

QUARTERLY REPORT

30 SEPTEMBER 2010

COMPANY OVERVIEW

Poseidon is a Nickel exploration and development company focussed 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.

To date, Poseidon has defined 97,331 tonnes of JORC code compliant nickel sulphide resources at the Windarra Nickel Project. This comprises of 61,764 tonnes of contained 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 and 10,298 tonnes of contained nickel at South Windarra.

ASX CODE: POS

*see attached resource statement



COMPANY HIGHLIGHTS

- High grade nickel sulphide intersected at Cerberus
- Successful completion of electromagnetics
- RC and Diamond drilling of regional lava channel targets underway
- \$3.2m Capital Raising to support drilling programme completed

- The latest drilling campaign has already resulted in two nickel sulphide intersections at Cerberus within the Windarra Nickel Project confirming the potential for growing the Cerberus resource.
- Poseidon completed the preparatory surface electromagnetics which revealed important sub-surface anomalies interpreted as lying inside the identified lava channels. Electromagnetics coupled with understanding of the lava channel geology led to the discovery of the Cerberus ore body. RC drilling of pre-collars has been completed and diamond drill tails are now underway.
- The Company has completed a capital raising of \$3.2 million to support the drilling programme as follows:
 - Undertaking additional resource drilling at Cerberus to further assist in defining the resource.
 - Continuation of the drill testing of the identified lava channels.
 - Undertake further project evaluation at the Windarra Nickel Project including at the Mt Windarra underground mine.
- Following the capital raising an Extraordinary General Meeting (EGM) of shareholders was called to ratify the first tranche of the placement securities that were issued under the Company's 15% placement capacity and to approve the issue of the second tranche of the placement securities. All resolutions were approved by shareholders at the EGM held on 20 September 2010.

EXPLORATION UPDATE**Cerberus**

Assay results for the first two nickel sulphide drill holes at Cerberus have exceeded expectations in both grade and widths as they were deemed to be at the outer edge of the ore body. The drilling programme at Cerberus aimed to extend the interpreted boundaries of the upper zone of mineralisation in order to extend the size of the resource as well as potentially increasing its JORC status.

The two holes were completed after unseasonal heavy rain delayed the drilling programme by approximately 2 weeks. The holes were designed to test the up-dip boundaries of the previously known higher grade mineralisation and have therefore confirmed the real potential for growing the Cerberus resource nearer to surface than the geological modelling estimates (Figure 1).

PNRCD0088 intersected 1.63m at 2.03% Ni of moderate to highly disseminated sulphides at a vertical depth of 160m below surface and PNRCD0089 intersected 2.83m at 3.24% Ni of matrix, channel style mineralisation at a vertical depth of 200m. This included a high grade zone in the core of the mineralisation which returned 1m at 4.91% Ni. In addition a narrow footwall stringer below the main zone of mineralisation at Cerberus returned 0.34m at 0.99% Ni and may be associated with other higher graded footwall stringers that have been intersected below the deposit (Table 1).

Table 1: Cerberus Significant Intersections

Hole Id	Collar Coordinates	From (m)	To (m)	Length (m)	%Ni	Comments
PNRCD0088	430045mE 6838800mN	176.55	178.18	1.63	2.03	
PNRCD0089	430120mE 6838875mN	216.17	219.00	2.83	3.24	
		<i>incl</i> 217.00	218.00	1.00	4.91	High grade core
		228.36	228.7	0.34	0.99	Footwall stringer

The combination of these intersections indicates that the fringe mineralisation may be thicker and more extensive at shallower levels than has previously been interpreted from the wide-spaced drilling. Another four holes have been planned in and around the upper channel core to commence in November this year.

