

QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 31 MARCH 2007

HIGHLIGHTS FOR THE QUARTER

BLAIR NICKEL MINE:

- Capital decline development of 329 metres achieved with the main decline advancing to the 432 m RL on the Blair Deeps orebody. Decline development is now advancing uninhibited to access ore reserves to the 350mRL.
- The company acquired a new underground 50 tonne dump truck and hired an additional single boom jumbo.
- Production of 218 nickel tonnes was down on previous quarters due to operations accessing lower grade ores. Higher grade ore is planned to be mined in the future as Blair Deeps orebody is developed. Lower production offset by record nickel prices for the quarter.
- Production was mainly sourced from the Area 57 southern extensions and LO1 shoot on the 907 level. Blair Deeps ores were re-accessed in March.
- The LO1 shoot production continues to exceed Ore Reserve estimates and two new access levels below the existing 907 production level were commenced.
- The Blair Nickel Mine achieved twelve months LTI (lost time injuries) free at the conclusion of the March Quarter.

DUPLEX HILL SOUTH GOLD PROJECT

The Company is on track to diversify into gold production by the September quarter 2007.

EXPLORATION

- At Blair Mine, drilling of the interpreted L01 shoot up-plunge from the 907 production stope intersected massive sulphides as well as stringer and disseminated sulphides.
- Best downhole results Included:
 - 8.6m @ 4.05% Ni
 - 8.0m @ 4.17% Ni
 - 5.0m @ 2.37% Ni
 - 1.0m @ 3.91% NiFurther drilling is planned adjacent to the intersections above the 907 stope, with indications that L01 shoot will continue to increase the Blair nickel resource.
- Drilling continued at the Marriott's nickel project to test the up-dip potential of the ore body and confirm the known Inferred Resource of 550,000 tonnes at 1.4% Ni for 7,500 contained nickel tonnes.
- Best downhole results included:
 - 17m @ 0.91% Ni
 - 7m @ 1.05% Ni
 - 7m @ 1.02% Ni
 - 6m @ 1.79% Ni
 - 4m @ 1.30% Ni
- Due to the success of the initial confirmation drilling at Marriott's, a \$400,000 infill drilling program has commenced to define the extent of the nickel resource and upgrade the JORC compliant status of the resource so preliminary feasibility studies can commence.

FINANCE AND CORPORATE

- March quarter production achieved an unaudited EBITDA of A\$3.5m and Net Profit after amortisation and depreciation of A\$1.3m.
- Year to date unaudited EBITDA is A\$11.8m and Net Profit after amortisation and depreciation is A\$7.2m.
- The company received a **record** price of A\$24.84/lb for 260,143 lbs of payable nickel for the quarter. Total mined costs (including capital) increased to A\$20.64/lb. The increase in mine capital costs was due to the deployment of 3 development jumbos now working within the mine to access future nickel production
- At 31 March, 2007, the Company had cash and debtors of A\$10.3m and current liabilities of A\$4.4m.
- March quarter production was hedged at prices above the provisional monthly spot price. At the date of this report, the company has mined production of 116 tonnes Ni hedged at an average price of A\$53,300/tonne. All future mine production is totally unhedged.



BLAIR MINE

Production and Development

Production statistics for the Blair Mine are given below:

		Jun-06	Sep-06	Dec-06	Mar-07
Ore Mined	Tonnes	7,782	11,620	8,725	9,107
Cont Ni Mined	Tonnes	348	379	259	221
Ore Treated	Tonnes	7,782	10,900	9,445	8,887
Grade	% Ni	4.48	3.18	3.08	2.45
	% Cu	0.27	0.19	0.19	0.15
Contained Ni	Tonnes	348	347	291	218
Recovered Ni	Tonnes	316	308	258	185
Payable Ni	Tonnes	202	197	165	118
Payable Ni	lbs	445,208	434,306	363,660	260,143
Nickel (Spot) Price (received)	A\$/lb	11.16	17.62	19.44	24.25
Final Price received incl 90 day adjustment**		12.04	18.75	19.34	24.84
Operating cash cost	A\$/lb	6.75	7.52	10.67	11.57
Total cost with capital development	A\$/lb	9.97	9.94	13.81	20.64

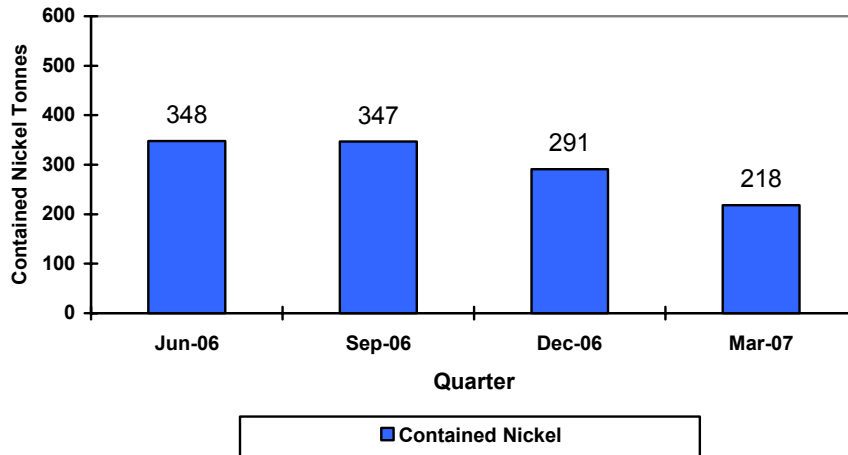
* Prior period unit costs have been recalculated to reflect the cost per tonne on Ni payable as per the Nickel West toll treatment agreement where a deduction is made from revenue for treatment. This therefore adds toll treating and cartage to the cash costs including state royalties and administration.

