

## QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 30 JUNE 2006

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### HIGHLIGHTS FOR THE QUARTER

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#### BLAIR NICKEL MINE

- The Blair Nickel Mine produced a record head grade for the quarter at 4.48% Ni as the Blair Deeps orebodies continue to outperform the mining reserves. The mine produced 7,782 dry tonnes at 4.48% Ni for 348 tonnes of contained nickel metal, up 1.5% from the previous quarter.
- The L01 shoot was accessed at the 911m RL (approximately midway down the existing decline), the first time in the history of Blair Nickel Mine that this shoot has been exposed and mined. Mining to date has produced 500 tonnes at 2.6% Ni. Extensive exploration is planned in subsequent quarters to extend the current ore reserves of 8,000 tonnes at 2.5 % Ni.
- 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 at depth which is expected to extend the mine life to beyond August 2007.
- Resource definition drilling results received for the 395 RL (40 metres below the current lowest developed level) on Blair Deeps include: -
  - AMUG175: **9.25 metres at 12.5 % Ni from C01 Shoot**confirming downward continuity of the high-grade C01 shoot.
- June quarter production has been hedged for final settlement in the September quarter at prices above the provisional spot price, At 30 June 2006, the company has 194 tonnes Ni hedged at an average price of US\$21,878 (A\$29,200) This will result in September quarterly adjustments of positive US\$430,000. Presently July and future production is unhedged.
- The Company had cash at bank of A\$1.9m at 30 June, 2006.

#### GOLD - DUPLEX HILL SOUTH GOLD PROJECT

- Detailed modelling of the Woodline 1 resource completed. The Indicated and Inferred Resource , using a 1 g/t cut off, is stated as:

**132,000 tonnes at 2.88 g/t for 12,200 ounces of Gold.**

Open pit optimisation and environmental studies have commenced.

## **NICKEL EXPLORATION - GOLDEN RIDGE JOINT VENTURE**

- Exploration activities continued at Golden Ridge Joint Venture (GRJV) with RC drilling for nickel sulphide orebodies focussed at the Blair South Prospect, 3 kilometres south of the Blair Mine.
- RC drilling has identified a wide and relatively shallow zone of magmatic nickel sulphide mineralisation, which was intersected over a strike of approximately 100 metres.
- Best results include:
  - 3m at 2.02%Ni**
  - 9m at 1.2%Ni**
  - 17m at 1.16%Ni**
  - 15m at 1.12 %Ni**

A new exploration program is planned in the September quarter to test for nickel mineralisation between the Blair mine and Blair South prospect.

## BLAIR MINE

### Production and Development

Production statistics for the Blair Mine are given below:

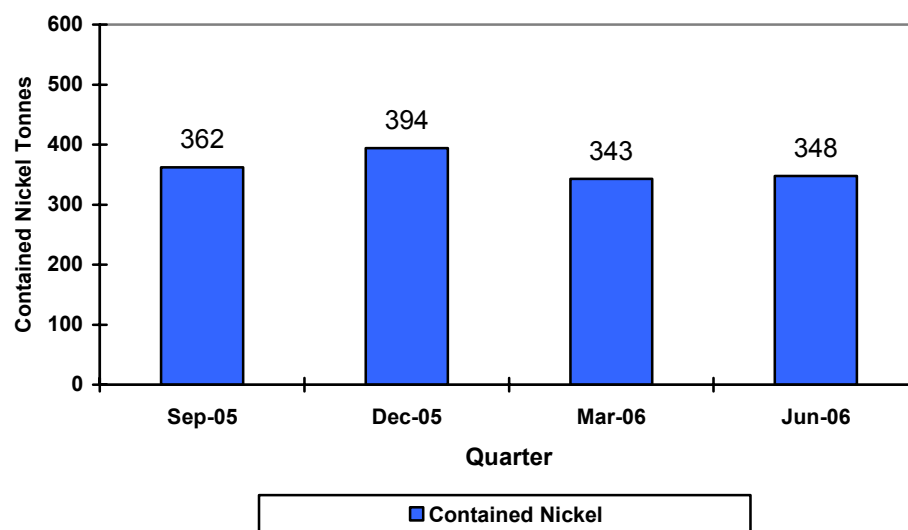
		Sept-05	Dec-05	Mar-06	Jun 06
Ore Mined	Tonnes	10,213	11,974	11,122	7,782
Cont Ni Mined	Tonnes	361	403	328	348
Ore Treated	Tonnes	10,243	11,269	12,044	7,782
Grade	% Ni	3.54	3.49	2.86	4.48
	% Cu	0.19	0.20	0.19	0.27
Contained Ni	Tonnes	362	394	343	348
Recovered Ni	Tonnes	325	353	299	316
Payable Ni	Tonnes	207	226	190	202
Payable Ni	lbs	456,228	498,104	418,760	445,208
Nickel (Spot) Price (received)	A\$/lb	8.33	7.66	9.03	11.16
Final Price received incl 90 day adjustment**		7.17	6.77	10.06	12.04
Operating cash cost	A\$/lb	6.90	6.61	8.28	6.75
Total cost with capital development	A\$/lb	8.39	7.52	8.99	9.97

