

QUARTERLY REPORT

31 MARCH 2011

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 97,767 tonnes of JORC code compliant nickel sulphide resources at the Windarra Nickel Project. This comprises of 62,200 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

- Non-binding MOU signed with NFC of China for the supply and financing of a nickel sulphide concentrator and associated infrastructure
- US\$20m of additional funding now received from Harbinger
- Mine rehabilitation progressing well with second shift starting in second quarter of 2011
- 2 year diamond drilling programme to accelerate the development of the Cerberus ore body and follow up regional targets

- Poseidon has signed a non-binding Memorandum of Understanding (“MOU”) with one of China’s major construction and engineering groups, China Nonferrous Metal Industry’s Foreign Engineering and Construction Co. Ltd (“NFC”).
- The other party to the MOU is Perth-based mining engineering group, Arccon WA Pty Ltd (“Arccon”), which will act as the local design and installation engineer. Under the MOU, Poseidon has agreed to work exclusively with NFC and Arccon to establish the cost and programme for delivery of a flotation concentrator and associated infrastructure to be installed at the Windarra site. These discussions will be conducted with a view to entering into:
 - A formal fixed price Engineering, Procurement and Construction Contract (“EPC Contract”) under which Poseidon will appoint NFC as the principal contractor, following a detailed evaluation of the project construction costs to be undertaken by NFC.
 - A formal financing agreement, subject to agreement on the terms of the construction contract, under which NFC will facilitate at least 80% of the necessary financing for the concentrator plant.
- The MOU includes an indicative timetable which contemplates the completion of project construction by November 2012 following agreement of a formal EPC contract and approved financing anticipated by September 2011.
- Poseidon has now received US\$20 million from New York-based Harbinger Capital Partners LLC (“Harbinger”) following an Extraordinary General Meeting (“EGM”) of shareholders voting overwhelmingly in favour of the Company issuing new Convertible Notes as per the agreement announced on 23 December 2010. The Convertible Notes are convertible at the Harbinger Funds’ election into fully paid ordinary shares at a fixed price of AU\$0.30 per share which represents a significant premium of circa 42% to the 30-day VWAP of Poseidon shares at the time. The Notes have a 6-year term and carry a coupon of 0% per annum for the initial 3 years and 5% thereafter.
- Also approved by shareholders at the EGM was the extension to the term of the existing US\$15 million Convertible Notes issued in June 2008 for a further 6 years with the same coupon terms as the new Notes. The existing 2008 Notes will, under the terms of the new agreement, have a conversion price of AU\$0.40 and the interest payable from June 2011 will now be deferred for a further 3 year term.

- The Company will use the proceeds of the issue of the Convertible Notes to continue the development of the Windarra Nickel Project as well as ongoing exploration activities and feasibility studies. In particular the Company will:
 - Complete the refurbishment works at the Mt Windarra nickel mine at an estimated cost of \$8 million. Operations recommenced during March 2011;
 - Significantly expand the drilling program at Mt Windarra, Cerberus and the South Windarra prospects to increase resources and reserves which also commenced in March 2011;
 - In conjunction with NFC and Arcon, complete the final feasibility work and funding required for the concentrator plant.

EXPLORATION UPDATE

- The Company has committed to the biggest drilling programme to be undertaken at Windarra since the 1980's. Poseidon has entered into a contract for a diamond drill rig to operate 24 hours a day for up to two years, in a programme which in terms of numbers of metres drilled, could double the total diamond drilling work carried out on the site since its acquisition in 2005.
- The objectives of the drilling programme are as follows:
 1. Expand the early year's resources at Mt Windarra to support Phase 1 of the production programme which is already underway;
 2. Accelerate the development of the Cerberus ore body to support Phase 2 of the production programme;
 3. Develop the South Windarra extension drill programme after the seismic analysis has been completed;
 4. Follow up the 7 lava channel anomaly targets identified in 2010.
- Since the project was acquired, Poseidon has spent approximately \$30 million on drilling and associated project activities and now has a JORC compliant resource of 97,767 tonnes of contained nickel (Table 1).

Regional Exploration

HiSeis completed seismic surveys over the South Windarra Extended and the Weebo Well projects in late 2010. HiSeis have completed the complex processing and levelling of the data and are currently finalising the interpretation of the data in consultation with Poseidon's geologists. The resultant interpretations will be used to generate drill target zones within the survey areas.

Drilling has commenced after a delayed period due to heavy seasonal rains which flooded the Laverton region. Two holes into the lower extension of E Shoot at Mt Windarra have been completed and results are awaited.

The diamond rig will be moved to Weebo Well to commence drilling on a conceptual target which has received the maximum grant of \$150,000 from the Department of Mines and Petroleum under its Exploration Incentive Scheme (EIS) program. Two holes have been planned and the second hole will be completed once the geological and analytical information from the initial hole is processed.