** 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 218 tonnes, which is significantly lower in comparison to previous quarters. The lower production is attributed as follows;

- Re-commencement of capital development of the Blair Main Decline inhibiting access to ore horizons in Blair Deep.
- A general decreasing in grades mined due to a combination of insitu grade reductions and to a lowering of mine cut-off grades resulting from higher Nickel prices .

Blair Mine - Quarterly Production



The direct mining cash costs for the quarter were A\$11.57/lb of nickel payable (Dec quarter A\$10.67/lb). As a result of increased capital development and lower nickel production, the cash cost per lb (including capital) of nickel was significantly higher than the previous quarter. Including the capital costs associated with the main decline development, cash costs were A\$ 20.64/lb of nickel payable (Dec quarter A\$13.81/lb). The cash cost per lb (including capital) is forecast to reduce as production increases and capital development requirements are reduced.

Mining during the quarter continued to focus primarily on development and stoping of the E03 and C01 shoots on the lower levels in Blair Deepes, Area 57 “new shoot” extensions and the L01 ore body.

Approximately 44% of the quarter’s production was sourced from Area 57 and the 907 L01 shoot. The remaining ore was sourced from the 01 and 03 ore contacts in the Blair Deepes.

Ore production from the Area 57 ore body has resulted predominantly from development and stoping of the southerly extension on the 1033 level beyond reserve boundaries. The 1047 Access broke into the stope during the quarter and production commenced above the previously stoped 1033 level.

There is expected to be a temporary weakening of the Blair Deepes ore shoots at this horizon. However exploration diamond drilling is to commence in mid April to confirm the content of the Blair Deepes shoots down dip of current development.

June 2007 quarter nickel production is forecast to improve as further working levels are developed in Blair Deepes and higher in the mine.

The smaller internal decline accessing Blair Deepes ore body was extended towards the 405 C01C level. Ore from the 405 C01C level will be accessed in the June Quarter.

The company hired (with an option to purchase) a single boom jumbo during the March quarter. It is intended to utilise this jumbo to access the L01 shoot below the successfully mined 907 stope. Development of an access decline and incline commenced at the 853 RL in March and will continue with the ore expected to be intersected in the June quarter. The new working areas on the LO1 shoot contain approximately 10,000 tonnes at 2.4% Ni.

A comprehensive underground diamond drill program is planned in the June quarter to confirm and increase the current mine ore reserves below the 415 level to the 350 level

Safety

There were no Lost Time Injuries (LTI's) at the Blair Nickel Mine during the quarter. As a result, the Blair Nickel Mine has now achieved 12 months LTI free.

There were three (3) injuries sustained during the quarter which required medical treatment, where no time was lost. This has resulted in a pleasing downturn in the frequency of Significant Injuries for the site.

Blair Nickel Mine 12 Month Rolling Safety Performance - FREQUENCY RATES													
Number of Employees	Manhours	Number of LTI's	Number of MTI's	Number of MI's	Number of Incidents	LTIFR	LTIIR	SIFR	SIIR	MIFR	MIIR	IFR	IR
497	97693	0	11	8	45	0	0	113	22	82	16	461	91

DUPLEX HILL SOUTH GOLD PROJECT

March Quarter activities

The Company is on track to diversify into gold production by the September quarter 2007, and to this end, is pleased to announce the following progress during the reporting period:

- (a) The Mining Proposal (NOI) was formally lodged for approval;
- (b) Work continued on final mining plans;
- (c) Negotiations commenced with Toll Milling entities and tentative bookings were made for treatment in the September Quarter;

Also agreements have been concluded with the relevant native title groups.

Work to be undertaken in the June quarter will include the definitive mine plan as well completion of the Notice of Intent and Management Plan. The Company will also seek to confirm toll milling facilities and enter into negotiations with mining contractors.

MINE EXPLORATION

BLAIR MINE EXPLORATION

Introduction

The company committed to increase the ore reserves in the upper part of the Blair mine, and a programme of diamond drilling and DHEM was completed as follows:

- Three underground diamond holes for 528 metres were drilled above and below the Area 57 contact orebody.
- Five underground diamond holes for 732 metres were drilled to test the L01C shoot above and below current workings.

