



QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 30 SEPTEMBER 2004

HIGHLIGHTS FOR THE QUARTER

- Blair Nickel Mine performance continues to improve with nickel production increasing by over 30% from the June 2004 quarter to 491 Ni tonnes.
- Development commenced in the main decline to access Blair Deeps Reserves.
- Cash costs continue to decrease at \$3.66 per pound and average nickel price received was \$9.00 per pound for the quarter.
- Surface RC Drilling at Anomaly 11 Prospect some 5km south of the Blair Mine returned a broad zone of nickel sulphide mineralisation with significant nickel intersections including;
 - AMRC014: 10m @ 1.04% Ni - including 3m @ 1.46% Ni
 - AMRC015: 11m @ 1.18% Ni - including 3m @ 2.33% Ni
 - AMRC016: 9m @ 0.88% Ni - including 2m @ 1.54% Ni
- Cash in bank of \$2.4 million.

BLAIR MINE

Production

Production statistics for the Blair Mine are given below:

		September 2004	June 2004	March 2004
Ore Mined	Tonnes	16,543	16,733	5,205
Ore Treated	Tonnes	17,682	15,713	5,048
Grade	% Ni	2.78%	2.35%	2.58%
	% Cu	0.20%	0.16%	0.19%
Contained Ni	Tonnes	491	369	130
Recovered Ni		422	313	113
Nickel (Spot) Price (received)	USD/tonne	14,061	12,306	13,540
Nickel (Spot) Price (received)	AUD/lb	\$9.00	\$7.82	\$8.02
Cash cost	USD/lb	\$2.55	\$2.68	\$2.56
Cash cost	AUD/lb	\$3.66	\$3.85	\$3.41

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Contained nickel metal production for the quarter was 491 tonnes, 30% higher than the previous quarter (369 tonnes) due to the increase in grade from Area 57 stoping, confirming the success of the strategy of changing to the air-leg mining method to effectively extract this orebody. The result reflects the steady success of the focus to improve and then stabilise the production profile at Blair. The direct mining costs also continued to improve for the quarter with cash costs of \$3.66 per pound of nickel being a 5% reduction on the previous quarter (\$3.85 per pound nickel)

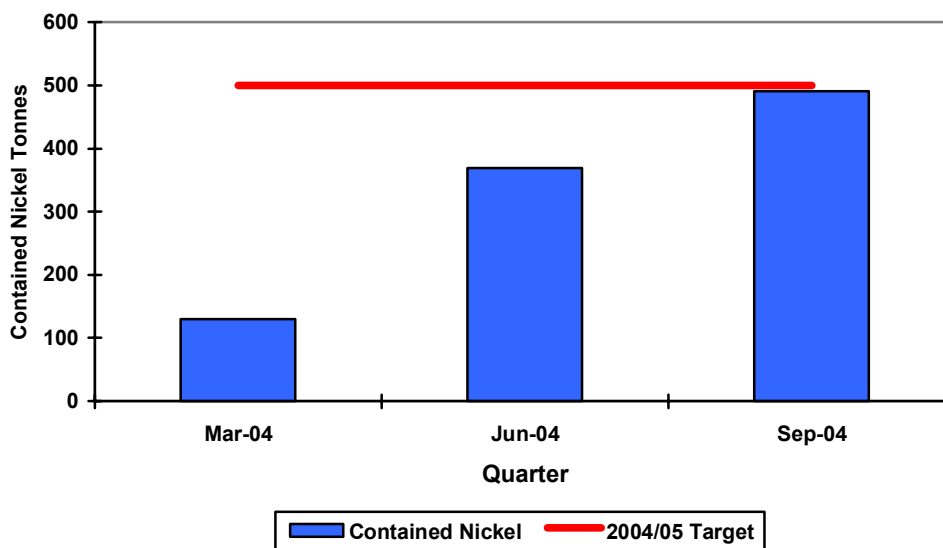
The production for the quarter was focussed on two main areas, firstly to continue to stope the Area 57 orebody blocks and secondly to rehabilitate and commence the stoping of ore blocks remaining on the 534m RL - currently the deepest level of the mine.

In Area 57 air-leg stoping continued to be effective in the extraction of this orebody with treated grades continuing to improve significantly. At the top of the planned Ore Reserves the orebody continued up plunge which required the establishment of a gallery stope to enable the continued mining of the ore body. On the 1042m RL, the deepest level of Area 57, the completed ore drive was prepared with the placement of a cemented rock-fill pillar in preparation for commencing of stoping.

In the Blair deep area of the mine the 534m RL was accessed for the first time since the mine was put on care & maintenance in September 2001. The level was then rehabilitated with new ground support and the ore drives re-accessed to allow stoping to recommence. Ground conditions were surprisingly good considering the time the excavation has been open and exposed.

At the end of the quarter the next lift of the stoping cycle had been mined and preparation was underway to mine the next lift in succession. The mining on this level has given management the opportunity to test the success of the mining methods prior to accessing the first full level of production on the 01 & 03 Surfaces at the 500m RL.

Blair Mine - Quarterly Production



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Safety

There were no Lost Time Injuries at the Blair Nickel Mine during the quarter. A miner required medical treatment when he bruised his foot whilst working underground however no work time was lost.

Underground Development

The development of the main Blair deeps decline commenced towards the end of the quarter immediately following dewatering and resource diamond drilling. The advance to the face was slowed by the removal of the mud and residue at the bottom of the mine. Once this was removed progress has improved significantly and it is anticipated that the access to the first new ore horizon at the 500m RL will be achieved early in the December quarter.

Development also commenced on the 534m RL, presently the deepest developed level, along the 01 Surface through C-shoot and on towards B-shoot to follow up previously unmined ore intersections including 3 metres at 3.58% Ni.

