

## **QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 30th SEPTEMBER 2008**

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### **HIGHLIGHTS FOR THE QUARTER**

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#### **PRODUCTION**

##### **BLAIR MINE**

- Production of 15,287, tonnes of ore at 2.92% nickel for 447 contained nickel tonnes was achieved in the September quarter. This was only 4 contained nickel tonnes less than the previous record quarter. Only the June 2005 and September 2004 quarters have been more productive and these were at much higher levels of the mine.
- Jumbo development at Blair totalled 220m for the September quarter of which 22m was in the Main Decline. Only minor capital development at the bottom of the mine continued during the quarter with the main decline accessing Blair Deeps down to the 315m RL (1045m below surface).
- All nickel production for the quarter was sourced from the higher grade Blair Deeps area of the mine.
- The Blair Deeps resources consist mainly of the E03 and C01 shoots which have been mined during the quarter at grades above 3.25% and 3.85% respectively.
- From the 390m RL down mining has been commenced on the newly defined G03C ore shoot. During the September quarter, G03C produced 1485 Tonnes at 1.58 % for 23 contained Nickel Tonnes. Indications are that this shoot continues at depth and adds additional nickel tonnes per vertical metre.
- Due to lower nickel prices the Board made a decision to close the mine in the December quarter once all developed nickel reserves have been economically mined. This was after achieving some impressive production results in September quarter however it was decided that reserving the nickel resources for future mining at higher margins is prudent in the current economic climate..

##### **BLAIR MINE EXPLORATION**

- No underground exploration drilling was undertaken at the Blair underground mine during the reporting period. Previous drilling in Blair Deeps suggested the presence of a new shoot which was exposed after driving along the contact. The new shoot, known as G shoot, was found to contain matrix ore.

##### **REGIONAL EXPLORATION**

- The Golden Ridge Joint Venture (GRJV) has planned follow up drilling at Leo Dam after intersecting 68 metres of disseminated sulphides grading 0.56% nickel in a favourable high MgO ultramafic during the quarter.
- Following a diamond drilling programme and reinterpretation, the Goodyear Inferred Mineral Resource has been recalculated as 390,000 tonnes at 3.78% Ni for 14,700 nickel tonnes.

- Auger drilling at Location 45 has highlighted the prospectivity of the ultramafics to the west of Goodyear, and in particular, the 'Fat Rat Prospect' which has a strong coincident nickel and copper anomaly over a linear magnetic high.

## **FINANCE AND CORPORATE**

- September quarter production achieved an unaudited net operating surplus of \$1.5m. and, after capital and exploration, a surplus of \$0.6m.
- The company received a price of A\$9.98/lb (A\$12.36/lb June Qtr) including 90 day final price adjustments for the quarter. Direct operating cash costs were A\$8.03/lb (A\$9.79/lb June Qtr). Total mined costs (including capital) were A\$9.12/lb (\$12.13/lb June Qtr).
- Net cash flow for the quarter after capital development, exploration and acquisitions was \$(9K). The fall in the nickel price has resulted in reduced cash flow and has also made the mine more challenging economically at these price levels.
- Capital development was suspended at the end of the June quarter and mine cost cutting has commenced to ensure the remaining ore reserves are mined at acceptable economic margins.
- At the date of this report, no mined production is sold forward. Hedging gains on mined production was used to retire all debt of \$1.6m. The Company is debt free other than commercial HP of \$4m on the mine's mobile equipment fleet.
- On the 26<sup>th</sup> September the Company requested a trading halt pending asset sales and a potential capital raising. The trading halt was extended to a voluntary suspension on the 30<sup>th</sup> September 2008 for the same reasons while the Company sought expressions of interest for the Marriott's nickel project.
- A number of options are being pursued to raise funds to ensure the Company is in a suitable financial position to maintain adequate working capital.
- The Company has put in place a closure plan for the Blair mine and negotiated favourable contractual terms to exit the mine on an orderly basis. The mine will go on to care and maintenance and if viable in the future, can be reopened.

**BLAIR MINE**

**Production and Development**

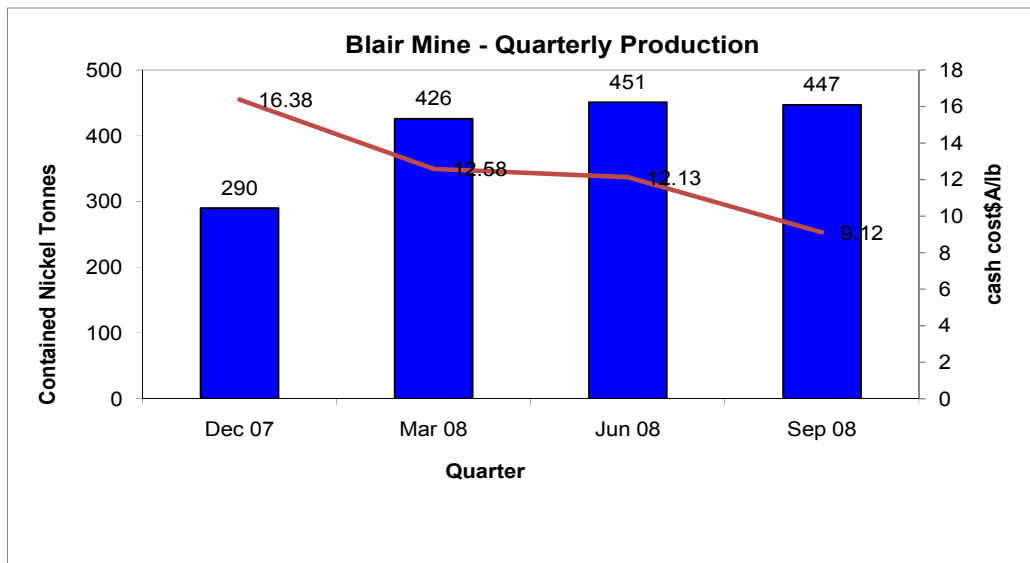
**Quarterly production statistics** for the Blair Mine are given below:

Quarter ending		Dec-07	Mar-08	Jun-08	Sep-08
Ore Mined	Tonnes	10,375	14,699	13,889	16,237
Cont Ni Mined	Tonnes	293	417	451	471
Ore Treated	Tonnes	10,545	15,008	13,889	15,287
Grade	% Ni	2.75	2.84	3.25	2.93
	% Cu	0.17	0.16	0.19	
Contained Ni treated	Tonnes	290	426	451	447
Recovered Ni	Tonnes	252	374	399	393
Payable Ni	Tonnes	161	239	255	252
Payable Ni	Lbs	354,944	526,905	562,179	555,560
Nickel (Spot) Price (received)	A\$/lb	14.88	14.53	12.36	9.15
Final Price received incl 90 day adjustment**		15.22	14.34	11.50	9.98
Operating cash cost	A\$/lb	13.72	10.20	9.79	8.03
Total cost with capital development	A\$/lb	16.38	12.58	12.13	9.12

\* 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 447 tonnes (Jun 08 qtr 451 tonnes). All stoping areas are now being sourced directly off the main decline down to the 320 level, significantly reducing the rehandling of ore before delivery to the surface. No stoping areas remain that are still accessed off the old 'small decline'.
- Average mined grade for the quarter was 2.92% Ni. As all higher nickel production is expected to come from the Blair Deepes area beyond September 2008, the grade is expected to remain high at around 3%.
- The main decline has now reached the 315m RL and the lowest ore source is now the 325 C01 stope, 1045 vertical metres below the surface.
- Stoping will continue down to the 320 C01 and 320 E03 levels during the December quarter.



The direct operating cash costs for the quarter were A\$8.03/lb of nickel payable (Jun quarter A\$9.79/lb). Unit cash costs are lower as mining progresses to higher-grade sections of the mine and nickel production increases.

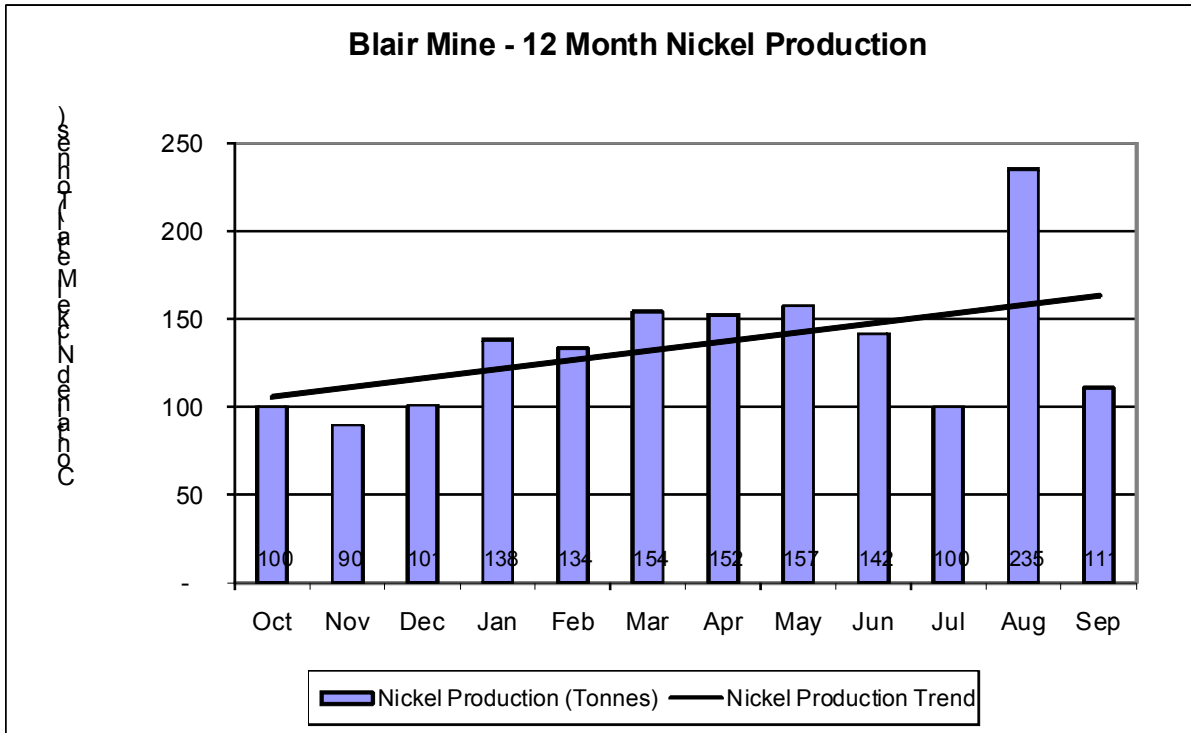
Total costs including the capital costs associated with the main decline development were A\$9.12/lb of nickel payable (Jun quarter A\$12.13/lb) as capital development has been suspended. The lack of capital costs will allow significant cost reductions to be achieved in the following quarter.

Once again, the majority of nickel production in the September quarter came from the E03 and C01 ore shoots in the Blair Deeps area, which continue to outperform current stated reserves.

All of the quarter's production was sourced from Blair Deeps, 43% came from C01C, 39% from E03C, 7% from N03C, 6% from the newly discovered G03C, and 5% from the L01C .