\* 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 348 tonnes, up by 1.5% on the previous quarter primarily due to the mine head grade being 57% higher.

### Blair Mine - Quarterly Production



The cash cost per tonne of nickel was below March quarter. The direct mining cash costs for the quarter were A\$6.75/lb of nickel payable (March quarter A\$8.28/lb). Including the capital costs associated with the decline development, cash costs were A\$9.97/lb of nickel payable (March quarter A\$8.99/lb).

Production continued from the previous quarter in developing and stoping the high grade E03 and C01 shoots on the lower levels and continuing to mine the remaining areas of the Area 57 orebody. Development and ore production also commenced from the L01 shoot during the quarter. This shoot was accessed at the 911 m RL and is the first time in the history of Blair Nickel Mine that this shoot has been exposed marking the first time mining has occurred on the shoot.

Overall ore tonnes produced were lower due mainly to the decrease in ore available from Area 57 orebody. However, ore grades were significantly higher due to the greater proportion of production coming from E03 and C01 Blair Deeps shoots. Forecast September quarter nickel production will be similar to the June results with higher ore tonnages but at slightly lower grades with decline development intersecting the high grade shoots on the 415 level.

A new mine plan is being finalised to maximise the extraction of ore from the depth extension of the E03 and C01 shoots and the recently exposed LO1 shoot. Given the strong market for nickel, it is anticipated that the mine life will be extended past August 2007.

### **Safety**

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

There were 2 minor injuries during the quarter which required medical treatment, where no time was lost.

**MINE EXPLORATION**

**Blair Deeps Drilling**

A programme of diamond drilling and down hole electromagnetic (DHEM) probing was commenced in June to test the C01 shoot at depth.

- (a) A set of 4 holes was planned to test along the “01” surface at approximately 390m RL, with the best result being a hole through massive ore on the C01 shoot.
  - AMUG175 : **9.25m @ 12.5% Ni from the C01 Surface**
- (b) AMUG173 was drilled as a deep geophysics platform hole, and subsequent DHEM has established that the C01C Shoot is still strong below the 350m RL (85 metres below the current lowest developed level).

The geophysics has also confirmed that the orebody is flattening below 438m RL which will equate to more ore tonnes per vertical metre.

