

**QUARTERLY REPORT ON ACTIVITIES
FOR PERIOD ENDED 31st DECEMBER 2008**

HIGHLIGHTS FOR THE QUARTER

PRODUCTION

BLAIR MINE

- Active mining operations at Blair were suspended on the 19th of December 2008 due to low nickel prices and the site is now on care and maintenance. If the nickel price improves in the future the mine can be reopened.
- Production of 11,493 tonnes of ore at 3.83% nickel for 441 contained nickel tonnes were achieved in the December quarter.
- The monthly production for November of 4,715 tonnes at 3.91% nickel for 185 contained nickel tonnes was the second highest individual monthly production ever produced from Blair while under the ownership of Australian Mines.
- Jumbo development at Blair totalled 213m for the December Quarter.
- Minor capital development at the bottom of the mine continued during the quarter with the main decline accessing Blair Deepes down to the 320m RL
- All nickel production for the quarter was sourced from the higher grade Blair Deepes area of the mine.

BLAIR MINE EXPLORATION

- No underground exploration drilling was undertaken at the Blair underground mine during the reporting period .
- The Blair mine es total Mineral Resource at closure is 111,400 tonnes @ 3.9% Ni for 4,300 tonnes of contained Nickel.

REGIONAL EXPLORATION

- Golden Ridge Joint Venture (GRJV) released platinum and palladium assay results that confirm that the elevated nickel grades in weathered ultramafics at Leo Dam are derived from a nickel sulphide source, and that the broad nature of the intercepts (70m at 0.60%Ni, 44m at 0.70%ni, 73m at 0.53%Ni) suggests that a significant zone of cloud sulphides may be present in deeper fresh rock.
- Tenement Acquisition - In partnership with Pioneer Nickel Limited, an exploration licence covering prospective gold and nickel ground along the western side of East Location 45 has been applied for.

FINANCE AND CORPORATE

- Sale of Woodline 1 Gold Resource - The Woodline 1 Gold Resource was sold to a local syndicate for A\$900,000 with a deposit of \$400,000 paid in December. The deal grants the syndicate a nine month time period to mine ore from the resource and transport it to a local mill for processing, but the deal does not allow the syndicate to mine ore from the highly prospective Woodline North or Woodline South gold prospects.
- December quarter production achieved an unaudited net operating deficit of \$(0.3)m mainly due to the lower nickel price and the negative 90 day final settlement adjustments for the September Quarter production.
- The company received a price of A\$5.62/lb (A\$9.98/lb Sept Qtr) including 90 day final price adjustments for the quarter. Direct operating cash costs were A\$6.40/lb (A\$8.03/lb Sept Qtr). Total mined costs (including capital) were A\$6.57/lb (A\$9.12/lb Sept Qtr).
- Mining was suspended in December at Blair with negotiations commencing for the sale of the mine plant and equipment.
- The company's securities listed on the ASX remain in suspension of trade announced on the 30th September 2008 pending asset sales and a potential capital raising
- The Company has sought expressions of interest for the sale of the Company's nickel and gold projects and also the Blair mine assets.
- At the date of this report expressions of interest have been received on the Company's mine fixed plant assets and underground mobile equipment.
- The Company did not produce a signed annual financial report for 30 June 2008 or hold its annual general meeting by 30 November 2008 due to its financial uncertainty. It is envisaged that these compliance issues will be resolved once the Company has completed its asset sale program and completion of the planned capital equity raising.