The increase in mined grade for the quarter is indicative that the Blair Deeps ore shoots are improving with depth and that mining is progressing past the generally less strongly mineralised zones that were mined over the last six months. All mining in C and E shoots for the quarter resulted in average ore grades of 3.85% and 3.25% respectively

Current December quarter nickel production is forecast to be the last production at these levels as developed areas are stoped out.



As at the end of September, the main decline had reached approximately 315m RL following completion of 22.4 metres of decline-only development during the quarter.

The two-boom jumbo and single-boom jumbo completed 127.5 m and 92.5 m respectively for a total of 220 m of jumbo development during the quarter.

### Safety

There were 0 Lost Time Injuries (LTI) recorded at the Blair Nickel Mine during the quarter.

There was one (1) injury sustained during the quarter which required medical treatment, where no time was lost.

The site target is to reduce the severe injury frequency rate (SIFR) from 121 in September 2007 to 60 and this will require at least four successive months without an LTI or medically treated injury (MTI). The Current SIFR stands at 66.

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	LTIIIR	SIFR	SIIR	MIFR	MIIR	IFR	IIR
60	136,203	2	7	30	71	15	3	66	12	220	41	521	98

**ACCIDENT STATISTICS – 12 MONTH ROLLING AVERAGE.**

## BLAIR MINE

### Resources and Reserves at June 30, 2008

The resource and reserve statement is tabled below:

#### BLAIR MINE MINERAL RESOURCE (UNDILUTED)

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
<b>01 &amp; 03 Surfaces - Sulphide Resource</b>	Measured	45,000	4.5	2,040
	Indicated	29,300	4.0	1,170
	Inferred	33,600	3.9	1,310
	<b>Sub-total</b>	<b>108,000</b>	<b>4.2</b>	<b>4,520</b>
<b>Area 57 - Sulphide Resource</b>	Measured			
	Indicated			
	Inferred	9,900	2.4	240
	<b>Sub-total</b>	<b>9,900</b>	<b>2.4</b>	<b>240</b>
<b>N10 – Sulphide Resource</b>	Measured			
	Indicated			
	Inferred	4,700	3.8	180
	<b>Sub-total</b>	<b>4,700</b>	<b>3.8</b>	<b>180</b>
<b>Blair Mine Sulphide Resource</b>	<b>Total</b>	<b>122,500</b>	<b>4.0</b>	<b>4,940</b>

Table 2: Blair Mine Nickel Mineral Resource as at Sept 30<sup>th</sup> 2008

#### Blair Mine Ore Reserve (Diluted)

Location	Category	Reserve Tonnes	Nickel %	Nickel Tonnes
<b>01,03 Surfaces - Sulphide Reserve</b>	Proved	73,400	2.9	2,100
	Probable	53,100	2.3	1,220
<b>Blair Mine Sulphide Reserve</b>	<b>Total</b>	<b>126,500</b>	<b>2.6</b>	<b>3,320</b>

Table 3: Blair Mine Nickel Mineral Reserves as at Sept 30<sup>th</sup> 2008

**MINE EXPLORATION**

**BLAIR MINE EXPLORATION (AUZ 100%)**

A new ore shoot named the G03C Shoot was discovered at the Blair Deep. The 'G Shoot', as defined by diamond drilling and underground mapping, is a matrix orebody located on the open contact between the E03C and N03C shoots (see figure 1).

The new G03C shoot accounted for the majority of the increase in the 30 June 2008 Ore 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.

