

QUARTERLY REPORT ON ACTIVITIES
FOR PERIOD ENDED 31 DECEMBER 2005

HIGHLIGHTS FOR THE QUARTER

BLAIR NICKEL MINE

- **Blair Nickel Mine** continued to perform in line with forecasts with a total of 11,269 dry tonnes of ore treated at an average grade of 3.49% Ni for **394 tonnes of dry contained nickel metal**, (up 8.8% from the previous quarter).
- The **Area 57 and Blair Deeps** nickel ore bodies continue to **exceed Ore Reserve estimates**.
- **Capital decline development** continued during the quarter accessing the **Blair Deeps ore body**. The decline has now reached the ore in the C01 shoot on the 454mRL.
- Cash costs continued to reduce during the December quarter with **operating cash costs of A\$6.61/lb Ni payable and cash costs including capital development of A\$7.52/lb Ni payable**. The average spot nickel price received was A\$7.66/lb Ni payable for the quarter and A\$6.77/lb Ni payable after 90 day final nickel price adjustments were received from BHP Billiton on September quarter production.
- Due to the lower spot Nickel price in the December quarter the **Company** suffered a **loss on the 90 day final nickel price settlement for September production of A\$515,000**. December quarter production has now been totally hedged for final settlement in the **March quarter which should result in a net profit of approximately A\$450,000**.

The Company had cash at bank of A\$1.3m at 31 December, 2005.

GOLD EXPLORATION

DUPLEX HILL SOUTH PROJECT

- Following the encouraging results from the previous **RC drilling program** in September quarter 2005 (which returned intercepts including 10m @ 7.08g/t, 14m @ 2.96g/t, 9m @ 2.98g/t and 6m @ 3.41g/t); a follow up program was drilled to determine the extent of the **Woodline1 mineralisation** along strike to the north and south.
- **Further strong gold mineralisation** was encountered in six of the twelve holes, with best results including:
 - **2m @ 4.22 g/t Au**

- 7m @ 3.23 g/t Au
- 1m @ 16.5 g/t Au
- 2m @ 9.99 g/t Au
- 12m @ 2.47 g/t Au, and
- 11m @ 3.27 g/t Au.

Further drilling is being planned in the March quarter to follow up these encouraging results.

NICKEL EXPLORATION

PIONEER JOINT VENTURE

- Subsequent to the quarter end, Australian Mines has entered into a nickel JV with Pioneer Nickel on tenements surrounding the Blair mine. **Pioneer can earn a 51% interest in metals other than gold with initial expenditure of \$2.25m on nickel exploration over 3 years.**
- Australian Mines can then elect to either fund 49%, or within a further period of 3 years, dilute to 30% by Pioneer spending another \$3m.
- The JV excludes the Blair mine and its extensions.
- **Australian Mines retains the gold rights on all the tenements.**

BLAIR MINE

Production and Development

Production statistics for the Blair Mine are given below:

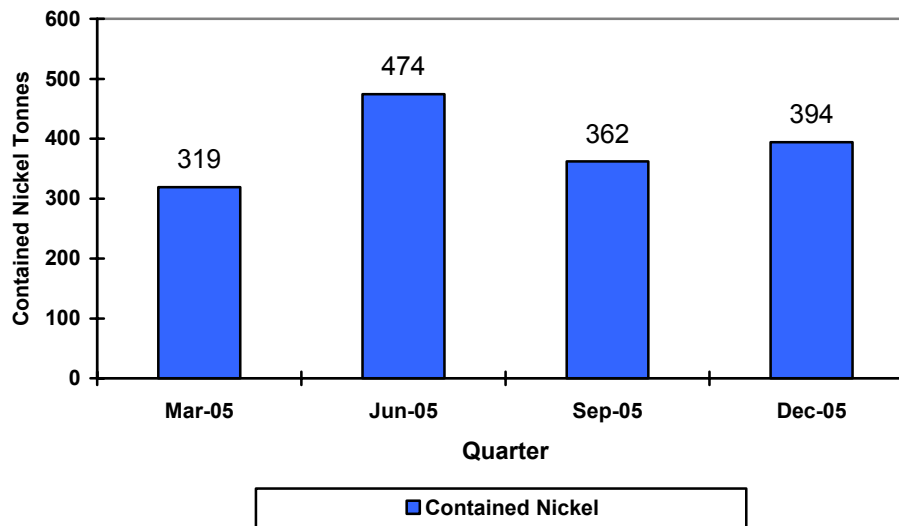
		Mar-05	Jun-05	Sept-05	Dec-05
Ore Mined	Tonnes	9,985	13,945	10,213	11,974
Cont Ni Mined	Tonnes	309	467	361	403
Ore Treated	Tonnes	10,477	14,278	10,243	11,269
Grade	% Ni	3.01	3.31	3.54	3.49
	% Cu	0.19	0.19	0.19	0.20
Contained Ni	Tonnes	319	474	362	394
Recovered Ni	Tonnes	281	421	325	353
Nickel (Spot) Price (received)	A\$/lb	9.55	10.07	8.33	7.66
Final Price recd 90 day adjust**				7.17	6.77
Operating cash cost	A\$/lb	11.04	6.92	6.90	6.61
Total cost with capital devt	A\$/lb	12.5	6.92	8.39	7.52

