

QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 30 SEPTEMBER 2006

HIGHLIGHTS FOR THE QUARTER

BLAIR NICKEL MINE

- The Blair Nickel Mine continues to produce in line with forecasts. A total of 10,900 dry tonnes at 3.18% Ni for 347 tonnes of contained nickel metal was mined during the quarter.
- Nickel resources increased by 45% to a Measured, Indicated and Inferred Resource of 109,000 tonnes at 5.19% Ni for 5,660 tonnes of contained nickel, after consideration of production of 1,447 nickel tonnes for 2005/06.
- A southerly extension of the Area 57 ore shoot was discovered and developed during the quarter, which has the potential to further expand the current resource.
- Resource definition drilling results received for Blair Deeps include:-
 - AMUG 182A: 2.32m @ 3.81% Ni from the E Shoot
 - AMUG 183: 19.0m @ 3.61% Ni from the C Shoot
- Reconciliations of Blair Deeps ore bodies continue to exceed Ore Reserve estimates and provide confidence for the Company to continue to extend the decline and mine life.
- A new mine plan is being finalised based on successful drilling results at depth which is expected to extend the mine life to beyond January 2008. This plan does not include any further reserves still to be proven up in Area 57 "new shoot" or L shoot extensions.

EXPLORATION

- The Company has acquired an option on the Marriott's Nickel Project which has an Inferred Resource of 550,000 tonnes at 1.4% Ni for 7,500 tonnes of nickel.
- Marriott's is located a mere 70kms from Leinster. The agreement includes an offtake agreement with BHP Billiton to treat the ore at the Leinster treatment facility. Drilling is planned for the December quarter to test the up-dip potential of the ore body and confirm known mineralisation.
- Golden Ridge Joint Venture reports new Blair South Indicated Resource of 150,000 tonnes at 1.4% Ni for 2,100 contained tonnes of nickel.

FINANCE AND CORPORATE

- September quarter production achieved a **record** unaudited EBITDA of A\$5.0m and Net Profit after amortisation of A\$3.2m.
- The Company's sales of nickel achieved a **record** price of A\$18.75/lb for 434,306 lbs of payable nickel for the quarter. Total mined costs remained steady at A\$9.94/lb.

- At 30 September, 2006 the Company had cash and debtors of A\$8.9m and current liabilities of A\$4.6m.
- September quarter production was hedged at prices above the provisional monthly spot price. At the date of this report, the Company has mined production of 194 tonnes Ni hedged at an average price of A\$39,533/tonne. All future mine production is totally unhedged.

BLAIR MINE

Production and Development

Production statistics for the Blair Mine are given below:

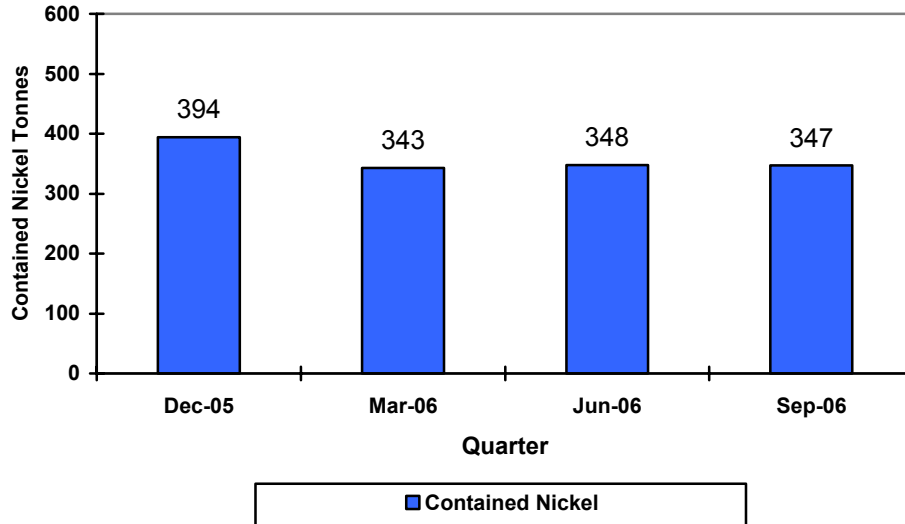
		Dec-05	Mar-06	Jun-06	Sep-06
Ore Mined	Tonnes	11,974	11,122	7,782	11,620
Cont Ni Mined	Tonnes	403	328	348	379
Ore Treated	Tonnes	11,269	12,044	7,782	10,900
Grade	% Ni	3.49	2.86	4.48	3.18
	% Cu	0.20	0.19	0.27	0.19
Contained Ni	Tonnes	394	343	348	347
Recovered Ni	Tonnes	353	299	316	308
Payable Ni	Tonnes	226	190	202	197
Payable Ni	lbs	498,104	418,760	445,208	434,306
Nickel (Spot) Price (received)	A\$/lb	7.66	9.03	11.16	17.62
Final Price received incl 90 day adjustment**		6.77	10.06	12.04	18.75
Operating cash cost	A\$/lb	6.61	8.28	6.75	7.52
Total cost with capital development	A\$/lb	7.52	8.99	9.97	9.94

* 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 347 tonnes which is comparable to the previous quarter.

Blair Mine - Quarterly Production



The cash cost per lb (including capital) of nickel was marginally lower than the previous quarter. Including the capital costs associated with the decline development, cash costs were A\$9.94/lb of nickel payable (June quarter A\$9.97/lb). The direct mining cash costs for the quarter were A\$7.52/lb of nickel payable (June quarter A\$6.75/lb).

Mining during the quarter continued to focus mainly 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.

Mining in the C01 shoot included recovery of pillars above and below the in-ore decline at the 460 and 470 levels.