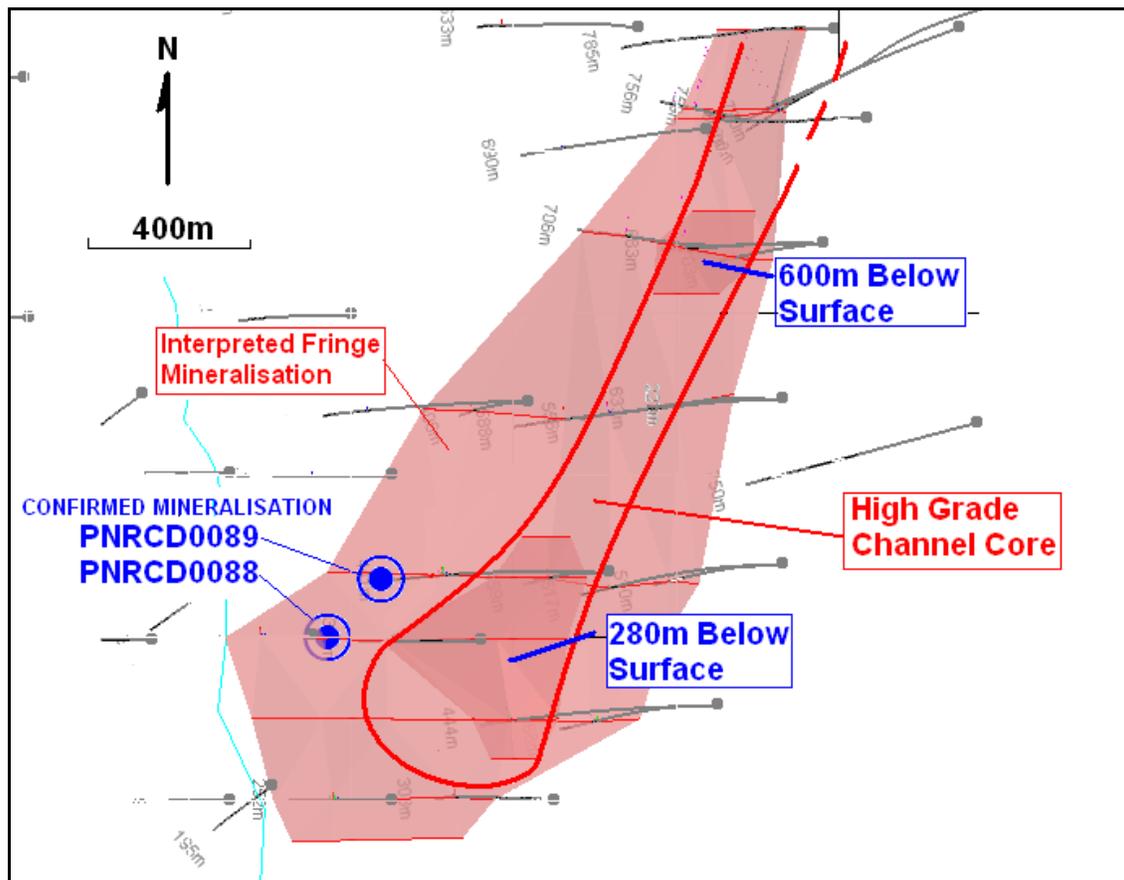


Figure 1: Plan View of the Cerberus Deposit Showing Recent Intersection Locations

Regional Exploration

Exploration of the Windarra nickel belt over the last three years resulted in the discovery of the high grade Cerberus nickel deposit which contains an inferred resource of 1m tonnes at 2.45% nickel to date.

Knowledge gained by this discovery led to the indication that other potential nickel-hosting lava channels are believed to occur between the known mines at Mt Windarra and South Windarra. Poseidon has been actively seeking to identify other lava channel positions thought to exist in the Windarra Belt by using the Cerberus geochemical signature as a tool and mapping visible surface geology.

Recent soil sampling used a sampling sensitivity 100 times greater than previously employed and utilised multi-element analysis. Detailed geochemical interpretation was completed on both the modern and historical data sets resulting in the recognition that certain path-finder ratios of Ni, Cu, MgO and TiO₂ were indicative of the chemistry associated with the definition of lava channels within the Windarra Nickel Belt.

