

QUARTERLY REPORT

31 DECEMBER 2011

COMPANY OVERVIEW

Poseidon Nickel is developing the Windarra Nickel Project in Western Australia. The 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 is on track to complete its definitive feasibility study in early 2012 and is targeting initial concentrate production in 2013. 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

- Final feasibility study is well progressed and is expected to be complete in early 2012
- State Government mining and environmental licences have been submitted and the Company is targeting approval in the next few months
- Refurbishment at Mt Windarra is proceeding with approximately 2.2km of decline completed to date
- Poseidon has appointed a Financial Advisor to assist with the completion of non equity project funding to return the Windarra Nickel Project into production
- A potential new high grade ore body has been identified at Mt Windarra close to existing infrastructure

- Poseidon's 2012 objective is to commence construction at the Windarra Nickel Project ("WNP"). In the last 4 years, Poseidon has built the largest, high grade nickel sulphide inventory of any exploration company in Australia. In the last 12 months Poseidon has completed many of the activities necessary to submit a final feasibility study in early 2012, including the design of a 700,000 tonne throughput concentrator plant to be built at Mt Windarra, and the completion of a drilling programme at Cerberus aimed at increasing the resource size. Starting in late 2011, the various applications for Government licences were submitted and the Company is seeking approval in the next few months. Recognising the work completed to date, Poseidon has appointed a Financial Advisor to help in the completion of the full financing for the project which is targeted for the first half of 2012. Poseidon has a track record of developing the project whilst minimising dilution to the current shareholders. The Company is actively pursuing various forms of non equity related financing alternatives to complete its development to profitability.
- Poseidon is considering a number of alternative funding solutions to complete the Windarra Nickel Project and has entered into discussions with various different parties. These discussions continue to progress well and detailed term sheets are presently being negotiated. The financing package for the process plant envisaged under the NFC agreement is also well advanced.
- Poseidon is also progressing discussions with a number of parties in relation to the assignment of off-take from the WNP. Draft off-take terms have been received and are presently being assessed against the requirements of the project.

OPERATIONS

- The installation of the 300kW pump has allowed the dewatering program to be ahead of plan with the Mt Windarra underground mine now being successfully dewatered to a depth of 400 metres. The rate of pumping will now be reduced until it is appropriate to install the next stage of pumping which will require an underground fixed pumping station and a series of stage pumps.
- Mine decline refurbishment has progressed to a depth of 240 metres below the surface, some 2.2 km from the mine portal. The refurbishment crews have successfully negotiated through several areas in which the original ground support has had to be replaced as a result of degradation over the past 20 years. Mine services have been extended with the high voltage power supply now located at the 10200 level.

- Given the extent of the water extraction, openings into the original ventilation system have been exposed and allowed flow through ventilation to be achieved in the decline using the surface ventilation fan. As a result, the forced ventilation of the decline using the 110kW underground fan will not be required until such time as the refurbishment reaches those openings.
- The original D300 explosives magazine has now been refurbished and applications for the necessary magazine licence and dangerous good licences have been made to the appropriate bodies.

EXPLORATION

CERBERUS

- Poseidon has completed the drilling programme at Cerberus and the associated recalculation of the resource size. The drilling programme has completed infill drilling between the 64 metres and 400 metres vertical depth which has demonstrated that the zones of mineralisation near to the surface and at depth are in fact linked to a continuous ore body. This outcome was expected but had not been adequately demonstrated from previous drilling that concentrated on the near surface extent of the ore body
- In addition the drilling programme was designed to test the limits of the ore body near the surface. This programme adequately demonstrated that the ore body extends from depth to at least 64 metres from the surface. Taken together with the deeper infill drilling the mineralised zone has now been demonstrated to extend continuously from 64 metres below surface to at least 700m below surface which is the current maximum depth drilled. The Cerberus ore body is approximately 1.4kms down dip and 400 metres across strike.
- The drilling programme has also demonstrated that the ore body is made up of at least 3 parallel zones of mineralisation or stacked lodes. The Mt Windarra ore body, 10kms to the north, is made up of 6 similarly stacked lodes (termed “shoots” historically). Poseidon believes that further lodes at Cerberus have been identified to the north and south in largely untested areas and that further resource extension is therefore likely and will be the subject of further future drilling.
- The new drilling assay data has been added to the existing drilling data and a resource recalculated by independent consultants Optiro Pty Ltd for Poseidon. The new Cerberus resource is shown in Table 1 and amounts to 68,633 tonnes of nickel at a 0.75% nickel cut off (similar to that used for Mt Windarra for comparison purposes). The Cerberus deposit is now larger than the Mt Windarra resource and further reinforces Poseidon’s position as having the largest nickel sulphide resource of any exploration/development company in Australia.

