



# Nickel Australia Limited

ABN 46 106 346 918

28 July 2006

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

Dear Sir,

**RE: FOURTH QUARTER ACTIVITY REPORT**

We lodge herewith a copy of the Company's Quarterly Report for the period ending 30 June 2006.

Yours faithfully,

Tony Rovira  
Managing Director

Encl.



# Nickel Australia Limited

ABN 46 106 346 918

## QUARTERLY ACTIVITY REPORT

For The Period Ended 30 June 2006

### HIGHLIGHTS

#### MEXICO

- Successful first drilling program completed in **Mexico**.
- High grade silver-lead-zinc mineralisation intersected at **Jagüey**.
  - **0.7m @ 3,180g/t Ag & 19.0% Pb + Zn**
  - **1.1m @ 122g/t Ag & 13.8% Pb + Zn**
  - **0.6m @ 242g/t Ag & 9.9% Pb + Zn**
  - **0.5m @ 526g/t Ag & 4.3% Pb + Zn**
- Extensive gold and silver mineralisation discovered at **Cardeleña**.
  - **30.5m @ 1.85g/t Au & 9.2g/t Ag**
  - **125.0m @ 0.43g/t Au & 4.0g/t Ag**
- Anomalous geochemistry and strong Induced Polarisation responses at both **Pozo de Nacho** and **Potreritos** projects indicate porphyry copper systems hosting strong sulphide mineralisation.
- A molybdenum-rich dyke identified at **San Nicolas** returns channel sample assays of:
  - **8m @ 0.12% Mo**
  - **6m @ 0.11% Mo**
- Major drilling program to commence in early August.

#### AUSTRALIA

- Uranium Prospectivity Review identifies geophysical and geochemical anomalies at **Splinter** and **Davyhurst**.
- Follow-up gravity survey identifies highly significant gravity anomaly (>8 milligals) at **Splinter**.
- Drilling the **Splinter** gravity anomaly has commenced.

## DETAILS

### MEXICO (NKL earning 75% from Geoinformatics Exploration Inc)

During the quarter, Nickel Australia continued the extensive exploration program on its gold, silver and base metal projects in Mexico, including diamond core and Reverse Circulation (RC) drilling, further Induced Polarisation (IP) geophysical surveys, and widespread geochemical sampling.

This work has identified numerous, high-quality targets and another 3,000 metre drill program is scheduled to commence in early August.

### Cardeleña

Initial RC drilling of two strong gold-in-soil anomalies was undertaken during the Quarter. Drilling intersected wide zones of gold and silver mineralisation hosted in deeply weathered and strongly altered volcanics and porphyry containing quartz-tourmaline-iron oxide breccias and stockworked quartz veining.

The Company is very encouraged by the significant widths of gold mineralisation commencing at surface and extending to depths in excess of 180 metres. These results highlight the potential for this project to host a substantial open pittable gold deposit.

A detailed infill drilling program will commence at Cardeleña as soon as possible.

Better intercepts from the initial drill program are tabled below.

#### Cardeleña Project – Significant Drill Intercepts

Hole No	From (m)	To (m)	Interval (m)	Au (g/t)	Ag (g/t)	AuEq (g/t)	Comments
CAR-RC-01	30.5	61.0	30.5	0.50	10.7	0.68	
CAR-RC-02 *	0.0	97.5	97.5	0.25	2.6	0.29	Mineralisation commenced at surface and the entire drill hole is mineralised
CAR-RC-02A	0.0	176.8	176.8	0.21	4.7	0.29	Mineralisation commenced at surface
CAR-RC-03 *	91.4	121.9	30.5	1.85	9.2	2.00	Hole finished in mineralisation
<i>including</i>	112.8	115.8	3.0	11.65	23.8	12.1	
CAR-RC-03A	112.8	198.1	85.3	0.52	5.0	0.60	Hole finished in mineralisation
CAR-RC-04	6.1	12.2	6.1	0.16	17.3	0.45	

