

QUARTERLY REPORT

31 DECEMBER 2008

COMPANY OVERVIEW

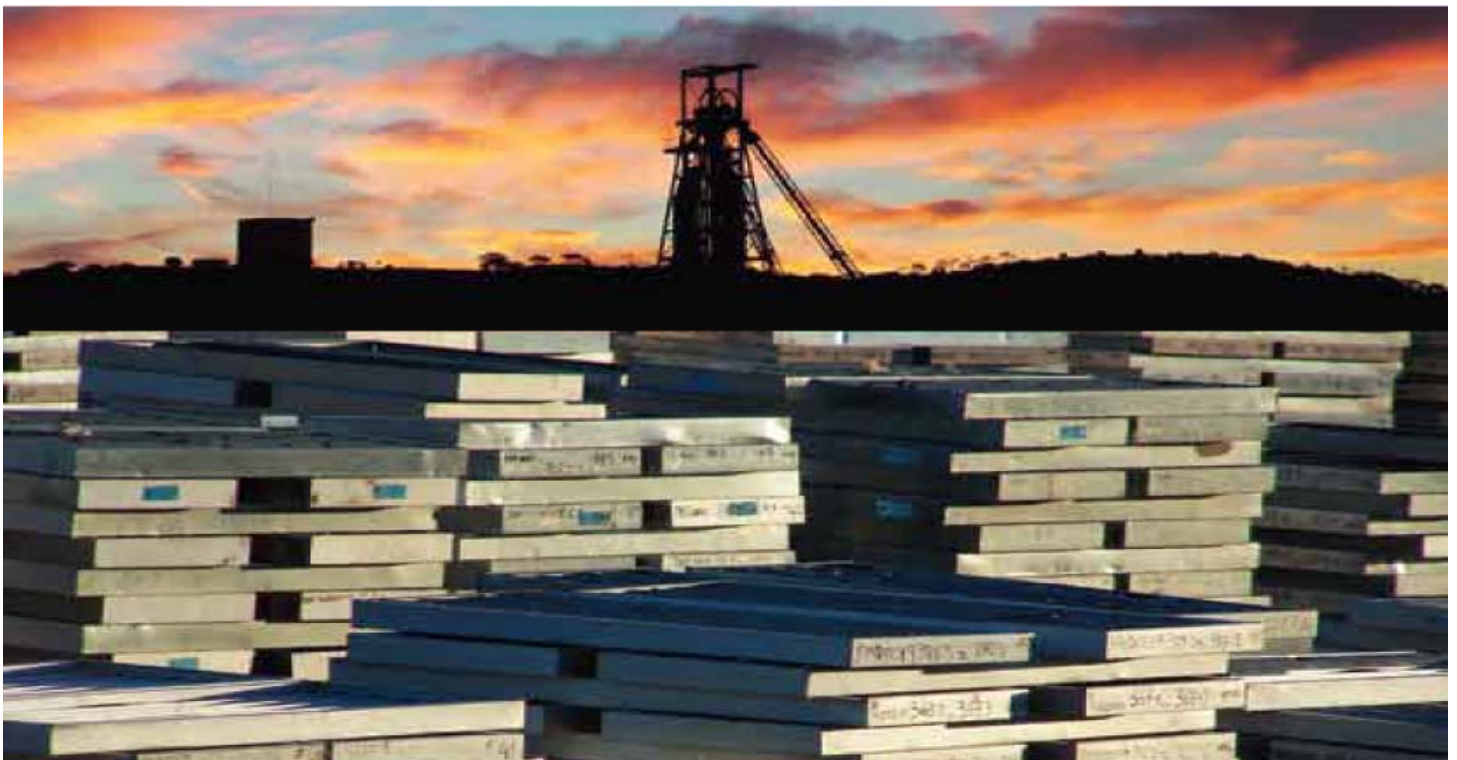
Poseidon is a Nickel exploration and development company focused on the historic Windarra Nickel Project in the N.E. Goldfields.