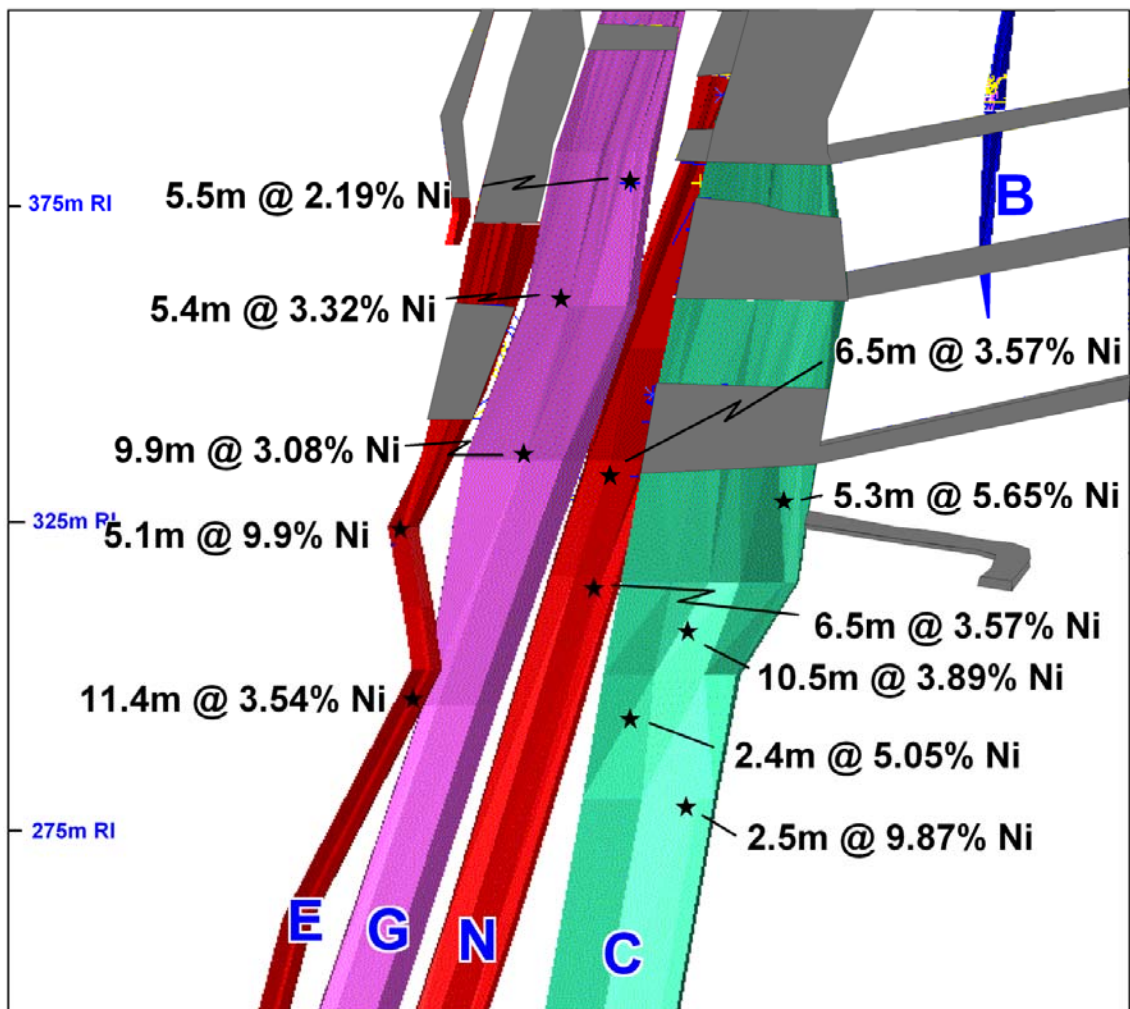


Fig 1 : Blair Deep section with diamond drill intercepts.

## 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.

The Marriott’s Project, which has a defined resource of 9,400 nickel tonnes to a depth of 160 metres, is located on a granted mining lease some 70 kilometres from the nickel mining centre of Leinster.

The Bounty Project (AUZ 70% nickel rights) consists of 41 square kilometres of granted mining leases over the eastern ultramafic units of the Forrestania Greenstone Belt, which hosts nickel mines at Cosmic Boy and Diggers Rocks.

### EXPLORATION RESOURCE STATEMENT AT SEPTEMBER 30, 2008.

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

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
<b>Blair South – Ni Sulphide Resource</b>	Measured			
	Indicated			
	Inferred	74,000	1.35	1,000
	<b>Sub-total</b>	<b>74,000</b>	<b>1.35</b>	<b>1,000</b>
<b>Marriott’s – Ni Sulphide Resource</b>	Measured			
	Indicated	460,000	1.12	5,100

	Inferred	370,000	1.15	4,300
	<b>Sub-total</b>	<b>830,000</b>	<b>1.13</b>	<b>9,400</b>
<b>Goodyear – Ni Sulphide Resource</b>	Measured			
	Indicated			
	Inferred	390,000	3.78	14,700
	<b>Sub-total</b>	<b>390,000</b>	<b>3.78</b>	<b>14,700</b>
<b>Ni Sulphide Resource</b>	<b>Total</b>	<b>1,294,000</b>	<b>1.94</b>	<b>25,100</b>

**Table 4: Australian Mines Limited** Mineral Resources in exploration projects as at Sept 30<sup>th</sup> 2008

**GOLDEN RIDGE JV** (*Pioneer Nickel Pty.Ltd. 51%, Australian Mines Limited 49%*)  
*(see Appendix 1 for a detailed plan showing the location of the GRJV)*

**Introduction**

The GRJV has access to 100 km<sup>2</sup> 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.

**Progress during the September 2008 quarter:  
 Geological Interpretation**

The existing GRJV geological interpretation, developed from aircore drilling, was built into a more regional interpretation by combining it with a regional magnetic interpretation and, although the latest interpretation has generally maintained the original ultramafic belts, there are significant alterations which now present new exploration opportunities.

The interpretation has highlighted or confirmed some prospective contacts and the main exploration priorities are the east side of the Central Ultramafic, and the Blair Mine contact running east under the mullock dump and north up to Leo Dam.

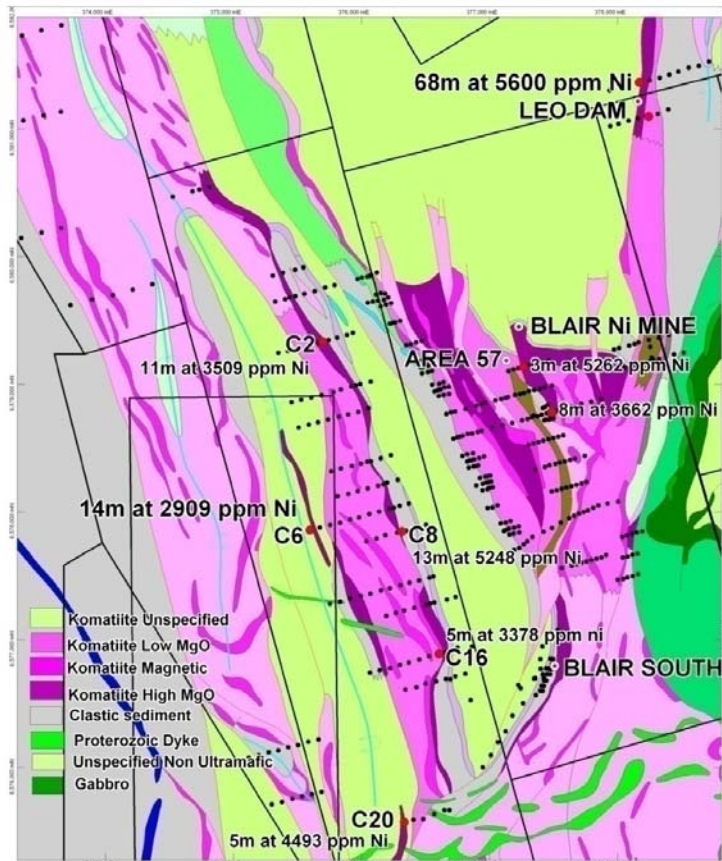


Fig 3: GRJV geology plan highlighting Blair Mine, Leo Dam and Blair South.

