



Nickel Australia Limited

ABN 46 106 346 918

7 September 2006

The Manager
Companies Announcement Office
Australian Exchange Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

Dear Sir,

RE: DRILLING UPDATE FOR MEXICO

We enclose herewith a copy of an announcement in relation to the above.

Yours faithfully,

Tony Rovira
Managing Director

Encl.



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DRILLING CONTINUES AT CARDELEÑA AND COMMENCES AT POZO DE NACHO

HIGHLIGHTS

CARDELEÑA – Gold & Silver

- Three diamond drill holes completed at Cardeleña.
- Wide zones of breccias, quartz veining and alteration intersected in all holes.
- Follow-up Reverse Circulation drilling program to start next week.
- Potential exists for a significant open-pittable gold and silver resource.

POZO DE NACHO – Porphyry Copper

- Diamond drill rig relocated from Cardeleña and commences drilling at Pozo de Nacho.
- Drilling targets porphyry copper mineralisation.
- Strong alteration and anomalous geochemistry present at surface.
- Induced Polarisation survey identifies a large sulphide-rich system.

OVERVIEW

Nickel Australia Ltd (ASX code: **NKL**) is pleased to advise that it has completed the first three diamond drill holes at its **Cardeleña** gold and silver project in Mexico. The company's geologists have observed significant widths of alteration, brecciation and quartz veining within the core in all three holes. Assay results are awaited.

A Reverse Circulation (RC) drill rig is currently being mobilised to Cardeleña to follow-up these encouraging intersections and to accelerate the exploration program. It will undertake a program of infill and extensional drilling to provide information on internal grade and width continuity of the mineralisation, and to test the strike and depth extents of the mineralised zones.

The diamond core rig has been relocated from Cardeleña to **Pozo de Nacho** to test this high priority porphyry copper target. An initial program of two holes for approximately 500 metres is planned, and drilling has commenced.

DETAILS

Cardeleña

This initial diamond drilling program comprised three holes for a total of 423.7 metres. The holes were cored from surface to characterise the grade, dimensions and orientation of the mineralised zones, and to provide information on mineralogical and structural characteristics.

Two holes (CAR-DD-01 & CAR-DD-02) were drilled on section 607810mE across the eastern part of the ridge containing outcrops of breccia and quartz veining. The third hole (CAR-DD-03) was drilled 545 metres to the west on section 607265mE across the western part of the breccia ridge.

All three drill holes intersected strongly altered volcanics and porphyries containing quartz-tourmaline-iron oxide breccias, stockworked quartz veining, weathered sulphides and ferruginous veinlets. The company is currently awaiting assay results for these holes.

Final gold and silver assay results have recently been received from sampling of the bulldozer trenches excavated on the mineralised structures in areas covered by soil and scree. These confirm gold and silver mineralisation at surface within the breccias and quartz stockwork, with individual grades up to **11.45g/t Au** and **31.6g/t Ag**. The best two trenches returned mineralised intervals of:

- **6m @ 5.7g/t Au & 14.6g/t Ag** (section 607300mE and adjacent to CAR-DD-03), and
- **20m @ 2.2g/t Au & 10.1g/t Ag** (section 607550mE).

The diamond drilling, previous RC drilling, trenching, and other surface exploration demonstrate that the gold and silver mineralisation is hosted in multiple, vertical to steep southerly dipping zones of brecciation and quartz veining within deeply weathered and strongly altered volcanics and porphyries. The mineralised zones extend for over 800 metres along an east-west trend, with widths of up to 30 metres.

The Company considers that Cardeleña has potential to host significant resources of open-pittable gold and silver mineralisation, and exploration will continue with the RC drilling program.

Pozo De Nacho

The Pozo de Nacho project is located approximately 35 kilometres by road from Cardeleña. Earlier this year the company completed a program of reconnaissance exploration on this project, comprising an Induced Polarisation (IP) survey, soil sampling, rock chip sampling and geological mapping. Results indicate that this project is very prospective for porphyry copper mineralisation.

The IP survey identified two very strong anomalies located beneath a small hill of outcropping, strongly altered quartz-feldspar porphyry intruding through a cover sequence of sedimentary rocks. The porphyry and surrounding sedimentary wallrocks are intensely quartz-sericite-pyrite altered with abundant quartz stockwork veining. Occasional copper oxide mineralisation and ferruginous quartz veining are also present.

Soil and rock chip samples collected in the vicinity of the porphyry returned strongly anomalous values, up to **0.5% copper**, **700ppm molybdenum**, and **1.1g/t gold**. Surface sampling of the sediments further away from the porphyry returned elevated grades of **silver (max 84g/t)**, **lead (max 0.6%)** and **zinc (max 0.2%)**. The distribution of this anomalous geochemistry describes a classic metal zonation indicative of porphyry copper mineralisation. The core of the system is centred on the outcropping quartz-feldspar porphyry and underlying chargeability highs.

