POSEIDON NICKEL

Annual Report 2018

Contents

Photography by Craig Kinder (F22) and Poseidon Nickel employees.
Front cover top image: Black Swan Grinding Mills.
Front cover left image: Lithium Drill Rigs at Lake Johnston.
Front cover right image: Aerial view of the Black Swan Operation.

POSEIDON NICKEL ONLINE:
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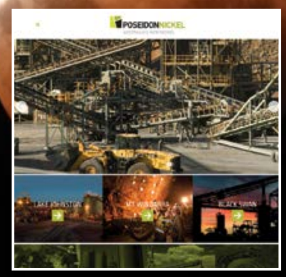
www.poseidon-nickel.com.au



A MESSAGE FROM THE CHAIRMAN

Poseidon is strongly positioned in a rising nickel market, to implement its strategy to bring operations back to commercial production.

Poseidon is committed to managing our activities in an environmentally responsible manner, complying with relevant legislation while striving towards best practice.

Poseidon has integrated Health and Safety into the culture of the Company's day to day activities.

Following the recent successfully completed placement and rights issue, the Company is strongly positioned in a rising nickel market, to implement its strategy to bring operations back to commercial production, commencing with the Black Swan operations.

I would first like to put on record our thanks and gratitude to our retired chairman Chris Indermaur and director and former CEO David Singleton. Chris and David have been a key part of the Poseidon team since its inception in 2007 and have provided the foresight and guidance to bring the Company to the position it is now in. During the past ten years their leadership and strategic guidance has enabled Poseidon to add the key assets of Lake Johnston and Black Swan to its current portfolio, assets which now provide a transformational platform for future growth.

Resulting from the placements and rights issue we have welcomed a number of new and substantial shareholders to our register, including our largest shareholder Black Mountain Metals Pty Ltd.

We welcome to the Board our two new members, Karl Paganin and Felicity Gooding, representing as nominees of our two major shareholders Black Mountain Metal Pty Ltd and Squadron Resources Pty Ltd respectively.

We have also recently reappointed Rob Dennis to the position of CEO. Rob, we believe is eminently qualified to lead the Company through the strategic path to production. Rob Dennis and Neil Hutchison (General Manager – Geology) provide further insight into our strategy going forward, our mine and plant operations and our mine site geology and exploration, in the attached reports.

Notwithstanding recent setbacks, the nickel market is widely predicted to improve during the year with reported nickel stocks falling. The move towards electric vehicles is further driving demand for our nickel sulphide. Going forward, we have a pipeline of investment opportunities to utilise the revenue flow from Black Swan production, including restarting the Lake Johnston and Windarra sites.

To complement the Black Swan production strategy, we separately have a highly prospective drilling campaign underway at Lake Johnston. Additionally, we are in discussion with a number of surrounding miners who are interested in using our surplus processing capacity to treat their ore.

We take this opportunity to thank our loyal shareholders and wish you all a very prosperous outcome in the coming nickel market.

Geoff Brayshaw
Chairman

"The nickel market is widely predicted to improve during the year with reported nickel stocks falling. The move towards electric vehicles is further driving demand for our nickel sulphide."

There is a consensus, both externally and internally, that continues to point to a firming of the nickel price in the near future.

The Black Swan Nickel Project includes the Black Swan open pit mine, the Silver Swan high-grade underground mine, the Black Swan sulphide concentrator (2.2Mtpa) and supporting infrastructure.

I am pleased to have the opportunity to re-join the team to guide Poseidon forward to an operational state with the targeted production of nickel in concentrate.

Over the past years the team has done an excellent job maintaining the business through a time of poor nickel prices. During that time, they added the strategic assets of Black Swan and Lake Johnston which places the Company in a strong position once the commodity prices firm.

There is a consensus, both externally and internally, that continues to point to a firming of the nickel price in the near future. LME nickel stocks continue to decline, stainless steel demand remains strong, and the continued advance in battery technology and battery demand support this sentiment.

Both the Black Swan and Lake Johnston Operations were closed by Norilsk Nickel for corporate reasons and hence in the case of Black Swan, underground ore at Silver Swan remains immediately accessible, subject to making the decline and associated mine openings safe to restart mining.

Significant progress has been made in relation to statutory approvals, studies and planning and works to enable a staged approach to return the Silver Swan underground mine to a safe operating condition are in progress. In parallel, we have a planned and staged schedule to refurbish the Black Swan processing plant and associated infrastructure to an operational condition. Further, the Black Swan open pit dewatering, in preparation to enable ore mining to recommence, will be scheduled into the staged Plan.

At the time of writing, recruitment of the initial key senior personnel is progressing positively and they will provide the leadership and initially guide the culture at Black Swan to ensure the Operation is returned to production on schedule and on budget. The senior team will also focus on the growth of the business to expand resources for the future.

Although the immediate focus is on bringing Black Swan into production, exploration drilling has recommenced at the Abi Rose discovery at Lake Johnston. This work is a precursor to the exploration drilling below the Black Swan open pit which presents a potential to provide additional ore, to fully utilise the capacity of the 2.2 million tpa Black Swan Processing Plant.

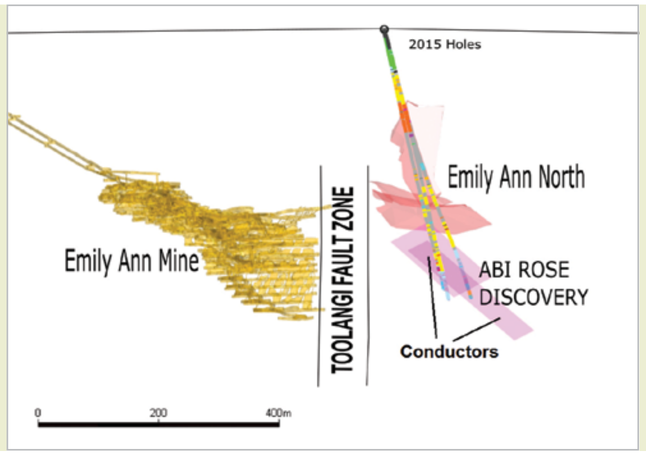
Over the last 12 months we achieved zero lost time incidents and zero medically treated incidents across our three sites at Lake Johnston, Black Swan and Mt Windarra. We remain committed to continuously improving our safety culture and minimising our environmental footprint at all of our mine sites.

Poseidon has the team, the knowledge, the equipment, infrastructure and a planned approach to return to production in a staged manner.

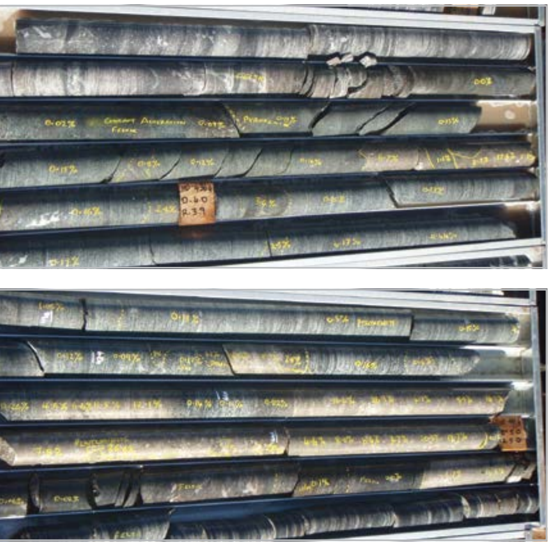
Rob Dennis
Managing Director & CEO

"Poseidon has the team, the knowledge, the equipment, infrastructure and a planned approach to return to production."

As a result of Poseidon being awarded an EIS grant to develop a new geological concept for potential extensions to mineralisation, the Abi Rose high grade nickel discovery was realised.



Long-section showing location of the Abi Rose discovery holes to the north of Emily Ann mine and Emily Ann North mineralisation. Strong EM conductor locations are shown as red and blue plates. The locations of additional weaker more extensive conductors from the DHEM data are shown in green.



Consecutive core trays in drill hole PLJD0002 containing the high-grade nickel sulphides at Abi Rose.

