



Nickel Australia Limited

QUARTERLY REPORT

FOR THE PERIOD ENDED SEPTEMBER 30, 2004

HIGHLIGHTS

- Exploration commences at **Splinter Project**, including surface geochemical sampling, geological mapping, aerial photography, and ground gravity and airborne magnetic surveys.
- Initial Splinter results confirm presence of strong and coherent geochemical anomalism.
- Intensive exploration continues at **Norseman Project** with several electromagnetic (EM) conductors identified in surface and downhole geophysical surveys, and these will be drill tested during the forthcoming quarter.
- **Maggie Hays South** tenements granted during October, and field exploration will commence immediately.
- Joint Venture formed with Cullen Resources Ltd on the **Killaloe Project** located adjacent to the Company's Norseman project.
- At the end of the September Quarter, Nickel Australia has approximately \$11.4 million in the bank and is evaluating several new opportunities. Nickel Australia continually monitors its key target areas where selective acquisitions would complement its strategic tenement holding, grow the company, and add value to its shareholders.

EXPLORATION

Splinter (NKL 100%)

Nickel Australia Limited (ASX: **NKL**) commenced exploration on its 100%-owned **Splinter Project** in Western Australia during the September Quarter. Splinter is located in the Albany-Fraser Province, about 120km northeast of Esperance. It contains 840sq km of ground considered prospective for shear-hosted gold deposits, iron oxide copper-gold deposits (Olympic Dam and Ernest Henry style), and intrusive hosted nickel sulphide deposits (Voisey's Bay style).

Within the project area, previous surface geochemical sampling identified a large (8.5km x 5.5km) gold-in-calcrete anomaly situated at the intersection of major structural trends. The dimension and magnitude of the Splinter anomaly is comparable to those that led to the gold discoveries at Tropicana (Independence Group Ltd / AngloGold Australia Ltd), Tunkillia (Helix Resources Ltd), Barns and Baggy Green (Adelaide Resources Ltd / Newmont Australia Ltd).

During the quarter a close-spaced calcrete sampling program was carried out over the known geochemical anomaly. This was designed to infill the existing survey pattern and better define the orientation of the anomalous gold zones. A total of 303 samples were collected on a 400m x 400m pattern. Analytical results have recently been received and an initial review has indicated the

presence of several strong, well defined and coherent gold anomalies within the original wide-scale anomaly. Interpretation of the assay data for gold and other elements is currently in progress.

An aerial photographic survey was flown in early October, and a detailed ground gravity survey has recently commenced. The gravity survey has station spacings on a 1km x 0.5km pattern. Depending upon results, further infill gravity measurements may be collected to provide better anomaly definition.

Existing broad scale, regional aeromagnetics show that the Splinter project area contains a very interesting geological package. In mid-November a low-level aeromagnetic survey will be flown to provide detailed interpretation of the project geology.

Splinter represents a significant longer-term exploration target for Nickel Australia. Depending upon results from the geophysical surveys and surface geochemical sampling, the Company will implement an aircore drilling program and will review the option of deeper drill testing of targets with Reverse Circulation and/or diamond core drilling.

Killaloe (NKL earning 70% of the Nickel Rights from Cullen Resources Ltd)

In October, Nickel Australia entered into a joint venture with Cullen Resources Ltd on the **Killaloe Project** in the Norseman district of Western Australia.

Under the agreement, Nickel Australia acquired the right to earn a 70% interest in Nickel Minerals (nickel, cobalt, copper, lead, zinc and Platinum Group Metals) by expending \$1.5 million within four years. Nickel Australia has committed to a minimum expenditure of \$250,000 in the first year (after which it can choose to withdraw). After Year 1, Nickel Australia's minimum annual expenditure level will be \$300,000, with the right to withdraw on a pro rata expenditure basis.

Once Nickel Australia has earned its 70% interest, Cullen can elect to either contribute on a pro rata basis or revert to a 20% interest free carried to a Decision to Mine. Upon a Decision to Mine, Cullen can elect to either contribute or revert to a 2% Net Smelter Royalty.

The Killaloe project comprises two granted Exploration Licences and six granted Prospecting Licences. It is situated about 25km northeast of Norseman township adjoining the eastern boundary of Nickel Australia's Norseman property. Killaloe covers approximately 150sq km and contains a 27km strike length of the southern extensions of the Kambalda ultramafic sequence. Previous exploration has confirmed the presence of highly anomalous nickel and pathfinder element mineralisation within gossans developed over the ultramafics.

Acquisition of this project will form a suitable and complementary addition to Nickel Australia's Norseman Project portfolio. Exploration will commence as soon as practicable following completion of the formal documentation. This work will include surface electromagnetic (EM) and geochemical surveys, and aircore, RC and diamond drilling.

Norseman (NKL earning 100% of the Nickel Rights from Croesus Mining NL)

Nickel Australia continued its intensive exploration program on the **Norseman Project** during the quarter, with the following work completed.

