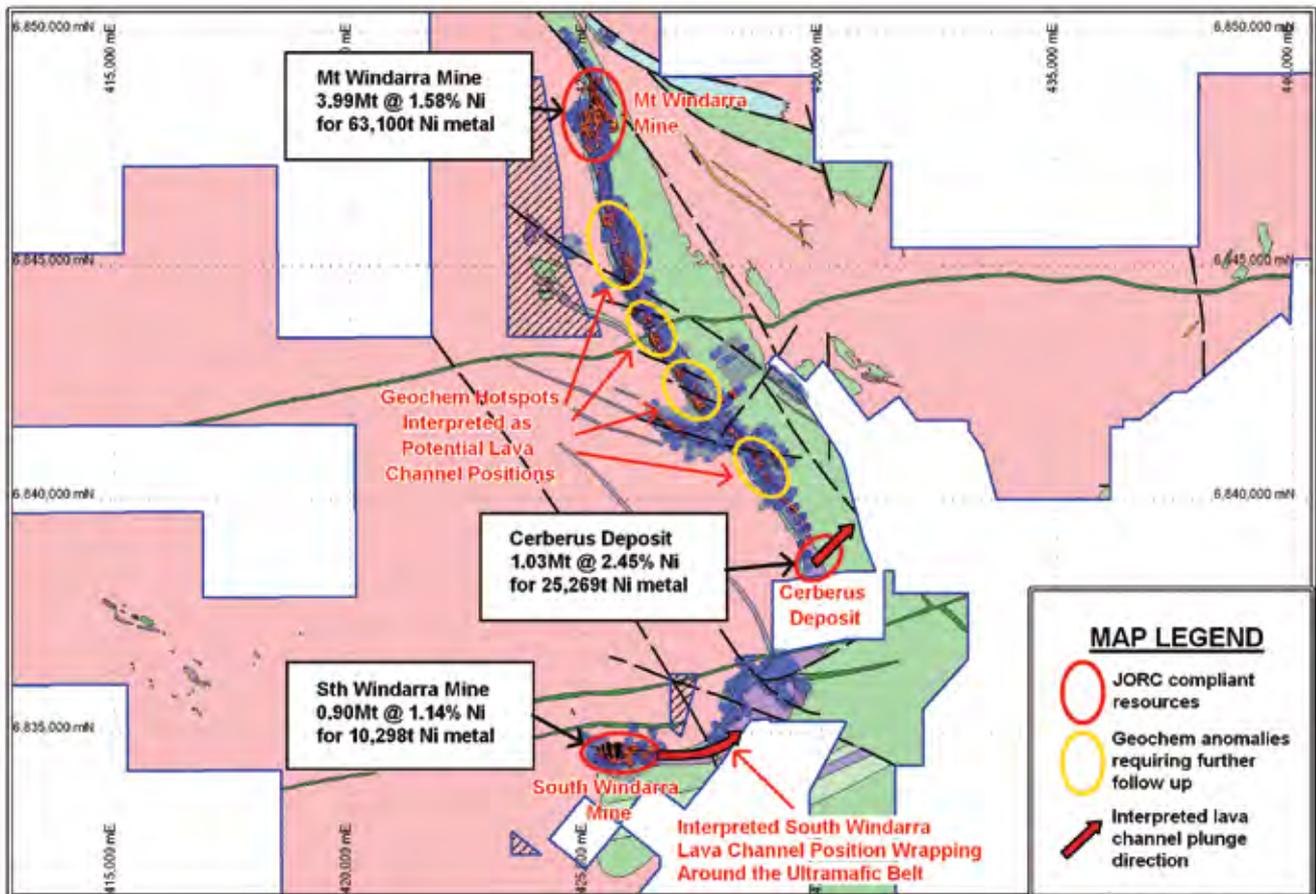


Figure 3: Geology and tenure of the Windarra Nickel Project showing the locations of the Mt Windarra, Cerberus and South Windarra Nickel Deposits. Geochemical sampling shows anomalous "Hotspots" which are interpreted as potential lava channel positions and warrant follow-up exploration. The red arrow extending eastwards from South Windarra defines the interpreted plunge direction of the lava channel and will be the focus of future exploration activities.

The Cerberus Deposit consists of 3 types of nickel sulphide mineralisation.

- **The Main Zone:** Generally consists of massive to stringer nickel and some disseminated sulphides which occurs towards the base of the komatiite lava channel within the Windarra Ultramafic unit. The sulphides characteristically have an element of sulphide remobilisation and high grading due to structural overprinting.
- **The Hangingwall Zone:** Occurs as disseminated sulphides and sits around 2-6 metres above the Main Zone within the lava channel. It is poddier and lower grade than the Main Zone.
- **Remobilised Footwall:** Consists of structurally remobilised and high graded nickel sulphides which have squirted off into the footwall. These have not been modelled as they are erratic and cannot be tied together in the current wide spaced drilling. These may provide additional localised high grade nickel sulphide pods as drill density is increased. Typically drill intersect grades in this zone are between 3.5% and 7% nickel.

Nickel grades and widths are greatest towards the centre of the channel and form two higher grade zones towards the top and bottom of the mineralised channel. The nickel sulphide intersections typically become thinner and lower grade towards the edges of the channel. This is consistent with Kambalda-style komatiite-hosted nickel ore bodies which helps the Poseidon geologists interpret and target the prospective mineralised channel.

The mineralisation at Denny Bore is blind at the surface and is covered by transported material. The original Denny Bore discovery hole (WED4) intersected the mineralisation at a depth of 700 metres vertically below surface. In contrast to typical exploration discoveries, Poseidon has drilled the mineralised lava channel from the bottom up, and has now defined the mineralisation to within 120 metres vertically below the surface and over a strike length of >1000 metres.

The nickel mineralisation at Denny Bore is shaping up as an extremely exciting discovery for the Company and Poseidon looks forward to being able to upgrade the Cerberus Inferred Resource to an Indicated Resource.

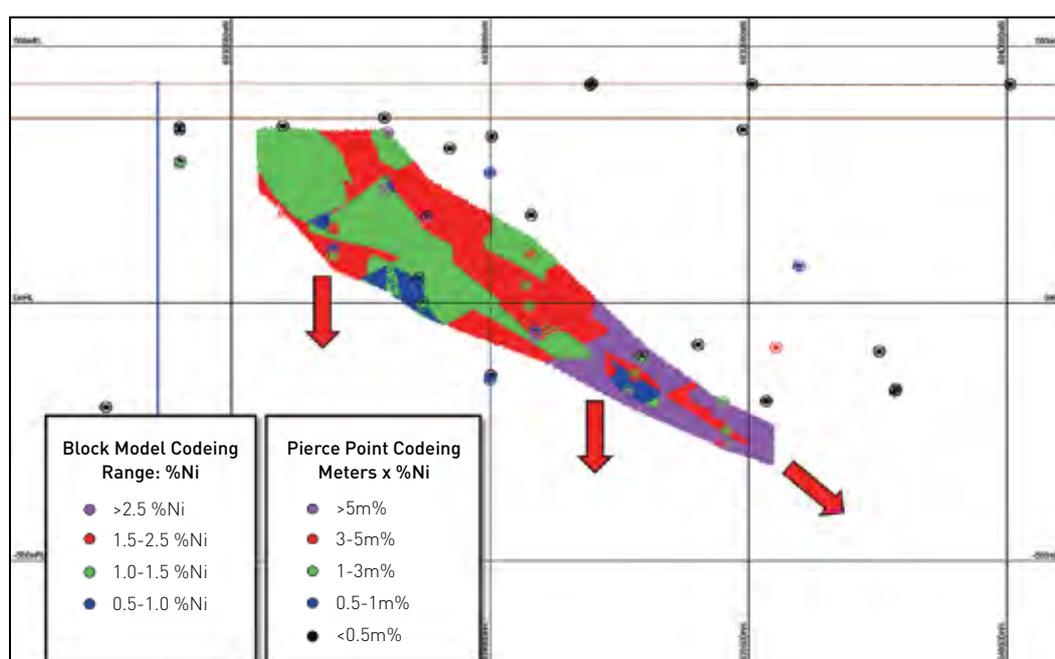


Figure 4: Long Section showing the Cerberus Deposit block model and the drill hole pierce points. The mineralisation is open down dip and down plunge, and requires additional drilling.

The additional resource upgrade comes from the South Windarra Mine area which was not included in the earlier resource calculations and has only recently undergone geological and resource modelling. Poseidon has calculated the first JORC compliant resource estimation for the remaining mineralisation at South Windarra which stands at a total of 902,730t @ 1.14% Ni for 10,298 tonnes of nickel metal.

The South Windarra Deposit is located 13.5 kilometres south of the Mt Windarra Deposit and lies at the south-western end of the Windarra Ultramafic belt [Figure 3]. Mineralisation occurs within a thermally eroded lava channel at the base of the thick Windarra Ultramafic unit, which comprises a sequence of thinner komatiite lava flows. South Windarra was mined intermittently by WMC between 1974 and 1992 using a combination of open-cut and underground mining techniques. Records show that 3.17Mt of ore at 1.35% Ni was mined from the South Windarra Deposit, producing a total of 42,646 tonnes of nickel.

# Directors' Report

For the year ended 30 June 2009

## 6. Review of operations (cont.)

### Windarra Nickel Project (cont.)

#### Exploration (cont.)

The above South Windarra Resource is an estimation of the mineralisation left behind by WMC that is both potentially accessible and may be economically viable in the future. The crown pillar between the base of the open-cut pit and the top of the underground workings has not been included in this calculation as its size has not been verified and is deemed unrecoverable at this stage (Figure 5). Both the Mt Windarra and South Windarra databases have now been completely reconstructed using original drill logs and assay results which were archived on microfilm by WMC in the 1990's. Earlier data entry errors in the existing database have all been corrected and validated in order to complete the resource calculations to JORC compliant standards.

Poseidon's geologists have used modern 3D computer modelling work and utilised their understanding of these ancient nickel forming lava channel systems during the search for nickel sulphides within the WNP. This led the Company to the discovery of the Cerberus deposit, the first in the belt since 1971, as well as identifying and understanding the nature of the lava channel which hosts the South Windarra mineralisation. WMC interpreted the mineralisation to be south plunging, and consequently the mineralisation was thought to have terminated at depth below the South Windarra workings. Poseidon's 3D modelling and re-interpretation indicates that the lava channel and mineralisation plunge shallowly to the east, and is open along strike and down plunge (Figures 3 and 5). RC drilling is currently being planned to test for down plunge mineralisation within the interpreted lava channel extension. This has the potential to unlock a previously unrealised shallow resource base extending from and to the east of South Windarra.

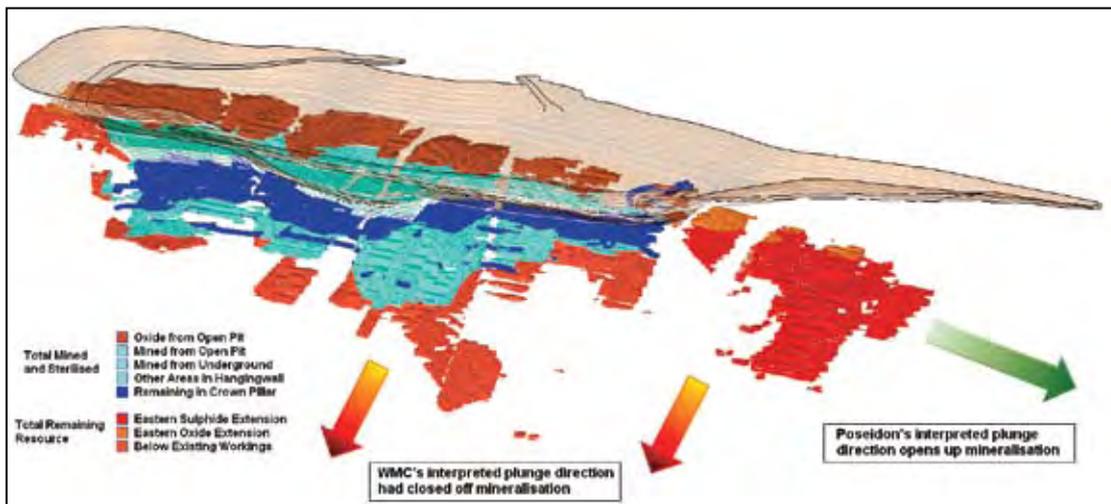


Figure 5: 3D view of the South Windarra Mine (looking NNW) showing the mined and remaining ore resources, and the open mineralisation trend along the interpreted plunge direction of the lava channel.

### Joint ventures

#### Waite Kauri Nickel Project

The Company entered into a Heads of Agreement on 27 June 2008 with Eagle Eye Metals Ltd to form a joint venture for the Waite Kauri Nickel/Cobalt project. The Company could earn the right to an 80% interest in the project and will fund the first \$500,000 of exploration work necessary to bring the resource to a JORC standard.