Waste development and ore driving was also undertaken at the 684m RL to bypass old workings and to also access potentially unmined sections of B-shoot on the 01 Surface. The drive successfully intersected massive nickel sulphide mineralisation at the approximate location of B-shoot. This mineralisation is outside the June 2004 reserve envelope and stope development is commencing this quarter. This success has encouraged management to commence a drive from the 714m RL to access the potentially unmined B-shoot on this level.

Further, due to the close proximity of the 684m RL drive to the previously unmined L-shoot, it has been decided to continue driving to test the potential of this surface. It is expected that the drive will intersect the position of L-shoot in the next quarter. L-shoot, like B-shoot, in this area is outside the June 2004 reserve envelope

Waste development and ore driving was also completed on the new level, 1042m RL, in the Area 57 ore-body. Ore driving was completed along strike of the mineralisation and the stope prepared for mining in the current quarter. Ore-body strike and dimensions were as anticipated. Diamond drilling of the deeper plunge of the ore body was also undertaken at this level.

Underground Mine Exploration

Diamond Drilling - 03 and 01 Deeps Surfaces

The results of the resource drilling program undertaken at Blair Nickel Mine (Blair) have now been received. The three phase, 19 hole diamond drilling program was designed to test and extend resources/reserves for Stage 2 (Deeps 01 & 03 Surfaces) at Blair Mine and commenced mid July 2004.

The first phase completed comprised 9 holes, collared from the 540mRL stockpile to test the 03 Surface with a further 4 deeper holes identified for down-hole EM. A total of 13 holes have now been completed, with the majority of the holes intersecting strongly mineralised zones.

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The intersections presented clearly show that the mineralisation on the 03 Surface continues at depth below the current deepest mined level. The results have been utilised to assist in the generation of the new reserve and resource statement which is included 2004 Annual Report. The assay results are summarised below (Table 2) and are also displayed in the attached long section of the 03 surface (Figure 1)

The second phase of drilling consisted of 2 drill holes designed to test the A & B shoots on the 01 surface. These holes intersected low grade disseminated nickel sulphides and further drilling may be warranted to locate high grade nickel sulphides. The third phase comprised 3 holes that were drilled to test the C shoot on the 01 surface below the 530m RL. This program was also successful with two of the three holes intersecting strongly disseminated to massive nickel sulphides.

Area 57

At Area 57 a further program of underground drilling designed to test the down-plunge continuation of the massive nickel sulphide was also completed. Logging and assaying results are still pending but it appears that the massive sulphide mineralization typically associated with Area 57 has thinned and is now characterised by lower grade sulphide stringers and narrow massive sulphide intervals. Fortunately the nickel content of the massive sulphides looks similar and it is anticipated that it will assay between 5 and 7 % Ni. Further evaluation of the drill and mapping data from mining completed to date may assist in locating further extensions to Area 57 and will need to be completed before future diamond drilling is undertaken.

Some exploration potential remains adjacent to surface diamond drill hole BLD61 which intersected 0.5m @ 3.1% Ni. Previous DHEM completed by Australian Mines in 2003 identified an in hole/off hole conductor below BLD61 which remains to be tested.

DHEM Surveys

Downhole EM surveys were completed on the holes AMUG078, 079, 080 on the 03 Surface and AMUG082 and 083 on the 01 Surface. The results were mixed with significant in-hole and off-hole anomalies related to massive nickel sulphide detected in holes AMUG078 and AMUG079. No significant off-hole anomalies related to massive nickel sulphides were detected in holes AMUG080, 082 and 083.

A short wavelength early-mid time off-hole response was delineated in AMUG079, centred on 115m. This indicates that the mineralisation intersected in this hole extends only a limited distance off hole, but potentially improves away from the hole. A moderate in/off-hole response delineated during the DHEM survey of AMUG078 suggests that mineralisation intersected in this hole may extend towards AMUG079 which is some 30m to the east on the 03 contact. The results are encouraging and provide strong support for continuous massive sulphide mineralization at the 460RL.

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Table 2: 03 & 01 Deeps Surfaces – Assay Results

Hole ID	Northing (m)	Easting (m)	RL (m)	Hole Depth (m)	From (m)	To (m)	Length (m)	Ni%	Target
AMUG069	6579026	376833	526	119	62.90	70.60	7.70	7.14	03 Deeps
	Including						3.16	12.02	
	6579018	376825	523	119	79.50	80.12	0.62	8.68	03 Deeps
	Including						0.25	20.07	
	6579004	376811	518	119	100.72	101.70	0.98	6.86	03 Deeps
Including						0.62	10.21		
AMUG070	6579026	376847	522	89	60.32	74.67	14.35	0.96	03 Deeps
	Including						2.68	1.37	
	6579011	376936	516	89	76.48	85.7	9.22	2.54	03 Deeps
AMUG071	6579013	376861	522	88	65.05	68.70	3.65	3.50	03 Deeps
AMUG072	6579021	376825	501	162	87.16	87.58	0.42	6.50	03 Deeps
	6579017	376820	498	162	92.58	94.25	1.67	4.05	03 Deeps
AMUG073	6579015	376838	499	109	83.50	85.60	2.10	2.91	03 Deeps
	6579008	376833	494	109	92.40	96.40	4.00	1.55	03 Deeps
	6579005	376831	492	109	98.00	98.20	0.20	2.79	03 Deeps
AMUG074	6579005	376851	497	99	86.86	89.62	2.76	3.74	03 Deeps
AMUG075	6579019	376822	487	155	96.02	102.27	6.25	7.16	03 Deeps
	6579007	376808	476	155	118.68	121.81	3.13	5.94	03 Deeps
	6579004	376804	473	155	124.95	125.6	0.65	11.71	03 Deeps
	6579000	376800	470	155	131.14	131.25	0.11	5.61	03 Deeps
AMUG076	6579014	376836	489	131	90.00	93.00	3.00	1.47	03 Deeps
AMUG077	6578996	376843	475	143	No significant intersection				
AMUG078	6579014	376819	472	155	102.90	116.00	13.10	2.89	03 Deeps
	6579008	376812	464	155	122.63	122.93	0.30	9.84	03 Deeps
	6579004	376807	459	155	130.94	131.31	0.37	1.76	03 Deeps
AMUG079	6579000	376841	459	149	115.62	122.12	6.50	2.63	03 Deeps
AMUG080	6579006	376837	420	184	172.3	172.75	0.45	0.51	03 Deeps
AMUG081	6579006	376837	460	179	112.60	114.86	2.26	4.21	03 Deeps
	6579001	376834	454	179	122.00	126.05	4.05	3.73	03 Deeps
AMUG082*	6579046	376970	519	180.8	150.91	151.12	0.21	0.87	A/B shoot
					152.60	154.00	1.40	0.22	A/B shoot
AMUG083*	6579046	376967	519	200.30	174	175	1.0	0.2	A/B shoot
AMUG084*									Not drilled
AMUG085*	6579039	376897	540	110.3	97.40	100.45	3.06	6.75	01 Deeps
AMUG086*	6579039	376897	540	146.10	No significant intersection				
AMUG087*	6579039	376897	540	174.90	155.66	155.90	1.34	1.77	01 Deeps
Including						0.24	6.93		01 Deeps

