

QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 31 DECEMBER 2006

HIGHLIGHTS FOR THE QUARTER

BLAIR NICKEL MINE

- Solid operational performance at Blair Nickel Mine during the quarter, with a total of 9,445 dry tonnes at 3.08% Ni for 291 tonnes of contained nickel metal treated.
- The new southerly extension of the Area 57 ore shoot was further developed and some exploratory drilling was completed.
- Mine development is progressing in accordance with the new mine plan which has extended the mine life to beyond January 2008.

EXPLORATION

- Drilling commenced 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.
- To date, five holes have been drilled with assay results returned from two. Best intersections include;
 - 4 metres @ 1.3% Ni from 88m
 - 2 metres @ 2.05% Ni from 72m
 - 17metres @ 0.91% Ni from 81m
 - 6 metres @ 1.79% Ni from 101m
- Blair South diamond drilling continues to intersect wide medium grade sulphide nickel mineralisation.
- High grade nickel mineralisation intersected on the "L" shoot 140m below current working areas.

FINANCE AND CORPORATE

- December quarter production achieved an unaudited EBITDA of A\$3.3m and Net Profit after amortisation and depreciation of A\$2.0m.
- Year to date unaudited EBITDA is A\$8.3m and Net Profit after amortisation and depreciation is A\$5.2m.
- The company received a **record** price of A\$19.34/lb for 363,660 lbs of payable nickel for the quarter. Total mined costs including capital increased to A\$13.81/lb.
- At 31 December, 2006 the Company had cash and debtors of A\$10.3m and current liabilities of A\$4.4m.
- December quarter production was hedged at prices above the provisional monthly spot price. At the date of this report, the company has mined production of 164 tonnes Ni hedged at an average price of A\$43,400/ tonne. All future mine production is totally unhedged.

BLAIR MINE

Production and Development

Production statistics for the Blair Mine are given below:

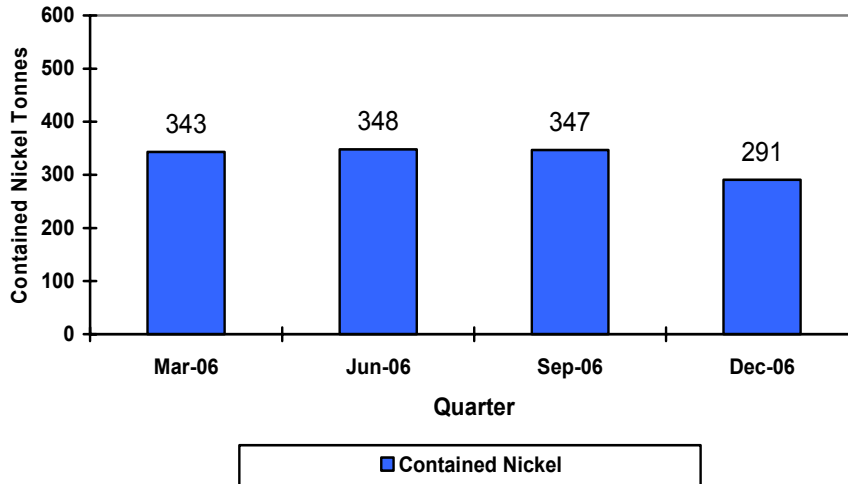
		Mar-06	Jun-06	Sep-06	Dec-06
Ore Mined	Tonnes	11,122	7,782	11,620	8,725
Cont Ni Mined	Tonnes	328	348	379	259
Ore Treated	Tonnes	12,044	7,782	10,900	9445
Grade	% Ni	2.86	4.48	3.18	3.08
	% Cu	0.19	0.27	0.19	0.19
Contained Ni	Tonnes	343	348	347	291
Recovered Ni	Tonnes	299	316	308	258
Payable Ni	Tonnes	190	202	197	165
Payable Ni	lbs	418,760	445,208	434,306	363,660
Nickel (Spot) Price (received)	A\$/lb	9.03	11.16	17.62	19.44
Final Price received incl 90 day adjustment**		10.06	12.04	18.75	19.34
Operating cash cost	A\$/lb	8.28	6.75	7.52	10.67
Total cost with capital development	A\$/lb	8.99	9.97	9.94	13.81

* 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 291 tonnes, which is lower in comparison to previous quarters. The lower production is due to the re-commencement of capital development of the Blair Main Decline and the resultant temporary loss of access to production areas in the lower regions of the mine. The capital decline development is required to secure the medium to long term access to deeper nickel sources, and is expected to take 5 months to complete.

Blair Mine - Quarterly Production



As result of recommencing capital development and lower nickel production, the cash cost per lb (including capital) of nickel was higher than the previous quarter. Including the capital costs associated with the main decline development, cash costs were A\$13.81/lb of nickel payable (Sept quarter A\$9.94/lb). The direct mining cash costs for the quarter were A\$10.67/lb of nickel payable (Sept quarter A\$7.52/lb).

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

Approximately 30% 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 Deeps.

The lowest level to produce ore in this quarter was the 418 level on the C01 shoot.

