



Nickel Australia Limited

ABN 46 106 346 918

7 August 2006

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

Dear Sir,

RE: DIAMOND DRILLING COMMENCES 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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COPPER – GOLD TARGETS IDENTIFIED AT SPLINTER

Diamond Drilling Commences

HIGHLIGHTS

- Gravity survey identifies significant gravity anomalies (+8 milligals) at **Splinter**.
- Aircore drilling intersects anomalous geochemistry and strong hematite-sericite alteration.
- Project considered very prospective for IOCG (iron oxide copper gold) mineralisation.
- Diamond drilling program has commenced.

OVERVIEW

Nickel Australia recently announced (Fourth Quarter Report released 28 July 2006) the completion of an extensive ground gravity survey on its 100%-owned Splinter Project, and the commencement of reconnaissance aircore drilling. Results from these programs have been received and evaluated.

The Company is pleased to advise that it has identified several significant gravity anomalies, with coincident anomalous geochemistry in strongly hematite-sericite altered rocks. These are indicators of hematitic breccia systems potentially hosting (IOCG) iron oxide copper-gold-uranium mineralisation.

The Company is very encouraged by this success, and a diamond core drilling program has now commenced to test the first of these anomalies.

DETAILS

Gravity Survey

The gravity survey was designed to identify discrete geological bodies with significant density contrasts to surrounding country rocks which, in this geological environment, could represent either:

- IOCG (iron oxide copper gold uranium) deposits of the Olympic Dam style; or
- mafic-ultramafic intrusive bodies prospective for nickel and copper sulphide deposits (Voisey's Bay style); or
- paleochannels potentially containing roll-front or calcrete hosted uranium deposits (Yeelirrie style).

Data was collected from a total of 808 stations on a spacing of 500m x 1,000m covering an area of 280 square kilometres. This program successfully identified several very strong gravity highs.

Further readings were then collected over the anomalies, infilling the station spacing to 100m x 500m, to provide better definition. This enabled the anomalies to be accurately modelled by the Company's consultant geophysicists, Southern Geoscience Consultants.

The Company considers that three of these anomalies represent high priority targets.

The strongest anomaly (Target 1) has dimensions of about four kilometres long and one kilometre wide. It is a +8 milligal anomaly representing a coherent geological body with a density of 3.75 t/m³. The body is interpreted to commence at a depth between 100 to 200 metres below surface.

Southern Geoscience Consultants conclude that the density of this geological body most likely indicates a hematite alteration system, which may represent IOCG style mineralisation.

Aircore Drilling

A line of reconnaissance aircore drilling comprising 24 holes totalling 570 metres was recently completed over the top of the Target I gravity anomaly. This was designed to determine the thickness of overburden, the depth to bedrock, and to identify basement rock types.

The holes were drilled vertically to refusal. Hole spacing was nominally 100 metres over the gravity anomaly and 800 metres over the paleochannel to the east. Depth to bedrock varied from 6 metres over the gravity anomaly to 38 metres in the paleochannel.

Rock types in the vicinity of the gravity anomaly are hematite-sericite altered granite and biotite mafic schists. Beneath the paleochannel, basement rock types comprise granite and amphibolite.

Geochemically, the hematite-sericite altered granites contain anomalous copper, gold and uranium, together with elevated levels of vanadium, barium, phosphorus, and Rare Earth Elements (eg cerium and lanthanum). These elements are signature alteration elements of the iron oxide copper gold deposits at Olympic Dam and Prominent Hill in South Australia.

Geophysical modelling of the gravity data indicates that the source of the gravity anomaly commences between 100 to 200 metres below surface. The geochemical anomalism encountered in the shallow aircore drilling may represent an alteration halo peripheral to a fertile IOCG system.

Planned Exploration

The Company has commenced a diamond core program to drill test the gravity anomaly at Target 1. Initially, two diamond core holes will test the target at depths of about 250-300 metres.

Depending upon results, further work may also include:

- further diamond core and Reverse Circulation (RC) drilling;
- detailed low-level airborne magnetic and radiometric survey - scheduled for late-August;
- surface Induced Polarisation (IP) and electromagnetic (EM) surveys - scheduled for early September; and
- further reconnaissance aircore drilling.

