

QUARTERLY REPORT

30 JUNE 2012

COMPANY OVERVIEW

Poseidon Nickel is developing the first new Nickel Project in Western Australia for many years. The Windarra 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 has completed its Definitive Feasibility Study (DFS) during 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

- Completed the Definitive Feasibility Study (DFS) for the Windarra Nickel Project which is currently being reviewed by an Independent Technical Expert
- Completed an underwritten Rights Issue to raise \$20 million
- Discussions underway with major International Banks to debt fund the project
- Grown nickel inventory by a further 31% to 144,400t of contained Ni metal over the past 12 months
- Regional Exploration drilling programme at Denny Bore commenced recently

- Poseidon has now completed the Definitive Feasibility Study (DFS) for the Windarra Nickel Project (WNP). The DFS is currently being reviewed by the Independent Technical Experts (ITE) and Poseidon will publish details of this study when the outcome is confirmed. It had been Poseidon's intention, as announced, to proceed directly to complete the debt funding of the WNP after the ITE report was completed and the equity raising was completed. However, Poseidon is not immune to the current financial market instability and as a result we now think that final financing maybe postponed. In the meantime Poseidon has decided to undertake some additional activities to further develop and enhance the project and to maximise the use of the time available. Poseidon is therefore bringing forward planned activities which were previously programmed to take place after final financing, as follows:

1. Initiate additional resource drilling at Mt Windarra to delineate a mining reserve. Poseidon has recently accelerated the decline refurbishment programme and expects to reach the required drilling position in 10-12 weeks. Drilling will start immediately thereafter.
2. Carry out further regional exploration to search for potential new ore bodies along the Windarra ultramafic. In 2008 Poseidon discovered the Cerberus ore body 10kms south of Mt Windarra which eventually led to the decision to double the plant throughput production capacity. Follow up geochemical and geophysical work identified several other zones on the tenements considered prospective and which now make a concerted drill programme necessary. Poseidon will drill in the Denny Bore area to follow up previous promising initial drill intersections.
3. Risk reduction activities for project construction which includes tendering major areas of surface and subsurface infrastructure and, where appropriate, negotiating contracts.

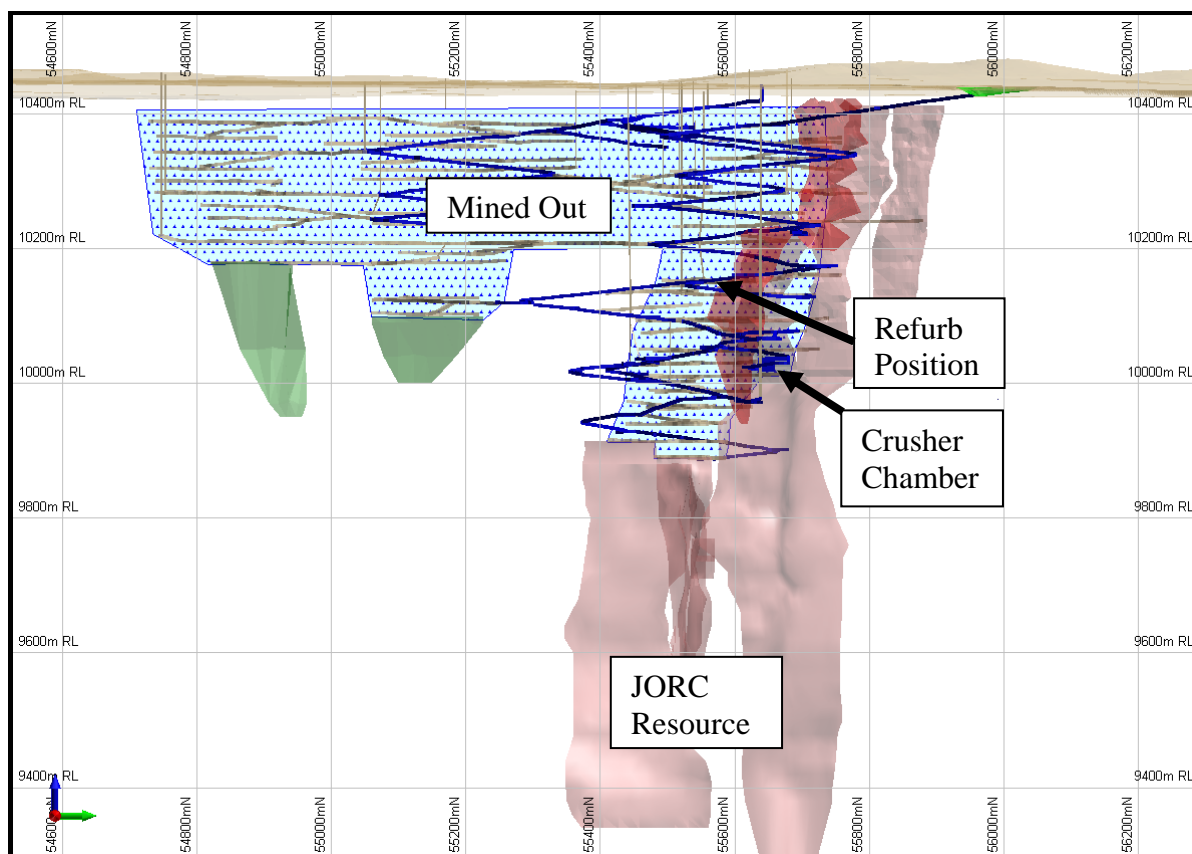
Poseidon believes that the approach outlined above will make best use of the time afforded by the market financing situation and could lead to significant enhancements to the Project.

