



# **POSEIDON NICKEL LIMITED**

ABN 60 060 525 206

## **Annual Financial Report For the year ended 30 June 2016**

# Poseidon Nickel Limited

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# Poseidon Nickel Limited

## Corporate directory

ABN: 60 060 525 206  
Incorporated in Australia

### **Directors**

Mr C Indermaur  
Mr G Brayshaw  
Mr R Dennis  
Mr D Singleton

### **Company Secretary**

Mr G Jones

### **Registered Office**

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Subiaco WA 6008

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### **Postal Address**

PO Box 190  
West Perth WA 6872

### **Auditors to the Company**

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

### **Share Registry**

Computershare Investor Services Pty Ltd.  
Level 11  
172 St George's Terrace  
Perth WA 6000

### **ASX Code**

Shares: POS

### **Country of Incorporation and Domicile**

Australia

**Poseidon Nickel Limited**  
**Directors' report**  
**For the year ended 30 June 2016**

The directors present their report together with the financial statements of Poseidon Nickel Limited ("the Company") and of the Group, being the Company and its subsidiaries for the financial year ended 30 June 2016 and the auditor's report thereon.

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Poseidon Nickel Limited  
Directors' report (continued)  
For the year ended 30 June 2016

1. **Directors**

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

<b>Name, and independence status</b>	<b>Experience, qualifications, special responsibilities and other directorships</b>
<p><b>Mr Christopher Indermaur</b> <b>Chairman &amp; Independent Non-Executive Director</b> <i>Member of:</i> Audit &amp; Risk Management Committee <i>Chairman of:</i> Remuneration, Nomination &amp; Diversity Committee</p> <p>Appointed 2 July 2007 Resigned 30 September 2008 Re-appointed 2 April 2009</p>	<p>Mr Indermaur has over 30 years of experience in large Australian companies in Engineering or Commercial roles. Amongst these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Ltd.</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). Chris also holds a Bachelor of Laws and a Master of Laws from the Queensland University of Technology and a Graduate Diploma in Legal Practice from the Australian National University. Mr Indermaur is also the Chairman of Medibio Ltd and a director of Austin Engineering Ltd.</p>
<p><b>Mr Geoff Brayshaw</b> <b>Independent Non-Executive Director</b> <i>Member of:</i> Remuneration, Nomination &amp; Diversity Committee <i>Chairman of:</i> Audit &amp; Risk Management Committee</p> <p>Appointed 1 February 2008</p>	<p>Mr Brayshaw was formerly an audit partner with a major accounting firm in Perth, having been in practice for some 35 years. He has also held a number of positions in commerce and professional bodies including national president of the Institute of Chartered Accountants of Australia in 2002.</p> <p>He was previously an independent Director and Audit Committee Chairman of both Fortescue Metals Group Limited and AVEA Insurance Limited. He was previously a member of the Board of the Small Business Development Corporation.</p>
<p><b>Mr David Singleton</b> <b>Non-Executive Director</b> <i>Member of:</i> Audit &amp; Risk Management Committee Remuneration, Nomination &amp; Diversity Committee</p> <p>Appointed 1 February 2008 Resigned as Managing Director and CEO 31 January 2016</p>	<p>Mr Singleton became the Chief Executive Officer (CEO) and Managing Director (MD) of Poseidon Nickel in July 2007 was the CEO and MD of Clough Limited between August 2003 and January 2007. Prior to joining Clough, he was the Group Head of Strategy, Mergers and Acquisitions for BAE Systems (formally British Aerospace) based in London. Mr Singleton spent three successful years as the Chief Executive Officer of Alenia Marconi Systems and was based in Rome, Italy. Mr Singleton has served as a member of the National Defence Industries Council in the UK, and as a board member and Vice-President of Defence for Intellect. He has held directorships with Quickstep Holdings, which is a technology based carbon fibre manufacturer to the Defence and Aerospace industry and also Austal ships, where he is now the CEO and MD. Mr Singleton has international business experience in senior executive roles in Europe, USA and Australia and has a degree in Mechanical Engineering from University College London.</p> <p>Since resigning as CEO and MD of Poseidon Nickel in January 2016, Mr Singleton continues to serve on the Poseidon Board.</p>

Poseidon Nickel Limited  
Directors' report (continued)  
For the year ended 30 June 2016

1. Directors (continued)

Name, and independence status	Experience, qualifications, special responsibilities and other directorships
<p><b>Robert Dennis</b> <b>Independent Non-Executive Director</b> <i>Member of:</i> Audit &amp; Risk Management Committee Remuneration, Nomination &amp; Diversity Committee</p> <p>Appointed 24 February 2014</p>	<p>Mr Dennis is a mining engineer with over 40 years' experience in the nickel, copper, gold and alumina industries. In his current role as Chief Operating Officer (COO) for Independence Group (IGO) he is responsible for IGO's nickel, copper, zinc and gold operation including overseeing the development and commissioning of IGO's Nova Project.</p> <p>Prior to that, Mr Dennis held positions including COO at Adita Birla Minerals Ltd where he managed the expansion and development of the Nifty Copper Project in the North West of Western Australia and the Mt Gordon operation in North Queensland, 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, Mr Dennis worked at the Windarra Nickel Project as Underground Mine Manager from 1980-1986.</p> <p>Mr Dennis joined Poseidon Nickel in June 2007 as COO, resigned in December 2013 and has been a director on the Poseidon Board since February 2014</p>

2. Company Secretary

Mr Gareth Jones is an experienced and qualified Accountant and has been the Chief Financial Officer of the Company since 2007. Mr Jones is also a member of the Governance Institute of Australia.

3. Directors' Meetings

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

Director	Board Meetings*		Audit and Risk Management Committee Meetings		Remuneration, Nomination and Diversity Committee Meetings	
	A	B	A	B	A	B
Mr C Indermaur	6	6	5	5	6	6
Mr G Brayshaw	6	6	5	5	6	6
Mr R Dennis	5	6	4	5	5	6
Mr D Singleton	6	6	3**	5**	3**	6**

A – Number of meetings attended

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

\* – Corporate Governance is an integral part of the Board meeting

\*\* – The above table is for committee members only however, Mr Singleton attended the remaining meetings by invite whilst MD/CEO

4. Principal Activities

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

5. Consolidated Results

The consolidated loss for the entity for the year ended 30 June 2016, after income tax is \$47,682,000 (2015: loss of \$21,471,000) which includes an impairment charge of \$48,600,000 and refinancing and rescheduling of the convertible notes (refer notes 3.2 and 5.2 respectively in the Notes to the consolidated financial statements).

**Poseidon Nickel Limited**  
**Directors' report (continued)**  
**For the year ended 30 June 2016**

**6. Operating and Financial Review**

**Company Strategy**

Poseidon strategy firmly remains focussed on developing its nickel assets, in particular the technical aspects of the Silver Swan project which is the Company's priority project due to the high grade nature of the mine and is on target to restart operations when the nickel pricing improves for a sustained period of time.

In addition, Poseidon has identified high grade lithium bearing pegmatites located at the Lake Johnston operation which provides the opportunity to take advantage of the existing plant and substantial infrastructure that exists to reduce the timeline to production and diversify during the nickel market downturn. The process plant is capable of co-processing ores or operating parallel circuits independently with potential speed to market that has the advantage of providing capability to process lithium ores from third parties. In view of this, the Company has already entered into a Memorandum of Understanding ("MOU") with Kidman Resource Limited to explore the economic viability further.

**Projects – Silver Swan**

The Company is progressing key pre-production activities to facilitate the restart of Silver Swan underground nickel operations. Beck Engineering has been appointed to develop a numerical model for the underground Silver Swan mine. The model will be normalised based on previous experience at Silver Swan. Geotechnical work will allow the mine sequencing to be optimised and to confirm stope and pillar stability. Geotechnical core logging will underpin this work together with digitising underground face maps to improve the accuracy of the model. Following the completion of the model optimisation, a ground control management plan will be finalised based on the geotechnical recommendations.

Entech Engineering has also been appointed to progress definitive engineering. Entech will review previous mining methods applied at Silver Swan, define the preferred mining method and complete a life of mine optimised schedule. A JORC 2012 compliant reserve estimate will be prepared by Entech based on the ground control management plan and life of mine engineering study. On 3 June 2016 the Company announced a 180% increase in the Indicated Category of the Silver Swan resource estimate (JORC 2012 compliant) at a grade of 9.19% nickel, making it one of the highest grade nickel mines in the world. Poseidon is not aware of any new information relating to that announcement that would change any of the statements made.

Poseidon has an estimated 1.2 million tonnes of stockpiled Probable Category Ore at Black Swan on the run of mine (ROM) pad estimated at 0.49% nickel for a total of 6,000 tonnes of nickel (announced 5th November 2014). The Company plans to complete testwork on a blend of ores to investigate the technical performance of the nickel ore blends and possible treatment options. Samples have been recovered and sent to a third party to progress testwork.

Previous testwork results confirmed that blending disseminated high talc nickel ores and massive nickel sulphide ores can be co-processed by a conventional nickel sulphide concentrator. This is the subject of a separate patent application prepared and submitted by the Company to the Australian Patents Office. An opportunity therefore exists for Poseidon to progress the blending stockpiled Black Swan disseminated high talc ores to allow the co-processing of the stockpiled ore via a conventional sulphide concentrator.

**Projects – Lithium**

Global awareness in the lithium markets has risen sharply recently due to prevailing interest in lithium-ion batteries which have emerged as the most widely used choice for Electric Vehicles and Green Energy (wind & solar) power storage. Lithium battery manufacturing costs are dropping in price as lithium battery technology is improving, resulting in a high demand from manufacturers requiring lithium-ion batteries.

As a result of the global demands and the recent awareness of a shortage in global lithium supplies, Poseidon has identified historical samples in the DMP's MINDEX and WAMEX system (Amax Australian Ltd, Mt Day Tantalum Prospect, Dec 1981) which were collected from the northeast of the project within E63/1067. Beryl crystals were historically dug from exploratory pits at Mt Day and tantalum mineralisation was noted at the time. Amax identified outcropping tantalite and lepidolite bearing pegmatites which were noted to be 10-15m in width and up to 500m long. Amax assayed for Ta, Li, Nb, Sn and Sn, however no significant tantalum mineralisation was identified and no further work completed.

**Poseidon Nickel Limited**  
**Directors' report (continued)**  
**For the year ended 30 June 2016**

**6. Operating and Financial Review (continued)**  
**Projects – Lithium (continued)**

The Company has contracted Corad Pty Ltd to complete soil sampling, rock sampling and core processing to identify the spodumene corridor at Lake Johnston. Geological technicians have commenced soil sampling on E63/1067 and samples have been submitted for analysis. Trenching is planned to define the structural orientation of the pegmatites and recover enough material to facilitate bulk testwork in the laboratory under a research and development programme.

Poseidon is seeking clearing permits from the Department of Mines and Petroleum (DMP) to support the proposed trenching and drilling programme. As Lake Johnston is located in an environmentally sensitive region these permits require regulatory approval from the Department of Parks and Wildlife (DPaW) and the Environmental Protection Authority. Completing this work has historically taken several months however as the Company has previously completed detailed flora and fauna studies and has existing environmental management plans in place, approvals should be secured in a shorter time frame.

Poseidon and Geochemical Services have collaboratively progressed chemical analysis of the samples previously collected to "finger print" the Lake Johnston pegmatites by applying innovative science to substantially advance the spodumene prospectivity and likely corridors of the lithium hosted pegmatite rocks. Blind geochemical tests on these rock chip samples have returned a strong statistical correlation between predicted lithium assay results when compared to actual laboratory results. This is an exceptional outcome giving Poseidon confidence to apply cost effective and rapid analysis techniques on site complementing the onsite laboratory.

The Company has entered into a Memorandum of Understanding ("MOU") with Kidman Resources Limited ("Kidman") to process Mt Holland spodumene lithium hosted pegmatites at Lake Johnston (refer to announcement dated 27 July 2016 for details of the MOU). The Lake Johnston 1.5 million tonne per annum process plant includes a conventional 3 stage crushing circuit, 3 ball mills, 2 flotation circuits, multiple thickeners and 2 Larox filtration circuits, a large concentrate storage shed separated into two distinct zones. The process is controlled remotely via a central control centre.

The process plant is capable of co-processing ores or operating parallel circuits independently. Infrastructure at Lake Johnston includes a 300 person camp with modern amenities (wet & dry mess, large gym, swimming pool and outdoor sports area), an aerodrome, two existing tailings disposal cells, a borefield and water treatment plant, large mine workshop and maintenance facilities, administration buildings, functional laboratory and metallurgical laboratory, plant stores and workshop areas, medical centre and emergency response control centre.

Composite samples will be collected by Kidman to complete metallurgical testwork at commercial laboratories in Western Australia. The results will be applied to finalise the design criteria for the existing processing facility at Lake Johnston. The testwork will be expedited to support the proposed mining and processing trials under a research and development programme.