The Windarra Nickel Project consists of an existing open pit and underground mine at South Windarra and Mount Windarra respectively as well as 24 kilometres of highly prospective and under-explored host mineralisation.

In the last year, Poseidon has defined 88,369 tonnes of JORC code compliant nickel resources at the Windarra Nickel Project. This comprises of 63,100 tonnes of nickel at Mt Windarra, adjacent and below the existing underground infrastructure representing a low cost entry to the market; as well as a maiden 25,269 tonne nickel resource at the Cerberus deposit.

ASX CODE: POS

*see attached resource statement



COMPANY HIGHLIGHTS

- Entered into an exclusive negotiation which may lead to the acquisition of a significant project in Western Australia
- 40% increase in the Company's resource base at average grade of 2.45%
- Company continuing to take action to preserve cash in the current highly volatile market
- Company held its Annual General Meeting on 27 November 2008

SIGNIFICANT EVENTS

- Poseidon has entered into a period of exclusivity which may lead to the acquisition of a significant project in Western Australia. At this stage the principal terms of an acquisition have been tabled by the parties but negotiations are ongoing and incomplete.

EXPLORATION UPDATE

- The first JORC compliant resource has been released for the Denny Bore Project and has been named the "Cerberus Deposit". This increases the Company's resource base by 40% at an average grade of 2.45%. An Inferred Resource has been calculated for Cerberus and is detailed below:

1,033,328t @ 2.45% Ni for 25,269 tonnes of nickel metal (TNM) at a 1.5% Ni cut-off grade (COG)

Cerberus Deposit	Cut Off Grade	Tonnes	Ni% Grade	Ni Metal t	Resource Category
Main Zone	1.50%	1,023,615	2.45	25,064	Inferred
Hangingwall Zone	1.50%	9,714	2.08	202	Inferred
Total Inferred	at 1.5% COG	1,033,328	2.45	25,269	Inferred

The following parameters were used in the Inferred Sulphide Resource calculations:

Cut-off grade of 1.5% Ni using IDW² block modelling.

- This initial resource announcement is the result of Poseidon completing a campaign of RC and DD drilling at Denny Bore during the 4th quarter of 2008, which included 7 diamond drill holes (including 2 tails) for 2211.8m, and 15 RC holes for 2783m, for a total of 4994.8m. Drilling was completed on an average 200m x 200m grid spacing, and delineated continuous mineralisation over an area of >1km along strike, >500m in width, and between 1m (diluted) to 4.6m in thickness.
- The nickel sulphide mineralisation at Cerberus is interpreted to still be open down dip (to the east) and down plunge (to the northeast). In addition the Cerberus Deposit requires infill drilling around the higher grade zones to better define mineralisation. Poseidon is confident of further resource increases as drilling continues to test the extent of the Cerberus mineralisation down dip and down plunge.

- The Cerberus Deposit consists of 3 types of nickel sulphide mineralisation.
 - **The Main Zone:** Generally consists of massive to stringer nickel sulphides (\pm some disseminated) and occurs towards the base of the komatiite lava channel within the Windarra Ultramafic unit. The sulphides characteristically have an element of sulphide remobilisation and high grading due to structural overprinting.
 - **The Hangingwall Zone:** Occurs as disseminated sulphides and sits around 2-6m above the Main Zone within the lava channel. It is poddier and lower grade than the Main Zone.
 - **Remobilised Footwall:** Consists of structurally remobilised and high graded nickel sulphides which have squirted off into the footwall. These have not been modelled as they are erratic and cannot be tied together in the current wide spaced drilling. These may provide additional localised high grade nickel sulphide pods as drill density is increased. Typically drill intersect grades in this zone are between 3.5% and 7% nickel.

