

## QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 31st DECEMBER 2007

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### HIGHLIGHTS FOR THE QUARTER

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#### PRODUCTION

##### BLAIR MINE

- A record 609 metres of capital underground development was achieved in the quarter
- The major capital development program at the bottom of the mine continued during the quarter with the main decline accessing the Blair Deeps resources with total advance of 319 metres for the quarter exposing high grade ore on the 370 level.
- Lateral development of the unmined “A01” and “L01” shoots using the single boom jumbo on the 992 level (located in the middle of the mine) continued during the quarter (290 metres total advance) and these ore horizons have now been exposed in late January.
- 290 nickel tonnes were produced for the December quarter. reinforcing that production levels are now at a sustainably high level. Production expected to increase further in the March quarter as decline development progresses and more high grade working areas are mined in Blair Deeps.
- For the quarter, more than 60% of the nickel production was sourced from the higher grade Blair Deeps area of the mine which has achieved a 17% over call since June 2007 in contained nickel metal relative to resources in the published 30 June 2007 Resource and Reserve Statement.
- The Blair Deeps resources consist mainly of the E03 and C01 shoots which have been mined during the quarter at above 3.5% and 5.0% respectively

##### BLAIR MINE EXPLORATION

- During the quarter, underground exploration tested for local extensions to known L01C ore shoots in the upper and middle reaches of the mine with encouraging results.
- Development on the B01C surface at the 380 level in the Blair Deeps has intersected massive sulphide mineralisation (assays up to 11.4% Ni) located in the expected structural position of the B01C shoot.
- The occurrence of this mineralisation at the 380 level suggests the B01C shoot may be re-appearing in Blair Deeps.
- B01C Upper – Possible extension to the 922 B01C ore block discovered. Drilling above **922 B01C ore block has returned a downhole intersection of 1.9m @ 10.1% Ni**, indicating that the 992 resource block may extend up to the 1030 B01C level mined by WMC.

## REGIONAL EXPLORATION

### Nickel:

- The resource at the **Marriott's** deposit near Leinster to a depth of 160 metres was **increased 25%** to 830,000 tonnes @ 1.13% nickel for **9,400** nickel tonnes.
- **The Golden Ridge Joint Venture** continues to achieve promising results in the December quarter. Our JV partner, Pioneer Nickel has now earned a 51% interest in the nickel rights. The Company retains a 49% interest in the nickel rights and 100% interests in the gold.
- **The Bounty Project** offers exposure to the Forrestania Greenstone Belt in WA, and is in a strategic position some 80km south of the town of Southern Cross. Assays and geology will be undertaken and follow up drilling will be planned.
- **At East Location 45** a resource model for Goodyear is to be constructed and a preliminary evaluation completed.

### Gold:

- The company has called for mining and milling tenders, and RC grade control drilling completed in December is expected to increase the resource base with best intersections listed below :
  - **WGC33 - 6m @ 5.8g/t from 11m**
  - **WGC37 - 7m @ 3.6g/t from 12m and 6m @ 7.2g/t from 18m**
  - **WGC43 - 7m @ 9.4g/t from 24m**

## FINANCE AND CORPORATE

- Acquisition of East Location 45 completed with first payment of \$1.2m to Harmony Gold Australia Ltd.
- December quarter production achieved an unaudited EBITDA of \$0.7m and a Net Profit of (\$0.5)m after amortisation and depreciation.
- The company received a price of A\$15.22/lb (A\$10.22 Sept Qtr) after 90 day adjustments for 354,944lbs of payable nickel for the quarter.
- Direct operating cash costs were A\$13.72/lb (A\$11.08./lb Sept Qtr). Total mined costs (including capital) were A\$16.38/lb (\$15.20/lb Sept Qtr). Production in coming months is expected to increase significantly as the mine accesses higher grade ore in Blair Deepes resulting in substantially reduced mined costs per lb.
- At 30 December 2007, the Company had cash and debtors of A\$5.3m and current liabilities of A\$4.8m.
- At the date of this report, **mine production hedged is 158 tonnes at US\$30,304/t**

**BLAIR MINE**

**Production and Development**

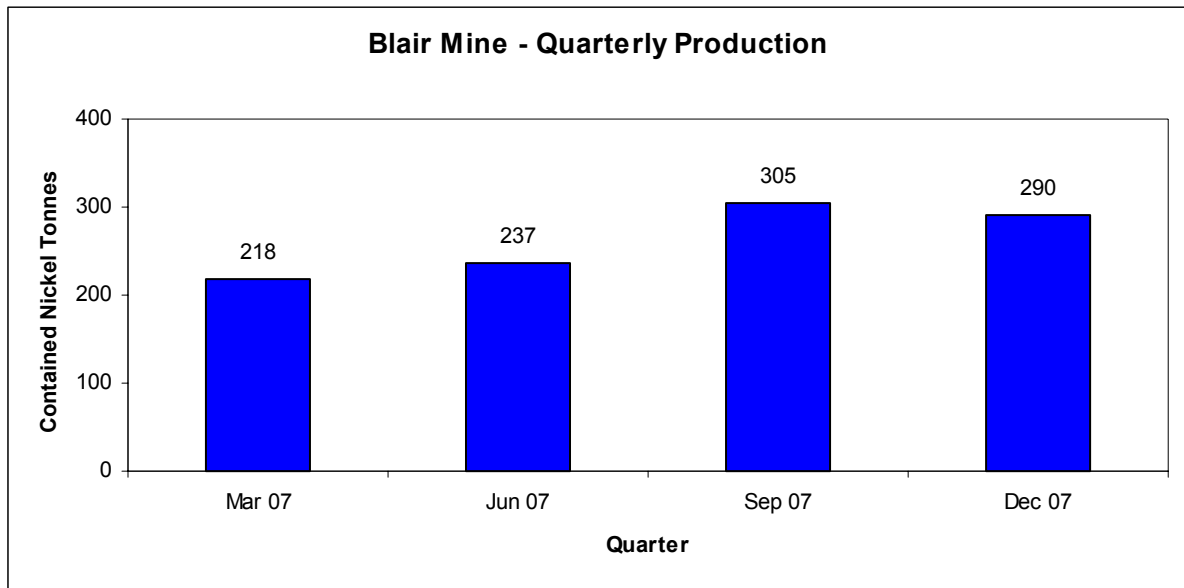
Production statistics for the Blair Mine are given below:

		<b>Mar-07</b>	<b>Jun-07</b>	<b>Sep-07</b>	<b>Dec-07</b>
Ore Mined	Tonnes	9,107	10,059	11,027	10,375
Cont Ni Mined	Tonnes	221	236	319	293
Ore Treated	Tonnes	8,887	10,039	10,788	10,545
Grade	% Ni	2.45	2.36	2.83	2.75
	% Cu	0.15	0.14	0.16	0.17
Contained Ni	Tonnes	218	237	305	290
Recovered Ni	Tonnes	185	200	267	252
Payable Ni	Tonnes	118	128	171	161
Payable Ni	Lbs	260,143	282,189	376,987	354,944
Nickel (Spot) Price (received)	A\$/lb	24.25	26.30	15.82	14.88
Final Price received incl 90 day adjustment**		24.84	26.50	10.22	15.22
Operating cash cost	A\$/lb	11.57	14.00	11.08	13.72
Total cost with capital development	A\$/lb	20.64	21.91	15.20	16.38

\* 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 290 tonnes, slightly lower than the September quarter result. Ore is now being sourced off the main decline development down to the 370 level, significantly reducing the rehandling of ore before delivery to the surface.
- Average mined grade for the quarter was 2.75% Ni, with the latter two of the three months of the quarter averaging grades greater than 3% Ni. In October, the last of the 907 L01 stope was mined out (1,325 tonnes at 1.8 %) which lowered the overall grade for the quarter. As a higher proportion of nickel production is expected to come from the Blair Deeps area into 2008, the grade is expected to increase significantly.
- The Main Decline has now reached the 360mRL and the lowest ore source is now the 370 E03 stope. Next quarter will see the Main Decline pass 1,000 vertical metres below surface.



The direct operating cash costs for the quarter were A\$13.72/lb of nickel payable (Sept quarter A\$11.08/lb). Cash costs are expected to return to levels of approximately \$11.00/lb for calendar 2008 as mining progresses to higher grade sections and nickel production increases.

Total costs including the capital costs associated with the main decline development were A\$16.38/lb of nickel payable (Sept quarter A\$15.20/lb).

The majority of nickel production in the December came from the E03 and C01 ore shoots in the Blair Deeps area, which continue to outperform current stated reserves. The lowest level of the C01 shoot (380 mRL) is now consistently producing mined ore in excess of 5.00% contained nickel. The lower grade N01, N03, and L03 shoots are also performing well in the lower levels of the mine.

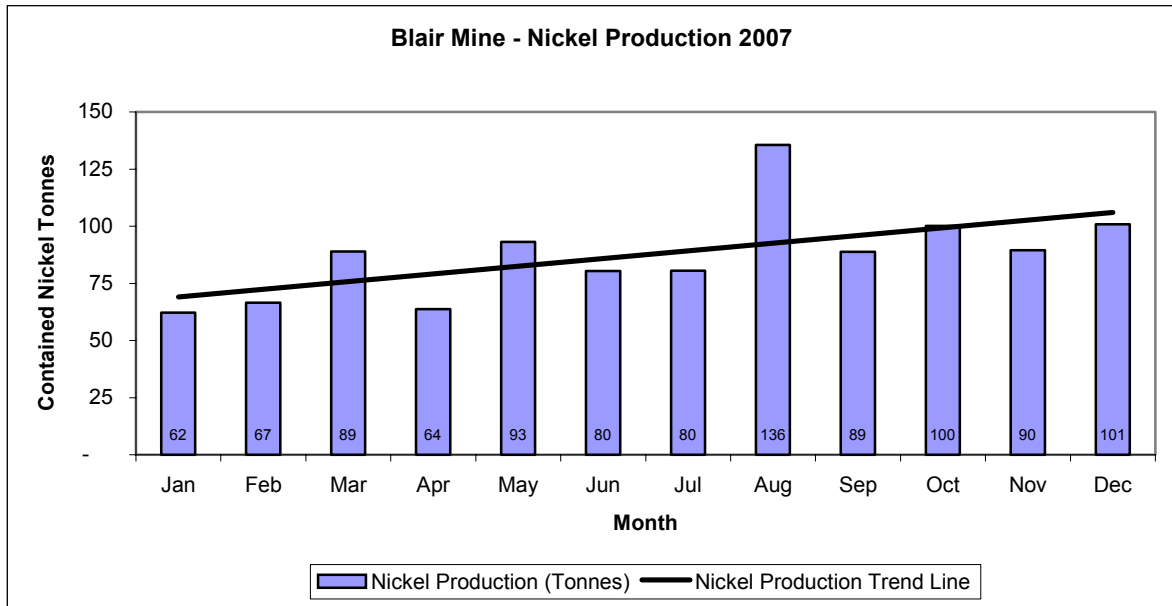
Area 57 continued to produce ore from the 1047 stope and the 1025 stope. The 1047 stope has now been developed to give dual access and increased production from the orebody. The 1025 stope (below currently mined out areas of Area 57) also contributed towards production.

Other ore production came from the now mined out 907 L01 stope and the 835 and 860 L01 stopes.

Approximately 61% of the quarter's production was sourced from Blair Deeps with the remaining ore being produced from Area 57 and the L01 shoot on the 907, 835 and 860 horizons.

An 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 ore grades in excess of 5.00 % and 3.00% respectively

Current quarterly nickel production is forecast to improve as further working levels are developed in Blair Deeps and higher in the mine in line with the trend for nickel production in 2007.



As at the end of December, the large dimension Main Decline had reached approximately 365 mRL following completion of 127 metres of decline development during the December quarter.

The two boom jumbo and single boom jumbo completed 318.8 m and 289.9 m respectively for a total of 608.7m of jumbo development. This represents the most development achieved since the commissioning of the two jumbos.

Development of a single boom jumbo access decline continued in the December quarter to access ore zones in the A01C and L01C shoots at approximately 992 mRL. Mining in this area will commence in the March quarter.

The underground diamond drill program is planned to continue in the March quarter to extend current known reserves below the 350 m RL on the Blair Deeps ore shoots.

**Safety**

There were no Lost Time Injuries (LTI) recorded at the Blair Nickel Mine during the quarter.

There were two (2) injuries 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 89.

Blair Nickel Mine 12 Month Rolling Safety Performance - FREQUENCY RATES													
Number of Employees	Man Hours	Number of LTI's	Number of MTI's	Number of MI's	Number of Incidents	LTI FR	LTI IR	SI FR	SI IR	MI FR	MI IR	I FR	I IR
658	134454	1	11	22	72	7	2	89	18	164	33	535	109

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

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## MINE EXPLORATION

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### BLAIR MINE EXPLORATION

#### Introduction

Exploration diamond drilling was concentrated in the upper levels of the mine testing for local extensions to known ore shoots. Drilling was largely confined to L01C and Area 57 shoots.

