ANNUAL REPORT
EXPLORATION LICENCES
EL23395
ARUNTA PROJECT
NORTHERN TERRITORY

FOR THE YEAR ENDED
16th November 2005

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SUMMARY

Through compilation efforts, Falconbridge (Australia) Pty Limited identified the north-central Arunta as being favourable to host Proterozoic, intrusive related, magmatic Ni-Cu-PGE sulphide mineralisation, such as Voisey's Bay. The area has seen little historic work and has not been the focus of dedicated nickel sulphide exploration in recent years.

In October 2003, Discovery Nickel Limited acquired a 100% interest in Falconbridge (Australia) Pty Ltd Arunta tenements through a Heads of Agreement document. Falconbridge had previously identified the north-central Arunta as being favourable to host Proterozoic, intrusive related, magmatic Ni-Cu-PGE sulphide mineralization. The Arunta area has seen little historic work and has not been the focus of dedicated nickel exploration in recent years.

After identifying favourable targets through open file review, compilation and interpretation of regional datasets, which including landsat, aeromagnetics and gravity. Falconbridge took a strategic tenement position in the region in 2003 Falconbridge collected GEOTEM airborne electromagnetic surveys over two Arunta tenements. Targets from these surveys were detailed using ground EM in 2004, drilling in late 2004 intersected an interesting sulfide bearing shale with minor Pb Zn and Ag mineralization.

In late 2004 Discovery Nickel Ltd commissioned Fugro to collect GEOTEM data over two new areas in the Arunta project area. The Jarra East GEOTEM survey covered EL 23395. Interpretation of the survey data has identified 7 targets for ground EM follow up during 2006.

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1 INTRODUCTION

This report summarises work carried out on Exploration Licence 23395, Arunta Project, Northern Territory for the year ended 16th November 2005.

The Arunta Project is located approximately 250km N-NW of Alice Springs in the Northern Territory. The North Arunta Province is dominated by a series of sulphidic Proterozoic sedimentary sequences on an Archean/Proterozoic boundary zone that have been intruded by late mafic sills. Quaternary and Tertiary cover of variable thickness, conceal large areas of bedrock in the area and although the region has seen some exploration for a variety of commodities (including gold, copper, iron ore, and diamonds) the evaluation of the nickel potential of the area has been very limited to date.

During regional compilations by Falconbridge the area was recognised to have potential when the Barrow Creek nickel sulphide occurrence 75-100km east of the project area was noted in regional assessment files. Also, rumours of success in the Andrew Young belt to the south prompted further assessment of the NTGS geophysical and geological datasets. These compilations flagged major regional structures coincident with interpreted mafic bodies in the project area that had potential for nickel sulphides and hence tenement applications were made (**Fig. 1, 2, 3, 4 and 5**).

Work completed in the area to date includes compilation of historic and regional datasets, negotiating a land access agreement and the flying of an airborne electromagnetic (GEOTEM) survey. This report provides a summary of this work for the first 12 months of tenure ended 16 November 2005.

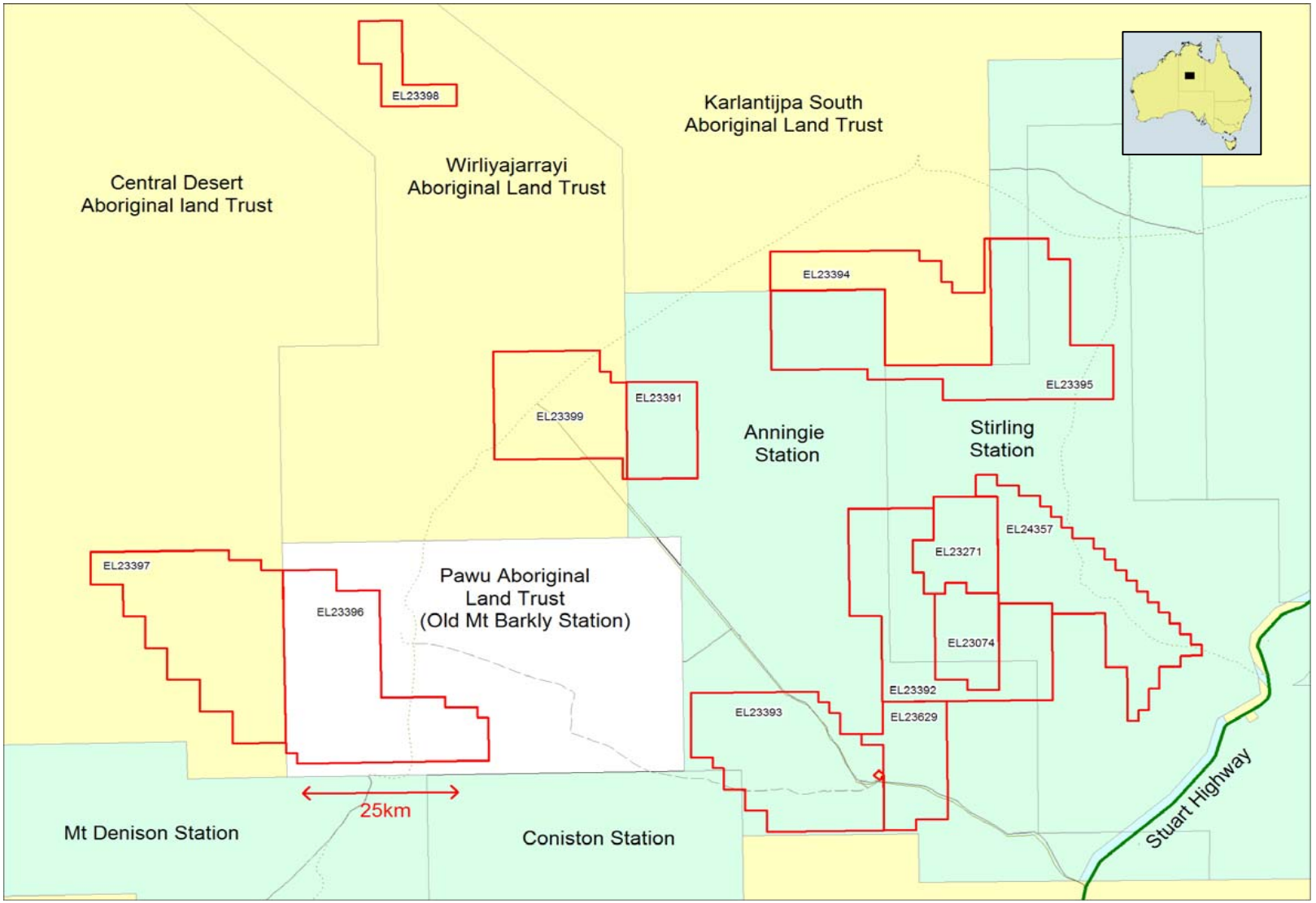

Figure 1: Arunta Project location map showing tenement holding.

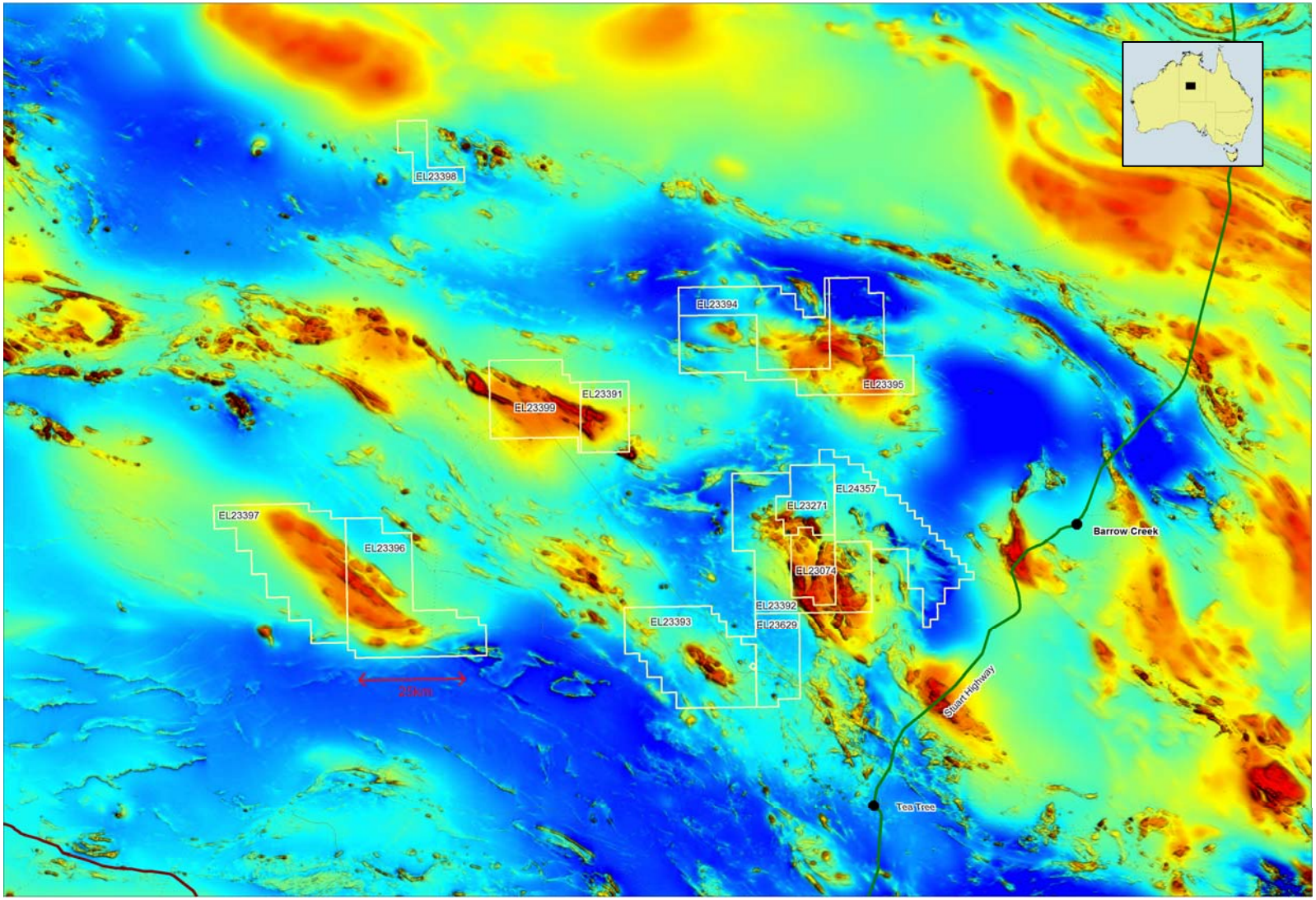

Figure 2: Total Magnetic Intensity (TMI) - North Arunta.