Ore production from the Area 57 orebody has resulted predominantly from development and stoping of the southerly extension on the 1033 level beyond reserve boundaries.

Access to the bottom production areas of the mine was re-established in early January 2007.

Forecast March 2007 quarter nickel production will be similar to the December quarter results, due largely to the main decline extensions. However, production levels will ramp up in the latter half of the quarter as the deeper ores become accessible.

The smaller internal decline accessing Blair Deeps orebody was completed in the December quarter with development extending to the 415m level. Ore production from this level will be accessed in the March Quarter.

Mining beyond this depth will require the completion of the planned development of the main larger decline to permit truck access to deeper levels. A comprehensive underground diamond drill program is planned in the March quarter to confirm and increase the current mine ore reserves below the 415 level to the 350 level.

Based on current nickel prices and ore reserves, the Blair mine plan has extended ore production well into 2008 subject to completion of additional capital development.

Safety

There were no Lost Time Injuries at the Blair Nickel Mine during the quarter.

There were five (5) injuries sustained during the quarter which required medical treatment, where no time was lost.

This trend of increased medically treated injuries is concerning and requires attention to rectify. Steps are being taken to better monitor safety performance and to proactively address safety issues in the interest of preventing accidents and incidents.

MINE EXPLORATION

BLAIR MINE EXPLORATION

Introduction

During the reporting period, 10 underground diamond holes for a total of 1234 metres were drilled above and below the Area 57 contact southern extension orebody. In addition, a 329 metre underground diamond hole was drilled to successfully test the L01C shoot below current workings, and then drill on to test an interpreted strong conductor which is located 200 metres below the lowest workings at Area 57.

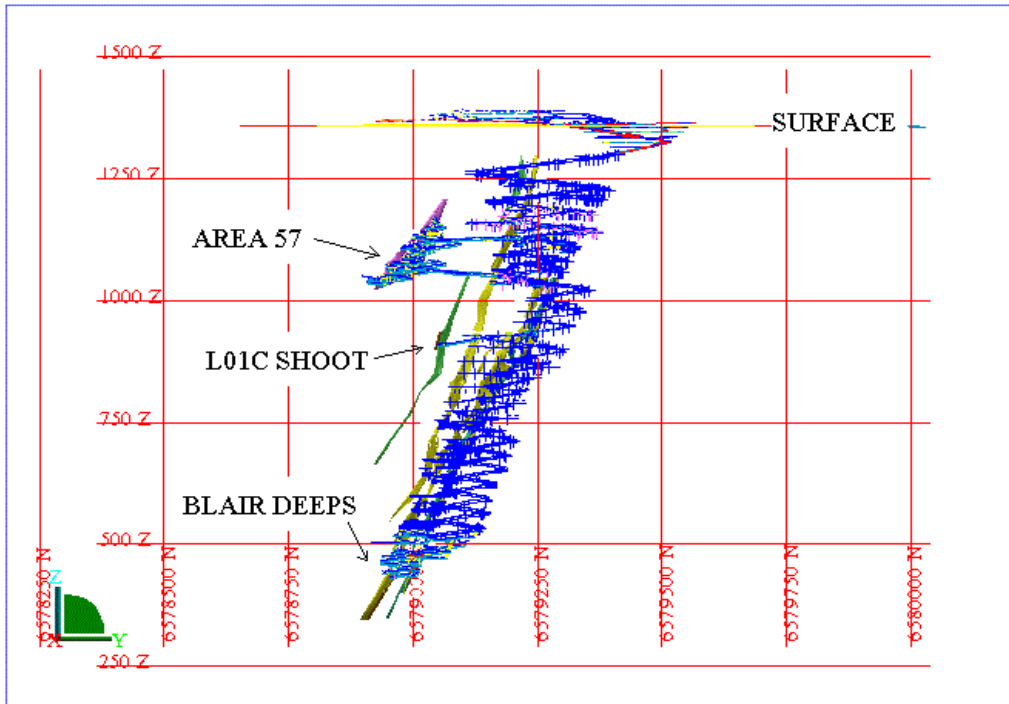


Figure 1: Blair Mine – long section showing the current production areas

Area 57 Exploration

Work completed in the December quarter included the following:

(a) Drilling along strike

Two holes were drilled along strike and to the south of the newly discovered 'contact orebody' so as to better understand the geology and also to search for new ore positions.

No significant nickel mineralisation was found and DHEM surveys did not locate any significant new conductors.

(b) Drilling below the 'Contact Orebody' (see Fig.2)

Five short holes were drilled below the contact orebody at the 1033 level to test ore positions down plunge for mining purposes.

The massive nickel ore from this drilling has a strike length of approximately 20 metres and is up to 0.6m thick, but assaying has shown the ore to be low tenor and grading at about 2% nickel. Subsequent DHEM probing of 2 holes has located a large strongly conductive plate immediately to the south.

The drilling also located massive nickel ore up to 1 metre thick in the hangingwall which appears to be fault emplaced, but subsequent DHEM surveys suggest the main nickel target is lower and to the south of the recent drilling (see Fig 2).

