

30 September 2021

## **Financial Report Year Ended 30 June 2021**

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**Pacific Nickel Mines Limited** (ASX Code: PNM) (**Pacific Nickel** or **Company**) releases its Financial Report for the Year Ended 30 June 2021.

Authorised by the Board.

For further information please contact:

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Please visit the company's website at [www.pacificnickel.com](http://www.pacificnickel.com)



**A.B.N 86 075 613 268**

**(Formerly Malachite Resources Limited)**

**CONSOLIDATED FINANCIAL REPORT  
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2021**

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This financial report is for the consolidated entity consisting of Pacific Nickel Mines Limited and its subsidiaries. The financial report is presented in Australian currency.

Pacific Nickel Mines Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Pacific Nickel Mines Limited  
Level 4  
283 George Street  
Sydney NSW 2000

A description of the nature of the Group's operations and its principal activities is included in the review of operations in the directors' report.

The financial report was authorised for issue by the directors on 30 September 2021. The Directors have the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at a minimum cost to the company. All ASX releases, financial reports and other information are available on our website: [www.pacificnickel.com](http://www.pacificnickel.com)

**Pacific Nickel Mines Limited**  
**ABN 86 075 613 268**  
**and Controlled Entities**

**DIRECTORS' REPORT**

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Pacific Nickel Mines Limited (referred to hereafter as the Company) and the entities it controlled at the end of, or during, the year ended 30 June 2021.

**BOARD OF DIRECTORS**

The names and positions of the directors of the consolidated entity in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated, are:

**Terry Cuthbertson**

Non-executive Chairman

Mr Cuthbertson is qualified as a Chartered Accountant and holds a Bachelor of Business Degree with extensive corporate finance expertise, having advised several businesses and government organisations in relation to mergers, acquisitions and financing. He was formerly a Partner of KPMG Corporate Finance and NSW Partner in Charge of Mergers and Acquisitions, where he coordinated government privatisations, mergers, divestitures and public offerings on the ASX for the New South Wales practice. He is the Non-executive Chairman of Austpac Resources NL and non-executive director of Mint Payments Limited. He was previously the Chairman of ASX listed Lark Distilling Co. Ltd (resigned 20 May 2019), MNF Group Limited (resigned 22 July 2021) and a non-executive director of IOUPay Limited (resigned 31 May 2019).

**James Dean ACIP**

Non-executive Director

Mr Dean is a Corporate Advisor and Professional Investor with over 30 years professional experience in the finance industry and investment in mining, construction equipment, property development, feature film and biotech. Most of his experience has been related to evaluating the operational and financial performance of numerous businesses and then aptly negotiating and matching risk profiles with investment criteria. For more than 24 years he has held fiduciary positions with regard to shareholders and beneficiaries of various investment vehicles. He is extensively travelled and possesses a worldwide network of business collaborators.

**Robert Thomson (appointed 3 September 2020)**

Non-executive Director

Mr Thomson is a Mining Engineer with extensive experience (gold and base metals) in site operations, the development of exploration projects into sustainable mining operations and businesses in Asia, Africa and Australia. He also has extensive corporate and industry experience with local and international mining companies in sector executive roles and as a director of publicly listed companies on the ASX and formerly on the AIM Exchange and the TSX Venture Exchange. Mr Thomson was a Non-Executive Director of Theta Gold Mines (ASX:TGM) (Resigned 13 August 2021).

**Geoff Hiller**

Director and CEO

Mr Hiller is mining/civil engineer with over 25 years of mining industry experience including feasibility, financing, development and construction of projects. Mr Hiller holds a Bachelor of Engineering Mining (Hons) from the University of Melbourne, a Bachelor of Civil Engineering (Hons) from the University of Sydney and MBA from the Australian Graduate School of Management (University of New South Wales). Mr Hiller is currently the Chief Executive Officer of Pacific Nickel Mines Limited and a Non-Executive Director of Austpac Resources NL.

**COMPANY SECRETARY**

**Andrew J. Cooke LLB**

Mr Cooke is a lawyer with over 30 years' experience in law, corporate finance and as a Company Secretary of listed resource companies. He is responsible for corporate administration together with stock exchange and regulatory compliance.

**Pacific Nickel Mines Limited**  
**ABN 86 075 613 268**  
**and Controlled Entities**

**DIRECTORS' REPORT (CONTINUED)**

**DIRECTORS' MEETINGS**

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

	Board of Directors		Audit Committee		Remuneration Committee	
	Eligible to Attend	Attended	Eligible to Attend	Attended	Eligible to Attend	Attended
Mr T Cuthbertson	14	14	4	4	-	-
Mr J Dean	14	14	4	4	-	-
Mr G Hiller	14	14	-	-	-	-
Mr R Thomson (appointed 3 September 2020)	10	10	-	-	-	-

**DIRECTORS' INTERESTS**

The following tables set out the number of securities and options held by directors in the Company as at 30 June 2021.

	Ordinary Shares	
	Direct	Indirect
Mr T Cuthbertson	-	12,409,489
Mr J Dean	-	15,408,186
Mr G Hiller	-	8,091,984
Mr R Thomson (appointed 3 September 2020)	-	6,389,564

	Options exercise price at \$0.06 expiring 30 September 2023		Options exercise price at \$0.09 expiring 17 June 2024	
	Direct	Indirect	Direct	Indirect
Mr T Cuthbertson	-	-	-	2,610,633
Mr J Dean	-	-	-	2,990,000
Mr G Hiller	-	2,750,000	-	2,430,329
Mr R Thomson (appointed 3 September 2020)	-	1,250,000	-	2,129,855

**PRINCIPAL ACTIVITIES**

The principal activity of the consolidated entity during the financial year was the exploration and development of mineral deposits in Solomon Islands.

No significant changes in the nature of the principal activities occurred during the financial year.

**OPERATING RESULTS**

The loss of the Group for the financial year after providing for income tax amounted to \$2,398,531 (2020: \$5,303,447).

**DIVIDENDS**

No dividends have been paid or declared since the start of the financial year. The directors do not recommend the payment of a dividend in respect of the year ended 30 June 2021 (2020: Nil).

**REVIEW OF RESULTS AND OPERATIONS**

During the Period the Group's main business activity has been focused on the acquisition and development of nickel laterite deposits in the Solomon Islands.

**Pacific Nickel Mines Limited  
ABN 86 075 613 268  
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**DIRECTORS' REPORT (CONTINUED)**

**REVIEW OF RESULTS AND OPERATIONS (CONTINUED)**

**SOLOMON ISLAND NICKEL PROJECTS**

**Kolosori Nickel Project (80%)**

On 26 October 2020, the Company announced that it had executed a Share Purchase Agreement (Agreement) to formalise the acquisition of an 80% interest in Kolosori Nickel (SI) Limited ("KNL"), a company incorporated in the Solomon Islands. The remaining 20% of KNL is held by traditional landowners. KNL currently holds PL 05/19, which comprises the Kolosori Nickel Project located on Santa Isabel Island in the Solomon Islands.

The Kolosori Nickel Project is an advanced stage direct shipping ore nickel laterite project with excellent potential for development. The project has several positive aspects including its close proximity to the coast, no processing requirements, low capital route to direct shipping ore production and local landowner support.

The key aspects of the Agreement include:

- Payment of \$670,000 by issue of 8,375,000 fully paid ordinary shares in the Company (Upfront Consideration Shares – adjusted from 9,375,000 fully paid ordinary shares in accordance with the terms of the Agreement);
- A further payment of \$1,250,000 (less any debts not disclosed to the Company in the Agreement) by the issue of up to 15,625,000 fully paid ordinary shares in the Company upon a number of milestones being met which include the granting of a mining licence for PL 05/19 by the Mines Department and confirmation of a resource with a minimum of 6 million tonnes @ 1.6%Ni including 3.9 million tonnes @ 1.7% Ni to 2012 JORC (Deferred Consideration Shares);
- The Upfront Consideration Shares and the Deferred Consideration Shares are subject to certain clawback or reductions for adjustments;
- All Company shares issued to the vendors are subject to voluntary escrow arrangements as follows:
  - For the Upfront Consideration Shares, the earlier of 12 months from their date of issue or 10 business days after the granting of a mining licence for PL 05/19; and
  - For the Deferred Consideration Shares, 12 months from their date of issue;
- Being subject to standard warranties and representations for transactions of this nature;
- The Company entering into an agreement with KNL and the Landholders, on terms satisfactory to the Company, for the provision of funding by the Company to the Landholders (to be repaid from KNL's cash flows and sale proceeds) for their portion of exploration and development costs relating to the Kolosori Nickel Project. On 10 November 2020 the Company entered into a landowner agreement with KNL on satisfactory terms to the Company;
- The shareholders of the Company approved the transactions contemplated by the Jejevo Agreement in a general meeting held on 9 April 2021, which included a resolution authorising the allotment and issue of the Upfront Consideration Shares and Deferred Consideration Shares to the KNL shareholders in accordance with the ASX Listing Rules and the Corporations Act 2001;
- On 12 May 2021, the Company allotted 8,375,000 shares (the Upfront Consideration Shares) in the Company to KNL shareholders; and
- At the date of this report the Deferred Consideration Shares have not been issued.

On 19 November 2020, the Company announced the results of an initial JORC mineral resource estimate for Prospecting Licence PL 05/19 (Kolosori tenement) as determined by its external geological consultant Mining One.

As announced on 3 February 2021, the Company received notification from KNL that prospecting licence PL 05/19 had been cancelled by the Solomon Islands' Minister of Mines. As a result, the Company went into voluntary suspension on the ASX whilst it obtained an understanding of the matter. On 9 March 2021, the Company was advised by KNL that PL 05/19 had been reinstated.