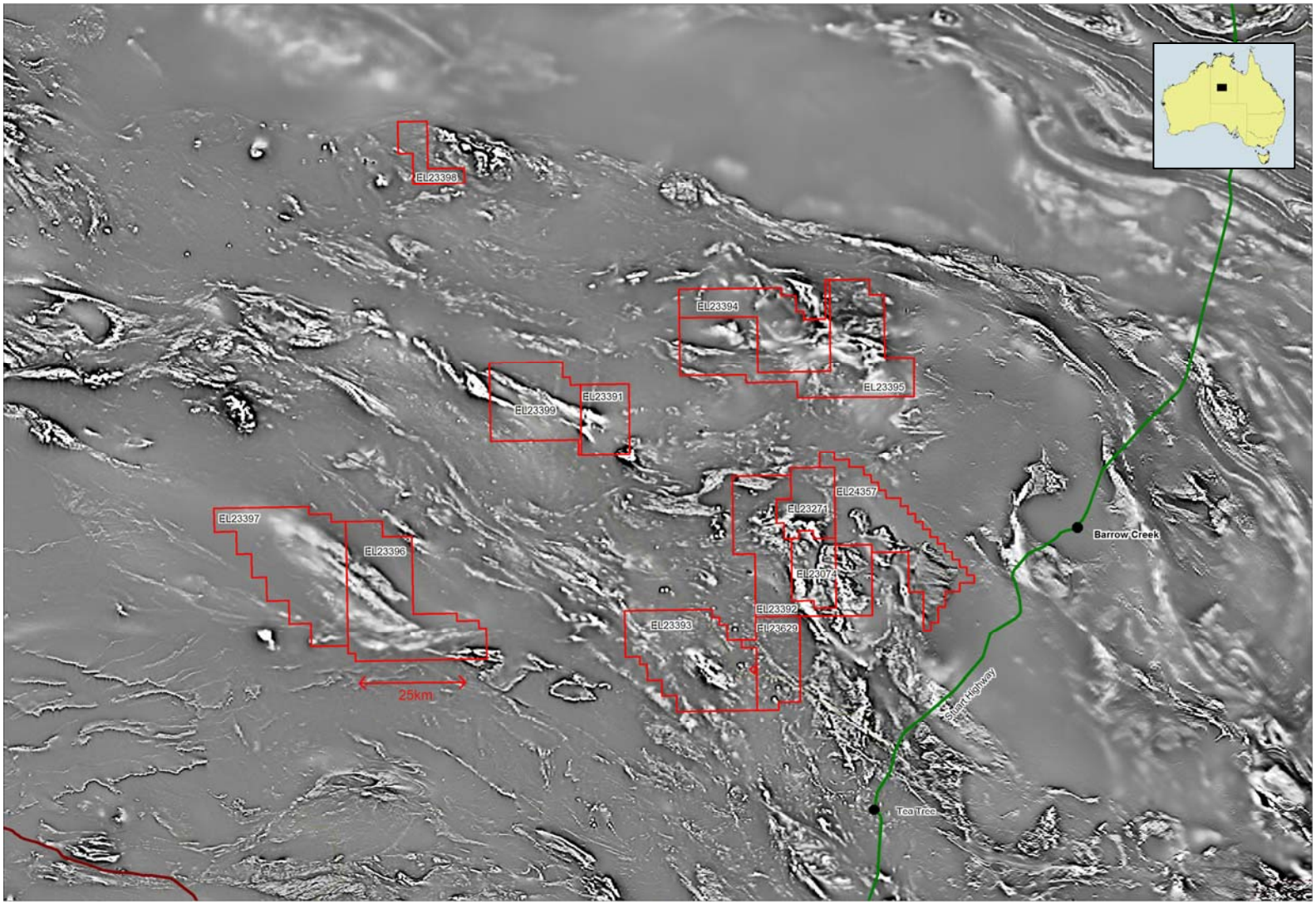

Figure 3: 1VD of the reduced to the pole (RTP), Total Magnetic Intensity (TMI) - North Arunta.

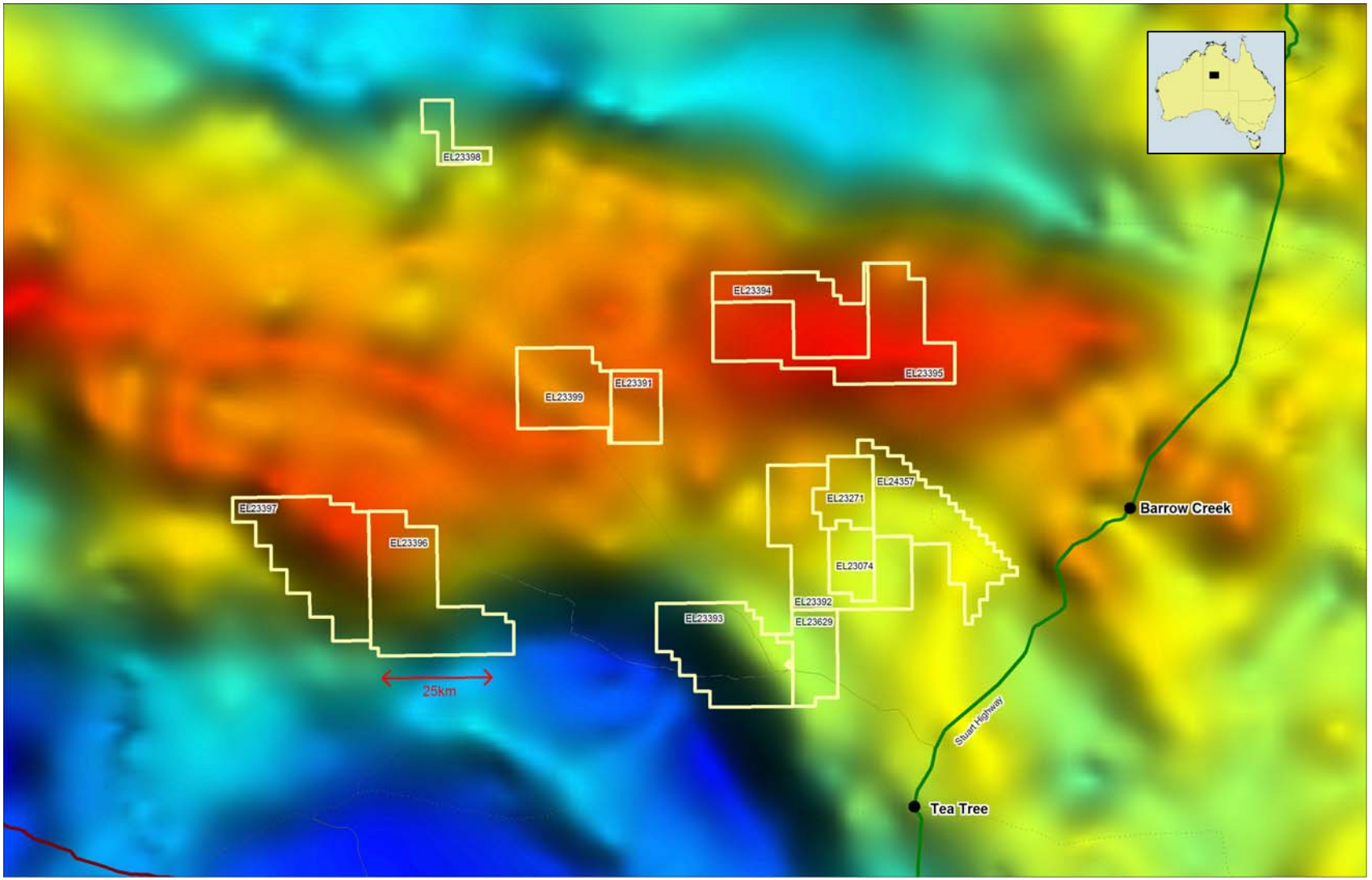

Figure 4: Regional Gravity - North Arunta.