Figure 1: C01shoot – geophysics and drill holes down to 350m RL

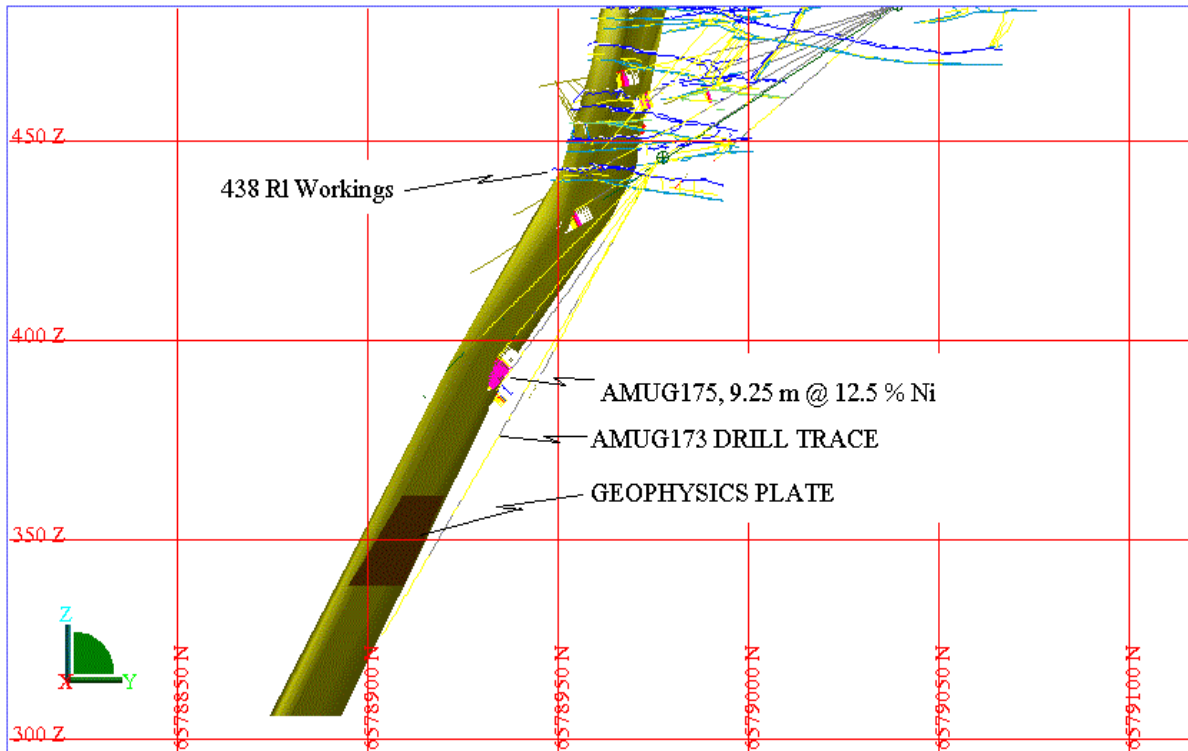


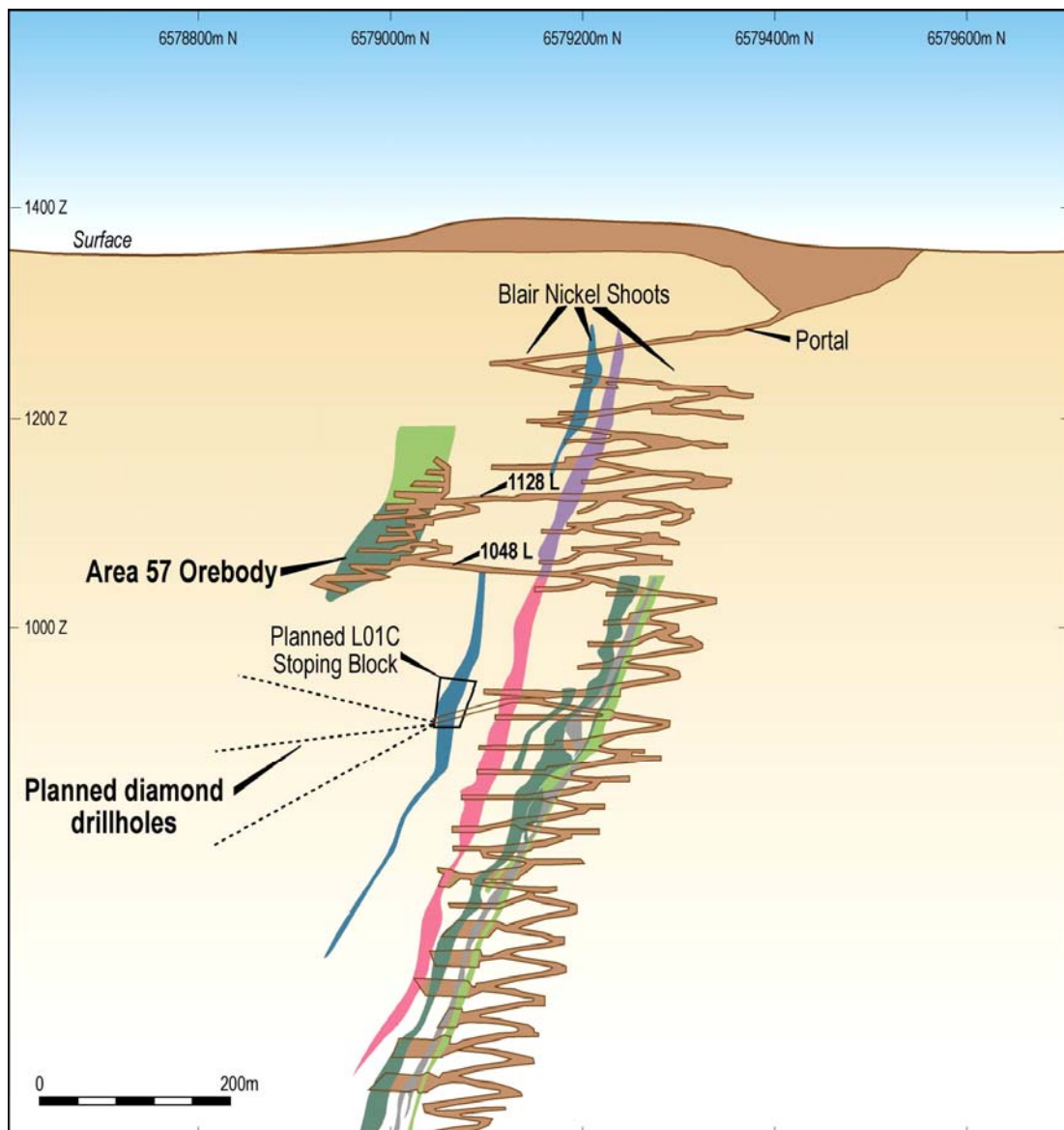
Table 1: Blair Deeps – diamond intercepts June Quarter 2006.

