

## QUARTERLY REPORT – DECEMBER 2005

### ABOUT FOX RESOURCES

Fox Resources Limited ("Fox") (ASX code FXR), listed on the ASX in April 2002 and has been active in the Pilbara since 2002. Fox is the Pilbara's only nickel producer.

The Company is currently operating the Radio Hill Nickel Mine 45 km south of the township of Karratha in Western Australia and is a top ten nickel sulphide producer in Australia.

Fox produces nickel and copper concentrates which are sold to China's largest nickel producer Jinchuan Limited. The company is also actively exploring for nickel and copper on its 1,000 km<sup>2</sup> of surrounding tenements with excellent success to date.

Fox's West Whundo Copper Project Feasibility Study is due in February 2006.

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Don Harper, Managing Director

### KEY POINTS

#### Radio Hill Operations

- Nickel and copper concentrate production for the quarter of 5,306 dry metric tonnes (dmt) @ 9.58% nickel, 1,504 dmt @ 28.53% copper, including a 52% increase in copper production on last quarter
- Operating costs decreased 16% quarter-on-quarter, for a quarterly average of US\$4.10/lb payable nickel metal
- Operations were cash flow positive in November and December 2005
- Introduction of two panel roster reduces underground mining crews by 30%, reducing mining costs
- Copper flotation circuit expansion to increase copper recovery by up to 35%

#### Exploration

- Completion of West Whundo resource definition drilling delivers a JORC resource of 894,000t @ 2.0% copper, 1.4% zinc and 3.3 g/t silver
- Major geophysical anomalies identified at Whundo
- Phase 1 shallow surface drilling program underway at Whundo
- Global Resource upgrade at Sholl B2 from 26,400t nickel metal to 34,000t nickel metal

#### Whundo Copper-Zinc Project

- Metallurgical test work for upgrading ore to Direct Shipping Grade (DSO) to be completed in early February 2006
- West Whundo feasibility study to be completed in February 2006
- All regulatory submissions to commence mining submitted, with all approvals expected by early February 2006

#### Disseminated BioHeap Nickel Project

- Column leach test work on Radio Hill disseminated ore in progress and recoveries to date are in line with Sholl B2 disseminated ore
- Early indications are that sulphuric acid consumption is significantly lower than anticipated
- Engineering studies on plant design and construction have been completed

#### Corporate

- Nickel hedging retired at the end of October 2005, all sales now unhedged
- Uranium assets divested yielding \$890,000
- Successful \$3 million capital raising
- \$1 million Project Loan repaid during December quarter with \$2 million remaining
- Approximately \$2.3 million (86% take up) in listed (\$0.20) option conversions received to date with 1 day remaining

## RADIO HILL NICKEL- COPPER MINING OPERATIONS

### Mining Operations

Nickel concentrate production for the quarter totaled 5,306 tonnes at a grade of 9.58% nickel for a contained metal content of 508 nickel tonnes and 169 copper tonnes. Copper concentrate production for the quarter totaled 1,504 tonnes at a grade of 28.53% copper for a contained metal content of 429 tonnes. Ore mined at Radio Hill Nickel Mine totaled 57,537 tonnes, while ore treated during the quarter was 54,625 tonnes. During the latter part of the quarter stoping activities in F-Zone commenced with a subsequent 52% increase in overall copper production in copper concentrate compared to the September quarter.

As previously announced in the September quarterly the F-zone model had to be re-interpreted. This re-interpretation was completed in October with a subsequent commencement of full scale stope production in November with an immediate effect on grade continuity and increased ore production.

Radio Hill operations were cash flow positive in the November and December months, a trend which is expected to continue in January 2006 in spite of 4 days disruption due to cyclones Clare and Daryl. Costs were well contained and were below budgeted levels resulting in a 16% quarter-on-quarter decrease to the estimated cash cost (C1 cost) which averaged US\$4.10/lb nickel for the December quarter. Costs are expected to fall further with introduction of a new underground mining roster which has enabled mining crews to be reduced by 30% due to conventional stoping in F-zone rather than remnant mining in the traditional ore zones of Radio Hill.

