

## QUARTERLY REPORT

**30 JUNE 2010**

### COMPANY OVERVIEW

Poseidon is a Nickel exploration and development company focussed on the historic Windarra Nickel Project in the N.E. Goldfields.

The Windarra Nickel Project consists of an existing open pit and underground mine at South Windarra and Mount Windarra respectively as well as 24 kilometres of highly prospective and under-explored host mineralisation.

To date, Poseidon has defined 97,331 tonnes of JORC code compliant nickel sulphide resources at the Windarra Nickel Project. This comprises of 61,764 tonnes of contained nickel at Mt Windarra, adjacent and below the existing underground infrastructure representing a low cost entry to the market; as well as a maiden 25,269 tonne nickel resource at the Cerberus deposit and 10,298 tonnes of contained nickel at South Windarra.

ASX CODE: POS

\*see attached resource statement



**COMPANY HIGHLIGHTS**

- \$3m Capital Raising to support drilling programme completed
- Drilling programme recommences at Windarra in August on regional targets
- Mt Windarra Dewatering is continuing as planned
- Ghana gold project sold to Hodges Resources for \$750,000 plus 1,250,000 Ordinary Shares

- The Company announced on 22 July 2010 that it has received commitments for a capital raising of approximately \$3 million that will be used to support the Windarra Nickel Project drilling programme. Poseidon intends to utilise the funds as follows:
  - Commence drill testing of the identified lava channels starting August 2010.
  - Undertake additional resource drilling at Cerberus to further assist in defining the resource.
  - Undertake further project evaluation at the Windarra Nickel Project including at the Mt Windarra underground mine.
- Earlier this year, Poseidon announced that following its Cerberus discovery in 2008, that it has identified 7 additional lava channels features on its tenements which could be prospective for nickel sulphide. Poseidon has entered into the necessary drilling contract to undertake the above programme.
- Poseidon is currently carrying out detailed localised electromagnetic testing of the seven lava channels at surface to determine the drilling priorities. The lava channels are situated between the Cerberus deposit and the historic underground mine at Mt Windarra. Further details of the programme can be found in the Exploration section of this report.
- The Company reached agreement to sell its shares and interests in the Salman South and Mame gold prospects located in Southern Ghana to Hodges Resources. As consideration, Hodges will pay \$750,000 and issue 1,250,000 Ordinary Shares. The agreement is contingent on Poseidon obtaining approval of the relevant Minister of the Government of the Republic of Ghana to transfer the Prospecting Licence to Niagara Wells Mining Company Limited.

Under the terms of the Agreement, Poseidon has an election to buy-back a 30% interest in the Project, at market value, upon Hodges defining a JORC compliant 400,000 ounce gold resource. In the event that Poseidon does not make such an election, Hodges will pay a final payment of \$500,000 and issue a further 500,000 Ordinary Shares.

**EXPLORATION UPDATE**

Poseidon announced in June that the company had identified seven new highly prospective lava channels at its 100%-owned WNP, located 250km north west of Kalgoorlie, Western Australia.

The objective of Poseidon's exploration programme was to identify further nickel sulphide hosting lava channels similar to that hosting the Cerberus deposit discovered in 2008. The exploration work has been focussed on comparing the Cerberus geochemical signature with other prospective zones along the Windarra Belt. The identified lava channels exhibit elevated nickel-copper ratios associated with MgO rich rocks (which are depleted in TiO<sub>2</sub>), similar to those found at surface at Cerberus

The identification of the lava channels is the successful culmination of intensive work for which our geologists are justifiably proud.

### **WNP nickel-hosting lava channels**

Exploration of the Windarra nickel belt over the last three years resulted in the discovery of the high grade Cerberus nickel deposit which contains a resource of 1m tonnes at 2.45% nickel to date.

Knowledge gained by this discovery led to the indication that other potential nickel-hosting lava channels are believed to occur between the known mines at Mt Windarra and South Windarra. During the last 6 months, Poseidon has been actively seeking to identify other lava channel positions thought to exist in the Windarra Belt by using the Cerberus geochemical signature as a tool and mapping visible surface geology.

Recent soil sampling used a sampling sensitivity 100 times greater than previously employed and utilised multi-element analysis. Detailed geochemical interpretation was completed on both the modern and historical data sets resulting in the recognition that certain path-finder ratios of Ni, Cu, MgO and TiO<sub>2</sub> were indicative of the chemistry associated with the definition of lava channels within the Windarra Nickel Belt.

