

QUARTERLY REPORT

31 MARCH 2012

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

- Commencement of Project Funding for Windarra Nickel Project
- Undertaking an underwritten Rights Issue to raise \$20 million as the equity component of the overall raising
- Entered into an unsecured Bridge Loan facility for \$8 million with funds received by the Company
- Discussions underway with major International Banks to debt fund the project
- Completed the Definitive Feasibility Study for the Windarra Nickel Project which is being reviewed by an Independent Technical Expert

- Poseidon's has announced a fully underwritten renounceable Rights Issue of 0.965 new fully paid ordinary shares in the Company (New Shares) for every one fully paid ordinary share held on the Record Date of 20 April 2012. New Shares under the Rights Issue will be offered at \$0.10 per New Share. Based on the current capital structure (and assuming no options to acquire shares are exercised prior to the Record Date), an additional 199,906,923 New Shares will be issued to raise approximately \$20 million.
- The Rights Issue is fully underwritten by Forrest Family Investments Pty Ltd (Underwriter), an entity controlled by the Company's Chairman, Mr Andrew Forrest. The Company will pay the Underwriter an underwriting fee of 5% of the underwritten shares (excluding shares held by the Underwriter or its related parties), less the amount the Underwriter, or its associates, would have to pay if it subscribed for its full entitlement under the offer and also less broker fees payable on trading the rights. This underwriting has been deemed by the Company to be on arms length terms and the Underwriting Agreement contains standard commercial terms and conditions.
- The Company intends to apply the funds raised from the Rights Issue towards:

| Proceeds of the Offer (full subscription) | A\$ |
|---|---------------------|
| Completion of Mt Windarra mine refurbishment | \$3,900,000 |
| Early works associated with the construction of the Windarra Nickel Project including critical path items such as the box cut for Cerberus, certain long lead items for the concentrator and an extension to the accommodation village. | \$6,000,000 |
| Exploration and Development drilling activities for Windarra Nickel Project | \$2,500,000 |
| Definitive Feasibility Study completion and related project costs | \$2,600,000 |
| Working Capital | \$3,876,000 |
| Expenses of the Offer | \$1,124,000 |
| Total | \$20,000,000 |

The use of funds set out above is a “best estimate” only. It is important to recognise that the use of funds may be subject to change in line with results, circumstances and other opportunities.

- In addition, Poseidon has entered into an unsecured Bridge Loan of \$8 million with Forrest Family Investments Pty Ltd. The loan is intended to fund Poseidon’s current technical and funding activities as well as undertaking risk reduction activities for the project itself.
- The Company is also in negotiations with major international banks to fund the project through a debt and working capital facility. More definitive details on these facilities will be provided as they become firm.
- Poseidon is currently nearing completion of the Definitive Feasibility Study (DFS) for the Windarra Nickel Project and includes the:
 - Recommissioning of the Mt Windarra underground mine
 - Underground mining of the Cerberus ore body
 - Construction of a new 700,000 tonne per annum nickel concentrate flotation plant to take ore from both mines
 - Reprocessing of stock piled gold tailings with an average probable reserve grade of circa 0.71 grammes/tonne for an initial period of 3+ years.

OPERATIONS

- Mine decline refurbishment has progressed to a depth of 270 metres below the surface, some 2.5 km from the mine portal. The refurbishment crews continue to successfully negotiate areas in which the original ground support has had to be replaced as a result of degradation over the past 20 years.
- Ongoing geotechnical inspection and seismic monitoring continues to support the refurbishment works and provides the necessary rock support design.

EXPLORATION

Mt Windarra

- During the third quarter two diamond holes, WUG009 and WUG010, and one RC hole PNR0170 were drilled on the Mt Windarra Nickel Project for a total of 779.8m (405m RC). The drilling was a continuation of the Upper G North drill programme started in November 2011 which comprised an 11 hole programme which was designed preliminary to get a better understanding of the Northern G Shoot before undertaking a more definitive programme from underground.
- The best intersections came from within the newly identified H Shoot, with WUG009 and WUG010 returning 5.39m at 2.85% from 146.67m and 2.28m at 1.67% from 151.83m respectively. PNR0170 was drilled below this round of diamond drilling to test its continuation at depth. The hole intersected both H Shoot and G Shoot at depth returning 4m at 0.89% from 233.0m and 9m at 1.21% from 296.0m respectively.
- This drilling was successful in highlighting the previously unidentified H Shoot sitting within the hanging wall of Upper G North Shoot. Further drilling to better define and expand H Shoot is planned in the initial underground drilling phase which will commence during the second quarter.