Background

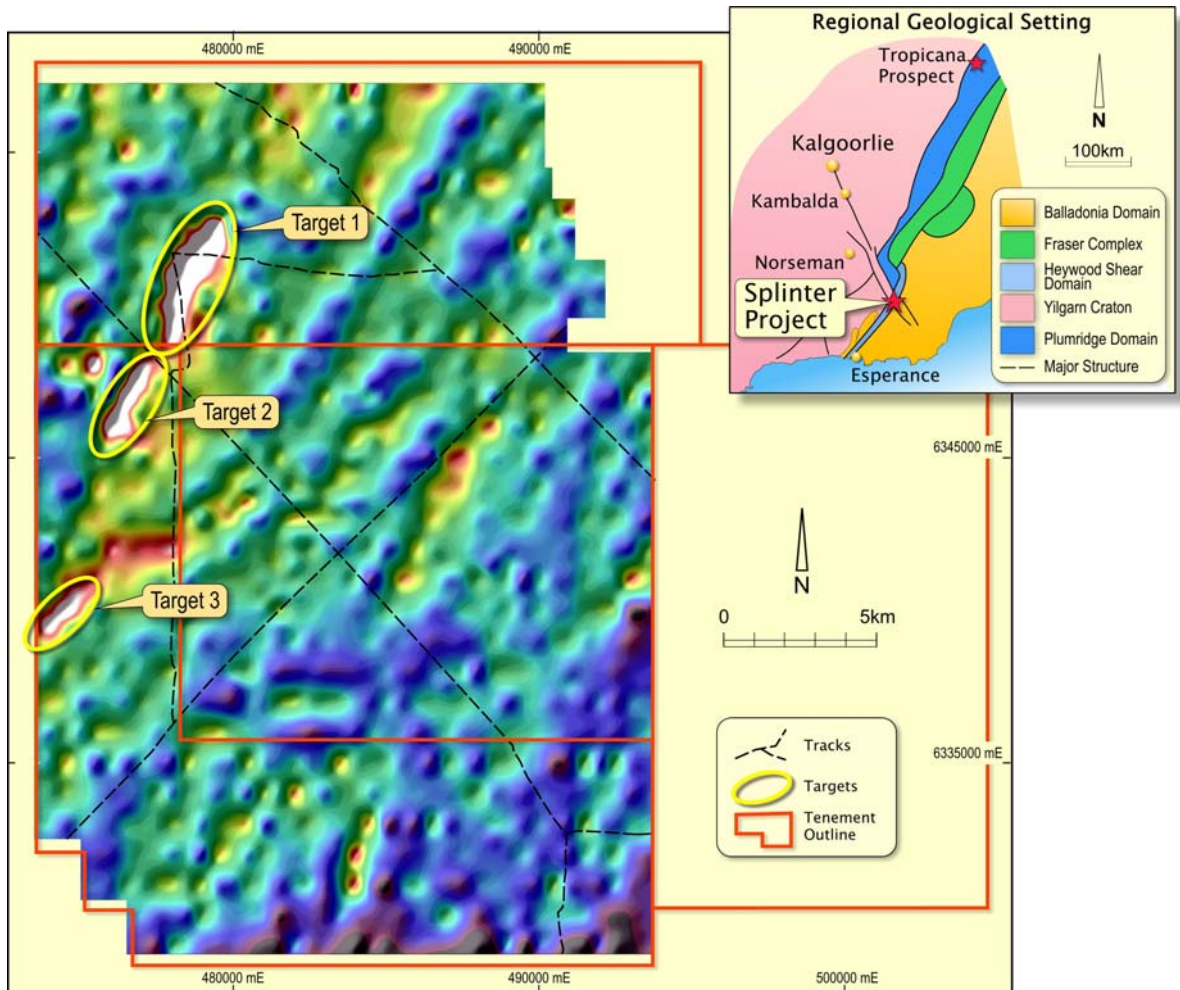
The Splinter project is 100% owned by Nickel Australia and was one of the original projects contained in the Company's IPO prospectus. It is located in the Albany-Fraser Province, about 120km northeast of Esperance and covers 840km². It represents a major exploration project and is considered prospective for iron oxide copper-gold deposits, shear-hosted gold deposits, intrusive hosted nickel-copper sulphide deposits, and paleochannel hosted uranium deposits.

Other Projects

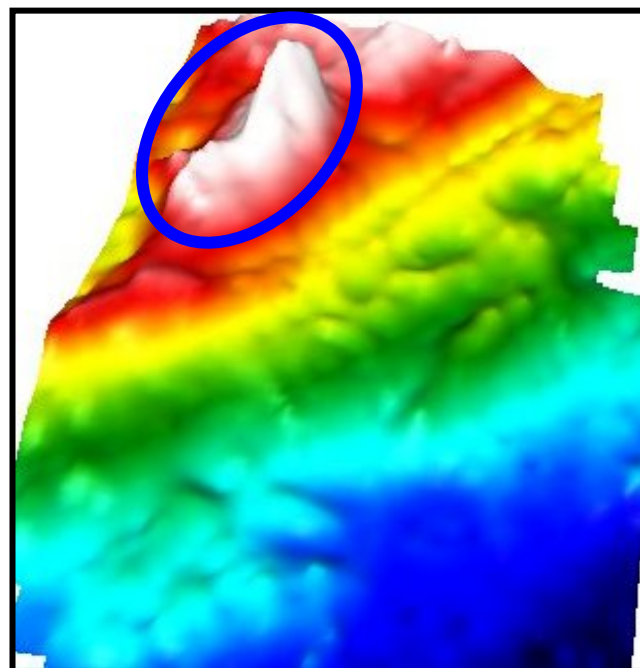
The Company is expecting to recommence exploration on several of its exciting projects in Mexico later this week. Initial work will comprise diamond core drilling at the Cardeleña project. An update on that exploration will be released then.

Released by Tony Rovira
Managing Director
Nickel Australia Ltd
7 August 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.



Splinter Project – 2D Gravity Image with Targets



Splinter 3D Gravity Image showing main target zone (>8 milligal gravity anomaly)