* 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 394 tonnes with the mine head grade continuing to be well above forecasts.

Blair Mine - Quarterly Production



The direct mining cash costs for the quarter were A\$6.61/lb of nickel payable (previous quarter A\$6.90/lb nickel). Including the capital costs associated with the “In-Ore Decline”, cash costs were A\$7.52/lb of nickel payable (previous quarter A\$8.39/lb).

Production for the quarter focussed on three main areas: developing and stoping the high grade E03C shoot on the lower levels of the mine, continuing to mine the remaining areas of the Area 57 orebody, and continuing to mine the remnant areas on the 01 Surface above the 516 level.

Ore production from the E03 ore shoots averaged 74% of the contained nickel during the quarter with good tonnages and consistently high grades. The Area 57 ore body exceeded expectations in tonnages and grades during the December quarter. The Area 57 mining produced over 10% of the mine’s contained nickel tonnes during the December quarter compared to 3% in the September quarter.

The “In-Ore Decline” continued using a single boom jumbo and the decline has now intersected the C01C shoot again in January.

Safety

There was 1 Lost Time Injury at the Blair Nickel Mine during the quarter, when an operator underwent surgery for a hernia injury. There were 2 minor injuries during the quarter which required medical treatment, where no time was lost.

MINE EXPLORATION

Area 57

An orientated drill program is planned to drill 100m below the lowest known mineralisation in this area of the mine. This drilling is designed to test for any repeating structures that may contain a second zone of massive sulphide mineralisation within the cherty sediment package that hosts the Area 57 ore body. This drilling will be orientated to allow for the projection of faults and shears that may exist to further generate favourable targets in this area.

Blair Deeps

Extension diamond drilling of the high grade Blair Deeps ore bodies has also been planned and will commence once mine plans are approved.

The drill program has been designed to infill the high grade E03C shoot at the bottom of the Blair mine. This drilling is planned to create 15mX20m spaced intersections down to the 400mRL, allowing the confidence level in this area to be increased from inferred resources.

REGIONAL EXPLORATION

Blair Project – Nickel

Blair South

The Blair South / BSA Project has a strike length of approximately 2 kilometres of copper and gold anomalism and both fixed loop and moving loop EM surveys have identified a number of large EM targets which are found both on the contact and in the footwall.

Two holes were planned to test previously identified geophysical targets at Blair South in the quarter.

In December, one 150m RC hole (AMRC 088) was drilled at Blair South to identify the source of a large hanging-wall EM conductor. The hole passed through talc-chlorite ultramafic at the target depth of 80 metres, before encountering 3 metres of sulphidic sediment at 110 metres, and then continuing in talc-chlorite ultramafic to the planned end of hole depth of 150 metres. The sulphidic sediment assayed 3 metres at 0.02% nickel and 22 ppm cobalt.

The hole has been cased in preparation for DHEM, but the current interpretation is that the sulphidic sediment was the source of the EM anomaly.

The second 660 m diamond hole was drilled in January to test a deeper EM anomaly (approx 450 vertical metres below surface). The hole encountered disseminated sulphides at the target depth; preliminary indications are that the sulphides are sub-economic. The hole has also been cased in preparation for DHEM.

Blair Project – Gold

Duplex Hill South

An RC drilling programme of 12 holes was drilled to follow up on very encouraging results at Duplex Hill South (Woodline1 mineralisation, about 7 km from the Blair Nickel mine), reported in the September 2005 quarterly.

