



Nickel Australia Limited

ABN 46 106 346 918

31 October 2006

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

Dear Sir,

RE: FIRST QUARTER ACTIVITY REPORT

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

Yours faithfully,

Tony Rovira
Managing Director

Encl.



Nickel Australia Limited

ABN 46 106 346 918

QUARTERLY ACTIVITY REPORT

For The Period Ended 30 September 2006

HIGHLIGHTS

MEXICO

- Significant quantities of sulphide mineralisation intersected in drilling at Pozo de Nacho.
- Molybdenite mineralisation revealed in surface sampling at San Nicolas.

AUSTRALIA

- Diamond drilling intersects wide zones of magnetite mineralisation at Splinter with potential for Southdown-style magnetite iron ore deposit.

DETAILS

MEXICO (NKL earning up to 75% from Geoinformatics Exploration Inc)

Nickel Australia continued intensive exploration 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.

Pozo de Nacho (porphyry molybdenum-copper target)

During the Quarter, the company completed a program of diamond core (2 holes: 573m) and Reverse Circulation (4 holes: 532m) drilling. The drilling was designed to test a zone of anomalous surface geochemistry coincident with chargeability anomalies identified in an IP survey carried out earlier in 2006. Assay results are pending; however significant quantities of sulphide mineralisation have been intersected, confirming that these anomalies represent sulphide-rich bodies associated with a porphyry system. Analytical data from these drill holes will be released when received and finalised.

Drill core logging identified base metal sulphides, including chalcopyrite (copper sulphide: CuS_2), molybdenite (molybdenum sulphide: MoS_2) and minor sphalerite (ZnS_2). The mineralisation occurs as disseminated and veinlet sulphides hosted within quartz-feldspar porphyry and an overlying sedimentary sequence. Both the porphyry and the sediments are strongly altered and contain significant amounts of quartz veining.

Cardeleña (silver-gold target)

Three diamond core holes for 424 metres were drilled at Cardeleña to follow-up good gold and silver mineralisation intersected in the initial RC drilling.

Drill holes CAR-DD-01 and CAR-DD-03 tested an east-west trending ridge of outcropping breccias approximately 800 metres long and up to 30 metres wide. Better results (previously reported) include:

- 5.0 metres @ 1.02g/t Au & 5g/t Ag from 22.7 metres, and
- 5.1 metres @ 1.73g/t Au & 15g/t Ag from 36 metres in CAR-DD-01; and
- 4.5 metres @ 1.01g/t Au & 9g/t Ag from 84.6 metres in CAR-DD-03.

The gold and silver mineralisation is hosted in quartz-tourmaline-iron oxide breccias with stockwork quartz veining, contained within a much wider envelope of altered volcanics and porphyries containing lower, albeit still anomalous, gold and silver grades.

Drill hole CAR-DD-02 tested beneath a small outcropping breccia body located about 100 metres further to the north of drill holes CAR-DD-01 and CAR-DD-03. Brecciation and quartz veining in this hole was weaker with less intense alteration, and this was reflected in lower gold and silver grades in the range 0.1-0.5g/t Au.

In addition to the silver/gold potential of the project the Cardeleña project has potential for copper mineralisation. Historical exploration by Kennecott Exploration targeted porphyry and breccia hosted oxide copper mineralisation in the vicinity of the old Cardeleña Copper Mine. Drilling returned anomalous drill intercepts from near surface, including **36m @ 0.3% copper, 10g/t silver & 0.07g/t gold**. At that time Kennecott deemed the target to be too small to meet their corporate criteria and completed no further work. Nickel Australia believes that there is potential for significant copper mineralisation, which will be tested during this fiscal year.

Potreritos (copper target)

The company has commenced an RC drilling program comprising three holes for about 600 metres at Potreritos to test an area of coincident geochemical and geophysical anomalism. The area was originally selected due to the presence of quartz-tourmaline breccias containing widespread chalcopyrite at surface, where rock chip samples returned copper grades up to 1.6% Cu. An IP survey identified two chargeability anomalies located beneath the mineralised breccias, indicating the presence of zones of disseminated sulphide mineralisation, which will be tested by this round of drilling.

San Nicolas (molybdenum target)

Exploration has confirmed the presence of a quartz monzonite body containing strong molybdenite mineralisation at surface. Channel sampling of bulldozer trenches returned further encouraging results, including **8m @ 0.18% MoS₂ and 32m @ 0.09% MoS₂**, which substantiates the earlier results of **30m @ 0.13 MoS₂**, including **6m @ 0.18% MoS₂ and 8m @ 0.20% MoS₂**.

A reconnaissance IP survey comprising two lines is currently in progress to determine the attitude and potential dimensions of the molybdenite-bearing monzonite.

AUSTRALIA

Splinter (NKL 100%)

During the Quarter, the company announced that a diamond core drilling program had discovered a Banded Iron Formation (BIF) containing significant quantities of magnetite mineralisation.

Two diamond holes were collared on sections 500 metres apart to test the northern portion of a large gravity anomaly. Both holes intersected the BIF, which consists of multiple zones of magnetite-quartz gneiss beneath shallow alluvial cover.

Interpretation of the detailed aeromagnetic survey indicates that the BIF is part of an eight kilometre long, southwest to northeast trending, tightly compressed fold. The aeromagnetic data suggests the

magnetite-rich units occur on both limbs of the fold, potentially giving a total strike length of 16 kilometres, with the greatest thickness occurring in the fold hinges.

The geology, geometry and potential size of the Splinter BIF appear to be similar to the Southdown Magnetite Deposit located near Albany, as described by owner Grange Resources Limited. Southdown contains a resource tonnage of 479 million tonnes hosted in tightly folded quartz-magnetite gneiss.

Samples of magnetite-rich core from Splinter have been submitted to Amdel Laboratories in Perth to carry out preliminary metallurgical testwork using the Davis Tube Recovery technique. This technique produces a magnetite concentrate, providing data on magnetite yield, iron grades, and impurity levels in the concentrate. Results from this testwork are awaited.

Mineralised drill intercepts from the diamond drilling include:

Hole No	Easting (mE)	Northing (mN)	Dip	Azimuth	From (m)	To (m)	Width (m)	Grade (Fe %)		
NSD 001	478 400	6 351 500	-60°	270°	195.1	227.0	31.9	15.1		
						276.0	301.7	25.7	15.4	
NSD 002	479 300	6 352 000	-60°	270°	98.3	110.0	11.7	15.1		
						208.9	302.0	93.1	15.0	
						<i>including</i>	249.0	254.3	5.3	25.5
							320.0	330.0	10.0	15.9

Note: Half NQ core samples analysed at ALS Chemex laboratory in Perth by ICP-MS method; 10% Fe lower grade cut; no upper grade cut; maximum internal waste interval of 2.6m;

An RC drilling program to follow-up these intercepts will commence in mid-November. The program will test the magnetite-rich body on 500 metre spaced sections to 200 metres depth to confirm continuity of the mineralised formation. Priority will be given to targeting the fold hinges where the magnetite-rich mineralisation appears to be at its thickest.

Preliminary interpretation of a recently completed Induced Polarisation (IP) survey has identified the presence of chargeability anomalies located coincident with the magnetite-rich part of the BIF. It is likely that these anomalies represent the most magnetite-rich parts of the sequence. The RC drilling program to be carried out in November will test these IP anomalies.

The Splinter project is located about 120km northeast of the port of Esperance. Vehicle access to the exploration site is good via sealed roads and farm tracks. Splinter consists of four Exploration Licences owned 100% by Nickel Australia, covering 840km².

For further information, please contact Tony Rovira on 08 9481 2555

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.