- A series of 52 reverse circulation drill holes were drilled into the historic Mt Windarra tailings dam on a 60m x 60m pattern for a total of 1,192m. The samples were assayed for their nickel, gold and copper content which returned impressively high results. The highest gold readings came from PNTFS027 returning 4m at 1.4 g/t gold with several other holes returning figures greater than 0.75g/t in the tailings.

Cerberus

- A total of fourteen geotechnical drill holes were drilled at the Cerberus Project for 1,809.4m (58.8m RC). The holes were focused around 3 main areas of the project, the portal zone - to obtain an understanding of the box-cut requirements, the area around the primary decline and the upper portion of the initial mining area. The geotechnical drilling was done as part of the Cerberus bankable feasibility study with the data used to assist in the final mine design.

Joint Venture Ground

- Diamond drillhole DBDD001 is located approximately 300m south of Poseidon's tenement boundary which hosts the Cerberus Nickel Deposit and lays inside the new optioned JV ground. DBDD001 was drilled in 2010 on E38/1930 and Poseidon have now relogged and resampled the hole in the geological position which hosts the Cerberus Deposit. The drill hole displayed the same layered komatiite sequence seen to the north which hosts the Cerberus deposit including channel structures hosting thin, semi-massive sulphide mineralization. Assays results are awaiting, however this drill hole demonstrates the highly prospective nature of the area immediately to the south which lies within the Magma Metals JV ground.

| 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 |

| Windarra Gold Tailings Project | Resource Category | | |
|--------------------------------|-------------------|-------------|----------------|
| | Indicated | | |
| | Tonnes (kt) | Grade (g/t) | Au (oz) |
| Total Gold Tailings | 10,993 | 0.52 | 182,500 |

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.

FINANCIAL

- As at 31 March 2012, the Company had cash and receivables of \$8.26 million which includes cash on hand of \$7.51 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 ("Hodges"). The Company has now received the final Ministerial consent from the Minerals Commission in Ghana and is now working with Hodges to complete the transaction and release the funds from escrow.
- On 30 March 2012 the Company entered into an \$8 million unsecured Bridge Loan with Forrest Family Investments Pty Ltd. The loan was negotiated on commercial terms and conditions, the key terms being as follows:
 - The drawdown date for the Loan was 30 March 2012;
 - The loan must be repaid by the Company on the earlier of 1 July 2013 and as soon as soon as the Company completes a final capital raising;
 - The loan is unsecured and the Company may not grant security while the Loan remains outstanding;
 - The Lender has the right to demand that the Loan is repaid through a mandatory capital raising at the end of the 15 month term if it has not been repaid by that time;
 - Interest of 11% per annum is payable 6 monthly in arrears, with the interest rate increasing if the Loan is not repaid after 6 months by 100 basis points each quarter until the Loan is repaid; and
 - A 1.5% commitment fee is payable upfront and a 1.5% exit fee is payable on the loan amount when the principal is repaid.