# Directors' Report

For the year ended 30 June 2009

A JORC compliant Inferred Resource of 2.53Mt @ 0.7% Ni and 0.05% Co has been calculated on the JV project using a 0.5% Ni cut-off. The project is located on and contains the southern strike extensions of GME Resources Waite Kauri Nickel Laterite Deposit, which comprises a JORC compliant Measured Resource of 1.30 Mt @ 1.33% Ni & 0.14% Co, and Warwick Resources Waite Kauri Nickel Laterite Deposit, which comprises a JORC compliant Inferred Resource of 3.9Mt @ 1.04% Ni & 0.04% Co at the northern end of the belt.

During the year preliminary test work was completed on a bulk ore sample taken from Waite Kauri. Whilst the test work was preliminary in nature the results obtained identified a low nickel content and a high level of magnesium >9%. Magnesium is an acid consumer and the combination of low nickel grade and high magnesium levels adversely impact on project overall economics. Further test work on Waite Kauri was placed on hold.

## Menzies Nickel Project

The Company and Proto Resources ("Proto") entered into a Heads of Agreement on 23 April 2008, to form a joint venture with the aim of defining and developing a mineable nickel resource at the Menzies Nickel Project. To date, work undertaken has identified that the size and style of the mineralisation does not meet the requirements of the Windarra Nickel Project and the Company has notified Proto that it will not be seeking to formalise an agreement.

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

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

## 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 Stock Exchange ("ASX") Corporate Governance Council.

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

### 7.2 Role of the board

The key responsibilities of the board include:

- Appointing, evaluating, rewarding and if necessary, the removal of the Chief Executive Officer ("CEO") and senior management;
- Development of corporate objectives and strategy with management and approving plans, new investments, major capital and operating expenditures and major funding activities proposed by management;

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.2 Role of the board (cont.)

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

# Directors' Report

For the year ended 30 June 2009

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

<b>Name</b>	<b>Position</b>
Mr A Forrest	Non-Executive Chairman
Mr C Indermaur	Non-Executive Director
Mr R Monti	Non-Executive Director
Mr G Brayshaw	Non-Executive Director

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

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

<b>Name</b>	<b>Term</b>
Mr A Forrest	No contract
Mr C Indermaur	No contract
Mr R Monti	No contract
Mr G Brayshaw	No contract
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 and Nomination 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 and Nomination 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 and Nomination Committee links the nature and amount of executive directors' and officers' remuneration to the Company's financial and operational performance. The expected outcomes of the remuneration structure are:

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

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

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

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

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.4 Remuneration and Nomination Committee (cont.)

The members of the Remuneration and Nominations 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 and Nominations Committee held during the year and the attendees at those meetings refer to section 3 of the Directors' report.

### 7.5 Remuneration report - audited

#### 7.5.1 Principles of compensation - audited

Remuneration is referred to as compensation throughout this report.

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

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

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

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

The Company and Group does not have a policy on directors or executives hedging their equity compensation received.

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

## Performance linked compensation

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

The Australian Federal Government recently announced changes to the taxation treatment of employee share ownership schemes. Consequently, in July 2009 the Company decided to suspend TaBS and ESOP pending a detailed review of the final legislation regarding the taxation of such schemes.

## Incentive bonus

The incentive bonus provides compensation to employees when key performance measures are achieved in line with business targets. The broad terms around the quantum of any incentive bonus, under current company practice, is related to a percentage of the FC amount. The Company has set a bonus range of between one month of an individual's FC amount to a maximum of 100% of annual base salary.

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

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

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

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

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

Members of TaBS who elect to receive shares rather than cash will qualify for additional "Special Bonus Shares" in the ratio of 1 additional share for every 2 participating shares. Participation is by invite only and is not a contractual right but will generally include greater than 75% of all employees. The Special Bonus Shares will be subject to a holding lock for a period of 3 years from the date of issue and the satisfaction of a number of vesting conditions. The value of the special bonus shares relating to the proportion vested in the financial year is included in the Shares share based payment in section 7.5.3 of the Directors' report.

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

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.5 Remuneration report - audited (cont.)

#### 7.5.1 Principles of compensation - audited (cont.)

##### Consequences of performance on shareholder wealth

In considering the Company's performance and benefits for shareholder wealth, the Remuneration and Nomination Committee have regard to the following indices in respect of the current financial year, however the 2005 to 2007 financial years are not considered relevant due to the changes to the key management personnel on 2 July 2007.

*In thousands of AUD*

	2009	2008	2007	2006	2005
Net profit (loss) attributable to equity holders of the parent	7,441	(256,095)	(7,546)	(920)	(1,242)
Dividends paid	-	-	-	-	-
Change in share price	\$(1.11)	\$(0.72)	\$1.52	\$0.14	\$0.19
% change in share price	(81.6)%	(34.6)%	271.4%	33.3%	82.6%

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

# Directors' Report

For the year ended 30 June 2009

## 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 advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Directors' fees for the year to 30 June 2009 are \$198,750 (2008: \$187,816).

Non-executive directors do not receive performance related compensation and directors' fees cover all main board activities. Non-executive director members who sit on more than one committee receive an additional payment of \$5,300 per annum for each additional committee of which they are a member. Non-executive director members who chair a committee receive a further additional payment of \$5,300 per annum for each committee chaired.

Under the Director Share Plan ("DSP") approved by shareholders at the AGM on 27 November 2008, non-executive directors have elected to receive director fees as shares in lieu of cash in order to retain the cash reserves of the Company. The value of the shares awarded to non-executive directors has been disclosed as a Hybrid share based payment in the table in section 7.5.3 of the Directors' report.

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.5 Remuneration report - audited (cont.)

#### 7.5.2 Directors' and executive officers' remuneration (Company and Consolidated) - audited

In AUD		SHORT-TERM	POST EMPLOYMENT	SHARE BASED PAYMENTS			Proportion of remuneration performance related %	Value of options as a proportion of remuneration %		
		Salary and fees \$ (A)	Super-annuation benefits \$	Options and rights \$ (B)	Shares \$ (C)	Hybrids \$ (D)			Total \$	
<b>Directors</b>										
<b>Non-executive directors</b>										
	Mr A Forrest (Chairman)	2009	-	-	-	42,400	42,400	-	-	
		2008	-	226,826,000	8,700,000	40,000	235,566,000	-	96.3%	
	Mr C Indermaur (resigned 30 September 2008 and re-appointed 2 April 2009)	2009	34,450*	-	-	-	34,450	-	-	
		2008	-	-	-	67,926	67,926	-	-	
	Mr R Monti	2009	-	-	-	58,300	58,300	-	-	
		2008	-	4,931,000	870,000	55,000	5,856,000	-	84.2%	
	Mr G Brayshaw	2009	-	-	-	63,600	63,600	-	-	
		2008	24,890	-	-	-	24,890	-	-	
<b>Executive directors</b>										
	Mr D Singleton, MD & CEO	2009	412,844	37,156	563,863	123,203	-	1,137,066	10.8%	49.6%
		2008	359,033	32,313	522,542	-	281,250	1,195,138	23.5%	43.7%
<b>Executives</b>										
	Mr R Dennis, COO	2009	365,601	32,904	79,938	29,426	-	507,869	5.8%	15.7%
		2008	359,432	32,349	46,868	967	176,393	616,009	28.8%	7.6%
	Mr N Hutchison, GM Geology	2009	211,927	19,073	41,148	16,682	-	288,830	5.8%	14.2%
		2008	202,564	18,726	24,012	548	100,000	345,850	29.1%	6.9%
	Mr M Rodriguez, Group Technology Manager	2009	285,000	25,650	-	7,924	-	318,574	2.5%	-
		2008	333,125	7,481	-	261	47,500	388,367	12.3%	-
	Mr G Jones, Financial Controller	2009	179,358	16,142	14,754	13,346	-	223,601	6.0%	6.6%
		2008	154,872	13,938	3,234	439	80,000	252,483	31.9%	-
<b>Former</b>										
	Mr D Daws (resigned 2 July 2007)	2009	-	-	-	-	-	-	-	-
		2008	3,198	288	-	-	-	3,486	-	-
	Mr C Daws (resigned 2 July 2007)	2009	-	-	-	-	-	-	-	-
		2008	3,077	277	-	-	-	3,354	-	-
	<b>Total compensation: key management personnel (Consolidated)</b>	2009	1,489,180	130,926	699,704	190,580	164,300	2,674,690		
		2008	1,440,191	105,372	232,353,656	9,572,215	848,069	244,319,503		
	<b>Total compensation: key management personnel (Company)</b>	2009	1,489,180	130,926	699,704	190,580	164,300	2,674,690		
		2008	1,440,191	105,372	232,353,656	9,572,215	848,069	244,319,503		

# Directors' Report

For the year ended 30 June 2009

## Notes in relation to the table of directors' and executive officers remuneration - audited

- (A) \*Mr C Indermaur was re-appointed to the board on 2 April 2009 and has elected to receive non-executive director fees as shares in lieu of cash under the terms of the DSP. As the election is subject to shareholder approval at a general meeting, director fees for the period have been disclosed as "Salary and fees".
- (B) The fair value of the options is calculated at the date of grant using a binomial option-pricing model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed is the portion of the fair value of the options recognised in this reporting period. In valuing the options, market conditions have been taken into account.

The options issued to Mr D Singleton were granted under the terms of the ESOP and approved by shareholders at the general meeting held on 27 November 2008.

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	\$2.14	100.00%	6.270%	0%
2 July 2007	4 years	\$1.5670	\$1.96	\$2.14	100.00%	6.270%	0%
29 November 2007	5 years	\$0.8660	\$1.41	\$1.16	100.00%	6.250%	0%
30 November 2007	5 years	\$0.8700	\$1.41	\$1.17	100.00%	6.270%	0%
11 April 2008	5 years	\$0.3880	\$1.41	\$0.62	100.00%	6.020%	0%
27 November 2008	4 years	\$0.1052	\$0.80	\$0.19	115.00%	3.970%	0%

- (C) The share based payment expense recognised in the period for Mr D Singleton is the difference between the fair value of the shares issued (\$0.19 per share) on 27 November 2008 and the purchase price (\$Nil per share). The granting of the shares was approved by shareholders at the general meeting held on 27 November 2008.

The shares granted to executives are the Special Bonus Shares issued in relation to the TaBS in the prior reporting period and vest over a 3 year period from the grant date of 18 June 2008. The value disclosed is the portion of the fair value of the shares recognised in this reporting period. Refer to TaBS in section 7.5.1 of the Directors' report.

- (D) The hybrid share based payment represents the shares issued to non-executive directors that allow the individual to choose whether to receive director fees as cash or shares. Refer to the non-executive directors in section 7.5.1 of the Directors' report.

## Details of performance related remuneration

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

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.5 Remuneration report - audited (cont.)

#### 7.5.3 Equity instruments

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

#### Options and rights over equity instruments granted as compensation - audited

##### Options

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

Directors	Number of options granted during 2009	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2009
Mr D Singleton	2,000,000	27 November 2008	\$0.1052	\$0.80	27 November 2012	-

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

All options expire on the earlier of their expiry date or termination of the individual's employment. The options are generally exercisable 3 years from grant date. In addition to a continuing employment service condition, the ability to exercise options is conditional on the Group achieving certain share price performance hurdles. The options issued to Mr D Singleton as part of the ESOP have four share price performance hurdles of between \$1.20 and \$2.60 and will be released in tranches of 500,000 shares as each price hurdle is met.

For options granted in the current year, the earliest exercise date is 27 November 2011 and relates to the options issued to Mr D Singleton.

No options were granted to executives during the reporting period and no options have been granted to directors and 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:

Directors	Number of shares granted during 2009	Grant date	Fair value per share at grant date (\$)	Purchase price per share at issue date (\$)	Total share value (\$)
Mr D Singleton	648,438	27 November 2008	\$0.19	-	123,203

The share based payment expense recognised in the period for Mr D Singleton is the difference between the fair value of the shares issued (\$0.19 per share) and the purchase price (\$Nil per share). The granting of 1m shares was approved by shareholders at the general meeting held on 27 November 2008, however 351,562 were recognised as a hybrid in 2008.