**Leo Dam Drilling**

Aircore drilling, comprising 10 holes for approximately 1,000m, was completed at the Leo Dam prospect to follow up on an earlier aircore intercept of 68m at 0.56% nickel in GRA0223.

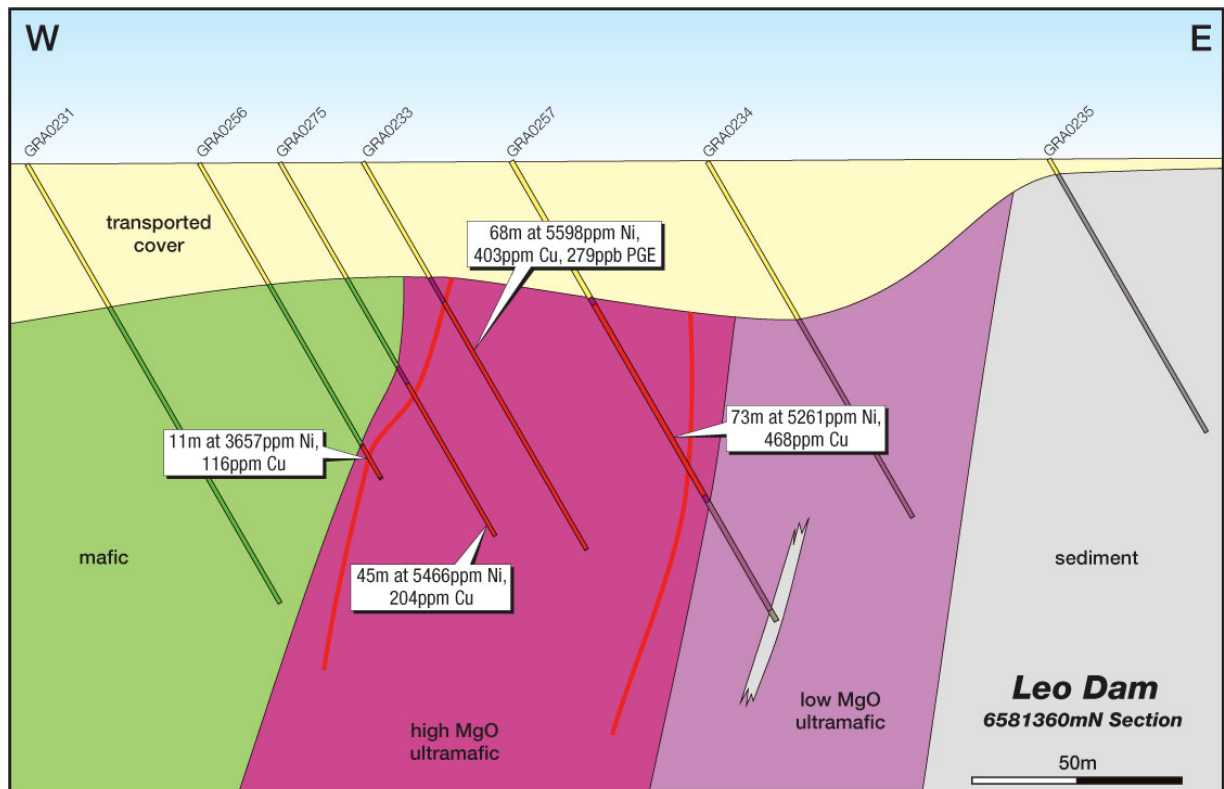
Assays confirm that the latest aircore drilling has wide intercepts of highly elevated nickel and copper within favourable high MgO ultramafic rocks and, while the majority of samples in GRA0275 were weathered, disseminated sulphides were noted within sections containing fresh ultramafic rock.

Composited intercepts from laboratory analyses are tabulated below:

Hole Id	East (m)	North (m)	EOH (m)	Azi	Dip	From (m)	To (m)	Interval (m)	Ni (ppm)	Cu (ppm)
GRA0253	378,185	6,581,453	128	075	-60	62	128	66	6,153	659
GRA0254	378,223	6,581,463	125	075	-60	26	68	42	7,209	1,135
GRA0256	378,130	6,581,352	86	075	-60	75	86	11	3,657	116
GRA0257	378,207	6,581,372	125	075	-60	43	116	73	5,261	468
GRA0274	378,200	6,581,090	122	075	-60	63	94	31	4,058	78
					and	111	121	10	2,886	150
GRA0275	378,150	6,581,358	101	075	-60	56	101	45	5,466	204

**Table 5: Significant Intercepts in RAB drilling at Leo Dam.**

- Assays completed by Ultratrace Analytical Laboratories, Perth.
- Technique is 4 acid digest ICPAES or MS
- Drill hole collar positions determined by hand held GPS receiver and MGDA94-51 datum
- Length weighted average grade calculated from composite samples.
- Intercepts are “down-hole” metres. No estimate regarding true thickness is made or implied.



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

**Work planned for the December 2008 quarter:**

The next phase of drilling will intersect the mineralised ultramafic at Leo Dam at approximately 200m below surface, and will be used as a platform for down-hole EM surveys.