### Mill Upgrade

As announced on 14 December 2005, Fox plans to upgrade the flotation capacity of the Radio Hill mill. Engineering design work is in progress and installation of the refurbished flotation cell is scheduled to begin in February 2006. The expanded copper flotation circuit will increase copper recovery from F-zone by up to 35%, and provide additional copper flotation capacity to process ore from the West Whundo copper project.

A scoping study will be completed in early February examining the potential to increase the current Radio Hill mill throughput from 26tph to 50tph by the addition of a tertiary crusher. The increase in tonnage throughput will allow a significant proportion of the F-zone lower grade nickel-copper halo, not in the current reserve, to be processed at a lower milling cost to produce unhedged nickel and copper metal at a time of high commodity prices. The upgrade will also allow an increase in throughput for the upcoming West Whundo Copper Project.

### Production Outlook

The production outlook is positive for Radio Hill, with the F-zone orebody delineated and delivering in January a consistent nickel head grade (1.60% nickel) and higher copper grades (2.04% copper) than expected. It is anticipated that Radio Hill will be cash flow positive throughout the March quarter. With nickel and copper prices at near record levels the return on investment by upgrading the Radio Hill mill for less than \$1 million is a strategic investment for the future.

	<b>December 2005 Quarter</b>	September 2005 Quarter
<b>Radio Hill Operating Performance</b>		
Ore mined (tonnes)	<b>57,537</b>	46,613
Total ore treated (tonnes)	<b>54,625</b>	47,353
Head grade (% Ni)	<b>1.40</b>	1.51
Head grade (% Cu)	<b>1.55</b>	1.29
Nickel production (dmt concentrate)	<b>5,306</b>	5,555
Nickel concentrate grade (%)	<b>9.58</b>	9.25
Contained metal nickel (t)	<b>508</b>	514
Copper production (dmt concentrate)	<b>1,504</b>	1,002
Copper concentrate grade (%)	<b>28.53</b>	28.10
Contained metal copper (t)	<b>429</b>	282
Nickel sales in concentrate (t)	<b>5,746</b>	5,565
Grade (%)	<b>8.95</b>	9.57
Contained nickel metal (t)	<b>514</b>	533
Copper sales in concentrate (t)	<b>1801</b>	556
Grade (%)	<b>28</b>	27.98
Contained copper metal (t)	<b>512</b>	156

## EXPLORATION

### West Whundo Copper-Zinc JORC resource

The project comprises the Whundo Open Pit and the un-mined West Whundo Deposit (Fig. 1) which are on mining leases within 12 km of Radio Hill. During the quarter, a Reverse Circulation (RC) drilling program at West Whundo was completed, comprising 4,700 drill metres and 88 drillholes. The program achieved a drill density sufficient for resource and reserve estimations to be carried out. It is expected that these vertical drill holes will also be used for grade control blocking of the high grade supergene copper zone.

Independent mining consultants completed the resource estimation work delivering a JORC compliant resource for West Whundo and Whundo copper deposits **926,000 tonnes at 2.1% copper, 1.6% zinc and 4.7 g/t silver**.

### West Whundo

Domain	Measured				Indicated				Total			
	Tonnes	Cu %	Zn %	Ag g/t	Tonnes	Cu %	Zn %	Ag g/t	Tonnes	Cu %	Zn %	Ag g/t
Oxide					73,000	1.8	0.2	3.1	73,000	1.8	0.2	3.1
Supergene	150,000	6.0	0.2	3.4	6,000	1.4	1.0	4.6	156,000	5.8	0.2	3.4
Fresh	406,000	1.2	1.9	3.2	259,000	1.1	1.7	3.4	665,000	1.1	1.8	3.3
Total	556,000	2.5	1.4	3.3	338,000	1.2	1.4	3.3	894,000	2.0	1.4	3.3

Table 1

RSG Global mining consultants

Resources are reported at a lower cutoff grade of 0.5% Cu or 0.5% Zn. All zones were estimated by Ordinary Kriging (in 5 by 5 by 2.5m panels).