**Pacific Nickel Mines Limited  
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**DIRECTORS' REPORT (CONTINUED)**

**REVIEW OF RESULTS AND OPERATIONS (CONTINUED)**

During 2021 to date the Company has focused on exploration and feasibility work at the Kolosori Nickel Project. The key activities include:

- Initial development drilling program completed with 83 holes drilled;
- 11 of the 83 holes drilled were for metallurgical test work and were distributed across the proposed first mining area to ensure a representative sample;
- The other 72 holes drilled formed the first stage of infill holes designed to increase the confidence level of the current Mineral Resource in preparation for the development of the project;
- Samples from this 83 hole drill program are awaiting irradiation in Brisbane prior to assaying by ALS laboratories.
- Mining One, in consultation with the Company, carried out an initial mine design;
- The next phase of development drilling, based on the initial mine design, includes 153 holes. This program commenced in August 2021 and is expected to be completed in November 2021. The program has been designed to increase the confidence in the resource estimate in preparation for financing and the development of the project;
- Resindo Resources and Energy Group ("Resindo") completed a financial and technical study on the Kolosori Project for the lodgement of a mining lease application.
- The Company has completed various environmental activities in-country, including water sampling, an ecology review that included a marine survey, and awareness meetings in preparation for the lodgement of an environmental impact assessment ("EIA") as part of the development consent;
- A Mining Lease application for the Kolosori Nickel Project was submitted to the Mines Department in August 2021; and
- The Company has commenced enquiries with Solomon Islands and external contractors in preparation for the completion of a definitive feasibility study expected by the end of the year.

Going forward the Company expects to lodge the EIA as soon as practicable with the project development timetable subject to Solomon Island government approvals and financing. Subject to approvals and financing, the Company is looking to commence development in April 2022 with first shipment of direct ship ore targeted by the end of 2022.

**Jejevo Nickel Project (80%)**

On 21 August 2020, the Company announced that it had executed a Share Purchase Agreement (Jejevo Agreement) formalising the acquisition the remaining 85% interest in Sunshine Minerals Limited ("Sunshine") that it did not already own.

Sunshine owns 80% of Sunshine Nickel Limited (SNL), which holds PL 01/18 located on the south coast of Santa Isabel Island in the Solomon Islands. The remaining 20% of SNL is owned by traditional land owners. The Jejevo Nickel Project is located within the PL 01/18 project area.

The Jejevo Nickel Project is an advanced stage direct shipping ore nickel laterite project with excellent potential for development. The project was previously drilled in 2013.

The key aspects of the Jejevo Agreement include:

- Payment of \$850,000 to the remaining 85% shareholders in Sunshine by the issue of up to 10,617,954 fully paid ordinary shares in the Company (Upfront Consideration Shares);
- A further payment of \$1,105,000 to the remaining 85% shareholders in Sunshine by the issue of up to 13,803,340 fully paid ordinary shares in the Company (Deferred Consideration Shares) (less any clawback or reduction for adjustments) upon the valid application for a mining lease for PL 01/18 being submitted to the Mines Department.
- The Upfront Consideration Shares and the Deferred Consideration Shares are subject to certain clawback or reductions for adjustments;
- All Company shares issued to the vendors are subject to voluntary escrow arrangements;
- Being subject to standard warranties and representations for transactions of this nature;

**Pacific Nickel Mines Limited**  
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**DIRECTORS' REPORT (CONTINUED)**

**REVIEW OF RESULTS AND OPERATIONS (CONTINUED)**

- The Company entering into an agreement with SNL and the Landholders, on terms satisfactory to the Company, for the provision of funding by the Company to the Landholders (to be repaid from SNL's cash flows and sale proceeds) for their portion of exploration and development costs relating to the Jejevo Nickel Project. On 31 October 2020 the Company entered into a landowner agreement with SNL on satisfactory terms to the Company;
- The shareholders of the Company approved the transactions contemplated by the Jejevo Agreement in a general meeting held on 14 October 2020, which included a resolution authorising the allotment and issue of the Upfront Consideration Shares and Deferred Consideration Shares to the Sunshine shareholders in accordance with the ASX Listing Rules and the Corporations Act 2001;
- On 4 November 2020, the Company allotted 10,617,954 shares (the Upfront Consideration Shares) in the Company to Sunshine shareholders; and
- At the date of this report the Deferred Consideration Shares have not been issued.

On 11 December 2020, the High Court of the Solomon Islands ruled that legal proceedings against the Minister of Mines, Energy and Rural Electrification, the Attorney General in the Solomon Islands and Sunshine Nickel Limited shall proceed to trial. The claimant, Axiom Nickel (SI) Limited, has brought proceedings in relation to, among other matters, the decision of the Director of Mines and Minerals Board not to grant a prospecting licence tenement to them which had been applied for some 10 years ago. In 2018 prospecting licence tenement PL 01/18 was granted to Sunshine Nickel Limited.

In deciding that the proceedings should proceed to trial, the Court noted that it did not assess the merits of the claims. The Company has received legal advice from its Solomon Islands based lawyers that these claims lack merit.

The Company understands that the case primarily relates to judicial review of decisions made by government authorities in the Solomon Islands and that these government authorities will defend these legal proceedings and continue to support the current exploration activities being undertaken on PL 01/18 by the Company. At the date of this report these legal proceedings are ongoing.

The Company engaged geological consultant, Mining One, who created a block model on historical data to generate an exploration target at Jejevo. This exploration target was announced on the ASX on 24 November 2020.

Mining One designed an initial drilling program (approximately 1,300m) at Jejevo to enhance the geological understanding and provide confirmatory results to allow preparation of a JORC resource estimate.

As announced on 23 June 2021, the Company completed an initial 26 hole program which was designed to:

- confirm historical drill and resource calculations;
- to allow Mining One to prepare an independent Jejevo resource assessment under JORC 2012; and
- provide metallurgical samples for utilising in preliminary DSO marketing discussions

As reported on 23 June 2021 significant high-grade intervals (>1.9% Ni) returned from the 26 hole program included:

- ✓ SJT-04: 8m @ 2.18% Ni from 2m
- ✓ SJT-09: 8m @ 1.93% Ni from 2m
- ✓ SJT-11: 5m @ 1.93% Ni from 2m
- ✓ SJT-15: 9.4m @ 2.11% Ni from 2m
- ✓ SJT-21: 7m @ 1.90% Ni from 4m

Importantly, the drillholes provided confirmation of the thickness and nickel grades encountered in the historical drilling within the Jejevo deposit area. Also, the drilling methods, sampling protocols, and QAQC support were completed in accordance with the JORC guidelines.

**Pacific Nickel Mines Limited  
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**DIRECTORS' REPORT (CONTINUED)**

**REVIEW OF RESULTS AND OPERATIONS (CONTINUED)**

In June 2021, SNL has applied for a two-year extension of PL 01/18. The Company is confident that the extension will be granted given that SNL has met the required financial and activity commitments.

The Company is currently finalising a 2012 JORC estimate for the Jejevo Nickel Project and is expecting to release this estimate upon the extension of PL 01/18 being granted.

**QUEENSLAND PROJECTS**

**Lorena Gold Project – (ML7147, MLs 90192 to 90196, EPM 18189, EPM18908)**

On 27 November 2020, the Company announced that it has completed the Share Sale Agreement (first announced 28 July 2020) relating to the sale of Volga Elderberry Pty Ltd (Volga), a wholly owned subsidiary of the Company, which held a joint venture interest in the Lorena Gold Project ("Lorena"). Together with the Deed of Release which was executed in July 2020 and other associated documentation, the settlement of the dispute in respect of Lorena has now been finalised on commercial terms satisfactory to the Company.

At a General Meeting of the Company held on 14 October 2020, shareholders approved the proposed sale of Volga.

As a result, the Group now holds a 2% Net Smelter Return on gold produced from future underground operations at Lorena and has been released of all obligations and liabilities arising out of the Lorena Gold Project and those associated with Ore Processing Services Pty Ltd.

The Company retains 100% of EPM 18908, which is held directly by the Company.

**CORPORATE**

**Capital Structure**

On 3 August 2020, the Company's Series E converting notes were converted into 15,400,703 ordinary shares at 8c per share. There are now no convertible notes issued by the Company.

The Company carried out a Placement in August 2020 raising \$625,000 (by the issue of 20,833,334 ordinary shares at \$0.03 per share) and a Share Purchase Plan which was concluded in early September 2020 raising \$611,000 (by the issue of 20,366,659 ordinary shares at \$0.03 per share). An additional Placement by the Company of \$100,000 (by the issue of 3,333,334 ordinary shares at \$0.03 per share to an entity associated with director, Mr Rob Thomson) was approved by shareholders at a General Meeting on 14 October 2020.

At the General Meeting of the Company held on 14 October 2020, approval was given by shareholders to issue 11.5 million unlisted options over fully paid ordinary shares. The options have a strike price of 6c and expiry of 30 September 2023.

In November 2020, 10,617,954 ordinary shares at \$0.08 were issued for the acquisition of 85% of Sunshine Minerals Limited, and is subject to 12 months escrow till 4 November 2021.

On 17 December 2020, the Company advised a placement to raise \$3.2 million via the issue of 64 million shares at \$0.05 per share in two tranches. The first tranche of 11.2 million shares were allotted on 21 December 2020. The second tranche of 52.8 million shares were allotted on 16 April 2021.

On 16 April 2021, 400,000 ordinary shares at \$0.05 were issued for the acquisition of drillings rigs. An additional 3,545,448 ordinary shares at \$0.05 were issued for the directors' fees and consultant fees approved by shareholders on a General Meeting 9 April 2021.

In May 2021, 8,375,000 ordinary shares at \$0.08 were issued for the acquisition of \$80% of Kolosori Nickel (SI) Limited and is subject to 12 months escrow till 12 May 2022.



**Pacific Nickel Mines Limited  
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**DIRECTORS' REPORT (CONTINUED)**

**REVIEW OF RESULTS AND OPERATIONS (CONTINUED)**

On 19 May 2021, the Company announced a fully underwritten non-renounceable rights issue of new Options to raise \$859,580 before costs. The new Options each had an issue price of \$0.012, an exercise price of \$0.09 and an expiry date of 17 June 2024. On 5 June 2021, the Company issued 71,632,284 unlisted options under the rights issue.

**Change of Company Name to Pacific Nickel Mines Limited**

At the Annual General Meeting of the Company held on 30 November 2020, shareholders approved by special resolution the change in company name from Malachite Resources Limited to Pacific Nickel Mines Limited.

**Change of name of Sunshine Minerals Limited**

On 26 June 2021, Sunshine Minerals Limited changed its name to Pacific Nickel Mines SI Limited.

**FINANCIAL PERFORMANCE**

During the 2021 financial year the consolidated net loss of the Group of \$2.399 million (2020: loss of \$5.303 million) reflected:

- Expenses of \$0.614 million for operating;
- Expenses of \$0.031 million for financing;
- Loss of \$1.754 million for disposal of non-current assets

**FINANCIAL POSITION**

Total equity of the Group increased from \$0.689 million as at 30 June 2020 to \$6.263 million as at 30 June 2021 as a result of a net loss of \$2.399 million and a net increase in contributed equity of \$7.178 million.

