

**QUARTERLY REPORT ON ACTIVITIES
FOR PERIOD ENDED 31st MARCH 2009**

HIGHLIGHTS FOR THE QUARTER

REGIONAL EXPLORATION

- The Company has been conducting a comprehensive review of the gold exploration potential at the Blair Project in anticipation of gold exploration recommencing after the proposed capital raising.
- At the Blair Project, the Golden Ridge Joint Venture (GRJV) completed interpretative studies which have confirmed that the nickel contained within oxidised ultramafics at the Leo Dam Prospect has been derived from a sulphide source.
- Leo Dam is a high ranking nickel target and the plan is to prove up a sulphide orebody by drilling into fresh rock below oxide hits such as 73m at 0.53% nickel and 68m @ 0.56% nickel.
- Tenement rationalisation at the Blair Project involved the withdrawal of several mining lease applications in favour of an exploration licence application, and this will result in reduced tenement holding costs.

FINANCE AND CORPORATE

- As advised in our previous quarterly Blair mine was closed in December 2008. All assets of the Company were reviewed for potential sale so that creditors could be paid. Some of the mine infrastructure assets have been sold however the Company's projects were difficult to sell at a reasonable price in the current market.
- The Company remains in a trading suspension from the ASX. However plans have been made to recapitalise the Company and seek reinstatement to trading on ASX in June/July 2009.
- The Company is negotiating on fund raising activities as follows: -
 - A Creditors Placement is being negotiated in lieu of a cash settlement for amounts outstanding. AUZ's circumstances make the Creditor Placement, as part of the greater recapitalisation offer, the only realistic opportunity to settle debts and continue trading.
 - A Rights Issue to shareholders is being negotiated through a proposed underwritten non renounceable entitlement issue as set out in the Corporate section of this report. It is conditional on the creditors' participation in the Creditor Placement before the Rights Issue will proceed.
- The Company is holding its 2008 AGM on 2 June 2009. The Notice of Meeting to approve the Rights Issue has been approved by the ASX and will be despatched to shareholders on 1 May 2009.

MINE EXPLORATION

BLAIR MINE EXPLORATION (AUZ 100%)

Subsequent to the closure of the Blair Underground Nickel Mine in December 2008 there has been no exploration undertaken at the mine.

The resource has been remodelled to accurately reflect the position of the mining voids at the time of closure, and the remaining resource to a depth of 138 metres below current workings is tabled below:

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
Blair Mine Sulphide Resource	Measured	32,700	4.2	1,380
	Indicated	27,700	4.1	1,130
	Inferred	51,000	3.5	1,790
	Total	111,400	3.9	4,300

Table 2: Blair Mine Nickel Mineral Resource as at Dec 31st 2008

REGIONAL EXPLORATION

Introduction

Australian Mines Limited reports on three regional exploration projects in Western Australia as highlighted by the map below.



Fig 1: Location Plan – Australian Mines Limited Exploration Projects
BLAIR GOLD PROJECT (AUZ 100%)

Introduction

The Blair tenements are highly prospective for mesothermal gold deposits as evidenced by old gold workings on elevated ground such as the alluvial workings at Walker's Find, the shallow shafts and diggings at Mick's Hill and the major open pit and underground workings at Mt Martin.

The tenements are dissected by a number of palaeochannel systems which have resulted in transported cover over much of the land surface. The transported cover made things difficult for the early prospectors, and in fact the same transported cover tends to mask the geochemical signals reaching the current surface and so the modern soil sampling surveys may be understating the bedrock gold potential.

In the Eastern Goldfields the key feeder fault systems are well documented and these regional faults include the 'Woolibar to Boorara Shear' and the 'Mt Monger to Kanowna Fault' which both transect the Company's tenements.

Gold Targeting

The gold targeting exercise is ongoing, but a brief update on each area is presented below:

Woodline Area

Structurally the Woodline Area coincides with a major flexure (bend) in the Mt Monger Fault.

The Company discovered the 21,000 ounce Woodline 1 Deposit under 10 metres of transported cover in 2006 and there is a major gold target to the north east of Woodline 1 where the cover is thicker.

Mick's Hill Area

At Mick's Hill there are two lines of lode with shallow workings, and the lodes may be plunging to the south under cover.