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

# Directors' Report

For the year ended 30 June 2009

## Hybrids

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

Directors	Number of hybrids granted during 2009	Grant or quarter end date	Purchase price per hybrid at issue date (\$)	Total (\$)
Mr A Forrest	10,671	30 September 2008	\$0.9934	10,600
	46,049	31 December 2008	\$0.2302	10,600
	37,599	31 March 2009	\$0.2819	10,600
	39,960	30 June 2009	\$0.2653	10,600
	134,279			42,400
Mr R Monti	14,672	30 September 2008	\$0.9934	14,575
	63,317	31 December 2008	\$0.2302	14,575
	51,699	31 March 2009	\$0.2819	14,575
	54,945	30 June 2009	\$0.2653	14,575
	184,633			58,300
Mr G Brayshaw	13,535*	31 March 2008	\$0.7307	-
	15,807*	30 June 2008	\$0.9489	-
	16,006	30 September 2008	\$0.9934	15,900
	69,074	31 December 2008	\$0.2302	15,900
	56,399	31 March 2009	\$0.2819	15,900
	59,940	30 June 2009	\$0.2653	15,900
	230,761			63,600
	549,673			164,300

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

\*The election made by Mr G Brayshaw to receive director fees for the prior reporting period as shares in lieu of cash was approved by shareholders at the general meeting held on 27 November 2008 and granted in the current reporting period. The value of these hybrids was expensed as "Salary and fees" in the previous reporting period.

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

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.5 Remuneration report - audited (cont.)

#### 7.5.3 Equity instruments (cont.)

##### Options and rights over equity instruments granted as compensation - audited (cont.)

##### 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.

Directors	OPTIONS GRANTED		
	Number	Grant date	Financial years in which grant vests
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	2011
Mr D Singleton	2,000,000	27 November 2008	2011
<b>Executives</b>			
Mr R Dennis	277,000	29 November 2007	2011
Mr N Hutchison	142,000	30 November 2007	2011
Mr G Jones	114,000	14 April 2008	2011

No options vested or were forfeited during the reporting period.

# Directors' Report

For the year ended 30 June 2009

## Shares

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

SHARES GRANTED					
Directors	Number	Grant date	% vested in year	Financial years in which grant vests	Total expensed in period (\$)
Mr D Singleton	648,438	27 November 2008	100%	2009	123,203
<b>Executives</b>					
Mr R Dennis	110,246	18 June 2008	-	2011	29,426
Mr N Hutchison	62,500	18 June 2008	-	2011	16,682
Mr M Rodriguez	29,688	18 June 2008	-	2011	7,924
Mr G Jones	50,000	18 June 2008	-	2011	13,346
					190,581

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

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.5 Remuneration report - audited (cont.)

#### 7.5.3 Equity instruments (cont.)

##### Options and rights over equity instruments granted as compensation - audited (cont.)

##### Analysis of options and rights over equity instruments granted as compensation - audited (cont.)

##### Hybrids

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

Directors	HYBRIDS GRANTED			
	Number	Grant or quarter end date	% vested in year	Financial years in which grant vests
Mr A Forrest	10,671	27 November 2008	100%	2009
	46,049	31 December 2008	100%	2009
	37,599	31 March 2009	100%	2009
	39,960	30 June 2009	100%	2009
	134,279			
Mr R Monti	14,672	27 November 2008	100%	2009
	63,317	31 December 2008	100%	2009
	51,699	31 March 2009	100%	2009
	54,945	30 June 2009	100%	2009
	184,633			
Mr G Brayshaw	13,535	31 March 2008	100%	2009
	15,807	30 June 2008	100%	2009
	16,006	27 November 2008	100%	2009
	69,074	31 December 2008	100%	2009
	56,399	31 March 2009	100%	2009
	59,940	30 June 2009	100%	2009
	230,761			
549,673				

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

# Directors' Report

For the year ended 30 June 2009

## Analysis of movements in options - audited

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

	Granted in prior periods \$ (A)	Granted in 2009 \$ (B)	Total option value expensed in year \$ (C)
<b>Directors</b>			
Mr D Singleton	1,567,000	210,450	563,863
<b>Executives</b>			
Mr R Dennis	240,034	-	79,938
Mr N Hutchison	123,557	-	41,148
Mr G Jones	44,304	-	14,754
	<b>1,974,895</b>	<b>210,450</b>	<b>699,703</b>

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

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

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

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

## 7.6 Audit and Risk Management Committee

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

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

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 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.

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.6 Audit and Risk Management Committee (cont.)

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 2009 financial year, the board reviewed the strategic and operational risks on a regular basis due to the potential impact of the global financial crisis. The operational risks which were reviewed include:

- Impacts of external factors on proposed projects, e.g. fluctuations in commodity prices and exchange rates
- Short and medium terms sources of financing
- Identification and evaluation of new ore sources
- Tenement management
- Dewatering and rehabilitation of the Mt Windarra mine
- Health, safety and environmental issues
- Counter party risks
- Data and IT security
- Internal control framework including fraud, compliance and audit.

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.

# Directors' Report

For the year ended 30 June 2009

## 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 2009. The Company has complied with the Corporate Governance Best Practice Recommendations except as identified below.

Corporate Governance Policy	Action taken and reasons if not adopted
<b>Lay solid foundation for management and oversight</b>	Adopted
<i>Principle 1: Recognise and publish the respective roles and responsibilities of the board and management</i>	
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 will provide details of any departures from Principle 1 in its Annual Report.
<b>Structure the board to add value</b>	Adopted
<i>Principle 2: Have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties</i>	
2.1 A majority of the board should be independent	The majority of the board are independent directors.
2.2 The chairperson should be an independent director	The chairman is independent.
2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual	The roles of the Chair and the CEO are not exercised by the same individual.
2.4 The board should establish a nomination committee	The board has established a Remuneration and Nomination 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 will provide details of any departures from Principle 2 in its Annual Report.

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.7 Best practice recommendation (cont.)

Corporate Governance Policy	Action taken and reasons if not adopted
<b>Actively promote ethical and responsible decision-making</b>	Adopted
<i>Principle 3: Promote ethical and responsible decision-making</i>	
3.1 Establish a code of conduct and disclose the code or summary of the code as to: <ul style="list-style-type: none"> <li>3.1.1 the practices necessary to maintain confidence in the Company's integrity</li> <li>3.1.2 the practices necessary to take into account their legal obligations and reasonable expectations of their stakeholders</li> <li>3.1.3 the responsibility and accountability of individuals for reporting or investigating reports of unethical practices</li> </ul>	The Company's Corporate Governance Policies include a Directors' and Executive Officers' Code of Conduct Policy which provides a framework for decisions and actions in relation to ethical conduct in employment.
3.2 Establish a policy concerning trading in Company securities by directors, senior executives and employees and disclose the policy or a summary of that policy	The Company's Corporate Governance Policies includes a Dealing in Securities Policy which provides comprehensive guidelines on trading in the Company's securities.
3.3 Provide the information indicated in 'Guide to Reporting on Principle 3'	The Company will provide details of any departures from Principle 3 in its Annual Report.
<i>Principle 4: Establish a structure to independently verify and safeguard the integrity in financial reporting</i>	
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: <ul style="list-style-type: none"> <li>• Only non-executive directors</li> <li>• A majority of independent directors</li> <li>• An independent chairperson who is not the chairperson of the Board</li> <li>• At least three members</li> </ul>	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 will provide details of any departures from Principle 4 in its Annual Report.

# Directors' Report

For the year ended 30 June 2009

Corporate Governance Policy	Action taken and reasons if not adopted
<b>Promote timely and balanced disclosure</b>	Adopted
<i>Principle 5: Make timely and balanced disclosure of all material matters concerning the Company</i>	
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 will provide details of any departures from Principle 5 in its Annual Report.
<b>Respect the rights of shareholders</b>	Adopted
<i>Principle 6: Respect the rights of shareholders and facilitate the effectiveness of those rights</i>	
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.
6.2 Provide the information indicated in the 'Guide to reporting on Principle 6'	The Company will provide details of any departures from Principle 6 in its Annual Report.
<b>Recognise and manage risk</b>	Adopted
<i>Principle 7: Establish a sound system of risk oversight and management and internal control</i>	
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.

# Directors' Report

For the year ended 30 June 2009

## 7. Corporate governance statement (cont.)

### 7.7 Best practice recommendation (cont.)

Corporate Governance Policy	Action taken and reasons if not adopted
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 will provide details of any departures from Principle 7 in its Annual Report.
<b>Remunerate fairly and responsibly</b>	Adopted
<i>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</i>	
8.1 The Board should establish a Remuneration Committee	A Remuneration and Nomination Committee has been established by the Company.
8.2 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 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.
8.3 Provide the information indicated in the 'Guide to reporting on Principle 8'	The Company will provide details of any departures from Principle 8 in its Annual Report.

Further information on the Corporate Governance Policies that have been adopted by Poseidon can be referenced at the Company's website: [www.poseidon-nickel.com.au](http://www.poseidon-nickel.com.au)

## 8. Dividends

The directors recommend that no dividend be declared or paid.

## 9. Events subsequent to reporting date

On 5 August 2009 the Company received \$300,000 from Triton Gold Ltd ("Triton") following the successful completion of its Initial Public Offering ("IPO") as part of the agreement for the sale of gold rights entered into in March 2009. In addition, Triton listed on the Australian Stock Exchange on 14 August 2009 at a share price of \$0.20. The fair value of the investment recognised in the financial statements at 30 June 2009 is \$0.067 per share (see note 14). The shares in Triton will be held in escrow for a period of 2 years due to the ASX Listing Rules and the Company's shareholding being greater than 10% of the voting securities.

# Directors' Report

For the year ended 30 June 2009

## 10. Directors' interests

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

	POSEIDON NICKEL LIMITED	
	Ordinary shares	Options over ordinary shares
Mr A Forrest	5,000,000	-
Mr C Indermaur	-	-
Mr R Monti (Ventnor Capital)	478,434	1,250,000
Mr G Brayshaw	230,761	-
Mr D Singleton	2,000,000	3,000,000

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 Indermaur sold shares issued in lieu of director fees for the prior reporting period after resigning from the board on 30 September 2008. Mr Indermaur has elected to participate in the DSP and receive his director fees as shares in lieu of cash, subject to shareholder approval at the next general meeting.

## 11. Share options

### Options granted to directors and officers of the Company

During or since the end of the financial year, the Company granted options for no consideration over unissued ordinary shares in the Company to the following directors of the Company as part of their remuneration:

Directors	Number of options granted	Exercise price	Expiry date
Mr D Singleton	2,000,000	\$0.80	27 November 2012

No options were granted to the five most highly remunerated executives of the Company.

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

### Unissued shares under options

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

Expiry date	Exercise price	Number of shares
5 December 2009	0.81	6,157,904
5 December 2011	0.92	6,157,403
2 July 2011	1.96	1,000,000
31 July 2012	0.40	2,500,000
19 September 2012	0.40	115,000,000
22 October 2012	1.41	533,000
27 November 2012	0.80	2,000,000
		133,348,307

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

# Directors' Report

For the year ended 30 June 2009

## 11. Share options (cont.)

### 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.

# Directors' Report

For the year ended 30 June 2009

## 13. Non-audit services

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

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:

<i>In AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	28,150	29,650	28,150	29,650
Accounting assistance and advice	45,100	-	45,100	-
Other auditors				
Audit and review of financial reports	-	6,235	-	6,235
	73,250	35,885	73,250	35,885

No other services were provided by KPMG during the year.

## 14. Lead Auditor's Independence Declaration

The Lead Auditor's Independence Declaration is set out on page 100 and forms part of the Directors' report for financial year ended 30 June 2009.

## 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, 25th September 2009

# Income Statements

For the year ended 30 June 2009

<i>In thousands of AUD</i>	Note	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
Other income	8	809	250	809	262
Depreciation expense		(37)	(41)	(37)	(41)
Personnel expenses	9	(1,078)	(1,499)	(1,078)	(1,499)
Exploration costs written off	13	(2,157)	(2,704)	(2,157)	(2,704)
Corporate and administration costs		(1,652)	(1,236)	(1,652)	(1,236)
Share based payment expense	24	(1,010)	(242,511)	(1,010)	(242,511)
Misappropriation expense	33	(496)	-	(496)	-
Other expenses		(424)	(307)	(424)	(307)
<b>Results from operating activities</b>		<b>(6,045)</b>	<b>(248,048)</b>	<b>(6,045)</b>	<b>(248,036)</b>
Finance income		22,800	702	22,800	702
Finance expenses		(9,314)	(8,749)	(9,314)	(8,749)
<b>Net financing costs</b>	10	<b>13,486</b>	<b>(8,047)</b>	<b>13,486</b>	<b>(8,047)</b>
<b>Profit (loss) before income tax</b>		<b>7,441</b>	<b>(256,095)</b>	<b>7,441</b>	<b>(256,083)</b>
Income tax expense	11	-	-	-	-
<b>Profit (loss) from continuing operations</b>		<b>7,441</b>	<b>(256,095)</b>	<b>7,441</b>	<b>(256,083)</b>
<b>Discontinued operation</b>					
Loss of discontinued operation (net of income tax)	7	-	-	-	-
<b>Profit (loss) for the period</b>		<b>7,441</b>	<b>(256,095)</b>	<b>7,441</b>	<b>(256,083)</b>
Loss attributable to equity holders of the Company		7,441	(256,095)	7,441	(256,083)
<b>Earnings (loss) per share:</b>					
Basic earnings (loss) per share (cents/share)	20	4.51	(158.5)		
Diluted earnings (loss) per share (cents/share)	20	2.60	(158.5)		

The notes on pages 58 to 96 are an integral part of these consolidated financial statements.