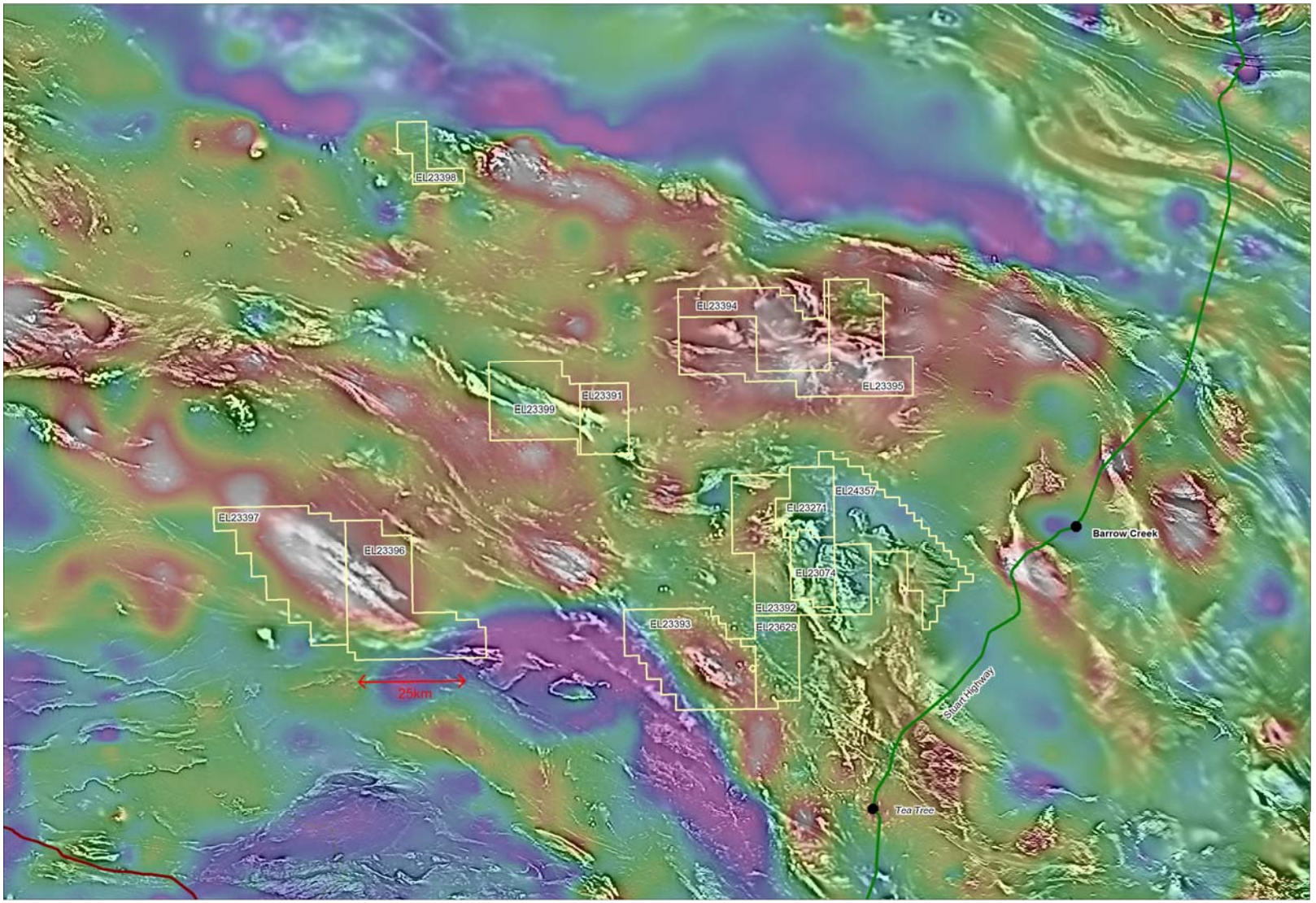

Figure 5: 1VD TMI (greyscale) over the 1VD gravity – Arunta Project.

2 PROPERTY DESCRIPTION AND TENURE

EL23395 is located approximately 220km N-NW of Alice Springs in the Northern Territory and covers portions of the Mt Peake (SF53-05), 1:250,000 map sheet (Fig. 1). It predominantly lies within the Stirling and Anningie Perpetual Pastoral Leases and is subject to Native Title.

Table 1: Tenement Details.

EL	Sub-blocks	Grant Date	Expiry Date	Expenditure Commitment Yr 2
23395	244	17.11.03	16.11.09	$35,998

The tenement is located approximately 235km N-NW of Alice Springs in the Northern Territory and covers portions of the Mt Peake (SF53-05), 1:250,000 map sheet. It lies on Anningie Station and is subject to Native Title. Access to the area is facilitated by the Central Land Council (CLC) through an Exploration Deed.

3 ACCESSIBILITY AND INFRASTRUCTURE

The project area can be accessed via the all weather Alice Springs-Darwin highway. Additional roads extend up to 100km west of the highway through the project area and are accessible by the use of four wheel drive vehicles. A new railway line to Darwin and a major gas pipeline both parallel the Stuart Highway (**Fig. 1**).

The region is considered remote, however there area is quite arable with numerous bores supporting livestock on the stations. 50km to the south is the Ti-Tree table grape region producing over $15 million dollars worth of grapes annually.

4 GEOLOGICAL SETTING

The project area lies within the north-central portion of the Paleoproterozoic Arunta Province. The stratigraphy of the Arunta province comprises relics of 2500 Ma Archaean basement overlain by >1800 Ma Palaeoproterozoic, turbiditic sequences of greywacke, quartz, sandstone, siltstone and shale along with mafic rocks and their high-grade metamorphic equivalents. The Arunta also has minor calc-silicates and meta-felsic volcanic units. During the Barramundi Orogeny, the sedimentary units were intruded by mafic rocks which have been deformed and in places metamorphosed to amphibolite facies. During the closing stages of the Barramundi Orogeny (~1830 Ma) granite plutons intruded rocks of the Arunta Province.

In the tenement areas, rocks of the Palaeoproterozoic Lower Hatches Group, Reynolds Range Group, undifferentiated granite/granite gneiss and gabbro-dolerite occur (**Fig. 6**). Neoproterozoic to Palaeozoic rocks of the Georgina Basin cover the Palaeoprotoeozoic rocks in the south to southeast. Cainozoic sediments also cover parts of the tenements.

Locally, Quaternary and Tertiary cover sequences of variable depth (range from a few metres to in excess of 100m) conceal the basement rocks. As outlined below the area has been subject to a number of drilling campaigns (predominately shallow RAB holes) and of specific interest to this project; mafic/ ultramafic units were encountered within and adjacent to these tenements.

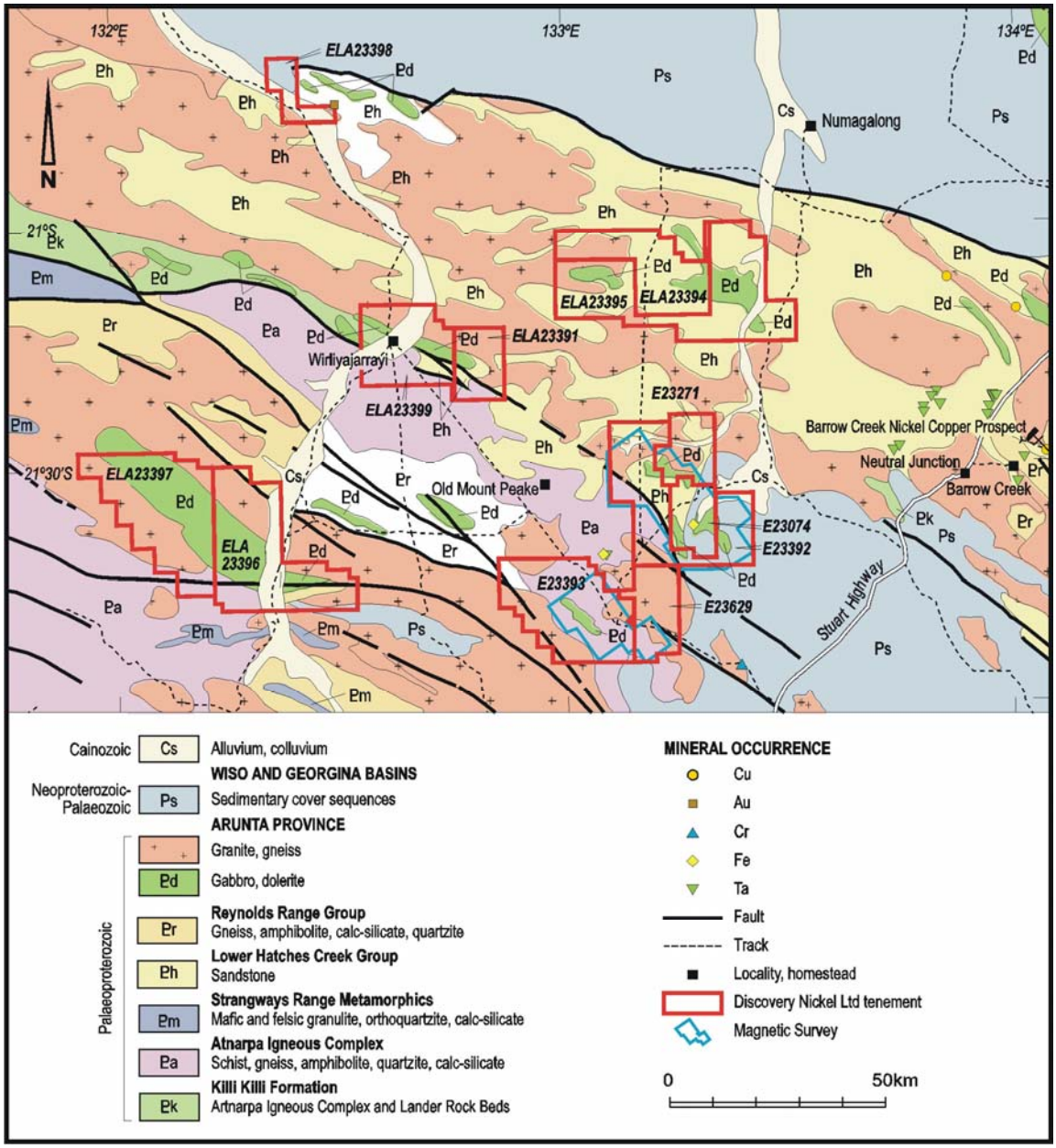

Figure 6: Regional Geology – North Arunta Project

5 NICKEL RELATED MINERAL OCCURRENCES

Approximately 100 km to the east of the project area lies the “Barrow Creek” or “Prospect D” occurrence discovered by Kewanee Exploration in the early 1970's during a diamond drillhole program (total of 11 holes). The best intersection is 0.9m averaging 4.65% Ni and 1.36% Cu. An inferred resource of 3,163,800 tonnes bearing 0.56% Cu and 0.19% Ni with a cut-off grade of 0.2% Cu was calculated in 1974 (not to JORC specifications).

The zone is described as a small massive nickeliferous sulphide intersection situated on the south-western limit of a thin mafic/ultramafic sill or dyke (1.4km by 20m) which intruded Proterozoic basin sediments (greywackes and pelites). The sill/dyke is a pyroxenite-rich unit that bears sulphide nickel up to 0.6% and significant copper levels of up to 2% in the matrix. The ‘massive sulphide’ intersection was observed in the NT core library in Alice Springs by a former Falconbridge Geologist (Neil Provins) and was described as highly oxidized, indicating that the nickel grades might be enhanced due to supergene weathering effects.

6 EXPLORATION RATIONALE

Falconbridge targeted the Arunta area for Proterozoic, intrusive hosted, magmatic Ni-Cu-PGE sulphide mineralization. During 1997-98, the area was recognised to bear some potential when the Barrow Creek nickel sulphide occurrence was noted in a regional assessment of the area. A review of the available NTGS geological and geophysical datasets identified major regional structures coincident with interpreted mafic bodies (rarely exposed) visible on areomagnetics (**Fig. 2**). Based on these criteria in conjunction with the favourable re-assessment of the area by the NTGS, it was concluded that the Arunta was favourable for magmatic Ni-Cu-PGE deposits. The location of the Barrow Creek sulphide occurrence on the inferred structural trend to the east and the interpreted thickening of mafic bodies from Barrow Creek in the direction of the Arunta project were other criteria used in area selection.