### Whundo

Domain	Indicated				Total			
	Tonnes	Cu %	Zn %	Ag g/t	Tonnes	Cu %	Zn %	Ag g/t
Fresh	32,000	5.3	8.0	45.0	32,000	5.3	8.0	45.0
Total	32,000	5.3	8.0	45.0	32,000	5.3	8.0	45.0

Table 2

Cube Consulting

Resources are reported at a lower cutoff grade of 0.5% Cu. All zones were estimated by Ordinary Kriging.

### Copper-Zinc exploration Phase 1

As previously announced on 10 January 2006 this program is the initial Phase 1 exploration program and is now well underway. Drill results will be announced as they come to hand. Phase 1 will focus on targeting shallow areas of mineralisation (Figure 1) where the opportunity exists for the discovery of additional high grade supergene copper ore that can be readily mined without the need for high capital expenditure. Phase 1 comprises of the following priority targets (Figure 1) which are West Whundo North extension, Whundo Pit Supergene, Yannery Anomaly and Aysia Anomaly.

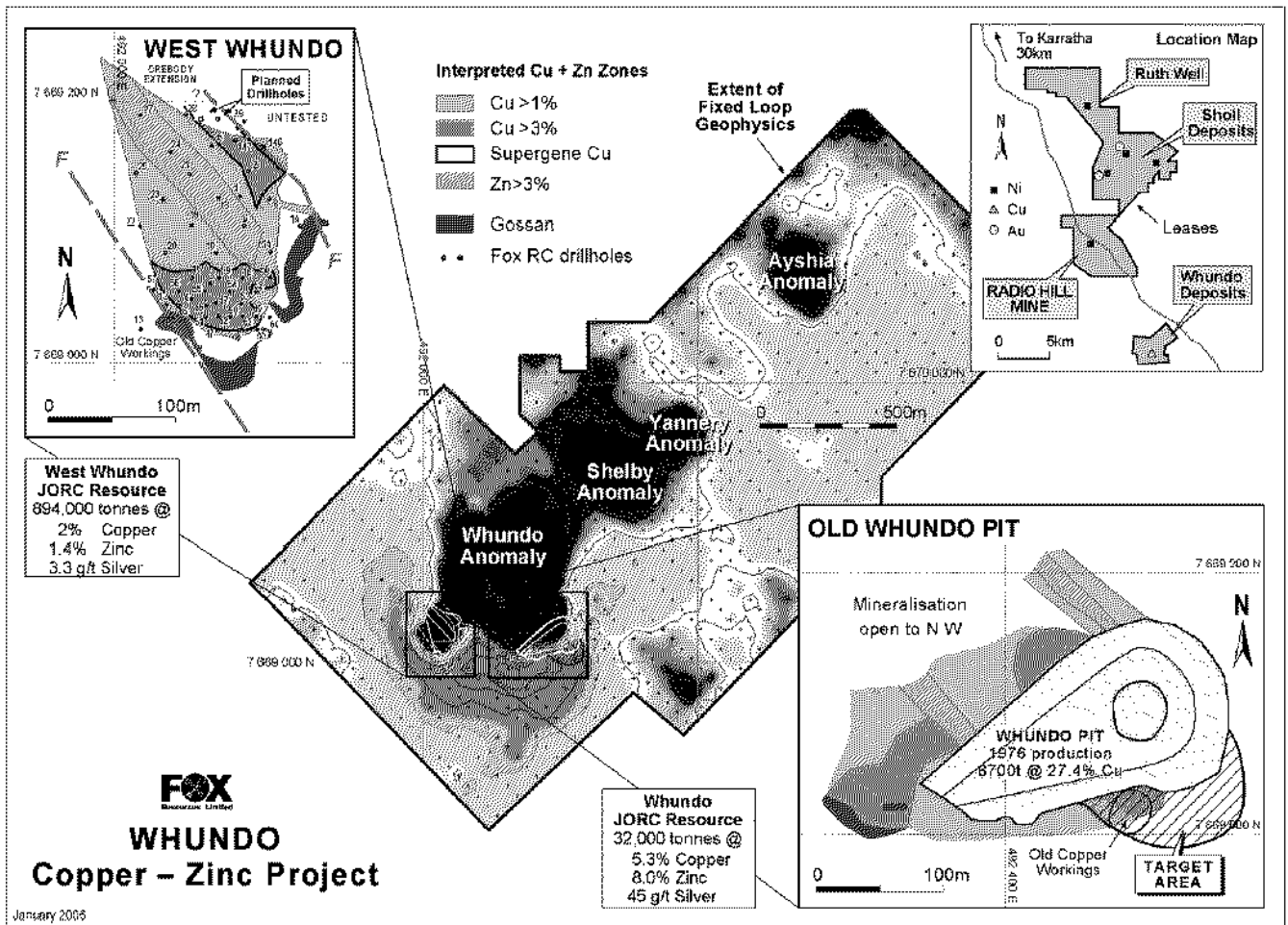


Figure 1

**Sholl B2 Nickel Project Update**

Sholl B2 has been divided up into four lodes namely the DAWN, ABI, ANITA and ASHLEA (Figure 2). Fox has had a resource estimate (refer table 3) conducted by RSG Global mining consultants with a global resource of 6Mt at 0.56% Ni and 0.64% Cu being reported. Metallurgical test work is underway to determine the best way to liberate the nickel and copper congruent with the Disseminated BioHeap Bankable Feasibility Study (BFS). Following Fox's recent visit to China, Jinchuan Group Ltd has expressed an interest in participating in the Sholl B2 nickel project to assist Fox in continuing to provide quality nickel and copper concentrates.