# Statements of Changes in Equity

For the year ended 30 June 2009

<i>In thousands of AUD</i>	CONSOLIDATED					
	Issued Capital	Share based payment reserve	Fair value reserve	Option premium reserve	Accumulated losses	Total equity
Balance at 1 July 2007	57,686	1,046	231	-	(27,471)	31,492
Loss for the year	-	-	-	-	(256,095)	(256,095)
Total recognised income and expense	-	-	-	-	(256,095)	(256,095)
Issue of share capital (net of costs)	14,100	-	-	-	-	14,100
Issue of options (net of costs)	-	232,354	-	510	(166)	232,698
Exercise of options	5	(1,046)	-	-	1,046	5
Gain (loss) on revaluation of investments	-	-	(231)	-	-	(231)
Balance at 30 June 2008	71,791	232,354	-	510	(282,686)	21,969
Balance at 1 July 2008	71,791	232,354	-	510	(282,686)	21,969
Profit for the year	-	-	-	-	7,441	7,441
Total recognised income and expense	-	-	-	-	7,441	7,441
Issue of share capital (net of costs)	1,717	-	-	-	-	1,717
Issue of options (net of costs)	-	700	-	-	-	700
Balance at 30 June 2009	73,508	233,054	-	510	(275,245)	31,827

<i>In thousands of AUD</i>	COMPANY					
	Issued Capital	Share based payment reserve	Fair value reserve	Option premium reserve	Retained earnings	Total equity
Balance at 1 July 2007	57,686	1,046	231	-	(27,483)	31,480
Loss for the year	-	-	-	-	(256,083)	(256,083)
Total recognised income and expense	-	-	-	-	(256,083)	(256,083)
Issue of share capital (net of costs)	14,100	-	-	-	-	14,100
Issue of options (net of costs)	-	232,354	-	510	(166)	232,698
Exercise of options	5	(1,046)	-	-	1,046	5
Gain (loss) on revaluation of investments	-	-	(231)	-	-	(231)
Balance at 30 June 2008	71,791	232,354	-	510	(282,686)	21,969
Balance at 1 July 2008	71,791	232,354	-	510	(282,686)	21,969
Profit for the year	-	-	-	-	7,441	7,441
Total recognised income and expense	-	-	-	-	7,441	7,441
Issue of share capital (net of costs)	1,717	-	-	-	-	1,717
Issue of options (net of costs)	-	700	-	-	-	700
Balance at 30 June 2009	73,508	233,054	-	510	(275,245)	31,827

The notes on pages 58 to 96 are an integral part of these consolidated financial statements.

# Balance Sheets

For the year ended 30 June 2009

<i>In thousands of AUD</i>	Note	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
<b>Assets</b>					
Cash and cash equivalents	18	3,552	14,365	3,552	14,365
Trade and other receivables	17	127	473	127	473
Other		24	24	24	24
<b>Total current assets</b>		<b>3,703</b>	<b>14,862</b>	<b>3,703</b>	<b>14,862</b>
Property, plant and equipment	12	2,013	1,904	2,013	1,904
Exploration and evaluation expenditure	13	38,610	31,975	38,610	31,975
Other investments	14	605	-	605	-
Other	15	3,500	3,500	3,500	3,500
<b>Total non-current assets</b>		<b>44,728</b>	<b>37,379</b>	<b>44,728</b>	<b>37,379</b>
<b>Total assets</b>		<b>48,431</b>	<b>52,241</b>	<b>48,431</b>	<b>52,241</b>
<b>Liabilities</b>					
Trade and other payables	26	1,841	2,438	1,841	2,438
Loans and borrowings	21	9,505	6,505	9,505	6,505
Convertible note derivative	22	1,526	17,470	1,526	17,470
Employee benefits	23	28	86	28	86
Provisions	25	3,500	3,500	3,500	3,500
<b>Total current liabilities</b>		<b>16,400</b>	<b>29,999</b>	<b>16,400</b>	<b>29,999</b>
Loans and borrowings	21	204	273	204	273
<b>Total non-current liabilities</b>		<b>204</b>	<b>273</b>	<b>204</b>	<b>273</b>
<b>Total liabilities</b>		<b>16,604</b>	<b>30,272</b>	<b>16,604</b>	<b>30,272</b>
<b>Net assets</b>		<b>31,827</b>	<b>21,969</b>	<b>31,827</b>	<b>21,969</b>
<b>Equity</b>					
Share capital	19	73,508	71,791	73,508	71,791
Reserves		233,564	232,864	233,564	232,864
Retained earnings		(275,245)	(282,686)	(275,245)	(282,686)
<b>Total equity</b>		<b>31,827</b>	<b>21,969</b>	<b>31,827</b>	<b>21,969</b>

The notes on pages 58 to 96 are an integral part of these consolidated financial statements.

# Statements of Cash Flows

For the year ended 30 June 2009

<i>In thousands of AUD</i>	Note	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
<b>Cash flows from operating activities</b>					
Sundry receipts		303	308	303	308
Payments to suppliers and employees		(3,639)	(2,877)	(3,639)	(2,877)
Cash generated from operations		(3,336)	(2,569)	(3,336)	(2,569)
Interest received		573	517	573	517
<b>Net cash from operating activities</b>	18b	(2,763)	(2,052)	(2,763)	(2,052)
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(414)	(1,105)	(414)	(1,105)
Payments for exploration expenditure		(8,904)	(13,072)	(8,904)	(13,072)
Proceeds from sale of investments		-	262	-	262
Repayment of loans by related parties		-	6	-	18
Repayment of loans by other entities		-	915	-	915
<b>Net cash from investing activities</b>		(9,318)	(12,994)	(9,318)	(12,982)
<b>Cash flows from financing activities</b>					
Proceeds from the issue of shares and options		1,330	3,188	1,330	3,188
Proceeds from the issue of convertible notes		-	15,730	-	15,730
Proceeds from borrowings		-	227	-	227
Payment of finance lease liabilities		(62)	(46)	(62)	(46)
Payment of transaction costs		-	(62)	-	(62)
<b>Net cash from financing activities</b>		1,268	19,037	1,268	19,037
Net increase in cash and cash equivalents		(10,813)	3,991	(10,813)	4,003
Cash and cash equivalents at 1 July		14,365	10,485	14,365	10,473
Effect of exchange rate fluctuations on cash held		-	(111)	-	(111)
<b>Cash and cash equivalents at 30 June</b>	18a	3,552	14,365	3,552	14,365

The notes on pages 58 to 96 are an integral part of these consolidated financial statements.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 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 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in jointly controlled operations.

## 2. Basis of preparation

### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Group and the Company also complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors on 25 September 2009.

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

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

## 3. Financial Position

For the year ended 30 June 2009 the Company incurred a profit for the consolidated entity after income tax of \$7,441,000 (2008: loss \$256,095,000) and had a net working capital deficit of \$12,697,000 (2008: deficit \$15,137,000). The working capital deficit includes the following items: the convertible note liability of \$9,436,000 and the non cash convertible note derivative of \$1,526,000 that can only be settled in shares if called by the note holders before the note becomes repayable in 2014; and a provision for environmental rehabilitation of \$3,500,000. The environmental obligation is not likely to be required to be expended in full during the year. Further, subsequent to satisfaction of their obligation, a cash backed bond (included within non-current assets) of \$3,500,000 may be released, however this release will not occur during the current year.

# Notes to the Financial Statements

For the year ended 30 June 2009

The Company will require further funding in order to meet day-to-day obligations as they fall due and progress its exploration and mine development projects as budgeted. The Board of Directors is aware, having prepared a cashflow budget, of the Company's working capital requirements and the need to access additional funding in the next 6 months to avoid any uncertainty that the Company and the consolidated entity can continue as a going concern and therefore whether it would need to realise its assets and extinguishment of liabilities other than in the normal course of business at the amounts stated in the financial report.

The Board is confident in securing sufficient additional funding to provide working capital for at least the next 18 months and has identified a number of options for achieving this outcome that are currently being pursued. In addition, the Company has underwriting support for a capital raising should this be required. The Company considers the going concern basis of preparation to be appropriate for 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.

In the Company's financial statements, investments in subsidiaries are carried at cost.

#### Jointly controlled operating assets

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

#### Transactions eliminated on consolidation

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

### (b) Foreign currency transactions

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

# Notes to the Financial Statements

For the year ended 30 June 2009

## 4. Significant accounting policies (cont.)

### (c) Financial instruments

#### Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. 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.

Accounting for finance income and expense is discussed in note 4(k).

#### *Available-for-sale financial assets*

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses on available-for-sale monetary items, are recognised as a separate component of equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

#### *Investments at fair value through profit or loss*

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments 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 instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

#### *Other*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

#### 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.

# Notes to the Financial Statements

## For the year ended 30 June 2009

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 balance sheet 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.

### Share capital

#### *Ordinary shares*

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

### (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

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

#### Depreciation

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

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

- |                          |              |
|--------------------------|--------------|
| • leasehold improvements | 25 years     |
| • computer equipment     | 2 - 4 years  |
| • plant and equipment    | 3 - 13 years |
| • motor vehicles         | 4 - 6 years  |

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

# Notes to the Financial Statements

For the year ended 30 June 2009

## 4. Significant accounting policies (cont.)

### (e) Exploration and evaluation expenditure

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

Exploration and evaluation activity includes:

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

Administration costs that are not directly attributable to specific exploration area are charged to the income statement.

Licence costs paid in connection with a right to explore in an existing exploration area are capitalised.

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

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

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

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

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

### (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 balance sheet.

### (g) Impairment

#### Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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 original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

# Notes to the Financial Statements

For the year ended 30 June 2009

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

## **Non-financial assets**

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

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

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

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

## **(h) Employee benefits**

### **Termination benefits**

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

### **Short-term benefits**

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

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

# Notes to the Financial Statements

For the year ended 30 June 2009

## 4. Significant accounting policies (cont.)

### (h) Employee benefits (cont.)

#### Share based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

### (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 Group has made a provision of \$3,500,000 as assessed by the Department of Industry and Resources (DOIR), in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine site.

### (j) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### (k) Finance income and expenses

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

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

### (l) Income tax

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

# Notes to the Financial Statements

For the year ended 30 June 2009

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

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

## **(m) Goods and services tax**

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

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

## **(n) Discontinued operations**

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal, or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative income statement is restated as if the operation had been discontinued from the start of the comparative period.

## **(o) 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.

## **(p) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group's primary format for segment reporting is based on business segments.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 4. Significant accounting policies (cont.)

### (q) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2009, but have not been applied in preparing this financial report.

- Revised AASB 3 Business Combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:
  - The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations
  - Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss
  - Transaction costs, other than share and debt issue costs, will be expensed as incurred
  - Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss
  - Any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised AASB 3, which becomes mandatory for the Group's 30 June 2010 financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statement.

- Amended AASB 127 Consolidated and Separate Financial Statements (2008) requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to AASB 127, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have a significant impact on the consolidated financial statements.
- AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require a change in the presentation on and disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6).
- Revised AASB 101 Presentation of Financial Statements (2007) introduces the term total comprehensive income, which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement) or, in an income statement and a separate statement of comprehensive income. Revised AASB 101, which becomes mandatory for the Group's 30 June 2010 financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements. The Group plans to provide total comprehensive income in a single statement of comprehensive income in a single statement of comprehensive income for its 2010 consolidated financial statements.

# Notes to the Financial Statements

For the year ended 30 June 2009

- Revised AASB 123 Borrowing Costs removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. The revised AASB 123 will become mandatory for the Group's 30 June 2010 financial statements and will constitute a change in accounting policy for the Group. In accordance with the transitional provisions the Group will apply the revised AASB 123 to qualifying assets for which capitalisation of borrowing costs commences on or after the effective date. Therefore there will be no likely impact on prior periods in the Group's 30 June 2010 financial statements.
- AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to AASB 2 will be mandatory for the Group's 30 June 2010 financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Process and 2008-6 Further Amendments to Australian Accounting Standards arising from The Annual Improvements Process affect various AASBs resulting in minor changes for presentation, disclosure, recognition and measurement purposes. The amendments, which become mandatory for the Group's 30 June 2010 financial statements, are not expected to have any impact on the financial statements.
- AASB 2008-7 Amendments to Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate changes the recognition and measurement dividend receipts as income and addresses the accounting of a newly formed parent entity in the separate financial statements. The amendments become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amendments.
- AI 17 Distributions of Non-Cash Assets to Owners provides guidance in respect of measuring the value of distributions of non-cash assets to owners. AI 17 will become mandatory for the Group's 30 June 2010 consolidated financial statements. The Group has not yet determined the potential effect of the Interpretation.