The two lines of lode have been drilled by a combination of RAB and RC holes with some good gold intercepts being returned, but unfortunately the open hole RAB drilling results are unreliable and cannot be used for resource modelling and they may have to be twinned with RC.

Goldstar Area

Structurally the gold mineralisation is associated with first order splays off the Mt Monger Fault. Some notable intercepts have been returned from drilling but the drilling is a combination of RC and RAB which makes it difficult to fully evaluate the potential of this area.

Woolibar Palaeochannel

Reconnaissance drilling across the Woolibar palaeochannel by WMC returned some encouraging gold intercepts from the bed of the channel and also from weathered basement rocks below the channel.

Woolibar Fault Flexure

It is not uncommon for gold orebodies to be formed near flexures (or bends) in regional faults and the Woolibar Fault flexure is considered a high ranking target for this reason. The

exploration potential of the fault flexure is enhanced by its proximity to the Woolibar Palaeochannel as it is possible that the alluvial gold may have been shed from the area of the fault flexure.

Mt Martin Gold Mine (currently under lease to Dioro Exploration NL until January 2010)
Structurally the Mt Martin gold mineralisation is associated with a first order splay off the Woolibar Fault.

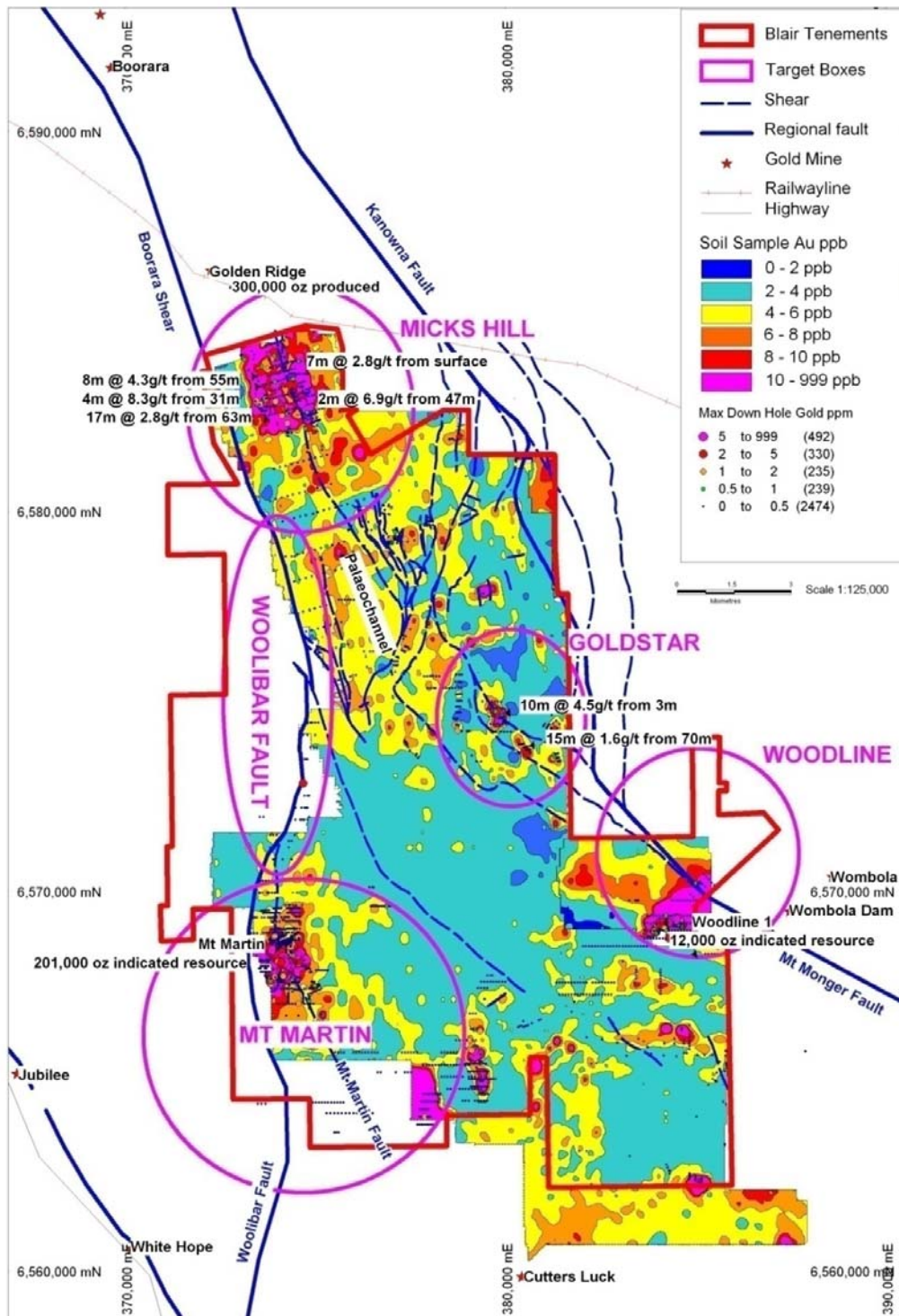
The Mt Martin gold mine has been mined intermittently between the years 1923 – 1997 producing in excess of 230,000 ounces of gold from 2 million tonnes of ore. There is a remaining unmined Indicated Resource of 4,470,000 tonnes at 1.5g/t for 221,000 ounces.