Also, preliminary reviews of historic exploration work revealed that mafic/ultramafic units were drilled by WMC in the mid 1990s adjacent these tenements. Anomalous nickel and copper results were noted in several holes with the best intervals being 5m @ 0.63% Ni, 3m @ 0.42% Ni & 0.52% Cu. In addition, regional soil geochemistry programs have identified several high Ni soil anomalies.

7 PREVIOUS EXPLORATION

The region has been partially explored for a variety of commodities including nickel, gold, copper, iron ore, bauxite and diamonds, with some areas experiencing limited or no work. There is no record of a focused Ni exploration program in the tenement areas. The following is a brief summary of historic work reviewed to date.

- In the early 1970's CRA conducted Uranium exploration in the area. Work including geological mapping, photo interpretation, air and ground magnetics followed by rotary drilling and borehole logging. CRA resumed exploration in 1979 and over a four year period completed airborne magnetics/radiometrics, drainage geochemistry, soil and rock chip geochemistry and limited diamond drilling.
- Between 1991 and 1997 WMC completed work focussed on gold exploration that included data compilation, surface geochem sampling, XRD analyses, geological/regolith mapping, gravity surveys, airborne magnetics/radiometrics, IP/TEM surveys and ground magnetics. Anomalies were then followed up with an Auger/RC drill program (Lulofs, 1998).
- In 1997 WMC optioned the ground to Aberfoyle who completed further rock chip sampling, soil sampling and vacuum drilling on the properties (Ashby and Schusterbauer, 1998). Aberfoyle withdrew from the JV and WMC surrendered their properties in 1998.
- Between December 2001 and October 2003, Falconbridge (Australia) negotiated an access agreement, compiled historic and regional datasets and flew priority areas with airborne electromagnetic/magnetic (GEOTEM) surveys.

8 EXPLORATION COMPLETED DURING THE PERIOD

Exploration completed on EL 23395 during the period includes the following:

- Land Access
- Open File Review
- Interpretation of Gravity and Satellite data
- Interpretation of Magnetics
- GEOTEM Survey
- Interpretation of GEOTEM survey
- Selection of 10 priority one targets for detailed Ground EM follow-up

8.1 Land Access Issues

Extensive correspondence and meetings with the Central Land Council to facilitate access to the Arunta tenements was undertaken by Falconbridge. The obligations of Falconbridge for

this tenements EL23391, EL23392, EL23393, EL23395 and EL23629 were passed on to DNL on the 25th of February 2004 under a Deed of Assignment signed by Falconbridge, DNL and the Central Land Council. Currently a land access agreement is in place with the Traditional Owners that facilitates access to EL 23395.

8.2 Review of open file company reports and data compilation

A review of the open file company reports and data was completed in order to establish what mineral exploration techniques had been applied to the tenement and to assess what would be the best way to progress mineral exploration of a magmatic Ni-Cu sulphide deposit. From the review of the open file company reports and data it was established that the tenement area had not been covered by an airborne EM survey and therefore, it was agreed that obtaining such a survey would be the best way to establish the magmatic Ni-Cu-PGE sulphide prospectivity of the tenement.

8.3 Interpretation of landsat imagery and gravity data

An interpretation of Landsat imagery gave an indication of possible outcropping mafic/ultramafic units within El 23395. The imagery study was also used to assess the validity and accuracy of Northern Territory Geological Survey (NTGS) geological mapping work. The work confirmed the presence of mafic/ultramafic units on large regional structures with coincident regional magnetic and gravity features. It Also enabled ranking of airborne EM anomalies with respect to areas that could be considered overburden or tertiary channels (Appendix A).

8.4 Aero Magnetic Interpretation

The aeromagnetic data from the Arunta project area was also interpreted in conjunction with the GEOTEM data. Areas of ultramafics are often magnetic hence any coincident airborne EM anomalies and magnetic areas were upgraded against anomalies located in magnetically quiet zones (Appendix A).

8.5 GEOTEM Survey

A contract for a $GEOTEM_{DEEP}$ (25Hz, 4ms) survey covering part of EL23395 (Fig. 7) was awarded to Fugro Airborne Surveys of Perth. The Jarra East AEM survey was flown in October 2004. Native Title Holders and PPL Land Owners were notified of the survey work and no objections were raised by any party throughout the course of the survey. The $GEOTEM_{DEEP}$ acquisition and processing report is not included with this annual report in **Appendix B**

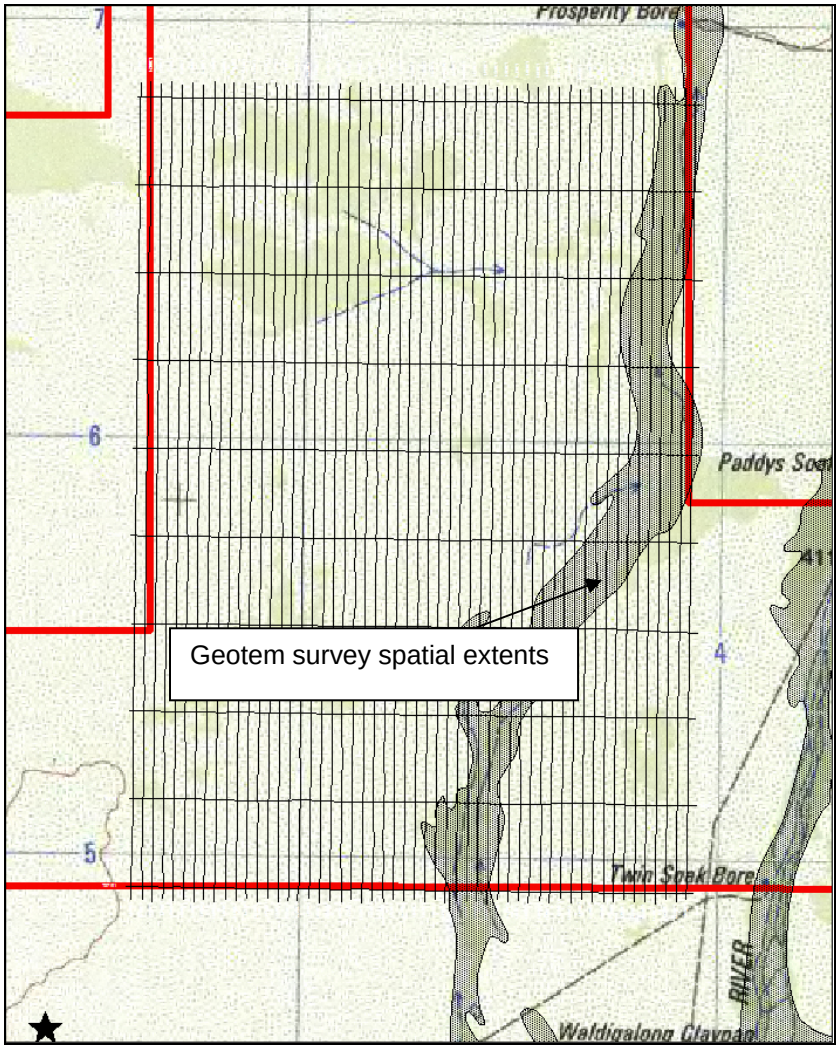

Figure 7: Jarra East GEOTEM flight lines over topo with tenement boundry in red, There is an obvious water course running across the survey area.

8.6 GEOTEM Interpretation

Analysis of profile data using Maxwell has enabled anomalies to be chosen with time constants that could represent Ni Sulphide minerlisation. **Figure 8** shows the profile pics over a grid of weighted Channel X GEOTEM data. **Table 2**, summarizes the targets below, Of the 24 targets 10 have been chosen for additional follow-up.

