

Nickel Australia Limited

ACN 106 946 918

Financial Statements

For the Period Ended 31 December 2005

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2005 and any public announcements made by Nickel Australia Limited during the half-year in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Nickel Australia Ltd

For the Half Year Ended 31 December 2005

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Nickel Australia Ltd

Directors' Report

31 December 2005

Your directors submit the financial report of the Group for the financial half-year ended 31 December 2005.

1. General information

Directors

The names of the directors in office at any time during, or since the end of, the period are:

Names

Campbell Ansell

Anthony Rovira

Michael Fowler

John Saleeba

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

2. REVIEW OF OPERATIONS AND RESULTS

Nickel Australia is a mineral exploration company with a focus on nickel and base metals exploration in Western Australia and Mexico.

During the half year the Company:

- Commenced exploration at Splinter Project, including surface geochemical sampling, geological mapping, aerial photography and ground gravity and airborne magnetic surveys;
- Continued exploration at Norseman Project with several electromagnetic (EM) conductors identified in surface and downhole geophysical surveys;
- Formed a Joint Venture with Cullen Resources Ltd on the Killaloe Project located adjacent to the Company's Norseman project; and,
- Confirmed the grant of the Mining Leases for the Bounty Project.

The Operating Loss for the half year amounted to \$4,590,173 (2004: \$2,062,102)

Nickel Australia Ltd

Directors' Report

31 December 2005

3. Other items

(a) Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial period.

(b) Changes in Controlled Entity

During the half year, the company incorporated Azure Mexico Pty Ltd.

(c) Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (IFRS), the company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to IFRS is included on Note 2 to this report.

(d) After balance date events

Subsequent to balance date the directors have resolved to issue a total of 3 million options to existing employees and contractors of the company in three equal tranches with various exercise prices, listing dates and expiry dates. The details are contained in the table below.

TRANCHE	EXERCISE PRICE	LIFE OF OPTIONS	DATE OF ISSUE	EXPIRY DATE
Tranche 1	\$0.175	5 Years	1 Feb 2006	31 Jan 2011
Tranche 2	\$0.25	5 Years	1 Feb 2007	31 Jan 2012
Tranche 3	\$0.35	5 Years	1 Feb 2008	31 Jan 2013

(e) Future developments

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Nickel Australia Ltd

Directors' Report

31 December 2005

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 20.

This report is made in accordance with a resolution of the Board of Directors:

Anthony Rovira
Managing Director

West Perth

Date: 15th March 2006

Nickel Australia Ltd

Income Statement

For the half year Ended 31 December 2005

	Consolidated	
	31 Dec 2005	31 Dec 2004
	\$	\$
Revenue	-	-
Other income	185,204	332,710
Total revenue from ordinary activities	<u>185,204</u>	<u>332,710</u>
Depreciation and amortisation	(30,125)	(46,779)
Exploration expenditure written off	(4,189,461)	(1,794,268)
Salaries and wages	(124,756)	(134,262)
Consultants	(44,745)	(37,102)
Director fees	(57,500)	(45,000)
Travel and accommodation	(44,180)	(35,675)
Insurance	(3,487)	(52,620)
Administration expenses	(71,348)	(60,902)
Share based payments	(70,554)	(84,664)
Other expenses	(139,221)	(103,540)
Loss before income tax	<u>(4,590,173)</u>	<u>(2,062,102)</u>
Income tax	-	-
Loss after income tax	<u>(4,590,173)</u>	<u>(2,062,102)</u>
Basic loss (cents per share)	<u>(5.40)</u>	<u>(2.34)</u>

Nickel Australia Ltd

Balance Sheet

31 December 2005

		Consolidated	
	Note	31 Dec 2005 \$	30 June 2005 \$
Current Assets			
Cash and cash equivalents		5,732,913	7,974,167
Trade and other receivables		143,439	65,578
Total Current Assets		5,876,352	8,039,745
Non-Current Assets			
Property, plant and equipment		179,318	209,442
Mining tenements and capitalised acquisition costs		2,212,631	4,355,542
Total Non-Current Assets		2,391,949	4,564,984
TOTAL ASSETS		8,268,301	12,604,729
Current Liabilities			
Trade and other payables		367,239	195,992
Provisions		66,229	54,285
Total Current Liabilities		433,468	250,277
TOTAL LIABILITIES		433,468	250,277
NET ASSETS		7,834,833	12,354,452
Equity			
Issued capital	6	17,952,332	17,952,332
Option reserve		354,760	284,206
Accumulated losses		(10,472,259)	(5,882,086)
TOTAL EQUITY		7,834,833	12,354,452