Diamond Drilling

Work completed in the March quarter included the following:

Area 57 Southern Extensions

- (a) Drilling 20m above the 1033m RL production stope in the Area 57 extensions has intersected nickel ore (AMUG212 intersected **0.7m @1.68 % Ni**, and **0.3m @ 3.97% Ni**).

Mining is continuing in this zone and further drilling is required to determine the limits of the up dip extensions.

- (b) Drilling below the 1033m RL production stope indicates mineralisation is truncated by a local fault. Further work below this zone is required to fully understand and interpret possible repetitions of the Area 57 ore body at depth.

Development continues in this zone with a new level drive below the 1033mRL to test the extensions of the ore body.

L01C Shoot

Recent drilling above and below 1048 level has returned ore grade intersections. The holes were designed to establish platforms for DHEM testing of L01C Shoot and stay in the footwall of the shoot but, due to variations in the dip of the shoot, have intersected portions of the shoot. Because the drill holes essentially follow the interpreted dip of the shoot, true widths have not been estimated with the exception of hole AMUG202.

- (a) Hole AMUG202 drilling above the 1048 level to test L01C shoot up plunge intersected **8m @ 4.17% Ni** (expected true width of 1.5-2.0m).
- (b) Hole AMUG203 drilled below the 1048m RL level has intersected massive sulphides at both sediment/ultramafic and basalt/ultramafic contacts from 90 to 20 metres above the 907 production stope. (**1m @ 3.5% Ni, 5m @ 2.37% Ni, 1m @ 3.91% Ni and 8.6m @ 4.05% Ni**).

While the intersections are not true widths, they instill confidence that the L01 shoot will continue to increase the mine's nickel resource. Further holes are planned in this zone to confirm the intersections and ore model.

DHEM survey of the holes indicate conductors associated with both AMUG202 and AMUG203 which are aligned with the interrupted LO1 shoot.

- (c) Holes AMUG213, 214A & 215 tested the L01C shoot below the 907 production stope and although only low grade intersections were obtained, DHEM survey of the holes indicates a 10x40m conductor in the vicinity of the holes.
- (d) Hole AMUG209 drilling 50m below AMUG208 (2m @ 4.6% Ni) targeting the depth extensions of the LO1 shoot failed to intersect significant nickel mineralization. DHEM is now planned to interpret the ore distribution below AMUG 208 before further drilling is planned.

