



POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Interim Financial Report

For the six months ended 31 December 2016

Poseidon Nickel Limited Contents

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Poseidon Nickel Limited

Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

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

Company Secretary

Mr G Jones

Registered Office

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Subiaco WA 6008

Website: www.poseidon-nickel.com.au
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Telephone: +61 8 6167 6600
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Postal Address

PO Box 190
West Perth WA 6872

Auditors to the Company

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

Share Registry

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

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia

Poseidon Nickel Limited
Directors' report
For the six months ended 31 December 2016

The directors of Poseidon Nickel Limited ("the Company") present their report together with the consolidated interim financial report for the six months ended 31 December 2016 and the auditor's review report thereon.

Contents of Directors' report

- 1. Directors**
- 2. Operating and Financial Review**
- 3. Dividends**
- 4. Events subsequent to reporting date**
- 5. Lead auditor's independence declaration**
- 6. Rounding off**

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2016

1. Directors

The directors of the Company at any time during or since the end of the interim period are:

Name	Period of directorship
Non-executive Mr Christopher Indermaur <i>Chairman & Independent Non-Executive Director</i>	Appointed 2 July 2007, Resigned 30 September 2008, Re-appointed 2 April 2009
Mr David Singleton <i>Non-Executive Director</i>	Appointed 1 February 2008, Resigned as Managing Director & CEO 31 January 2016
Mr Geoff Brayshaw <i>Independent Non-Executive Director & Chairman of the Audit & Risk Management Committee</i>	Appointed 1 February 2008
Mr Robert Dennis <i>Non-Executive Director</i>	Appointed 24 February 2014

2. Operating and Financial Review

Company Strategy

The Company is committed to developing its nickel assets in anticipation of a recovery in the nickel market. The plan remains for an initial restart of operations at Black Swan which includes the high grade Silver Swan project and for which the technical work required for a restart is well progressed. The nickel market has remained depressed for a much longer period than analysts anticipated and the timing for a restart of operations continues to be dependent upon a sustained improvement in nickel pricing.

Poseidon has a proven track record in discovering ore bodies, securing existing operations and applying novel and inventive approaches to unlocking capital. This was demonstrated by the discovery of Abi Rose, the high-grade nickel deposit and lithium on our wholly owned tenements at Lake Johnston combined with the ability to adapt our processing plants to recover minerals in addition to nickel, copper and cobalt which provides the Company with an exciting opportunity to enhance value to shareholders through commodity diversification.

In light of the prolonged soft nickel market, the Company has entered into two option and lease agreements, the first with Kidman Resources Ltd ("Kidman") to lease the Lake Johnston facility and process lithium ore from Mt Holland (refer projects – lithium below) and the second with GTI Resources Ltd over the Windarra gold rights (refer subsequent events note and ASX announcement dated 27 January 2017). Both options, when exercised, have the ability to generate a significant cashflow to assist in the funding of development activities into the future.

Projects – Lake Johnston

Poseidon has secured a second co-funding grant of \$150,000 under the Western Australian Government's Exploration Incentive Scheme (EIS) which will enable further drilling at the Abi Rose nickel discovery. Under the previous EIS co-funded grant, Poseidon completed three diamond drill holes in 2015-2016, 360m north of the Emily Ann mine. The high-grade Abi Rose nickel mineralisation was discovered 390m below the surface with a best intersection of 10.48m grading 3.20% Ni which includes a massive sulphide base grading 2.32m at 7.62% Ni (refer ASX Announcement dated 25 January 2016: Significant High Grade Nickel Intersection at Emily Ann North).

However, the drilling which discovered Abi Rose raised more questions as to the origin of the sulphide. Emily Ann has historically been considered a structurally deformed komatiite hosted deposit. Conversely, the drilling that discovered Abi Rose indicates that the sulphides are hosted within an intrusive ultramafic sill which demonstrates cumulates within its core and sulphide settling at its base.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2016

2. Operating and Financial Review (continued)

The upper and lower margins exhibit chill zones and alteration halos where it has come into contact with the earlier in-situ felsic volcanics which host the ultramafic intrusion. The felsic volcanic rocks have been overturned during earlier regional deformation, however the ultramafic sill is right-way up and cross-cuts stratigraphy, contradicting the historical recumbent folding model previously used to explain the Emily Ann ore body.

There is insufficient drilling to confirm either model so the successful award of a second EIS grant will enable Poseidon to complete more holes further afield in order to collect enough geological data to determine the correct ore formation model for future deposit discoveries and the expansion of Abi Rose. This opens further opportunities for mineralisation to be discovered in other structurally favourable positions along the belt.