Pioneer	Aircore drilling - 67 holes for 3,646m Surface electromagnetic surveys
Woodcutters	Aircore drilling - 48 holes for 1,650m Surface electromagnetic surveys
Talbot	Diamond core drilling - 4 holes for 1,401m Downhole electromagnetic surveys
Polar Bear	Diamond core drilling - 2 holes for 547m Downhole electromagnetic surveys

The reconnaissance aircore drilling program at Woodcutters and Pioneer was designed to infill wide-spaced historical RAB drilling and better define the geology and areas of anomalous geochemistry. Numerous holes returned geochemical analyses anomalous in nickel and pathfinder elements from weathered ultramafics at both prospects. This exploration was then followed by a surface EM survey which identified two conductors at Woodcutters and one at Pioneer. The Pioneer conductor and one of the conductors at Woodcutters are coincident with geochemical anomalism. These conductors are currently being followed up with more detailed fixed loop EM surveys in order to refine the targets for testing by diamond drilling, which will be undertaken in this quarter.

At Talbot, the EM conductors and anomalous geochemistry identified in earlier aircore drilling were tested by diamond drilling. Several intervals of low grade, finely disseminated nickel sulphides (eg 10.6m @ 0.6% Ni and 8.1m @ 0.5% Ni) were intersected in ultramafics. DHEM surveys were carried out in these drill holes however no significant EM conductor anomalies were identified. Exploration at Talbot this year has confirmed the widespread presence of this low-grade style of disseminated nickel sulphide mineralisation, however no economically significant, higher grade nickel mineralisation has been identified to date. No further work is planned at this prospect while a data review is undertaken.

At Polar Bear, no significant nickel grades were returned from the two diamond holes and no geologically significant electromagnetic anomalies were detected from the DHEM surveys. Although results to date have been disappointing, several strong geochemical and geophysical anomalies remain untested and further work will continue at this prospect.

During the forthcoming quarter, Nickel Australia will undertake a four hole diamond drilling program (approximately 1,200m) commencing in early November to test the surface EM conductors and geochemical anomalism at Woodcutters and Pioneer. DHEM surveys will be undertaken in all diamond holes. If access permits, further diamond drilling will also be carried out to test the remaining targets at Polar Bear.

Maggie Hays South (NKL earning 55% Nickel Rights from Hannans Reward NL)

Nickel Australia announced in early July that the Company had entered into a Joint Venture with Hannans Reward NL on the Maggie Hays South Project in the Lake Johnston Greenstone Belt of Western Australia. The Maggie Hays South Project comprises seven Prospecting Licences which were granted in late October.

Under the agreement, Nickel Australia has the right to earn a 55% interest in Nickel Minerals (all minerals except gold and silver) by sole funding exploration through to completion of a Bankable

Feasibility Study (BFS) within five years. Following completion of a BFS and upon the Company making a Decision to Mine, HNR will retain a 35% interest in the nickel minerals and may elect to either contribute or revert to a 2% Net Smelter Royalty. The remaining 10% interest in the Maggie Hays South Project is held by two private entities, Murchison Resources Pty Ltd and D M Edwards. Both are also free carried to a Decision to Mine, whereupon they will elect to either contribute or dilute according to a standard industry formula.

The project area is situated in the central part of the Lake Johnston greenstone belt, approximately 110km west of Norseman, and about 25km south of the Maggie Hays and Emily Ann nickel mines operated by LionOre. It covers 12km² and contains a 4km strike length of the southern extensions of the rock units which host LionOre's mines. Previous exploration for nickel at Maggie Hays South has been minimal. An historical wide-spaced RAB drilling program returned anomalous nickel and copper geochemistry from along the ultramafic footwall contact, and a surface EM survey identified four conductor anomalies, also located near the basal ultramafic contact. None of these targets have been tested by deep drilling.

Nickel Australia has commenced the first phase of an intensive exploration program. This will comprise close-spaced aircore drilling and moving loop and fixed loop surface EM surveys. Targets generated by this work will be followed-up with diamond drilling and downhole EM surveys.

The presence of geochemical and geophysical anomalies located near a stratigraphic contact associated with large, high grade nickel sulphide deposits elsewhere in the district indicates the Maggie Hays South Project is prospective for hosting significant nickel sulphide mineralisation.

PLANNED EXPLORATION – DECEMBER QUARTER

Intensive exploration is planned for the December Quarter, with numerous activities either scheduled or already in progress.

Splinter Aerial photographic survey
 Ground gravity survey
 Airborne magnetic survey
 Interpretation and evaluation of the calcrete sampling data