The Mt Martin sublease will expire in January 2010 and the area will be then returned to Australian Mines Limited.

Progress during the March 2009 quarter:

An ongoing gold targeting exercise has generated priority exploration targets at Woodline, Mick's Hill, Mt Martin, Goldstar and the Woolibar Fault Flexure.

The ground over the Woolibar Fault Flexure has a complex and fragmented history of ownership and every effort is being made to acquire the historical exploration data from soil sampling and drilling programmes etc.



Plan view of the Blair tenements with priority gold targets over gold soils and drillholes.

BLAIR NICKEL PROJECT

Introduction

The Blair Nickel Project covers an area of 213 square kilometres of Archaean greenstones which are host to tens of kilometres of folded high MgO ultramafics and a number of published nickel sulphide resources including Blair Mine, Goodyear, Mt Martin and Blair South.

The Blair Nickel Project is reported in two parts, namely the Golden Ridge Joint Venture (GRJV) which is managed by Pioneer Nickel Pty. Ltd. and the East Location 45 Nickel Project (E Loc 45) which is managed by Australian Mines Limited.

(a) GOLDEN RIDGE JV (*Pioneer Nickel Pty.Ltd. 56%, Australian Mines Limited 44%*)
(see Appendix 1 for a detailed plan showing the location of the GRJV)

Introduction

The GRJV was formed in 2005 so as to fund the exploration of a large area of tightly folded and highly prospective ultramafic units which are host to nickel sulphide mineralisation at Blair South, Area 20A, Marshall and Duplex Hill. The Blair Mine is excluded from the JV.

The GRJV has to date spent approximately 3 million dollars on geochemistry, geophysics and drilling and discovered a considerable body of oxide nickel at Leo Dam which is believed to have been derived from a sulphide source.

Leo Dam Project

Leo Dam is a high ranking nickel target located approximated 1.5 km northeast of the Blair Mine and the best oxide intersections to date include 73m at 0.53% nickel and 468 ppm copper in hole number GRA0257, and 68m @ 0.56% nickel and 403 ppm copper in hole number GRA0233.

The nickel and copper mineralisation is located within a weathered high MgO ultramafic unit which is located stratigraphically above a footwall basalt, and interpretative studies have confirmed that the nickel mineralisation has been derived from the weathering of a sulphide source.

Exploration at Leo Dam is still at an early stage and the mineralisation, which has been defined by 3 lines of RAB and aircore drilling over a strike length of 350 metres, is open both along strike to the north and south and at depth. The exploration plan going forward is to use aircore drilling to establish the extent of the oxide mineralisation, and then use geophysics and RC drilling to discover the sulphide source in fresh rock.

Progress during the March 2009 quarter:

No drilling was undertaken by the GRJV, but interpretative studies confirmed that that the nickel contained within oxidised ultramafics at the Leo Dam Prospect was derived from a sulphide source.