In conjunction with surrounding tenement holders, Poseidon commissioned MagSpec Airborne Surveys to complete an aerial-magnetic and radiometric survey over the northern portion on the Lake Johnston tenement package. The survey covers the Emily Ann area as well as the lithium project area. The data and images from the magnetic survey are assisting in interpreting the structural model that Poseidon's geologists are proposing for Abi Rose, as well as defining potential structural repetitions. The radiometric data has proven to be valuable in mapping and identifying pegmatites within the lithium pegmatite project area as the pegmatites emit low level signals of potassium, thorium and uranium which can be detected by the sensitive airborne equipment. This has also been combined with the geochemical data already collected to prioritise drill targets and identify additional new targets.

Projects – Lithium

The Company has entered into an Option Deed ("Option") with Kidman that if exercised, will enable Kidman to lease the Lake Johnston facility and process lithium ore at around 1.5 million tonnes per annum from Mt Holland. The Lake Johnston facility consists of a 1.5 million tonne per annum process plant, including associated existing infrastructure and has the potential of processing lithium hosted pegmatite ores to produce a spodumene concentrate (refer announcement dated 16 November 2016).

Under the terms of the Option, Kidman has until 31 August 2017 to exercise the lease and upon exercising, Kidman will pay all costs associated with refurbishing and operating the Lake Johnston facility. Three months after exercising the Option, Kidman will begin paying Poseidon an agreed rate per tonne of ore processed for a minimum of \$6 million per year for 3 years for the lease of the Lake Johnston facility. In addition, Kidman has the option to extend the agreement for a further 2 year period. The clear benefit for Kidman is a quick path to market taking advantage of the bullish lithium market and becoming a major spodumene concentrate producer well ahead of other potential hard rock lithium producers. Upon completion of the lease agreement, Poseidon will have a commissioned and operating plant at no cost to the Company and consistent with the vision of establishing Lake Johnston, with all of its existing plant and infrastructure, as a co-processing facility for the production of spodumene and or nickel concentrate.

In addition, fieldwork undertaken by Poseidon at Lake Johnston to define the Company's own lithium hosted pegmatite mineralisation has been incorporated with the airborne magnetic and radiometric survey data. Poseidon has made substantial progress with the Department of Mines and Petroleum (DMP) as well as the Department of Parks and Wildlife (DPaW) in regards to the previously announced delays in accessing prospective areas due to a declared rare flora plant species. Meetings between the parties have cleared the way for Poseidon to submit clearing permits as the DMP and DPaW are satisfied with the level of work completed by Poseidon to date to define the plant species, demonstrating that it rarely grows directly in the areas targeted for pegmatite exploration.

A botanist is working closely with the Company to ensure proposed access tracks and drill lines do not interfere with the protected vegetation. It is anticipated that aircore/RC drilling will commence early second quarter 2017 once the approvals are secured and the drilling sub-contractor mobilised to site.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2016

2. Operating and Financial Review (continued)

Projects – Black Swan

The Company has continued to progress the key pre-production activities to facilitate the restart of Silver Swan underground nickel operations. Beck Engineering was appointed to develop a numerical model for the underground Silver Swan mine. The model has been normalised based on previous experience at Silver Swan. Geotechnical work has allowed the mine sequencing to be optimised and to confirm stope and pillar stability. Geotechnical core logging underpins this work together with digitising underground face maps to improve the accuracy of the model.

Entech Engineering have reviewed previous mining methods applied at Silver Swan, defined the preferred mining method in view of the geotechnical work and are presently completing an optimised life of mine schedule that has considered a number of alternative mining methods and includes various scenarios that utilise the Black Swan nickel concentrator, stockpiled material and open pit. Following the completion of the model optimisation, a ground control management plan will be finalised based on the geotechnical recommendations.

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

Financial Position

For the six months ended 31 December 2016 the Group incurred a loss of \$1,872,000 (2015: loss \$53,065,000) and had a net working capital deficit of \$1,815,000 (30 June 2016: deficit \$1,210,000). The working capital deficit includes a provision for environmental rehabilitation of \$3,500,000 that is cash backed (non-current asset).

The Company had a net cash outflow from operating activities of \$2,911,000 (2015: \$1,082,000) and a net cash inflow from investing activities of \$169,000 (2015: outflow \$1,378,000), with operating cash outflow primarily reflecting the costs of ongoing studies and care and maintenance expenditure of the Lake Johnston, Black Swan and Windarra sites.

