

## QUARTERLY REPORT

30 SEPTEMBER 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 110,470 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 37,970 tonne nickel resource at the Cerberus deposit and 10,300 tonnes of contained nickel at South Windarra.

ASX CODE: POS

\*see attached resource statement



## COMPANY HIGHLIGHTS

- Proposed mine throughput to be doubled to 700,000 tonnes
- Feasibility studies for Mt Windarra and Cerberus progressing well
- Mining proposal for Mt Windarra to be lodged by end of October
- Cerberus Reserve estimation underway and due for completion in Q4 2011
- Recent drilling has identified a thicker high grade core to the ore body
- Evidence of potential parallel mineralisation at Cerberus
- Acquisition of new tenement rights through Magma earn-in agreement

- Poseidon has announced its intent to double the initial proposed throughput of its WNP and is now upgrading the mine planning and production plant design to process 700,000 tonnes of ore to be sourced from the Mt Windarra and Cerberus deposits. This change will mean that the WNP could meet its initial panned nominal output of 10,000 nickel tonnes in concentrate, 12 months earlier than originally expected.
- This throughput increase has resulted from feasibility work carried out by an independent mine planning group which has indicated the potential to increase production rates at the Mt Windarra mine. In addition, the successful resource drilling at the Cerberus nickel deposit has led to the potential to bring forward its initial opening to the same time as the Mt Windarra deposit. As a result Poseidon has placed an engineering contract to update the design of the concentrator process plant to a nominal throughput of 700,000 tonnes per annum through a single train. Studies completed to date have indicated a material reduction in the operating costs and capital intensity of the larger scale concentrator.
- All of the studies required to complete the feasibility for the WNP are continuing to progress well and will be complete by early 2012. The feasibility will be supported by the commencement of underground drilling at Mt Windarra once the mine refurbishment is far enough progressed to allow access for the drill rigs and the continuation of resource drilling at Cerberus which will be completed during October.
- A summary of the main studies underway for the WNP are as follows:

Study	Vendor
Engineering	Arcon
Mine Planning	Rock Team
Geotechnical	Beck Engineering
Tailings Disposal	Coffey Mining
Gold Tailings Retreatment	Nagrom
Environmental	MBS
Testwork	SGS
Ore Sorting	Commodas Ultrasort

- Poseidon expects to lodge the mining proposal for the Mt Windarra project by the end of October 2011.

## OPERATIONS

- Mine dewatering and refurbishment that recommenced in March 2011 continues in line with expectations. Dewatering has reduced the water level to 260m vertically and a total of approximately 1.8 kilometres of decline has now been successfully refurbished.

Refurbishment progress has been slower than originally anticipated due to the requirement to install additional ground support in a number of areas to ensure the stability and safety of the decline for the future works.

- Once the refurbishment has been completed to a sufficient depth, underground drilling of the Mt Windarra deeps will commence potentially as early as December this year.
- Following the withdrawal of Triton Gold Ltd from the Windarra gold rights transfer agreement entered into in June 2009, Poseidon has progressed preliminary testwork and a scoping study to establish if the Windarra gold tailings can be commercially co-treated at the Windarra Nickel Project. This remains work in progress.

## EXPLORATION UPDATE

- **Cerberus Reserve estimation underway and due for completion in Q4 2011**
- **Recent drilling has identified a thicker high grade core to the ore body**
- **Evidence of potential parallel mineralisation at Cerberus**

Poseidon is currently completing the drill out of the Cerberus deposit with the aim of expanding the current known resource and producing the first mining reserve. This drilling programme has identified extensions to the known mineralisation which are likely to increase the overall nickel resource at Cerberus as well as demonstrating the potential for additional parallel lying ore bodies.

Since commencing the resource infill drilling, Poseidon has completed 5,227m during the September quarter and totalling ~9,500m of drilling at Cerberus this year. Significant drill intersections returned from the drilling campaign are collated in Table 1 and shown in Figure 1. The best intersections returned from the upper high grade zone are 4.07m at 3.00% Ni, 2.83m @ 3.24% Ni and 1.37m @ 3.55% Ni. This area will be evaluated for its economic potential in order to define a JORC Reserve towards the end of the coming quarter.

