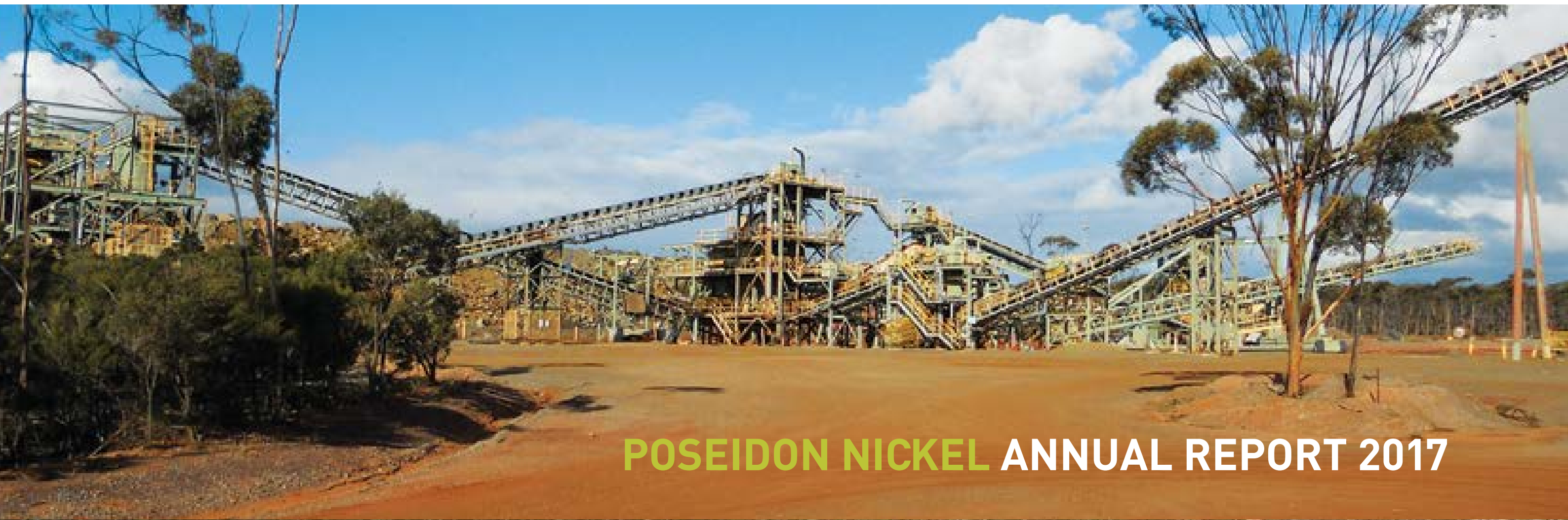
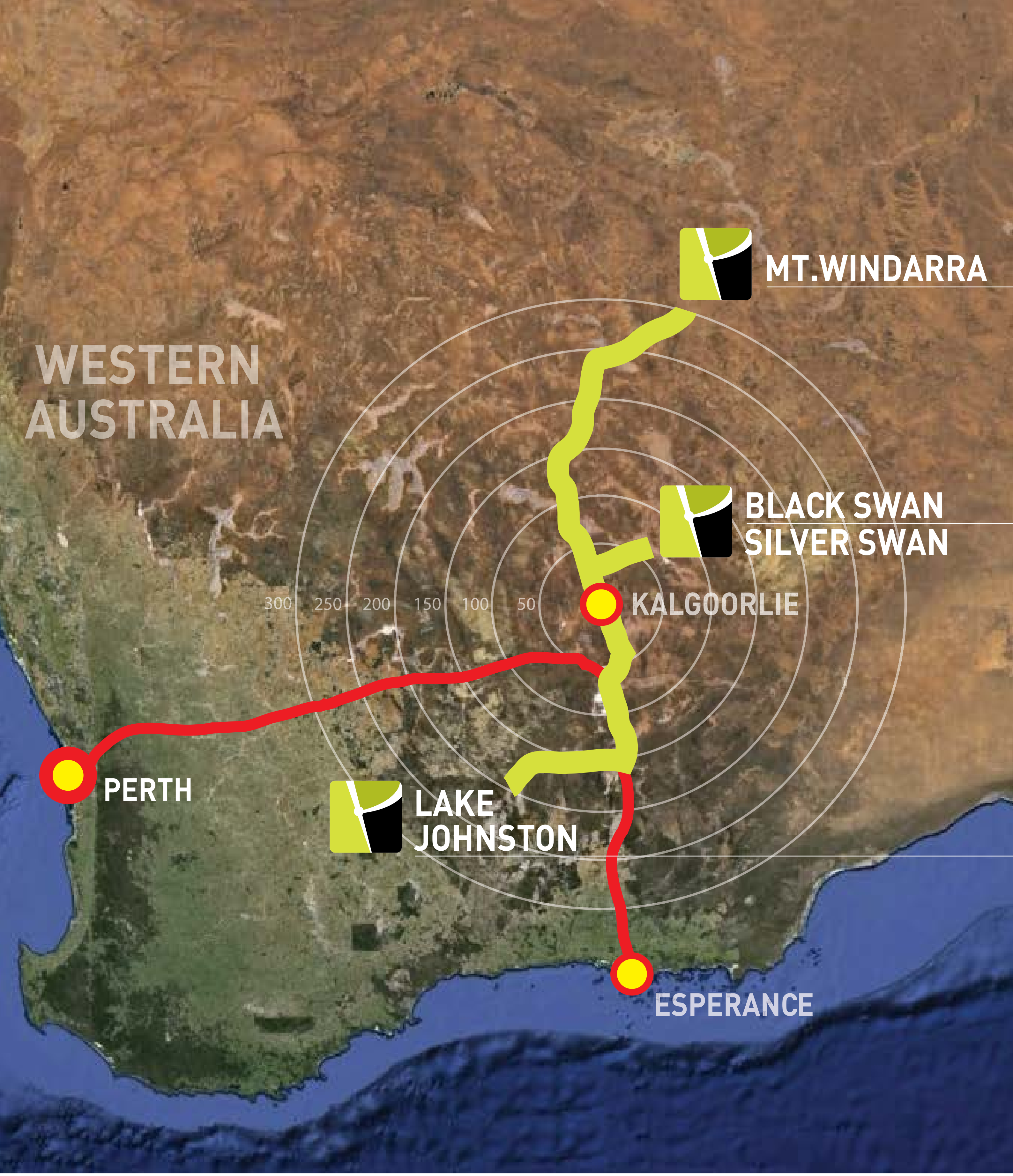
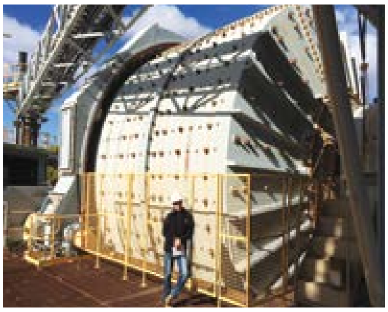
POSEIDONNICKEL



POSEIDON NICKEL ANNUAL REPORT 2017

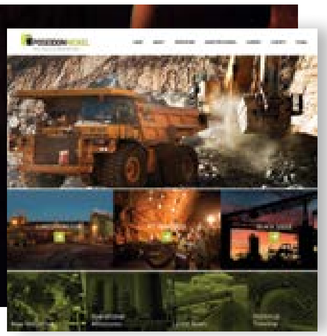

MT.WINDARRA
WESTERN
AUSTRALIA
BLACK SWAN
SILVER SWAN
300
250
200
150
100
50
KALGOORLIE
PERTH
LAKE
JOHNSTON
ESPERANCE




CONTENTS

Photography by Craig Kinder (F22) and Poseidon Nickel employees.
Front cover top image: The Lake Johnston Operation.
Front cover main image: Environmental Officer conducting water sampling at Lake Johnston.

POSEIDON NICKEL ONLINE:
For the latest, up to date information on Poseidon Nickel, including latest placements, information and contact centres please visit us online at:
www.poseidon-nickel.com.au



WE REMAIN CONFIDENT THAT NICKEL WILL ONCE AGAIN ENJOY SUCH A PRICE RISE.

Black Swan grinding circuit.

We have endured a further year of a subdued nickel price with most of worldwide production reported to be made at a loss. It is impossible to predict when the price will return to a level at which we would be able to commence profitable production, however we remain confident that nickel will once again enjoy such a price rise, undoubtedly based on its use in large batteries.

In the meantime we are diligently pursuing all avenues to preserve cash and utilise the plants at Black Swan and Lake Johnston to process gold and lithium ores respectively.

We had sold options over tailings at Windarra and for the use of the Lake Johnston plant, however neither option was exercised. We also sold minor items of redundant plant and these sales have gone some way toward offsetting our reduced operating costs. The remaining operating costs were met by issuing new shares in the market place.

We have had the benefit of a very loyal team of staff. Neil Hutchison, our General Manager of Geology, has taken on temporary outside work which will reduce his cost to the Company and undoubtedly contribute towards syngeneic relationships as well. Gareth Jones left the Company at the end of August after ten years of service. I would like to thank Gareth for his loyalty and dedication during his tenure at Poseidon. In the interim, the roles of Company Secretary and CFO will be undertaken on contract by Eryn Kestel and Craig Davidson respectively, both of whom are well known to the Company.

NICKEL

The Memorandum of Understanding (MOU) with Tsingshan, under which ore from Silver Swan could be directly shipped to their plant in China, was renewed. At today's nickel price even this is not currently feasible. During the year, further work was undertaken to better prepare for the eventual restart of the Silver Swan and Mt Windarra mines.

"WE ARE DILIGENTLY PURSUING ALL AVENUES TO PRESERVE CASH AND UTILISE THE PLANTS AT BLACK SWAN AND LAKE JOHNSTON TO PROCESS GOLD AND LITHIUM ORES."

Ore sorting at Black Swan.

LITHIUM

Demand for lithium in the form of spodumene concentrate continues to be high driven by demand for lithium in batteries and this demand appears likely to persist for many years. Spodumene ore is in plentiful supply, however there seems to be a shortage of processing capacity to convert the ore to saleable concentrate. We have that capacity at Lake Johnston and are actively promoting our capabilities to take advantage of this.

Work by Poseidon and Kidman Resources has confirmed that the plant at Lake Johnston could be adapted to process ore to spodumene concentrate. This represents a considerable advantage in time and capital cost savings and a fast path to market approval compared to other potential hard rock lithium producers. We continue in our work to move closer to monetising that opportunity.

There is the potential for spodumene to exist on our own tenements within 6km of the Lake Johnston processing plant. Permission to work in the area has been obtained through the regulatory departments following detailed botanical surveying. Since receiving the permits, a track was cleared to the site before the winter rain commenced. Due to the wet winter weather, the area cannot be worked with heavy machinery and so we plan to commence drilling in the coming months when conditions will be more favourable.

GOLD

At Mt Windarra there is a large historic tailings deposit which contains a substantial gold resource. These tailings come from the nearby Lancefield gold mine and the ore was treated at Mt Windarra. The composition and extractive processing required is well understood, so the engineering involved in setting up a carbon leach operation is simple and commonly practised. The difficulty in extracting the gold is administrative. As Mt Windarra is held under a State Agreement, which originated from the 1970's when there was a major processing plant on the site and this agreement details the project plan. To change the activities on the site, including to merely process or remove the tailings, requires a change to the plan which is a complex process.

The plant at Black Swan, just north of Kalgoorlie, is centrally located within the Goldfields and is capable of concentrating gold ore. It is surrounded by numerous gold mines that would benefit from that capacity and we are endeavouring to capitalise on that opportunity. The plant is large and capable of processing over 2,000,000 tonnes of ore per year.

An opportunity exists to process gold via the Black Swan facility located approximately 50kms north west of Kalgoorlie. We are currently in discussions with several gold explorers and miners to pursue processing gold ores at the Black Swan Operation. Alongside this, we are considering the purchase of known gold resources in the surrounding area which could be processed through the plant.

It has not been an easy 12 months and market conditions continue to challenge us. However, we remain focussed in our preparation and confident that when the market turns, we will be ready to execute our restart strategy.

CHRIS INDERMAUR
NON-EXECUTIVE CHAIRMAN

POSEIDON REMAINS COMMITTED TO RESTARTING ITS OPERATIONS IN AN IMPROVING NICKEL MARKET AND PLANS TO EXECUTE THOSE AGREEMENTS WITH THIRD PARTIES IN THE COMING MONTHS TO THE BENEFIT OF ALL STAKEHOLDERS.