Abi Rose Nickel Project

The high-grade Emily Ann Nickel Deposit had historically been considered a structurally deformed komatiite hosted nickel deposit. In 2015, Poseidon challenged the historical geological understanding based on a review of the local geology and perceived controls, and developed a new geological concept for potential extensions to the mineralisation. As a result the Company was awarded $150,000 Exploration Incentive Scheme co-funding grant (EIS) to drill test this new concept. With the assistance and support of Newexco Services, Poseidon was able to test this conceptual model and intersected a new zone of high-grade nickel sulphide mineralisation close to the existing Emily Ann mine infrastructure. This high-grade nickel discovery was named "Abi Rose" and comprised a best intersection of 10.48m grading 3.20% Ni including a massive sulphide base of 2.32m at 7.62% Ni. Abi Rose is offset both vertically and horizontally some 350m to the North of Emily Ann and lies 390m below the surface.

Analysis of the 2015 drilling which discovered Abi Rose showed that the mineralisation had indeed a different geological origin to the prevailing models and it showed that Poseidon's new interpretation relating to an intrusive style of mineralisation was most likely correct.

The drilling that discovered Abi Rose indicates that the sulphides are hosted within a pyroxenitic intrusive with several pulsed flows and accumulation of both disseminated and massive sulphides at individual flow bases within a structurally controlled corridor.

The upper and lower margins exhibit chill zones and alteration halos where the intrusion had come into contact with the hosting felsic volcanics. These host felsic volcanic rocks had been overturned during earlier regional deformation, however mineralisation textures within the Abi Rose ultramafic appear right-way up and cross-cut the earlier formed stratigraphy, directly contradicting the historical recumbent folding model of an extrusive komatiite.

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. The images returned from the aerial magnetic survey shows that Abi Rose sits on a large north-south structural feature which will be targeted by further drilling 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.

Poseidon Nickel has recently announced the awarding of a surface diamond drilling contract to Mitchells Drilling Services to complete approximately 1,500m of drilling (3 holes) into the Abi Rose Prospect with the contingency of a further 1,800m should the first holes be successful. The drilling will be targeting the Abi Rose trend and is expected to take approximately 6 weeks, including downhole geophysics, for the first phase. This drilling commenced in late September 2018. A plan of the holes can be seen in Figure 1.

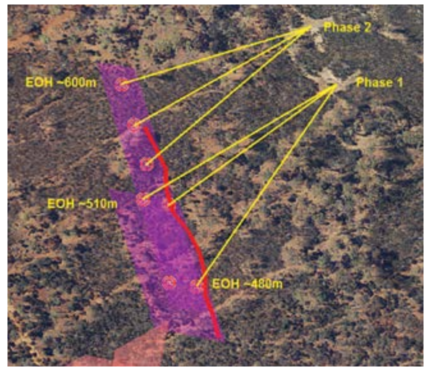


Figure 1: Plan-view of Phase 1 and 2 of the 2018 Abi Rose drill program targeting nickel mineralisation down plunge and to the north of the 2015 intersections. The purple shades indicate positive geophysical responses to potential nickel sulphides identified in the 2015 program.

"Drilling is now underway at Abi Rose with the potential to discover extensions to the mineralisation."

The results from the round of EIS drilling in 2015 are summarised below.

Nickel Sulphide Intersection Summary

Hole ID	From_m	To_m	Width	Ni Grade	Details
PLJD0001	435.39	435.58	0.19	10.20%	Remobilised massive sulphide in felsics
PLJD0002	432.00	442.48	10.48	3.20%	Felsic, ultramafic and remobilised sulphide in hw & fw
incl	*435.69*	*441.41*	*5.72*	*4.66%*	*Mineralised Ultramafic Interval*
incl	*439.09*	*441.41*	*2.32*	*7.62%*	*Lower Massive Zone*
incl	*440.12*	*441.41*	*1.29*	*10.22%*	*High Grade base*
PLJD0003	446.10	447.23	1.13	3.35%	Massive sulphides in felsics
incl	*446.10*	*446.36*	*0.26*	*8.67%*	*Remobilised massive sulphides*
	449.00	449.62	0.62	1.75%	Stringer and disseminated sulphides

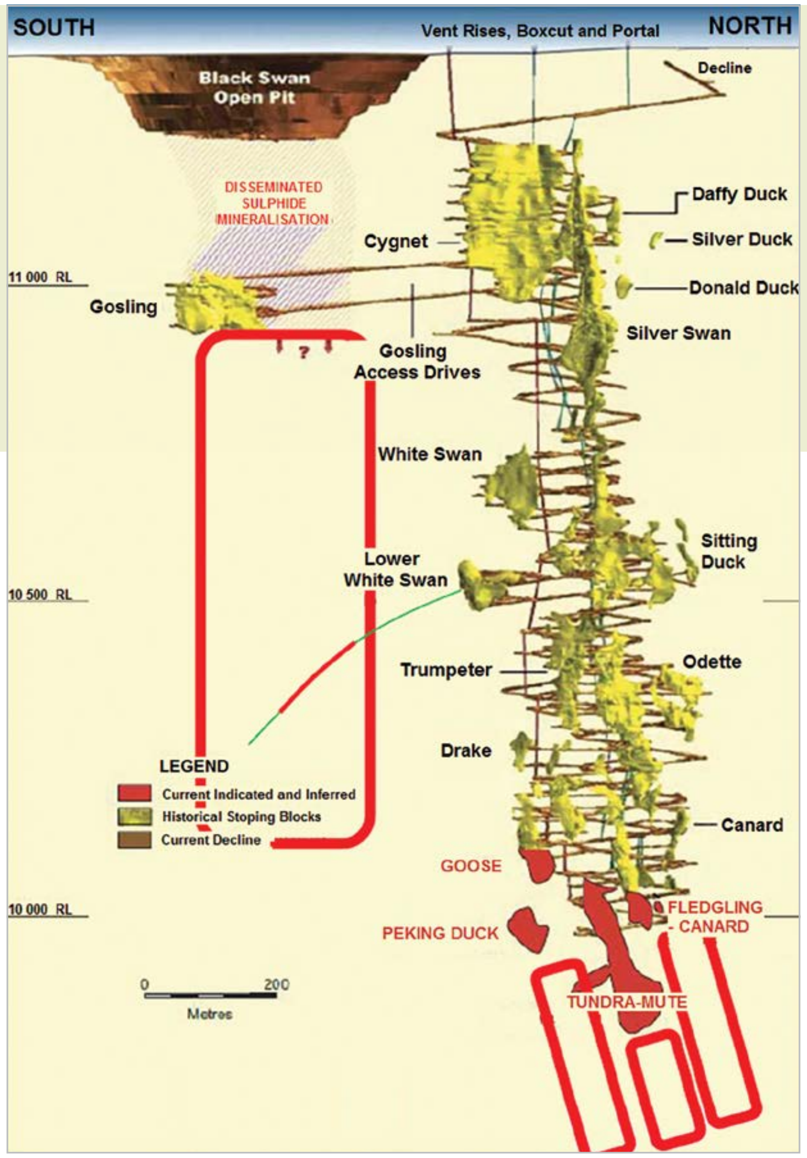
Silver Swan Nickel Project

The Silver Swan underground mine is located within the Black Swan Nickel Project, 60km east-northeast of Kalgoorlie-Boulder. In June 2016 the Company announced a 180% increase in the Indicated Category of the Silver Swan Indicated JORC Resource Estimate which now 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 totalling 136Kt @ 9.08% Ni for 12,400t of contained nickel metal.

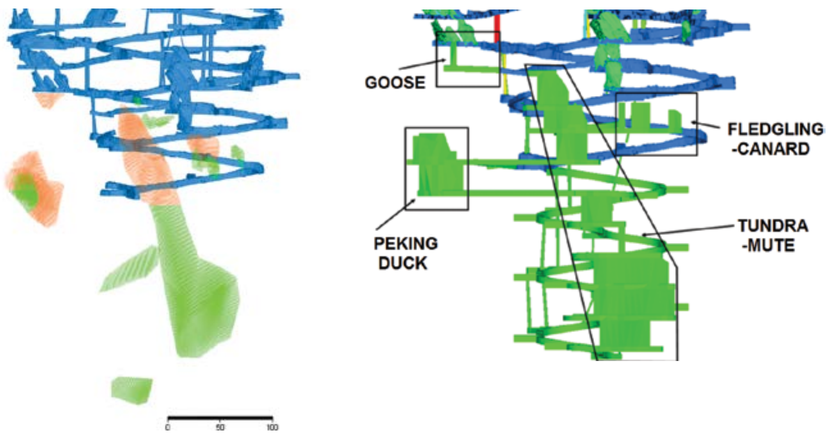
The announced results were drawn from the engineering work undertaken by MineGeotech Pty Ltd and Beck Engineering Pty Ltd (geotechnical studies) and Entech Pty Ltd (mining method, life of mine schedules, mining costs and mine capital development costs). Entech produced a Probable Ore Reserve Estimate 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.

