



POSEIDON NICKEL LIMITED

ABN 60 060 525 206

Interim Financial Report

For the six months ended 31 December 2017

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Poseidon Nickel Limited

Corporate directory

ABN: 60 060 525 206
Incorporated in Australia

Directors

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

Company Secretary

Ms E Kestel

Registered Office

Unit 8, Churchill Court
331-335 Hay Street
Subiaco WA 6008

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Email: admin@poseidon-nickel.com.au
Telephone: +61 8 6167 6600
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Postal Address

PO Box 190
West Perth WA 6872

Auditors to the Company

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

Share Registry

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

ASX Code

Shares: POS

Country of Incorporation and Domicile

Australia

Poseidon Nickel Limited
Directors' report
For the six months ended 31 December 2017

The directors of Poseidon Nickel Limited ("the Company") present their report together with the condensed consolidated interim financial report for the six months ended 31 December 2017 and the auditor's review report thereon.

Contents of Directors' report

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

Poseidon Nickel Limited

Directors' report (continued)

For the six months ended 31 December 2017

1. Directors

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

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

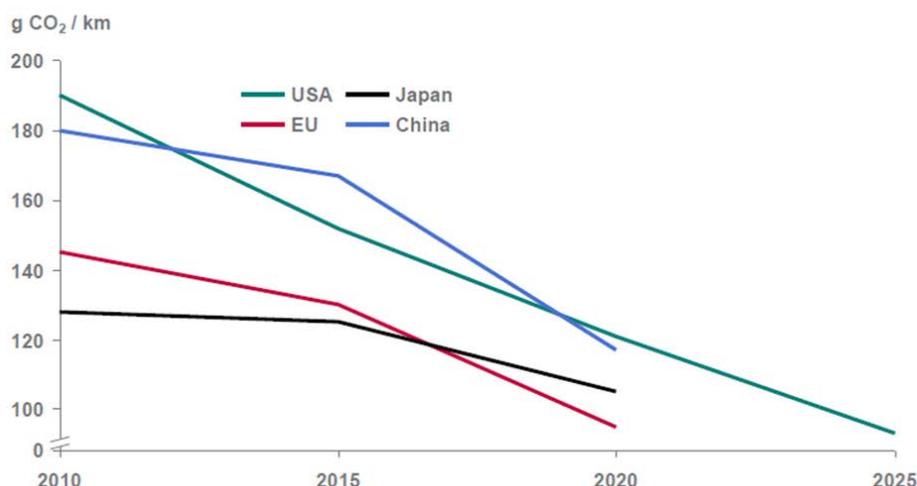
2. Operating and Financial Review

Company Strategy

The Company continues to focus on a strategy to redevelop existing mines, recommission process plants, restart production and build on its exploration success by acquiring long life strategic assets with the aim of becoming a major diversified resource company managed by an experienced management team. The Company initially plans to restart operations at Silver Swan when the nickel market improves followed by Black Swan, Lake Johnston and Windarra.

Poseidon believes the nickel market fundamentals will continue to improve over the mid to long term due to the clean energy revolution. The forecast global demand for electric vehicles and clean energy storage driven by regulators and consumers alike has sparked a renewed interest in key commodities required to drive the energy transformation such as battery metals lithium, cobalt, and nickel. Electric vehicle battery manufacturers, traders and investors have demonstrated an appetite to secure positions on the physical metals and or invest directly in Companies that hold these strategic commodities. Poseidon has one of Australia's largest nickel sulphide resources (including copper and cobalt) and has seen a resurgence of interest in the Company.

Planned emission standards in select regions, total fleet average for new sales



Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

Company Strategy (continued)

Several previously reported strategic agreements with third parties are developing. Poseidon has progressed non-binding memorandum of understanding (MOU) agreements with various parties in what has been a difficult nickel market. Since entering into the MOU's the nickel market sentiment has materially improved. In light of the changing nickel market sentiment the Company plans to review the agreements.

Projects – Silver Swan

Poseidon recently completed a Definitive Feasibility Study (DFS) for the restart of the high grade Silver Swan underground mine. With a resource grade of 9% nickel, Silver Swan represents a low risk, low operating and capital cost quick start opportunity to allow Poseidon to shift from a junior explorer to emerge as a nickel producer.

In an improving nickel market Poseidon plans on restarting the high grade Silver Swan underground nickel mine and initially selling the raw mined ore before refurbishing the Black Swan processing plant. Silver Swan DFS key metrics are tabled (see Table 1 & 2 below), ASX release Silver Swan Definitive Feasibility Study 26th May 2016.

Key Production Physicals	
Life of Mine (LOM) (yrs)	~2
Ore Tonnes Mined (kt)	147
Ore Tonnes Delivered (tpy)	73,000
ROM diluted nickel head grade (%)	5.8
Nickel metal (kt)	8.8

Table 1: Silver Swan DFS Key Physicals

Project Commercial Metrics	
Revenue ¹ (A\$m)	\$120.70
C1 Cash Costs ² US\$/lb-Ni	\$2.05
AISC Cash Costs ³ US\$/lb-Ni	\$3.10
Breakeven Nickel Price US\$/lb-Ni	\$4.63
Restart Capital (A\$m)	\$25.00
Net Cash Flow (A\$m)	\$34.70
NPV ₁₀ (A\$m)	\$27.80
IRR ₁₀	204%

Table 2: Silver Swan DFS Key Commercial Outcomes

¹ Unless otherwise stated, all cash flows are in Australian dollars and not subject to inflation or escalation factors. A nickel price of US\$6.50/lb has been assumed and an exchange rate of AUD:USD of 0.70.