This work has resulted in 7 prospective lava channels being identified (Figure 1) and detailed field geology has confirmed the physical characteristics of the lava channels, such that they can now be seen as well as mapped (see Figure 2).

As previously predicted, the lava channels are typically 1.5 km to 2 km apart. The presence of these lava channels at Windarra is believed to be essential to the formation of a nickel sulphide resource but does not guarantee it.

To date, the testing work described above only covers (14km) of the 24km strike length at Windarra. The remaining ground is affected by transported overburden and will require more detailed work to identify the lava channels.

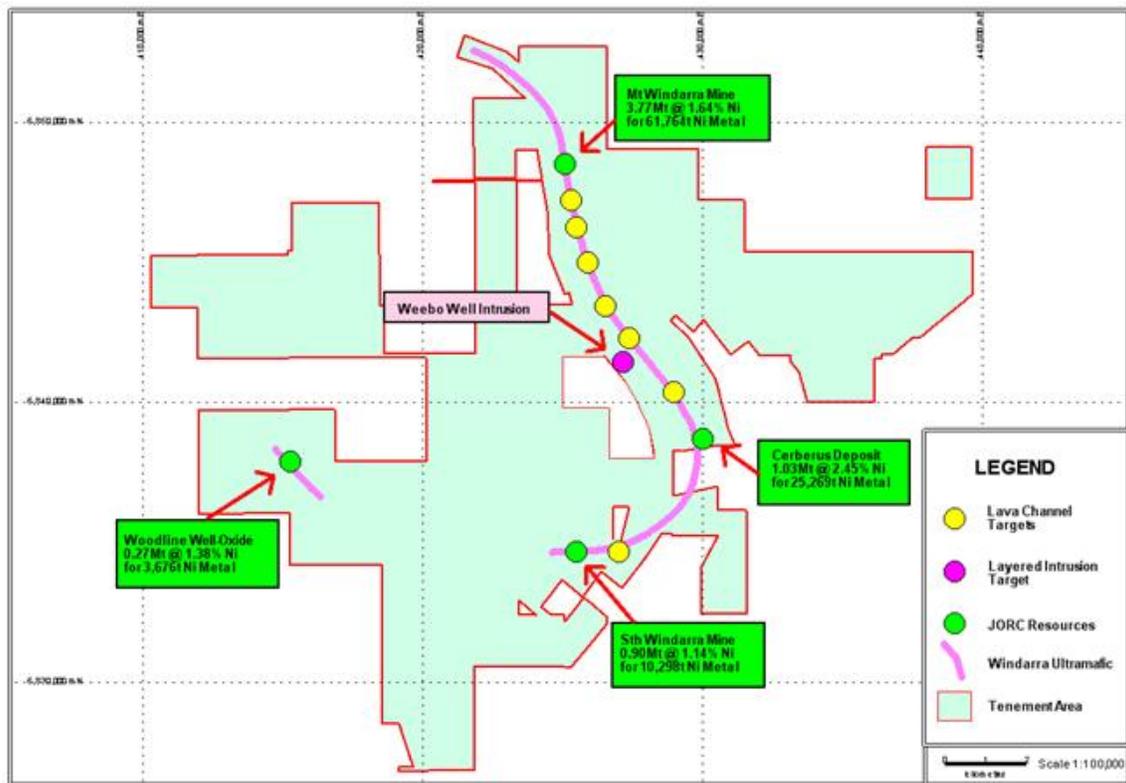
Over the next 4 weeks, the Company will conduct detailed localised fixed-loop electromagnetic testing of the lava channels at surface to determine the drilling priorities. The identification of the lava channels has led to the decision to commence detailed exploration and is recognition of the Company's confidence and continuing commitment to Windarra. The Company is seeking to expose a significant and previously unidentified resource within the WNP and early indications to date show potential for additional sulphide resources within the lava channels which are situated between the Cerberus deposit and the historic underground mine at Mt Windarra.

Previous wide area electromagnetics have identified signals in the areas of the lava channels but the presence of highly conductive banded iron formations within a few metres of the lava channels has partially obscured the results. The purpose of the new electromagnetic campaign is to attempt to better discriminate the presence of a conducting nickel sulphide body now that the actual positions are better understood. The electromagnetics will also give an insight into the dip angles of the lava channels which will help to more accurately target the drilling programme.

