

## QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 31 MARCH 2006

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### HIGHLIGHTS FOR THE QUARTER

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#### BLAIR NICKEL MINE

- Blair Nickel Mine continued to perform in line with forecasts with a total of 12,044 dry tonnes of ore treated at an average grade of 2.86% Ni for 343 tonnes of contained nickel metal, (down 12.9% from the previous quarter due mainly to lower grades). Grades are expected to return above 3% Ni in the June Quarter from mining higher grade Blair Deeps ore.
- Ore reconciliations from the Area 57 and Blair Deeps nickel ore bodies continue to exceed Ore Reserve estimates and provide confidence for the Company to continue to extend the decline to the 425 m level.
- Resource definition drilling results received for the 425 RL (20 metres below the current lowest development level) on Blair deeps include: -
  - 3.1 metres at 13.14 % Ni from E Shoot
  - 2.49 metres at 8.65 % Ni from E Shootconfirming downward continuity of the high-grade E03 shoot beyond the next level of development.
- Capital decline development continued during the quarter accessing the Blair Deeps ore body. During the quarter, the decline reached the ore in the C01 shoot on the 448 m level and was 5 metres away from accessing the high grade E03 shoot on the 445m level.
- Overall operating costs for the mine were in line with expectations during the quarter but due to lower nickel production unit cash costs per tonne were higher with operating cash costs of A\$8.28/lb Ni payable and cash costs including capital development of A\$8.99/lb Ni payable. The average spot nickel price received was A\$9.03/lb Ni payable for the quarter and A\$10.06/lb Ni payable after 90 day final nickel price adjustments were received from BHP Billiton on December quarter production.
- Due to the higher spot nickel price in the March quarter the Company received a positive adjustment on the 90 day final nickel price settlement for December production of A\$684,000. Hedging losses of A\$247,000 offset some of these gains.
- March quarter production has now been totally hedged for final settlement in the June quarter at prices above the provisional price which will deliver positive cashflow.

- The Company had cash at bank of A\$1.5m at 31 March, 2006.

#### **GOLD - DUPLEX HILL SOUTH GOLD PROJECT**

- Woodline 1 deposit - follow up RC drilling was used to firm up the resource model in preparation for open pit optimisation and mine feasibility studies in the June 2006 Quarter. Further strong gold mineralisation was encountered with best results including:-

- 9m at 10.4g/t Au
- 12m at 6.7 g/t Au
- 8m at 2.1 g/t Au
- 4m at 3.6 g/t Au, and
- 9m at 9.1 g/t Au

The company is confident that following these strong infill and extensional drill results a profitable open pit generating positive cash flow is possible. The company is now focussed on achieving all necessary mining approvals to fast track this resource into an operating mine and taking advantage of the current high gold price.

- Woodline North resource - RAB (Rotary Air Blast) holes were drilled 400 metres north of the Woodline 1 resource (see Figure 3). The program encountered strong gold mineralisation at shallow depth in a number of holes, with best results including:

- 9m at 3.78 g/t Au
- 7m at 4.73 g/t Au
- 5m at 2.57 g/t Au
- 1m at 6.43 g/t Au, and
- 13m at 1.19 g/t Au

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

- On 24 January 2006, Australian Mines announced the Golden Ridge Joint Venture with Pioneer Nickel Limited (ASX: PIO) to advance nickel exploration on the areas surrounding the company's Blair Nickel mine.
- Australian Mines retains a 49% interest in Golden Ridge, Pioneer to fund up to A\$2.25 million in exploration activities over 3 years for its 51% interest and can earn another 19% by spending a further \$3.0m over additional 3 years.
- Pioneer commenced A\$1 million exploration campaign in February 2006

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**BLAIR MINE**

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**Production and Development**

Production statistics for the Blair Mine are given below:

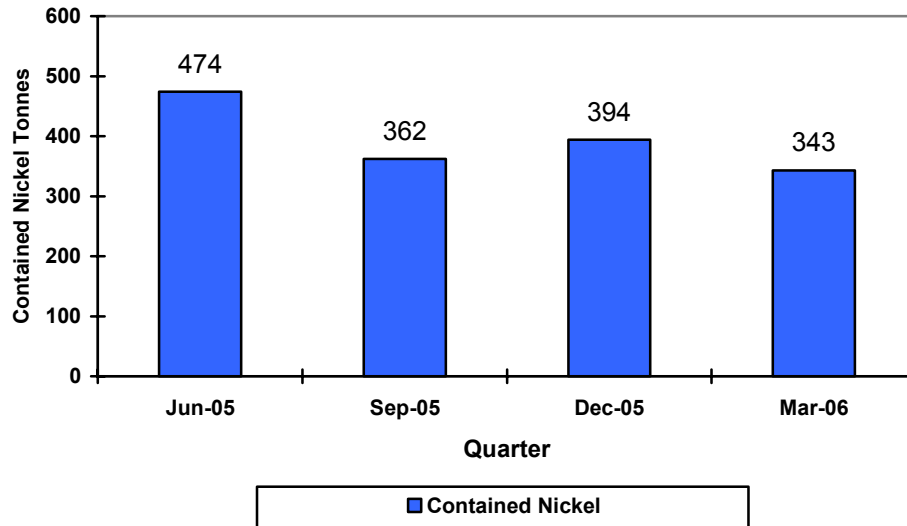
|                                     |        | <b>Jun-05</b> | <b>Sept-05</b> | <b>Dec-05</b> | <b>Mar-06</b> |
|-------------------------------------|--------|---------------|----------------|---------------|---------------|
| Ore Mined                           | Tonnes | 13,945        | 10,213         | 11,974        | 11,122        |
| Cont Ni Mined                       | Tonnes | 467           | 361            | 403           | 328           |
| Ore Treated                         | Tonnes | 14,278        | 10,243         | 11,269        | 12,044        |
| Grade                               | % Ni   | 3.31          | 3.54           | 3.49          | 2.86          |
|                                     | % Cu   | 0.19          | 0.19           | 0.20          | 0.19          |
| Contained Ni                        | Tonnes | 474           | 362            | 394           | 343           |
| Recovered Ni                        | Tonnes | 421           | 325            | 353           | 299           |
|                                     |        |               |                |               |               |
| Nickel (Spot)<br>Price (received)   | A\$/lb | 10.07         | 8.33           | 7.66          | 9.03          |
| Final Price recd<br>90 day adjust** |        |               | 7.17           | 6.77          | 10.06         |
| Operating cash<br>cost              | A\$/lb | 6.92          | 6.90           | 6.61          | 8.28          |
| Total cost with<br>capital devt     | A\$/lb | 6.92          | 8.39           | 7.52          | 8.99          |

\* 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 343 tonnes, down by 12.9% on the previous quarter primarily due to the mine head grade being slightly below forecasts.

**Blair Mine - Quarterly Production**



Costs per tonne of nickel were higher due to lower production of contained nickel tonnes affecting unit costs. The direct mining cash costs for the quarter were A\$8.28/lb of nickel payable (December quarter A\$6.61/lb). Including the capital costs associated with the decline development, cash costs were A\$8.99/lb of nickel payable (December quarter A\$7.52/lb).

Production for the quarter focussed on three main areas: developing and stoping the high grade E03 shoot on the lower levels of the mine, developing and stoping the C01 shoot also on the lower levels and continuing to mine the remaining areas of the Area 57 orebody.

Ore production from the E03 ore shoot accounted for 35% of the contained nickel during the quarter with good tonnages and consistently high grades. Mining in the C01 shoot in the lower levels of the mine accounted for 22% of the contained nickel produced during the quarter. The Area 57 mining produced over 20% of the mine's contained nickel tonnes during the March quarter compared to 10% in the December 05 quarter.

The decline continued using a single boom jumbo and re-intersected the N03 shoot on the 448 m level in March.

**Safety**

There were 2 Lost Time Injuries at the Blair Nickel Mine during the quarter, when

- an airleg miner strained stomach muscles while lifting equipment,
- another airleg miner suffered a strained back.

There was 1 minor injury during the quarter which required medical treatment, where no time was lost.

## MINE EXPLORATION

### Blair Deeps Drilling

The deepest workings at the Blair Nickel Mine are at 445 m level. An extensional underground diamond drilling programme of 6 holes for 734.3 metres was drilled to provide information below the deepest workings. The programme has successfully confirmed good quality ore on the E Shoot down to 405 m level, which supports continued decline development on the Blair Deeps.

The March Quarter drilling results include:

- 3.1 mtrs at 13.4 % Ni from E Shoot
- 2.49 mtrs at 8.65 % Ni from E Shoot.
- 3.1 mtrs at 6.14 % Ni from E Shoot.

A number of intersections of potentially economic ore were recorded in the ultramafic hangingwall, and these will need to be interpreted to see if they represent new ore sources. Results in the hanging wall include:-

- 2.7 mtrs at 5.02 % Ni
- 5.15 mtrs at 3.28 % Ni
- 6.15 mtrs at 4.26 % Ni.
- 5.65 mtrs at 2.28 % Ni

