

## QUARTERLY REPORT

30 SEPTEMBER 2012

### COMPANY OVERVIEW

Poseidon Nickel is developing the first new Nickel Project in Western Australia for many years. The Windarra Project is a higher grade nickel sulphide deposit that has demonstrated high recovery levels through a standard nickel floatation concentrator.

The total current Mineral Resource is located at two positions approximately 10kms apart and includes the existing brownfields mine at Mt Windarra and a new discovery at Cerberus.

Poseidon will have completed its Definitive Feasibility Study (DFS) during 2012 and is targeting initial concentrate production in 2014. The concentrator plant to be constructed at Mt Windarra is expected to have a nameplate capacity of 700,000 tonnes of ore per annum.

ASX CODE: POS

\*see attached resource statement



**COMPANY HIGHLIGHTS**

- Updated DFS will be complete in early November 2012
- Drilling from underground commencing November 2012 at Mt Windarra to extend resource and reserve base
- Initial reserve report for Cerberus along with mine plan detail announced
- Exploration drilling underway at Denny Bore and Ziggy Flats appears to have intersected a lava channel hosting nickel sulphide

- The primary objective for 2012 is to bring the Windarra Nickel Project to a Definitive Feasibility Stage prior to obtaining final financing for operations. In November 2012, Poseidon will complete the final review of the Definitive Feasibility Study (“DFS”) and will submit it to the Independent Technical Experts (“ITE”) who will provide a final report to be used for project financing. This key short term milestones planned are:

1. Initiate additional resource drilling at Mt Windarra to delineate a mining reserve.

Poseidon has recently accelerated the decline refurbishment programme and expects to reach the required drilling position in November. Drilling will start immediately thereafter using the Swedish designed Wassara system which has the potential of increasing overall underground drill rates by 3 to 4 times the speed compared to conventional systems with commensurate cost advantages.

2. Completing the next phase of further regional exploration to search for potential new ore bodies along the Windarra ultramafic.

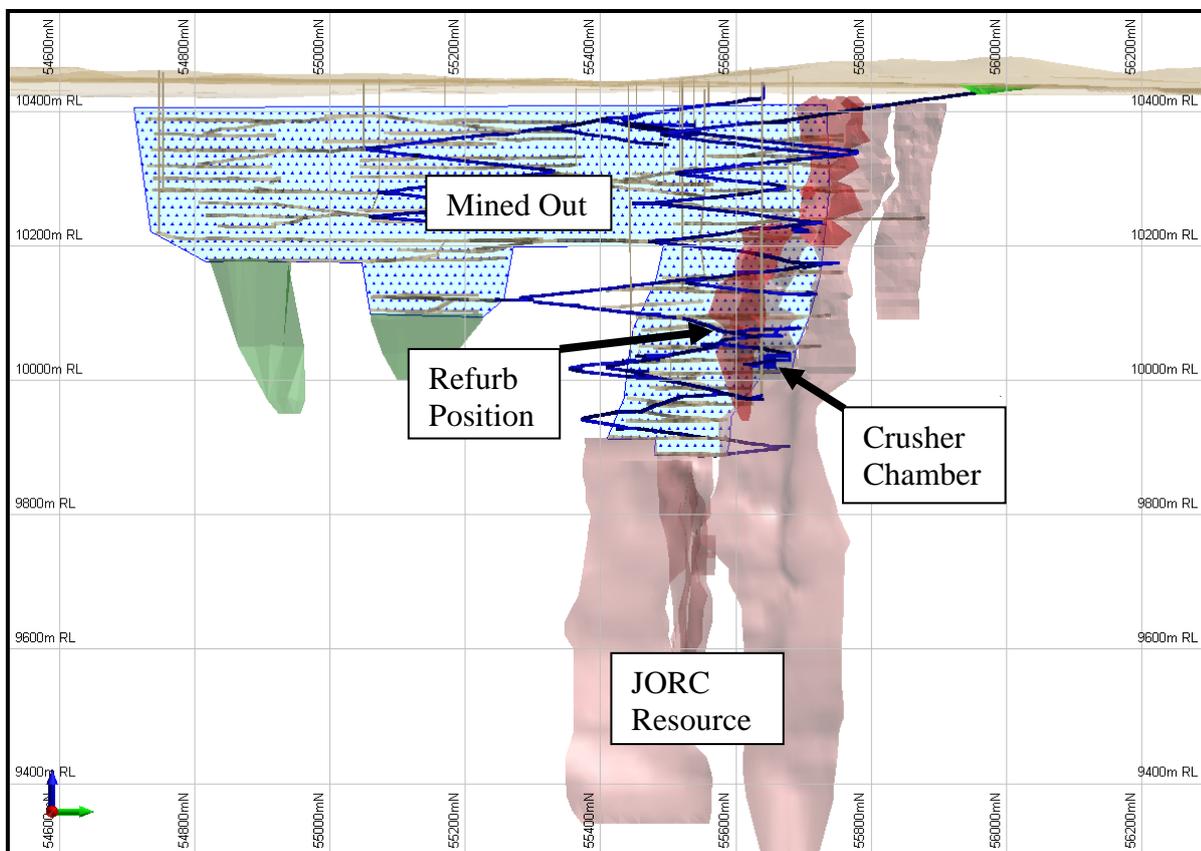
In 2008 Poseidon discovered the Cerberus ore body 10kms south of Mt Windarra which eventually led to the decision to double the plant throughput production capacity. Follow up geochemical and geophysical work identified several other zones on the tenements considered prospective and which now make a concerted drill programme necessary. Poseidon has undertaken further drilling in the Denny Bore area to follow up previous promising initial drill intersections and is awaiting the results.