The strong gold-in-carbonate anomaly at Duplex Hill South is in excess of 1 kilometre long and to date, two NE striking mineralised reef systems have been identified by RC drilling, known as the West Reef and the East Reef. The East Reef has been named Woodline 1.

The reefs are hosted in a coarse-grained dolerite, which has been weathered down to approximately 40 metres vertical depth and as a consequence ore grades are found not only in the reef channel, but also in a 'supergene' enrichment zone at the base of weathering. Furthermore there is a 'perched' anomaly of mineable grades at between 10 and 15 metres vertical depth.

Following the successful RC program reported in the September 2005 quarterly (which returned intercepts such as **10m @ 7.08g/t, 14m @ 2.96g/t, 9m @ 2.98g/t and 6m @ 3.41g/t**) a follow-up programme of 12 RC holes for a total of 1314 metres was drilled in the December 2005 quarter, to extend the Woodline1 mineralisation along strike to the north and south.

Tabulated below are significant intersections from the December quarter RC drilling program.

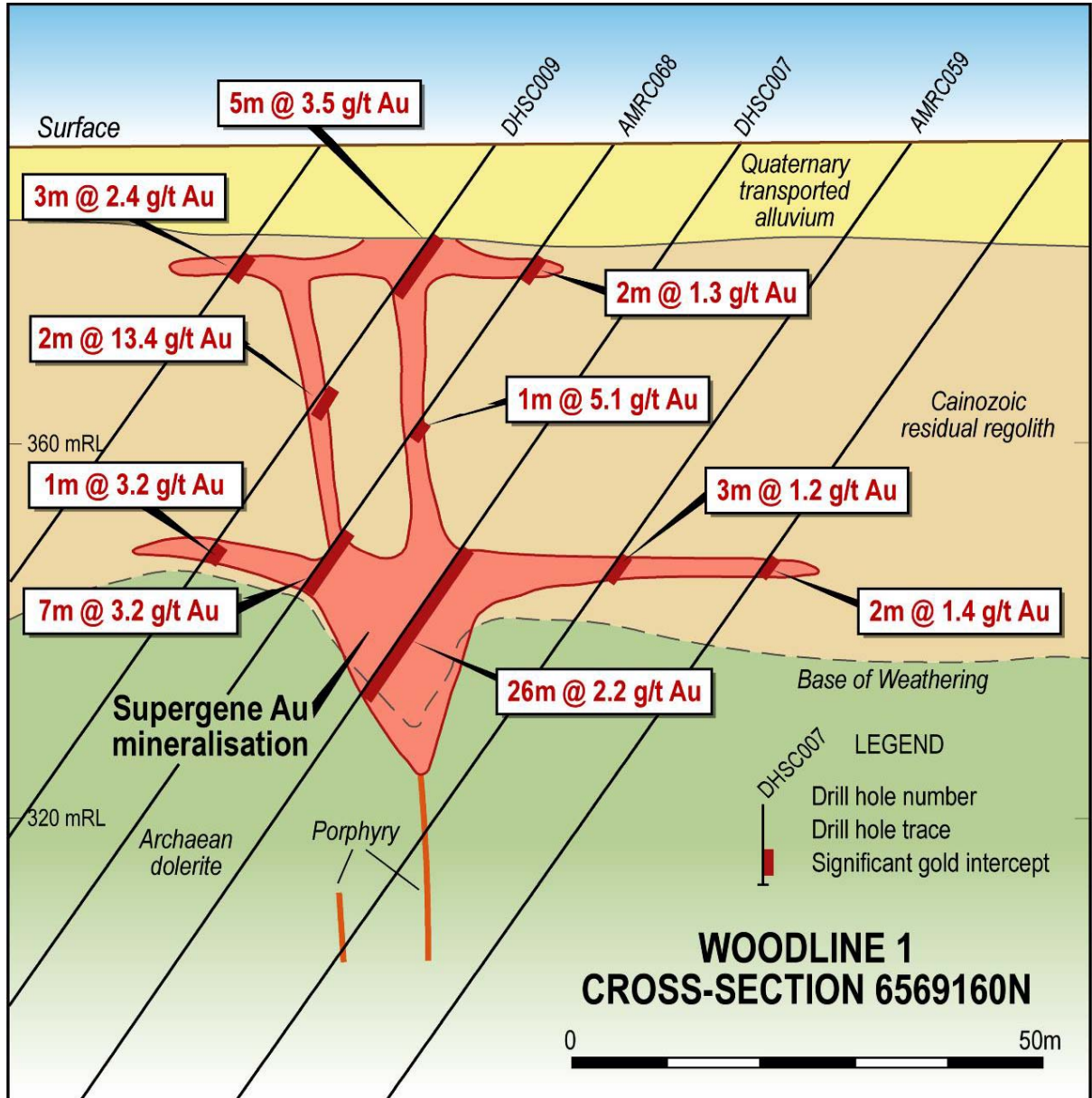
Hole Id	North	East	RI	Azi	Dip	From	To	Intercept	Grade
AMRC84	6569082	384197	383	270	-55	0m	1m	1m	1.88g/t
AMRC85	6569083	384212	383	270	-55	53m	54m	1m	3.39g/t
AMRC86	6569085	384227	384	270	-55	47m	48m	1m	1.38g/t
						69m	70m	1m	1.21g/t
AMRC55	6569102	384212	383	270	-55	13m	15m	2m	1.32g/t
						21m	23m	2m	4.22g/t
						48m	51m	3m	1.30g/t
AMRC56	6569103	384228	383	270	-55	48m	53m	5m	1.99g/t
AMRC57	6569103		383	270	-55	49m	51m	2m	1.55g/t
AMRC58	6569143	384283	383	270	-55	53m	58m	5m	1.03g/t
AMRC68	6569162	384269	383	270	-55	28m	30m	2m	1.31g/t
						36m	37m	1m	5.12g/t
						50m	57m	7m	3.23g/t
					Include	50m	51m	1m	16.5g/t
AMRC59	6569162	384300	383	270	-55	50m	53m	3m	1.15g/t
AMRC69	6569182	384276	383	270	-55	16m	20m	4m	1.03g/t
						50m	52m	2m	2.26g/t
AMRC70	6569181	384322	383	270	-55	56m	57m	1m	0.86g/t
AMRC71	6569195	384291	383	270	-55	20m	21m	1m	1.74g/t
						47m	49m	2m	9.99g/t
						52m	54m	2m	2.01g/t