² C1 cash costs means operating cash costs including mining, processing, geology, OHSE, site G&A, concentrate transport, royalties, less by-product divided by nickel in concentrate produced (100% payable basis).

³ All-in-sustaining cash costs are C1 cash costs plus mine development and sustaining capital.

With an ore reserve grade of 6% nickel, the direct shipment of high grade nickel ore mined from Silver Swan is competitive with restarting the Black Swan process plant and offers a low risk path to market consequently the Company plans to restart Silver Swan and sell high grade ore.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

Projects – Silver Swan (continued)

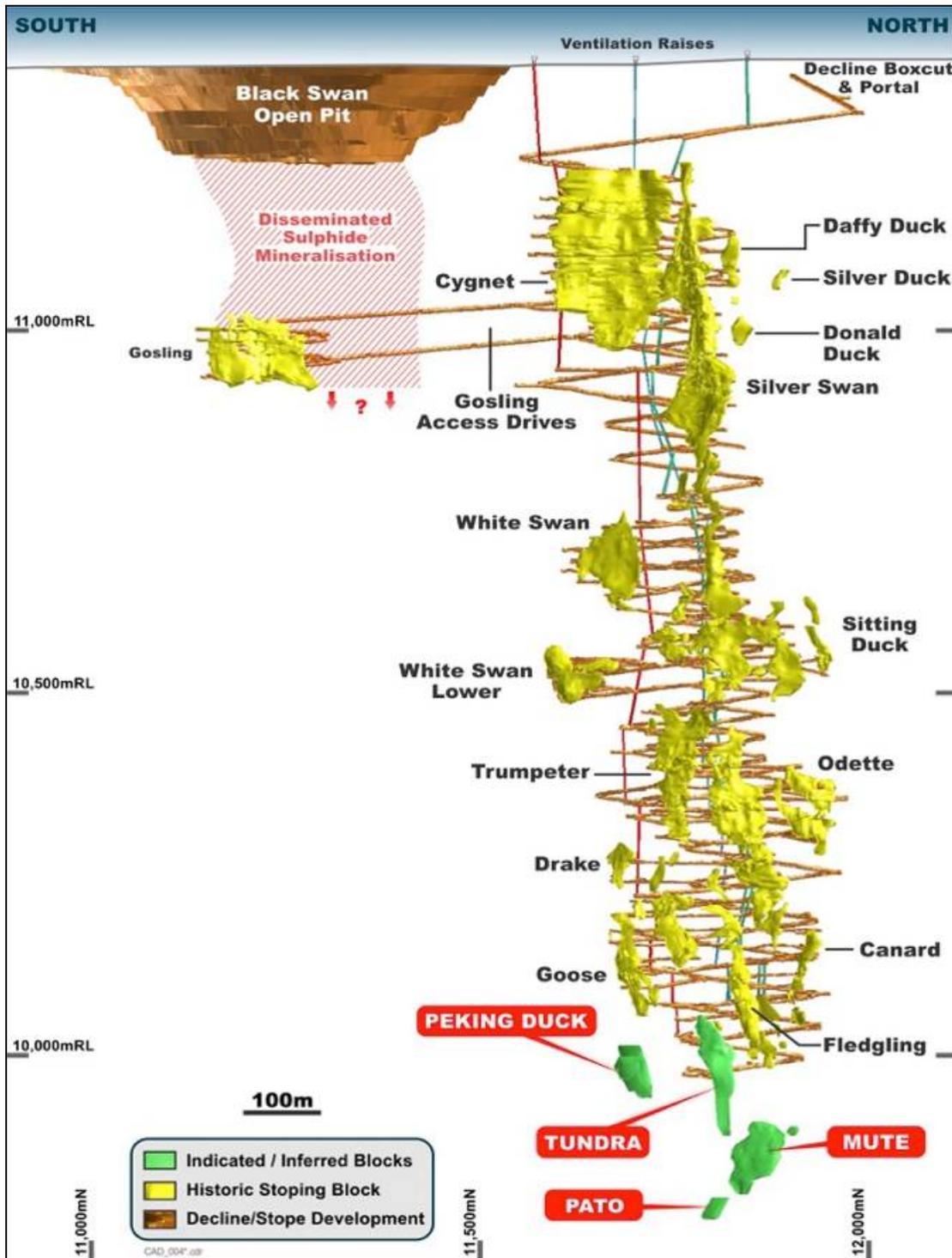


Figure 1: Silver Swan Mineralised Zones

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

Projects – Black Swan

Poseidon is progressing an engineering study for the integrated restart of the Black Swan process plant and open pit mine that adds a further 3 year mine life (without a cut back) of the open pit. Furthermore there is over 8,000 tonnes of contained nickel in stockpiled ore available to be recovered when the Black Swan process plant is restarted. The combined resource at Black Swan is over 190,000 tonnes of contained nickel metal and the integrated project offers an attractive low risk restart opportunity. The integrated Black Swan study outcomes will support an expansion in mine life.

The Company also completed an engineering study to refurb and install equipment to support co-processing nickel and gold at the Black Swan Operations. The cost estimate is aligned with previous work. Co-processing offers an advantage compared to a stand-alone nickel operation with lower than forecast cash costs achieved through improved equipment utilisation and efficiencies.