BLAIR MINE

Production and Development

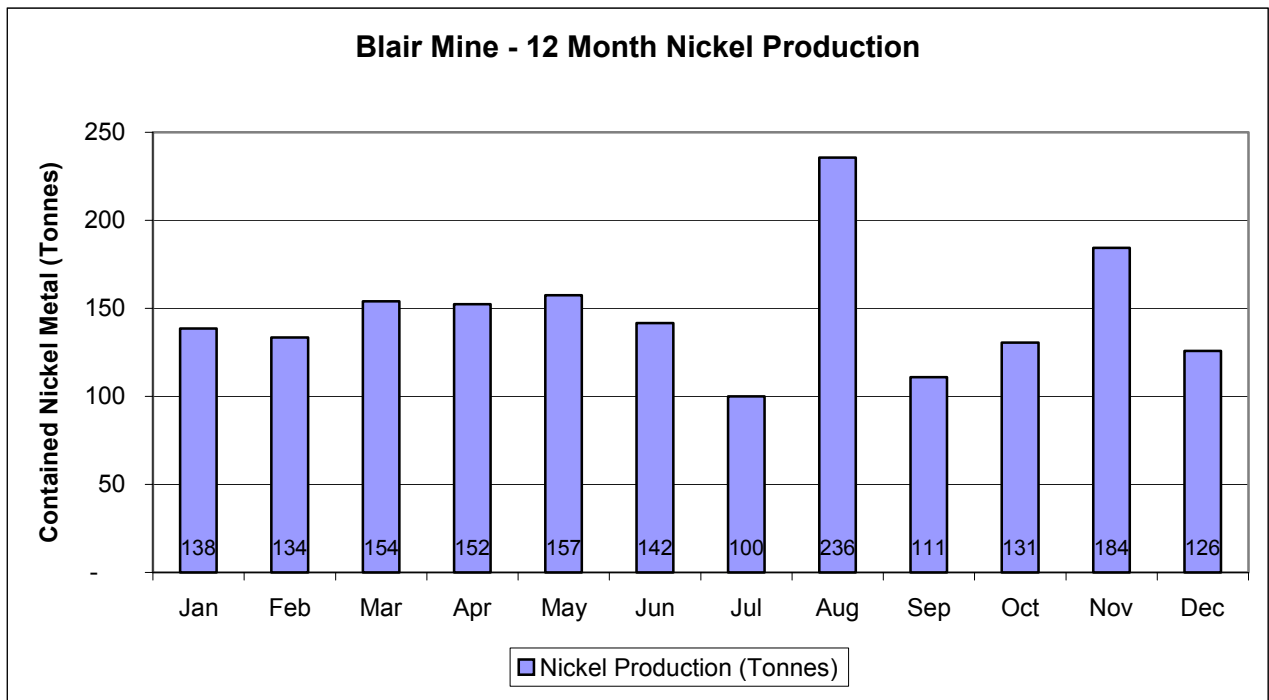
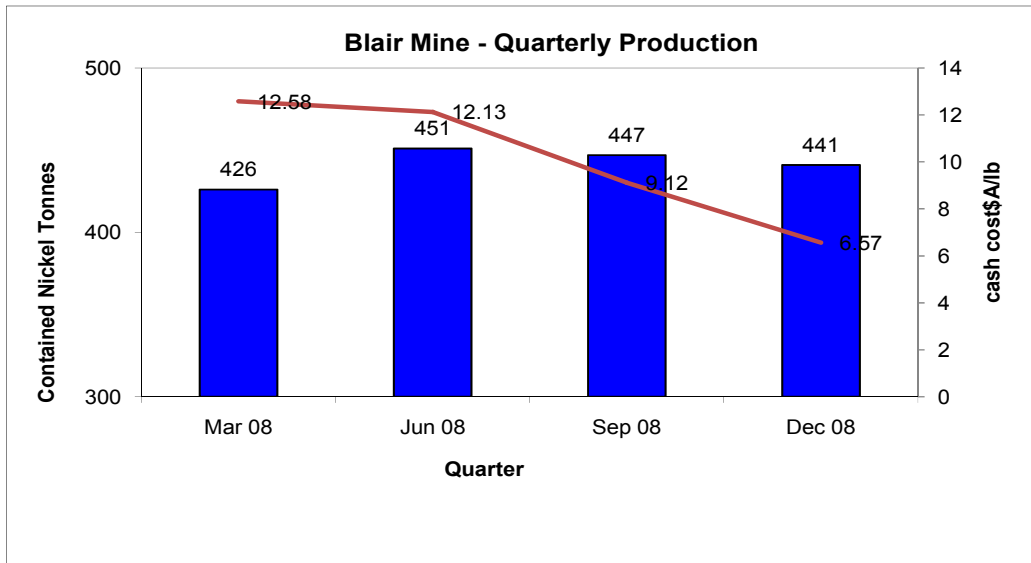
Quarterly production statistics for the Blair Mine are given below:

Quarter ending		Mar-08	Jun-08	Sep-08	Dec-08
Ore Mined	Tonnes	14,699	13,889	16,237	10 893
Cont Ni Mined	Tonnes	417	451	471	428
Ore Treated	Tonnes	15,008	13,889	15,287	11,493
Grade	% Ni	2.84	3.25	2.93	3.83
	% Cu	0.16	0.19	0.18	0.18
Contained Ni treated	Tonnes	426	451	447	441
Recovered Ni	Tonnes	374	399	393	396
Payable Ni	Tonnes	239	255	252	254
Payable Ni	Lbs	526,905	562,179	555,560	559,974
Nickel (Spot) Price (received)	A\$/lb	14.53	12.36	9.15	7.71
Final Price received incl 90 day adjustment**		14.34	11.50	9.98	5.62
Operating cash cost	A\$/lb	10.20	9.79	8.03	6.40
Total cost with capital development	A\$/lb	12.58	12.13	9.12	6.57

* Prior period unit costs have been recalculated to reflect the cost per tonne on Ni payable as per the Nickel West toll treatment agreement where a deduction is made from revenue for treatment. This therefore adds toll treating and cartage to the cash costs including state royalties and administration.

** The final price received from Nickel West on production adjusted for final 90 day price.

- Contained nickel metal in ore milled for the quarter was 441 tonnes (Sept 08 qtr 447 tonnes). All stoping areas were sourced directly off the main decline down to the 320 level, significantly reducing the rehandling of ore before delivery to the surface.
- Average mined grade for the quarter was 3.83% Ni (Sept 08 qtr 2.92% Ni) as all nickel production came from the Blair Deeps.
- Before the mine was closed in December, the main decline reached the 315m RL and the lowest ore source was the 320 C01 stope and the 320 E03, 1050 vertical metres below the surface.
- The majority of nickel production in the December quarter came from the E03 and C01 ore shoots in the Blair Deeps area, and these shoots outperformed stated reserves.
- The direct operating cash costs for the quarter were A\$6.40/lb of nickel payable (Sept quarter A\$8.03/lb). Unit cash costs were lower as mining recovered higher-grade sections of the mine and development was scaled back.
- Total costs including the capital costs associated with the main decline development were A\$6.57/lb of nickel payable (Sept quarter A\$9.12/lb) as capital development was suspended. The mine was closed in December due to the poor nickel price.