## 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 reporting period, the expected volatility of the underlying share price and the risk-free interest rate (based on government bonds). The expected volatility is based upon historic volatility (based on the remaining life of the options) adjusted for abnormal spikes in the Company's share price.

### (b) Non-derivative financial liabilities

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

# Notes to the Financial Statements

For the year ended 30 June 2009

## 5. Determination of fair values (cont.)

### (c) Share based payment transactions

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

## 6. Segment reporting

The Group operates predominately in one business segment and one geographical segment being Nickel and other mineral exploration in Australia.

## 7. Discontinued operation

In June 2008, the Group deregistered two of its subsidiaries included in the Winery Leasehold and Unallocated segments (refer note 31). There was no financial effect of the deregistration on the financial position of the Group as at 30 June 2008.

## 8. Other income

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Rent	-	34	-	34
Sundry income	5	11	5	11
Other income	199	202	199	215
Net gain on sale of exploration assets	605	-	605	-
Net gain on sale of investments	-	3	-	3
	809	250	809	262

In March 2009 the Company sold the gold rights on its West Australian tenements for 9,000,000 ordinary shares in Triton Gold Ltd ("Triton") and \$300,000 cash. The net gain on sale of exploration assets represents the value of the shares at 30 June 2009 (see note 14) and excludes the cash component which was not received until August 2009 upon successful completion of the Triton IPO.

## 9. Personnel expenses

<i>In thousands of AUD</i>	Note	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
Wages and salaries		706	978	706	978
Other associated personnel expenses		430	440	430	440
Increase (decrease) in liability for annual leave	23	(58)	81	(58)	81
		1,078	1,499	1,078	1,499

# Notes to the Financial Statements

For the year ended 30 June 2009

## 10. Finance income and expense

<i>In thousands of AUD</i>	Note	CONSOLIDATED		COMPANY	
		2009	2008	2009	2008
Change in fair value of convertible note derivative	22	22,227	-	22,227	-
Interest income on bank deposits		573	511	573	511
Interest income - other		-	6	-	6
Net gain on disposal of available-for-sale financial assets transferred from equity		-	182	-	182
Net foreign exchange gain		-	3	-	3
Finance income		22,800	702	22,800	702
Change in fair value of convertible note derivative	22	-	(8,718)	-	(8,718)
Interest expense - convertible note liability		(1,980)	(30)	(1,980)	(30)
Interest expense - other		-	(1)	-	(1)
Net foreign exchange loss		(7,334)	-	(7,334)	-
Finance expense		(9,314)	(8,749)	(9,314)	(8,749)
Net finance income and expense		13,486	(8,047)	13,486	(8,047)

## 11. Income tax expense

### Numerical reconciliation between tax-expense and pre-tax net profit

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Profit (loss) for the year	7,441	(256,095)	7,441	(256,083)
Total income tax expense	-	-	-	-
Profit (loss) excluding income tax	7,441	(256,095)	7,441	(256,083)
Income tax using the Company's domestic tax rate of 30% (2008: 30%)	2,232	(76,829)	2,232	(76,825)
Share based payments	303	72,753	303	72,753
Change in fair value of convertible note derivative	(6,668)	2,615	(6,668)	2,615
Non-tax deductible expenses	23	62	23	62
Under (over) provided in prior periods	208	605	208	605
Losses written off on deregistration of subsidiaries	-	200	-	-
	(3,902)	(594)	(3,902)	(594)
Current year losses for which no deferred tax asset was recognised	3,902	594	3,902	594
	-	-	-	-

# Notes to the Financial Statements

For the year ended 30 June 2009

## 12. Property, plant and equipment

In thousands of AUD	CONSOLIDATED					COMPANY				
	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
<b>Cost</b>										
Balance at 1 July 2007	-	43	261	146	450	-	43	261	146	450
Additions	342	65	599	99	1,105	342	65	599	99	1,105
Transfers	608	30	-	-	638	608	30	-	-	638
Disposals	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2008	950	138	860	245	2,193	950	138	860	245	2,193
Balance at 1 July 2008	950	138	860	245	2,193	950	138	860	245	2,193
Additions	56	31	288	38	413	56	31	288	38	413
Transfers	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2009	1,006	169	1,148	283	2,606	1,006	169	1,148	283	2,606
<b>Depreciation and impairment losses</b>										
Balance at 1 July 2007	-	24	12	10	46	-	24	12	10	46
Depreciation for the year	29	41	129	44	243	29	41	129	44	243
Disposals	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2008	29	65	141	54	289	29	65	141	54	289
Balance at 1 July 2008	29	65	141	54	289	29	65	141	54	289
Depreciation for the year	39	37	179	49	304	39	37	179	49	304
Disposals	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2009	68	102	320	103	593	68	102	320	103	593

# Notes to the Financial Statements

For the year ended 30 June 2009

## Carrying amounts

<i>In thousands of AUD</i>	CONSOLIDATED					COMPANY				
	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
At 1 July 2007	-	18	249	136	403	-	18	249	136	403
At 30 June 2008	921	73	719	191	1,904	921	73	719	191	1,904
At 1 July 2008	921	73	719	191	1,904	921	73	719	191	1,904
At 30 June 2009	938	67	828	180	2,013	938	67	828	180	2,013

# Notes to the Financial Statements

For the year ended 30 June 2009

## 13. Exploration and evaluation expenditure

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Costs carried forward in respect of areas of interest in the following phase:				
Exploration and evaluation phase	38,610	31,975	38,610	31,975
<b>Reconciliations:</b>				
<b>Exploration and evaluation phase</b>				
Carrying amount at beginning of year	31,975	17,301	31,975	17,301
Additions	8,792	14,486	8,792	14,486
Rehabilitation asset	-	3,500	-	3,500
Exploration expenditure written off	(2,157)	(2,704)	(2,157)	(2,704)
Expenditure transferred to property, plant and equipment	-	(608)	-	(608)
	38,610	31,975	38,610	31,975

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

## 14. Other investments

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
<b>Non-current investments</b>				
Available-for-sale financial assets	605	-	605	-
	605	-	605	-

In March 2009 the Company sold the gold rights on its West Australian tenements for 9,000,000 ordinary shares in Triton Gold Ltd ("Triton"). The fair value as at 30 June 2009 of \$0.067 has been based upon a 0.7443:1 post capital consolidation issue price of a capital raising undertaken by Triton during the reporting period (\$0.05 pre capital consolidation). Triton successfully listed on the Australian Stock Exchange in August 2009 at a listing price of \$0.20. The shares in Triton will be held in escrow for a period of 2 years due to the ASX Listing Rules and the shareholding being greater than 10% of the voting securities.

## 15. Other non-current assets

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Security deposit - environmental bond	3,500	3,500	3,500	3,500
	3,500	3,500	3,500	3,500

The Company holds a cash collateralised security deposit of \$3,500,000 to cover the provision (see note 25) made in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine site.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 16. Deferred tax assets and liabilities

### Unrecognised deferred tax assets and liabilities

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

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Taxable temporary differences	(2,971)	(3,753)	(2,971)	(3,753)
Deductible temporary differences	170	1,457	170	1,457
Tax losses	7,845	5,393	7,845	5,393
	5,044	3,097	5,044	3,097

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

### Recognised deferred tax assets and liabilities

There were no recognised deferred tax assets or liabilities during the year.

### Movement in unrecognised deferred assets and liabilities during the year

	Balance 1 July 2007	Additions	Balance 30 June 2008	Additions	Balance 30 June 2009
<b>CONSOLIDATED</b>					
Exploration and evaluation expenditure	(1,235)	(1,468)	(2,703)	(268)	(2,971)
Available-for-sale financial assets	(69)	69	-	-	-
Loans and borrowings	-	15	15	-	15
Other items	435	(43)	392	(237)	155
Tax loss carry-forwards	3,107	2,286	5,393	2,452	7,845
	2,238	859	3,097	1,947	5,044
<b>COMPANY</b>					
Exploration and evaluation expenditure	(1,235)	(1,468)	(2,703)	(268)	(2,971)
Available-for-sale financial assets	(69)	69	-	-	-
Loans and borrowings	-	15	15	-	15
Other items	435	(43)	392	(237)	155
Tax loss carry-forwards	2,907	2,486	5,393	2,452	7,845
	2,038	1,059	3,097	1,947	5,044

# Notes to the Financial Statements

For the year ended 30 June 2009

## 17. Trade and other receivables

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
<b>Current</b>				
Trade receivables	60	-	60	-
Goods and services tax receivable	58	387	58	387
Fuel tax credits receivable	7	67	7	67
Other receivables	2	19	2	19
	127	473	127	473

## 18. Cash and cash equivalents

### 18a. Cash and cash equivalents

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Bank balances	1,549	10,863	1,549	10,863
Call deposits	2,003	3,502	2,003	3,502
Cash and cash equivalents in the statement of cash flows	3,552	14,365	3,552	14,365

The effective interest rate on call deposits in 2009 was 4.50 percent (2008: 7.85 percent). The deposits had an average maturity of 30 days (2008: 30 days).

### 18b. Reconciliation of cash flows from operating activities

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Cash flows from operating activities				
Profit for the period	7,441	(256,095)	7,441	(256,095)
Adjustments for:				
Depreciation	37	41	37	41
Impairment of other financial assets	-	-	-	-
Interest expenses - convertible note derivative	1,980	30	1,980	30
Change in fair value of convertible note derivative	(22,227)	8,718	(22,227)	8,718
Profit (loss) on sale of plant and equipment	-	(3)	-	(3)
Profit on sale of investments	-	(182)	-	(182)
Exploration expenditure written off	2,157	2,704	2,157	2,704
Net foreign exchange loss	7,296	-	7,296	-
Equity settled transactions	(605)	345	(605)	345
Equity-settled share based payment transactions	1,035	242,511	1,035	242,511
Operating profit before changes in working capital and provisions	(2,886)	(1,931)	(2,886)	(1,931)
Change in trade and other receivables	345	58	345	58
Change in trade payables and employee benefits	(222)	(179)	(222)	(179)
Net cash from operating activities	(2,763)	(2,052)	(2,763)	(2,052)

# Notes to the Financial Statements

For the year ended 30 June 2009

## 19. Capital and reserves

### Share capital

	COMPANY	
	Ordinary Shares	
<i>In thousands of shares</i>	2009	2008
Ordinary shares		
Fully paid	157,324	297,091
Partly paid	5,752	11,555
On issue at 1 July	163,076	308,646
Exercise of share options	-	4,800
	163,076	313,446
Capital consolidation 2:1	-	(156,723)
	163,076	156,723
<i>Shares issued and expensed during the period</i>		
Issued for cash	500	6,000
Granted as a share based payment	648	-
Issued for employee special bonuses	313	-
Issued for directors fees	365	124
Issued for tenement acquisition	-	228
Exercise of share options	-	1
<i>Shares issued but expensed during the prior period</i>		
Issued for cash	352	-
Issued for employee bonuses	626	-
Issued for directors fees	72	-
On issue at 30 June	165,952	163,076

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.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 20. Earnings (loss) per share

### Basic earnings (loss) per share

The calculation of basic earnings (loss) per share at 30 June 2009 was based on the profit attributable to ordinary shareholders of \$7,441,000 (2008: loss (\$256,095,000)) and a weighted average number of ordinary shares outstanding of 165,060,000 (2008: 161,593,000), calculated as follows:

### Profit (loss) attributable to ordinary shareholders

<i>In thousands of AUD</i>	2009		2009		CONSOLIDATED	
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
Net profit (loss) attributable to ordinary shareholders	7,441	-	7,441	(256,095)	-	(256,095)

### Weighted average number of ordinary shares

<i>In thousands of shares</i>	Note	CONSOLIDATED	
		2009	2008
Issued ordinary shares at 1 July	19	163,076	154,323
Effect of shares issued		1,984	7,270
Weighted average number of ordinary shares at 30 June		165,060	161,593

### Diluted earnings (loss) per share

The calculation of diluted earnings (loss) per share at 30 June 2009 was based on the profit attributable to ordinary shareholders of \$7,441,000 (2008: loss (\$256,095,000)) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 286,289,000 (2008: 161,593,000), calculated as follows:

### Earnings (loss) attributable to ordinary shareholders (diluted)

<i>In thousands of AUD</i>	2009		2009		CONSOLIDATED	
	Continuing operations	Discontinued operation	Total	Continuing operations	Discontinued operation	Total
Net earnings (loss) attributable to ordinary shareholders	7,441	-	7,441	(256,095)	-	(256,095)

### Weighted average number of ordinary shares (diluted)

<i>In thousands of shares</i>	CONSOLIDATED	
	2009	2008
Weighted average number of ordinary shares (basic)	165,060	161,593
Effect of share options on issue	121,229	-
Weighted average number of ordinary shares (diluted) at 30 June	286,289	161,593

# Notes to the Financial Statements

For the year ended 30 June 2009

## 21. Loans and borrowings

This note provides information about the contractual terms of the Company's and Group's interest-bearing loans and borrowings. For more information about the Company's and Group's exposure to interest rate and foreign currency risk, see note 27.