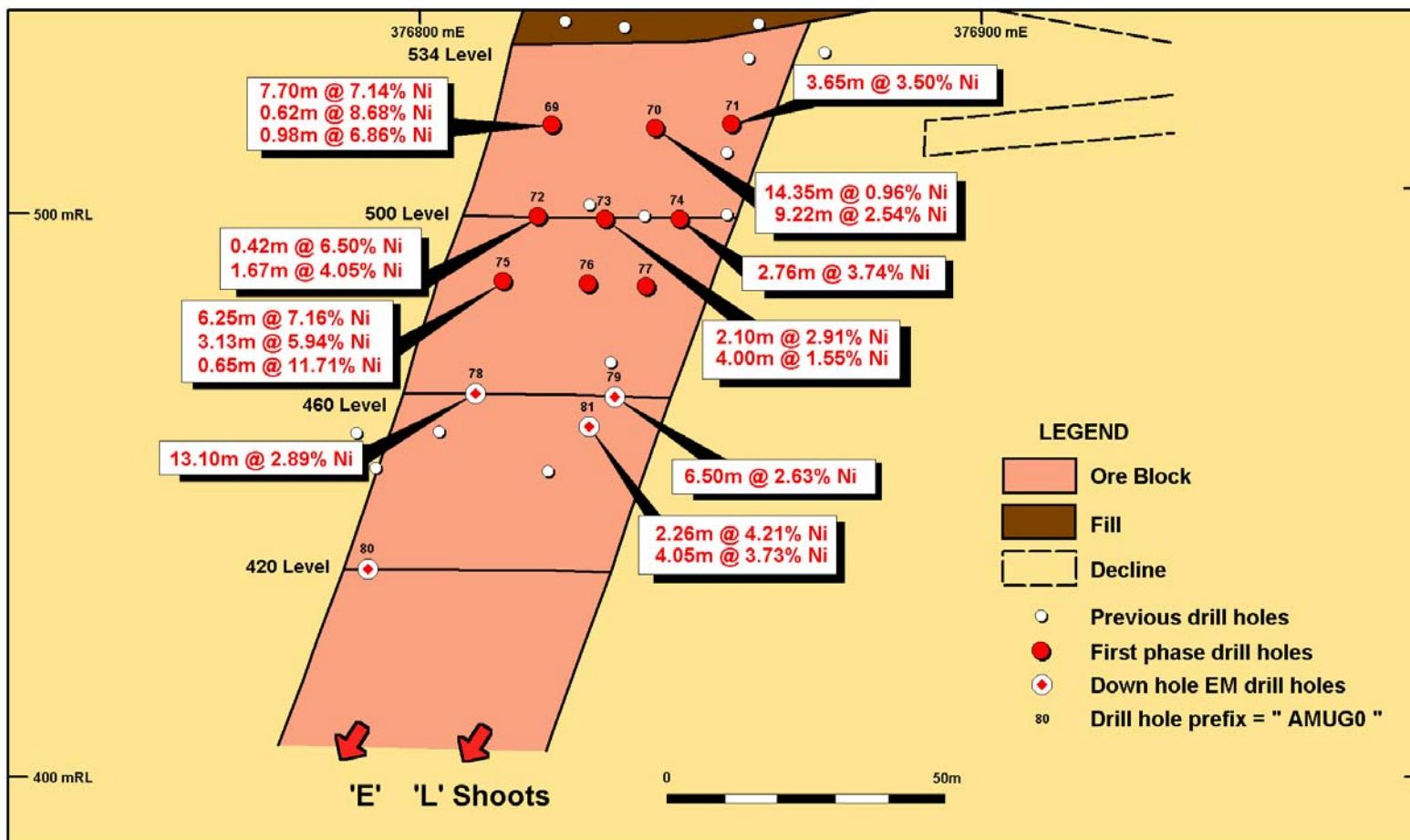
Note: All widths listed are apparent down-hole widths and grade weighted intervals.

Listed coordinates are for the pierce point of the intersection.

* denotes that the easting, northing and RL columns are for the collar position not the pierce point

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Figure 1: 03 Deeps Surfaces – Long Section



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REGIONAL EXPLORATION

Blair Project - Gold

RC Drilling - 18 Footer Prospect

An RC program, comprising 4 holes (AMRC024-027) for a total of 420m has been completed at the 18 Footer Prospect (Figure 2). The holes were drilled to firstly identify a potential plunge component and to secondly assist in determining lithological or structural controls on the mineralisation. Due to high water flow some drilling and sampling difficulties were encountered in the program and the holes designed for the plunge component were of limited use. These areas will require further drill testing with a higher rated RC rig.