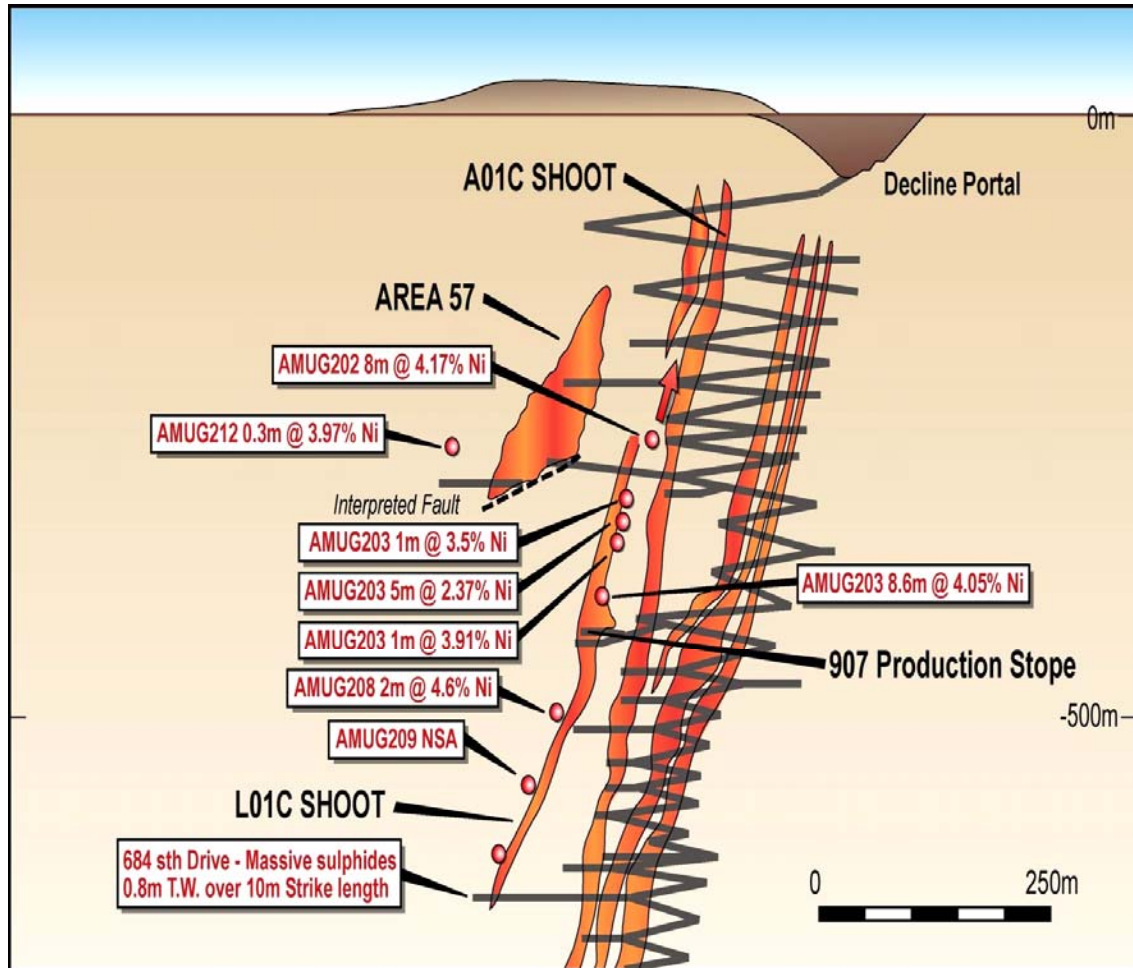


Figure 1: Area 57 and L01C Shoot – long section showing ore surfaces and recent diamond drill intercepts.

Hole Number	Northing (m)	Easting (m)	RL (m)	Depth (m)	From (m)	To (m)	Length (m)	Ni (%)
AMUG210	6579017	377017	1065	254.6	104.7	108	3.3	0.25
					209.4	121.4	3.0	0.23
AMUG211	6579017	377016	1068	129.6	94	94.4	0.4	1.36
AMUG212	6579017	377017	1068	144.2	68.3	69.0	0.7	1.68
					107.0	107.3	0.3	3.97

Table 1: Area 57 – Diamond Drill Intercepts March quarter 2007.

Hole Number	Northing (m)	Easting (m)	RL (m)	Depth (m)	From (m)	To (m)	Length (m)	Ni (%)
AMUG202	6579117	377077	1057	117	25	33	8	4.17
AMUG203	6579113	377074	1052		26.6	27.6	1	3.5
					45.4	50.4	5	2.37
					60.1	61.1	1	3.91
					113.4	122	8.6	4.05
AMUG209	6579101	377016	775	153.1	139	140	1	0.24
AMUG213	6579101	377016	778	111	87.6	90.6	3.0	0.24
AMUG214A	6579100	377016	778	120	104.7	106.7	2.0	0.30
AMUG215	6579101	377016	778	109	86.1	86.9	0.8	1.26

Table 2: L01C – Diamond Drill Intercepts March quarter 2007.

Planned Work for the June 2007 quarter.

Blair Deeps

Resource definition drilling of the E03, L03 and N03 Shoots and C01 Shoot is planned to confirm and increase the known ore resources below the current workings down to the 350 level.

Area 57

The Blair shoots, which have been mined continuously for 900 vertical metres, are located on the open contact at the base of a thick high MgO flow, whereas the Area 57 Orebody has been interpreted to sit at the base of a thinner flow in a flanking environment which has been affected by thrust faulting. The thrust faulting is not fully understood and additional underground mapping and geological re-interpretation will be used to generate new drill targets.

L01C Shoot

Up to three holes will be drilled adjacent to the intersections in AMUG202 to investigate the possibility of establishing another production area in the L01C Shoot.

REGIONAL EXPLORATION

MARRIOTT'S NICKEL PROJECT

Introduction

The Marriott's Nickel Deposit is located 70 km south west of the Leinster Nickel Operations, west of Laverton, W.A. Australian Mines has acquired an exclusive option to purchase the tenement for A\$500,000 before 30 June 2007 off BHP Billiton. Marriott's contains an Inferred Mineral Resource of 550,000 tonnes at 1.4% Ni for 7,500 tonnes of nickel metal.



Fig 2: Location Plan – Marriott's Project and Blair Project

Work completed in the March 2007 Quarter:

(a) Extensional Drilling

Six extensional diamond holes for a total of 709 metres were drilled to test for extensions to the known resource. Results from the AMMD008 holes are expected to significantly increase the resource potential of the deposit in the up-plunge direction with intersections of 12m @ 0.84% Ni , 9m @ 0.79% Ni and 7m @ 0.68% Ni (see table 3)