Hole Id	North (m)	East (m)	RL (m)	Azi deg	Dip deg	From (m)	To (m)	Intercept (m)	Grade (% Ni)
AMUG175	6,578,976	376,845	444.3	238	-34.6	88.1	97.35	9.25	12.5
AMUG177	6,578,976	376,845	444.3	240	-35.3	102	105.2	3.2	2.03
AMUG176	6,578,976	376,845	444.3	247	-35			Outside ore envelope	barren contact
AMUG180	6,578,976	376,845	444.3	225	-33.4			Outside ore envelope	barren contact

**Planned Work for the September 2006 Quarter.**

- a) The E03C Shoot will be drill tested down to the 380m RL.
- b) Exploration drilling below the Area 57 orebody will commence. There is considerable potential for finding a downplunge ‘repeat’ orebody by diamond drilling from the L01 access decline.

Figure 1: Area 57 – proposed drilling from L01 access decline



**REGIONAL EXPLORATION**

**Nickel Exploration - Golden Ridge Joint Venture**

Exploration activities at the Golden Ridge Joint Venture (GRJV) focused on RC drilling for nickel sulphide orebodies at the Blair South Prospect, 3 kilometres south of the Blair Mine.

Joint venture partner Pioneer Nickel (ASX: PIO) reported that RC drilling had identified a wide and relatively shallow zone of magmatic nickel sulphide mineralisation, which was intersected over a strike of approximately 100 metres.

The matrix and disseminated mineralisation is at a vertical depth of 80 to 100 metres below surface and follow up drilling will now include testing for mineralisation that could be extracted by open pit mining. (see fig 2 )