The Company has received \$544,000 subsequent to the balance date for the 2016 refundable tax offset from the ATO under the Research and Development Tax Incentive Scheme. In addition, the Company has entered into two Option agreements for the lease of the Lake Johnston facility to Kidman Resources Limited for a minimum of \$6 million per year for 3 years and the sale of the Windarra gold rights to GTI Resources Limited for \$3 million, both of which will provide additional sources of cash to the Company if and when the options are exercised during 2017.

The Company continues to minimise expenditure levels across all sites due to the current poor nickel market conditions. Management forecasts demonstrate a need for additional funding and have established a mechanism to issue shares, via an intermediary, to professional and sophisticated investors on a quarterly basis to raise an estimated \$3 million to maintain planned levels of expenditure for the coming 12 months. The Company will continue to review other sources of funding through this period including debt and/or equity instruments.

3. Dividends

No dividends were paid or proposed during the six months ended 31 December 2016.

4. Events subsequent to reporting date

The Company has entered into an Option Deed with GTI Resources ("GTI") to sell the Windarra gold rights for \$3 million. Upon exercising the option, GTI will pay \$2 million by 28 June 2017 with the final \$1 million subject to termination of the Poseidon Nickel Agreement Act 1971 and granting of a mining lease.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2016

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 9 and forms part of the directors' report for the six months ended 31 December 2016.

6. Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with this Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the directors:



Mr G F Brayshaw, FCA
Director

Perth
3rd March 2017



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Poseidon Nickel Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016 there have been:

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

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

KPMG

A handwritten signature in blue ink, appearing to be 'T. Hart'.

Trevor Hart
Partner

Perth
3 March 2017

Poseidon Nickel Limited
Condensed consolidated interim statement of financial position
As at 31 December 2016

In thousands of AUD

	Note	31 Dec 2016	30 Jun 2016
Assets			
Cash and cash equivalents		2,243	3,030
Trade and other receivables		729	296
Total current assets		2,972	3,326
Plant and equipment	3.1	25,747	26,433
Exploration and evaluation expenditure	3.1	54,964	54,670
Other investments		-	12
Other		3,500	3,500
Total non-current assets		84,211	84,615
Total assets		87,183	87,941
Liabilities			
Trade and other payables		927	789
Employee benefits		263	247
Loans and borrowings		97	-
Provisions		3,500	3,500
Total current liabilities		4,787	4,536
Loans and borrowings	4.2	20,173	19,269
Convertible note derivative	4.2	5,654	8,619
Provisions		44,727	44,727
Total non-current liabilities		70,554	72,615
Total liabilities		75,341	77,151
Net Assets		11,842	10,790
Equity			
Share capital	4.1	147,983	145,470
Reserves		514	1,113
Accumulated losses		(136,655)	(135,793)
Total equity attributable to equity holders of the Company		11,842	10,790

The condensed notes on pages 14 to 21 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
 Condensed consolidated interim statement of profit or loss and other
 comprehensive income
 For the six months ended 31 December 2016

In thousands of AUD

	Note	31 Dec 2016	31 Dec 2015
Other income		630	1,155
Depreciation expense		(31)	(31)
Personnel expenses		(324)	(874)
Exploration and evaluation costs expensed		(2,557)	(130)
Consultancy and advisor fees		(271)	(436)
Share based payment expense	5.1	(454)	(386)
Impairment		-	(48,600)
Other expenses		(328)	(470)
Results from operating activities		(3,335)	(49,772)
Finance income		3,198	3,030
Finance costs		(1,735)	(6,323)
Net finance income / (costs)	2.2	1,463	(3,293)
Loss before income tax		(1,872)	(53,065)
Income tax benefit		-	-
Total comprehensive loss for the period		(1,872)	(53,065)
Earnings per share			
Basic and diluted loss per share (cents/share)		(0.22)	(7.43)

The condensed notes on pages 14 to 21 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Condensed consolidated interim statement of changes in equity

For the six months ended 31 December 2015

In thousands of AUD

	Share Capital	Share based payment reserve	Accumulated losses	Total equity
Balance at 1 July 2015	138,387	799	(88,111)	51,075
Loss	-	-	(53,065)	(53,065)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(53,065)	(53,065)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital (net of costs)	3,037	-	-	3,037
Issue of options (net of costs)	-	86	-	86
Issue of performance rights	-	70	-	70
Total contributions by and distributions to owners	3,037	156	-	3,193
Balance at 31 December 2015	141,424	955	(141,176)	1,203