A SQUID surface electromagnetic survey has been planned to test the Leo Dam Ultramafic. A 2000m aircore drilling program has been planned to further assess the along strike potential of the ultramafic sequence at Leo Dam.

**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.

The Goodyear nickel sulphide system has previously been defined by 9 surface RC holes and 15 surface diamond holes, and Australian Mines has now completed 5 diamond holes to test for shallow extensions to the current resource.

**Progress during the September 2008 quarter:**

**Diamond drilling**

Assays were returned for 2 vertical surface diamond drill holes which targetted possible extensions to the C01C surfaces, but unfortunately both holes were not mineralised on the basal contact. (see Fig 5)

Hole No.	North (m)	East (m)	RL (m)	Dip (deg)	From (m)	To (m)	Width (m)	Grade (Ni %)
AGD002	6565633	385754	386	-90				nsa
AGD003	6565538	385639	386	-90				nsa

Table 6: Goodyear diamond drill results, September Qtr 2008

**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.

**Down Hole Surveys**

A programme of down-hole gyro surveys was completed on the five Australian Mines' diamond holes, but unfortunately a programme to re-enter some strategic old holes with a diamond drill rig had to be abandoned due to collapsing ground. The next approach will be to try and ream the holes with an RC rig.

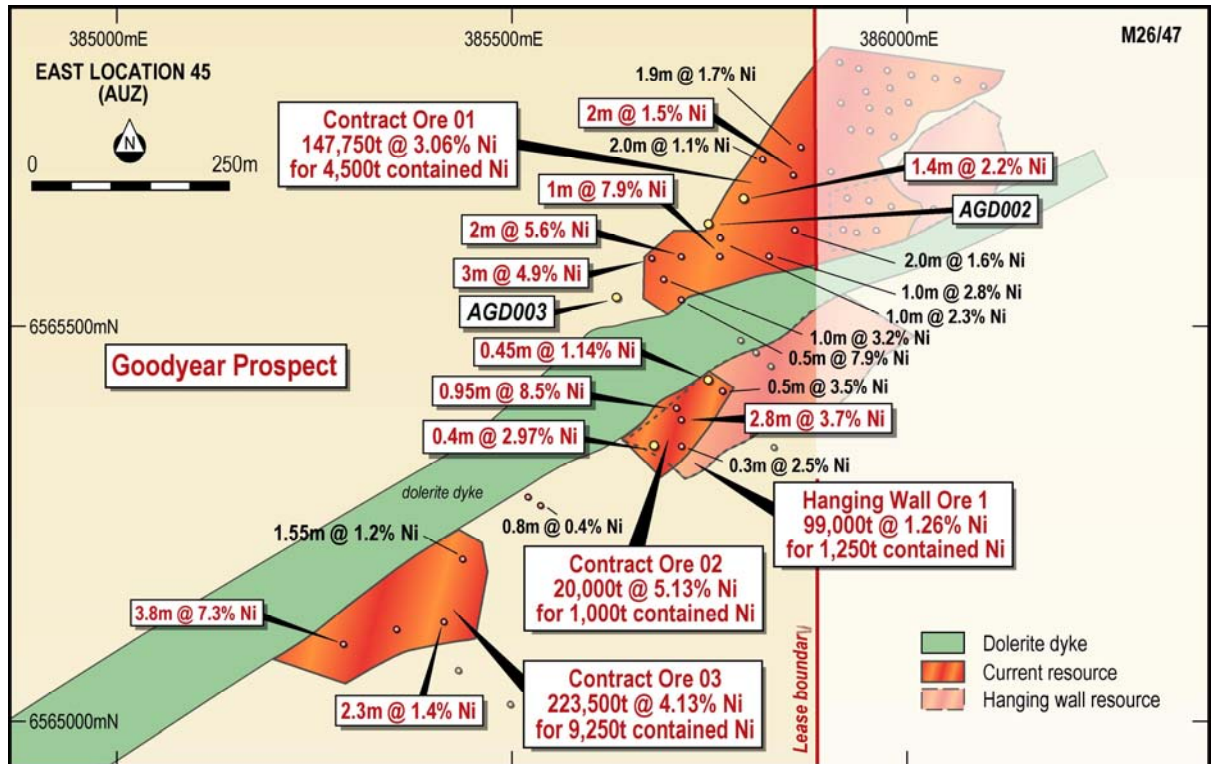


Fig 5: Plan View of the Goodyear resource model with drill intercepts.

**Work planned for the December 2008 quarter:**

**Down Hole EM Surveys**

Down Hole Electro-Magnetic (DHEM) surveys will be completed on strategic holes to better define the ore system at Goodyear.

**Metallurgical Studies**

Samples from the latest diamond holes are currently with Amdel Metallurgical laboratory in Perth undergoing floatation recovery tests. The test results will be critical for future mining feasibility studies.

**FAT RAT PROSPECT**

**Introduction**

Auger sampling and a magnetic survey has highlighted the Fat Rat prospect, which is located 500 metres west of Goodyear on the Carnilya Hill Ultramafics.

Fat Rat is a strong coincident nickel and copper geochemical anomaly over a magnetic high.

The magnetic high was tested by a single 260 metre deep RC hole by Harmony Gold in 2004 and determined to be linear in shape and caused by the presence of magnetite in the basal zone of an ultramafic flow.

There has been virtually no dedicated nickel exploration to the west of Goodyear despite the presence of coincident nickel and copper anomalism of similar strength to the surface expression of the Goodyear- Dunlop nickel sulphide orebody.