MT WINDARRA

- Poseidon Nickel Limited also announced in 2012 that it has identified a new potentially mineable ore zone at the Windarra Nickel Project. The potential ore body is north of the area currently included in the mine plan for Mt Windarra and appears to commence approximately 50m from the surface, below the main oxidised zone. Poseidon believes that it has intersected the mineralisation to a depth of 240 m with historic drilling indicating that it may continue deeper. The mineralised body is sub vertically plunging and runs parallel to the G Shoot zone (Figures 1 & 2) which forms the main part of the current mineralised resource base. The intersections into this zone which is now referred to as “H Shoot”, includes a true width intersection of 4.6m at 3.2% nickel which

contains 0.65m at 12.20% in WUG0001 (Table 2). WUG0004A intersected H Shoot with a true width of 1.55m at 7.86% nickel and WUG0008 returned a 2.39m intersection (0.9m true width) at a grade of 2.00% nickel.

- In addition as part of the process of converting the Mt Windarra resources into reserves, the drilling into the targeted G Shoot has also returned encouraging results with WUG0002 returning 5.9m (true width) at 2.08% Ni, WUG0003A returned 2.8m at 2.63% nickel, WUG0005 returned 5.3m (true width) at 1.57% nickel and WUG0007 returned 2.3m (true width) at 2.64% nickel (Table 2). The drilling intersected thicker mineralisation in places than anticipated due to remobilisation of sulphides into the footwall rocks adjoining and below G Shoot. Poddy remobilised mineralisation was also encountered within shear zones between G and H Shoots.
- Historic drilling by Western Mining Corp (WMC) shows sporadic high grade hits to the south and below this drilling which, up until this date, has been difficult to model. This recent drilling has demonstrated continuity between the mineralised intersections in the H Shoot position, which will be developed further with future planned drilling and the aid of 3 dimensional modelling.

• 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	0.80%	771,665	0.98	7,533	-	-	-	771,665	0.98	7,533
Cerberus	0.75%	2,773,041	1.25	34,637	1,777,743	1.91	33,996	4,550,784	1.51	68,633
Total Sulphide		4,454,706	1.20	53,470	4,732,743	1.79	84,896	9,187,449	1.51	138,366

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

Table 2: Mt Windarra Significant Intersections

Hole_ID	Dip/Azi	From (m)	To (m)	Interval (m)	True Width (m)	Ni%	Comment
WUG0001	-53/271	122.48	129.53	7.05	4.60	3.20	H Shoot
	<i>including</i>	123.70	124.70	1.00	0.65	12.20	
	<i>including</i>	127.86	129.53	1.67	1.09	3.23	
		143.46	145.94	2.48	1.65	1.63	G Shoot
WUG0002	-60/271	162.88	164.72	1.84	0.95	1.38	H Shoot
		171.83	183.23	11.4	5.90	2.08	G Shoot + G Footwall Combined
	<i>including</i>	173.45	176.00	2.55	1.30	3.68	G Shoot
	<i>including</i>	181.70	183.23	1.53	0.80	3.07	G Footwall
WUG0003A	-65/271	188.60	194.29	5.69	2.80	2.63	G Shoot
	<i>including</i>	188.60	189.50	0.90	0.44	4.60	
WUG0004A	-55/255	144.80	147.43	2.63	1.55	7.86	H Shoot
		169.77	177.88	8.11	5.90	1.05	G Shoot + G Footwall Combined
WUG0005	-62/255	192.40	193.17	0.77	0.40	1.63	H Shoot
		201.04	212.00	10.96	5.30	1.57	G Shoot + G Footwall Combined
	<i>including</i>	201.04	205.27	4.23	2.05	2.58	G Shoot
WUG0006	-66/255	225.85	226.37	0.52	0.25	1.09	G Shoot
WUG0007	-65/265	194.25	197.79	3.54	1.80	1.10	H Shoot
		206.46	211.08	4.62	2.30	2.64	G Shoot
		214.26	219.05	4.79	2.40	0.72	G Footwall
WUG0008	-68/271	208.31	210.70	2.39	0.9	2.00	H Shoot
		283.00	287.55	4.55	1.8	0.82	G Shoot
	<i>including</i>	286.00	286.72	0.72	0.3	1.93	

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.