Table 1: Blair Deeps – diamond intercepts March Quarter 2006

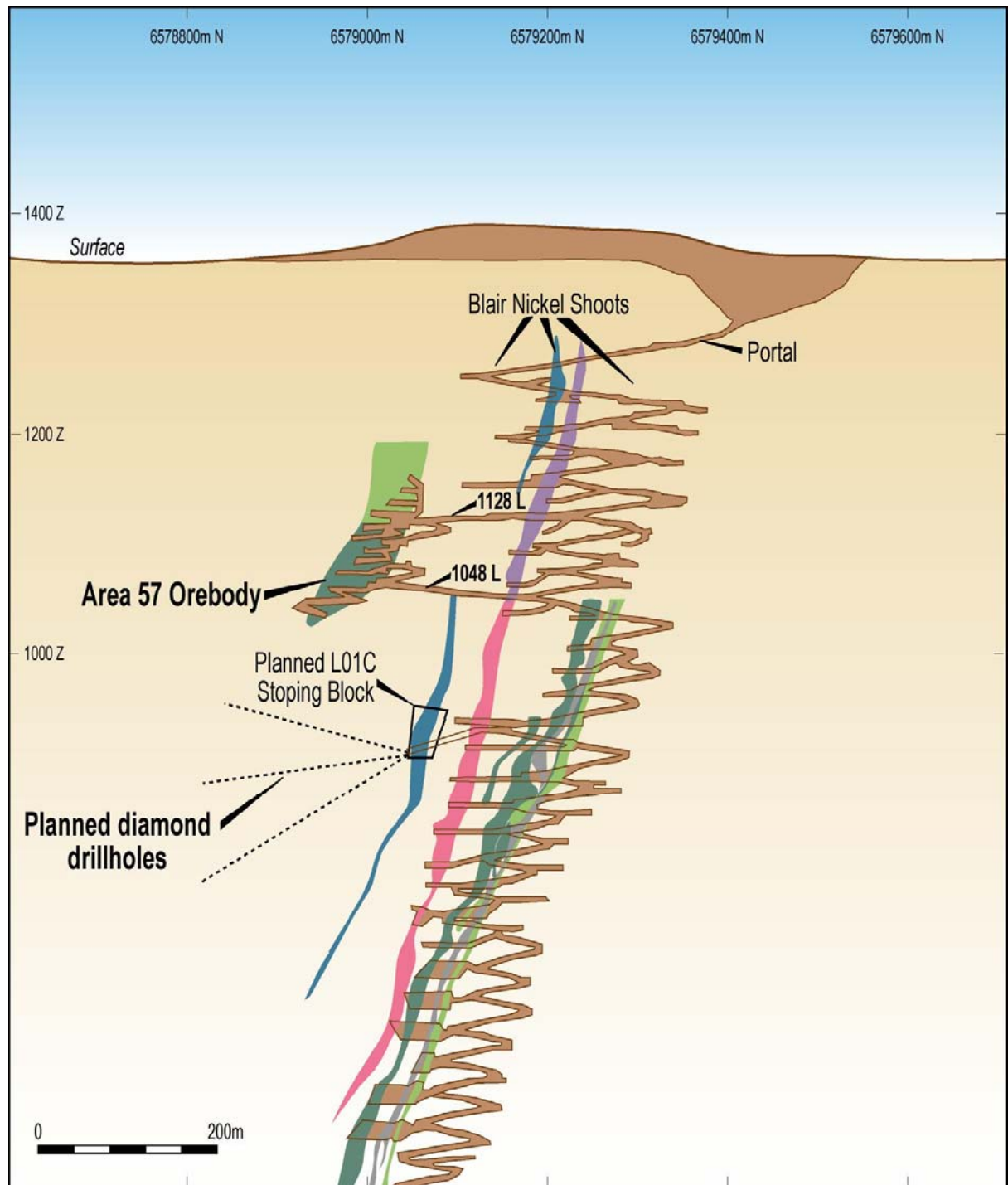
| Hole Id  | North (m) | East (m) | RL (m) | Azi deg | Dip deg | From (m) | To (m) | Intercept (m) | Grade (g/t) |
|----------|-----------|----------|--------|---------|---------|----------|--------|---------------|-------------|
| AMUG167  | 6578944   | 376855   | 473    | 307     | -27     | 9.4      | 12.1   | 2.7           | 5.02        |
|          |           |          |        |         |         | 43.93    | 50.1   | 5.15          | 3.28        |
|          |           |          |        |         |         | 77.3     | 78.3   | 1.0           | 3.23        |
|          |           |          |        |         |         | 100.7    | 103.8  | 3.1           | 13.14       |
| AMUG168  | 6578944   | 376855   | 473    | 298     | -26     | 39.9     | 41.0   | 1.1           | 1.27        |
|          |           |          |        |         |         | 103.67   | 106.16 | 2.49          | 8.65        |
| AMUG 169 | 6578944   | 376855   |        | 291     | -25     |          |        |               | nsa         |
| AMUG170  | 6578944   | 376855   |        | 296     | -35     | 118.8    | 119.18 | 0.38          | 10.27       |
| AMUG171  | 6578944   | 376855   |        | 298     | -37     | 10.1     | 10.45  | 0.35          | 2.87        |
|          |           |          |        |         |         | 51.4     | 57.55  | 6.15          | 4.26        |
|          |           |          |        |         |         | 88.25    | 93.90  | 5.65          | 2.28        |
|          |           |          |        |         |         | 107.45   | 110.55 | 3.1           | 6.14        |
| AMUG172  | 6578944   | 376855   |        | 291     | -34     | 46.28    | 47.40  | 1.12          | 4.99        |
|          |           |          |        |         |         | 105.02   | 105.61 | 0.5           | 6.65        |
|          |           |          |        |         |         | 117.0    | 117.3  | 0.3           | 10.97       |