Figure 2: Black Swan Process Plant

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

Projects – Black Swan (continued)



Figure 3: Black Swan open Pit (development at the bottom of existing pit)

Projects – Lake Johnston (Lithium Exploration)

The Company recently approved a lithium exploration programme at Lake Johnston to explore the Medusa Lithium Project. Medusa is located 190km south-west of Kalgoorlie and 6km north of the Company's 100% owned Lake Johnston process plant and infrastructure. To date Poseidon has completed lithium research on Maggie Hays and Emily Ann drill core, rock chip sampling, surface geochemistry, aerial magnetics and radiometrics followed by metallurgical testwork. The exploration work completed confirmed a number of lithium exploration targets and following a review of the exploration programmes the Company plans to test these pegmatites for lithium-tantalite bearing minerals.

The Company previously completed metallurgical testwork on lithium hosted pegmatites and confirmed the Lake Johnston process plant can be utilised to produce a high grade lithium concentrate. Kidman Resources (Kidman) also completed engineering to support the restart of the Lake Johnston concentrator including the refurbishment of the plant and infrastructure which was aligned with a previous estimate completed by Rapallo in 2015.

The Lake Johnston process plant has enough capacity to process all of the nickel ore expected to be mined on site while also processing lithium bearing ores in a separate circuit. This processing capacity is available to process ore either mined from the site or from other miners operating in the region.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

Projects – Lake Johnston (Lithium Exploration) (continued)

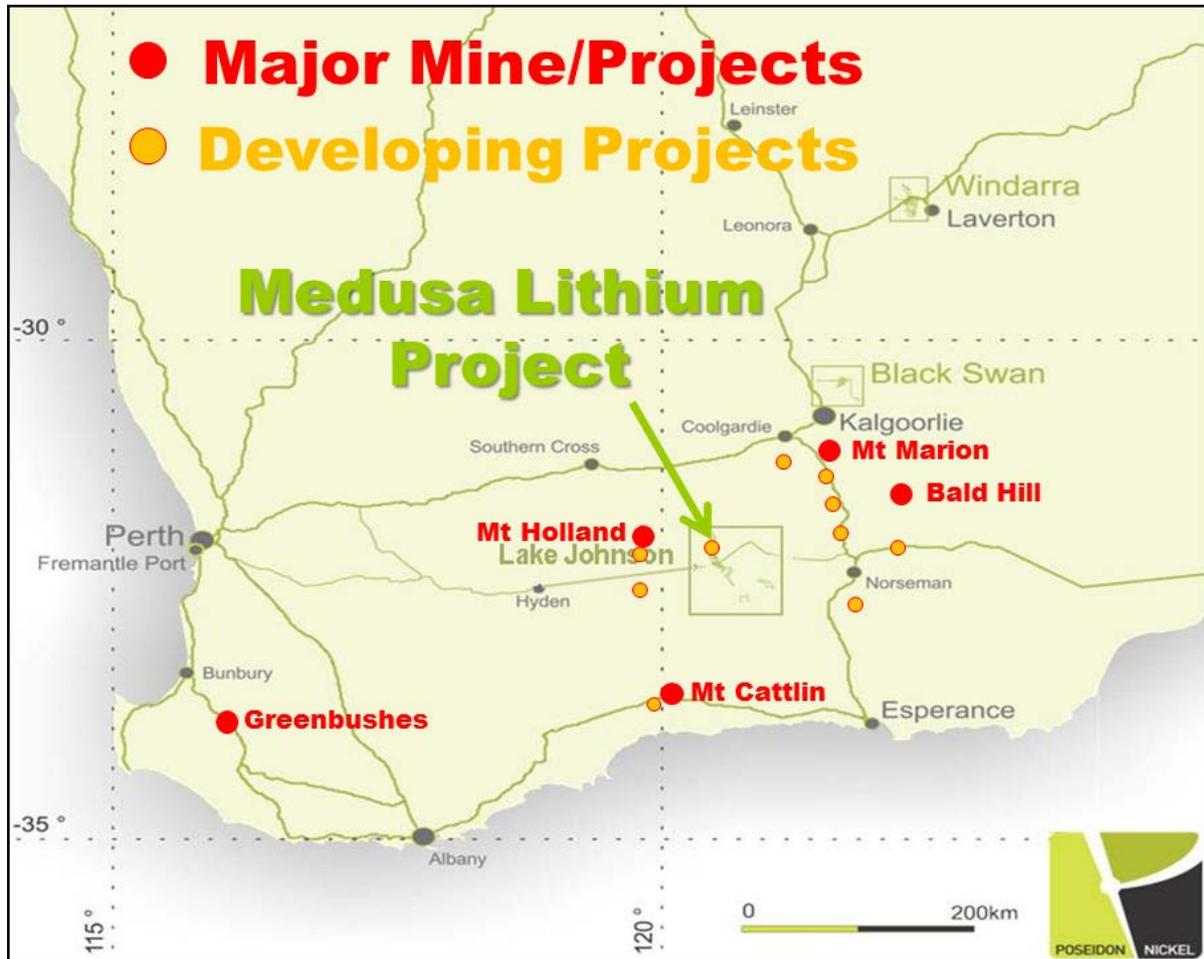


Figure 4: Location of the Medusa Lithium Project Relative to Advanced Lithium Projects

Poseidon maintains a significant portfolio of tenements in the Lake Johnston region which are prospective for lithium hosted pegmatites. The Medusa Lithium Project lies in a highly prospective area with several ASX listed companies exploring and developing lithium mines in the region (see Figure 4). Kidman lies 70km west of Medusa, Galaxy lies 120kms south and Bald Hill lies 150 west of Medusa. Other Companies exploring the Lake Johnston Greenstone belt for lithium include Liontown, White Cliffs and Pioneer.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

