POSEIDON
NICKEL

ASX: POS | poseidon-nickel.com.au

Annual Report 2020

Contents

Our Assets

Poseidon Nickel Limited (ASX Code: POS) is a nickel sulphide exploration and development company with three projects located within a radius of 300km from Kalgoorlie in the Goldfields region of Western Australia and a resource base of around 400,000 tonnes of nickel and 180,000 ounces of gold.

Our Strategy

Poseidon's strategy is focused on the exploration and eventual restart of its established nickel operations in Western Australia where project risk capital and operating costs are low. A critical element of this strategy has been to acquire projects and operations with high levels of geological prospectivity likely to lead to potential substantial extension of the operation's life through the application of modern exploration techniques.

Poseidon owns the Windarra, Black Swan and the Lake Johnston Nickel Projects. In addition to the mines and infrastructure including concentrators at Black Swan and Lake Johnston, these projects have significant exploration opportunities demonstrated by the discovery of the Abi Rose deposit at Lake Johnston and the recent discovery of the Golden Swan mineralisation at Black Swan. The Company is also undertaking a Definitive Feasibility Study on retreating the gold tailings at Windarra given the strength of the A$ gold price.

Chairman's letter

Dear shareholders,

Since commencing as Chairman on 1 December 2019 my focus has been on understanding our asset base and working with the board and executive team to assist in driving the Company's future strategy.

We have a unique mix of Western Australian nickel sulphide assets which have all had significant historical production and currently host combined resources of close to 400,000 tonnes of contained nickel. In addition, we have two nickel sulphide processing plants, both on care and maintenance and three gold tailings dams at Windarra which contain a sizeable gold resource of around 180,000 ounces.

We recognise shareholders have invested in Poseidon primarily for exposure to nickel and ultimately are seeking a return through share capital appreciation or a dividend stream or hopefully, both. We appreciate the degree of volatility associated with nickel as a commodity and that the economics of any nickel mining project needs to be robust to ensure ongoing profitability. Notwithstanding the historical price volatility, the continued growth in stainless steel production and the electric vehicle revolution will in our view see the demand for nickel continue to rise. This bodes well for the nickel price outlook and therefore our ability to monetise our nickel assets.

The Company has done considerable work in the past few years on studying the economics of restarting the Black Swan Operations and that asset remains our priority in terms of a near term nickel producing asset. Following the success of the drilling at Black Swan in discovering the new high-grade Golden Swan mineralisation, the potential for the Black Swan plant to have another high-grade feed source is becoming increasingly evident. We will continue to focus our exploration activities on Golden Swan and the Southern Terrace given the potential this area has to host multiple,

high grade nickel deposits. We will also continue to study the various production scenarios at Black Swan given the multiple ore sources that are available. In addition, we will spend the coming year determining how best to deal with our other nickel assets, being Mt Windarra and Lake Johnston.

Our other focus recently has been on the gold tailing at Windarra on which we have completed a Prefeasibility Study which indicated favourable economics at the current spot gold price. We have committed to a Definitive Feasibility Study which will be completed during the remainder of this calendar year. While gold is not our core metal, we see this as an opportunity to potentially monetise our "gold option".

We have also been focusing on reducing our cost base and have recently repaid the US$17.5 million convertible note so that we are debt free.

We have had a number of personnel changes at both board and management level. At Board level, Geoff Brayshaw and Karl Paganin retired from the board in June, and Dean Hildebrand and Peter Muccilli joined the board in July and August respectively. On behalf of the Company, can I sincerely thank both Geoff and Karl for their exceptional service and contribution to the Company. Dean and Peter have already proved exceptional directors and I look forward to working with them.

Can I also take this opportunity to formally welcome our new Managing Director and CEO, Peter Harold, who joined the Company in March. Peter's input and contribution has already been considerable and I look forward to continuing to develop a productive and close working relationship with him. Whilst on the subject of CEO's I would also like to thank David Riekie who stepped in as interim CEO until Peter was appointed and settled.

Finally, can I take this opportunity to thank you, our valued shareholders, for your continued support. We have all the ingredients needed to create a successful mining business:

- orebodies;
- processing plants;
- positive commodity price environment;
- experienced personnel; and
- loyal and supportive shareholders.

We are committed to achieving our vision of becoming a self-funding mining producer and confident we will achieve this. We trust you will remain with us for what will be a very exciting and hopefully very rewarding journey.

Derek La Ferla
Chairman

Managing Director & CEO Report

Dear shareholders,

It has been another year of change for Poseidon Nickel. There were several changes at board level and within the senior management team including the arrival of our new Chairman, Derek la Ferla and our new CFO, Brendan Shalders who both started late in 2019 and myself who joined in March this year.

In addition, two board members, Geoff Brayshaw and Karl Paganin retired in June this year, and we brought on two new directors, Peter Muccilli and Dean Hildebrand, to replace them. Peter is a geologist with a wealth of experience in nickel sulphide exploration and discovery and Dean has a financial background and represents one of our major shareholders, Black Mountain Metals.

Following the completion of the Black Swan Restart Feasibility Study in mid-2018 significant funds were raised in September 2018. These funds were originally intended to finance the restart, however the nickel price collapsed, and the Board and management made the correct decision to defer the Black Swan restart, pending a sustained recovery in the nickel price. Since then some remediation works have been undertaken in both the underground mine and the processing plant to maintain both in safe condition, supporting any future restart works at Black Swan.

Given the changes in the senior executive team and board we also spent considerable time reviewing our asset base and our corporate strategy to ensure our goals were clearly defined and we had a pathway to achieving our vision of becoming a self-funding mining company.

The asset review lead to a reprioritising of our exploration effort with the focus on finding more high-grade nickel at Black Swan. During the first part of the year the Silver Swan resource was upgraded to 168,000 tonnes at 9.5% for 16,030 tonnes of nickel. Then in March this year we commenced a diamond drilling programme to test a downhole electromagnetic anomaly identified by previous drilling. The target was located only 300 metres to the south of the Silver Swan Channel which has historically produced over 137,000 tonnes of nickel. The maiden intersection returned an impressive 7.6 metres at 8.8% nickel together with some copper and cobalt credits, which we named the Golden

Swan discovery. Unfortunately, we had to suspend the drill programme shortly afterwards to ensure the safety of our staff and contractors during the initial stages of the COVID-19 pandemic. It was not until July, when we were able to resume the drilling, that we were rewarded with a second significant intersection into Golden Swan which returned 9.0 metres at 10.4% nickel. We have since installed a fixed underground electromagnetic loop and drilled additional holes in the vicinity to do further electromagnetic surveys. These surveys have indicated that the Golden Swan mineralisation could extend over a significant strike length. Our geology team and geophysics consultants have also determined that the newly discovered Golden Swan mineralisation sits within a previously unknown geological structure, referred to as the Southern Terrace, which could host additional high-grade nickel sulphide mineralisation.

Golden Swan and the Southern Terrace will remain the primary exploration focus of Poseidon for the foreseeable future. The Board has recently committed to the construction of a 400-metre drill drive from the adjacent Silver Swan decline to allow close spaced drilling of the Golden Swan mineralisation. We plan to complete the drill drive by early 2021 and commence resource drilling soon after. We are encouraged by the high-grades of the Golden Swan mineralisation and the knowledge that the adjacent Silver Swan Channel hosted some very high grade deposits including the original Silver Swan orebody which had a maiden resource of 440,000 tonnes grading 14% nickel for 61,500 tonnes of nickel contained.

Any additional high-grade ore that can be converted to reserves at Black Swan will enhance the project economics by extending the mine life and improving the margins. Assuming we can prove up an orebody at Golden Swan we will look at options to monetise the asset which could include mining and processing it at Black Swan, direct shipping ore to a third party concentrator or combining it with other orebodies at Black Swan. It will be very exciting to see how the Golden Swan resource drilling progresses and whether the Southern Terrace holds multiple mineralised zones.

At Mount Windarra, 25 kilometres west of Laverton, we carried out a reverse circulation drilling program during the year at the Crazy Diamond prospect. Both gold and nickel mineralisation were reported albeit low grade. Given the previous nickel mining history at Mount Windarra and the existing resource base we continue to rate Windarra highly in our portfolio in terms of exploration potential and will do more exploration there when funds permit.

At Lake Johnston we have significant infrastructure including a 1.5 million tonne per annum concentrator and the Maggie Hays orebody which contains 52,000 tonnes of nickel. Lake Johnston remains of considerable interest to us because of the potential for more komatiite style orebodies and even the possibility of finding an intrusive orebody like the Nova-Bollinger deposit in the Fraser Range. We continue to consider our funding options for Lake Johnston as aggressive exploration will require significant funding.

Another change which has resulted in an opportunity for Poseidon has been the strength of the Australian dollar gold price which resulted is us reviewing the economics of retreating the gold tailings at Windarra. During the year we undertook a Prefeasibility Study on treating the North and South dams which mostly contain tailings from the gold operations historically conducted at Beasley Creek and Lancefield by Western Mining Corporation. The combined resource of the North and South dams is 4.55 million tonnes at 0.72 g/t gold for 105,000 ounces of gold.

The Prefeasibility Study demonstrated the potential to produce approximately 44,000oz of gold over a 39-month period utilising low-cost hydraulic mining and conventional CIL processing with estimated capital costs of around $25 million. We also identified another gold tailings resource at Lancefield which we have secured an option to treat the tailings. Based on the results of the Prefeasibility Study the Board approved a Definitive Feasibility Study incorporating the Lancefield material. While gold is not our primary focus, we treat this project as a gold option.

Nickel is the commodity we are focused on and while it has continued to experience considerable price volatility over the past few years the demand for stainless steel continues to increase and we are seeing encouraging signs in relation to the forecast increase demand from the battery sector. By weight, nickel is one of the main components of the nickel-lithium batteries that electric vehicles use. The battery market presently consumes between 50 and 100 thousand tonnes of battery-grade Class 1 nickel per annum with many industry commentators forecasting demand to rise to as much as 500 thousand tonnes per annum by 2030. The future for nickel looks bright and Poseidon is well placed to benefit from the stronger nickel prices which will eventuate if nickel demand grows as anticipated.

I am excited about the future of Poseidon and would like to take this opportunity to thank the board for their guidance and support since I commenced and all our dedicated staff and consultants who continue to work hard to achieve our stated goals. Also, thanks to David Riekie who was Interim CEO between Rob Dennis's departure and my arrival. And finally, thank you to our shareholders for their ongoing support.

I look forward to seeing Poseidon become a profitable mining company in the foreseeable future.

Peter Harold
Managing Director & CEO

"I'd just like to re-emphasize, any mining companies out there, please mine more nickel"

Elon Musk
Tesla, Inc. Q2 2020 Financial Results and Q&A Webcast, 22 July 2020

Operations and Project Studies Update

Black Swan Operational Readiness

The Company remains committed to commence operations when market conditions support the restart of our key assets. The Company's operational readiness focus over the past year was on the Black Swan asset.

Safety Related Work at Black Swan

Improved market conditions heading into FY20 led to a Board decision to upgrade the escapeway ladder system at the Silver Swan underground mine and undertake an extensive program of "make safe" refurbishment works and a general site clean-up at the Black Swan Concentrator.

The Silver Swan escapeway ladder system upgrade was completed without incident, post year end. To ensure compliance with safety standards, this extensive ladder system required refurbishment and upgrade to new ladders in a number of areas from the top to the bottom of the Silver Swan decline.

The Black Swan Concentrator make safe refurbishment program was completed by a maintenance team engaged through the Rapallo Group, supervised by the Company's care and maintenance team. The program was completed safely, on schedule and under budget.

The Rapallo work program allowed a general assessment to be made of the structural integrity of the Black Swan Concentrator. A detailed structural assessment report was commissioned by the Company for a number of sections of the plant. The report provided confidence that these sections could be refurbished without a major modification or upgrade to primary structural beams.

Overall, the ladderway refurbishment, Concentrator structural assessment report and the "make safe" completion reports provide the Company with a greater level of confidence in the estimate of time and cost required to refurbish the Concentrator to an operational condition.

Windarra Gold Tailings Project

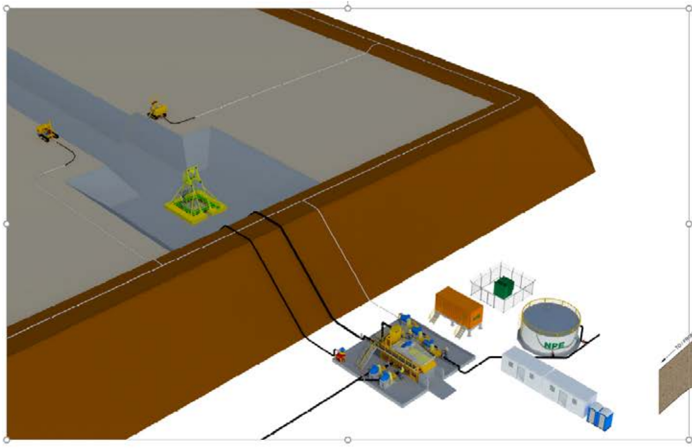
Pre-feasibility Study

In 2013, the Company had considered reprocessing the gold tailings resource at Windarra as part of the Windarra Nickel Project. The significant increase in the gold price led to a decision to consider the gold tailings project as a stand-alone project. The capital and operating costs previously estimated in 2013 required recalibration to a 2020 cost basis.

The study was awarded to two engineering companies to complete independently after receiving highly competitive proposal costs. Both had previous exposure to the gold tailings project in 2013 and both are leaders in the design and construction of gold processing plants in Western Australia.

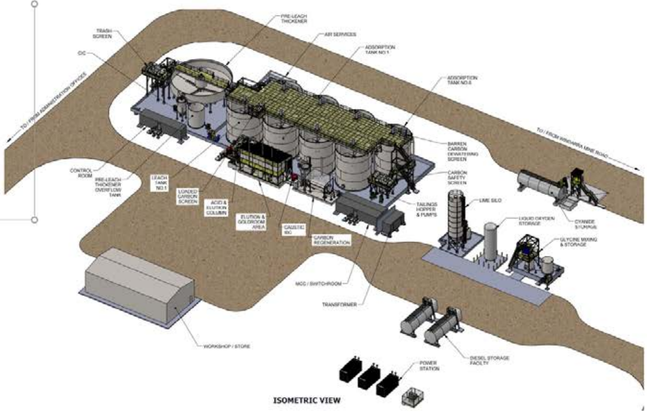
Key highlights of the Pre-feasibility Study results are as follows:

- Windarra gold tailings could produce approximately 44,000 oz of gold based on processing North and South Tailings Dams
- Low technical risk project, utilising low-cost hydraulic mining and a new conventional 1.5 Mtpa cyanidation-leach processing facility
- Net operating cashflow of $30 million (based on A$2,500/oz gold price)
- Attractive AISC for Project life of A$1,291/oz recovered
- Net Present Value (NPV8) of $23 million and IRR of 62%
- Modest development capital of $25 million, payback 15 months
- Based on the robust economics, the Board approved a Definitive Feasibility Study in June 2020.



Concept for the hydraulic mining

Conceptual design of 1.5Mtpa CIL plant



The Pre-feasibility Study recommended an additional metallurgical test work program to support the Definitive Feasibility Study. The test work program was designed to improve the level of confidence in the gold recovery estimate and to investigate new technologies that had the potential to improve the gold recovery and/or reduce reagent consumption. ALS Metallurgical Laboratory was awarded the metallurgical test work program. ALS operate a pilot scale high shear/cavitation leach reactor, which is one of the emerging technologies recommended for assessment in the Pre-Feasibility Study. Mining Process Solutions was awarded the test work program to assess the benefit of the GlyCatTM reagent mixture for the gold leaching application.