Nickel Australia Ltd

Statement of Changes in Equity

For the half year Ended 31 December 2005

31 December	Consolidated			
2005	Ordinary Shares	Accumulated Losses	Option Reserve	Total
	\$	\$	\$	\$
Equity as at beginning of period	17,952,332	(5,597,880)	-	12,354,452
Prior period adjustments (AIFRS)	-	(284,206)	284,206	-
Equity restated as at 30 June 2005	17,952,332	(5,882,086)	284,206	12,354,452
Changes				
Loss for the period	-	(4,590,173)	-	(4,590,173)
Shares issued during the period		-	-	-
Transaction costs	-	-	-	-
Transfers to and from reserves				
Option reserve	-	-	70,554	70,554
Sub-total	-	(4,590,173)	70,554	(4,519,619)
Equity as at 31 December 2005	17,952,332	(10,472,259)	354,760	7,834,833

Nickel Australia Ltd

Statement of Changes in Equity

For the half year Ended 31 December 2005

31 December

2004

	Ordinary Shares \$	Accumulated Losses \$	Option Reserve \$	Total \$
Equity as at beginning of period	17,952,332	(1,512,244)	-	16,440,088
Prior period adjustments (AIFRS)	-	(114,879)	114,879	-
Equity restated as at 30 June 2004	17,952,332	(1,627,123)	114,879	16,440,088
Changes				
Loss for the period	-	(1,977,438)	-	(1,977,438)
Shares issued during the period	-	-	-	-
Transaction costs	-	-	-	-
Transfers to and from reserves				
Option reserve	-	(84,664)	84,664	-
Sub-total	-	(2,062,102)	84,664	(1,977,438)
Equity as at 31 December 2004	17,952,332	(3,689,225)	199,543	14,462,650

Nickel Australia Ltd

Statement of Cash Flows

For the half year Ended 31 December 2005

	Consolidated	
	31 Dec 2005	31 Dec 2004
	\$	\$
Cash flows from operating activities		
Payments to suppliers and employees	(459,845)	(286,149)
Payments for exploration expenditure	(1,966,613)	(2,018,465)
Interest received	185,204	332,710
	<hr/>	<hr/>
Net cash (used in) operating activities	(2,241,254)	(1,971,904)
Cash flows from investing activities		
Payment for plant and equipment	-	(5,218)
	<hr/>	<hr/>
Net cash (used in) financing activities	-	(5,218)
Cash flows from financing activities		
Proceeds from share issues	-	-
Capital raising costs	-	-
Funds received on trust	-	-
	<hr/>	<hr/>
Net cash from financing activities	-	-
Net (decrease) / increase in cash and cash equivalents held	(2,241,254)	(1,977,122)
Cash and cash equivalents at the beginning of the half year	7,974,167	12,070,545
	<hr/>	<hr/>
Cash and cash equivalents at the end of the half year	<u>5,732,913</u>	<u>10,093,423</u>

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

Note 1. Basis of Preparation of Half-Year Financial Statements

This general purpose financial report for the interim half-year ended 31 December 2005 has been prepared in accordance with the Corporations Act 2001 and Accounting Standard AASB 134 :Interim Financial Reporting. This half-year report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Annual Report for the year ended 30 June 2005 and public announcements made by Nickel Australia Limited during the half-year in accordance with any continuous disclosure obligations arising under the Corporations Act 2001.

The principal accounting policies have been consistently applied to all the periods presented, unless otherwise stated.

This interim financial report is the first Nickel Australia Limited interim financial report to be prepared in accordance with Australian equivalents to International Financial Reporting Standards ('AIFRSs'). AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of the Company until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ('AGAAP'). The conversion of the balance sheet at 30 June 2005 from AGAAP to AIFRS has not resulted in any material financial impact on balance sheet carrying values or any alteration to the income statement or cash flow.

Principals of Consolidation

The consolidated financial statements comprise the financial statements of Nickel Australia Limited and its subsidiaries ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Nickel Australia Limited has control.