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
<b>Current liabilities</b>				
Current portion of finance lease liabilities	69	62	69	62
Convertible note liability	9,436	6,443	9,436	6,443
	9,505	6,505	9,505	6,505
<b>Non-current liabilities</b>				
Finance lease liabilities	204	273	204	273
	204	273	204	273

### Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

<i>In thousands of AUD</i>	Currency	Nominal interest rate	Year of maturity	CONSOLIDATED 30 June 2009		CONSOLIDATED 30 June 2008	
				Face value	Carrying amount	Face value	Carrying amount
Convertible note liability	USD	5.00%	2014	15,629	9,436	15,629	6,443
Finance lease liabilities	AUD	10.21%	2012	330	273	427	335
Total interest-bearing liabilities				15,959	9,709	16,056	6,778

<i>In thousands of AUD</i>	Currency	Nominal interest rate	Year of maturity	COMPANY 30 June 2009		COMPANY 30 June 2008	
				Face value	Carrying amount	Face value	Carrying amount
Convertible note liability	USD	5.00%	2014	15,629	9,436	15,629	6,443
Finance lease liabilities	AUD	10.21%	2012	330	273	427	335
Total interest-bearing liabilities				15,959	9,709	16,056	6,778

# Notes to the Financial Statements

For the year ended 30 June 2009

## 21. Loans and borrowings (cont.)

### Convertible notes

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Carrying amount of liability at beginning of year	6,443	-	6,443	-
Proceeds from issue of convertible notes	-	15,730	-	15,730
Transaction costs	-	(454)	-	(454)
Net proceeds	6,443	15,276	6,443	15,276
Amount classified as a convertible note derivative (note 22)	-	(9,078)	-	(9,078)
Transaction costs allocated to the convertible note derivative (note 22)	-	262	-	262
Exchange rate effects	1,013	(47)	1,013	(47)
Accreted interest capitalised	1,980	30	1,980	30
Carrying amount of liability at end of year	9,436	6,443	9,436	6,443

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

### Finance lease liabilities

Finance lease liabilities of the Group are payable as follows:

<i>In thousands of AUD</i>	CONSOLIDATED AND COMPANY					
	Minimum lease payments	Interest	Principal	Minimum lease payments	Interest	Principal
	2009	2009	2009	2008	2008	2008
Less than one year	97	28	69	97	35	62
Between one and five years	233	29	204	330	57	273
More than five years	-	-	-	-	-	-
	330	57	273	427	92	335

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

# Notes to the Financial Statements

For the year ended 30 June 2009

## 22. Convertible note derivative

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Carrying amount of liability at beginning of year	17,470	-	17,470	-
Allocated proceeds from issue of convertible notes (note 21)	-	9,078	-	9,078
Transaction costs (note 21)	-	(262)	-	(262)
Net proceeds	17,470	8,816	17,470	8,816
Fair value movements	(22,227)	8,718	(22,227)	8,718
Exchange rate effects	6,283	(64)	6,283	(64)
Carrying amount of liability at end of year	1,526	17,470	1,526	17,470

Pursuant to accounting standards the option component of the convertible note is 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 2008 (share price \$1.36) and 30 June 2009 (share price \$0.25) is reflected in the fair value movement.

As the convertible note is denominated in United States dollars (USD), the change in the exchange rate with the Australian dollar (AUD) is also taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2008 was 0.9605:1 and at 30 June 2009, 0.8114:1.

## 23. Employee benefits

<b>Current</b> <i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Liability for annual leave	28	86	28	86
Total employee benefits - current	28	86	28	86

# Notes to the Financial Statements

For the year ended 30 June 2009

## 24. Share based payments

### Options

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

Grant date/employees entitled	Number of Instruments	Vesting conditions	Contractual life of the options
Options granted to non-executive directors on 2 July 2007	117,500,000	Subject to various share price hurdles that have been met	5 years
Options granted to executive on 2 July 2007	1,000,000	2 years' service and subject to various share price hurdles	4 years
Options granted to executive on 29 November 2007	277,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive on 30 November 2007	142,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive on 11 April 2008	114,000	3 years' service and subject to various share price hurdles	5 years
Options granted to executive director on 27 November 2008	2,000,000	3 years' service and subject to various share price hurdles	4 years
Total share options	121,033,000		

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

	Weighted average exercise price 2009	Number of options 2009	Weighted average exercise price 2008	Number of options 2008
Outstanding at 1 July	\$0.418	119,033,000	\$0.001	4,800,000
Exercised during the period	-	-	\$0.001	(4,800,000)
Granted during the period	\$0.800	2,000,000	\$0.418	119,033,000
Outstanding at 30 June	\$0.424	121,033,000	\$0.418	119,033,000
Exercisable at 30 June	\$0.400	117,500,000	\$0.400	117,500,000

The options outstanding at 30 June 2009 have an exercise price in the range of \$0.40 to \$1.96 and a weighted average remaining contractual life of 4 years.

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

# Notes to the Financial Statements

For the year ended 30 June 2009

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

<i>Fair value of share options and assumptions</i>	Directors	Directors	Executives	Executives
	2009	2008	2009	2008
Fair value at grant date	\$0.11	\$1.97	-	\$0.76
Share price at grant date	\$0.19	\$2.14	-	\$1.05
Exercise price	\$0.80	\$0.41	-	\$1.41
Expected volatility (weighted average volatility)	115%	100%	-	100%
Option life (expected weighted average life)	5.0 years	5.0 years	-	5.0 years
Expected dividends	-	-	-	-
Risk-free interest rate (based on government bonds)	3.97%	6.27%	-	6.21%

## Shares

The terms and conditions of share grants are as follows:

Grant date/employees entitled	Number of Instruments	Vesting conditions
Shares granted to executives and employees on 18 June 2008	282,476	The shares have a 3 year vesting period
Shares granted to executive director and employees on 26 November 2008	648,438	The shares vested immediately upon grant
Total shares	930,914	

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

	Weighted average purchase price	Number of shares	Weighted average purchase price	Number of shares
	2009	2009	2008	2008
Outstanding at 1 July	-	313,132	-	-
Forfeited during the period	-	(30,656)	-	-
Granted during the period	\$0.19	648,438	\$0.38	5,813,132
Outstanding at 30 June	-	282,476	-	313,132

The shares purchased as at 30 June 2009 have a nil purchase price.

The shares forfeited during the period are in relation to shares granted to employees as Special Bonus Shares under the terms of TaBS in the prior reporting period. The shares were subject to a holding lock for a period of 3 years and the employees concerned have not met the service related vesting condition.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 24. Share based payments (cont.)

### Shares (cont.)

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 2009	Directors 2008	Executives and employees 2009	Executives and employees 2008
<i>Fair value of shares and assumptions</i>				
Fair value of grant	\$0.19	\$1.74	-	\$0.80
Share price at grant date	\$0.19	\$2.14	-	\$0.78
Purchase price received	-	\$0.40	-	-

### Hybrids

The terms and conditions of hybrid grants are as follows:

Grant date/employees entitled	Number of Instruments	Vesting conditions
Hybrids granted to non-executive directors on 27 November 2008	70,691	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 December 2008	178,440	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 31 March 2009	145,697	The hybrids vested immediately upon grant
Hybrids granted to non-executive directors on 30 June 2009	154,845	The hybrids vested immediately upon grant
Total shares	549,673	

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

	Weighted average purchase price 2009	Number of hybrids 2009	Weighted average purchase price 2008	Number of hybrids 2008
Granted during the period	\$0.19	549,673	\$0.83	1,144,281

The hybrids purchased as at 30 June 2009 have a purchased price in the range of \$0.2302 to \$1.2853.

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

	Directors 2009	Directors 2008	Executives 2009	Executives 2008
<i>Fair value of hybrids and assumptions</i>				
Fair value of grant	\$0.19	\$1.19	-	\$0.80

# Notes to the Financial Statements

For the year ended 30 June 2009

## Share based payment expense

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Share options granted in 2009 - equity settled	41	-	41	-
Share options granted in 2008 - equity settled	658	232,354	658	232,354
Shares granted in 2009	123	-	123	-
Shares granted in 2008	75	9,572	75	9,572
Hybrids granted in 2008	164	945	164	945
Share Based Payment Capitalised	(52)	(360)	(52)	(360)
Total expenses recognised as employee costs	1,010	242,511	1,010	242,511

## 25. Provisions

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Site restoration	3,500	3,500	3,500	3,500
	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 site.

## 26. Trade and other payables

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Trade payables	1,246	369	1,246	369
Other payables	595	2,069	595	2,069
	1,841	2,438	1,841	2,438

## 27. Financial risk management

### Overview

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

- credit risk
- liquidity risk
- market risk

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

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

# Notes to the Financial Statements

For the year ended 30 June 2009

## 27. Financial risk management (cont.)

### 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, banks and financial institutions.

### Investments, banks and financial institutions

The Group limits its exposure to credit risk by limiting transactions to only high credit quality financial institutions that have an external credit rating, set down by Standard and Poors (S&P), of at least AA and AAA category for long term investing and at least a short term rating of A-1 and A-1+, excluding available-for-sale financial assets. With respect to investments, the Group limits 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 and Company generally do not have trade receivables (only fuel tax and GST), therefore is not generally exposed to credit risk in relation to trade receivables.

Presently, the Group undertakes exploration and evaluation activities exclusively in Australia. At the balance sheet 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 Company and the Group's financial assets represents the maximum credit exposure. The Company and the Group's maximum exposure to credit risk at the reporting date was:

<i>In thousands of AUD</i>	Note	Carrying amount	
		2009	2008
Cash and cash equivalents	18a	3,552	14,365
Other investments	14	605	-

### Financial assets past due but not impaired

As the Company and 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 Company and then Group credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings or past history:

<i>In thousands of AUD</i>	2009	2008
<b>Cash and cash equivalents</b>		
AA	3,552	14,365

# Notes to the Financial Statements

For the year ended 30 June 2009

## Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The Group also manages liquidity risk by producing monthly cash-flow forecasts for the current and future financial year to ensure that there is a clear and up to date view of the short term to medium term funding requirements. These are regularly reviewed by management and the board, where the implications on funding requirements and the possible sources of those funds are discussed, decisions taken where necessary and action taken to secure funding if required. The Group manages liquidity risk by maintaining adequate reserves through continuous monitoring of forecast and actual cash flows. The Group has a policy of raising both convertible debt or 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 and Company 30 June 2009

<i>In thousands of AUD</i>	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Finance lease liabilities	273	48	48	97	131	-
Trade and other payables	1,841	1,841	-	-	-	-
Convertible note liability	9,436	-	-	-	17,911	-
	11,550	1,889	48	97	18,042	-

### Consolidated and Company 30 June 2008

<i>In thousands of AUD</i>	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Finance lease liabilities	335	48	48	97	255	-
Trade and other payables	2,438	2,438	-	-	-	-
Convertible note liability	6,443	-	-	-	15,629	-
	9,216	2,486	48	97	15,884	-

- 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 balance sheet;
- The only exceptions are trade and other payables, financial liabilities and the convertible note liability. The Group believes these positions to be a true reflection of what would be paid assuming the positions had to be paid out immediately. However, it is not expected the convertible note will be paid out in the next six months but rather closer to the end of the term in 2014;
- The analysis assumes a worst case scenario if they were required to repay all financial liabilities early. The Group believes the likelihood of this as being remote. As the maturity analysis assumes the earliest contractual maturity, no interest payments would be due, therefore these amounts have been excluded.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 27. Financial risk management (cont.)

### Market risk

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

### Currency risk

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

### Exposure to currency risk

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

<i>In thousands of AUD</i>	30 June 2009		30 June 2008	
	USD	Total	USD	Total
Cash and cash equivalents	-	-	10,414	10,414
Convertible note derivative	(1,526)	(1,526)	(17,470)	(17,470)
Convertible note liability	(9,436)	(9,436)	(6,443)	(6,443)
Gross balance sheet exposure	(10,962)	(10,962)	(13,499)	(13,499)

### Sensitivity analysis

The following sensitivities have been applied for 2009 based upon published 12 month forward rates:

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

The following sensitivities have been applied for 2008:

- A 10% weakening of AUD against the USD with the equal effect in the opposite direction.