This work has resulted in 7 prospective lava channels being identified (Figure 2) and detailed field geology has confirmed the physical characteristics of the lava channels.

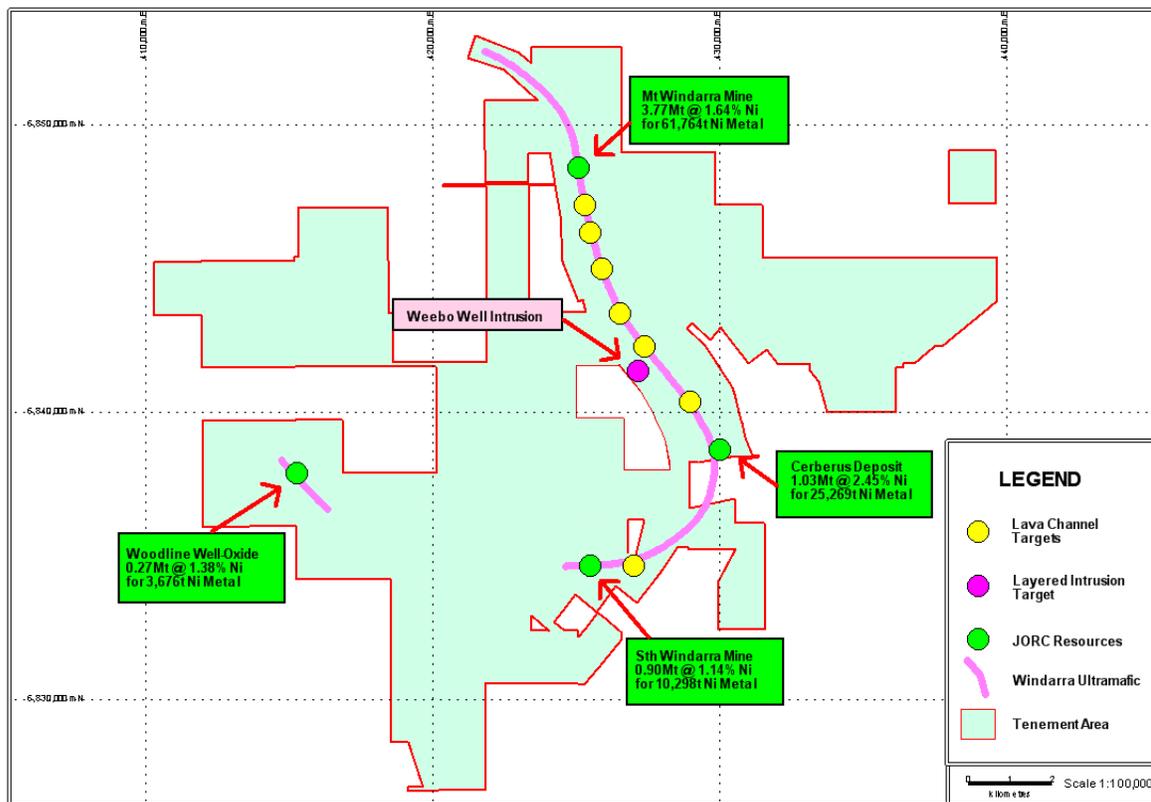


Figure 2: Tenement location plan showing lava channel and layered intrusion targets which have the potential to host nickel sulphide mineralisation.

Poseidon commissioned a detailed surface electromagnetic survey to test the lava channel positions situated between the Cerberus deposit and the historic underground mine at Mt Windarra to determine the drilling priorities. A deep penetrating SQUID (Superconducting Quantum Interference Device) FLEM survey was completed over four of Poseidon’s seven identified lava channel target areas revealing important sub-surface anomalies interpreted as lying inside the identified channels. The four survey areas were identified as prospective for potential nickel sulphide mineralisation based on geochemical results received earlier in

the year and field mapping of the northern outcropping portion of the Windarra Ultramafic Belt.

The SQUID survey was successful in identifying electro-magnetic plates above the main BIF source. These plates are interpreted to be located in the down dip positions of the identified lava channels and have the potential to be associated with nickel sulphide mineralisation (Figure 3).