#### Diamond Drilling

Fifteen underground diamond drill holes for 1,727m were completed in the December quarter:

#### L01C Shoot

Three holes were drilled above the 1048 stope with narrow medium grade intersections returned from two holes.

Downhole intersections were:

- AMUG221 0.50m @ 1.01% Ni
- AMUG222 0.80m @ 1.02% Ni

One further hole is planned above the southern end of the stope.

Two holes were completed above the 907 stope with medium grade matrix sulphides intersected above the southern end of the stope.

Downhole intersections were:

- AMUG279 1.70m @ 1.36% Ni
- AMUG280 1.60m @ 1.60% Ni

#### Area 57

Eight holes tested for the possible up-plunge continuation of the 1047 stope mineralisation. Narrow mineralisation was returned from only two of the holes indicating the mineralisation is pinching out up-plunge and further drilling is now planned down-plunge of the 1047 stope to test for extensions.

- AMUG283 0.20m @ 3.73% Ni
- AMUG284 0.40m @ 2.10% Ni

#### Planned Work for the March 2008 Quarter.

#### Blair Deeps Resource Drilling

Resource drilling of Blair Deeps will re-commence mid-quarter to extend the resources to at least the 200mRL, a depth of 170m below the deepest current working level.

#### Area 57

During the next quarter, the N10 structure hosting Area 57 (56,000t @ 2.7% Ni) is to be drill tested 200 metres to the north of Area 57 where a WMC surface diamond hole GOD79

drilled in 1993, returned 0.97m @ 5.35% Ni. An in-hole intersection DHEM plate exists for the WMC hole with no follow up drilling performed to date.

**B01C Shoot**

The expected position of B01C shoot will be tested between the 380 and 350 levels. The massive sulphides intersected in the B01C shoot position on the 380 level provides encouragement that B01C shoot may be making again in the Blair Deep.

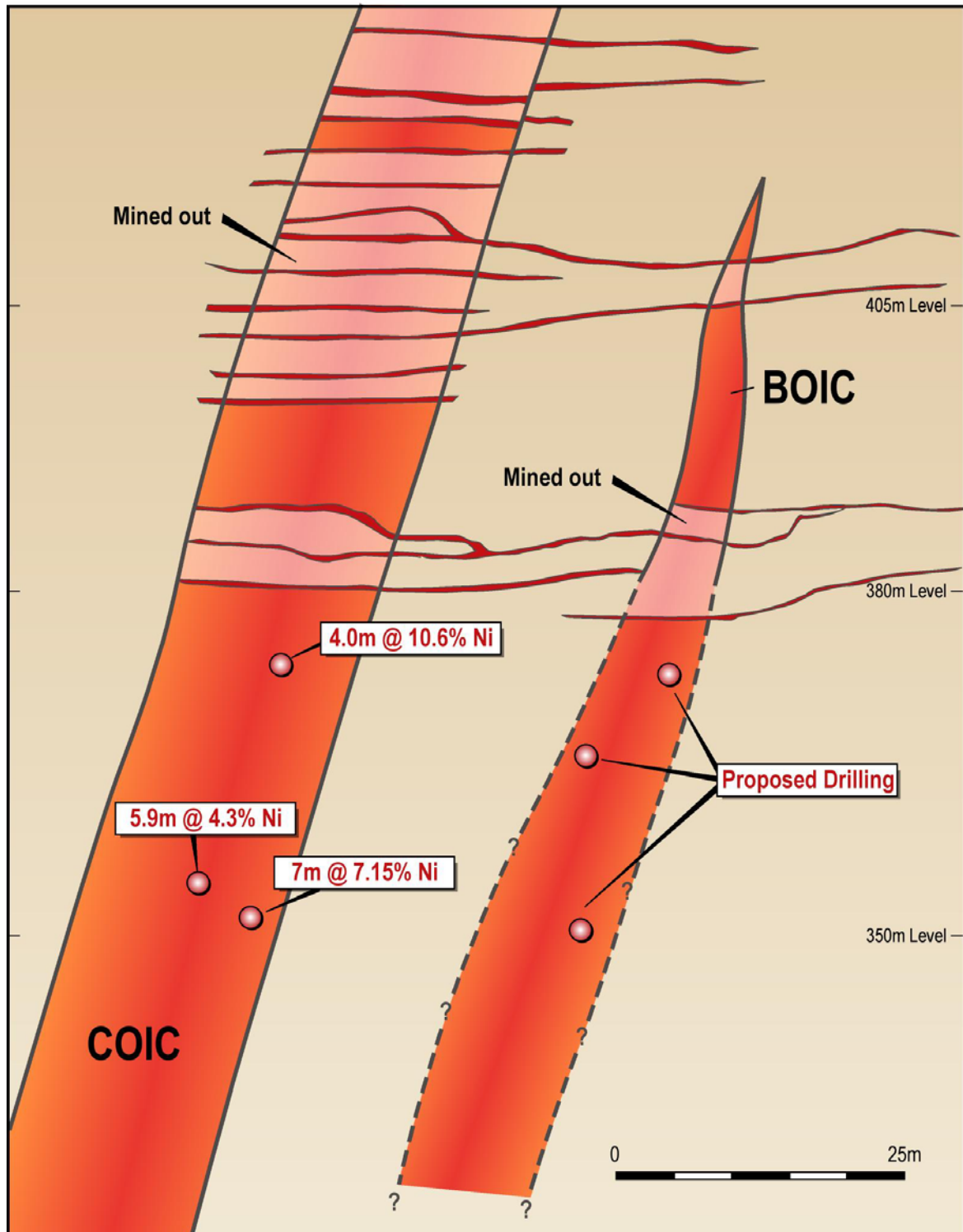


Fig 1: Blair Deep long section showing CO1C Shoot and the projected position of B01C Shoot

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## REGIONAL EXPLORATION

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### MARRIOTT'S NICKEL PROJECT

#### Introduction

Marriott's, 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.



Fig 2: Location Plan – Australian Mines Ltd. Exploration Projects

#### Progress in the December 2007 Quarter:

##### Resource Increase

Modelling of the orebody based on Australian Mines diamond drillholes was completed in November 2007, resulting in a 25% increase in the contained nickel resource.