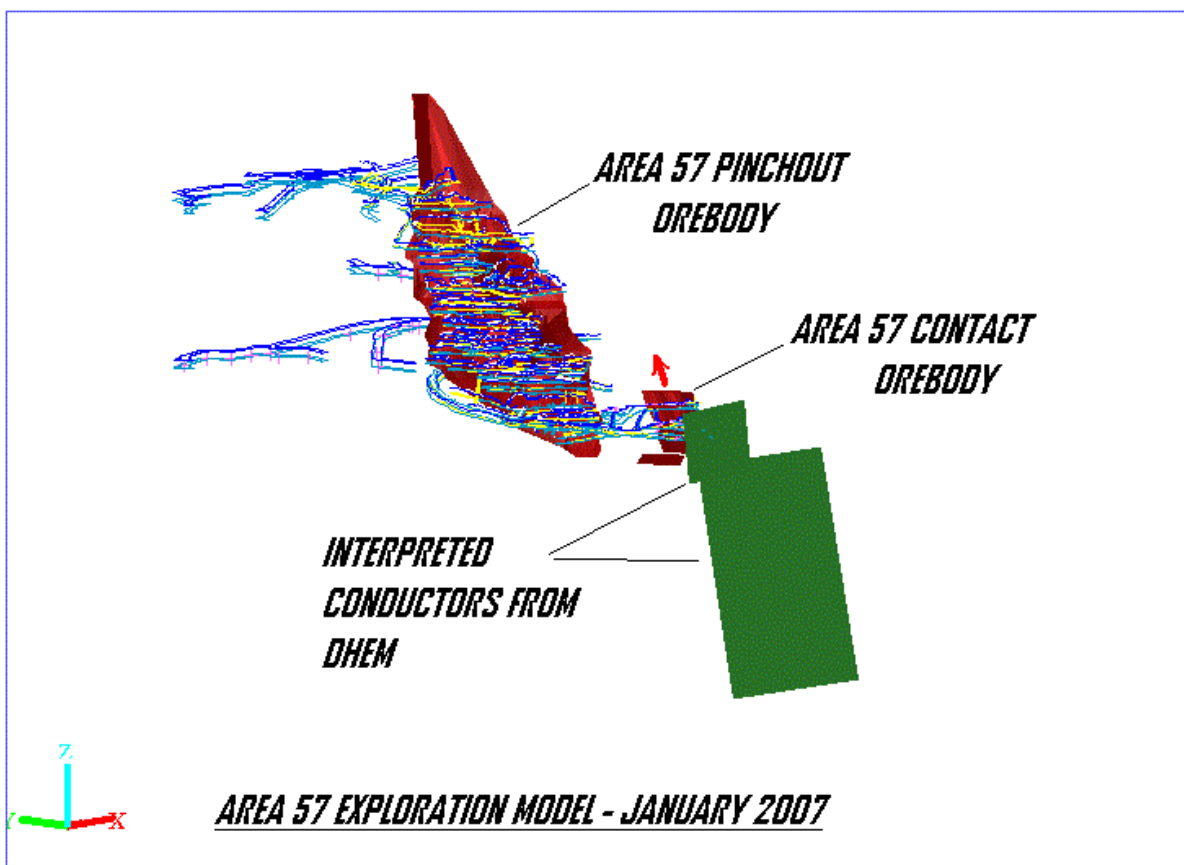


Figure 2: Area 57 Exploration progress –December Quarter 2007

(c) Drilling of L01C Shoot and strong EM Target (200 metres below Area 57)

Exploration diamond drill hole AMUG208 targeted the L01C shoot plus a strong EM conductor which is located some 200 metres below the current Area 57 stoping (see Fig. 3).

Unexpectedly, the hole a very high grade intersection of 2m @ 4.6% Ni on the L01C shoot at 100 metres down hole. This is 140 metres below the operating 907 level with massive and disseminated nickel mineralisation.

From 228-242 metres down hole, the drill hole intersected 14 metres of sulphidic banded sediments, followed by 8 metres of sediment/ultramafic breccia from 242 – 250 metres down hole with up to 20% disseminated and blebby pyrite and pyrrhotite with no significant nickel assays being returned.

The hole is cased and awaiting DHEM survey.