**Projects – Lake Johnston**

The drilling programme undertaken at Emily Ann during January 2016 proved to be highly successful with the identification of a new zone of high grade nickel sulphides now known as 'Abi Rose'. This was achieved through the Geology team's belief in a new geological concept and based on advanced scientific modelling and a willingness to challenge long standing historical geological models. This was an extremely exciting discovery and a significant breakthrough for Poseidon due to its proximity to the existing Emily Ann mine infrastructure and the Lake Johnston nickel processing plant. The high grade nature of this mineralisation has the potential to support the lower grade-bulk tonnage ore at Maggie Hays mine and will be beneficial as nickel pricing improves in the future.



Poseidon Nickel Limited  
Directors' report (continued)  
For the year ended 30 June 2016

**6. Operating and Financial Review (continued)**

**Projects – Lake Johnston (continued)**

The Emily Ann deposit was a high grade massive nickel sulphide deposit which, with a resource grade of 4.1% nickel, made Emily Ann one of the top tier deposits by grade globally. The potential of offset deposits to Emily Ann is highly significant to the Lake Johnston operation because of the existence of extensive infrastructure on the site. The Emily Ann mine includes decline development and associated infrastructure to the Emily Ann deposit which would potentially be used to access any new development, as well as being supported by the Lake Johnston process plant and the Maggie Hays ore body.

A new geological concept was developed over several months in parallel by both the internal Poseidon geological team and Newexco Consultants who were contracted to review the historical geophysical & geological data. Newexco have been credited with targeting numerous nickel ore body discoveries through geophysical techniques, including most recently those of Sirius Resources, one of the largest new finds of its type in recent years. The studies were carried out using existing drill core data, compilation of historic individual electromagnetic conductor surveys and structural analysis. For the first time this data was looked at in an integrated way to identify the potential positions of mineralisation. Evidence for structural offsets to the original deposits has already been demonstrated at Maggie Hays and at Flying Fox mines. Poseidon's aim was to find an economically viable deposit utilising modern and already successful industry leading exploration techniques. The continuation of drilling at Abi Rose will be dependent upon the nickel market and the availability of funding.

**Projects – Windarra**

The Company considered commissioning a standalone CIL plant to treat the gold tailings at Windarra with the rise in gold price and fall in the Australian dollar significantly improving the projects economics of undertaking this project on a standalone basis. However, regulatory approvals for the project are complicated by the Poseidon Nickel State Agreement which defines the project permitted on the Windarra site in detail and changing it to suit differing priorities is not a straightforward task.

As it will be advantageous to the Company if the tenements were simply held under the Mining Act, Poseidon has commenced a process to terminate the State Agreement which requires an Act of Parliament and meetings with government officials and the Minister for State Development, the Honourable Mr Bill Marmion have been held to pursue this course of action.

**Nickel Market**

The first half of the financial year has seen the nickel market remain depressed however, prices are up almost 40% this calendar year, with the price rally accelerating earlier in July. The market is seeing support from a supply shortage and increased Chinese demand. The Philippines has suspended operations at many nickel mines as part of an environmental crackdown. The country's new mining minister has recently said that there would be a ban on new mining exploration in the country for a month while all existing mines are being reviewed. At the same time, refined nickel imports in China have surged by 189% to a record 226,100 mt in the first half of the year. The Philippines is the largest exporter of nickel to China.

These signals are encouraging and focus management on ensuring that Silver Swan is prepared for when the nickel market improves sufficiently to recommence operations.

Poseidon Nickel Limited  
Directors' report (continued)  
For the year ended 30 June 2016

**6. Operating and Financial Review (continued)**

**Financial Position**

For the year ended 30 June 2016 the Company incurred a loss of \$47,682,000 (2015: loss \$21,471,000) that includes the movement in the valuation and interest of the convertible note liability, derivative liability, depreciation, impairment and share based payment expense which are all non-cash items. If these items are excluded, the underlying loss for the Company for the year is \$6,837,000 (2015: \$7,707,000). The working capital deficit for the period of \$1,210,000 (2015 deficit: \$965,000) includes a provision for environmental rehabilitation of \$3,500,000 that is cash backed (non-current asset).

The Company had a net cash outflow used in operating and investing activities of \$5,547,000 (2015: outflow \$17,756,000), reflecting the reduced level of expenditure during the period on exploration and evaluation and care and maintenance activities across the three operations of Windarra, Lake Johnston and Black Swan. The net cash outflow includes the receipt of \$2,716,000 for the 2015 refundable tax offset from the ATO under the Research and Development Tax Incentive scheme ("R&D"). The Company will prepare its 2016 R&D claim in due course. As at 30 June 2016, the Company had cash on hand of \$3,030,000.

In January 2016, the Company successfully refinanced and rescheduled its convertible notes, reducing the face value of the notes by 50% from US\$35 million to US\$17.5 million and extending the maturity date by 42 months to 30 September 2020.

The Company continues to minimise expenditure levels across all sites due to the current poor nickel market conditions. Management forecasts demonstrate a need for additional funding and have issued shares, via an intermediary, on a quarterly basis to raise an estimated \$4.1 million to maintain planned levels of expenditure for the coming 12 months. The Company will continue to review other sources of funding through this period including debt and/or equity instruments. The Directors believe that nickel prices will continue to improve in the future which will enable one or more of its projects to be developed but acknowledges there is significant market and development risks.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows for the next 12 months, which incorporate raising additional funds to meet forecast minimum expenditure required to maintain tenements and meet ongoing costs. The ability of the Company to achieve its forecast cashflows, including the raising of additional funds, represents material uncertainty that may cast significant doubt about whether the Company can continue as a going concern in which case it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

**7. Remuneration report - audited**

**7.1 Principles of compensation**

The Company recognises that it operates in a global environment and to prosper in such an environment, it must attract, motivate and retain personnel of the highest calibre. The objective of the Company's executive remuneration framework is to ensure that:

- Total remuneration is competitive in relation to the broader market and is linked to role, experience and performance;
- Incentive schemes are aligned with the interests of the Company and acceptable to its shareholders;
- Attract and retain talented and high calibre Key Management Personnel ("KMP") and employees to the Company;
- Remuneration systems are transparent, simple, clear and have measurable targets; and
- Compatibility with the Company's phase of development, longer terms aims, capital management strategies and structures.

The Company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation. Remuneration packages include a mix of fixed and 'at risk' remuneration and is comprised of:

- Total Fixed Remuneration ("TFR") inclusive of base salary, salary sacrifice and compulsory superannuation contributions;
- Short Term Incentive ("STI") measures; and
- Long Term Incentive ("LTI") measures.

**Total fixed remuneration**

The TFR component is reviewed annually by the Remuneration, Nomination and Diversity Committee through a process that considers both individual and overall performance of the Company. In addition, remuneration consultants can be engaged to provide analysis and advice to ensure the directors' and senior executives' remuneration is competitive in the wider employment market. A senior executive's remuneration is also reviewed on promotion.

No remuneration consultants have been used in the current year and no remuneration increases awarded to directors and executives for FY2016 or FY2017.

**Short Term Incentive**

The STI plan was approved by shareholders at the 2015 Annual General Meeting and replaced the Employee Bonus Scheme ("EBS") that operated in prior years. The objective of the STI is to incentivise and reward eligible participants, executives and employees that are invited to participate, for achievement of short term Company goals. The STI plan provides Eligible participants with an opportunity to earn a bonus, payable in performance rights, on achievement of individual and Company key performance indicators ("KPIs"). Challenging KPIs are set to ensure payments are only made to high performing employees.

The Remuneration, Nomination and Diversity Committee is responsible for determining the KPIs which span across key focus areas of the business and are agreed annually for the year ahead with the board. The KPIs include a gateway condition in relation to personal performance, safety and Lost Time Injury Frequency Rate ("LTIFR") with minimum standard requirements to be met before performance criteria for the respective Company KPIs may be assessed and the number of performance rights that will vest be determined.

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

**7. Remuneration report - audited**

**7.1 Principles of compensation (continued)**

**Short Term Incentive (continued)**

It is the Company's policy to cap STI payments at a targeted STI level. The percentage is applied against the relevant eligible participant's TFR and the number of performance rights to be granted is calculated using the 30 day Volume Weighted Average Price ("VWAP") as at 30 June, immediately preceding the grant date. For 2016, the STI award is outlined below:

<b>Maximum Award Opportunity (as a percentage of TFR)</b>			
	<b>Managing Director</b>	<b>KMP including General Manager</b>	<b>Employees</b>
Maximum allowable under Policy	Up to 60%	Up to 40%	Up to 10%
For 2016	Nil	40%	10%

**Long Term Incentive**

The LTI plan was approved by shareholders at the 2015 Annual General Meeting and is intended to incentivise and reward eligible participants in a way in which aligns their interests with those of shareholders. All grants are measured over a 3 year period with 75% of the performance rights granted being measured against a relative Total Shareholder Return ("TSR") and 25% of the performance rights granted measured against an internal strategic target of growth in resource/reserve, once the Company has been in production for a minimum of 18 months. No vesting occurs until the end of the third year to ensure executives are focused on the generation of long term sustainable value for the Company.

Under the remuneration structure, executives will receive a grant of performance rights each year, such that the LTI now forms a key component of executive's total annual remuneration. It is the Company's policy to cap LTI payments at a targeted LTI level. The percentage is applied against the relevant executive's TFR and the number of performance rights to be granted is calculated using the 30 day Volume Weighted Average Price ("VWAP") as at 30 June immediately preceding the grant date. For FY2016, the LTI award is outlined below:

<b>Maximum Award Opportunity (as a percentage of TFR)</b>				
	<b>Managing Director</b>	<b>Chief Operating Officer</b>	<b>KMP including General Manager</b>	<b>Employees</b>
Maximum allowable under Policy	Up to 100%	Up to 50%	Up to 30%	Up to 30%
For 2016	Nil	30%	20%	20%

**Performance conditions**

Careful consideration is given to ensure that the selected performance conditions will only reward executives where shareholder value is generated, as determined via the change in the Company's share price.

**Total shareholder return**

Reflecting on market practice, the board has decided that the most appropriate measure to track share price performance is via a relative TSR measure. TSR measures the return received by shareholders from holding shares in the Company over a particular period and is calculated by taking into account the growth in a company's share price over the period as well as any dividends received during the period.

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

7. Remuneration report - audited

7.1 Principles of compensation (continued)

Performance conditions (continued)

The Company's TSR performance for the FY2016 grant will be assessed against a customised peer group comprising the 14 ASX listed companies as outlined in the table below.

Comparator Group	
GME Resources Ltd	Rex Minerals Limited
Heron Resources Ltd	Altona Mining Limited
Highlands Pacific Limited	Finders Resources
Mincor Resources	Hot Chili Ltd
Panoramic Resources Ltd	Atherton Resources
Pioneer Resources	Intrepid Mines
Rox Resources	Talisman Mining

The comparator group have been selected with consideration given to company phase of development (explorer, developer, producer), base metal and a market capitalisation figure of 25% to 250% of the Company's market capitalisation at the time of granting the LTI.

Under the LTI plan, no performance rights granted under the TSR hurdle will vest unless the percentile ranking of the Company's TSR for the relevant performance period, as compared to the TSR's for the peer group of companies, is at or above the 50<sup>th</sup> percentile. The following table sets out the vesting outcome based on the Company's relative TSR performance:

Relative TSR Performance	Performance Vesting Outcomes
Less than 50 <sup>th</sup> percentile	0% vesting
At the 50 <sup>th</sup> percentile	25% vesting
Between 50 <sup>th</sup> and 62.5 <sup>th</sup> percentile	Pro-rata – straight line vesting from 25% and 50%
At the 62.5 <sup>th</sup> percentile	50% vesting
Between 62.5 <sup>th</sup> and 75 <sup>th</sup> percentile	Pro-rata – straight line vesting from 50% and 100%
At or above 75 <sup>th</sup> percentile	100% vesting

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

7. Remuneration report - audited

7.1 Principles of compensation (continued)

Performance conditions (continued)

Internal strategic target

Once the Company has been in production for a minimum of 18 months, the quantum increase in reserve/resource will determine the number of performance rights that were granted under this hurdle, to vest. This is on the basis that the Company must replace depletion carried out by mining and then increase total reserves before vesting will begin to occur.

<b>Reserves and Resources Growth Performance</b> (only assessable once the Company has been in production for a minimum of 18 months)		
<b>Internal Strategic Target</b>	<b>LTI KPI</b>	<b>% of Performance Rights Vesting</b>
Reserves and Resources Growth Performance	Reserves and resources depleted	No performance rights vesting
	Reserves and resources maintained	50% vesting of the performance rights
	Reserves grown by up to 30% and resources at least maintained	Between 50% and 100% vesting (pro-rata on a straight line basis) of the performance rights
	Reserves grown by 30% or more and resources at least maintained	100% of performance rights vesting

The table in section 7.2 of the Directors' report provides details of the number and value of performance rights granted to executives in FY2016.

The Company has an Employee Share Option Plan ("ESOP") although no options have been granted to directors or executives since 2010.