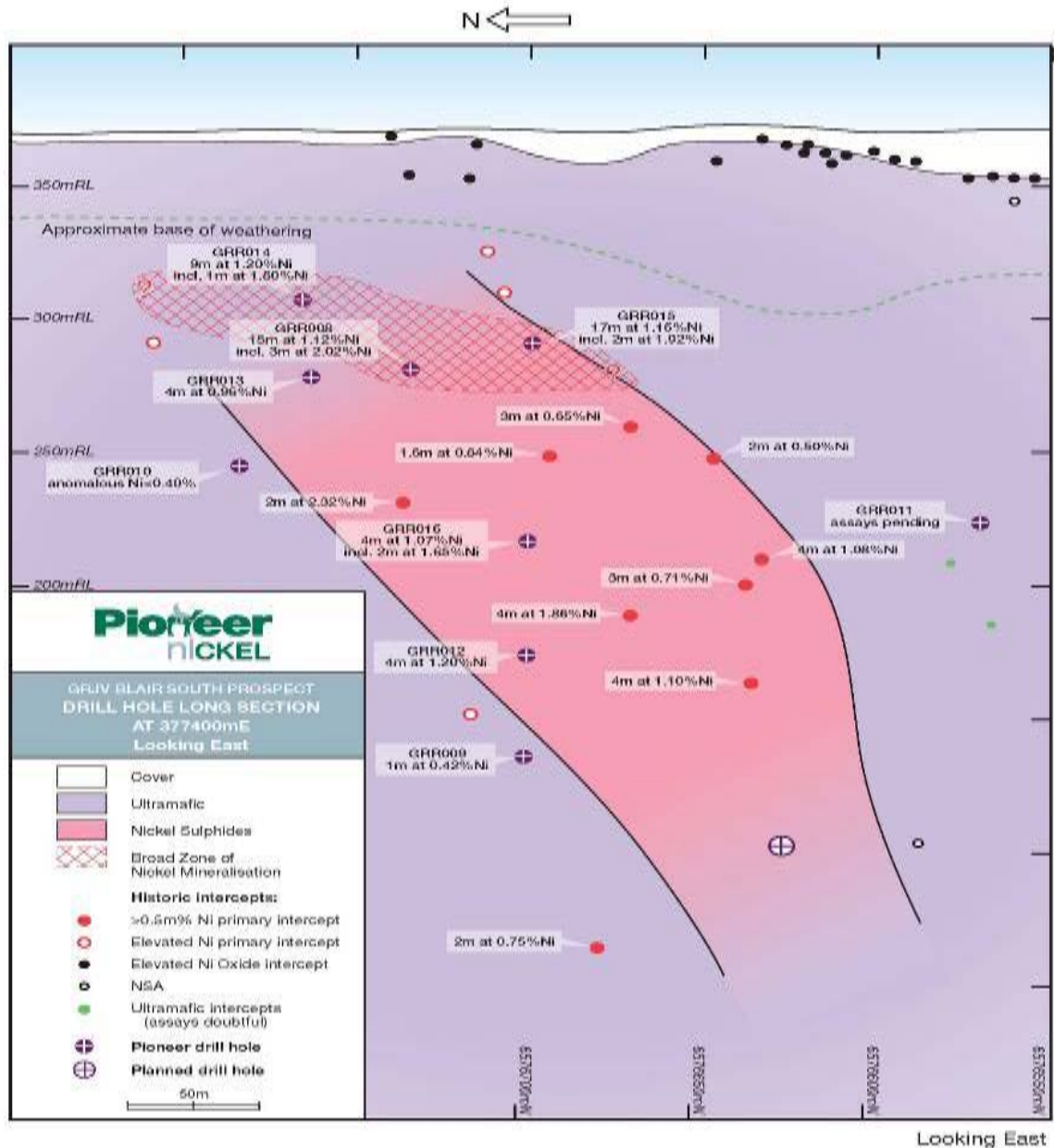
Table 1: GRJV - Blair South drill results

Hole Id	North (m)	East (m)	From (m)	To (m)	Intercept (m)	Grade (Ni %)
GRR008	6,576,729	377,414	98	113	15	1.12
		including	<b>101</b>	<b>104</b>	<b>3</b>	<b>2.02</b>
GRR012	6,576,693	377,355	213	217	4	1.20
GRR013	6,576,776	377,441	106	110	4	0.96
GRR014	6,576,777	377,457	<b>86</b>	<b>95</b>	<b>9</b>	<b>1.2</b>
		including	91	92	1	1.80
GRR015	6,576,699	377,423	<b>99</b>	<b>115</b>	<b>17</b>	<b>1.16</b>
		including	107	109	2	1.92
GRR016	6,576,700	377,355	203	207	4	1.07
		including	203	205	2	1.65

**Planned work for September Quarter**

- (a) Exploration at the Blair South prospect is to continue with further shallow testing of the wide nickel sulphide mineralisation identified in the March-June quarters. In addition the contact north and south of Blair South will be tested at depth to identify additional channel positions and nickel sulphide mineralisation.
- (b) The GRJV is planning an initial RAB drilling program to test the highly prospective Blair Mine – Blair South trend early in the next quarter. Aeromagnetic images show that there is the potential of 2.8km strike length of relatively untested contact to be explored within this trend (see figure 3).
- (c) The Blair tenement package is predominately covered by transported Quaternary soils of varying depths, and consequently it is possible that the historical soil sampling may not have been effective at detecting buried mineralisation (see figure 4). It is therefore planned that several targets will be assessed with geochemical drilling to sample below the Quaternary cover as a way of testing the effectiveness of the historical soil sampling programmes.

- (d) There will also be continued assessment and testing of the existing nickel sulphide bearing prospects including Marshall, Anomaly 11, Anomaly 20SW and Anomaly 20.