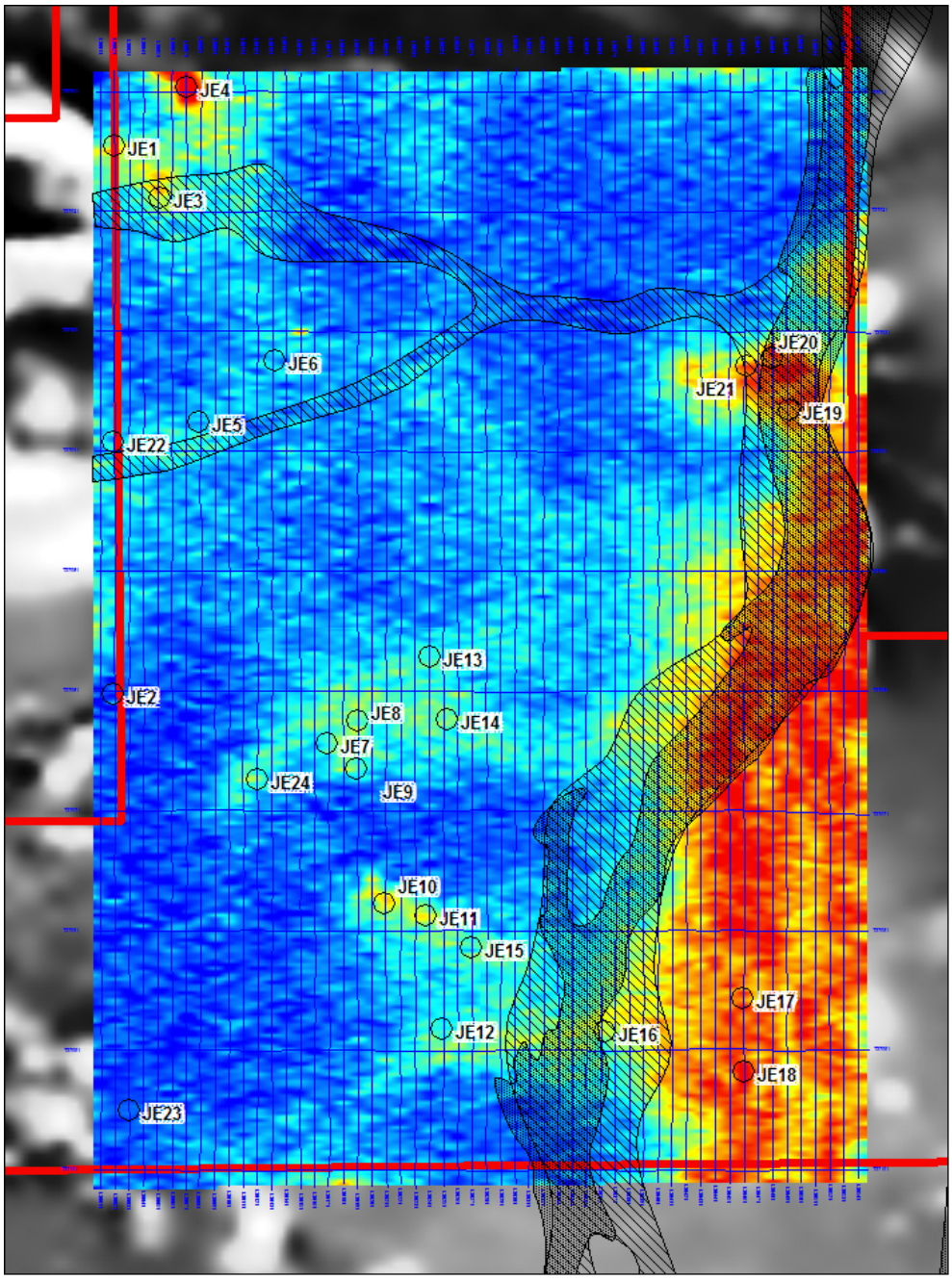

Figure 8: X channels 15, 16, 17, 18 and 19, weighted and added to create a pseudo decay grid. The circles show interesting responses against the overburden/drainage channels.

The 10 targets are selected for moving loop ground EM, their selection is based mainly on profile shape, association with magnetics and no association with drainage.

Ten targets selected for ground EM follow-up in the Jarra East area include: JE1, JE3, JE4, JE6, JE8, JE9, JE12, JE14, JE23 and JE24, It is expected these targets will be detailed with ground EM during 2006.

TARGET	LINE	EASTING	NORTHING	RANK	GROUND EM	COMMENT
JE1	30021	326136.97	7667219.48	1	ML_EM	Strong mag feature
JE2	30021	326111.68	7657610.1	2		weak mag feature
JE3	30051	326920.9	7666309.12	1	ML_EM	moderate mag feature, plus overburdon
JE4	30071	327401.37	7668230.99	3	ML_EM	no mag feature
JE5	30081	327603.67	7662364.21	2		moderate mag feature
JE6	30131	328943.93	7663451.59	1	ML_EM	just off moderate mag feature
JE7	30171	329854.28	7656750.31	2		no mag feature
JE8	30191	330385.33	7657129.62	2	ML_EM	adjacent to strong mag feature
JE9	30191	330360.04	7656295.13	2	ML_EM	no mag feature
JE10	30211	330865.8	7653943.36	3		weak mag feature
JE11	30241	331573.86	7653715.77	3		weak mag feature
JE12	30251	331852.03	7651743.32	1	ML_EM	weak mag feature
JE13	30241	331649.73	7658267.58	2		Strong mag feature
JE14	30261	331953.18	7657154.92	1	ML_EM	Strong mag feature
JE15	30271	332383.07	7653159.43	3		no mag feature
JE16	30361	334709.55	7651692.74	2		no mag, overburdon
JE17	30461	337111.9	7652274.36	2		Strong mag feature, overburdon
JE18	30461	337137.19	7650984.68	2		Strong mag feature, overburdon
JE19	30491	337946.4	7662591.8	4		no mag, overburdon
JE20	30481	337642.95	7663502.17	2		just off moderate mag feature, plus overburdon
JE21	30461	337187.76	7663350.44	4		just off moderate mag feature, plus overburdon
JE22	30021	326111.68	7662010.18	2		moderate mag feature
JE23	30031	326313	7650320	1	ML_EM	moderate mag feature
JE24	30121	328364	7656107	1	ML_EM	weak mag feature

Table 2 Ranked targets from the Jarra East Geotem Survey.

The profile for JE 23 **Figure 9** below, shows a nice basement response in the section. A slower decay is evident where the yellow line is located in the profile.

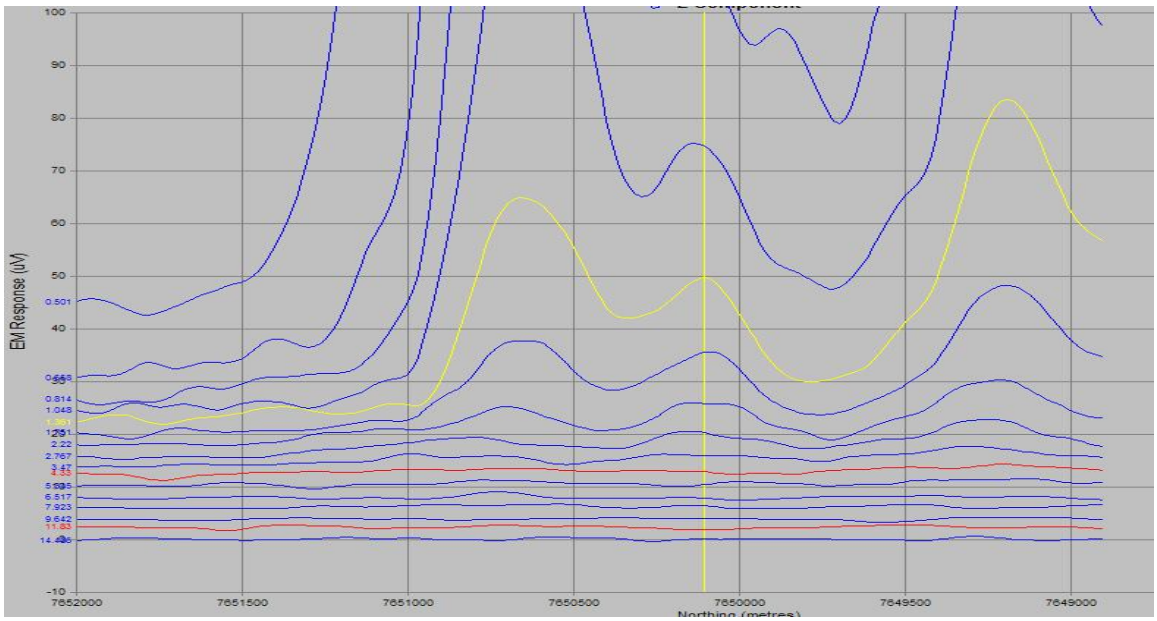

Figure 9: JE23 mid time anomaly with slower decay than surrounding anomalies.

9 EXPENDITURE

Annual expenditure for EL 23395: ending the 13th November 2005 are as follows: **Table 3**

Table 3, Expenditure Y1 2005

EXPENDITURE:	**AMOUNT:**
Travel Costs	$ 149.00
Salaries & Wages	$ 945.00
Field Technician	$ 1,300.00
Airborne Survey	$ 120,870.00
Geological Consulting	$ 1,819.00
Accomodation & Meals	$ 67.00
Land Fees	$ 2,440.00
Rent	$ 2,684.00
Administration Costs	$ 19,541.00
TOTAL	**$ 149,815.00**

10 CONCLUSIONS AND RECOMMENDATIONS, BRIEF WORK PLAN

The 2005 work program on the North Arunta properties successfully advanced the project on several fronts. The regional compilation efforts helped to further prioritize targets and establish survey parameters for the AEM program. The results from the AEM GEOTEM survey have identified 7 targets that are recommended for further follow-up. These targets can be further prioritized through forward/inverse EM and magnetic modelling, ground truthing using TEM methods and, if warranted, drill testing.

Considerable progress was also made on Land Access issues including the execution of an agreement with the CLC facilitating access to the tenement

Further prioritization of the selected AEM targets is required and further processing/modelling of the results may highlight additional targets.

11 REFERENCES

Ascough, G., 2003: Northern Arunta Project Northern Territory. Exploration Licences 23391, 13392, 23393, 23394, 23395, 23396, 23397, 23398, 23399, 23629, 23074 and 23271, Project Progress Report for the Period ending June 1st 2003. Unpublished Falconbridge Ltd Internal Report.

Ashby, J. and Schusterbauer, J., 1998 Annual Report for Exploration Licences 7557, 7558, 7559, 8869, 8870 and 8874, for the Period 12/12/96-11/12/97. Mt Peake District NT TI Tree Project, Aberfoyle Resources Limited Open File CR19980060

Lulofs, D. 1998, Surrender Report for Exploration Licences 7557, 7558, 7559, 8869 and 8874 Ti Tree Project NT 12/12/91-24/02/98, Western Mining Corporation, Open File CR990028

Northern Territory Geological Survey, 2002. The Arunta Province: open file exploration licence drillhole and geochemical data. Northern Territory Geological Survey, Record 2002-009.

APPENDIX A

Willowra GEOTEM Interpretation

A Johnstone

ARUNTA Nickel Project

Northern Australia

Memorandum: Preliminary 25Hz GEOTEM assessment:

JARRA EAST SURVEY

Compiled by:

Andrew Johnstone

MARCH 2005

JARRA EAST GEOTEM 2005

The Jarra east GEOTEM survey was collected during October 2004 by Fugro Airborne services. The Survey was flown with a 250m line spacing, 1190 line kms of data was collected in east west traverses over the eaten side of tenement EL 23395.