3. Risk reduction activities for project construction which includes tendering major areas of surface and subsurface infrastructure and, where appropriate, negotiating contracts.
4. Completion of the updated project Definitive Feasibility Study.

Poseidon believes that the approach outlined above is making the best use of the additional funding raised through the Rights Issue earlier in the year with the time afforded by the market financing situation and could lead to significant enhancements to the Project.

## OPERATIONS

- Mine decline refurbishment has progressed to a vertical depth of 330 metres below the surface, some 3.3 km from the mine portal. Two original 300 metre deep mine services holes have been recovered and will be reused for high Voltage reticulation and a mine water main. Infrastructure design and planning has been completed to facilitate the planned diamond drilling from the crusher feed level at 10,067 RL.
- The current rate of decline refurbishment indicates the objective to reach the drill site above the crusher chamber will be achieved as planned early in November 2012.



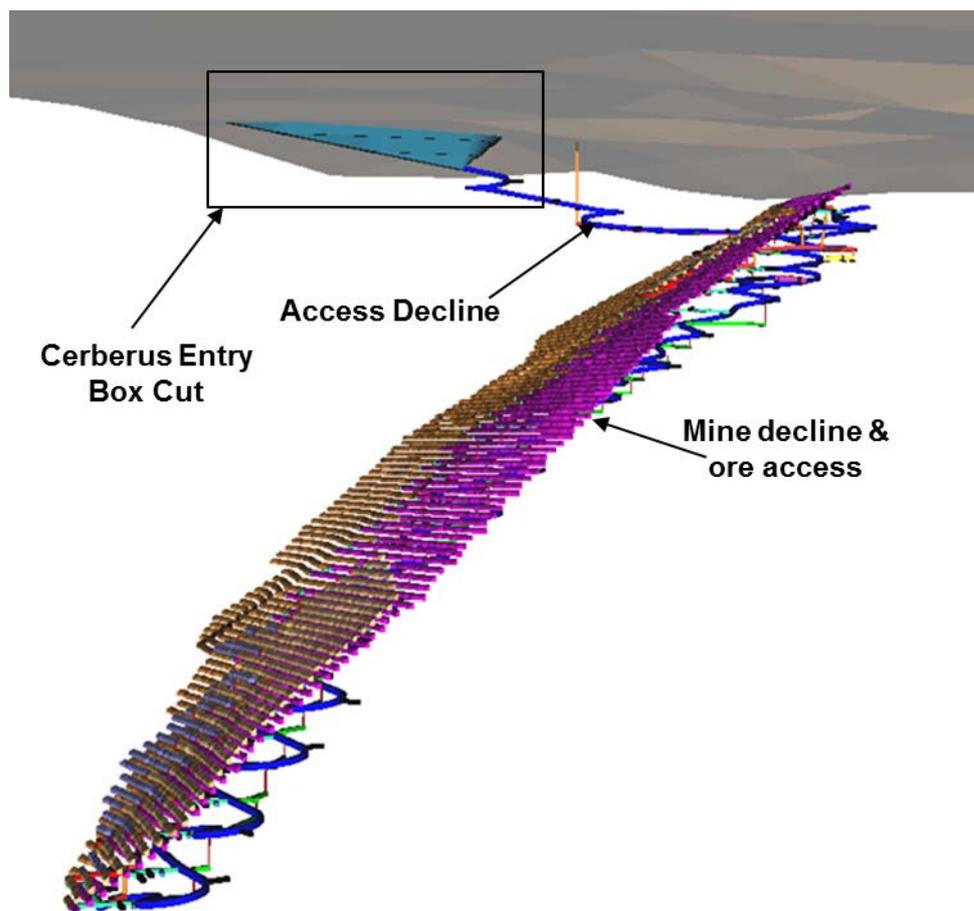
**Figure 1:** Mt Windarra underground mine showing position of decline that has been fully refurbished and the position of the crusher chamber target. The drilling platform will be established just above the crusher chamber with drilling anticipated to commence during November.