**Share trading policy**

The trading of shares issued to eligible participants under any of the Company's employee equity plans is subject to and conditional on compliance with the Company's share trading policy detailed in the Corporate Governance Statement. Executives are prohibited from entering into any hedging arrangements over unvested performance rights under the STI or LTI plan and the policy is strictly enforced.

**Consequences of performance on shareholder wealth**

In considering the Company's performance and benefits for shareholder wealth, the Remuneration, Nomination and Diversity Committee have regard to the following indices in respect of the current financial year.

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Net profit / (loss) for the period	(47,682)	(21,471)	(5,837)	(13,382)	(3,224)
Dividends paid	-	-	-	-	-
Change in share price	\$(0.06)	\$0.04	\$(0.05)	\$0.03	\$(0.07)
% Change in share price	(52.2)%	43.8%	(38.5)%	30.0%	(41.2)%

The consolidated entity's performance is impacted not only by market factors, but also by employee performance. However, as the projects of the consolidated entity are currently in exploration or evaluation or care and maintenance phases, the annual profit performance is not a relevant measure of the Company's performance and hence remuneration levels for individual KMPs are not directly linked to the annual profit or loss result.

**Poseidon Nickel Limited**  
**Directors' report (continued)**  
**For the year ended 30 June 2016**

**7. Remuneration report - audited**

**7.1 Principles of compensation (continued)**

**Service contracts**

It is the Company's policy that service contracts for KMP, excluding the Chief Executive Officer ("CEO"), are open common law employment contracts, 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 KMPs are entitled to receive, on termination of employment, their statutory entitlements of accrued annual and long service leave together with any superannuation benefits. Each KMP accrues 4 weeks of annual leave entitlements per year and 13 weeks of long service leave entitlements for every 10 years of service.

The service contract outlines the components of remuneration paid to the KMP but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed each year by the Remuneration, Nomination and Diversity Committee and 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 remuneration policy. There is no guaranteed base pay increases included in any executives' contracts.

During FY2016, Mr D Singleton, Mr N Hutchison and Mr M Rodriguez voluntarily reduced their base salary by 20% in recognition of the prevailing market conditions and Mr G Jones took on additional duties and replaced the retiring Company Secretary to preserve the cash reserves of the Company.

At the reporting date the Company did not have a CEO following the resignation of Mr D Singleton in January 2016. Mr C Indermaur, the non-executive chairman, has taken on some of the duties of the CEO on a part time basis with the support of the COO and CFO and for FY2016 will receive an additional fee of \$81,081 which is based pro-rata on 40% of the CEO's salary which was reduced by a further 20% as a voluntary reduction in line with other executives and directors.

**Non-executive directors**

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2 July 2007 General Meeting, is not to exceed \$350,000 per annum and is set based on market forces and with reference to fees paid to other non-executive directors of comparable companies. Non-executive director fees do not include options that may be issued from time to time, subject to shareholder approval.

The non-executive directors annual base director fee remains \$52,831 (except for the chairman where the base fee remains \$73,500) to cover the main board activities. Non-executive directors receive an additional fee of \$5,000 for each additional committee of which they are a member. Non-executive director members who chair a committee receive a further additional fee of \$10,000 for each committee chaired. During FY2016, the directors voluntarily reduced their base and committee fees by 20% to align to the reduction made to executive remuneration.

Under the Director Performance Rights Plan ("DPRP"), approved by shareholders at the AGM on 26 November 2015, each non-executive director has elected to receive all director fees for the period as performance rights in lieu of cash in order to retain the cash reserves of the Company. Mr D Singleton has also agreed to take payment in performance rights, subject to approval at the next shareholder meeting. The DPRP has replaced the Director Share Plan. The performance right vests immediately upon grant and can be exercised at any time within a 7 year timeframe. The value of the performance rights awarded to non-executive directors has been disclosed as a performance right based payment in column D in the directors' and executive officers' remuneration table in section 7.2 of the Directors' report.

Poseidon Nickel Limited  
Directors' report (continued)

For the year ended 30 June 2016

7. Remuneration report – audited (continued)

7.2 Directors' and executive officers' remuneration (Company and Consolidated)

		Short-term	Post employment	Share-based payments			Other long-term benefits \$ (E)	Total \$
		Salary & fees \$ (A)	Superannuation benefits \$	Options \$ (B)	Shares \$ (C)	Performance rights \$ (D)		
In AUD								
<b>Directors</b>								
<b>Non-executive directors</b>								
Mr C Indermaur (Chairman) <sup>1</sup>	2016	81,081	-	21,459	-	77,588	-	180,128
	2015	-	-	21,400	93,500	-	-	114,900
Mr D Singleton <sup>2</sup>	2016	276,011	17,179	64,376	276,263	-	13,846	647,676
	2015	542,586	19,450	64,200	118,485	-	92,321	837,042
Mr G Brayshaw	2016	-	-	5,365	-	60,436	-	65,801
	2015	-	-	5,350	72,831	-	-	78,181
Mr R Dennis	2016	-	-	13,441	-	52,138	-	65,579
	2015	-	-	13,404	62,831	-	-	76,235
<b>Executives</b>								
Mr N Hutchison, GM Geology	2016	242,557	26,695	18,818	129,589	15,553	5,726	438,938
	2015	287,368	27,794	18,766	60,441	-	52,970	447,339
Mr M Rodriguez, COO	2016	322,083	35,000	26,882	207,342	23,461	4,167	618,936
	2015	403,500	25,000	26,809	90,672	-	98,251	644,232
Mr G Jones, CFO	2016	231,192	21,963	13,441	129,589	12,471	7,213	415,869
	2015	231,192	21,739	13,404	56,590	-	32,206	355,131
<b>Total compensation: key management personnel</b>	2016	1,152,925	100,837	163,782	742,783	241,647	30,953	2,432,927
	2015	1,464,647	93,982	163,333	555,350	-	275,748	2,553,060

1. Mr C Indermaur has taken on some of the duties of the CEO on a part time basis and for 2016 will receive an additional fee that will be granted as Performance Rights, subject to shareholder approval at the 2016 AGM.

2. Mr D Singleton resigned as Managing Director and CEO on 31 January 2016 and became a non-executive director. In his capacity as Managing Director and CEO, Mr Singleton received a total remuneration of \$626,136.



Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

**7. Remuneration report – audited (continued)**

**7.2 Directors' and executive officers' remuneration (Company and Consolidated) (continued)**

**Notes in relation to the table of directors' and executive officers remuneration**

(A) Salary and fees includes base 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 as remuneration in this reporting period for services performed. In valuing the options, market conditions have been taken into account.

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

Grant Date	Option Life	Fair Value per Option	Exercise Price	Price of Shares on Grant Date	Expected Volatility	Risk Free Interest Rate	Dividend Yield
21 September 2010	6 yrs	\$0.1610	\$0.22	\$0.215	90.0%	4.97%	0%
23 November 2010	6 yrs	\$0.1250	\$0.22	\$0.175	90.0%	5.27%	0%

(C) The shares granted to executive directors and executives are the bonus shares issued in relation to the Employee Bonus Scheme for the performance bonus earned in FY2014. The value disclosed is the portion of the fair value of the shares recognised as remuneration in this reporting period for services performed.

The hybrids granted to non-executive directors and disclosed as hybrids in the prior reporting period for director fees are reclassified as shares as they vest immediately on grant.

(D) The performance rights granted to non-executive directors represent the cash value of director fees issued to non-executive directors in relation to the Director Performance Rights Plan. The performance rights are granted each quarter and vest immediately on grant. Refer to the Director Performance Rights Plan in section 7.1 of the Directors' report.

The performance rights granted to executives represent the STI and LTI awards and the value disclosed is the portion of the fair value of the rights recognised in the reporting period and the amount allocated to remuneration.

No rights have been issued to directors or executives since the end of the financial year.

Details on performance rights in the Company that were granted as remuneration and the vesting profile of performance rights granted to each director and executive during the reporting period are detailed below:

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

7. Remuneration report – audited (continued)

7.2 Directors' and executive officers' remuneration (Company and Consolidated) (continued)

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

	Number of performance rights granted during 2015	Grant or quarter end date	% vested in year	Financial years in which grant vests	Fair value of performance rights issued during the year (\$)	Total performance right value (\$)
<b>Directors</b>						
Mr C Indermaur	248,870	30 September 2015	100%	2016	\$0.081	20,258
	348,881	31 December 2015	100%	2016	\$0.054	18,700
	458,334	31 March 2016	100%	2016	\$0.041	18,700
	334,961	30 June 2016	100%	2016	\$0.056	19,930
	<u>1,391,046</u>					<u>77,588</u>
Mr G Brayshaw	193,858	30 September 2015	100%	2016	\$0.081	15,780
	271,757	31 December 2015	100%	2016	\$0.054	14,566
	357,015	31 March 2016	100%	2016	\$0.041	14,566
	260,903	30 June 2016	100%	2016	\$0.056	15,524
	<u>1,083,533</u>					<u>60,436</u>
Mr R Dennis	167,237	30 September 2015	100%	2016	\$0.081	13,613
	234,443	31 December 2015	100%	2016	\$0.054	12,566
	307,995	31 March 2016	100%	2016	\$0.041	12,566
	225,074	30 June 2016	100%	2016	\$0.056	13,392
	<u>934,749</u>					<u>52,138</u>
<b>Executives</b>						
Mr N Hutchison	822,190	18 December 2015	30%	2016	\$0.049	12,086
	411,095	18 December 2015	-	2018	\$0.040	3,467
Mr M Rodriguez	1,115,885	18 December 2015	30%	2016	\$0.049	16,404
	836,914	18 December 2015	-	2018	\$0.040	7,057
Mr G Jones	659,259	18 December 2015	30%	2016	\$0.049	9,691
	329,629	18 December 2015	-	2018	\$0.040	2,780
	<u>4,174,972</u>					<u>51,485</u>
	<u>7,584,300</u>					<u>241,647</u>

(E) Other long-term benefits are the movement in provision for annual and long service leave.

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

**7. Remuneration report – audited (continued)**  
**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 7.1 of the Directors' report.

An evaluation of the performance of executives during FY2016 and achievement against the KPIs set for the STI award from 1 July 2015 has resulted in the vesting of 30% of the performance rights granted:

Executives	TFR (\$)	STI quantum (% of TFR)	Target STI Quantum (\$)	Fair value on grant date	No. of Performance Rights		
					Granted	Vested	Forfeited
Mr N Hutchison	315,721	40%	126,289	\$0.049	822,190	246,657	575,533
Mr M Rodriguez	428,500	40%	171,400	\$0.049	1,115,885	334,766	781,119
Mr G Jones	253,155	40%	101,289	\$0.049	659,259	197,778	461,481

The number of performance rights granted is calculated using the 30 day VWAP as at 30 June 2015 of \$0.1536. The expense recognised in the period in relation to the STI performance rights that vested for executives is \$38,181.

The performance rights granted for the LTI have been valued using a hybrid employee share option model due to the TSR component. The model uses a correlated simulation that simultaneously calculates the TSR of the Company and each constituent of the Peer Group on a risk neutral basis as at the vesting date with regards to the performance period. The performance of the TSR of the Company is ranked against the TSR of each constituent of the Peer Group as at the vesting date and a vesting percentage is calculated from the vesting schedule.

The quantum of LTI grants made and the factors and assumptions used in determining the fair value of performance rights issued to key management personnel on grant date is as follows:

Executives	TFR (\$)	LTI quantum (% of TFR)	Target LTI Quantum (\$)	No. of Performance Rights Granted	Grant Date	Fair Value on grant date	Vesting Date	Right Life
Mr N Hutchison	315,721	20%	63,144	411,095	7-Dec-15	\$0.040	30-Jun-18	7 yrs
Mr M Rodriguez	428,500	30%	128,550	836,914	7-Dec-15	\$0.040	30-Jun-18	7 yrs
Mr G Jones	253,155	20%	50,631	329,629	7-Dec-15	\$0.040	30-Jun-18	7 yrs

**7.3 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.

**Analysis of options and rights over equity instruments granted as compensation**

**Share Options**

No options were granted to directors or executives during the reporting period and no options have been granted to directors or executives since the end of the financial year. Details of the vesting profile of options granted in previous years to each director or executive are detailed below:

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

7. Remuneration report – audited (continued)

7.3 Equity instruments (continued)

Analysis of options and rights over equity instruments granted as compensation (continued)

Share Options (continued)

	Number	Grant date	Financial years in which grant vests	Total expensed in period (\$)
<b>Directors</b>				
Mr C Indermaur	1,000,000	23 November 2010	2017	21,459
Mr G Brayshaw	250,000	23 November 2010	2017	5,365
Mr R Dennis	500,000	21 September 2010	2017	13,441
Mr D Singleton	3,000,000	23 November 2010	2017	64,376
<b>Executives</b>				
Mr N Hutchison	700,000	21 September 2010	2017	18,818
Mr M Rodriguez	1,000,000	21 September 2010	2017	26,882
Mr G Jones	500,000	21 September 2010	2017	13,441
	<u>6,950,000</u>			<u>163,782</u>

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

No options vested or lapsed during the reporting period. During the reporting period there were no shares issued on the exercise of options previously granted as compensation.

