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## **ARUNTA PROJECT**

### **2006 WORK PROGRAM FOR EXPLORATION LICENCE 23392**

#### **Introduction**

Exploration Licence 23392 is a part of Discovery Nickel Limited's (DNL) Arunta Project which comprises exploration tenements 23391, 23392, 23393, 23395, 23629, 23271, 23074, 24357 and tenement applications 23394, 23396, 23397, 23398 and 23399. Discovery Nickel is exploring the Palaeoproterozoic rocks of the Arunta Province for Voisey's Bay style nickel-copper deposits. Discovery Nickel acquired the Arunta Project from Falconbridge (Aust.) Pty Ltd following the successful listing of Discovery Nickel on the Australian Stock Exchange on 17<sup>th</sup> December 2003.

Most significant nickel-copper massive sulphide deposits are extremely good conductors. Discovery Nickel's exploration approach relies heavily on airborne electromagnetic (EM) surveying, followed by ground EM to define targets. Drilling on our Arunta tenements to date includes two diamond holes, one on EL 23392, the other on EL 23074. Drilling at prospect B1 on EL 23392 intersected a significant new sulphide system containing traces of Pb, Zn and Ag. In 2005 DNL exploration efforts were restricted due to problems securing contractors to collect additional ground EM and drilling. In late 2005 DNL was able to finally collect additional EM along strike from the B1 prospect. But unfortunately failed to drill test new targets on EL 23392 before the onset of the wet season.

#### **Work Program**

Follow up ground EM over airborne GEOTEM targets defined a bedrock conductor at B1. When drilled a significant new sulphide system was discovered. The ground EM has been a successful tool in this area.

In 2005 DNL was only able to collect additional EM at B1 late in the year, to try to follow the conductor intersected in 2004 drilling. In 2006 more ground EM is planned to better define drill targets at B1. RC or diamond drill testing of new targets will be undertaken in the latter half of 2006.

The allocated budget for further work on EL 23392, including additional ground EM follow up at B1 and RC drilling is \$85,274.00. Included in this budget are the following items:

- 5 days of ground EM surveying
- Interpretation and processing of the ground EM data
- Clearance of the proposed drill sites by the Traditional Owners
- 450m of RC drilling
- Contract geologist/geophysicist


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Field Support (vehicle hire, field technician, travel)  
 Rehabilitation  
 Tenement Fees

The detailed exploration Budget is shown in Table One.

Table One – Exploration Program Budget

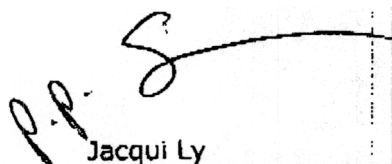
Project	Arunta - 23392		AUD\$
Land Access			\$1,000.00
Airborne EM	0	line/km	\$0.00
Ground EM	5	days	\$15,000.00
RC drilling	450	metres	\$45,000.00
Geologist / Geophysicist	5	Days	\$2,750.00
Geochemistry	50	Samples	\$2,500.00
Field Tech	5	Days	\$1,250.00
Vehicle Hire	5	Days	\$500.00
Travel			\$1,000.00
Rehab	3	Days	\$1,500.00
Tenement Fee			\$11,122.00
Rents			\$3,652.00
<b>Total</b>			<b>\$85,274.00</b>

The reportable expenditure for EL 23392 was \$4,428 compared to a commitment of \$48,076. The combined reportable expenditure for the Arunta Project for the year ending 2005 was \$479,363 compared to a minimum commitment of \$227,867. Discovery has spent in excess double the required expenditure.

We hereby request that the variation of covenant be granted to allow Discovery to continue their exploration uninhibited by title compromise.

Should you require any further information, please do not hesitate to contact our office.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'J. Ly', is written over a horizontal line.

Jacquie Ly  
McMahon Mining Title Services Pty Ltd