



Quarterly Report for period ended 31 December 2004

SUMMARY

- No Lost Time Injuries at the Blair nickel mine.
- A total of 10,920 tonnes of ore was mined at an average grade of 2.81% Ni for 277 tonnes of contained nickel metal.
- 10-15% of ore was mined from areas outside of the current ore reserve envelope.
- Blair mine is currently changing over to owner mining to improve productivity and costs.
- A 15 metre long sub-level on B-shoot ore on the Ø1 Surface was entirely in massive ore grading **12% nickel** at widths varying between 0.3 and 2.5 metres.
- Development opens up **200 vertical metres of mainly unmined B-shoot mineralisation**, which is outside the ore reserve envelope.
- New Area 57 sub-level at the 1147m RL (32 m above the top of the defined ore reserve).
- RC drilling at Anomaly 11 continues to define nickel sulphide mineralisation with best intersection of **2m at 2.5% Ni**.
- PGE's at Anomaly 11, including **0.72 g/t 3PGE** contained in a 1m interval grading **2.89% Ni** and **0.33% Cu** provides strong geochemical support for the accumulation of nickel sulphides.
- RAB drilling at Duplex Hill successfully located the basalt/ultramafic contact position with significant results including **3m at 1.15% Ni**.
- Auger sampling has generated two new gold anomalies: Commando and Fireblade.
- An additional 150 tonnes of nickel metal hedged at an average price of A\$19,446 per tonne.

BLAIR NICKEL MINE

Safety

There were no Lost Time Injuries at the Blair nickel mine during the quarter. One medically treated injury occurred but no work time was lost.

Production

A total of 10,920 tonnes of ore was mined at an average grade of 2.81% Ni (Table 1). Contained nickel metal produced for the quarter of 277 tonnes was 40% lower than in the previous quarter (491 tonnes).

This shortfall was predominantly attributable to the continued poor performance of the mining contractor, and relates to inadequate manpower and poor equipment availability. As previously announced, the mine is currently changing over to owner mining to improve productivity and costs, and this transition also resulted in some delays to production.

After a very poor performance early in the quarter, the Board decided and obtained acceptance from the contractor, that Blair was better suited to owner operated mining. Since that time the management team has been working to complete the transition to

owner mining. At quarter's end, the required initial equipment had been received and the process to employ personnel commenced, with the appointment of the critical roles of Mine Manager, Mine Foreman and Senior Mining Engineer having already been completed. It is anticipated the total process will be substantially completed by the end of the March 2005 quarter.

Heavy rain at the end of the quarter compounded the production issues by shutting the haul road to the concentrator for three days. As a consequence, 1,100 tonnes of ore grading 3.91% nickel was unable to be delivered to the concentrator.

As a result of the lower production levels the direct mining costs increased for the quarter with cash costs of \$5.29/lb Ni being a 45% increase on the previous quarter (\$3.66/lb Ni). As the production increases, back up to the forecast these costs will reduce back to previous levels.

Production for the quarter was sourced 60% from the lower levels of the mine, 30% from Area 57 and 10% from remnant ore blocks throughout the mine. Of the total tonnes mined, 10-15% was sourced from areas outside of the current ore reserve envelope.

Table 1: Quarterly Production Summary

		December 2004	September 2004	FY04/05 YTD
Ore Mined	Tonnes	10,920	16,543	27,463
Ore Treated	Tonnes	9,860	17,682	27,542
Grade	% Ni	2.81	2.78	2.79
	% Cu	0.19	0.20	0.19
Contained Ni	Tonnes	277	491	768
Recovered Ni	Tonnes	242	427	669
Nickel (Spot) Price (received)	US\$/tonne	14,075	14,061	14,065
Nickel (Spot) Price (received)	A\$/lb	8.40	9.00	8.72
Cash cost	US\$/lb	4.00	2.55	3.52
Cash cost	A\$/lb	5.29	3.66	4.59

Ore development and stoping was sourced for the first time from the deeper part of the mine at the 500m RL, the first level cut from the recently recommenced decline following the mine dewatering program (Figure 1). The E shoot position on the Ø3 surface delivered good tonnages of high quality ore. Development stoping continued on the Ø1 surface with mining of narrow open contact ore.

To date the ore tonnes extracted from this position are better than the ore reserve estimations, however it is too early to fully determine any positive reconciliations.