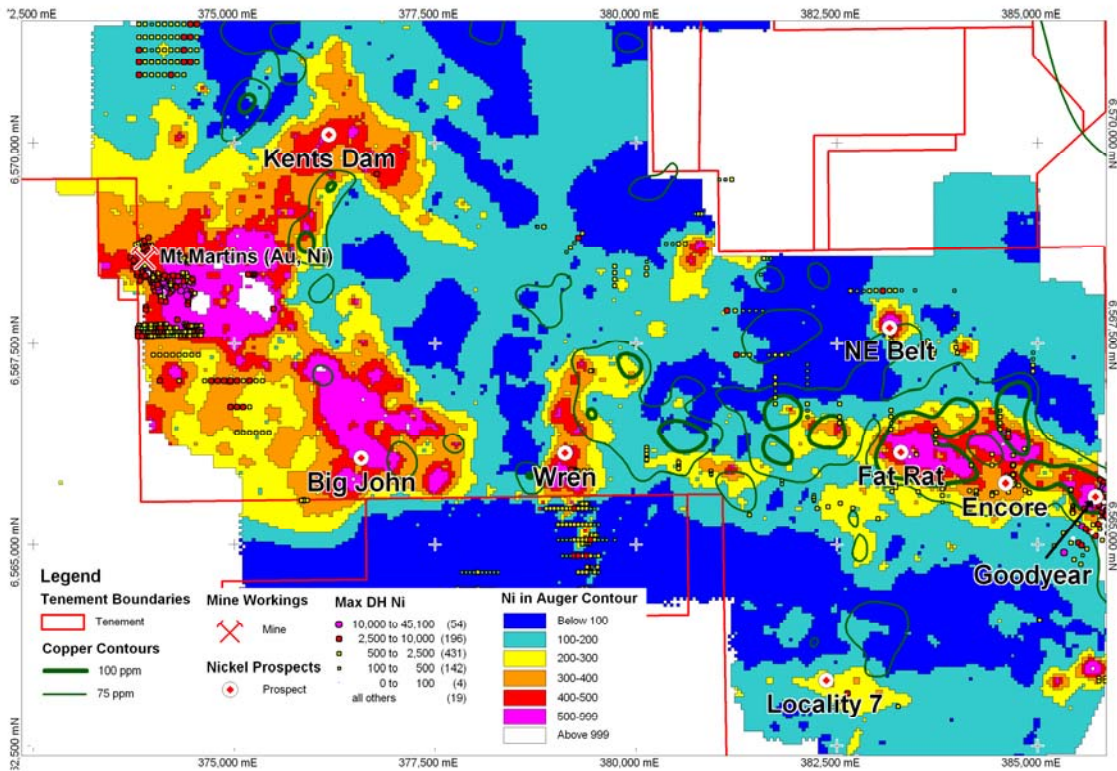


Fig 6: – Plan view of East Location 45 with nickel in augers overlain by contour lines for Cu in augers.

**Work planned for the December 2008 quarter:**

- Modelling of the magnetic high will be completed and this will be incorporated into a general three dimensional interpretation of the geology.
- A surface drill programme will be planned.
- A surface SQUID EM survey will be planned.

**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 metallurgical testwork suggests that some 90% of the nickel sulphide minerals would be recovered by flotation at the Leinster Mill.

The Marriott's Resource is currently quoted as 830,000 tonnes @ 1.13 % nickel for 9,400 nickel tonnes (see table below) of which the amount of sulphide nickel which would be recovered by flotation is quoted as 6,500 nickel tonnes.

**Mining studies**

A scoping study on the Marriott's orebody was completed so as to ascertain the economics of mining and treating the ore under a tolling arrangement. The scoping study suggests that a higher nickel price would be required for Marriott's to be a viable mining proposition under the offtake arrangements.

**Work planned for the December 2008 quarter:**

Australian Mines Limited has no exploration planned for the December quarter.

**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.

Historical diamond drilling at Bounty has encountered nickel sulphide mineralisation within ultramafic host rocks, and the tenements are considered highly prospective for nickel sulphide orebodies.

**Progress during the September 2008 quarter:**

Clearing permits were granted which will enable RAB drilling programmes to proceed, but due to budget constraints there was no exploration drilling completed at the Bounty Project during the reporting period.

**WOODLINE GOLD PROJECT (AUZ 100%)**

The Woodline 1 gold resource is ready for mining and during the quarter the resource was offered up for sale to a number of neighbouring gold mining companies with treatment plants.

To date two written offers have been received and it is anticipated that the in ground resource will be sold to a third party during the December quarter.

**WOODLINE 1 MINERAL RESOURCE**

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

**Table 8:** Woodline 1 resource as at September 30<sup>th</sup> 2008

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**CORPORATE**

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Revenue for the September quarter was \$6.0m (\$1.1m lower than the June quarter) due to lower nickel prices received.

<b>Key Financial Data</b>	<b>A\$M unaudited</b>	<b>A\$M unaudited</b>	<b>A\$M unaudited</b>	<b>A\$M unaudited</b>
<b>Quarter 2008</b>	<b>Dec 07</b>	<b>Mar 08</b>	<b>Jun 08</b>	<b>Sep 08</b>
Gross Revenue	<b>5.5</b>	<b>7.7</b>	<b>7.1</b>	<b>6.0</b>
Net Cash Costs	<b>4.8</b>	<b>5.4</b>	<b>5.5</b>	<b>4.5</b>
Net Operating result for Qtr	<b>0.7</b>	<b>2.3</b>	<b>1.6</b>	<b>1.5</b>
Net Cash flow after capital, exploration & acquisitions	<b>(1.2)</b>	<b>(0.2)</b>	<b>(0.6)</b>	<b>(0.01)</b>

Operating cash costs (excluding capital) were A\$8.03/lb Ni payable (Jun quarter A\$9.79/lb). The total cash costs for the quarter (including capital development) were A\$9.12/lb Ni payable (Jun quarter A\$12.13/lb).