*NOTE: Samples assayed at ALS Chemex (Vancouver) using method GRA21 (gold) & AA46 (silver)*

*Drill intercepts calculated as weighted averages using a 0.1g/t AuEq cut-off and no top cut*

*AuEq (gold equivalent) grade has been calculated using gold to silver price ratio of 1:60*

*\* = Hole terminated early due to difficult drilling conditions*

Following completion of this drilling, a bulldozer trenching program along the strike of the mineralised zone successfully exposed significant widths (+30 metres) of alteration and quartz breccias in soil and scree covered areas. These breccia zones occur over a strike length in excess of 700 metres. A total of 247 channel and chip samples were collected for assay, and results are pending.

Upon reviewing the drilling in conjunction with the soil sampling and trenching data, it is concluded that most of the drilling tested only the fringes of the soil anomalies, intersecting widespread low grade gold mineralisation (0.2-0.8g/t Au). Only CAR-RC-03 and 3A successfully penetrated the main breccia zones, and the good results returned from these holes, together with the fact that the best parts of the soil anomalies and breccia zones have yet to be drill tested, confirms that this project has excellent potential to host a significant gold deposit.

### Cardeleña Project –Drill Hole Details

Hole No	North (mN)	East (mE)	Dip	Azimuth	Hole Length (m)
CAR-RC-01	3 140 554	607 329	-70°	360°	201.2
CAR-RC-02	3 140 166	607 262	-70°	300°	97.5
CAR-RC-02A	3 140 163	607 265	-80°	300°	201.2
CAR-RC-03	3 140 164	607 551	-70°	360°	121.9
CAR-RC-03A	3 140 164	607 561	-80°	035°	198.1
CAR-RC-04	3 140 651	607 577	-70°	180°	149.3

**NOTE:** CAR-RC-02 & 03 encountered drilling difficulties. They were redrilled as CAR-RC-02A & 03A respectively.

### Jagüey

Work at Jagüey comprised two IP surveys, diamond drilling, and soil sampling over a three kilometre long argillic alteration system.

The IP survey comprised nine lines covering the entire outcropping alteration system. A very strong chargeability anomaly was identified over 600m x 1,000m in the central part of the survey area.

A diamond drilling program comprising five holes for 1,450 metres was completed over the eastern part of the IP anomaly. All holes intersected disseminated and vein sulphide mineralisation, consisting mostly of pyrite with minor lead, zinc and copper sulphides.

The final two holes (JAGD-04 & 05) also intersected massive sulphide veins containing high grade silver, lead and zinc mineralisation. Details of these intercepts are tabled below.

### Jagüey Project – Significant Silver-Lead-Zinc Drill Intercepts

Hole No	North (m)	East (m)	Dip / Azimuth	From (m)	To (m)	Interval (m)	Ag (g/t)	Pb (%)	Zn (%)	Au (g/t)	
JAGD-04	3 176 980	688 710	-70° / 270°	19.2	25.2	6.0	388	1.6	1.0	0.06	
				<i>including</i>	19.2	19.9	0.7	3180	12.8	6.2	
				<i>and</i>	24.7	25.2	0.5	156	1.0	2.3	
					37.4	37.9	0.5	526	2.9	1.4	0.10
					157.0	159.9	2.9	70	1.2	0.9	0.34
				184.5	188.5	4.0	38	0.7	0.5	0.52	
				214.2	220.8	6.6	50	0.8	0.5	0.17	
JAGD-05	3 176 980	688 710	-80° / 270°	9.2	16.1	6.9	105	0.7	0.3	0.06	
				90.5	90.9	0.4	89	1.3	2.3	0.36	
				95.9	96.5	0.6	242	6.7	3.2	0.27	
				116.8	117.9	1.1	122	3.4	10.4	0.34	

**NOTE:**

Samples assayed at ALS Chemex (Vancouver) using method AA23 (gold), GRA21 (silver) & AA46 (silver, lead & zinc) Drill intercepts calculated as weighted averages using a 30g/t Ag cut-off and no top cut.