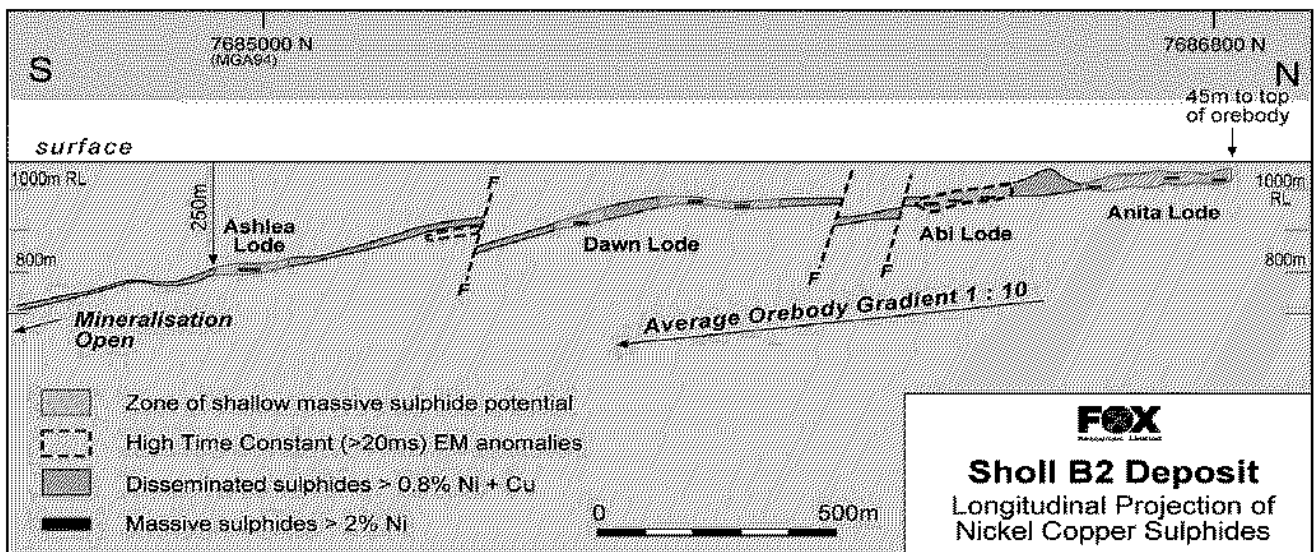


Figure 2

Domain	Sholl B2 Global Resource			
	Tonnes	Ni %	Cu %	Co %
Fresh	6,070,000	0.56	0.64	0.04
Total	6,070,000	0.56	0.64	0.04

Table 3

RSG Global mining consultants

Resources are reported at a lower cutoff grade of 0.3% Ni. All zones were estimated by Ordinary Kriging.

## Geophysics

A geophysical SQUID program was to be used in December to look for massive nickel sulphides at Radio Hill and at the southern end of Sholl B2. Work started at Sholl B2, but due to poor data acquisition as a result of atmospheric conditions associated with the build up to the wet season, the program was stopped and has been rescheduled to late April 2006. Updates on this planned work will be announced closer to the time.

## Granting of Tenements

Fox has initiated the granting of ELA47/1223. This lease is adjoining the Whundo Copper Zinc Project lease M47/7 and is to the North East. The aeromagnetic data shows the continuation of highly prospective geology and structures from M47/7 into E47/1223. When the lease is granted Fox intends on undertaking FLTEM geophysics, as was conducted successfully at M47/7. This new area is highly prospective for Nickel, Copper, Zinc and Gold. Within this area are the East Well (Gold), Cunig and Sullam deposits (Nickel and Copper). The geophysics is intended to delineate drill targets and validate the three known deposits.

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## PROJECT DEVELOPMENT

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### West Whundo Copper-Zinc Project

#### Approval Process

The final stages of the regulatory approvals process - in which permission is sought from government bodies to undertake clearing in preparation for mining operations - has been completed, with permit applications being submitted for the West Whundo Copper-Zinc Project and all approvals expected in February 2006.