## EXPLORATION

- The Company announced that as a result of the Windarra Nickel Projects Definitive Feasibility Study, an initial ore reserve has been assessed at the Company's planned Cerberus underground mine. The upper portion of the Cerberus deposit, which is included in the life of mine plan, has been classified as a **Probable Ore Reserve** under the JORC code guidelines comprising:

**1,221,000 ore tonnes at an average diluted grade of 1.30% nickel for 15,880 contained nickel metal tonnes.**

- The initial ore reserve extends from 60 meters below the surface to a depth of 380 metres below the surface. The conversion of the resource to ore reserve only includes the upper portion of the deposit that has been drilled to JORC Indicated Resource level. The Cerberus deposit contains a total resource (Indicated and Inferred) of **4,551,000t at an average grade of 1.51% for 68,600t of nickel metal**. The remaining deposit that is classified as Inferred Resource, lies below the ore reserve and requires additional infill drilling to convert it to an Indicated level then it will be eligible for reserve estimation.
- A total of 46% of the Indicated Resource was converted to Probable Reserves. The near surface-low grade halo at the southern end of the deposit and the thinner high-grade hanging-wall lodes were excluded from the reserve but may be included as nickel prices improve in the future. Poseidon is expecting a higher resource to reserve conversion for the remaining Inferred Resources which are situated below the defined reserves. The deeper Inferred Resources comprises higher total ore grades that are increasing with depth within the Cerberus ore body, replicating the grade distribution that is also seen at the Mt Windarra ore body. Cerberus has only been drilled to a depth of 700m below surface to date and is open at depth. Poseidon believes that the Cerberus ore body will continue to grow in width and depth with additional drilling.
- Poseidon's mining consultants have assessed that the total mining cost equates to AU\$75.92 ore/tonne excluding capital or approximately US\$2.57/lb cash cost (excluding processing costs). The recommended mining methodology for Cerberus is longitudinal sub-level caving which accounts for the relatively low mining cost. The mining method is similar to open stoping except that once extracted, the hanging wall is allowed to cave as stopes are retreated back to the access. Access to the ore body will be via a decline.
- Cerberus will be mined in conjunction with Mt Windarra, with a total output from both mines, in excess of 700,000 tonnes per annum. Ore will be processed through a new build concentrator at Mt Windarra. Poseidon has previously announced that the Cerberus ore body, which was discovered in 2008, has good flotation characteristics, with a recovery of circa 83% producing a low impurity nickel concentrate with an average grade of 16% (excluding Mt Windarra ore).