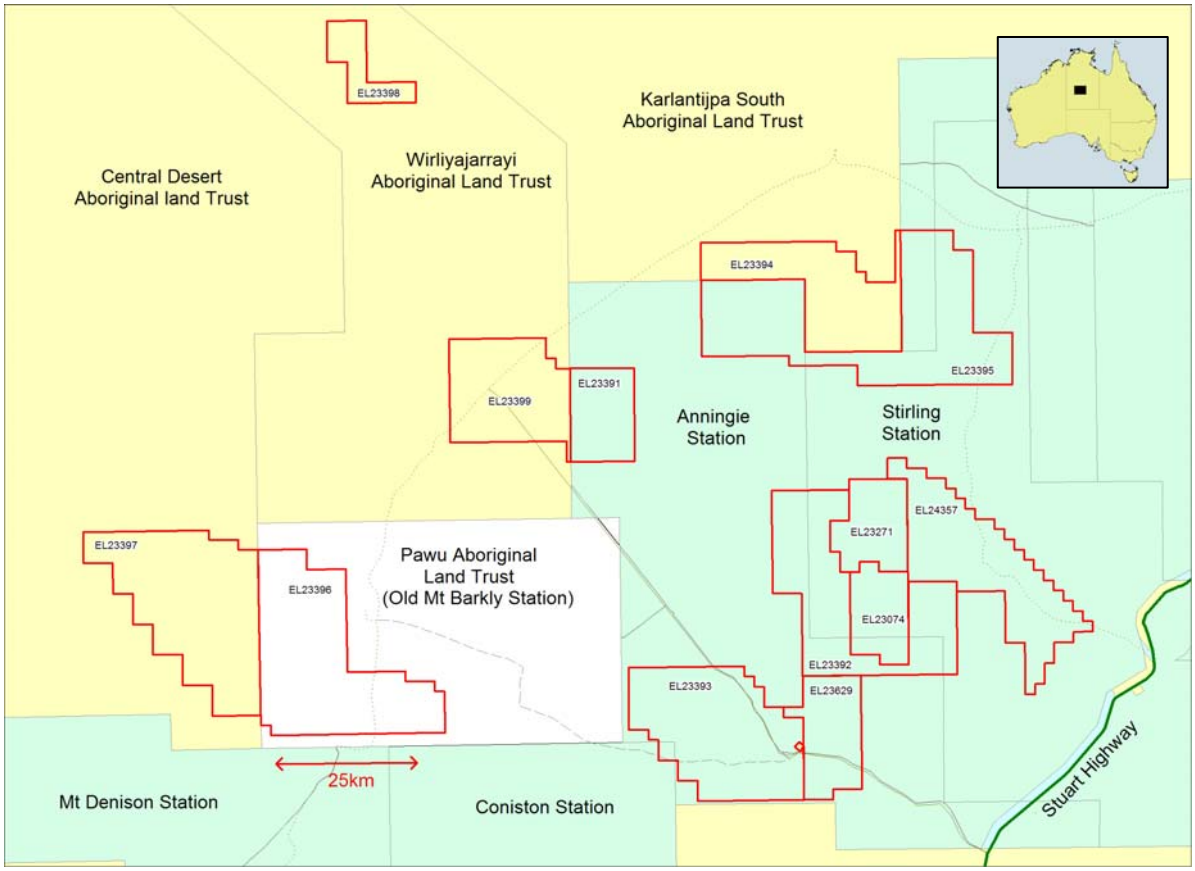

Figure 1, DNL, ARUNTA tenement holding

Initial interpretation involved assessment of grids produced by Fugro, using ERMapper, Mapinfo and Geosoft to identify obvious anomalies and asses the data for areas or conductive overburden. Mapinfo allows comparison of EM data to magnetics, Landsat data and geology. In addition, profiles were examined in Geosoft and Maxwell.

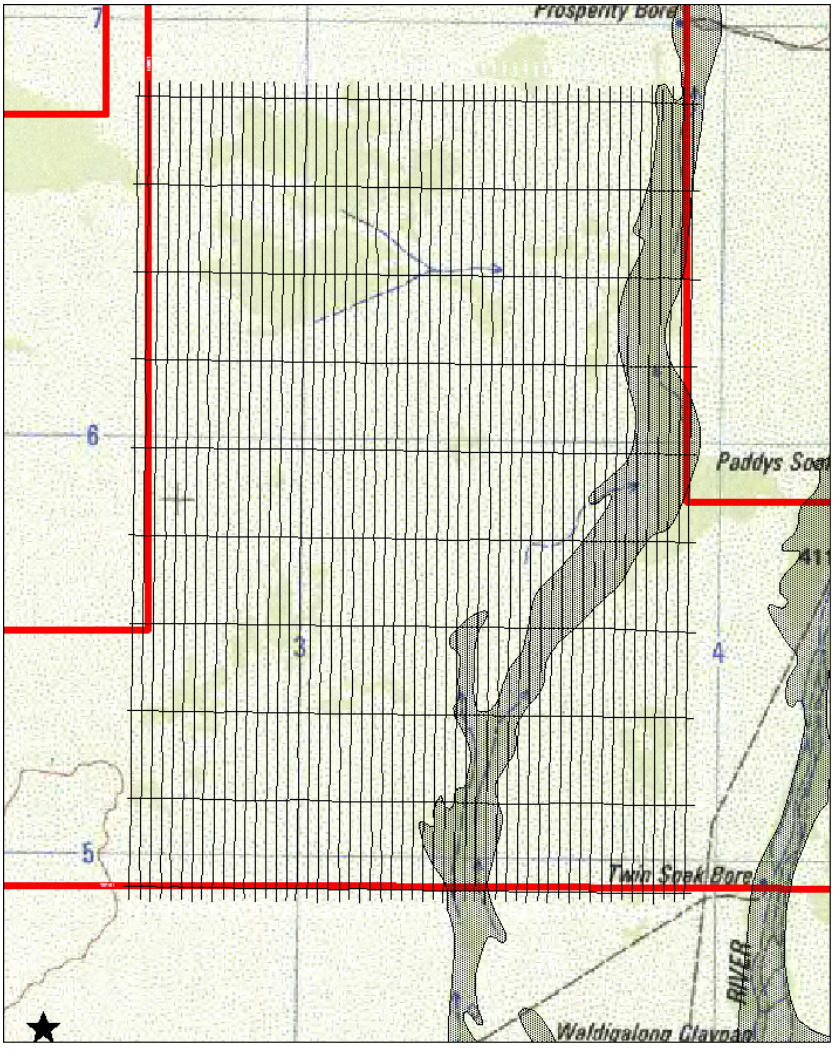

Figure2: Jarra East GEOTEM flight lines over topo with tenement boundry in red and river related geology extracted from NTGS mapping,

Figure 2 shows the location of flight lines to local topography including a drainage channel running the eastern side of the survey block, In this figure a shaded area represents mapped river sediments that could potentially effect the GEOTEM response.

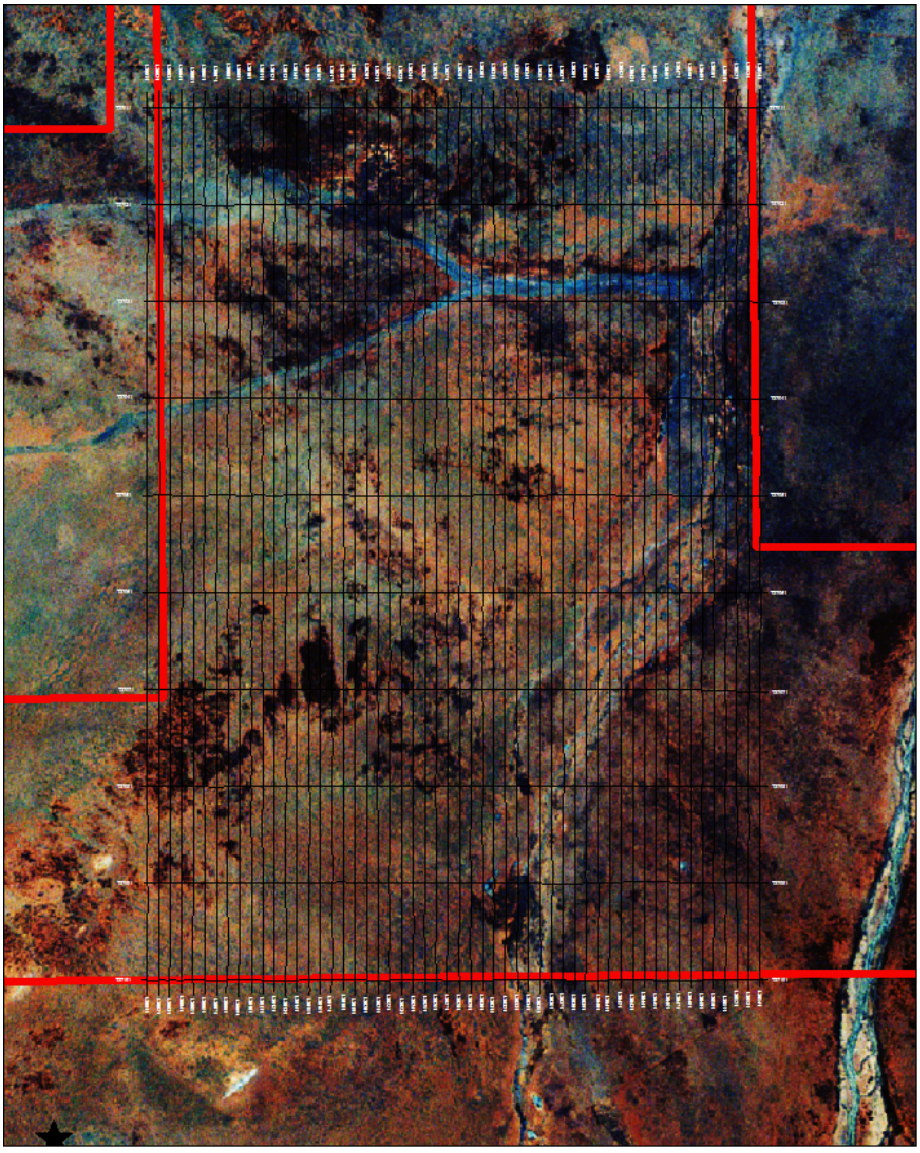

Figure 3 Jarra East Flight lines over Landsat (123 RGB), showing drainage channels.

The Landsat data shown in Figure 3 also confirms the location of the drainage system on the eastern side of the survey block and also shows a smaller connecting system (forked) cutting across the north of the survey block. Once again the areas can influence the GEOTEM responses.