The lowest level to produce ore in this quarter was the 430 level on the E03 shoot.

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

During the quarter, ore tonnes mined increased, compared to the previous quarter mainly due to the recovery of the C01 shoot decline pillars and the inclusion of stope production from the L01 shoot on the 907 level.

The pillar recovery however, resulted in slightly lower ore grades compared to the previous quarter.

Forecast December quarter nickel production will be similar to the September results with slightly lower ore tonnages but at slightly higher grades.

The smaller decline accessing Blair Deeps orebody will be completed in the December quarter with development extending to the 415m RL.

Mining beyond this depth will require a new mine plan involving extending the main larger decline from the current position to permit truck access to deeper levels.

It is predicted that, based on current commodity market conditions, the Blair mine plan will extend ore production 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 was one (1) minor injury during the quarter which required medical treatment, where no time was lost.

MINE EXPLORATION

Blair Mine Exploration

Introduction

During the reporting period, underground diamond drilling and Down Hole Electromagnetic Surveys (DHEM) were undertaken at Blair Deeps, L01C Shoot and Area 57. An inclined exploration rise discovered a new ore shoot at Area 57.

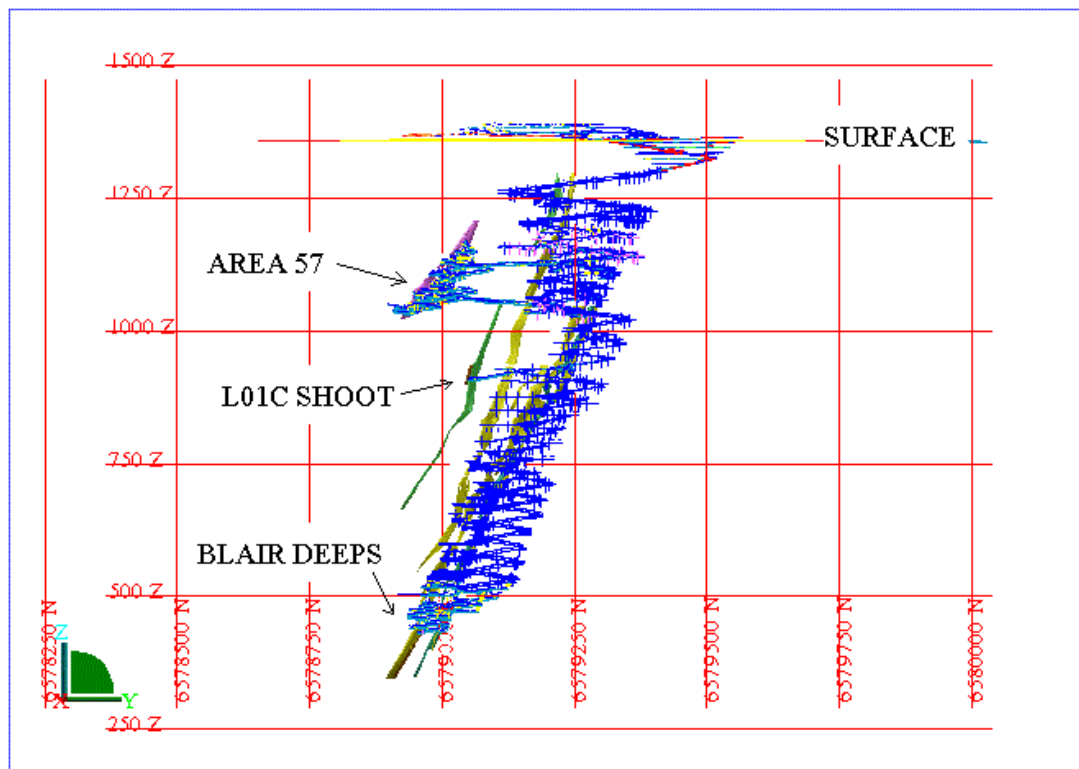


Figure 1: Blair Mine – long section showing the current production areas

Blair Deeps

(a) Two diamond holes for a total of 313m were drilled to target the E03 shoot below 400m RL in preparation for resource modelling.

- AMUG 182A returned 2.32m @ 3.81% Ni in matrix ore on the edge of E Shoot

- AMUG 183 returned 19.0m @ 3.61% Ni in matrix ore of C Shoot and 1.0m @ 1.06 % Ni from the ultramafic / basalt contact before the E Shoot target. (the hole missed the E Shoot pinch out target)

Hole Number	Northing (m)	Easting (m)	RL (m)	Depth (m)	From (m)	To (m)	Length (m)	Ni (%)
AMUG182A	6578944	376848.6	441.1	140.5	99.4	101.72	2.32	3.81
AMUG183	6578943.7	376848.5	441.1	172.5	6.0	8.0	2.0	4.55
					32.0	51.0	19.0	3.61
					54.8	59.0	4.2	4.19
					98	99	1.0	1.06

Table 1: Blair Deeps – diamond intercepts September quarter 2006.

- (b) Geophysics platform hole AMUG179 was drilled in a southerly direction from the 438 stockpile so as to facilitate exploration of the 01 contact using DHEM. The hole was planned to drill parallel to the contact for 100m, but due to severely broken ground the hole was stopped at 72m and cased. DHEM failed to locate a conductive body and no follow up drilling is planned.

Area 57 Exploration

Exploration Drives

An inclined exploration rise from the lower workings was successful in discovering a new ore shoot, and subsequently a sub-level was driven for 30m on medium tenor massive ore (approx 6.5% Ni) which varies in true thickness from 0.3m to 1.5m. The discovery is particularly pleasing for the following reasons:

- the new ore shoot appears to be the source of the remobilised ore which was previously mined at Area 57.
- there has been no previous drilling to the South of the new ore shoot, and so there is a good probability that more ore is yet to be discovered.
- drilling from the 911 stockpile and DHEM has located a large conductive body 200m below the new ore drives, and therefore there is good potential for the new discovery to become a substantial source of new ore.