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	Equity	Profit or loss	Equity	Profit or loss
<b>30 June 2009</b>				
USD	-	(366)	-	(366)
<b>30 June 2008</b>				
USD	-	(752)	-	(752)

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

# Notes to the Financial Statements

For the year ended 30 June 2009

## Interest rate risk

The Group and Company are 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 Company's and the Group's interest-bearing financial instruments was:

	CONSOLIDATED		COMPANY	
	Carrying amount		Carrying amount	
<i>In thousands of AUD</i>	2009	2008	2009	2008
<b>Fixed rate instruments</b>				
Cash and cash equivalents	2,003	3,502	2,003	3,502
<i>In thousands of AUD</i>				
<b>Variable rate instruments</b>				
Cash and cash equivalents	1,549	10,863	1,549	10,863
Convertible note derivative	1,526	17,470	1,526	17,470

## Cash flow sensitivity analysis for variable rate instruments

As at 30 June 2009 a sensitivity analysis has not been disclosed in relation to the floating interest deposits and convertible note for the Group or the Company as the results are immaterial to the income statement.

As at 30 June 2008, a change of 100 basis points on average in interest rates at the reporting date would have increased/ (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange rates, remain constant and are on a pre-tax basis.

<i>In thousands of AUD</i>	PROFIT OR LOSS	
	100 bp increase	100 bp decrease
<b>30 June 2008</b>		
Variable rate instruments (Cash and cash equivalents)	108	(108)
Cash flow sensitivity (net)	108	(108)

<i>In thousands of AUD</i>	PROFIT OR LOSS	
	200bp increase	200bp decrease
<b>30 June 2008</b>		
Variable rate instruments (Convertible note derivative)	327	(327)
Cash flow sensitivity (net)	327	(327)

# Notes to the Financial Statements

For the year ended 30 June 2009

## 27. Financial risk management (cont.)

### Equity price risk

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

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

### Profile

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

In thousands of AUD	CONSOLIDATED		COMPANY	
	Carrying amount		Carrying amount	
	2009	2008	2009	2008
<b>Variable rate instruments</b>				
Convertible note derivative	1,526	17,470	1,526	17,470
Other investments	605	-	605	-

### Price risk sensitivity

#### 2009 equity price risk

In relation to the convertible note derivative the Group and Company have used an equity price change of 80% upper and lower representing a reasonable possible change based upon the Company's historic share price volatility over the last 3 years of trading.

The analysis of the available-for-sale assets is based upon the historic volatility of comparable companies with similar market capitalisation. The volatility has been analysed based upon the August listing price of the investment of \$0.20 compared with the fair value per share of \$0.067 at 30 June 2009. The downward sensitivity represents the maximum exposure of the investment being it's carrying value at balance date.

#### 2008 equity price risk

The Group and Company have used an equity price change of 100% upper and 64% lower representing a reasonable possible change. The upper values reflect the Company's historic share price volatility, whereas the 64% represents a predicted price based on the price floor over the last 3 years of trading.

In thousands of AUD	PROFIT OR LOSS			EQUITY
	80% increase	80% decrease	655% increase	100% decrease
<b>30 June 2009</b>				
Convertible note derivative	(2,012)	1,419	-	-
Available-for-sale financial assets	-	-	3,355	(605)
Cash flow sensitivity (net)	(2,012)	1,419	3,355	(605)

# Notes to the Financial Statements

For the year ended 30 June 2009

<i>In thousands of AUD</i>	PROFIT OR LOSS	
	100% increase	64% decrease
<b>30 June 2008</b>		
Variable rate instruments	(19,946)	11,457
Cash flow sensitivity (net)	(19,946)	11,457

## 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.

#### *Convertible note liability*

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

<i>In thousands of AUD</i>	CONSOLIDATED AND COMPANY		CONSOLIDATED AND COMPANY	
	Carrying amount		Fair value	
	2009	2008	2009	2008
<b>On balance sheet</b>				
Convertible note liability	9,436	6,443	16,637	13,444

#### *Convertible note derivative*

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

## Capital management

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

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

The Group management defines net debt as total borrowings (note 21) less cash and cash equivalents (note 18) and equity as the sum of share capital, reserves and retained earnings as disclosed in the balance sheet. The gearing ratio for the current year was 19% (2008: 0%) for the Group and Company.

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.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 28. Operating leases

Non-cancellable operating lease rentals are payable as follows:

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Less than one year	153	148	153	148
Between one and five years	153	296	153	296
More than five years	-	-	-	-
	306	444	306	444

The Group leases business office premises under non-cancellable operating leases expiring in 2 years. The leases have varying terms, escalation clauses and renewal rights. The terms of the leases were renegotiated from 1 July 2008 for a 3 year term.

## 29. Capital and other commitments

### Exploration expenditure commitments

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

<i>In thousands of AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Less than one year	257	154	257	154
Between one and five years	748	120	748	120
More than five years	768	-	768	-
	1,773	274	1,773	274

## 30. Related parties

The key management personnel compensation included in 'personnel expenses' (note 9) and 'share based payments' (note 24), is as follows:

<i>In AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Short-term employee benefits	1,489,180	1,440,191	1,489,180	1,440,191
Post-employment benefits	130,926	105,372	130,926	105,372
Share based payments	1,054,584	242,773,940	1,054,584	242,773,940
	2,674,690	244,319,503	2,674,690	244,319,503

The remuneration report in section 7.5.2 of the Directors' report, includes an additional amount of share based payment for \$52,212 (2008: \$263,329) that has been capitalised as part of exploration expenditure and not expensed through the income statement.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 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 on pages 34 to 45.

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

## Loans to key management personnel and their related parties

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

## Other key management personnel transactions

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

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

## Options and rights over equity instruments

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

	Held at 1 July 2008	Granted as compensation	Exercised	Other changes	Held at 30 June 2009	Vested during the year	Vested and exercisable at 30 June 2009
<b>Directors</b>							
Mr A Forrest	-	-	-	-	-	-	-
Mr C Indermaur	-	-	-	-	-	-	-
Mr R Monti	1,250,000	-	-	-	1,250,000	-	1,250,000
Mr G Brayshaw	-	-	-	-	-	-	-
Mr D Singleton	1,000,000	2,000,000	-	-	3,000,000	-	-
<b>Executives</b>							
Mr R Dennis	277,000	-	-	-	277,000	-	-
Mr N Hutchison	142,000	-	-	-	142,000	-	-
Mr M Rodriguez	-	-	-	-	-	-	-
Mr G Jones	114,000	-	-	-	114,000	-	-

# Notes to the Financial Statements

For the year ended 30 June 2009

## 30. Related parties (cont.)

### Options and rights over equity instruments (cont.)

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

	Held at 1 July 2007	Granted as compensation	Exercised	Other changes	Held at 30 June 2008	Vested during the year	Vested and exercisable at 30 June 2008
<b>Directors</b>							
Mr A Forrest	-	115,000,000	-	(115,000,000)	-	115,000,000	115,000,000
Mr C Indermaur	-	-	-	-	-	-	-
Mr R Monti	-	2,500,000	-	(1,250,000)	1,250,000	2,500,000	2,500,000
Mr G Brayshaw	-	-	-	-	-	-	-
Mr D Singleton	-	1,000,000	-	-	1,000,000	-	-
Mr D Daws (resigned 2 July 2007)	2,200,000	-	(2,200,000)	-	-	-	-
Mr C Daws (resigned 2 July 2007)	2,200,000	-	(2,200,000)	-	-	-	-
<b>Executives</b>							
Mr R Dennis	-	277,000	-	-	277,000	-	-
Mr N Hutchison	-	142,000	-	-	142,000	-	-
Mr M Rodriguez	-	-	-	-	-	-	-
Mr G Jones	-	114,000	-	-	114,000	-	-

No options held by key management personnel are vested but not exercisable at 30 June 2009.

### 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 2008	Granted as compensation	Received on exercise of options	Purchased, sales or donations	Held at 30 June 2009
<b>Directors</b>					
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	500,000	648,438	-	500,000	1,648,438
<b>Executives</b>					
Mr R Dennis	110,246	-	-	-	110,246
Mr N Hutchison	65,000	-	-	-	65,000
Mr M Rodriguez	69,688	-	-	-	69,688
Mr G Jones	50,000	-	-	-	50,000

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

# Notes to the Financial Statements

For the year ended 30 June 2009

	Held at 1 July 2007	Granted as compensation	Received on exercise of options	Purchased, sales or donations	Held at 30 June 2008
<b>Directors</b>					
Mr A Forrest	-	5,000,000	-	-	5,000,000
Mr C Indermaur	-	-	-	-	-
Mr R Monti	-	500,000	-	(262,500)	237,500
Mr G Brayshaw	-	-	-	-	-
Mr D Singleton	-	-	-	500,000	500,000
Mr D Daws (resigned 2 July 2007)	50,000	-	2,200,000	-	-
Mr C Daws (resigned 2 July 2007)	11,228,994	-	2,200,000	-	-
<b>Executives</b>					
Mr R Dennis	-	110,246	-	-	110,246
Mr N Hutchison	2,500	62,500	-	-	65,000
Mr M Rodriguez	-	29,688	-	40,000	69,688
Mr G Jones	-	50,000	-	-	50,000

## 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 2008	Granted as compensation	Received on exercise of options	Purchased, sales or donated	Held at 30 June 2009
<b>Directors</b>					
Mr A Forrest	-	134,279	-	(134,279)	-
Mr C Indermaur	69,210	-	-	(69,210)	-
Mr R Monti	56,300	184,633	-	-	240,933
Mr G Brayshaw	-	201,419	-	-	201,419
Mr D Singleton	351,563	-	-	-	351,563
<b>Executives</b>					
Mr R Dennis	220,491	-	-	-	220,491
Mr N Hutchison	125,000	-	-	-	125,000
Mr M Rodriguez	59,375	-	-	-	59,375
Mr G Jones	100,000	-	-	-	100,000

# Notes to the Financial Statements

For the year ended 30 June 2009

## 30. Related parties (cont.)

### Movements in hybrids (cont.)

	Held at 1 July 2007	Granted as compensation	Received on exercise of options	Purchased, sales or donated	Held at 30 June 2008
<b>Directors</b>					
Mr A Forrest	-	40,946	-	(40,946)	-
Mr C Indermaur	-	69,210	-	-	69,210
Mr R Monti	-	56,300	-	-	56,300
Mr G Brayshaw	-	-	-	-	-
Mr D Singleton	-	351,563	-	-	351,563
<b>Executives</b>					
Mr R Dennis	-	220,491	-	-	220,491
Mr N Hutchison	-	125,000	-	-	125,000
Mr M Rodriguez	-	59,375	-	-	59,375
Mr G Jones	-	100,000	-	-	100,000

## 31. Group entities

### Significant subsidiaries

Parent entity	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
		2009	2008
Poseidon Nickel Ltd			
<b>Significant subsidiaries</b>			
Poseidon Nickel Atlantis Operations Pty Ltd	Australia	100%	-
Poseidon Nickel Olympia Operations Pty Ltd	Australia	100%	-
Wells Gold Corporation (International) Pty Ltd	Australia	-	100%
West Swan Wineries Pty Ltd	Australia	-	100%

The Company deregistered two of its 100% owned subsidiaries, Wells Gold Corporation (International) Pty Ltd and West Swan Wineries Pty Ltd, during the prior reporting period.

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

# Notes to the Financial Statements

For the year ended 30 June 2009

## 32. Joint ventures

The Group has entered into the following joint venture arrangements:

Project	Activities	EQUITY INTEREST		CARRYING VALUE	
		2009	2008	2009	2008
		%	%	\$	\$
Waite Kauri	Nickel/Cobalt	-	-	100,901	-
Menzies	Nickel	-	-	27,124	17,887

The carrying value in the above joint ventures represents exploration expenditure and is included in the total exploration expenditure written off of \$2,157,000 (2007: \$2,704,000) at note 13. This exploration has been accounted for in accordance with note 4(e).

The Company and Eagle Eye Metal Limited ("Eagle Eye") entered into an agreement on 24 October 2008, to form a joint venture for the Waite Kauri Nickel/Cobalt project. The Company can earn the right to an 80% interest in the project and will fund the first \$500,000 of exploration work necessary to bring the resource to a JORC standard. As at 30 June 2009, a total of \$100,901 has been incurred.

The Company and Proto Resources ("Proto") entered into a Heads of Agreement on 23 April 2008, to form a joint venture with the aim of defining and developing a mineable nickel resource at the Menzies Nickel project. To date, work undertaken has identified that the size and style of the mineralisation does not meet the requirements of the Windarra Nickel Project and the Company has notified Proto that it will not be seeking to formalise an agreement. As at 30 June 2009, a total of \$45,011 has been incurred.