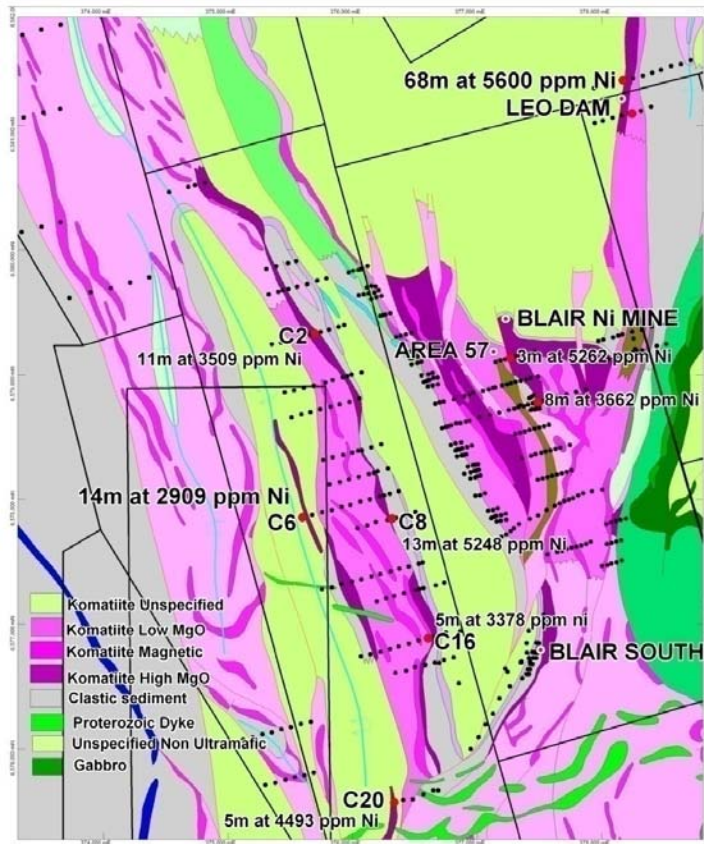


Fig 3: GRJV geology plan highlighting Blair Mine, Leo Dam and Blair South.

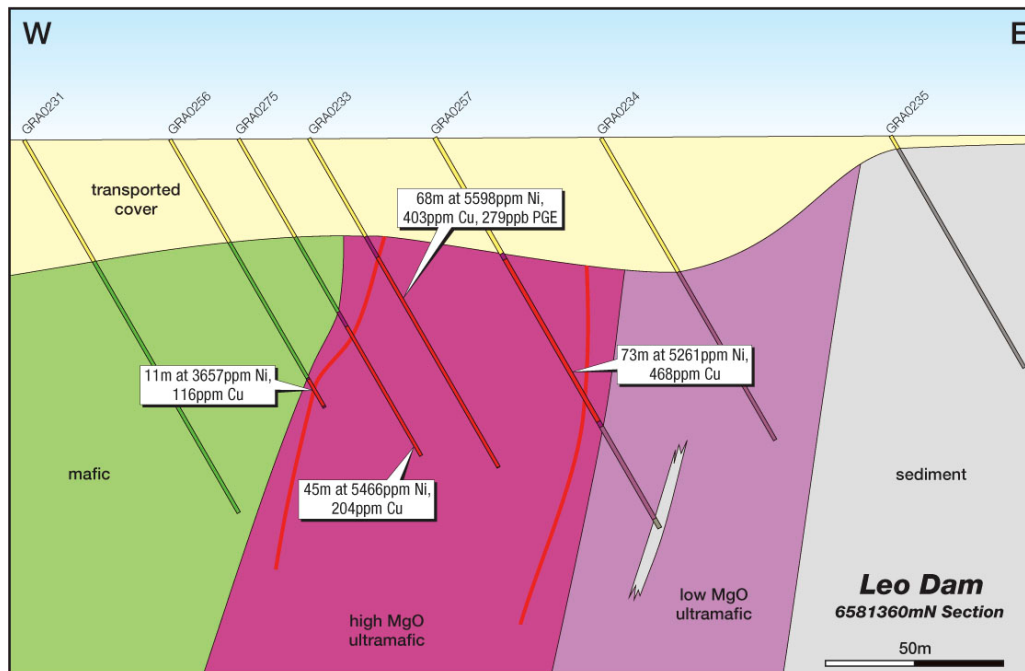


Fig 4: Leo Dam aircore drilling intercepts with interpreted geology - cross section 6581360N.