At 30 June 2021, the Group had liabilities in respect of unsecured loans held mainly by Key Management Personnel (KMP) of \$0.195 million.

**CASH FLOWS**

Cash flows from operating activities for the Group was negative \$2.331 million (2020: negative \$0.517 million).

Cash flows from investing and financing activities for the Group included:

- Received net proceeds of \$4.966 million from the issue of shares and options;
- Made an investment in Jejevo and Kolosori Nickel projects of \$0.9 million; and
- Received proceeds from the sale of Lorena of \$0.159 million.

Cash as at 30 June 2021 was \$1.807 million (2020: \$0.028 million).

**IMPACT OF COVID 19**

The Company has considered the impact of COVID-19 on its activities. The difficulty of management and consultants to visit the Solomon Islands and Queensland has impacted on some of the Company's activities.

The Company has local staff who have successfully been able to carry out the Company's required activities in the Solomon Islands since the COVID 19 pandemic.

Given the restrictions on travel internationally and mindful of the spread of the virus within the local communities, the Company will monitor and assess its exploration and development activities.

**Pacific Nickel Mines Limited  
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**DIRECTORS' REPORT (CONTINUED)**

**GOING CONCERN**

The Group experienced operating losses of \$2.399 million and negative cash flows from operations of \$2.331 million during the period ended 30 June 2021.

At 30 June 2021, the Group has current liabilities amounting to \$0.994 million (30 June 2020: \$2.636 million), including unsecured loans of \$0.195 million from Key Management Personnel.

The Group's cash position at balance date was \$1.807 million, which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 30 September 2022.

The Group currently relies on its nickel projects in the Solomon Islands for its ability to continue as a going concern and to meet its debts and commitments.

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Group being successful with some or all of the following:

- continuing to develop the Kolosori nickel project in the Solomon Islands;
- continuing to develop the Jejevo nickel project in the Solomon Islands;
- raising further equity or debt through the capital market; or
- entering into a corporate transaction.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors.

On that basis the directors believe it is reasonable to expect that the Group will be successful in some of the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2021. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The financial report for the year ended at 30 June 2021 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

**SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

There were no significant changes in the state of affairs of the Group during the financial year.

**Pacific Nickel Mines Limited  
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**DIRECTORS' REPORT (CONTINUED)**

**AFTER BALANCE DATE EVENTS**

**Appointment of CFO**

On 10 September 2021, the Company confirmed the appointment of Mr. Graham Frank as Chief Financial Officer of the Company.

Mr Frank is a Chartered Accountant and was until recently a partner of Ernst & Young where he held several leadership positions, including as the Head of Tax for Oceania and the Deputy Leader of Tax for Asia Pacific. Graham specialised in advising Australian mining and oil and gas companies with their offshore resource investments and multi-national companies on their Australian mining investments. Graham is currently a Director and Treasurer of a not-for-profit innovation group and a Board Adviser to a private investment fund.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES**

The Group's main focus is progressing its nickel projects in the Solomon Islands and reviewing its exploration property in Queensland.

The Company will also consider other possible opportunities in the exploration / mining sector.

**ENVIRONMENTAL REGULATIONS**

The Group has an environmental rehabilitation policy that is applied to each tenement upon grant. The policy has been adhered to and no breaches have occurred during the period.

**SHARE OPTIONS**

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

<b>Grant Date</b>	<b>Date of Expiry</b>	<b>Exercise Price</b>	<b>Number under Option</b>
31 August 2020	30 September 2023	\$0.06	11,500,000
16 June 2021	17 June 2024	\$0.09	71,632,284

During the year ended 30 June 2021 no ordinary shares of the Company or its controlled entities were issued on the exercise of options.

**Pacific Nickel Mines Limited  
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**DIRECTORS' REPORT (CONTINUED)**

**INDEMNIFICATION OF OFFICERS AND AUDITORS**

**Indemnification**

In accordance with the Constitution of Pacific Nickel Mines Limited each director and officer was indemnified on a full indemnity basis and to the full extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by them as officers of Pacific Nickel Mines Limited or a related body corporate. The consolidated entity has not indemnified or agreed to indemnify the auditor of the consolidated entity against any liabilities incurred as auditor.

**Insurance Policies**

The consolidated entity has paid premiums in respect of directors' and executive officers' liability and legal expenses insurance contracts. Such insurance contracts insure against certain liability (subject to specific exclusions) persons who are or have been directors or executive officers of the parent entity.

Directors have not included details of the nature of the liabilities covered, or the amount of the premium paid, as such disclosure is prohibited under the terms of the insurance contract.

**PROCEEDINGS ON BEHALF OF THE COMPANY**

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

**REMUNERATION REPORT**

The remuneration report is set out under the following main headings:

- a) Principles used to determine the nature and amount of remuneration
- b) Details of remuneration
- c) Share based compensation
- d) Additional information
- e) Other transactions of Key Management Personnel
- f) Equity instrument disclosures relating to Directors and Key Management Personnel

The information provided in this remuneration report has been audited in accordance with the requirements of the *Corporations Act 2001*.

**a) Principles used to determine the nature and amount of remuneration**

The Group's policy for determining the nature and amount of emoluments of board members and senior executives of the consolidated entity is as follows:

The objective of the entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of executive compensation
- Transparency
- Capital management.

The Group has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organisation.

**Pacific Nickel Mines Limited  
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**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (CONTINUED)**

Alignment to shareholders' interests:

- attracts and retains well qualified and suitably experienced applicants
- has the goal of economic profit as a core component of plan design
- focuses on sustained growth in shareholder wealth, consisting of growth in share price, and, in the longer term, payment of dividends and delivering an adequate return on assets as well as focusing the executive on key non-financial drivers of value.
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short (STI) and long-term (LTI) incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

Executive remuneration includes a base salary that is set with reference to the market, a short term incentive that comprises of an at risk bonus payable to reflect performance and a long term incentive that provides scope for equity participation over the longer term.

**Non-executive directors**

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Board has also drawn on external sources of information to ensure non-executive directors' fees and payments are appropriate and in line with the market.

**Directors' fees**

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at \$300,000 per annum and was approved by shareholders at the AGM on 30 November 2015.

**b) Details of remuneration**

Cash remuneration packages are set at levels that are intended to attract and retain executives capable of managing and enhancing the consolidated entity's operations. Remuneration of individual non-executive Directors is determined by the Board and may be varied from time to time but always such that the aggregate (currently \$133,043 per annum see table below) is within the maximum amount (currently \$300,000 per annum) for which prior approval of the shareholders has been received.

**Pacific Nickel Mines Limited**  
**ABN 86 075 613 268**  
**and Controlled Entities**

**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (CONTINUED)**

**b) Details of remuneration (Continued)**

Details of the nature and amount of each element of the emoluments of each of the directors and the key management personnel of Pacific Nickel Mines Limited during the year ended 30 June 2021 are set out below.

<b>2021</b>	Salary & Fees	Accrued Salary & Fees	Non-Monetary Benefits(i)	Total
	\$	\$	\$	\$
<b>Directors</b>				
Mr T Cuthbertson	-	61,101	-	<b>61,101</b>
Mr J Dean	19,710	19,710	-	<b>39,420</b>
Mr G Hiller (ii)	84,000	165,667	19,250	<b>268,917</b>
Mr R Thomson (appointed 3 September 2020)	127,812	19,710	8,750	<b>156,272</b>
Total Key Management Personnel	<b>231,522</b>	<b>266,188</b>	<b>28,000</b>	<b>525,710</b>

<b>2020</b>	Salary & Fees	Accrued Salary & Fees	Non-Monetary Benefits	Total
	\$	\$	\$	\$
<b>Directors</b>				
Mr T Cuthbertson	30,552	30,549	-	<b>61,101</b>
Mr J Dean	19,709	19,711	-	<b>39,420</b>
Mr G Hiller (appointed 4 October 2019)	-	29,141	-	<b>29,141</b>
<b>Other key management personnel of the group</b>				
Mr G Hiller	70,677	100,244	-	<b>170,921</b>
Total Key Management Personnel	<b>120,938</b>	<b>179,645</b>	-	<b>300,583</b>

i) The amount disclosed in the table above relates to non-cash value ascribed to share options using the Black Scholes valuation methodologies and allocated to each reporting period.

ii) There was a reversed of director fees relating to financial year 2020, total of \$29,141.

Key management personnel are the same for the Group and the Company.

There is no link between key management personnel remuneration and the share price or dividends.

There is no relationship between the performance of the Group and remuneration over the past five years.

All of the top paid executives are shown above.

The outstanding accrual for Directors and consultant fees is set out in the table below.

<b>Directors and consultant fees accrual</b>	<b>Opening balance 01.07.2020</b>	<b>Accrual/(paid) current year</b>	<b>Converted to shares/options</b>	<b>Closing balance 30.06.2021</b>
<b>Directors</b>				
Mr T Cuthbertson	30,549	61,101	-	91,650
Mr J Dean	19,711	39,420	(39,421)	19,710
Mr G Hiller	351,502	8,290	(114,205)	245,587
Mr R Thomson (appointed 3 September 2020)	-	47,522	(12,812)	34,710
	<b>401,762</b>	<b>156,333</b>	<b>(166,438)</b>	<b>391,657</b>

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	<b>Fixed remuneration</b>		<b>At risk - STI</b>		<b>At risk - LTI</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Mr T Cuthbertson	100%	100%	-	-	-	-
Mr J Dean	100%	100%	-	-	-	-
Mr G Hiller	100%	100%	-	-	-	-
Mr R Thomson (appointed 3 September 2020)	100%	-	-	-	-	-

**Pacific Nickel Mines Limited  
ABN 86 075 613 268  
and Controlled Entities**

**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (CONTINUED)**

**c) Share based compensation**

**Employee Option Plan**

The Company operates an Employees and Contractors Option Plan ("Plan"). The Plan is administered by the Board. Only eligible persons (and their associates) may be invited to participate in the Plan. Eligible persons include full time employees of the Company, permanent part-time employees, qualifying contractors and persons who may be a director, alternate director or company secretary of the Company or an entity in the Group. The Plan is designed to provide long term incentives for executives to deliver shareholder value.

Options are granted under the plan for no consideration. Options granted under the Plan carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The exercise price is determined by the Directors at the time of issuing an invitation to participate in the Plan.