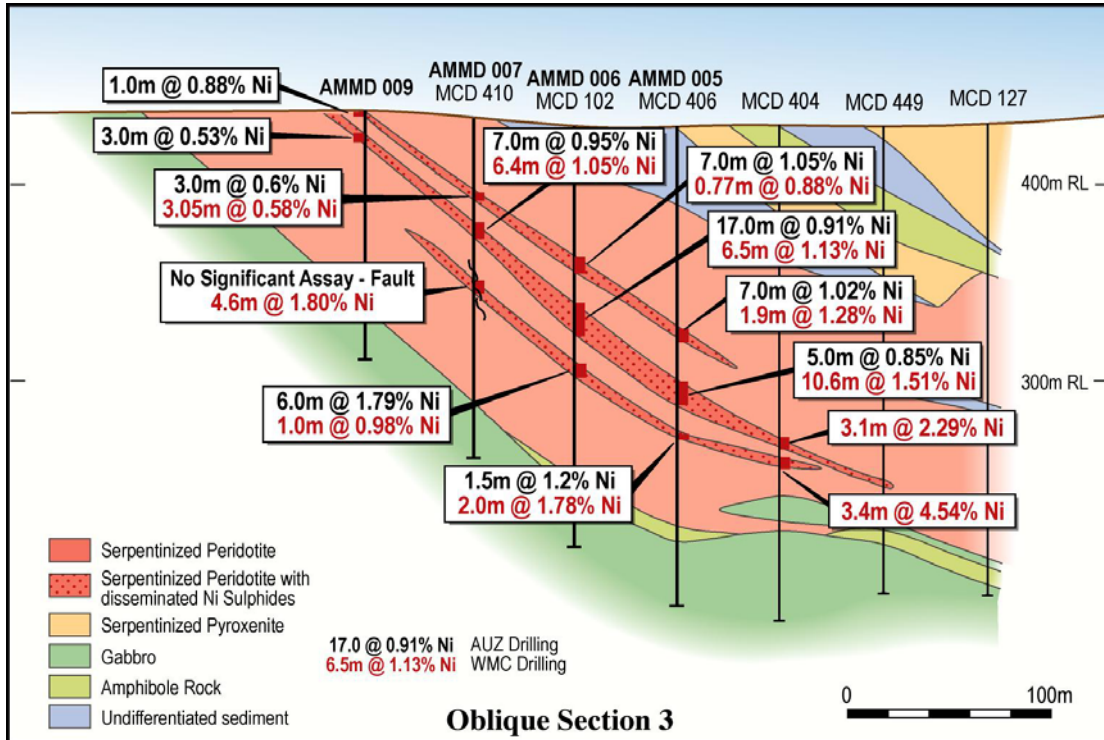


Fig 3: Marriotts - interpreted oblique section 3 with WMC intercepts and AUZ intercepts