Projects – Lake Johnston (Nickel Project)

The Abi Rose Nickel Project is located just 1km north of the Company's Lake Johnston process plant and infrastructure. The discovery follows a re-interpretation of the local geology aligned with the Flying Fox extension discovered by Western Areas. The Company's Board is considering recommencing diamond core drilling at the Abi Rose nickel discovery in light of the recent improvements in the market and the strong outlook for EV/battery demands. The Abi Rose nickel project was discovered in early 2016 (ASX: Significant High Grade Nickel Intersection at Emily Ann North, 25/1/2016). Three carefully targeted diamond drill holes were completed in 2015-2016, 360m north of the Emily Ann mine under an EIS co-funded grant. This resulted in the discovery of the high-grade Abi Rose nickel mineralisation 390m below the surface, with a best intersection of 10.48m grading 3.20% Ni which includes a massive sulphide base grading 2.32m at 7.62% Ni (Figure 5).

As part of the lithium exploration program, an airborne geophysical survey was completed which also covered the Abi Rose nickel discovery in the south of the survey area. The images returned from the aerial magnetic survey (Figure 6) shows that Abi Rose sits on a large north-south structural feature which will be targeted to better understand the controls on the nickel mineralisation and potential extend prospectivity of the zone. The discovery of this new lens of nickel mineralisation has the potential to develop into a commercially viable project as it is located close to the existing Emily Ann Mine infrastructure and the Lake Johnston nickel concentrator.



Figure 5: Drill Core from the Abi Rose High Grade Nickel Discovery 2016

Defining a nickel resource at Abi Rose will support a low capital cost restart of the mine as Emily Ann has an existing box cut and decline substantially reducing the capital cost to develop the high grade nickel underground mine at Abi Rose. For example the capital cost of a box cut is estimated at A\$5 to \$7m and mine development costs for a new decline is between A\$5,000 to \$7,000 per lineal metre compared to refurbishing an existing underground mine where the costs based on Poseidon experience at Windarra lie between A\$1,000 to \$2,000 per lineal metre which represents a significant capital cost reduction in establishing a new underground nickel mine and also offers a fast start to market.

Poseidon Nickel Limited
Directors' report (continued)
For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

Projects – Lake Johnston (Nickel Project) (continued)

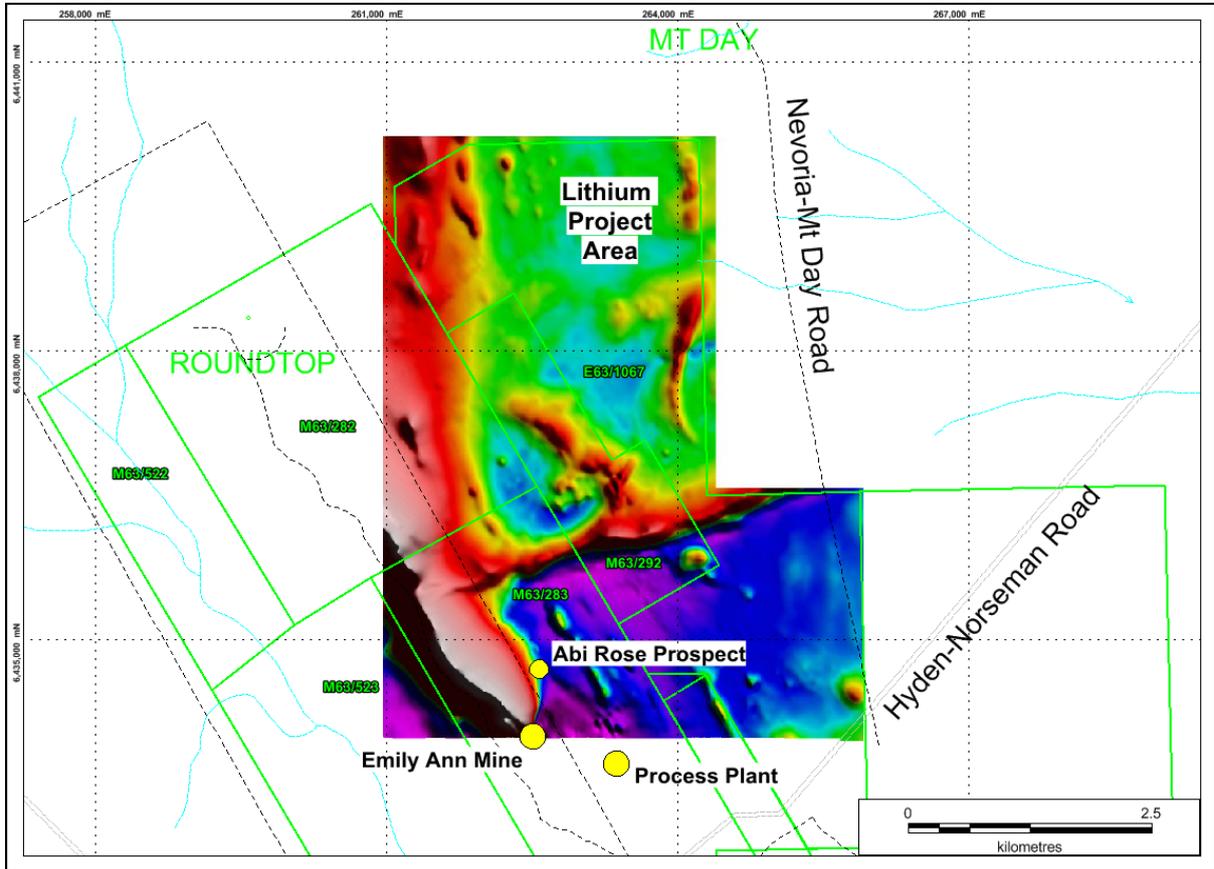


Figure 6: Aerial magnetic survey area showing Total Magnetic Intensity (TMI) image, prospect locations and tenement boundaries

Projects – Windarra

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

The termination of the State Agreement over the Windarra tenements is progressing. The Company is seeking to terminate the State Agreement to allow the gold tailings to be processed. Under the State Act securing the regulatory approvals are challenging and the Company believes it is in its best interest to terminate the State Agreement and operate under the mines Act.