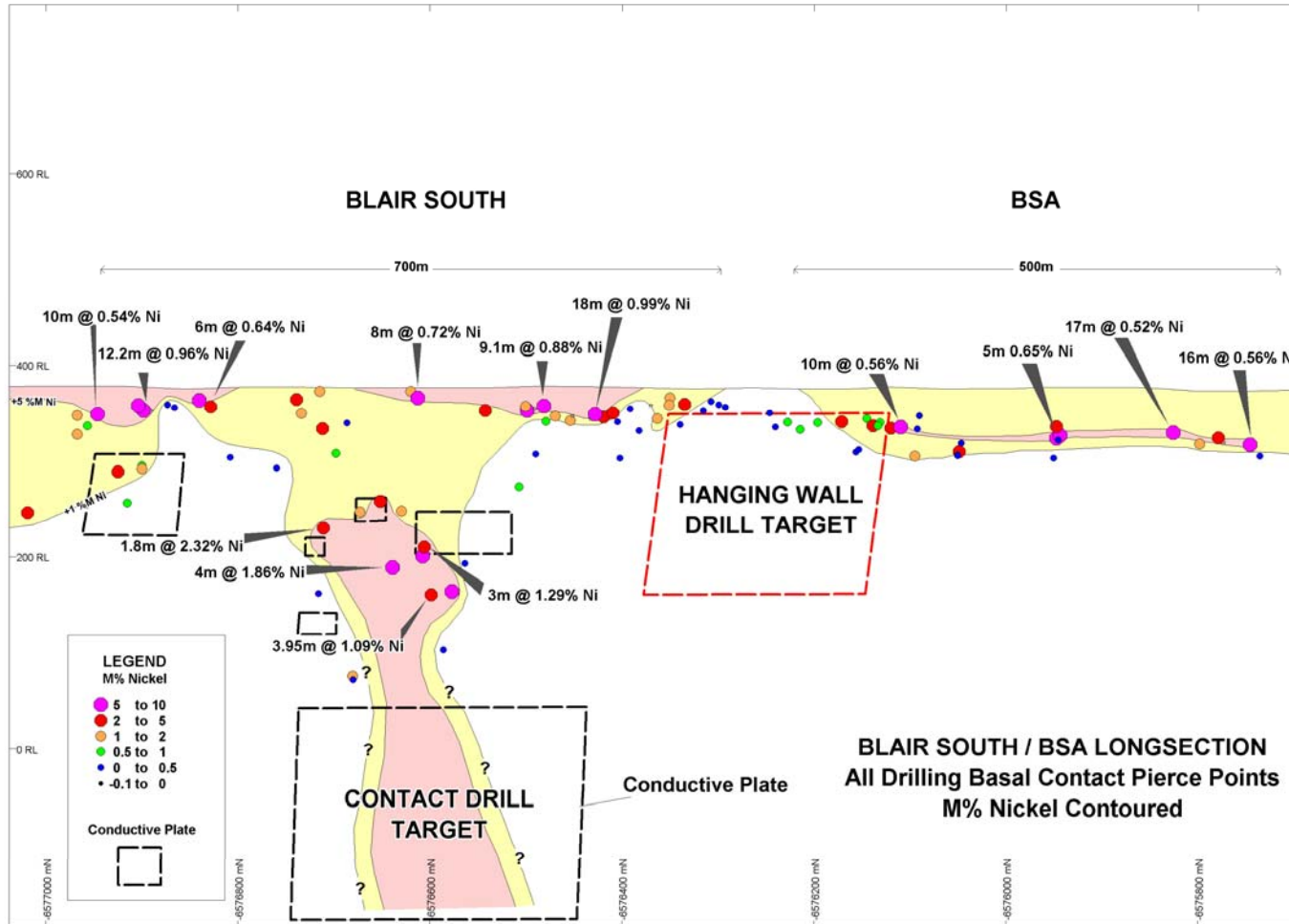
AMRC89	6569196	384308	383	270	-55	49m	61m	12m	2.47g/t
AMRC90	6569196	384323	383	270	-55	26m	27m	1m	1.16g/t
						53m	55m	2m	1.39g/t
AMRC91	6569219	384307	383	270	-55	50m	53m	3m	1.16g/t
AMRC92	6569219	384323	383	270	-55	48m	59m	11m	3.27g/t