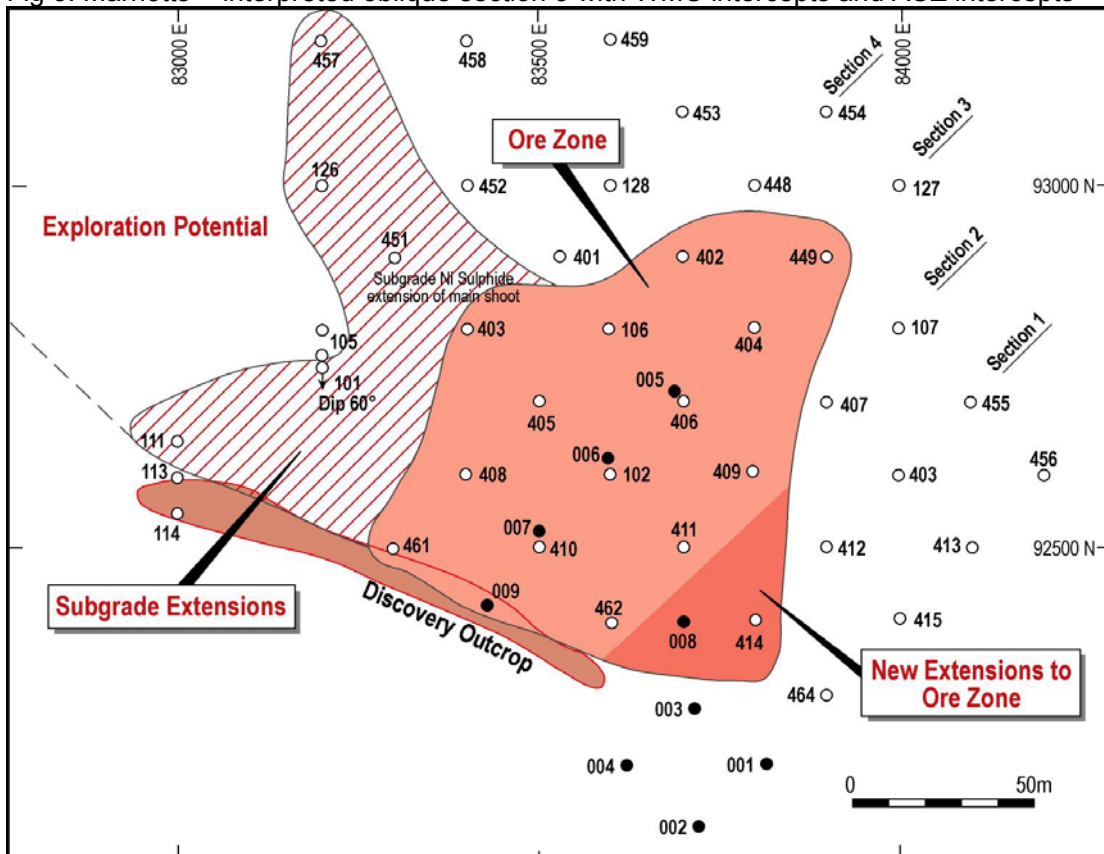


Fig 4: Marriotts - plan view of drill holes and nickel mineralisation

Hole Number	North (m)	East (m)	RL (m)	EOH Depth (m)	Intcpt From (m)	Intcpt To (m)	Intcpt Lgth (m)	Intcpt Ni (%)
AMMD001	6851035	303396	446	168.5	33.0	34.0	1.0	0.54
AMMD002	6851009	303370	436	54.4	2.0	5.0	3.0	0.40
AMMD003	6851068	303368	441	144	11.0	14.0	3.0	0.38
AMMD004	6851032	303340	442	92	13.0	14.0	1.0	0.62
AMMD008	6851094	303365	444	134.7	23.0	35.0	12.0	0.84
					41.0	50.0	9.0	0.79
					61.0	68.0	7.0	0.68
AMMD009	6851095	303274	447	115	5.0	6.0	1.0	0.88
					11.0	14.0	3.0	0.54
					20.0	21.0	1.0	0.64

Table 3: Marriott's – Australian Mines diamond intercepts March quarter 2007

(b) Metallurgical Studies

- (1) Preliminary tests conducted at the Leinster Nickel Operation by BHP Billiton have indicated that the recovery of nickel below the base of oxidation will range between 64% and 84% depending on mineralogy and grade.

The first pass assessment has highlighted the following:

- Nickel recovery ranged from 50.0% to 84.3% at high nickel concentrate grades of between 15% and 40%.
- Low iron and sulphur in the feed imposes a limit on the concentrate Fe/MgO achievable;
- Nickel head grades for the 'ore only' composites ranged from 0.5% to 1.65%, and averaged ~1.0% Ni.

(2) Recommendations by BHP Billiton

The results are encouraging enough to proceed to a second, more definitive phase of study. This would include:

- Further flotation tests on composites with waste material added to simulate mining dilution, extending to blends with LNO feed material.
- Complete a mineralogical evaluation using mineral liberation analysis (MLA).

(3) Comments

- The lowest recovery from an individual composite was from 30 metre depth at the base of joint oxidation

Planned Work for the June 2007 Quarter:

- (a) A series of twenty nine RC precollars and diamond tails for a total of 3635 metres will be drilled so as to bring the current inferred resource up to an indicated resource (At the time of writing the RC pre-collars have been completed and a diamond rig has been mobilised to site).
- (b) Metallurgical test work at BHP Billiton's Leinster Operations will be ongoing. In addition, another metallurgical consultant has been engaged to undertake independent metallurgical test work on behalf of the company
- (c) Mining optimisation studies and preliminary design work will be commenced as soon as a new resource model is completed.

GOLDEN RIDGE JV - NICKEL EXPLORATION:

Introduction:

The Golden Ridge JV (with Pioneer Mining ASX: PIO) has again been very aggressive during the quarter with RC drilling on the Blair South mineralisation, RAB drilling of the Blair – Blair South trend, and collection and interpretation of gravity data over the Blair- Blair South trend:

Blair South

Three dimensional modelling of drill hole geology, nickel mineralisation and down-hole EM data has resulted in the resolution of a deep conductor down plunge within the interpreted mineralised structure. This target will be tested with a 600m drill hole during the June quarter.

Results have been returned for the deeper along-strike RC holes, GRR030 to GRR036. GRR030 and GRR031, situated north of Blair South contained thick zones of anomalous nickel sulphides within the main ultramafic, and are considered significant.