The silver and base metal-rich massive sulphide veins, the high levels of disseminated sulphides, and the strongly anomalous gold values are all indications that mineralisation intersected to date is peripheral to a fertile porphyry copper system. Excellent potential exists for this project to host significant porphyry copper, epithermal gold-silver, and skarn-style polymetallic silver-lead-zinc-copper-gold mineralisation.

Further diamond core drilling will be carried out at Jagüey later in this Quarter.

### Pozo de Nacho

A recently completed IP survey at **Pozo de Nacho** has identified two very strong chargeability anomalies located beneath a small hill of outcropping, strongly altered quartz-feldspar porphyry. These anomalies indicate that a substantial accumulation of disseminated sulphide mineralisation commences at about 100 metres below surface. See attached profile.

Soil and rock chip samples collected in the vicinity have returned strongly anomalous values, up to **0.54% copper, 1.14g/t gold, 84g/t silver, 111ppm molybdenum, 0.6% lead, and 0.2% zinc**. The distribution of anomalous geochemistry describes a classic metal zonation indicative of porphyry copper mineralisation, with the core of the system centred on the outcropping quartz-feldspar porphyry and underlying chargeability highs.

The quartz-feldspar porphyry and sedimentary wallrocks are intensely quartz-sericite-pyrite altered with abundant quartz stockwork veining and occasional visible copper oxide mineralisation.

The geochemical and geophysical anomalies, together with the presence of strongly altered and mineralised quartz-feldspar porphyry, indicate that a significant porphyry copper system may be located at a shallow depth.

A diamond drilling program will commence at Pozo de Nacho in early August.

### **Potreritos**

The Company recently carried out a two line IP survey, together with surface sampling and geological mapping over a part of the **Potreritos** project. The area was selected due to the presence of several bodies of quartz-tourmaline breccia containing widespread chalcopyrite (copper sulphide mineralisation). Rock chip samples returned copper grades up to 1.6% Cu.

The IP survey identified two chargeability anomalies located beneath the mineralised breccias. These have been interpreted to represent bodies of significant disseminated sulphide mineralisation commencing 50-100 metres below surface. Diamond drilling of these targets will commence following the drilling at Pozo de Nacho.

### **San Nicolas**

A bulldozer trench was cut in the vicinity of historical workings at **San Nicolas** where grab samples collected in February had returned molybdenum values to 0.5% Mo. The cut exposed a strongly sericite-quartz-feldspar altered quartz monzonite dyke approximately 40 metres wide. Two metre long channel samples collected across the dyke returned an intercept of **30m @ 0.08% Mo, including 6m @ 0.11% Mo and 8m @ 0.12% Mo**. Further trenching is planned to confirm the orientation of the dyke prior to geophysical testing and/or drilling.

### **Adriana**

Drilling at **Adriana** comprised one RC hole to a depth of 290 metres. This hole was designed to test for higher grade extensions to a zone of moderate copper mineralisation (47m @ 0.17% Cu) previously intersected by Kennecott Exploration. No significant mineralisation was intersected.

## **AUSTRALIA**

### **Splinter (NKL 100%)**

During the past Quarter, a Uranium Prospectivity Review was completed of technical data previously collected during exploration at **Splinter**. The Company is pleased to announce that it has identified very positive geophysical (airborne radiometrics and gravity) and geochemical (calcrete and rock chip sampling) signatures indicative of significant uranium anomalism and prospectivity within the Splinter project area.

Following identification of this anomalism, an extensive ground gravity survey was implemented. The program was designed to identify discrete geological bodies with a significant density contrast to the surrounding country rocks.