Post the completion of the Pre-feasibility Study, Como Engineering was awarded the Definitive Feasibility Study (DFS) for the Windarra Gold Tailings Project which will also incorporate the Lancefield tailings. The DFS is now due for completion during the March quarter in 2021.

Assessment of Lancefield Tailings

The Lancefield Gold Tailings are located approximately 17kms to the south-east of the proposed Windarra Gold Tailings project via an existing publicly gazetted road maintained by the local council. The tailings cover an area approximately 700m by 500m, which equates to 35 hectares.

In May 2020, the Company completed a desk top assessment to model inclusion of the Lancefield Gold Tailings within the production profile of the Windarra Gold Tailings Project. The assessment considered conventional mining and hauling to the proposed process plant at Windarra, mechanically placing the tailings adjacent to the North Dam and hydraulically mining and pumping the slurry from that point into the proposed process plant at Windarra. Relevant cost structures assessed and validated during the Windarra Gold Tailings Project Pre-feasibility Study were applied. A non-JORC tailings tonnage estimate and an estimate of the gold grade and gold recovery for the Lancefield Gold Tailings were available to complete the desk top assessment.

In August 2020, the Company acquired an exclusive option, from the current licence holder, giving the Company the right to reprocess gold tailings located at Lancefield.

The Company will conduct resource definition programs at the Lancefield Gold Tailings with the aim to establish a JORC 2012 Mineral Resource. Metallurgical studies will also be undertaken to confirm historical test work. If outcomes of these programs are positive, there is the potential to include Lancefield tailings in the Windarra Gold Tailings Project which will add considerable value.

Geology Report

Overview

Poseidon's geological team has achieved exploration success over the past 12 months with the discovery of the Golden Swan deposit at Black Swan, a high-grade massive sulphide lode. Since discovery of Golden Swan in early 2020, the Company has conducted an exploration program with two highly promising intersections 50m apart returning the following assay results:

1st intersection: **23.1m @ 4.0% Ni (true width 13.3m) including 7.6m @ 8.8% Ni (true width 4.3m)**

2nd intersection: **9.0m @ 10.5% Ni (true width 4.5m) including 4.6m @13.8% Ni (true width 2.3m)**

Poseidon's drilling success combined with geological analysis of the Golden Swan downhole electromagnetic (DHEM) results has established that a significant opportunity exists adjacent to the Golden Swan intersections. This area has been called the Southern Terrace Target.

With a revamped Board and Management team, the Company undertook a strategy process to review the Company's tenements and exploration approach across its mining asset portfolio. This process included several workshops with participants made up of several highly experienced geological, corporate and finance professionals from the nickel industry and from Poseidon's management team.

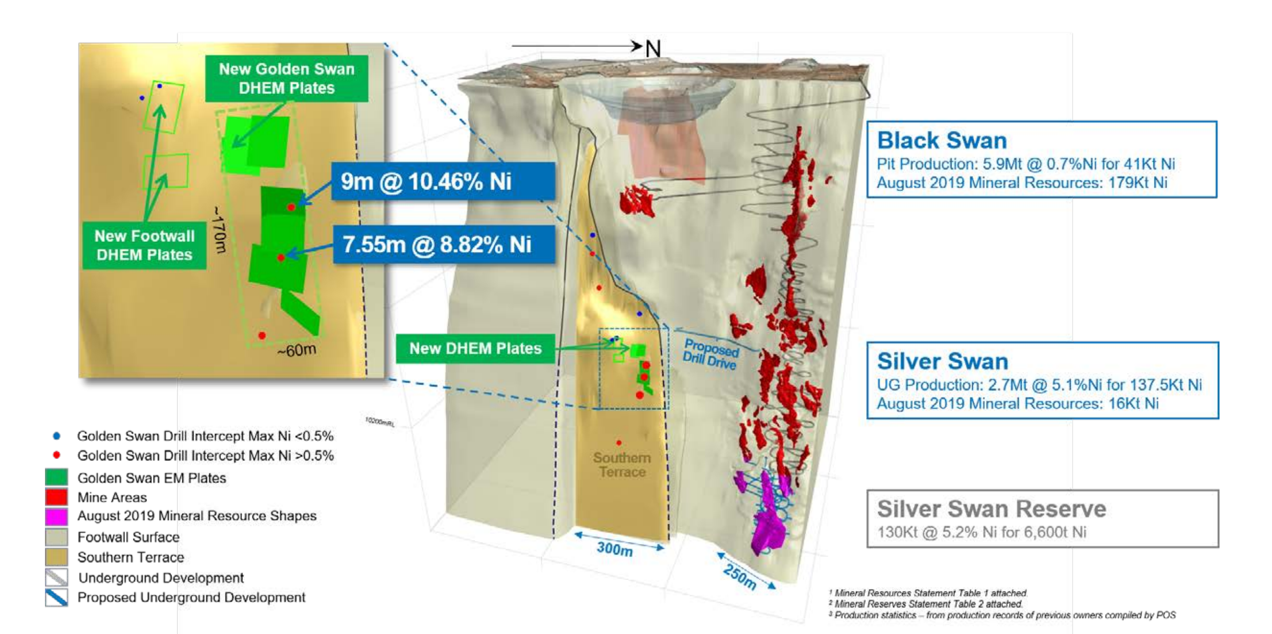


Figure 1:

Southern Terrace and Golden Swan location, intersections and geology. The mineralised surface on the Southern Terrace identified by DHEM and drilling is shown in red. The cross-section is looking north.

The general consensus from these workshops is that Poseidon holds some of the most prospective nickel tenure in the Goldfields. Exploration work programs coming out of the group's ranking and targeting process are currently being developed and will be implemented as part of the Company's broader exploration and development strategy over the next twelve months. Whilst Golden Swan will be the Company's immediate exploration focus, further work at Windarra and Lake Johnston will also be undertaken.

Black Swan Project

Golden Swan – A New Discovery

During March 2020, Poseidon drilled its first hole into a new, high-grade massive sulphide deposit named Golden Swan. The exploration story began in 2019 when the Company drilled two metallurgical holes deep into the Black Swan Disseminated deposit, 1,000m below the open pit. The holes were positioned to intersect the full width of the Black Swan mineralisation and DHEM was used to test a geological irregularity noted by Poseidon in historical drilling. The irregularity pertained to a felsic footwall unit in very close proximity to the Black Swan Disseminated Deposit, similar to the conditions observed around the Gosling Massive Sulphide Deposit which lies 200m below the Black Swan Open Pit.

The DHEM survey revealed a very large, late time EM anomaly that was interpreted by Newexco Geological Consultants to be consistent with massive sulphides. The Company immediately mobilised a drill rig to site and conducted an exploration program to determine the nature of the EM response and to conduct further DHEM testing of the area.

The first hole, PBSD0029A intersected high-grade massive nickel sulphides and the Golden Swan Deposit was confirmed (refer to Figure 1). A second and larger intercept was obtained in PBSD030B some 50m up plunge. The grades intersected to date have been exceptional and are tabulated below.

Table 1: Significant Intersections from Golden Swan

PBSD0029A Intercept	m From	m To	Interval	True Width	Ni%	Cu%	Co ppm	Pt g/t	Pd g/t	As ppm
Massive + Stringer Sulphides	740.2	747.75	7.55	4.3	8.82	0.68	1633	0.30	1.00	425
Massive Sulphide	743.65	745.75	2.1	1.2	15.86	0.52	2819	0.47	1.24	445
Matrix Sulphide	761.55	762.45	0.9	0.5	6.52	2.04	1750	<0.005	0.92	700
PBSD0030B Intercept										
Massive + Stringer Sulphides	691.94	700.94	9	4.5	10.46	0.47	2022	0.32	0.62	118
Massive Sulphide	691.94	696.5	4.56	2.3	13.81	0.41	2769	0.41	0.45	50
Massive Sulphide	700.2	700.94	0.74	0.4	17.35	1.24	2400	0.25	1.05	50

The Emerging Southern Terrace Target – A Significant Opportunity

The Southern Terrace target occurs due to the orientation and nature of the sidewall of the Black Swan channel. The felsic rock-type that occurs alongside the Black Swan Disseminated mineralisation is conducive to massive sulphide formation where this felsic unit comes into contact with the base of the disseminated nickel sulphide flow. The massive sulphide formation on the felsic substrate at Silver Swan is a similar analogy.

As can be seen in Figure 1, the Southern Terrace is a very large area and its southern extent has not yet been defined. The Golden Swan EM response is 150m long and 50m wide at present and is limited in strike extent only by the physical properties of the EM loop and receiver used. The Southern Terrace extends well beyond the Golden Swan EM response and so does the potential for massive sulphide mineralisation.

Due to limitations on the current DHEM, and with the additional intersections as modelled, the Golden Swan mineralisation is shown to be open both up and down plunge and also open along strike to the south.

The Company has installed a permanent underground EM loop to assist in exploring the greater Southern Terrace area. The underground EM loop has several advantages over a surface loop in that it is much closer to potential mineralisation and does not suffer from excess noise created by conductive overburden and surface water.

The Company has committed funds to develop a dedicated drill platform closer to the Golden Swan mineralization. Once this drive is completed the plan is to drill out the Golden Swan mineralisation with the aim of reporting a JORC resource. In addition further drilling will be undertaken to test the prospectivity of the Southern Terrace.

The Company is very excited by this new discovery and the potential for it to enhance the overall economics of the Black Swan Project.

Silver Swan Resource Upgrade

The Company completed an underground diamond drilling campaign totaling 3,662m from the bottom of the Silver Swan Decline in June 2019 to target and de-risk the resource and test additional targets that had been identified, using a combination of drill hole data and the DHEM modelling. The drilling focused on the four remaining ore bodies within the Silver Swan channel, which include Goose, Fledgling-Canard, Tundra-Mute and Peking Duck. The resource upgrade was completed by Optiro resulting in a 30% increase in the Silver Swan Resource Estimate. The total Silver Swan Resource now stands at 168,000t at 9.5%Ni for a total of 16,030 nickel tonnes. The resource estimate was classified in accordance with the JORC 2012 Code and has been reported above a 4.5% nickel cut-off as presented in Table 2.

Table 2 - Silver Swan Resource Estimate by Optiro, August 2019

Area	Silver Swan Resource - August 2019											
	Indicated				Inferred				Total			
	kt	Ni %	As ppm	Ni metal (t)	kt	Ni %	As ppm	Ni metal (t)	kt	Ni %	As ppm	Ni metal (t)
Tundra-Mute	68	9.2	3,200	6,260	59	9.8	3,290	5,800	127	9.5	3,240	12,060
Peking Duck	26	9.7	2,520	2,560	1.2	8.8	4,330	100	27	9.7	2,590	2,660
Fledgling-Canard	12	9.9	2,100	1,160	0				12	9.9	2,100	1,160
Goose	1.7	9.0	3,180	150	0				1.7	9.0	3,180	150
Total resource	108	9.4	2,910	10,130	61	9.7	3,310	5,900	168	9.5	3,060	16,030

Totals may not sum correctly due to rounding

Figure 2 below shows the progressive development of the Silver Swan model from 2009 when Norilsk closed the mine to 2016 when Poseidon acquired the project and completed a review, through to the conclusions drawn from the June 2019 drill program where drill holes revealed new information about the Tundra-Mute Lode.

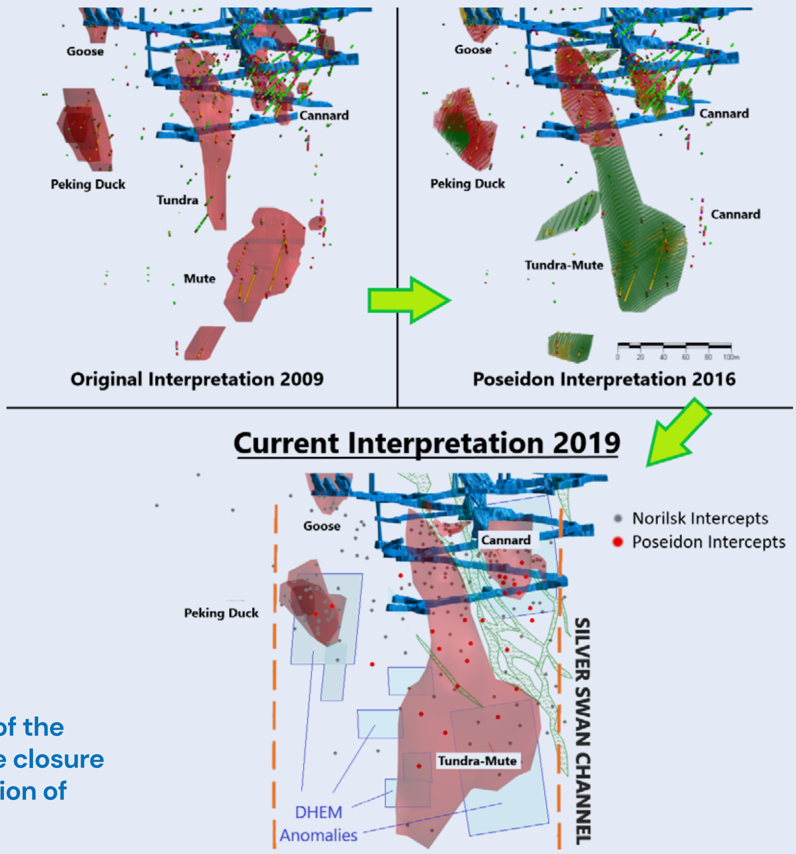


Figure 2

The progressive development of the Silver Swan resource from mine closure in 2009 until after the completion of the current drill program.

Historical drilling failed to penetrate a basalt dyke (green shapes in Figure 2) that lay between the drill platform and mineralisation, therefore information on the komatiite geology behind those locations was not available for much of the mid-Tundra-Mute Lode. The existence of the dykes and the lack of drilling gave the impression that the lodes were separating, however by persevering with the difficult drilling through the basalt dyke, the Company has determined that there is more continuity to the mineralisation than previously modelled and the seemingly "separate" Tundra, Mute, Canard and Fledgling Lodes were, in fact, once joined.

Silver Swan Ore Reserve Increase

The upgraded Silver Swan Resources Estimate was then provided to Entech who updated the Ore Reserve in February 2020 to 130,000 tonnes of ore grading 5.2% Ni for a total of 6,800 tonnes of contained Ni metal (refer Table 3). The Ore Reserve prepared by Entech represents a 106% increase to the previous Ore Reserve.

This Silver Swan Reserve upgrade is an important step to de-risking the restart of the Black Swan Operations.   It should be noted that the Inferred Resource continues well below the current Reserve however the decline will need to be advanced before more drilling can be undertaken to bring the lower Resources into Reserve.