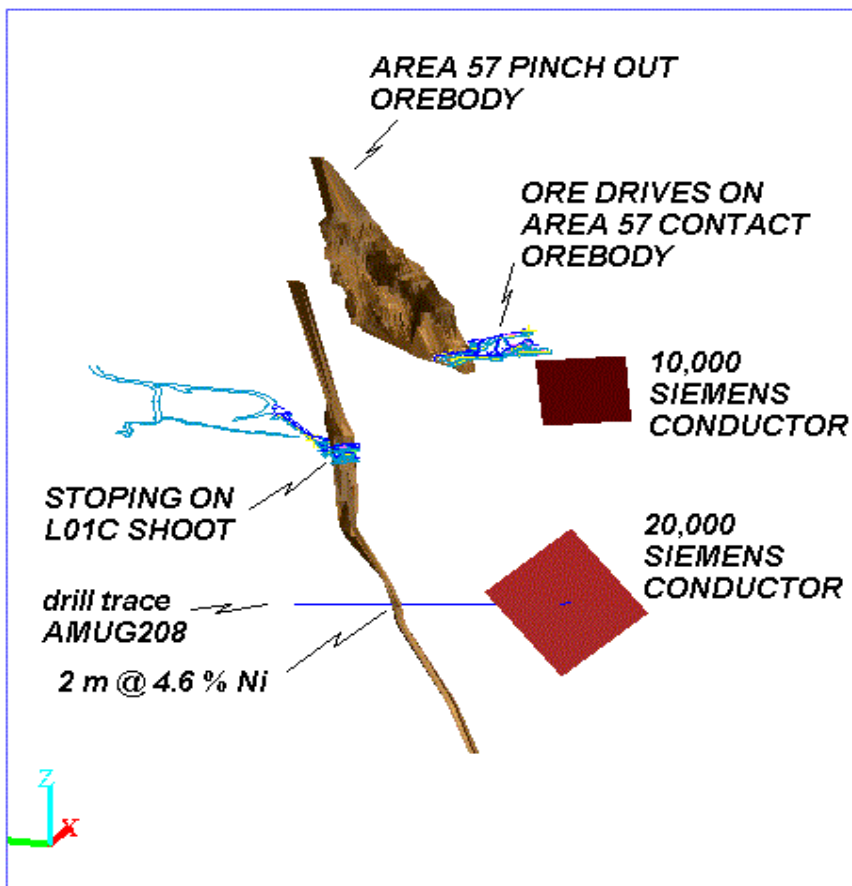


Figure 3: Area 57 and L01C Shoot – long section showing ore surfaces and EM Targets

Hole Number	Northing (m)	Easting (m)	RL (m)	Depth (m)	From (m)	To (m)	Length (m)	Ni (%)
AMUG191	6569017	377016	1068	129	67.5	68	0.5	1.23
					87	88.25	1.25	1.88
AMUG192	6569017	377016	1068	155	101	101.5	0.5	1.57
					119	121	2	0.8
AMUG193	6569017	377016	1068	183	114.35	118	3.65	0.91
					115.4	116	0.6	3.29
AMUG194	6569017	377016	1068	217	200.6	201	0.4	0.58
AMUG196	6569017	377016	1068	245	187	188	1	0.64
					197	198	1	0.45
					202	202.6	0.6	0.53
AMUG198	6569899	376950	1040	59	23.9	24	0.1	2.38
AMUG199	6569899	376950	1040	72				nsa
AMUG204	6569899	376950	1040	41	20.3	22	1.7	1.08
AMUG205	6569899	376950	1040	47	24.8	26	1.2	1.38
AMUG206	6569899	376950	1040	90	30.1	30.5	0.4	0.82
AMUG207	6569899	376950	1040	48	21.6	22	0.4	1.79
					35.2	37	1.8	4.02
AMUG208	6579101	377016	773	329	100.1	102.1	2.0	4.59

Table 1: Area 57 – diamond intercepts December quarter 2006.

Planned Work for the March 2007 quarter.

Blair Deeps

A series of underground diamond drill holes will be drilled and probed on the E Shoot, C Shoot and the N Shoot to confirm and increase the known ore resources below the current workings to the 350 level.

Area 57

Diamond drilling and DHEM surveys will continue to explore the Area 57 System and the EM conductors above and below Area 57.

L01C Shoot

(a) Two geophysics platform holes will be drilled parallel to the ore body from the 1048m RL and cased for DHEM survey, which should provide a cost effective means of exploring 200 vertical metres of the shoot above the current production stope at 907 level by highlighting areas of high conductance.

(b) Drilling will also be planned to target the inferred resource below the 907 level. Resource definition drilling will be focussed below the current production stope where intercepts such as 2m @ 4.8% Ni, 3.9m @ 5.43 % Ni, 3.1m @ 1.63 % Ni and 2.8m @ 1.01 % Ni have been returned from previous drilling.

REGIONAL EXPLORATION

MARRIOTT'S NICKEL PROJECT

Introduction

The Marriott's Nickel Deposit is located on granted mining lease M37/96 and situated 70 km south west of the Leinster Nickel Concentrator. The project is currently owned by BHP Billiton. However, Australian Mines has acquired an exclusive option to purchase the tenement for A\$500,000 before 30 June 2007. The company has previously reported the project contains an inferred resource of 550,000 tonnes at 1.4% for 7,500 tonnes of nickel metal.

The current diamond drilling programme was designed to test the previous drilling results, conduct metallurgical testwork and test the up-dip potential of the deposit.



Fig 8: Location Plan – Marriott's Project and Blair Project

Marriott's Work completed in the December 2006 Quarter

Three surface diamond holes for a total of 448.7 metres were drilled alongside historical WMC holes (see Fig, 9) so as to provide assay comparisons and also to provide material for metallurgical test work at BHP Billiton's Leinster mill.