(b) EAST LOCATION 45 (AUZ 100%)

East Location 45 tenements are located approximately 15 kilometres from Australian Mines’ Blair Nickel Mine. The tenements enclose 86 square kilometres of highly prospective and under-explored Archaean terrain, with extensive ultramafic packages and current nickel sulphide resources at Mt Martin and Goodyear. (see Figure 5)

GOODYEAR NICKEL PROJECT

Introduction

The nickel system at Goodyear, which plunges to the south west at a moderate angle, is classified as being of the ‘Kambalda style’ with nickel sulphide mineralisation located in broad linear troughs at the base of the first and second ultramafic flows. The Company drilled 4 diamond holes and remodelled the resource in 2008. Diamond core was dispatched to assay laboratories but the tests were deferred and still to be done.

Progress during the March 2009 quarter:

There has been no further progress with nickel exploration at East Location 45.

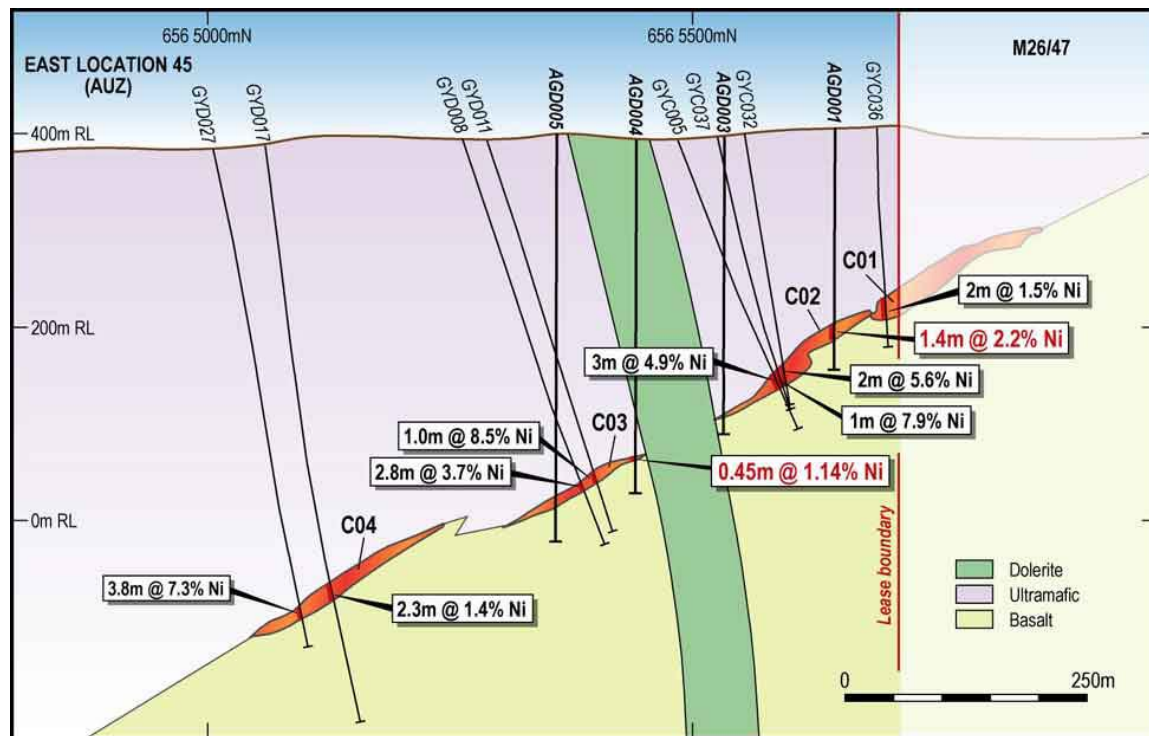


Fig 5: Longsectional View of the Goodyear resource with drill intercepts.