Table 3: February 2020 Silver Swan Ore Reserve Estimate

Category	Ore (kt)	Grade (% Ni)	Ni metal (kt)
Silver Swan UG Proven Reserve	-	-	-
Silver Swan UG Probable Reserve	130	5.2%	6.8
Silver Swan UG Total Reserve	130	5.2%	6.8

**Calculations have been rounded to the nearest 10,000t of ore, 0.1% Ni grade and 100 t of Ni metal*

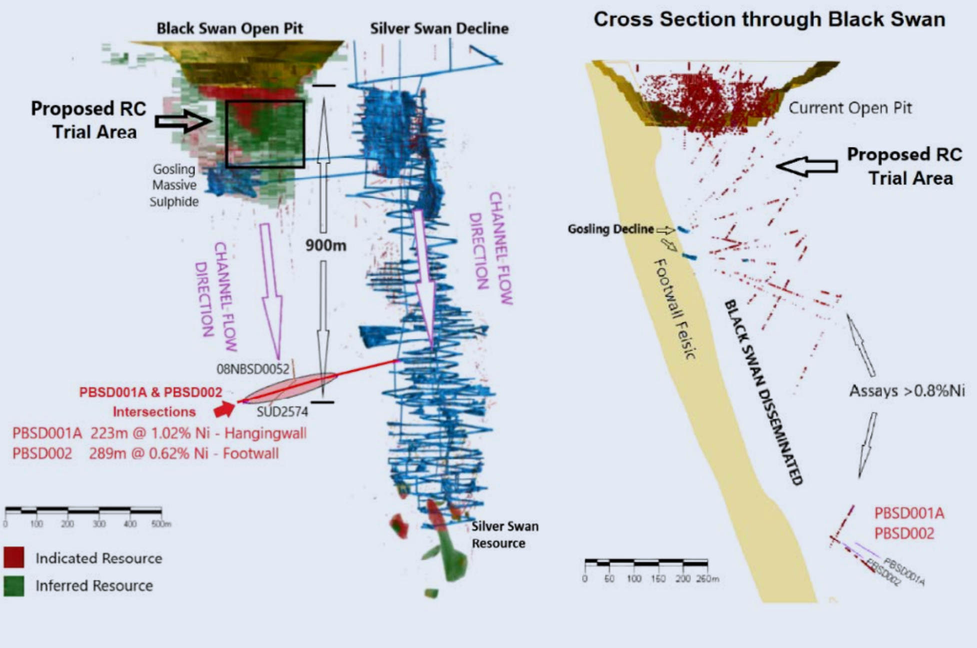
Black Swan Underground Drilling

An underground Reverse Circulation (RC) drilling trial was completed during the year with a total of 2,481m being drilled from the Gosling Access Drive, 150m below the Black Swan Open Pit. The trial provided the Company with an excellent opportunity to develop a robust exploration technique to rapidly and accurately assess the Black Swan Deposit which is in close proximity to the current Silver Swan workings. The underground RC drilling has confirmed the continuity of the known mineralised lodes below the open pit.

Poseidon's adaption of the underground RC technique to nickel exploration has introduced a greater level of certainty of the grade and continuity of mineralisation than could previously be interpreted from the historical diamond drilling. Figure 3 below shows the trial area in relation to historical diamond drill intersections through the Black Swan deposit.

Figure 3:

Deep diamond intercepts in relation to historical drilling and the Black Swan open pit. The RC trial area lies directly below the open pit.



The underground RC technique introduced a large increase in sample volume to help combat natural grade variation. In addition, the underground RC technique allows for the rapid drilling of more closely spaced holes, which further assists in the interpretation and evaluation of mineralisation for use in an underground mining scenario. Significant intersections from the Underground RC program's first trial ring are shown in Figure 4.

The program was designed with a research and development focus, and is utilising a Cubex 5200, track mounted long-hole rig supplied by Metres Down Under, with gyro survey support and development from Downhole Surveys.

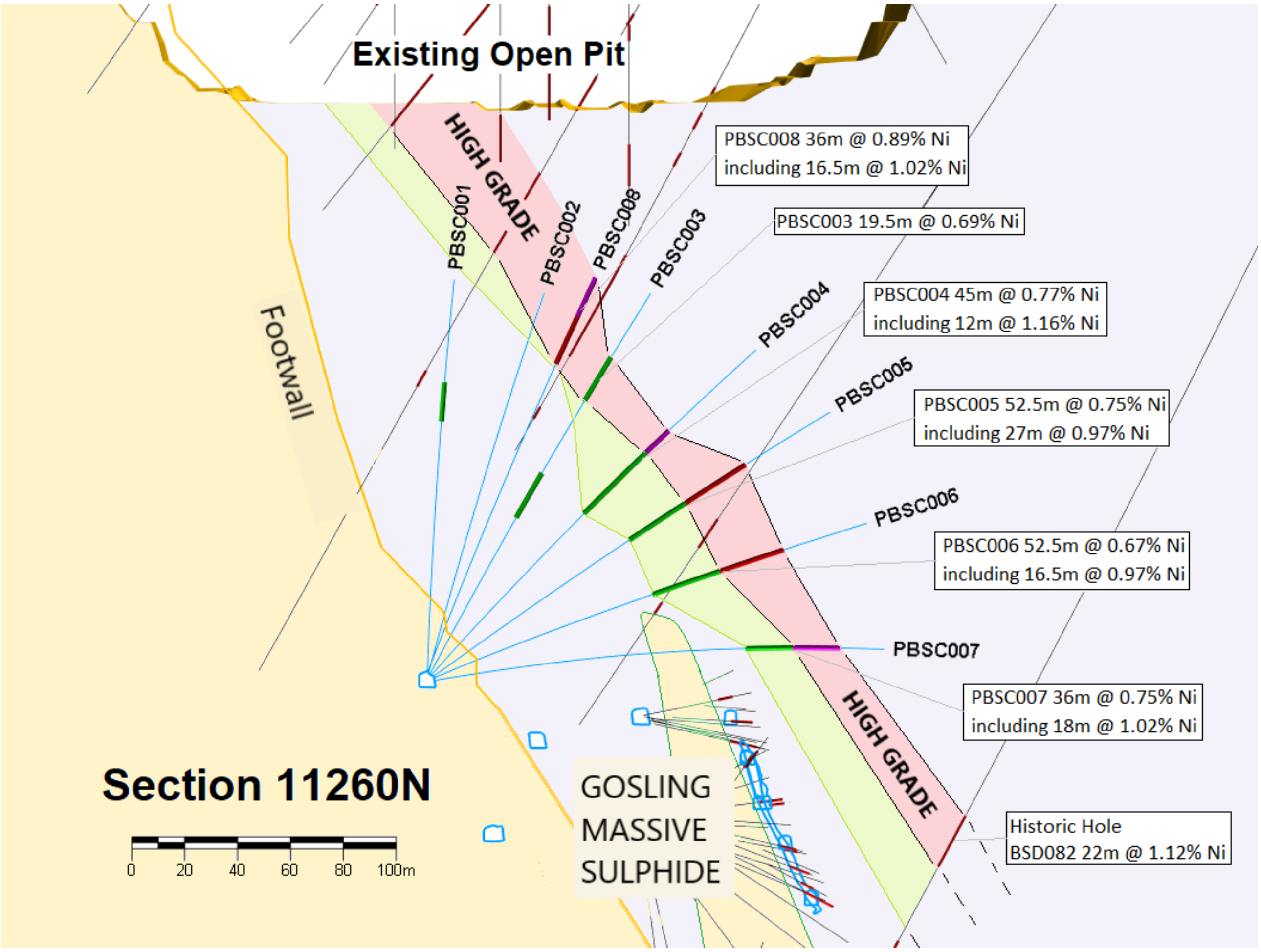


Figure 4

Results and drillhole locations of first trial section showing continuity of grade and mineralisation for at least another 250 metres below the open pit

Windarra Project

Crazy Diamond Discovery

The komatiite channel at Crazy Diamond is particularly thick, wide and heavily weathered, dominated in areas by silica-cap and calcrete formation and overlain by sandy sediments from local flood plains. The Crazy Diamond Prospect was of interest to Poseidon's geological team due to the existence of nickel gossans at surface and the extensive silica cap that has developed over a large cumulate ultramafic flow.

Historical geochemistry also highlighted the Crazy Diamond Channel is one of the several channels identified along the Windarra Belt (Figure 5).

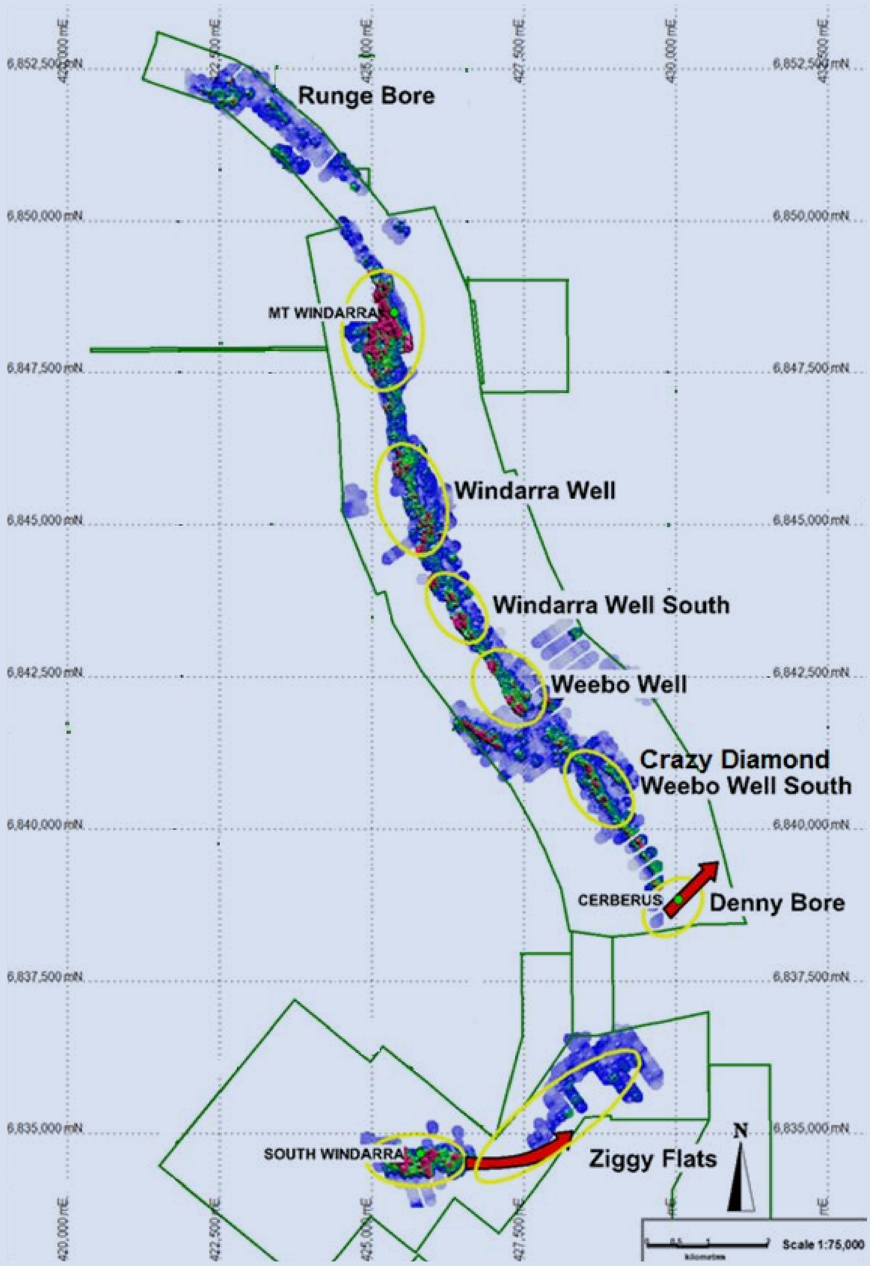


Figure 5

Windarra Nickel Project historical geochemistry and identified komatiite channels

The Company completed a 4,500m preliminary drilling program aimed at penetrating the weathered profile to assess the geology, scope out the size of the underlying cumulate channel and assess the unusually complex stratigraphy in this area.

Whilst intersecting nickel mineralisation was not the primary aim of the stratigraphic drilling, PNRC0309 did strike nickel enrichment in a 5m zone 10m below surface. Inspection of the drill chips revealed that the nickel enrichment is closely associated with gossanous oxide blebs which are interpreted to be weathered sulphides near the basal contact of a large komatiite flow. The Company does not consider the intersection to be related to the weathering profile, which is confirmed by the geochemistry.

The intersection is interpreted to be at the base of the Upper Ultramafic, a subsequent komatiite flow to the Windarra Ultramafic (which hosts the Windarra, South Windarra and Cerberus Deposits). Poseidon's drilling to the North of the Cerberus Deposit in 2011 revealed minor sulphide nickel mineralisation in a similar stratigraphic position some 950m to the South of the recent intersection (refer to Figure 6). Gossanous mineralisation had previously been uncovered in a trench 100m to the south of PNRC0309, however historical drilling by WMC and Poseidon under and around the gossan did not intersect anything further.

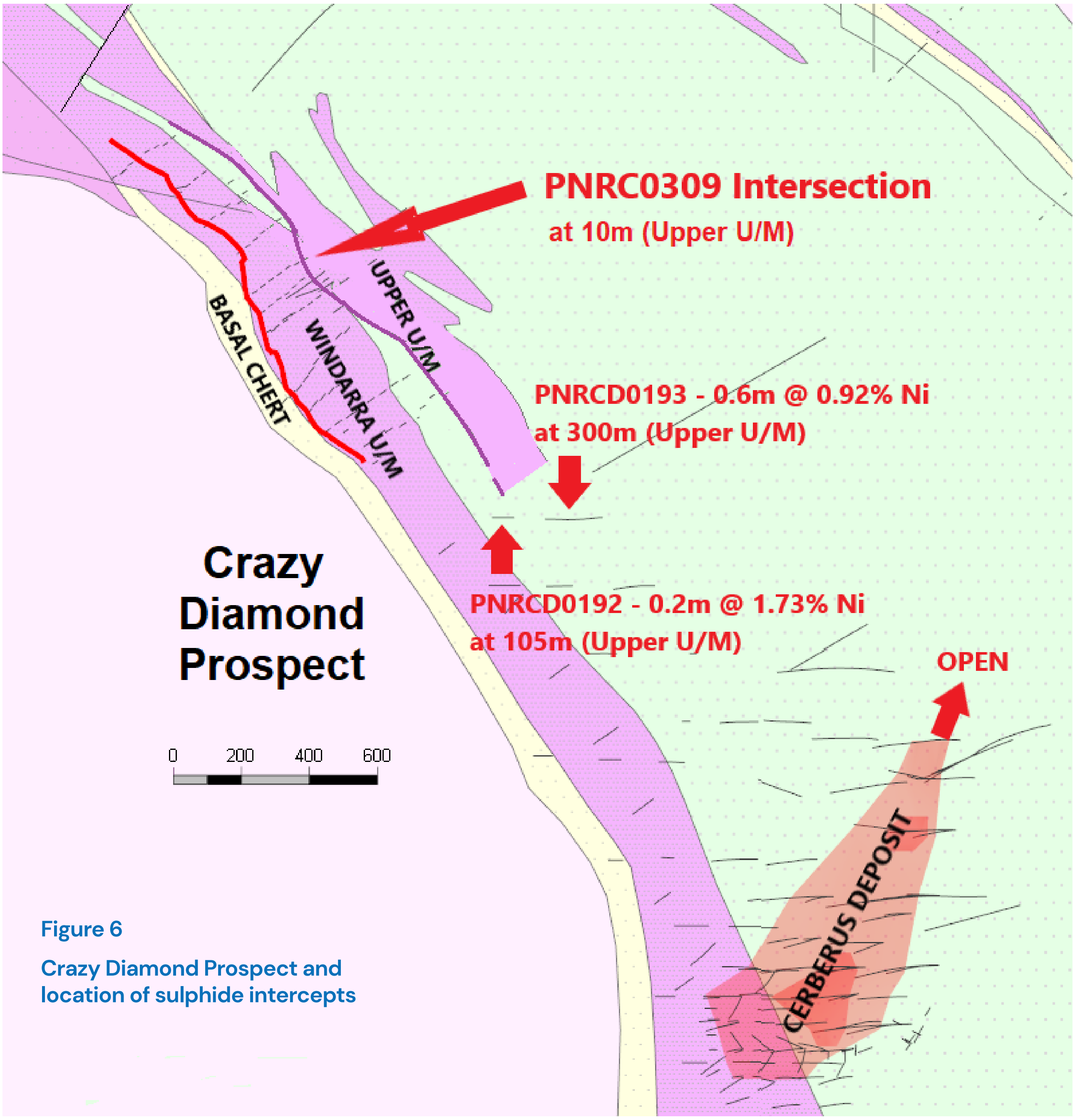


Figure 6

Crazy Diamond Prospect and location of sulphide intercepts

Previous mapping had indicated that the basalt unit usually separating the Windarra and Upper Ultramafics elsewhere in the belt was 'missing' at Crazy Diamond, however due to the accumulation of sediments on the flood-plain, the Company could not be sure of the exact relationship between the two within the prospect. The drilling revealed that the Upper Ultramafic has displaced the basalt in the stratigraphic sequence and also that the Upper Ultramafic and basalt are geologically and geochemically separate units. Therefore it is interpreted that the Upper Ultramafic has thermally eroded the basalt and come to lie directly above the Windarra Ultramafic. Chert horizons logged in Cerberus at the top of the Windarra Ultramafic could therefore be a likely source for the nickel sulphides located by PNRC0309 and other gossans in the area.