A development cross cut intersected the projected C shoot position where massive ore grading up to 11% nickel and between 1.3 and 1.7 metres wide was exposed.

Development in the central part of the mine, on the 684m RL intersected the B-shoot on the Ø1 Surface (Figure 1). Intermediate driving and rising of a gallery stope on this level commenced. Mining of a 15 metre long sub-level was entirely in massive ore grading 12% nickel at widths varying between 0.3 and 2.5 metres. At quarter's end, the ore was developed vertically up to the 708m RL and the next access drive on the 714m RL was 10 metres from intersecting the projected position of the shoot.

Concurrently, in the deeps at the 534m RL development on the Ø1 surface continued and at quarter's end the drive was interpreted to be approaching the projected B-shoot contact position due to the presence of minor stringers of massive nickel sulphide mineralisation in the face of the drive. The development on these three levels will potentially open up 200 metres vertically of mainly unmined B-shoot mineralisation. All the mineralisation in this area is outside the reserve envelope.

Since May 2004, the mining method in Area 57 was successfully changed to

account for the change in the physical characteristics of the ore body. The current Area 57 ore reserve envelope is now fully depleted. All current development and stoping activities are now occurring outside the stated Area 57 reserve.

Mining on the top of Area 57 ore body continued to extend nickel mineralisation vertically, such that a new sub-level was established 32 m above the top of the defined Area 57 ore reserve. Work on other levels of the Area 57 orebody continued to define small stoping blocks for extraction outside the ore reserve boundaries. It is expected that ore in these blocks will be recovered from these working places for the next three months.

Development

Decline development continued during the quarter, progressing down to the access point to the next ore development level in the deeper part of the mine at the 480m RL. It is anticipated the ore will be intersected on this level next quarter and the decline will reach the next ore development level at the 460m RL.

Access development was completed to extend the mine's ventilation circuit down to the 507m RL.

Exploration

An underground diamond drill rig arrived at Blair in early December 2004 to test a strong electromagnetic (EM) anomaly at the 590 RL, which is interpreted to coincide with the projected Ø3 open contact position. A 200 metre long diamond hole is being drilled from the 534m RL to test the EM target. At quarter's end, this hole was at 116 metres in high MgO ultramafic rocks.

More underground diamond drilling is planned for the March 2005 Quarter.

REGIONAL EXPLORATION

Blair Project - Nickel

Anomaly 11

In December 2004, 18 reverse circulation (RC) holes (AMRC028–AMRC045) for a total of 2,194m were drilled at Anomaly 11, 6 km S of the Blair mine, with best intersection of **2m at 2.5% Ni** (Table 2).

Drilling was designed to define the lateral and down dip extent of the nickel sulphide mineralisation intersected in September 2004. The remaining RC holes completed in January 2005 will be reported when all results have been collated and interpreted.

The December 2004 drilling focussed on the eastern contact and confirmed nickel mineralisation associated with antigorite–carbonate–talc ultramafic rocks, which host disseminated to weak matrix sulphides dominated by pyrite and violarite with accessory chalcopyrite and magnetite.

This sulphide assemblage is typically formed when pyrrhotite-pentlandite sulphides are altered to pyrite-violarite due to weathering or alteration.

Further drilling will focus on locating higher grades possibly associated with massive sulphides within the interpreted north plunging shoot (Figure 2). The task of defining targets will be undertaken after the completion of the current surface EM surveying over the prospect.

Selected samples of mineralisation were submitted for analysis for Platinum Group Elements (PGE) analysis. The nickel sulphide intervals recorded in holes AMRC014, 15 and 17 were sent for analysis for Au, Pt and Pd and returned positive results (Table 3). The most significant result was 0.72 g/t 3PGE, from AMRC015, which was recorded from a 1m interval that also contained 2.89% Ni and 0.33% Cu.

PGE's are commonly associated with Kambalda-style nickel sulphide deposits and their presence at Anomaly 11 provides strong geochemical support for the accumulation of nickel sulphides.

Assessment of polished thin section descriptions has shown the particle size of the nickel-copper sulphides from RC drill chips is amenable to flotation processing. This has provided the Company with encouragement to proceed with metallurgical test work on bulk samples. Results are expected in the next quarter.

Duplex Hill

A RAB drilling program was completed in October 2004 at Duplex Hill, located 5km SSE of the Blair nickel mine, and has highlighted a significant nickel-copper anomaly. It is interpreted that this anomaly reflects at depth, disseminated nickel sulphides along a basal ultramafic contact.