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
Goodyear – Ni Sulphide Resource	Measured			
	Indicated			
	Inferred	390,000	3.78	14,700
	Sub-total	390,000	3.78	14,700
Ni Sulphide Resource Total	Total			

Table 4: Mineral Resources in the East location 45 Nickel Project as at March 3^{1st} 2009

MARRIOTT'S NICKEL PROJECT (AUZ 100%)

Introduction

The Marriott's Nickel Project, located 65 km from BHP Billiton's Leinster nickel operation, is Australian Mines' most advanced nickel project outside of the Blair Nickel Mine. Australian Mines acquired the project from BHP Billiton in March 2007 and has to date drilled 38 diamond drillholes and completed metallurgical testwork on 24 ore composites from varying depths. The Marriott's Mineral Resource is currently published as 830,000 tonnes @ 1.13 % nickel for 9,400 nickel tonnes of which the amount of sulphide nickel which would be recovered by flotation is quoted as 6,500 nickel tonnes.

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
Marriott's – Ni Sulphide Resource	Measured			
	Indicated	460,000	1.12	5,100
	Inferred	370,000	1.15	4,300
	total	830,000	1.13	9,400

Table 4: Australian Mines Limited Mineral Resources at the Marriott's nickel project as at March 3^{1st} 2009

Work completed for the March 2009 quarter:

There has been no further progress with nickel exploration at the Marriott's Project.

BOUNTY NICKEL PROJECT - AUZ withdrawal from option agreement

Introduction

Due to budget constraints the Company has terminated an option to earn 70% of the nickel rights at the Bounty Project, which consisted of 41 square kilometres of granted mining leases over the eastern ultramafic units of the Forresteria Greenstone Belt.

Work completed for the March 2009 quarter:

Australian Mines did not perform any further work on the Bounty Project during the March quarter.

CORPORATE

The Company is in negotiation on a potential underwritten non renounceable entitlements issue to shareholders and also a settlement with its creditors the details of which are set out below.

A Notice of Meeting containing the resolutions to approve the Rights Issue and Creditors Placement is being mailed to shareholders on 1 May 2009 for an AGM to be held on 2 June 2009.

RECAPITALISATION OFFER

AUZ intends to:-

- **Issue to creditors** up to 2.8 billion ordinary fully paid shares at 0.1 cent per share representing \$2.8 million in value to AUZ creditors for nil consideration, together with 1 free attaching option for every 20 shares issued exercisable at 0.2 cent pursuant to a prospectus, in full and final satisfaction of all non statutory unsecured debts owing ("**Creditors Placement**").
- **Issue to shareholders** a 5:1 non-renounceable entitlements issue to existing shareholders at 0.1 cent per share together with 1 free option for every 20 Shares subscribed for and allotted at an exercise price of 0.2 cent per Share pursuant to a prospectus to raise circa \$2.3 million ("**Rights Issue**").

Funds raised from the Rights Issue will be used to finance exploration on the Company's prospective gold tenements, to supplement payments to statutory creditors and for working capital.

AUZ will seek to recommence trading again at completion of the Rights Issue.

The proposed timetable currently estimates the Rights Issue shares and options despatched in June 2009.

The issue of shares and free attaching options under the Rights Issue and Creditor Placement will each be made pursuant to a prospectus. The capital raising is subject to a number of conditions including: -

1. Irrevocable Creditor Placement acceptances amounting to not less than 90% of the total non statutory creditor debt outstanding (currently circa \$2.52 million).
2. AUZ shareholder approval being granted for the Rights Issue and Creditor Placement.
3. The Rights Issue raising no less than a gross figure of \$1.5 million.
4. Subject to completion of the Rights Issue, AUZ receiving conditional approval from ASX for the Company's securities to be reinstated to trading on ASX (on conditions acceptable to AUZ).

SUMMARY AND OUTLOOK

FUTURE DIRECTION

The Company's tenement and project assets have significant gold potential and we have received an offer to underwrite an entitlements issue to shareholders to raise funds on the strength of these gold assets.

As highlighted in the Company announcement on 25 March 2009, AUZ is looking to develop its gold interests which have considerable value and have been largely overlooked during the period when nickel was considered more important. The gold interests include the Golden Ridge tenements in near proximity to the Golden Ridge Mine which historically produced 300,000 ounces, East Location 45 which contains the Mt Martin Gold Mine (currently under lease to Dioro Exploration until January 2010) which historically produced 250,000 ounces of gold and Duplex Hill South.