Safety

There were 0 Lost Time Injuries (LTI) recorded at the Blair Nickel Mine during the quarter. There was 0 Injuries sustained during the quarter that required medical treatment, where no time was lost. The site target to reduce the severe injury frequency rate (SIFR) from 121 in September 2007 to 60 has now been achieved after 3 months without incident.

Blair Nickel Mine 12 Month Rolling Safety Performance - FREQUENCY RATES													
Average Number of Employees	Total Manhours (last 12 months)	Number of LTI's	Number of MTI's	Number of MI's	Number of Incidents	LTIFR	LTIR	SIFR	SIIR	MIFR	MIIR	IFR	IIR
52	117811	2	5	19	51	17	3	59	11	161	30	433	81

BLAIR MINE

Resources and Reserves at December 31, 2008

The resource and reserve statement is tabled below:

BLAIR MINE MINERAL RESOURCE (UNDILUTED)

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
01 & 03 Surfaces - Sulphide Resource	Measured	32,700	4.2	1,380
	Indicated	27,700	4.1	1,130
	Inferred	36,400	3.8	1,370
	Sub-total	96,800	4.0	3,880
Area 57 - Sulphide Resource	Measured			
	Indicated			
	Inferred	9,900	2.4	240
	Sub-total	9,900	2.4	240
N10 – Sulphide Resource	Measured			
	Indicated			
	Inferred	4,700	3.8	180
	Sub-total	4,700	3.8	180
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

MINE EXPLORATION

BLAIR MINE EXPLORATION (AUZ 100%)

Apart from the discovery of the G03C shoot during the year there has been no further work performed on exploration in the mine during the December quarter.

As previously announced the new G03C shoot accounted for the majority of the increase in the 30 June 2008 Mineral Resource and underground diamond drilling results indicate that the new G03C and the N03C shoots may be increasing in grade below the 375mRL level.

The G Shoot is close to development and can be readily developed from current ore drives.

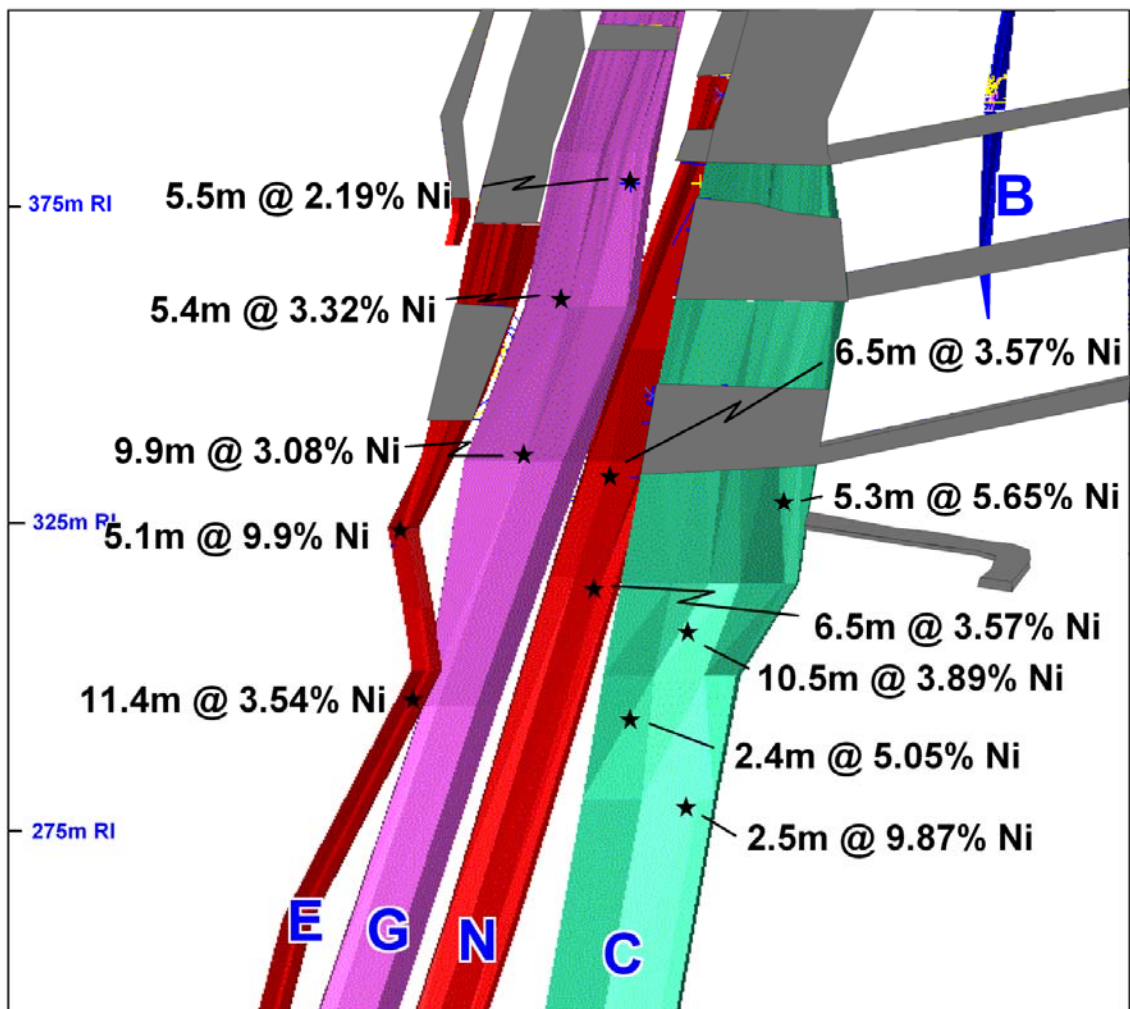


Fig 1 : Blair Deeps long section with diamond drill intercepts.