The current infill drilling programme has now defined the central lava channel system that leads to a thicker, higher grade core to the ore body than previously reported. Diamond drill hole PND0144 returned an intersection of 5.56m @ 2.58% Ni at the lower most-northern hole of the resource infill drilling program (Figure 1) which intersected a position where the Upper and Lower Lodes of the channel meet thereby increasing the true thickness of the deposit. In addition to the thickening the drilling indicates a steeper plunging ore body which supports the presence of parallel systems (discussed below and shown on Figure 2) and improves the likely mining methods. Additional drilling has commenced into the down-dip central area of the mineralised system where grades above 5% Ni have been previously intersected.

An important new development is the discovery of another zone of mineralisation (Top Lode) which has been intersected in several holes above the Upper Lode (Table 1), indicating that Cerberus is a stacked flow system and therefore identifies the potential for multiple mineralised channels. At Mt Windarra, 10kms to the north, there are 7 stacked mineralised channels within the system which adds additional support to the possibility that more mineralised channels may exist at Cerberus. Recent holes at the southern up-dip end of the deposit also show three higher grade intersections (PNDRC0116, PNDRC0121 & PNDRC0122) which may be part of this stacked mineralised channel. These intersections open up a large untested area to the south as well as the north of and parallel to Cerberus.

The Cerberus Resource estimate was upgraded earlier this year and currently stands at **1.85Mt at 2.05% nickel for 38,000t** of contained nickel metal above a 1.25 %Ni cut-off grade (Table 2). A new Resource estimation is anticipated to be complete in November this year and an economic Reserve estimation will follow shortly afterwards.

- Poseidon entered into an earn-in agreement with Magma Metals Limited (“Magma”) for nickel, copper and PGE rights to a large tenement package adjoining its Windarra Nickel Project (“WNP”). The new tenements cover 203km<sup>2</sup> and include:
  - Tenements adjoining the Cerberus high grade nickel deposit which could include potential extensions to currently known mineralisation;
  - Tenements to the south east which Poseidon believes could be host at shallow depth to the South Windarra mine channel extension. Poseidon has previously advised that there is evidence from soil sampling and seismic work completed recently of the channel position and intends to commence exploration in this area; and
  - A distinct parallel trending and geologically similar ultramafic to the highly productive Windarra ultramafic. The Red Flag ultramafic has had limited nickel exploration to date.
  
- The nickel, copper and PGE rights on the tenements are currently held by Magma under a concurrent rights agreement with Crescent Gold Limited (“Crescent”), the tenement holder. The outline terms of the earn-in agreement are as follows:
  - The Agreement is subject to a number of conditions, including Poseidon completing satisfactory due diligence and execution of a formal farm-in and joint venture agreement. The conditions must be satisfied or waived within 40 business days of the agreement being executed;
  - From completion, Poseidon has an exclusive right to earn a 60% interest in the nickel, copper and PGE rights to the tenements during the 3 year earn in period for an expenditure of \$3,000,000;
  - Magma will, following Poseidon earning a 60% interest and issuing a technical report, have the right to make an election to either contribute its share to further exploration expenditure or assign a further 20% interest (80% in total) to Poseidon;
  - Following the completion of a feasibility study on any project on the tenements and if a decision to mine is made, Magma may elect to assign its remaining 20% share to Poseidon in exchange for a 2.5% net smelter royalty. If Magma fails to make such an election, it will be required to enter a formal production JV agreement and be liable for its share of production expenditure; and
  - Poseidon will have a first right to toll treatment or offtake of any nickel, copper or PGE ore produced, under the agreement, from the tenements.

