



KAGERA NICKEL LIMITED

QUARTERLY REPORT TO 31 DECEMBER 2010

The Properties

The Kagera Nickel Project comprises a large land position covering 864 square kilometres along the western border of Tanzania. The Kabanga-Musongati mafic-ultramafic belt occurs in the Mesoproterozoic Kibaran Orogenic Belt along 350km with northeast-southwest trend, exposed in Burundi, Rwanda, southwest Uganda and northwest Tanzania. The intrusions were emplaced into pelitic sediments of the Karagwe-Ankolean Supergroups that accumulated during the early rifting phase of the Kibaran orogeny and contain important Ni sulphide ores at Kabanga Nickel Deposit (Tanzania) and reef-type PGE concentrations at Musongati (Burundi).

The key claims are located approximately 10 km northeast of the Kabanga Nickel Sulphide Deposits of Xstrata Nickel / Barrick (one of world's largest undeveloped high grade nickel sulphide deposits) which is presently undergoing feasibility studies.

During the quarter ending December 31, 2010 the company completed the transaction to acquire 100% interest in the Kagera Nickel Sulphide project of Castillian Resources Corporation. Subsequent to a capital raising completed October 28, 2010 the technical management team was assembled and an initial exploration budget of US\$3.25 million was presented to the Board and approved on December 16, 2010.

The program will see focused TDEM (Time Domain Electro Magnetic) Surveys completed over the priority areas identified by the previous airborne and geological mapping / geochemical surveys. The TDEM surveys will allow for precise targeting for the planned diamond drilling program.

Due to the approaching Christmas season, a decision was made not to mobilize the camp and other gear until after the holiday season and no field work was conducted on the Property during the quarter. There were no changes in the status of the property during the quarter.

Subsequent to the Quarter, contracts for geophysical surveys, line cutting and camp services are being negotiated and mobilization will commence in January. Key technical staff have been contracted to manage the field programs. Surveys will commence on the Shanga Target described below. Linecutting is expected to commence in late January, geophysical surveys will commence in February subject to contractor availability and diamond drilling is being targeted to commence in the 2nd quarter.

Priority targets have been selected for systematic exploration including a 7 km trend of EM conductors (late channel) with associated magnetic anomalies, geochemical anomalies and gossan striking northeast along the trend from Kabanga, named the Shanga target. Targets have been previously covered by geochemical soil grids by Castillian Resources Corp. and systematic mapping of areas underlain by mafic – ultramafic rocks led to discovery of a number of the gossan occurrences which are interpreted to represent weathered remnants of sulphide-rich ultramafic rocks and are similar in character to gossans that occur in association with the Kabanga nickel deposits.

Burende Target: Gossans were identified at 20 sites over an area of approximately 2.5 km by 4.5 km associated with a series of high priority EM conductors with coincident high magnetic anomalies interpreted to represent mafic/ultramafic rocks.

Nampigwe Target: Gossans were identified at 20 sites extending along a 6.5 km linear trend associated with coincident magnetic and EM anomalies. Mafic and ultramafic rocks were also identified, locally containing disseminated sulphides.

Nyamahwa Target: Gossans were identified at eleven sites extending along a 10 km linear trend associated with coincident magnetic and EM anomalies.

Shanga Target: Anomalous nickel, copper and chrome soil geochemical anomalies are associated with a magnetic features associated with a series of discrete EM anomalies that extends along 7 km. This target area is immediately adjacent to the property boundary with the Kabanga Project to the southwest. The scale of these discrete geophysical anomalies is similar to the expression of the Kabanga deposits to the southwest. Although this does not guarantee the presence of additional nickel deposits the targets are considered to be highly prospective. Two gossan occurrences have been identified associated with the geochemical and magnetic anomaly at the Shanga target.

Corporate Directory

Board of Directors

Simon O’Loughlin	Chairman
David Gower	Non Executive Director
David Argyle	Non Executive Director
Robert Greenslade	Non Executive Director

Company Secretary

Donald Stephens

Appendix 5B

Mining exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10

Name of entity

KAGERA NICKEL LTD

ACN

117 330 757

Quarter ended ("current quarter")

31 DECEMBER 2010

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	-	-
1.2 Payments for (a) exploration & evaluation	(338)	(338)
(b) development	-	-
(c) production	-	-
(d) administration	(172)	(172)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	102	102
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	-	-
	(408)	(408)
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	-	-
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)	-	-
	-	-
Net investing cash flows		
1.13 Total operating and investing cash flows (carried forward)	(408)	(408)

+ See chapter 19 for defined terms.

1.13	Total operating and investing cash flows (brought forward)	(408)	(408)
	Cash flows related to financing activities		
1.14	Proceeds from issues of shares, options, etc.	4,000	4,000
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 (share issue costs)	(400)	(400)
	Net financing cash flows	3,600	3,600
	Net increase (decrease) in cash held	3,192	3,192
1.20	Cash at beginning of quarter/year to date	984	984
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	Cash at end of quarter	4,176	4,176

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	1
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

Directors' fees, wages and superannuation for the quarter

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

Nil

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

Nil

Financing facilities available

Add notes as necessary for an understanding of the position.

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	780
4.2 Development	-
4.3 Production	-
4.4 Administration	138
Total	918

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	176	88
5.2 Deposits at call	4,000	896
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	4,176	984

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		PL 5306/2008	0%	100%
		PL 5192/2008	0%	100%
		PL 4985/2008	0%	100%
		PL 6463/2010	0%	100%
		HQ-P 18733	0%	100%
		HQ-P 17612	0%	100%

+ 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.

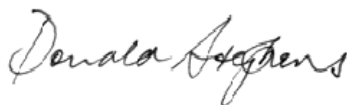
	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference securities <i>(description)</i>	-	-	-	-
7.2 Changes during quarter				
(a) Increases through issues	-	-	-	-
(b) Decreases through returns of capital, buy-backs, redemptions	-	-	-	-
7.3 *Ordinary securities	33,285,916	33,285,916	Fully Paid	Fully Paid
7.4 Changes during quarter				
(a) Increases through issues	25,000,000	25,000,000	\$0.20 cents each	Fully Paid
(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>			<i>Exercise price (Each)</i>	<i>Expiry date</i>
	600,000	-	\$0.20	29/10/2012
	500,000	-	\$0.40	29/10/2012
	1,500,000	-	\$0.20	29/10/2012
	1,500,000	-	\$0.20	26/09/2015
	500,000	-	\$0.20	26/09/2015
7.8 Issued during quarter	1,500,000 500,000	-	\$0.20 \$0.20	26/09/2015 26/09/2015

+ See chapter 19 for defined terms.

7.9	Exercised during quarter				
7.10	Expired during quarter		-		
7.11	Debentures <i>(totals only)</i>	-	-		
7.12	Unsecured notes <i>(totals only)</i>	-	-		

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 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 28 January 2011
(Company secretary)

Print name: Donald Stephens.....

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 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.

+ See chapter 19 for defined terms.

- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting 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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