Diamond Drilling

Two diamond holes for 313m were drilled from the 911 stockpile at the L01C Shoot, to test for conductive bodies at approximately 200m below the Area 57 orebody .(see Fig 2)

- AMUG185 drilled through the footwall fold closure as planned, and subsequent DHEM located a large off-hole conductor of conductance 4,000 siemens.
- AMUG 187 drilled through the hangingwall sediment fold closure as planned, and DHEM located a large off-hole conductor of conductance 20,000 siemens some 200m down dip from the Area 57 orebodies.

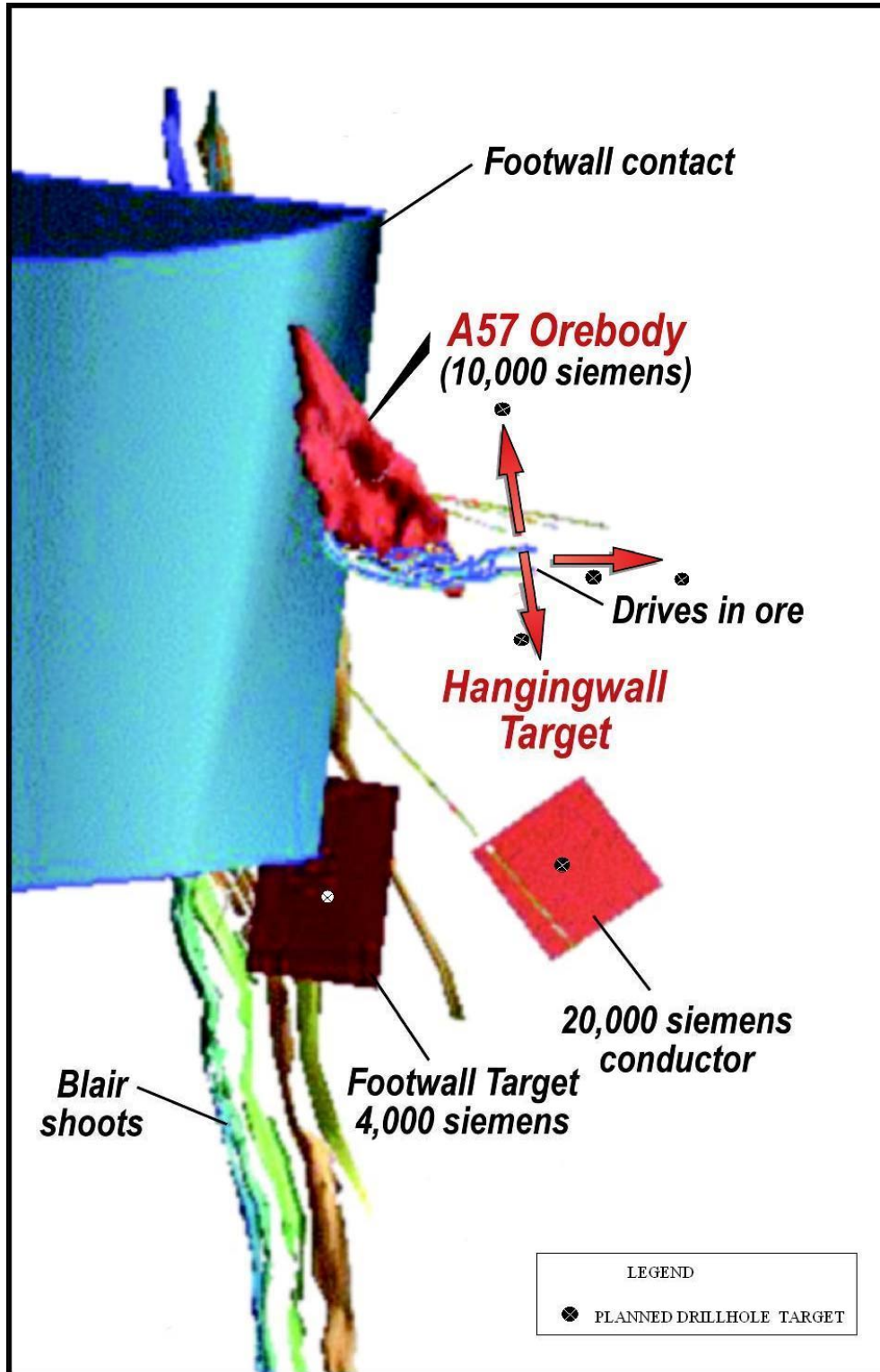


Figure 2: Area 57 – long section showing exploration drives and planned drilling.

L01C Shoot

The L01C Shoot is an attractive exploration target as it offers the potential for shallow ore close to the 1048 and 1128 accesses to Area 57. A total of 4 diamond holes for 86m were drilled to target the L01C shoot at both the 1048m RL and the 1128m RL.

(a) L01C Shoot at 1048m RL

- Two holes directly targeted the inferred position of the L01C Shoot at the 1048 stockpile.

AMUG186 returned 0.6m @ 3.9 % Ni on the contact.

AMUG 190 returned 0.7m @ 2.65 % Ni on the contact.

- Geophysics platform hole AMUG188 was drilled parallel to the contact between the 1048 access and the B01C Shoot. DHEM was not successful in locating a conductive body at this RL.