Our Company has significant assets including 6 nickel mines, two large process plants and associated infrastructure having grown the Company from 40,000 tonnes to 400,000 tonnes of nickel in resource in less than 10 years, a remarkable achievement which ranks in the top quartile of its peers. Poseidon remains ready to restart its operations in an improving nickel market to become Australia's New Nickel.

We achieved zero lost time incidents and zero medically treated incidents across our three sites at Lake Johnston, Black Swan and Mt Windarra, a pleasing result. We remain committed to continuously improving our safety performance and minimising our environmental footprint at all of our mine sites with the support of improved systems, procedures, and the skills and experience of our people.

The prolonged depressed nickel market, high LME nickel stocks and continued operation of loss making nickel producers forced a strategic rethink of our operations. Our significant assets have the flexibility of co-processing nickel and gold at our Black Swan Operations and nickel and lithium at our Lake Johnston facility. Co-processing commodities improves plant and equipment utilisation, process efficiencies, reduces the overall costs of production and acts as a natural hedge. To take full advantage of the Company's substantial assets the Company entered into several strategic commercial agreements with third parties. Poseidon remains committed to restarting its operations in an improving nickel market and plans to execute those agreements with third parties in the coming months to the benefit of all stakeholders.

Poseidon has continued to focus on reducing costs to preserve cash and after removing equipment and infrastructure, made the difficult decision to cease dewatering at Mt Windarra and Lake Johnston. Whilst all sites remain in good standing, restarting Lake Johnston and Windarra will require a period of dewatering and underground refurbishment to support a restart of its operations. Silver Swan, the world's highest grade nickel mine located at Black Swan, remains ready for an immediate restart in an improved and stable nickel environment.

At Mt Windarra, Poseidon is actively working with the regulators to terminate the State Agreement over the Windarra tenements. Once released from the State Act, Mt Windarra will transition to the laws of the land under the Mines Act. The Company held discussions with the various Government Departments and responsible Ministers to facilitate terminating the State Act. The election this year has delayed the termination which is now likely to be concluded in 2018.

As part of the detailed assessment for the integration of our operations at Windarra and Black Swan, geotech modelling was progressed to update our mine plan for Windarra. The detailed engineering forced a change to the mining method resulting in an improved mine life and increased forecast nickel grade. Following the termination of the State Act, ore mined at Windarra will be processed at our Black Swan Operations.

A definitive feasibility study (DFS) was completed for the restart of the high grade Silver Swan nickel mine and all regulatory approvals to restart operations at Black Swan were secured during the year - a significant milestone for the Company. A detailed Project Management Plan (PMP) and Ground Control management Plan (GCMP) were completed and approved for Silver Swan. An update to the resource estimate at Silver Swan was also completed and early works at Silver Swan are progressing. At 9% nickel in resource, Silver Swan is one of the world's highest nickel grade mines.

Poseidon plans to use existing plant and infrastructure at Black Swan to become a major gold producer in the highly prospective goldfields region of WA, retaining the flexibility of processing high grade Silver Swan ore and co-processing gold ores through parallel circuits.

Recently the Company has entered into agreements (Memorandum of Understanding) with third party gold explorers and miners as it moves towards establishing Black Swan as a gold processing hub.

Our tenement holding in and around Lake Johnston was expanded to support exploration activities aimed at both nickel and lithium. Lithium hosted pegmatites were identified on our tenements at Lake Johnston which is considered prospective for lithium. Drill access lines were completed and lithium and nickel exploration will be progressed. Key research and development (R&D) along with engineering to support the co-processing of nickel and lithium ores at Lake Johnston was also progressed. Research and development is an essential pillar for our Company unlocking value through innovation. During the year we continued to focus on co-processing options across our three nickel operations to enhance the overall project economics.

"RESEARCH AND DEVELOPMENT IS AN ESSENTIAL PILLAR FOR OUR COMPANY UNLOCKING VALUE THROUGH INNOVATION."

Top: Lake Johnston aerial view.
Bottom: Operations at Black Swan.

Entering into an agreement with Lithium Australia at Lake Johnston was a highlight as it seeks to establish the Lake Johnston site as a co-processing facility for nickel and lithium. Importantly the agreement secures intellectual property and adds critical size to our emerging lithium story unlocking further shareholder value. A lithium discovery on the combined tenement package at Lake Johnston will underpin trial mining and processing to produce a lithium concentrate at the existing plant.

Poseidon is completing R&D and engineering to support co-processing at the Lake Johnston process plant. Downstream lithium carbonate testwork was also progressed and discussions are ongoing with third party lithium offtake refiners.

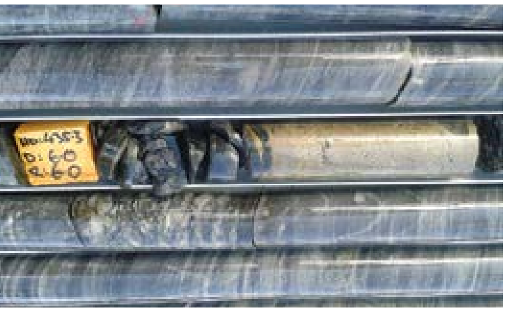
Research and development are an essential pillar for our Company, unlocking value through innovation. Building upon the testwork and engineering for the co-processing of various ore types Poseidon has embarked on a programme of testwork in support of co-processing of oxide and refractory gold and nickel ores, as well as nickel and lithium ores. This testwork is aimed at reducing process risks and optimising the co-process outcomes.

Testwork was also progressed for the reprocessing of the Silver Swan high grade nickel tailings to determine if a non-smeltable, low grade concentrate could be produced via the existing flotation circuit by applying a novel flotation method. Initial results, although preliminary, are encouraging. The testwork is aligned to previous research undertaken by the Company to produce a non-smeltable nickel concentrate by adopting an alternative path to market for low grade, nickel sulphide concentrate.

A plant trial for the co-processing of various ore blends is under active consideration. We have applied for several co-processing patent applications of various ore blends. We have also progressed work for the downstream processing of refractory gold and nickel sulphide concentrate through to gold ore and nickel & cobalt sulphate crystal. This novel approach provides us with a key advantage, enabled by our culture of research and innovation and is a credit to our people.

MICHAEL RODRIGUEZ

CHIEF OPERATING OFFICER



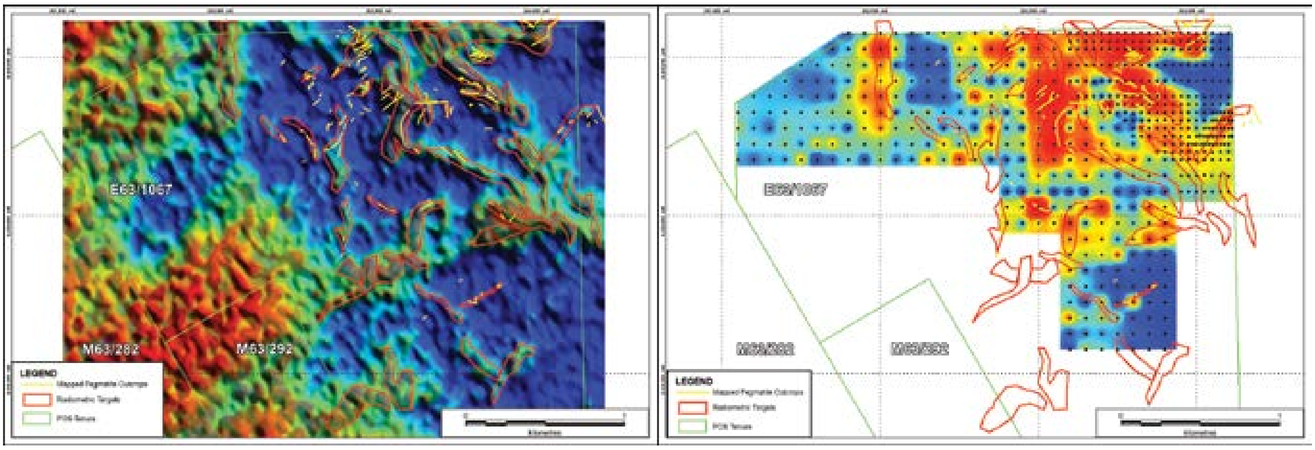
THE TIDE IS TURNING, TIME TO DUST OFF THE COBWEBS.

It has been an interesting year for the exploration team as we set off on the lithium hunt at the start of the reporting year, then slowed down as the Company set to preserve cash when the nickel market took a sharp turn after Christmas and continued to decline to be below US$4/lb at the end of the fiscal year. The tide is beginning to turn, with the nickel price now starting to move upwards in FY17 and recently breaking past US$5/lb, the Company is preparing to dust off the cobwebs and reactivate activities at the Medusa lithium project as well as the Silver Swan and Abi Rose nickel projects.

MEDUSA LITHIUM PROJECT

Poseidon completed an extensive soil sampling program at the Lake Johnston project after initial field work and sampling identified lithium bearing pegmatites within the northern tenement area. As there were no commercially available tools or methods available to analyse for lithium in the field, our geologists and soil sampling team worked very closely with consultants to develop a propriety algorithm to estimate the lithium grade in samples using a pXRF gun. Using ratios of numerous pathfinder elements which include Cs, Ga, K, Nb, Rb and Ta, Poseidon was able to generate field results which returned a 99% correlation for rock chip samples and an 89% correlation for soil samples compared to commercial laboratory results. This was an outstanding result given the time and cost savings the pXRF unit delivered, allowing the field team to immediately infill anomalous areas as they were generated each day rather than waiting several weeks for the laboratory results to be returned, and then send the sampling crew back into the field to complete the infill sampling. The results were more than adequate to highlight lithium anomalies and prospective pegmatite zones in preparation for follow-up field investigation and target prioritisation. Poseidon's ability to find innovative, cost saving and industry leading techniques is trademark during these downturn periods. This research work will qualify for R&D tax rebates further underpinning the Company's philosophy of finding cost effective and successful solutions.

The northern area of Lake Johnston project is located within a Proposed Nature Reserve as there are a number of unique and rare plants that occur both on and off the Company's tenure making it a unique and beautiful place to work. To minimize our impact and reduce our environmental footprint a comprehensive flora survey was completed over the area prior to works approvals being granted. Areas that contained priority flora species were avoided and the exploration programs adjusted before tracks through the areas were lightly cleared for vehicle access and mapping of the pegmatites.



Identified radiometric anomalies coincide with mapped pegmatites (Fig A) and lithium soil sampling anomalies (Fig B) to define strong lithium targets as well as highlighting new unsampled target areas.

Poseidon worked closely with the Department of Parks and Wildlife (DPaW) as well as the Department of Mines and Petroleum (DMP) to ensure industry best practices were adopted so that preservation of flora was the foremost objection whilst still achieving our exploration goals.

Mapping and sampling generated numerous lithium pegmatite targets and regulatory approvals (POW) have been received from the DMP to commence drilling. Winter rains have delayed drilling, as part of the environmental conditions is that we are restricted from drilling in the wet to minimise ground damage. Minimum track widen is required along the target drill lines prior to the commencement of RC drilling to test the pegmatite zone. It is anticipated this work will commence in Q4 2017.

ABI ROSE NICKEL PROJECT

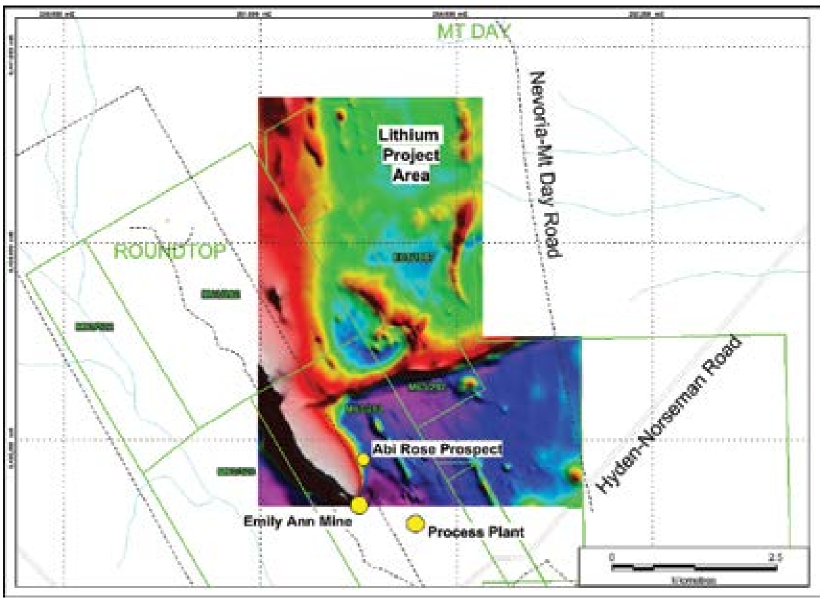
On the nickel exploration side, Poseidon developed a new geological concept back in 2015 for potential extensions to the high-grade Emily Ann nickel deposit and the Company was awarded $150,000 Exploration Incentive Scheme co-funding grant (EIS) to drill test this concept. With the assistance and support of Newexco Services, Poseidon was able to test this model and intersected a new zone of high-grade nickel sulphides close to the existing Emily Ann infrastructure. This high-grade nickel discovery was named "Abi Rose", and comprised a best intersection of **10.48m grading 3.20% Ni** which includes a massive sulphide base grading **2.32m at 7.62% Ni** from 390m below the surface.