Original soil sampling and RAB/RC drilling completed by previous explorers identified Duplex Hill as being prospective for nickel sulphides. Australian Mines has completed RAB drilling to locate the basal contact and identify geochemical anomalies.

A total of 22 RAB holes (AMBR0173-AMBR0194) for 773m of drilling tested the basal ultramafic contact at Duplex Hill. RAB drilling successfully located the contact position, which is shallowly dipping to the NW. Significant results, including **3m at 1.15% Ni**, are shown in Table 4.

Two RC holes (AMRC046-AMRC047) were completed for 216m during December 2004 and encountered extremely hard drilling conditions. No significant results have been received from drilling completed to date. The remaining five RC holes will be drilled in early 2005.

Fazer

A total of 29 holes for 1,869m of RAB drilling were completed at Fazer, 600m W of the Blair mine. Holes AMBR0195 to AMBR0223 were testing the continuation of the N10 contact, where it is partly under cover. Previous drilling targeting the same contact lacked sufficient coverage.

This round of drilling successfully located the ultramafic/mafic contact but did not yield any significant nickel/copper results. However, it has shown that the nose of the interpreted syncline has probably been faulted off along a NW trending structure.

Blair East

34 RAB holes (AMBR0224-AMBR0257) totalling 2,063m were drilled to an average depth of 60m to locate the prospective basal ultramafic contact, east of the Blair mine. The drilling did not encounter any significant ultramafic rocks and the cause of the strong magnetic feature in the south of the drill program was found to be coincident with a mafic/gabbro intrusive.

Blair Project - Gold

In a continuation of the previous auger sampling program within the Blair Project area (Figure 3), a further 500 auger samples were collected during November 2004.

The first objective of the auger program was to complete infill soil sampling at the Goldstar and Saturno anomalies and second to extend coverage to the south of Goldstar over interpreted structures originating from the Mt Monger Fault to the east.

Sampling south of Goldstar has generated the new Commando anomaly while in the northwest a new anomaly called Fireblade has been identified, north of historical gold workings.

Goldstar

The Goldstar anomaly (Figure 4) is located 6km SSE of the Blair nickel mine. Auger sampling extended the soil anomaly by 200m with the anomaly now 500m long, based on a 60 ppb gold contour. The highest individual assay was 169 ppb gold, which is supported by several 100+ ppb gold samples.

The anomaly appears to be closed to the NW but sampling on the last line to the north was completed in transported channel sediments, which are not amenable to pedogenic carbonate sampling.

Saturno

At Saturno, located 3km SSE of the Blair nickel mine, the anomaly has been closed off to the NE with infill and additional auger holes drilled during the recent program. The anomaly is at least 400m long, based on a 20 ppb gold contour, but this can be resolved into two discrete pods each approximately 120m long at a 60 ppb gold contour level.

Saturno's position within a strongly folded limb of an interpreted gabbroic rock sequence represents an excellent structural gold target for future exploration.

Commando

This new anomaly (Figure 3), located 9km SSE of Blair, is 250m long at the 60 ppb gold contour. It has a peak response of 185 ppb gold, the highest result received to date from any auger sampling by the company.

A large portion of the anomaly is interpreted to overly the contact between weakly magnetic basalt/gabbro rocks and strongly magnetic ultramafic rocks.

Fireblade

The recently discovered Fireblade anomaly (Figure 5), located 5km NNW of Blair, is currently 530m long and over 120m wide at its widest point, based on a 60 ppb gold contour. The highest individual assay result of 174 ppb gold is supported by several 100+ ppb gold values and the anomaly is still open to the north.

Fireblade is located 200m north of historical gold workings where previous drilling failed to intersect significant gold. The anomaly has minor past exploration and has not been effectively drill tested.

Interpretation of the detailed aerial magnetics shows Fireblade is located in a similar structural and stratigraphic position to mineralisation at the 300 000 oz Golden Ridge gold mine, 3.7 km to the NW.

Geophysics

The Company has decided to embark on a program of detailed fixed loop EM surveys over Anomaly 11, N10, NØ2, Area 57 and areas to the southeast of Area 57. The surveys will utilise new fluxgate EM technology that is highly sensitive to extremely conductive massive sulphide mineralisation, which previously have been difficult to detect with conventional coil EM.