## Gold Exploration Duplex Hill South Project

During the quarter, the Woodline 1 deposit was modelled. In addition, the cluster of gold geochemical anomalies around Woodline 1 was comprehensively RAB drilled to bedrock.

### (a) Woodline 1 – Resource Statement

The total gold resource for the Woodline 1 deposit, using a 1 g/t cut off is stated as:

**132,000 tonnes at 2.88 g/t for 12,200 ounces of Gold**

Table 1 : Woodline 1 Mineral Resource by category

Resource Category	Tonnes	Gold Grade g/t	Gold Ounces
Indicated	127,606	2.81	11,527
Inferred	4,760	4.69	718
Total	132,366	2.88	12,245
<b>Rounded Total</b>	<b>132,000</b>	<b>2.88</b>	<b>12,200</b>

### The Woodline 1 mineralisation

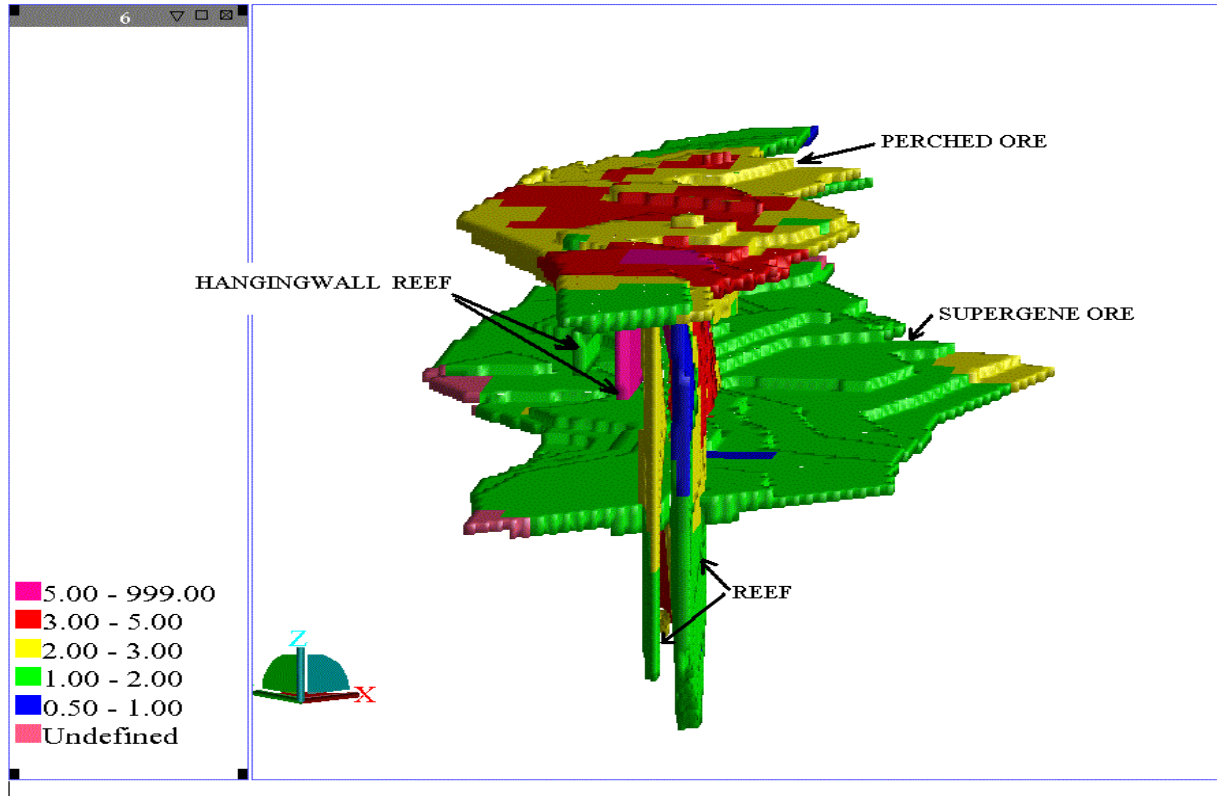
The north east striking reef system at Woodline 1 has been modelled over a strike length of 215 metres.

The gold mineralisation is masked by 10 metres of transported soils, and the base of weathering is approximately 50 to 60 metres below surface.