The November 2007 Indicated and Inferred Resource to a vertical depth of 160 metres is stated as:

**830,000 tonnes @ 1.13 % nickel for 9,400 nickel tonnes**

The November 2007 detailed resource statement is contained in the table below:

<b>Resource Category</b>	<b>Ore (tonnes)</b>	<b>Ore Grade (Ni %)</b>	<b>Nickel Metal (tonnes)</b>
Indicated	460,000	1.12	5,100
Inferred	370,000	1.15	4,300
<b>Total</b>	<b>830,000</b>	<b>1.13</b>	<b>9,400</b>

Marriott's – resource summary, November 2007

A detailed breakdown of the Marriott's Indicated and Inferred Resource shows that tonnes and grade are both increasing with depth as shown in the table below:

<b>Bench From</b>	<b>Bench To</b>	<b>Ore Tonnes</b>	<b>Grade Ni %</b>	<b>Nickel Tonnes</b>
420m RI	Surface	29,000	0.77	220
400m RI	420m RI	56,000	0.80	450
380m RI	400m RI	69,000	0.84	580
360m RI	380m RI	117,000	0.90	1,060
340m RI	360m RI	148,000	0.95	1,400
320m RI	340m RI	151,000	1.17	1,770
300m RI	320m RI	182,000	1.47	2,670
280m RI	300m RI	78,000	1.62	1,250
	<b>TOTAL</b>	<b>830,000</b>	<b>1.13</b>	<b>9,400</b>

Marriott's – Combined Indicated and Inferred Resource table in 20 metre benches, November 2007

November 2007 Resource Model Parameters:

- The resource model of November 2007 was based solely on Australian Mines diamond drilling on a combination of 40 metre by 20 metre and 20 metre by 20 metre patterns with sampling 1 metre intervals through the ore zones.
- The assay technique used was 4-acid digest with ICP-OES finish.
- The SG used for ore and waste is 2.7 tonnes/cubic metre. SG determinations have been undertaken on four holes and are continuing.
- Geological interpretation used a 3D model of the ore surfaces created in Surpac.
- The Surpac shapes enclosed material grading plus 0.5 % nickel, with a maximum of 2 metres of internal dilution.
- Grade interpolation was by Ordinary Kriging

### **Metallurgical Studies**

Metallurgical studies were completed to determine nickel recovery parameters, and to this effect the company is investigating a number of process options for Marriott's ore including flotation and heap leaching.

#### (a) Flotation tests

At a sulphide nickel grade of 0.6% and above, over 90% of the total sulphide nickel is potentially recoverable by flotation.

#### (b) Heap Leach tests

Since the flotation process will not recover non-sulphide nickel and, given that Marriott's ore has 1% to 17% of the total nickel in non-sulphide forms, the company has commenced tests to see if it is viable to heap leach Marriott's ore with significant non-sulphide nickel on site.

To date a single vat leach test has been completed, recovering 93% of the total nickel. The very encouraging yield has led to more comprehensive vat leach tests commencing which, if successful, advance the programme to column leach tests.

**Planned work for the March 2008 Quarter**

- (a) Initial laboratory leach trials will be conducted on Marriott's ore
- (b) Mining optimisation studies and preliminary design work will be continued.

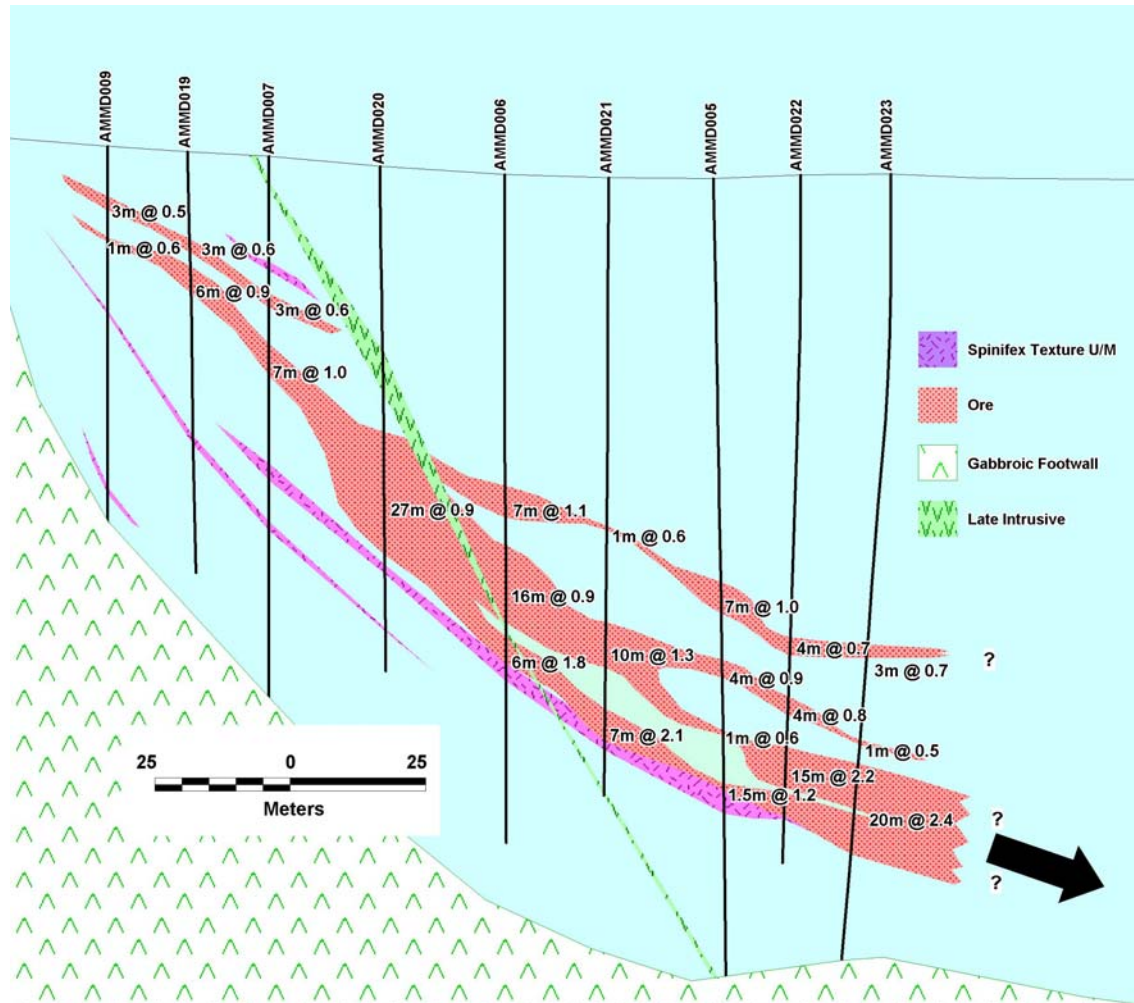


Fig 3: Marriott's Project - Interpreted drill Section 3 showing projected high grade trend (Intercepts are abbreviated as follows, 20m @ 2.4 = 20m @ 2.4 % Ni )

**GOLDEN RIDGE JV - NICKEL EXPLORATION**

**Introduction**

The Golden Ridge Joint Venture (GRJV) between Australian Mines (49%) and Pioneer Nickel (51% and operator) was formed to explore for nickel on 100 square kilometres of highly prospective ultramafics which surround the 'Blair Mine Exclusion Zone'.