### Area 57 Exploration

Although the Area 57 orebody as currently defined has essentially been mined out, there is considerable potential for finding a downplunge 'repeat' orebody by diamond drilling from a suitable platform underground. The L01 decline development on the 900 m level, after it intersects the L01 shoot, will provide a suitable opportunity for a diamond drill cuddy to be established from which a

staged programme of diamond holes and electromagnetic probing can then commence to explore for a repetition of Area 57.

**Figure 1: Area 57 – proposed drilling from L01C decline**



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## REGIONAL EXPLORATION

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

The Golden Ridge JV with Pioneer Nickel Ltd. was active in RC drilling for nickel sulphide orebodies at the Marshall and Anomaly 20 SW Prospects.

During the March quarter, the Company's joint venture partner reviewed existing data and undertook drilling at Anomaly 20SW (two RC and two diamond holes) and Marshall (three RC holes) for a total of 1921 metres.

#### **Anomaly 20SW**

Holes were drilled to test an interpreted ultramafic channel. Values up to 0.44% Ni confirmed the structure but no sulphides were intersected. Downhole EM surveys were unsuccessful in detecting off-hole conductors that could represent nickel sulphide mineralisation.

#### **Marshall**

One of the three holes at Marshall intersected nickel sulphides grading 2.26% Ni over 1 metre at a depth of 215 metres downhole. The sulphides were contained within a black shale unit and were most likely remobilised. Downhole EM has yet to be completed in this hole. The intersection steps out approximately 50 metres from the closest historical intersection and is consistent with a northerly plunge direction to a mineralised channel system.

### **Gold Exploration - Duplex Hill South Project**

During the quarter exploration focussed on proving up the Woodline 1 deposit and exploring the cluster of outstanding gold geochemical anomalies around Woodline 1.

#### **Woodline 1 Deposit**

An infill programme of 11 RC holes for a total of 478 metres was drilled in February, to firm up the resource model at Woodline1. Further strong gold mineralisation was encountered, with best results including:-

- 9m at 10.4g/t Au
- 12m at 6.7 g/t Au
- 8m at 2.1 g/t Au
- 4m at 3.6 g/t Au, and
- 9m at 9.1 g/t Au.

After interpreting these latest drill results and incorporating them into an updated resource model, the process of planning and assessing the feasibility of a shallow, open pit operation can be completed in the June quarter.

**Woodline 1 Geology**

The Woodline 1 deposit is characterised by:-

- a peak gold geochemical anomaly of 322 ppb located directly over the orebody.
- a horizontal blanket of gold mineralisation beneath transported soils at 10 metres vertical depth.
- a ‘carrot shaped’ zone of strong gold enrichment in the weathered reef channel
- a supergene blanket of gold mineralisation, sitting directly above fresh Archaean dolerite, at the base of weathering.

Figure 2: Woodline 1 Deposit – Interpreted cross section 6569140 North.