#### Mine Design

Pit optimisation studies are underway with all hydrological, geotechnical and environmental studies completed. RSG Global mining consultants have completed the open pit, waste dump and site layout design. RSG Global have also included an underground mine design with access from the base of the West Whundo pit to extract the high grade zinc ore zone (Figure 1) as part of the overall mining reserve. Mining contractors have submitted prices for the scope of work at West Whundo, with a selection of the preferred contractor to be announced shortly.

#### Metallurgy

Metallurgical tests are currently being carried out at Ammtec Metallurgical Laboratories in Perth. Metallurgical studies include gravity table and magnetic separation methods aimed at upgrading the high grade chalcocite and massive sulphide copper ores to direct shipping grade ore. Further test work is being carried out to recover copper from oxide ore through a sulphidisation method using the existing Radio Hill mill which will add further revenue to the project. Conventional flotation is also being tested on the lower grade (5% copper) supergene chalcocite. All metallurgical tests should be completed in February and the preferred method will be selected on a best revenue generating capacity basis.

#### Mining

Subject to all approvals and metallurgy results being completed in February as expected, mining will commence in March/April 2006.

### Radio Hill Disseminated and Sholl BioHeap Leach Projects:

Fox is in the process of preparing a BFS to process disseminated nickel sulphides which will provide estimated sales of up to 27,000 tonnes of contained nickel over an expected mine life of 5 years. The Company will utilise existing infrastructure and human resources at the Radio Hill operations to man the proposed disseminated nickel and copper sulphide leaching facility. Mining of the Radio Hill disseminated sulphides will commence immediately upon completion of a successful BFS scheduled for first half of 2007.

The Sholl test work performed by BioHeap Ltd. provided a successful method of leaching the Sholl ores. There is a need now to demonstrate a congruence of leaching performance when Radio Hill ores are treated by this method of leaching. This test work has commenced and will provide data to bring the Radio Hill resources into the disseminated project tonnages.