An RC drill rig will commence drilling pre-collars at Cerberus before the end of April in order to accelerate the timing and reduce the cost of drilling the up-dip extensions and infill drill holes at the Cerberus Deposit.

Independent Geological Review

Poseidon has recently commissioned Optiro Pty Ltd to complete a resource estimation on the Cerberus Deposit which includes the results from the successful drill holes which were completed in 2010. Poseidon will use this information to guide its drilling program towards further extending the resource limits as well as updating the deposits JORC status.

Table 1: 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%	910,000	1.24	11,300	2,955,000	1.72	50,900	3,865,000	1.61	62,200
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		1,730,326	1.20	20,734	4,070,732	1.89	77,033	5,801,058	1.69	97,767

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 and 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. Mr Hutchison and Mr Glacken both 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 Hutchison and Mr Glacken 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 received and does not accept responsibility for the accuracy or adequacy of this release.

OPERATIONS

- GSM Mining, who successfully refurbished the initial 1,000 metres of the decline in 2008, will complete the refurbishment of the underground mine. Refurbishment includes the removal of water from the mine, rock bolting and meshing the decline and the installation of various infrastructure necessary to commence mining operations. The work will take around 10 months to complete and cost approximately \$8 million.
- In January of this year, Poseidon commissioned an examination of the vertical shafts in the mine using a remote camera system. The results of this examination further added to the confidence that the areas not yet refurbished have remained in good standing. A section within the top 100 meters of one of the ventilation shafts that was inspected will require remedial repairs that will be undertaken after the refurbishment is complete.
- To ensure the dewatering of the mine remains sufficiently ahead of the refurbishment activity, a multi stage high flow rate submersible pump will be positioned 450 vertical metres down the vertical shaft which will significantly speed up the dewatering process. The refurbishment will continue to be operated on a single shift until the new pump is installed during the second quarter of 2011 at which time Poseidon will add a second operational shift to ensure the work is completed to schedule. All of the machinery required to complete this activity is already located on site as Poseidon and GSM have acquired the necessary light and heavy mobile machinery over the past 2 years.

FINANCIAL

- As at 31 March 2011, the Company had cash and receivables of \$19.5 million which includes cash on hand of \$18.7 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. The Company continues to work with the Minerals Commission in Ghana to satisfy the conditions of the sale agreement with completion of the transaction expected to be finalised shortly.
- On 29 March the Company received US\$20m from New York-based Harbinger Capital Partners LLC and its affiliates following shareholders approving the issue of Convertible Notes at the EGM held on 28 March 2011.