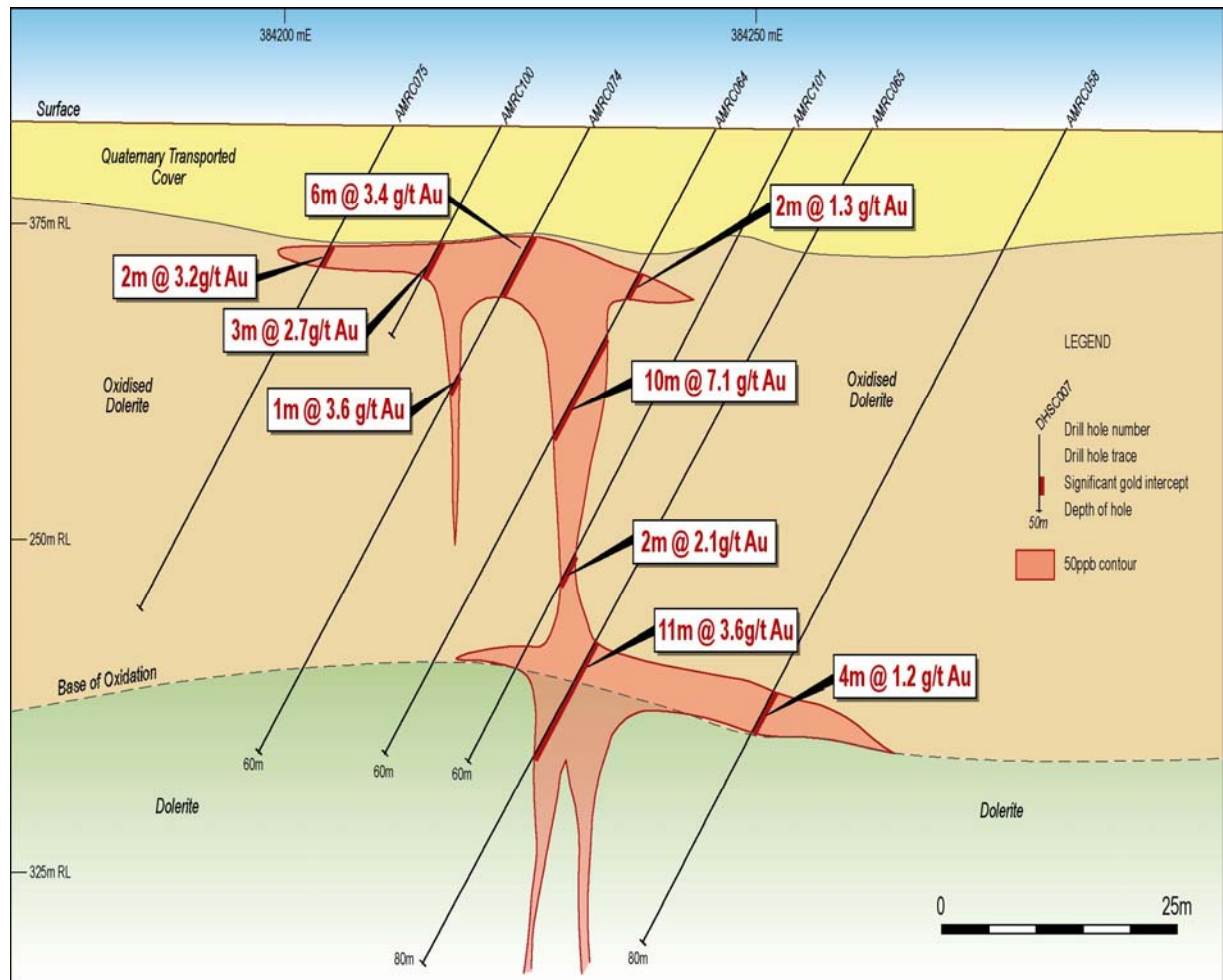


Table 1: Woodline 1 Deposit – Significant RC intersections – March Quarter 2006

| Hole Id | North (m) | East (m) | RL (m) | Azi deg | Dip deg | From (m)  | To (m)    | Inter-section (m) | Grade (g/t) |
|---------|-----------|----------|--------|---------|---------|-----------|-----------|-------------------|-------------|
| AMRC94  | 6569080   | 384184   | 383    | 270     | -55     | 9         | 13        | 4                 | 1.3         |
| AMRC95  | 6569100   | 384205   | 383    | 270     | -55     | <b>10</b> | <b>19</b> | <b>9</b>          | <b>10.4</b> |
| AMRC96  | 6569120   | 384205   | 383    | 270     | -55     | 10        | 18        | 8                 | 2.0         |
| AMRC97  | 6569120   | 384225   | 383    | 270     | -55     | 11        | 15        | 4                 | 3.6         |
| AMRC98  | 6569130   | 384207   | 383    | 90      | -55     | <b>11</b> | <b>23</b> | <b>12</b>         | <b>6.7</b>  |
|         |           |          |        |         |         | 52        | 54        | 2                 | 2.1         |
| AMRC99  | 6569130   | 384249   | 383    | 270     | -55     | 47        | 55        | 8                 | 2.1         |
| AMRC100 | 6569140   | 384222   | 383    | 270     | -55     | 11        | 14        | 3                 | 2.7         |
| AMRC101 | 6569140   | 384254   | 383    | 270     | -55     | 25        | 26        | 1                 | 1.2         |
|         |           |          |        |         |         | 31        | 32        | 1                 | 1.7         |
|         |           |          |        |         |         | 41        | 44        | 3                 | 1.6         |
|         |           |          |        |         |         | <b>49</b> | <b>51</b> | <b>2</b>          | <b>9.3</b>  |
|         |           |          |        |         |         |           |           |                   |             |
| AMRC102 | 6569150   | 384251   | 383    | 270     | -55     | <b>14</b> | <b>23</b> | <b>9</b>          | <b>9.1</b>  |
|         |           |          |        |         |         | 52        | 53        | 1                 | 1.1         |
| AMRC103 | 6569150   | 384260   | 383    | 270     | -55     | 15        | 16        | 1                 | 1.8         |
|         |           |          |        |         |         | 37        | 40        | 3                 | 1.5         |
|         |           |          |        |         |         | 49        | 52        | 3                 | 1.9         |
| AMRC104 | 6569160   | 384163   | 383    | 270     | -55     | 13        | 16        | 3                 | 2.9         |

### Woodline North

A reconnaissance programme of angled RAB (Rotary Air Blast) holes was drilled 400 metres north of the Woodline 1 resource, to test the northern portion of a strong gold geochemical anomaly (see Figure 3).