The Company has updated its mineral resource to include silver credits. The Windarra gold tailings resource stands at 183,000oz and 670,000oz of gold and silver respectively. The tailings retreatment projects is also a compelling investment opportunity.

Poseidon Nickel Limited

Directors' report (continued)

For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

COMPETENT PERSON STATEMENTS:

The information in this report that relates to Exploration Results is based on, and fairly represents, information compiled and reviewed by Mr N Hutchison, General Manager of Geology who is a full-time employee at Poseidon Nickel, and is a Member of The Australian Institute of Geoscientists.

The information in this report which relates to the Black Swan Mineral Resource is based on, and fairly represents, information compiled by Andrew Weeks who is a full-time employee of Golder Associates Pty Ltd. The information in this report which relates to the Black Swan Ore Reserve is based on, and fairly represents, information compiled by Matthew Keenan who is a full-time employee of Entech Pty Ltd. Both are Members of the Australasian Institute of Mining and Metallurgy.

The information in this report which relates to the Silver Swan Mineral Resource is based on, and fairly represents, information compiled by Neil Hutchison, General Manager of Geology at Poseidon Nickel, who is a Member of The Australian Institute of Geoscientists and Ian Glacken who is a full time employee of Optiro Pty Ltd and is a Fellow of the Australasian Institute of Mining and Metallurgy. The information in this report which relates to the Silver Swan Ore Reserve is based on, and fairly represents, information compiled by Matthew Keenan who is a full-time employee of Entech Pty Ltd and is a Member of the Australasian Institute of Mining and Metallurgy.

The information in this report which relates to the Lake Johnston Mineral Resource is based on, and fairly represents, information compiled by Neil Hutchison, General Manager of Geology at Poseidon Nickel, who is a Member of The Australian Institute of Geoscientists and Andrew Weeks who is a full-time employee of Golder Associates Pty Ltd and is a Member of the Australasian Institute of Mining and Metallurgy. The information in this report which relates to the Lake Johnston Ore Reserves Project is based on, and fairly represents, information compiled by Matt Keenan who is a full time employee of Entech Pty Ltd and is a Member of the Australasian Institute of Mining and Metallurgy.

The information in this report that relates to Mineral Resources at the Windarra Nickel Project and Gold Tailings Project is based on, and fairly represents, information compiled by Neil Hutchison, General Manager of Geology at Poseidon Nickel, who is a Member of The Australian Institute of Geoscientists and Ian Glacken who is a full time employee of Optiro Pty Ltd and is a Fellow of the Australasian Institute of Mining and Metallurgy. The Windarra Project contains Mineral Resources which are reported under JORC 2004 Guidelines as there has been no Material Change or Re-estimation of the Mineral Resource since the introduction of the JORC 2012 Codes. Future estimations will be completed to JORC 2012 Guidelines.

Mr Hutchison, Mr Glacken, Mr Weeks, and Mr Keenan all have sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which they are undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' (the JORC Code 2012). Mr Hutchison, Mr Glacken, Mr Weeks, and Mr Keenan have consented to the inclusion in the report of the matters based on his information in the form and context in which it appears.

The Australian Securities Exchange has not reviewed and does not accept responsibility for the accuracy or adequacy of this release.

FORWARD LOOKING STATEMENT – INFERRED RESOURCE STATEMENTS:

The Company notes that an Inferred Resource has a lower level of confidence than an Indicated Resource and that the JORC Codes, 2012 advises that to be an Inferred Resource it is reasonable to expect that the majority of the Inferred Resource would be upgraded to an Indicated Resource with continued exploration. Based on advice from relevant competent Persons, the Company has a high degree of confidence that the Inferred Resource for the Silver Swan deposit will upgrade to an Indicated Resource with further exploration work.

The Company believes it has a reasonable basis for making the forward looking statement in this announcement, including with respect to any production targets, based on the information contained in this announcement and in particular, the JORC Code, 2012 Mineral Resource for Silver Swan as of May 2016, together with independent geotechnical studies, determination of production targets, mine design and scheduling, metallurgical testwork, external commodity price and exchange rate forecasts and worldwide operating cost data.

FORWARD LOOKING STATEMENTS:

This release contains certain forward looking statements including nickel production targets. Often, but not always, forward looking statements can generally be identified by the use of forward looking words such as "may", "will", "except", "intend", "plan", "estimate", "anticipate", "continue", and "guidance", or other similar words and may include, without limitation, statements regarding plans, strategies and objectives of management, anticipated production and expected costs. Indications of, and guidance on future earnings, cash flows, costs, financial position and performance are also forward looking statements

Forward looking statements, opinions and estimates included in this announcement are based on assumptions and contingencies which are subject to change, without notice, as are statements about market and industry trends, which are based on interpretation of current market conditions. Forward looking statements are provided as a general guide only and should not be relied on as a guarantee of future performance.