Further exploration at Crazy Diamond and South Windarra will be undertaken when funding permits.

Lake Johnston Project

Regional Targeting Review

Whilst Golden Swan has been and will be the Company's priority exploration focus, work at Lake Johnston has continued throughout the year in the form of consolidation of all geological and geochemical data, resulting in three identified nickel mineralisation models that apply to the Lake Johnston Belt.

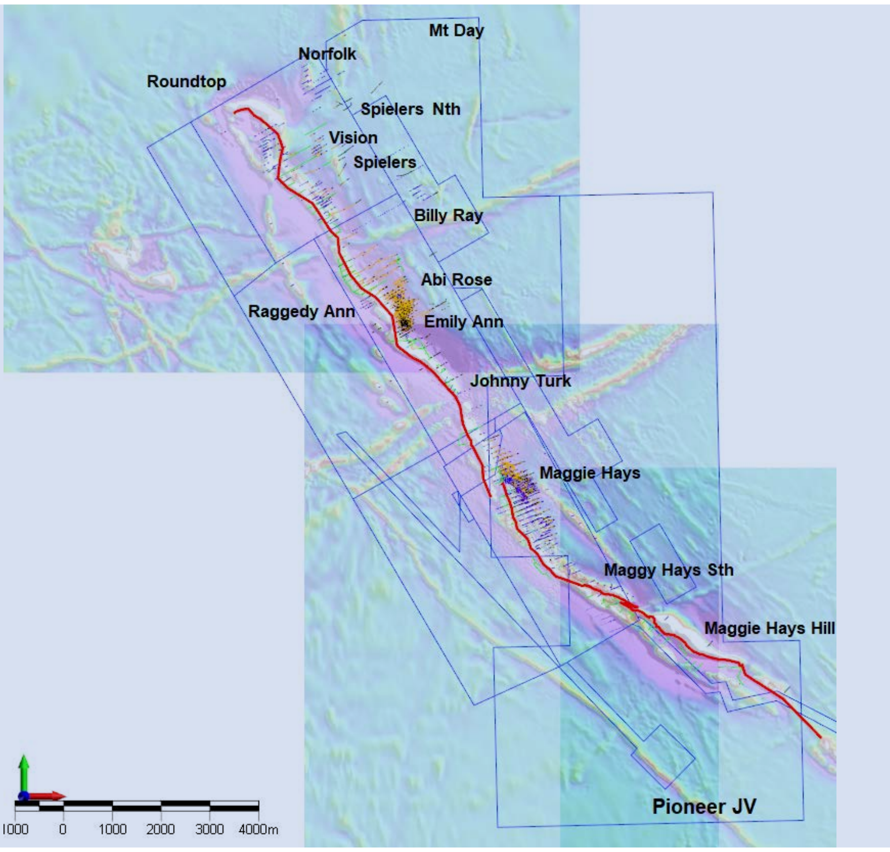


Figure 7

Lake Johnston Prospect Locations

1. The Maggie Hays intrusion model – the intrusion formed as a feeder zone to the Western Komatiite (highlighted in red in Figure 7) and extends south from the Maggie Hays Mine to Maggie Hays Hill. It has been heavily explored in its northern reaches however, poorly drilled to the south. Surface mapping has revealed two areas of interest which will require drill testing.
2. A more extensive nickel model comes in the form of the Western Komatiite Unit which was extruded over a sulphide-bearing chert. This is similar to the Kambalda Model and covers around 16km of strike along the Lake Johnston Belt. This model has not been explored except for the odd hole at Maggie Hays that was pushed out to the west and at a prospect called Johnny Turk. In both cases, disseminated sulphides in komatiite were intersected in a basal contact position, however no follow-up drilling was undertaken.
3. The third nickel model involves the Abi Rose Discovery and significant work is required to understand the timing and emplacement of the pyroxenites that dominate the mineralised sequence. The majority of the intercepts across the belt require relogging and additional PGE geochemistry undertaken before they can be placed, with structure, into context. From there, the next steps would be geophysical, seismic and direct drilling to follow up on mineralised extensions.

None of these models have been sufficiently tested at Lake Johnston and the Company plans to rank the many prospects that exist for each model to determine the best and most cost-effective way to explore them.

Financial Statements

Directors' report

For the year ended 30 June 2020

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 2020 and the auditor's report thereon.

Contents of Directors' report **Page**

Directors' report (continued)

For the year ended 30 June 2020

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 Derek La Ferla **Independent Non-Executive Chairman** *Member of:* Audit & Risk Management Committee *Chairman of:* Remuneration, Nomination & Diversity Committee Appointed 3 December 2019	Mr La Ferla is a corporate lawyer and company director with more than 30 years' experience. He has held senior leadership positions with some of Australia's leading law firms and a variety of board positions with listed public companies and not for profit organisations. Mr La Ferla is a fellow of the Australian Institute of Company Directors and the WA Division Director on the AICD National Board and a member of the AICD Council (WA Division). Mr La Ferla is currently a director of ASX-listed companies Sandfire Resources NL and Threat Protect Australia Ltd, and during the previous three years has served as a director for Veris Ltd (October 2011 to November 2019) and BNK Banking Corporation Ltd (November 2015 to August 2019).
Mr Peter Harold **Managing Director & CEO** *Member of:* Audit & Risk Management Committee and Remuneration, Nomination & Diversity Committee Appointed 3 March 2020	Mr Harold is a process engineer with over 30 years corporate experience in the minerals industry, specialising in financing, marketing, business development and general corporate activities. Mr Harold was previously the Managing Director of Panoramic Resources where he co-founded the company. Mr Harold has extensive experience in base metal mining project feasibility studies, financings, developments, operations and marketing. Mr Harold is currently the non-executive chairman of ASX listed company Ocean Grown Abalone Ltd and during the previous three years has served as a director of Panoramic Resources Ltd (March 2001 to November 2019), Pacifico Minerals Ltd (August 2013 to April 2020), Peak Resources Ltd (December 2015 to December 2017) and Horizon Gold Ltd (August 2016 to November 2019).
Ms Felicity Gooding **Non-Executive Director** *Member of:* Remuneration, Nomination & Diversity Committee *Chairman of:* Audit & Risk Management Committee Appointed 1 October 2018	Ms Gooding is the Deputy Chief Executive Officer of the Minderoo Foundation and was previously the Chief Financial Officer and Chief Operating Officer of the Minderoo Group. A Fellow of the Institute of Chartered Accountants, Ms Gooding has more than 15 years' experience specialising in due diligence, mergers and acquisitions, and equity and debt financing across various sectors in Washington DC, Singapore and London. Ms Gooding has held senior positions at PwC, Diageo Plc and Fortescue Metals Group Ltd where she was instrumental in the raising of more than A$5 billion for project expansion financing. Prior to joining Minderoo Ms Gooding was an executive at potash development company, Sirius Minerals Plc. During the past three years, Ms Gooding served as a director of Impact Minerals Limited (February 2016 to November 2017).

Directors' report (continued)

For the year ended 30 June 2020

1. Directors (continued)

Name, and independence status	Experience, qualifications, special responsibilities and other directorships
Mr Dean Hildebrand **Non-Executive Director** *Member of:* Audit & Risk Management Committee and Remuneration, Nomination & Diversity Committee Appointed 1 July 2020	Mr Hildebrand is a corporate finance professional with experience in capital markets, mergers and acquisitions transactions and project financing in the natural resources sectors. Mr Hildebrand is a director of Black Mountain Metals Pty Ltd and also the Chief Financial Officer of Black Mountain's international mining and oil & gas companies. Mr Hildebrand has a Bachelor of Commerce from the University of Western Australia. During the past three years, Mr Hildebrand has not served as a director of any other ASX listed company.
Mr Peter Muccilli **Independent Non-Executive Director** *Member of:* Audit & Risk Management Committee and Remuneration, Nomination & Diversity Committee Appointed 3 August 2020	Mr Muccilli is a qualified geologist with over 30 years' experience in the resource sector, including a variety of operational, exploration and development roles with a particular focus on nickel, gold and other base metals. Mr Muccilli previously held key executive roles at Mincor Resources Ltd and over this 15-year period commencing in 2004, included significant nickel exploration successes and production outcomes. Mr Muccilli is currently a Technical Director of ASX listed company Constellation Resources Ltd and during the previous three years has served as Managing Director of Mincor Resources NL (November 2016 to January 2019).
Mr Karl Paganin **Non-Executive Director** *Member of:* Audit & Risk Management Committee *Chairman of:* Remuneration, Nomination & Diversity Committee Appointed 1 October 2018 and resigned 30 June 2020	Mr Paganin has over 15 years senior experience in Investment Banking, specialising in transaction structuring, equity capital markets, mergers and acquisitions and providing strategic management advice to listed public companies. Mr Paganin practised with major national law firms and was then appointed as Senior Legal Counsel at the newly formed family company of the Holmes a Court family, Heytesbury Holdings where he spent 11 years. His roles varied from Senior Legal Counsel to Director of Major Projects, a role which involved having conduct of all major transactions within the Group. Subsequent to Heytesbury, he spent 15 years as a senior Investment Banker in Perth. In 2002, he joined Perth based Euroz Securities and established its Corporate Finance department. Then, in 2010, he established and was Managing Director of GMP Australia Pty Ltd an affiliate of a Canadian resource specialist Investment Bank. At the date of his retirement, Mr Paganin was also a non-executive director of ASX listed companies Southern Cross Electrical Engineering Limited and Veris Limited and, during the past three years, has not served as a director of any other ASX listed company.

1. Directors (continued)

Name, and independence status	Experience, qualifications, special responsibilities and other directorships
Mr Geoff Brayshaw **Independent Non-Executive Director** *Member of:* Audit & Risk Management Committee and Remuneration, Nomination & Diversity Committee Appointed 1 February 2008 and resigned 30 June 2020 Appointed as Interim Chairman on 1 October 2018 and resigned as Interim Chairman on 3 December 2019	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. During the past three years, Mr Brayshaw has not served as a director of any other ASX listed company.
Mr Robert Dennis **Managing Director and CEO** *Member of:* Audit & Risk Management Committee and Remuneration, Nomination & Diversity Committee Appointed 24 February 2014 and resigned 31 August 2019	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. During the past three years, Mr Dennis has not served as a director of any other ASX listed company.

2. Company Secretary (Joint)

Mr Brendan Shalders was appointed Joint Company Secretary effective from 9 September 2019. Mr Shalders is a Chartered Accountant having held senior roles in both advisory and corporate settings. He has over 16 years' experience in corporate finance, accounting, risk management and business development, predominately within the mining and mining services industries.

Ms Andrea Betti was appointed Joint Company Secretary effective from 4 November 2019. Ms Betti is an accounting and corporate governance professional with over 20 years' experience in accounting, corporate governance, finance and corporate banking. Ms Betti is a Chartered Accountant and an associate member of the Governance Institute of Australia.

Directors' report (continued)

For the year ended 30 June 2020

3. Directors' Meetings

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

Director	Board Meetings*		Audit and Risk Management Committee Meetings		Remuneration, Nomination and Diversity Committee Meetings	
	A	**B**	**A**	**B**	**A**	**B**
Mr D La Ferla	7	7	2	2	1	1
Mr P Harold	3	3	-	-	1	1
Mr G Brayshaw	11	11	3	3	2	2
Mr R Dennis	2	2	-	-	1	1
Mr K Paganin	11	11	3	3	2	2
Ms F Gooding	10	11	3	3	2	2

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 Group shall be that of exploration, mining and production of nickel and other minerals.

5. Consolidated Results

The consolidated loss for the Group for the year ended 30 June 2020, after income tax is $12,852,000 (2019: $10,495,000).

6. Operating and Financial Review

Overview

Poseidon Nickel Limited ("Poseidon" or "the Company") is an ASX listed company focussed on developing its nickel assets in Western Australia. The Company has combined nickel resources approaching 400,000 tonnes, two nickel sulphide concentrators and six historic mines across three sites, all located within a 300km radius from Kalgoorlie in the Goldfields region of Western Australia. All three sites remained on care and maintenance ("C&M") over FY2020.

Poseidon's key deliverables are to (1) increase our nickel resource base (2) improve the average nickel grade of our resource base (3) bring one or more of our nickel projects into production and (4) monetise the Windarra Gold Tailings Project. The Company's strategy has been to accumulate nickel assets, economically maintain the assets in good standing and wait for a sustained recovery in the nickel price. Poseidon has gathered a suite of projects which are strategically located and offer near term production opportunities subject to a nickel price level which provides acceptable economic returns. More recently the Company has focussed on identifying new high-grade nickel ore sources to improve project economics and re-evaluating the Windarra Gold Tailings Project given the high gold price environment.

During first half FY2020 the Company strengthened its Board and management team with a number of key appointments including Derek La Ferla as Independent Non-Executive Chairman, Peter Harold as Managing Director & CEO and Brendan Shalders as CFO and Joint Company Secretary. More recently Dean Hildebrand and Peter Muccilli have been appointed Non-Executive Directors with the retirement of Karl Paganin and Geoff Brayshaw

6. Operating and Financial Review (continued)

The Company commenced the financial year in a strong nickel price environment, with the nickel price increasing from US$5.56/lb at 1 July 2019 to over US$8.00/lb during September 2019. Over this period the Company undertook a review of the Black Swan Restart Study. In December 2019, the management team determined that the project required a sustained nickel price greater than US$7.50/lb and an A$/US$ of 0.67 to be economically viable, concluding that the project would benefit from further high-grade ore feed to reduce unit costs and improve the overall economics. This conclusion resulted in a renewed focus on exploration for high grade nickel and specifically a down-hole electromagnetic (“DHEM”) survey being conducted via the Black Swan disseminated extension hole drilled during the prior financial year. A large EM anomaly, called the Golden Swan anomaly, consistent with a massive sulphide EM response was detected.

Following discovery of the Golden Swan anomaly an exploration program commenced immediately, drilling from one of the existing underground Gosling drives. So far this program has returned two intersections of high-grade nickel. The original DHEM, together with the intersections, indicate the Golden Swan mineralisation is open up-plunge, down-plunge and also to the south along the recently identified Southern Terrace. Given the quality of results, the Company is considering several options to both accelerate the resource definition program at Golden Swan and to test the greater exploration potential of the Southern Terrace.