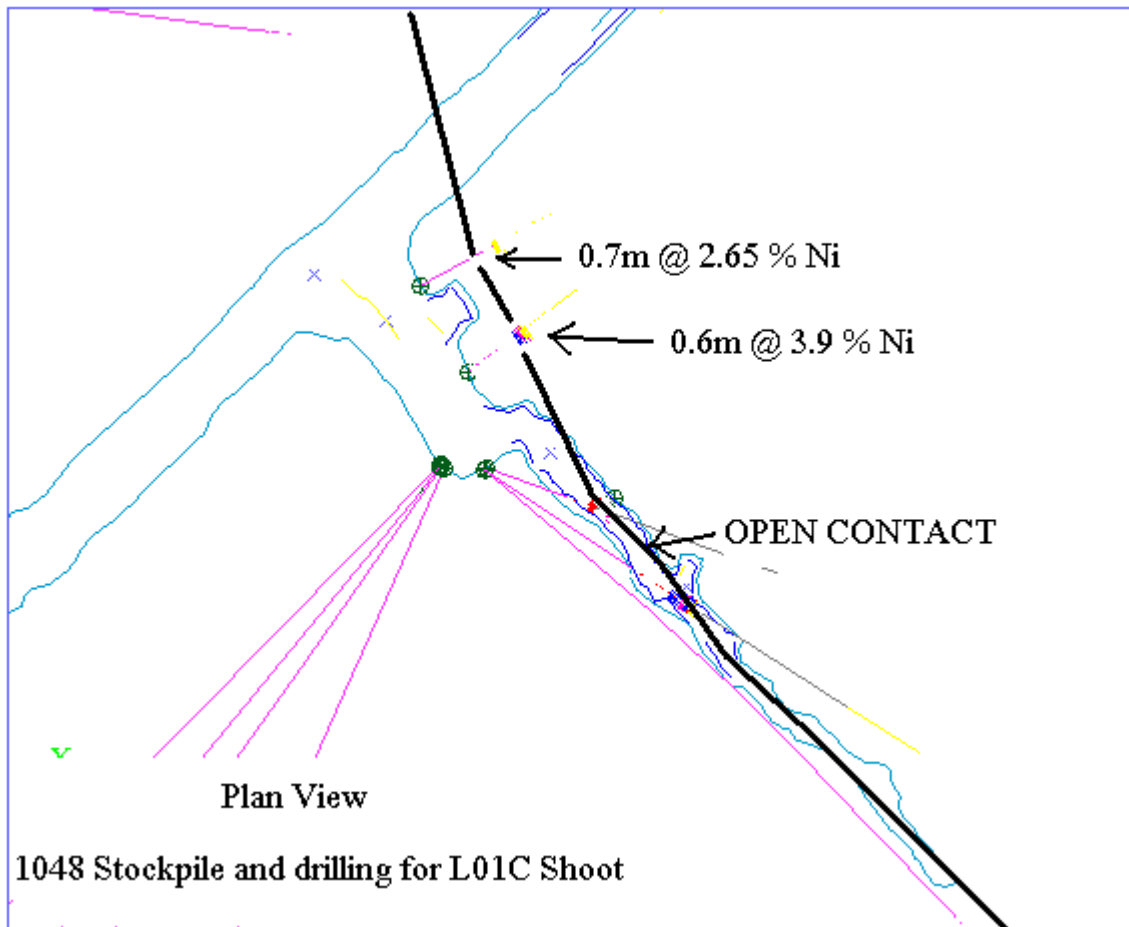


Fig 3: L01C Shoot - results from drilling off the 1048m RL level

Hole Number	Northing (m)	Easting (m)	RL (m)	Depth (m)	From (m)	To (m)	Length (m)	Ni (%)
AMUG 186	6579108.7	377066.9	1053.5	11.5	5.4	6.0	0.6	3.9
AMUG190	6579115.9	377062.9	1053.8	12.6	7.0	7.7	0.7	2.65

Table 2: L01C Shoot – diamond intercepts September quarter 2006.

(b) L01C Shoot at 1128m RL

Geophysics platform hole AMUG189 was drilled parallel to the contact between the 1128 access and the B01C Shoot. The hole awaits DHEM.

Planned Work for the December 2006 quarter.

Area 57

At Area 57, a series of underground diamond holes will be drilled to further define ore above, below and along strike from the exploration discovery drives. Diamond drilling will test along strike for new ore. Diamond drilling from the main decline will test the EM conductors some 200m below the bottom of the Area 57 workings.

L01C Shoot

Two geophysics platform holes will be drilled parallel to the ore body from the 1048m RL, to provide a cost effective means of exploring 200 vertical metres of the shoot above the current production stope.

REGIONAL EXPLORATION

Nickel Exploration - Golden Ridge Joint Venture

Exploration activities at the Golden Ridge Joint Venture (GRJV) focused on wide spaced reconnaissance RAB drilling between Blair South and the Blair Nickel Mine, and the Company is pleased to announce that Joint Venture partner Pioneer Nickel (ASX: PIO) has reported anomalous nickel grades such as 2m @ 0.7% Ni in holes adjacent to a newly discovered sediment ultramafic contact. (see Fig 4)

Hole Id	North (m)	East (m)	From (m)	To (m)	Intercept (m)	Grade (Ni %)	Grade (Cu ppm)
GRB001 4	6578782	377483	5	10	5	0.48%	640ppm
		incl.	5	7	2	0.70%	800ppm
GRB002 1	6578220	376946	55	62	7	0.39%	300ppm
GRB002 2	6578229	376977	18	30	12	0.35	401ppm