Such anomalies can represent either IOCG (iron oxide copper gold uranium) deposits of the Olympic Dam style, or paleochannels potentially containing roll-front or calcrete hosted uranium deposits (Yeelirrie style), or alternatively mafic-ultramafic intrusive bodies prospective for nickel and copper sulphide deposits (Voisey's Bay style).

The gravity data was collected from a total of 808 stations on a spacing of 500 metres by 1,000 metres covering an area of 280 square kilometres over Exploration Licences E63/868 & E63/869.

This survey area adjoins the gravity survey previously completed over the central licence E63/853.

A very strong gravity high has been identified in the northwestern part of the project area. Three extra lines of gravity measurements were collected over this anomaly to infill the survey pattern to a station spacing of 100 metres. This has enabled the anomaly to be accurately modelled by the Company's consultant geophysicists, Southern Geoscience Consultants.

The anomaly has dimensions of about three kilometres long and one kilometre wide. It is a +8 milligal anomaly representing a coherent geological body with a density in excess of 3.0 t/m<sup>3</sup>. The body is interpreted to commence at a depth of about 100 metres below surface.

Southern Geoscience Consultants concluded that this coherent geological body most likely represents either an iron oxide alteration system (IOCG style) or an intrusive mafic-ultramafic body.

A reconnaissance line of aircore drilling is in progress to test over the top of the gravity anomaly. This is designed to determine the thickness of overburden, the depth to primary bedrock, and to identify the rock types.

This will be immediately followed by a program of deep diamond core drilling to test the body at depths of 100-300 metres below surface.

The 100% owned Splinter project represents a significant exploration target for Nickel Australia. It is located in the Albany-Fraser Province, about 120km northeast of Esperance, and contains 840km<sup>2</sup> of ground considered prospective for shear-hosted gold deposits, iron oxide copper-gold deposits, intrusive hosted nickel sulphide deposits, and paleochannel hosted uranium deposits.

#### **Davyhurst (NKL 100% Nickel Rights – including uranium)**

A recent review of radiometric survey data from the **Davyhurst** project identified several uranium channel anomalies. Ground inspection revealed that these anomalies are associated with outcropping granites and calcrete hosting paleochannels draining from the granite hills.

A brief reconnaissance rock chip and soil / calcrete sampling program has recently been completed over the radiometric anomalies. Analyses of these samples have returned anomalous grades of uranium from both the granites and the calcrete.

Although this was only a preliminary reconnaissance visit, the Company is very pleased by these initial results and follow-up exploration for calcrete-hosted uranium mineralisation is planned for the next Quarter.

#### **Killaloe (NKL earning 70% from Cullen Resources Ltd)**

The Company carried out a reconnaissance soil sampling program over several parts of the **Killaloe** project area considered prospective for nickel sulphide mineralisation. Anomalous nickel and copper analyses were returned from the sampling, and an aircore drilling program consisting of 65 holes totaling 1,291 metres was implemented to drill test these anomalies. Analytical results from the drilling returned several anomalous drill intercepts up to **0.91% nickel** and **1300ppm copper** from bottom of hole samples within fresh ultramafic rocks. A review of these results and planning for follow-up exploration is in progress.