REGIONAL EXPLORATION

Introduction

Australian Mines Limited has three exploration project areas as illustrated in the diagram below.



Fig 2: Location Plan – Australian Mines Limited Exploration Projects

The Blair Project covers 191 square kilometres with highly prospective ultramafic belts which host existing sulphide nickel resources at Blair Mine, Goodyear, Mt. Martin and Blair South. The tenements, which are transected by regional scale gold feeder structures such as the ‘Mt Martin Fault’ and the ‘Mt. Monger to Kanowna Fault’, are highly prospective for mesothermal gold deposits, such as the shallow 12,000 ounce resource at Woodline1.

EXPLORATION RESOURCE STATEMENT AT DECEMBER 31, 2008.

The resource statement for nickel sulphide exploration projects is tabled below:

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
Blair South – Ni Sulphide Resource	Measured			
	Indicated			
	Inferred	74,000	1.35	1,000
	Sub-total	74,000	1.35	1,000
Marriott’s – Ni Sulphide Resource	Measured			
	Indicated	460,000	1.12	5,100
	Inferred	370,000	1.15	4,300
	Sub-total	830,000	1.13	9,400
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	1,294,000	1.94	25,100

Table 4: Australian Mines Limited Mineral Resources in exploration projects as at Dec 31st 2008

GOLDEN RIDGE JV (Pioneer Nickel Pty.Ltd. 54%, Australian Mines Limited 46%)
 (see Appendix 1 for a detailed plan showing the location of the GRJV)

Introduction

The GRJV has access to 100 km² of tenements that cover very prospective ultramafic Units hosting the Blair Nickel Mine and nickel sulphide mineralisation at Leo Dam, Blair South, Area 20A, Marshall and Duplex Hill. The Blair Mine is excluded from the JV.

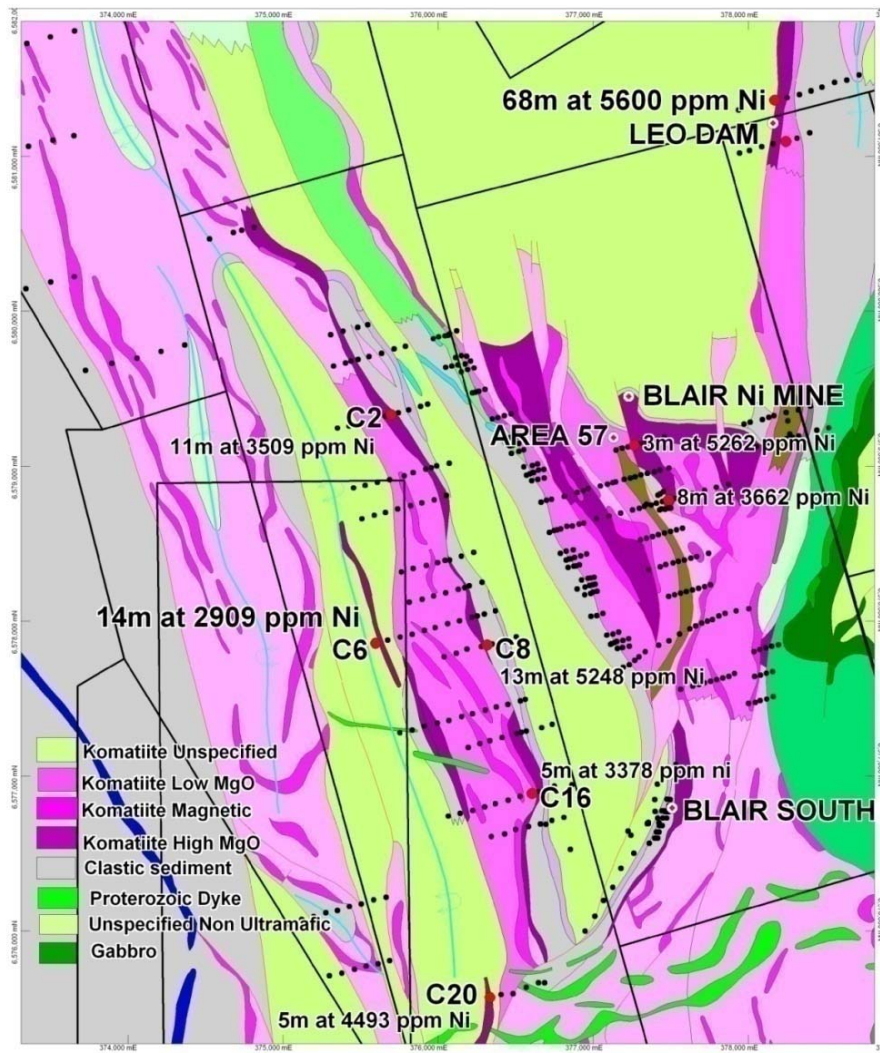


Fig 3: GRJV geology plan highlighting Blair Mine, Leo Dam and Blair South.

Progress during the December 2008 quarter:

Leo Dam Project

The Leo Dam Prospect, located approximated 1.5 km northeast of the Blair Mine is highlighted by strong Ni-Cu-Pt+Pd anomalism over a strike of 350 m, on three drill hole crosssections and remains open along strike to the north and south.