At 9.2% Resource grade, the high-grade nickel zones at Silver Swan deliver a diluted Ore Reserve containing 3.3kt of contained nickel metal grading 5.8% nickel, 0.1% cobalt & 0.3% copper to surface. Further underground drilling has been planned to infill the resource. This will enable the Company to convert more resources into reserves to support the operations minelife.

Neil Hutchison
General Manager – Geology



Long section showing exploration potential below the existing Black Swan Open Pit and Silver Swan Underground.



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

FINANCIAL STATEMENTS

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 2018 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 Robert Dennis **Managing Director and CEO** *Member of:* • Audit & Risk Management Committee • Remuneration, Nomination & Diversity Committee Appointed 24 February 2014 Appointed as Managing Director and CEO on 1 August 2018	Mr Dennis is a mining engineer with over 40 years' experience in the nickel, copper, gold and alumina industries and was Chief Operating Officer (COO) at Independence Group (IGO). In that role, Rob oversaw the development and successful commissioning of IGO's Nova Nickel Copper Project in Fraser Range. 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.

1. Directors (cont.)

Name, and independence status	Experience, qualifications, special responsibilities and other directorships
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.
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.

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	6	6	4	4	5	5
Mr R Dennis	6	6	4	4	5	5
Mr G Brayshaw	6	6	4	4	5	5
Mr D Singleton	6	6	4	4	5	5

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 loss for the entity for the year ended 30 June 2018, after income tax is $9,654,000 (2017: profit of $25,000).

6. Operating and Financial Review

Overview

Poseidon remains committed to redeveloping its existing mines, recommissioning the process plants, restarting production and building on its exploration success with the aim of emerging as a class 1 nickel producer managed by an experienced executive team.

An initial restart of Black Swan Operation, including the high grade Silver Swan project is planned followed by redevelopment of both Windarra and Lake Johnston.

With approximately 400,000 tonnes of nickel, Poseidon holds one of the largest class 1 nickel sulphide resources in Australia and in addition owns 2 of the largest processing facilities, second only to BHP Nickel West, and is poised to become an emerging Class 1 nickel producer.

The Company is expecting the nickel market to improve in the mid-term as the clean energy technology is embraced by consumers, increased market share of electrical vehicles and stainless steel growth continues to strengthen, consequently supporting Poseidon's strategy to restart the Black Swan Nickel Operations as a priority.

Projects – Black Swan / Silver Swan

Completion of the Silver Swan underground, Black Swan open pit feasibility study including the refurbishment of the Black Swan concentrator has underpinned the Company's strategy to commence early works to support the restart the Silver Swan underground operation, Black Swan open pit and the Black Swan concentrator.

Silver Swan is one of the world's highest grade nickel mines and represents a low risk, low operating and capital cost restart opportunity. With the development schedule and path to market, Poseidon is poised to shift from a junior explorer to a nickel producer.

The successful return to an operational status for Black Swan and Silver Swan will provide a future platform for the redevelopment of both Lake Johnston and Windarra. Exploration drilling will commence in parallel at both the Black Swan and Silver Swan underground deposits as well as the newly discovered Abi Rose mineralisation at Lake Johnston.

Projects – Lake Johnston

Drilling at the high grade Abi Rose nickel discovery north of the Emily Ann Nickel mine has commenced following approval of the Programme of Works by the Department of Minerals, Industry Regulation and Safety. The initial drilling program comprises 3 diamond core drill holes for a planned 1500m with a contingency of another 3 holes comprising 1800m of core drilling should the first holes be successful.

Abi Rose was discovered during the nickel market downturn in early 2016 and has the potential to develop into an economic mineralisation.

Projects – Windarra

Windarra remains under care & maintenance. With approximately 150,000 tonnes of nickel in resource and a potential 10 year mine life the Windarra Nickel Project remains a cornerstone asset of the Company in the Northern region of the stated 3 nickel provinces that Poseidon operates in, that is Black Swan & Silver Swan – Central Nickel Province and Lake Johnston – Southern Nickel Province.

The termination of the State Agreement over the Windarra tenements is progressing. The Company is seeking to terminate the State Agreement to support the processing of gold tailings. The Windarra tailings resource includes 183,000oz and 670,000oz of gold and silver respectively. The tailings project offers further upside to the Company's forecast cashflow.

Nickel market

The financial year has seen the nickel market gain momentum driven by rising Chinese imports with nickel ore imports by China increasing significantly into 2018 while refined nickel and alloy imports also surged. Future expectations are that the global market will grow due to increasing electric vehicles penetration, growth in energy storage systems, increasing demand for traditional markets, increasing demand for stainless steel and favourable pricing.

Key trends include government support, new projects and technological advancements in batteries. Whilst the future supply/demand dynamics appear favourable for the nickel market the present trade war rhetoric between the United States and China is causing some volatility within the markets however most investors believe that the present trade barriers will likely be resolved by the US mid-term elections.

LME stocks continue to fall and are now at their lowest levels in years. At 233kt the LME is losing over 500 tonnes per day and stocks are on track to fall below 200kt by the end of this year. That will represent less than 4 weeks nickel supply. Driven by key forward indicators future pricing forecasts are positive and the Company remains on track to restart its shut operation at Black Swan in 2019.

Financial position

For the year ended 30 June 2018 the Group recorded a loss of $9,654,000 (2017: profit $25,000) 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 $6,573,000 (2017: $5,269,000). The working capital deficit as at 30 June 2018 of $2,805,000 (2017 deficit: $2,584,000) 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 $23,832,000 (2017: $20,576,000) of convertible note liability maturing September 2020, together with further site rehabilitation provisions of $42,766,000 (2017: $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 $13,289,000 (2017: $16,043,000).

The Group had a net cash outflow from operating and investing activities of $4,810,000 (2017: outflow $4,689,000), reflecting the ongoing 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 2018, the Group had cash on hand of $2,048,000.

Subsequent to 30 June 2018 (refer note 6.6 for events subsequent to reporting date) the Company raised $5.8 million (less costs, through the placement of shares to sophisticated and professional investors and a fully underwritten entitlement offer was successfully completed to raise approximately $68.98 million (less costs).

7. Remuneration Report – Audited

7.1 Principles of compensation

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

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

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

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

Total Fixed Remuneration

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

No remuneration consultants have been used in the current year and no remuneration increases have been awarded to directors and executives for FY2019, a 2% increase in remuneration was awarded for FY2018.

Short Term Incentive and Long Term Incentive Plans

The Company has suspended the STI and LTI Plans effective from 1 July 2017 and no performance rights were granted for FY2018 pursuant to these plans. The LTI Plan continues for employees with respect to FY2017.

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.

All LTI performance rights granted to executives for FY2016 were forfeited due to vesting conditions not being satisfied by the due date.

Short Term Incentive

The STI plan was approved by shareholders at the 2015 Annual General Meeting. 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.

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.

7. Remuneration Report – Audited (cont.)

7.1 Principles of compensation (cont.)

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.

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 FY2018.

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	2018	2017	2016	2015	2014
(Loss) / profit for the period	(9,654)	25	(47,682)	(21,471)	(5,837)
Dividends paid	-	-	-	-	-
Change in share price	$0.02	$(0.04)	$(0.06)	$0.04	$(0.05)
% Change in share price	94.7%	(65.5)%	(52.2)%	43.8%	(38.5)%

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.

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.

During the year 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, took on some of the duties of the CEO on a part time basis with the support of the COO and received an additional fee of $229,311 (2017: $224,814) which is based pro-rata on 40% of the CEO's salary and payable in performance rights.

At the reporting date the Company had appointed Mr R Dennis as CEO, effective 1 August 2018. The material terms of his employment contract include a base remuneration of $485,000, a bonus available of 0 to 50% of base salary and a notice period of 3 months.