During the financial year, share options granted to Directors are approved by Shareholders General Meeting 14 October 2020 are as follows:

	<b>No. of options granted</b>	<b>Grant date</b>	<b>Fair Value per option at grant date</b>	<b>Exercise price per option</b>	<b>Expiry date</b>	<b>Number of options vested</b>
<b>Directors</b>						
Mr G Hiller	2,750,000	15 October 2020	\$0.007	\$0.06	30 September 2023	2,750,000
Mr R Thomson (appointed 3 September 2020)	1,250,000	15 October 2020	\$0.007	\$0.06	30 September 2023	1,250,000

The value of the options is estimated at the date of grant using Black-Scholes option pricing model. Refer to Note 29 of the financial statements for model inputs for the options granted during the year.

**d) Additional information**

The Group's projects are at a stage of advanced exploration progressing to development and as a result, the Group does not yet have earnings from mining. In view of that, shareholder wealth is based on the market's view of the value of future production, the Group's potential for future discovery success, and the quality and experience of its people. This is reflected in market capitalisation, which is also influenced by factors outside the Group's control, such as commodity prices and general market behaviour.

Accordingly, remuneration policy for key management personnel is based primarily on the extent to which the corporate exploration and evaluation objectives are met, recognising that the timeframe for success commonly exceeds one year.

**e) Other transactions of Key Management Personnel**

**Unsecured Loans**

The Group had an opening balance of \$145,000 in unsecured loans and accrued interest of \$14,992 from Key Management Personnel. During the Period, \$136,000 of unsecured loans were repaid with \$5,333 of accrued interest being paid. During the Period \$196,000 of unsecured loans were received by the Group. As at 30 June 2021, the Group had \$195,000 in unsecured loans with accrued interest of \$25,834 from Key Management Personnel.

**Pacific Nickel Mines Limited  
ABN 86 075 613 268  
and Controlled Entities**

**DIRECTORS' REPORT (CONTINUED)**

**REMUNERATION REPORT (CONTINUED)**

**f) Equity instrument disclosures relating to Directors and Key Management Personnel**

The number of shares in the Company held during the financial year by each director of Pacific Nickel Mines Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

<b>Shares</b>	<b>Number held 1 July 2020</b>	<b>Subscribed</b>	<b>Sold</b>	<b>Shares issued upon conversion of Notes and in lieu of fees</b>	<b>Number held 30 June 2021</b>
<b>2021</b>					
Mr T Cuthbertson	7,651,152	1,000,000	-	3,758,337	12,409,489
Mr J Dean	8,531,538	4,800,000	-	2,076,648	15,408,186
Mr G Hiller	2,655,416	3,300,000	-	2,136,568	8,091,984
Mr R Thomson (appointed 3 September 2020)	-	5,333,334	-	1,056,230	6,389,564

<b>Options</b>	<b>Number held 1 July 2020</b>	<b>Subscribed (i)</b>	<b>Sold</b>	<b>Option issued (ii)</b>	<b>Number held 30 June 2021</b>
<b>2021</b>					
Mr T Cuthbertson	-	2,610,633	-	-	2,610,633
Mr J Dean	-	2,990,000	-	-	2,990,000
Mr G Hiller	-	2,430,329	-	2,750,000	5,180,329
Mr R Thomson (appointed 3 September 2020)	-	2,129,855	-	1,250,000	3,379,855

(i) options subscribed with exercise price of \$0.09 expiring 17 Jun 2024.

(ii) options issued by shareholder General Meeting 14 October 2020, with exercise price of \$0.06 expiring 30 September 2023.

**AUDITORS**


**Non-audit Services**

No amounts paid or payable to the auditor for non-audit services provided during the year.

**Auditor's independence declaration**

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* can be found on the next page.

Signed in accordance with a resolution of the directors.



On behalf of the Directors

Terry Cuthbertson

Non-Executive Chairman

Sydney, 30 September 2021





**PACIFIC NICKEL MINES LIMITED ABN 86 075 613 268  
AND CONTROLLED ENTITIES**

**AUDITOR'S INDEPENDENCE DECLARATION UNDER S 307C OF THE  
CORPORATIONS ACT 2001  
TO THE DIRECTORS OF PACIFIC NICKEL MINES LIMITED  
AND CONTROLLED ENTITIES**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2021 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

*MNSA PTY LTD*

**MNSA Pty Ltd**

**Allan Facey**  
Director

Sydney

Dated this 30<sup>th</sup> day of September 2021

**MNSA**

**Pacific Nickel Mines Limited**  
**ABN 86 075 613 268**  
**and Controlled Entities**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**FOR THE YEAR ENDED 30 JUNE 2021**

	Note	2021 \$	2020 \$
<b>Revenue from continuing operations</b>	<b>5</b>	2,472	8,327
Accounting and audit expense		(86,725)	(49,541)
Corporate expenses		(377,351)	(289,792)
Depreciation and amortisation expense	<b>6</b>	(13,280)	(9,781)
Employee benefits expense		(103,902)	(130,319)
Evaluation and Exploration expenditure expensed/reversed	<b>6</b>	(4,564)	6,083
Impairment of exploration assets and other receivables		-	(4,250,000)
Finance costs	<b>6</b>	(33,080)	(588,424)
Share based payments		(28,000)	-
Loss on disposal of investment	<b>13</b>	(1,754,101)	-
<b>Loss before income tax expense</b>		(2,398,531)	(5,303,447)
Income tax expense	<b>7</b>	-	-
<b>Net loss for the year</b>	<b>19</b>	(2,398,531)	(5,303,447)
<b>Other comprehensive income</b>			
Other comprehensive income for the year		-	-
<b>Total comprehensive loss for the year</b>		(2,398,531)	(5,303,447)
Loss for the year is attributable to owners of the Company		(2,398,531)	(5,303,447)
<b>Total comprehensive loss is attributable to owners of the Company</b>		<b>(2,398,531)</b>	<b>(5,303,447)</b>
Basic/diluted (loss) per share (cents per share) from continuing operations		(0.45)	(23.0)
Basic/diluted (loss) per share (cents per share) from discontinued operations		(1.20)	-
Basic/diluted (loss) per share (cents per share) from continuing and discontinued operations	<b>28</b>	(1.65)	(23.0)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

**Pacific Nickel Mines Limited**  
**ABN 86 075 613 268**  
**and Controlled Entities**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2021**

	Note	2021 \$	2020 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	1,807,116	27,998
Trade and other receivables	9	47,304	8,920
<b>TOTAL CURRENT ASSETS</b>		<b>1,854,420</b>	<b>36,918</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	11	27,650	387,759
Property, plant and equipment	12	175,663	41,794
Exploration and evaluation expenditure	13	2,119,643	2,548,023
Investments	14	3,079,060	310,062
<b>TOTAL NON-CURRENT ASSETS</b>		<b>5,402,016</b>	<b>3,287,638</b>
<b>TOTAL ASSETS</b>		<b>7,256,436</b>	<b>3,324,556</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	798,847	627,229
Borrowings	16	195,000	2,008,418
<b>TOTAL CURRENT LIABILITIES</b>		<b>993,847</b>	<b>2,635,647</b>
<b>TOTAL LIABILITIES</b>		<b>993,847</b>	<b>2,635,647</b>
<b>NET ASSETS</b>		<b>6,262,589</b>	<b>688,909</b>
<b>EQUITY</b>			
Contributed equity	17	69,874,608	62,696,576
Reserves	18	794,179	2,207,581
Accumulated losses	19	(64,406,198)	(64,215,248)
<b>TOTAL EQUITY</b>		<b>6,262,589</b>	<b>688,909</b>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

**Pacific Nickel Mines Limited**  
**ABN 86 075 613 268**  
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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 30 JUNE 2021**

<b>Consolidated Group</b>	<b>Contributed Equity \$</b>	<b>Accumulated Losses \$</b>	<b>Option Reserves \$</b>	<b>Total Equity \$</b>
<b>Balance at 1 July 2019</b>	<b>57,306,800</b>	<b>(58,911,801)</b>	<b>2,207,581</b>	<b>602,580</b>
Total comprehensive loss for the year	-	(5,303,447)	-	(5,303,447)
Shares issued during the year	5,414,410	-	-	5,414,410
Shares issue cost	(24,634)	-	-	(24,634)
<b>Balance at 30 June 2020</b>	<b>62,696,576</b>	<b>(64,215,248)</b>	<b>2,207,581</b>	<b>688,909</b>
Total comprehensive loss for the year	-	(2,398,531)	-	(2,398,531)
Options expired	-	2,207,581	(2,207,581)	-
Options issued during the year (net of cost)	-	-	766,179	766,179
Share-based payments	-	-	28,000	28,000
Shares issued during the year	7,484,764	-	-	7,484,764
Shares issue cost	(306,732)	-	-	(306,732)
<b>Balance at 30 June 2021</b>	<b>69,874,608</b>	<b>(64,406,198)</b>	<b>794,179</b>	<b>6,262,589</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**Pacific Nickel Mines Limited**  
**ABN 86 075 613 268**  
**and Controlled Entities**

**CONSOLIDATED STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED 30 JUNE 2021**

	Note	2021 \$	2020 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Received from customers		-	131
Payments to suppliers and employees		(261,421)	(312,135)
Exploration and evaluation expenditure		(2,064,834)	(20,319)
Interest received	5	2,473	8,327
Interest paid		(6,794)	(192,627)
Net cash (used in) operating activities	27 (b)	(2,330,576)	(516,623)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Refund of security bonds		-	6,580
Payment for property, plant and equipment		(165,961)	-
Payment of Investments		(899,562)	(201,906)
Proceeds from disposal of equity investment		158,935	-
Net cash (used in) investing activities		(906,588)	(195,326)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from shares issue		4,535,983	-
Proceeds from options (net of cost)		737,033	-
Proceeds from unsecured loans		50,000	44,000
Equity raising expenses		(306,734)	-
Net cash provided by financing activities		5,016,282	44,000
NET INCREASE/(DECREASE) IN CASH HELD		1,779,118	(667,949)
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		27,998	695,947
CASH AT THE END OF THE FINANCIAL YEAR	27 (a)	1,807,116	27,998

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

**Pacific Nickel Mines Limited  
ABN 86 075 613 268  
and Controlled Entities**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**1 SIGNIFICANT ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Pacific Nickel Mines Limited and its subsidiaries.

**a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Pacific Nickel Mines Limited is a for-profit entity for the purposes of preparing the financial statements.