The Company received an average spot price of A\$20,177 per tonne of Ni payable or A\$9.15/lb for the September quarter (Jun quarter A\$27,254 or A\$12.36/lb). After hedging and 90 day final price settlements received from BHP Billiton against June quarter production, the realised price was A\$9.98/lb Ni payable (Jun quarter A\$11.50/lb).

At the date of this report, there is no nickel forward sold. Nickel production sold forward was closed out and used to repay debt to Investec of \$1.6m. Apart from commercial HP of \$4m the company is debt free.

The Company generated a positive cash flow from operations of \$1.1M m for the September quarter. After capital development, exploration and lease payments of \$1m and repayment of bank borrowings of \$(0.8)m, with loans and asset sales of \$0.7, cash flow was a negative \$(10)k. Cash at bank was A\$0.3m at 30 September 2008 (Jun quarter was \$0.3m).

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**SUMMARY AND OUTLOOK**

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**MINING**

**Blair mine** production reached high levels during the quarter. However nickel prices have fallen sharply to levels that challenge the economics of the mine.

Capital development in the main decline was suspended in June due to the deflated nickel price. Further operational changes were put in place in October to reduce costs at the mine and a decision has been made to close the mine in December 2008.

Forecast production for the December quarter is approx 320 contained nickel tonnes,

**EXPLORATION**

**Marriott's Nickel Project** with Indicated and Inferred Resources of **830,000 tonnes @ 1.13% nickel for 9,400 nickel tonnes** was evaluated by a mining engineer to determine whether open pit mining or underground mining is the preferred mining option. The mining studies are complete however any further development will be postponed while the nickel price remains low.

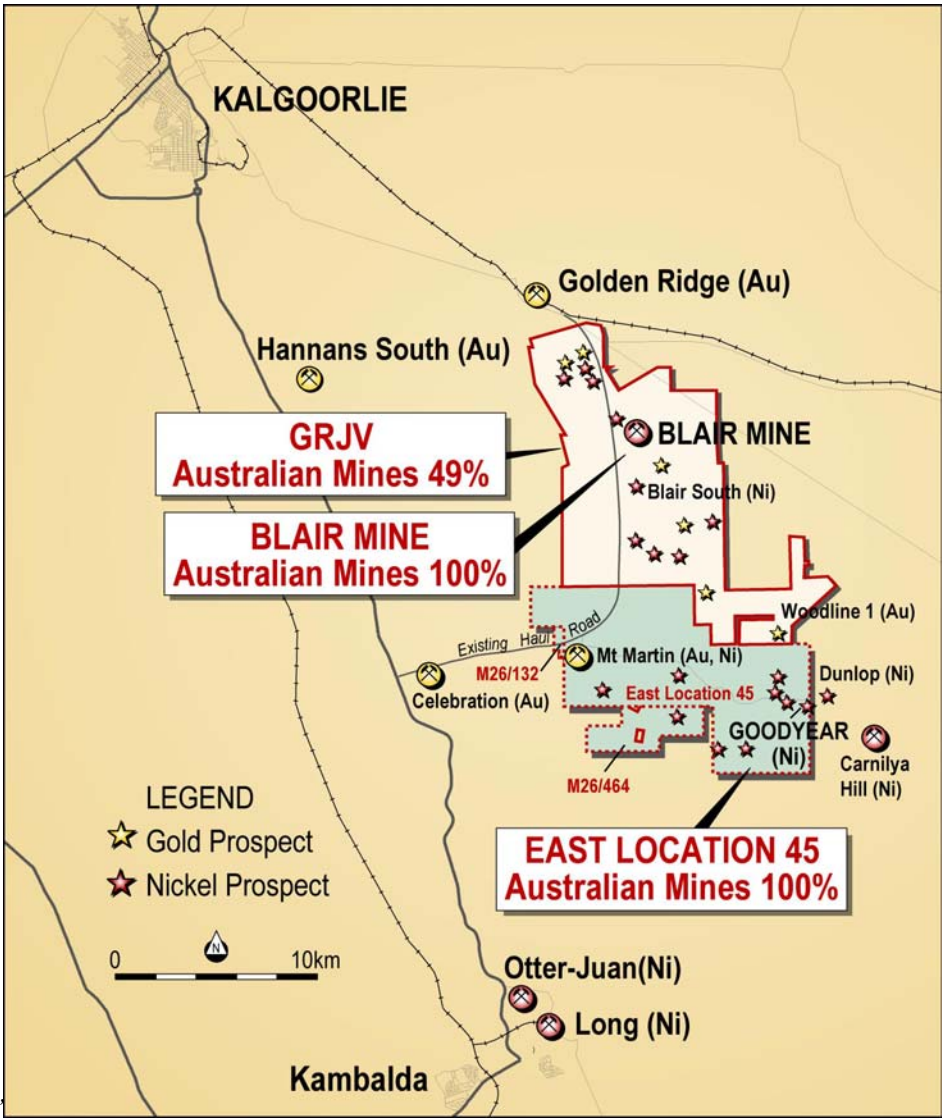
**East Location 45** exploration activities will focus on upgrading the nickel resource at Goodyear where an Initial Inferred Resource of 14,700 nickel tonnes has been announced.

**The Golden Ridge Joint Venture** has been successful with an aircore drilling program at Leo Dam and will further assess the Ni-Cu anomalism encountered as well as the along-strike potential of the ultramafic sequence.

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*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