Forward looking statements may be affected by a range of variables that could cause actual results or trends to differ materially. These variations, if materially adverse, may affect the timing or the feasibility and potential development of the Silver Swan underground mine.

Poseidon Nickel Limited
 Directors' report (continued)
 For the six months ended 31 December 2017

2. Operating and Financial Review (continued)

Financial Position

For the six months ended 31 December 2017 the Group incurred a loss of \$6,673,000 (2016: loss \$1,872,000) and had a net working capital deficit of \$287,000 (30 June 2017: deficit \$2,584,000). The working capital deficit includes a provision for environmental rehabilitation of \$3,500,000 that is cash backed (non-current asset).

The Group had a net cash outflow from operating activities of \$1,779,000 (2016: \$2,911,000) and a net cash outflow from investing activities of \$393,000 (2016: inflow \$169,000), with operating cash outflow reflecting the reduced level of expenditure during the period on exploration and evaluation and care and maintenance activities across the three operations of Windarra, Lake Johnston and Black Swan.

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

3. Dividends

No dividends were paid or proposed during the six months ended 31 December 2017.

4. Events subsequent to reporting date

There has not arisen in the interval between the end of the reporting period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

5. Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 15 and forms part of the directors' report for the six months ended 31 December 2017.

6. Rounding off

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

Signed in accordance with a resolution of the directors:



Mr G F Brayshaw, FCA
 Director

Perth
 8 March 2018



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

To the Directors of Poseidon Nickel Limited

I declare that, to the best of my knowledge and belief, in relation to the review of Poseidon Nickel Limited for the half-year ended 31 December 2017 there have been:

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

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

KPMG

A handwritten signature in blue ink that reads 'Trevor Hart'.

Trevor Hart
Partner

Perth
8 March 2018

Poseidon Nickel Limited
Condensed consolidated interim statement of financial position
As at 31 December 2017

In thousands of AUD

	Note	31 Dec 2017	30 Jun 2017
Assets			
Cash and cash equivalents		3,898	1,620
Trade and other receivables		377	237
Total current assets		4,275	1,857
Plant and equipment	3.1	25,090	25,348
Exploration and evaluation expenditure	3.1	53,825	54,056
Other		3,500	3,500
Total non-current assets		82,415	82,904
Total assets		86,690	84,761
Liabilities			
Trade and other payables		756	664
Loans and borrowings		131	48
Employee benefits		175	229
Provisions		3,500	3,500
Total current liabilities		4,562	4,441
Loans and borrowings	4.2	19,430	19,308
Convertible note derivative	4.2	5,000	1,268
Provisions		43,071	43,701
Total non-current liabilities		67,501	64,277
Total liabilities		72,063	68,718
Net Assets		14,627	16,043
Equity			
Share capital	4.1	154,887	149,948
Reserves		1,075	757
Accumulated losses		(141,335)	(134,662)
Total equity attributable to equity holders of the Company		14,627	16,043

The condensed notes on pages 20 to 25 are an integral part of these condensed consolidated interim financial statements.

Poseidon Nickel Limited
 Condensed consolidated interim statement of profit or loss and other
 comprehensive income
 For the six months ended 31 December 2017

In thousands of AUD

	Note	31 Dec 2017	31 Dec 2016
Other income		755	630
Depreciation expense		(27)	(31)
Personnel expenses		(134)	(324)
Exploration and evaluation costs expensed		(1,908)	(2,557)
Consultancy and advisor fees		(286)	(271)
Share based payment expense	5.1	(322)	(454)
Other expenses		(337)	(328)
Results from operating activities		(2,259)	(3,335)
Finance income		324	3,198
Finance costs		(4,738)	(1,735)
Net finance income / (costs)	2.2	(4,414)	1,463
Loss before income tax		(6,673)	(1,872)
Income tax benefit		-	-
Total comprehensive loss for the period		(6,673)	(1,872)
Earnings per share			
Basic and diluted loss per share (cents/share)		(0.67)	(0.22)

The condensed notes on pages 20 to 25 are an integral part of these condensed consolidated interim financial statements.

Poseidon Nickel Limited

Condensed consolidated interim statement of changes in equity

For the six months ended 31 December 2016

In thousands of AUD

	Share Capital	Share based payment reserve	Accumulated losses	Total equity
Balance at 1 July 2016	145,470	1,113	(135,793)	10,790
Loss	-	-	(1,872)	(1,872)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(1,872)	(1,872)

Transactions with owners recorded directly in equity

Contributions by and distributions to owners

Issue of share capital (net of costs)	2,474	-	-	2,474
Issue of options (net of costs)	-	39	-	39
Issue of performance rights	-	411	-	411
Performance rights exercised	39	(39)	-	-
Transfer to accumulated losses upon lapse of options	-	(1,010)	1,010	-
Total contributions by and distributions to owners	2,513	(599)	1,010	2,924
Balance at 31 December 2016	147,983	514	(136,655)	11,842

For the six months ended 31 December 2017

In thousands of AUD

	Share Capital	Share based payment reserve	Accumulated losses	Total equity
Balance at 1 July 2017	149,948	757	(134,662)	16,043
Loss	-	-	(6,673)	(6,673)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the period	-	-	(6,673)	(6,673)

Transactions with owners recorded directly in equity

Contributions by and distributions to owners

Issue of share capital (net of costs)	4,939	-	-	4,939
Issue of performance rights	-	318	-	318
Total contributions by and distributions to owners	4,939	318	-	5,257
Balance at 31 December 2017	154,887	1,075	(141,335)	14,627

The condensed notes on pages 20 to 25 are an integral part of these condensed consolidated interim financial statements.