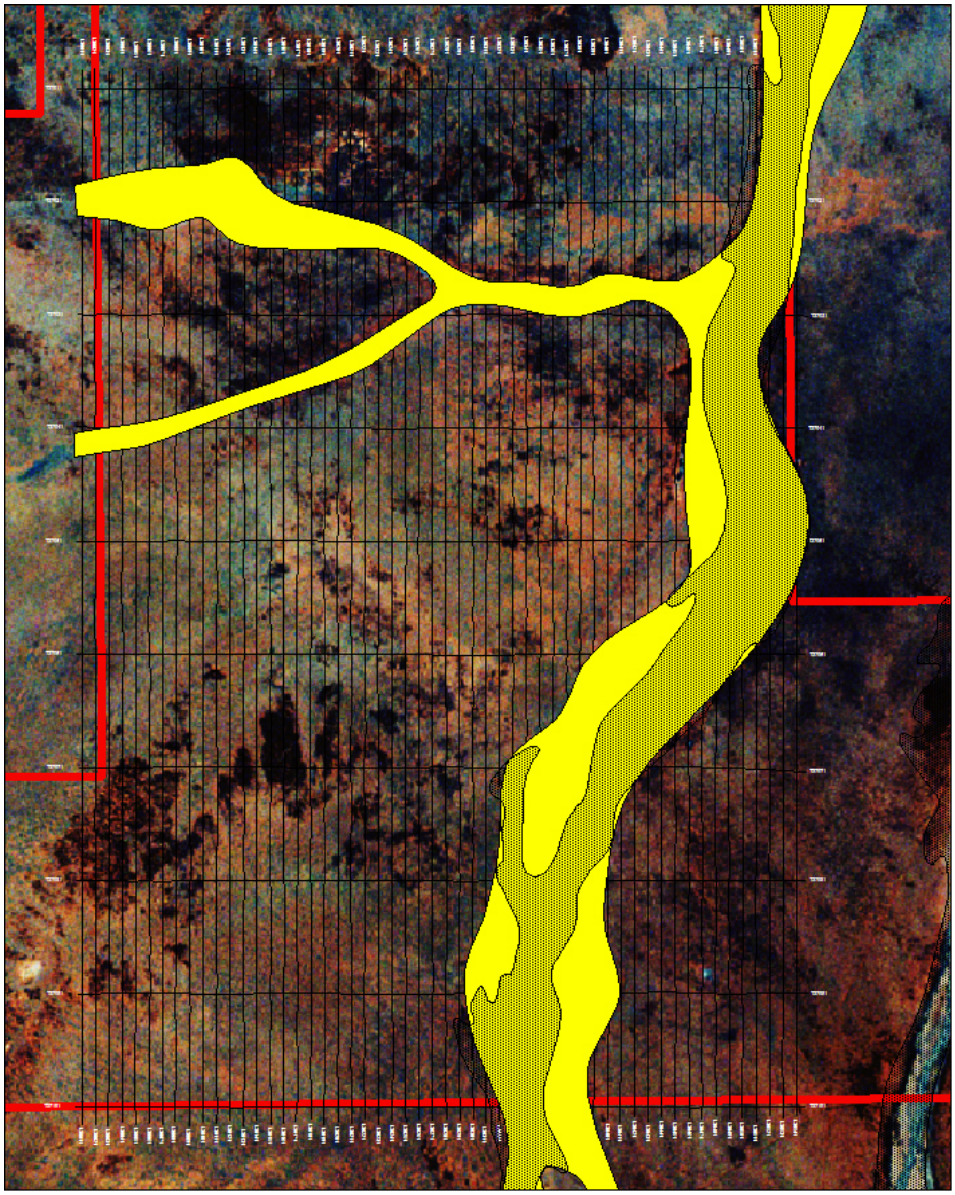

Figure 4, Sat interp of river area (yellow) with mapped river seds from geology (shaded)

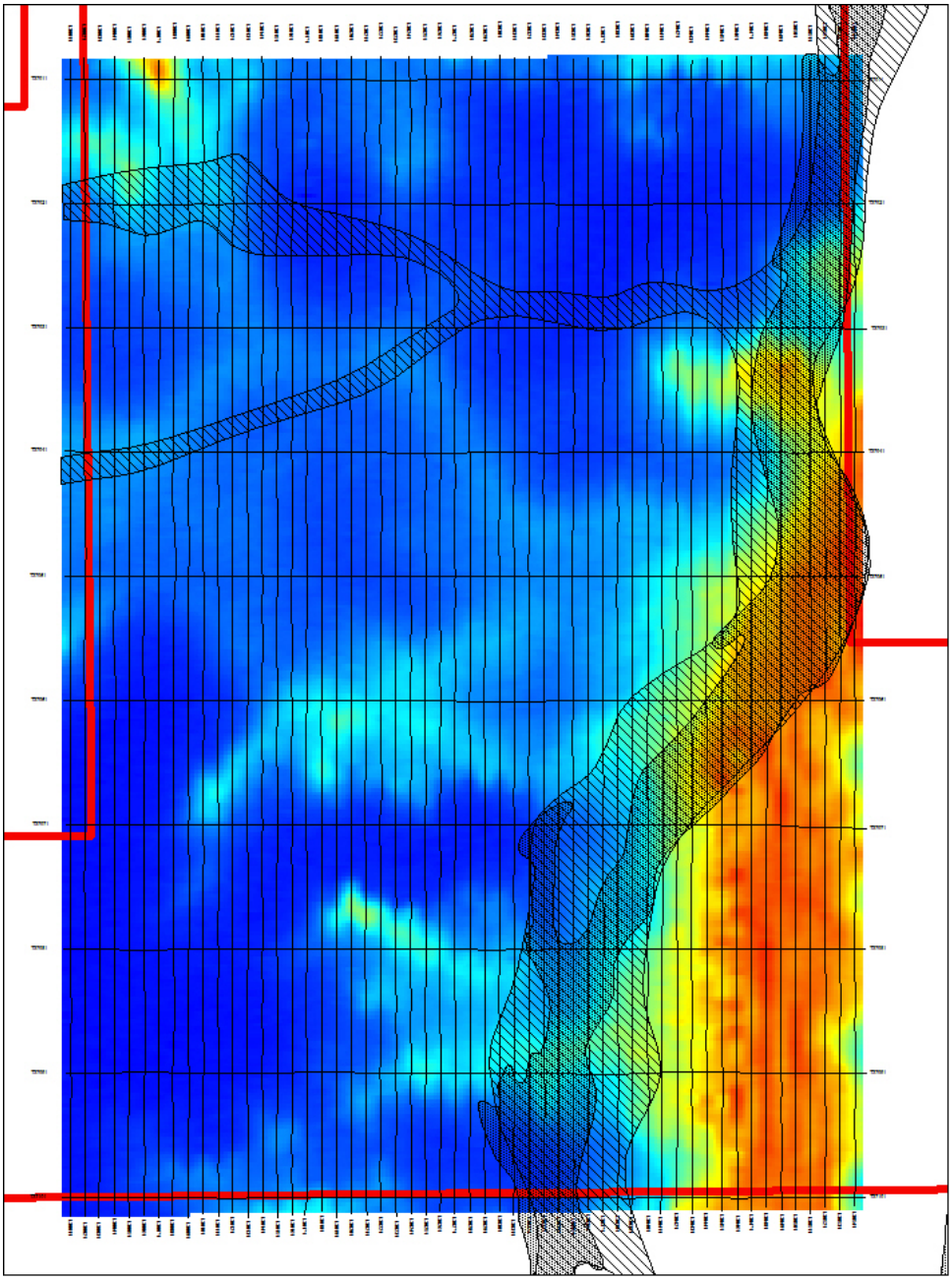

Figure 5: ZD14 data with drainage area from satellite interp and mapped geology shown (shading). There is a rough correlation between the high GEOTEM response in the east with known drainage.

The drainage extracted from the geology and landsat data shows correlation with the Geotem response over the easten side of the survey block. However the paleo drainage system highlighted in the SE corner of the survey, is not evident in the mapped geology or satellite data.

By using ERMapper a combination of X channel grids were added using a weighting to create a pseudo decay grid seen in Figure 6. This grid has been used to asses the GEOTEM for basement conductors. The Z channel traditionally has a stronger signal but in some cases couples better with overburden. Therefore, the X component data has been used to try and overcome overburden responses. Grids of the Z channel GEOTEM data was also assessed.