Interpretation of the latest drill results will be incorporated into an updated resource model during the March quarter. Further drilling of this project will be conducted to follow up these promising results once the mineralisation trends have been modelled.

The company is very excited with this gold project and will continue to be the main exploration emphasis in the March quarter.

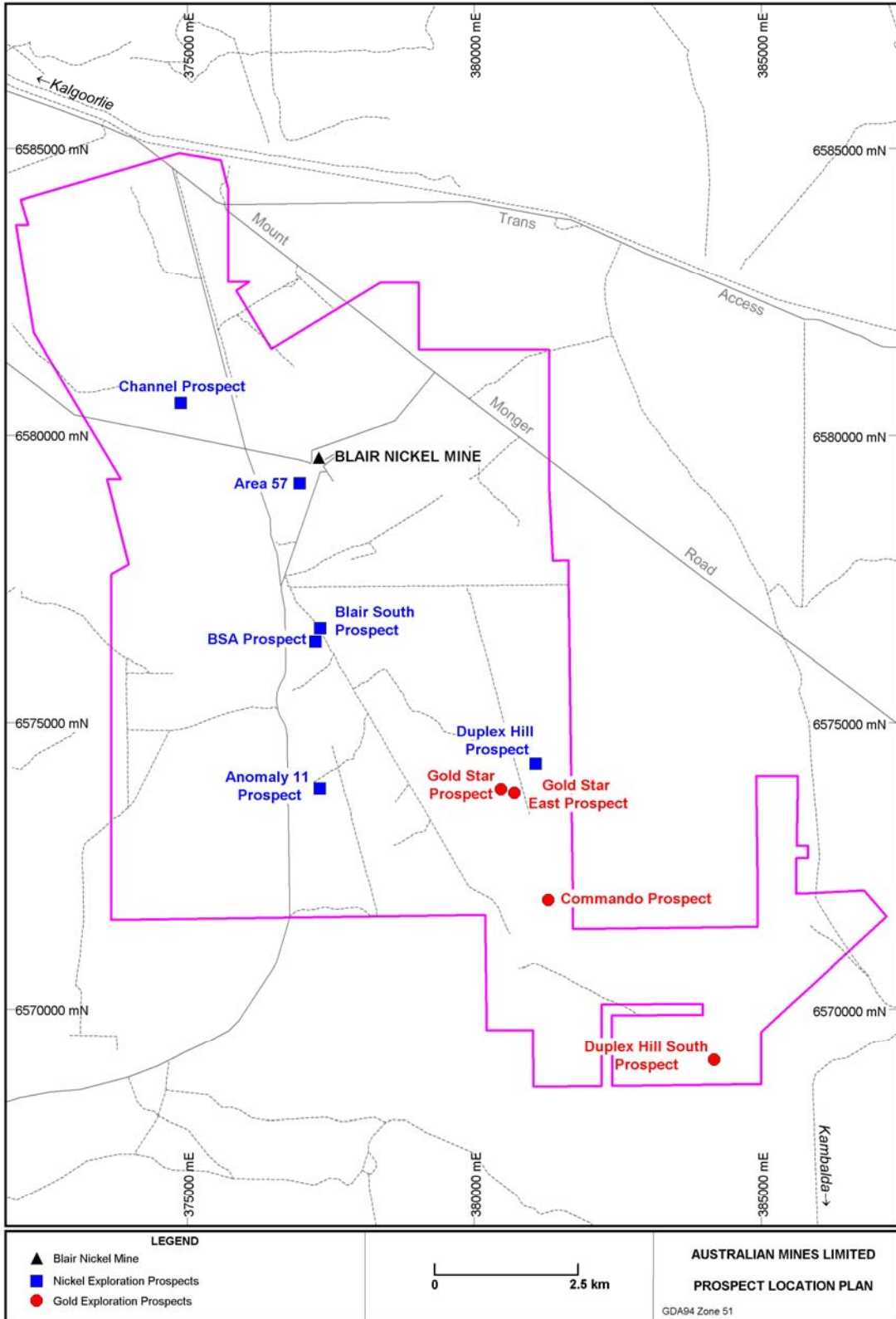
Woodline 1, cross section at 6569160N





Blair South/BSA EM Targets

Appendix 1: Location Plan of Blair Projects





CORPORATE

Revenue for the quarter was lower due to the lower nickel price during the quarter. The Company received 90 day averaging negative adjustments from BHP Billiton to revenue for September quarter production of minus A\$515,000 during the December quarter due to the lower nickel prices.

Operating cash costs (excluding capital) were A\$6.61/lb Ni payable (previous quarter A\$6.90/lb). The total cash costs for the quarter (including capital development) were A\$7.52/lb Ni payable (September quarter (A\$8.39/lb) as the Company progressed the decline to the 454 RL.

The Company has received an average price of A\$16,896 per tonne of Ni payable or A\$7.66/lb for the December quarter (September quarter was A\$8.33/lb). After hedging and 90 day final settlements received from BHP Billiton against September quarter production, the realised price was A\$6.77/lb Ni payable (September quarter was A\$7.17/lb Ni payable). This resulted in the company deferring some exploration expenditure during the quarter.

Currently the hedging position of the Company is 213 tonnes of payable Ni covering production for the months of October, November and December at an average delivery price of US\$14,035/tonne Ni. The average nickel price received during the December quarter was US\$12,567/tonne on the 226 tonnes of nickel production payable. This positive adjustment due to the hedge price is approximately US\$1,468 per tonne Ni or US\$330,000 which will be received in the March quarter.

The Company had cash at bank of A\$1.3m at 31 December, 2005.

SUMMARY AND OUTLOOK

Over the next 3 months, the Company will receive the benefit of higher nickel prices having hedged the October to December production on prices considerably above the provisional payments. This will offset most of the negative adjustments received in the December quarter.

The feasibility of the mine for production going forward is continually being reviewed and, depending on the nickel price remaining high and the costs of the mine being favourable, the mine will continue to access the higher grade Blair Deeps ore bodies.

Exploration will continue on the Duplex Hill South Project to extend the current Woodline 1 gold mineralisation.

The agreement with Pioneer Nickel to joint venture the nickel exploration will be commenced during the March quarter. It is expected that Pioneer will be releasing information during the March quarter about their exploration program planned for the Golden Ridge tenements excluding the Blair mine.

Acquisition opportunities continue to be reviewed by the company with several opportunities awaiting final review.

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.'