Table 3: GRJV - Blair South RAB drill results

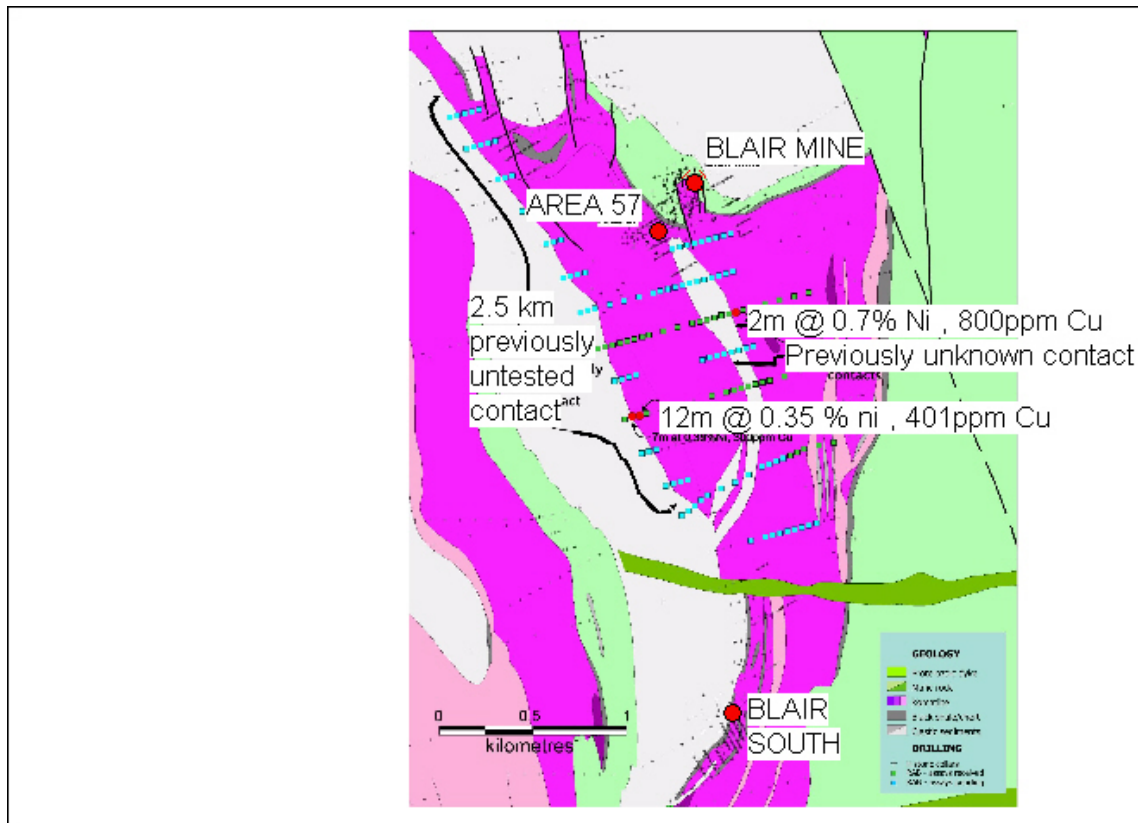


Fig 4 : Blair Mine to Blair South – interpreted geology and RAB drilling results.

GRJV Planned work for December quarter

- (a) The GRJV will follow up on anomalous RAB drilling results such as [2m @ 0.7 % Nickel](#) on the highly prospective Blair Mine – Blair South trend.
- (b) Approximately 3 square kilometres of detailed Gravity Survey will be completed between Blair Mine and Blair South trend as an aid to geological interpretation and drill targeting.
- (c) Previous RC drilling at Blair South has returned shallow intercepts of disseminated nickel sulphides (17m @ 1.15% Ni and 15m @ 1.12% Ni) and the GRJV will complete a pattern of RC holes to prove up mineralisation that could potentially be extracted by open pit mining. (see fig 5). Should the RC drilling be successful the next step will be to undertake metallurgical studies on the disseminated ore. The GRJV has previously reported an Indicated Resource of 150,000 tonnes at 1.4% Ni for 2,100 contained tonnes of nickel.
- (d) Deep RC drilling will be used to bedrock test below extensive areas of supergene anomalism, which are located in both directions along strike from the Blair South Shoot (see fig 6).