The GRJV ground hosts known nickel sulphide mineralisation at Blair South, Anomaly 20SW, Marshall, Duplex Hill, Anomaly 11 and other locations, and the GRJV has allocated a healthy proportion of its budget to regional programmes of RAB drilling and surface EM with the intention of making new discoveries.

The GRJV has made excellent progress in understanding the geology and extensive areas of untested contact have been identified. The GRJV uses a disciplined and scientific approach to determine which areas of contact have nickel anomalies which are likely to be derived from weathering of a nickel sulphide orebody, and if these nickel anomalies then coincide with an EM anomaly they will be tested by RC and diamond drilling.

**Progress in the December 2007 quarter:**

**(a) RAB Drilling**

**Western Ultramafic**

A reconnaissance RAB drilling programme was completed over the Western Ultramafic to locate the contact and define areas of nickel anomalism.

The drilled boundaries of the western ultramafic correlate well with the aeromagnetic interpretation. Scree and subcrop in the northern part show that internally the sequence comprises 20-40m thick differentiated komatiite flows, and although textural evidence was collected, a facing direction was not determined.

The RAB programme revealed that there is an east-west oriented palaeo-channel up to 71 metres deep at the southern end. Quartz gravels at the base of the palaeo-channel will be assayed for gold. Surface mapping will be combined with interpretation of the drill sections, and when assays are returned a decision will be made on the program's effectiveness and required follow-up activity.

**Leo Dam Ultramafic**

A RAB drilling programme was completed over the Leo Dam Ultramafic to test magnetic highs in the vicinity of Anomalies 13 and 14 (assays awaited).

The two traverses drilled over the Anomaly 13 and 14 area identified palaeochannel deepening to the west with a maximum channel depth of 69m in the westernmost hole. The palaeochannel was not present at the eastern end of the traverses. Drill holes intersecting the magnetic high contained talc-rich and possible cumulate-textured ultramafic. Two holes intersecting amphibole-rich ultramafic to the west of the talc-rich intersection may indicate a westerly facing of the ultramafic. The eastern end of the northern traverse, drilled to test the eastern limb of the existing interpretation south of Anomaly 14 did not intersect any ultramafic rock.

**Central Ultramafic**

Coincident Ni and Cu anomalies were identified from RAB drilling of the Central Ultramafics to the west of the Blair Nickel Mine. Several of these anomalies have coincident PGE anomalism and they will be tested for potential nickel sulphide orebodies by moving loop transient electromagnetic (MLTEM) SQUID survey.

**(b) Down Hole EM**

Down hole transient electromagnetic surveys (DHTEM) are capable of locating conductive bodies such as nickel sulphide orebodies close to but not intersected by drill holes, and during the quarter DHTEM was completed at several prospects as follows:

**Marshall Prospect**

A SQUID EM conductor, identified south of the Marshall Prospect, was tested with diamond hole GRD005.

The drillhole intersected sulphidic black shale at the target depth that was confirmed to be the major conductor with DHTEM. However, an additional conductor was located at 225m down hole in or near the position of minor pyrrhotite banding (~5% sulphides) within

brecciated talc-rich ultramafic. The anomaly at 225m is described as an in-hole anomaly and modelled as a 100x100m plate of ~3000S conductance and situated mainly below the drill hole. The significance of the anomaly will be re-assessed once assays are returned from GRD005.

**North of Blair South**

GRR038 was drilled to test a fixed loop TEM (FLTEM) SQUID conductor and coincident off-the-end-of-hole DHTM conductor identified to the north of Blair South. Drilling confirmed the conductor was a sulphidic black shale at 150metres downhole and situated at the top of the first ultramafic flow, though another anomaly was detected at 180 metres downhole in the vicinity of the basalt-ultramafic contact.

**(c) Regional PGE surveys**

Experience has shown that co-incident nickel, copper and platinum group element (PGE) anomalies are most likely to have formed in-situ from the weathering of a nickel sulphide source and it is routine to submit areas of coincident nickel and copper anomalism for PGE analysis. To date five standout PGE anomalies have been identified proximal to basal contacts of the Central and Eastern Ultramafics as displayed in Figure 4:

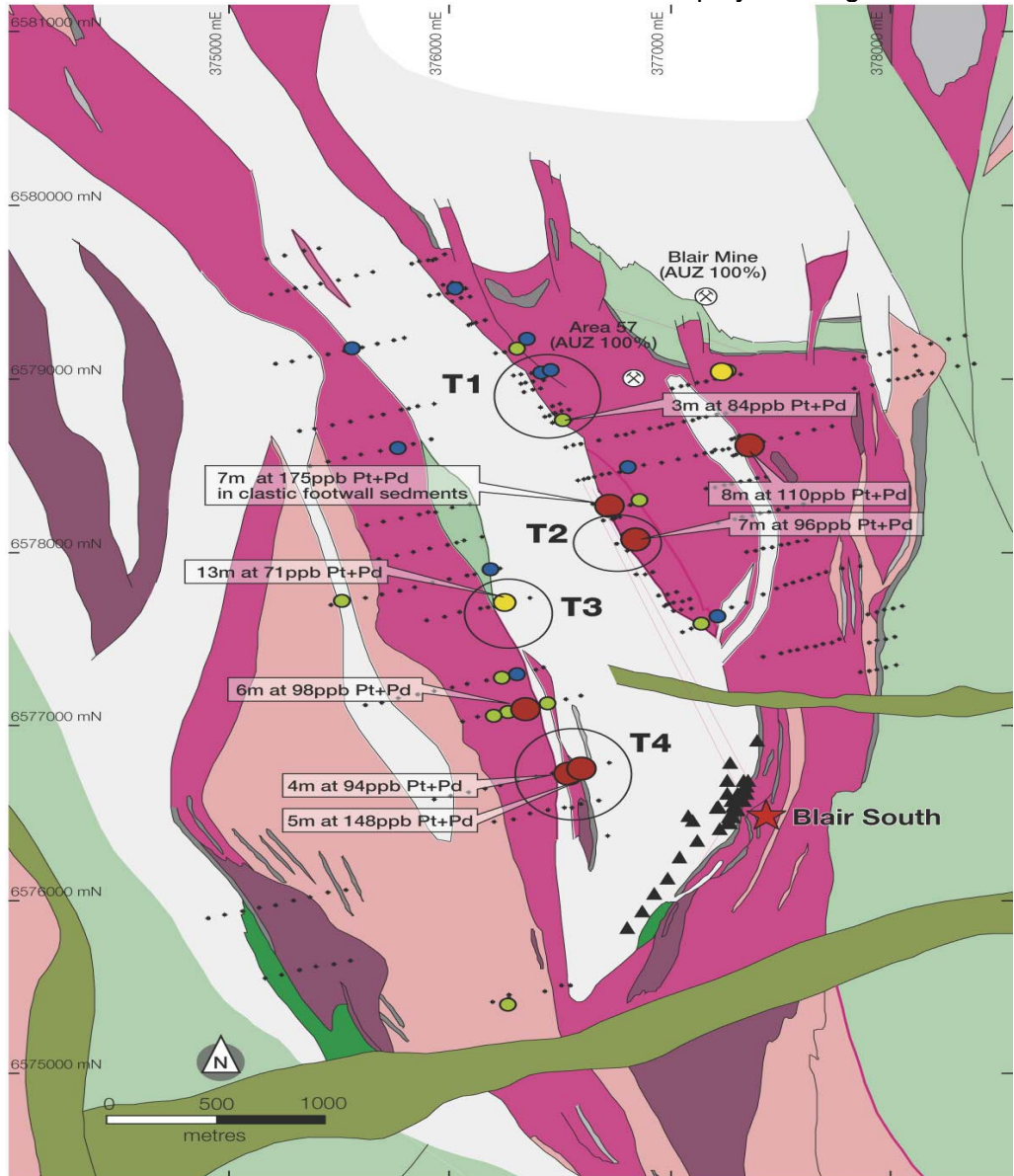


Figure 4: GRJV Geology plan showing new nickel prospects with coincident Ni and PGE anomalism in drilling (T1 nickel prospect ● 30 – 40 ppb Pt+Pd ● 40-60 ppb Pt+Pd ● 60-90 ppb Pt+Pd ● +90ppb Pt+Pd )

## **Work Planned for the March 2008 Quarter:**

### **(a) MLTEM SQUID Surveys.**

A Moving loop transient electromagnetic survey using the latest SQUID technology (MLTEM SQUID) is planned to explore for nickel sulphide orebodies around Anomaly 11, Anomaly 20SW and the central komatiite area and also to better define a very late time conductor identified from a previous FLTEM survey west of the Blair Nickel Mine.

### **(b) Regional Drilling Appraisal.**

Due to the rapid pace at which exploration has been conducted by the GRJV over the last 18 months, it is deemed sensible to focus on geological interpretation so as to be able to evaluate the overall project and effectively plan future exploration.

## **EAST LOCATION 45 NICKEL EXPLORATION**

### **Introduction**

In May 2007, Australian Mines acquired the minerals rights to East Location 45 and two adjoining mining leases, thereby adding 86 square kilometres of highly prospective ground to the company's exploration portfolio.

As well as large areas of unexplored ultramafics, the tenements contain nickel resources at Mt Martin and Goodyear.

The Goodyear Project which is on the same ultramafic belt as the Carnilya Hill Nickel Mine, currently has drill intercepts such as:

- GYD027 , 3.8m @ 7.3% Ni from 500 metres depth.
- GYC005 , 3.0m @ 4.89% Ni from 180 metres depth.

### **Progress in the December 2007 Quarter:**

Most of the work completed involved office studies and targeting exercises as follows:

- A comprehensive 3D geological model of Goodyear was constructed.
- Historical surface EM surveys over the Locality 7 and Kents Dam Ultramafics were re-evaluated by the company's consulting geophysicist. The conclusion was that the EM surveys were done using an outdated method which would not be effective in detecting a massive nickel orebody.
- The Mt Martin Mine and ultramafic belt geology and geochemistry was evaluated with the following result:
  - The nickel ore in the mine may have been introduced into the gold system via remobilisation along the same shear which introduced the gold bearing fluids.
  - The strong nickel in soils anomalism versus patchy copper in soils anomalism over the Mt Martin ultramafic may be due to remobilisation of copper where there are extensive areas of sheetwash.

### **Work planned for the March 2008 Quarter:**

- A resource model for Goodyear is to be constructed and a preliminary evaluation completed.
- A MLTEM SQUID survey is planned over the greater Goodyear area.

## **BOUNTY NICKEL PROJECT**

### **Project Location**

In July 2007, Australian Mines acquired 70% of the rights to all metals other than gold and silver at the Bounty Project.

The Bounty Project is located on the northern portion of the Forrestania Greenstone Belt in WA, in a strategic position some 80km south of the town of Southern Cross. The 43 square kilometre Bounty tenement package contains a minimum of 24 strike kilometres of prospective ultramafic and, although the Bounty gold mine closed in 2002, the water borefield is still intact, and the exploration camp is connected to the local electricity grid.

### **Exploration History**

The Bounty tenements have been extensively explored for gold with only sporadic nickel exploration since 1971.

In 1999 an exploratory underground diamond drill hole intersected 3.2m @ 1.19% Ni in stringer nickel sulphides at the BIF-ultramafic contact along side the Bounty gold pit, and subsequently MD106 intersected 0.45m @ 4.5% Ni in stringer ore adjacent to the contact.

The tenements have soil sample coverage which has highlighted areas of nickel and copper anomalism, and moving and fixed loop EM surveys covering all of the leases were completed during 2005. Although some 42 EM anomalies were identified by the surveys as being potential nickel sulphide targets, most of these targets remain untested by drilling.

### **Progress in the December 2007 quarter:**

Australian Mines re-interpreted the surface EM data, and then targeted favourable ultramafic stratigraphy with coincident EM, nickel and copper anomalism.

A total of 11 RC holes for 1,111 metres were drilled in November 2007, but due to slow turn around at the laboratory assays are still awaited.

### **Work planned for the March 2008 quarter.**

- Interpretation of the November 07 drilling, based on assays and geology will be undertaken and follow up drilling will be planned
- Re-interpretation of the surface EM data will be undertaken by the company's consulting geophysicist

## **DUPLEX HILL GOLD PROJECT**

### **Introduction**

The Duplex Hill gold project is located 8 km southeast of the Blair nickel mine and some 2km west of the historic Wombola Gold Field, which mined a series of outcropping quartz reefs in dolerite host rocks intruded into the earlier ultramafic units.