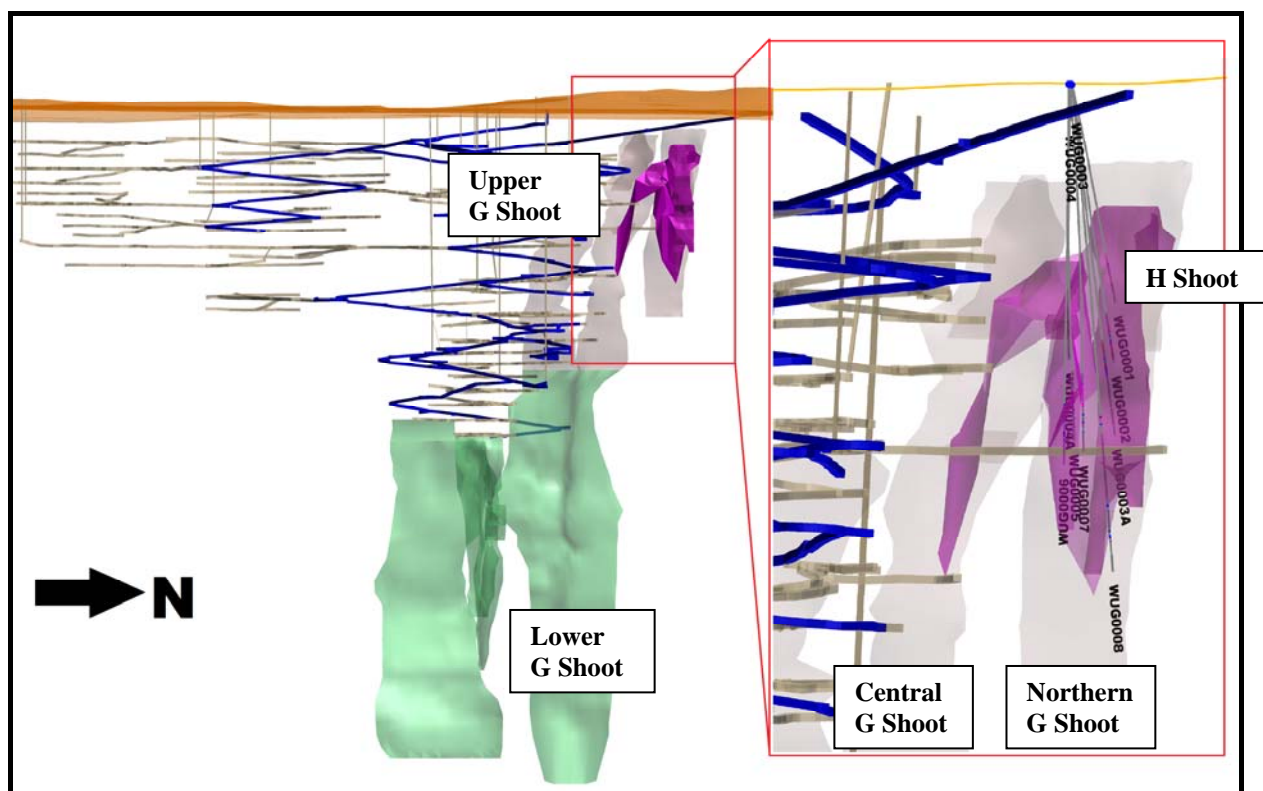


Figure 1: 3D model of the Windarra mine showing the defined ore shoots with respect to the mine decline (blue) and development (grey). The newly defined H Shoot is defined by the dark purple shape, with Upper G Shoot (light grey) and Lower G Shoot (green) shown relative to the H Shoot position. The positions of the reported drill intersection are shown on the expanded inset.