- Poseidon has completed the Definitive Feasibility Study (DFS) for the Windarra Nickel Project which includes additional work with the various external consultants that have supported the DFS to ensure that the project is fully optimised. These work streams are nearing completion and being reviewed by an Independent Technical Expert. The final version of the DFS will include the:
 - Recommissioning of the Mt Windarra underground mine;
 - Underground mining of the Cerberus ore body;
 - A fully optimised mine plan;

- Construction of a new nickel concentrate flotation plant to take ore from both mines and capable of processing in excess of 700,000 tonnes per annum; and
 - 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.
- Poseidon has now completed the 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. The new Shares under the Rights Issue were offered at \$0.10 per New Share with an additional 199,906,923 New Shares being issued on 12 June which raised approximately \$20 million. The proceeds will be used to progress the project, continue with additional resource drilling and to de-risk a number of key areas in advance of the full project funding being secured.
 - The Rights Issue was fully underwritten by Forrest Family Investments Pty Ltd (Underwriter), an entity controlled by the Company's Chairman, Mr Andrew Forrest. The Company paid 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. The underwriting fee amounted to \$1.1 million. This underwriting has been deemed by the Company to be on normal arms length terms.
 - The Company has continued to negotiate with several 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.

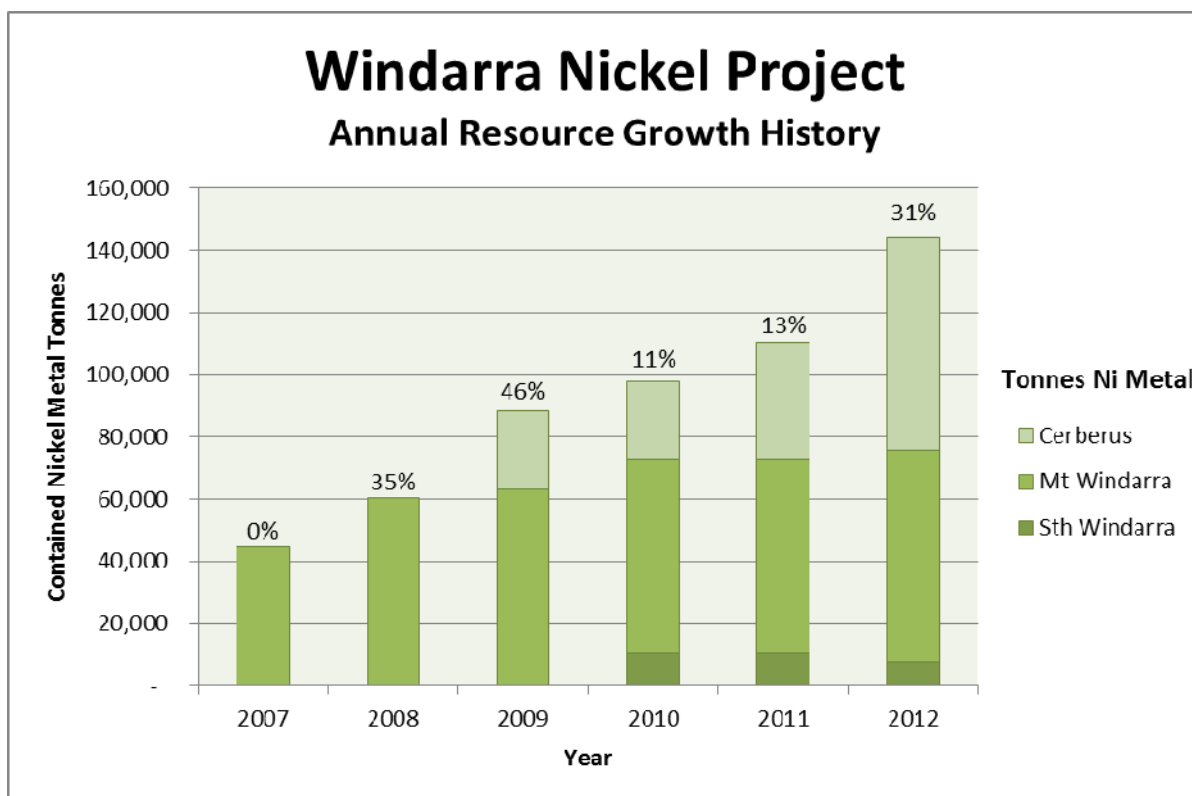
OPERATIONS

- Mine decline refurbishment has progressed to a depth of 295 metres below the surface, some 2.7 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.
- Poseidon's priority objective now is to reach the crusher chamber (see following diagram) position so that drilling of the Mt Windarra resource can commence from underground (previously only drilled from surface). Poseidon expects to reach the drilling position in 10-12 weeks.



EXPLORATION

During the quarter work focussed on completing the DFS following the conclusion of the 2011 drilling campaign which resulted in an upgrade of the Cerberus Resource which now comprises 4.55Mt at 1.51% Ni for 68,600t of contained nickel metal. The latest Cerberus resource estimation has resulted in a 31% increase in Poseidon's nickel inventory from 110,470t Ni to 144,400t Ni in the last year. The company has successfully grown its nickel inventory at an average of 27% per annum (see following diagram) with Cerberus being a major contributor to the company's resource growth. This history of discovery and delineation underpins the company's growth success and Poseidon is confident that this will continue based on the quality of untested exploration targets identified at Denny Bore, Ziggy Flats and Windarra Well.