**Figure 2:** Graphic of mine plan for the Cerberus ore body developed by Poseidon's independent mining consultants

- In addition, drilling commenced during the quarter at the Denny Bore Project which hosts the 68,600t Cerberus Nickel Deposit. Topdrive Drilling were contracted to complete ~4,000m of drilling at Denny Bore North and at Ziggy Flats to the south, utilising a UDR650 multi-purpose rig (RC & DD capability). During the quarter 8 RC/Diamond core holes and 6 RC precollars were completed for 2,996m.
- The program comprised drilling RC drill precollars and completing the holes with diamond core tails to test an area 1km long north of Cerberus, to a depth of 450m below surface. Mt Windarra mineralisation comprises of 8 parallel ore bodies, so it's anticipated that parallel mineralisation may exist near Cerberus.
- Assays are awaiting for several holes however, results received to date include:
  - 0.97m @ 1.02% Ni from 105.75m in PNRCD0192 at Denny Bore North
  - 1.75m @ 0.76% Ni from 176.00m in PNRCD0184 at Denny Bore North
  - 0.70m @ 0.55% Ni from 271.00m in PNRCD0195A at Ziggy Flats
- The rock types observed in the drill core and the anomalous intersections returned to date indicate that a lava channel system is beginning to develop to the north. The northern most drill holes of this program appear to have intersected the edge of the lava channel which is

interpreted to thicken to the north and results to date indicate that it hosts traces of nickel sulphides and may contain thicker accumulations towards the centre and base of the channel warranting further drill testing.

- Down Hole Electro-Magnetics (DHEM) crew have arrived on site and are currently surveying the completed drill holes testing for nickel sulphide mineralisation away from the drill holes, which reduces the amount of drilling required to test this area and increase the likelihood of discovering blind or deeper mineralisation away from the drill holes.

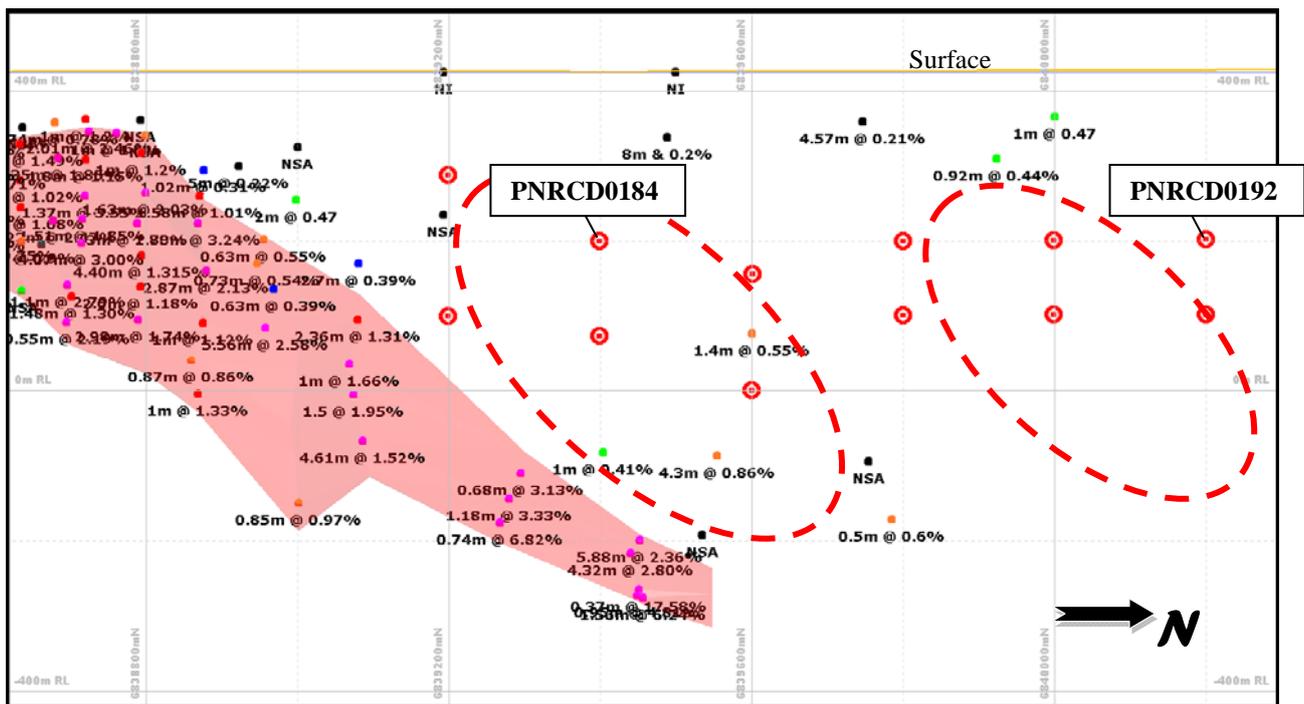


Figure 3: Denny Bore Project drill targets are located to the north of Cerberus and are supported by earlier anomalous drill intersections. DHEM will be used to ensure the area is fully tested for nickel mineralisation potential.