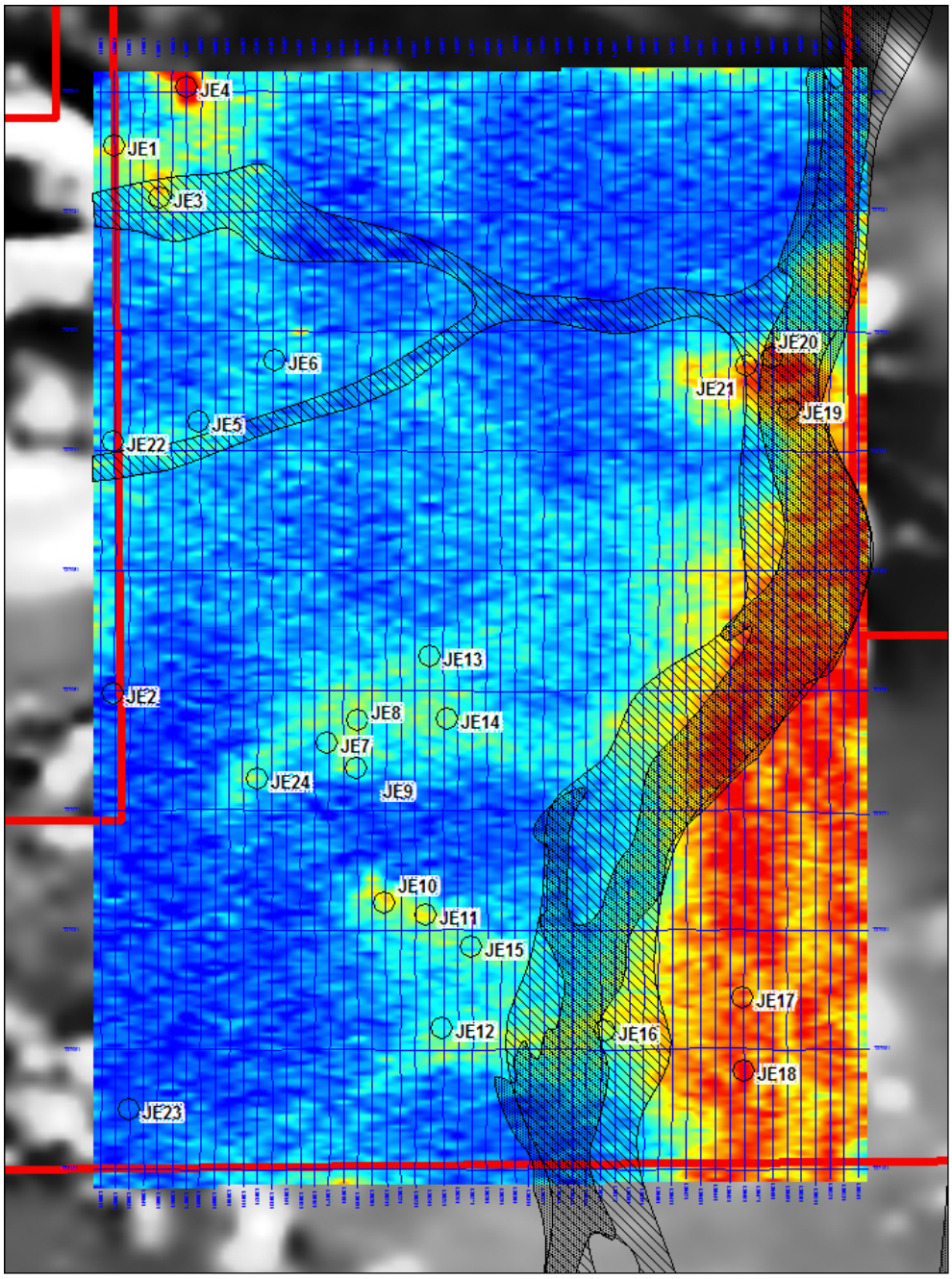

Figure 6: X channels 15, 16, 17, 18 and 19, weighted and added to create a pseudo decay grid. The circles show interesting responses against the overburden/drainage channels.

Assessing the targets against known drainage shows there are only 4 targets that overlap with the drainage channels. However, there are an additional two anomalies that seem to be caused by a possible paleo drainage system in the south east of the survey.

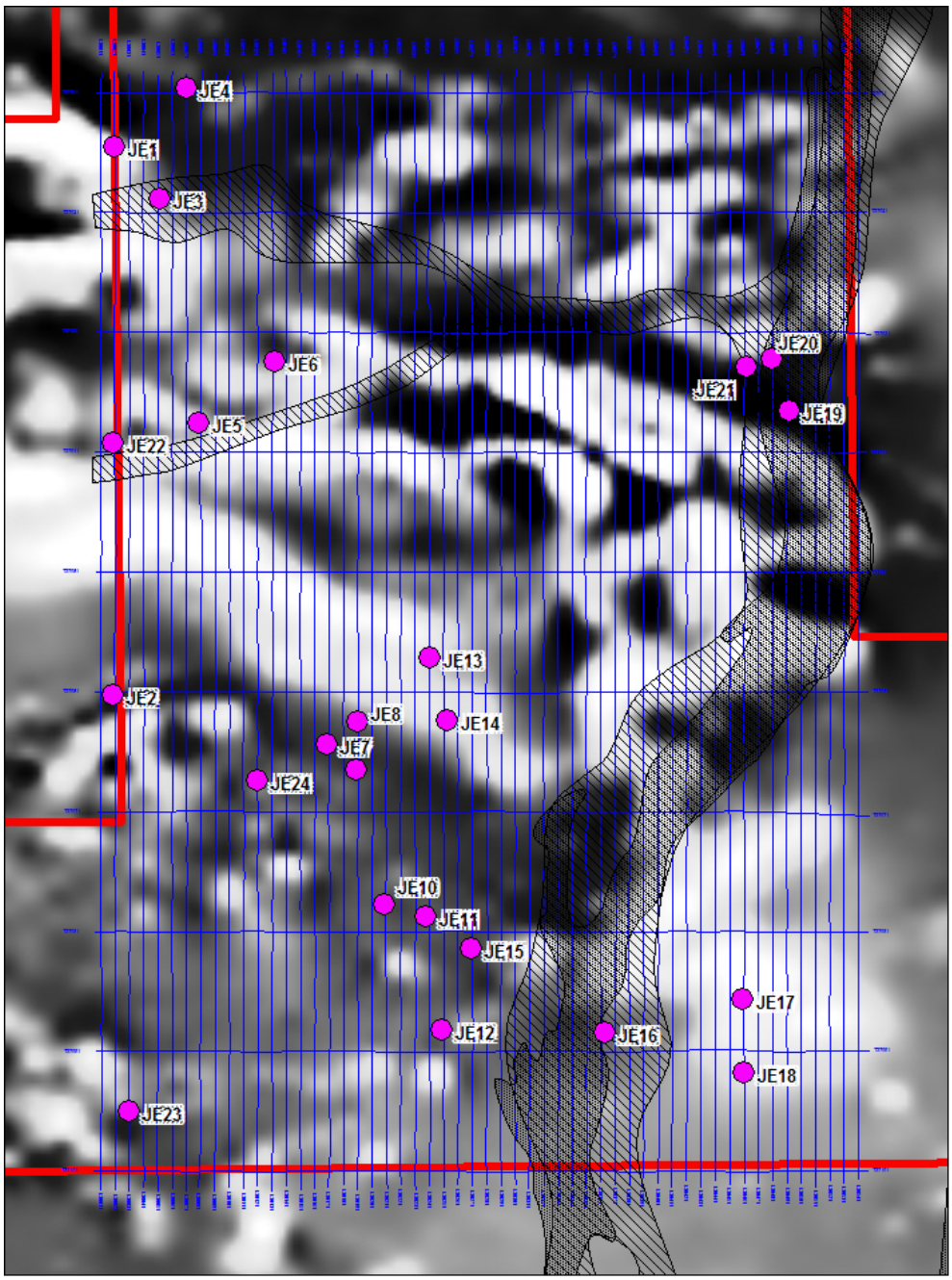

Figure 7: GEOTEM target pics over 1VD mag (RTP) a number of the targets are assoiated with the main magnetic units interpreded to be amphoblites after mafics.

By assessing the targets against the 1VD mag, the relationship between the EM and the magnetics can be used to rank the targets further.

TARGET	LINE	EASTING	NORTHING	RANK	GROUND EM	COMMENT
JE1	30021	326136.97	7667219.48	1	ML_EM	Strong mag feature
JE2	30021	326111.68	7657610.1	2		weak mag feature
JE3	30051	326920.9	7666309.12	1	ML_EM	moderate mag feature, plus overburdon
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JE15	30271	332383.07	7653159.43	3		no mag feature
JE16	30361	334709.55	7651692.74	2		no mag, overburdon
JE17	30461	337111.9	7652274.36	2		Strong mag feature, overburdon
JE18	30461	337137.19	7650984.68	2		Strong mag feature, overburdon
JE19	30491	337946.4	7662591.8	4		no mag, overburdon
JE20	30481	337642.95	7663502.17	2		just off moderate mag feature, plus overburdon
JE21	30461	337187.76	7663350.44	4		just off moderate mag feature, plus overburdon
JE22	30021	326111.68	7662010.18	2		moderate mag feature
JE23	30031	326313	7650320	1	ML_EM	moderate mag feature
JE24	30121	328364	7656107	1	ML_EM	weak mag feature

Table 1 Ranked targets from the Jarra East Geotem Survey.

10 Targets have been selected for possible Ground EM followup. The profile for JE 23 is shown below. A nice basement response can be seen in the section.

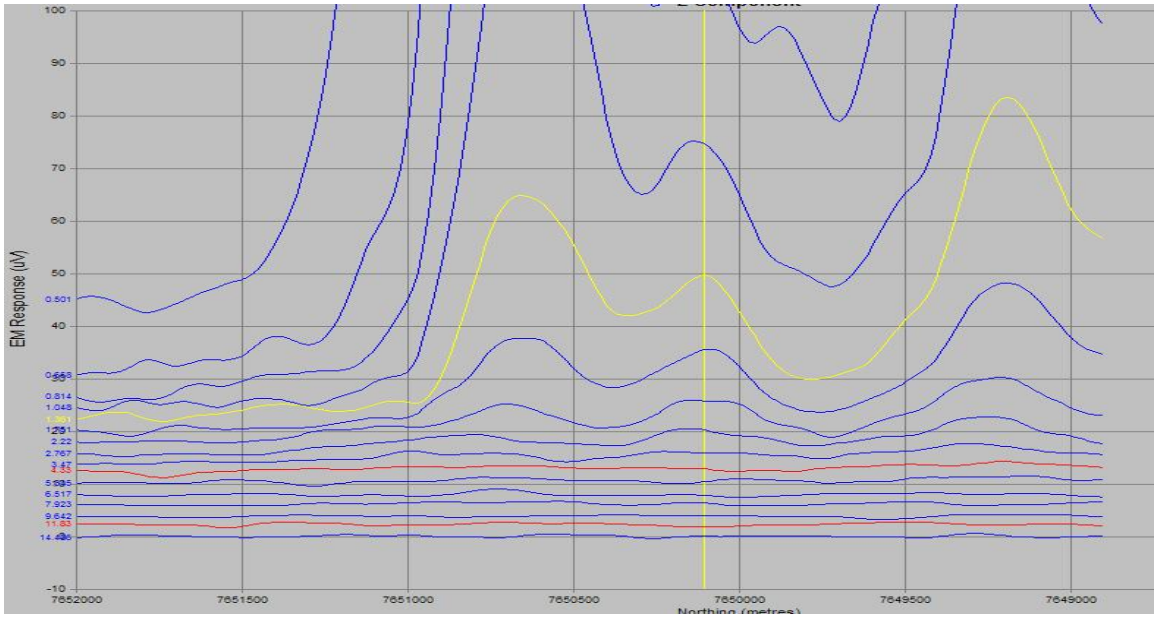

Figure 8: JE23 mid time anomaly with slower decay than surrounding anomalies.

The targets selected are mainly located in areas with associated magnetics and away from mapped areas of drainage. They provide a range of GEOTEM responces with the best possibility of being basement conductors related to Ni mineralization.

APPENDIX B

JARRA EAST GEOTEM PRODUCTION REPORT

Fugro 2004