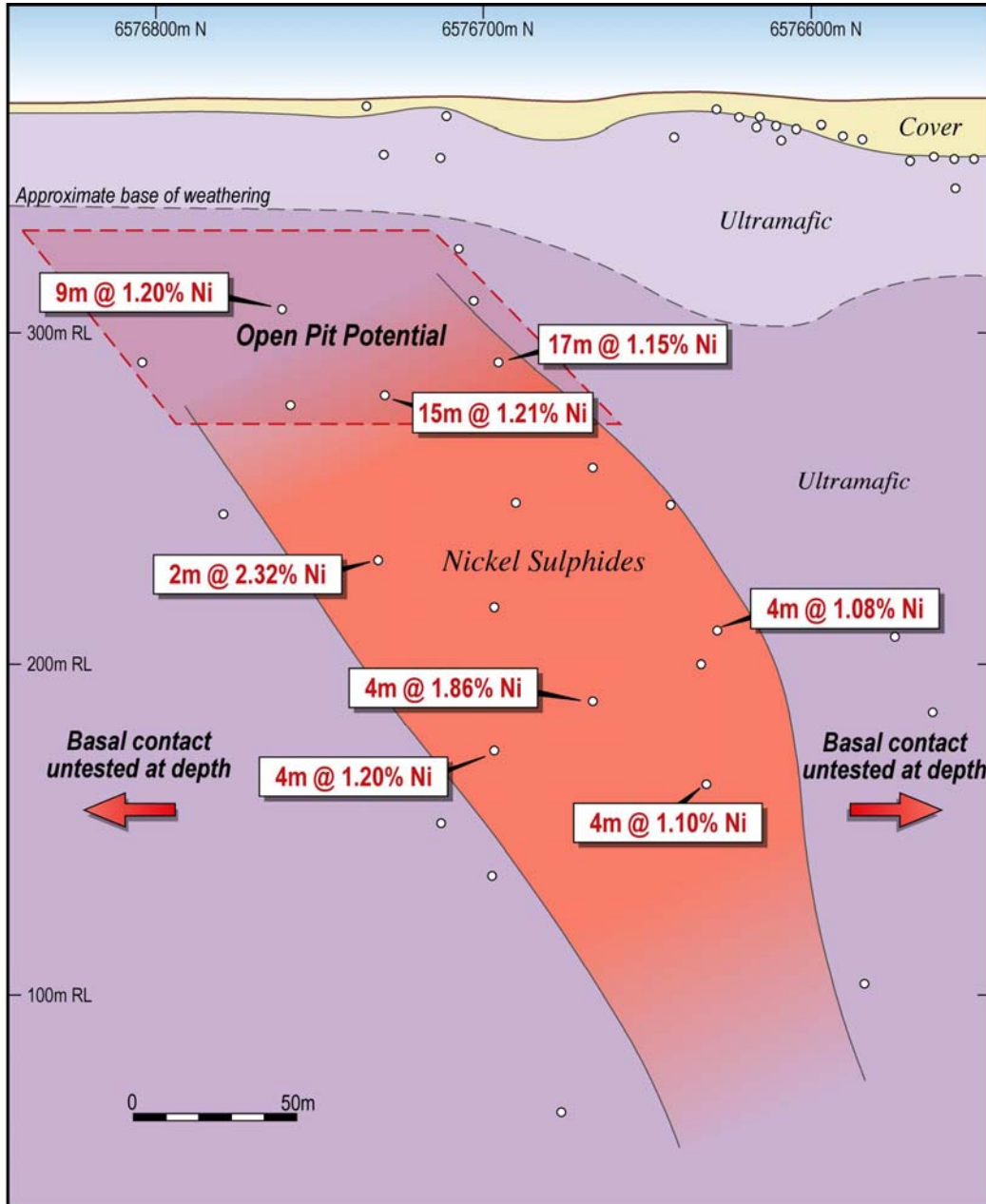


Figure 5: Blair South – significant RC drill results.

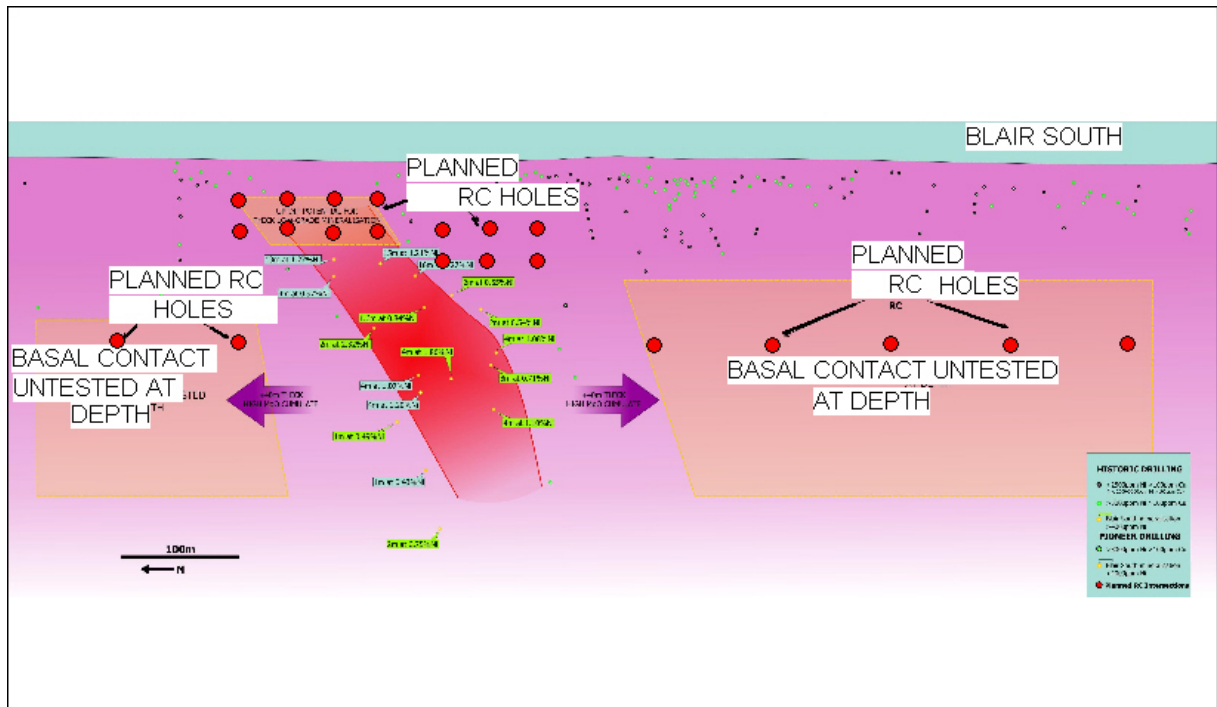


Figure 6: Blair South – Planned drill holes both up-dip and along strike

Duplex Hill South Gold Project

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

(1) Woodline 1 Resource

The total gold resource for the Woodline 1 deposit, using a 1 g/t cut was stated as 132,000 tonnes at 2.88 g/t for 12,200 ounces of gold. Progress during the September quarter included:

- (a) All Statutory requirements such as flora and fauna surveys, and aboriginal heritage surveys were completed;
- (b) A state deed between Australian Mines Limited, the Minister for Mines, and the Widgi and Central West Goldfields Peoples was lodged and it is anticipated that a mining lease will be granted in November 2006;
- (c) Seven RC sterilisation holes for a total of 505m were drilled below the proposed mullock dump site (awaits assay results).