7. Remuneration Report – Audited (cont.)

7.1 Principles of compensation (cont.)

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 $53,888 (except for the chairman who receives a base fee of $74,970) to cover the main board activities. Non-executive directors receive an additional fee of $5,100 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 B in the directors' and executive officers' remuneration table in section 7.2 of the directors' report.

Response to vote against 2017 remuneration report

At the 2017 Annual General Meeting, Poseidon received votes against the Remuneration Report representing greater than 25% of the votes cast by persons entitled to vote. In accordance with the Corporations Act 2001, this resulted in Poseidon receiving a "First Strike" against its 2017 Remuneration Report. In these circumstances, the act requires Poseidon to include in this year's Remuneration Report, an explanation of the Board's proposed action in response to that First Strike or, alternatively, if the Board does not propose any action, the Board's reason for such inaction.

Poseidon's response to the First Strike was to carefully consider directors fees and executive salaries. These were compared with like companies and no significant discrepancy was found. The vote was also discussed with various large and small investors.

At the time the Company had one full time executive and no CEO with the Chairman and COO covering the duties normally performed by a CEO. The Company also had a part time contract CFO and a part time contract Company Secretary.

One issue that arose was discontent with executive remuneration during a prolonged nickel downturn. It would have been possible to run the Company during that time with an executive far less qualified and was therefore arguable that we should have hired someone cheaper. In short, we were paying the individuals worth rather than the worth of the position. The Board took the view that in view of the key knowledge held it would not be prudent to let the executive go while we were holding the assets in expectation of a restart. That judgement has now been proved correct.

The Board also took the decision to cease both the short term and long term incentive schemes during the downturn. Whilst no pay cuts were implemented, no pay rises have been awarded to directors or staff for FY2019. The Board remains confident that the Poseidon remuneration policy and the level and structure of its executive remuneration are suitable for the Company and its shareholders. We therefore seek your support for this report at the Company's Annual General Meeting in November 2018.

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

		SHORT TERM	POST EMPLOYMENT	SHARE-BASED PAYMENTS					
In AUD		Salary and fees $ (A)	Superannuation benefits $	Options $	Shares $	Performance rights $ (B)	Other long term benefits $ (C)	Total $	Proportion of remuneration performance related [2]
Directors Non-executive directors									
Mr C Indermaur (Chairman)[1]	2018	-	-	-	-	324,481	-	324,481	0%
	2017	-	-	5,042	-	318,314	-	323,356	2%
Mr R Dennis	2018	-	-	-	-	64,088	-	64,088	0%
	2017	-	-	3,048	-	62,831	-	65,879	5%
Mr G Brayshaw	2018	-	-	-	-	74,088	-	74,088	0%
	2017	-	-	1,261	-	72,831	-	74,092	2%
Mr D Singleton	2018	-	-	-	-	64,088	-	64,088	0%
	2017	-	-	15,127	-	62,831	-	77,958	19%
Executives[3]									
Mr N Hutchison, GM Geology	2018	154,325	18,626	-	-	31,531	3,375	207,857	0%
	2017	288,330	27,391	4,267	-	53,725	43	373,756	15%
Mr M Rodriguez, COO	2018	367,693	25,000	-	-	58,528	50,765	501,986	0%
	2017	393,500	35,000	6,096	25,000	86,010	18,618	564,225	21%
Mr G Jones, CFO[4]	2018	39,303	5,064	-	-	4,225	2,777	51,369	0%
	2017	231,192	21,963	3,048	-	43,078	4,641	303,923	15%
Total compensation: key management personnel	2018	561,321	48,690	-	-	621,029	56,917	1,287,957	
	2017	913,022	84,354	37,889	25,000	699,620	23,302	1,783,188	

1. Mr C Indermaur undertook some of the duties of the CEO on a part time basis and for 2018 has received an additional fee of $229,311 (2017: $224,814) that was granted as Performance Rights.
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. In accordance with accounting standards an expense has been recognised in relation to LTI's, however due to not meeting performance hurdles, all of these rights have been forfeited.
4. Resigned 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 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.

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.

All LTI performance rights granted to executives for FY2016 were forfeited at 30 June 2018 due to the vesting conditions not being satisfied by the due date. Recognition of the expense is a requirement of the share-based payment accounting standard and occurs despite the forfeiture of the entire remaining LTI. The executives receive no financial benefit from the LTI in FY2018.

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

	Number of performance rights granted during 2018	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	3,056,015	30 September 2017	100%	-	2018	$0.061	81,591
	2,108,195	31 December 2017	100%	-	2018	$0.049	81,591
	1,822,049*	31 March 2018	100%	-	2018	$0.043	80,335
	2,188,190*	30 June 2018	100%	-	2018	$0.028	80,964
	9,174,449						324,481
Mr R Dennis	597,836	30 September 2017	100%	-	2018	$0.027	16,022
	376,988	31 December 2017	100%	-	2018	$0.043	16,022
	349,063*	31 March 2018	100%	-	2018	$0.046	16,022
	433,027*	30 June 2018	100%	-	2018	$0.037	16,022
	1,756,914						64,088
Mr G Brayshaw	691,119	30 September 2017	100%	-	2018	$0.027	18,522
	435,812	31 December 2017	100%	-	2018	$0.043	18,522
	403,529*	31 March 2018	100%	-	2018	$0.046	18,522
	500,595*	30 June 2018	100%	-	2018	$0.037	18,522
	2,031,055						74,088
Mr D Singleton	597,836	30 September 2017	100%	-	2018	$0.027	16,022
	376,988	31 December 2017	100%	-	2018	$0.043	16,022
	349,063*	31 March 2018	100%	-	2018	$0.046	16,022
	433,027*	30 June 2018	100%	-	2018	$0.037	16,022
	1,756,914						64,088
Executives							
Mr N Hutchison	-	-	-	-	-	-	-
Mr M Rodriguez	-	-	-	-	-	-	-
Mr G Jones	-	-	-	-	-	-	-
	14,719,332						526,745

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

* These performance rights have been granted and vested during the year but were issued subsequent to year-end.

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.

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.

An evaluation of the performance of executives during FY2018 and achievement against the KPIs set for the LTI award from 1 July 2016 resulted in the forfeiture of 100% of the FY2016 LTI performance rights granted:

			NO. OF PERFORMANCE RIGHTS		
Executives	TFR ($)	Fair value on grant date	Granted	Vested	Forfeited
Mr N Hutchison	16,444	$0.040	411,095	-	411,095
Mr M Rodriguez	33,477	$0.040	836,914	-	836,914
Mr G Jones *	13,185	$0.040	329,629	-	329,629

* LTI Performance Rights granted to Gareth Jones for FY2016 have been forfeited on his resignation, 31 August 2017.

7.3 Equity instruments

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.

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.

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

No options over ordinary shares in Poseidon Nickel Limited are held, directly, indirectly or beneficially, by key management person, including their related parties.

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 2017	Granted	Purchases or sales	Exercised and reclassified as shares	Held at 30 June 2018	Vested during the year	Vested and exercisable at 30 June 2018
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	2,776,883	-	(1,034,387)	-	1,811,270	-	-
Mr M Rodriguez	1,597,063	-	(1,597,063)	-	-	-	-
Mr G Jones *	1,061,119	-	(1,061,119)	-	-	-	-

* Resigned 31 August 2017.

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 2017	Granted	Forfeited	Exercised and reclassified as shares	Held at 30 June 2018	Vested during the year	Vested and exercisable at 30 June 2018
Directors							
Mr C Indermaur	9,878,332	9,174,449	-	-	19,052,781	9,174,449	19,052,781
Mr G Brayshaw	2,850,491	2,031,055	-	-	4,881,546	2,031,055	4,881,546
Mr R Dennis	2,459,098	1,756,914	-	-	4,216,012	1,756,914	4,216,012
Mr D Singleton	1,949,127	1,756,914	-	-	3,706,041	1,756,914	3,706,041
Executives							
Mr N Hutchison	1,724,776	-	(411,095)	-	1,313,681	-	-
Mr M Rodriguez	3,214,175	-	(836,914)	-	2,377,261	-	-
Mr G Jones *	1,382,980	-	(1,382,980)	-	-	-	-

* Resigned 31 August 2017.

8. Corporate Governance Statement

The Company's 2018 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 23 July 2018, the Company announced the appointment of Mr Robert Dennis as CEO and Managing Director with effect from 1 August 2018.