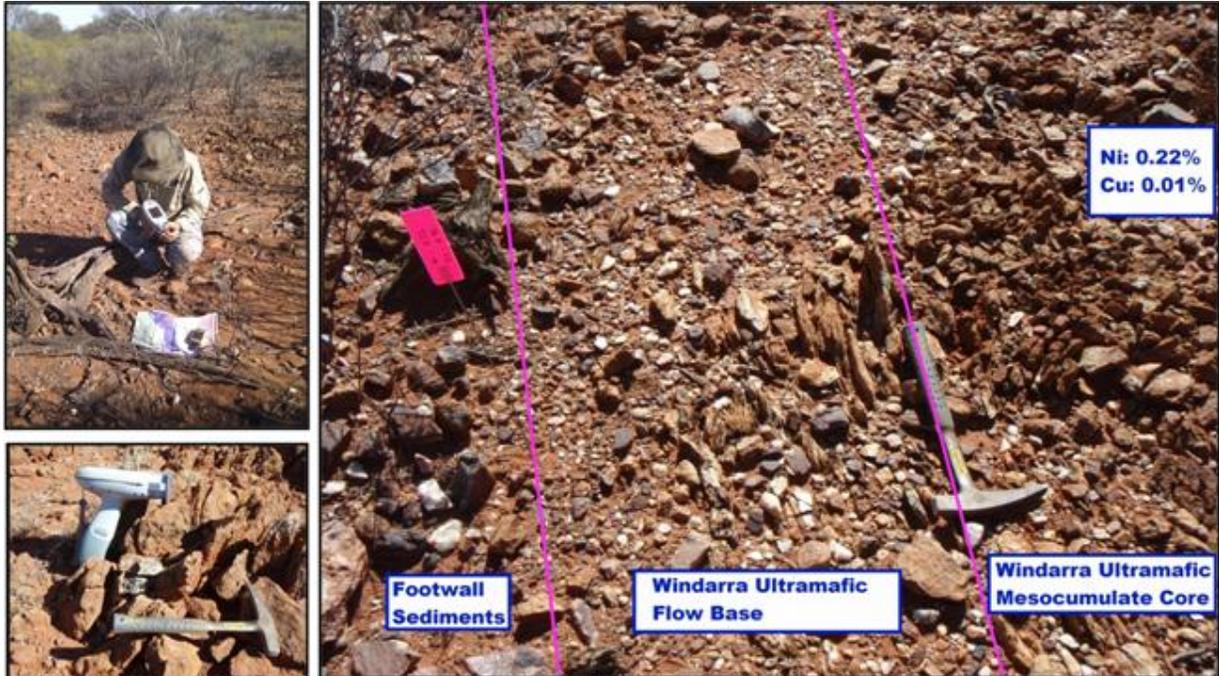
Lava channels are believed to be fundamental sources for large scale nickel sulphide deposits in this area. The primary focus of the drilling program is to drill several of the lava channels in conjunction with the use of Down Hole Electromagnetics (DHEM) as used during the Cerberus discovery, to determine if nickel sulphides indeed exist in the channels. DHEM will greatly assist in finding nickel sulphide deposits of mineable grade as it is capable of identifying an electromagnetic sulphide source up to 50 meters from a drill hole.

Poseidon has contracted Apex Drilling for this upcoming drilling programme at Windarra. The drilling campaign is anticipated to commence by early August 2010 and will include a mix of reverse circulation and diamond core drilling. The drilling program is currently planned for a minimum of 4,000 metres.

In addition, Poseidon has been successful in receiving a \$150,000 grant by the State Government and the Department of Mines and Petroleum (DMP) as part of the DMP's Exploration Incentive Scheme (EIS) co-funding programme. Under the EIS grant the DMP will pay 50% of direct drilling costs, up to a maximum value of \$150,000, for drill testing the Weebo Well Intrusion for nickel mineralisation. The Weebo Well Intrusion lies in the centre of the project area, but to the west of the Windarra nickel belt which hosts the current nickel deposits and targets (Figure 1).



**Figure 1:** Tenement location plan showing lava channel and layered intrusion targets which have the potential to host nickel sulphide mineralisation.



**Figure 2:** Hunting for lava channels. Poseidon’s geologist have located, verified and mapped prospective komatiite lava channels within the Windarra Ultramafic Belt. Many remain untested or were insufficiently tested by WMC drilling.