**Shares**

No shares were granted to directors or executives during the reporting period and no shares have been granted to directors or executives since the end of the financial year. Details of the vesting profile of shares granted in previous years to each director or executive are detailed below:

	Number	Grant date	% vested in year	Financial years in which grant vests	Fair value of shares issued in prior year (\$)	Total expensed in period (\$)
<b>Directors</b>						
Mr D Singleton	2,230,000	24 November 2014	100%	2016	\$0.155	276,263
<b>Executives</b>						
Mr N Hutchison	1,000,000	7 November 2014	100%	2016	\$0.165	129,589
Mr M Rodriguez	1,600,000	7 November 2014	100%	2016	\$0.165	207,342
Mr G Jones	1,000,000	7 November 2014	100%	2016	\$0.165	129,589
	<u>5,830,000</u>					<u>742,783</u>

The shares vested during the period were Bonus Shares previously issued to executive directors and executives under the Employee Bonus Scheme and in relation to performance achieved in FY2014. For executive directors, the shares vested following the resignation of the CEO who has remained on the board as a non-executive director. The board exercised discretion under the terms of the EBS to vest the shares granted to executives.

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.

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

**7. Remuneration report – audited (continued)**

**7.3 Equity instruments (continued)**

**Modification of terms of equity-settled share-based payment transactions**

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.

**Options and rights over equity instruments – audited**

**Share Options**

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 2015	Granted	Forfeited	Held at 30 June 2016
<b>Directors</b>				
Mr C Indermaur	1,000,000	-	-	1,000,000
Mr G Brayshaw	250,000	-	-	250,000
Mr R Dennis	500,000	-	-	500,000
Mr D Singleton	3,000,000	-	-	3,000,000
<b>Executives</b>				
Mr N Hutchison	700,000	-	-	700,000
Mr M Rodriguez	1,000,000	-	-	1,000,000
Mr G Jones	500,000	-	-	500,000

No options were exercised during the period and no options held by key management personnel are vested but not exercisable at 30 June 2016 (30 June 2015: nil).

**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 2015	Granted	Purchases or sales	Performance rights exercised and reclassified as shares	Held at 30 June 2016
<b>Directors</b>					
Mr C Indermaur	4,087,371	-	-	1,056,084	5,143,455
Mr G Brayshaw	3,984,671	-	-	-	3,984,671
Mr R Dennis	3,714,245	-	-	-	3,714,245
Mr D Singleton	8,970,000	-	-	-	8,970,000
<b>Executives</b>					
Mr N Hutchison	2,530,226	-	-	-	2,530,226
Mr M Rodriguez	3,197,063	-	(1,600,000)	-	1,597,063
Mr G Jones	2,663,341	-	(1,800,000)	-	863,341

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

**7. Remuneration report – audited (continued)**

**7.3 Equity instruments (continued)**

**Options and rights over equity instruments – audited (continued)**

**Performance rights**

The movement during the reporting period in the number of performance rights 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 2015	Granted	Forfeited	Exercised and reclassified as shares	Held at 30 June 2016
<b>Directors</b>					
Mr C Indermaur	-	1,391,046	-	(1,056,085)	334,961
Mr G Brayshaw	-	1,083,533	-	-	1,083,533
Mr R Dennis	-	934,749	-	-	934,749
<b>Executives</b>					
Mr N Hutchison	-	1,233,285	(575,533)	-	657,752
Mr M Rodriguez	-	1,952,799	(781,119)	-	1,171,688
Mr G Jones	-	988,888	(461,481)	-	527,407

**8. Corporate governance statement**

The Company's 2016 Corporate Governance Statement has been released as a separate document and is located on our website at <http://www.poseidon-nickel.com.au/investors-media/corporate-governance/>.

**9. Dividends**

The Directors recommend that no dividend be declared or paid.

**10. Events subsequent to reporting date**

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

**11. 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:

	Ordinary shares	Options and performance rights over ordinary shares
Mr C Indermaur	5,143,455	1,334,961
Mr G Brayshaw	3,984,671	1,333,533
Mr R Dennis	3,714,245	1,434,749
Mr D Singleton	8,970,000	3,000,000
	<u>21,812,371</u>	<u>7,103,243</u>

Poseidon Nickel Limited  
 Directors' report (continued)  
 For the year ended 30 June 2016

**12. Share options**

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

During or since the end of the financial year, no options have been granted to directors or officers of the Company.

**Unissued shares under options**

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

<b>Expiry date</b>	<b>Exercise price</b>	<b>Number of shares</b>
31 August 2016	0.22	2,975,000
23 November 2016	0.22	4,250,000
		7,225,000

**Shares issued on exercise of options**

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

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.

**13. Indemnification and insurance of officers and auditors**

**Insurance premiums**

The Company has agreed to indemnify the following current directors of the Company, Mr C Indermaur, Mr G Brayshaw, Mr R Dennis and 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 and do not contain details of the premiums paid in respect of individual offers of the Company. 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.

**14. Non-audit services**

During the year KPMG, the Company's auditor, has not performed any services outside their statutory duties. The fee paid for the audit and review of financial reports is \$57,000 (2015: \$76,000).

**15. Lead auditor's independence declaration**


The Lead auditor's independence declaration is set out on page 61 and forms part of the directors' report for financial year ended 30 June 2016.

Poseidon Nickel Limited  
Directors' report (continued)  
For the year ended 30 June 2016

**16. Rounding off**

The Company is of a kind referred to in ASIC Corporations Instrument 2016/191 dated 1 April 2016 and in accordance with that instrument, 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:

A handwritten signature in black ink, appearing to read 'G Brayshaw', written in a cursive style.

**Mr G Brayshaw**  
**Director**

Perth  
18 August 2016



Poseidon Nickel Limited  
 Consolidated statement of financial position  
 As at 30 June 2016

*In thousands of AUD*

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Cash and cash equivalents	4.1a	3,030	4,857
Trade and other receivables	4.2	296	689
<b>Total current assets</b>		<b>3,326</b>	<b>5,546</b>
Property, plant and equipment	3.3	26,433	26,844
Exploration and evaluation expenditure	3.1	54,670	103,419
Other investments		12	119
Other	3.4	3,500	3,500
<b>Total non-current assets</b>		<b>84,615</b>	<b>133,882</b>
<b>Total assets</b>		<b>87,941</b>	<b>139,428</b>
<b>Liabilities</b>			
Trade and other payables	4.3	789	2,604
Employee benefits		247	407
Provisions	3.5	3,500	3,500
<b>Total current liabilities</b>		<b>4,536</b>	<b>6,511</b>
Loans and borrowings	5.2	19,269	35,893
Convertible note derivative	5.2	8,619	2,989
Employee benefits		-	99
Provisions	3.5	44,727	42,861
<b>Total non-current liabilities</b>		<b>72,615</b>	<b>81,842</b>
<b>Total liabilities</b>		<b>77,151</b>	<b>88,353</b>
<b>Net Assets</b>		<b>10,790</b>	<b>51,075</b>
<b>Equity</b>			
Share capital	5.1	145,470	138,387
Reserves		1,113	799
Accumulated losses		(135,793)	(88,111)
<b>Total equity attributable to equity holders of the Company</b>		<b>10,790</b>	<b>51,075</b>

*The notes on pages 28 to 57 are an integral part of these consolidated financial statements.*

## Poseidon Nickel Limited

## Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2016

<i>In thousands of AUD</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Other income	2.2	1,499	1,052
Depreciation expense		(62)	(16)
Personnel expenses	2.3	(1,186)	(1,585)
Exploration and evaluation costs expensed		(5,398)	(3,910)
Consultancy and advisor fees		(694)	(1,816)
Share based payment expense	6.1	(1,283)	(774)
Impairment	3.2	(48,600)	-
Other expenses		(827)	(1,287)
<b>Results from operating activities</b>		<b>(56,551)</b>	<b>(8,336)</b>
Finance income		17,718	228
Finance costs		(8,849)	(13,363)
<b>Net finance costs</b>	2.4	<b>8,869</b>	<b>(13,135)</b>
<b>Loss before income tax</b>		<b>(47,682)</b>	<b>(21,471)</b>
Income tax benefit	2.5	-	-
<b>Total comprehensive loss for the period</b>		<b>(47,682)</b>	<b>(21,471)</b>
<b>Earnings per share</b>			
Basic and diluted loss per share (cents/share)	2.6	(6.39)	(3.44)

*The notes on pages 28 to 57 are an integral part of these consolidated financial statements.*

Poseidon Nickel Limited  
 Consolidated statement of changes in equity  
 For the year ended 30 June 2016

*In thousands of AUD*

	Share Capital	Share based payment reserve	Accumulated losses	Total equity
<b>Balance at 1 July 2014</b>	<b>108,875</b>	<b>629</b>	<b>(66,640)</b>	<b>42,864</b>
Loss	-	-	(21,471)	(21,471)
<b>Other comprehensive income</b>				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	(21,471)	(21,471)
<b>Transactions with owners recorded directly in equity</b>				
<b>Contributions by and distributions to owners</b>				
Issue of share capital (net of costs)	29,512	-	-	29,512
Issue of options (net of costs)	-	170	-	170
Total contributions by and distributions to owners	29,512	170	-	29,682
Total transactions with owners	29,512	170	-	29,682
<b>Balance at 30 June 2015</b>	<b>138,387</b>	<b>799</b>	<b>(88,111)</b>	<b>51,075</b>
Loss	-	-	(47,682)	(47,682)
<b>Other comprehensive income</b>				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	(47,682)	(47,682)
<b>Transactions with owners recorded directly in equity</b>				
<b>Contributions by and distributions to owners</b>				
Issue of share capital (net of costs)	7,083	(58)	-	7,025
Issue of options (net of costs)	-	171	-	171
Issue of performance rights	-	201	-	201
Total contributions by and distributions to owners	7,083	314	-	7,397
Total transactions with owners	7,083	314	-	7,397
<b>Balance at 30 June 2016</b>	<b>145,470</b>	<b>1,113</b>	<b>(135,793)</b>	<b>10,790</b>

*The condensed notes on pages 28 to 57 are an integral part of these consolidated financial statements.*

Poseidon Nickel Limited  
 Consolidated statement of cash flows  
 For the year ended 30 June 2016

*In thousands of AUD*

	<b>Note</b>	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities</b>			
Sundry receipts		812	796
Payments to suppliers and employees		(7,950)	(8,386)
Cash used in operations		(7,138)	(7,590)
Interest received		53	228
<b>Net cash used in operating activities</b>	<b>4.1b</b>	<b>(7,085)</b>	<b>(7,362)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(197)	(873)
Proceeds from sale of property, plant and equipment		268	-
Payments for exploration and evaluation expenditure		(1,830)	(7,685)
Payments for asset acquisition		-	(2,757)
Proceeds from sale of nickel concentrate		912	-
Proceeds from research and development for exploration and evaluation expenditure		2,269	921
Proceeds from sale of investments		116	-
<b>Net cash from (used in) investing activities</b>		<b>1,538</b>	<b>(10,394)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares and options (net of costs)		4,167	27,545
Payment of borrowing costs		-	(120)
Repayment of borrowings		-	(8,000)
Interest paid		(447)	(1,175)
<b>Net cash from financing activities</b>		<b>3,720</b>	<b>18,250</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(1,827)</b>	<b>494</b>
Cash and cash equivalents at 1 July		4,857	4,363
<b>Cash and cash equivalents at 30 June</b>	<b>4.1a</b>	<b>3,030</b>	<b>4,857</b>

*The notes on pages 28 to 57 are an integral part of these consolidated financial statements.*

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### Section 1 – Basis of Preparation

Poseidon Nickel Limited presents its financial statements in a format and style that is relevant and clear to shareholders and other users. In preparing the 2016 financial statements, we have grouped notes into sections under six key categories:

1. Basis of preparation
2. Results for the year
3. Assets and liabilities supporting Exploration and Evaluation
4. Working capital disclosures
5. Equity and funding
6. Other disclosures

Significant accounting policies specific to one note are included within that note. Accounting policies determined non-significant are not included in the financial statements. There have been no changes to the Group's accounting policies that are no longer disclosed in the financial statements.

#### 1.1 General information

Poseidon Nickel Limited (the 'Company') is a for profit entity domiciled in Australia. The Company's registered office is located at Unit 8 Churchill Court, 331-335 Hay Street, Subiaco WA 6008. The Group is primarily involved in exploration and evaluation of projects relating to nickel and other minerals.

The consolidated financial statements comprising of the Company and its subsidiaries (collectively the 'Group') have been authorised for issue by the Board of Directors on 18 August 2016. The financial statements are general purpose financial statements which:

- Have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB);
- Have been prepared on a historical cost basis, except for the convertible note derivative, available-for-sale financial assets and share based payments which are measured at fair value. The basis of measurement is discussed further in the individual notes;
- Are presented in Australian Dollars, being the Company's functional currency and the functional currency of the companies within the Group. Amounts are rounded to the nearest thousand, unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/191 dated 1 April 2016;
- Adopts all new and revised Australian Accounting Standards and Interpretations issued by the AASB that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2015. Refer to note 6.10 for further details; and
- Does not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective. Refer to note 6.10 for further details.