For the six months ended 31 December 2016

In thousands of AUD

	Share Capital	Share based payment reserve	Accumulated losses	Total equity
Balance at 1 July 2016	145,470	1,113	(135,793)	10,790
Loss	-	-	(1,872)	(1,872)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(1,872)	(1,872)
Transactions with owners recorded directly in equity				
Contributions by and distributions to owners				
Issue of share capital (net of costs)	2,474	-	-	2,474
Issue of options (net of costs)	-	39	-	39
Issue of performance rights	-	411	-	411
Performance rights exercised	39	(39)	-	-
Transfer to accumulated losses upon lapse of options	-	(1,010)	1,010	-
Total contributions by and distributions to owners	2,513	(599)	1,010	2,924
Balance at 31 December 2016	147,983	514	(136,655)	11,842

The condensed notes on pages 14 to 21 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited
 Condensed consolidated interim statement of cash flows
 For the six months ended 31 December 2016

In thousands of AUD

	Note	31 Dec 2016	31 Dec 2015
Cash flows from operating activities			
Sundry receipts		188	720
Payments to suppliers and employees		(3,110)	(1,832)
Cash used in operations		(2,922)	(1,112)
Interest received		11	30
Net cash used in operating activities		(2,911)	(1,082)
Cash flows from investing activities			
Payments for property, plant and equipment		(53)	(187)
Proceeds from sale of property, plant and equipment		-	108
Proceeds from option fee to lease plant and equipment		500	-
Payments for exploration and evaluation expenditure		(278)	(3,684)
Proceeds from research and development for exploration and evaluation expenditure		-	2,269
Proceeds from sale of investments		-	116
Net cash received from / (used in) investing activities		169	(1,378)
Cash flows from financing activities			
Proceeds from issue of shares and options (net of costs)		2,175	1,694
Proceeds from borrowings		122	-
Repayment of borrowings		(25)	-
Interest paid		(317)	(113)
Net cash received from financing activities		1,955	1,581
Net decrease in cash and cash equivalents		(787)	(879)
Cash and cash equivalents at 1 July		3,030	4,857
Cash and cash equivalents at 31 December		2,243	3,978

The condensed notes on pages 14 to 21 are an integral part of these consolidated interim financial statements.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 1 – Basis of Preparation

Poseidon Nickel Limited (“the Company”) is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in jointly controlled operations.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2016.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2016 is available upon request from the Company’s registered office at Unit 8, Churchill Court, 331-335 Hay Street, Subiaco WA 6000 or at www.poseidon-nickel.com.au.

1.1 Statement of compliance

The consolidated interim financial report is a general purpose financial report prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* and with IAS 34 *Interim Financial Reporting*.

This consolidated interim financial report was approved by the Board of Directors on 3 March 2017.

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 and in accordance with this Instrument, amounts in the financial report and directors’ report have been rounded off to the nearest thousand dollars, unless otherwise stated.

1.2 Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company’s 2016 annual financial report for the financial year ended 30 June 2016. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

There have been no new and revised Standards and Interpretations applicable for the current half-year which have resulted in changes to the Group’s presentation of, or disclosure in, its half-year financial statements.

1.3 Going concern

The condensed consolidated interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2016 the Group incurred a loss of \$1,872,000 (2015: loss \$53,065,000) and had a net working capital deficit of \$1,815,000 (30 June 2016: deficit \$1,210,000). The working capital deficit includes a provision for environmental rehabilitation of \$3,500,000 that is cash backed (non-current asset).

The Company had a net cash outflow from operating activities of \$2,911,000 (2015: \$1,082,000) and a net cash inflow from investing activities of \$169,000 (2015: outflow \$1,378,000), with operating cash outflow primarily reflecting ongoing care and maintenance expenditure of the Lake Johnston, Black Swan and Windarra sites.

The Company has received \$544,000 subsequent to the balance date for the 2016 refundable tax offset from the ATO under the Research and Development Tax Incentive Scheme. In addition, the Company has entered into two Option agreements for the lease of the Lake Johnston facility to Kidman Resources Limited for a minimum of \$6 million per year for 3 years and the sale of the Windarra gold rights to GTI Resources Limited for \$3 million, both of which will provide additional sources of cash to the Company if and when the options are exercised during 2017.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

1.3 Going concern (continued)

The Company continues to minimise expenditure levels across all sites due to the current poor nickel market conditions. Management forecasts demonstrate a need for additional funding and have established a mechanism to issue shares, via an intermediary, to professional and sophisticated investors on a quarterly basis to raise an estimated \$3 million to maintain planned levels of expenditure for the coming 12 months. The Company will continue to review other sources of funding through this period including debt and/or equity instruments. The directors believe that nickel prices will continue to improve in the future which will enable one or more of its projects to be developed but acknowledges there is significant market and development risks.