However this round of drilling did confirm and showed that the higher grade mineralisation is associated with quartz veining located within a strike extensive shear zone straddling a sediment and ultramafic contact. It has also shown that the depth of oxidation is between 80 and 100m and as such "primary" mineralization is yet to be encountered. All drill holes intersected the shear which typically contains a background of 0.1g/t Au but the higher grade mineralization appears to be related to discontinuous quartz veins of yet unknown orientation within the shear zone.

The most significant result was recorded in AMRC026 that intersected in the initial composite sample 16m @ 1.44g/t Au from 60m including 4m @ 3.40 g/t Au. This hole was collared to the west and below GOC314 that intersected 5m @ 3.08 g/t Au including 1m @ 9.90g/t Au. Subsequent analysis of the 1m splits for this mineralised interval from AMRC026 encountered 4m @ 4.12g/t Au from 65m depth, including two separate 1m intervals assaying 5.32 and 6.56 g/t Au. Refer to Table 3 and Figure 3 for the cross-section.

The 18 Footer anomaly remains a desirable gold target for Australian Mines and will be continued to be explored in conjunction with the highly prospective nickel targets in the coming months.

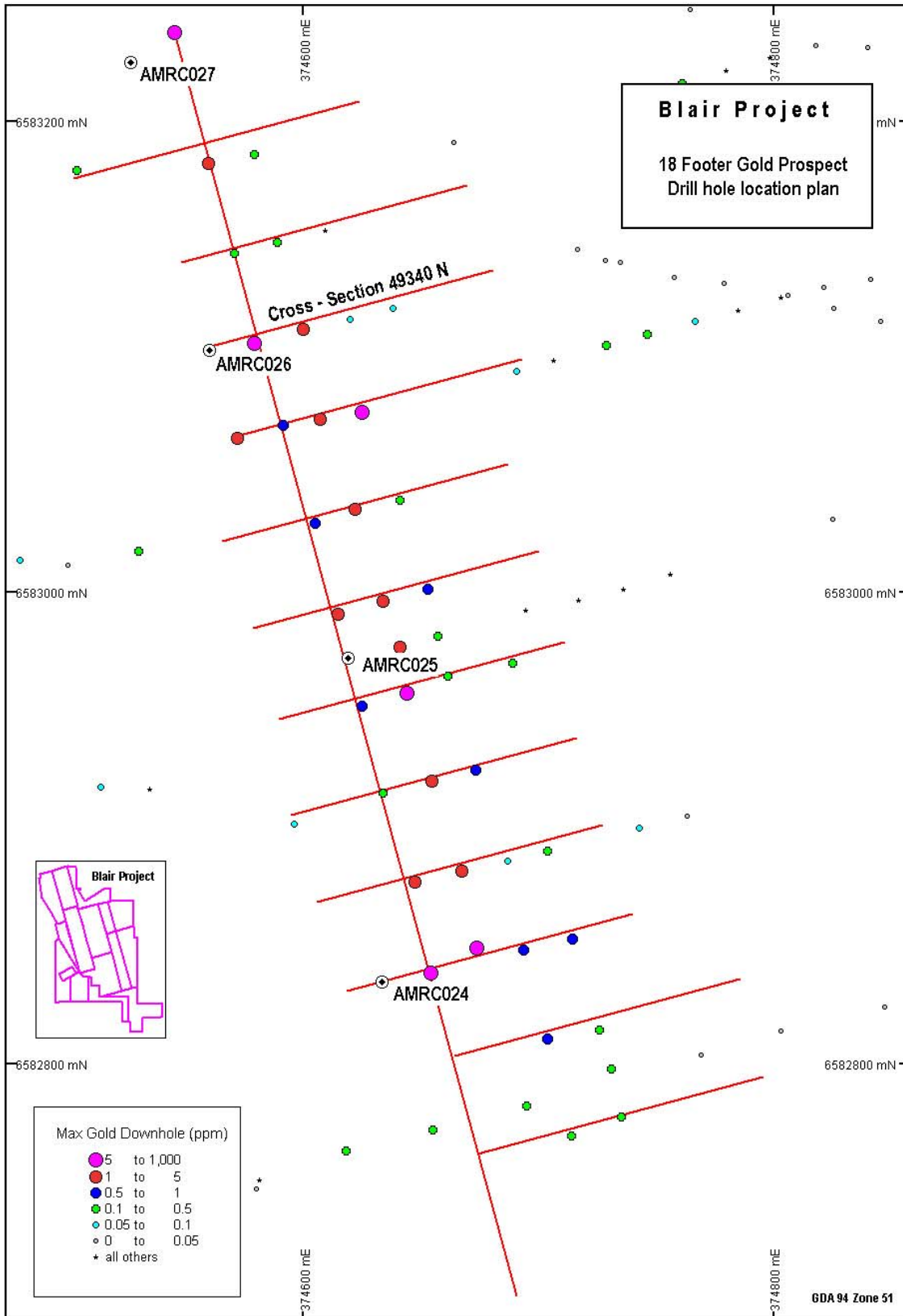
Table 3: 18 Footer Prospect – Assay Results

Hole ID	Northing (m)	Easting (m)	RL (m)	Azim (mag)	Dip	Hole Depth (m)	From (m)	To (m)	Interval (m)	Au (g/t)
18 Footer										
AMRC024	6582834	374633	371	75	-60	120	70	74	4	0.67
AMRC024							84	88	4	0.64
AMRC024							92	101	9	0.15
AMRC024							111	113	2	0.56
AMRC025	6582972	374617	378	75	-60	100	50	52	2	0.46
AMRC026	6583103	374560	379	75	-60	100	14	18	4	0.22
							56	60	4	0.27
							64	80	16	1.44
						Including	66	70	4	3.40
AMRC026*						Including	65	69	4	4.12
AMRC027	6583234	374525	378	75	-60	100	86	92	6	0.15