The ore zones are visible as blebby and disseminated sulphides, and the position of the ore is geologically described as being at the base of thin komatiite flows, and sitting on the skeletal quench textured top of the preceding flow.

The results obtained by Australian Mines to date are indicating some local variation from the WMC results, but overall the drilling results are considered to be very encouraging.

Hole Number	North (m)	East (m)	RL (m)	EOH Depth (m)	Intcpt From (m)	Intcpt To (m)	Intcpt Lgth (m)	Intcpt Ni (%)	WMC result (m)	WMC Intcpt Ni (%)
AMMD005	6851185	303365	444	175.7	76	77	1	1.23	85.6m - 88.5m	2.9m@1.28%
					88	95	7	1.02		
					inc 88	92	4	1.30		
					104	109	5	0.86		
AMMD006	6851154	303335	443	146	132.1	133.6	1.5	1.2	109.4m- 120.1m	10.7m@1.5%
					inc 68	75	7	1.05		
					72	74	2	2.05		
					81	97	17	0.91		
AMMD007	6851123	303035	444	167	101	107	6	1.79	103m - 104m	1m@0.98%
					30	33	3	0.60		
					37	39	2	0.61		
					41	48	7	0.95		
									32m -35.0m	3.0m@0.58 %
									44.19 - 50.9	6.42m@1.05% 4.58m@1.8%

Table 2: Marriott's – Australian Mines diamond intercepts December quarter 2006 versus WMC results

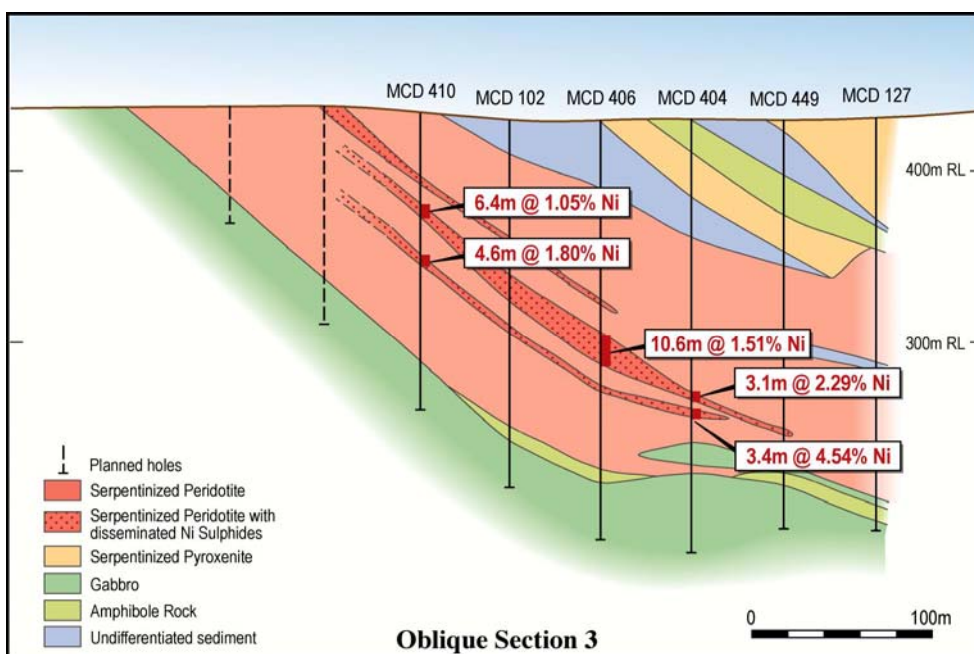


Figure 9: Marriott's Nickel Deposit previous drilling by WMC Resources - drill section 3 (Previous WMC Resources holes MCD406, 102 and 410 were twinned by Australian Mines Ltd. in December 06 quarter)

Marriott's Planned work for the March 2007 quarter

- (a) A series of four diamond exploration holes will be drilled to test and locate ore up-dip of the existing resource. (see Figure 10)
- (b) Metallurgical test work will be undertaken at BHP Billiton's Leinster Operations
- (c) Australian Mines will conduct independent metallurgical test work on the Marriott nickel ore.