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### 1.2 Going concern

For the year ended 30 June 2016 the Company incurred a loss of \$47,682,000 (2015: loss \$21,471,000) that includes the movement in the valuation and interest of the convertible note liability, derivative liability, depreciation, impairment and share based payment expense which are all non-cash items. If these items are excluded, the underlying loss for the Company for the year is \$6,837,000 (2015: \$7,707,000). The working capital deficit for the period of \$1,210,000 (2015 deficit: \$965,000) includes a provision for environmental rehabilitation of \$3,500,000 that is cash backed (non-current asset).

The Company had a net cash outflow used in operating and investing activities of \$5,547,000 (2015: outflow \$17,756,000), reflecting the reduced level of expenditure during the period on exploration and evaluation and care and maintenance activities across the three operations of Windarra, Lake Johnston and Black Swan. The net cash outflow includes the receipt of \$2,716,000 for the 2015 refundable tax offset from the ATO under the Research and Development Tax Incentive scheme ("R&D"). The Company will prepare its 2016 R&D claim in due course. As at 30 June 2016, the Company had cash on hand of \$3,030,000.

In January 2016, the Company successfully refinanced and rescheduled its convertible notes, reducing the face value of the notes by 50% from US\$35 million to US\$17.5 million and extending the maturity date by 42 months to 30 September 2020.

The Company continues to minimise expenditure levels across all sites due to the current poor nickel market conditions. Management forecasts demonstrate a need for additional funding and have put in place a mechanism to issue shares, via an intermediary, to professional and sophisticated investors on a quarterly basis to raise an estimated \$4.1 million to maintain planned levels of expenditure for the coming 12 months. The Company will continue to review other sources of funding through this period including debt and/or equity instruments. The Directors believe that nickel prices will continue to improve in the future which will enable one or more of its projects to be developed but acknowledges there is significant market and development risks.

The Directors consider the going concern basis of preparation to be appropriate based on forecast cash flows for the next 12 months, which incorporate raising additional funds to meet forecast minimum expenditure required to maintain tenements and meet ongoing costs. The ability of the Company to achieve its forecast cashflows, including the raising of additional funds, represents material uncertainty that may cast significant doubt about whether the Company can continue as a going concern in which case it may not be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

### 1.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 June each year.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Where a joint arrangement is classified as a joint operation the Group recognises its proportionate share of revenue, expenditure, assets and liabilities.

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### 1.4 Foreign currencies

The primary economic environment in which the Group operates is Australia. The consolidated financial statements are therefore presented in Australian dollars.

Transactions in foreign currencies are initially recorded in Australian dollars at the exchange rate on that day. Foreign currency monetary assets and liabilities are translated into Australian dollars at the year-end exchange rate. Where there is a movement in the exchange rate between the date of the transaction and the year-end, a foreign exchange gain or loss may arise. Any such differences are recognised in the income statement. Non-monetary assets and liabilities measured at historical cost are translated into Australian dollars at the exchange rate on the date of the transaction.

### 1.5 Research and development expenditure

The Group undertakes expenditure on activities that are categorised as 'eligible expenditure' under the Research & Development Tax Concession which dependent upon certain criteria may be subject to a tax offset. Under AASB 120, where a tax offset has been received or receivable in cash, the Group accounts for the tax offset as follows:

- Where a grant is received or receivable in relation to research and development costs which have been capitalised, the tax offset shall be deducted from the carrying amount of the asset; or
- Where a grant is received or receivable in relation to research and development costs which have been charged to the profit and loss account during this or a prior financial year, the tax offset shall be credited to the profit and loss account.

### 1.6 Impairment

#### Financial assets

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

Impairment losses on available-for-sale investments are recognised by reclassifying the cumulative loss that has been recognised in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

#### Non-financial assets

Non-financial assets, other than deferred tax assets, are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

An impairment test is performed by assessing the recoverable amount of each asset, or cash generating unit ('CGU'). Assets are grouped at the lowest levels for which there are separately identifiable cash flows. The recoverable amount is the higher of an asset's fair value less costs to sell and 'value in use'. The value in use is based on the present value of the future cash flows expected to arise from the asset, taking into account the risks specific to the asset or CGU.

Any impairment identified is recognised in profit or loss. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the income statement, net of any depreciation or amortisation that would have been charged since the impairment.

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### 1.7 Accounting judgements and estimates

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

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which estimates are revised and in any future periods affected.

Judgements and estimates which are material to the financial report are found in the following areas:

- Going concern (note 1.2);
- Exploration and evaluation assets (note 3.1);
- Site restoration provision (note 3.5);
- Convertible note liability and derivative (note 5.2); and
- Share-based payments (note 6.1).



# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### Section 2 – Results for the Year

This section focuses on the results and performance of the Group, with disclosures including segmental information, components of the operating loss, taxation and earnings per share.

#### KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

##### Deferred taxation

The Group has unrecognised carry forward tax losses which can be utilised against future taxable profits. Given that the Group is not yet in production, future taxable profits are not considered probable to utilise carry forward tax losses, as such the tax asset has not been recognised.

#### 2.1 Operating segments

For management purposes the Group has one operating segment, being nickel and other mineral exploration and evaluation in Australia. Segment results that are reported to the Group chief operating decision maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the Company's headquarters), head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

Information about reportable segments <i>In thousands of AUD</i>	Nickel exploration and evaluation	
	2016	2015
<b>For the year ended 30 June</b>		
Reportable segment other income	1,499	868
Reportable segment exploration costs and impairment expensed	(53,998)	(3,910)
Reportable segment (loss) before income tax	(52,499)	(3,042)
Reportable segment assets	84,294	133,455
Capital expenditure	40	23,996
<b>Reconciliations of reportable segment loss and assets</b>		
<b>Loss</b>		
Total loss for reportable segments	(52,499)	(3,042)
Unallocated amounts: other corporate expenses	(4,052)	(5,294)
Net finance income / (costs)	8,869	(13,135)
Loss before income tax	(47,682)	(21,471)
<b>Assets</b>		
Total assets for reportable segments	84,294	133,455
Other assets	3,647	5,973
	87,941	139,428

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2015.

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 2.2 Other income

The table below sets out the other income received during the year.

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Equity-settled sale of gold rights	450	-
Fuel tax credits	334	402
Research and development proceeds	447	466
Net gain on shares issued to settle convertible note interest	-	149
Net profit on sale of plant and equipment	268	-
Sundry income	-	35
	<b>1,499</b>	<b>1,052</b>

#### 2.3 Personnel expenses

##### ACCOUNTING POLICY

##### Short-term employee benefits

Wages, salaries and defined contribution superannuation benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid 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.

##### Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their services in the current and prior periods. That benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

##### Share-based payments

The policy relating to share-based payments is set out in note 6.1.

The table below sets out personnel costs expensed during the year.

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Wages and salaries	1,016	1,077
Superannuation expense	242	174
Other associated personnel expenses	174	153
Increase/(decrease) in liability for annual leave	(122)	135
Increase/(decrease) in liability for long service leave	(124)	46
	<b>1,186</b>	<b>1,585</b>

#### 2.4 Net financing costs

##### ACCOUNTING POLICY

Net finance costs comprise income on funds invested, gains / losses on disposal of financial instruments, changes in fair value of financial instruments, interest expense on borrowings, impairment losses on financial assets and foreign exchange gains / losses. Interest income and expense is recognised as it accrues in profit or loss, using the effective interest method.

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### 2.4 Net financing costs (continued)

Net financing costs can be analysed as follows:

<i>In thousands of AUD</i>	<b>Note</b>	<b>2016</b>	<b>2015</b>
Interest income on bank deposits		51	228
Net gain on shares issued to settle convertible note interest		9	-
Net gain on settlement of terminating convertible notes		17,658	-
Finance income		17,718	228
Interest expense – convertible note (i)		(5,266)	(5,613)
Interest expense – loan		-	(344)
Net foreign exchange loss		(2,575)	(6,480)
Net loss on sale of investments		(291)	-
Impairment of investments		-	(45)
Change in fair value of convertible note derivative	5.3	(717)	(881)
Finance costs		(8,849)	(13,363)
Net finance income / (costs)		8,869	(13,135)

(i) Refer to note 5.2 for terms of new convertible note and accounting implications.

### 2.5 Income tax expenses

#### ACCOUNTING POLICY

The income tax expense represents the sum of tax currently payable and deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. Current tax is based on tax rates enacted or substantively enacted by the Balance Sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base used for calculating taxable profits. Deferred tax balances are disclosed net to the extent that they relate to taxes levied by the same authority and the Group has the right of set-off.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Poseidon Nickel Limited  
Notes to the consolidated financial statements

**2.5 Income tax expenses (continued)**

**a. Analysis of tax (credit) / charge in year**

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Current tax expense		
Current year	-	-
Adjustments for prior periods	(1,642)	(5,406)
	(1,642)	(5,406)
Deferred tax expense		
Origination and reversal of temporary differences	1,642	5,406
	-	-
Total tax benefit / (expense)	-	-

**b. Numerical reconciliation between tax expense and pre-tax accounting profit**

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Loss for the year	(47,682)	(21,471)
Total tax expense	-	-
Loss excluding tax	(47,682)	(21,471)
Income tax using the Company's domestic tax rate of 30% (2015: 30%)	(14,305)	(6,441)
Share-based payments	385	232
Other non-deductible expenses	22	69
Under / (over) provided in prior periods	(1,642)	(5,406)
	(15,540)	(11,546)
Change in deductible temporary differences	15,540	11,546
Total income tax benefit	-	-

**c. Recognised deferred tax assets and liabilities**

Deferred tax assets and liabilities are attributable to the following:

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
<b>Deferred Tax Liabilities</b>		
Exploration expenditure	(4,850)	(19,025)
Convertible note derivative	-	(5,802)
Loans and borrowings	(148)	-
Other items	(184)	(190)
<b>Deferred Tax Assets</b>		
Carry forward tax losses recognised	3,341	16,948
Convertible note derivative	1,104	-
Loans and borrowings	-	6,902
Other items	737	1,167
Net Deferred Tax (Asset) Liability	-	-

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 2.5 Income tax expenses (continued)

##### d. Unrecognised deferred tax assets and liabilities

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

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Tax losses	24,617	13,039
	<u>24,617</u>	<u>13,039</u>

At 30 June 2016, the Company has carry-forward tax losses of \$27,958,000 at 30% (30 June 2015: \$29,987,000) of which \$3,341,000 (30 June 2015: \$16,948,000) has been recognised.

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.

#### 2.6 Earnings (loss) per share

##### Basic earnings (loss) per share

Earnings (loss) per share ('EPS') is the amount of post-tax profit attributable to each share.

The calculation of basic EPS at 30 June 2016 was based on the loss attributable to ordinary shareholders of \$47,682,000 (2015: loss \$21,471,000) and a weighted average number of ordinary shares outstanding of 746,197,000 (2015: 624,167,000).

Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

##### Earnings (loss) per share

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Net loss attributable to ordinary shareholders	(47,682)	(21,471)
Issued ordinary shares at 1 July	693,343	513,467
Effect of shares issued	52,854	110,700
Weighted average number of ordinary shares at 30 June	<u>746,197</u>	<u>624,167</u>
Basic and diluted loss per share (cents)	<u>(6.39)</u>	<u>(3.44)</u>

\* The Company does not have any potential ordinary shares whose conversion to ordinary shares would have a dilutive effect. Potential ordinary shares of the Company consist of 11,631,000 dilutive share options issued. In accordance with AASB 133 'Earnings per Share' these options have been excluded from the calculation of diluted earnings (loss) per share due to their anti-dilutive effect.

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### Section 3 – Assets and Liabilities Supporting Exploration and Evaluation

This section focuses on the exploration and evaluation assets which form the core of the business, including those assets and liabilities which support ongoing exploration and evaluation as well as capital commitments existing at the year end.

#### KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

##### Indicators of impairment for exploration and evaluation assets

A review of exploration and evaluation assets undertaken at the half year, in accordance with AASB 6, identified that impairment indicators existed and resulted in an impairment being recognised (refer note 3.2). At 30 June a subsequent review concluded that no further impairment indicators existed at year end. In making this assessment, management is required to make assessments on the status of each project and the future plans towards successful development and commercial exploitation, or alternatively sale, of the respective areas of interest.

##### Site restoration

Provisions for the costs of rehabilitation, decommissioning and restoration of the area disturbed during mining activities depends on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied. Site restoration provisions are reviewed and updated as necessary each year to reflect management's best estimates of future cost estimates and timings.

### 3.1 Exploration and evaluation expenditure

#### ACCOUNTING POLICY

Acquisition of a right to explore is capitalised. Subsequently, expenditure on exploration and evaluation activities relating to each area of interest is capitalised as incurred only where a commercially recoverable JORC compliant resource has been identified. Expenditure incurred on activities that precede establishing the existence of a commercially recoverable mineral resource is expensed as incurred. An 'area of interest' is an individual geological area which is considered to constitute a favourable environment for the presence of a mineral deposit or has been proved to contain such a deposit.