**RESERVE STATEMENT**

Cerberus Nickel Project	Reserve Category - Nickel Sulphides		
	Probable		
	Tonnes	Ni% Grade	Ni Metal t
Total Sulphide	1,221,000	1.30	15,880

RESOURCE STATEMENT

Windarra Nickel Project Sulphides	Cut Off Grade	Resource Category - Nickel Sulphides								
		Indicated			Inferred			TOTAL		
		Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Mt Windarra	0.75%	974,000	1.25	12,400	2,977,000	1.88	55,900	3,951,000	1.73	68,300
South Windarra	0.80%	772,00	0.98	7,500	-	-	-	772,00	0.98	7,500
Cerberus	0.75%	2,773,000	1.25	34,600	1,778,000	1.91	34,000	4,551,000	1.51	68,600
<b>Total Sulphide</b>		<b>4,519,000</b>	<b>1.21</b>	<b>54,500</b>	<b>4,755,000</b>	<b>1.89</b>	<b>89,900</b>	<b>9,274,000</b>	<b>1.56</b>	<b>144,400</b>

Windarra Gold Tailings Project	Resource Category - Gold Tailings		
	Indicated		
	Tonnes	Grade (g/t)	Au (oz)
<b>Total Gold Tailings</b>	<b>10,993,000</b>	<b>0.52</b>	<b>182,500</b>

Windarra Nickel Tailings & Oxide Project	Cut Off Grade	Resource Category – Nickel Oxide & Tailings								
		Indicated			Inferred			TOTAL		
		Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Woodline Well	0.50%	-	-	-	344,000	1.25	4,300	344,000	1.25	4,300
Sth Windarra Dumps	0.00%	2,976,000	0.41	12,200	-	-	-	2,976,000	0.41	12,200
Central Tailings Dam	0.00%	9,602,000	0.34	32,600	-	-	-	9,602,000	0.34	32,600
<b>Total Oxide</b>		<b>12,578,000</b>	<b>0.36</b>	<b>44,800</b>	<b>344,000</b>	<b>1.25</b>	<b>4,300</b>	<b>12,922,000</b>	<b>0.38</b>	<b>49,100</b>

Note: The information in this report relates to Exploration Results, Mineral Resources and Ore Reserves based on information compiled by Mr N Hutchison, General Manager of Geology at Poseidon Nickel, who is a Member of The Australian Institute of Geoscientists, Mr I Glacken who is a Fellow of the Australasian Institute of Mining and Metallurgy as well as a full time employee of Optiro Pty Ltd and Mr D Grubic, Technical Services Manager at Rock Team Pty Ltd. Mr Hutchison and Mr Glacken 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 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.'

Mr Grubic is a full time employee of Rock Team Pty Ltd and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which is undertaking to qualify as a Competent Person as defined in the 2004 edition of the "Australasian Code for Reporting Ore Reserves."

Mr Hutchison, Mr Glacken and Mr Grubic have consented to the inclusion in the report of the matters based on his information in the form and context in which it appears.