Taxation

Current tax is calculated by references to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current prior and periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacting by reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

The Company has not brought to account the estimated future income tax benefits attributable to tax losses and temporary differences as a deferred tax asset, as it is not yet considered probable that future taxable profit will be available for utilisation.

Impairment of Assets

The recoverable amount of an asset is determined as the higher of net selling price and value in use. Property plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses (the cost method). The fair value of property plant and equipment, as determined by reference to observable prices, is not materially different to the carrying amount.

Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial period.

Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

Property

Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction), based on periodic, but at least triennial, valuations by external valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Plant and equipment

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised leased assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets vary between 20% and 40%

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of four months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

Employee Benefits

Provision is made for the Company's liability for employee benefits arising out of services rendered by the employees as at balance date. Employee benefits that are expected to be settled within one year have been measured by the amount expected to be paid when the liability is settled, plus any related on costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflow to be made for those benefits.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

Goods and Service Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense and
- ii) for receivables and payables which are recognised inclusive of GST, the net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

Revenue

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Interest revenue

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Exploration and evaluation costs

Exploration and evaluation costs are written off in the year they are incurred apart from acquisition costs which are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Where an area of interest is abandoned or the directors decide that it is not commercial, any accumulated acquisition costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

Share-based payment transactions

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Nickel Australia Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award.

Payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the company.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

Deferred cash settlements are recognised at the present value of the outstanding consideration payable on the acquisition of an asset discounted at prevailing commercial borrowing rates.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

NOTE 2 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS

Reconciliation of Equity at 30 June 2005

	Note	Previous GAAP as at 30 June 2005 \$	Adjustment on introduction of Australian equivalents to IFRS	Australian Equivalents to IFRS at 30 June 2005 \$
Current Assets				
Cash assets and cash equivalents		7,974,167		7,974,167
Trade and other receivables		65,578		65,578
Total Current Assets		8,039,745		8,039,745
Non-Current Assets				
Property, plant and equipment		209,442		209,442
Mining tenements and Capitalised acquisition costs		4,355,542		4,355,542
Total Non-Current Assets		4,564,984		4,564,984
TOTAL ASSETS		12,604,729		12,604,729
Current Liabilities				
Trade and other payables		195,992		195,992
Provisions		54,285		54,285
Total Current Liabilities		250,277		250,277
TOTAL LIABILITIES		250,277		250,277
NET ASSETS		12,354,452		12,354,452
Equity				
Contributed Equity		17,952,332		17,952,332
Option Reserve		-	284,206	284,206
Accumulated losses		(5,597,880)	(284,206)	(5,882,086)
TOTAL EQUITY		12,354,452		12,354,452

Under AASB 2 (Share Based Payments), the company has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

NOTE 2 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont)

Reconciliation of Equity at 30 June 2004

	Previous GAAP as at 30 June 2004	Adjustment on introduction of Australian equivalents to IFRS	Australian Equivalents to IFRS at 30 June 2004
	\$		\$
Current Assets			
Cash assets and cash equivalents	12,070,545		12,070,545
Trade and other receivables	88,249		88,249
Total Current Assets	12,158,794		12,158,794
Non-Current Assets			
Property, plant and equipment	293,661		293,661
Mining tenements and Capitalised acquisition costs	4,270,905		4,270,905
Total Non-Current Assets	4,564,566		4,564,566
TOTAL ASSETS	16,723,360		16,723,360
Current Liabilities			
Trade and other payables	267,532		267,532
Provisions	15,740		15,740
Total Current Liabilities	283,272		283,272
TOTAL LIABILITIES	283,272		283,272
NET ASSETS	16,440,088		16,440,088
Equity			
Contributed Equity	17,952,332		17,952,332
Option Reserve	-	114,879	114,879
Accumulated losses	(1,512,244)	(114,879)	(1,627,123)
TOTAL EQUITY	16,440,088		16,440,088

Under AASB 2 (Share Based Payments), the company has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

NOTE 2 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont)