"POSEIDON'S ABILITY TO FIND INNOVATIVE, COST SAVING AND INDUSTRY LEADING TECHNIQUES IS TRADEMARK DURING THESE DOWNTURN PERIODS."

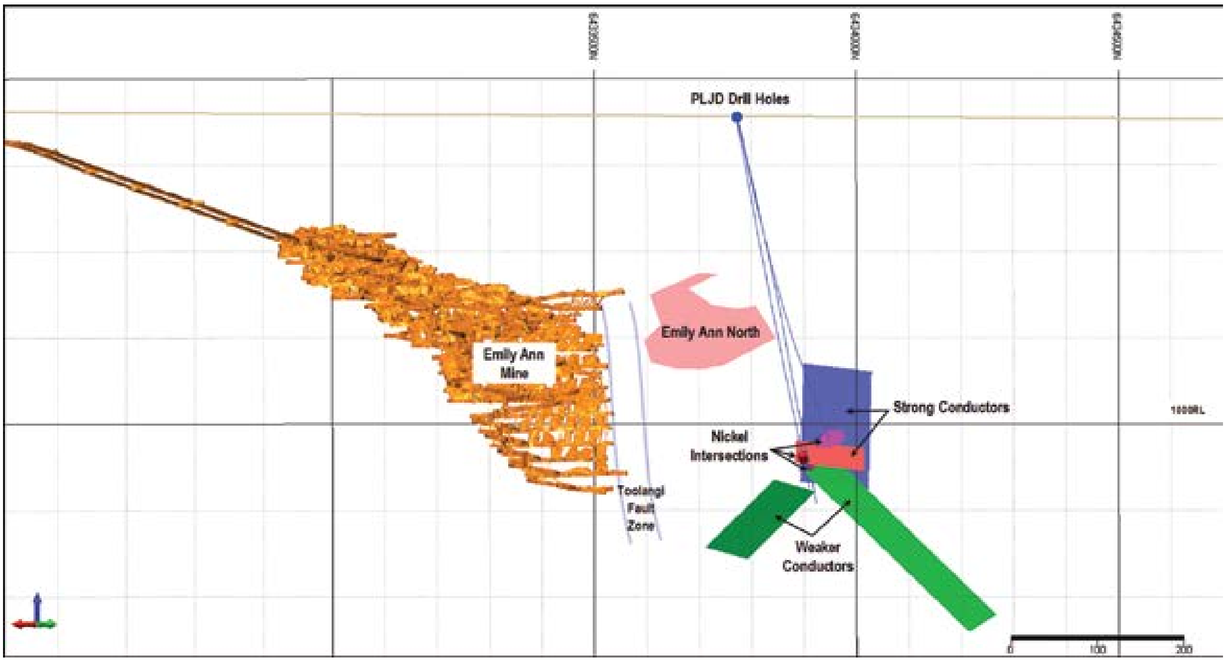
However, the drilling which discovered Abi Rose raised more questions as to the origin of the sulphide. Emily Ann has historically been considered a structurally deformed komatiite hosted deposit. Conversely, the drilling that discovered Abi Rose indicates that the sulphides are hosted within an intrusive ultramafic sill which demonstrates cumulates within its core and sulphide settling at its base. The upper and lower margins exhibit chill zones and alteration halos where it has come into contact with the earlier in-situ felsic volcanics which host the ultramafic intrusion. The felsic volcanic rocks have been overturned during earlier regional deformation, however the ultramafic sill is right-way up and cross-cuts stratigraphy, contradicting the historical recumbent folding model previously used to explain the Emily Ann ore body.

There is insufficient drilling to confirm either model so Poseidon has been successfully awarded a second EIS grant to complete more holes further afield in order to collect enough geological data to determine the correct ore formation model for future deposit discoveries and the expansion of Abi Rose. The EIS grant is sponsored by the West Australian Department of Mines and Petroleum (DMP) who will contribute $150,000 towards the drilling costs representing about 50% of the total investment. This opens up further opportunities for mineralisation to be discovered in other structurally favourable positions along the belt.

To support this geological modelling work, Poseidon commissioned MagSpec Airborne Surveys to complete a detailed 50m line-spaced aerial-magnetic and radiometric survey covering the Emily Ann - Abi Rose area as well as the Lithium Project area to the north. The magnetic survey has assisted in interpreting the structural model that Poseidon's geologists proposed for Abi Rose, as well as defining potential structural repetitions.



Aerial magnetic survey area showing Total Magnetic Intensity (TMI) image, prospect locations and tenement boundaries.



Long-section showing location of drilling relative to the Emily Ann mine and Emily Ann North mineralisation. Strong conductor locations are shown as red and blue plates. The locations of additional weaker conductors from the DHEM data are shown in green.

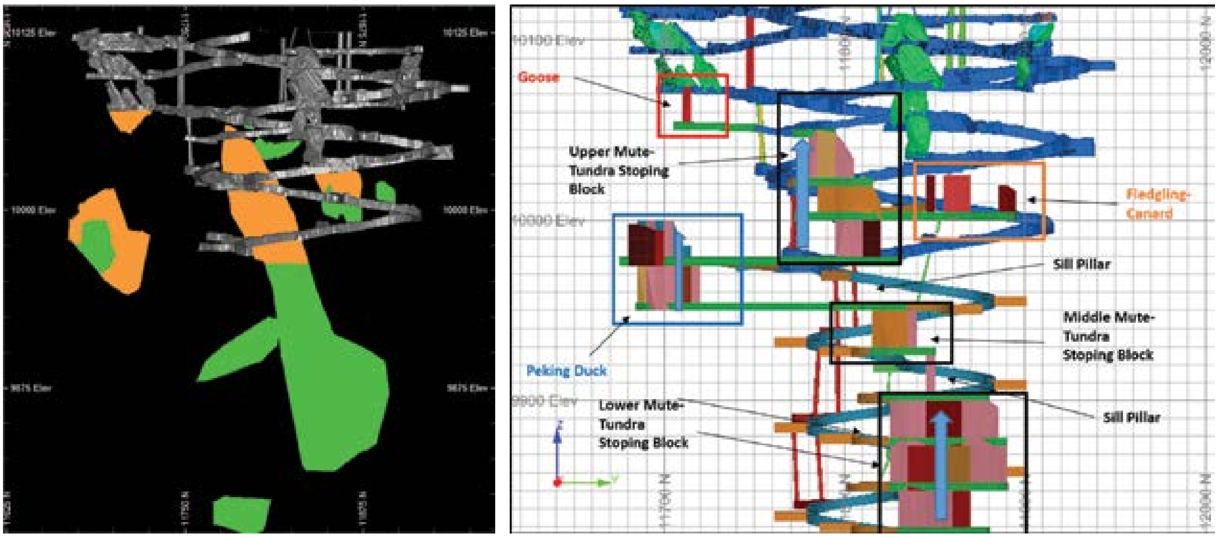
The images returned from the aerial magnetic survey shows that Abi Rose sits on a large north-south structural feature which will be targeted to better understand the controls on the nickel mineralisation and potentially extend prospectivity of the zone. The discovery of this new lens of nickel mineralisation has the potential to develop into an economically viable project as it is located close to the existing Emily Ann Mine infrastructure and the Lake Johnston nickel concentrator.

It is anticipated drill testing of the Abi Rose nickel project under the EIS co-funded grant will commence in Q4 2017.

SILVER SWAN NICKEL PROJECT

Silver Swan underground mine is located within the Black Swan Project. In June 2016 the Company announced a 180% increase in the Indicated Category of the Silver Swan Indicated JORC Resource Estimate which comprises **52Kt @9.19% Ni for 4,800t contained nickel metal**. This forms part of the total unmined resource estimate (Indicated + Inferred) for the Silver Swan Project below the 10075mRL level which totals **136Kt @ 9.08% Ni for 12,400t of contained nickel metal**. Poseidon commenced mining studies and ore reserve estimation work in order to produce a DFS for the Silver Swan high-grade underground nickel mine.

The DFS results were drawn from the engineering work undertaken by MineGeotech Pty Ltd and Beck Engineering Pty Ltd (geotechnical studies) and Entech Pty Ltd (mining method, life of mine schedules, mining costs and mine capital development costs). Entech produced a Probable Ore Reserve Estimated of **57Kt @ 5.79% Ni for 3,300t of contained nickel** including a grade of **0.11% Co for 60t of contained cobalt metal** for the Silver Swan Mine.



Long section (top left) showing Indicated (orange) and Inferred (green) Resource categories and resultant DFS mining planning. The mine plan (top right) incorporates both Ore Reserve and Life of Mine modelling of the Silver Swan and Silver Swan Deeps projects.

As the DFS and Ore Reserve is based on only the Indicated category portion of the resource, there is plenty of upside to extend the reserve as infill drilling of the deeper Inferred category mineralisation is completed.

The DFS demonstrates strong economic fundamentals due to the high-grade nature of the underground nickel mine and low capital intensity, resulting in an all-in-sustaining cash costs including capital of US$3.10lb. The DFS confirmed restarting the high-grade underground mining operations at Silver Swan and direct shipment of ore (DSO) to China under an existing offtake agreement with Tsingshan, generates a healthy return on investment at a nickel price above US$5.50/lb-Ni. At 9.2% Resource grade, the very high-grade nickel mineralised zones at Silver Swan delivers a diluted Ore Reserve containing 3.3kt of contained nickel grading 5.8% nickel, 0.1% cobalt & 0.3% copper to surface. The Company is presently exploring options to fund the initial pre-production activities which include refurbishment of the mine and infrastructure in preparation of a restart at the right time.

The study also estimated the entire project (Indicated + Inferred material) initially has a potential 2 year mine life comprising 147Kt of ore and 8.8Kt of contained nickel. This results in very low forecast C1 operating and capital cash costs of US$2.05/lb-Ni and US$1.05/lb-Ni respectively. There is also the potential to add significant upside through expansion of the Silver Swan Deeps (Inferred Resources), Black Swan Open Pit plus stockpiled ore, combined with Windarra & Cerberus which could increase the project mine life for a minimum of 7 years.

The low capital intensity further enhances the Project fundamentals making it an attractive first step as Poseidon moves to become Australia's new nickel producer as the tide begins to turn in what looks like an improving nickel market.

NEIL HUTCHISON

GENERAL MANAGER - GEOLOGY

FINANCIAL STATEMENTS.

DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2017

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 2017 and the auditor's report thereon.

Contents of directors' report **Page**

1. Directors

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

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Mr Christopher Indermaur **Chairman & Independent Non-Executive Director** *Member of:* • Audit & Risk Management Committee *Chairman of:* • Remuneration, Nomination & Diversity Committee Appointed 2 July 2007 Resigned 30 September 2008 Re-appointed 2 April 2009	Mr Indermaur has over 30 years of experience in large Australian companies in Engineering or Commercial roles. Amongst these roles he was the Engineering and Contracts Manager for the QNI Nickel Refinery at Yabulu, Company Secretary for QAL and General Manager for Strategy and Development at Alinta Ltd. Mr Indermaur holds a Bachelor of Engineering (Mechanical) and a Graduate Diploma of Engineering (Chemical) from the West Australian Institute of Technology (now Curtin University). He 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 (MEB), a Director of Austin Engineering Ltd (ANG) and a Director of Centrex Metals Ltd (CXM).
Mr Geoff Brayshaw **Independent Non-Executive Director** *Member of:* • Remuneration, Nomination & Diversity Committee *Chairman of:* • Audit & Risk Management Committee Appointed 1 February 2008	Mr Brayshaw had over 35 years' experience as a Chartered Accountant in public practice before retiring from practice in June 2005. He practiced primarily in audit and assurance, other areas of practice being corporate finance and litigation support. He gained wide experience in corporate and financial accounting for the exploration and mining industry, including iron ore and nickel. Mr Brayshaw is a Fellow of both the Institute of Chartered Accountants in Australia and the AICD and was National President of the ICAA in 2002. He was previously an independent Director and audit committee Chairman of both Fortescue Metals Group Limited and AVEA Insurance Limited and is a former member of the Board of the Western Australian Small Business Development Corporation.