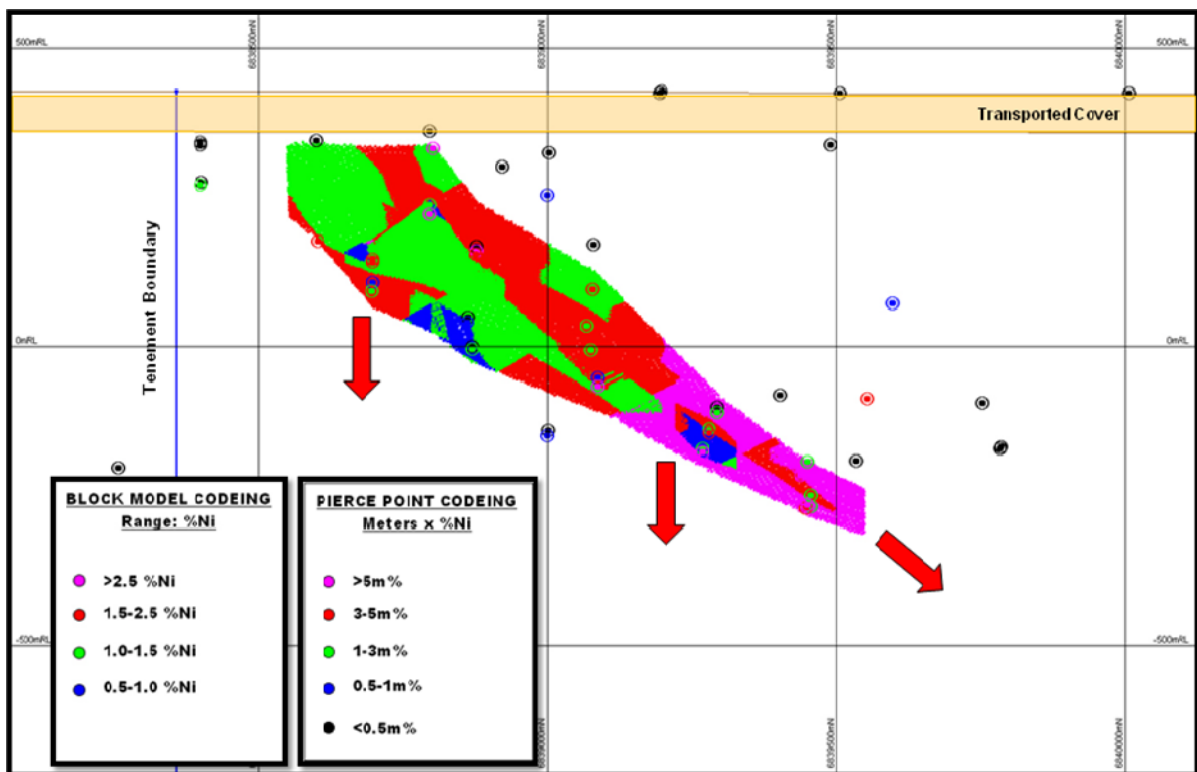


Figure 1: Long Section showing the Cerberus Deposit block model and the drill hole pierce points. The mineralisation is open down dip and down plunge, and requires additional drilling.