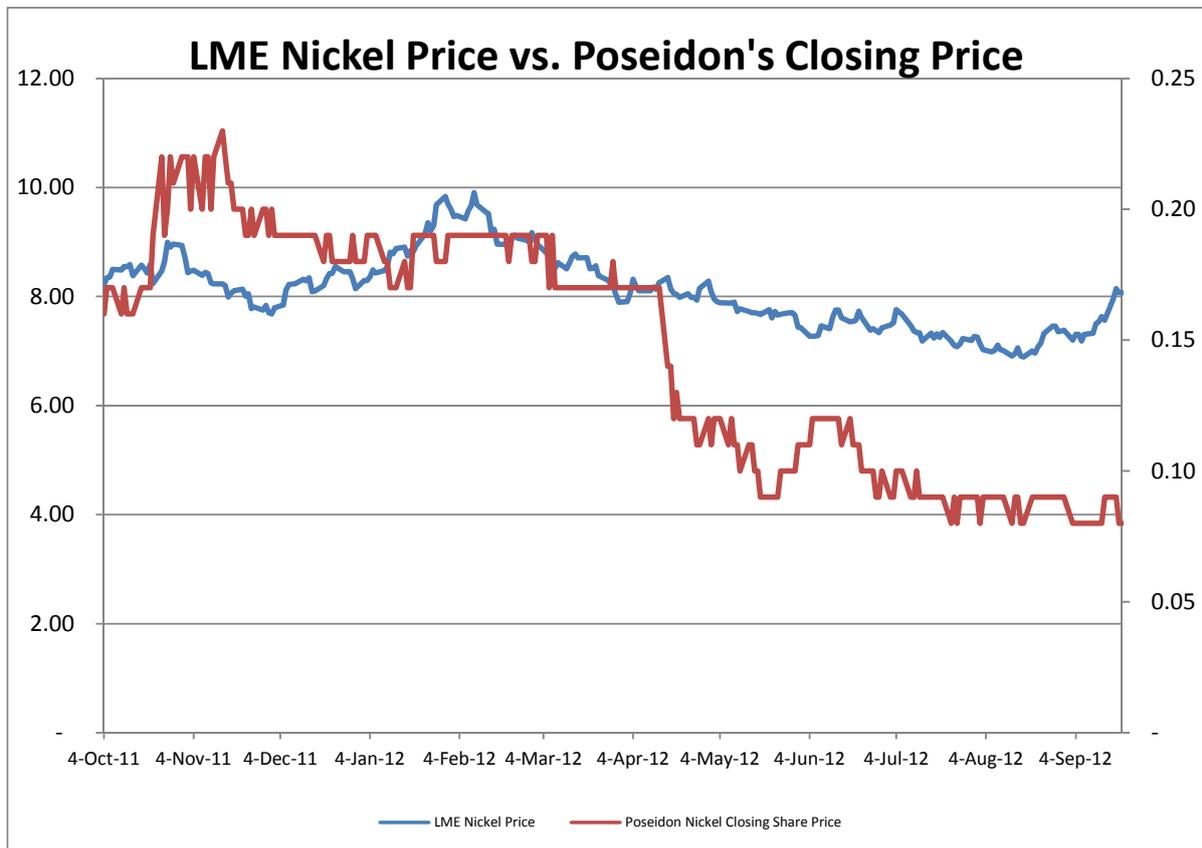
The Australian Securities Exchange has not reviewed and does not accept responsibility for the accuracy or adequacy of this release.