MARKET INFORMATION

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

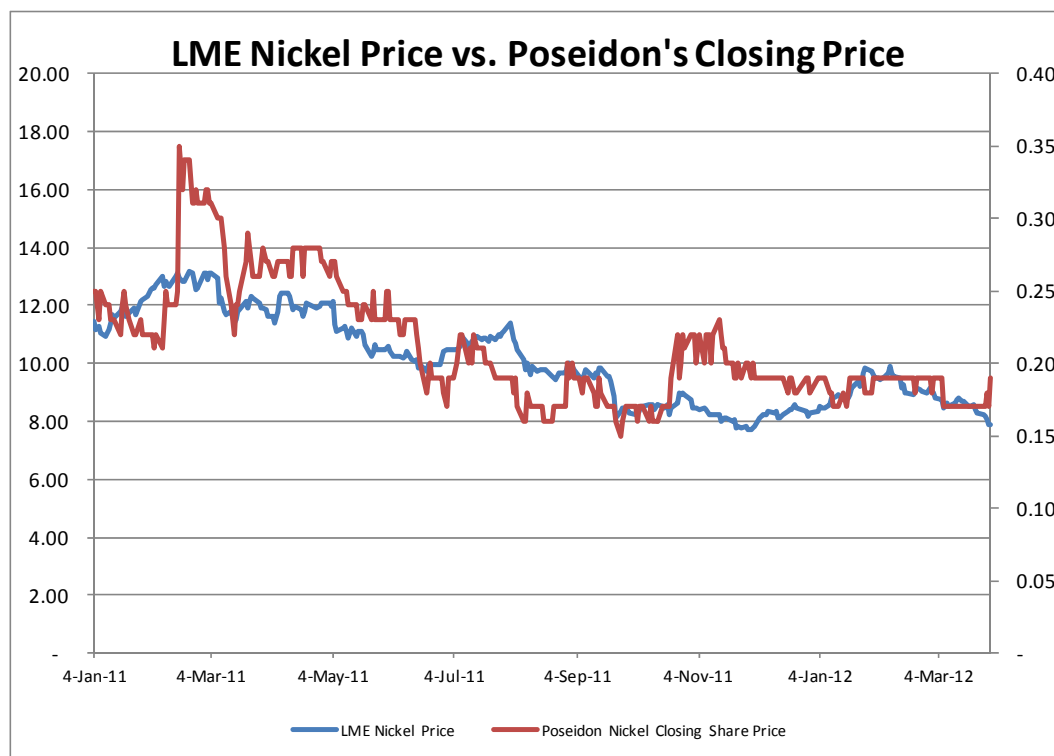


Figure 4: Poseidon share price graph

CORPORATE

- In line with Poseidon's policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 332,180 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 27 January 2012 at a deemed issue price of \$0.1965, based upon the volume weighted average sale price ("VWAP") for the 92 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.

David P.A. Singleton
Managing Director & CEO

30 April 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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P: 61 8 9323 2000

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SUBIACO WA 6008
P: 61 8 9382 8799
F: 61 8 9382 4760

Registered Office

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100 Railway Road
SUBIACO WA 6008
P: 61 8 9367 8133
F: 61 8 9367 8812

Media Enquiries

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FD Third Person
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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")

31 March 2012

Consolidated statement of cash flows

| | | Current quarter \$A'000 | Year to date (9 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 | (4,716) | (12,600) |
| | (b) development | - | - |
| | (c) production | - | - |
| | (d) administration | (748) | (2,303) |
| 1.3 | Dividends received | - | - |
| 1.4 | Interest and other items of a similar nature received | 57 | 343 |
| 1.5 | Interest and other costs of finance paid | - | - |
| 1.6 | Income taxes paid | - | - |
| 1.7 | Other - sundry income | 128 | 353 |
| | Net Operating Cash Flows | (5,279) | (14,207) |
| Cash flows related to investing activities | | | |
| 1.8 | Payment for purchases of: | | |
| | (a) prospects | - | - |
| | (b) equity investments | - | - |
| | (c) other fixed assets | (14) | (509) |
| 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 | (14) | (509) |
| 1.13 | Total operating and investing cash flows (carried forward) | (5,293) | (14,716) |

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

| | | | |
|------|--|--------------|----------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (5,293) | (14,716) |
| | 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 | 8,000 | 8,000 |
| 1.17 | Repayment of borrowings | (47) | (87) |
| 1.18 | Dividends paid | - | - |
| 1.19 | Other (provide details if material) | - | - |
| | Net financing cash flows | 7,953 | 7,920 |
| | Net increase (decrease) in cash held | 2,660 | (6,796) |
| 1.20 | Cash at beginning of quarter/year to date | 4,854 | 14,162 |
| 1.21 | Exchange rate adjustments to item 1.20 | - | 148 |
| 1.22 | Cash at end of quarter | 7,514 | 7,514 |

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 27 January 2012, 332,180 ordinary shares were issued at a price of \$0.1965 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 December 2011 quarter. This has not been included in the above cash flow.

During the quarter, the Company entered into an unsecured Bridge Loan of \$8 million with Forrest Family Investments Pty Ltd. The loan was negotiated on commercial terms and conditions.

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 | 43,103 | 43,103 |
| 3.2 Credit standby arrangements | - | - |

Estimated cash outflows for next quarter

| | \$A'000 |
|--------------------------------|--------------|
| 4.1 Exploration and evaluation | 2,900 |
| 4.2 Development | - |
| 4.3 Production | - |
| 4.4 Administration | 800 |
| Total | 3,700 |

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 | 7,500 | 1,850 |
| 5.2 Deposits at call | - | - |
| 5.3 Bank overdraft | - | - |
| 5.4 Other – Term Deposits | 4 | 3,004 |
| Total: cash at end of quarter (item 1.22) | 7,514 | 4,854 |

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 | E38/1587 | Owned | 100% | 0% |
| 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 | 206,797,326 | 206,797,326 | | |
| 7.4 | Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs | 332,180 | 332,180 | | |
| 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 | | | | |
| 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: 30 April 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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