Note: Gold analysed using Aqua Regia digest with ICPMS finish.
Quoted intervals use a >0.1g/t Au cut-off but allow 2m of internal dilution.
* result from the 1m sample splits

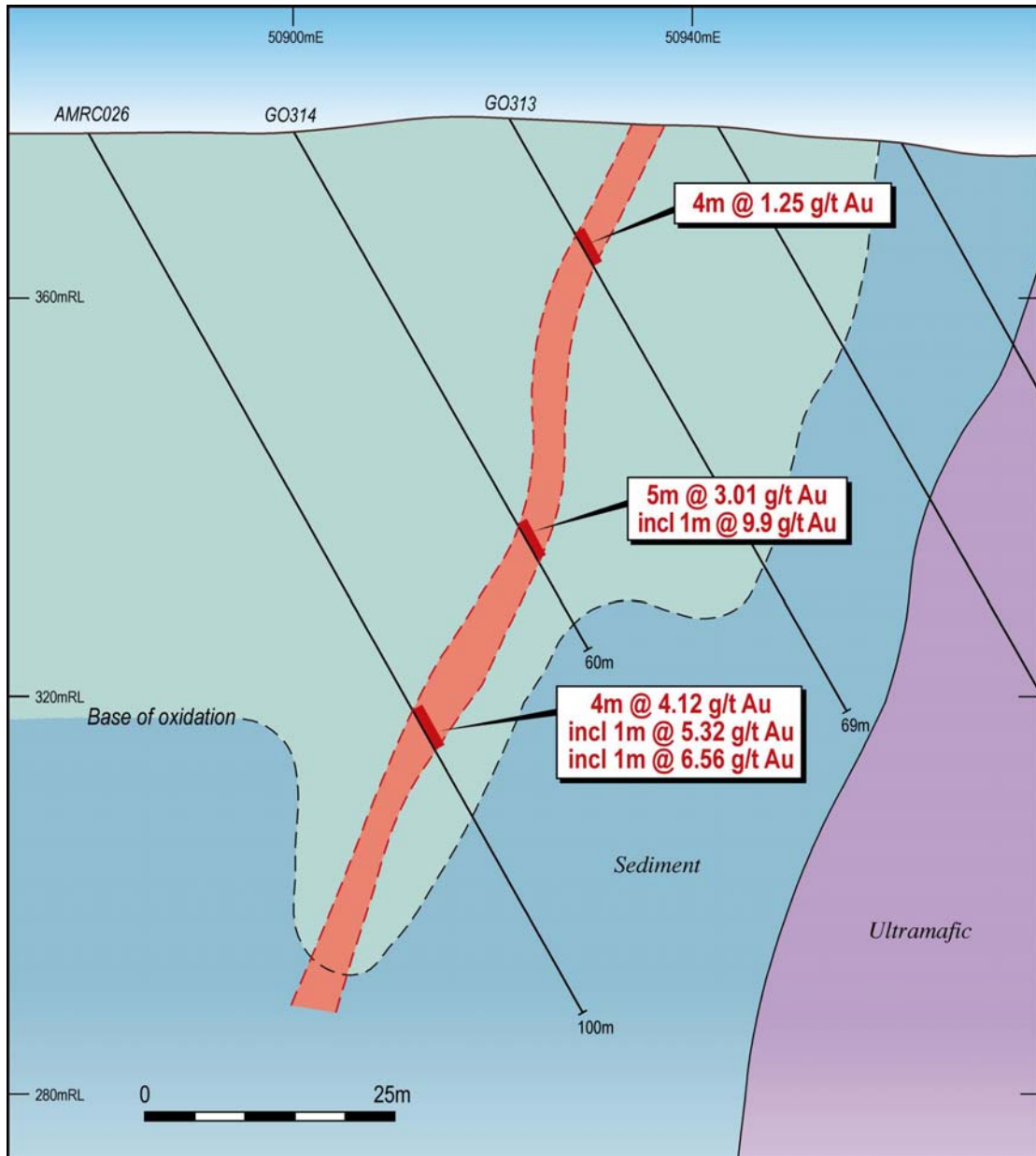
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Figure 2: 18 Footer Prospect – RC Drilling



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Figure 3: 18 Footer Prospect – RC Cross Section



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Auger Sampling – Goldstar and Saturno Prospects

Approximately 500 auger samples were collected at three localities around the south east of the tenements (Figure 4). The location of the sampling was determined from the detailed aeromagnetic data which indicated some significant splay structures originating from the Mt Monger Fault to the east and subtle anomalies generated from previous soil samples.

The results have been encouraging and show that auger sampling has produced a more coherent gold in soil response in residual areas. The highest individual assay was 169ppb gold from the Goldstar Prospect (Goldstar) anomaly which was supported by 100ppb and 149ppb gold results within an NW-trending anomaly that is open to north and at least 500m long at the 20ppb level. To the east several other +100ppb results requires some further infill sampling before their significance can be determined. The soil anomaly at Goldstar is interpreted to be the strike continuation of gold mineralisation encountered at Flying Squirrel Prospect which intersected 10m @ 4.54 g/t Au from surface.

At the Saturno Prospect (Saturno) the anomaly trends to the NE and is at least 300m long at the 20ppb level with higher results including 130ppb, 83 and 86ppb.

It is anticipated that further auger sampling be carried out over other structural targets or where previous soil sampling has identified weakly anomalous gold results. RAB drilling will be planned and completed in conjunction with future programs in order to locate the source of the gold results.

The samples were digested using aqua regia and assayed for Au using ICPMS.

Blair Project – Nickel

RC Drilling – Anomaly 11 Prospect

The company has completed and compiled the results of the RC drill program undertaken in August 2004 to further test the basal contact at Anomaly 11, which is located some 5km due south of the Blair Mine site.