*Compliance with IFRS*

The consolidated financial statements of Pacific Nickel Mines Limited also comply with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB).

*Historical cost convention*

These financial statements have been prepared under the historical cost convention.

*Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates that are significant to the financial statements, are disclosed in note 3.

*Significant Matters relating to the ongoing viability of operations*

Consistent with the nature of the Group's activities and its ongoing investment of funds into projects the Group has experienced operating losses of \$2.399 million and negative cash flows from operations of \$2.331 million during the period ended 30 June 2021.

At 30 June 2021, the Group has current liabilities amounting to \$0.994 million (30 June 2020: \$2.636 million), comprising unsecured loans of \$0.195 million mainly from Key Management Personnel.

The Group's cash position at balance date was \$1.807 million, which will not be sufficient to fund the Group's forecast cash outflows from operations for the period to 30 September 2022.

The Group currently relies on its nickel projects in the Solomon Islands for its continuing viability and for its ability to continue as a going concern and to meet its debts and commitments.

**Pacific Nickel Mines Limited**  
**ABN 86 075 613 268**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**a) Basis of preparation (continued)**

As a result of these matters, there is a material uncertainty related to events or conditions that may cast significant doubt on whether the Group will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The continuing viability of the Group and its ability to continue as a going concern and meet its debts and commitments as and when they fall due are dependent upon the Group being successful with some or all of the following:

- continuing to develop the Kolosori nickel project in the Solomon Islands;
- continuing to develop the Jejevo nickel project in the Solomon Islands;
- raising further equity or debt through the capital market; or
- entering into a corporate transaction.

The Group has a successful track record over many years of raising new capital from both existing shareholders and strategic investors.

On that basis the directors believe it is reasonable to expect that the Group will be successful in some of the above matters and, accordingly, have prepared the financial report on a going concern basis.

At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report at 30 June 2021. Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Group not continue as a going concern.

The financial report for the year ended at 30 June 2021 contains an independent auditor's report which includes an emphasis of matter paragraph in regard to the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

*Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Nickel Mines Limited ("company" or "parent entity") as at 30 June 2021 and the results of all subsidiaries for the year then ended. Pacific Nickel Mines Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Pacific Nickel Mines Limited.

**Pacific Nickel Mines Limited  
ABN 86 075 613 268  
and Controlled Entities**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**b) Cash and cash equivalents**

For the purpose of the cash flows statements, cash and cash equivalents includes:

- cash on hand and at call deposits with banks or financial institutions; and
- investments in money market instruments with less than 90 days to maturity that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**c) Employee benefits**

*(i) Short-term obligations*

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and all other short-term employee benefit obligations are presented as other payables.

*(ii) Other long-term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

*(iii) Share based compensation*

Share based compensation benefits are provided to employees via the Pacific Nickel Mines Limited Employee Option Plan. Information relating to the plan is set out in note 29.

The fair value of options granted under the Pacific Nickel Mines Limited Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, 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 option.

The fair value of the options granted is adjusted to reflect market vesting conditions, but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.



**Pacific Nickel Mines Limited  
ABN 86 075 613 268  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**d) Exploration and Evaluation Expenditure**

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. Such expenditure comprises direct costs and depreciation and does not include general overheads or administrative expenditure not having a nexus with a particular area of interest.

These costs are only carried forward where there is current or planned activity and rights of tenure, and one of the following conditions is met:

- the exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale.

- exploration and evaluation activities in the area of interest at the reporting date have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, but, nevertheless, active and significant operations in, or in relation to, the area of interest are continuing.

Accumulated costs in relation to an abandoned area are written off, in full, in the year in which the decision to abandon the area is made or where it fails to meet the conditions outlined above for the carry-forward of these costs as an asset.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest in accordance with AASB 6 Exploration for and Evaluation of Mineral Resources and the Group's impairment policy (note 1(g)).

**e) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

**f) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

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**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**g) Impairment of assets**

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

**h) Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax assets are realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

**Tax consolidation legislation**

Pacific Nickel Mines Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

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**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**h) Income Tax (Continued)**

The head entity, Pacific Nickel Mines Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amount, Pacific Nickel Mines Limited also recognises the current liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets and liabilities arising under tax funding agreement with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution (or distribution from) wholly-owned tax consolidated entities.

**i) Trade payable**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**j) Borrowings**

Loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Loans and borrowings are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

*Convertible notes*

On issuance of the convertible notes, where the conversion is a fixed number of shares for a fixed value there is an equity component, otherwise the whole instrument is a financial liability.

When it is determined that the whole instrument is a financial liability and no equity instrument is identified, the conversion option is separated from the host debt and classified as a derivative liability. The carrying value of the host contract, at initial recognition is determined as the difference between the consideration received and the fair value of the embedded derivative. The host contract is subsequently measured at amortised cost using the effective interest rate method. The embedded derivative is subsequently measured at fair value at the end of each reporting period through the consolidated statement of comprehensive income. The convertible note and the derivative are presented as a single number on the consolidated statement of financial position within interest-bearing loans and borrowings.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**j) Borrowings (continued)**

When it is determined that the instrument contains an equity component based on the terms of the contract, on issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond. This amount is classified as a financial liability measured at amortised cost (net of transaction costs) until it is extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not re-measured in subsequent years.

**k) Investments and other financial assets**

*Classification*

The Group classifies its financial assets in the following categories: financial assets at fair value through profit and loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading which are acquired principally for the purpose of selling in the short term with the intention of making a profit. Assets in this category are classified as current assets if they are expected to be settled within 12 months; otherwise they are classified as non-current.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in receivables in the consolidated statement of financial position (notes 9 and 11).

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designed as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

**l) Leases**

Except for short term leases and leases of low value assets, the Group applies a single recognition and measurement approach for all leases representing the right to use the underlying asset Right-of-Use recognised at the commencement date of the lease and corresponding lease liabilities measured at the present value of lease payments over the lease term are recognised in the statement of financial position. Depreciation charges of Right-of-Use assets, and interest expenses on the lease liability replaces straight line operating expenses.

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**FOR THE YEAR ENDED 30 JUNE 2021**

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**m) Loss per share**

(i) Basic loss per share is calculated by dividing:

- the loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares.
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

**n) Plant and equipment**

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Land is not depreciated. Depreciation on plant and equipment is calculated on a diminishing value basis so as to write off the net cost of each asset over its expected useful life. The following estimated useful lives are used in the calculation of depreciation:

Motor Vehicles	5-6 years
Plant and equipment	4-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

**o) Contributed equity**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**Pacific Nickel Mines Limited  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**p) Revenue Recognition**

(i) Interest income

Interest income is recognised on a time proportion basis, taking into account the interest rates applicable to financial assets.

(ii) Other income

Other income is measured at the fair value of the consideration received or receivable.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

**q) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

**r) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

**s) Parent entity financial information**

The financial information for the parent entity, Pacific Nickel Mines Limited, disclosed in note 30 has been prepared on the same basis as the consolidated financial statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**t) Interests in Joint Arrangements**

Joint operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements. The information for the joint operations is disclosed in note 10.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties' interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party.

On 27 November 2020, the Company announced that it has completed the Share Sale Agreement (first announced 28 July 2020) relating to the sale of Volga Elderberry Pty Ltd (Volga), a wholly owned subsidiary of the Company, which held a joint venture interest in the Lorena Gold Project ("Lorena"). Together with the Deed of Release which was executed in July 2020 and other associated documentation, the settlement of the dispute in respect of Lorena has now been finalised on commercial terms satisfactory to the Company.

At a General Meeting of the Company held on 14 October 2020, shareholders approved the proposed sale of Volga.

As a result, the Group now holds a 2% Net Smelter Return on gold produced from future underground operations at Lorena and has been released of all obligations and liabilities arising out of the Lorena Gold Project and those associated with Ore Processing Services Pty Ltd.

The Company retains 100% of EPM 18908, which is held directly by the Company.

**u) Inventories**

Inventories are stated at the lower of cost and net realisable value on a first in first out basis. Cost comprises direct materials and the cost of mining and stockpiling the gold from the joint operations. Cost is determined on an average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**v) New accounting standards and interpretations**

A number of new standards are effective after 30 June 2021 and earlier application is permitted; however, the entity has not early adopted the new or amended standards in preparing these consolidated financial statements. The Group does not expect that these new accounting standards will have a material impact on the consolidated financial statements.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**2 FINANCIAL RISK MANAGEMENT**

The Group's activities expose it to a variety of financial risks; market risk, credit risk, liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out by the Board and the financial risks faced by the Group other than liquidity risk are considered minimal at this stage.

Cash is held at one of the big four banks in Australia that is exposed to variable rates. This is managed through holding the cash in a high interest bearing account and is transferred to ordinary account as required.

The Group holds the following financial instruments:

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Financial assets		
Cash and cash equivalents	1,807,116	27,998
Trade and other receivables	47,304	8,920
	<b>1,854,420</b>	<b>36,918</b>
Financial liabilities		
Trade and other payables	798,847	627,229
Borrowings	195,000	2,008,418
	<b>993,847</b>	<b>2,635,647</b>

**a) Market risk**

**(i) Interest rate risk**

The Group's and Parent's main interest rate risk arises from cash and cash equivalents and deposits with banks.

**Sensitivity**

At 30 June 2021, if interest rates had changed by lower/higher 100 basis points from the year-end rates with other variables held constant, post-tax loss for the year would have been \$18,071 lower/higher (2020: change of 100 bps: \$280 lower/higher), as a result of lower/higher interest income from cash and cash equivalents and deposits with banks.

**(ii) Foreign Exchange Risk**

The Group operates domestically in Australian dollar (AUD) and Solomon Islands in Solomon Islander dollar (SBD), hence exposures to exchange fluctuations arise. The Group does not hedge this exposures. The cash at bank held by the Company currently comprises AUD and SBD funds. The Group managed the foreign currency transactions on a monthly basis to avoid the fluctuation on the exchange rate, while the Group does not have any material foreign currency risk exposure. Where exposures do arise, forward foreign exchange contracts will be applied.

**(iii) Price Risk**

The Group is not exposed to equity securities price risk. The Group is indirectly exposed to commodity price rise to the extent of its operations which are undertaken in the mineral sector.

**b) Credit Risk**

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures in respect of outstanding receivables and committed transactions.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.