Table 1: Cerberus Significant Intersections

Hole Id		m From	m To	Length	%Ni	Comment
PND0112		82.50	84.51	2.01	2.46	Lower Lode
	<i>incl</i>	83.61	84.51	0.90	4.42	
PNRCD0116		150.77	151.62	0.85	5.56	* New Top Lode
		159.91	161.95	2.04	0.91	Upper Lode
		170.48	171.90	1.42	1.75	Lower Lode
PNRCD0121		219.96	222.16	2.20	1.69	Lower Lode
PNRCD0122		257.67	258.45	0.78	1.80	Lower Lode
PNRCD0123		83.61	84.46	0.85	1.88	* New Top Lode
		101.00	102.34	1.34	1.49	Lower Lode
PNRCD0125		184.85	188.89	4.04	1.21	Upper Lode
		195.45	201.44	5.99	0.84	Lower Lode
	<i>incl</i>	195.45	196.46	1.01	1.39	
	<i>incl</i>	200.31	201.44	1.13	1.47	
PNRCD0127		328.52	330.00	1.48	1.30	Lower Lode
PND0130A		331.25	334.23	2.98	1.74	Lower Lode
PND0144		365.00	370.56	5.56	2.58	Upper + Lower Lode
PND0135		191.32	194.51	3.19	1.77	* New Top Lode
		202.17	204.91	2.74	1.02	Upper Lode
		208.58	210.09	1.51	1.85	Lower Lode
PNRCD0139		215.00	217.23	2.23	2.47	Lower Lode
	<i>incl</i>	216.20	217.23	1.03	4.42	

Table 2: Cerberus Resource Statement above cut-off grades of 1.25%

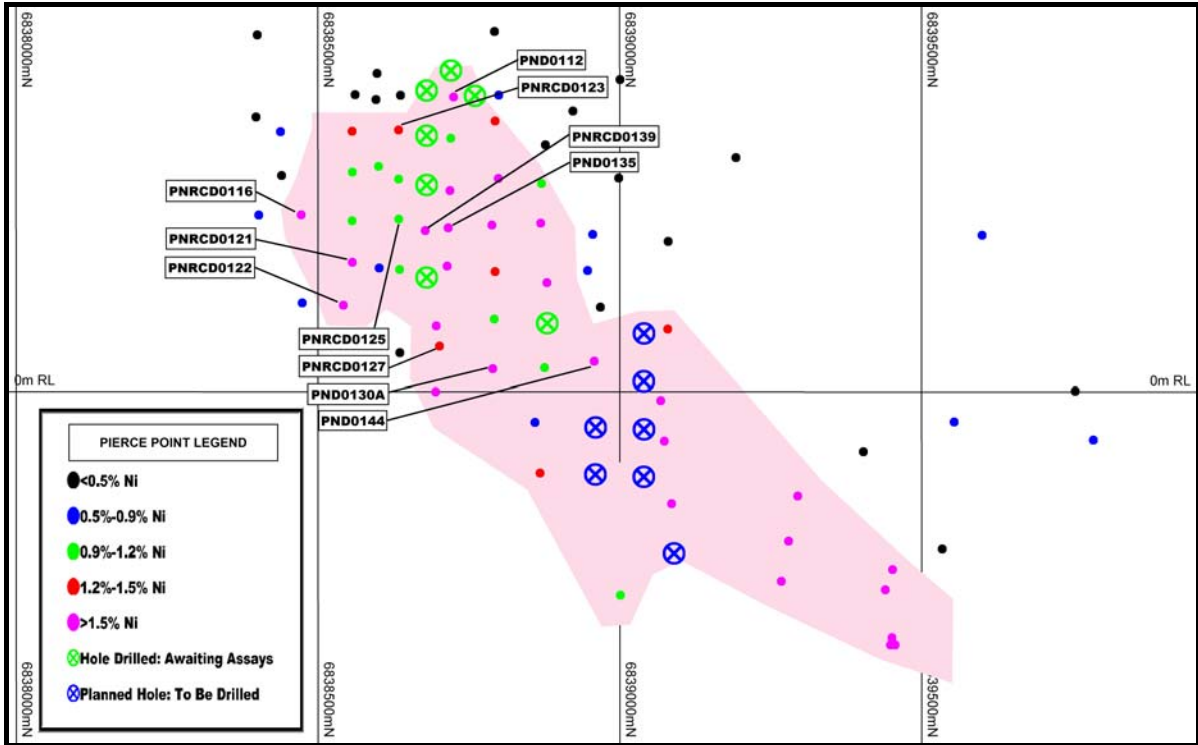
Cerberus Deposit	Cut Off Grade	Resource Category								
		Indicated			Inferred			TOTAL		
		Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t	Tonnes	Ni% Grade	Ni Metal t
Optimum cut-off grade used	1.25%	756,360	1.62	12,264	1,092,500	2.35	25,707	1,848,816	2.05	37,970