Norseman Diamond core drilling
 Downhole EM surveys
 Surface EM surveys

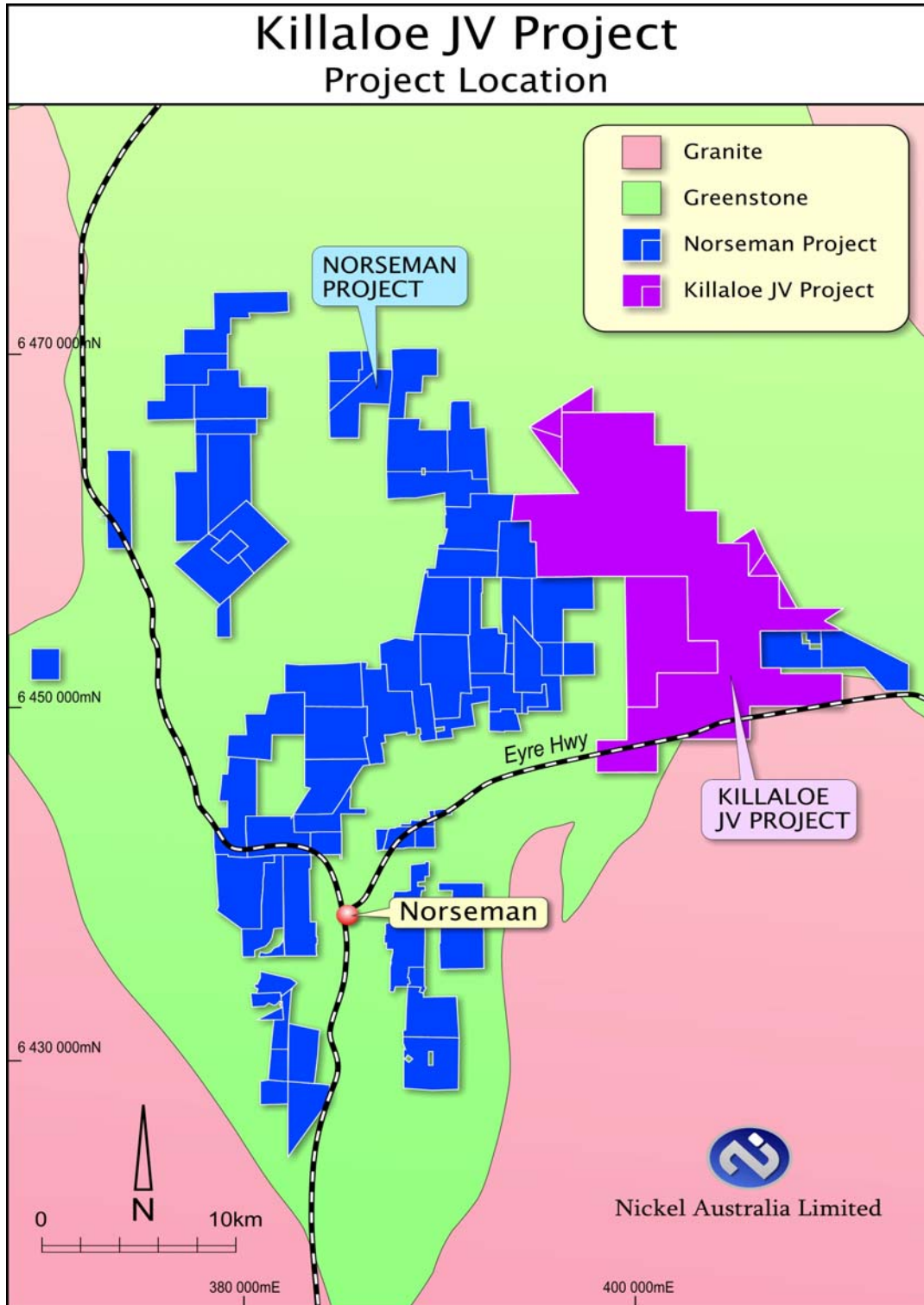
Maggie Hays South Aircore drilling
 Diamond core drilling
 Surface EM survey
 Downhole EM surveys

Tony Rovira
Managing Director
31 October 2004

This report has been compiled by Mr Tony Rovira (Managing Director – Nickel Australia Ltd) who is a member of the Australasian Institute of Mining and Metallurgy (AusIMM) with more than 20 years experience in the mining industry. Mr Rovira has relevant experience in relation to the geology and mineralisation being reported on and qualifies as a Competent Person as defined by the Joint Ore Reserve Committee (JORC) of the AusIMM.



Nickel Australia Limited



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 September 2004

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (3 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration and evaluation	(713)	(713)
(b) development	-	-
(c) production	-	-
(d) administration	(149)	(149)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	204	204
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material) GST reclaimable	16	16
	(642)	(642)
Net Operating Cash Flows		
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(3)	(3)
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)	-	-
	(3)	(3)
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(645)	(645)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(645)	(645)
Cash flows related to financing activities			
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)	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(645)	(645)
1.20	Cash at beginning of quarter/year to date	12,071	12,071
1.21	Exchange rate adjustments to item 1.20		
1.22	Cash at end of quarter	11,426	11,426

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	70
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	900
4.2 Development	
Total	900

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	71
5.2 Deposits at call	11,365	12,000
5.3 Bank overdraft		
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	11,426	12,071

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

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.

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 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	85,000,004	60,400,004		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>	1,780,000 3,560,000 3,560,000	Nil Nil Nil	<i>Exercise price</i> \$0.25 \$0.25 \$0.25	<i>Expiry date</i> 30/11/08 30/11/09 30/11/10
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

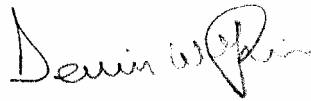
+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.12	Unsecured notes (<i>totals only</i>)				
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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 ~~not~~* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: **29 October 2004**

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.