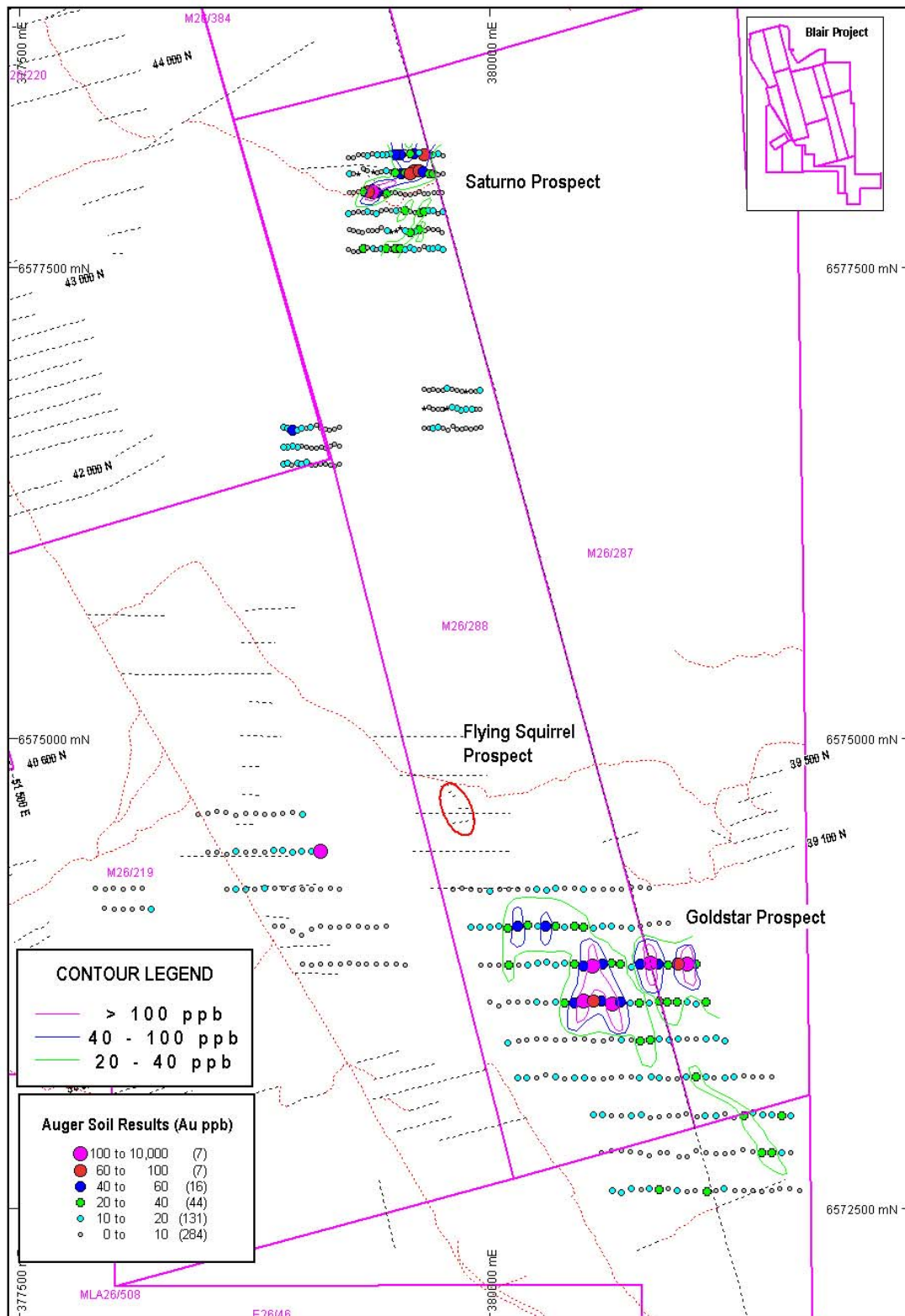
The aim of the program was to extend the known zones of disseminated nickel sulphide mineralisation and investigate the basal contact geology. The program comprised some infill drilling below zones of highly nickel anomalous historical intersects and extensions to the anomalism 500m to the south.

In the first phase (AMRC014 to AMRC019) the RC drilling completed was successful in locating further nickel sulphide mineralisation beneath drill holes completed by Anglo American Australian and AMAX in the late 1970's, as per the long section (Figure 5).

Interpretation of the drilling results indicates a simple stratigraphy in which the footwall sulphide black shale unit is overlain by 2-10m of barren talc magnesite ultramafic with a younger, strongly magnetic, olivine cumulate bearing disseminated sulphides overlying the basal ultramafic. The whole sequence has been tightly folded and overturned to its current position as indicated in the cross section (Figure 6).

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Figure 4: Goldstar and Saturno Prospects – Auger Sampling



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The sulphide mineralisation is fine grained and can comprise up to 10% of the sample by volume in the most strongly mineralised intervals. The mineralisation is not found in the typical 'Kambalda Style' basal contact position and is separated from the sediment / basalt footwall by a narrow barren basal ultramafic.

The second phase drilling completed at the southern extension of Anomaly 11 (AMRC020 to AMRC023) encountered the same stratigraphy as that observed to the north although the results were of lower tenor, the best result being in AMRC021 and AMRC022 which ended in a mineralised (Ni & Cu) olivine dominated ultramafic. All intercepts of the mineralised contact were less than 130m vertical depth.

The best results are presented in Table 4.

The drilling to date has identified a 300m zone of highly anomalous nickel and copper values which is extremely encouraging. Closer spaced RC may yield higher grades and assist in vectoring towards potential massive or matrix sulphides.