(2) Woodline North Prospect

Shallow mineralisation has been intersected by a number of previous exploration RAB drill holes such as :

- AMBR0488: **3m at 3.15g/t from 7m**
- AMBR0445: **4m at 2.6g/t from 4m**
- AMBR0494: **6m at 2.35g/t from 3m**

- (a) During the reporting period the Company targeted shallow ore with 19 RC resource definition holes, for a total of 482 metres. (awaits assay results).

- (b) Since there is obvious open pit potential at Woodline North, the application for ground clearance and open pit mining has included both Woodline 1 and Woodline North.

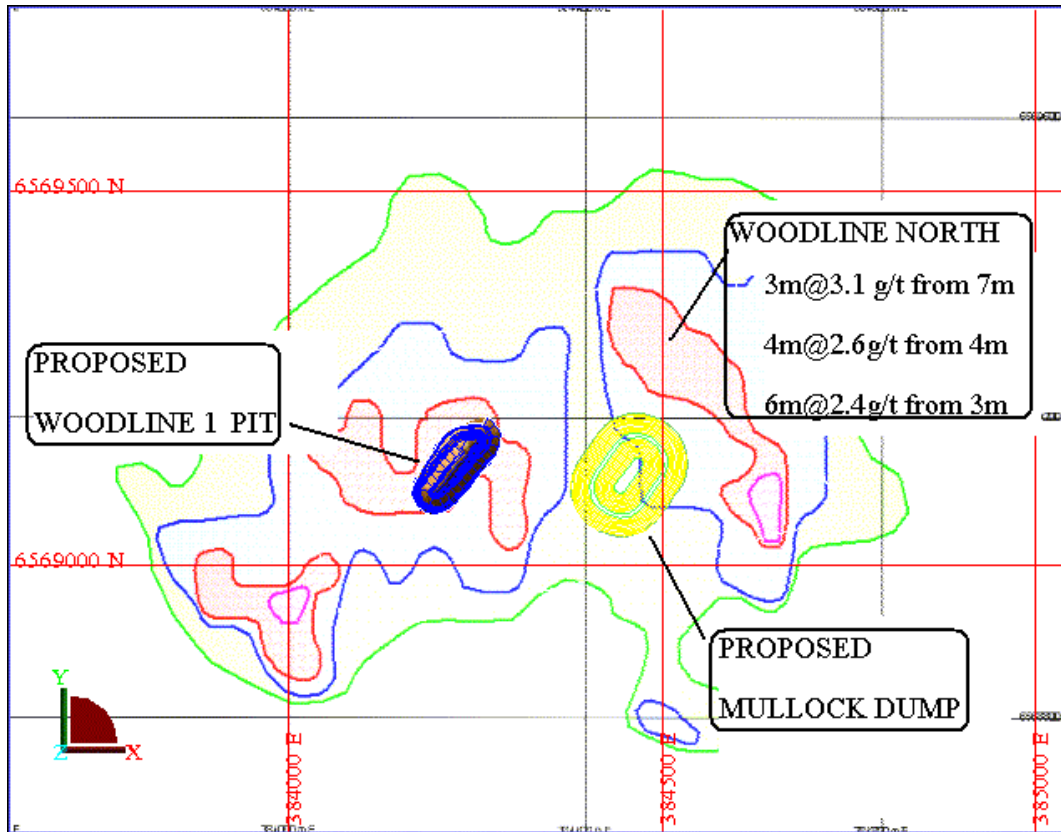


Fig 7: Duplex Hill South – Surface Plan of proposed Woodline 1 Pit and mullock dump over soil sample contours

Gold Work Planned for the December 2006 quarter

- (a) A final pit design will be chosen for Woodline 1
- (b) A graded block model will be produced for Woodline North, and open pit optimisation studies undertaken. If Woodline North does prove to be economic a shallow pit will be mined in tandem with the Woodline 1 Pit.

MARRIOTT’S PROJECT

Introduction

Australian Mines Limited has secured an option with BHP Billiton to purchase the Marriott’s Nickel Deposit, which is located on granted mining lease M37/96 and situated 70km south west of the Leinster Nickel Concentrator.

The option provides favourable terms under which Australian Mines has one year in which to evaluate the deposit for open pit mining, and then a further 3 years with which to commence mining activities. An ‘Ore Treatment and Purchase Contract’ is also in place to ensure that the ore from Marriott’s can be treated through the Leinster concentrator.



Fig 8: Location Plan – Marriot’s Project and Blair Project

The Resource

The ore at Marriot’s has been interpreted to be contained in three or more shallow dipping lenses, and based on this interpretation the disseminated and stringer ore was tightly modelled by the Company to derive an Inferred Resource of 550,000 tonnes at 1.4% for 7,500 tonnes of nickel metal.

A preliminary open pit optimisation study has shown that Marriot’s has the potential to generate significant amounts of cash, but a programme of infill drilling and metallurgical test work will be required to move the resource into the Indicated Resource category before a mining feasibility study can be undertaken.