**FINANCIAL**

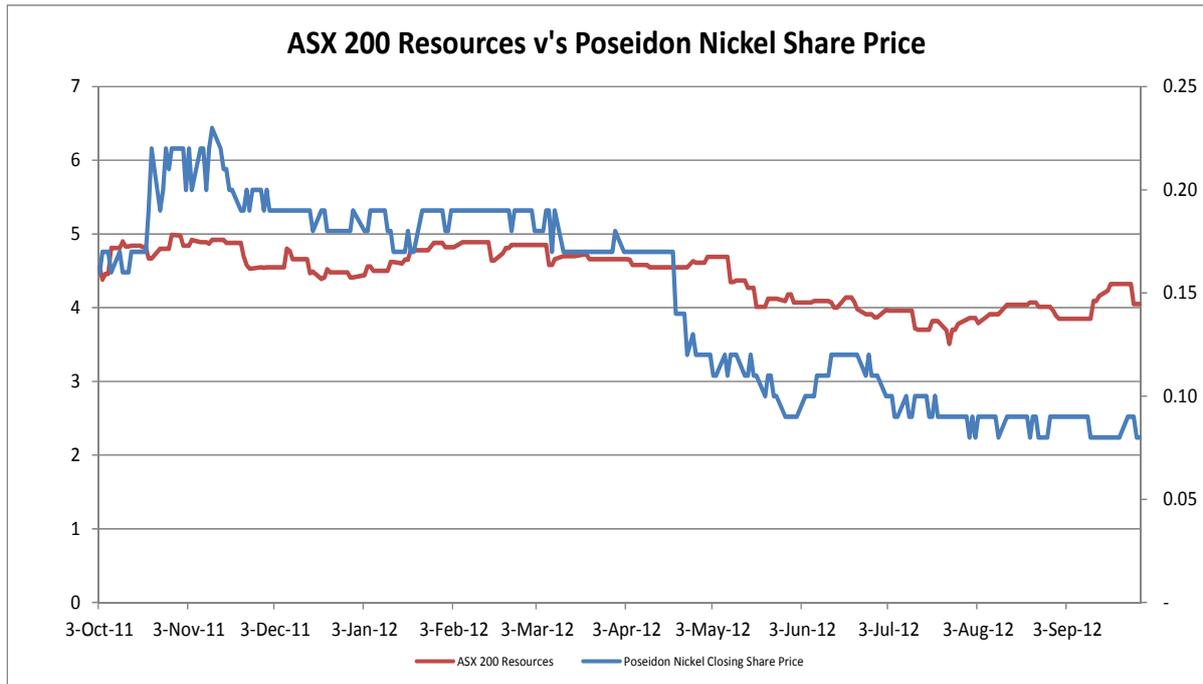
- As at 30 September 2012, the Company had cash on hand of \$17.7 million which includes the release from escrow of \$0.75m plus accrued interest following the completion of the sale of the Ghana gold project to Hodges Resources Limited (“Hodges”). In addition to the sale proceeds, Hodges has allotted 1,250,000 ordinary shares to the Company as per the terms of the sale agreement.
- The Company had also sold 5,806,705 shares in Triton Gold Limited by the end of the quarter realising sales proceeds of \$0.56 million. Since the end of the period, the remaining 3,308,679 shares have now been sold realising a further \$0.32 million.

**MARKET INFORMATION**

- Figure 4 and 5 below shows the underlying correlation between Poseidon’s share price and the LME Nickel price and the correlation to the ASX 200 Resources index over the last 12 months.



**Figure 4:** Poseidon share price graph compared to LME Nickel price



**Figure 5:** Poseidon share price graph compared to ASX 200 Resources index

## CORPORATE

- In line with Poseidon's policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 598,357 Fully Paid Ordinary Shares were issued in lieu of Directors fees for the quarter to June under the terms of the Director Share Plan. The shares were issued on 23 July 2012 at a deemed issue price of \$0.1091, based upon the volume weighted average sale price ("VWAP") for the 91 days prior to the expiration of the quarter. The payment of shares as opposed to cash is intended to reduce the cash cost to the Company.
- On 31 July, 2,500,000 Unlisted Options previously issued to Mr Richard Monti and on 19 September 2012, 115,000,000 Unlisted Options previously issued to Mr Andrew Forrest lapsed and were cancelled accordingly.
- On 31 August 2012, 9,267,436 Unlisted Options issued as part of a capital raising in August 2010, lapsed and were cancelled accordingly.

**David P.A. Singleton**  
Managing Director & CEO

31 October 2012

Enc

**CORPORATE DIRECTORY****Director / Senior Management**

David Singleton	Managing Director & Chief Executive Officer
Andrew Forrest	Non-Executive Chairman
Geoff Brayshaw	Non-Executive Director
Richard Monti	Non-Executive Director
Chris Indermaur	Non-Executive Director
Ross Kestel	Company Secretary

**Corporate Enquiries**

Mr David Singleton – MD & CEO  
P: 61 8 9382 8799  
F: 61 8 9382 4760

E: admin@poseidon-nickel.com.au

**Shareholder Enquiries**

Enquiries concerning shareholdings should be addressed to:

Computershare Investor Securities  
GPO Box D182, Perth WA 6840  
P: 61 8 9323 2000

**Principal Office**

Unit 8, Churchill Court  
331-335 Hay Street  
SUBIACO WA 6008  
P: 61 8 9382 8799  
F: 61 8 9382 4760

**Registered Office**

Level 2, Spectrum  
100 Railway Road  
SUBIACO WA 6008  
P: 61 8 9367 8133  
F: 61 8 9367 8812

**Media Enquiries**

Mr Cameron Morse  
FTI Consulting  
P: 61 8 9458 8888 M: 0433 886 871  
E: Cameron.Morse@fticonsulting.com

**Home Exchange**

The Company's shares are listed  
on the Australian Securities Exchange  
and the home exchange is Perth  
ASX code: POS

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/2010.