It is anticipated these EM surveys will provide further drill targets to test for massive nickel sulphide repeats of Area 57 and new drill targets along the N10 and NØ2.

Exploration for March 2005 Quarter

1. Receive all outstanding assays from RC drill programs at Anomaly 11 and Duplex Hill and complete geological interpretation/compilation.

2. Continue metallurgical studies on mineralisation from Anomaly 11.
3. Complete and process EM data from all surveyed areas.
4. Plan and implement RAB programs over nickel and gold targets.
5. Plan exploration program for the Musgrave project.

FINANCIAL

The cash balance at 31 December 2004 was \$1.0 million. Cash reserves were reduced by \$1.4 million due to capital expenditure of \$1.1 million to advance the decline to the 480m RL and \$0.5 million on exploration.

Also during the quarter, payment schedule for nickel production changed as per the toll milling agreement. This resulted in approximately \$0.4 million for nickel sold moving from cashflow to debtors.

The hedging position was strengthened during the quarter with an additional 150 tonnes of nickel metal covered by an average price of A\$19,446 per tonne.

A total of 300 tonnes of nickel metal is hedged at an average price of US\$14,585 per tonne.

The Company also has foreign exchange cover on the US\$/A\$ exchange rate with US\$3.4 million at an average rate of A\$0.748.

SUMMARY & OUTLOOK

The continued poor performance of the mining contractor and the subsequent decision to changeover to owner mining resulted in an inconsistent production rate at the Blair nickel mine.

However, the Board is committed to this new mining strategy, as it believes it will provide long term positive benefits for the operational safety, efficiency and cost effectiveness of the mine to produce nickel at the desired output.

While the mine is being restructured, the exploration effort for nickel and gold has continued unabated as part of the strategy to discover and develop a second operation.

The transition from contract to owner miner will be substantially completed in the March 2005 quarter and production levels are expected to approach the budgeted 500 tonnes of contained nickel in the quarter. Cost reductions from the changeover are expected to flow through to the P&L by the June quarter.



Barry Cahill
Managing Director

Table 2: Anomaly 11 - Significant Nickel RC Drill Intersections

Hole ID	Northing (GDA)	Easting (GDA)	RL (m)	Azim (mag)	Dip	Depth (m)	From (m)	To (m)	Interval (m)	Ni (%)
AMRC028	6573903	377410	376	20	-60	84	53	60	10	1.25
						Including	54	56	2	2.25
AMRC029	6574056	377282	373	60	-60	78	70	EOH	8	0.44
AMRC030	6574028	377309	374.5	60	-60	75	60	61	1	0.75
AMRC031	6574016	377287	374	60	-60	100	84	87	3	0.50
AMRC032	6574003	377335	375	60	-60	90	72	75	3	0.65
AMRC033	6573990	377352	375.5	60	-60	75	51	58	7	0.67
						Including	52	53	1	1.27
AMRC034	6573977	377330	376	60	-60	108	86	88	2	0.55
AMRC035	6573967	377313	375	60	-60	126	106	108	2	0.88
						Including	106	107	1	1.01
AMRC036	6573908	377361	378	60	-60	138	117	120	3	0.81
						Including	118	119	1	1.09
AMRC037	6573928	377298	377	60	-60	210	190	191	1	0.68
AMRC038	6573873	377393	379	60	-60	102	83	91	8	0.88
						Including	84	85	2	1.46
AMRC039	6573852	377364	379	60	-60	202	167	166	1	0.45
AMRC040	6573837	377342	378	60	-60	234	204	206	2	0.52
AMRC041	6573828	377444	378.5	60	-60	100	76	80	4	0.71
						Including	76	77	1	1.02
AMRC042	6573802	377394	375	60	-60	180	163	164	1	0.5
AMRC043	6573775	377475	375	60	-60	80	No Significant Assay			
AMRC044	6573755	377440	375	60	-60	132	No Significant Assay			
AMRC045	6573728	377405	375	60	-60	80	No Significant Assay (Contact not drilled)			

1. Nickel was analysed using ICP and a mixed acid digest on 1m split intervals

Table 3: Anomaly 11 - Significant Platinum Group Element (PGE) RC Drill Intersections

