



Nickel Australia Limited

ABN 46 106 346 918

25 January 2006

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

Dear Sir,

RE: SECOND QUARTER ACTIVITY REPORT

We lodge herewith a copy of the Company's Quarterly Report for the period ending 31 December 2005.

Yours faithfully,

Tony Rovira
Managing Director

Encl.



Nickel Australia Limited

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QUARTERLY ACTIVITY REPORT

For The Period Ended 31 December 2005

HIGHLIGHTS

- High grades of platinum & palladium intersected in aircore drilling at the Monarch project.
- Results include **13m @ 2.82g/t Pt + Pd** and **5m @ 3.98g/t Pt + Pd**.
- Diamond drilling at Monarch has commenced.
- High grade gold & silver values returned from sampling at Tabisco (Mexico). Results include:
 - **11.0g/t Au & 655g/t Ag**
 - **6.5g/t Au & 388g/t Ag**
 - **4.8g/t Au & 69g/t Ag**
- The Company's available cash at the end of the December Quarter was \$5.7 million.

DETAILS

NORSEMAN (NKL 100% of Nickel Rights)

Further aircore drilling (94 holes for 4,122m) was undertaken on the **Monarch platinum-palladium-nickel-copper** project at Norseman during the December Quarter. The program was designed to follow-up the very positive results returned from previous drilling by providing better definition of the Platinum Group Metals (PGM) anomalies.

High grade platinum and palladium values were returned from this drilling, with individual assays ranging up to **8.34g/t palladium** and **2.40g/t platinum**. Best drill intercepts are shown below.

MONARCH PROJECT – BEST AIRCORE DRILL RESULTS

Hole No	North (MGA)	East (MGA)	From (m)	To (m)	Interval (m)	Pd (g/t)	Pt (g/t)	PGM (g/t)
NNA 672	6447000	379700	30	55	25	1.63	0.43	2.06
<i>including</i>			30	32	2	1.02	0.32	1.34
<i>and</i>			36	37	1	3.51	1.10	4.61
<i>and</i>			39	52	13	2.26	0.56	2.82
<i>and</i>			54	55	1	1.61	0.39	2.00
NNA 673	6447000	379750	33	49	16	1.29	0.37	1.66
<i>including</i>			33	34	1	8.34	2.40	10.74
<i>and</i>			33	38	5	3.10	0.88	3.98
<i>and</i>			42	43	1	0.84	0.26	1.10
<i>and</i>			48	49	1	0.88	0.29	1.17

All holes drilled at an inclination of -60 degrees towards 270 degrees.

Holes drilled at 50m intervals on 200m spaced lines.

Samples assayed at Ultratrace using Method FA002 – lead collection fire assay with ICP-AES determination.

Drill intercepts calculated using a 1g/t (Pt + Pd) cut-off with a maximum internal dilution width of one metre.

Monarch is located on two granted Mining Leases (M63/46 and M63/49). To date, Nickel Australia has completed three aircore drilling programs, totalling 190 holes and 8,637 metres, and two diamond drill holes on this project. This work has confirmed the presence of an extensive zone of strongly anomalous platinum, palladium, nickel and copper hosted in the weathered zone of the layered mafic-ultramafic intrusion known as the Mission Sill.

Using a 100ppb (Pt + Pd) cut-off, the PGM anomaly has been identified on 10 drill sections, extending in a north-south orientation over a 1,600m strike length and up to 300m in width (see attached plan). It still remains open along strike to the south. The anomalous zone is of significant thickness, ranging up to 60 metres in drilled widths. Strongly anomalous nickel and copper, with values reaching up to **1.0% nickel** and **0.16% copper**, lie adjacent to the PGM anomaly.

Two diamond holes drilled at the northern end of the geochemical anomaly (announced September 2005) confirmed the presence of primary platinum and palladium, and nickel and copper sulphide mineralisation beneath the geochemical anomaly. This demonstrated that the nickel and copper sulphide mineralisation is principally hosted within the basal peridotite layer of the Mission Sill, while the PGM mineralisation is hosted higher up in the intrusion within a pyroxenite layer.

Nickel Australia is very encouraged by the widespread presence of PGM, nickel and copper mineralisation within the Mission Sill layered mafic – ultramafic intrusion. In particular, the presence of very high grades of platinum and palladium in the weathered zone indicates that Monarch has excellent potential for hosting significant primary PGM mineralisation.

Exploration at Monarch has recommenced with diamond drilling, further aircore drilling, a detailed ground magnetic survey, and downhole electromagnetic surveys underway. The diamond drilling will test beneath the high grade PGM intercepts returned from the recent aircore drilling.

MEXICO (NKL earning 75% from Geoinformatics Exploration Inc)

During the quarter, Nickel Australia commenced an extensive exploration program on its gold, silver, copper and molybdenum projects in Mexico. This work included soil sampling, rock chip sampling and geological mapping in preparation for a Reverse Circulation (RC) drilling program (comprising 14 holes for about 3,100m) commencing in February 2006. This program will drill test several different mineralisation styles on five separate projects (Tabisco, Cardeleña, San Juan, Jagüey and Adriana).

Very encouraging results have been received from exploration at the **Tabisco** porphyry / epithermal project. Geologically, the project area contains two strongly altered lithocaps containing anomalous copper and molybdenum (see attached plan). Connecting the lithocaps is an extensive array of quartz veining extending over a strike length of 1,000m, and recent rock chip sampling returned high grade gold and silver values from these veins (see table below). Despite the strong geochemical anomalies present at Tabisco, and the fact that the quartz vein system hosts numerous old workings, no historical drilling has occurred at this project.

