Nickel Australia Limited

ABN 46 106 346 918

17 October 2006

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

Dear Sir,

RE: MAGNETITE MINERALISATION DISCOVERED AT SPLINTER

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

Yours faithfully,

Tony Rovira
Managing Director

Encl.

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ANNOUNCEMENT **17 October 2006**

MAGNETITE MINERALISATION DISCOVERED AT SPLINTER

HIGHLIGHTS

- Diamond drilling has returned wide intercepts of magnetite mineralisation at its 100%-owned Splinter project.
- The iron-rich mineralisation, with a potential strike length of 16 kilometres, is hosted within a large banded iron formation with similar geology to the Southdown Magnetite Deposit held by Grange Resources Ltd.
- Preliminary metallurgical testwork (Davis Tube Recovery) is in progress on drill core samples to determine total magnetite content.
- A follow-up program of Reverse Circulation drilling will commence in November.

DETAILS

Nickel Australia Limited (ASX: **NKL**) is pleased to advise that the recently completed diamond drilling program at its 100% owned Splinter project has discovered a large banded iron formation (BIF) containing significant quantities of magnetite mineralisation.

Two diamond holes (NSD001 and NSD002) 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 just completed 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 a 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 expected within 3-4 weeks.

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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**
				including	***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;

Further Exploration

A Reverse Circulation (RC) drilling program to follow-up these intercepts will be undertaken as soon as a suitable drill rig can be sourced, expected to be 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.

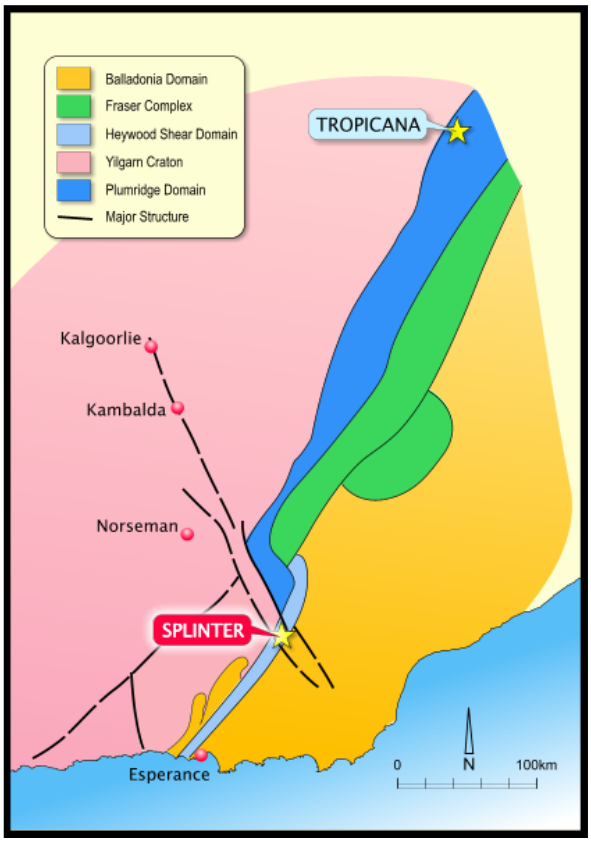
Preliminary interpretation of a recently completed Induced Polarisation (IP) survey has identified the presence of chargeability anomalies located coincident with the magnetite-rich part of the BIF. It is likely that these anomalies represent the most magnetite-rich parts of the sequence. The RC drilling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

Background

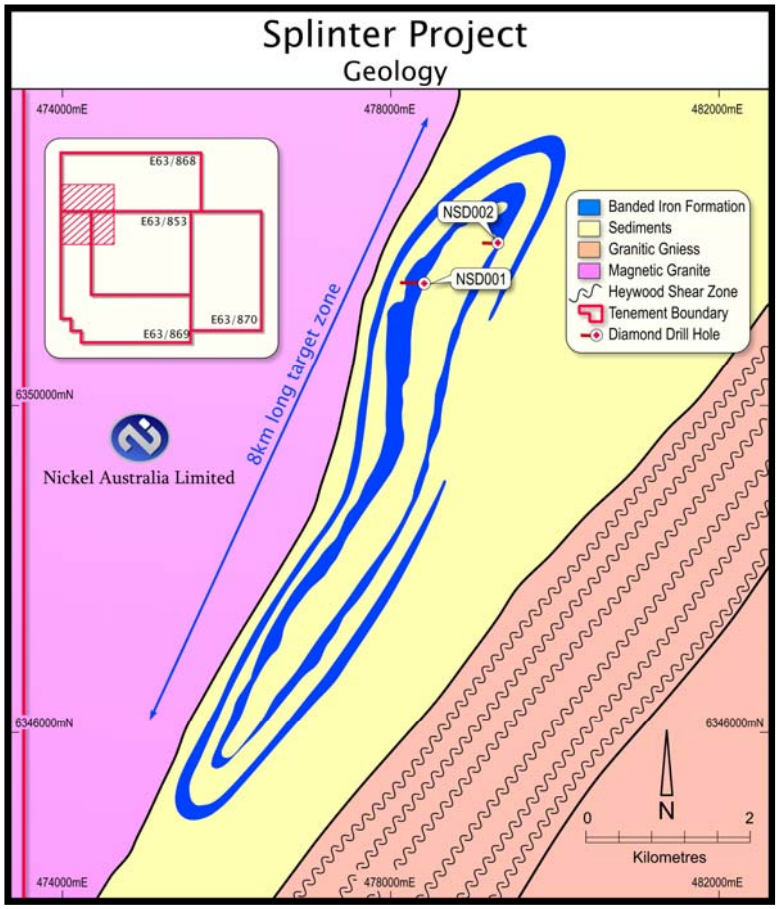
The Splinter project is located about 120km northeast of the port of Esperance. Vehicle access to the exploration site is good via sealed roads and farm tracks. Splinter consists of four Exploration Licences owned 100% by Nickel Australia, covering 840km^2.

For further information, contact:
Tony Rovira
Managing Director
Nickel Australia Ltd

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.



Splinter Project – Regional Location Plan



Splinter Project – Detailed Geology

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