Up-dip Exploration Potential

There is considerable potential to add to the existing resource by drilling up-dip, and planned holes are shown as dashed lines on the accompanying cross sections (see Fig: 9 and Fig: 10)

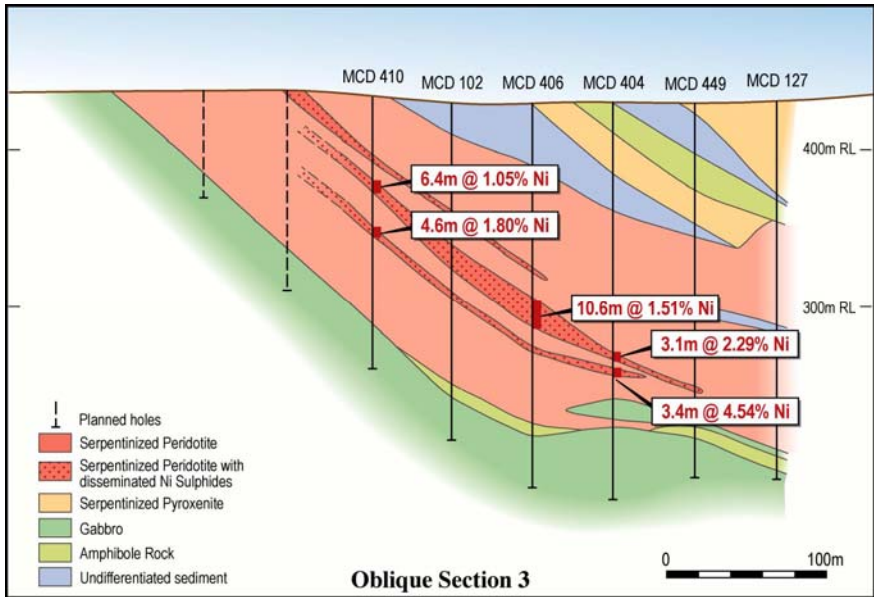


Figure 9: Marriot’s Nickel Deposit – drill section 3

Marriott’s Work Planned for the December 2006 quarter

- (a) The Company intends to re-evaluate historical assay and metallurgical results by twinning three holes on section 3. By drilling twin holes the original assays will be checked, but also it will allow judgements to be made as to the variability of the ore. The metallurgical test work will be undertaken by the Metallurgy Department at BHP Billiton’s Leinster Concentrator. The Company will also retain core for its own metallurgical studies.
- (b) A series of shallow diamond exploration holes will be drilled to locate ore up-dip of the existing resource.

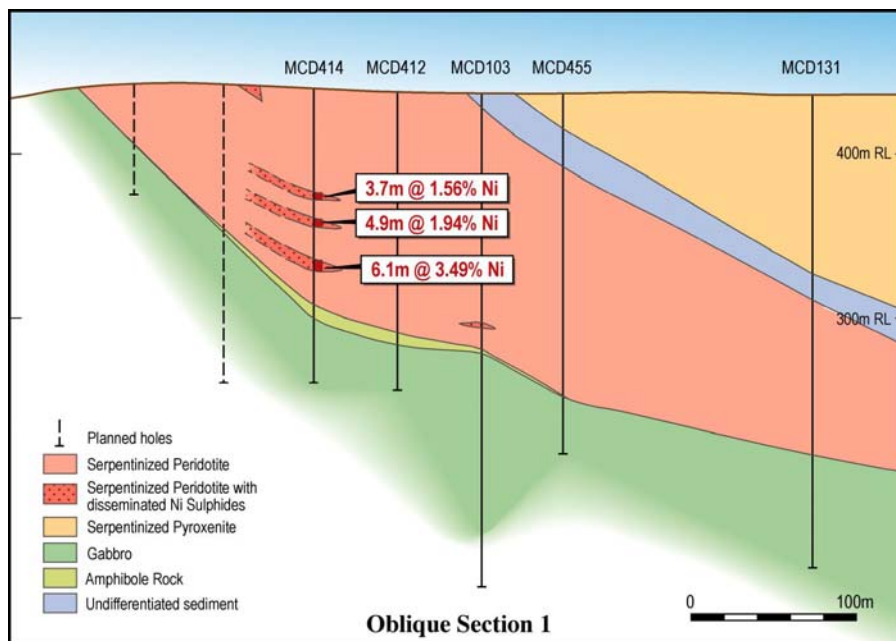


Figure 10: Marriott’s Nickel deposit – drill section 1

CORPORATE

Revenue for the September quarter was significantly higher than the previous quarter due to increased nickel prices and the Company’s minimal hedging position. Costs were in line with expectations, and this produced a strong net profit for the quarter of \$3.2m (unaudited).

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

Operating cash costs (excluding capital) were A\$7.52/lb Ni payable (June quarter A\$6.75/lb). The total cash costs for the quarter (including capital development) were A\$9.94/lb Ni payable (June quarter A\$9.97/lb).

The Company received an average spot price of A\$38,848 per tonne of Ni payable or A\$17.62/lb for the September quarter (June quarter A\$11.16/lb). After hedging and 90 day final settlements received from BHP Billiton against June quarter production, the realised price was A\$18.75/lb Ni payable (June quarter A\$12.04/lb). This increased revenue has put the Company in a very sound financial position.

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

The Company generated an operating positive cash flow of \$2.0m for the quarter, after capital and exploration expenditure for the quarter of \$1.3m and after repaying draw down facilities and loans of \$1.6m, cash at bank increased by \$0.4m to A\$2.3m at 30 September, 2006. The Company is now debt free except for normal mine equipment HP liabilities of approximately \$1m.

SUMMARY AND OUTLOOK

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

The June 30 2006 resource has been increased to 108,000 tonnes at 5.2% for 5,600 Ni tonnes. Resource definition drilling has allowed a decision to continue the decline to the 350m RL approximately 80m below the current mine workings. The Company has announced increases in the mine life to beyond 18 months.

Given the significance of Marriott's, the Company will fast track drilling so as to commence in the December 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.

Gold production in the future is expected from Duplex Hill South with mining approvals being progressed after signing agreements with native title groups. A total gold resource at Woodline 1 has been released. Drilling continues at Woodline North.

The Golden Ridge Joint Venture with Pioneer Nickel 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 December quarter.

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