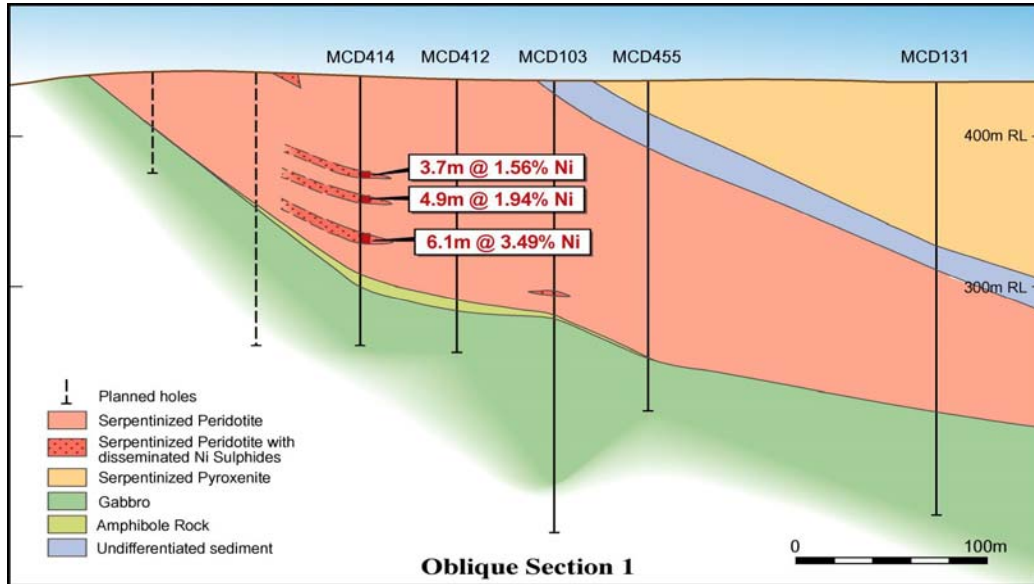


Figure 10: Marriott Nickel deposit – WMC Resources drill section 1
(The dashed up-dip holes will be drilled by Australian Mines in March 07 quarter)

GOLDEN RIDGE JV - NICKEL EXPLORATION

Introduction:

The Golden Ridge JV (with Pioneer Mining ASX: PIO) has 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:

An ongoing multifaceted Blair South drilling programme commenced during the quarter, targeting:

- Immediate up-plunge mineralisation (856 RC metres).
- Shallow mineralisation immediately south of the currently defined mineralisation (808 RC metres).
- Potential parallel mineralisation to the north and south of Blair South (1609 RC metres to date).

The shallow thickened mineralisation has been extended up-plunge. The thickened +1% Ni zone does not extend within approximately 50 metres of the surface, although the thick zone of anomalous nickel sulphides was encountered in all up-plunge drill holes. Significant intersections are detailed in Table 2 (GRR017 – GRR023). The serpentinised komatiite hosting the disseminated nickel sulphides was fresh with the sulphides appearing to be unweathered. Polished thin section analysis will be required to accurately locate the lower extent of the transition sulphides at Blair South.

Five of the six drill holes testing for shallow mineralisation immediately south of the currently defined mineralisation have had assays returned. The thick zone of disseminated mineralisation is seen in all holes except for GRR029. Two holes, GRR024 and GRR027 intersected greater than 1% nickel sulphides (see Table 2). Assaying of 1m splits for anomalous composites is pending for these holes.

The contact testing at depth north and south of Blair South has intersected pyrrhotite-pyrite-dominant disseminated sulphides in most holes hosted within moderate- to high-MgO komatiite. Assays are pending for all holes. Two metres of up to 80% massive pyrite with minor pyrrhotite was intersected in GRR035, though high priority assays showed the sulphides did not contain nickel sulphides. The final hole in the program was abandoned due to expanding clays. This hole is to be completed as a diamond tail.

DHTEM is planned for these deeper along-strike holes.

Hole ID	Easting (m)	Northing (m)	Dip	Azimuth	Hole Depth (m)	From (m)	To (m)	Intercept (m)	Ni %	Cu %
GRR020	377465	6576770	-60	90	110	63	70	7	1.22	0.13
inc						64	69	5	1.48	0.17
GRR021	377483	6576770	-60	90	80	43	49	6	0.60	0.05
GRR022	377446	6576730	-60	90	110	76	86	10	0.74	0.06
inc						79	81	2	1.08	0.08
GRR023	377472	6576730	-60	90	154	48	56	8	0.60	0.07
GRR024	377424	6576680	-60	90	130	97	108	11	0.74	0.07
inc						100	104	4	1.14	0.11
GRR025	377443	6576680	-60	90	118	73	75	2	0.45	0.04
GRR026	377405	6576640	-60	90	142	105	112	7	0.51	0.05
GRR027	377423	6576640	-60	90	124	87	97	10	0.50	0.04
inc						87	88	1	1.14	0.12

Table 2: Blair South - Significant RC intercepts December quarter 2006

Intercepts are “down-hole” metres. No estimate regarding true thickness is made or implied.