The programme encountered strong gold mineralisation at a number of holes, with best results including:

- 9m at 3.8 g/t Au
- 7m at 4.6 g/t Au
- 5m at 2.6 g/t Au
- 1m at 6.4 g/t Au, and
- 13m at 1.2 g/t Au

Along with the promising Woodline1 deposit, the February RAB drilling at Woodline North has greatly enhanced the potential of the Duplex Hill South area to contain more than one economic gold orebody.

Table 2: Woodline North - Significant RAB intersections – March Quarter 2006

| Hole Id | North (m) | East (m) | RI (m) | Azi deg | Dip deg  | From (m) | To (m) | Inter-section (m) | Grade (g/t) |
|---------|-----------|----------|--------|---------|----------|----------|--------|-------------------|-------------|
| AMBR440 | 6569280   | 384449   | 483    | 270     | -60      | 18       | 19     | 1                 | 6.5         |
| AMBR416 | 6569280   | 384460   | 483    | 270     | -60      |          |        |                   | nsa         |
| AMBR417 | 6569280   | 384480   | 483    | 270     | -60      | 14       | 20     | 6                 | 0.80        |
| AMBR418 | 6569280   | 384500   | 483    | 270     | -60      | 8        | 17     | 9                 | 3.8         |
|         |           |          |        |         | includes | 8        | 15     | 7                 | 4.6         |
| AMBR419 | 6569280   | 384520   | 483    | 270     | -60      | 8        | 15     | 7                 | 1.0         |
| AMBR420 | 6569280   | 384540   | 483    | 270     | -60      | 7        | 12     | 5                 | 2.6         |
| AMBR421 | 6569280   | 384560   | 483    | 270     | -60      |          |        |                   | nsa         |
| AMBR441 | 6569300   | 384442   | 483    | 270     | -60      |          |        |                   | nsa         |
| AMBR422 | 6569300   | 384460   | 483    | 270     | -60      | 13       | 18     | 5                 | 0.3         |
| AMBR423 | 6569300   | 384480   | 483    | 270     | -60      | 37       | 50     | 13                | 1.2         |
|         |           |          |        |         | includes | 37       | 42     | 5                 | 2.0         |
| AMBR424 | 6569300   | 384500   | 483    | 270     | -60      | 13       | 17     | 4                 | 0.4         |
| AMBR425 | 6569300   | 384520   | 483    | 270     | -60      | 37       | 42     | 5                 | 0.4         |
| AMBR426 | 6569300   | 384540   | 483    | 270     | -60      | 8        | 12     | 4                 | 1.0         |
|         |           |          |        |         |          | 18       | 21     | 3                 | 1.3         |
| AMBR442 | 6569320   | 384444   | 483    | 270     | -60      | 48       | 52     | 4                 | 0.3         |
| AMBR427 | 6569320   | 384460   | 483    | 270     | -60      |          |        |                   | nsa         |
| AMBR428 | 6569320   | 384480   | 483    | 270     | -60      | 20       | 22     | 2                 | 0.5         |
| AMBR429 | 6569320   | 384500   | 483    | 270     | -60      |          |        |                   | nsa         |
| AMBR430 | 6569320   | 384520   | 483    | 270     | -60      |          |        |                   | nsa         |
| AMBR431 | 6569320   | 384540   | 483    | 270     | -60      |          |        |                   | nsa         |