As detailed in Figure1 below, the deposit was modelled as four separate geological domains:

- A horizontal ‘perched’ zone some 10 metres below the surface and containing 2,072 ounces.
- A steeply dipping quartz ‘reef’ system containing 7,549 ounces
- A horizontal ‘supergene’ zone some 40 metres below the surface and containing 1,906 ounces.
- An inferred hangingwall reef containing 718 ounces.

Fig 1: Woodline 1 model viewed from South and above



**Resource Model parameters**

The resource model was completed by Resource Evaluations Pty Ltd using the following parameters:

- 1g/t cut off grade
- RC holes used to construct and grade the model (RAB holes were excluded)
- Grade Interpolation by Inverse Distance Square
- Specific Gravity as follows:

Ore Type	Specific Gravity (tonnes / cubic metre)
Perched	2.0
Supergene	2.0
Oxidised Reef	2.4
Fresh reef	2.65

**(b) Duplex Hill South – Gold Exploration**

A programme of 51 RAB holes for a total of 3,088 metres was drilled at Duplex Hill South, to test a set of discrete gold in soil anomalies that are clustered around the Woodline 1 deposit ( see figure 2 )

The individual targets are summarised below:

(1) At Woodline North, the latest drilling has extended the area of shallow mineralisation, and has also defined several mineralised quartz veins, which suggests there may possibly be an economic reef system below the shallow intercepts. Best results include;

AMBR0488: **3m at 3.15g/t from 7m**

(2) RAB drilling to the south-east of Woodline North intersected economic grades in what was logged as transported material, and there appears to be good potential for a gold bearing alluvial channel running off to the south-east. Best results include;

AMBR0445: **4m at 2.6g/t from 4 metres**

AMBR0494 : **6m at 2.35g/t from 3 metres**

(3) RAB drilling on the Woodline South anomaly has highlighted an area of elevated gold values on the western edge of the anomaly, in a zone of deep weathering. The grades appear to be proximal to the intersection of the ‘West Reef’ and the sediment/dolerite contact. Best results include;

AMBR0471: **8m @ 1.89g/t from 80m**

AMBR0472: **3m @ 1.09 g/t from 11 m**

Table 2 : Duplex Hill South RAB drilling intercepts– June Quarter 2006

Woodline Prospect	Hole Id	North (m)	East (m)	RI (m)	End Depth (m)	From (m)	To (m)	Intercept (m)	Grade (g/t)
North	AMBR0488	6569300	384560	383	45	7	10	3	3.15
North	AMBR0490	6569300	384472	383	51	18	19	1	1.55
North	AMBR0445	6569240	384580	383	48	4	8	4	2.6
North	AMBR0494	6569220	384600	383	60	3	9	6	2.35
South	AMBR0463	6568980	383880	383	85	82	85	3	1.01
South	AMBR0464	6568980	383900	383	87	76	81	5	1.09
South	AMBR0471	6568940	383900	383	93	80	88	8	1.89
South	AMBR0472	6568940	383920	383	78	11	14	3	1.09

**Work Planned for the September 2006 quarter**

**(a) Open Pit Optimisation and environmental studies**

The Woodline 1 resource model will be optimised using commercial open pit parameters, and baseline environmental surveys will be undertaken in preparation for a ‘notice of intent to mine’ submission to the Department of Industry and Resources.