## Progress as at 30 January 2006

### Testwork

Testwork is underway at the Ammtec Metallurgical Laboratories in Perth to confirm the amenability of the Radio Hill disseminated nickel sulphide ore to the BioHeap™ leaching process. Earlier work conducted by Titan Resources Ltd on the Mount Sholl deposit just a few kilometres away yielded nickel recoveries of 90%. The current testwork program on the Radio Hill ores includes small scale laboratory testing comprising both stirred tank reactor tests (amenability tests) and column leach testing.

One of BioHeap's propriety bacterial cultures has been activated and used to inoculate both columns and the adaptation/amenability test. Leaching of the milled ore in the adaptation/amenability tests has progressed well and the levels of nickel and copper reporting to solution are in line if not superior to those experienced from similar tests conducted on the Mt Sholl ore. This test has been terminated and final residue results are pending to confirm the final recoveries to solution.

Both the 1.2 metres and 5 metres tall columns (Figure 3) have undergone an initial period of acid conditioning in order to provide the optimum environment within the crushed ore for bacterial leaching. The bacteria are now beginning to oxidise the sulphides and the leach kinetics are increasing. Early indications are that the acid consumption of the Radio Hill ore (one of the major costs associated with BioHeap™) is lower than was experienced at Mt Sholl.

Testwork will continue for a further 6 to 8 months. Due to the testwork being of longer duration than anticipated the BFS will only be concluded by the last quarter of 2006. Subject to a successful BFS it is anticipated that development of the disseminated project will commence in 2007.

### Engineering

Metplant Engineering Services Pty Ltd has reviewed the data generated by BioHeap™ and has completed studies towards a final BFS and included studies in:

- Detailed engineering design
- Impurity build up for the process
- Product characteristics for off take agreements

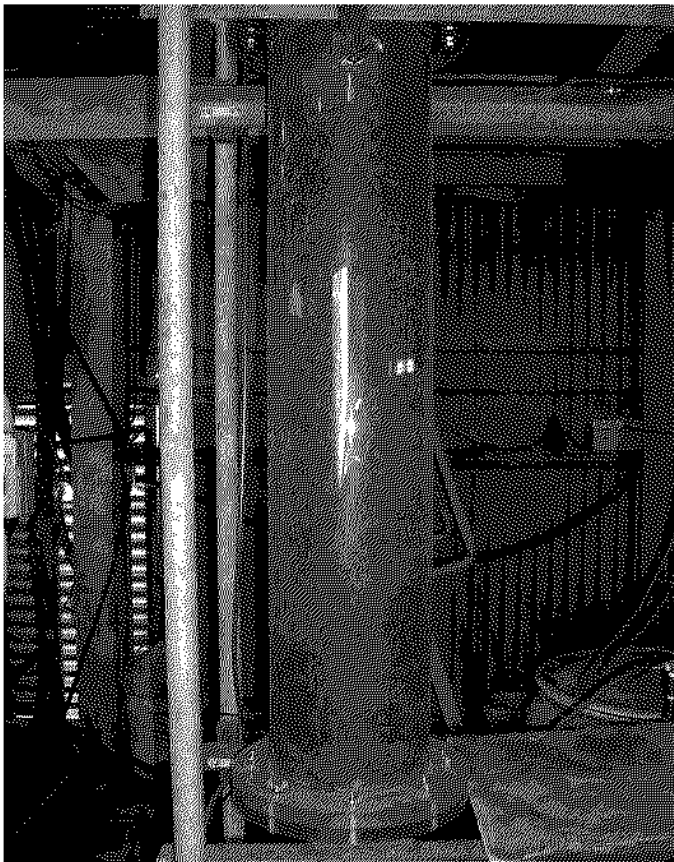


Figure 3 - Photograph of the Radio Hill ore leaching in the 5 metre high column.