ROCK CHIP SAMPLING - TABISCO

SAMPLE No.	Au (g/t)	Ag (g/t)	Au Eq (g/t)
MG0012	4.80	69	5.95
MG0013	11.0	655	21.9
MG0014	6.50	388	13.0
122083	9.40	298	14.4

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

The **Cardeleña** soil sampling program identified two strong gold anomalies (see attached plan). These anomalies are defined by a 100ppb Au threshold and they occur as adjacent zones, each extending over about 800m in length and 250m in width. Importantly several soil samples returned high grade gold values, including **1.64g/t**, **1.57g/t** and **0.91g/t Au**. A hole drilled by Kennecott near one of these soil anomalies returned **32m @ 0.3g/t Au** and **2m @ 7.7g/t Au**, confirming the

presence of bedrock mineralisation and highlighting this project's excellent potential for hosting substantial near surface gold mineralisation.

San Juan is considered prospective for silver-rich epithermal vein deposits. Historical drilling at this project by Kennecott intersected **22m @ 92g/t Ag** from surface, and recent rock chip sampling of outcropping quartz veins returned numerous high grade silver assays, including:

ROCK CHIP SAMPLING – SAN JUAN

SAMPLE No.	Ag (g/t)	Au (g/t)	Au Eq (g/t)
MG0019	1,570	0.93	27.1
MG0028	525	0.17	8.92
MG0128	180	0.14	3.14
MG0129	369	0.26	6.41
MG0130	609	0.08	10.2

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

At **Jagüey**, an Induced Polarisation (IP) survey is in progress over two large, strongly altered and geochemically anomalous lithocaps. This survey is designed to detect disseminated sulphide mineralisation at depth. Old workings are present around these lithocaps, where miners exploited skarn-hosted gold, silver and copper mineralisation. Reconnaissance rock chip sampling carried out in the last quarter returned the following anomalous results:

ROCK CHIP SAMPLING - JAGÜEY

SAMPLE No.	Au (g/t)	Ag (g/t)	Cu (%)
MG0150	1.6	455	0.6
MG0195	1.4	151	2.0

At **Adriana**, previous diamond drilling by Kennecott intersected wide zones of anomalous, albeit sub-economic, copper mineralisation. Mapping by Nickel Australia identified a zone of brecciation and alteration further to the south, in an area currently untested by drilling.

Background

Nickel Australia is exploring a portfolio of 14 projects in the Mexican state of Sonora in 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. The agreement provides a low-risk exposure to an under-explored world class mineral province for relatively inexpensive entry expenditure.

DAVYHURST (NKL 100% of Nickel Rights)

Nickel Australia completed a program of RC drilling (14 holes for 2,198m) during the quarter. The program was designed to follow-up anomalous geochemistry returned from the earlier aircore drilling. However, despite intersecting prospective high-magnesium ultramafics containing disseminated sulphides, only moderately anomalous nickel values were returned. A data review will be carried out prior to further exploration.

KILLALOE (NKL earning 70% from Cullen Resources Ltd)

Nickel Australia commenced exploration on the Killaloe project in November, with initial work comprising a program of surface electromagnetic (EM) surveying to follow-up and better define the EM conductors identified by previous surveys. Following completion of the EM survey, geochemical sampling, geological mapping and aircore drilling will be undertaken.

The presence of strong geochemical and geophysical anomalies located near basal stratigraphic contacts indicates the Killaloe project is very prospective for hosting significant nickel sulphide mineralisation, and Nickel Australia is well positioned to significantly advance this project.

MAGGIE HAYS SOUTH (NKL withdrawal)

Nickel Australia has advised Hannans Reward NL that exploration results at the Maggie Hays South project did not meet the Company's corporate criteria and therefore NKL elected to withdraw from the Joint Venture Agreement. Nickel Australia will focus its exploration activities on the Monarch PGM-nickel-copper project at Norseman and on its gold-silver-copper projects in Mexico.

CORPORATE

In 2003, as part of its IPO process, Nickel Australia entered into a Nickel Rights Agreement (NRA) with Croesus Mining NL. Under the terms of the NRA, Nickel Australia was obliged to meet certain minimum expenditure requirements in order to earn a 100% interest in the Nickel Rights on the tenements comprising the Norseman, Davyhurst and Beete projects.

During the December Quarter, Nickel Australia advised Croesus that it (NKL) had met its expenditure obligations in respect of each of these three projects, and had therefore earned 100% of the Nickel Rights. In order to avoid significant future expenditure commitments on all these tenements, as was required under the terms of the NRA, Nickel Australia further advised Croesus that it relinquished the Nickel Rights in relation to certain tenements. The tenements relinquished are considered to be non-prospective for hosting significant nickel and copper sulphide mineralisation. Details of those tenements relinquished and those retained are tabled below.

NICKEL RIGHTS AGREEMENT - TENEMENT DETAILS

PROJECT	TENEMENTS RELINQUISHED	TENEMENTS RETAINED	TENEMENT APPLICATIONS RETAINED
NORSEMAN	46	9	17
DAVYHURST	0	8	3
BEETE	2	0	0
TOTAL	48	17	20

Released by Tony Rovira
 Managing Director
 Nickel Australia Ltd
 25 January 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.

Monarch Project PGM Contours