1. Directors (cont.)

Name and independence status	Experience, qualifications, special responsibilities and other directorships
Mr David Singleton **Non-Executive Director** *Member of:* • Audit & Risk Management Committee • Remuneration, Nomination & Diversity Committee Appointed 1 February 2008 Resigned as Managing Director and CEO 31 January 2016	Mr Singleton is the Chief Executive Officer of Austal, the world's largest aluminium shipbuilder and Australia's biggest defence exporter employing over 5,000 people around the world. Prior to the appointment to Austal, David was the CEO of Poseidon Nickel and Clough Limited both based in Western Australia. Prior to moving to Australia in 2003, David was the Group Head of Strategy, Mergers and Acquisitions for BAE Systems based in London. Mr Singleton spent three 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.
Robert Dennis **Independent Non-Executive Director** *Member of:* • Audit & Risk Management Committee • Remuneration, Nomination & Diversity Committee Appointed 24 February 2014	Mr Dennis is a mining engineer with over 40 years' experience in the nickel, copper, gold and alumina industries and is currently Chief Operating Officer (COO) for Independence Group (IGO). Following a seven year tenure with Poseidon as COO, Mr Dennis joined the Poseidon Board in February 2014. Previous experience includes senior roles with Adita Birla Minerals Ltd, Lionore Australia, Great Central Mines and Western Mining Corporation.

2. Company Secretary

Ms Eryn Kestel was appointed Joint Company Secretary on 7 August 2017 and Company Secretary on 31 August 2017. Ms Kestel has a Bachelor of Business degree and is a Certified Practising Accountant with over 20 years' experience in dealing with listed companies, ASX, ASIC and corporate transactions.

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:

	BOARD MEETINGS*		AUDIT AND RISK MANAGEMENT COMMITTEE MEETINGS		REMUNERATION, NOMINATION AND DIVERSITY COMMITTEE MEETINGS	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Mr C Indermaur	4	4	4	4	4	4
Mr G Brayshaw	4	4	4	4	4	4
Mr R Dennis	4	4	4	4	4	4
Mr D Singleton	4	4	4	4	4	4

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

4. Principal Activities

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

5. Consolidated Results

The consolidated profit for the entity for the year ended 30 June 2017, after income tax is $25,000 (2016: loss of $47,682,000).

6. Operating and Financial Review

Company Strategy

Poseidon strategy remains focussed on developing its assets, however, given the persistent and subdued nickel prices through the financial year, the Company has continued to develop opportunities that can add value by utilising existing infrastructure for the processing of commodities other than nickel. There exists a significant opportunity in utilising Black Swan as a central processing hub for gold and in particular, refractory gold ores, given the prime location of the facility in the Goldfields region. To this end, the Company has recently entered into a non-binding Memorandum of Understandings (MOU) with two groups, Northern Star Resources Limited (Northern Star) and Aphrodite Gold Limited (Aphrodite) to consider the processing of gold ores at the Black Swan processing operations and is actively progressing agreements with other third parties to fully utilise the milling capacity.

This approach further establishes the commitment of the Company to extract value from its assets during the prolonged period of low nickel prices. Importantly, Poseidon retains the ability to continue to process nickel at the facility through utilising additional equipment and processing circuits that exist as a result of previous plant expansions over the time that Norilsk Nickel operated the plant.

6. Operating and Financial Review (cont.)

Projects - Black Swan Gold Opportunity

Black Swan offers a low capital intensity cost entry into the gold market and could exploit the concentrator's unique ability to process both oxide and refractory gold ores.

The establishment of Black Swan as a gold processing facility would be undertaken in stages with Stage 1 seeing a gold concentrate being sold to third party refiners via an offtake agreement. In stage 2, the Company plans to use cashflow from Stage 1 to install a pressure oxygen (POX) circuit whereby the sulphides are oxidised and the slurry then neutralised prior to a conventional CIL circuit to recover the gold. With this approach, typically more than 90% of the gold is recovered. Poseidon has over 10 years of operating "in-house" POX expertise for the processing of concentrates.

The MOUs with Northern Star and Aphrodite are the first step towards enabling this strategy and subject to satisfactory due diligence, the Company intends to progress a detailed feasibility study with a suitably experienced engineering subcontractor to begin the integrated design for Black Swan. The Company has also commenced discussions with a number of offtake parties for the gold concentrate and potential funding options.

Projects - Silver Swan

The Company has completed and announced on 26 May 2017 the outcomes for the definitive feasibility study (DFS) for the Silver Swan high grade underground nickel mine.

The DFS results were drawn from the engineering work undertaken by various consultants. The geotechnical studies were completed by MineGeotech Pty Ltd and Beck Engineering Pty Ltd and Entech Pty Ltd undertook the analysis of the mining method, life of mine schedules, mining costs & mine capital development costs.

The DFS demonstrates strong economic fundamental due to the high grade nature of the underground mine resulting in an all-in-sustaining cash cost including capital of US$3.10/lb and a breakeven nickel price is US$4.63/lb. First ore can be delivered in less than 9 months from financing the project with a pre-production and working capital requirement of A$25.0 million. The Company is also continuing long standing discussions with BHP for the supply of ore from Silver Swan to be processed at Kambalda.

The project has an initial 2 year mine life for 147Kt of ore and 8.8Kt of contained nickel and an underground mine diluted Ore Reserve of 3.3Kt of contained nickel, grading 5.8% nickel, 0.1% cobalt and 0.3% copper. There is also the potential to add significant upside through Silver Swan Deeps, Black Swan open pit plus stockpiled ore. With the addition of Windarra and Cerberus the mine life could be increased to a minimum of 7 years.

Projects - Lithium

The Medusa Lithium Project is situated within the Company's 100% owned Lake Johnston tenements and now has all of the necessary regulatory approvals from the Department of Parks & Wildlife (DPaW) and the Department of Mines & Petroleum (DMP) that has allowed Poseidon to clear the required drill lines for an initial drilling campaign.

The Company has also completed soil sampling, surface geochemistry analysis and rock chip sampling over the identified pegmatite host area within E63/1067 and used a Bruker pXRF machine to record mineral elements and apply an algorithm to the results (referred to as a lithium index). This was supported by an airborne magnetic and radiometric geophysical survey over the northern area of the Lake Johnston tenements based on detailed 50m line spaced data collection grid that identified both lithium and nickel targets. This information has enabled Poseidon to identify and define prospective exploration targets that are planned to be drilled, subject to funding.

Projects - Windarra

The Company has continued to work with the Department of State Development (DSD) on the termination of the State Act. The process of termination requires an Act of Parliament and will result in the Windarra tenements being held under the Mining Act which allows the Company to obtain the necessary approvals for the recovery of the gold tailings. The Company has continued to meet with government officials and the Minister for State Development in order to progress the termination.

Nickel Market

The financial year has seen the nickel market remain subdued however, there has been a somewhat unexpected and significant rise in nickel prices over the past month which whilst is good news, the Company remains cautious as to the how sustainable the price increase actually is. The Philippines has suspended many operations at nickel mines as part of an environmental crackdown and there are still no signs of this reversing even after the acting mining minister failed to be elected. In an unexpected about turn, the Indonesian government has allowed some exporting of ore to recommence compounding the high level of nickel stocks on the London Metal Exchange (LME) that have remained at around 370,000 tonnes of refined nickel.

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

Financial Position

For the year ended 30 June 2017 the Group recorded a profit of $25,000 (2016: loss $47,682,000) 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 Group for the year is $5,269,000 (2016: $6,837,000). The working capital deficit as at 30 June 2017 of $2,584,000 (2016 deficit: $1,210,000) includes a provision for environmental rehabilitation of $3,500,000 that is cash backed (non-current asset). The primary liabilities of the Group consist of $20,567,000 of convertible note liability maturing September 2020, together with further site rehabilitation provisions of $43,701,000. The directors do not anticipate the Group being required to remediate its sites in the foreseeable future. These liabilities are classified as non-current and included within total net assets of $16,043,000.

The Group had a net cash outflow from operating and investing activities of $4,689,000 (2016: outflow $5,547,000), 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. As at 30 June 2017, the Group had cash on hand of $1,620,000 and at 31 August 2017 the Group had cash on hand of $1,014,000.

The Group continues to minimise care and maintenance expenditure levels across all sites due to the current poor nickel market conditions. The directors forecast a need for additional funding in the near term to fund a requirement of at least $4 million to meet planned expenditure levels for the period to 31 August 2018. The Board continues to have in place a mechanism to issue shares, via an intermediary, to professional and sophisticated investors on a quarterly basis. During the year ended 30 June 2017, $3.9 million was raised in this manner. In addition, the Board continues to review other potential sources of funding including debt and/or equity or the realisation of value from the Group's asset base through potential sale, joint venture or other arrangements.

Consensus nickel price forecasts indicate that nickel prices will continue to improve in the future. The directors believe this may enable one or more of its projects to be developed but acknowledge there is significant market and development risks. Funding requirements for the potential future development of any of the Group's projects will need to be separately sourced.

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 Group to achieve its forecast cashflows, including the raising of additional funds, represents material uncertainty that may cast significant doubt about whether the Group 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.

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 following a 3 year period of no increases to remuneration levels, a 2% increase in remuneration has been awarded to directors and executives for FY2018.

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 annual share price movement, 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.

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 2017, the STI award is outlined below:

	MAXIMUM AWARD OPPORTUNITY (AS A PERCENTAGE OF TFR)		
	Managing Director	KMP including General Manager	Employees
Maximum allowable under Policy	Up to 60%	Up to 40%	Up to 10%
For 2017	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 focussed 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 FY2017, the LTI award is outlined below:

	MAXIMUM AWARD OPPORTUNITY (AS A PERCENTAGE OF TFR)			
	Managing Director	Chief Operating Officer	KMP including General Manager	Employees
Maximum allowable under Policy	Up to 100%	Up to 50%	Up to 30%	Up to 30%
For 2017	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.

7. Remuneration Report - Audited (cont.)

7.1 Principles of compensation (cont.)

Performance conditions (cont.)

The Company's TSR performance for the FY2017 grant will be assessed against a customised peer group comprising the 13 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	Intrepid Mines
Pioneer Resources	Talisman Mining
Rox Resources	

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 50th 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 50th percentile	0% vesting
At the 50th percentile	25% vesting
Between 50th and 62.5th percentile	Pro-rata - straight line vesting from 25% and 50%
At the 62.5th percentile	50% vesting
Between 62.5th and 75th percentile	Pro-rata - straight line vesting from 50% and 100%
At or above 75th percentile	100% vesting

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 performances 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.

		RESERVES AND RESOURCES GROWTH PERFORMANCE (only assessable once the Company has been in production for a minimum of 18 months)
Internal strategic target	**LTI KPI**	**% of performance rights vesting**
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 FY2017.

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.

In thousands of AUD	2017	2016	2015	2014	2013
Profit / (loss) for the period	25	(47,682)	(21,471)	(5,837)	(13,382)
Dividends paid	-	-	-	-	-
Change in share price	$(0.04)	$(0.06)	$0.04	$(0.05)	$(0.03)
% Change in share price	(65.5)%	(52.2)%	43.8%	(38.5)%	30.0%

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.

7. Remuneration Report - Audited (cont.)

7.1 Principles of compensation (cont.)

Service contracts

It is the Company's policy that service contracts for KMPs 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.

At the reporting date the Company did not have a Chief Executive Officer ("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 FY2017 received an additional fee of $224,814 which is based pro-rata on 40% of the CEO's salary and payable in performance rights.

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 receive an annual base fee of $52,831 (except for the chairman who receives a base fee of $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.

Under the Director Performance Rights Plan ("DPRP"), approved by shareholders at the AGM on 12 October 2016, 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. 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.