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## CORPORATE

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### Project Loan & Hedging Program

During the December quarter, the Company reduced the Project Loan, payable to Societe Generale, by paying \$1 million, leaving an outstanding balance at 31 December of \$2 million. The hedging schedule was reduced by 70.8 tonnes of nickel completing all hedging commitments. All sales after October 2005 are fully exposed to spot nickel and copper prices.

### Equity Movements

Fox completed a \$3 million capital raising which was led and managed by Bell Potter Securities Limited. The placement of 12.7 million shares at an issue price of \$0.24 per share was strongly supported by institutional and sophisticated investors. Proceeds raised will be used for capital expenditure, debt reduction, working capital purposes, and will contribute towards development of the West Whundo Copper-Zinc Project where Fox aims to commence mining in the first quarter of 2006.

Part of the funding will be used to upgrade the copper flotation capacity at the Radio Hill processing plant to increase further copper production by the installation of, recently acquired, additional copper flotation cells. This increased copper flotation capacity will allow the company to capitalise on record spot copper prices as all sales are currently unhedged. Fox remains focused on revenue generating opportunities through minimal capital expenditure, by leveraging off its existing infrastructure and experienced workforce at Radio Hill.

### Option Conversions

Conversion forms and monies for Fox's listed \$0.20 options, expiring on 31 January 2006, are currently being received with the total to date of approximately \$2.3 million at 30 January 2006. These conversions represent a 86% take up when compared to the outstanding balance at 31 December 2005 of 13.5 million options.

### Divestment of Uranium Assets

During the quarter the Board made a decision to maintain its core business in nickel, copper and zinc exploration, mining and beneficiation and in keeping with this the uranium assets including Lake Maitland and Mundong Well in Western Australia have been divested, with Redport Limited ("Redport") (ASX code: RPT) acquiring 100% of the projects for a cash consideration of \$890,000.

### Visit to Jinchuan Ltd

A team lead by Mr. Don Harper, Managing Director, completed a successful visit to Jinchuan Group Ltd (Jinchuan), the buyer of Fox's nickel and copper concentrates. Jinchuan is located in the Gansu Province in northern China, and is China's largest nickel producer and also a major copper producer. The visit included a tour of the world-class processing and technical facilities and in particular highlighting the technical excellence achieved in Flash Smelting technology and electro-winning of nickel, cobalt and precious metals. On 25 October 2005, Jinchuan commissioned its new copper treatment facility.

Jinchuan made a commitment to Fox, for the provision of technical assistance for the processing of low grade nickel ore. Under this technical arrangement Fox is to send ore from Sholl and Whundo to Jinchuan, for determination of the best processing options for the extraction of nickel and copper products.

Fox representatives had very positive discussions with Mr. Li Yong-jun, Chairman and President and Mr Wang Hai-zhou Vice president of Jinchuan who expressed their desire for a closer relationship with a strengthening of technical and commercial cooperation.

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**CORPORATE DIRECTORY**


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**Board of Directors**

Don Harper	Managing Director
Bruno Seneque	Executive Director
Terry Streeter	Non-Executive Director

**Company Secretary**

Bruno Seneque

**Competent Person**

The information in this report that relates to exploration results, mineral resources or ore resources is based on information compiled by Mr Ed Mead who is a full-time employee of the company and is a member of the Australasian Institute of Mining and Metallurgy. Mr Mead 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 Mead consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

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**Issued Share Capital**

Fox has 98.377 million ordinary shares currently on issue.

In addition, there are the following options currently on issue:

ASX Listed Options		
20c Options expiring 31 Jan 2006		13,141,239
75c Options expiring 30 June 2007		24,167,458

Unlisted Options		
60c Options expiring 31 Jan 2006		4,166,667
25c Options expiring 30 June 2007		1,000,000
75c Options expiring 30 June 2007		900,000

Employee Options		
60c Options expiring 30 June 2007		3,505,000
60c Options expiring 30 June 2008		1,000,000

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Please direct enquiries regarding your shareholding to the share registry.