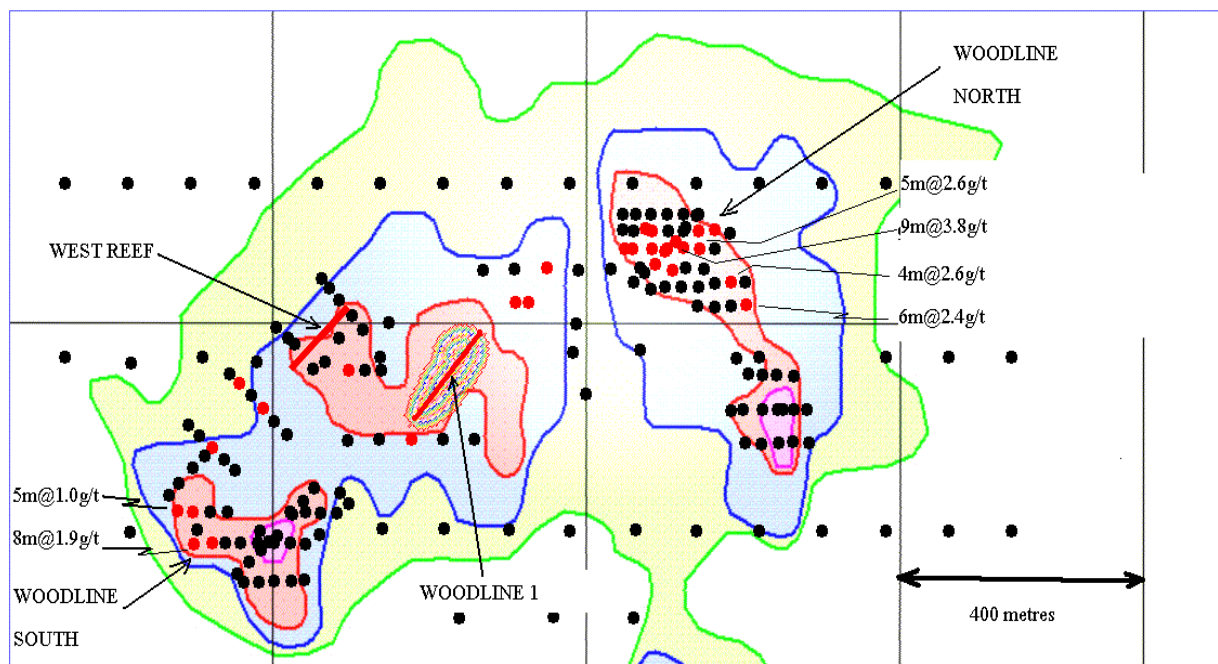
**(b) Resource definition drilling at Woodline North**

The next phase of exploration will be as follows:

- Produce an interpretative geological map.
- RC drill the Woodline North anomaly for an economic reef position, and build up a resource model.
- RC drill the alluvial channel south east of Woodline North, and build up a resource model.

**(c) Further test the anomalous zone at Woodline South.**

Figure 2: Duplex Hill South – RAB collars superimposed on soil geochemistry, (red dots represent holes with significant drill intersections)



**CORPORATE**

Revenue for the June quarter was higher than March quarter due to increased production and stronger nickel prices. The Company received 90 day averaging positive adjustments from BHP Billiton to revenue for March quarter production of A\$1.3m during the June quarter. Offset against these gains were hedging losses of A\$866,000 which were a result of the lower hedged prices received for March quarter production.

Operating cash costs (excluding capital) were A\$6.75/lb Ni payable (March quarter A\$8.28/lb). The total cash costs for the quarter (including capital development) were A\$9.97/lb Ni payable (December quarter A\$8.99/lb).

The Company received an average spot price of A\$24,614 per tonne of Ni payable or A\$11.16/lb for the June quarter (March quarter A\$9.03/lb). After hedging and 90 day final settlements received from BHP Billiton against March

quarter production, the realised price was A\$12.04/lb Ni payable (March quarter A\$10.06/lb).

Currently the hedging position of the Company is 194 tonnes of payable Ni covering production for the months of the June quarter at an average delivery price of US\$21,878/tonne Ni (A\$29,200). The average nickel price received during the June quarter was US\$19,641/tonne on the 202 tonnes of nickel production payable. This will result in a positive adjustment of US\$2,237 per tonne Ni or US\$430,000 which will be received in the September quarter. Future production from the Blair mine is totally unhedged.

The Company had cash at bank of A\$1.9m at 30 June, 2006.

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## SUMMARY AND OUTLOOK

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Production estimates for the September quarter are in line with the June quarter results. The company expects to further benefit from higher nickel prices that have been hedged against the June quarter production.

Current resource definition drilling has been undertaken to allow a decision to continue the decline to the 380mRL approximately 50 m below the current mine workings. The higher grade of the Blair Deep's ore bodies together with the better ore reserve performance and with higher nickel prices, is resulting in a positive cash flow being achieved.

Exploration is continuing at Duplex Hill South with an open pit optimisation in progress to establish a mineable reserve at Woodline 1. Drilling continues at Woodline North.

The Golden Ridge Joint Venture with Pioneer Nickel will continue during the September quarter. It is expected that Pioneer will be drilling the area between Blair South and the Blair Mine.

The Company will continue to work on further nickel and gold acquisition opportunities in Western Australia in the September Quarter.

Yours faithfully

**Brett Young**  
**Chief Operating Officer**  
**Australian Mines Limited**

*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