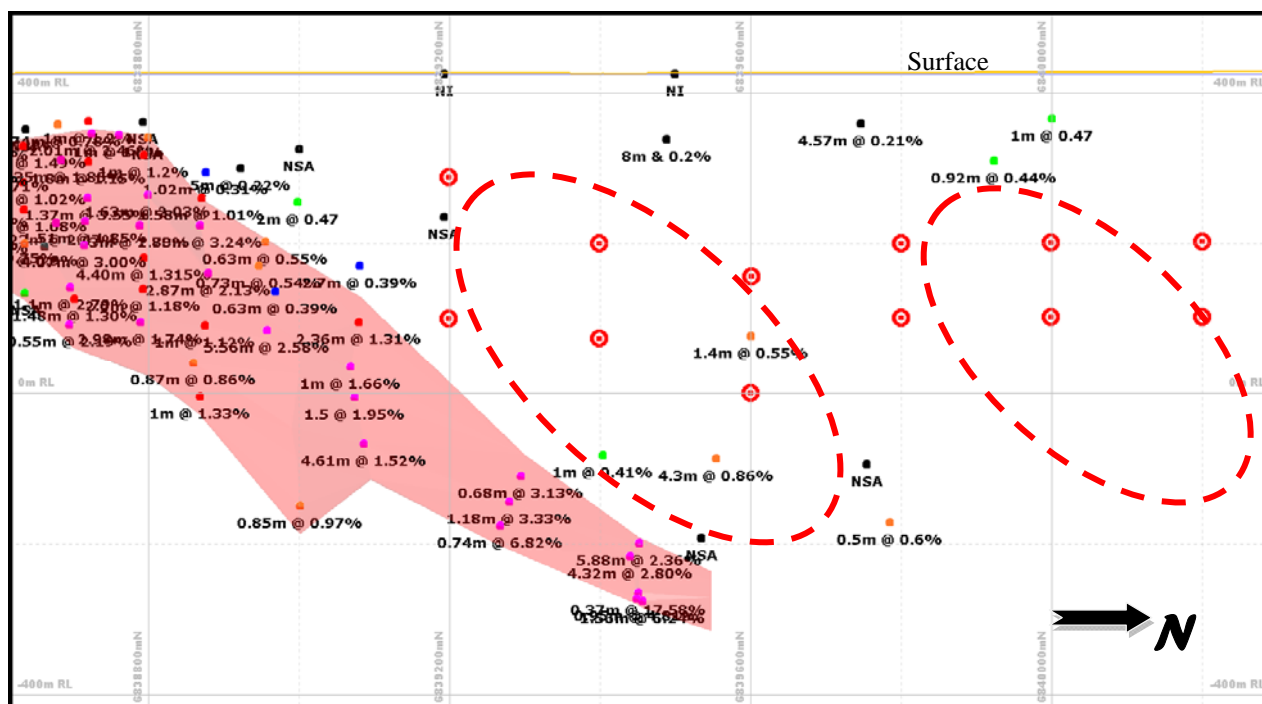


Mt Windarra

- Refurbishment of the Windarra decline is progressing and will be at the underground crusher chamber in the near future. This will provide the first ideal drilling platform from which the additional ore drilling can be completed. Around 31,000m of drilling has been planned.

Denny Bore

- The company has, within the last few weeks, committed to completing ~4,000m of drilling at the Denny Bore Project, commencing in July. Twelve RC drill holes with diamond tails have been planned to test an area 1km long north of Cerberus, to a depth of 450m below surface. Mt Windarra mineralisation comprises of 8 parallel ore bodies, so it's anticipated that parallel mineralisation may exist near Cerberus.
- Shallow surface drilling to the north of Cerberus returned 1m @ 0.47% Ni at a downhole depth of 69m (PNRC0086) and 0.92m @ 0.44% Ni from 137.46m (D60-38). Earlier deeper drilling which led to the discovery of Cerberus also supports the potential for parallel mineralisation to exist. Drilling intersections to the north of Cerberus returned 4.3m @ 0.86% Ni from 536.7m *including 0.55m @ 1.57% Ni and 1m @ 1.12% Ni* (PND0014), 1.4m @ 0.55% Ni from 365.6m (PND0031), 0.5m @ 0.6% Ni from 639m (WED11) and 1m @ 0.41% Ni from 538.55m (PND0021). Although these results are not economic, they are strong indicators of the potential proximity of an ore body.
- Down Hole Electro-magnetics (DHEM) will be used to test for nickel sulphide mineralisation away from the drill holes which reduces the amount of drilling required to test this area and increase the likelihood of discovering blind or deeper mineralisation away from the drill holes.



Denny Bore Project drill targets are located to the north of Cerberus and are supported by earlier anomalous drill intersections. DHEM will be used to ensure the area is fully tested for nickel mineralisation potential.