During the prior financial year, the Company raised $71.2 million (net of costs) through the placement of shares to sophisticated and professional investors and a fully underwritten renounceable entitlement issue. This capital raising improved the Company’s financial position, funding pre-start works at Black Swan, the Golden Swan exploration program, feasibility studies for the Windarra gold tailings project and more recently repayment of the US$17.5 million convertible note. As at 30 June 2020, the Company held net cash of circa $20 million.

COVID-19 Response

In response to the COVID-19 pandemic the Company suspended the escapeway ladder refurbishment project in the Silver Swan decline and drilling activities at Black Swan until protocols were implemented to ensure the safety of Poseidon employees and contractors. In conjunction with the Company’s contractors, protocols were designed to ensure that all activities undertaken, including travel and accommodation, were conducted within the safe operating parameters as per the Western Australian Government requirements. Following a period of suspension, all works at Black Swan resumed in June 2020 with no instances of COVID-19 reported across the Poseidon business. Management continue to monitor the COVID-19 situation and will implement protocols as required to ensure the safety of our employees and contractors.

Black Swan

The Black Swan Nickel Project is located 55km north-east of Kalgoorlie. Acquired from Norilsk in March 2015, the operations include the Silver Swan underground mine, Black Swan open pit, a 2.2Mtpa nickel sulphide concentrator and associated infrastructure. Black Swan has combined resources of 195kt contained nickel and 28.3kt contained nickel in reserves.

The operations at Black Swan remained on care and maintenance during the year. Key pre-development works such as the emergency escape ladderway refurbishment project, processing facility clean up and associated safety works were conducted over the year in preparation of development works at Black Swan.

In addition to the safety works, the Company performed further studies to assess the availability of water sources for a restart of the Black Swan concentrator; the potential to source power from the local grid and the required electrical infrastructure and configuration to accommodate various power sources; and structural integrity studies of sections of the concentrator.

Directors' report (continued)

For the year ended 30 June 2020

6. Operating and Financial Review (continued)

Black Swan (continued)

Golden Swan Discovery

Over the second half of FY2020 the Company undertook an exploration program to define the Golden Swan discovery adjacent to the Black Swan disseminated deposit. The program to date has intersected the deposit three times, with assay results for the first two intersections as follows:

- 1st intersection: 7.6m @ 8.8% nickel.
- 2nd intersection: 9.0m @ 10.5% nickel

The high nickel grades and good widths in both holes are similar and suggest good continuity of mineralisation between the two holes. In addition, the assays confirm the significance of the Southern Felsic Terrace Target Zone and the Golden Swan mineralisation which is proximal to the existing Silver Swan decline.

The third intersection is an additional upward wedge from the second intersection, and has intersected two separate mineralised zones (assays pending), 2.7m zone of stringer nickel sulphides in an interpreted upper pinch out position and additional 0.55m semi-massive nickel sulphides on the basal contact.

Drilling to date confirms mineralisation on multiple surfaces over 130m and remains open up-plunge, down-plunge and to the south along the Southern Terrace. Modelling of the Southern Terrace has begun utilising a combination of the historical and new drilling results. The Southern Terrace target occurs due to the orientation and nature of the sidewall of the Black Swan channel. The felsic rock-type that occurs alongside the Black Swan Disseminated mineralisation is conducive to massive sulphide formation where this felsic unit comes into contact with the base of the disseminated nickel sulphide flow. The massive sulphide formation on the felsic substrate at Silver Swan is a similar analogy.

As shown in figure 1, the greater Southern Terrace area is potentially very large and its southern extent has not yet been defined. The Golden Swan EM response is 150m long and 50m wide at present and is limited in strike extent only by the physical properties of the EM loop and receiver used. The Southern Terrace could extend well beyond the Golden Swan EM response and so does the potential for mineralisation.

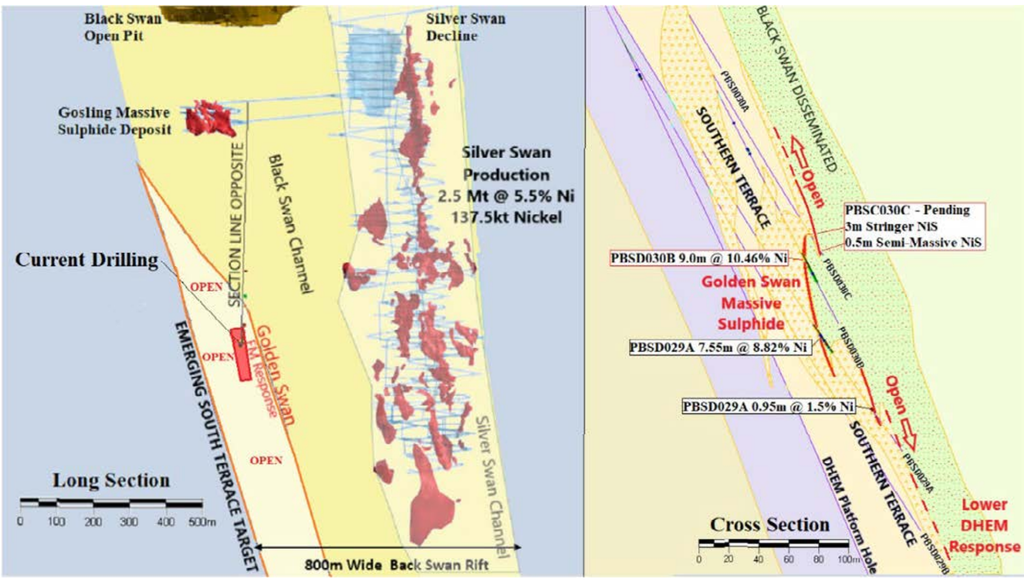


Figure 1 – Southern Terrace and Golden Swan location, intersections and geology. The mineralised surface on the Southern Terrace identified by DHEM and drilling is shown in red. North is to the left on the long section. The cross-section is looking north.

6. Operating and Financial Review (continued)

Windarra Nickel

The Windarra Nickel Project is located in the Mt Margaret Goldfields of Western Australia and is situated about 25km west of Laverton. The site includes the previously mined underground Mt Windarra and open pit South Windarra mines. The project has combined resources of 148.5kt contained nickel across the Mt Windarra (71.5kt) and Cerberus (69kt) deposits. The Windarra Nickel Project remains on care and maintenance.

The process to terminate the Poseidon Nickel Agreement Act has progressed with the Company working alongside the Department of Jobs, Tourism, Science and Innovation to finalise the termination documents. With COVID-19 and other priorities it is expected that the termination will be passed through the Western Australian parliament post the next State election, scheduled in March 2021.

Windarra Gold Tailings

With the improved gold price environment, the Company reassessed the cash flow generating potential of the Windarra Gold Tailings Project. Over the fourth quarter of FY2020, Poseidon completed a pre-feasibility study on the project with outputs indicating the project could produce up to 44koz of gold, generating free cash flows of $30 million assuming a A$2,500/oz gold price. Given the positive outcomes the Company progressed the project to the next phase which is a Definitive Feasibility Study ("DFS"), expected to be finalised early second quarter FY2021.

Subsequent to 30 June 2020, the Company announced it had acquired an exclusive option, from the current licence holder, giving the Company the right to reprocess gold tailings located in Lancefield. The Lancefield Gold Tailings are located approximately 17kms from the proposed Windarra gold processing facility and could add considerable value to the Windarra Gold Tailings Project.

Lake Johnston

The Lake Johnston mine and processing facilities are situated 117km west of Norseman, accessed via the Hyden-Norseman road. Acquired from Norilsk in November 2014, the operations include the Maggie Hays underground mine and 1.5mtpa nickel sulphide concentrator. The project has a resource of 52kt contained nickel in the Maggie Hays deposit.

In 2015, Poseidon interpreted a twice-faulted-off extension to the Emily Ann massive sulphide deposit to the north and confirmed a continuation of mineralisation, being the Abi Rose deposit. Diamond drilling completed late 2018 pierced the deposit several times with the best intersection 10.48m @ 3.2% nickel.

The operations at Lake Johnston remained on care and maintenance during the year. The Company maintained a focus on regulatory and licence compliance requirement activities during the year and the site remains in good standing.

Nickel Market

The key drivers of nickel market demand remain:

- Sustained growth in stainless steel demand; and
- Development and growth of the electric vehicle ("EV") market.

The nickel market reached a low point of the cycle in early 2016 which continued through 2017. The market commenced a moderate recovery in the second half of 2017, however declined again from mid-2018 until showing signs of recovery in early 2019 which continued into first half FY2020, peaking over US$8.00/lb. With growing supply from Indonesia, the nickel price started declining over second quarter FY2020, with further declines following the onset of COVID-19 pushing prices to a low of ~US$5.00/lb. Since April 2020 prices have improved as global economies adapt to the COVID-19 environment and the EV thematic positively influences the market. The nickel price in September 2020 is ~US$7.00/lb.

Directors' report (continued)

For the year ended 30 June 2020

6. Operating and Financial Review (continued)

Nickel Market (continued)

LME stockpiles closed 30 June 2020 at 234kt, up from 165kt at 30 June 2019. The recent increase in LME inventories has been driven by reduced nickel demand caused by the COVID-19 related global economic slowdown. This trend is expected to revert post COVID-19 as demand for stainless steel improves and the EV market continues to grow, particularly in Europe and China.

Generally, market forecasters continue to predict the nickel market will remain in deficit for the near future. While this deficit continues, it is unclear as to timing of when the market will see a sustained positive effect on the nickel price. Moving forward, analysts are predicting an uplift in overall nickel consumption and in particular, for use in EV batteries.

Financial Position

For the year ended 30 June 2020 the Group recorded a loss of $12,852,000 (2019: $10,495,000) that includes the movement in the valuation and interest of the convertible note liability, derivative liability, depreciation 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 $11,012,000 (2019: $8,923,000). The working capital surplus as at 30 June 2020 is $15,729,000 (2019: surplus $55,588,000). The primary liabilities of the Group consist of a $24,716,000 (2019: $24,250,000) convertible note liability maturing September 2020, a current provision for environmental rehabilitation of $3,500,000 that is cash backed (non-current asset) (2019: $3,500,000) together with further site rehabilitation provisions of $48,235,000 (2019: $46,418,000). The Directors do not anticipate the Group being required to remediate its sites in the foreseeable future. The further site rehabilitation provisions are classified as non-current and included within total net assets of $61,271,000 (2019: $74,110,000).

The Group had a net cash outflow from operating activities of $9,981,000 (2019: $9,418,000) and a net cash inflow from investing activities of $31,738,000 (2019: outflow $37,386,000). Operating cash outflow reflects ongoing exploration and evaluation, mine refurbishment and care and maintenance activities across the three operations of Black Swan, Lake Johnston and Windarra. Investing cash inflow reflects proceeds from term deposits which matured within 3 months as at 30 June 2020, net of payments for exploration and evaluation activities and property, plant and equipment. The Group held cash and cash equivalents of $45,236,000 at 30 June 2020 (2019: $25,133,000), noting that $35,012,000 term deposits with maturity greater than 3 months were classified as Other Investments at 30 June 2019 ($12,000 at 30 June 2020).

After 30 June 2020, the Company repaid the US$17.5 million convertible note on 31 August 2020, prior to its maturity on 30 September 2020, presenting an interest saving to the Company. Note holders, Black Mountain Metals ("BMM"), agreed to waive interest in lieu of early repayment of principal prior to maturity. All other terms of the convertible note remain in place until maturity, and therefore the note remains convertible up until that date. If converted prior to maturity, BMM is obligated to refund the converted portion of the principle repayment back to the Company.

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 term aims, capital management strategies and structures.

The Company aims to structure 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.

TFR for Peter Harold is $547,500 per annum and for Brendan Shalders is $301,125 per annum. There is no guaranteed TFR increase included in any executive contracts.

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 FY2020 pursuant to these plans.

All LTI performance rights granted to executives for FY2017 were forfeited at 30 June 2019 due to vesting conditions not being satisfied by the due date.

The Remuneration, Nomination and Diversity Committee is currently reviewing short term and long term incentive structures which will replace the previous plans. These revised incentive plans will be presented to shareholders for consideration at the 2020 AGM to be held during November 2020. The previous plans have now been abandoned and executives and employees are no longer considered for benefits offered under these plans.

Short Term Incentive

The previous STI plan was approved by shareholders at the 2015 Annual General Meeting. This plan is no longer adopted by the Company. The Board is currently developing a revised STI plan which will be presented to shareholders for consideration at the 2020 AGM.

7. Remuneration report – audited

7.1 Principles of compensation (continued)

The Remuneration, Nomination and Diversity Committee's objective for developing a revised STI plan 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 will seek to provide short term benefits on achievement of individual and Company key performance indicators ("KPIs"). Challenging KPIs will be set to ensure payments are comparable to the performance of participating employees.

Long Term Incentive

The previous LTI plan was approved by shareholders at the 2015 Annual General Meeting. This plan is no longer adopted by the Company. The Board is currently developing a revised LTI plan which will be presented to shareholders for consideration at the 2020 AGM.

The Remuneration, Nomination and Diversity Committee's objective for developing a revised LTI plan is to incentivise and reward eligible participants for targets achieved which are aligned with the interests of shareholders.

Performance conditions

With development of new STI and LTI plans, the Remuneration, Nomination and Diversity Committee will consider conditions applicable to any performance based incentives. Careful consideration will be given to ensure that the selected performance conditions will only reward executives where shareholder value is generated through underlying growth metrics in the business, such as an increase in nickel resources rather than a nickel price improvement.

Performance conditions incorporated into the new STI and LTI plans will be presented to shareholders for consideration at the 2020 AGM

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.

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.

7. Remuneration report – audited

7.1 Principles of compensation (continued)

Non-executive directors

Total remuneration for all non-executive directors, last voted upon by shareholders at the 15 July 2019 General Meeting, is not to exceed $650,000 per annum and has been determined after reviewing similar companies listed on the ASX and considered to be in line with corporate remuneration of similar companies.

The non-executive directors receive an annual base fee of $53,888 (except for the chairman who receives a base fee of $135,000) 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 elected to receive all director fees prior to 30 June 2018 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.

Executives

A summary of the key contractual provisions for each executive is set out below:

Name & job title	Base salary	Super-annuation	Contract duration	Notice period	Termination provision
P Harold[1], Managing Director/ CEO	$500,000	9.5%	No fixed term	3 months	3 month termination payment
B Shalders[2], CFO / Joint Company Secretary	$275,000	9.5%	No fixed term	3 months	3 month termination payment

1. Appointed 3 March 2020
2. Appointed 9 September 2019

Mr D Riekie was appointed Interim Chief Executive Officer from 2 September 2019 until 3 March 2020. Whilst performing his duties as the Interim Chief Executive Officer, Mr Riekie was employed under a management consultancy agreement, being paid $1,800 per day worked with a one month notice period.

Mr R Dennis was appointed as Chief Executive Officer ("CEO") on 1 August 2018 and resigned 30 August 2019. The material terms of his employment contract included a base remuneration of $485,000, a bonus available of 0 to 50% of base salary and a notice period of three months.

All other senior management contracts are as per the Company's standard terms and conditions.