The anomalous mineralisation is located within a high MgO ultramafic unit located stratigraphically above a footwall basalt. Importantly, black shales have not been intersected on the basal contact, which will increase the effectiveness of future ground electromagnetic surveys.

During the quarter the GRJV reported elevated platinum (Pt) and palladium (Pd) assay results from aircore drilling of weathered rocks at Leo Dam. The latest results support the highly anomalous nickel and copper grades and provide key pieces of information as follows:

- In the weathered rock profile where sulphide minerals have deteriorated beyond recognition, coincident elevated Ni-Cu-Pt+Pd assays are an excellent sign that nickel sulphides were present;
- At Leo Dam the broad nature of the intercepts suggests that a significant zone of cloud or disseminated sulphides may be present;
- In many Western Australian cases large bodies of cloud or disseminated sulphides are associated with much smaller lenses of massive sulphides, and therefore act as vector to an economic nickel sulphide discovery.

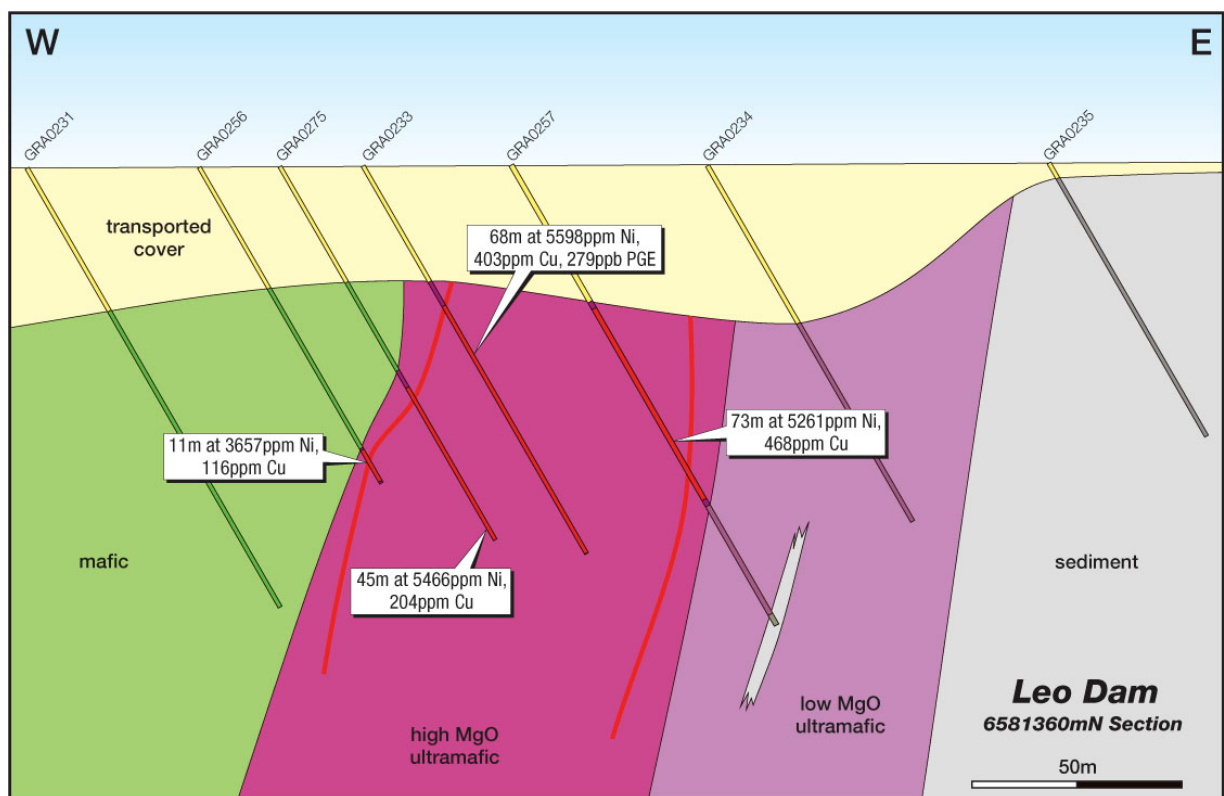


Fig 4: Leo Dam aircore drilling intercepts with interpreted geology - cross section 6581360N.

Hole Id	East (m)	North (m)	EOH (m)	Azi	Dip	From (m)	To (m)	Interval (m)	Ni (%)	Cu (ppm)	Pt+Pd (ppm)
GRA0253	378,185	6,581,453	128	075	-60	56	128	70	0.60	658	344
GRA0254	378,223	6,581,463	125	075	-60	26	70	44	0.70	1095	452
GRA0257	378,207	6,581,372	125	075	-60	43	116	73	0.53	468	202
GRA0274	378,200	6,581,090	122	075	-60	63	94	31	0.41	78	71
GRA0275	378,150	6,581,358	101	075	-60	56	101	45	0.55	204	113

Table 5: Composited intercepts from laboratory analyses at Leo Dam.