**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
<b>Mt Windarra</b>	0.75%	1,017,429	1.24	12,578	2,751,087	1.79	49,185	3,768,516	1.64	61,764
<b>South Windarra</b>	0.90%	820,326	1.15	9,434	82,404	1.05	864	902,730	1.14	10,298
<b>Cerberus</b>	1.50%				1,033,328	2.45	25,269	1,033,328	2.45	25,269
<b>Total Sulphide</b>		<b>1,837,755</b>	<b>1.20</b>	<b>22,012</b>	<b>3,866,819</b>	<b>1.95</b>	<b>75,318</b>	<b>5,704,574</b>	<b>1.71</b>	<b>97,331</b>

*Note: The information in this report relates to Exploration Results and Mineral Resources based on information compiled by Mr N Hutchison who is a Member of The Australian Institute of Geoscientists. Mr Hutchison has sufficient experience which is relevant to the style of mineralisation and type of deposits under consideration and to the activity which he is 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.’ He has 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 Stock Exchange has not received and does not accept responsibility for the accuracy or adequacy of this release.*

**OPERATIONS**

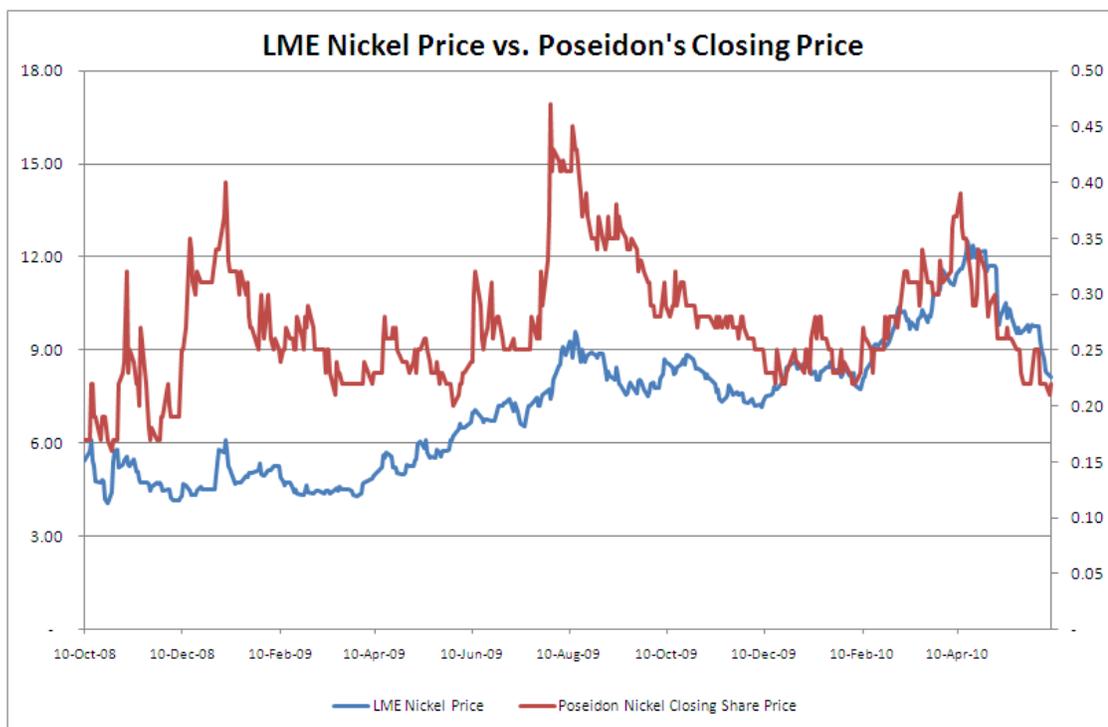
- The Windarra mine site has remained on active care and maintenance during the past quarter. The decline and site facilities show no significant deterioration with standards being maintained by ongoing maintenance.
- Dewatering of the underground mine recommenced in May and the water level has been lowered to the level at which the pump was switched off in March 2009. The very slow recovery of the water level over the past 14 months has confirmed the historical information that water inflow into the mine from ground water sources is low and unlikely to cause problems during the mine refurbishment or future development.

**FINANCIAL**

- As at 30 June 2010, the Company had cash and receivables of \$1.67 million which includes cash on hand of \$0.92 million plus an interest bearing receivable of \$0.75 million held in escrow from the sale of the Ghana gold project to Hodges Resources.
- On 22 July the Company announced that it has received commitments for a placement of Fully Paid Ordinary Shares (together with free attaching Options) to raise approximately \$3 million.

**MARKET INFORMATION**

- Figure 4 below shows the underlying correlation between Poseidon's share price and the LME Nickel price over the last 18 months.