SOUTH WINDARRA

- Poseidon completed a ground seismic analysis to assist with the location of the potential extension to the South Windarra ore body in early 2011. Poseidon believes that significant evidence exists for an extension that if identified, would provide additional concentrator feed in future years. South Windarra includes a small residual resource at the base of the existing pit which was not believed by the Company to be significant and an eastern extension to the pit which is believed to demonstrate the trend of the main ore channel. In late 2011, Poseidon sought to verify its evaluation of the resource at the base of the pit prior to determining a reuse for the pit as a tailings dam.
- Poseidon Nickel commissioned an independent scoping mining study of the remnant nickel resources below the South Windarra pit and underground workings. For the purpose of this study the area below the current workings as well as an area to the west of the South Windarra pit was evaluated. The East Lode portion of the ore body was not accessed in this study as there is potential for further exploration in the vicinity of the East Lode to possibly extend this resource. The East Lode is separated from the mined out South Windarra ore bodies and the study included the assessment of a suitable portal location and decline design for access to this area. Based on the mine design and schedule produced for South Windarra it is uneconomical for mining to recommence underground at the South Windarra project.
- Consequently approval was sort and has been approved for inpit tailings disposal of the generated tailings waste from the proposed nickel concentrator at Mt Windarra. This will be pumped via pipeline down to South Windarra and deposited into the flooded pit.

- The in-pit tailings will sterilise the remnant nickel resources below the South Windarra pit and underground workings as well as an area to the west of the South Windarra pit. The nickel mineralisation relating to this has been removed from the company's Resource Statement Table (Table 1). The East Lode mineralisation remains in the Resource Table under the South Windarra Project.