The next phase of work at Leo Dam will include: -

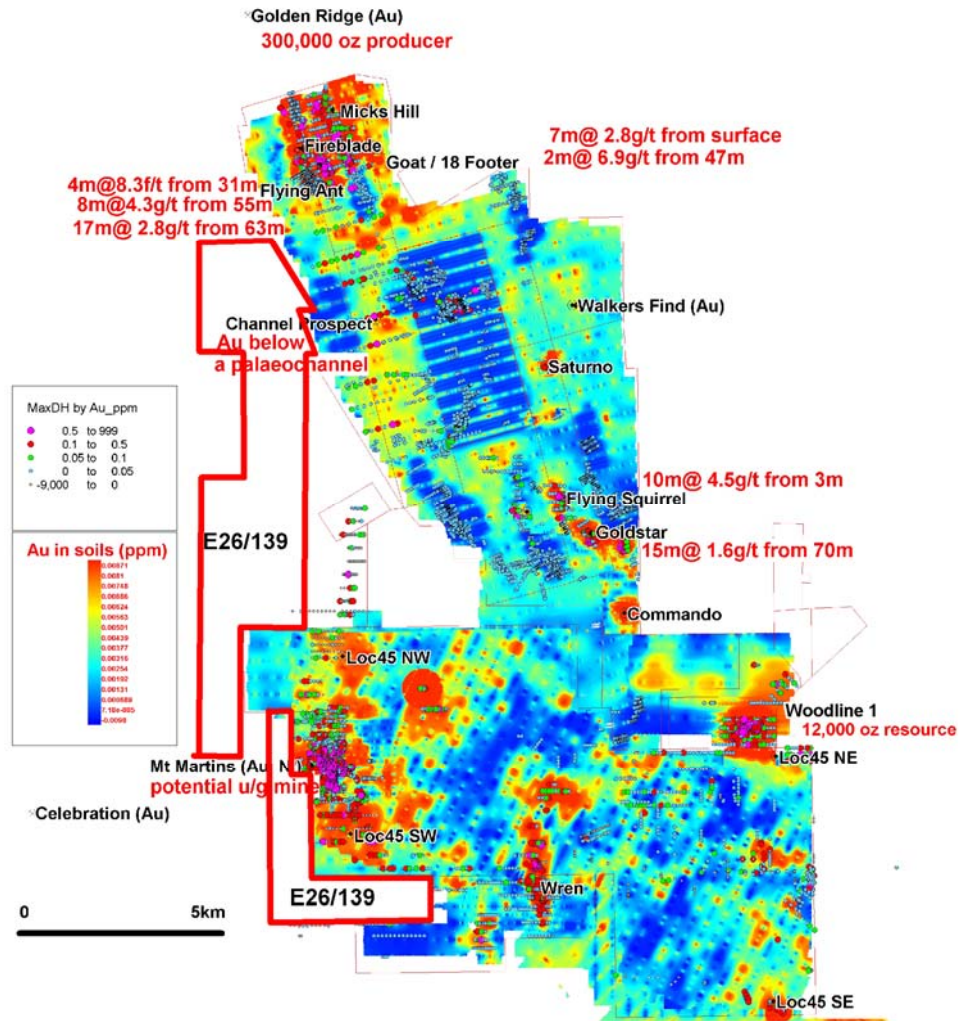
- Further aircore drilling to close off the zone of mineralisation.
- Moving Loop EM surveys to look for conductors which could include massive nickel sulphide mineralisation.
- A series of RC holes which will be used as a platform for down hole EM surveys

GOLD EXPLORATION

Introduction

Reflecting depressed base metal prices and healthy gold prices, emphasis has shifted to focus more on gold exploration.

The Blair tenements are considered to be highly prospective for gold. In preparation for a return to drilling a series of soil sampling programmes have been planned over previously unsampled areas on the accompanying map.



Plan view of the Blair tenements with gold prospects over gold soils

Progress during the December 2008 quarter:

Tenement Acquisition

In partnership with Pioneer Nickel, exploration lease E28/139 was pegged over vacant ground immediately to the east of the Mt Martin Gold System. The ground will be added to the GRJV nickel project with Australian Mines retaining 100% of the gold rights.

The ground is relatively unexplored for gold despite being in a favourable structural setting proximal to a highly endowed gold system, and the new ground could in fact prove to be strategic if the Mt Martin orebody is found to be repeated at depth.

Sale of Woodline 1 Gold Resource

During the quarter the Woodline 1 Gold Resource (12,000ozs) was sold to a Kalgoorlie syndicate for \$900,000 so as to raise cash.

The syndicate has the right to mine ore from the Woodline resource and transport it to a local mill for treatment within a period of nine months after which any unprocessed ore will revert to Australian Mines. The syndicate does not have the right to mine ore from any other source such as the Woodline North and Woodline South projects which are retained by Australian Mines.

The syndicate made an upfront \$400,000 cash payment in December 2008 with the final \$500,000 cash payment to be made at the time of the last gold pour from the Woodline ore which is expected to occur before June 2009.

Location	Category	Resource Tonnes	Gold g/t	Gold Ounces
Woodline 1	Measured			
	Indicated	123,000	2.90	11,500
	Inferred	5,000	4.60	700
	Total	128,000	2.9	12,200

Table 8: Undiluted Woodline 1 resource at December 31st 2008

NICKEL PROJECTS

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 bases of the first and second ultramafic flows. Both troughs have been cut by a steeply dipping dolerite dyke which locally causes remobilisation of the nickel sulphides.

Previous Resource Modelling

Re-modelling of the Goodyear resource was completed and an Inferred Mineral Resource of 390,000 tonnes at 3.78% Ni for 14,700 contained nickel tonnes was estimated.