Name of entity

**Poseidon Nickel Limited**

ABN

**60 060 525 206**

Quarter ended ("current quarter")

**30 September 2012**

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(2,840)	(2,840)
(b) development	-	-
(c) production	-	-
(d) administration	(780)	(780)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	207	207
1.5 Interest and other costs of finance paid	(444)	(444)
1.6 Income taxes paid	-	-
1.7 Other - sundry income	25	25
<b>Net Operating Cash Flows</b>	<b>(3,832)</b>	<b>(3,832)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(211)	(211)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	1,319	1,319
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other – costs re sale of equity investments	(56)	(56)
<b>Net investing cash flows</b>	<b>1,052</b>	<b>1,052</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(2,780)</b>	<b>(2,780)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(2,780)	(2,780)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – borrowing costs paid	(120)	(120)
	<b>Net financing cash flows</b>	<b>(2,900)</b>	<b>(2,900)</b>
	<b>Net increase (decrease) in cash held</b>	<b>(2,900)</b>	<b>(2,900)</b>
1.20	Cash at beginning of quarter/year to date	20,582	20,582
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>17,682</b>	<b>17,682</b>

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

	Current quarter \$A'000	
1.23	Aggregate amount of payments to the parties included in item 1.2	127
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

On 23 July 2012, 598,357 ordinary shares were issued at a price of \$0.10906231 per share as approved by the Shareholders at the November 2011 Annual General Meeting. The shares were issued to the Non-Executive Directors in lieu of Directors Fees for the June 2012 quarter. This has not been included in the above cash flow.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

+ See chapter 19 for defined terms.

### Financing facilities available

*Add notes as necessary for an understanding of the position.*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	43,103	43,103
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	3,500
4.2 Development	-
4.3 Production	-
4.4 Administration	800
<b>Total</b>	<b>4,300</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	17,676	20,576
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other – Term Deposits	6	6
<b>Total: cash at end of quarter (item 1.22)</b>	<b>17,682</b>	<b>20,582</b>

### Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	N/A		
6.2	Interests in mining tenements acquired or increased	N/A		

+ See chapter 19 for defined terms.

### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b>			
	<i>(description)</i>			
7.2	Changes during quarter			
	(a) Increases through issues			
	(b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>*Ordinary securities</b>	407,662,717	407,662,717	
7.4	Changes during quarter			
	(a) Increases through issues	598,357	598,357	
	(b) Decreases through returns of capital, buy-backs			
7.5	<b>*Convertible debt securities</b>	36,531,904	\$0.40	The Notes have a March 2011 six year term convertible into fully paid ordinary shares.
	<i>Unsecured</i>	This is an estimate only based on an average exchange rate of 1.0265.		
		64,945,608	\$0.30	The Notes have a March 2011 six year term convertible into fully paid ordinary shares.
		This is an estimate only based on an average exchange rate of 1.0265.		
7.6	Changes during quarter			
	(a) Increases through issues			
	(b) Decreases through securities matured, converted			
7.7	<b>Options</b>		<i>Exercise price</i>	<i>Expiry date</i>
	<i>Unlisted</i>	533,000	\$1.38	22 October 2012
	<i>Unlisted</i>	2,000,000	\$0.80	19 December 2012
	<i>Unlisted</i>	2,975,000	\$0.22	31 August 2016
	<i>Unlisted</i>	4,500,000	\$0.22	23 November 2016
7.8	Issued during quarter			
7.9	Exercised during quarter			
7.10	Expired during quarter	2,500,000	\$0.40	31 July 2012
		9,267,436	\$0.22	31 August 2012
		115,000,000	\$0.40	19 September 2012

+ See chapter 19 for defined terms.

7.11	Debtures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:   
(Director)

Date: 31 October 2012

Print name: Geoff Brayshaw

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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