On 24 August 2018, the Company announced the placement and fully underwritten renounceable entitlement offer to raise approximately $74.6 million (before costs). The placement of 116,777,000 shares at $0.05 per share was made to sophisticated and professional investors utilising the Company's placement capacity under the ASX Listing Rules to raise approximately $5.8 million (less costs of approximately $58,000) and the launch of a fully underwritten renounceable entitlement offer will raise approximately $68.8 million at $0.05 per share (less costs of approximately $3.6 million). Eligible shareholders were entitled to apply for 11 new shares for every 10 existing shares outstanding, equating to the issue of approximately 1.375 million new shares. The funds will be used to restart the Silver Swan and Black Swan mines, bring the Black Swan plant back into production and to commence initial drilling below the Black Swan open pit and Abi Rose at the Lake Johnston Operation.

On 17 September 2018, the Company announced the completion of the renounceable entitlement issue with applications being received for 100% of all Shares offered under the Offer.

On 20 September 2018, the Company announced the issue of 1,379,506,382 ordinary fully paid shares at $0.05 per share for a total consideration of $68.98 million following closure of the renounceable entitlement issue.

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	50,812,937	-
Mr G Brayshaw	13,249,355	-
Mr R Dennis	12,015,926	-
Mr D Singleton	18,313,041	-
	94,391,259	-

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 $72,000 (2017: $61,000).

15. Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 78 and forms part of the directors' report for financial year ended 30 June 2018.

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
28 September 2018

Consolidated Statement of Financial Position

AS AT 30 JUNE 2018

In thousands of AUD	Note	2018	2017
Assets			
Cash and cash equivalents	4.1a	2,048	1,620
Trade and other receivables	4.2	279	237
Total current assets		2,327	1,857
Property, plant and equipment	3.3	24,922	25,348
Exploration and evaluation expenditure	3.1	54,270	54,056
Other	3.4	3,500	3,500
Total non-current assets		82,692	82,904
Total assets		85,019	84,761
Liabilities			
Trade and other payables	4.3	1,442	664
Loans and borrowings		42	48
Employee benefits		148	229
Provisions	3.5	3,500	3,500
Total current liabilities		5,132	4,441
Loans and borrowings	5.2	20,944	19,308
Convertible note derivative	5.2	2,888	1,268
Provisions	3.5	42,766	43,701
Total non-current liabilities		66,598	64,277
Total liabilities		71,730	68,718
Net assets		13,289	16,043
Equity			
Share capital	5.1	156,337	149,948
Reserves		1,173	757
Accumulated losses		(144,221)	(134,662)
Total equity attributable to equity holders of the Company		13,289	16,043

The notes on pages 38 to 71 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 2018

In thousands of AUD	Note	2018	2017
Other income	2.2	821	870
Depreciation expense		(48)	(60)
Personnel expenses	2.3	(227)	(619)
Exploration and evaluation costs expensed		(3,687)	(4,463)
Consultancy and advisor fees		(809)	(504)
Share-based payment expense	6.1	(645)	(791)
Other expenses		(675)	(553)
Results from operating activities		(5,270)	(6,120)
Finance income		18	8,138
Finance costs		(4,402)	(1,993)
Net finance income	2.4	(4,384)	6,145
(Loss) / profit before income tax		(9,654)	25
Income tax expense / benefit	2.5	-	-
Total comprehensive (loss) / income for the period		(9,654)	25
Earnings per share			
Basic and diluted (loss) / earnings per share (cents/share)	2.6	(0.92)	0.00

The notes on pages 38 to 71 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

In thousands of AUD	Share capital	Share-based payment reserve	Accumulated losses	Total equity
Balance at 1 July 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**
Loss for the year	-	-	(9,654)	(9,654)
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(9,654)	(9,654)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital (net of costs)	6,389	-	-	6,389
Issue of performance rights	-	511	-	511
Transfer to accumulated losses upon lapse of options and forfeiture of performance rights	-	(95)	95	-
Total contributions by and distributions to owners	6,389	416	95	6,900
Total transactions with owners	6,389	416	95	6,900
Balance at 30 June 2018	**156,337**	**1,173**	**(144,221)**	**13,289**

The condensed notes on pages 38 to 71 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

In thousands of AUD	Note	2018	2017
Cash flows from operating activities			
Sundry receipts		822	925
Payments to suppliers and employees		(4,603)	(5,946)
Interest received		18	19
Net cash used in operating activities	4.1b	(3,763)	(5,002)
Cash flows from investing activities			
Payments for property, plant and equipment		(32)	(61)
Proceeds from sale of property, plant and equipment		33	210
Proceeds from option fee to lease plant and equipment		-	500
Payments for exploration and evaluation expenditure		(1,048)	(336)
Net cash from investing activities		(1,047)	313
Cash flows from financing activities			
Proceeds from the issue of shares and options (net of costs)		5,364	3,891
Proceeds from borrowings		139	157
Repayment of borrowings		(145)	(109)
Interest paid		(120)	(660)
Net cash from financing activities		5,238	3,279
Net increase / (decrease) in cash and cash equivalents		428	(1,410)
Cash and cash equivalents at 1 July		1,620	3,030
Cash and cash equivalents at 30 June	4.1a	2,048	1,620

The notes on pages 38 to 71 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 2018 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 28 September 2018. 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 2017. Refer to note 6.9 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 6.9 for further details.

1.2 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.

1.3 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.

1.4 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.

1.5 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.

Section 1 – Basis of Preparation (cont.)

1.5 Impairment (cont.)

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.

1.6 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:

- 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	2018	2017
For the year ended 30 June		
Reportable segment other income	793	844
Reportable segment exploration costs and impairment expensed	(3,687)	(4,463)
Reportable segment (loss) before income tax	(2,894)	(3,619)
Reportable segment assets	82,378	82,570
Capital expenditure	1,181	472
Reportable segment liabilities	46,812	47,320
Reconciliations of reportable segment loss and assets		
Profit (loss)		
Total loss for reportable segments	(2,894)	(3,619)
Unallocated amounts: other corporate expenses	(2,376)	(2,501)
Net finance (costs) / income	(4,384)	6,145
(Loss) / profit before income tax	(9,654)	25
Assets		
Total assets for reportable segments	82,378	82,570
Other assets	2,641	2,191
	85,019	84,761
Liabilities		
Total liabilities for reportable segments	46,812	47,320
Other liabilities	24,918	21,398
	71,730	68,718

There have been no changes to the basis of segmentation or the measurement basis for the segment profit or loss since 30 June 2017.

2.2 Other income

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

In thousands of AUD	2018	2017
Research and development proceeds	680	544
Sundry income	141	326
	821	870

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	2018	2017
Wages and salaries	153	376
Superannuation expense	100	147
Other associated personnel expenses	44	118
(Decrease) / increase in liability for annual leave	(43)	24
Decrease in liability for long service leave	(27)	(46)
	227	619

Section 2 – Results for the Year (cont.)

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.

Net financing costs can be analysed as follows:

In thousands of AUD	Note	2018	2017
Interest income on bank deposits		18	19
Net foreign exchange gain	5.2	-	900
Change in fair value of convertible note derivative	5.2	-	7,219
Finance income		18	8,138
Interest expense – convertible note	5.2	(2,015)	(1,974)
Interest expense – loan		(6)	(7)
Net foreign exchange loss		(1,014)	-
Impairment of investments			(12)
Change in fair value of convertible note derivative	5.2	(1,367)	-
Finance costs		(4,402)	(1,993)
Net finance income		(4,384)	6,145

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	2018	2017
Current tax expense		
Current year	-	-
Adjustments for prior periods	(469)	(346)
	(469)	(346)
Deferred tax expense		
Origination and reversal of temporary differences	469	346
	-	-
Total tax benefit / (expense)	-	-

Section 2 – Results for the Year (cont.)