Reconciliation of Equity at 31 December 2004

	Previous GAAP as at 31 December	Adjustment on introduction of Australian equivalents to IFRS	Australian Equivalents to IFRS at 31 December
	2004		2004
Note	\$		\$
Current Assets			
Cash assets and cash equivalents	10,093,423		10,093,423
Trade and other receivables	123,420		123,420
Total Current Assets	10,216,843		10,216,843
Non-Current Assets			
Property, plant and equipment	252,100		252,100
Mining tenements and Capitalised acquisition costs	4,626,419		4,626,419
Total Non-Current Assets	4,878,519		4,878,519
TOTAL ASSETS	15,095,362		15,095,362
Current Liabilities			
Trade and other payables	600,508		600,508
Provisions	32,204		32,204
Total Current Liabilities	632,712		632,712
TOTAL LIABILITIES	632,712		632,712
NET ASSETS	14,462,650		14,462,650
Equity			
Contributed Equity	17,952,332		17,952,332
Option Reserve	-	199,543	199,543
Accumulated losses	(3,489,682)	(199,543)	(3,689,225)
TOTAL EQUITY	14,462,650		14,462,650

Under AASB 2 (Share Based Payments), the company has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

NOTE 2 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont)

Reconciliation of Profit or Loss for year ended 30 June 2005

Note	Previous GAAP \$	Effect of Translation to Australian Equivalents to IFRS \$	Australian Equivalents to IFRS \$
Revenue from operating activities	-		-
Revenue from outside the operating activities	572,546	-	572,546
Total revenue from ordinary activities	<u>572,546</u>	-	<u>572,546</u>
Depreciation and amortisation	(89,437)	-	(89,437)
Exploration expenditure written off	(3,576,108)	-	(3,576,108)
Salaries and wages	(335,343)	-	(335,343)
Consultants	(163,183)	-	(163,183)
Travel and accommodation	(137,703)	-	(137,703)
Insurance	(58,167)	-	(58,167)
Other expenses from ordinary activities	(298,241)	-	(298,241)
Recognition of share based payment expense	-	(169,327)	(169,327)
Loss from ordinary activities before income tax expense	<u>(4,085,636)</u>	(169,327)	<u>(4,254,963)</u>
Income tax expense	-	-	-
Net loss	<u><u>(4,085,636)</u></u>	(169,327)	<u><u>(4,254,963)</u></u>

Under AASB 2 (Share Based Payments), the company has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

NOTE 2 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO IFRS (cont)

Reconciliation of Profit or Loss for year ended 31 December 2004

Note	Previous GAAP \$	Effect of Translation to Australian Equivalents to IFRS \$	Australian Equivalents to IFRS \$
Revenue from operating activities	-	-	-
Revenue from outside the operating activities	332,710	-	332,710
Total revenue from ordinary activities	<u>332,710</u>	-	<u>332,710</u>
Depreciation and amortisation	(46,779)	-	(46,779)
Exploration expenditure written off	(1,794,268)	-	(1,794,268)
Salaries and wages	(134,262)	-	(134,262)
Consultants	(37,102)	-	(37,102)
Director fees	(45,000)	-	(45,000)
Travel and accommodation	(35,675)	-	(35,675)
Insurance	(52,620)	-	(52,620)
Administration expenses	(60,902)	-	(60,902)
Other expenses from ordinary activities	(103,540)	-	(103,540)
Recognition of share based payment expense	-	(84,664)	(84,664)
Loss from ordinary activities before income tax expense	<u>(1,977,438)</u>	(84,664)	<u>(2,062,102)</u>
Income tax expense	-	-	-
Net loss	<u><u>(1,977,438)</u></u>	(84,664)	<u><u>(2,062,102)</u></u>

Under AASB 2 (Share Based Payments), the company has recognized the fair value of options issued to employees as an expense on a pro rata basis in the income statement.

No material impacts have occurred to the Cash Flows presented under AGAAP on adoption of AIFRS.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

NOTE 3 DIVIDENDS

No dividends have been paid or provided for in the half year.

NOTE 4 SEGMENT REPORTING

The reporting entity operates within the exploration industry in Western Australia.

NOTE 5 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to balance date the directors have resolved to issue a total of 3 million options to existing employees and contractors of the company in three equal tranches with various exercise prices, listing dates and expiry dates. The details are contained in the table below.