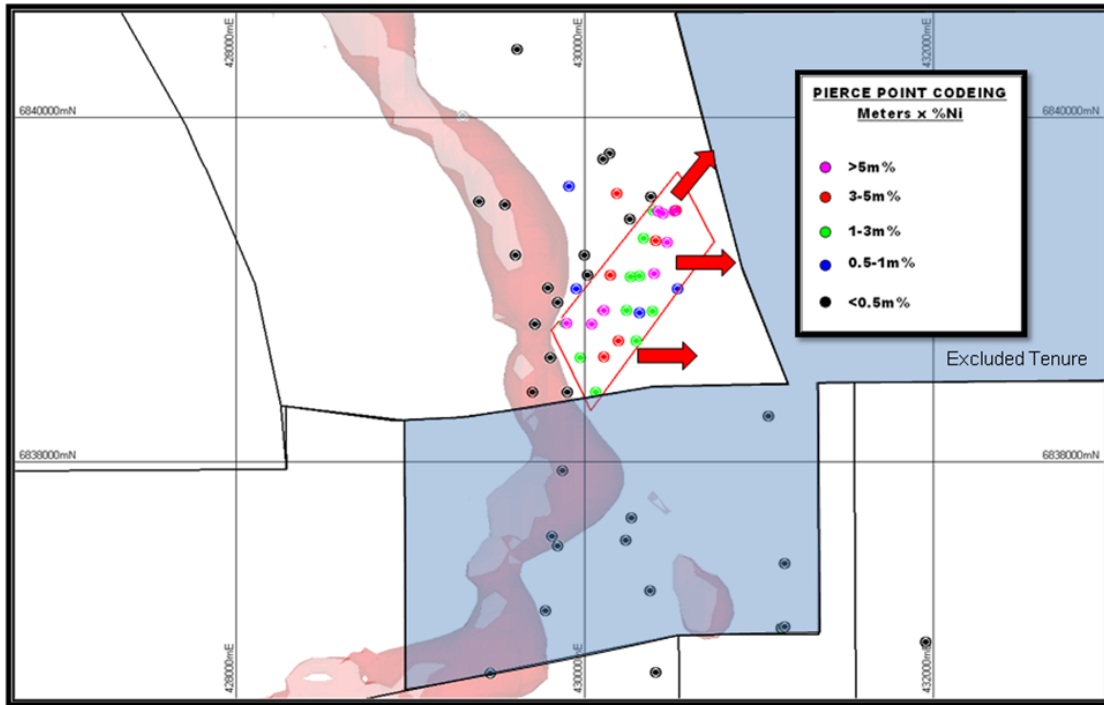


Figure 2: Plan view showing the interpretation of the nickeliferous lava channel at Cerberus.

- The JORC resource for Mt Windarra has been upgraded to 63,100 tonnes of Ni metal as a result of the completion of additional drilling, historic drill hole and database validation, as well as reinterpretation and remodelling of the resource. The Mt Windarra deposit now comprises of 3,988,005 tonnes of ore at a grade of 1.58% Ni.

WINDARRA NICKEL PROJECT RESOURCE STATEMENT

Windarra Nickel Project Sulphides	Tonnes	Ni% Grade	Ni Metal t	Resource Category
Mt Windarra	1,159,509	1.15	13,389	Indicated
Mt Windarra Deeps	2,828,496	1.76	49,711	Inferred
Cerberus	1,033,328	2.45	25,269	Inferred
Total Sulphide	5,021,333	1.76	88,369	All Categories

Note: The information in this report relates to Exploration Results and Mineral Resources based on information compiled by Mr N Hutchison who is a Member of The Australian Institute of Geoscientists. Mr Hutchison has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is 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.' He has 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 Stock Exchange has not received and does not accept responsibility for the accuracy or adequacy of this release.

Hole Id		m From	m To	Length	%Ni	Comment
PND0040		506.85	511.46	4.61	1.52	
PND0041		482	483.5	1.5	1.95	
PND0042A		474.5	475.5	1	1.66	
PND0044		368.45	369.45	1	1.44	Diluted Grade
	<i>incl</i>	368.9	369.45	0.55	2.19	
PND0045		377.85	381	3.15	1.02	
		384	385.1	1.1	2.79	
PND0046		453	454.11	1.11	1.33	
PND0047		334.52	336.45	1.93	1.13	
		344.1	345	0.9	1.12	
PND0048		336.95	339	2.05	1.37	
PND0050		334	336.87	2.87	2.13	
		343.54	344.54	1	3.29	Diluted Grade
	<i>incl</i>	343.89	344.1	0.21	12	
PNRC0079		125	126	1	1.21	
PNRC0082		214	216	2	1.13	
	<i>incl</i>	215	216	1	1.43	
		228	234	6	1.23	
	<i>incl</i>	232	234	2	2.18	
PNRC0085		144	145	1	1.03	
PNRCD0075		248.2	249.2	1	1	
		284	284.95	0.95	1.39	Diluted Grade
	<i>incl</i>	284.8	284.95	0.15	7.01	

Table 1: Drill hole intersections from latest round of drilling with actual intersections and diluted intersection calculated to 1m width.