The resource is located on or near the contact between the footwall basalt and the bottom of the first komatiite flow and is currently contained within three discrete ore pods as tabulated below:

Ore Zone	Tonnes	Grade (% Ni)	Nickel Tonnes
CO1	147,750	3.06	4,500
CO 2	20,000	5.13	1,000
CO 3	223,500	4.13	9,250
Total Inferred	391,250	3.78	14,780

Table 7: Goodyear Inferred Mineral Resource by ore surface.

Notes:

1. Cut-off grade is 1% Ni
2. Specific gravity used was by regression curve derived for Blair Nickel Mine
3. Resource abuts boundary with M26/47. Figures in table relate only to resources on East Location 45.

Progress during the December 2008 quarter:

There has been no further progress with exploration at Goodyear. East Location 45 has also potential with further gold exploration and this project will be retained for the future.

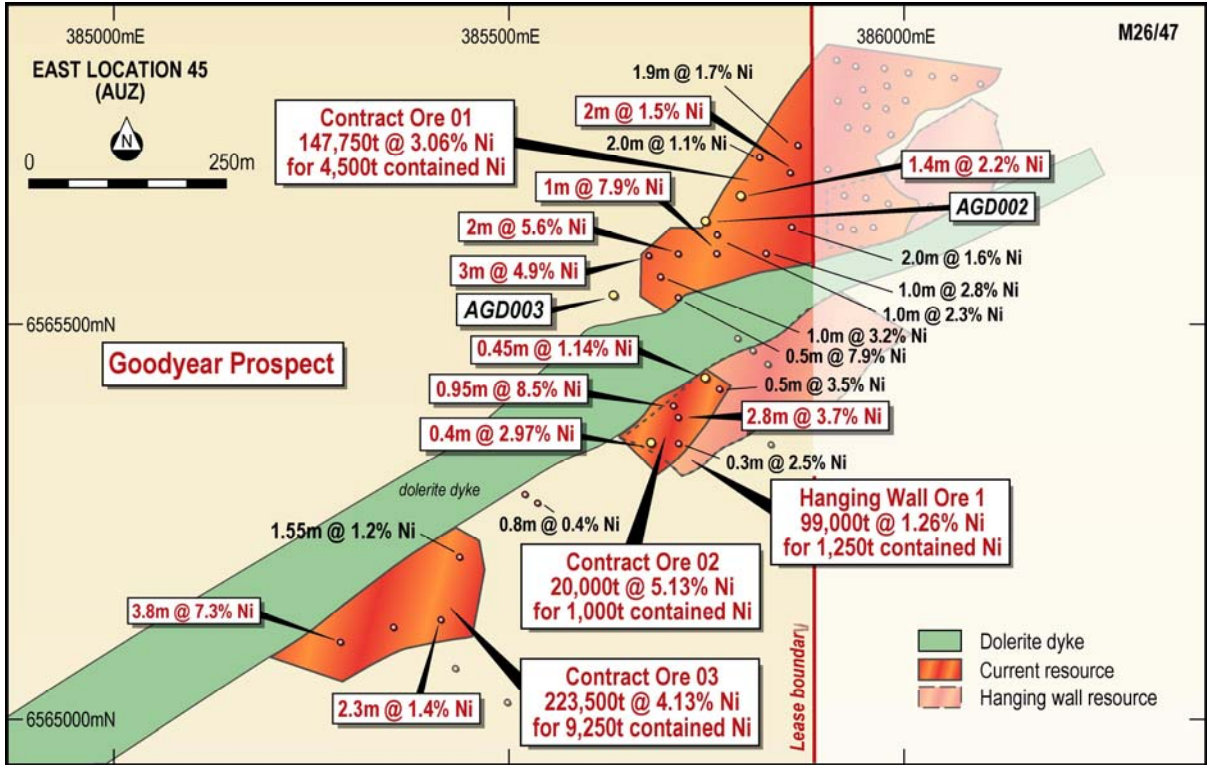


Fig 5: Plan View of the Goodyear resource model with drill intercepts.

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 Resource is currently quoted 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.

Work completed for the December 2008 quarter:

Australian Mines has completed no further exploration for the December quarter however this project will be retained for the future.

BOUNTY NICKEL PROJECT (AUZ 70% nickel rights)

Introduction

The Bounty Project consists of 41 square kilometres of granted mining leases over the eastern ultramafic units of the Forrestania Greenstone Belt, which hosts former nickel mines at Cosmic Boy and Diggers Rocks.

Due to budget constraints there was no exploration drilling completed at the Bounty Project during the reporting period. It is planned to rationalise this project with nickel exploration cutbacks.

CORPORATE

Revenue for the December quarter was \$3.3m (\$2.7m lower than the September quarter) due to lower nickel prices received.

Key Financial Data	A\$M unaudited	A\$M unaudited	A\$M unaudited	A\$M unaudited
Quarter 2008	Mar 08	Jun 08	Sep 08	Dec 08
Gross Revenue	7.7	7.1	6.0	3.3
Net Cash Costs	5.4	5.5	4.5	3.6
Net Operating result for Qtr	2.3	1.6	1.5	(0.3)
Net Cash flow after capital, exploration & acquisitions	(0.2)	(0.6)	(0.01)	0.4

Operating cash costs (excluding capital) were A\$6.40/lb Ni payable (Sept quarter A\$8.03/lb). The total cash costs for the quarter (including capital development) were A\$6.57/lb Ni payable (Sept quarter A\$9.12/lb).