TRANCHE	EXERCISE PRICE	LIFE OF OPTIONS	DATE OF ISSUE	EXPIRY DATE
Tranche 1	\$0.175	5 Years	1 Feb 2006	31 Jan 2011
Tranche 2	\$0.25	5 Years	1 Feb 2007	31 Jan 2012
Tranche 3	\$0.35	5 Years	1 Feb 2008	31 Jan 2013

NOTE 6 ISSUED CAPITAL

	Shares	\$
• Balance as at 31 December 2005	85,000,004	17,952,332
	<hr/>	<hr/>
	85,000,004	17,952,332
• Options on issue as at 31 December 2005		
Excercisable at 25 cents on or before 30 November 2008	1,780,000	
Excercisable at 25 cents on or before 30 November 2009	3,560,000	
Excercisable at 25 cents on or before 30 November 2010	<u>3,560,000</u>	
Total	<u>8,900,000</u>	

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

NOTE 7 EARNINGS PER SHARE

Weighted average number of ordinary shares used in calculation of basic earnings per share is 85,000,004. Options to purchase ordinary shares not exercised at 31 December 2005 have been included in the determination of diluted earnings per share.

Diluted earnings per share does not represent an inferior view of the Company's performance and is not disclosed for this reason.

NOTE 8 CONTINGENT ASSETS AND LIABILITIES

The parent entity and group had contingent liabilities at 31 December 2005 in respect of:

Exploration Joint Venture in Mexico

Under the terms of the agreement, Nickel Australia can earn an initial 51% interest in all Geoinformatics' projects within the Strategic Alliance Area by expending US\$4 million within a period of four years, and can earn a further 24% (totaling a 75% interest) by carrying all further expenditure until the completion of a pre-feasibility study within six years. Nickel Australia has committed to a minimum expenditure of US\$1 million within the first two years, before having the right to withdraw.

Farm-in agreement – Cullen Exploration Proprietary Limited

On 14 October, 2005 the company entered into an agreement with Cullen Exploration Proprietary Limited. Under the terms of the agreement Nickel Australia has the right to earn an interest in various mineral exploration tenements currently owned by Cullen. Nickel Australia must incur a minimum expenditure of \$250,000.00 on exploration during the first year. Should the company continue exploration activity on this joint venture it is required to progressively commit to the exploration expenditure rising to a total amount of \$1.5 million by the fourth anniversary of the commencement date.

Nickel Australia Ltd

Notes to the Financial Statements

For the half year Ended 31 December 2005

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 4 to 20:
 - (a) comply with Accounting Standard AASB 134:Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 31 December 2005 and of the performance for the half year ended on that date.
2. In the directors opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director

Anthony Rovira

Dated 15th March 2006



STANTON PARTNERS

1 HAVELOCK STREET
WEST PERTH 6005
WESTERN AUSTRALIA

TELEPHONE: (08) 9481 3188

Facsimile: (08) 9321 1204

e-mail: australia@stanton.com.au

15 March 2006

Board of Directors
Nickel Australia Limited
Level 1
30 Richardson Street
WEST PERTH WA 6005

Dear Directors

RE: NICKEL AUSTRALIA LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Nickel Australia Limited.

As Audit Partner for the review of the financial statements of Nickel Australia Limited for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely
STANTON PARTNERS

John Van Dieren
Partner



STANTON PARTNERS

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INDEPENDENT REVIEW REPORT TO THE MEMBERS OF NICKEL AUSTRALIA LIMITED

Scope

We have reviewed the financial report comprising the income statement, balance sheet, statement of cash flows, statement of changes in equity, accompanying notes to the financial statements and the directors' declaration of Nickel Australia Limited (the Company) for the half-year ended 31 December 2005 as set out on pages 4 to 21. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half year or from time to time during the half year. The disclosing entity's directors are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated equity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review Approach

We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission and the Australian Stock Exchange.

Our review has been conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to inquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

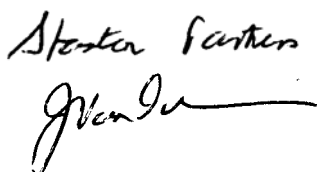
We are independent of the Company, and have met the independence requirements of Australian ethical pronouncements and the Corporations Act 2001. We have given the directors of the Company a written Auditor's Independence Declaration.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Nickel Australia Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

STANTON PARTNERS

Handwritten signature of J P Van Dieren in black ink.

J P Van Dieren
Partner

West Perth, Western Australia
15 March 2006