MARKET INFORMATION

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

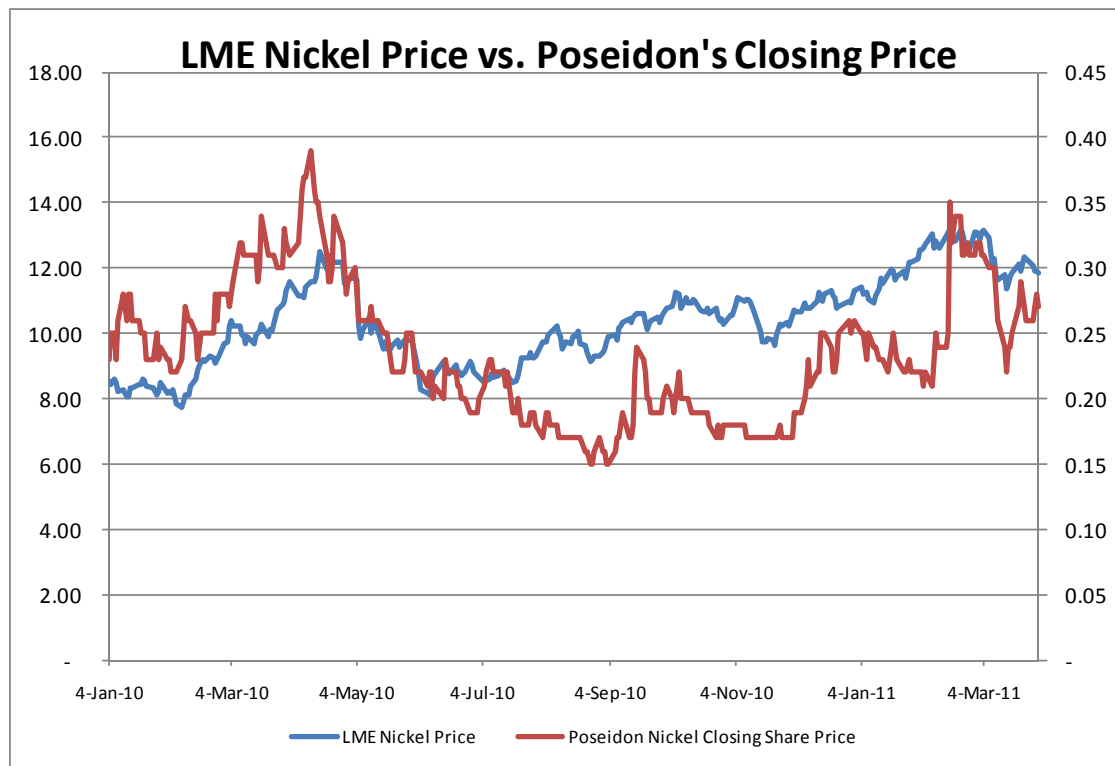


Figure 4: Poseidon share price graph

CORPORATE

- In line with Poseidon's policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 293,956 Fully Paid Ordinary Shares were issued in lieu of Directors fees for the quarter to December under the terms of the Director Share Plan. The shares were issued on 14 January 2011 at a deemed issue price of \$0.213275, 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.

- 2,975,000 August 2016 Incentive Options were issued to senior executives and employees under the Poseidon Nickel Limited Employee Share Options Scheme, the terms of which were ratified by shareholders at the November 2010 Annual General Meeting. The purpose of the options is to provide a market linked incentive package and to align the objectives of the executives to shareholders.



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

29th April 2011

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<p><u>CORPORATE DIRECTORY</u></p> <p>Director / Senior Management</p> <p>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</p> <p>Corporate Enquiries Mr David Singleton – MD & CEO P: 61 8 9382 8799 F: 61 8 9382 4760</p> <p>E: admin@poseidon-nickel.com.au</p> <p>Shareholder Enquiries Enquiries concerning shareholdings should be addressed to:</p> <p>Computershare Investor Securities GPO Box D182, Perth WA 6840 P: 61 8 9323 2000</p>		<p>Principal Office Unit 8, Churchill Court 331-335 Hay Street SUBIACO WA 6008 P: 61 8 9382 8799 F: 61 8 9382 4760</p> <p>Registered Office Level 2, Spectrum 100 Railway Road SUBIACO WA 6008 P: 61 8 9367 8133 F: 61 8 9367 8812</p> <p>Media Enquiries Mr Paul Downie FD Third Person P: 61 8 9386 1233 M: 0414 947 129 E: paul.downie@fdthirdperson.com.au</p> <p>Home Exchange The Company's shares are listed on the Australian Securities Exchange and the home exchange is Perth ASX code: POS</p>
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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")

31 March 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(893)	(2,827)
(b) development	-	-
(c) production	-	-
(d) administration	(518)	(1,960)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	32	118
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - sundry income	19	104
Net Operating Cash Flows	(1,360)	(4,565)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	(20)	(20)
(c) other fixed assets	(102)	(102)
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	(122)	(122)
1.13 Total operating and investing cash flows (carried forward)	(1,482)	(4,687)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(1,482)	(4,687)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	3,216
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings – convertible notes	19,484	19,484
1.17	Repayment of borrowings	(24)	(62)
1.18	Dividends paid	-	-
1.19	Other - share issue costs	-	(161)
	Net financing cash flows	19,460	22,477
	Net increase (decrease) in cash held	17,978	17,790
1.20	Cash at beginning of quarter/year to date	736	924
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	18,714	18,714

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 18 January 2011, 293,956 ordinary shares were issued at a price of \$0.213275 per share as approved by the Shareholders at the November 2010 Annual General Meeting. The shares were issued to the Non-Executive Directors in lieu of Directors Fees for the December 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

+ 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	35,103	35,103
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	4,600
4.2 Development	-
4.3 Production	-
4.4 Administration	800
Total	5,400

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	18,710	732
5.2 Deposits at call	4	4
5.3 Bank overdraft	-	-
5.4 Other	-	-
Total: cash at end of quarter (item 1.22)	18,714	736

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	195,189,203 50,000 375,000	194,876,072 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	293,956	293,956	
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.
		19,483,682 This is an estimate only based on an average exchange rate of 1.0265.	-	USD\$1.0265 The Notes have a six year term convertible into fully paid ordinary shares at AUD\$0.30
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	19,483,682	-	USD\$1.0265
7.7	Options		<i>Exercise price</i>	<i>Expiry date</i>
	Listed	6,157,403	\$0.92	5 December 2011
	Listed	1,000,000	\$1.96	2 July 2011
	Unlisted	2,500,000	\$0.40	31 July 2012
	Unlisted	9,267,436	\$0.25	31 August 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
	Unlisted	2,975,000	\$0.25	31 August 2016
	Unlisted	4,500,000	\$0.25	23 November 2016
7.8	Issued during quarter	2,975,000	-	\$0.25 31 August 2016

+ See chapter 19 for defined terms.

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>				

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: 29 April 2011

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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+ See chapter 19 for defined terms.