2.5 Income tax expenses (cont.)

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

In thousands of AUD	2018	2017
(Loss) / profit for the year	(9,654)	25
Total tax expense	-	-
(Loss) / profit excluding tax	(9,654)	25
Income tax using the Company's domestic tax rate of 30% (2017: 30%)	(2,896)	8
Share-based payments	194	237
Other non-deductible expenses	1	-
Over provided in prior periods	(469)	(346)
	(3,170)	(101)
Change in deductible temporary differences	3,170	101
Total income tax benefit	-	-

c. Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

In thousands of AUD	2018	2017
Deferred tax liabilities		
Exploration expenditure	(5,838)	(5,181)
Convertible note derivative	(616)	(1,102)
Loans and borrowings	-	(136)
Other items	(5)	(77)
Deferred tax assets		
Carry forward tax losses recognised	5,759	5,969
Loans and borrowings	354	-
Other items	346	527
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	2018	2017
Tax losses	25,960	24,131
	25,960	24,131

At 30 June 2018, the Company has carry-forward tax losses of $31,719,000 at 30% (30 June 2017: $30,100,000) of which $5,759,000 (30 June 2017: $5,969,000) 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 2018 was based on the loss attributable to ordinary shareholders of $9,891,000 (2017: profit $25,000) and a weighted average number of ordinary shares outstanding of 1,051,153,000 (2017: 856,560,000).

The calculation of diluted EPS at 30 June 2018 was based on the loss attributable to ordinary shareholders of $9,891,000 (2017: profit $25,000) and a weighted average number of ordinary shares outstanding of 1,030,710,000 (2017: 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	2018	2017
(Loss) / profit attributable to ordinary shareholders	(9,654)	25
Issued ordinary shares at 1 July	856,560	804,167
Effect of shares issued	194,593	52,393
Weighted average number of ordinary shares at 30 June	1,051,153	856,560
Basic and diluted* (loss) / earnings per share (cents)	(0.92)	0.00

* Potential ordinary shares of the Company consist of 30,006,083 dilutive performance rights options issued. Due to rounding there is no variance between EPS and diluted EPS. As at 30 June 2017 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

At 30 June 2017 and 30 June 2018, the Company has concluded that no impairment indicators existed. In making this assessment, management is required to make assessments on the status of each project and the future plans towards successful development and commercial exploitation, or alternatively sale, of the respective areas of interest.

Site restoration

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

3.1 Exploration and evaluation expenditure

ACCOUNTING POLICY

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

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

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

Impairment

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

Where a potential impairment is indicated, an assessment is performed for each CGU which is no larger than an area of interest. The Company performs impairment testing in accordance with note 1.5.

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

In thousands of AUD	**2018**	**2017**
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	54,270	54,056
Reconciliations: exploration and evaluation phase		
Carrying amount at beginning of year	54,056	54,670
Additions	1,149	412
Movements in provisions	(935)	(1,026)
	54,270	**54,056**

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 $3,687,000 (2017: $4,463,000) 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.)

3.2 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 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
Balance at 1 July 2017	1,006	682	26,636	293	28,617
Additions	-		1	31	32
Disposals	-	-	(105)	(14)	(119)
Balance at 30 June 2018	1,006	682	26,532	310	28,530

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 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
Balance at 1 July 2017	390	323	2,289	267	3,269
Depreciation for the year	40	49	312	10	411
Disposals	-	-	(58)	(14)	(72)
Balance at 30 June 2018	430	372	2,543	263	3,608

Carrying amounts

In thousands of AUD	Leasehold improvements	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
At 1 July 2017	656	419	25,321	37	26,433
At 30 June 2017	616	359	24,347	26	25,348
At 30 June 2018	576	310	23,989	47	24,922

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, ready for use. No depreciation has been charged on these assets.

At 30 June 2018, the total carrying amount of these assets was $22,983,000 (2017: $23,006,000).

3.4 Other non-current assets

The Company holds a cash collateralised security deposit of $3,500,000 (2017: $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 (2017: $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 $42,766,000 (2017: $43,701,000) 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	2018	2017
Carrying amount of liability at beginning of period	43,701	44,727
Addition / (reduction) to provision	(935)	(1,026)
Carrying amount at end of period	42,766	43,701

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	2018	2017
Less than one year	814	529
Between one and five years	2,938	1,230
More than five years	5,620	3,005
	9,372	4,764

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	2018	2017
Bank balances	2,036	1,609
Term deposits	12	11
Cash and cash equivalents in the statement of cash flows	2,048	1,620

The effective interest rate on term deposits in 2018 was 1.80% (2017: 2.05%).

b. Reconciliation of cash flows from operating activities

In thousands of AUD	2018	2017
Cash flows from operating activities		
(Loss) / profit for the period	(9,654)	25
Adjustments for:		
Depreciation	411	342
Interest expenses – convertible note derivative	2,007	1,974
Interest expenses – borrowings	6	7
Change in fair value of convertible note derivative	1,367	(7,219)
Change in fair value of available-for-sale financial assets	-	12
Net loss / (profit) on sale of plant and equipment	15	(24)
Net foreign exchange (gain) / loss	1,014	(900)
Equity-settled share-based payment transactions	512	814
Operating loss before changes in working capital and provisions	(4,322)	(4,969)
Change in trade and other receivables	(42)	59
Change in trade payables and employee benefits	601	(92)
Net cash used in operating activities	(3,763)	(5,002)

Section 4 – Working Capital Disclosures (cont.)

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	2018	2017
Goods and services tax receivable	123	64
Fuel tax credits receivable	12	24
Other receivables	45	32
Other assets and prepayments	99	117
	279	237

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	2018	2017
Trade payables	695	82
Other payables	451	295
Accrued interest – convertible note derivative	296	287
	1,442	664

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.

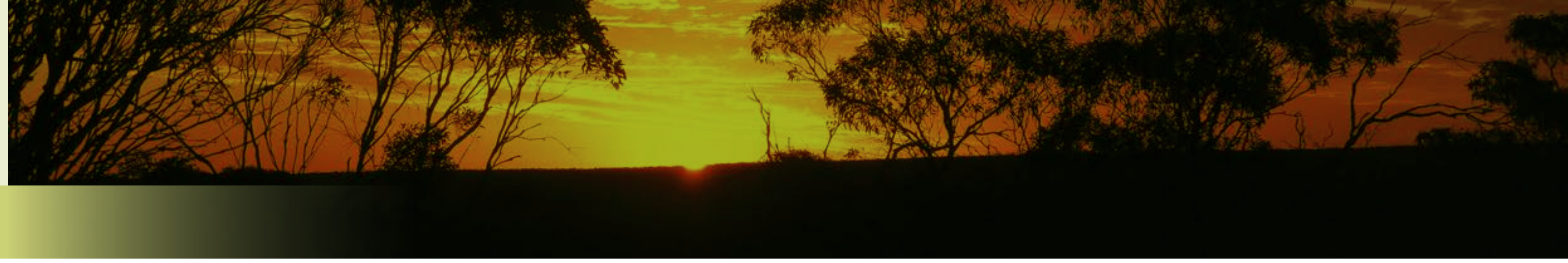
5.1 Capital and reserves

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 shares	2018	2017
Ordinary shares		
Fully paid	1,107,373	911,700
Total share capital on issue at 30 June	1,107,373	911,700
Movements in ordinary shares on issue:		
On issue at 1 July	911,700	804,167
Shares issued and expensed during the period:		
Issued for cash	160,000	95,000
Issued for interest on convertible notes (i)	35,673	11,184
On issue at 30 June	1,107,373	911,700



Section 5 – Equity and Funding (cont.)

5.1 Capital and reserves (cont.)

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

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

Purpose of reserves

Share-based payment reserve

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

5.2 Loans and borrowings – Convertible note

Convertible note liability and derivative

ACCOUNTING POLICY

Convertible note liability

The liability component of a convertible note is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The embedded derivative component is recognised initially at fair value and the liability component is calculated as the difference between the financial instrument as a whole and the value of the derivative at inception. Any directly attributable transaction costs are allocated to the convertible note liability and convertible note derivative in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of the convertible note is measured at amortised cost using the effective interest method.

Convertible note derivative

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

The convertible note liability and derivative are removed from the Statement of Financial Position when the obligations specified in the contract are discharged, this can occur upon the option holder exercising their option or the option period lapses requiring the Company to discharge the obligation.

In thousands of AUD	Convertible note liability	Convertible note derivative	Total
Carrying amount at 30 June 2017	19,308	1,268	20,576
Fair value movements	-	1,367	1,367
Accrued interest capitalised	2,015	-	2,015
Payment of interest	(1,140)	-	(1,140)
Exchange rate effects	761	253	1,014
Carrying amount at 30 June 2018	20,944	2,888	23,832

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 2017 (share price $0.019) and 30 June 2018 (share price $0.037) 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 2017 was 0.7689:1 and at 30 June 2018, 0.7406:1.