**Figure 4**

**CORPORATE**

- In line with Poseidon's policy to only pay Directors fees in shares in order to retain the cash reserves of the Company, 210,462 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 28 April 2010 at a deemed issue price of \$0.2864, 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 addition to the above, 5,142,200 Fully Paid Ordinary Shares were issued on 28 April 2010 upon receipt of the remaining balance for Partly Paid Shares that were issued in 2004 for a total consideration of \$0.102.
- Poseidon has agreed to place approximately 17,323,337 Shares at \$0.18 per Share to professional and sophisticated investors to raise approximately \$3 million. In addition, investors will receive 1 free attaching Option for every 2 Shares subscribed for. The Options will be exercisable at \$0.25 each on or before 31 August 2012.
- The Placement will occur in two tranches. The first tranche will compromise the placement of 10,729,576 Shares (together with 5,364,792 free attaching Options) to raise approximately \$1.9 million utilising the Company's 15% placement capacity under the ASX Listing Rules. The second tranche will comprise the placement of a minimum of 6,593,761 Shares (together with 3,296,877 free attaching Options) to raise at least \$1.1 million, subject to Shareholder approval at a General Meeting to be convened shortly.



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

27 July 2010

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**

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

### **Registered Office**

Level 2, Spectrum  
100 Railway Road  
SUBIACO WA 6008  
P: 61 8 9367 8133  
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### **Media Enquiries**

Mr Paul Downie  
FD Third Person  
P: 61 8 9386 1233 M: 0414 947 129  
E: [paul.downie@fdthirdperson.com.au](mailto:paul.downie@fdthirdperson.com.au)

### **Home Exchange**

The Company's shares are listed on the Australian Stock 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 2010

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for		
(a) exploration and evaluation	(514)	(2,175)
(b) development	-	-
(c) production	-	-
(d) administration	(501)	(2,452)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	37	133
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - R & D tax concession received	-	329
- Insurance recovery	-	100
- Sundry income	21	69
<b>Net Operating Cash Flows</b>	<b>(957)</b>	<b>(3,996)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	(1,000)
(b) equity investments	-	-
(c) other fixed assets	-	(14)
1.9 Proceeds from sale of:		
(a) prospects	-	300
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other – prepaid transaction cost	(25)	(25)
<b>Net investing cash flows</b>	<b>(25)</b>	<b>(739)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(982)</b>	<b>(4,735)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(982)	(4,735)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	14	2,213
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	46
1.17	Repayment of borrowings	(31)	(115)
1.18	Dividends paid	-	-
1.19	Other - share issue costs	-	(37)
	<b>Net financing cash flows</b>	(17)	2,107
	<b>Net increase (decrease) in cash held</b>	(999)	(2,628)
1.20	Cash at beginning of quarter/year to date	1,923	3,552
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>924</b>	<b>924</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	116
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 28 April 2010, 210,462 ordinary shares were issued at a price of \$0.2864 per share as approved by the Shareholders at the November 2009 Annual General Meeting. The shares were issued to the Non-Executive Directors in lieu of Directors Fees for the March 2010 quarter. This has not been included in the above cash flow.

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

N/A

**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	15,619	15,619
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	750
4.2	Development	-
4.3	Production	-
4.4	Administration	570
<b>Total</b>		<b>1,320</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	924	1,923
5.2	Deposits at call	-	-
5.3	Bank overdraft	-	-
5.4	Other	-	-
<b>Total: cash at end of quarter (item 1.22)</b>		<b>924</b>	<b>1,923</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	N/A		
6.2	Interests in mining tenements acquired or increased	N/A		

+ See chapter 19 for defined terms.

Appendix 5B  
Mining exploration entity quarterly report

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 *Ordinary securities	176,490,616 50,000 375,000	176,177,485 50,000 375,000	\$0.102 \$0.102	\$0.002 \$0.062
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	5,352,662	5,352,662		
7.5 *Convertible debt securities <i>Unsecured</i>	15,906,681 This is an estimate only based on an average exchange rate of 0.943.	-	USD\$0.943	The Notes have a six year term convertible into fully paid ordinary shares at AUD\$1.00.
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>
Listed	6,157,403	6,157,403	\$0.92	5 December 2011
Listed	1,000,000	-	\$1.96	2 July 2011
Unlisted	2,500,000	-	\$0.40	31 July 2012
Unlisted	115,000,000	-	\$0.40	19 September 2012
Unlisted	533,000	-	\$1.41	22 October 2012
Unlisted	2,000,000	-	\$0.80	19 December 2012
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## 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: 27 July 2010

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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