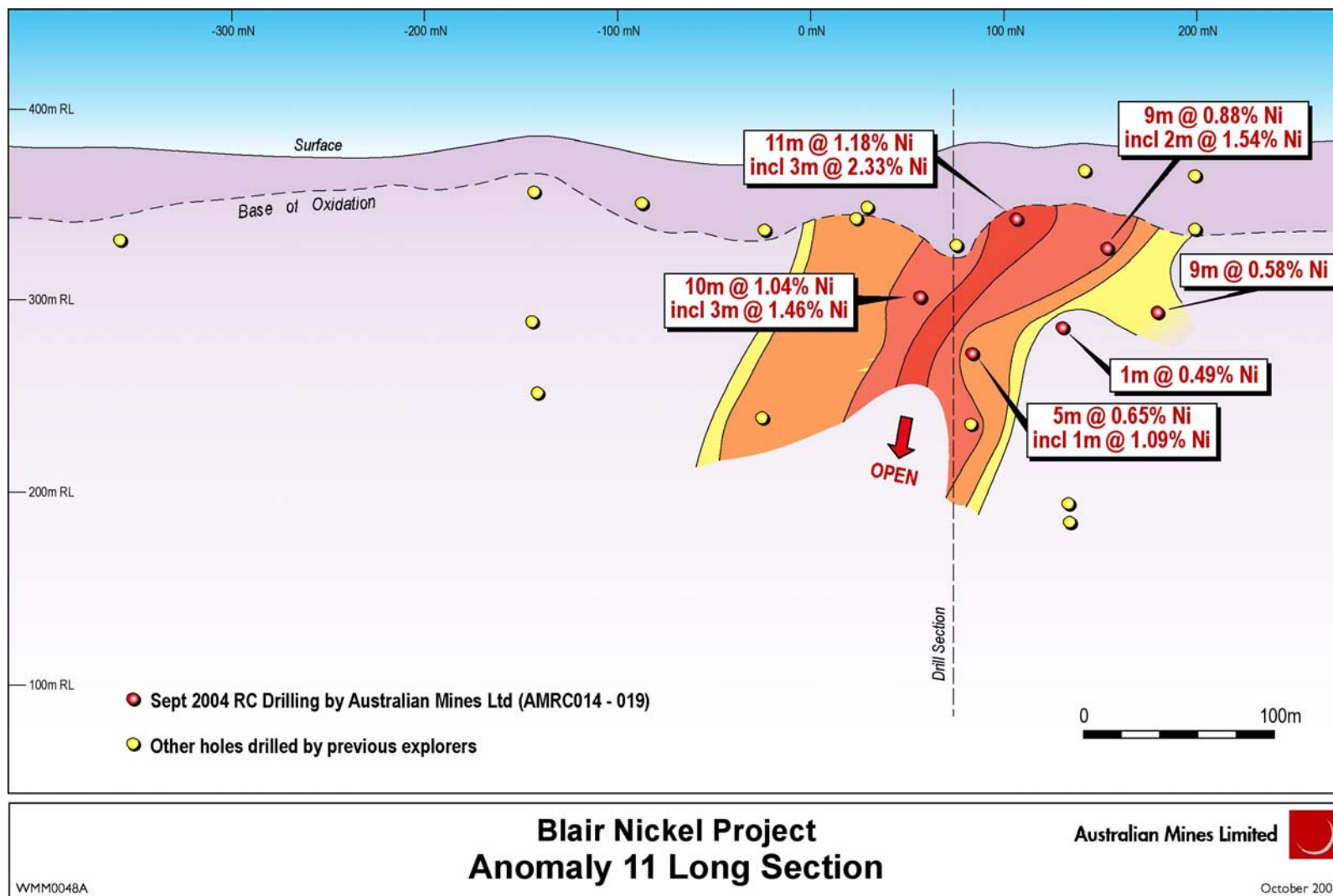
Further work will also include the submission of mineralised RC drill chips for further analysis by XRF for MgO and polished thin section work. If the thin section descriptions indicate a beneficial particle size then metallurgical analysis will be carried out to assess potential economic recovery of the disseminated nickel sulphides.

Table 4: Anomaly 11 Prospect – Assay Results

Hole ID	North (m)	Easting (m)	RL (m)	Azim (mag)	Dip	Hole Depth (m)	From (m)	To (m)	Interval (m)	Ni (%)	Oxidation
Anomaly 11											
AMRC014	6573961	377358	376	60	-60	102	80	90	10	1.04	Fresh
							Including		3	1.46	
AMRC015	6573923	377388	378	60	-60	84	44	55	11	1.18	Trans/fresh
							Including		3	2.33	
AMRC016	6573883	377419	379	60	-60	78			9	0.88	Fresh
							Including		2	1.54	
AMRC017	6573927	377352	377	60	-60	151	113	118	5	0.65	Fresh
							Including		1	1.09	
AMRC018	6573889	377381	379	60	-60	144	100	101	1	0.49	Fresh
AMRC019	6573849	377413	379	60	-60	108	92	101	9	0.58	Fresh
Anomaly 11 South											
AMRC020	6573612	377667	370	30	-60	80	No significant intersections				
AMRC021	6573586	377650	370	30	-60	80	68	70	2	0.47	Fresh
AMRC022	6573510	377702	370	30	-60	138	134	138 (EOH)	4	0.21	Fresh
AMRC023	6573536	377721	370	30	-60	96	No significant intersections				