OPERATIONS

- Mine dewatering continued during the second quarter with the water level being lowered to the maximum depth of the current pump at 168 metres. An inspection of the decline to this water level has shown the decline to be in good condition and similar to that experienced to date.

FINANCIAL

- The Company is focusing on optimising its cash reserves during the current period of global uncertainty whilst continuing to progress the various development studies for the Windarra Nickel Project.

- The Company has cash on hand totalling approximately \$6 million as at 31 December 2008. Expenditure during the March quarter is expected to be significantly reduced compared to the December quarter as the Company sees the full effect of the cash preservation measures that have been put in place.

MARKET INFORMATION

- Figure 3 below shows the underlying correlation between Poseidon's share price and the LME Nickel price over the last 12 months.

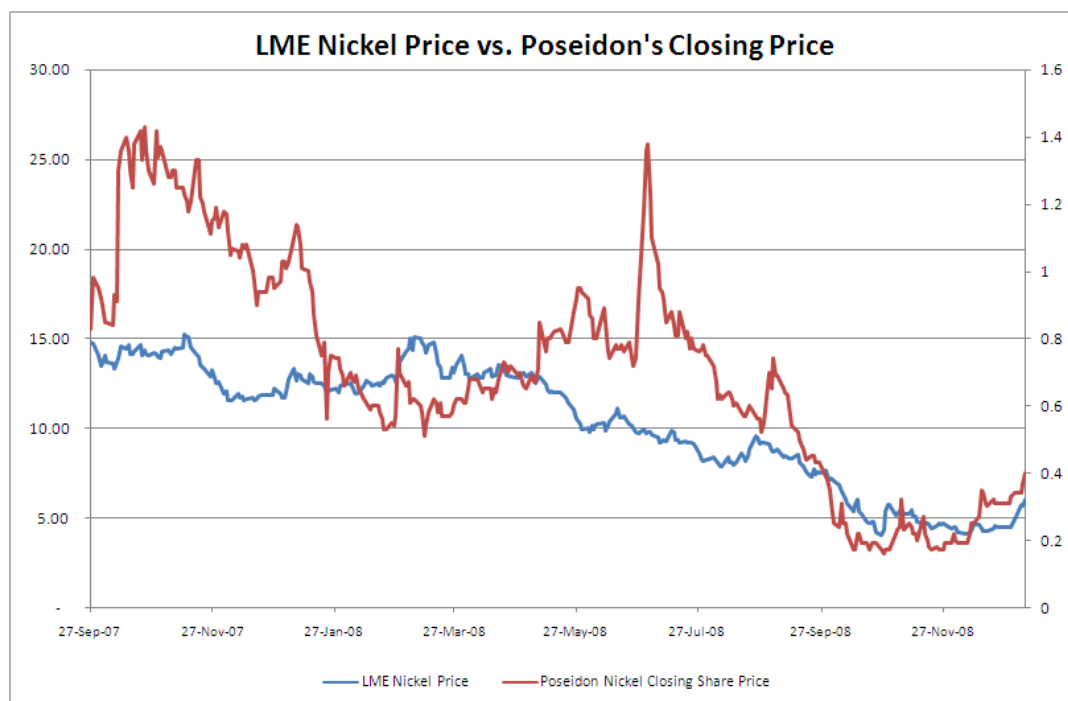


Figure 3

CORPORATE

- The Company held its Annual General Meeting of shareholders at the Exchange Plaza on 27 November, 2008 where all Resolutions were unanimously passed.
- On 19 December 2008, 41,349 Fully Paid Ordinary Shares were issued in lieu of Directors fees for the quarter to September under the Director Share Plan. The shares are issued at nil consideration but have a deemed issue price of \$0.9934, based upon the volume weighted average sale price ("VWAP") for the 90 days prior to the expiration of the quarter. In addition, 29,342 Fully Paid Ordinary Shares were issued in lieu of Directors fees to Mr Geoff Brayshaw for the period from his appointment on 1 February 2008 until 30 June 2008.
- In accordance with the resolution passed at the AGM, the Company has issued 1,000,000 Fully Paid Ordinary Shares and 2,000,000 December 2012 Incentive Options to Mr D Singleton as a reward for his performance in his capacity of Chief Executive Officer of the Company. This award is inclusive of Mr Singleton's annual bonus for the financial year ending 30 June 2008 for the amount of \$281,250 that had been pre-elected to be received as Shares. The purpose of the issue of Options is to provide a