The Cerberus Mineral Resource has been reported at an optimum cut-off grade of above 1.25% Ni as shown in Table 1.

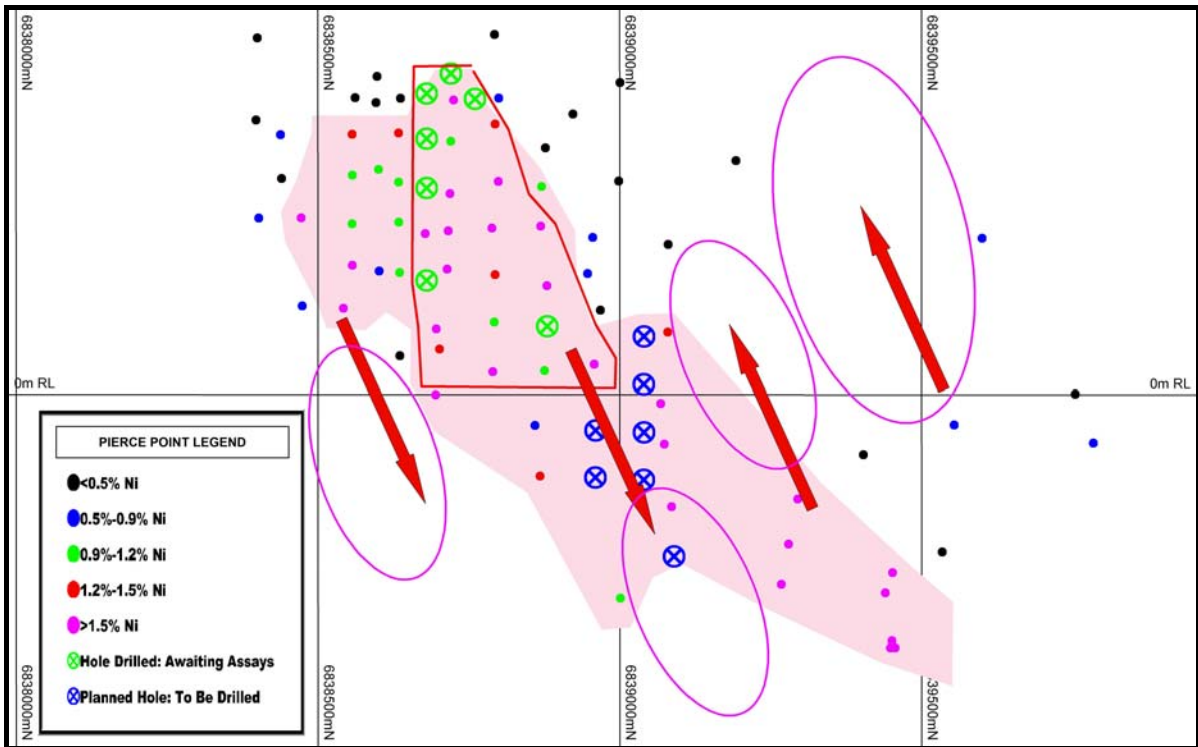
\*Note: Minor errors in totals exist due to rounding.

Note: The information in this report relates to Exploration Results and Mineral Resources 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 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 reviewed and does not accept responsibility for the accuracy or adequacy of this release.



**Figure 1:** Cerberus Long Section showing all drill hole pierce points and location of drill holes reported in Table 1. Green cross circles show recently completed drill holes which are awaiting assays from the laboratories and blue crossed circles are the next round of drill holes which are to be completed.