Hole ID	Northing (GDA)	Easting (GDA)	RL (m)	Azimuth (magnetic)	Dip	Depth (m)	From (m)	To (m)	Interval (m)	Ni (%)	3PGE g/t (Au + Pt + Pd)
AMRC014	6573961	377358	376	60	-60	102	80	7	7	1.19	0.35
							Including		1	1.79	0.57
AMRC015	6573923	377388	378	60	-60	84	45	50	5	1.87	0.51
							Including		1	2.89	0.72
AMRC017	6573927	377352	377	60	-60	151	113	118	5	0.65	0.16
							Including		1	1.09	0.26

1. Nickel was analysed using ICP and a mixed acid digest on 1m split intervals

2. PGE was analysed using a classical 40g Fire Assay process and finished using ICP-OES

Table 4: Duplex Hill - Significant Nickel and Copper RAB Drill Intersections

Hole ID	Northing (GDA)	Easting (GDA)	RL (m)	Azimuth (magnetic)	Dip	Hole Depth	From (m)	To (m)	Interval (m)	Ni (%)	Cu (ppm)
Duplex Hill											
AMBR0188	6574160	381240	390	135	-60	17	10	11	1	0.56	185
AMBR0192	6574287	381264	390	135	-60	104	25	35	10	0.81	592
						Including	30	33	3	1.15	731
							45	45	1	0.53	2000
AMBR0193	6574314	381236	390	135	-60	29	23	28	5	0.61	972

1. Nickel and copper was analysed using ICP and a mixed acid digest on 1m split intervals
2. 0.4% Ni cut-off allowing one metre of internal dilution