## 33. Misappropriation expense

In September 2009 discrepancies were found in the accounts payable process during the Company's year end audit and an investigation commenced with the assistance of KPMG Forensic. The Company's investigation to date has identified that funds to the sum of \$496,000 are alleged to have been misappropriated by an ex-employee between November 2007 and November 2008 of which \$88,000, related to the year ended 30 June 2008. At the date of this report the Company is taking legal advice with a view to assessing whether it can recover the missing funds.

## 34. Subsequent event

On 5 August 2009 the Company received \$300,000 from Triton Gold Ltd ("Triton") following the successful completion of its Initial Public Offering ("IPO") as part of the agreement for the sale of gold rights entered into in March 2009. In addition, Triton listed on the Australian Stock Exchange on 14 August 2009 at a share price of \$0.20. The fair value of the investment recognised in the financial statements at 30 June 2009 is \$0.067 per share (see note 14). The shares in Triton will be held in escrow for a period of 2 years due to the ASX Listing Rules and the Company's shareholding being greater than 10% of the voting securities.

# Notes to the Financial Statements

For the year ended 30 June 2009

## 35. Auditors' remuneration

<i>In AUD</i>	CONSOLIDATED		COMPANY	
	2009	2008	2009	2008
Audit services				
Auditors of the Company				
KPMG Australia:				
Audit and review of financial reports	28,150	29,650	28,150	29,650
Accounting assistance and advice	45,100		45,100	
Other auditors				
Audit and review of financial reports	-	6,235	-	6,235
	<b>73,250</b>	<b>35,885</b>	<b>73,250</b>	<b>35,885</b>

No other services were provided by KPMG during the year.

# Directors' Declaration

For the year ended 30 June 2009

1. In the opinion of the directors of Poseidon Nickel Limited ("the Company"):
  - (a) the financial statements and notes and the remuneration disclosures that are contained in section 7.5 of the Remuneration report in the Directors' report, set out on pages 34 to 45, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their 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;
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);
  - (c) the remuneration disclosures that are contained in the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*; the Corporations Act 2001 and the Corporations Regulations 2001; and
  - (d) 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 2009.

Signed in accordance with a resolution of the directors:



**Mr G Brayshaw**  
Director

Perth, 25th September 2009

# Independent Audit Report

For the year ended 30 June 2009



## 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 balance sheets as at 30 June 2009, and the income statements, statements of changes in equity and cash flow statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes 1 to 35 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report, comprising the financial statements and notes, complies 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 and fair presentation of the financial report 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 (including the Australian Accounting Interpretations), a view which is consistent with our understanding of the Company's and the Group's financial position and of their performance

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

# Independent Audit Report

For the year ended 30 June 2009



## *Independence*

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

## *Auditor's opinion*

In our opinion:

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

- (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 7.5 of the directors' report for the year ended 30 June 2009. 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 2009, complies with Section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'Graham Hogg'.

Graham Hogg  
*Partner*

Perth

25 September 2009

# Auditor's Independence Declaration

For the year ended 30 June 2009



## *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 2009 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.

A handwritten signature in blue ink that reads 'KPMG'.

KPMG

A handwritten signature in blue ink that reads 'Graham Hogg'.

Graham Hogg  
*Partner*

Perth

25 September 2009

# ASX Additional Information

For the year ended 30 June 2009

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

The shareholder information set out below was applicable as at 31 August 2009.

## A. Distribution of equity securities

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

	CLASS OF EQUITY SECURITY		
	Ordinary shares	Options December 2009	Options December 2011
1-1000	2,306	6	5
1,001-5,000	2,849	28	20
5,001-10,000	1,053	19	16
10,001-100,000	1,459	66	60
100,001 and over	184	16	15
	<b>7,851</b>	<b>135</b>	<b>116</b>

There were 2,672 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:

Name	ORDINARY SHARES	
	Number held	Percentage of issued shares
HSBC Custody Nominees (Australia) Limited-GSCO ECA	15,372,375	9.63
Citicorp Nominees Pty Limited	13,921,910	8.72
ANZ Nominees Limited <Cash Income A/C>	5,842,062	3.66
Mindaroo Pty Ltd <Andrew & Nicola Forrest Family>	5,000,000	3.13
NEFCO Nominees Pty Ltd	3,875,000	2.43
HSBC Custody Nominees (Australia) Limited	2,520,612	1.58
Mr David Singleton	2,000,000	1.25
J & F James Brother Holdings Pty Ltd	1,725,000	1.08
Wavenet International Limited	1,705,759	1.07
Fortis Clearing Nominees P/L <Settlement A/c>	1,614,861	1.01
Pine Valley Enterprises Pty Ltd	1,277,922	0.80
Mr Bruno & Mrs Coralie Sceresini <Sceresini Super Fund A/c>	1,118,500	0.70
Fortis Clearing Nominees P/L <Next Custodian A/c>	1,077,328	0.67
Public Trustee <IFTC Broking Services Ltd A/c>	1,050,000	0.66
Miss Yu Chuan Chen	1,000,472	0.63
Mr David & Mrs Deborah Lacey	975,500	0.61
Tube-A-Cane Pty Ltd	801,570	0.50
Mr Kevin Griffin & Ms Jill Johnston <Manor Grove Staff S/F A/c>	797,500	0.50
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/c>	670,446	0.42
J P Morgan Nominees Australia Limited	666,160	0.42
<b>TOTAL</b>	<b>63,012,977</b>	<b>39.47</b>

# ASX Additional Information

For the year ended 30 June 2009

## B. Equity security holders (cont.)

### Twenty largest quoted option holders

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

Name	DECEMBER 2009 OPTIONS	
	Number held	Percentage of issued shares
Geoviz Pty Ltd	674,290	10.95
Avon Management Co Pty Ltd <Diermajer Family S/F A/c>	312,500	5.07
Mr Don Evans	275,000	4.47
Paraway Pty Ltd	275,000	4.47
Mr Kevin Doig	256,900	4.17
Illawong Investments Pty Ltd <Cocks Family A/c>	250,000	4.06
Mr Zygmund & Mrs Nola Wolski <The Wolski Super Fund A/c>	250,000	4.06
Mr John & Mrs Lynette Hayes <Hayes Super Fund A/c>	233,118	3.79
Mr Josephus Verheggen <The Verheggen Super Fund A/c>	193,750	3.15
Beachwalk Pty Ltd <Beachwalk A/c>	173,684	2.82
Mr Simon & Mrs Margot Austerberry <Hellenback Executive S/F A/c>	150,000	2.44
Mr Jeffrey Hunt & Ms Mary Heard	150,000	2.44
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/c>	129,564	2.10
Mr Kevin Griffin & Ms Jill Johnston <Manor Grove Staff S/F A/c>	125,000	2.03
Professional Payment Services Pty Ltd <Holding No 1 A/c>	122,500	1.99
Mr Sebastian Romeo <The Romeo Family Fund A/c>	118,500	1.92
Mr Craig Manners	100,000	1.62
Geoviz Pty Ltd <Simon Brown Family A/c>	95,000	1.54
GT Le Page & Associates Pty Ltd <Superannuation Fund>	93,684	1.52
Ms Rachael Brown	91,950	1.49
<b>TOTAL</b>	<b>4,070,440</b>	<b>66.10</b>

# ASX Additional Information

For the year ended 30 June 2009

## Twenty largest quoted option holders

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

Name	DECEMBER 2011 OPTIONS	
	Number held	Percentage of issued shares
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/c>	699,112	11.35
Tadea Pty Ltd	370,000	6.01
Avon Management Co Pty Ltd <Diermajer Family S/F A/c>	312,500	5.08
Mr Don Evans	275,000	4.47
Illawong Investments Pty Ltd <Cocks Family A/c>	250,000	4.06
Paraway Pty Ltd	250,000	4.06
Mr Zygmund & Mrs Nola Wolski <The Wolski Super Fund A/c>	250,000	4.06
Geoviz Pty Ltd	204,690	3.32
Mr Josephus Verheggen <The Verheggen Super Fund A/c>	193,750	3.16
Peto Pty Ltd <1953 Super Fund A/c>	167,434	2.72
Mr Simon & Mrs Margot Austerberry <Hellenback Executive S/F A/c>	160,000	2.60
Geoviz Pty Ltd <Simon Brown Family A/c>	146,560	2.38
Mr John & Mrs Lynette Hayes <Hayes Super Fund A/c>	135,742	2.20
Mr Kevin Griffin & Ms Jill Johnston <Manor Grove Staff S/F A/c>	125,000	2.03
Kelray Properties Pty Ltd <Super Fund A/c>	124,350	2.02
Mr Ian Murie <The Alevan A/c>	100,000	1.62
Professional Payment Services Pty Ltd <Holding No 1 A/c>	100,000	1.62
Canonbar Investments Pty Ltd	98,500	1.60
GT Le Page & Associates Pty Ltd <Superannuation Fund>	96,184	1.56
Mr Brian Ryan	90,000	1.46
<b>TOTAL</b>	<b>4,148,822</b>	<b>67.38</b>

# ASX Additional Information

For the year ended 30 June 2009

## C. Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
<b>Ordinary shares</b>		
HSBC Custody Nominees (Australia) Limited-GSCO ECA	15,372,375	9.63
Citicorp Nominees Pty Limited	13,921,910	8.72
<b>December 2009 options</b>		
HSBC Custody Nominees (Australia) Limited-GSCO ECA	15,372,375	9.63
Citicorp Nominees Pty Limited	13,921,910	8.72
<b>December 2011 options</b>		
RBC Dexia Investor Services Australia Nominees Pty Limited <MLCI A/c>	699,112	11.35
Tadea Pty Ltd	370,000	6.01

## D. Unquoted equity security holders (as at 31 August 2009)

### Options

Mr David Singleton holds 3,000,000 options representing 100% of the total number of July 2011 and November 2012 options on issue.

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

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

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

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

### Partly paid shares to \$0.062

Mr Martinus Coolen holds 4,966,700 partly paid shares to \$0.062 (\$0.04 to pay) representing 90.02% of the total number on issue in this class.

### Partly paid shares to \$0.002

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

## 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:

- each shareholder entitled to vote, may vote in person or by proxy, attorney or representative;
- 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

# ASX Additional Information

For the year ended 30 June 2009

- (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.

## Partly Paid shares

- (a) The Partly Paid shares shall be allotted and issued at an issue price of \$0.102 each and the holder will, at the allotment date, have paid \$0.002 for each Partly Paid share leaving \$0.10 payable.
- (b) Subject to the payment of any unpaid capital, the Partly Paid shares shall rank equally with, and have all the rights, benefits and obligations as existing shares.
- (c) The Company shall not make any call in respect of the unpaid capital owing on the Partly Paid shares until that date which is 36 months after the allotment date. Thereafter the Company will make calls on the unpaid capital owing on the Partly Paid shares at a rate of \$0.02 per Partly Paid share per annum pursuant to the timetable below:

### Call

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

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

- (d) The holder of Partly Paid shares may, at any time prior to a call being made by the Company to pay up any unpaid capital of the Partly Paid shares in accordance with clause (c), at its sole and absolute discretion, elect to pay up all of the unpaid capital.
- (e) As soon as practicable after receipt of payment of the outstanding amount owing on the Partly Paid shares, and as required by Chapter 2 of ASX Listing Rules, the Company will apply for quotation on ASX for the Partly Paid shares that become fully paid.
- (f) In the event of any reconstruction (including consolidation, sub-division, reduction or return) of the issued capital of the Company, the Partly Paid shares shall be reorganised in accordance with the Listing Rules, the Company's Constitution and Corporations Act.
- (g) Holders of Partly Paid shares are entitled to receive notice of, attend and vote at shareholders meetings. Resolutions of shareholders will be decided by a show of hands unless a poll is demanded. On a show of hands each holder of a Partly Paid share present in person or by proxy has one vote. On a poll, each holder of a Partly Paid share present in person or by proxy has a fraction of a vote for each Partly Paid share determined by the amount paid up on that share.

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

# ASX Additional Information

For the year ended 30 June 2009

## F. Schedule of Tenements

Areas of Interest	Tenements	Economic Entity's Interest
<b>Poseidon Nickel Limited</b>		
<b>Western Australia</b>		
Windarra Nickel Assets	MSA 38/261, G 38/21, L 38/184	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%
The Boats	E 38/2060	100%
Laverton	E 38/1450, E 38/1587, E 39/930, E 38/1752, PL 38/3272, PL 38/3273, PL 38/3274, E 38/1622	100%
Tyson Resources	E 39/1325, E 39/1326	100%
Cement Well	E 38/2162	100%
Randwick	E 37/986 - 989	100%
Waite Kauri JV	P 37/6634, P 37/6635, P 37/6636, P 37/6664, P 37/6665, P 37/6757, P 37/6791, P 37/6792	0% (JV for 80% earn in)

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





[www.poseidon-nickel.com.au](http://www.poseidon-nickel.com.au)  
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