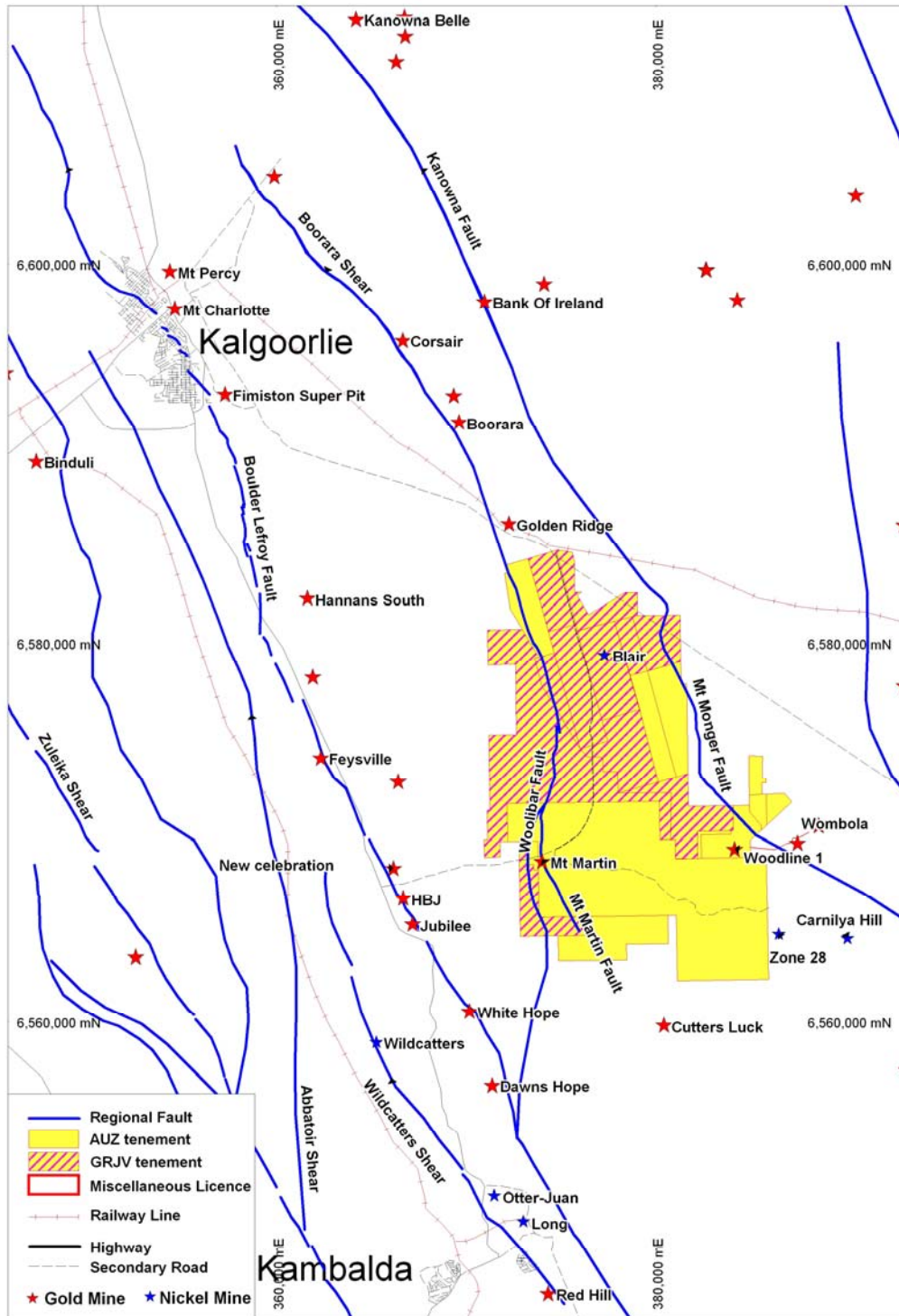
FUTURE PROJECTS

The Company is reviewing all options relating to the existing market conditions that will enable the Company to sustain a limited exploration program in 2009 and be positioned for future acquisition opportunities.

For further information contact:

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Australian Mines Limited
Tel: 08 9481 5811

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr M Elias who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Elias is employed by CSA Australia Pty Ltd and is a Non-Executive Director of AUZ. Mr Elias has sufficient experience which is relevant to the style of mineralisation and type of deposits 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.'



Appendix 1 Location Plan of Blair Tenements