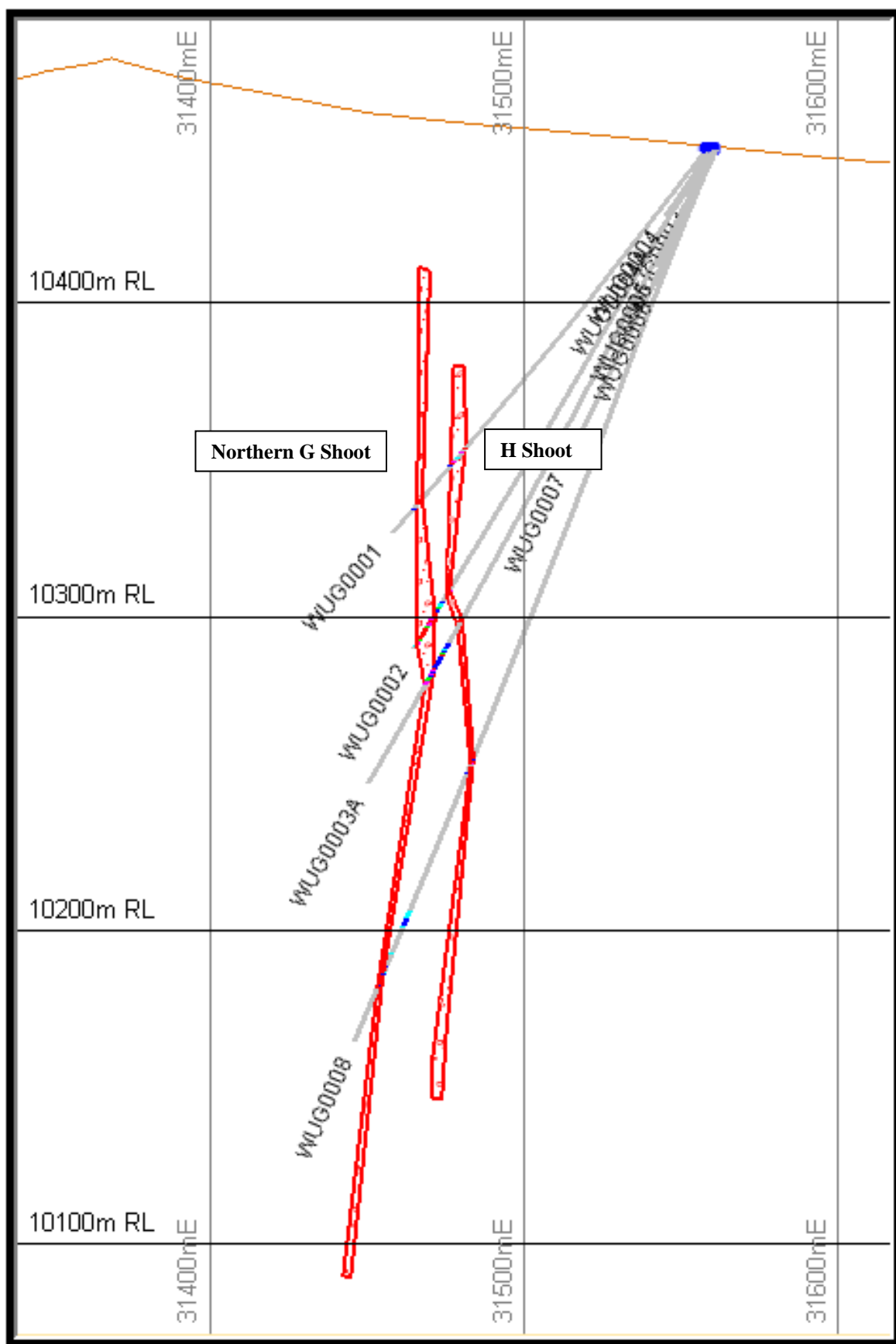


Figure 2: Cross section through 10265mN showing recent drill holes intersecting H shoot which is positioned parallel and to the east of Northern G Shoot.

FINANCIAL

- As at 31 December 2011, the Company had cash and receivables of \$5.60 million which includes cash on hand of \$4.85 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 and 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.