Figure 1: Long Section - B-shoot on the Ø1 Surface

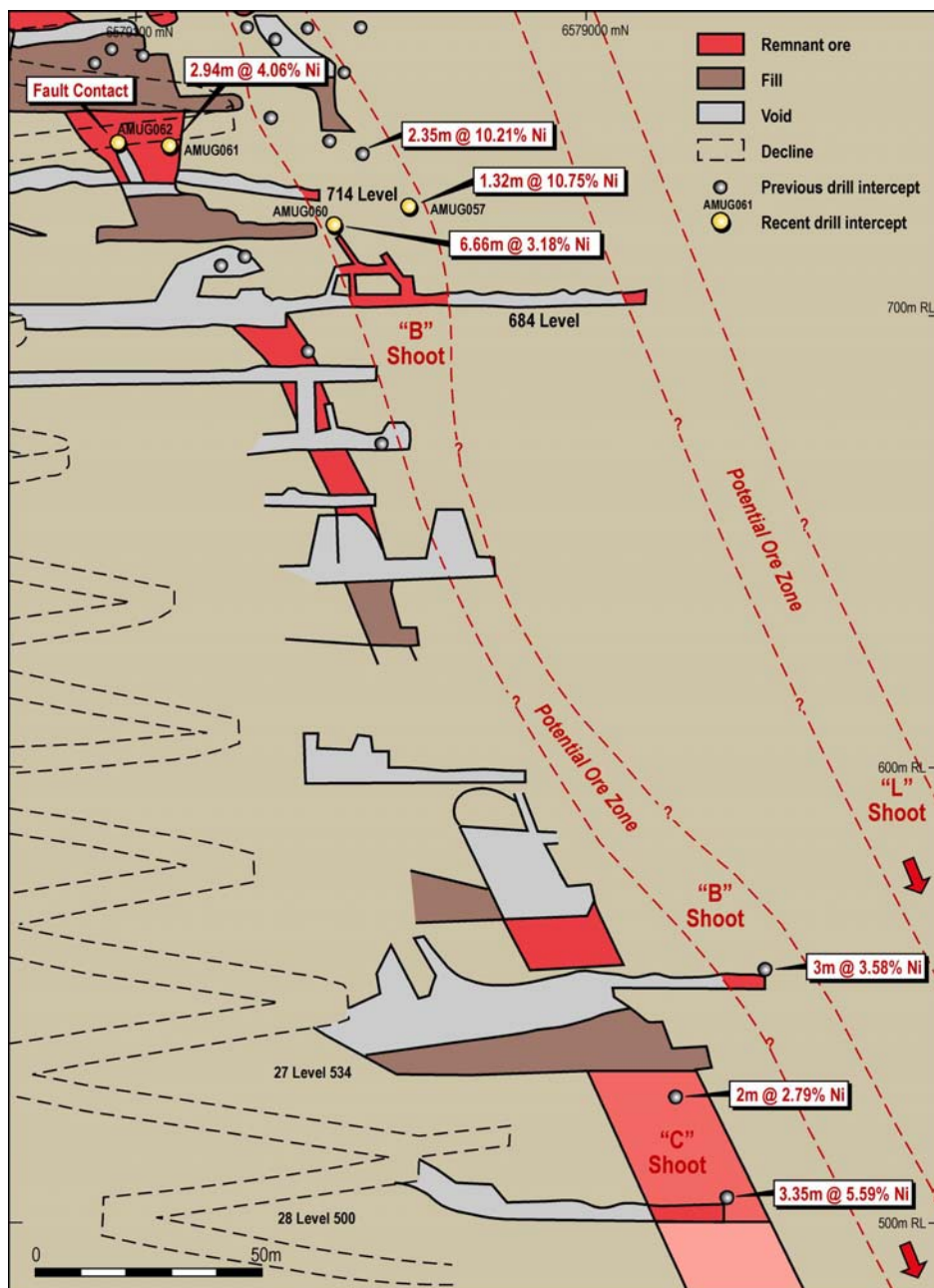


Figure 2: Long Section - Anomaly 11