The Company received an average spot price of A\$17,006 per tonne of Ni payable or A\$7.71/lb for the December quarter (Sept quarter A\$20,177 or A\$9.15/lb). After hedging and 90 day final price settlements received from BHP Billiton against September quarter production, the realised price was A\$5.62/lb Ni payable (Sept quarter A\$9.98/lb).

The mine was closed on 19th December 2008. There is no nickel forward sold. Apart from commercial HP of \$4m the company has no secured debt having repaid Investec the outstanding drawn down amount of \$1.3m.

The Company must rely on selling further assets to remain cash positive and pay creditors from Blair Mine. Cash at bank was A\$0.6m at 31 December 2008 (Sept quarter was \$0.3m).

SUMMARY AND OUTLOOK

MINING

Blair mine production ceased during the quarter after nickel prices fell sharply. Currently the Company has placed all of the assets of the mine on the market in order to raise funds.

CORPORATE

The Company's securities listed on the ASX remain in suspension while future funding options are instigated. At the date of this report the Company has ceased trading having closed the Blair mine and is negotiating on mine asset sales. Subject to sufficient funds being raised from asset sales, the Company will be in a position to proceed with an entitlements issue to raise further funds to support the company's ongoing working capital requirements. If assets sales do not realise sufficient funds then it may be necessary to take alternate action.

The Company's nickel and gold projects remain in good standing. The Company has no secured loans other than commercial HP of \$4.0m.

Due to the uncertainty surrounding the asset and mine equipment sale program the Company has not been able to sign its 30 June 2008 financial statements. This also resulted in the Company not holding its Annual General Meeting before the required date. However if the Company can achieve the required asset sales and obtain underwritten commitments for the capital equity raising it is expected that these issues can be resolved.

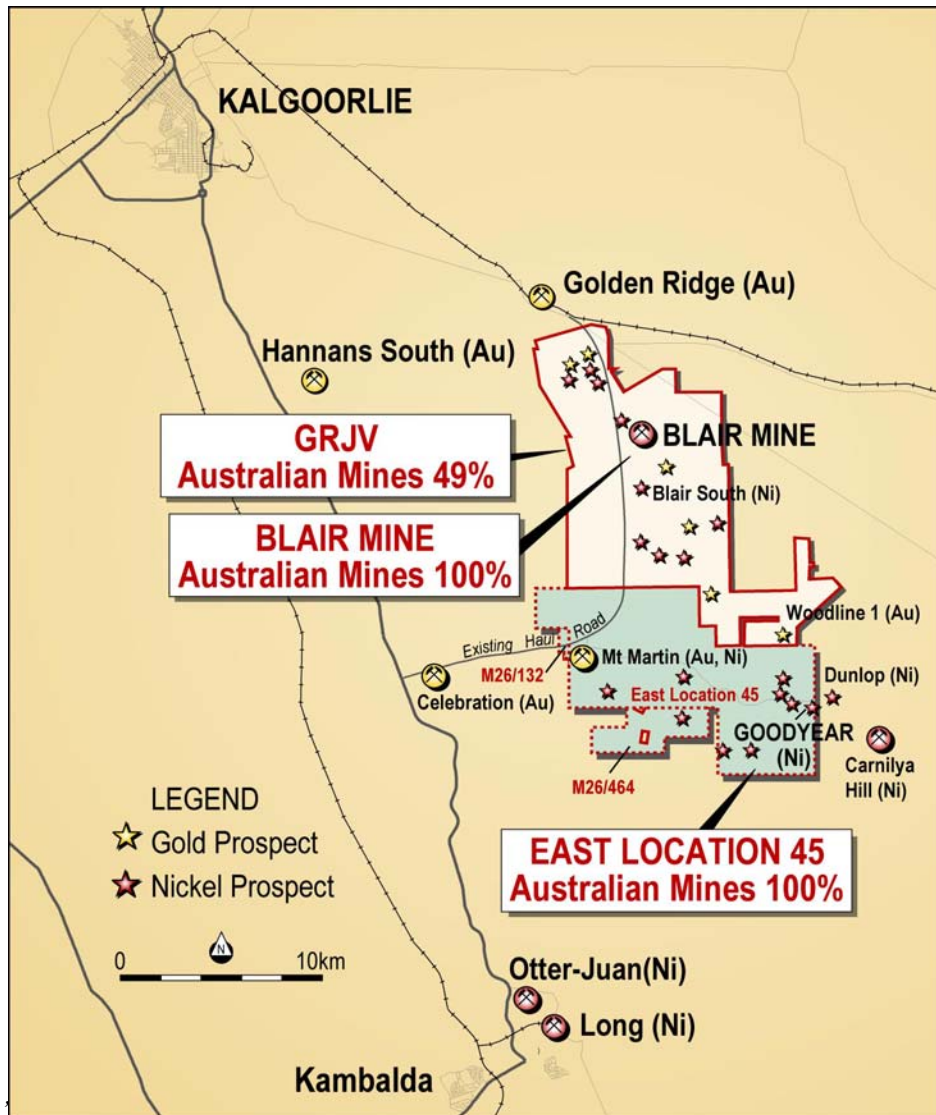
FUTURE PROJECTS

Projects retained by the Company will include the Blair Mine, 46% of the GRJV, East Location 45, Marriott's nickel project and all the gold assets (excluding Woodline 1 Resource) These assets are considered highly prospective for nickel and gold discoveries and should enable the Company to develop both nickel and gold resources in the future. The Company has received an indicate offer for a capital raising on the strength of these assets.

For further information contact:

Brett Young
Chief Operating Officer
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 Prospects