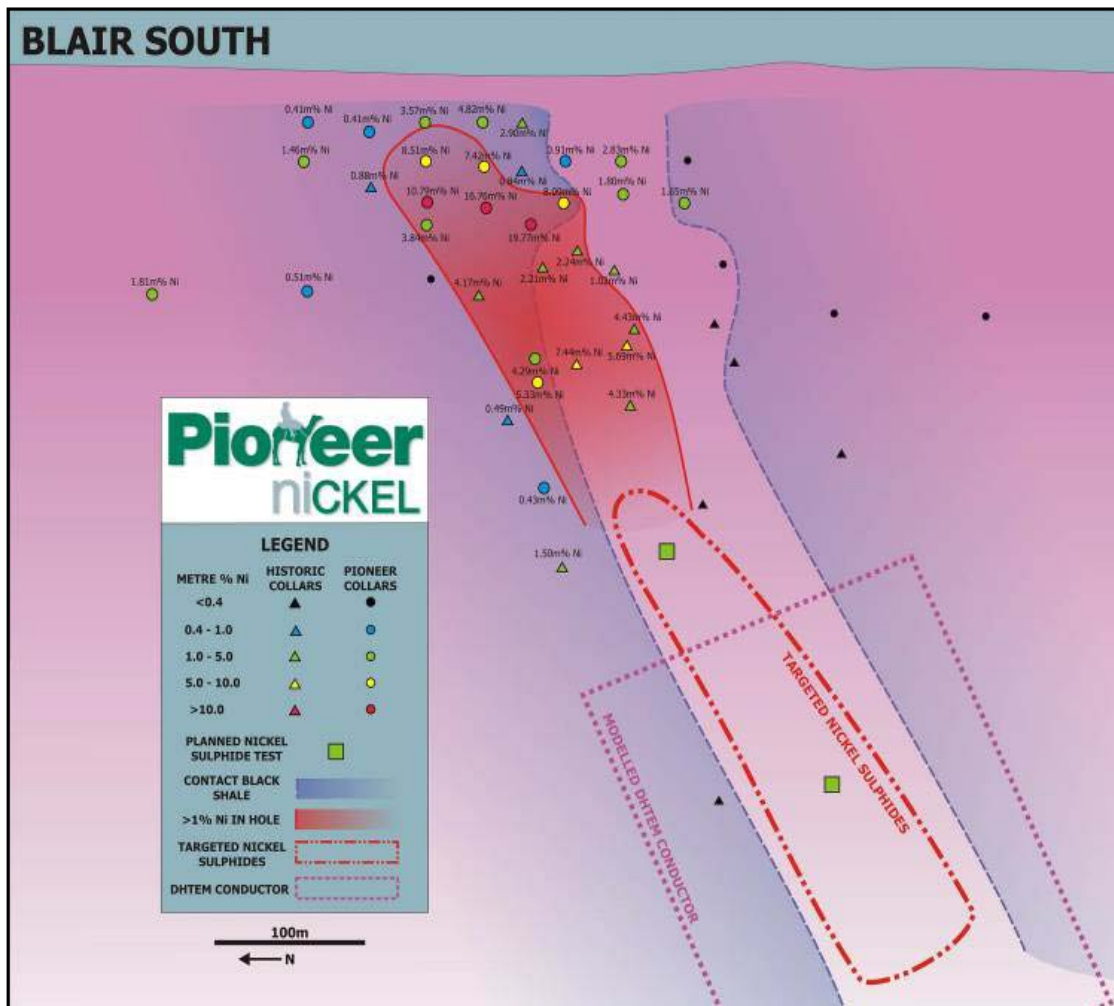


Figure 5 shows a long section of Blair South including the interpreted sediment-free basal contact location and proposed drill holes to test the nature of a conductive EM plate

Hole Number	North (m)	East (m)	RI (m)	EOH Depth (m)	Azimuth	Dip	Intcpt From (m)	Intcpt To (m)	Intcpt (m)	Ni (ppm)	Cu (ppm)
GRR030	6576950	377410	1360	220	90	-60	205	209	4	4013	292
GRR031	6576850	377390	1360	214	90	-60	152	153	1	5894	589
				214	90	-60	169	187	18	3479	228
GRR035	6576200	377060	1360	250	90	-60	57	70	13	4026	279

Blair South – significant intercepts, March quarter 2007

Blair to Blair South Trend

A RAB drilling program designed to follow up anomalous Ni-Cu intersections between Blair and Blair South was completed. The program comprised 55 holes for a total of 2,404m. Geological interpretations, based on RAB drilling, gravity, aeromagnetic and geochemical data has determined the positioning of a prospective basal ultramafic contact over a strike length of 4.5km.

This contact will be surveyed using the SQUID fixed loop EM system ahead of drilling.