RC drilling of the generated Fixed Loop Electro Magnetism (FLEM) anomalies was completed by drilling pre-collars through the overlying rock units in preparation for diamond drill tails which will test the target zones and FLEM anomalies. The diamond tails provide more valuable geological information than the RC alone and will also provide platforms for Down Hole Electro-Magnetics (DHEM) surveying. DHEM is a modern and powerful tool which was unavailable to previous explorers at Windarra and thereby severely restricted the potential to identify sub-surface anomalies.

Four diamond tails have been completed to date with two holes drilled at “The Fold” target area and drilling is currently in progress at the “Olive Tree” target area (Figure 3). The drill core is currently being processed in preparation for laboratory analysis.

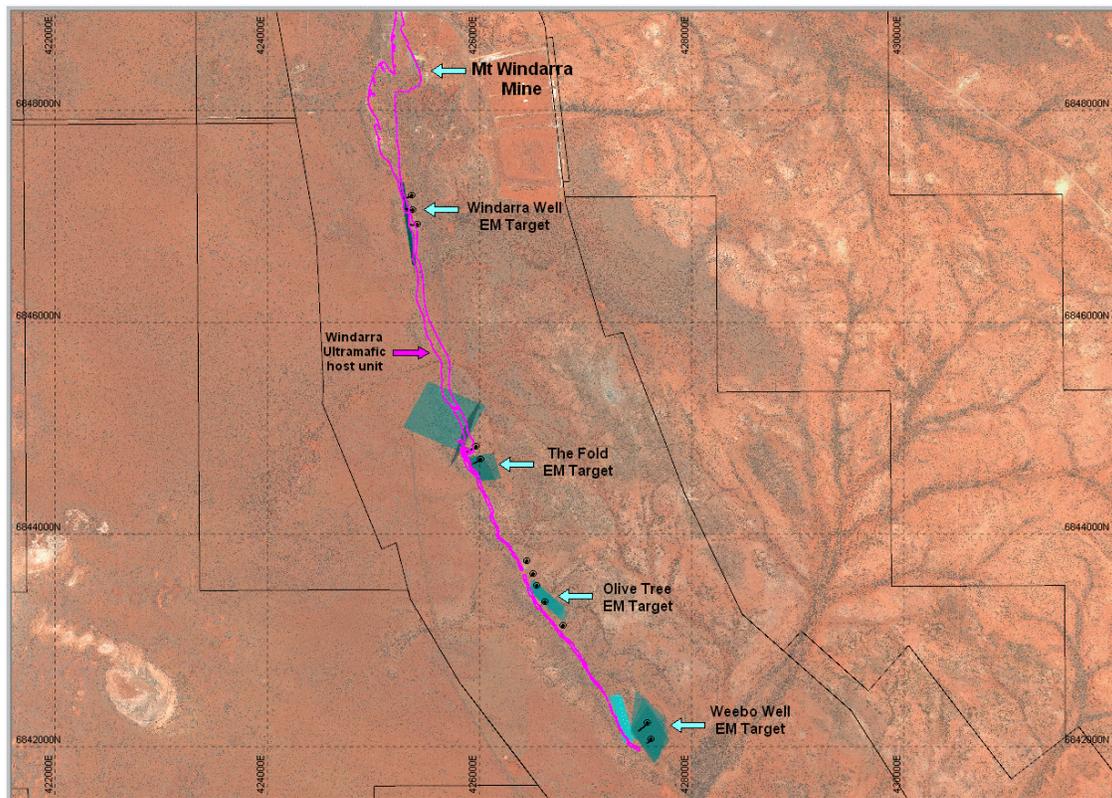


Figure 3: Aerial photo of the Windarra Nickel Project showing EM plates with planned drill hole positions at prospective targets.

These are exciting times, with the Company embarking upon the drill testing of sound regional targets that have been methodically worked up over the last three years, melding historical data with modern scientific ideas. This approach has been highly successful in other West Australian Nickel Camps and Poseidon is confident that we can replicate that success at Windarra.