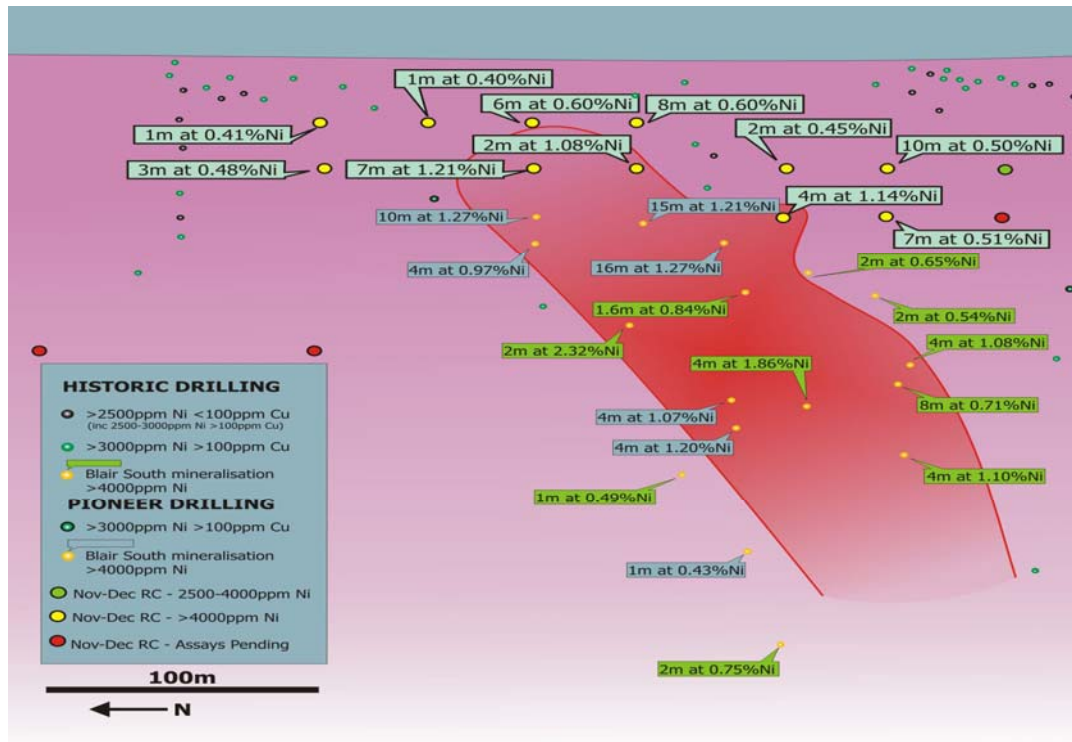


Figure 4. Blair South Long Section

Blair to Blair South Trend

Most results have been returned for the Blair-Blair South Trend drilling. The program to date consists of 148 RAB holes for 7205 metres. The programme has identified seven areas of significant anomalism that will require follow-up drill testing (Figure 5). Most anomalism is situated along the western contact; however the most anomalous zone is located east of the newly identified central contact zone. Anomalous results from composite samples are contained in Table 3. One metre samples for composites exceeding 2500ppm Ni and 75ppm Cu have been submitted.

Hole ID	Easting (m)	Northing (m)	Dip	Azimuth	Hole Depth (m)	From (m)	To (m)	Intercept (m)	Ni ppm	Cu ppm
GRB0014	377483	6578782	-60	90	20	5	14	9	3847	398
						5	7	2	6944	823
GRB0021	376946	6578220	-60	90	65	55	62	7	3897	299
Inc						59	62	3	4656	348
GRB0022	376977	6578230	-60	90	53	18	30	12	3500	401
GRB0089	376174	6579660	-60	90	79	18	22	4	2923	117
GRB0098	376479	6579136	-60	90	61	34	58	24	2745	109
GRB0108	377264	6579136	-60	90	66	40	44	4	5143	138
GRB0110	377341	6579160	-60	90	49	36	38	2	3197	199
GRB0118	376894	6578830	-60	90	59	5	17	12	2821	137
GRB0132	376840	6578400	-60	90	39	30	34	4	2750	182
GRB0133	376878	6578411	-60	90	48	25	27	2	3082	109
GRB0146	376856	6578403	-60	90	61	12	16	4	2581	393
GRB0147	376616	6578959	-60	90	48	32	41	9	3004	202

Table 3: Blair to Blair South trend – significant RAB intercepts December quarter 2006

Intercepts are “down-hole” metres. No estimate regarding true thickness is made or implied.