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%	974,000	1.25	12,400	2,977,000	1.88	55,900	3,951,000	1.73	68,300
South Windarra	0.80%	772,00	0.98	7,500	-	-	-	772,00	0.98	7,500
Cerberus	0.75%	2,773,000	1.25	34,600	1,778,000	1.91	34,000	4,551,000	1.51	68,600
Total Sulphide		4,519,000	1.21	54,000	4,755,000	1.89	89,900	9,274,000	1.56	144,400

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 Australasian 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.

TESTWORK

- Following the successful integration of the gold tailings retreatment option at Windarra preliminary batch testwork was completed (in collaboration with Direct Nickel) on the stored nickel tailings at Windarra. Batch testwork was also completed on the oxide dumps and Woodline Well. The estimated combined nickel tailings, dumps and Woodline Well resource is 12.9M tonnes at an average grade of 0.38% nickel for a total contained nickel of 49,120 tonnes.
- Based on the results obtained from the batch testwork an engineering study was completed on the economics of retreating nickel tailings, oxide dump material and the Woodline Well deposit. The study concluded that nickel tailings including the oxide dumps and Woodline Well, could be treated commercially at Windarra to recover the contained nickel, copper, cobalt and gold metal.
- A continuous pilot programme was therefore designed and commissioned at SGS Lakefield Orestest to demonstrate the flowsheet and technology for the commercial recovery of value metals from the tailings, dumps and Woodline Well. Following the successful continuous piloting programme at Lakefield Orestest the engineering study was updated to reflect the results obtained from the continuous piloting programme. The updated study confirmed that the nickel tailings oxide dumps and Woodline Well could be treated commercially at Windarra to recover the contained metals.



- Due to the successful piloting campaign further testwork and engineering is progressing to complete a DFS level capital and operating cost estimate for the nickel tailings, oxide dumps and Woodline Well retreatment and treatment option at Windarra that will further enhance the overall project economics.

NICKEL TAILINGS PROJECT- OPTIRO Ordinary Kriged Resource Estimate - March 2012

Windarra Nickel Project Oxides	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
Woodline Well	0.50%				344,000	1.25	4,300	344,000	1.25	4,300
Sth Windarra Dump 1	0.00%	2,814,000	0.39	10,975				2,814,000	0.39	10,975
Sth Windarra Dump 2	0.00%	162,000	0.74	1,199				162,000	0.74	1,199
Central Tailings Dam	0.00%	9,602,000	0.34	32,647				9,602,000	0.34	32,647
Total Oxide		12,578,000	0.36	44,820	344,000	1.25	4,300	12,922,000	0.38	49,120

FINANCIAL

- As at 30 June 2012, the Company had cash and receivables of \$21.3 million which includes cash on hand of \$20.6 million plus an interest bearing receivable of \$0.75 million that was held in escrow from the sale of the Ghana gold project to Hodges Resources ("Hodges"). Since the end of the period, the Company completed the transaction with Hodges on 10 July 2012 and the funds, including interest, have been released from escrow. In addition, and as part of the purchase consideration, Hodges has issued 1,250,000 ordinary shares to Poseidon.
- On 12 June 2012 the Company successfully completed the fully underwritten Rights Issue which raised approximately \$20 million, less underwriting fees of \$1.1 million. Following the issue of the underwritten shares, Forrest Family Investments and other entities controlled by Andrew Forrest, held 31.89% of the shares on issue, reflecting the continued strong support from the Chairman in the Company and the Windarra Nickel Project.

MARKET INFORMATION

- Figure 4 and 5 below shows the underlying correlation between Poseidon's share price and the LME Nickel price and the correlation to the ASX 200 Resources index over the last 12 months.