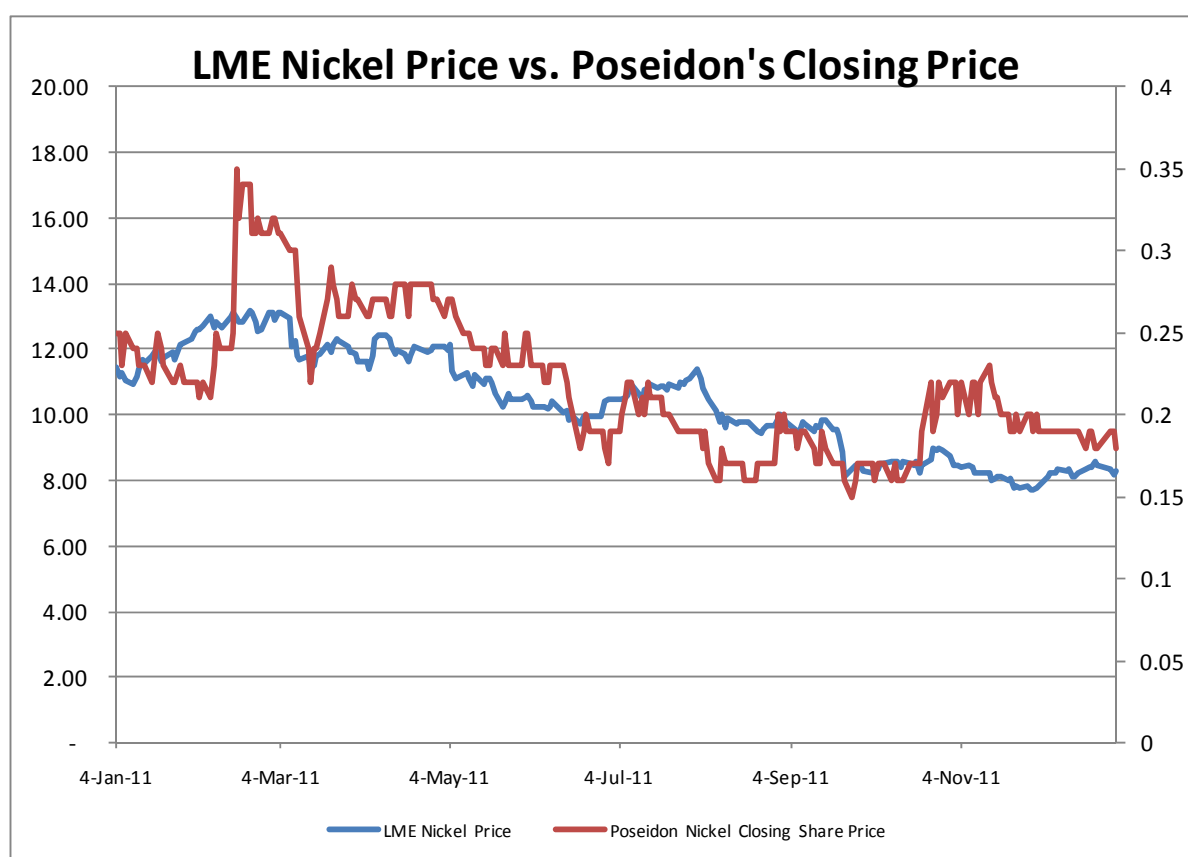


Figure 4: Poseidon share price graph

CORPORATE

- In line with Poseidon's policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 360,125 Fully Paid Ordinary Shares were issued in lieu of Directors fees for the quarter to September under the terms of the Director Share Plan. The shares were issued on 20 December 2011 at a deemed issue price of \$0.1812, 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.

- In accordance with the resolutions passed at the Annual General Meeting (“AGM”) held on 22 November 2011, the Company issued 1,965,000 Fully Paid Ordinary Shares to Mr D Singleton in his capacity of Chief Executive Officer. The Shares are subject to a three year holding lock.
- In addition, shareholders also passed a resolution for the cancellation of 50,000 Partly Paid Shares for non-payment of calls made between March 2007 and March 2011.
- 6,157,403 Listed Options expired at 5.00pm (WST) on 5 December 2011. The Options were subject to an exercise price of 92 cents per Option.
- 5,495,398 Fully Paid Ordinary Shares were issued to employees for performance in 2011 under the terms of the Poseidon Employee Bonus Scheme that was approved by Shareholders at the November 2009 AGM.
- 350,000 Fully Paid Ordinary Shares were issued upon receipt of the remaining balance for Partly Paid Shares that were issued in 2004 for a total consideration of \$0.102.
- 2,608,863 Fully Paid Ordinary Shares were issued in recognition of professional broking services provided by a New York based Broker for past capital raisings.



David P.A. Singleton
Managing Director & CEO

31st January 2012

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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
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E: admin@poseidon-nickel.com.au

Shareholder Enquiries

Enquiries concerning shareholdings should be addressed to:

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SUBIACO WA 6008
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Registered Office

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Media Enquiries

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FD Third Person
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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")

31 December 2011

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	(3,324)	(7,884)
(b) development	-	-
(c) production	-	-
(d) administration	(791)	(1,555)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	123	286
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - sundry income	98	225
Net Operating Cash Flows	(3,894)	(8,928)
Cash flows related to investing activities		
1.8 Payment for purchases of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(466)	(495)
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)	-	-
Net investing cash flows	(466)	(495)
1.13 Total operating and investing cash flows (carried forward)	(4,360)	(9,423)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(4,360)	(9,423)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	-	7
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings – convertible notes	-	-
1.17	Repayment of borrowings	(16)	(40)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	Net financing cash flows	(16)	(33)
	Net increase (decrease) in cash held	(4,376)	(9,456)
1.20	Cash at beginning of quarter/year to date	9,230	14,162
1.21	Exchange rate adjustments to item 1.20	-	148
1.22	Cash at end of quarter	4,854	4,854

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 20 December 2011, 360,125 ordinary shares were issued at a price of \$0.1812 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 September 2011 quarter.

In addition 7,460,398 ordinary shares were issued to executives and employees of the Company in relation to the 2011 Poseidon Employee Bonus Scheme and 2,608,863 ordinary shares were issued in relation to professional broking services provided for past capital raisings.

These have 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	2,800
4.2 Development	-
4.3 Production	-
4.4 Administration	800
Total	3,600

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	1,850	4,226
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other – Term Deposits	3,004	5,004
Total: cash at end of quarter (item 1.22)	4,854	9,230

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	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	206,465,146	206,465,146		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	10,429,387 (50,000)	10,429,387 (50,000)		
7.5	*Convertible debt securities <i>Unsecured</i>	36,531,904 This is an estimate only based on an average exchange rate of 1.0265.	-	\$0.40	The Notes have a March 2011 six year term convertible into fully paid ordinary shares.
		64,945,608 This is an estimate only based on an average exchange rate of 1.0265.	-	\$0.30	The Notes have a March 2011 six year term convertible into fully paid ordinary shares.
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>
	<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	6,157,403	6,157,403	\$0.92	5 December 2011
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: 31 January 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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