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**FOR THE YEAR ENDED 30 JUNE 2021**

**2 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**c) Liquidity Risk**

The Group manages liquidity risk by monitoring actual cash flows and maintaining sufficient cash to fund operations. Surplus funds are generally only invested in short term deposits with Australian Banks.

The Group's position with respect to going concern is outlined in note 1(a).

*Maturities of financial liabilities*

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

Consolidated	Less than 6 Months	6-12 Months	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total contractual cash flows	Carrying amount liabilities
	\$	\$	\$	\$	\$	\$	\$
<b>2021</b>							
<b>Non-derivatives</b>							
Non-interest bearing	615,811	183,036	-	-	-	798,847	798,847
<b>Fixed rate</b>							
Borrowings	195,000	-	-	-	-	195,000	195,000
Total Non-derivatives	810,811	183,036	-	-	-	993,847	993,847

Consolidated	Less than 6 Months	6-12 Months	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years	Total contractual cash flows	Carrying amount liabilities
	\$	\$	\$	\$	\$	\$	\$
<b>2020</b>							
<b>Non-derivatives</b>							
Non-interest bearing	435,134	192,095	-	-	-	627,229	627,229
<b>Fixed rate</b>							
Borrowings	2,008,418	-	-	-	-	2,008,418	2,008,418
Total Non-derivatives	2,443,552	192,095	-	-	-	2,635,647	2,635,647

**d) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market (for example, investments in unlisted subsidiaries) is determined using valuation techniques.

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**2 FINANCIAL RISK MANAGEMENT (CONTINUED)**

**e) Capital risk management**

The Group has no long term debt therefore capital is raised as and when it is required to do further exploration and development activities.

**3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group holds embedded derivatives on convertible notes which are valued based upon a valuation technique as discussed in note 16.

As the inputs are not based on observable market data, the instrument is included in level 3 of the fair value hierarchy.

*Exploration and evaluation expenditure*

Certain exploration and evaluation expenditure is capitalised where it is considered likely that the expenditure will be recovered by future exploitation or sale, or where activities have reached a stage which permits a reasonable assessment of the existence of commercially recoverable reserves. This process necessarily requires management to make certain estimates and assumptions regarding future commodity prices and level of demand for these commodities, production rates, metallurgical recovery and cost of production, which will affect the viability of the operations. Any such estimates and assumptions may change as new information becomes available. If, after having capitalised expenditure under this policy it is concluded unlikely that the expenditure will be recovered by future exploitation or sale, the relevant amount capitalised is written off to the consolidated statement of comprehensive income. Carried forward exploration and evaluation expenditures amounting to \$2,119,643 are disclosed in note 13 and relate primarily to capitalisation and evaluation costs from activities in the Solomon Islands.

*Share-based payment transactions*

The Group measures the cost of equity settled transactions with employees and other parties by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using either a Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimate and assumptions relating to equity settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Note 29 details the assumptions that have been used in determining the fair value of the options that have been granted.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**4 SEGMENT INFORMATION**

The economic entity operates in two segments within mineral exploration and development in Australia. The Group has two reportable segments, as described below, for which the Board of Directors (the chief operating decision maker) reviews internal management reports on a regular basis.

*Solomon Islands*

The development of the Group's interest in the Kolosori Nickel Project ("Kolosori") and Jejevo Nickel Project ("Jejevo") on the Santa Isabel Island.

*Lorena*

The Group's interest in the Lorena Gold Project ("Lorena") near Cloncurry in northwest Queensland was sold on 27 November 2021. The Company retains 100% of EPM 18908.

**Segment assets**

**Information about reportable segments**

The key segment assets as reported to the Board are as follows:

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Exploration</b>		
Solomon Islands	2,069,643	-
Lorena	50,000	2,548,023
	<u>2,119,643</u>	<u>2,548,023</u>

	<b>Lorena</b>	<b>Solomon Islands</b>	<b>Corporate</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2021</b>				
Revenue from continuing operations	2,025	-	447	2,472
Accounting and audit expense	-	(15,500)	(71,225)	(86,725)
Corporate expenses	(4,099)	-	(373,252)	(377,351)
Share based payments	-	-	(28,000)	(28,000)
Depreciation and amortisation expense	(2,046)	(9,724)	(1,510)	(13,280)
Employee benefits expense	-	-	(103,902)	(103,902)
Evaluation and Exploration expenditure reversed	(4,564)	-	-	(4,564)
Loss on disposal of investment	-	-	(1,754,101)	(1,754,101)
Finance costs	(4)	-	(33,076)	(33,080)
Loss before income tax expense	<u>(8,688)</u>	<u>(25,224)</u>	<u>(2,364,619)</u>	<u>(2,398,531)</u>
Income tax expense	-	-	-	-
Net loss for the year	<u>(8,688)</u>	<u>(25,224)</u>	<u>(2,364,619)</u>	<u>(2,398,531)</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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**4 SEGMENT INFORMATION (CONTINUED)**

	Lorena \$	Other Tenements \$	Corporate \$	Total \$
<b>2020</b>				
Revenue from continuing operations	7,214	-	1,113	8,327
Accounting and audit expense	-	-	(49,541)	(49,541)
Corporate expenses	(24,751)	(267)	(264,774)	(289,792)
Depreciation and amortisation expense	(7,203)	-	(2,578)	(9,781)
Employee benefits expense	-	-	(130,319)	(130,319)
Evaluation and Exploration expenditure expensed	6,083	-	-	6,083
Impairment of Lorena Gold Project	(4,250,000)	-	-	(4,250,000)
Finance costs	-	-	(588,424)	(588,424)
Loss before income tax expense	(4,268,657)	(267)	(1,034,523)	(5,303,447)
Income tax expense	-	-	-	-
Net loss for the year	(4,268,657)	(267)	(1,034,523)	(5,303,447)

**5 REVENUE**

	2021 \$	2020 \$
<b>From continuing operations and other income</b>		
Interest	2,472	8,327

**6 EXPENSES**

**The loss before income tax includes the following expenses:**

Depreciation of non-current assets:		
- Property, Plant & equipment	12,669	8,078
- Motor vehicles	611	1,703
Total Depreciation	13,280	9,781
Expensed/(Reversal) of exploration expenditure	4,564	(6,083)
Finance costs	33,080	588,424

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**7 INCOME TAX**

	2021 \$	2020 \$
a) The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax amount in the financial statements as follows:		
Loss from ordinary activities	(2,398,531)	(5,303,447)
Prima facie income tax benefit calculated at 26% (2020: 27.5%) of taxable loss	<u>(623,618)</u>	<u>(1,458,448)</u>
Non-deductible items		
Movement in unrecognised temporary differences	103,468	980,871
Taxable losses not recognised	520,150	477,577
Income tax expense	<u>-</u>	<u>-</u>

b) Franking account balance	230	230
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c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised.	57,457,996	55,059,465
Potential tax benefit at 26%	14,939,079	15,141,353

The Tax losses may be carried forward indefinitely subject to the condition imposed by Law.

**8 CASH AND CASH EQUIVALENTS**

Cash at bank and on hand	<u>1,807,116</u>	<u>27,998</u>
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**9 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES**

GST receivables	29,096	-
Prepayments	18,208	8,920
	<u>47,304</u>	<u>8,920</u>

**a) Impaired receivables**

The creation and release of the provision for impaired receivables is included in 'Impairment of exploration assets and other receivables' in the consolidated statement of comprehensive income. Amounts charged to the allowance account are generally written off when there is no expectation of receiving additional cash.

There are no impaired receivables for the Group or Parent and there were no receivables past due for the Group or Parent.

**b) Interest rate risk**

Information about the Group's exposure to interest rate risk in relation to receivables is provided in note 2.

**c) Fair value and credit risk**

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair values.

The maximum exposure to credit risk at the reporting date is their carrying amount of each class of receivables mentioned above. Refer to note 2 for more information on the risk management policy of the Group and the credit quality of the entity's receivables.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**10 JOINT OPERATIONS**

**Information on Joint Operations**

The consolidated entity had a 55% interest in unincorporated joint operations of the Lorena Gold Project Joint Venture prior to 27 November 2020.

The key terms of the joint venture are:

- the joint venture interests in the Project are Volga 55%, CGR 30% and OPS 15% for the open cut operation; and
- Volga retains a 70% interest in any additional resources not within the open cut operation and within the Lorena Gold Project mining leases.

Further, the Group had a funding arrangement with Chinova Resources Tennant Creek Pty Ltd (Chinova) and BIM Gold Pty Ltd (BIM), to fund the Group's portion of cash calls. Any amounts paid by Chinova and BIM on behalf of the Group became a non-recourse unsecured loan advance and are only recoverable from the Group's share of profit from the sale of gold doré produced by the LGPJV.

The Group's net expenses from the Project are being carried by CGR, OPS and BIM and are non-recourse unsecured loan advance with interest rate at 9%, and only recoverable from the Group's share of gold produced. As the Group's share of the Projects revenue at 27 November 2020 is expected to be less than the Group's share of the Projects expense which are non-recourse to the Group, the Group's investment in the Joint Venture at 27 November 2020 is \$Nil.

On 27 November 2020, the Company announced that it has completed the Share Sale Agreement (first announced 28 July 2020) relating to the sale of Volga Elderberry Pty Ltd (Volga), a wholly owned subsidiary of the Company, which held a joint venture interest in the Lorena Gold Project ("Lorena"). Together with the Deed of Release which was executed in July 2020 and other associated documentation, the settlement of the dispute in respect of Lorena has now been finalised on commercial terms satisfactory to the Company.

At a General Meeting of the Company held on 14 October 2020, shareholders approved the proposed sale of Volga.

As a result, the Group now holds a 2% Net Smelter Return on gold produced from future underground operations at Lorena and has been released of all obligations and liabilities arising out of the Lorena Gold Project and those associated with Ore Processing Services Pty Ltd.

The Company retains 100% of EPM 18908, which is held directly by the Company.

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**FOR THE YEAR ENDED 30 JUNE 2021**

**11 TRADE AND OTHER RECEIVABLES**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Tenement security deposits	2,500	387,759
Receivables – Customs & duties	25,150	-
	<u>27,650</u>	<u>387,759</u>

The tenement security deposits has been reduced due to the sale of Lorena Gold Project.