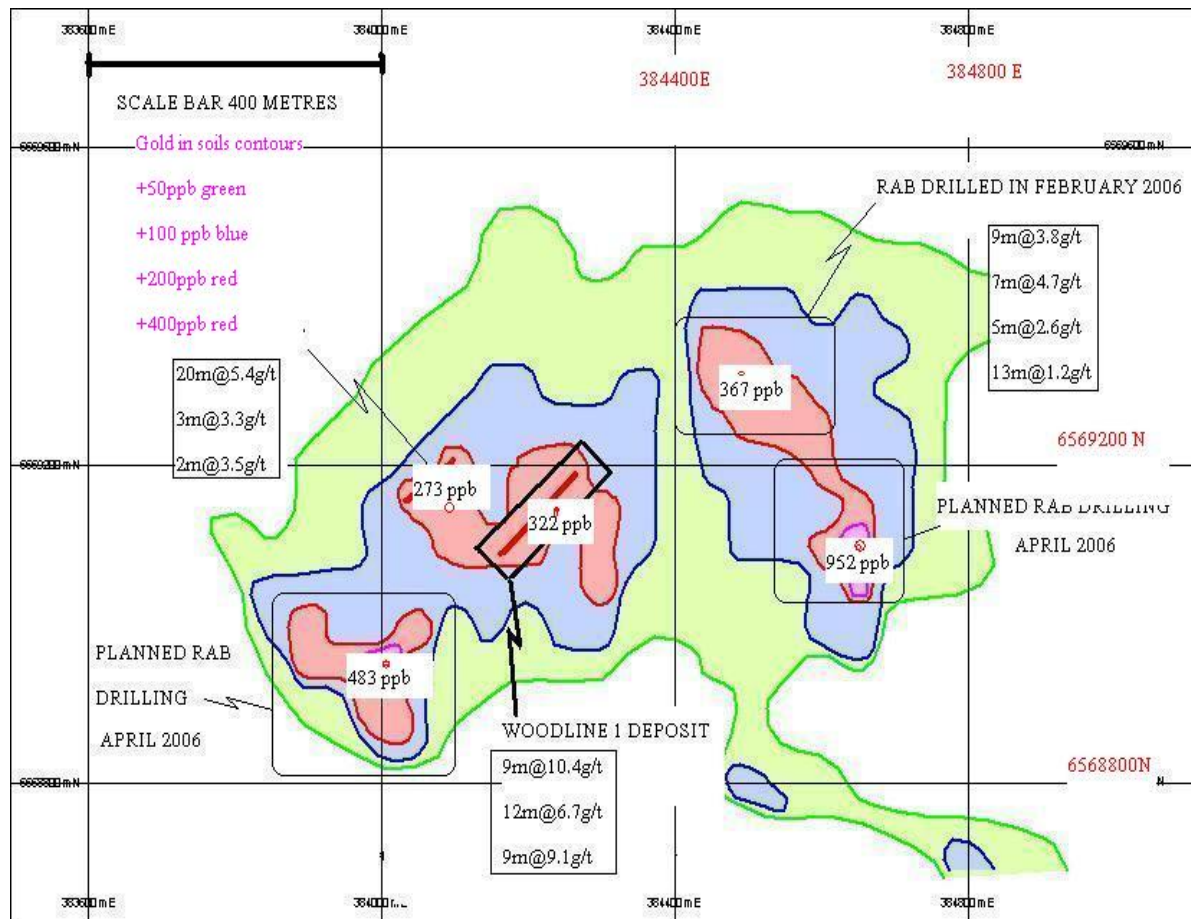
### Woodline North Geology

The nature of the gold mineralisation at Woodline North prospect has similarities to that noted at the Woodline 1 Deposit