The strong IP chargeability response denotes the presence of a substantial accumulation of sulphide mineralisation, commencing within 100 metres below surface.

The geochemical and geophysical anomalies, together with altered and mineralised outcrops, indicate that a significant porphyry copper system may be located at a shallow depth.

The diamond drill rig has been mobilised to Pozo de Nacho to undertake an initial program of two drill holes totalling about 500 metres. Drilling of the first hole has commenced. Further diamond and RC drilling will be continued if results warrant.

Potreritos

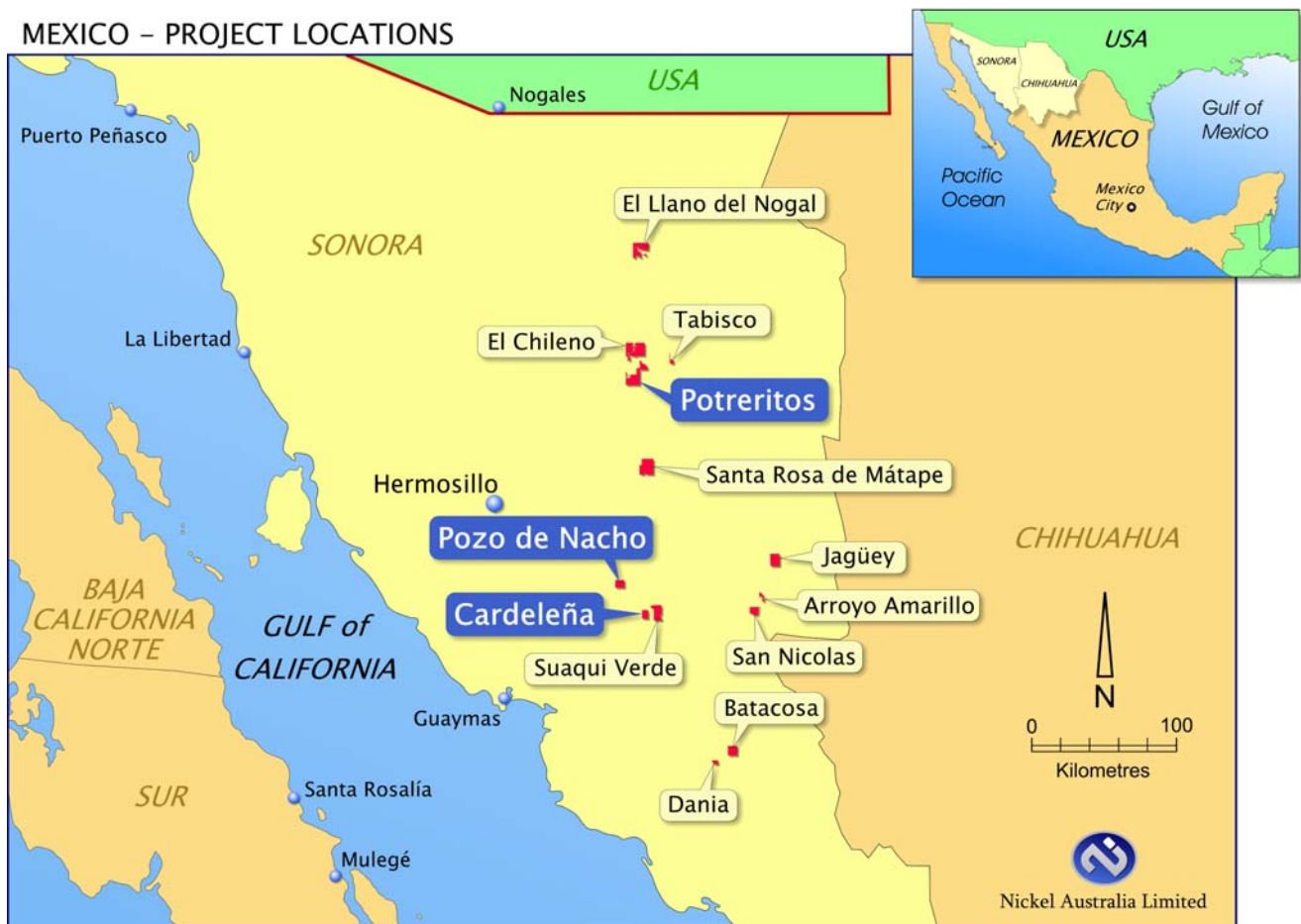
Following completion of the drilling program at Pozo de Nacho, the diamond drill rig will be moved to Potreritos. This is a high priority project which hosts numerous outcropping breccias containing fresh chalcopyrite (copper sulphide mineralisation). IP surveys have identified strong chargeability anomalies beneath these locations, indicating the presence of a substantial disseminated sulphide-bearing system. Diamond core drilling will be undertaken to test these combined geophysical / geochemical targets.