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

1.4 Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying this Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2016.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 2 – Results for the Year

2.1 Operating segments

For management purposes the Group has one operating segment, being nickel exploration and evaluation in Australia.

Information about reportable segments

In thousands of AUD

For the six months ended 31 December

Reportable segment other income
 Reportable segment exploration costs expensed
 Reportable segment loss before income tax
 Reportable segment assets
 Capital expenditure

Reconciliations of reportable segment profit / (loss) and assets

Loss

Total loss for reportable segments
 Unallocated amounts: other corporate expenses
 Net finance costs
 Loss before income tax

Assets

Total assets for reportable segments
 Other assets

Nickel exploration and evaluation

	2016	2015
Reportable segment other income	625	1,143
Reportable segment exploration costs expensed	(2,557)	(48,730)
Reportable segment loss before income tax	(1,932)	(47,587)
Reportable segment assets	83,822	85,406
Capital expenditure	52	39
Loss before income tax	(1,872)	(53,065)
Assets	31 Dec 2016	30 Jun 2016
Total assets for reportable segments	83,822	84,294
Other assets	3,361	3,647
Total assets	87,183	87,941

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

2.2 Net financing costs

Net financing costs can be analysed as follows:

In thousands of AUD

Interest income on bank deposits
 Change in fair value of convertible note derivative
 Finance income
 Interest expense – convertible note
 Net foreign exchange loss
 Net loss on disposal of investments
 Others
 Finance costs
 Net finance income / (cost)

	31 Dec 2016	31 Dec 2015
Interest income on bank deposits	11	27
Change in fair value of convertible note derivative	3,187	3,003
Finance income	3,198	3,030
Interest expense – convertible note	(1,006)	(3,785)
Net foreign exchange loss	(716)	(2,247)
Net loss on disposal of investments	-	(291)
Others	(13)	-
Finance costs	(1,735)	(6,323)
Net finance income / (cost)	1,463	(3,293)

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 3 – Assets and Liabilities Supporting Exploration and Evaluation

3.1 Exploration and evaluation expenditure

In thousands of AUD

Costs carried forward in respect of areas of interest in the following phase:
Exploration and evaluation phase

	31 Dec 2016	30 Jun 2016
	54,964	54,670
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of period	54,670	103,419
Additions	294	763
Assets acquired	-	(912)
Impairment	-	(48,600)
	54,964	54,670

The ultimate recoupment of costs carried forward for exploration and evaluation is dependant on the successful development and commercial exploitation or sale of the respective areas of interest. Exploration expenditure of \$2,557,000 (2015: \$130,000) was expensed as incurred through the Income Statement for the period.

Plant and Equipment

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

During the period the Company entered into an Option Deed with Kidman Resources Limited ("Kidman") that if exercised, will enable Kidman to lease the Lake Johnston facility and process lithium ore. On signing of the option the Company received a \$500,000 non-refundable option fee which has been treated as a cost recovery of the Lake Johnston plant and equipment reducing its carrying value by the same amount.

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 4 – Equity and Funding

4.1 Capital and reserves

Share capital

<i>In thousands of shares</i>	Ordinary shares	
	31 Dec 2016	30 Jun 2016
Ordinary shares		
Fully paid	850,038	804,167
Total share capital on issue at 31 December	850,038	804,167
Movements in ordinary shares on issue:		
On issue at 1 July	804,167	693,343
<i>Shares issued and expensed during the period:</i>		
Issued for cash ⁽ⁱ⁾	40,000	74,840
Issued for consultancy fees	-	535
Issued for drilling services	-	4,327
Issued for interest on convertible notes	4,521	29,654
Issued for chairman performance bonus	-	1,056
Issued for exercise of employee short term incentive rights	800	-
Issued for employee discretionary bonus	550	-
<i>Shares issued but expensed during the prior period:</i>		
Issued for directors fees	-	412
On issue at 31 December	850,038	804,167

- (i) During the reporting period, the Company issued 40,000,000 Ordinary Shares at an average \$0.055 per share to raise \$2,216,965. The capital raising incurred transaction costs of \$11,084.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