Poseidon Nickel Limited
 Condensed consolidated interim statement of cash flows
 For the six months ended 31 December 2017

In thousands of AUD

	Note	31 Dec 2017	31 Dec 2016
Cash flows from operating activities			
Sundry receipts		761	188
Payments to suppliers and employees		(2,547)	(3,110)
Cash used in operations		(1,786)	(2,922)
Interest received		7	11
Net cash used in operating activities		(1,779)	(2,911)
Cash flows from investing activities			
Payments for property, plant and equipment		-	(53)
Proceeds from sale of property, plant and equipment		8	-
Proceeds from option fee to lease plant and equipment		-	500
Payments for exploration and evaluation expenditure		(401)	(278)
Net cash (used in) / received from investing activities		(393)	169
Cash flows from financing activities			
Proceeds from issue of shares and options (net of costs)		4,428	2,175
Proceeds from borrowings		138	122
Repayment of borrowings		(55)	(25)
Interest paid		(61)	(317)
Net cash received from financing activities		4,450	1,955
Net increase / (decrease) in cash and cash equivalents		2,278	(787)
Cash and cash equivalents at 1 July		1,620	3,030
Cash and cash equivalents at 31 December		3,898	2,243

The condensed notes on pages 20 to 25 are an integral part of these condensed consolidated interim financial statements.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 1 – Basis of Preparation

Poseidon Nickel Limited (“the Company”) is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2017 comprises the Company and its subsidiaries (together referred to as the “Group”).

The condensed consolidated interim financial report does not include all of the information required for a full annual financial report and should be read in conjunction with the consolidated annual financial report of the Group as at and for the year ended 30 June 2017.

The consolidated annual financial report of the Group as at and for the year ended 30 June 2017 is available upon request from the Company’s registered office at Unit 8, Churchill Court, 331-335 Hay Street, Subiaco WA 6000 or at www.poseidon-nickel.com.au.

1.1 Statement of compliance

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

This condensed consolidated interim financial report was approved by the Board of Directors on 8 March 2018.

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

1.2 Significant accounting policies

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company’s 2017 annual financial report for the financial year ended 30 June 2017. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

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

1.3 Going concern

The condensed consolidated interim financial report has been prepared on the going concern basis that contemplates the continuity of normal business activities and the realisation of assets and extinguishment of liabilities in the ordinary course of business. For the six months ended 31 December 2017 the Group incurred a loss of \$6,673,000 (2016: loss \$1,872,000) and had a net working capital deficit of \$287,000 (30 June 2017: deficit \$2,584,000). The working capital deficit includes a provision for environmental rehabilitation of \$3,500,000 that is cash backed (non-current asset).

The Group had a net cash outflow from operating activities of \$1,779,000 (2016: \$2,911,000) and a net cash outflow from investing activities of \$393,000 (2016: inflow \$169,000), with operating cash outflow reflecting the reduced level of expenditure during the period on exploration and evaluation and care and maintenance activities across the three operations of Windarra, Lake Johnston and Black Swan.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

1.3 Going concern (continued)

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

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

1.4 Estimates

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

In preparing this consolidated interim financial report, the significant judgements made by management in applying this Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2017.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 2 – Results for the Year

2.1 Operating segments

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

Information about reportable segments

In thousands of AUD

For the six months ended 31 December

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

Reconciliations of reportable segment profit / (loss) and assets

Loss

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

Assets

Total assets for reportable segments
 Other assets

Liabilities

Total liabilities for reportable segments
 Other liabilities

Nickel exploration and evaluation

	2017	2016
Reportable segment other income	736	625
Reportable segment exploration costs expensed	(1,909)	(2,557)
Reportable segment loss before income tax	(1,173)	(1,932)
Reportable segment assets	82,092	83,822
Reportable segment liabilities	46,735	48,535
Capital expenditure	-	52
Loss		
Total loss for reportable segments	(1,173)	(1,932)
Unallocated amounts: other corporate expenses	(1,086)	(1,403)
Net finance costs	(4,414)	1,463
Loss before income tax	(6,673)	(1,872)
Assets	31 Dec 2017	30 Jun 2017
Total assets for reportable segments	82,092	82,570
Other assets	4,598	2,191
	86,690	84,761
Liabilities		
Total liabilities for reportable segments	46,735	47,320
Other liabilities	25,328	21,398
	72,063	68,718

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

2.2 Net financing costs

Net financing costs can be analysed as follows:

In thousands of AUD

Interest income on bank deposits
 Net foreign exchange gain
 Change in fair value of convertible note derivative
 Finance income
 Interest expense – convertible note
 Interest expense - loan
 Net foreign exchange loss
 Other
 Change in fair value of convertible note derivative
 Finance costs
 Net finance (cost) / income

	31 Dec 2017	31 Dec 2016
Interest income on bank deposits	7	11
Net foreign exchange gain	317	-
Change in fair value of convertible note derivative	-	3,187
Finance income	324	3,198
Interest expense – convertible note	(983)	(1,006)
Interest expense - loan	(4)	-
Net foreign exchange loss	-	(716)
Other	-	(13)
Change in fair value of convertible note derivative	(3,751)	-
Finance costs	(4,738)	(1,735)
Net finance (cost) / income	(4,414)	1,463

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 3 – Assets and Liabilities Supporting Exploration and Evaluation