The quartz reefs and dolerite host rocks at the Duplex Hill project area are covered by 10 metres of transported soils and the Woodline 1 orebody was found by RC drilling beneath a discrete surface soil anomaly, which is one of a cluster of similar soil anomalies.

The Woodline 1 reef is north striking, but there is every chance that there are also reefs with different orientations as this is the case on the Wombola Field.

**Woodline 1 Resource**

The Woodline 1 gold deposit has an Indicated and Inferred Resource to a depth of 60 metres of 128,000 tonnes at 3.0 g/t for 12,200 ounces.

**Mining Plan**

The company has been evaluating the concept of mining the top of the Woodline 1 deposit with a small “starter” pit producing approximately 4,900 ounces, with ore production commencing from a supergene blanket only 10 metres below surface.

All statutory mining approvals are now in place except for waste dump topsoil provisions, and custom milling arrangements at a local treatment plant are being evaluated. Negotiations are underway with a number of Kalgoorlie-based mining contractors.

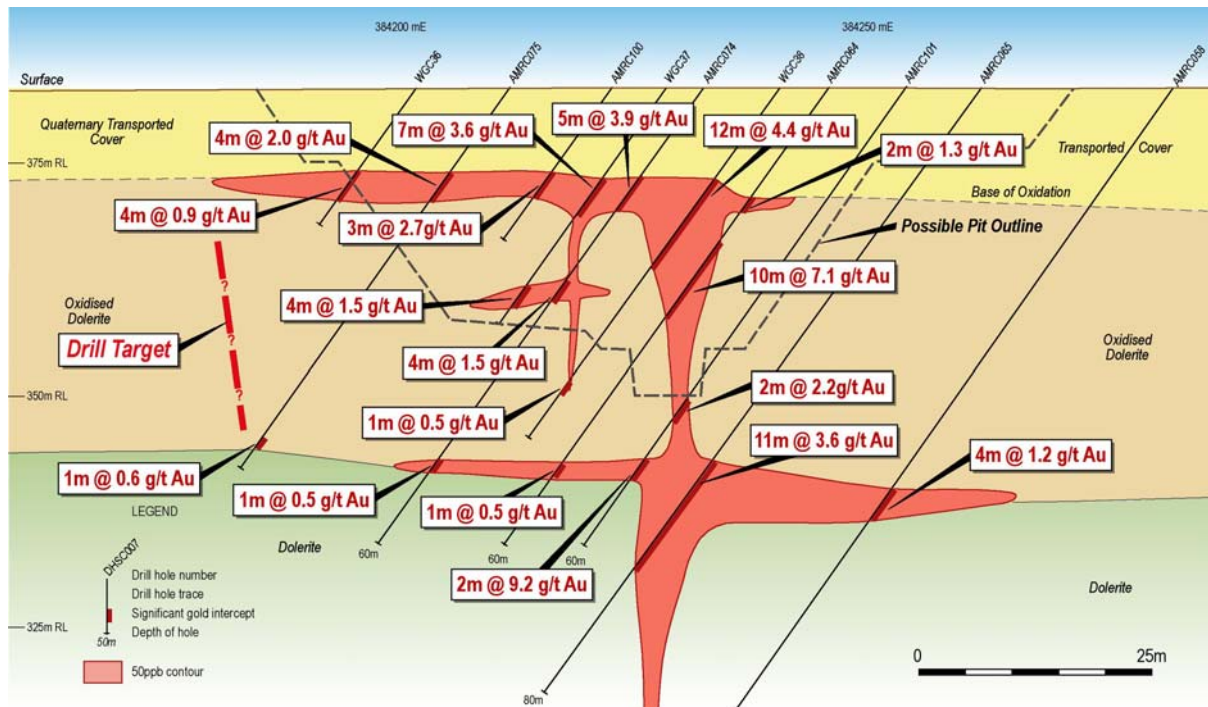
**Progress during the quarter**

Angled RC grade control drilling was completed at Woodline 1 in December. The high grades encountered in the drilling confirm the continuity of the near surface supergene enrichment zone, and have extended the mineralisation to the south of the initial pit design with the best drill results listed below: -

- **WGC33 - 6m @ 5.8g/t from 11m**
- **WGC37 - 7m @ 3.6g/t from 12m and 6m @ 7.2g/t from 18m**
- **WGC43 - 7m @ 9.4g/t from 24m**

**Work planned for the March 2008 Quarter.**

- The Woodline 1 resource will be remodelled to incorporate the recently completed RC grade control drilling, and a new open pit will be designed
- RC holes will be drilled to test for gold-bearing quartz reefs on the western margin of the current pit design.



Woodline 1 - Cross-section 6569140 North showing drill holes and interpreted geology

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**CORPORATE**

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Revenue for the December quarter was \$0.5m lower than the previous quarter due to lower realised nickel prices and slightly lower nickel production. The net profit for the quarter was \$(0.5)m (unaudited) .

<b>December Quarter 2006 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>Mar Qtr</b>	<b>Jun Qtr</b>	<b>Sept Qtr</b>	<b>DecQtr</b>
Gross Revenue	6.5	6.6	6	5.5
Net Cash Costs	3.0	4.0	4.4	4.8
EBITDA for Qtr	3.5	2.6	1.6	0.7
Net Profit after deprn & amort for Qtr	1.3	0.4	0.5	(0.5)
Current assets (cash and debtors)	11.1	10	6.5	5.2
Current liabilities (payables/lease)	4.4	4.0	4	4.7
Net current assets/current liabilities	6.7	6.0	2.5	0.5

Operating cash costs (excluding capital) were A\$13.72/lb Ni payable (Sept quarter A\$11.08/lb). The total cash costs for the quarter (including capital development) were A\$16.38/lb Ni payable (Sept quarter A\$15.20/lb).

The Company received an average spot price of A\$32,802 per tonne of Ni payable (Sept quarter A\$34,872,90) or A\$14.88/lb for the December quarter (Sept quarter A\$15.82/lb). After hedging and 90 day final settlements received from BHPB against September quarter production, the realised price was A\$15.22/lb Ni payable (Sept quarter A\$10.22/lb).

At the date of this report nickel production hedged was 158 tonnes at US\$30,304 /t (Sept quarter nil).

The Company generated a positive cash flow from operations of \$1.1m for the December quarter. After capital development and exploration of \$1.4m and acquisition payments for East Location 45 of \$1.2m, cash flow was a negative \$1.2m. Cash at bank was A\$1.0m at 30 December 2007 (Sept 07 quarter was \$2.1m). The Company has mine equipment HP liabilities of approximately \$3.4m and \$0.9m bank debt.