Background

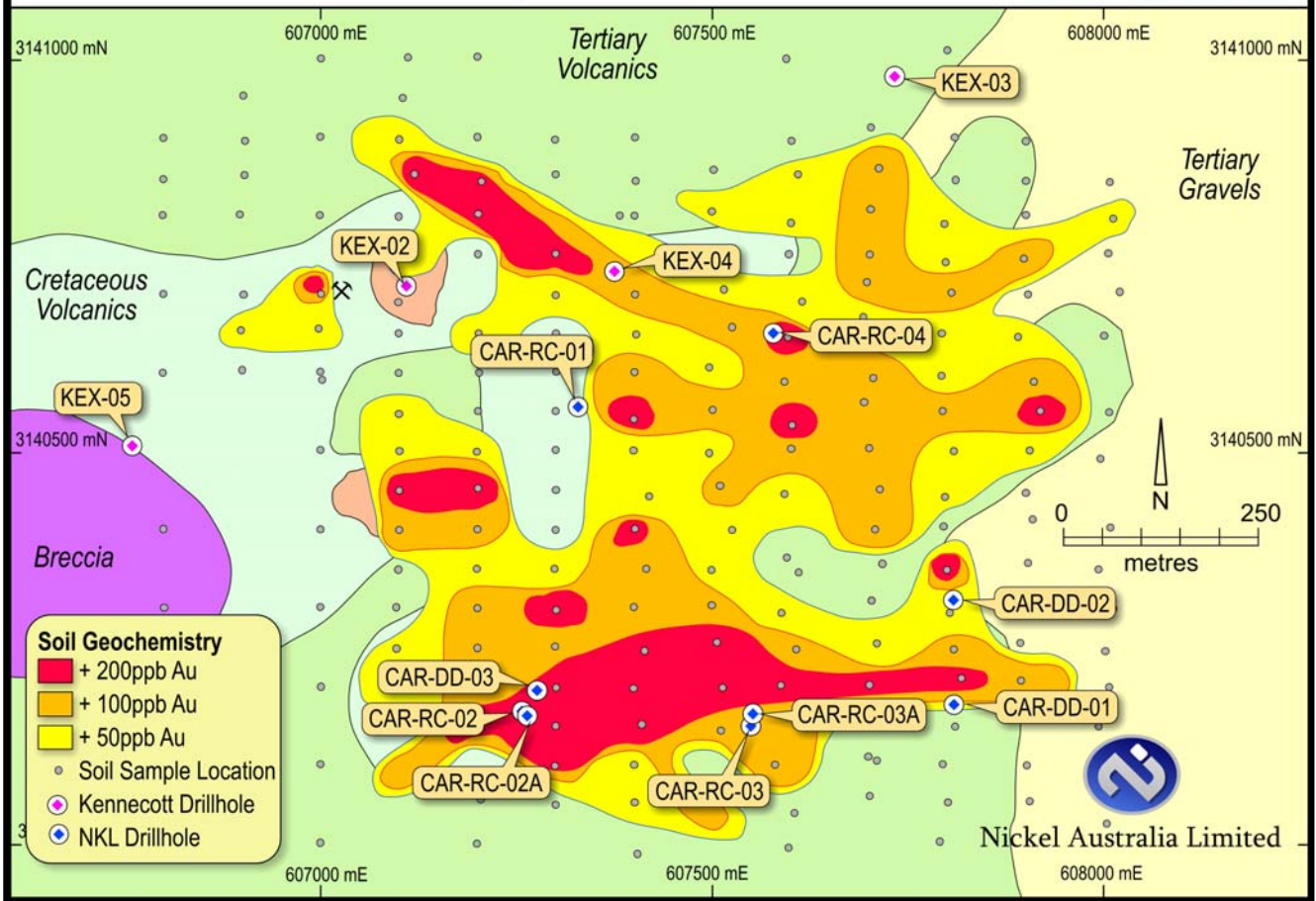
Nickel Australia is exploring a portfolio of 13 projects in the Mexican state of Sonora in a joint venture with Geoinformatics Exploration Inc (TSX-V: GXL). Under the terms of the agreement, Nickel Australia can earn an initial 51% interest in all projects by expending US\$4M within four years and a further 24% (totalling a 75% interest) by carrying all further expenditure to the completion of a pre-feasibility study.

Released by Tony Rovira
Managing Director
Nickel Australia Ltd
7 September 2006

The information in this report that relates to Exploration Results is based on information compiled by Mr Tony Rovira, who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Rovira is a full-time employee of Nickel Australia Ltd. Mr Rovira has sufficient experience which is relevant to the style of mineralisation and type of deposit 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". Mr Rovira consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.



Cardeleña Project – Soil Geochemistry



Pozo de Nacho Project

IP/Resistivity Survey – Inversion Model IP (mrad)