**12 PROPERTY, PLANT AND EQUIPMENT**

Plant and equipment at cost	185,961	336,207
accumulated depreciation	<u>(10,298)</u>	<u>(302,233)</u>
	175,663	33,974
 Motor Vehicles at cost	 -	 50,536
accumulated depreciation	<u>-</u>	<u>(42,716)</u>
	-	7,820
 Total property, plant and equipment	 <u>175,663</u>	 <u>41,794</u>

	<b>Motor Vehicles</b>	<b>Property, Plant &amp; Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2021</b>			
<b>Balance at 01 July 2020</b>	7,820	33,974	41,794
Addition	-	185,961	185,961
Asset written down	(7,209)	(31,603)	(38,812)
Depreciation Expense	(611)	(12,669)	(13,280)
Balance at 30 June 2021	<u>-</u>	<u>175,663</u>	<u>175,663</u>
 <b>2020</b>			
<b>Balance at 01 July 2019</b>	9,523	42,052	51,575
Depreciation Expense	(1,703)	(8,078)	(9,781)
Balance at 30 June 2020	<u>7,820</u>	<u>33,974</u>	<u>41,794</u>

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**13 EXPLORATION AND EVALUATION EXPENDITURE**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Costs carried forward in respect of areas of interest in exploration and evaluation phases	2,119,643	2,548,023
Movement for year		
Balance at beginning of year	2,548,023	6,805,104
Current period expenditure	2,069,643	-
Impairment Lorena gold project	-	(4,250,000)
Reversal of security deposit	(234,987)	(7,081)
Transfer to investment on Lorena Gold Royalty	(350,000)	-
Proceeds from disposal of equity investment	(158,935)	-
Loss on disposal of investment	(1,754,101)	-
<b>Balance at end of year</b>	<b>2,119,643</b>	<b>2,548,023</b>

The Group has reviewed its exploration assets for impairment at reporting date in accordance with the accounting policy stated in note 1 (g). As a result of this review and having regards to the current market conditions the following impairments have been made to the carrying value of assets

Impairment of costs carried forward in respect of areas of interest in exploration and evaluation phases:

	<b>Lorena(i)</b>	<b>Jejevo</b>	<b>Kolosori</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2021</b>				
Balance at 01 July 2020	2,548,023	-	-	<b>2,548,023</b>
Exploration and evaluation expenditure carried forward	-	1,266,286	803,357	<b>2,069,643</b>
Transfer to investment on Lorena Gold Royalty	(350,000)	-	-	<b>(350,000)</b>
Reversal of security deposit	(234,987)	-	-	<b>(234,987)</b>
Proceeds from disposal of equity investment	(158,935)	-	-	<b>(158,935)</b>
Loss on disposal of investment	(1,754,101)	-	-	<b>(1,754,101)</b>
Balance at 30 June 2021	50,000	1,266,286	803,357	<b>2,119,643</b>
<b>2020</b>				
Balance at 01 July 2019	11,369,922	-	-	<b>11,369,922</b>
Impairment	(8,814,818)	-	-	<b>(8,814,818)</b>
Reversal of security deposit	(7,081)	-	-	<b>(7,081)</b>
Balance at 30 June 2020	2,548,023	-	-	<b>2,548,023</b>

(i) The sale of Volga, a wholly owned subsidiary of the Company, on 27 November 2020. As a result, the Group now holds a 2% Net Smelter Return on gold produced from future underground operations at Lorena, and a value of \$350,000 has been justified to carried forward for the investment in Lorena Gold Project. The Company retains 100% of EPM 18908.



**Pacific Nickel Mines Limited**  
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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**14 INVESTMENTS**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Investments in Jejevo Nickel	1,564,355	310,062
Investments in Kolosori Nickel	1,050,555	-
Investments in Other Tenements	114,150	-
Investments in Lorena Gold Royalty	350,000	-
<b>13(i)</b>	<u>3,079,060</u>	<u>310,062</u>

**15 CURRENT LIABILITIES**

**Trade and other payables**

Trade creditors	237,466	114,329
Other creditors	561,381	512,900
	<u>798,847</u>	<u>627,229</u>

**16 BORROWINGS**

**Current**

Unsecured Converting Notes (a)	-	1,227,925
Unsecured loans (b)	195,000	780,493
	<u>195,000</u>	<u>2,008,418</u>

a) Unsecured converting note

The Series "E" Converting Notes have a face value of \$1,215,800 and capitalised interest of \$12,125 as at 30 June 2020. The interest rate of Series "E" is 4% per annum payable in shares with maturity date of 31 March 2021. On 3 August 2020, the Company announced the conversion of all Series E Converting Notes (principal and interest) into ordinary shares. The Company issued 15,400,703 shares at \$0.08 per share upon the conversion.

b) Unsecured loans

The Group had a balance of \$195,000 in unsecured loans from Directors. The Group reached agreement with the loans from Key Management Personnel to extend the term of the existing loan to 1 October 2021. Unsecured loans totalling \$115,000 have an interest rate of 12% per annum with interest paid at maturity and unsecured loans totalling \$80,000 have an interest rate of 10% per annum with interest paid quarterly in arrears.

The Company entered into a Deed of Debt Forgiveness with Ore Processing Services Pty Ltd pursuant to which outstanding loan liabilities to OPS have been forgiven. The loan amount that was forgiven by OPS was \$637,342 at the time the Deed of Debt Forgiveness was entered, as announced on 28 July 2020.

**17 CONTRIBUTED EQUITY**

214,895,036 fully paid ordinary shares (2020: 68,022,604)	<u>69,874,608</u>	<u>62,696,576</u>
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Fully paid ordinary shares carry one vote per share and carry the right to dividends and have no par value.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**17 CONTRIBUTED EQUITY (CONTINUED)**

<b>a) Movement in ordinary share capital</b>		<b>Number of shares</b>	<b>Issue price</b>	<b>Share capital</b>
<b>2020</b>			<b>\$</b>	<b>\$</b>
1 July 2019	Opening balance	1,387,823,262		57,306,800
30 April 2020	Shares issued for Directors fees	716,590,296	0.001	716,590
30 April 2020	Shares issued for consultant fees	192,094,520	0.001	192,094
30 April 2020	Conversion of convertible note	4,450,000,000	0.001	4,450,000
30 April 2020	Convertible note rollover fees	55,725,470	0.001	55,725
30 April 2020	Shares consolidation on a 100:1 basis	(6,734,210,944)		(24,633)
	Transaction costs relating to share issues			
30 June 2020	Balance at end of year	68,022,604		62,696,576
<b>2021</b>				
1 July 2020	Opening balance	68,022,604		62,696,576
03 August 2020	Conversion of Series E converting notes	15,400,703	0.08	1,232,056
14 August 2020	Share placement	20,833,334	0.03	625,000
07 September 2020	Share purchase plan	20,366,659	0.03	611,000
16 October 2020	Placement	3,333,334	0.03	100,000
04 November 2020	Shares issued for acquisition of Sunshine Minerals Limited	10,617,954	0.08	849,436
21 December 2020	Placement – Tranche 1	11,200,000	0.05	560,000
16 April 2021	Placement – Tranche 2	52,800,000	0.05	2,640,000
16 April 2021	Shares issued for Directors and consultant fees	3,545,448	0.05	177,272
16 April 2021	Shares issued for acquisition of drillings rigs	400,000	0.05	20,000
12 May 2021	Shares issued for acquisition of 80% interest in Kolosori Nickel Project	8,375,000	0.08	670,000
	Transaction costs relating to share issues			(306,732)
30 June 2021	Balance at end of year	214,895,036		69,874,608

**b) Share options**

	<b>2021</b>	<b>2020</b>
	<b>Number</b>	<b>Number</b>
Balance at beginning of year	-	-
Options issued during the year	83,132,284	-
<b>Balance at end of year</b>	<b>83,132,284</b>	<b>-</b>

At 30 June 2021 the Company had 71,632,284 unlisted options and 11,500,000 listed options on issue under the following terms and conditions:

	<b>Number</b>	<b>Expiry Date</b>	<b>Issue Price</b>	<b>Exercise Price</b>
			<b>\$</b>	<b>\$</b>
Unlisted	11,500,000	30 September 2023	-	0.06
Unlisted	71,632,284	17 June 2024	0.012	0.09

The Group's objective when managing capital is to safeguard its ability to continue as a going concern (refer to note 1(a)), so that it can continue to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital on a regular basis in order to achieve the objectives. The Group's strategy has remained unchanged from the prior year.

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**18 RESERVES**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Share based payments reserve	28,000	2,207,581
Options revenue reserve	766,179	-
	<b>794,179</b>	<b>2,207,581</b>

	<b>Share based payments</b>	<b>Options revenue reserve (net of cost)</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Movement in reserve</b>			
<b>2021</b>			
Balance at 01 July 2020	2,207,581	-	2,207,581
Options expired	(2,207,581)	-	(2,207,581)
Options issued	28,000	766,179	794,179
Balance at 30 June 2021	28,000	766,179	794,179
<b>2020</b>			
Balance at 01 July 2019	2,207,581	-	2,207,581
Movements	-	-	-
Balance at 30 June 2020	2,207,581	-	2,207,581

**19 ACCUMULATED LOSSES**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Accumulated losses at beginning of financial year	(64,215,248)	(58,911,801)
Option expired	2,207,581	-
Loss for the period	(2,398,531)	(5,303,447)
Accumulated losses at the end of financial year	(64,406,198)	(64,215,248)

**20 KEY MANAGEMENT PERSONNEL DISCLOSURES**

a) Directors

The directors of Pacific Nickel Mines Limited during the year were:

Mr Terry Cuthbertson – Non-Executive Director

Mr James Dean – Non-Executive Director

Mr Geoffrey Hiller – Director & Chief Executive Officer

Mr Robert Thomson – Non-Executive Director (appointed on 3 September 2020)

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**20 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)**

b) Key Management Personnel compensation

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	497,710	300,583
Post-employment benefits	-	-
Long-term benefits	-	-
Share-based payments	28,000	-
Non-monetary benefits	-	-
	<hr/> 525,710	<hr/> 300,583

Detailed remuneration disclosures can be found in section (a) – (f) of the remuneration report contained in the Directors Report.

c) Related party transactions

**Unsecured loans**

Terry Cuthbertson	140,423	79,334
Geoffrey Hiller	80,657	70,411

**Converting/Convertible Notes**

Terry Cuthbertson	-	299,659
James Dean	-	65,648
Geoffrey Hiller	-	34,747

**21 AUDITORS' REMUNERATION**

Remuneration of the auditor of the Group for: Audit services

Audit and review of financial reports	<hr/> 40,000	<hr/> 40,000
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**22 CONTINGENT LIABILITIES**

There are no material contingent liabilities for the year ended 30 June 2021 (2020: Nil).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**23 COMMITMENTS FOR EXPENDITURE**

**a) Capital Expenditure Commitments**

There are no capital commitments at the end of the financial year ended 30 June 2021 (2020: Nil).