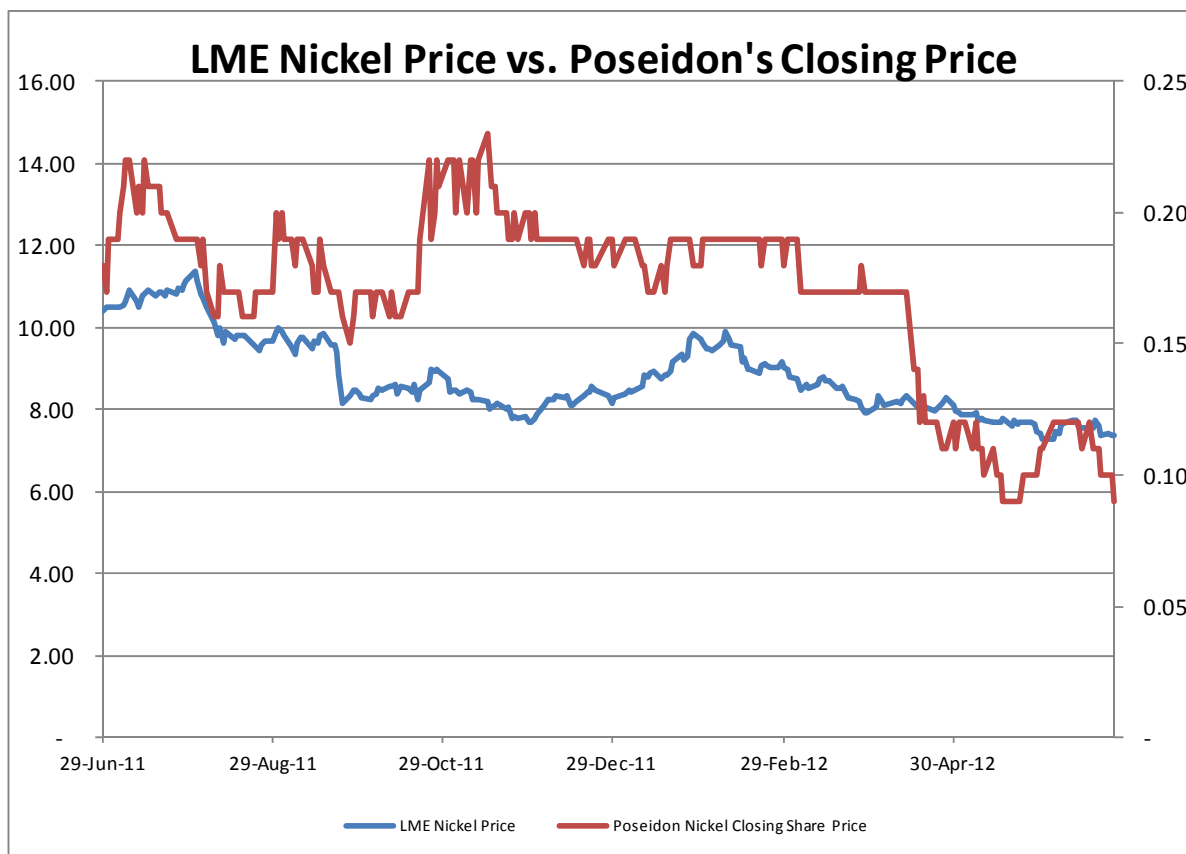


Figure 4: Poseidon share price graph compared to LME Nickel price

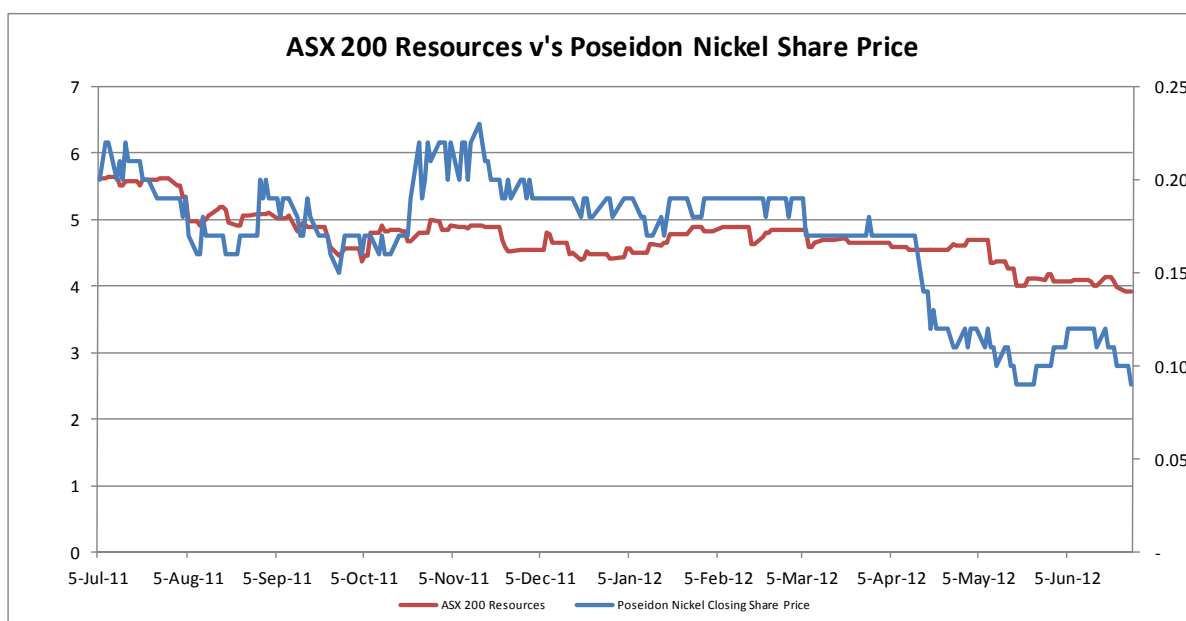


Figure 5: Poseidon share price graph compared to ASX 200 Resources index

CORPORATE

- In line with Poseidon’s policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 360,108 Fully Paid Ordinary Shares were issued in lieu of Directors fees for the quarter to March under the terms of the Director Share Plan. The shares were issued on 3 April 2012 at a deemed issue price of \$0.1812, based upon the volume weighted average sale price (“VWAP”) for the 91 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

31 July 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

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Shareholder Enquiries

Enquiries concerning shareholdings should be addressed to:

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Registered Office

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SUBIACO WA 6008
P: 61 8 9367 8133
F: 61 8 9367 8812

Media Enquiries

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FTI Consulting
P: 61 8 9458 8888 M: 0433 886 871
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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 June 2012

Consolidated statement of cash flows

		Current quarter \$A'000	Year to date (12 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	(4,778)	(17,378)
	(b) development	-	-
	(c) production	-	-
	(d) administration	(1,225)	(3,528)
1.3	Dividends received	-	-
1.4	Interest and other items of a similar nature received	111	454
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Other - sundry income	84	437
	Net Operating Cash Flows	(5,808)	(20,015)
Cash flows related to investing activities			
1.8	Payment for purchases of:		
	(a) prospects	-	-
	(b) equity investments	-	-
	(c) other fixed assets	-	(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	-	(509)
1.13	Total operating and investing cash flows (carried forward)	(5,808)	(20,524)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(5,808)	(20,524)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	19,991	19,998
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	8,000
1.17	Repayment of borrowings	(42)	(129)
1.18	Dividends paid	-	-
1.19	Other – share issue costs	(1,073)	(1,073)
	Net financing cash flows	18,876	26,796
	Net increase (decrease) in cash held	13,068	6,272
1.20	Cash at beginning of quarter/year to date	7,514	14,162
1.21	Exchange rate adjustments to item 1.20	-	148
1.22	Cash at end of quarter	20,582	20,582

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 4 April 2012, 360,108 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 March 2012 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	43,103	43,103
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	3,400
4.2 Development	-
4.3 Production	-
4.4 Administration	800
Total	4,200

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	20,576	7,510
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other – Term Deposits	6	4
Total: cash at end of quarter (item 1.22)	20,582	7,514

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	E38/1450	Owned	100%	0%
	E38/2060	Owned	100%	0%
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	407,064,360	407,064,360		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	200,267,034	200,267,034		
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 July 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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