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

In AUD		SHORT TERM Salary and fees $ (A)	POST EMPLOYMENT Superannuation benefits $	SHARE-BASED PAYMENTS Options $ (B)	Shares $ (C)	Performance rights $ (D)	Other long term benefits $ (E)	Total $	Proportion of remuneration performance related [2]
Directors Non-executive directors									
Mr C Indermaur (Chairman)[1]	2017	-	-	5,042	-	318,314	-	323,356	2%
	2016	81,081	-	21,459	-	77,588	-	180,128	12%
Mr D Singleton	2017	-	-	15,127	-	62,831	-	77,958	19%
	2016	276,011	17,179	64,376	276,263	-	13,846	647,676	52%
Mr G Brayshaw	2017	-	-	1,261	-	72,831	-	74,092	2%
	2016	-	-	5,365	-	60,436	-	65,801	8%
Mr R Dennis	2017	-	-	3,048	-	62,831	-	65,879	5%
	2016	-	-	13,441	-	52,138	-	65,579	20%
Executives									
Mr N Hutchison, GM Geology	2017	288,330	27,391	4,267	-	53,725	43	373,756	15%
	2016	242,557	26,695	18,818	129,589	15,553	5,726	438,938	37%
Mr M Rodriguez, COO	2017	393,500	35,000	6,096	25,000	86,010	18,618	564,225	21%
	2016	322,083	35,000	26,882	207,342	23,461	4,167	618,936	42%
Mr G Jones, CFO[3]	2017	231,192	21,963	3,048	-	43,078	4,641	303,923	15%
	2016	231,192	21,963	13,441	129,589	12,471	7,213	415,869	37%
Total compensation: key management personnel	2017	913,022	84,354	37,889	25,000	699,620	23,302	1,783,188	
	2016	1,152,925	100,837	163,782	742,783	241,647	30,953	2,432,927	

1. Mr C Indermaur undertakes some of the duties of the CEO on a part time basis and for 2017 has received an additional fee of $224,814 that is granted as Performance Rights, as approved by shareholders at the 2016 AGM.
2. For directors, performance based remuneration excludes performance rights. These rights have been paid to directors in lieu of cash for directors fees and are not performance based.
3. Resigned subsequent to year end, effective 31 August 2017.

7. Remuneration Report - Audited (cont.)

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

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 an executive are an ex-gratia bonus for completion of the transaction with Kidman Resources. The value disclosed is the fair value of the shares recognised as remuneration in the reporting period.

(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. For Mr C Indermaur, this includes the Performance Rights issued for additional CEO duties. 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 for FY2017 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.

All STI performance rights granted to executives for FY2017 were forfeited at 30 June 2017 as the year on year share price movement was negative. The valuation of the STI award takes into account market and non-market based performance criteria with a share-based payment expense being recognised for 40% of the STI, representing the non-market based portion of the STI that would have vested if the year on year share price movement had been positive. Recognition of the expense is a requirement of the share-based payment accounting standard and occurs despite the forfeiture of the entire STI. The executives receive no financial benefit from the STI in FY2017.

No performance 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:

	Number of performance rights granted during 2017	Grant or quarter end date	% vested in year	% forfeited during year	Financial years in which grant vests	Fair value of performance rights issued during the year ($)	Recognised as remuneration ($)
Directors							
Mr C Indermaur	1,302,199	30 September 2016	100%		2017	$0.061	80,040
	1,872,079	12 October 2016	100%		2017	-	-
	1,642,510	31 December 2016	100%		2017	$0.049	80,040
	1,844,689	31 March 2017	100%		2017	$0.043	78,809
	2,881,895	30 June 2017	100%		2017	$0.028	79,425
	9,543,372						318,314
Mr D Singleton	257,083	30 September 2016	100%		2017	$0.061	15,708
	424,778	12 October 2016	100%		2017	-	-
	317,971	31 December 2016	100%		2017	$0.049	15,708
	361,022	31 March 2017	100%		2017	$0.044	15,708
	588,273	30 June 2017	100%		2017	$0.027	15,707
	1,949,127						62,831
Mr G Brayshaw	297,999	30 September 2016	100%		2017	$0.061	18,208
	368,578	31 December 2016	100%		2017	$0.049	18,208
	418,481	31 March 2017	100%		2017	$0.044	18,208
	681,900	30 June 2017	100%		2017	$0.027	18,207
	1,766,958						72,831
Mr R Dennis	257,083	30 September 2016	100%		2017	$0.061	15,708
	317,971	31 December 2016	100%		2017	$0.049	15,708
	361,022	31 March 2017	100%		2017	$0.044	15,708
	588,273	30 June 2017	100%		2017	$0.027	15,707
	1,524,349						62,831
Executives							
Mr N Hutchison	1,751,575	21 October 2016	Nil	100% *	2017	$0.040	28,025
	1,313,681	21 October 2016	-		2019	$0.053	19,211
	-	18 December 2015	-		2018	$0.040	6,489
Mr M Rodriguez	2,377,254	21 October 2016	Nil	100% *	2017	$0.040	38,036
	2,377,254	21 October 2016	-		2019	$0.053	34,764
	-	18 December 2015	-		2018	$0.040	13,210
Mr G Jones	1,404,467	21 October 2016	Nil	100% *	2017	$0.040	22,471
	1,053,351	21 October 2016	-		2019	$0.053	15,404
	-	18 December 2015	-		2018	$0.040	5,203
	25,061,388						699,620

*In accordance with accounting standards an expense has been recognised in relation to STI's, however due to not meeting performance hurdles, all of these rights have been forfeited.

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

7. Remuneration Report - Audited (cont.)

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

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

Details of performance related remuneration
STI

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 FY2017 and achievement against the KPIs set for the STI award from 1 July 2016 has resulted in the forfeiture of 100% of the STI performance rights granted:

					NO. OF PERFORMANCE RIGHTS		
Executives	TFR ($)	STI quantum (% of TFR)	Target STI quantum ($)	Fair value on grant date	Granted	Vested	Forfeited
Mr N Hutchison	315,721	40%	126,289	$0.040	1,751,575	-	1,751,575
Mr M Rodriguez	428,500	40%	171,400	$0.040	2,377,254	-	2,377,254
Mr G Jones	253,155	40%	101,262	$0.040	1,404,467	-	1,404,467

The number of performance rights granted for FY2017 is calculated using the 30 day VWAP as at 30 June 2016 of $0.0721. All STI performance rights were forfeited at 30 June 2017 as the year on year share price movement was negative.

LTI

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 form 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	1,313,681	21 October 16	$0.053	30 June 19	7 yrs
Mr M Rodriguez	428,500	30%	128,550	2,377,254	21 October 16	$0.053	30 June 19	7 yrs
Mr G Jones	253,155	20%	50,631	1,053,351	21 October 16	$0.053	30 June 19	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:

	Number	Grant date	Financial years in which grant vests	Total expensed in period ($)
Directors				
Mr C Indermaur	1,000,000	23 November 2010	2017	5,042
Mr G Brayshaw	250,000	23 November 2010	2017	1,261
Mr R Dennis	500,000	21 September 2010	2017	3,048
Mr D Singleton	3,000,000	23 November 2010	2017	15,127
Executives				
Mr N Hutchison	700,000	21 September 2010	2017	4,267
Mr M Rodriguez	1,000,000	21 September 2010	2017	6,096
Mr G Jones	500,000	21 September 2010	2017	3,048
	6,950,000			37,889

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.

All options lapsed during the reporting period as share price hurdles were not met. 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 during the reporting period and no shares have been granted to directors or executives since the end of the financial year. Shares granted to an executive are an ex-gratia bonus for additional work completed in relation to the Option Deed Agreement with Kidman Resources Limited and vested upon grant.

Details of the vesting profile of shares granted 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 ($)	Total expensed in period ($)
Executives						
Mr M Rodriguez	549,451	16 December 2016	100%	2017	$0.0455	25,000

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

7. Remuneration Report - Audited (cont.)

7.3 Equity instruments (cont.)

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 2016	Granted	Lapsed	Held at 30 June 2017
Directors				
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)	-
Executives				
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 all options held by key management personnel lapsed during the period as share price hurdles were not met.

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 2016	Granted	Purchases or sales	Performance rights exercised and reclassified as shares	Held at 30 June 2017
Directors					
Mr C Indermaur	5,143,455	-	-	-	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
Executives					
Mr N Hutchison	2,530,226	-	-	246,657	2,776,883
Mr M Rodriguez	1,597,063	549,451	(884,217)	334,766	1,597,063
Mr G Jones	863,341	-	-	197,778	1,061,119

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 2016	Granted	Forfeited	Exercised and reclassified as shares	Held at 30 June 2017
Directors					
Mr C Indermaur	334,961	9,543,371	-	-	9,878,332
Mr D Singleton	-	1,949,127	-	-	1,949,127
Mr G Brayshaw	1,083,533	1,766,958	-	-	2,850,491
Mr R Dennis	934,749	1,524,349	-	-	2,459,098
Executives					
Mr N Hutchison	657,752	3,065,256	(1,751,575)	(246,657)	1,724,776
Mr M Rodriguez	1,171,688	4,754,507	(2,377,254)	(334,766)	3,214,175
Mr G Jones	527,407	2,457,818	(1,404,467)	(197,778)	1,382,980

8. Corporate Governance Statement

The Company's 2017 Corporate Governance Statement has been released as a separate document and is also 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

On 10 July 2017, the Company announced that it had entered into a non-binding MOU with Aphrodite Gold Limited to process gold ores at Black Swan.

On 28 August 2017, the Company announced that it had entered into a non-binding MOU with Northern Star Resources Limited to explore the option of processing free milling gold ores at Black Swan.

On 31 August 2017, the Company announced that Kidman Resources Limited had confirmed that they do not plan to exercise their option to lease the Lake Johnson plant and equipment as set out in the Option Deed.

On 13 September 2017, the Company announced that it had entered into a non-binding MOU with Lithium Australia NL to evaluate and explore joint exploration and lithium processing at Lake Johnson.

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	Performance rights over ordinary shares
Mr C Indermaur	5,143,455	9,878,333
Mr G Brayshaw	3,984,671	2,850,491
Mr R Dennis	3,714,245	2,459,098
Mr D Singleton	8,970,000	1,949,127
	21,812,371	17,137,049

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 there were no unissued ordinary shares of the Company under option.

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 $61,000 (2016: $57,000).

15. Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 86 and forms part of the directors' report for financial year ended 30 June 2017.

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:

Mr G Brayshaw
Director

Perth
14 September 2017

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

In thousands of AUD	Note	2017	2016
Assets			
Cash and cash equivalents	4.1a	1,620	3,030
Trade and other receivables	4.2	237	296
Total current assets		1,857	3,326
Property, plant and equipment	3.3	25,348	26,433
Exploration and evaluation expenditure	3.1	54,056	54,670
Other investments		-	12
Other	3.4	3,500	3,500
Total non-current assets		82,904	84,615
Total assets		84,761	87,941
Liabilities			
Trade and other payables	4.3	664	789
Loans and borrowings		48	-
Employee benefits		229	247
Provisions	3.5	3,500	3,500
Total current liabilities		4,441	4,536
Loans and borrowings	5.2	19,308	19,269
Convertible note derivative	5.2	1,268	8,619
Provisions	3.5	43,701	44,727
Total non-current liabilities		64,277	72,615
Total liabilities		68,718	77,151
Net assets		16,043	10,790
Equity			
Share capital	5.1	149,948	145,470
Reserves		757	1,113
Accumulated losses		(134,662)	(135,793)
Total equity attributable to equity holders of the Company		16,043	10,790

The notes on pages 44 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

In thousands of AUD	Note	2017	2016
Other income	2.2	870	1,499
Depreciation expense		(60)	(62)
Personnel expenses	2.3	(619)	(1,186)
Exploration and evaluation costs expensed		(4,463)	(5,398)
Consultancy and advisor fees		(504)	(694)
Share-based payment expense	6.1	(791)	(1,283)
Impairment	3.1	-	(48,600)
Other expenses		(553)	(827)
Results from operating activities		(6,120)	(56,551)
Finance income		8,138	17,718
Finance costs		(1,993)	(8,849)
Net finance income	2.4	6,145	8,869
Profit / (loss) before income tax		25	(47,682)
Income tax expense / benefit	2.5	-	-
Total comprehensive income / (loss) for the period		25	(47,682)
Earnings per share			
Basic and diluted earnings / (loss) per share (cents/share)	2.6	0.00	(6.39)