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 164% (2017: 118%) for the Group.

There were no changes in the Group's approach to capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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	2018	2017
Share options expense	-	40
Shares granted expense	-	25
Performance rights expense	645	726
Total expenses recognised as employee costs	645	791

Share options

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

There were no options outstanding at 30 June 2018 (2017: Nil). 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.

In the prior 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).

All shares vested immediately upon granting.

Performance rights

The Company has suspended the STI and LTI Plans effective from 1 July 2017 and no performance rights were granted for FY2018. The LTI Plan continues for employees with respect to FY2017.

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 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

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	8,153,883	The performance rights vest immediately upon grant
Performance rights granted to non-executive director for additional duties	6,565,449	The performance rights vest immediately upon grant
Total rights	14,719,332	

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

	Weighted average fair value 2018	Number of performance rights 2018	Weighted average fair value 2017	Number of performance rights 2017
Outstanding at 1 July	$0.053	24,845,408	$0.050	6,282,656
Granted during the period	$0.036	14,719,332	$0.044	26,397,827
Exercised during the period	-	-	$(0.052)	(1,856,299)
Forfeited during the period	($0.036)	(3,080,110)	$(0.040)	(5,978,776)
Outstanding at 30 June	$0.047	36,484,630	$0.053	24,845,408
Vested and exercisable at 30 June	$0.036	14,719,332	$0.042	14,783,805

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 $0.0268 to $0.0459 (2017: $0.0267 to $0.0616).

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 2018	LTI 2018	STI 2017	LTI 2017
Fair value at grant date	-	-	$0.040	$0.053
Share price at grant date	-	-	$0.058	$0.058
Exercise price	-	-	Nil	Nil
Performance period	-	-	1 year	3 years
Volatility factor	-	-	95%	95%
Risk free rate (Government bond rate)	-	-	1.61%	1.62%

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 $2,048,000 (2017: $1,620,000) and other assets, a security deposit of $3,500,000 (2017: $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.

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 2018						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	1,442	1,442	-	-	-	-
Convertible note	20,944	-	-	-	23,629	-
	22,386	1,442	-	-	23,629	-

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	-

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 2018		30 JUNE 2017	
In thousands of AUD	AUD	Total	AUD	Total
Convertible note derivative	(2,888)	(2,888)	(1,268)	(1,268)
Convertible note liability	(20,944)	(20,944)	(19,308)	(19,308)
Gross statement of financial position exposure	(23,832)	(23,832)	(20,576)	(20,576)

Sensitivity analysis

The following sensitivities have been applied for 2018 and 2017 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 $1,191,000 (2017: $1,029,000).

Section 6 – Other Disclosures (cont.)

6.2 Financial risk management (cont.)

Market risk (cont.)

(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	2018	2017
Fixed rate instruments		
Cash and cash equivalents	12	11
Convertible note liability	20,944	19,308
In thousands of AUD		
Variable rate instruments		
Cash and cash equivalents	2,036	1,609
Security deposits – environmental bond	3,500	3,497

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 2017 and 2018 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% (2017: 90%) upper and lower representing a reasonable possible change based upon the Company's historic share price volatility over the last 3 years of trading. 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 $2,873,000 (2017: $1,268,000). An equal and opposite increase in the share price would have reduced profit by $5,485,000 (2017: $2,283,000).

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		2018	2017	2018	2017
Financial assets and liabilities measured at fair value					
Convertible note derivative	Level 2	2,888	1,268	2,888	1,268
Financial assets and liabilities not measured at fair value					
Convertible note liability	Level 2	20,944	19,308	19,550	17,421

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	2018	2017
Short term employee benefits	561	913
Other long term benefits	57	23
Post-employment benefits	49	84
Share-based payments	621	763
	1,288	1,783

Individual directors and executives compensation disclosures

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

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

6.4 Group entities

Significant subsidiaries

Parent entity	COUNTRY OF INCORPORATION	OWNERSHIP INTEREST 2018	OWNERSHIP INTEREST 2017
Poseidon Nickel Limited			
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 2018 the parent company of the Group was Poseidon Nickel Limited.

In thousands of AUD	2018	2017
Results of the parent entity		
(Loss) / profit for the period	(9,654)	25
Total comprehensive (loss) / income for the period	(9,654)	25
Financial position of the parent entity at year end		
Current assets	2,327	1,857
Total assets	85,019	84,761
Current liabilities	5,132	4,441
Total liabilities	71,730	68,718
Total equity of the parent entity comprising of:		
Share capital	156,337	149,948
Share-based payments reserve	1,173	757
Accumulated losses	(144,221)	(134,662)
Total equity	13,289	16,043
Exploration expenditure commitments of the parent		
Less than one year	814	529
Between one and five years	2,938	1,230
More than five years	5,620	3,005
	9,372	4,764

Section 6 – Other Disclosures (cont.)

6.6 Subsequent events

On 23 July 2018, the Company announced the appointment of Mr Robert Dennis as CEO and Managing Director with effect from 1 August 2018.

On 24 August 2018, the Company announced the placement and fully underwritten renounceable entitlement offer to raise approximately $74.6 million (before costs). The placement of 116,777,000 shares at $0.05 per share was made to sophisticated and professional investors utilising the Company's placement capacity under the ASX Listing Rules to raise approximately $5.8 million (less costs of approximately $58,000) and the launch of a fully underwritten renounceable entitlement offer will raise approximately $68.8 million at $0.05 per share (less costs of approximately $3.6 million). Eligible shareholders were entitled to apply for 11 new shares for every 10 existing shares outstanding, equating to the issue of approximately 1.375 million new shares. The funds will be used to restart the Silver Swan and Black Swan mines, bring the Black Swan plant back into production and to commence initial drilling below the Black Swan open pit and Abi Rose at the Lake Johnston Operation.

On 17 September 2018, the Company announced the completion of the renounceable entitlement issue with applications being received for 100% of all Shares offered under the Offer.

On 20 September 2018, the Company announced the issue of 1,379,506,382 ordinary fully paid shares at $0.05 per share for a total consideration of $68.98 million following closure of the renounceable entitlement issue.

6.7 Auditor's remuneration

	CONSOLIDATED	
In AUD	2018	2017
Audit services		
Auditors of the Group – KPMG		
Audit and review of financial reports	72,000	61,000
	72,000	61,000
Services other than statutory audit		
Non-statutory review of financial reports	-	-
	72,000	61,000
	72,000	61,000

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 has assessed 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 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 has assessed 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.

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

   (a) the consolidated financial statements and notes that are set out on pages 34 to 71 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 2018 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 2018.

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
28 September 2018

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 2018 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 2018
- 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.

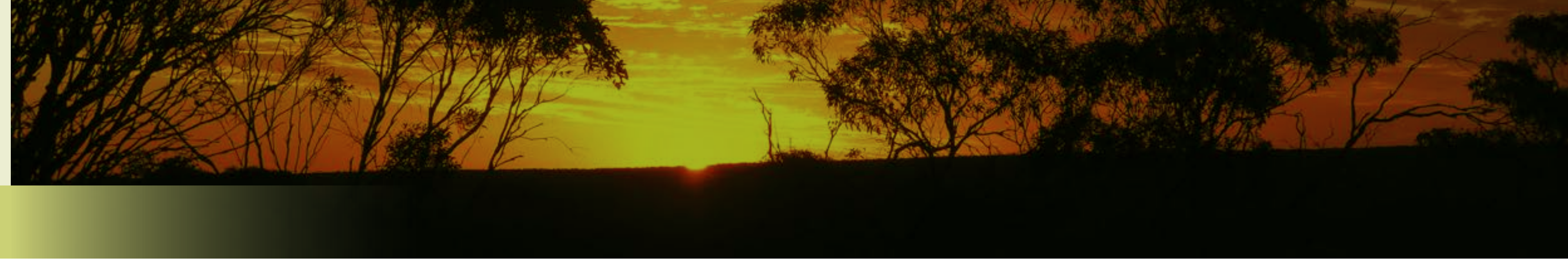
Key Audit Matters

The ***Key Audit Matters*** we identified are:

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

Key Audit Matters are those matters that, in our professional judgement, 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.