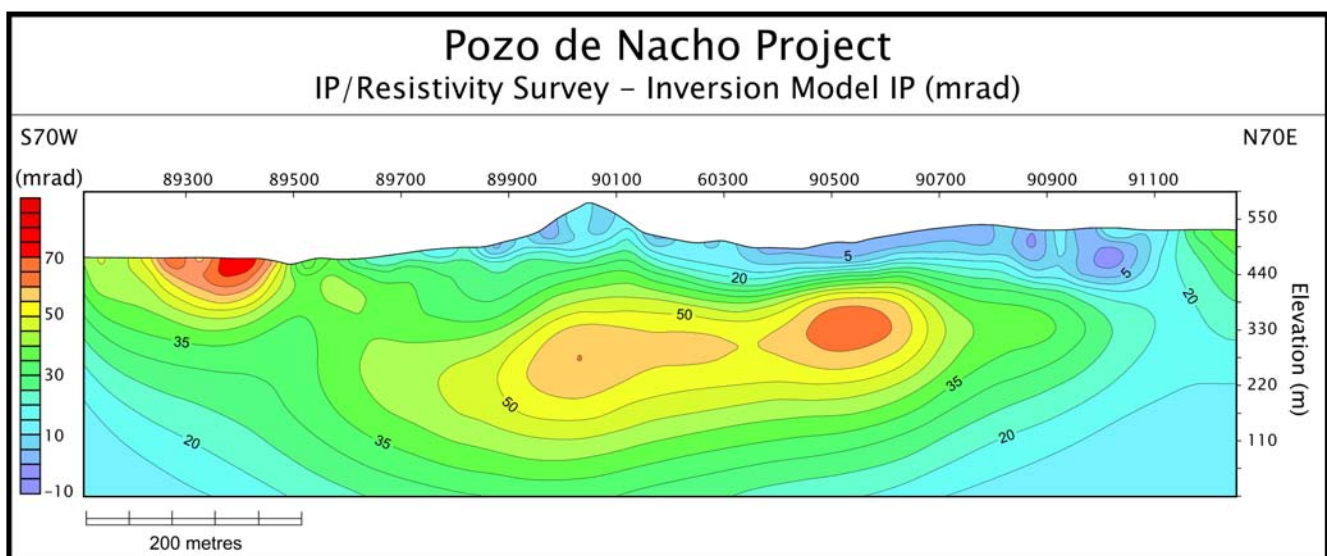
Released by Tony Rovira  
Managing Director  
Nickel Australia Ltd  
28 July 2006

*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.*

## MEXICO – PROJECT LOCATIONS



## INDUCED POLARISATION SURVEY – POZO DE NACHO



# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

**Nickel Australia Limited**

ABN

46 106 346 918

Quarter ended ("current quarter")

30 June 2006

### 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	(1,022)	(3,590)
(b) development	-	-
(c) production	-	-
(d) administration	(299)	(1,051)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	67	330
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material) GST reclaimable	-	-
<b>Net Operating Cash Flows</b>	<b>(1,254)</b>	<b>(4,311)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
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)	-	-
<b>Net investing cash flows</b>	<b>-</b>	<b>-</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,254)</b>	<b>(4,311)</b>

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	(1,254)	(4,311)
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
<b>Net financing cash flows</b>		-	-
<b>Net increase (decrease) in cash held</b>		(1,254)	(4,311)
1.20	Cash at beginning of quarter/year to date	4,917	7,974
1.21	Exchange rate adjustments to item 1.20		
1.22	<b>Cash at end of quarter</b>	3,663	3,663

**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	95
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Item 1.23 includes aggregate amounts paid to directors including salary, directors' fees, consulting fees and superannuation.

**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

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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

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+ 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	NIL	NIL
3.2 Credit standby arrangements	NIL	NIL

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	800
4.2 Development	-
<b>Total</b>	<b>800</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	(61)	17
5.2 Deposits at call	3,724	4,900
5.3 Bank overdraft		
5.4 Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)	<b>3,663</b>	<b>4,917</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			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

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

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

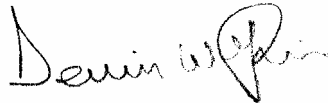
*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 <b>Preference securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	85,000,004	85,000,004		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	1,780,000 3,560,000 3,560,000 500,000 500,000 500,000	Nil Nil Nil Nil Nil Nil	<i>Exercise price</i> \$0.25 \$0.25 \$0.25 \$0.175 \$0.25 \$0.35	<i>Expiry date</i> 30/11/08 30/11/09 30/11/10 31/01/11 31/01/12 31/01/13
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <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 ~~does not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: **28 July 2006**

Print name:

**Dennis Wilkins**

## 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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+ See chapter 19 for defined terms.