The notes on pages 44 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

In thousands of AUD	Share capital	Share-based payment reserve	Accumulated losses	Total equity
Balance at 1 July 2015	138,387	**799**	(88,111)	**51,075**
Loss for the year	-	-	(47,682)	(47,682)
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(47,682)	(47,682)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
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
Balance at 30 June 2016	145,470	**1,113**	(135,793)	**10,790**
Profit for the year	-	-	25	25
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	25	25
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital (net of costs)	4,439	-	-	4,439
Issue of options (net of costs)	-	39	-	39
Issue of performance rights		750	-	750
Performance rights exercised	39	(39)	-	-
Transfer to accumulated losses upon lapse of options and forfeiture of performance rights	-	(1,106)	1,106	-
Total contributions by and distributions to owners	4,478	(356)	1,106	5,132
Total transactions with owners	4,478	(356)	1,106	5,132
Balance at 30 June 2017	149,948	**757**	(134,662)	**16,043**

The condensed notes on pages 44 to 77 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

In thousands of AUD	Note	2017	2016
Cash flows from operating activities			
Sundry receipts		925	812
Payments to suppliers and employees		(5,946)	(7,950)
Interest received		19	53
Net cash used in operating activities	4.1b	(5,002)	(7,085)
Cash flows from investing activities			
Payments for property, plant and equipment		(61)	(197)
Proceeds from sale of property, plant and equipment		210	268
Proceeds from option fee to lease plant and equipment		500	-
Payments for exploration and evaluation expenditure		(336)	(1,830)
Proceeds from sale of nickel concentrate		-	912
Proceeds from research and development for exploration and evaluation expenditure		-	2,269
Proceeds from sale of investments		-	116
Net cash from investing activities		313	1,538
Cash flows from financing activities			
Proceeds from the issue of shares and options (net of costs)		3,891	4,167
Proceeds from borrowings		157	-
Repayment of borrowings		(109)	-
Interest paid		(660)	(447)
Net cash from financing activities		3,279	3,720
Net increase / (decrease) in cash and cash equivalents		(1,410)	(1,827)
Cash and cash equivalents at 1 July		3,030	4,857
Cash and cash equivalents at 30 June	4.1a	1,620	3,030

The notes on pages 44 to 77 are an integral part of these 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 2017 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 14 September 2017. 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 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 (Rounding in Financial/Directors Report) Instrument 2016/191;
- 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 2016. 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.

1.2 Going concern

For the year ended 30 June 2017 the Group recorded a profit of $25,000 (2016: loss $47,682,000) 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 Group for the year is $5,269,000 (2016: $6,837,000). The working capital deficit as at 30 June 2017 of $2,584,000 (2016 deficit: $1,210,000) includes a provision for environmental rehabilitation of $3,500,000 that is cash backed (non-current asset). The primary liabilities of the Group consist of $20,567,000 of convertible note liability maturing September 2020, together with further site rehabilitation provisions of $43,701,000. The directors do not anticipate the Group being required to remediate its sites in the foreseeable future. These liabilities are classified as non-current and included within total net assets of $16,043,000.

The Group had a net cash outflow from operating and investing activities of $4,689,000 (2016: outflow $5,547,000), 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. As at 30 June 2017, the Group had cash on hand of $1,620,000 and at 31 August 2017 the Group had cash on hand of $1,014,000.

The Group continues to minimise care and maintenance expenditure levels across all sites due to the current poor nickel market conditions. The directors forecast a need for additional funding in the near term to fund a requirement of at least $4 million to meet planned expenditure levels for the period to 31 August 2018. The Board continues to have in place a mechanism to issue shares, via an intermediary, to professional and sophisticated investors on a quarterly basis. During the year ended 30 June 2017, $3.9 million was raised in this manner. In addition, the Board continues to review other potential sources of funding including debt and/or equity or the realisation of value from the Group's asset base through potential sale, joint venture or other arrangements.

Consensus nickel price forecasts indicate that nickel prices will continue to improve in the future. The directors believe this may enable one or more of its projects to be developed but acknowledge there is significant market and development risks. Funding requirements for the potential future development of any of the Group's projects will need to be separately sourced.

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 Group to achieve its forecast cashflows, including the raising of additional funds, represents material uncertainty that may cast significant doubt about whether the Group 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.

Section 1 - Basis of Preparation (cont.)

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.

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).

Section 2 - Results for the Year

This section focusses 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.

Section 2 - Results for the Year (cont.)

2.1 Operating segments (cont.)

Information about reportable segments	NICKEL EXPLORATION AND EVALUATION	
In thousands of AUD	2017	2016
For the year ended 30 June		
Reportable segment other income	844	1,499
Reportable segment exploration costs and impairment expensed	(4,463)	(53,998)
Reportable segment (loss) before income tax	(3,619)	(52,499)
Reportable segment assets	82,570	84,294
Capital expenditure	60	40
Reportable segment liabilities	47,320	48,396
Reconciliations of reportable segment loss and assets		
Profit (loss)		
Total loss for reportable segments	(3,619)	(52,499)
Unallocated amounts: other corporate expenses	(2,501)	(4,052)
Net finance income	6,145	8,869
Profit / (loss) before income tax	25	(47,682)
Assets		
Total assets for reportable segments	82,570	84,294
Other assets	2,191	3,647
	84,761	87,941
Liabilities		
Total liabilities for reportable segments	47,320	48,396
Other liabilities	21,398	28,754
	68,718	77,151

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2016.

2.2 Other income

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

In thousands of AUD	2017	2016
Equity-settled sale of gold rights	-	450
Fuel tax credits	85	334
Gold lease option fee	125	-
Rental income	66	-
Research and development proceeds	544	447
Net profit on sale of plant and equipment	24	268
Sundry income	26	-
	870	1,499

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.

In thousands of AUD	**2017**	**2016**
Wages and salaries	376	1,016
Superannuation expense	147	242
Other associated personnel expenses	118	174
Increase / (decrease) in liability for annual leave	24	(122)
Decrease in liability for long service leave	(46)	(124)
	619	1,186

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.

Section 2 - Results for the Year (cont.)

2.4 Net financing costs (cont.)

Net financing costs can be analysed as follows:

In thousands of AUD	Note	2017	2016
Interest income on bank deposits		19	51
Net gain on shares issued to settle convertible note interest		-	9
Net gain on settlement of terminating convertible notes		-	17,658
Net foreign exchange loss	5.2	900	-
Change in fair value of convertible note derivative	5.2	7,219	-
Finance income		8,138	17,718
Interest expense - convertible note (i)	5.2	(1,974)	(5,266)
Interest expense - loan		(7)	-
Net foreign exchange loss		-	(2,575)
Net loss on sale of investments		-	(291)
Impairment of investments		(12)	-
Change in fair value of convertible note derivative	5.2	-	(717)
Finance costs		(1,993)	(8,849)
Net finance income		6,145	8,869

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.

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

In thousands of AUD	2017	2016
Current tax expense		
Current year	-	-
Adjustments for prior periods	(346)	(1,642)
	(346)	(1,642)
Deferred tax expense		
Origination and reversal of temporary differences	346	1,642
	-	-
Total tax benefit / (expense)	-	-

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

In thousands of AUD	2017	2016
Profit / (loss) for the year	25	(47,682)
Total tax expense	-	-
Profit / (loss) excluding tax	25	(47,682)
Income tax using the Company's domestic tax rate of 30% (2016: 30%)	8	(14,305)
Share-based payments	237	385
Other non-deductible expenses	-	22
Over provided in prior periods	(346)	(1,642)
	(101)	(15,540)
Change in deductible temporary differences	101	15,540
Total income tax benefit	-	-

Section 2 - Results for the Year (cont.)

2.5 Income tax expenses (cont.)

c. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	2017	2016
Deferred tax liabilities		
Exploration expenditure	(5,181)	(4,850)
Convertible note derivative	(1,102)	-
Loans and borrowings	(136)	(148)
Other items	(77)	(184)
Deferred tax assets		
Carry forward tax losses recognised	5,969	3,341
Convertible note derivative	-	1,104
Other items	527	737
Net deferred tax asset (liability)	-	-

d. Unrecognised deferred tax assets and liabilities

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

In thousands of AUD	2017	2016
Tax losses	24,131	24,617
	24,131	24,617

At 30 June 2017, the Company has carry-forward tax losses of $30,100,000 at 30% (30 June 2016: $27,958,000) of which $5,969,000 (30 June 2016: $3,341,000) 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 2017 was based on the profit attributable to ordinary shareholders of $25,000 (2016: loss $47,682,000) and a weighted average number of ordinary shares outstanding of 856,560,000 (2016: 746,197,000).

The calculation of diluted EPS at 30 June 2017 was based on the profit attributable to ordinary shareholders of $25,000 and a weighted average number of ordinary shares outstanding of 876,861,000. Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

Basic earnings (loss) per share

In thousands of AUD	2017	2016
Profit / (loss) attributable to ordinary shareholders	25	(47,682)
Issued ordinary shares at 1 July	804,167	693,343
Effect of shares issued	52,393	52,854
Weighted average number of ordinary shares at 30 June	856,560	746,197
Basic and diluted earnings / (loss) per share (cents)	0.00	(6.39)

* Potential ordinary shares of the Company consist of 24,845,408 dilutive performance rights options issued. Due to rounding there is no variance between EPS and diluted EPS. As at 30 June 2016 in accordance with AASB 133 'Earnings per Share' options were excluded from the calculation of diluted earnings (loss) per share due to their anti-dilutive effect as the Group was in a loss making position.

Section 3 - Assets and Liabilities Supporting Exploration and Evaluation

This section focusses 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

In the 2016 year a continuation of a depressed nickel market led the Group to recognise an impairment charge against the carrying value of the Windarra project. The impairment of $48.6 million to a recoverable amount of $30 million was determined using a fair value less cost to sell basis. The recoverable amount was measured by comparing implied valuations per resource and reserve tonnes at comparable projects. At 30 June 2017, a subsequent review concluded that no 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.

Section 3 - Assets and Liabilities Supporting Exploration and Evaluation (cont.)

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.

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

In thousands of AUD	2017	2016
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	54,056	54,670
Reconciliations: exploration and evaluation phase		
Carrying amount at beginning of year	54,670	103,419
Additions	412	1,166
Research and development proceeds	-	(2,269)
Movements in provisions	(1,026)	1,866
Proceeds from sale of nickel concentrate	-	(912)
Impairment	-	(48,600)
	54,056	54,670

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 $4,463,000 (2016: $5,398,000) was expensed as incurred through the Income Statement for the period.

3.2 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.

Section 3 - Assets and Liabilities Supporting Exploration and Evaluation (cont.)

3.3 Property, plant and equipment (cont.)

In thousands of AUD	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
Cost					
Balance at 1 July 2015	1,006	648	27,370	293	29,317
Additions	-	34	40	-	74
Disposals	-	-	-	-	-
Balance at 30 June 2016	1,006	682	27,410	293	29,391
Balance at 1 July 2016	1,006	682	27,410	293	29,391
Additions	-		60	-	60
Disposals	-	-	(834)	-	(834)
Balance at 30 June 2017	1,006	682	26,636	293	28,617

In thousands of AUD	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
Depreciation and impairment losses					
Balance at 1 July 2015	310	200	1,721	242	2,473
Depreciation for the year	40	63	368	14	485
Disposals	-	-	-	-	-
Balance at 30 June 2016	350	263	2,089	256	2,958
Balance at 1 July 2016	350	263	2,089	256	2,958
Depreciation for the year	40	60	347	11	458
Disposals	-	-	(147)	-	(147)
Balance at 30 June 2017	390	323	2,289	267	3,269

Carrying amounts

In thousands of AUD	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
At 1 July 2016	696	448	25,649	51	26,844
At 30 June 2016	656	419	25,321	37	26,433
At 30 June 2017	616	359	24,347	26	25,348

(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 2017, the total carrying amount of these assets was $23,006,000 (2016: $23,506,000).

3.4 Other non-current assets

The Company holds a cash collateralised security deposit of $3,500,000 (2016: $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.

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 (2016: $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 $43,701,000 (2016: $44,727,000) 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:

In thousands of AUD	2017	2016
Carrying amount of liability at beginning of period	44,727	42,861
Addition / (Reduction) to provision	(1,026)	1,866
Carrying amount at end of period	43,701	44,727

Movements in provisions represent changes in underlying inflation, discount and timing assumptions in present value calculation.