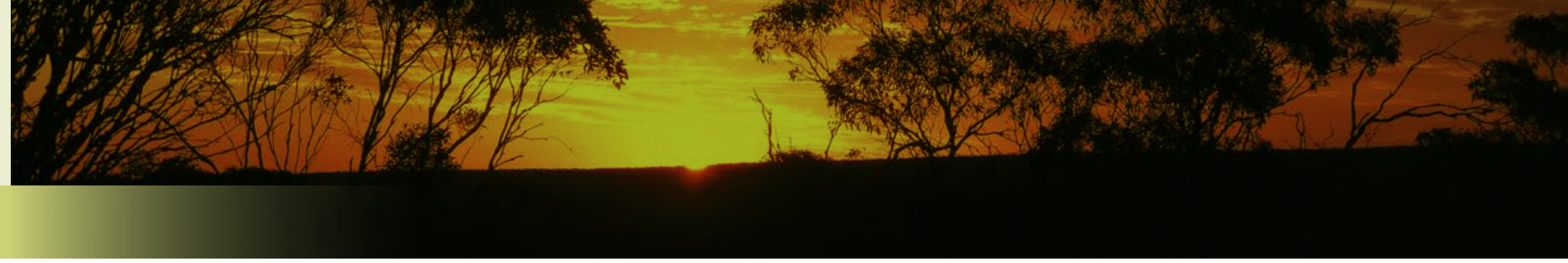


Exploration and evaluation expenditure (A$54.3m)	
Refer to Note 3.1 to the Financial Report	
The key audit matter	**How the matter was addressed in our audit**

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 industry specific accounting standard 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. Given the criticality of this to the scope and depth of our work, we involved senior team members to challenge the Group's determination of no impairment indicators.
 	
In assessing the conditions allowing capitalisation of relevant expenditure, we focused on:
• the determination of the areas of interest (areas);
• the documentation available regarding rights to tenure and compliance with relevant conditions to maintain current rights to an area of interest;
• the authoritative nature of external registry sources;
• the Group's intention and capacity to continue the relevant E&E activities; and
• the Group's determination of E&E recovery through successful development and exploitation of the area of interest, or alternatively, by its sale;
 	
In assessing the presence of impairment indicators, we focused on those which may draw into question the commercial continuation of E&E activities for areas of interest where significant capitalised E&E exists. In addition to the assessments above, 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
	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.
	
	• For each area of interest, we checked the Group's current rights to tenure 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 assessed this through interviews with Directors and key operational and finance personnel. The Group documents we evaluated included:
	  • internal plans
	  • minutes of board meetings
	  • announcements made by the Group to the Australian Securities Exchange
	
	• We assessed the impact of the ongoing uncertain nickel market to the Group's models underlying their decision for commercial continuation of activities.
	
	• We obtained the Group's analysis of areas with existing funding and those requiring alternate funding sources. We compared this for consistency to 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 additions to E&E in the year by evaluating a statistical sample for consistency to underlying records, the capitalisation requirements of the Group's accounting policy and the requirements of the accounting standard.

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

Site rehabilitation provisions (A$42.7m)	
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 on the costs, particularly regarding those to potentially be incurred many years in the future. This is influenced by: • The current environmental and regulatory requirements, and the impact on 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 Group's determination of future required activities, their timing, and associated cost estimations contained within the provisions. We did this by comparing to the Group's external expert reports as well as Group-prepared documentation across the sites where future obligations exist. These comparisons included unit costs, levels of disturbance and relevant regulatory requirements. We did this with an understanding of the Group's strategy for each site. • Assessing the competence, scope and objectivity of the Group's external experts used in determination of the provisions estimate. • 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.



Valuation of derivative financial instruments (A$2.8m)	
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 forecast interest rates, foreign exchange rates and expected volatility in share price used in the valuation, required senior audit team effort and specialist involvement. The Group engaged an external expert to perform a valuation of the derivative at 30 June 2018.	Our procedures included: • Involving our derivative valuation specialists we assessed the valuation of the derivative. This included evaluating the Group's key assumptions in the valuation, such as forecast interest rates, foreign exchange rates and expected volatility in share price, against independently sourced forecasting sources. • Assessing the competence, scope and objectivity of the Group's external expert used in the determination of the valuation. • 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. The Chairman's Report, Managing Director's Report, Other operational reports and ASX additional information 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.

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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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 and Company 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_responsibilities/ar1.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 2018, 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 2018.

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

28 September 2018

KPMG

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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 2018 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
28 September 2018

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

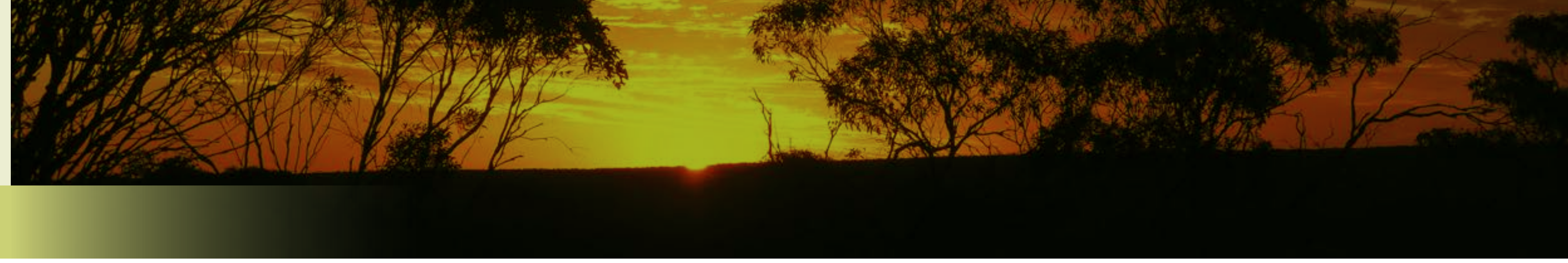
The shareholder information set out below was applicable as at 26 September 2018.

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	1,795	801,720
1,001 – 5,000	1,875	5,511,190
5,001 – 10,000	1,034	8,461,422
10,001 – 100,000	3,103	123,785,684
100,001 and over	1,382	2,504,141,815
	9,189	2,642,701,831

There were 4,274 holders of less than a marketable parcel of ordinary shares.



B. Equity security holders

Twenty largest quoted equity security holders

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

	ORDINARY SHARES	
Name	Number held	Percentage of issued shares
Black Mountain Metals Pty Ltd	522,925,412	19.79
Forrest Family Investments Pty Ltd <Peepingee A/C>	452,292,204	17.11
Citicorp Nominees Pty Limited	120,133,376	4.55
CS Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11 A/c>	114,647,668	4.34
J P Morgan Nominees Australia Limited	107,849,852	4.08
Brispot Nominees Pty Ltd <House Head Nominee A/c>	90,630,582	3.43
UBS Nominees Pty Ltd	78,147,266	2.96
Mr Christopher Charles Indermaur	40,011,682	1.51
Brazil Farming Pty Ltd	25,000,000	0.95
Minderoo Pty Ltd <Andrew & Nicola Forrest Family Investment A/c>	20,632,500	0.78
HSBC Custody Nominees (Australia) Limited	19,116,424	0.72
Fanchel Pty Ltd	18,359,951	0.69
Brahma Finance BVI Limited	17,900,000	0.68
Xue Investments Pty Limited <Xue Family A/c>	14,950,000	0.57
Mr Damian Ronald Gillman + Mrs Lucia Gillman <Damian & Lucia Gillman A/c>	12,500,000	0.47
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	12,026,672	0.46
Mr Robert Dennis	12,015,926	0.45
National Nominees Limited	11,851,766	0.45
Mr Christopher Charles Indermaur + Mrs Rena Elizabeth Indermaur <Indermaur Family S/F A/C>	10,801,255	0.41
Quotidian No 2 Pty Ltd	10,700,000	0.40
Total	1,712,492,536	64.80

C. Substantial holders

Substantial holders in the Company are set out below:

	Number held	Percentage
Ordinary shares		
Black Mountain Metals Pty Ltd	522,925,412	19.79
Forrest Family Investments Pty Ltd <Peepingee A/C>	452,292,204	17.11

D. Unquoted equity security holders (as at 26 September 2018)

	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 R Dennis

Mr G Brayshaw

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