**b) Lease Commitments**

There are no lease commitments at the end of the financial year ended 30 June 2021 (2020: Nil)

**c) Tenement Commitments**

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Tenement Expenditure required under tenement licence EPM 18908		
Not later than one year	18,000	10,000
Later than 1 year but not later than 2 years	29,000	58,000
	47,000	68,000

PL 01/18 Jejevo Prospecting License is under the application for two years extension, the minimum commitment is \$300,000 for year ended 30 June 2022.

PL 05/19 Kolosori Prospecting License has met the current commitment which expires in February 2022.

**24 RELATED PARTY TRANSACTIONS**

**a) Parent entity**

The parent entity within the Group is Pacific Nickel Mines Limited.

**b) Key management personnel**

Disclosures relating to key management personnel are set out in note 20.

**25 INVESTMENT IN CONTROLLED ENTITY**

Name of controlled entity	Country of incorporation	Class of shares	Ownership interest 2021 %	Ownership interest 2020 %
Conrad Silver Mines Pty Ltd	Australia	Ordinary	100	100
Volga Elderberry Pty Ltd	Australia	Ordinary	-	100
Pacific Nickel Mines International Pty Ltd	Australia	Ordinary	100	100
Pacific Nickel Mines (SI) Limited (Former name Sunshine Minerals Limited)	Solomon Islands	Ordinary	100	15
Sunshine Nickel Limited	Solomon Islands	Ordinary	80	-
Kolosori Nickel (SI) Limited	Solomon Islands	Ordinary	80	-

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**26 EVENTS SUBSEQUENT TO REPORTING DATE**

**Appointment of CFO**

On 10 September 2021, the Company confirmed the appointment of Mr. Graham Frank as Chief Financial Officer of the Company.

Mr Frank is a Chartered Accountant and was until recently a partner of Ernst & Young where he held several leadership positions, including as the Head of Tax for Oceania and the Deputy Leader of Tax for Asia Pacific. Graham specialised in advising Australian mining and oil and gas companies with their offshore resource investments and multi-national companies on their Australian mining investments. Graham is currently a Director and Treasurer of a not-for-profit innovation group and a Board Adviser to a private investment.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

**27 NOTES TO STATEMENT OF CASH FLOWS**

**a) Reconciliation of Cash**

For the purposes of the statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the consolidated statement of financial position as follows:

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Cash	1,807,116	27,998

**b) Reconciliation of operating profit after income tax to net cash flows from operating activities.**

Operating loss after income tax	(2,398,531)	(5,303,447)
<b>Non cash</b>		
Depreciation	13,280	9,781
Impairment of assets	-	4,250,000
Capitalised interest	-	306,311
Loss on disposal of investment	1,754,101	-
Exploration and evaluation expenditure carried forward	(2,069,643)	-
Share based payments	28,000	-
Other non-cash transactions	(151,126)	3,449
 Changes in assets and liabilities		
Decrease in receivables	331,013	52,276
(Increase)/Decrease in prepayments	(9,288)	10,623
Increase in payables	171,618	154,384
Net cash (outflow) from operating activities	(2,330,576)	(516,623)

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**FOR THE YEAR ENDED 30 JUNE 2021**

**28 LOSS PER SHARE**

	<b>2021</b>	<b>2020</b>
	<b>Cents</b>	<b>Cents</b>
Basic/diluted (loss) per share (cents per share) from continuing and discontinued operations	(1.65)	(23.0)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in the calculation of basic/diluted loss per share	145,057,472	22,864,331
The weighted number of ordinary shares for the period ending 30 June 2020 has been restated to reflect the 100:1 consolidation which occurred during the 2020 period.		
	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<b>Loss attributable to ordinary shareholders</b>		
Loss attributable to ordinary shareholders from continuing operations	647,518	5,303,447
Loss attributable to ordinary shareholders from discontinued operations	1,751,013	-
Loss attributable to ordinary shareholders for the basic earnings	2,398,531	5,303,447
Loss attributable to ordinary shareholders adjusted for effect of dilution	2,398,531	5,303,447

Diluted loss per share has not been disclosed as the impact from options is anti-dilutive.

**29 SHARE-BASED PAYMENTS**

a) Options issued to Employees and Directors

(i) Employee Option Plan

No options were granted to Employees for the year ended 30 June 2021 (2020: Nil).

(ii) Directors Options

4,000,000 options issued to directors during the year ended 30 June 2021 (2020: Nil), were approved by shareholder in General Meeting 14 October 2020:

The fair value of the options is estimated at the date of grant using a Black-Scholes option-pricing model. The following table give the assumptions made in determining the fair value of the options granted during the year.

	<b>2021</b>	<b>2020</b>
Average share price at grant date	\$0.03	-
Exercise price	\$0.06	-
Expected volatility	65%	-
Option life	3	-
Expected dividend	-	-
Risk-free interest rate	0.65%	-
Valuation per option	\$0.007	-

b) Shares issued for services under a share based payment arrangement during the year.

No shares issued for services under a share based payment arrangement during the year ended 30 June 2021 (2020: Nil).

Shares issued for accrued directors' fees.

c) Options issued for services under a share based payment arrangement during the year.

No options issued for services under a share based payment arrangement during the year ended 30 June 2021 (2020: Nil).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2021**

**30 PARENT ENTITY FINANCIAL INFORMATION**

a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

<b>Statement of Financial Position</b>	<b>2021</b> \$	<b>2020</b> \$
Current assets	1,825,323	36,489
Non-current assets	11,922,259	12,234,698
Total assets	<u>13,747,582</u>	<u>12,271,187</u>
Current liabilities	964,750	2,610,146
Non-current liabilities	-	249,224
Total liabilities	<u>964,750</u>	<u>2,859,370</u>
<b>Net Assets</b>	<u>12,782,832</u>	<u>9,411,817</u>
<b>Equity</b>		
Contributed equity	69,874,608	62,696,576
Option reserve	794,179	2,207,581
Accumulated losses	(57,885,955)	(55,492,340)
<b>Total equity</b>	<u>12,782,832</u>	<u>9,411,817</u>
Loss for the year	(2,393,615)	(1,034,524)
Total comprehensive income	<u>(2,393,615)</u>	<u>(1,034,524)</u>

b) Guarantees entered into by the parent entity

The parent entity did not have any financial guarantees as at 30 June 2021.

c) Contingent liability of parent entity

The parent entity did not have any contingent liabilities as at 30 June 2021.



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**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of Pacific Nickel Mines Limited, the directors of the company declare that:

- 1) The financial statements and notes, as set out on pages 17 to 47, are in accordance with the Corporations Act 2001 and:
  - a) Comply with Australian Accounting Standards, which, as stated in accounting policy Note 1(a) to the financial statements, constitutes compliance with International Financial Reporting Standards; and
  - b) Give a true and fair view of the Company's consolidated financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- 2) In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- 3) This declaration has been made after receiving the declarations required to be made in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2021.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Terry Cuthbertson', with a stylized flourish at the end.

Terry Cuthbertson

Non-Executive Chairman

Sydney, 30 September 2021

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF PACIFIC NICKEL MINES LIMITED**

**Report on the Audit of the Financial Report**

**Opinion**

We have audited the accompanying financial report of Pacific Nickel Mines Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- a. giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and
- b. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Emphasis of Matter Regarding to Going Concern**

Without qualifying our conclusion, we draw your attention to Note 1 in the financial report which indicates that the group's cash position as at 30 June 2021 was \$1,807,116, experienced an operating loss of \$2,398,531 and cash outflows from operating activities of \$2,330,576 during the year.

The Group currently relies on its nickel projects in the Solomon Islands for its continuing viability and for its ability to continue as a going concern and to meet its debts and commitments.

These conditions, along with other matters as set forth in Note 1, indicate the existence of an uncertainty that may cast doubt about the consolidated entity's ability to continue as a going concern.

## Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement. Our responsibilities under those standards are further described in the Auditor's Responsibility section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the Ethical Requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

## Key Audit Matters

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.

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><b><i>Carrying value of capitalised exploration and evaluation expenditure</i></b></p> <p>As at 30 June 2021, the carrying value of capitalised exploration and evaluation expenditure was \$2,119,643 as disclosed in note 13.</p> <p>The assessment of the carrying value of capitalised exploration and evaluation expenditure requires management to make significant accounting judgements and estimates in producing the discounted cash flow model used to determine whether the assets require impairment in accordance with Australian Accounting Standard AASB 136 Impairment.</p> <p>The Directors have considered the carrying value of each project and determined no further impairment is required.</p>	<p>We have evaluated the appropriateness of management's judgements that there is no an additional fact or circumstances that suggest the carrying amount of exploration and evaluation expenditure exceeds its recoverable amount.</p>

Key Audit Matter	How Our Audit Addressed the Key Audit Matter
<p><b>Investments</b></p> <p>During the period the group executed various transactions. As a result, investments of the group increased by \$2,768,998 to \$3,079,060 as at 30 June 2021.</p> <p>As detailed in Note 14 to the financial reports, this included the Jejevo project and Kolosori project. In addition, \$350,000 was transferred as part of the disposal of the Lorena project representing managements allocated value of the remaining 2% net smelter interest.</p>	<p>During our audit we evaluated the transactions resulting in capitalised investments being recognised by the group. This included:</p> <ul style="list-style-type: none"> <li>• analysing agreements executed and questioning management on key aspects of the agreements</li> <li>• reviewing supporting documentation in the transactions executed</li> <li>• verifying transactions in relation to the agreements and verifying with supporting documentation</li> <li>• analysing calculations determining the value of non-cash transactions associated with the transactions and assessing accounting treatment and disclosures</li> </ul>

## Other Information

The directors of Pacific Nickel Mines Limited are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, the financial statements comply with *International Financial Reporting Standards*.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the 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 objectives are 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 and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our auditor's report.

## Report on the Remuneration Report

### *Opinion on the Remuneration Report*

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2021.

In our opinion the remuneration report of Pacific Nickel Mines Limited for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of Pacific Nickel Mines Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

MNSA PTY LTD

### MNSA Pty Ltd



**Allan Facey**  
Director

Sydney

Dated this 30<sup>th</sup> day of September 2021