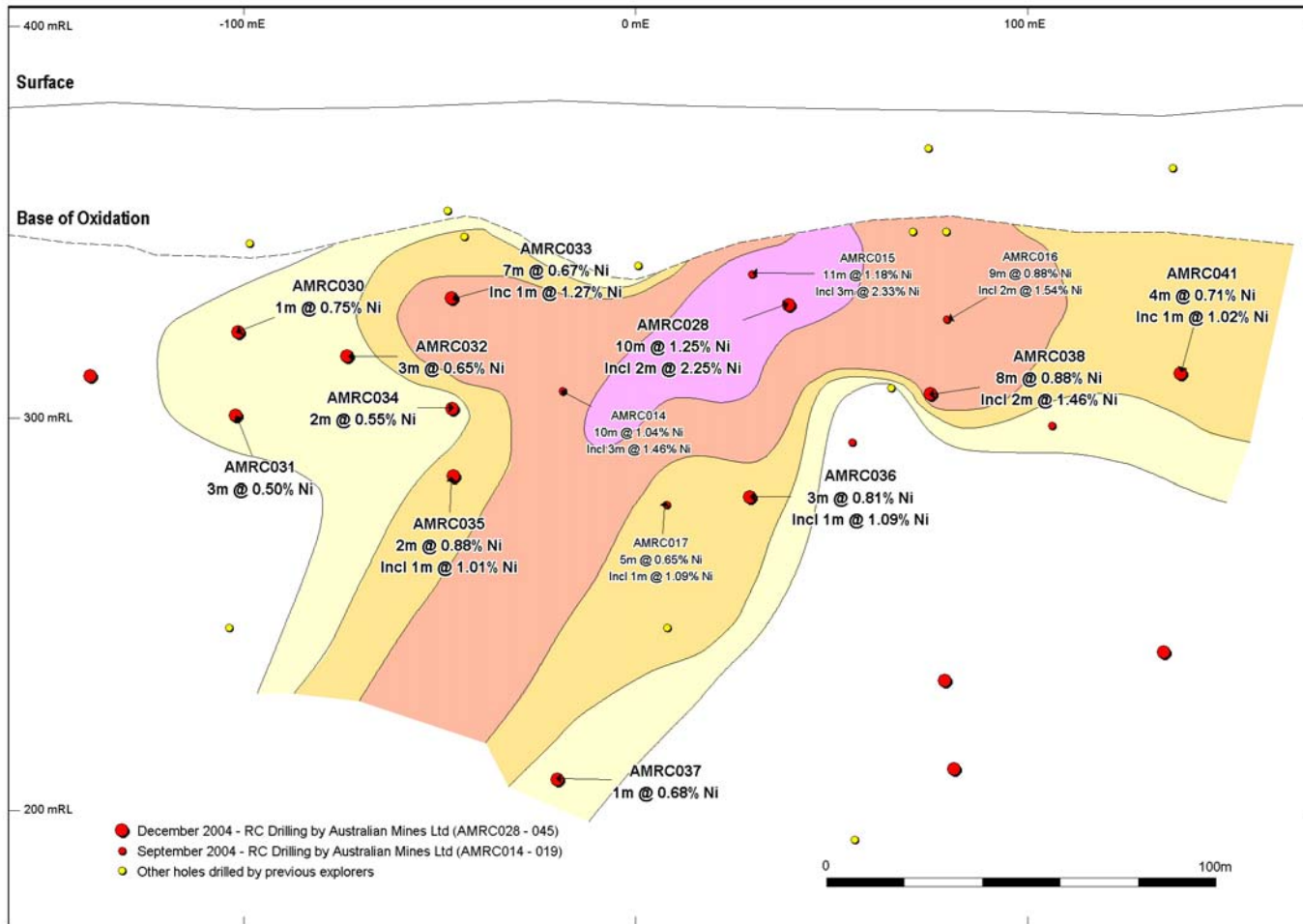


Figure 3: Blair Project – Gold Prospects

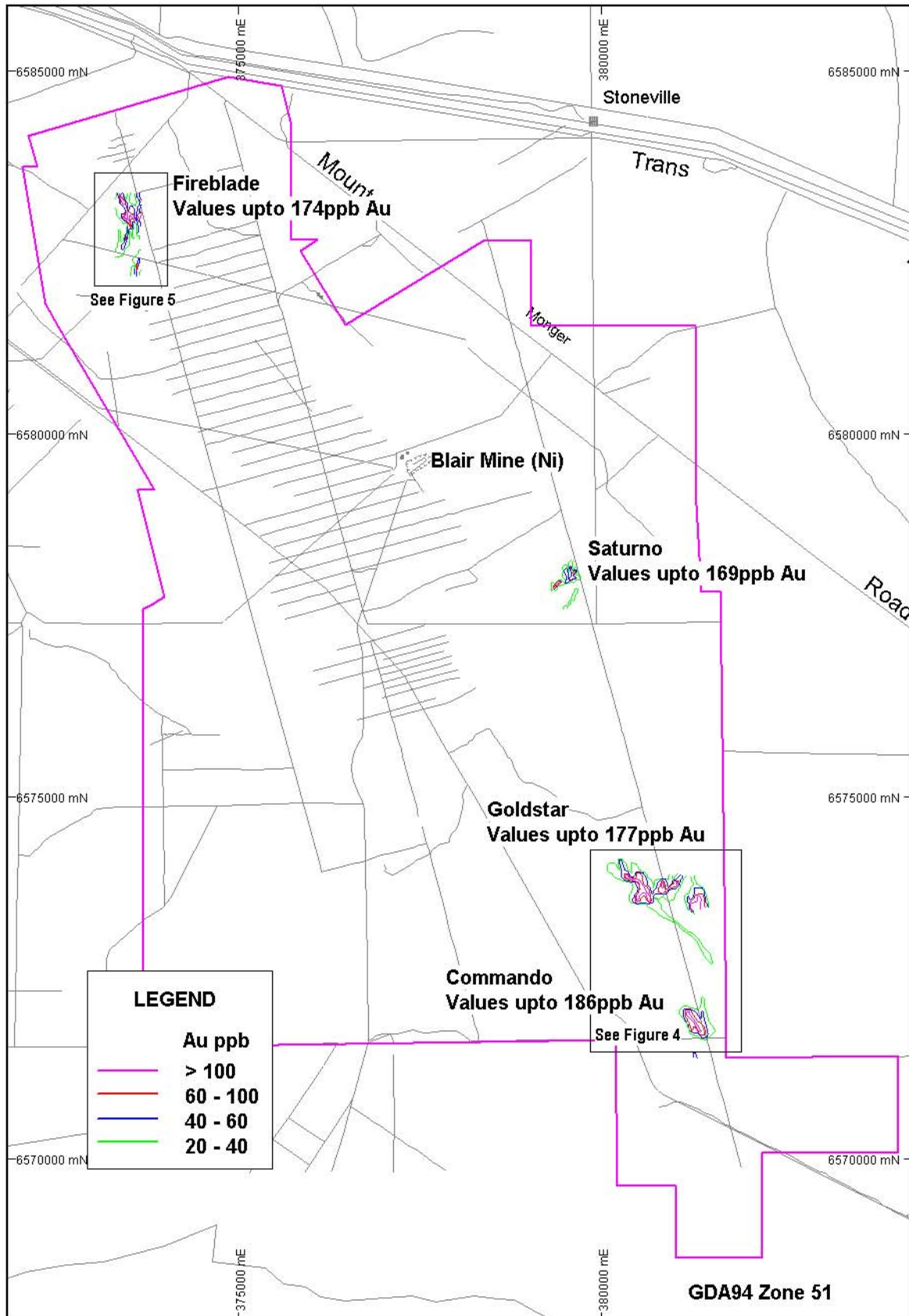