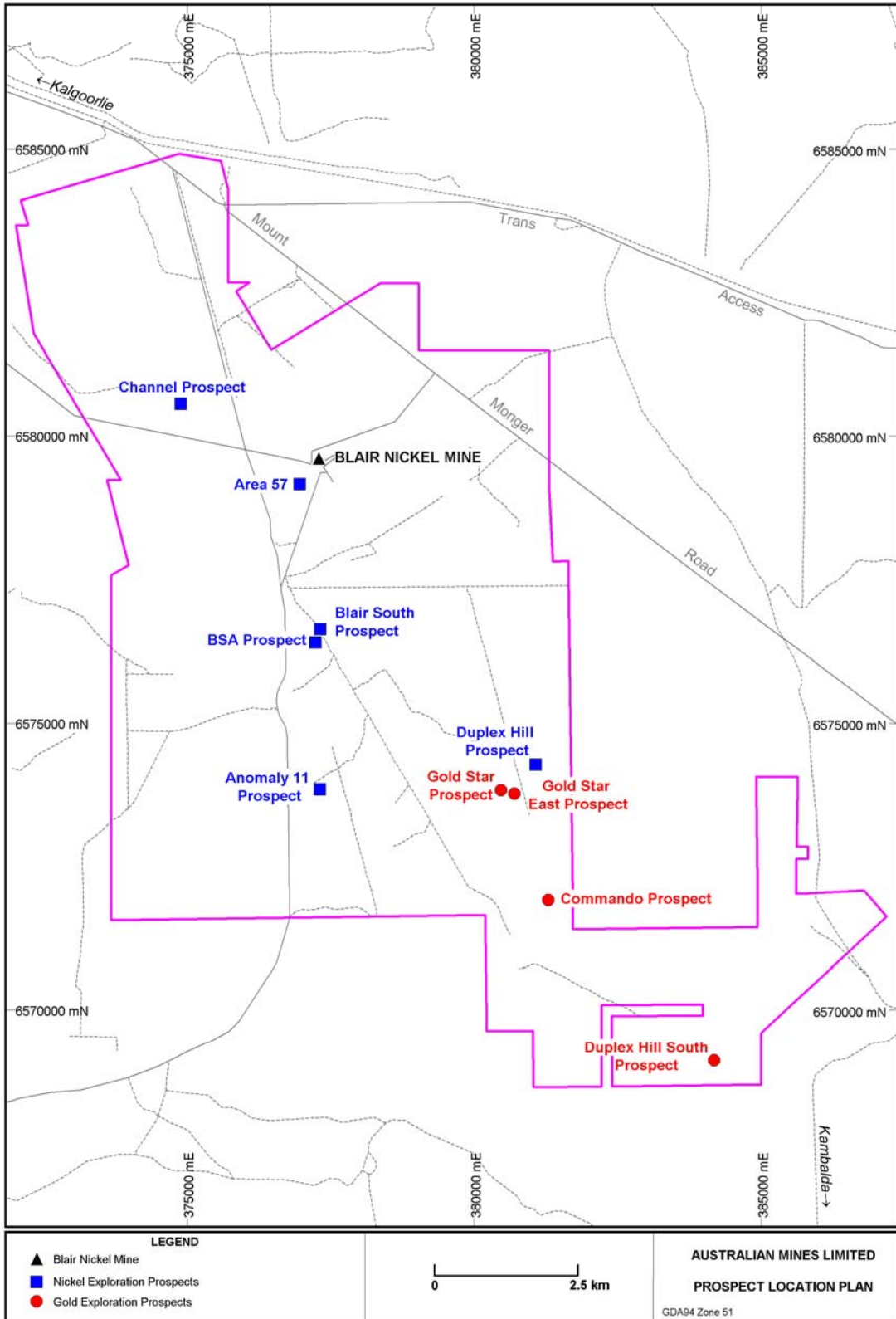
### Exploration Outlook

- Initially RAB drilling is used as a cheap and effective method of testing soil anomalies, with good quality RC drilling as a follow up once a supergene blanket has been outlined.
- A programme of RC holes is needed to test for a reef system at Woodline North, but before this commences an additional programme of RAB holes will be used to test the remaining anomalies in the cluster around the Woodline 1 deposit, so that the targets can be ranked prior to committing to RC drilling.
- The soil anomalies to be tested with RAB drilling in the June quarter have peak gold in soil values of 322 ppb, 952 ppb and 483 ppb respectively. (see Fig 3)

Figure 3: Duplex Hill South - Drill Programmes with select drill intersections and peak gold geochemical values.



### Appendix 1: Location Plan of Blair Projects



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## CORPORATE

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Revenue for the March quarter was higher than December quarter due to the higher nickel price received. Also the Company received 90 day averaging positive adjustments from BHP Billiton to revenue for December quarter production of A\$685,000 during the March quarter with the higher nickel prices. Offset against these gains were some hedging losses of \$247,000 which were a result of the lower hedged prices received in the December quarter.

Operating cash costs (excluding capital) were A\$8.28/lb Ni payable (December quarter A\$6.61/lb). The total cash costs for the quarter (including capital development) were A\$8.99/lb Ni payable (December quarter A\$7.52/lb as the Company progressed the decline to the 448 m level.

The Company received an average spot price of A\$19,897 per tonne of Ni payable or A\$9.03/lb for the March quarter (December quarter A\$7.66/lb). After hedging and 90 day final settlements received from BHP Billiton against December quarter production, the realised price was A\$10.06/lb Ni payable (December quarter A\$6.77/lb). This has resulted in a decision to continue the decline to the 425 m level and to continue, with careful monitoring, its underground exploration expenditure during the quarter.

Currently the hedging position of the Company is 189 tonnes of payable Ni covering production for the months of the March quarter at an average delivery price of US\$15,288/tonne Ni. The average nickel price received during the March quarter was US\$14,786/tonne on the 189 tonnes of nickel production payable. This will result in a positive adjustment of US\$502 per tonne Ni or US\$95,000 which will be received in the June quarter.

The Company had cash at bank of A\$1.5m at 31 March, 2006.

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## SUMMARY AND OUTLOOK

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Estimates for the June quarter indicate the Company will receive the benefit of higher nickel prices which are at 17 year highs at the date of this report.

The Company will continue to access the higher grade Blair Deeps ore bodies if the nickel price remains high, production forecasts are achieved and the costs of the mine continue to be favourable. At current levels the outlook for the mine remains positive.

Gold exploration and open pit optimisation work will continue on the Duplex Hill South Project to establish a mineable reserve for the current Woodline 1 and Woodline North gold mineralisation.

The Golden Ridge Joint Venture with Pioneer Nickel will continue during the June quarter. It is expected that Pioneer will be releasing information during the June

quarter about their exploration program planned for the Golden Ridge tenements excluding the Blair mine.

The Company is working on further acquisition opportunities in Western Australia and expects to be successful in the June Quarter.

Yours faithfully

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

*The information in this report that relates to Exploration Results 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.'*