Table 2: Windarra Nickel Project Resource Statement

Windarra Nickel Project Sulphides	Cut Off Grade	Resource Category								
		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%	1,017,429	1.24	12,578	2,751,087	1.79	49,185	3,768,516	1.64	61,764
South Windarra	0.90%	820,326	1.15	9,434	82,404	1.05	864	902,730	1.14	10,298
Cerberus	1.50%				1,033,328	2.45	25,269	1,033,328	2.45	25,269
Total Sulphide		1,837,755	1.20	22,012	3,866,819	1.95	75,318	5,704,574	1.71	97,331

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

OPERATIONS

- The Windarra mine site has remained on care and maintenance and both the decline services and mining equipment remain in a serviceable state.
- The dewatering pumps in the underground mine were operated for a period of approximately two months to return the water level to that of March 2009 when the pumps were switched off. The water level will be maintained at this point until such time as the mine rehabilitation recommences.

FINANCIAL

- As at 30 September 2010, the Company had cash and receivables of \$3.51 million which includes cash on hand of \$2.60 million plus an interest bearing receivable of \$0.75 million that is held in escrow from the sale of the Ghana gold project to Hodges Resources and the balance of the capital raising of \$0.16 million.
- On 20 September the Company received shareholder approval at a general meeting for the second tranche of the capital raising undertaken in July. The Company raised a total of \$3.2 million through the capital raising of which \$1.3 million was in relation to the second tranche.

MARKET INFORMATION

- Figure 4 below shows the underlying correlation between Poseidon's share price and the LME Nickel price over the last 15 months.