For the year ended 30 June 2020

7. Remuneration report – audited (continued)

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

In AUD		Short-term Salary & fees $ (A)	Post employment Superannuation benefits $	Share-based payments Options $	Shares $	Performance rights $	Other long-term benefits $ (B)	Termination benefits $	Total $	Proportion of remuneration performance related
Directors										
Non-executive directors										
Mr D La Ferla (Chairman)[1]	2020	81,667	7,758	7,229	-	-	-	-	96,654	0%
	2019	-	-	-	-	-	-	-	-	-
Mr G Brayshaw[2]	2020	77,781	7,389	-	-	-	-	-	85,170	0%
	2019	75,251	7,149	-	-	-	-	-	82.400	0%
Mr K Paganin[2]	2020	74,088	-	-	-	-	-	-	74,088	0%
	2019	55,566	-	-	-	-	-	-	55,566	0%
Ms F Gooding	2020	74,088	-	-	-	-	-	-	74,088	0%
	2019	55,566	-	-	-	-	-	-	55,566	0%
Mr C Indermaur[2]	2020	-	-	-	-	-	-	-	-	-
	2019	74,513	7,079	-	-	-	-	-	81,592	0%
Mr D Singleton[2]	2020	-	-	-	-	-	-	-	-	-
	2019	14,632	1,390	-	-	-	-	-	16,022	0%
Executives										
Mr P Harold, Managing Director/CEO[1]	2020	166,667	15,833	6,165	-	-	12,919	-	201,584	0%
	2019	-	-	-	-	-	-	-	-	-
Mr B Shalders, CFO[1]	2020	214,423	20,370	-	-	-	17,748	-	252,541	0%
	2019	-	-	-	-	-	-	-	-	-
Mr D Riekie, Interim CEO[3]	2020	211,500	-	-	-	-	-	-	211,500	0%
	2019	-	-	-	-	-	-	-	-	-
Mr R Dennis[2]	2020	73,128	4,071	-	-	-	3,143	-	80,342	0%
	2019	408,852	23,380	-	-	-	35,053	-	467,285	0%
Mr N Hutchison, GM Geology[2]	2020	-	-	-	-	-	-	-	-	-
	2019	37,969	4,144	-	-	-	681	-	42,794	0%
Mr M Rodriguez, COO[2]	2020	-	-	-	-	-	-	-	-	-
	2019	202,065	14,729	-	-	-	14,887	224,407	456,088	0%
Total compensation: key management personnel	2020	973,342	55,421	13,394	-	-	33,810	-	1,075,967	
	2019	924,414	57,871	-	-	-	50,621	224,407	1,257,313	

1. Appointments – Mr B Shalders 9 September 2019, Mr D La Ferla 3 December 2019, Mr P Harold 3 March 2020.
2. Resignations – Mr C Indermaur and Mr D Singleton 1 October 2018, Mr N Hutchison 21 September 2018, Mr M Rodriguez 1 February 2019, Mr R Dennis 31 August 2019, Mr G Brayshaw and Mr K Paganin 30 June 2020.
3. Mr D Riekie was Interim Chief Executive Officer from 2 September 2019 to 3 March 2020.

7. Remuneration report – audited (continued)

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

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

(A) Salary and fees includes base salary and fees.

(B) Other long-term benefits include leave entitlements paid and the movement in annual and long service leave provisions

7.3 Equity instruments

Analysis of options and rights over equity instruments granted as compensation

Share Options

The following options were granted to directors or executives during the reporting period (subject to shareholder approval at the November 2020 AGM):

Number of options granted	Grant date	Vesting and exercise date	Expiry date	Exercise price $	Value per option at grant date $	Held at 30 June 2020
1,000,000	3 Dec 2019	3 Dec 2019	3 Dec 2022	0.10	0.003	1,000,000
1,000,000	3 Dec 2019	3 Dec 2019	3 Dec 2023	0.13	0.004	1,000,000
3,000,000	3 Mar 2020	3 Mar 2023	3 Mar 2025	0.07	0.01	3,000,000
3,000,000	3 Mar 2020	3 Mar 2023	3 Mar 2025	0.08	0.009	3,000,000
8,000,000						8,000,000

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

Shares

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

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

Share Options

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

Name & Grant Date	Balance at 1 Jul 2019 Unvested	Granted as compensation Number	Vested Number	Vested %	Forfeited Number	Forfeited %	Balance at 30 Jun 2020 Vested and exercisable	Balance at 30 Jun 2020 Unvested
Mr D La Ferla[2]								
3 Dec 2019	-	1,000,000[1]	1,000,000	100	-	-	1,000,000	-
3 Dec 2019	-	1,000,000[1]	1,000,000	100	-	-	1,000,000	-
Mr P Harold[3]								
3 Mar 2020	-	3,000,000[1]	-	-	-	-	-	3,000,000
3 Mar 2020	-	3,000,000[1]	-	-	-	-	-	3,000,000

[1] Options are subject to shareholder approval at the November 2020 AGM.

[2] The full value of these options were recognised in FY20 based on the terms of the options.

[3] The full value of these options are to be recognised over 3 years commencing in FY20 based on the terms of the options.

Directors' report (continued)

For the year ended 30 June 2020

7. Remuneration report – audited (continued)

7.3 Equity instruments (continued)

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 2019	Share entitlement issue	Performance right conversion	Net change - other	Held at 30 June 2020
Directors					
Mr D La Ferla	-	-	-	-	-
Mr G Brayshaw	13,249,355	-	-	(13,249,355)[1]	-
Mr K Paganin	-	-	-	-	-
Ms F Gooding	-	-	-	-	-
Mr R Dennis	12,015,926	-	-	(12,015,926)[1]	-
Executives					
Mr P Harold	-	-	-	-	-
Mr B Shalders	-	-	-	-	-
Mr D Riekie	250,000[2]	-	-	(250,000)[3]	-

[1] Balance of shares held on the date of resignation: 31 August 2019 for Mr Dennis and 30 June 2020 for Mr Brayshaw.

[2] Balance of shares held on the date of becoming a KMP (2 September 2019)

[3] Balance of shares held on the date of ceasing to be a KMP (3 March 2020)

Performance rights

No performance rights were held by directors or executives as at 30 June 2020 (30 June 2019: nil).

Other transactions with key management personnel

Director fees for Mr Paganin are payable to Icon Advisory Pty Ltd. Amounts recognised in respect of director fees for the financial year were $74,088 (2019: $55,566).

Director fees for Ms Gooding are payable to Wyloo Metals Pty Ltd (formerly Squadron Resources Pty Ltd). Amounts recognised in respect of director fees for the financial year were $74,088 (2019: $55,566).

DNR Consulting, a company related to Mr Riekie, received aggregate fees of $315,456 (2019: $78,650) relating to the provision of consulting services for the year ended 30 June 2020. This is inclusive of his fees of $211,500 received whilst appointed as Interim CEO of the Company.

Transactions with the related parties were made on commercial terms and at market rates.

End of Remuneration report - audited

8. Corporate governance statement

The Company's 2020 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 1 July 2020 Mr Dean Hildebrand was appointed as a Non-Executive Director and on 3 August 2020 Mr Peter Muccilli was appointed as a Non-Executive Director.

On 17 August 2020 the Company announced that it had purchased an option to acquire the right to treat the Lancefield gold tailings and recover all gold from those tailings.

On 18 August 2020 the Company announced that it had received excellent assay results relating to the Golden Swan drilling program with high priority drilling set to continue.

On 1 September 2020 the Company announced the early repayment of the US$17.5 million convertible note held by a subsidiary of major Poseidon Nickel shareholder Black Mountain Metals ("BMM"), prior to its maturity on 30 September 2020, presenting an interest saving to the Company. BMM agreed to waive interest in lieu of early repayment of principal prior to maturity on 30 September 2020. All other terms of the convertible note remain in place until maturity on 30 September 2020, and therefore the note remains convertible up until that date. If converted prior to 30 September 2020, BMM is obligated to refund the converted portion of the principle repayment back to the Company.

11. Directors' interests

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

	Ordinary shares	Options over ordinary shares[1]
Mr D La Ferla	-	2,000,000
Ms F Gooding	-	-
Mr P Harold	-	6,000,000
Mr D Hildebrand	-	-
Mr P Muccilli	-	-
	-	8,000,000

[1] All options are subject to shareholder approval at the November 2020 AGM

12. Share options

Options granted to directors and officers of the Company

During the financial year, the following options were granted to directors or officers of the Company and remain unissued as at the date of this report:

Issue date	Expiry date	Exercise price $	Number of options[1]
3 December 2019	3 December 2022	0.10	1,000,000
3 December 2019	3 December 2023	0.13	1,000,000
3 Mar 2020	3 March 2025	0.07	3,000,000
3 Mar 2020	3 March 2025	0.08	3,000,000
			8,000,000

[1] All options are subject to shareholder approval at the November 2020 AGM

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

Directors' report (continued)

For the year ended 30 June 2020

12. Share options (cont)

Shares issued on exercise of options

During or since the end of the financial year, the Company has not issued any ordinary shares as a result of the exercise of options.

13. Indemnification and insurance of officers and auditors

Insurance premiums

The Company has agreed to indemnify the following current directors and officers of the Company, Mr D La Ferla, Ms F Gooding, Mr D Hildebrand, Mr P Muccilli, Mr P Harold and Mr B Shalders against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors and officers 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 and officers 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 officers 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 $63,750 (2019: $63,000).

15. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 57 and forms part of the directors' report for financial year ended 30 June 2020.

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 P Harold
Managing Director/CEO

Perth
24 September 2020

Consolidated statement of financial position

As at 30 June 2020

In thousands of AUD	*Note*	2020	2019
Assets			
Cash and cash equivalents	*4.1a*	45,236	25,133
Trade and other receivables	*4.2*	633	1,312
Other investments – term deposits		12	35,012
Total current assets		45,881	61,457
Property, plant and equipment	*3.2*	24,618	24,744
Exploration and evaluation expenditure	*3.1*	65,659	60,946
Other	*3.3*	3,500	3,500
Total non-current assets		93,777	89,190
Total assets		139,658	150,647
Liabilities			
Trade and other payables	*4.3*	1,729	2,254
Loans and borrowings	*5.2*	24,716	-
Employee benefits		207	115
Provisions	*3.4*	3,500	3,500
Total current liabilities		30,152	5,869
Loans and borrowings	*5.2*	-	23,142
Convertible note derivative	*5.2*	-	1,108
Provisions	*3.4*	48,235	46,418
Total non-current liabilities		48,235	70,668
Total liabilities		78,387	76,537
Net Assets		61,271	74,110
Equity			
Share capital	*5.1*	228,796	228,796
Reserves		15	2
Accumulated losses		(167,540)	(154,688)
Total equity attributable to equity holders of the Company		61,271	74,110

The notes on pages 24 to 50 are an integral part of these consolidated financial statements.

POSEIDON NICKEL

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2020

In thousands of AUD	*Note*	2020	2019
Other income	2.2	502	366
Depreciation expense		(19)	(43)
Personnel expenses	2.3	(1,159)	(1,221)
Exploration and evaluation costs expensed	3.1	(8,954)	(6,245)
Consultancy and advisor fees		(1,499)	(2,210)
Share based payment expense	6.1	(13)	126
Other expenses		(760)	(808)
Results from operating activities		(11,902)	(10,035)
Finance income		1,980	3,136
Finance costs		(2,930)	(3,596)
Net finance income / (costs)	2.4	(950)	(460)
Loss before income tax		(12,852)	(10,495)
Income tax benefit	2.5	-	-
Total comprehensive loss for the year		(12,852)	(10,495)
Earnings per share			
Basic and diluted loss per share (cents/share)	2.6	(0.49)	(0.45)

The notes on pages 24 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 30 June 2020

In thousands of AUD	Share Capital	Share based payment reserve	Accumulated losses	Total equity
Balance at 1 July 2018	**156,337**	**1,173**	**(144,221)**	**13,289**
Loss for the year	-	-	(10,495)	(10,495)
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(10,495)	(10,495)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital (net of costs)	71,180	-	-	71,180
Issue of performance rights	-	279	-	279
Transfer to accumulated losses upon forfeiture of performance rights	-	(171)	171	-
Reversal of prior year performance rights	-	-	(143)	(143)
Performance rights exercised	1,279	(1,279)	-	-
Total contributions by and distributions to owners	72,459	(1,171)	28	71,316
Balance at 30 June 2019	**228,796**	**2**	**(154,688)**	**74,110**
Loss for the year	-	-	(12,852)	(12,852)
Other comprehensive income				
Total other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	(12,852)	(12,852)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share options	-	13	-	13
Total contributions by and distributions to owners	-	13	-	13
Balance at 30 June 2020	**228,796**	**15**	**(167,540)**	**61,271**

The condensed notes on pages 24 to 50 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 30 June 2020

In thousands of AUD	***Note***	**2020**	**2019**
Cash flows from operating activities			
Sundry receipts		617	147
Payments to suppliers and employees		(12,013)	(10,189)
Cash used in operations		(11,396)	(10,042)
Interest received		1,415	624
Net cash used in operating activities	*4.1b*	(9,981)	(9,418)
Cash flows from investing activities			
Payments for property, plant and equipment		(125)	(220)
Proceeds from sale of property, plant and equipment		-	36
Payments for exploration and evaluation expenditure		(3,137)	(2,190)
Proceeds/ (payments) for other investments – term deposits		35,000	(35,012)
Net cash received from/ (used in) investing activities		31,738	(37,386)
Cash flows from financing activities			
Proceeds from the issue of shares and options (net of costs)		-	70,915
Repayment of borrowings		-	(42)
Interest paid		(1,654)	(984)
Net cash (used in)/ received from financing activities		(1,654)	69,889
Net increase in cash and cash equivalents		20,103	23,085
Cash and cash equivalents at 1 July		25,133	2,048
Cash and cash equivalents at 30 June	*4.1a*	45,236	25,133

The notes on pages 24 to 50 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Section 1 – Basis of Preparation

Poseidon Nickel Limited presents its financial statements in a format and style that is relevant and clear to shareholders and other users. In preparing the 2020 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 24 September 2020. 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 2019. Refer to note 6.8 for further details; and
– Does not early adopt any Australian Accounting Standards and Interpretations that have been issued or amended but not yet effective.

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.

Notes to the consolidated financial statements

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 are dependent upon certain criteria and 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.

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. Reversals of impairments of assets are recognised if there is an indication that a previously recognised impairment loss has reversed and the recoverable amount of the impaired asset has subsequently increased.

Notes to the consolidated financial statements

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 rehabilitation provision (note 3.4);
- Convertible note liability and derivative (note 5.2); and
- Share-based payments (note 6.1).

1.7 COVID-19

As the COVID-19 pandemic continues to impact Australia and the world, the Group has implemented a variety of protocols and measures to ensure the safety of all of its employees and contractors as well as to safeguard the assets of the business. The Group has considered the impact of COVID-19 on each of its significant accounting judgements and estimates, particularly with respect to assumptions used in determining cash, impairment of non-current assets and going concern. At this stage no further significant estimates have been identified as a result of COVID-19, however management is monitoring the increased level of uncertainty in all future cash flow forecasts used in asset valuation and financial viability.

Notes to the consolidated financial statements

Section 2 – Results for the Year

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

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Deferred taxation

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

2.1 Operating segments

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

Information about reportable segments	**Nickel exploration and evaluation**	
In thousands of AUD	**2020**	**2019**
For the year ended 30 June		
Reportable segment other income	445	351
Reportable segment exploration costs expensed	(8,954)	(6,245)
Reportable segment loss before income tax	(8,509)	(5,894)
Reportable segment assets	93,496	88,815
Reportable segment liabilities	52,980	51,386
Capital expenditure	3,021	3,244
Reconciliations of reportable segment loss and assets		
Loss		
Total loss for reportable segments	(8,509)	(5,894)
Unallocated amounts: other corporate expenses	(3,393)	(4,141)
Net finance costs	(950)	(460)
Loss before income tax	(12,852)	(10,495)
Assets		
Total assets for reportable segments	93,496	88,815
Other assets	46,162	61,832
	139,658	150,647
Liabilities		
Total liabilities for reportable segments	52,980	51,386
Other liabilities	25,407	25,151
	78,387	76,537

There have been no changes to the basis of segmentation or the measurement basis for the segment loss since 30 June 2019.