Section 3 - Assets and Liabilities Supporting Exploration and Evaluation (cont.)

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:

In thousands of AUD	2017	2016
Less than one year	529	577
Between one and five years	1,230	1,550
More than five years	3,005	3,510
	4,764	5,637

Section 4 - Working Capital Disclosures

This section focusses 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	2017	2016
Bank balances	1,609	3,020
Term deposits	11	10
Cash and cash equivalents in the statement of cash flows	1,620	3,030

The effective interest rate on term deposits in 2017 was 2.05% (2016: 2.30%).

b. Reconciliation of cash flows from operating activities

In thousands of AUD	2017	2016
Cash flows from operating activities		
Profit / (loss) for the period	25	(47,682)
Adjustments for:		
Depreciation	342	365
Interest expenses - convertible note derivative	1,974	5,573
Interest expenses - borrowings	7	-
Change in fair value of convertible note derivative	(7,219)	717
Change in fair value of available-for-sale financial assets	12	-
Net loss on sale of investments	-	291
Net profit on sale of plant and equipment	(24)	(268)
Net gain on shares issued to settle convertible note interest	-	(9)
Net gain on settlement of terminating convertible notes	-	(17,658)
Net foreign exchange (gain) loss	(900)	2,575
Equity-settled share-based payment transactions	814	1,234
Equity-settled professional fees	-	28
Equity-settled sale of nickel rights	-	(450)
Impairment	-	48,600
Operating loss before changes in working capital and provisions	(4,969)	(6,684)
Change in trade and other receivables	59	328
Change in trade payables and employee benefits	(92)	(729)
Net cash used in operating activities	(5,002)	(7,085)

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	2017	2016
Goods and services tax receivable	64	51
Fuel tax credits receivable	24	109
Other receivables	32	35
Other assets and prepayments	117	101
	237	296

Section 4 - Working Capital Disclosures (cont.)

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	2017	2016
Trade payables	82	184
Other payables	295	310
Accrued interest - convertible note derivative	287	295
	664	789

Section 5 - Equity and Funding

This section focusses 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

	ORDINARY SHARES	
In thousands of AUD	**2017**	**2016**
Ordinary shares		
Fully paid	911,700	804,167
Total share capital on issue at 30 June	911,700	804,167
Movements in ordinary shares on issue:		
On issue at 1 July	804,167	693,343
Shares issued and expensed during the period:		
Issued for cash	95,000	74,840
Issued for consultancy fees	-	535
Issued for drilling services	-	4,327
Issued for interest on convertible notes (i)	11,184	29,654
Issued for senior employee performance bonus	549	-
Issued for exercise of performance rights	800	-
Issued for chairman performance rights	-	1,056
Shares issued but expensed during the prior period:		
Issued for directors fees	-	412
On issue at 30 June	911,700	804,167

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.

Section 5 - Equity and Funding (cont.)

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.

In thousands of AUD	Convertible note liability	Convertible note derivative	Total
Carrying amount at 30 June 2016	19,269	8,619	27,888
Fair value movements	-	(7,219)	(7,219)
Accrued interest capitalised	1,974	-	1,974
Payment of interest	(1,168)	-	(1,168)
Exchange rate effects	(767)	(132)	(899)
Carrying amount at 30 June 2017	19,308	1,268	20,576

The Company has an outstanding convertible note of US$17.5 million repayable in September 2020. On maturity the note is repayable in cash but may be converted to shares by the note holder prior to this point at a conversion price of A$0.09 per share. The interest coupon on the note is 5% and can be repaid in cash or shares at the discretion of the Company. The carrying amount of the liability has been calculated at the discounted original fair value, accrued for interest plus exchange adjustments.

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 2016 (share price $0.055) and 30 June 2017 (share price $0.019) 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 2016 was 0.7393:1 and at 30 June 2017, 0.7689:1.

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

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 118% (2016: 235%) for the Group. Refer to note 1.2 for the Group's capital management as it applies 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.

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:

In thousands of AUD	2017	2016
Share options expense	40	171
Shares granted expense	25	863
Performance rights expense	726	249
Total expenses recognised as employee costs	791	1,283

Share options

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

There were no options outstanding at 30 June 2017 (2016: 7,225,000). The director options lapsed on 23 November 2016 and executive options lapsed on 21 September 2016 as share price hurdles had not been met prior to the expiry date of the options.

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.

During the year the Group issued 549,451 shares as an ex-gratia bonus for additional work completed in relation to the Option Deed Agreement with Kidman Resources Limited. The fair value of these shares on issue date was $0.046 being measured as the difference between the purchase price and share price on the grant date (16 December 2016).

In the prior year the Group had issued 6,755,000 shares with a fair value of $0.162.

All shares vested immediately upon granting.

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^{th} percentile	0% vesting
At the 50^{th} percentile	25% vesting
Between 50^{th} and 62.5^{th} percentile	Pro-rata - straight line vesting from 25% and 50%
At the 62.5^{th} percentile	50% vesting
Between 62.5^{th} and 75^{th} percentile	Pro-rata - straight line vesting from 50% and 100%
At or above 75^{th} percentile	100% vesting

Once the Company has been in production for a minimum of 18 months, the quantum increase in reserve/resource will determine the number of performances 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.

Section 6 - Other Disclosures (cont.)

6.1 Share-based payments arrangements (cont.)

Performance rights (cont.)

Internal strategic target

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

	RESERVES AND RESOURCES GROWTH PERFORMANCE (only assessable once the Company has been in production for a minimum of 18 months)	
Internal strategic target	**LTI KPI**	**% of performance rights vesting**
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:

Grant date / employees entitled	Number of instruments	Vesting conditions
Performance rights granted to non-executive directors for director fees	7,508,845	The performance rights vest immediately upon grant
Performance rights granted to non-executive director for additional duties	7,274,961	The performance rights vest immediately upon grant
STI Performance rights granted to employees for performance bonus on 21 October 2016	5,978,776	The STI performance rights have performance based KPIs and a 1 year vesting period
LTI Performance rights granted to employees for incentive bonus on 21 October 2016	5,635,245	The LTI performance rights have a TSR and resource/reserve growth measure and a 3 year vesting period
Total rights	26,397,827	

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

	Weighted average fair value 2017	Number of performance rights 2017	Weighted average fair value 2016	Number of performance rights 2016
Outstanding at 1 July	$0.050	6,282,656	-	-
Granted during the period	$0.044	26,397,827	$0.050	8,257,981
Exercised during the period	$(0.052)	(1,856,299)	-	-
Forfeited during the period	$(0.040)	(5,978,776)	$(0.049)	(1,975,325)
Outstanding at 30 June	$0.053	24,845,408	$0.050	6,282,656
Vested and exercisable at 30 June	$0.042	14,783,805	$0.054	4,255,897

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 ("VWAP") of the Company's shares for each quarter. In addition, the Chairman receives performance rights for additional duties usually undertaken by the CEO. The number of performance rights is calculated by dividing the value of the monthly fee by the monthly VWAP.

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 $0.0267 to $0.0616 (2016: $0.0408 to $0.0814).

The performance rights forfeited are in relation to executives where achievement against KPIs set for the FY2017 STI award has resulted in the forfeiture of 100% of the performance rights granted on 21 October 2016. The performance rights outstanding at the end of 30 June 2017 were issued to executives as an LTI on 21 October 2016 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 2017	LTI 2017	STI 2016	LTI 2016
Fair value at grant date	$0.040	$0.053	$0.049	$0.040
Share price at grant date	$0.058	$0.058	$0.049	$0.049
Exercise price	Nil	Nil	Nil	Nil
Performance period	1 year	3 years	1 year	3 years
Volatility factor	95%	95%	85%	85%
Risk free rate (Government bond rate)	1.61%	1.62%	2.02%	2.05%

Section 6 - Other Disclosures (cont.)

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.

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 $1,620,000 (2016: $3,030,000) and other assets, a security deposit of $3,500,000 (2016: $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 has no sales revenue 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).

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.

Section 6 - Other Disclosures (cont.)

6.2 Financial risk management (cont.)

Liquidity risk (cont.)

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

Consolidated

30 June 2017

				CONTRACTED		
In thousands of AUD	Carrying amount	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	664	664	-	-	-	-
Convertible note	19,308	-	-	-	22,760	-
	19,972	664	-	-	22,760	-

Consolidated

30 June 2016

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

1. The balances above will not always agree to the financial statements as the contracted cash-flows above are undiscounted. The carrying amount is the balance as recognised in the Statement of Financial Position;
2. As the convertible note liability (including the associated derivative) can only be paid out in shares and not cash prior to it's maturity in 2020, the cash outflow is shown only at maturity; and
3. 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).

Exposure to currency risk

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

	30 JUNE 2017		30 JUNE 2016	
In thousands of AUD	AUD	Total	AUD	Total
Convertible note derivative	(1,268)	(1,268)	(8,619)	(8,619)
Convertible note liability	(19,308)	(19,308)	(19,269)	(19,269)
Gross statement of financial position exposure	(20,576)	(20,576)	(27,888)	(27,888)

Sensitivity analysis

The following sensitivities have been applied for 2017 and 2016 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 $1,029,000 (2016: $1,394,000).

(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:

In thousands of AUD	2017	2016
Fixed rate instruments		
Cash and cash equivalents	11	-
Convertible note liability	19,308	19,269
In thousands of AUD		
Variable rate instruments		
Cash and cash equivalents	1,609	3,013
Security deposits - environmental bond	3,497	3,517

Section 6 - Other Disclosures (cont.)

6.2 Financial risk management (cont.)

Market risk (cont.)

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 2016 and 2017 a sensitivity analysis has not been disclosed in relation to the floating interest deposits as the results have been determined to be immaterial to the Statement of Profit or Loss and Other Comprehensive Income.

(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 the convertible note derivative, the Group have used an equity price change of 90% (2016: 95%) 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, should the Group's share price be reduced by 90% the value of the derivative would be affected and the profit increased by $1,268,000 (2016: $11,231,000). An equal and opposite increase in the share price would have reduced profit by $2,283,000 (2016: $8,619,000).

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:

	LEVEL	CARRYING AMOUNT		FAIR VALUE	
In thousands of AUD		2017	2016	2017	2016
Financial assets and liabilities measured at fair value					
Convertible note derivative	Level 2	1,268	8,619	1,268	8,619
Listed equity securities	Level 1	-	12	-	12
		1,268	8,631	1,268	8,631
Financial assets and liabilities not measured at fair value					
Convertible note liability	Level 2	19,308	19,269	17,421	18,335

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.

Section 6 - Other Disclosures (cont.)

6.3 Related parties

The key management personnel compensation included in 'personnel expenses' (note 2.3) and 'share-based payments' (note 6.1), is as follows:

In thousands of AUD	2017	2016
Short term employee benefits	913	1,153
Other long term benefits	23	31
Post-employment benefits	84	101
Share-based payments	763	1,148
	1,783	2,433

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

	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST	
Parent entity			
Poseidon Nickel Ltd		2017	2016
Significant subsidiaries			
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 Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2017 the parent company of the Group was Poseidon Nickel Limited.

In thousands of AUD	2017	2016
Results of the parent entity		
Profit / (loss) for the period	25	(47,682)
Total comprehensive income / (loss) for the period	25	(47,682)
Financial position of the parent entity at year end		
Current assets	1,857	3,326
Total assets	84,761	87,941
Current liabilities	4,441	4,536
Total liabilities	68,718	77,151
Total equity of the parent entity comprising of:		
Share capital	149,948	145,470
Share-based payments reserve	757	1,113
Accumulated losses	(134,662)	(135,793)
Total equity	16,043	10,790
Exploration expenditure commitments of the parent		
Less than one year	529	577
Between one and five years	1,230	1,550
More than five years	3,005	3,510
	4,764	5,637

Section 6 - Other Disclosures (cont.)

6.6 Subsequent events

On 10 July 2017, the Company announced that it had entered into a non-binding MOU with Aphrodite Gold Limited to process gold ores at Black Swan.

On 28 August 2017, the Company announced that it had entered into a non-binding MOU with Northern Star Resources Limited to explore the option of processing free milling gold ores at Black Swan.

On 31 August 2017, the Company announced that Kidman Resources Limited had confirmed that they do not plan to exercise their option to lease the Lake Johnson plant and equipment as set out in the Option Deed.