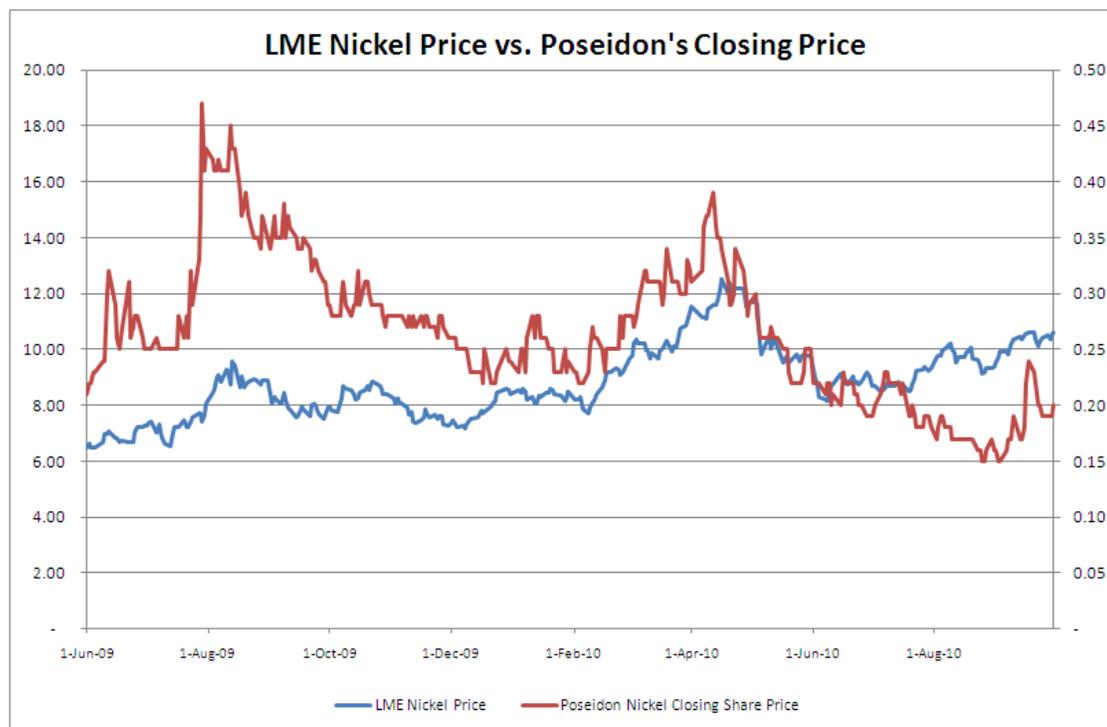


Figure 4: Poseidon share price graph

CORPORATE

- In line with Poseidon's policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 214,902 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 7 July 2010 at a deemed issue price of \$0.28051, based upon the volume weighted average sale price ("VWAP") for the 90 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 22 July 2010 the Company announced that it had completed a capital raising to raise funds of \$3.2 million that would be issued in two tranches. Poseidon placed the first tranche of the capital raising utilising the Company's 15% placement capacity under the ASX Listing Rules, issuing 10,495,647 Shares at \$0.18 per Share to professional and sophisticated investors to raise \$1.9 million. In addition, investors received 1 free attaching Option for every 2 Shares subscribed for totalling 5,247,827 Options. The Options will be exercisable at \$0.25 each on or before 31 August 2012.
- The second tranche of the capital raising was approved by shareholders at a general meeting held on 20 September 2010 and comprised of the placement of 7,383,246 Shares together with 3,691,620 free attaching Options raising a further \$1.3 million.
- On 22 July 2010, the Company also issued 333,500 unlisted Options to Mr Tom Sharp as part of the fee arrangement in recognition of his professional broking services involved in the placement of securities with his clients. The options carried the same terms as those issued to investors as part of the capital raising.



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

25th October 2010

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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
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 Paul Downie
FD Third Person
P: 61 8 9386 1233 M: 0414 947 129
E: paul.downie@fdthirdperson.com.au

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 2010

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(679)	(679)
(b) development	-	-
(c) production	-	-
(d) administration	(638)	(638)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	30	30
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - sundry income	47	47
Net Operating Cash Flows	(1,240)	(1,240)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
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	-	-
1.13 Total operating and investing cash flows (carried forward)	(1,240)	(1,240)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,240)	(1,240)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	3,056	3,056
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	(24)	(24)
1.18	Dividends paid	-	-
1.19	Other - share issue costs	(116)	(116)
	Net financing cash flows	2,916	2,916
	Net increase (decrease) in cash held	1,676	1,676
1.20	Cash at beginning of quarter/year to date	924	924
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	2,600	2,600

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	121
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 7 July 2010, 214,902 ordinary shares were issued at a price of \$0.28051 per share as approved by the Shareholders at the November 2009 Annual General Meeting. The shares were issued to the Non-Executive Directors in lieu of Directors Fees for the June 2010 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

Financing facilities available

Add notes as necessary for an understanding of the position.

+ See chapter 19 for defined terms.

	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	750
4.2 Development	-
4.3 Production	-
4.4 Administration	650
Total	1,400

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	1,097	924
5.2 Deposits at call	1,503	-
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	2,600	924

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	E38 / 2162, E37 / 986 – 989	Owned Owned	100% 100%	Nil Nil
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	187,201,165 50,000 375,000	186,888,034 50,000 375,000	\$0.102 \$0.002 \$0.062
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	10,710,549	10,710,549	
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>Listed</i> <i>Listed</i> <i>Unlisted</i> <i>Unlisted</i> <i>Unlisted</i> <i>Unlisted</i> <i>Unlisted</i>	6,157,403 1,000,000 2,500,000 5,581,327 115,000,000 533,000 2,000,000	6,157,403 - - - - - -	<i>Exercise price</i> \$0.92 \$1.96 \$0.40 \$0.25 \$0.40 \$1.41 \$0.80 <i>Expiry date</i> 5 December 2011 2 July 2011 31 July 2012 31 August 2012 19 September 2012 22 October 2012 19 December 2012
7.8	Issued during quarter	5,581,327	-	\$0.25 31 August 2012
7.9	Exercised during quarter			
7.10	Expired during quarter			
7.11	Debentures <i>(totals only)</i>			

+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)				
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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: 25th October 2010

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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