Notes to the consolidated financial statements

2.2 Other income

Accounting Policy

Research and development proceeds
Research and development proceeds are government grants that are recognised in profit or loss when there is reasonable assurance that the grant will be received.

Sundry income
Includes income received from the rental of mining equipment to a third party.

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

In thousands of AUD	2020	2019
Research and development proceeds	328	181
Sundry income	174	185
	502	366

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	2020	2019
Directors fees	308	280
Wages and salaries	624	541
Superannuation expense	138	126
Termination benefits	-	224
Other associated personnel expenses	33	85
Increase/(decrease) in liability for annual leave	50	(19)
Increase/(decrease) in liability for long service leave	6	(16)
	1,159	1,221

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.

Notes to the consolidated financial statements

2.4 Net financing costs (continued)

Net financing costs can be analysed as follows:

In thousands of AUD	***Note***	**2020**	**2019**
Interest income on bank deposits		858	1,197
Change in fair value of convertible note derivative	*5.2*	1,122	1,939
Finance income		1,980	3,136
Interest expense – convertible note	*5.2*	(2,514)	(2,283)
Interest expense – loan		-	(1)
Net foreign exchange loss	*5.2*	(416)	(1,312)
Finance costs		(2,930)	(3,596)
Net finance income/(cost)		(950)	(460)

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.

Notes to the consolidated financial statements

2.5 Income tax expenses (continued)

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

In thousands of AUD	2020	2019
Current tax expense		
Current year	-	-
Adjustments for prior periods	(70)	233
	(70)	233
Deferred tax expense		
Origination and reversal of temporary differences	70	(233)
	70	(233)
Total tax benefit	-	-

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

In thousands of AUD	2020	2019
Loss for the year	(12,852)	(10,495)
Total tax expense	-	-
Loss excluding tax	(12,852)	(10,495)
Income tax expense at the Australian tax rate of 30% (2019: 30%)	(3,856)	(3,148)
Share-based payments	4	32
Non-assessable grant income	(113)	-
Other non-deductible expenses	(4)	-
Over provided in prior periods	(70)	233
	(4,039)	(2,883)
Change in deductible temporary differences	4,039	2,883
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	2020	2019
Deferred Tax Liabilities		
Exploration expenditure	(8,053)	(7,019)
Convertible note derivative	-	(1,150)
Loans and borrowings	4	-
Other items	12	(179)
Deferred Tax Assets		
Carry forward tax losses recognised	7,080	6,127
Loans and borrowings	-	1,014
Other items	957	1,207
Net deferred tax asset/(liability)	-	-

Notes to the consolidated financial statements

2.5 Income tax expenses (continued)

d. Unrecognised deferred tax assets and liabilities

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

In thousands of AUD	**2020**	**2019**
Tax losses	34,624	30,585
	34,624	30,585

At 30 June 2020, the Group has carry-forward tax losses of $41,704,000 at 30% (30 June 2019: $36,712,000) of which $7,080,000 (30 June 2019: $6,127,000) 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 and diluted earnings (loss) per share

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

The calculation of basic EPS at 30 June 2020 was based on the loss attributable to ordinary shareholders of $12,852,000 (2019: $10,495,000) and a weighted average number of ordinary shares outstanding of 2,642,702,000 (2019: 2,317,505,000).

The calculation of diluted EPS at 30 June 2020 was based on the loss attributable to ordinary shareholders of $12,852,000 (2019: $10,495,000) and a weighted average number of ordinary shares outstanding of 2,642,702,000 (2019: 2,317,505,000). Diluted EPS takes into account the dilutive effect of all potential ordinary shares, being share options on issue.

In thousands	**2020**	**2019**
Loss attributable to ordinary shareholders	(12,852)	(10,495)
Issued ordinary shares at 1 July	2,642,702	2,642,702
Effect of shares issued	-	(325,197)
Weighted average number of ordinary shares at 30 June	2,642,702	2,317,505
Basic and diluted* loss per share (cents)	(0.49)	(0.45)

* Potential ordinary shares of the Group consist of 46,354 (2019: 46,354) dilutive performance rights options issued. In accordance with AASB 133 ‘Earnings per Share’ options are 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.

Notes to the consolidated financial statements

Section 3 – Assets and Liabilities Supporting Exploration and Evaluation

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

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Indicators of impairment for exploration and evaluation assets

At 30 June 2020 and 30 June 2019, the Group 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

Exploration and evaluation assets are tested for impairment if:

- sufficient data exists to determine technical feasibility and commercial viability is unlikely, or
- facts and circumstances suggest the carrying value exceeds the recoverable amount. The application of this policy requires management to make certain estimates and assumptions about future events or circumstances, in particular, whether an economically viable extraction operation can be established.

Such triggering events are defined in AASB 6 *Exploration for and Evaluation of Mineral Resources* in respect of exploration and evaluation assets.

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

Notes to the consolidated financial statements

3.1 Exploration and evaluation expenditure (continued)

Impairment (continued)

Any impairment identified is recognised in profit or loss. Reversals of impairments of assets are recognised if there is an indication that a previously recognised impairment loss has reversed and the recoverable amount of the impaired asset has subsequently increased.

In determining the assumptions used in assessing impairment, consideration has been taken as to current and expected market conditions arising from COVID-19. Actual results could significantly differ depending on the recovery from such conditions.

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

In thousands of AUD	**2020**	**2019**
Costs carried forward in respect of areas of interest in the following phase:		
Exploration and evaluation phase	65,659	60,946
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of year	60,946	54,270
Additions	2,896	3,024
Movement in provisions (note 3.4)	1,817	3,652
Carrying amount at end of year	65,659	60,946

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 $8,954,000 (2019: $6,245,000) was expensed as incurred through the Income Statement for the year.

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.

3.2 Property, plant and equipment (continued)

Impairment

Non-current assets are tested for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. The Group performs impairment testing in accordance with note 1.5.

Any impairment identified is recognised in profit or loss. Reversals of impairments of assets are recognised if there is an indication that a previously recognised impairment loss has reversed and the recoverable amount of the impaired asset has subsequently increased.

In determining the assumptions used in assessing impairment, consideration has been taken as to current and expected market conditions arising from COVID-19. Actual results could significantly differ depending on the recovery from such conditions.

In thousands of AUD	Leasehold improve-ments	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
Cost					
Balance at 1 July 2018	1,006	682	26,532	310	28,530
Additions	-	16	117	87	220
Disposals	-	-	-	(39)	(39)
Balance at 30 June 2019	1,006	698	26,649	358	28,711
Balance at 1 July 2019	1,006	698	26,649	358	28,711
Additions	-	18	108		126
Disposals	-	-	-	-	-
Balance at 30 June 2020	1,006	716	26,757	358	28,837

In thousands of AUD	Leasehold improve-ments	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
Depreciation and impairment losses					
Balance at 1 July 2018	430	372	2,543	263	3,608
Depreciation for the year	41	43	297	17	398
Disposals	-	-	-	(39)	(39)
Balance at 30 June 2019	471	415	2,840	241	3,967
Balance at 1 July 2019	471	415	2,840	241	3,967
Depreciation for the year	40	20	174	18	252
Disposals	-	-	-	-	-
Balance at 30 June 2020	511	435	3,014	259	4,219

Carrying amounts

In thousands of AUD	Leasehold improve-ments	Plant and equipment	Plant and equipment - mining	Motor vehicles - mining	Total
At 30 June 2019	535	283	23,809	117	24,744
At 30 June 2020	495	281	23,743	99	24,618

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 2020, the total carrying amount of these assets was $22,983,000 (2019: $22,983,000).

Notes to the consolidated financial statements

3.3 Other non-current assets

The Group holds a cash collateralised security deposit of $3,500,000 (2019: $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.

3.4 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 (2019: $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 Group 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 $48,235,000 (2019: $46,418,000) 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 non-current provisions

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

In thousands of AUD	**2020**	**2019**
Carrying amount of liability at beginning of year	46,418	42,766
Addition to provision	1,817	3,652
Carrying amount at end of year	48,235	46,418

During the year, the rehabilitation provision was re-estimated based on updated economic assumptions. The increase in the provision was due to the revision of the discount rate applied to the rehabilitation liability, resulting in a corresponding increase in the cost of the rehabilitation asset (note 3.1).

Notes to the consolidated financial statements

3.5 Capital and other commitments

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Group is 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	**2020**	**2019**
Less than one year	1,667	1,635
Between one and five years	6,381	6,221
More than five years	10,401	11,414
	18,449	19,270

The above represent commitments over the tenure of the tenements held by the Group.

Section 4 – Working Capital Disclosures

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

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

There were no key estimations or assumptions in this section.

4.1 Cash and cash equivalents

ACCOUNTING POLICY

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

a. Cash and cash equivalents

In thousands of AUD	**2020**	**2019**
Bank balances	236	633
Term deposits < 3 months	45,000	24,500
Cash and cash equivalents in the statement of cash flows	45,236	25,133

The effective interest rate on term deposits < 3 months in 2020 was 1.70% (2019: 2.41%).

b. Reconciliation of cash flows from operating activities

In thousands of AUD	**2020**	**2019**
Cash flows from operating activities		
Loss for the year	(12,852)	(10,495)
Adjustments for:		
Depreciation	252	398
Interest expenses - convertible note derivative	2,514	2,294
Interest expenses – borrowings	-	1
Change in fair value of convertible note derivative	(1,122)	(1,939)
Net profit on sale of plant and equipment	-	(36)
Net foreign exchange loss	416	1,312
Equity-settled share-based payment transactions	13	136
Operating loss before changes in working capital and provisions	(10,779)	(8,329)
Change in trade and other receivables	669	(1,034)
Change in trade payables and employee benefits	129	(55)
Net cash used in operating activities	(9,981)	(9,418)

Notes to the consolidated financial statements

4.2 Trade and other receivables

Accounting Policy

Trade receivables are recognised initially at the value of the invoice sent to the counter-party and subsequently at the amounts considered recoverable (amortised cost). In accordance with AASB Financial Instruments, the Group calculates impairment on Trade and Other receivables using the expected credit loss model. Where there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to profit or loss.

Current

In thousands of AUD	**2020**	**2019**
Goods and services tax receivable	280	368
Accrued income	65	753
Other receivables	156	72
Other assets and prepayments	132	119
	633	1,312

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	**2020**	**2019**
Trade payables	1,282	1,360
Other payables	447	582
Accrued interest – convertible note derivative	-	312
	1,729	2,254

Notes to the consolidated financial statements

Section 5 – Equity and Funding

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

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Convertible note derivative

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

Convertible note liability

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

5.1 Capital and reserves

ACCOUNTING POLICY

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

Share capital

	Ordinary shares	
In thousands of shares	**2020**	**2019**
Ordinary shares		
Fully paid	2,642,702	2,642,702
Total share capital on issue at 30 June	2,642,702	2,642,702
Movements in ordinary shares on issue:		
On issue at 1 July	2,642,702	1,107,373
Shares issued and expensed during the year:		
Issued for cash (i)	-	1,496,283
Issued for interest on convertible notes (ii)	-	7,188
Issued for performance rights	-	31,858
On issue at 30 June	2,642,702	2,642,702

(i) During the prior reporting period, the Group issued 1,496,283,000 Ordinary Shares at an average $0.05 per share to raise $75,080,142. The capital raising incurred transaction costs of $3,899,549.

(ii) 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.

5.1 Capital and reserves (continued)

Share capital (continued)

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

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 Statement of Profit or Loss 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.

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

In thousands of AUD	Convertible note liability	Convertible note derivative	Total
Carrying amount at 30 June 2019	23,142	1,108	24,250
Fair value movements	-	(1,122)	(1,122)
Accrued interest capitalised	2,514	-	2,514
Payment of interest	(1,342)	-	(1,342)
Exchange rate effects	402	14	416
Carrying amount at 30 June 2020	24,716	-	24,716

As at 30 June 2020, the Group had an outstanding convertible note of US$17.5 million repayable 30 September 2020. On maturity the note is repayable in cash but may be converted to shares by the noteholder 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 Group. 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 2019 (share price $0.035) and 30 June 2020 (share price $0.028) 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 year.

Subsequent to 30 June 2020 the Group entered into a forward contract with a financial institution to convert $25,114,811 into US$17,500,000 to fund the convertible note repayment due 30 September 2020. Following this transaction the Group approached the noteholder, Black Mountain Metals ("BMM"), for an early repayment of the convertible note to reduce interest accrued on the remaining term. BMM agreed to early repayment of the note with US$17,500,000 paid to BMM on 31 August 2020.

The USD:AUD exchange rate at 30 June 2019 was 0.7020:1 and at 30 June 2020 was 0.6876:1.

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 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.

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

Notes to the consolidated financial statements

Section 6 – Other Disclosures

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

KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

Share-based payments

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

6.1 Share-based payments arrangements

ACCOUNTING POLICY

The Group's annual Incentive Performance Rights Plan ("IPRP") was ceased during FY2020.

The directors can elect to 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	**2020**	**2019**
Performance rights expense	-	17
Options issued	13	-
Reversal of prior year performance rights expense	-	(143)
Total expenses recognised as employee costs	13	(126)

Share Options

The fair values at grant date of options are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the options or rights, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the options or rights.

6.1 Share-based payments arrangements (continued)

Share Options (continued)

Set out below is a summary of the options granted during the year:

In thousands of AUD	Average exercise price per option $	Number of options
As at 1 July 2019	-	-
Granted during the year	0.09	8,000,000
Exercised during the year	-	-
Forfeited during the year	-	-
As at 30 June 2020	0.09	8,000,000
Vested and exercisable at 30 June 2020	0.11	2,000,000

Share options outstanding at the end of the year have the following expiry dates and expiry prices:

Issue date	Expiry date	Exercise price	Number of shares
3 December 2019	3 December 2022	0.10	1,000,000
3 December 2019	3 December 2023	0.13	1,000,000
3 March 2020	3 March 2025	0.07	3,000,000
3 March 2020	3 March 2025	0.08	3,000,000
			8,000,000

The weighted average remaining contractual life of share options outstanding at the end of the year was 4.24 years (2019: nil).

Shares

No shares were issued to Directors or employees during FY2020.

Performance rights

The Group suspended the STI and LTI Plans effective from 1 July 2017 and no performance rights were granted from FY2018 to FY2020. All LTI performance rights granted to employees for FY2016 and FY2017 have subsequently forfeited due to the vesting conditions not being satisfied by the due date. The expense continues to be recognised when market conditions are not satisfied and is reversed when non-market conditions are not satisfied.

The Incentive Performance Rights Plan ("IPRP") approved by shareholders at the November 2015 AGM is no longer active.

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

	Weighted average fair value 2020	Number of performance rights 2020	Weighted average fair value 2019	Number of performance rights 2019
Outstanding at 1 July	$0.049	46,354	$0.047	36,484,630
Granted during the year	-	-	-	-
Exercised during the year	-	-	($0.040)	(31,856,781)
Forfeited during the year	-	-	($0.053)	(4,581,495)
Outstanding at 30 June	$0.049	46,354	$0.049	46,354
Vested and exercisable at 30 June	$0.049	46,354	$0.049	46,354

Notes to the consolidated financial statements

6.1 Share-based payments arrangements (continued)

Performance rights (continued)

No performance rights have been granted to employees in relation to the 2020 year (2019: nil) or since the end of the financial year as all remuneration has been paid in cash.