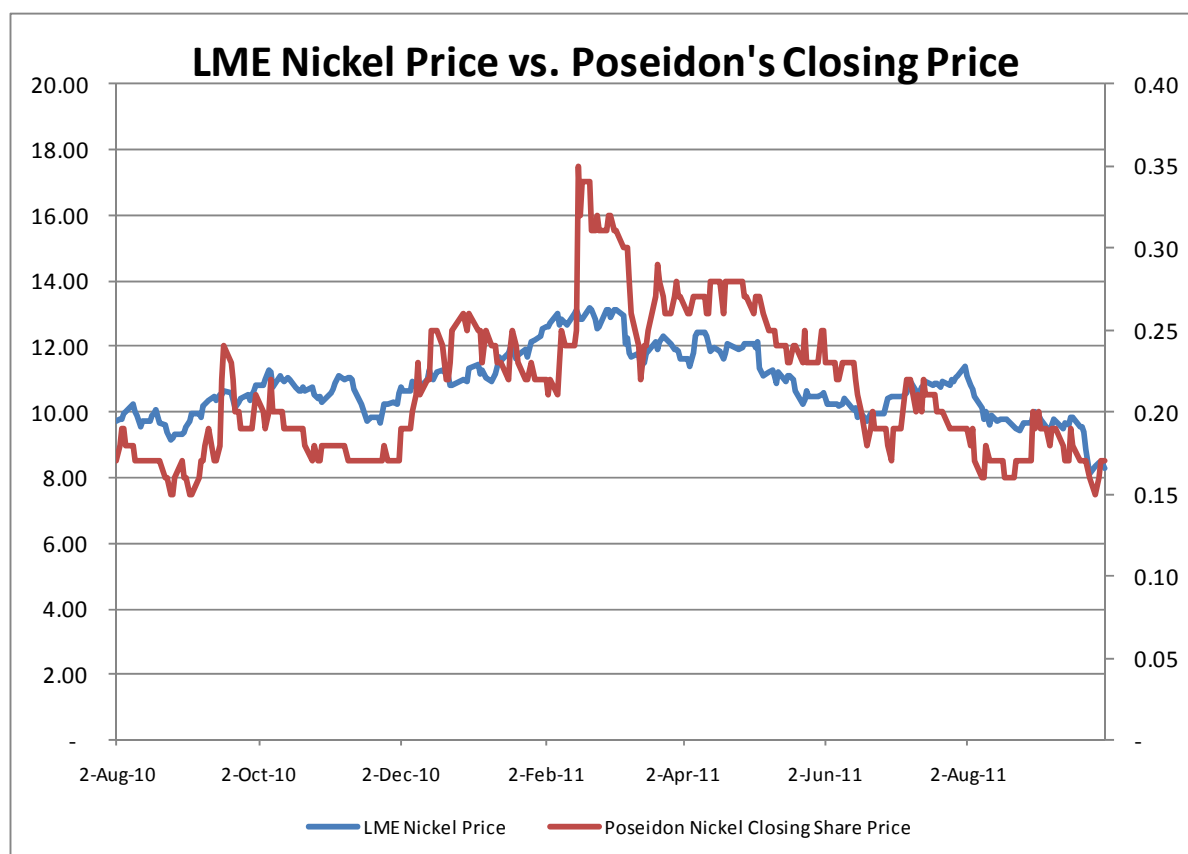
**Figure 2:** Cerberus Deposit showing the upper-high grade zone (red outline) which will form the core area of the economic evaluation and the newly recognised mineralised trends (red arrows) opening up several potential parallel lode systems which trend into untested areas adjoining Cerberus. This multiple lode model is similar to the mineralised system at Mt Windarra where there are 7 stacked mineralised channels within the system. This adds additional support to the possibility that more mineralised channels may exist at Cerberus.

## FINANCIAL

- As at 30 September 2011, the Company had cash and receivables of \$9.98 million which includes cash on hand of \$9.23 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 has continued to work with the Minerals Commission in Ghana to satisfy the conditions of the sale agreement. The extension to the exploration licence has now been approved and the remaining approvals to enable completion of the transaction are expected to be finalised shortly.