Exploration and evaluation assets are classified as tangible or intangible according to the nature of the assets. Costs incurred in relation to exploration and evaluation includes acquisition of rights to explore, gathering exploration data through topographical, geochemical and geophysical studies and exploratory drilling, trenching and sampling. Directly attributable administration costs are treated as exploration and evaluation expenditure insofar as they relate to specific exploration activities. Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred, as well as borrowing costs in connection with financing exploration and evaluation activities.

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

##### Impairment

Non-current assets are tested for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. Such triggering events are defined in AASB 6 *Exploration for and Evaluation of Mineral Resources* in respect of exploration and evaluation assets and include consideration of commercial viability and technical feasibility.

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than an area of interest. The Company performs impairment testing in accordance with note 1.6.

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 3.1 Exploration and evaluation expenditure (continued)

Details of assets in the Exploration and evaluation phase can be found below:

<i>In thousands of AUD</i>	2016	2015
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	54,670	103,419
<b>Reconciliations: Exploration and evaluation phase</b>		
Carrying amount at beginning of year	103,419	73,281
Additions, net of research and development proceeds	763	8,026
Proceeds from sale of nickel concentrate	(912)	
Assets acquired	-	22,112
Impairment (Refer note 3.2)	(48,600)	-
	54,670	103,419

The ultimate recoupment of costs carried forward for exploration and evaluation is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. Exploration expenditure of \$5,398,000 (2015: \$3,910,000) was expensed as incurred through the Income Statement for the period.

#### 3.2 Impairment

The weakening of commodity prices during the reporting period has led the Group to make an assessment of the recoverability of the carrying value of its assets under AASB 136 *Impairment of Assets*. An impairment charge of \$48.6 million against the carrying value of the Windarra project has been determined using a fair value less cost to sell basis. The recoverable amount of \$30 million was measured by comparing implied valuations per resource and reserve tonnes of comparable projects.

The fair value methodology adopted is categorised as Level 3 in the fair value hierarchy.

#### 3.3 Property, plant and equipment

##### ACCOUNTING POLICY

##### 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. 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.

##### Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. Items of PPE are depreciated from the date that they are installed and are ready for use. The estimated useful lives for the current and comparative periods are as follows:

- Leasehold improvements            25 years
- Plant and equipment                2 – 20 years
- Motor vehicles                        8 – 12 years

Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate.

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 3.3 Property, plant and equipment (continued)

	Leasehold improve- ments	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
<i>In thousands of AUD</i>					
<b>Cost</b>					
Balance at 1 July 2014	1,006	211	3,403	263	4,883
Additions (refer note (i))	-	437	23,967	30	24,434
Balance at 30 June 2015	1,006	648	27,370	293	29,317
Balance at 1 July 2015	1,006	648	27,370	293	29,317
Additions	-	34	40	-	73
Disposals	-	-	-	-	-
Balance at 30 June 2016	1,006	682	27,410	293	29,391
<i>In thousands of AUD</i>					
<b>Depreciation and impairment losses</b>					
Balance at 1 July 2014	269	184	1,452	212	2,117
Depreciation for the year (refer note (i))	41	16	269	30	356
Balance at 30 June 2015	310	200	1,721	242	2,473
Balance at 1 July 2015	310	200	1,721	242	2,473
Depreciation for the year	40	63	368	14	484
Disposals	-	-	-	-	-
Balance at 30 June 2016	350	263	2,089	256	2,957

#### Carrying amounts

	Leasehold improve- ments	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
<i>In thousands of AUD</i>					
At 1 July 2015	737	27	1,951	51	2,766
At 30 June 2015	696	448	25,649	51	26,844
At 30 June 2016	656	419	25,321	37	26,433

- (i) Plant and equipment associated with the Lake Johnston and Black Swan nickel remains on care and maintenance. Both projects remain in the exploration and evaluation phase and accordingly associated plant and equipment items are not installed and ready for use. No depreciation has been charged on these assets.

At 30 June 2016, the total carrying amount of these assets was \$23,506,000 (2015: \$23,506,000).

#### 3.4 Other non-current assets

The Company holds a cash collateralised security deposit of \$3,500,000 (2015: \$3,500,000) to cover the provision for site restoration made in recognition of an on-going commitment to the environmental rehabilitation of the Windarra mine site.



# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### 3.5 Provisions

#### ACCOUNTING POLICY

##### Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

##### Site rehabilitation provisions

In accordance with the Group's published environmental policy and applicable legal requirements, a provision for site rehabilitation is recognised in respect of the estimated cost of restoration of the area previously disturbed during mining activities up to the reporting date, but not yet rehabilitated.

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

The site rehabilitation provision of \$3,500,000 (2015: \$3,500,000), classified as "current", is in respect of the Group's on-going obligation for the environmental rehabilitation of the Windarra mine sites. The Company continues to work with the Department of Mines and Petroleum with regards to the planning and timing of the rehabilitation.

The non-current site rehabilitation provision of \$44,727,000 (2015: \$42,861,000) is in respect of the Group's on-going obligation for the environment rehabilitation following the acquisition of the Lake Johnston and Black Swan nickel operations.

##### Movements in provisions

Movements in the provision for site rehabilitation costs during the period are set out below:

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Carrying amount of liability at beginning of period	42,861	-
Recognised on asset acquisition	-	42,861
Additional provision	1,866	-
Carrying amount at end of period	<u>44,727</u>	<u>42,861</u>

### 3.6 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>	<b>2016</b>	<b>2015</b>
Less than one year	577	1,500
Between one and five years	1,550	2,713
More than five years	3,510	3,910
	<u>5,637</u>	<u>8,123</u>

Poseidon Nickel Limited  
Notes to the consolidated financial statements

## Section 4 – Working Capital Disclosures

This section focuses on the cash funding available to the Group and working capital position at year end.

### KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

There were no key estimations or assumptions in this section.

#### 4.1 Cash and cash equivalents

##### ACCOUNTING POLICY

Cash and cash equivalents comprise cash balances and call deposits with a maturity of less than or equal to three months from the date of acquisition. The carrying value of cash and cash equivalents approximates fair value.

##### a. Cash and cash equivalents

*In thousands of AUD*

	2016	2015
Bank balances	3,020	2,848
Term deposits	10	2,009
Cash and cash equivalents in the statement of cash flows	3,030	4,857

The effective interest rate on term deposits in 2016 was 2.30% (2015: 2.36%).

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

*In thousands of AUD*

	2016	2015
Cash flows from operating activities		
Loss for the period	(47,682)	(21,471)
Adjustments for:		
Depreciation	365	16
Interest expenses - convertible note derivative	5,573	5,452
Interest expenses – borrowings	-	343
Change in fair value of convertible note derivative	717	881
Change in fair value of available-for-sale financial assets	-	45
Net loss on sale of investments	291	-
Net profit on sale of plant and equipment	(268)	-
Net gain on shares issued to settle convertible note interest	(9)	(149)
Net gain on settlement of terminating convertible notes	(17,658)	-
Net foreign exchange loss	2,575	6,480
Equity-settled share-based payment transactions	1,234	774
Equity-settled professional fees	28	73
Equity-settled sale of nickel rights	(450)	-
Impairment	48,600	-
Operating loss before changes in working capital and provisions	(6,684)	(7,556)
Change in trade and other receivables	328	(384)
Change in trade payables and employee benefits	(729)	578
Net cash used in operating activities	(7,085)	(7,362)

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 4.2 Trade and other receivables

##### ACCOUNTING POLICY

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost). Where there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to the Income Statement.

##### Current

*In thousands of AUD*

	<b>2016</b>	<b>2015</b>
Goods and services tax receivable	51	347
Fuel tax credits receivable	109	140
Other receivables	35	4
Other assets and prepayments	101	198
	<b>296</b>	<b>689</b>

#### 4.3 Trade and other payables

##### ACCOUNTING POLICY

Trade payables are recognised at the value of the invoice received from a supplier or service provider.

*In thousands of AUD*

	<b>2016</b>	<b>2015</b>
Trade payables	184	1,164
Other payables	310	872
Accrued interest – convertible note derivative	295	568
	<b>789</b>	<b>2,604</b>

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### Section 5 – Equity and Funding

This section focuses on the debt and equity funding available to the Group at year end, most notably covering share capital, loans and borrowings and convertible note derivatives.

#### KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

##### Convertible note derivative

The fair value of the convertible note derivative is determined using a binomial option pricing model that takes account of the exercise price, the term of the option, the Company's share price at the end of the reporting period, the expected volatility of the underlying share price and the risk-free interest rate (based on government bonds). The expected volatility is based upon historic volatility (based on the remaining life of the options) adjusted for abnormal spikes in the Company's share price.

##### Convertible note liability

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.

### 5.1 Capital and reserves

#### ACCOUNTING POLICY

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

#### Share capital

<i>In thousands of shares</i>	Ordinary shares	
	2016	2015
Ordinary shares		
Fully paid	804,167	693,343
Total share capital on issue at 30 June	804,167	693,343
Movements in ordinary shares on issue:		
On issue at 1 July	693,343	513,467
<i>Shares issued and expensed during the period:</i>		
Issued for cash	74,840	159,989
Issued for directors fees	-	1,361
Issued for consultancy fees	535	-
Issued for drilling services	4,327	-
Issued for interest on convertible notes (i)	29,654	10,470
Issued for employee performance bonus	-	4,525
Issued for managing director performance bonus	-	2,230
Issued for chairman performance rights	1,056	-
Issued for professional fees re asset acquisition	-	864
<i>Shares issued but expensed during the prior period:</i>		
Issued for directors fees	412	437
On issue at 30 June	804,167	693,343

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### 5.1 Capital and reserves (continued)

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.

- (i) Issued as settlement of interest on the convertible note facility. The number of shares to be issued is calculated based on the 5 day VWAP of Company's share price at the date interest becomes due and payable.

#### **Purpose of reserves**

##### **Share-based payment reserve**

The share based payment reserve is used to record the fair value of equity benefits provided to directors and employees as part of their remuneration.

### 5.2 Loans and borrowings - Convertible note

#### **Convertible note liability and derivative**

##### **ACCOUNTING POLICY**

##### **Convertible Note Liability**

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 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. Subsequent to initial recognition, the liability component of the convertible note is measured at amortised cost using the effective interest method.

##### **Convertible Note Derivative**

Derivative financial instruments are stated at fair value. The fair value of the derivative has been valued using a valuation technique including inputs that include reference to similar instruments and option pricing models which is updated each period. Gains and losses arising out of changes in fair value of these instruments together with settlements in the period are accounted for through the Income Statement through net finance costs.

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

Poseidon Nickel Limited  
Notes to the consolidated financial statements

**5.2 Loans and borrowings – Convertible note (continued)**  
**Convertible note liability and derivative (continued)**

<i>In thousands of AUD</i>	<b>Convertible note liability</b>	<b>Convertible note derivative</b>	<b>Total</b>
Balance at 1 July 2014	26,464	1,614	28,078
Fair value movements	-	881	881
Accrued interest capitalised	5,613	-	5,613
Payment of interest	(2,170)	-	(2,170)
Exchange rate effects	5,986	494	6,480
Carrying amount at 30 June 2015	35,893	2,989	38,882
Fair value movements	-	(3,168)	(3,168)
Accrued interest capitalised	4,421	-	3,041
Payment of interest	(1,380)	-	-
Exchange rate effects	3,717	179	3,896
Carrying amount at 22 January 2016	42,651	-	42,651
De-recognition of original convertible notes	(42,651)	-	(42,651)
Recognition of revised convertible note	19,994	4,998	24,992
Fair value movements	-	3,885	3,885
Accrued interest capitalised	845	-	845
Payment of interest	(513)	-	(513)
Exchange rate effects	(1,057)	(264)	(1,321)
Carrying amount at 30 June 2016	19,269	8,619	27,888

As at 22 January 2016, the Company refinanced and rescheduled its convertible notes, reducing its face value of the notes from USD\$35 million to USD\$17.5 million. The term of the note has been extended by 42 months from March 2017 to September 2020 with the conversion price now set at AU\$0.09 per share, previously an average of AU\$0.33. The interest coupon on the note remains at 5% and can be repaid in cash or shares at the discretion of the Company. On maturity the note will be repayable in cash. The carrying amount of the liability has been calculated as the discounted original fair value, accrued for interest plus exchange adjustments.

A net gain of \$17,568,000 was recognised on refinancing of the convertible notes. This gain was a result of the face value of the new convertible notes being less than the original convertible notes. To obtain this reduction the Company reduced the conversion price from an average AU\$0.33 per note to AU\$0.09 per note.

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 2015 (share price \$0.115) and 30 June 2016 (share price \$0.055) 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 2015 was 0.7707:1 and at 30 June 2016, 0.7393:1.

Refer to note 6.2 for details of fair value and sensitivities analysis.