The performance rights forfeited in the prior year were in relation to LTI performance rights granted to employees for FY2016 and FY2017 and forfeited due to both market and non-market conditions not being satisfied by the due date.

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 AASB 9 Financial Instruments:

– ‘Financial assets at fair value through other comprehensive income;
– ‘Financial assets/ financial 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 assets/ 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.

6.2 Financial risk management (continued)

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 $45,236,000 (2019: $25,133,000), investments in term deposits of $12,000 (2019: $35,012,000), a security deposit of $3,500,000 (2019: $3,500,000) and other assets that were held with bank and financial institution counterparties which are rated A to AA-, based on Standard and P oor's ratings.

Trade and other receivables

As the Group operates in the mining exploration sector, the Group generally does not have trade receivables (only interest income, 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. 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.

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

Notes to the consolidated financial statements

6.2 Financial risk management (continued)

Liquidity risk (continued)

Consolidated

30 June 2020

In thousands of AUD	Carrying amount	Contracted 6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	1,729	1,729	-	-	-	-
Convertible note	24,716	25,987	-	-	-	-
	26,445	27,716	-	-	-	-

Consolidated

30 June 2019

In thousands of AUD	Carrying amount	Contracted 6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
Trade and other payables	2,254	2,254	-	-	-	-
Convertible note	23,142	-	-	26,179	-	-
	25,396	2,254	-	26,179	-	-

1. 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
2. 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 2020		30 June 2019
In thousands of AUD	AUD	Total	AUD	Total
Convertible note derivative	-	-	(1,108)	(1,108)
Convertible note liability	(24,716)	(24,716)	(23,142)	(23,142)
Gross statement of financial position exposure	(24,716)	(24,716)	(24,250)	(24,250)

6.2 Financial risk management (continued)

Market risk (continued)

(a) Currency risk (continued)

Sensitivity analysis

The following sensitivities have been applied for 2020 and 2019 based upon published 12 month forward rates:

- A 2% weakening of AUD against the USD with the equal effect in the opposite direction will increase the fair value of the convertible note liability by $488,200 (2019: $1,212,500).

(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	**2020**	**2019**
Fixed rate instruments		
Cash and cash equivalents	45,000	24,500
Other investments – term deposits	12	35,012
Convertible note liability	24,716	23,142
In thousands of AUD		
Variable rate instruments		
Cash and cash equivalents	236	633
Security deposits – environmental bond	3,500	3,500

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 2019 and 2020 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.

The convertible note was repaid in full on 31 August 2020. All terms and conditions of the note including convertibility remain through to maturity on 30 September 2020. If the note is converted in part or full, the portion converted is refundable to the Company.

6.2 Financial risk management (continued)

Market risk (continued)

(c) Equity price risk (continued)

Price risk sensitivity

Equity Price Risk

In relation to the convertible note derivative, the Group have used an equity price change of 70% (2019: 80%) upper and lower representing a reasonable possible change based upon the company's historic share price volatility over the last 3 years of trading. At the reporting date, should the Group's share price be reduced by 70% (2019: 80%) the value of the derivative and the profit would not be affected (2019: increase profit of $1,108,000). An equal and opposite increase in the share price would have reduced profit by $89,000 (2019: $3,047,000).

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		**2020**	**2019**	**2020**	**2019**
Financial assets & liabilities measured at fair value					
Convertible note derivative	Level 2	-	1,108	-	1,108
Financial assets & liabilities not measured at fair value					
Convertible note liability	Level 2	24,716	23,142	24,476	22,076

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.

Notes to the consolidated financial statements

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	**2020**	**2019**
Short-term employee benefits	973,342	924,414
Other long-term benefits	33,810	50,621
Post-employment benefits	55,421	57,871
Share-based payments	13,394	-
Termination benefits	-	224,407
	1,075,967	1,257,313

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 or executive 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.

Other transactions with key management personnel and their related parties

Director fees for Mr Paganin are payable to Icon Advisory Pty Ltd. Amounts recognised in respect of director fees for the financial year were $74,088 (2019: $55,566).

Director fees for Ms Gooding are payable to Wyloo Metals Pty Ltd (formerly Squadron Resources Pty Ltd). Amounts recognised in respect of director fees for the financial year were $74,088 (2019: $55,566).

DNR Consulting, a company related to Mr Riekie, received aggregate fees of $315,456 (2019: $78,650) relating to the provision of services for the year ended 30 June 2020. This is inclusive of his fees of $211,500 received whilst appointed as Interim CEO of the Company.

Other related party transactions

During the year Black Mountain Metals Pty Ltd, a major shareholder of the Group, was paid $72,009 (2019: nil) for the provision of consultancy services in regards to technical studies conducted on the Group's mining assets.

Transactions with the related parties were made on commercial terms and at market rates.

6.4 Group entities

Significant subsidiaries

Parent entity	**Country of incorporation**	**Ownership interest**	
Poseidon Nickel Limited		**2020**	**2019**
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 Group, investments in subsidiaries are measured at cost. The Group has no jointly controlled entities.

Notes to the consolidated financial statements

6.5 Parent entity disclosures

As at, and throughout, the financial year ending 30 June 2020 the parent company of the Group was Poseidon Nickel Limited.

In thousands of AUD	**2020**	**2019**
Results of the parent entity		
Loss for the year	(12,852)	(10,495)
Total comprehensive loss for the year	(12,852)	(10,495)
Financial position of the parent entity at year end		
Current assets	45,881	61,457
Total assets	139,658	150,647
Current liabilities	30,152	5,869
Total liabilities	78,387	76,537
Total equity of the parent entity comprising of:		
Share capital	228,796	228,796
Share based payments reserve	15	2
Accumulated losses	(167,540)	(154,688)
Total equity	61,271	74,110
Exploration expenditure commitments of the parent		
Less than one year	1,667	1,635
Between one and five years	6,381	6,221
More than five years	10,401	11,414
	18,449	19,270

6.6 Subsequent events

On 1 July 2020 Mr Dean Hildebrand was appointed as a Non-Executive Director and on 3 August 2020 Mr Peter Muccilli was appointed as a Non-Executive Director.

On 17 August 2020 the Company announced that it had purchased an option to acquire the right to treat the Lancefield gold tailings and recover all gold from those tailings.

On 18 August 2020 the Company announced that it had received excellent assays relating to the Golden Swan drilling program with high priority drilling set to continue.

On 1 September 2020 the Company announced the early repayment of the US$17.5 million convertible note held by a subsidiary of major Poseidon Nickel shareholder Black Mountain Metals (“BMM”), prior to its maturity on 30 September 2020, presenting an interest saving to the Company. BMM agreed to waive interest in lieu of early repayment of principal prior to maturity on 30 September 2020. All other terms of the convertible note remain in place until maturity on 30 September 2020, and therefore the note remains convertible up until that date. If converted prior to 30 September 2020, BMM is obligated to refund the converted portion of the principle repayment back to the Company.

Notes to the consolidated financial statements

6.7 Auditor's remuneration

In AUD	Consolidated 2020	2019
Audit services		
Auditors of the Group – KPMG		
Audit and review of financial reports	63,750	63,000
	63,750	63,000
Services other than statutory audit		
Form 5 audit	-	6,000
	63,750	69,000

6.8 New Accounting Standards and Interpretations adopted from 1 July 2019

The Group has adopted all new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to the Group and effective for annual reporting periods beginning on or after 1 July 2019 and included:

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.

The Group has chosen to apply the practical expedients relating to low value and short-term leases and as a result there are no leases requiring disclosure resulting in no material impact.

The adoption of this standard from 1 July 2019 has had no impact on these financial statements and did not give rise to any adjustments in the financial statements.

Directors' declaration

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

   (a) the consolidated financial statements and notes that are set out on pages 20 to 50 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 2020 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 Managing Director/Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2020.

3. The directors draw attention to note 1.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

Mr P Harold
Managing Director/CEO

Perth
24 September 2020

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 2020 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 2020.
- 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 (including Independence Standards)* (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; and
- Site Rehabilitation Provisions.

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.

KPMG

Exploration and Evaluation Expenditure (A$65.7m)	
Refer to Note 3.1 Exploration and evaluation expenditure 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 47% of total assets). • 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. • 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 volatility in the nickel market and prices on the Group's strategy and intentions; 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 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 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.

KPMG

• 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$51.7m)

Refer to Note 3.4 Provisions 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. • 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.

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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 Remuneration Report and the ASX additional information. The message from the Chairman, the CEO's report, the Geology Update and the Mineral Resource Statements 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 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 the 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: https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 2020, 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 pages 12 to 17 of the Directors' report for the year ended 30 June 2020.

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

KPMG

KPMG

Graham Hogg

Partner

Perth

24 September 2020

KPMG

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 2020 there have been:

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

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

KPMG

KPMG

Graham Hogg
Partner
Perth
24 September 2020

ASX Additional information

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

The shareholder information set out below was applicable as at 22 September 2020.

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	1,782	778,506
1,001 – 5,000	1,730	5,046,445
5,001 – 10,000	975	8,009,470
10,001 – 100,000	3,265	132,909,885
100,001 and over	1,466	2,495,957,525
	9,218	**2,642,701,831**

There were 4,116 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**
Edison 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	161,037,971	6.09
Brispot Nominees Pty Ltd <House Head Nominee A/c>	60,879,130	2.30
UBS Nominees Pty Ltd	59,103,997	2.24
J P Morgan Nominees Australia Limited	55,703,687	2.11
CS Fourth Nominees Pty Limited <HSBC Cust Nom Au Ltd 11 A/c>	42,210,527	1.60
HSBC Custody Nominees (Australia) Limited	38,236,640	1.45
Farjoy Pty Ltd	33,477,538	1.27
Mr David Norman Deitch	29,000,000	1.10
Edison Metals Pty Ltd	26,427,019	1.00
Mrs Rena Elizabeth Indermaur	26,122,794	0.99
Mr Christopher Charles Indermaur + Mrs Rena Elizabeth Indermaur <Indermaur Family S/F A/C>	25,899,682	0.98
Brazil Farming Pty Ltd	25,000,000	0.95
Minderoo Pty Ltd <Andrew & Nicola Forrest Family Investment A/c>	20,632,500	0.78
BNP Paribas Nominees Pty Ltd <IB AU Noms Retail Client DRP>	19,175,387	0.73
Brahma Finance BVI Limited	17,900,000	0.68
Inglewood Lodge Pty Ltd <The Inglewood Lodge A/c>	15,000,000	0.57
BNP Paribas Noms Pty Ltd <DRP>	13,695,099	0.52
Xue Investments Pty Limited <Xue Family A/c>	13,533,457	0.51
Total	**1,658,253,044**	**62.77**

ASX Additional information (continued)

C. Substantial holders

Substantial holders in the company are set out below:

	Number held	Percentage
Ordinary shares		
Black Mountain Metals Pty Ltd	549,352,431	20.79
Forrest Family Investments Pty Ltd <Peepingee A/C>	472,924,704	17.90

D. Unquoted equity security holders (as at 22 September 2020)

	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.

ASX Additional information (continued)

F. Schedule of Tenements

Areas of Interest	Tenements	Economic Entity's Interest
Western Australia		
- Windarra Nickel Assets	MSA38/261, 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, 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	G27/0002, 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

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Corporate directory

ABN: 60 060 525 206

Incorporated in Australia

Non-Executive Directors

Mr D La Ferla

Ms F Gooding

Mr D Hildebrand

Mr P Muccilli

Managing Director & CEO

Mr P Harold

Company Secretary (Joint)

Ms A Betti

Mr B Shalders

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

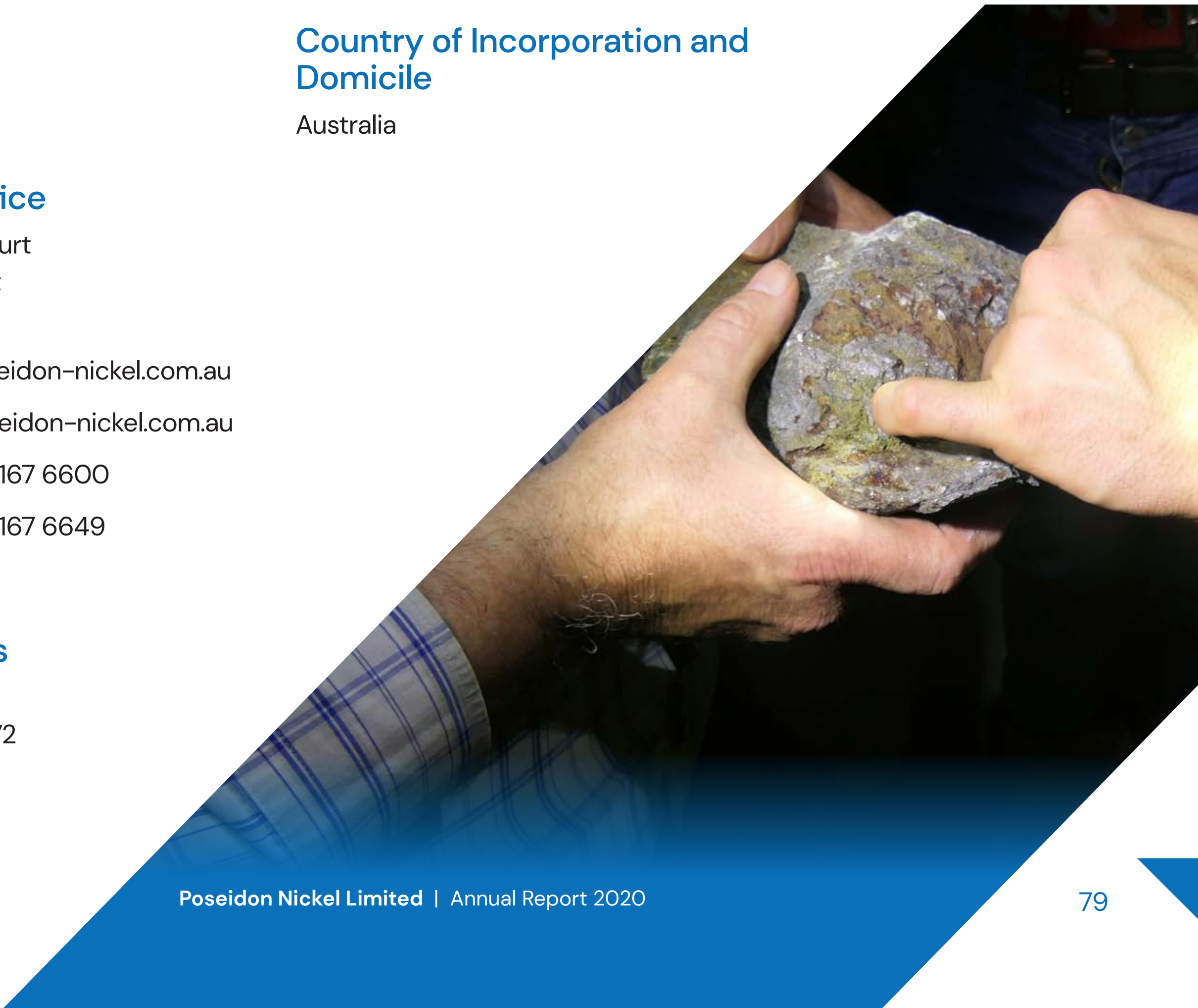
Computershare Investor Services Pty Ltd. Level 11
172 St George's Terrace
Perth WA 6000

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia



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