4.2 Loans and borrowings – Convertible Note

Convertible note liability and derivative

In thousands of AUD

	Convertible note liability	Convertible note derivative	Total
Balance at 30 June 2016	19,269	8,619	27,888
Fair value movements	-	(3,187)	(3,187)
Accrued interest capitalised	1,006	-	1,006
Payment of interest	(596)	-	(596)
Exchange rate effects	494	222	716
Balance at 31 December 2016	20,173	5,654	25,827

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

The value of the derivative fluctuates with the Company's underlying share price and the difference in the Company's share price between 30 June 2016 (share price \$0.055) and 31 December 2016 (share price \$0.041) is reflected in the fair value movement.

As the convertible note is denominated in United States dollars (USD), the change in the exchange rate with the Australian dollar (AUD) is also taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2016 was 0.7393:1 and at 31 December 2016, 0.7208:1.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 5 – Other Disclosures

5.1 Share-based payments arrangements

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

<i>In thousands of AUD</i>	31 Dec 2016	31 Dec 2015
Share options expense	40	86
Shares granted expense	25	185
Performance rights expense	389	115
Total expenses recognised as employee costs	454	386

Share Options

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

All 7,225,000 outstanding options that were issued to directors on 23 November 2010 and executives on 21 September 2010 lapsed during the reporting period as the share price performance hurdles were not met.

Shares

The Company issued 549,451 shares to an executive during the reporting period as an ex-gratia bonus for completion of the transaction with Kidman Resources. The shares fully vested upon grant and had a fair value of \$0.0455.

Performance Rights

Performance conditions associated with the short term and long term incentive rights are consistent with those disclosed in the 30 June 2016 financial statements (refer note 6.1).

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

Grant date / employees entitled	Number of Instruments	Vesting conditions	Fair value of grants
Performance rights granted to non-executive directors for director fees	2,672,433	The performance rights vest immediately upon grant	\$0.0494 - \$0.0611
Performance rights granted to the non-executive Chairman for additional CEO duties	2,088,961	The performance rights vest immediately upon grant	\$0.0436 - \$0.0672
STI performance rights granted to employees on 21 October 2016	5,978,776	The rights have share price and internal KPIs and vest on 30 June 2017	\$0.0400
LTI performance rights granted to employees on 21 October 2016	5,635,245	The rights have a TSR KPI and vest on 30 June 2019	\$0.0510 - \$0.0580
Total Performance Rights	16,375,415		

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

5.1 Share-based payment arrangements (continued)

Performance Rights (continued)

The performance rights granted to non-executive directors are equal to and in lieu of the value of cash director fees and issued under the terms of the Director Performance Rights Plan. The number of performance rights is calculated quarterly by dividing the value of the director fee by the 91 day volume weighted average price of the Company's shares for each quarter. The performance rights issued to non-executive directors are vested and exercisable at the end of the period as all performance rights vest immediately upon grant.

In addition, performance rights were granted to the non-executive Chairman, Mr Christopher Indermaur, in satisfaction of fees for additional part time duties undertaken in the absence of a CEO.

5.2 Subsequent events

The Company has entered into an Option Deed with GTI Resources ("GTI") to sell the Windarra gold rights for \$3 million. Upon exercising the option, GTI will pay \$2 million by 28 June 2017 with the final \$1 million subject to termination of the Poseidon Nickel Agreement Act 1971 and granting of a mining lease.

Poseidon Nickel Limited Directors' declaration

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

1. the financial statements and notes set out on pages 10 to 21 are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the six month period ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Mr G F Brayshaw, FCA
Director

Perth
3rd March 2017



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

Report on the financial report

We have reviewed the accompanying interim financial report of Poseidon Nickel Limited, which comprises the condensed consolidated interim statement of financial position as at 31 December 2016, condensed consolidated interim statement of profit or loss and other comprehensive income, condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the half-year ended on that date, Notes 1 to 5.2 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Responsibility of the Directors for the interim financial report

The directors of the company are responsible for the preparation of the interim financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the interim financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the/interim financial report

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Poseidon Nickel Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Poseidon Nickel Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without modifying our conclusion expressed above, attention is drawn to Note 1.3 in the interim financial report. The matters set forth in Note 1.3 indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the interim financial report.

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

KPMG

A handwritten signature in blue ink, appearing to be 'T. Hart'.

Trevor Hart
Partner

Perth

3 March 2017