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### 5.3 Capital management

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

The Group encourages employees to be shareholders and has put in place an incentive scheme whereby employees receive performance rights in the form of STI and LTI awards. This ensures that an optimal cash balance can be maintained whilst ensuring strong employee retention.

The Group management defines net debt as total borrowings including the convertible note (note 5.2) less cash and cash equivalents (note 4.1) and equity as the sum of share capital, reserves and retained earnings as disclosed in the statement of financial position. The gearing ratio for the current year is 235% (2015: 67%) for the Group. Refer to note 1.2 for the Group's capital management as it implies to going concern.

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.

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### Section 6 – Other Disclosures

The disclosures in this section focus on share based schemes in operation and financial risk management of the Group. Other mandatory disclosures, such as details of related party transactions, can also be found here.

#### KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

##### Share-based payments

The fair value of performance rights granted for STI is measured using the binomial option pricing model and for LTI using a hybrid share option pricing model that includes a Monte Carlo Simulation model due to the market based vesting conditions. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on an evaluation of the company's historic volatility, particularly over the historic period commensurate with the expected term) and weighted average expected life of the instruments (based on historical experience), expected dividends and the risk free interest rate (based on government bonds).

#### 6.1 Share-based payments arrangements

##### ACCOUNTING POLICY

The Group's annual Incentive Performance Rights Plan ("IPRP") provides for short term incentive (STI) and long term incentive (LTI) programs as share-based payment arrangements where employee incentives are settled in performance rights. The directors also receive their annual director fee in performance rights under the Director Performance Rights Plan ("DPRP"). These represent compound financial instruments with potential debt and equity components.

The fair value of the compound instruments is determined by reference to each plan. For approved annual director fees, this is allocated fully to the debt component when the fair value of the cash and equity settlement alternatives are equal. The Group recognises an expense for the debt component and an equivalent liability as services are provided by employees and directors during the performance year, based on the approved STI and LTI award if any, and director fees (i.e. recognised progressively over the vesting period). If the Group issues shares to settle the liability, the liability is transferred to equity at settlement date.

Where the fair value of an employee share option has been recognised as a share based payment and the option lapses at expiry, the total amount of the share based payment expense is transferred from the Shares Based Payment Reserve to Accumulated Losses.

The share-based payment expense included within the Income Statement can be broken down as follows:

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Share options expense	171	171
Shares granted expense	863	374
Hybrids expense	-	229
Performance rights expense	249	-
Total expenses recognised as employee costs	<u>1,283</u>	<u>774</u>

##### Share Options

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

There were 7,225,000 options outstanding at 30 June 2016 (2015: 7,225,000) that were issued to directors on 23 November 2010 and executives on 21 September 2010 and have an exercise price of \$0.22 (2015: \$0.22) and a remaining weighted average contractual life of less than 1 year (2015: 2 years). The options are subject to a three year service period and share price performance hurdles.



## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 6.1 Share-based payments arrangements (continued)

##### **Shares**

In prior years, the board could decide to issue shares in relation to the short term performance bonus under the Poseidon Employee Bonus Scheme (“EBS”). The EBS has been replaced by the Incentive Performance Rights Plan as approved by shareholder at the 2015 AGM.

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

	Weighted average fair value	Number of shares	Weighted average fair value	Number of shares
	2016	2016	2015	2015
Outstanding at 1 July	\$0.162	6,755,000	\$0.212	7,460,398
Vested during the period	\$0.162	6,755,000	\$0.212	(7,460,398)
Forfeited during the period	-	-	-	-
Granted during the period	-	-	\$0.162	6,755,000
Outstanding at 30 June	-	-	\$0.162	6,755,000

There are no shares unvested at the end of 30 June 2016. The shares vested during the period were Bonus shares issued to executive directors on 26 November 2014 and executives on 7 November 2014 for performance achieved in relation to FY2014. For executive directors, the shares vested following the resignation of the CEO who has remained on the board as a non-executive director. The board exercised discretion under the terms of the EBS to vest the shares granted to executives.

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.

##### **Performance rights**

The board can decide to issue performance rights in relation to short term and long term performance incentive under the Incentive Performance Rights Plan (“IPRP”) approved by shareholders at the November 2015 AGM. The STI performance rights are subject to operational KPIs measured over a 12 month period and the LTI performance rights are measured over a 3 year period with 75% of the performance rights granted measured against the Total Shareholder Return (“TSR”) of a customised peer group of companies and 25% of the performance rights granted measured against an internal strategic target of growth in resource/reserve, once the Company has been in production for a minimum of 18 months.

##### **Total shareholder return**

The following table sets out the vesting outcome for 75% of LTIs based on the Company’s relative TSR performance.

Relative TSR Performance	Performance Vesting Outcomes
Less than 50 <sup>th</sup> percentile	0% vesting
At the 50 <sup>th</sup> percentile	25% vesting
Between 50 <sup>th</sup> and 62.5 <sup>th</sup> percentile	Pro-rata – straight line vesting from 25% and 50%
At the 62.5 <sup>th</sup> percentile	50% vesting
Between 62.5 <sup>th</sup> and 75 <sup>th</sup> percentile	Pro-rata – straight line vesting from 50% and 100%
At or above 75 <sup>th</sup> percentile	100% vesting

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 6.1 Share-based payments arrangements (continued)

##### *Performance rights (continued)*

Once the Company has been in production for a minimum of 18 months, the quantum increase in reserve/resource will determine the number of performance rights that were granted under this hurdle, to vest. This is on the basis that the Company must replace depletion carried out by mining and then increase total reserves before vesting will begin to occur.

##### **Internal strategic target**

The following table sets out the vesting outcome for 25% of LTIs based on the Company's resource/reserve growth performance.

<b>Reserves and Resources Growth Performance</b>		
(only assessable once the Company has been in production for a minimum of 18 months)		
<b>Internal Strategic Target</b>	<b>LTI KPI</b>	<b>% of Performance Rights Vesting</b>
Reserves and Resources Growth Performance	Reserves and resources depleted	No performance rights vesting
	Reserves and resources maintained	50% vesting of the performance rights
	Reserves grown by up to 30% and resources at least maintained	Between 50% and 100% vesting (pro-rata on a straight line basis) of the performance rights
	Reserves grown by 30% or more and resources at least maintained	100% of performance rights vesting

The terms and conditions related to performance right grants are as follows:

<b>Grant date / employees entitled</b>	<b>Number of Instruments</b>	<b>Vesting conditions</b>
Performance rights granted to non-executive directors for director fees	3,409,328	The performance rights vest immediately upon grant
STI Performance rights granted to employees for performance bonus on 7 December 2015	2,821,894	The STI performance rights have performance based KPIs and a 1 year vesting period
LTI Performance rights granted to employees for incentive bonus on 7 December 2015	2,026,759	The LTI performance rights have a TSR and resource/reserve growth measure and a 3 year vesting period
Total shares	<u>8,257,981</u>	

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

	<b>Weighted average fair value</b>	<b>Number of performance rights</b>	<b>Weighted average fair value</b>	<b>Number of performance rights</b>
	<b>2016</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
Outstanding at 1 July	-	-	-	-
Granted during the period	\$0.050	8,257,981	-	-
Forfeited during the period	\$(0.049)	(1,975,325)	-	-
Outstanding at 30 June	\$0.050	6,282,656	-	-
Vested and exercisable at 30 June	\$0.054	4,255,897	-	-

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 6.1 Share-based payments arrangements (continued)

##### **Performance rights (continued)**

The performance rights granted to non-executive directors are equal to and in lieu of the value of cash director fees and issued under the terms of the DPRP. The number of performance rights is calculated quarterly by dividing the value of the director fee by the 91 day volume weighted average price of the Company's shares for each quarter.

The performance rights issued to non-executive directors are vested and exercisable at the end of the period as all performance rights vest immediately upon grant. The performance rights granted to non-executive directors during the period have a purchase price and fair value in the range of \$0.0408 to \$0.0814 (2015: non-executive director fees were granted as hybrids under the terms of the Director Share Plan and had a purchase price and fair value in the range of \$0.128 to \$0.189).

The performance rights forfeited are in relation to executives where achievement against KPIs set for the FY2016 STI award has resulted in the forfeiture of 70% of the performance rights granted on 7 December 2015. The performance rights outstanding at the end of 30 June 2016 were issued to executives as an LTI on 7 December 2015 and have a remaining weighted average contractual life of 6 years.

The fair value of services received in return for performance rights granted is based on the fair value of performance rights granted to executives for the STI and LTI plans with the following valuation inputs:

	STI	LTI	STI	LTI
	2016	2016	2015	2015
Fair value at grant date	\$0.049	\$0.040	-	-
Share price at grant date	\$0.049	\$0.049	-	-
Exercise price	Nil	Nil	-	-
Performance period	1 year	3 years	-	-
Volatility factor	85%	85%	-	-
Risk free rate (Government bond rate)	2.02%	2.05%	-	-

#### 6.2 Financial risk management

##### **ACCOUNTING POLICY**

##### **Classification of financial instruments**

The financial assets and liabilities of the Group are classified into the following financial statement captions in the statement of financial position in accordance with IAS 39 Financial Instruments:

- 'Loans and receivables' – separately disclosed as cash and cash equivalents and trade and other receivables;
- 'Available-for-sale financial assets' – measured at fair value through other comprehensive income;
- 'Financial assets/liabilities at fair value through profit or loss' – separately disclosed as derivative financial instruments in assets/liabilities and included in non-current other payables; and
- 'Financial liabilities measured at amortised cost' – separately disclosed as borrowings and trade and other payables.

Judgement is required when determining the appropriate classification of the Group's financial instruments. Details on the accounting policies for measurement of the above instruments are set out in the relevant note.

##### **Recognition and de-recognition of financial assets and liabilities**

The Group recognises a financial asset or liability when it becomes a party to the contract. Financial instruments are no longer recognised in the statement of financial position when contractual cash flows expire or when the Group no longer retains control of substantially all the risks and rewards under the instrument.

# Poseidon Nickel Limited

## Notes to the consolidated financial statements

### 6.2 Financial risk management (continued)

#### Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

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

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

#### Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

The carrying amount of financial assets represents the maximum credit exposure.

#### Investments, banks and financial institutions

The Group limits its exposure to credit risk by only transacting with high credit quality financial institutions. The Group had cash and cash equivalents of \$3,030,000 (2015: \$4,857,000) and other assets, a security deposit of \$3,500,000 (2015: \$3,500,000) that were held with bank and financial institution counterparties which are rated A to AA-, based on Standard and Poor's ratings.

#### Trade and other receivables

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

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

#### 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 funds to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group also manages liquidity risk by producing monthly cash-flow forecasts for the current and future financial year to ensure that there is a clear and up-to-date view of the short term to medium term funding requirements. These are regularly reviewed by management and the board where the implications on funding requirements and the possible sources of those funds are discussed, decisions taken when necessary and action taken to secure funding if required (refer to note 1.2 on going concern).

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 6.2 Financial risk management (continued)

##### Liquidity risk (continued)

The Group manages liquidity risk by maintaining adequate reserves through continuous monitoring of forecast and actual cash flows. The Group has a policy of raising both convertible debt and equity fundraising in order to manage its liquidity risk.

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

##### Consolidated

##### 30 June 2016

<i>In thousands of AUD</i>	Carrying amount	6 months or less	Contracted			More than 5 years
			6-12 months	1-2 years	2-5 years	
Trade and other payables	789	789	-	-	-	-
Convertible note	19,269	-	-	-	23,671	-
	<b>20,058</b>	<b>789</b>	<b>-</b>	<b>-</b>	<b>23,671</b>	<b>-</b>

##### Consolidated

##### 30 June 2015

<i>In thousands of AUD</i>	Carrying amount	6 months or less	Contracted			More than 5 years
			6-12 months	1-2 years	2-5 years	
Trade and other payables	2,604	2,604	-	-	-	-
Convertible note	35,893	-	-	45,413	-	-
	<b>38,497</b>	<b>2,604</b>	<b>-</b>	<b>45,413</b>	<b>-</b>	<b>-</b>

1. The balances above will not always agree to the financial statements as the contracted cash-flows above are undiscounted. The carrying amount is the balance as recognised in the Statement of Financial Position;
2. As at 22 January 2016, the company renegotiated its convertible notes by reducing its face value from USD\$35 million to USD\$17.5 million. The term of the new note has been extended by 42 months from March 2017 to September 2020.
3. As the convertible note liability (including the associated derivative) can only be paid out in shares and not cash during its term, the repayment is shown at maturity in 2020; and
4. The maturity analysis has assumed the earliest contractual maturity of the convertible note for a payment in cash. Interest on the convertible note can be settled in shares at the Group's discretion. As such, no interest payments have been included in the analysis.