On 13 September 2017, the Company announced that it had entered into a non-binding MOU with Lithium Australia NL to evaluate and explore joint exploration and lithium processing at Lake Johnson.

6.7 Auditor's remuneration

	CONSOLIDATED	
In AUD	2017	2016
Audit services		
Auditors of the Group - KPMG		
Audit and review of financial reports	61,000	57,278
	61,000	57,278
Services other than statutory audit		
Non-statutory review of financial reports	-	-
	61,000	57,278
	61,000	57,278

6.8 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.

6.9 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2017 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.

AASB 9 *Financial Instruments*

AASB 9, published in July 2014, replaces the existing guidance in AASB 39 *Financial Instruments: Recognition and Measurement*. AASB 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 de-recognition of financial instruments from AASB 39.

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 9. The revisions to the classification and measurement requirements and hedging changes are not currently expected to have a significant impact to the Group. Changes in relation to the expected credit loss model for calculating impairment on financial assets are not expected to have a material impact based on the short term nature of the Group's assets.

AASB 15 *Revenue from Contracts with Customers*

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

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

The Group is assessing the potential impact on of this standard on its consolidated financial statements resulting from the application of AASB 15. The Group does not currently have any revenue so there will not be a material impact.

AASB 16 *Leases*

The key feature of AASB 16 for (lease accounting) are as follows:

- Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value.
- A lessee measures right-of-use asset similarly to other non-financial assets and lease liabilities similar to other financial liabilities.
- Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-lined payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease.

AASB 16 contains disclosure requirements for lessees and is effective for annual reporting periods beginning on 1 January 2019, with early adoption permitted. The Group is assessing the potential impact on of this standard on its consolidated financial statements resulting from the application of AASB 16, which has not yet been finalised.

DIRECTORS' DECLARATION

FOR THE YEAR ENDED 30 JUNE 2017

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 40 to 77 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 2017 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 2017.

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:

G F Brayshaw

Mr G Brayshaw
Director

Perth
14 September 2017

KPMG

Independent Auditor's Report

To the shareholders of Poseidon Nickel Limited

Report on the audit of the Financial Report

Opinion

We have audited the ***Financial Report*** of Poseidon Nickel Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2017
- 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 then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG

Material Uncertainty related to Going Concern

We draw attention to Note1.2, "Going Concern" in the financial report. The conditions disclosed in Note 1.2, indicate a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report. Our opinion is not modified in respect of this matter.

In concluding there is a material uncertainty related to going concern we evaluated the extent of uncertainty regarding events or conditions casting significant doubt in the Group's assessment of going concern. Our approach to this involved:

- Assessing the Group's cash flow forecasts for incorporation of the Group's operations and plans to address going concern;
- Evaluating the feasibility, quantum and timing of the Group's plans to raise additional shareholder funds and potential funding from the realisation of value from the Group's asset base through potential sale, joint venture or other arrangement, to address going concern; and
- Determining the completeness of the Group's going concern disclosures for the principle matters casting significant doubt on the Group's ability to continue as a going concern, the Group's plans to address these matters, and the material uncertainty.

Key Audit Matters

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the ***Key Audit Matters*** to be communicated in our report:

- Exploration and Evaluation Expenditure;
- Site rehabilitation provisions; and
- Valuation of derivative financial instruments

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Exploration and evaluation expenditure (A$54.1m)

Refer to Notes 3.2 to the Financial Report

The key audit matter	How the matter was addressed in our audit
Exploration and evaluation expenditure capitalised (E&E) is a key audit matter due to: • the significance of the activity to the Group's business and the balance (being 64% of total assets); and • the greater level of audit effort to evaluate the Group's application of the requirements of the industry specific accounting standard	Our audit procedures included: • Evaluating the Group's accounting policy to recognise exploration and evaluation assets using the criteria in the accounting standard. • We assessed the Group's determination of its areas of interest for consistency with the definition in the accounting standard.

KPMG

AASB 6 *Exploration for and Evaluation of Mineral Resources*, in particular the conditions allowing capitalisation of relevant expenditure and presence of impairment indicators. The presence of impairment indicators would necessitate a detailed analysis by the Group of the value of E&E, therefore given the criticality of this to the scope and depth of our work, we involved senior team members to challenge the Group's determination that no such indicators existed.

In assessing the presence of impairment indicators, we focused on those that may draw into question the commercial continuation of E&E activities for areas of interest where significant capitalised E&E exists. We paid particular attention to:

- The impact of the ongoing uncertain nickel market and prices on the Group's strategy and intentions;
- The ability of the Group to fund the continuation of activities; and
- The Group's assessment of prospectivity for areas of interest and the associated strategy, intention and capacity of the Group for the continuation of E&E activities in those areas of interest

In assessing the conditions allowing capitalisation of relevant expenditure, we focused on:

- the determination of the areas of interest (areas);
- documentation available regarding rights to tenure, via licensing, and compliance with relevant conditions, to maintain current rights to an area of interest and the authoritative nature of external registry sources and the Group's intention and capacity to continue the relevant E&E activities;
- the Group's determination of whether the E&E are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale;

These assessments can be inherently difficult, particularly in uncertain market conditions such as those currently being experienced in the nickel industry.

- For each area of interest, we assessed the Group's current rights to tenure by corroborating the ownership of the relevant license to government registries. We also tested for compliance with conditions, such as minimum expenditure requirements, on a sample of licenses.
- We evaluated the Group's assessment of prospectivity for consistency with their stated intentions for continuing E&E in its areas of interest. We corroborated this through interviews with Directors, key operational and finance personnel. The Group documents we evaluated included:
  - internal management plans
  - minutes of board meetings
  - announcements made by the Group to the Australian Securities Exchange
- We assessed the impact of the current and potential nickel market to the Group's modelling underlying their decision for continuation of commercial of activities.
- We obtained management analysis identifying areas with existing funding and those requiring alternate funding sources. We compared this for consistency with areas with E&E, for evidence of the ability to fund continued activities. We identified those areas relying on alternate funding sources and evaluated the capacity of the Group to secure such funding.
- We tested the Group's additions to E&E for the year by evaluating a statistical sample of recorded expenditure for consistency to underlying records, the capitalisation requirements of the Group's accounting policy and the requirements of the accounting standard.

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Site rehabilitation provisions (A$43.7m)	
Refer to Note 3.5 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The determination of site rehabilitation provisions relating to Lake Johnston, Black Swan and Mt Windarra nickel exploration and evaluation assets is considered to be a key audit matter. This is due to the inherent complexity for the Group in estimating future environmental rehabilitation costs and for us in gathering persuasive audit evidence thereon, particularly those that are to be potentially incurred many years in the future. This is influenced by: • The complexity current environmental and regulatory requirements, and the impact to completeness of environmental rehabilitation activities incorporated into the provisions estimate; • The expected environmental management strategy, and the nature of costs incorporated into the provisions estimate; and • The expected timing of the expenditure given the sites are on care and maintenance with no set timeline for commencement of mining activities.	Our audit procedures included: • Comparing the basis for recognition and measurement of the provisions for consistency with environmental and regulatory requirements and criteria in the accounting standards; • Assessing the key assumptions made by the external expert utilised by the Group together with Group-prepared underlying documentation for consistency with required activities, their timing and associated cost estimation contained within the provisions; • Assessing the competence, experience and objectivity of the Group's external experts used in determination of the provisions estimate; and • Evaluating the completeness of the provisions to include each area of interest where disturbance requires rehabilitation based on our understanding of the Group's operations.

KPMG

Valuation of derivative financial instruments (A$1.2m)

Refer to Note 5.2 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The valuation of embedded share price and foreign exchange derivatives associated with the US Dollar denominated convertible notes on issue by the Group is considered to be a key audit matter due to: • relative size of the derivative balance and the potential for variability in the size of these balances year on year; • assessing key assumptions including forecasting future interest rates, foreign exchange rates and expected volatility in share price used in the valuation, requiring senior audit team effort and specialist involvement; The Group engaged an external expert to perform a valuation of the derivative at 30 June 2017.	Our procedures included: • Involving our derivative valuation specialists we assessed the valuation of the derivative. This included challenging the Group's assumptions and inputs adopted in the valuation such as forecast interest rates, foreign exchange rates and volatility in share price to independently sourced forecasting sources, and estimating future share price volatility based on historical share price data. • Assessing the competence, experience and objectivity of the Group's external expert used in the determination of the valuation; and • Checking the mathematical accuracy of the valuation of the derivative.

Other Information

Other Information is financial and non-financial information in Poseidon Nickel Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's report and ASX additional information. The Chairman's report, COO's report, Geology update and Corporate Directory are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

KPMG

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Poseidon Nickel Limited for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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 responsibilities

We have audited the Remuneration Report included in Section 7 of the Directors' report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

KPMG

Trevor Hart
Partner

Perth
14 September 2017

LEAD AUDITOR'S INDEPENDENCE DECLARATION

FOR THE YEAR ENDED 30 JUNE 2017

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 of Poseidon Nickel Limited for the financial year ended 30 June 2017 there have been:

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

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

KPMG

KPMG

Trevor Hart
Partner

Perth

14 September 2017

ASX ADDITIONAL INFORMATION

FOR THE YEAR ENDED 30 JUNE 2017

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

The shareholder information set out below was applicable as at 31 August 2017.

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	1,857	834,412
1,001 - 5,000	2,003	5,963,098
5,001 - 10,000	1,091	8,921,412
10,001 - 100,000	2,842	114,774,439
100,001 and over	1,123	834,578,283
	8,916	**965,071,644**

There were 5,980 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	12.43
Citicorp Nominees Pty Limited	69,037,314	7.15
HSBC Custody Nominees (Australia) Limited	16,038,355	1.66
J P Morgan Nominees Australia Limited	14,060,825	1.46
Mr Jimmy Thomas + Ms Ivy Ruth Ponniah	12,000,000	1.24
Fanchel Pty Ltd	11,216,900	1.16
Ryder Grove Pty Ltd <Bloomfield Family A/C>	10,000,000	1.04
Mindaroo Pty Ltd <Andrew & Nicola Forrest Family>	9,825,000	1.02
BNP Paribas Noms Pty Ltd <DRP>	8,256,821	0.86
Brahma Finance BVI Limited	7,900,000	0.82
Mr Lay Ann Ong	7,810,316	0.81
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	7,072,953	0.73
Leejames Nominees Pty Ltd <The Hepburn Super Fund A/C>	7,000,000	0.73
Pershing Australia Nominees Pty Ltd <Q1196476A/C>	6,164,677	0.64
Mr David Singleton	6,070,000	0.63
Mr David Graham Lacey + Mrs Deborah Fiona Lacey	5,340,000	0.55
Mr Christopher Charles Indermaur + Mrs Rena Elizabeth Indermaur <Indermaur Family S/F A/C>	5,143,455	0.53
Mrs Sylvia Day	5,000,000	0.52
Saggio Investments Pty Ltd <Saggio Investment A/C>	5,000,000	0.52
Mr Roger Scott Alter	4,967,500	0.51
Total	337,903,990	**35.01**

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Ordinary shares		
Forrest Family Investments Pty Ltd <Peepingee A/C>	119,999,874	12.43
Citicorp Nominees Pty Limited	69,037,314	7.15

D. Unquoted equity security holders (as at 31 August 2017)

	Number held	Percentage
Unlisted Equity Securities	Nil	Nil

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.

F. Schedule of Tenements

Areas of Interest	Tenements	Economic Entity's Interest
Western Australia		
- 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, G63/0008, 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, E63/1784	100%
- Black Swan Nickel Assets	E27/0357, M27/0039, M27/0200, M27/214, M27/0216, L27/0057, L27/0058, L27/0059, L27/0074, L27/0075, L27/0077, L27/0078, L24/0219, L24/0222	100%

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

CORPORATE DIRECTORY.

Poseidon Nickel Limited

ABN: 60 060 525 206

Incorporated in Australia

Directors

Mr C Indermaur

Mr G Brayshaw

Mr R Dennis

Mr D Singleton

Company Secretary

Ms E Kestel

Registered Office

Unit 8, Churchill Court

331-335 Hay Street

Subiaco WA 6008

Website: www.poseidon-nickel.com.au

Email: admin@poseidon-nickel.com.au

Telephone: +61 8 6167 6600

Facsimile: +61 8 6167 6649

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

POSEIDON NICKEL

www.poseidon-nickel.com.au
ABN 60 060 525 206