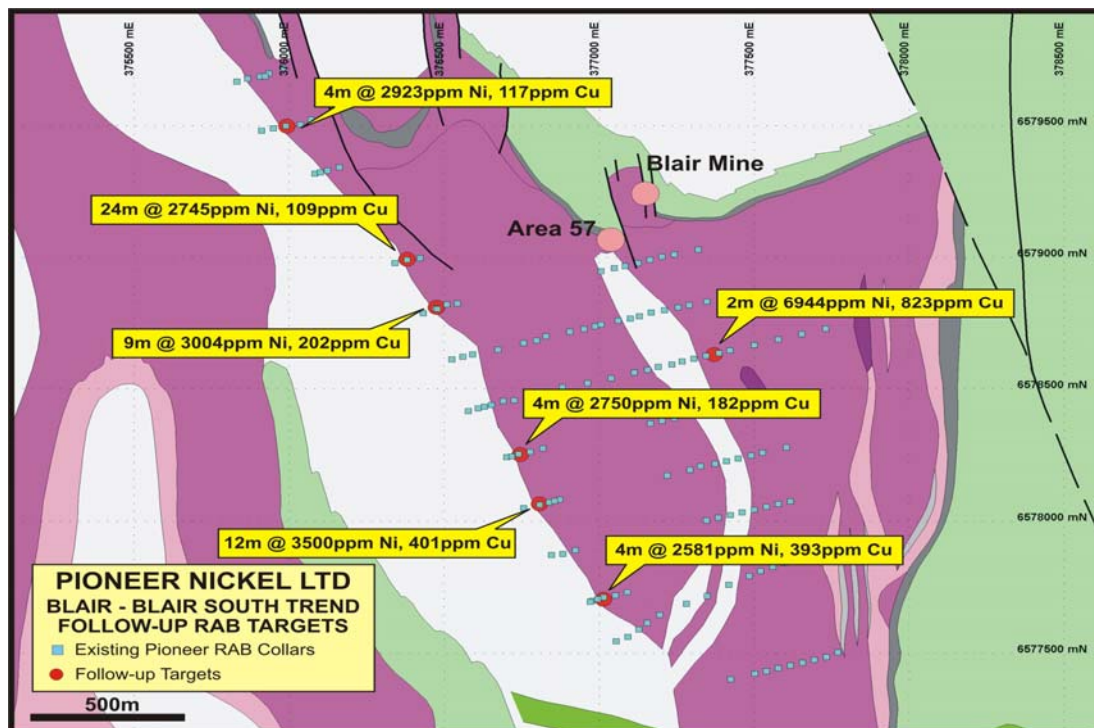


Figure 5. RAB drilling follow up targets (targets = red dots, GRJV RAB drilling = blue squares)

GRJV Planned work for March 2007 quarter

(a) Marshall Prospect

A diamond rig is to be sourced to complete three diamond tails at Marshall so as to test a faulted down dip projection of previous shallow ore grade intercepts.

(b) Blair South Project

It is planned that at least one diamond hole be drilled down the mineralisation at Blair South to allow metallurgical testing and thin section analysis prior to undertaking detailed resource definition drilling.

(c) Blair to Blair South Trend

Ongoing RAB drilling will be used to further test anomalous areas as defined by previous drilling.

DUPLEX HILL SOUTH GOLD PROJECT

December quarter activities

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

- (a) A mining lease was granted in November 2006;
- (b) The mullock dump site was sterilized;

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

Work to be undertaken in the March quarter will include the mine plan as well completion of the Notice of Intent and Management Plan. The Company will also seek toll milling opportunities from within the region.

CORPORATE

Revenue for the December quarter was lower than the previous quarter due to reduced production from the mine as capital work recommenced in the main decline.

Increased nickel prices and the Company's minimal hedging position helped offset the lower production. This produced a net profit for the quarter of \$2.0m (unaudited).

December Quarter 2006 Key Financial Data	A\$M (unaudited)	A\$M (unaudited)
	Sept Qtr	Dec Qtr
Gross Revenue	8.3	7.0
Net Cash Costs	3.3	3.9
EBITDA for Qtr	5.0	3.3
Net Profit after depn & amort for Qtr	3.2	2.0
Current assets (cash and debtors)	8.9	10.3
Current liabilities (payables/lease)	4.6	4.4
Net current assets/current liabilities	4.3	5.9

Operating cash costs (excluding capital) were A\$10.67/lb Ni payable (Sept quarter A\$7.52/lb). The total cash costs for the quarter (including capital development) were A\$13.81/lb Ni payable (Sept quarter A\$9.94/lb). Lower nickel metal production resulted in higher unit costs.

The Company received an average spot price of A\$42,848 per tonne of Ni payable or A\$19.44/lb for the December quarter (Sept quarter A\$17.62/lb). After hedging and 90 day final settlements received from BHP Billiton against September quarter production, the realised price was A\$19.34./lb Ni payable (Sept quarter A\$18.75/lb).

Currently the hedging position of the Company is 164 tonnes of payable Ni covering production for the 3 months of the December quarter at an average delivery price of A\$43,400/tonne of nickel. (September quarter was 194 tonnes at A\$39,533/tonne)

The Company generated a cash flow from operations of \$4.3m for the quarter. After capital, exploration expenditure and loan repayments cash flow was \$2.7m. Cash at bank increased to A\$4.9m at 31 December, 2006 (Sept 06 quarter was \$2.2m). The Company has mine equipment HP liabilities of approximately \$1.3m.



SUMMARY AND OUTLOOK

The Company expects to continue to benefit from very high nickel prices in the March quarter, with cash flow remaining strong. Future production remains unhedged with only “post mine” production being hedged.

Given the significance and success of Marriott’s early confirmation drilling, the Company will fast track metallurgical and infill drilling during the March quarter. The programme will test the up dip potential and confirm existing information on the project, which currently has an inferred resource of 7,500 tonnes of nickel. Metallurgical test work will also be undertaken during the March quarter.

Gold production in the future is expected from Duplex Hill South with the granting of the mining lease and mining approvals being progressed.

The Golden Ridge Joint Venture has an exciting drilling program in place at Blair South where initial estimates of indicated resources are 150,000 tonnes of nickel at 1.4% for 2,100 Ni tonnes. This drilling will continue during March quarter to define a potential sulphide nickel open pit.

The Company is actively seeking other opportunities for further nickel and gold acquisitions in Western Australia in the March 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