market linked incentive package and to align the objectives of the Chief Executive Officer to Shareholders.

- The Company has issued 185,000 Shares following payment of the remaining calls on Partly Paid Shares originally issued on 2 March 2004, by Professional Placement Services. The total payment includes an initial payment of \$0.002 and the balance of \$0.102.



David P.A. Singleton
MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER

23 January 2009

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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
Ross Kestel	Company Secretary

Corporate Enquiries

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

E: admin@poseidon-nickel.com.au

Shareholder Enquiries

Enquiries concerning shareholdings should be addressed to:

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P: 61 8 9323 2000

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331-335 Hay Street
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F: 61 8 9382 4760

Registered Office

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SUBIACO WA 6008
P: 61 8 9367 8133
F: 61 8 9367 8812

Media Enquiries

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Porter Novelli
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Home Exchange

The Company's shares are listed on the Australian Stock 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.

Name of entity

Poseidon Nickel Limited

ABN

60 060 525 206

Quarter ended ("current quarter")

31 December 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(4,591)	(7,902)
(b) development	-	-
(c) production	-	-
(d) administration	(992)	(2,031)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	280	443
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other	68	264
Net Operating Cash Flows	(5,235)	(9,226)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(49)	(406)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other	-	-
Net investing cash flows	(49)	(406)
1.13 Total operating and investing cash flows (carried forward)	(5,284)	(9,632)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(5,284)	(9,632)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	239	1,219
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(6)	(30)
1.18	Dividends paid	-	-
1.19	Other	-	-
	Net financing cash flows	233	1,189
	Net increase (decrease) in cash held	(5,051)	(8,443)
1.20	Cash at beginning of quarter/year to date	10,973	14,365
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	5,922	5,922

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	111
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 19 December 2008, 41,349 ordinary shares were issued at a price of \$0.9934 per share and 29,342 ordinary shares were issued to one Director for the period from his appointment on 1 February 2008 to 30 June 2008 as approved by the Shareholders at the Annual General Meeting in November 2008. The shares are issued to the Directors in lieu of Directors Fees for the September 2008 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	15,619	15,619
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	700
4.2 Development	-
Total	

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	429	996
5.2 Deposits at call	5,493	9,977
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	5,922	10,973

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.

Appendix 5B
Mining exploration entity quarterly report

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 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	160,061,101 50,000 5,517,200	159,747,970 50,000 5,517,200	\$0.102 \$0.102	\$0.002 \$0.042
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	1,070,691	1,070,691		
7.5 +Convertible debt securities <i>Unsecured</i>	15,906,681 This is an estimate only based on an average exchange rate of 0.943.	-	USD\$0.943	The Notes have a six year term convertible into fully paid ordinary shares at AUD\$1.00.
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options			<i>Exercise price</i>	<i>Expiry date</i>
Listed	6,157,403	6,157,403	\$0.81	5 December 2009
Listed	6,157,904	6,157,904	\$0.92	5 December 2011
Unlisted	1,000,000	-	\$1.96	2 July 2011
Unlisted	2,500,000	-	\$0.40	31 July 2012
Unlisted	115,000,000	-	\$0.40	19 September 2012
Unlisted	533,000	-	\$1.41	22 October 2012
Unlisted	2,000,000	-	\$0.80	19 December 2012
7.8 Issued during quarter	2,000,000	-	\$0.80	19 December 2012
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

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: 23 January 2009

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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