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**SUMMARY AND OUTLOOK**

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**Blair Production**

The **Blair mine** production outlook is improving with December 2007 quarterly production highlighted by the boost in both recent production and Blair Mine resources. Forecast production in the March quarter is expected to improve as the production accesses the higher grade ore from Blair Deeps.

The Company progressed the main decline and developed new levels in the middle of the mine during the quarter. The twin and single boom jumbos completed 318.8 m and 289.9 m respectively for a total of 608.7m of jumbo development. This performance justifies the acquisition of the equipment and the restructuring of labour arrangements and will develop sufficient working areas during the next quarter for the company to increase production for the remainder of the 2008 financial year and beyond.

The underground diamond drill program is planned to continue in the March quarter to extend current known reserves below the 350 m RL

**Marriott's nickel project** drilling has been successful, increasing the Indicated and Inferred Resources to **830,000 tonnes @ 1.13 % nickel for 9,400 nickel tonnes**

Metallurgical test work has been largely successful with high recoveries achievable from the Marriott's ore using traditional flotation processes. Further work will be progressed including both flotation tests and initial heap leach trials to be conducted. In addition, mining optimisation studies and preliminary design work will be commenced. Additional infill drilling and down plunge extensional exploration are also planned.

### **Exploration**

The minerals rights to **East Location 45** and two adjoining mining leases have added 86 square kilometres of highly prospective ground to the company's exploration portfolio. It contains large areas of unexplored ultramafics as well as nickel resources at Mt Martin and Goodyear. Future work at the Goodyear Project which is on the same ultramafic belt as the Carnilya Hill Nickel Mine is planned.

**The Golden Ridge Joint Venture** continues to achieve promising results in the December quarter. Our JV partner, Pioneer Nickel has now earned a 51% interest in the nickel rights. The Company retains a 49% interest in the nickel rights and 100% interests in the gold.

The GRJV will focus on geological interpretation over the next quarter to be able to evaluate the overall project and effectively plan future exploration.

**The Bounty Project** offers exposure to the Forrestania Greenstone Belt in WA, and is in a strategic position some 80km south of the town of Southern Cross. It provides 43 square kilometre of tenement package containing 24 strike kilometres of prospective ultramafics. The Bounty tenements have been extensively explored for gold with only sporadic nickel exploration.

### **Gold**

With the gold price now above A\$1,000 an ounce, **Golden Ridge and the Duplex Hill South Gold Project** are being reviewed. An open pit mine could be fast-tracked to produce 4,500 ounces.

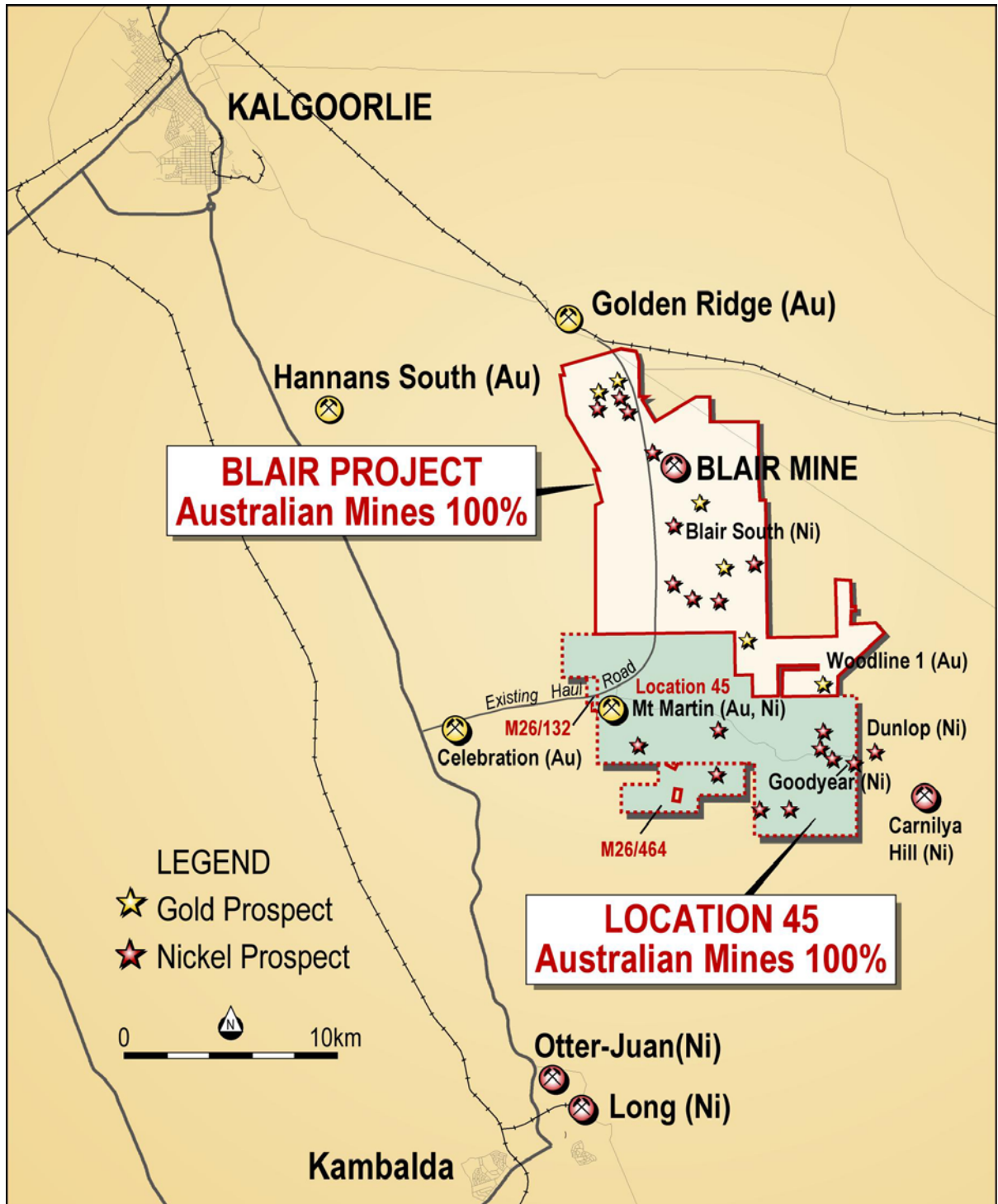
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*The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr M Elias who is a Fellow of The Australasian Institute of Mining and Metallurgy. Mr Elias is employed by CSA Australia Pty 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