## MARKET INFORMATION

- Figure 4 below shows the underlying correlation between Poseidon's share price and the LME Nickel price over the last 12 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, 259,355 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 13 July 2011 at a deemed issue price of \$0.2417, 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 4 July 2011, 1,000,000 Incentive Options previously issued to Mr David Singleton lapsed and were cancelled accordingly.



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

31<sup>st</sup> October 2011

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](mailto: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**

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

##### **Registered Office**

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##### **Media Enquiries**

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##### **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 2011**

### 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	(4,560)	(4,560)
(b) development	-	-
(c) production	-	-
(d) administration	(764)	(764)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	163	163
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - sundry income	127	127
<b>Net Operating Cash Flows</b>	<b>(5,034)</b>	<b>(5,034)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(29)	(29)
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 (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(29)</b>	<b>(29)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(5,063)</b>	<b>(5,063)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(5,063)	(5,063)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	7	7
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings – convertible notes	-	-
1.17	Repayment of borrowings	(24)	(24)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	<b>(17)</b>	<b>(17)</b>
	<b>Net increase (decrease) in cash held</b>	<b>(5,080)</b>	<b>(5,080)</b>
1.20	Cash at beginning of quarter/year to date	14,162	14,162
1.21	Exchange rate adjustments to item 1.20	148	148
1.22	<b>Cash at end of quarter</b>	<b>9,230</b>	<b>9,230</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	125
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Cash at beginning of quarter/year to date has been adjusted to reflect the balance as per the audited Annual Report for the year ended 30 June 2011. This was due to a variance in the exchange rate used at year end.

On 13 July 2011, 259,355 ordinary shares were issued at a price of \$0.2417 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 June 2011 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**

+ See chapter 19 for defined terms.

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	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	4,226	6,158
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other – Term Deposits	5,004	8,004
<b>Total: cash at end of quarter (item 1.22)</b>	<b>9,230</b>	<b>14,162</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	E38/1622	Owned	100%	Nil
	E39/930	Owned	100%	Nil
6.2 Interests in mining tenements acquired or increased				

+ 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.

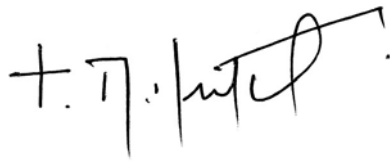
		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> <i>(description)</i>				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>*Ordinary securities</b>	195,685,759 50,000 350,000	195,685,759 50,000 350,000	\$0.102 \$0.102	\$0.002 \$0.082
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	284,356	284,356		
7.5	<b>*Convertible debt securities</b> <i>Unsecured</i>	36,531,904 This is an estimate only based on an average exchange rate of 1.0265.  64,945,608 This is an estimate only based on an average exchange rate of 1.0265.	-  -	USD\$1.0265  USD\$1.0265	The Notes have a March 2011 six year term convertible into fully paid ordinary shares at AUD\$0.40.  The Notes have a March 2011 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				
7.7	<b>Options</b>			<i>Exercise price</i>	<i>Expiry date</i>
	<i>Listed</i>	6,157,403	6,157,403	\$0.92	5 December 2011
	<i>Unlisted</i>	2,500,000	-	\$0.40	31 July 2012
	<i>Unlisted</i>	9,267,436	-	\$0.25	31 August 2012
	<i>Unlisted</i>	115,000,000	-	\$0.40	19 September 2012
	<i>Unlisted</i>	533,000	-	\$1.41	22 October 2012
	<i>Unlisted</i>	2,000,000	-	\$0.80	19 December 2012
	<i>Unlisted</i>	2,975,000	-	\$0.25	31 August 2016
	<i>Unlisted</i>	4,500,000	-	\$0.25	23 November 2016
7.8	Issued during quarter				
7.9	Exercised during quarter				

+ See chapter 19 for defined terms.

7.10	Expired during quarter	1,000,000	-	\$1.96	2 July 2011
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <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:

(Company Secretary)

Date: 31 October 2011

Print name:

Ross Kestel

## 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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