3.1 Exploration and evaluation expenditure

In thousands of AUD

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

Exploration and evaluation phase

Reconciliations: Exploration and evaluation phase

Carrying amount at beginning of period

Additions

Movements in provisions

	31 Dec 2017	30 Jun 2017
Exploration and evaluation phase	54,108	54,056
Reconciliations: Exploration and evaluation phase		
Carrying amount at beginning of period	54,056	54,670
Additions	399	412
Movements in provisions	(630)	(1,026)
	<u>53,825</u>	<u>54,056</u>

The ultimate recoupment of costs carried forward for exploration and evaluation is dependent on the successful development and commercial exploitation or sale of the respective areas of interest. Exploration expenditure of \$1,908,000 (2016: \$2,557,000) was expensed as incurred through the Income Statement for the period.

Plant and Equipment

Plant and equipment associated with the Lake Johnston and Black Swan nickel operations of \$22,983,000 (30 June 2017: \$22,983,000) remains on care and maintenance. Both projects remain in the exploration and evaluation phase and accordingly associated plant and equipment items are not installed and ready for use. No depreciation has been charged on these assets.

Poseidon Nickel Limited
Notes to the condensed consolidated interim financial statements

Section 4 – Equity and Funding

4.1 Capital and reserves

Share capital

<i>In thousands of shares</i>	Ordinary shares	
	31 Dec 2017	30 Jun 2017
Ordinary shares		
Fully paid	1,075,127	911,700
Total share capital on issue	1,075,127	911,700
Movements in ordinary shares on issue:		
On issue at 1 July	911,700	804,167
<i>Shares issued and expensed during the period:</i>		
Issued for cash ⁽ⁱ⁾	140,000	95,000
Issued for interest on convertible notes	23,427	11,184
Issued for chairman performance bonus	-	549
Issued for exercise of performance rights	-	800
On issue	1,075,127	911,700

- (i) During the reporting period, the Company issued 140,000,000 Ordinary Shares at an average \$0.032 per share to raise \$4,483,406. The capital raising incurred transaction costs of \$22,417.

4.2 Loans and borrowings – Convertible Note

Convertible note liability and derivative

<i>In thousands of AUD</i>	Convertible note liability	Convertible note derivative	Total
Balance at 30 June 2017	19,308	1,268	20,576
Fair value movements	-	3,751	3,751
Accrued interest capitalised	983	-	983
Payment of interest	(564)	-	(564)
Exchange rate effects	(297)	(19)	(316)
Balance at 31 December 2017	19,430	5,000	24,430

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

The value of the derivative fluctuates with the Company's underlying share price and the difference in the Company's share price between 30 June 2017 (share price \$0.019) and 31 December 2017 (share price \$0.049) is reflected in the fair value movement.

As the convertible note is denominated in United States dollars (USD), the change in the exchange rate with the Australian dollar (AUD) is also taken into account in deriving the fair value movement during the period. The USD:AUD exchange rate at 30 June 2017 was 0.7689:1 and at 31 December 2017, 0.7809:1.

Poseidon Nickel Limited

Notes to the condensed consolidated interim financial statements

Section 5 – Other Disclosures

5.1 Share-based payments arrangements

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

<i>In thousands of AUD</i>	31 Dec 2017	31 Dec 2016
Share options expense	-	40
Shares granted expense	-	25
Performance rights expense	322	389
Total expenses recognised as employee costs	322	454

Share Options

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

Performance Rights

Performance conditions associated with the short term and long term incentive rights are consistent with those disclosed in the 30 June 2017 financial statements (refer note 6.1).

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

Grant date / employees entitled	Number of Instruments	Vesting conditions	Fair value of grants
Performance rights granted to non-executive directors for director fees	4,524,183	The performance rights vest immediately upon grant	\$0.0268 - \$0.0425
Performance rights granted to the non-executive Chairman for additional CEO duties	3,716,606	The performance rights vest immediately upon grant	\$0.0236 - \$0.0476
Total Performance Rights	8,240,789		

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

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

With effect from 1 July 2017, the Company suspended the Short and Long Term Incentive Plans under which bonuses could be paid in shares to certain employees upon the attainment of certain goals. The Long Term Incentive Plan continues for four employees with respect to goals set in 2016/2017 and earlier.

5.2 Subsequent events

There has not arisen in the interval between the end of the reporting period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Poseidon Nickel Limited Directors' declaration

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

1. the financial statements and notes set out on pages 16 to 25 are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the six month period ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Mr G F Brayshaw, FCA
Director

Perth
8 March 2018

Independent Auditor's Review Report

To the members of Poseidon Nickel Limited

Report on the Interim Financial Report

Conclusion

We have reviewed the accompanying **Interim Financial Report** of Poseidon Nickel Limited.

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

- giving a true and fair view of the **Group's** financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Interim Financial Report** comprises:

- Condensed consolidated statement of financial position as at 31 December 2017
- Condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date
- Notes 1 to 5.2 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The **Group** comprises Poseidon Nickel Limited (the Company) and the entities it controlled at the half-year's end or from time to time during the half-year.

Material uncertainty related to going concern – emphasis of matter

We draw attention to Note 1.3, "Going Concern" in the Interim Financial Report. The conditions disclosed in Note 1.3, indicate a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the Interim Financial Report. Our conclusion is not modified in respect of this matter.



Responsibilities of the Directors for the Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*.
- for such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Poseidon Nickel Limited, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

Trevor Hart
Partner

Perth

8 March 2018

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