##### Market risk

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

##### (a) Currency risk

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

Poseidon Nickel Limited  
Notes to the consolidated financial statements

**6.2 Financial risk management (continued)**

**Market risk (continued)**

**(a) Currency risk (continued)**

**Exposure to currency risk**

The Group's exposure to foreign currency risk at balance date was as follows:

<i>In thousands of AUD</i>	<b>30 June 2016</b>		<b>30 June 2015</b>	
	<b>AUD</b>	<b>Total</b>	<b>AUD</b>	<b>Total</b>
Convertible note derivative	(8,619)	(8,619)	(2,989)	(2,989)
Convertible note liability	(19,269)	(19,269)	(35,893)	(35,893)
Gross statement of financial position exposure	(27,888)	(27,888)	(38,882)	(38,882)

**Sensitivity analysis**

The following sensitivities have been applied for 2016 and 2015 based upon published 12 month forward rates:

- A 5% weakening of AUD against the USD with the equal effect in the opposite direction will increase the fair value of the convertible note derivative and liability by \$1,394,000 (2015: \$1,945,000).

**(b) Interest rate risk**

The Group is exposed to interest rate risk due to variable interest being earned on its interest bearing bank accounts and the value of the convertible note derivative (as the derivative fluctuates both with the underlying company share price and the risk free rate of interest). The Group adopts a policy of periodically reviewing interest rates to ensure the Group is earning the optimal interest income.

**Profile**

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

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
<b>Fixed rate instruments</b>		
Cash and cash equivalents	-	2,009
Convertible note liability	19,269	35,893
<i>In thousands of AUD</i>		
<b>Variable rate instruments</b>		
Cash and cash equivalents	3,013	2,821
Convertible note derivative	8,619	2,989
Security deposits – environmental bond	3,517	3,527

**Fair value sensitivity analysis for fixed rate instruments**

The Group does not account for any fixed rate financial assets or financial liabilities at fair value through profit or loss.

**Cash flow sensitivity analysis for variable rate instruments**

As at 30 June 2015 and 2016 a sensitivity analysis has not been disclosed in relation to the floating interest deposits and convertible note derivative as the results have been determined to be immaterial to the Statement of Profit or Loss and Other Comprehensive Income.

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 6.2 Financial risk management (continued)

##### (c) Equity price risk

The Group is exposed to equity price risk on its financial liabilities and equity investments. The liability fluctuates with the Group's underlying share price until either the convertible note is repaid by the Group 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.

##### **Price risk sensitivity**

###### *Equity Price Risk*

In relation to the convertible note derivative, the Group have used an equity price change of 95% (2015: 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. At the reporting date an increase of this magnitude would have increased profit and loss by \$11,231,000 (2015: \$6,219,000). An equal and opposite decrease would have reduced profit and loss by \$8,619,000 (2015: \$2,932,000).

In relation to the available-for-sale assets, the Group is exposed to equity price risk, however it is not considered to be material.

##### **Fair values**

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. The different valuation methods are called hierarchies and they are described below:

<i>In thousands of AUD</i>	Level	Carrying amount		Fair value	
		2016	2015	2016	2015
<b>Financial assets &amp; liabilities measured at fair value</b>					
Convertible note derivative	Level 2	8,619	2,989	8,619	2,989
Listed equity securities	Level 1	12	119	12	119
		<u>8,631</u>	<u>3,108</u>	<u>8,631</u>	<u>3,108</u>
<b>Financial assets &amp; liabilities not measured at fair value</b>					
Convertible note liability	Level 2	19,269	35,893	18,335	42,044

##### **Fair value hierarchy**

Level 1 – the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – the fair values are measured using inputs (other than quoted prices) that are observable for the asset or liability either directly or indirectly; or

Level 3 – the fair values are measured using inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors and accruals have been excluded from the above analysis as their fair values are equal to the carrying values.

The fair value of convertible note derivatives is determined using a binomial option pricing model. The key drivers of this value include the Company's own share price and the foreign exchange rate. Sensitivities considering reasonably possible movements in these assumptions are included above.

The fair value of the convertible note liability is based on discounted cashflows using a risk adjusted discount rate.

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 6.3 Related parties

The key management personnel compensation included in 'personnel expenses' (note 2.2) and 'share based payments' (note 6.1), is as follows:

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
Short-term employee benefits	1,153	1,464
Other long-term benefits	31	276
Post-employment benefits	101	94
Share-based payments	1,148	719
	2,433	2,553

#### Individual directors and executives compensation disclosures

Information regarding individual directors and executive's remuneration and some equity instruments disclosures as required by S300A of the Corporations Act and Corporations Regulations 2M.3.03 are provided in the Remuneration report section of the Directors' report in section 7.3.

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

#### 6.4 Group entities

##### Significant subsidiaries

Parent entity	Country of incorporation	Ownership interest	
		<b>2016</b>	<b>2015</b>
Poseidon Nickel Ltd			
<b>Significant subsidiaries</b>			
Poseidon Nickel Atlantis Operations Pty Ltd	Australia	100%	100%
Poseidon Nickel Olympia Operations Pty Ltd	Australia	100%	100%

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

#### 6.5 Joint arrangements

The Company and Panoramic Resources Limited ("Panoramic") (who acquired Magma Metals Limited) agreed to terminate the agreement for Poseidon to earn into the nickel, copper and PGE rights to a large tenement package adjoining the Windarra Nickel Project. The Company has handed all management and data for the tenements over to Panoramic and no further expenditure will be incurred.

An amount of \$129,776 (2015: \$148,662) has been incurred during the reporting period in relation to the joint arrangement which represents exploration expenditure and is included in the total exploration costs expensed in the Statement of Comprehensive Income of \$5,398,000 (2015: \$3,910,000).



## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 6.6 Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2016 the parent company of the Group was Poseidon Nickel Limited.

<i>In thousands of AUD</i>	<b>2016</b>	<b>2015</b>
<b>Results of the parent entity</b>		
Loss for the period	(47,682)	(21,471)
Other comprehensive income / (loss)	-	-
Total comprehensive loss for the period	(47,682)	(21,471)
<b>Financial position of the parent entity at year end</b>		
Current assets	3,326	5,546
Total assets	87,941	139,428
Current liabilities	4,536	6,511
Total liabilities	77,151	88,353
<b>Total equity of the parent entity comprising of:</b>		
Share capital	145,470	138,387
Share based payments reserve	1,113	799
Accumulated losses	(135,793)	(88,111)
<b>Total equity</b>	<b>10,790</b>	<b>51,075</b>
<b>Exploration expenditure commitments of the parent</b>		
Less than one year	577	1,500
Between one and five years	1,550	2,713
More than five years	3,510	3,910
	<b>5,637</b>	<b>8,123</b>

#### 6.7 Subsequent events

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

## Poseidon Nickel Limited

### Notes to the consolidated financial statements

#### 6.8 Auditors' remuneration

<i>In AUD</i>	Consolidated	
	2016	2015
Audit services		
Auditors of the Group – KPMG		
Audit and review of financial reports	57,278	76,475
	57,278	76,475
Services other than statutory audit		
Non-statutory review of financial reports	-	-
	57,278	76,475
	57,278	76,475

#### 6.9 Changes in accounting policies

There have been no new standards and amendments issued and adopted which have a material impact on the Group's financial statements.

#### 6.10 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013 and have not been applied in preparing these consolidated financial statements. Those which may be relevant to the Group are set out below. The Group does not plan to adopt these standards early.

##### **IFRS 9 *Financial Instruments***

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The adoption of this standard is expected to have an impact on the Group's financial assets, but no impact on the Group's financial liabilities.

##### **IFRS 15 *Revenue from Contracts with Customers***


IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The Group is in the process of assessing the impact of this standard on the financial statements, which has not yet been finalised.

## Poseidon Nickel Limited Directors' declaration

1. In the opinion of the directors of Poseidon Nickel Limited ("the Company"):
  - (a) the consolidated financial statements and notes that are set out on pages 24 to 57 and the Remuneration report in section 7.6 in the Directors' report, are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the financial year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2016.
3. The directors draw attention to note 1.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



**Mr G Brayshaw**  
**Director**

Perth  
18 August 2016



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

### **Report on the financial report**

We have audited the accompanying financial report of Poseidon Nickel Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2016, and consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1.1 to 6.10 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1.1, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

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

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

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

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

#### *Independence*

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



*Auditor's opinion*

In our opinion:

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1.1.

**Material uncertainty regarding continuation as a going concern**

Without modifying our opinion expressed above, attention is drawn to note 1.2 in the financial report. The matters set forth in note 1.2 indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

**Report on the remuneration report**

We have audited the Remuneration Report included in Section 7 of the directors' report for the year ended 30 June 2016. 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 2016, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Trevor Hart  
Partner

Perth

18 August 2016



***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 2016 there have been:

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

KPMG

A handwritten signature in blue ink, appearing to be 'T. Hart', written over a light blue grid background.

Trevor Hart  
*Partner*

Perth

18 August 2016

## Poseidon Nickel Limited

### ASX Additional information

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

The shareholder information set out below was applicable as at 9 August 2016.

#### A. Distribution of equity securities

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

	Class of equity security	
	Number of Holders	Fully Paid Ordinary Shares
1 – 1,000	1,867	846,636
1,001 – 5,000	2,113	6,374,013
5,001 – 10,000	1,238	10,141,151
10,001 – 100,000	3,119	125,089,967
100,001 and over	993	687,268,795
	<b>9,330</b>	<b>829,720,562</b>

There were 4,292 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
Forrest Family Investments Pty Ltd <Peepingee A/C>	119,999,874	14.46
Citicorp Nominees Pty Limited	44,662,389	5.38
Pershing Australia Nominees Pty Ltd <Q1196476A/C>	15,000,000	1.81
J P Morgan Nominees Australia Limited	12,451,706	1.50
Gwynvill Trading Pty Ltd	10,714,286	1.29
Ryder Grove Pty Ltd <Bloomfield Family A/C>	10,000,000	1.21
Mindaroo Pty Ltd <Andrew & Nicola Forrest Family>	9,825,000	1.18
HSBC Custody Nominees (Australia) Limited	9,445,660	1.14
Fanchel Pty Ltd	8,216,900	0.99
Mr Lay Ann Ong	7,810,316	0.94
ABN Amro Clearing Sydney Nominees Pty Ltd <Custodian A/C>	7,678,131	0.93
Mr David Singleton	6,070,000	0.73
Mr Lay Ann Ong	5,000,000	0.60
Saggio Investments Pty Ltd <Saggio Investment A/C>	5,000,000	0.60
Mr David Graham Lacey + Mrs Deborah Fiona Lacey	4,834,000	0.58
Colenew Pty Ltd <Paul Xiradis A/C>	4,200,000	0.51
Jefferies LLC	3,832,926	0.46
Mr Christopher Charles Indermaur + Mrs Rena Elizabeth Indermaur <Indermaur Family S/F A/C>	3,736,016	0.45
Mr Robert Dennis	3,714,245	0.45
J & F James Brothers Holdings Pty Ltd	3,389,625	0.41
<b>Total</b>	<b>295,581,074</b>	<b>35.62</b>

Poseidon Nickel Limited  
ASX Additional information (continued)

**C. Substantial holders**

Substantial holders in the company are set out below:

	<b>Number held</b>	<b>Percentage</b>
<b>Ordinary shares</b>		
Forrest Family Investments Pty Ltd <Peepingee A/C>	119,999,874	14.46
Citicorp Nominees Pty Limited	44,662,389	5.38

**D. Unquoted equity security holders (as at 9 August 2016)**

	<b>Number held</b>	<b>Percentage</b>
<b>Unlisted Options – 31 August 2016</b>		
Mr Michael Rodriguez	1,000,000	33.61
Mr Neil Hutchison <Hutchison Family A/C>	700,000	23.53
Mr Gareth Jones	500,000	16.81
Mr Robert Dennis	500,000	16.81
	<b>Number held</b>	<b>Percentage</b>
<b>Unlisted Options – 23 November 2016</b>		
Mr David Singleton	3,000,000	70.59
Mr Christopher Indermaur	1,000,000	23.53

**E. Voting Rights**

**Ordinary shares**

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

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



Poseidon Nickel Limited  
ASX Additional information (continued)

**F. Schedule of Tenements**

<b>Areas of Interest</b>	<b>Tenements</b>	<b>Economic Entity's Interest</b>
<b>Western Australia</b>		
- Windarra Nickel Assets	MSA 38/261, G38/21, L38/121, L39/184, L38/199, L38/218, L39/221	100%
- Windarra South	L38/119, L38/122, L38/220	100%
- Woodline Well	M39/1075, L39/224	100%
- Pool Well	M38/1244, M38/1245, L38/118	100%
- Lake Johnston Nickel Assets	E63/1067, E63/1135, G63/0004, G63/0005, L63/0051, L63/0052, L63/0055, L63/0057, M63/0163, M63/0282, M63/0283, M63/0284, M63/0292, M63/0293, M63/0294, M63/0522, M63/0523, M63/0524, P63/1527, E63/1784, E63/1811, E63/1812	100%
- Black Swan Nickel Assets	E27/0357, M27/0039, M27/0200, M27/214, M27/0216, P27/1808, P27/1809, P27/1810, P27/1811, L27/0057, L27/0058, L27/0059, L27/0074, L27/0075, L27/0077, L27/0078	100%

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