Figure 4: Goldstar Prospect

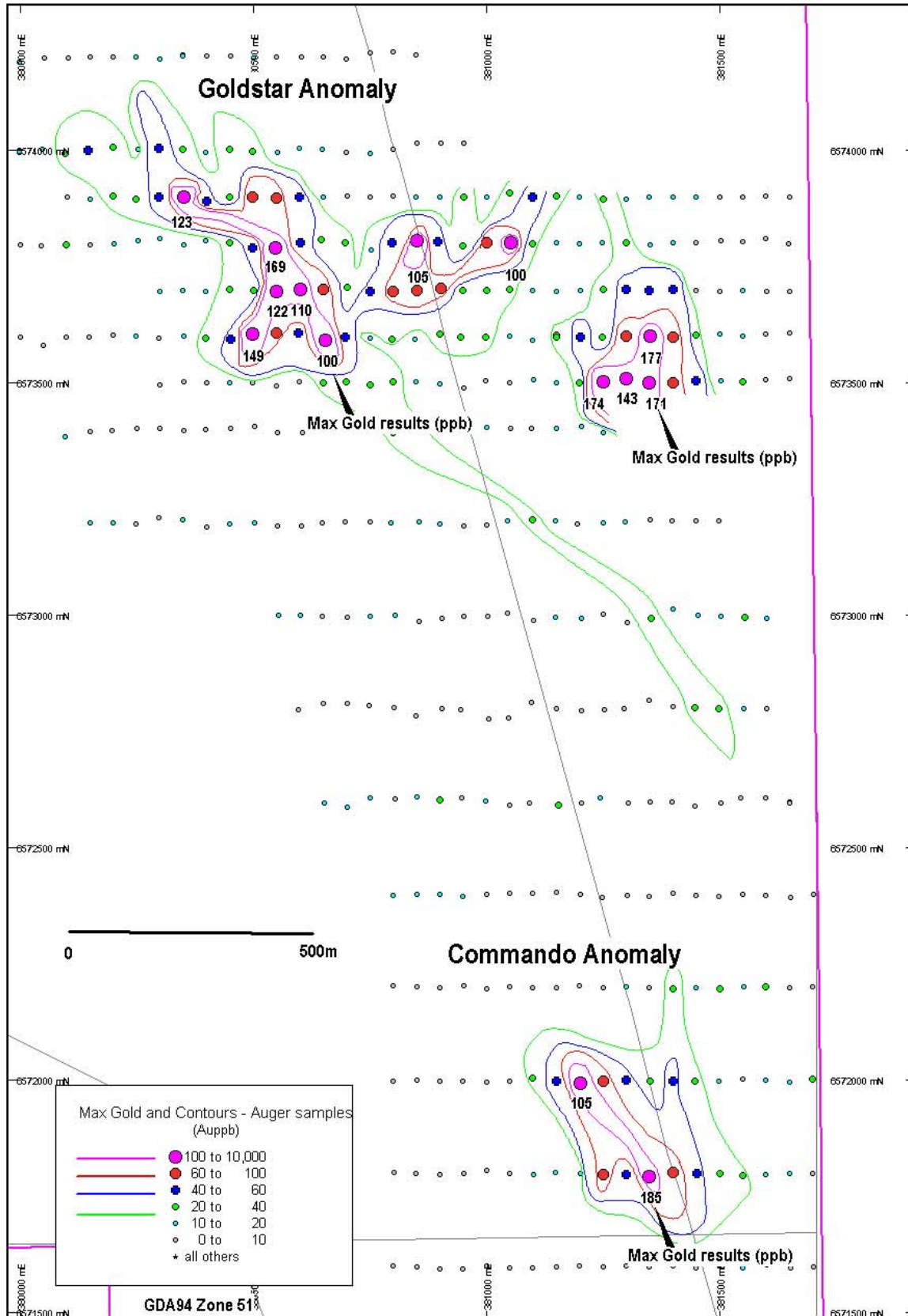


Figure 5: Fireblade Prospect