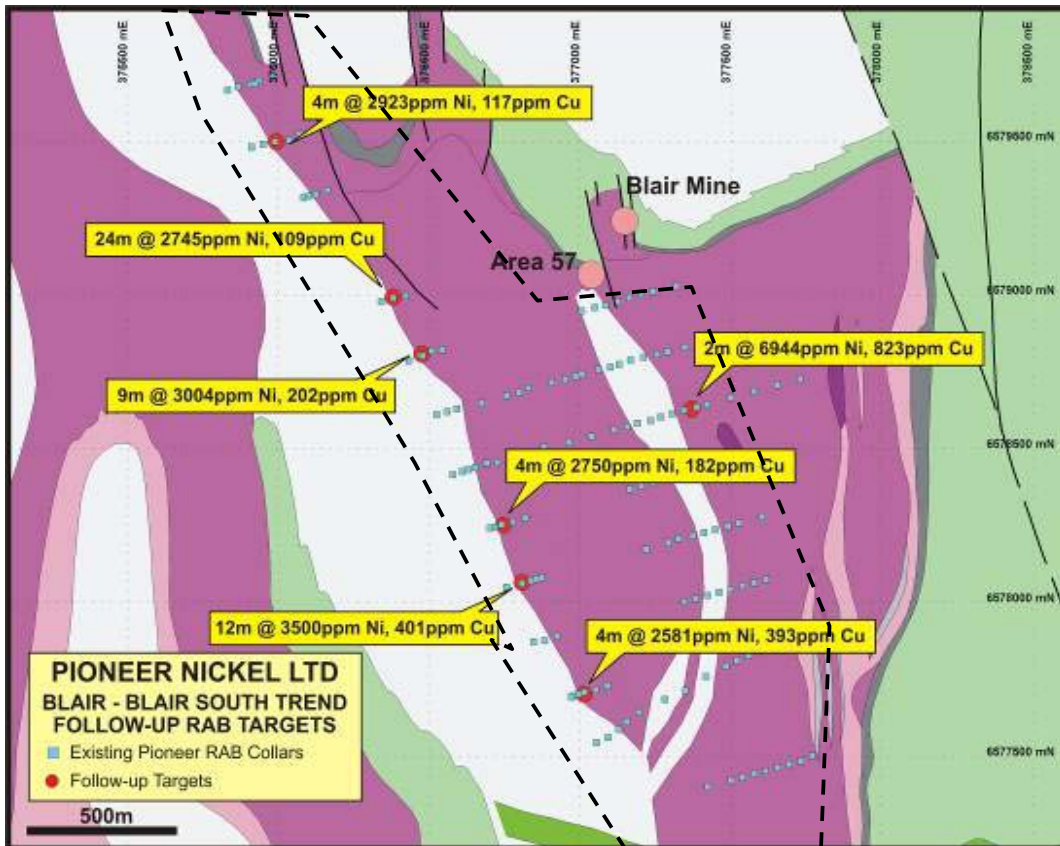


Figure 6 the geology of the Blair to Blair South zone, including anomalous RAB drill hole locations. The perimeter of the proposed SQUID FLTEM survey is shown as a dashed line.

GRJV Planned work for June 2007 quarter

(a) RC and diamond Drilling

Two RC infill holes are planned for Blair South , as well as a 600 metre deep diamond hole targeting an EM Anomaly.

(b) Regional RAB Drilling

Further regional RAB drilling is planned. Areas to be targeted are the Blair Mine contact to the east of the waste dump and the contact to the west of the Blair-Blair South area.

(c) Geophysics

5 RC holes have now had PVC casing installed and will now be Down Hole EM surveyed. A ' SQUID fixed loop EM survey is planned.

CORPORATE

Revenue for the March quarter was lower than the previous quarter due to reduced production from the mine as capital work continued in the main decline. This was partially offset by increased nickel prices received. Net profit for the quarter of \$1.3m (unaudited) was achieved.

December Quarter 2006 Key Financial Data	A\$M (unaudited) Sept Qtr	A\$M (unaudited) Dec Qtr	A\$M (unaudited) Mar Qtr
Gross Revenue	8.3	7.0	6.5
Net Cash Costs	3.3	3.9	3.0
EBITDA for Qtr	5.0	3.3	3.5
Net Profit after depn & amort for Qtr	3.2	2.7	1.3
Current assets (cash and debtors)	8.9	10.3	11.1
Current liabilities (payables/lease)	4.6	4.4	4.4
Net current assets/current liabilities	4.3	5.9	6.7

Operating cash costs (excluding capital) were A\$11.57/lb Ni payable (Dec quarter A\$10.67/lb). The total cash costs for the quarter (including capital development) were A\$20.64/lb Ni payable (Dec quarter A\$13.81/lb). Lower nickel metal production and increased capital development costs resulted in higher unit costs.

The Company received an average spot price of A\$53,464 per tonne of Ni payable or A\$24.25/lb for the March quarter (Dec quarter A\$19.44/lb). After hedging and 90 day final settlements received from BHP Billiton against December quarter production, the realised price was A\$24.84./lb Ni payable (Dec quarter A\$19.34/lb).

Currently, Australian Mines has hedging contracts for 116 tonnes of payable Ni covering production for the 3 months of the March quarter at an average delivery price of A\$53,300/tonne of nickel. (December quarter was 164 tonnes at A\$43,400/tonne)

The Company generated a cash flow from operations of \$7.3m for the quarter. After capital, exploration expenditure and loan repayments, cash flow was \$0.8m. Cash at bank increased to A\$5.7m at 31 March, 2007 (Dec 06 quarter was \$4.9m). The Company has mine equipment HP liabilities of approximately \$2.3m and no bank debt.



SUMMARY AND OUTLOOK

The capital expenditure program will be continued to ensure that the Blair mine is set up with sufficient working areas moving forward. The cost of the capital will be funded from earnings in the June quarter.

The Company expects to continue to benefit from very high nickel prices in the June quarter, with cash flow remaining strong. The Company maintains the policy of only hedging its current monthly production at 90 day settlement prices equal to or greater than the average monthly price.

At Marriott's, the Company has received preliminary results from metallurgical testwork indicating recoveries between 50% and 84% are achievable. Further definitive testwork is planned in the June Quarter. Infill and resource definition drilling is currently being completed. The programme is confirming the existing inferred resource of 7,500 tonnes of nickel and a new resource estimate is planned by the September quarter.

First gold production is anticipated in the September quarter from Duplex Hill South. Mining approvals and contract open pit tenders will be completed in the June quarter. Mine plans and toll treating options are being finalised.

The Golden Ridge Joint Venture has an aggressive drilling program in place at Blair South. This drilling will continue during June quarter to define a potential nickel sulphide open pit resource.

The Company is progressing opportunities for nickel acquisitions in Western Australia in the June quarter.

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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