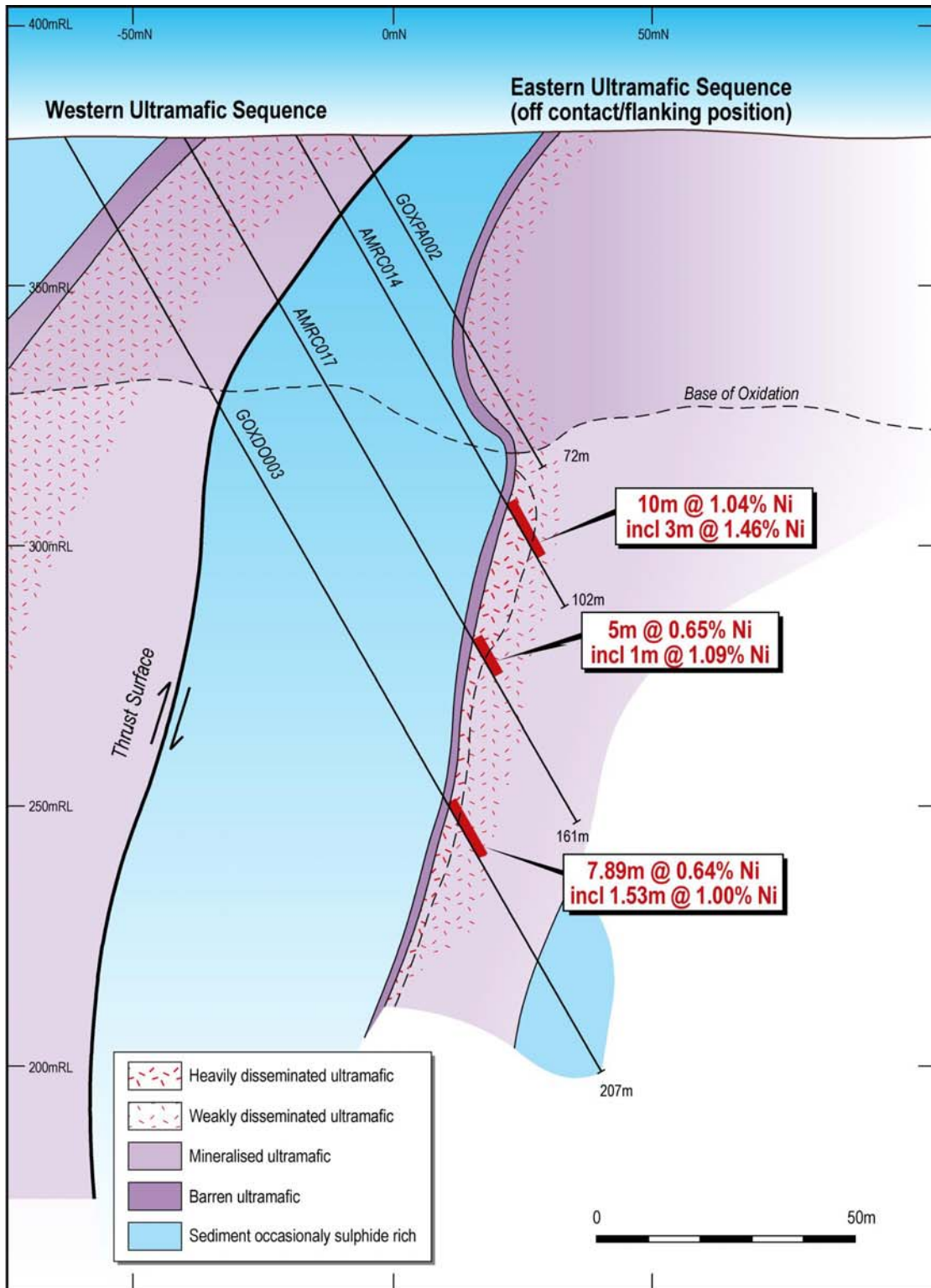
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Figure 5: Anomaly 11 Prospect – Long Section



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Figure 6: Anomaly 11 Prospect – Cross Section



Blair Nickel Project **Australian Mines Limited** 

Anomaly 11 Cross Section

WMM0047A October 2004

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West Musgrave Project

No on -ground exploration activities were undertaken on the Musgrave Project during September Quarter. The focus on the mining and exploration at the Blair Project has required a review of the company's strategy on how best to advance the exploration in the West Musgrave.

Exploration For The Next Quarter

Exploration activities planned for the December quarter will include a program of:

1. RAB drilling at Duplex Hill, Fazer and Blair East Prospects
2. Thin section and metallurgical evaluation of nickel sulphides encountered at Anomaly 11 Prospect from August RC drilling
3. IP surveys at Blair South and Anomaly 11 Prospects
4. RC drilling at Anomaly 11, Blair South and Duplex Hill Prospects

The RAB drilling will be completed to locate the basal contact on similar interpreted structures to those hosting the Blair Nickel Mine. IP surveys are being used to locate potentially stronger accumulations of disseminated sulphide at Blair South and Anomaly 11. It is anticipated that subject to the IP results further RC drilling will be carried out at these localities to define higher grade nickel sulphide with potential to define a JORC compliant nickel resource.

CORPORATE

Hedging

As previously announced to the ASX, due to the excellent nickel price in late September 2004 the company increased its nickel hedge position by 150 tonnes at an average price of \$20,420 per tonne. This hedge brings the total position to 300 tonnes of nickel metal at an average price of \$20,210 per tonne. Nickel spot prices as at 20th October 2004 were around \$18,300 per tonne of nickel metal.

Cash Position

As at the end of the quarter, cash balance was \$A2.4 million.

Outlook

The strategy for the December quarter is to continue to improve the performance of the Blair Nickel Mine with a view to increasing the nickel tonnes produced while continuing to reduce costs. A sustained improvement in the performance at Blair will allow the company to continue to fund its exploration efforts on its tenements and at the same time continue to grow the cash position.

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The development of the main decline into the deeper parts of the orebody will open up new levels to enable the mine to have more flexibility to meet the required production targets. Concurrently, development will continue to open up stoping blocks that are located laterally from the existing parts of the mine, as at 714m RL, 684m RL and 534m RL; this will increase the sources of ore to add further flexibility to the production schedules. Importantly most of these lateral blocks occur outside the current reserve envelope.

Exploration will continue to develop the nickel and gold prospects through further geophysical surveys and drill programs to target in on the most attractive of the many targets that exist on the Blair Project tenement package.

The company is also continuing to investigate other opportunities that lie outside the operating mine and exploration tenement package that can contribute to our strategy to build a successful resources company.

Yours faithfully



B J Cahill
Managing Director

This report was compiled by B J Cahill, who is a full time employee of Australian Mines. Mr Cahill is a Corporate Member of the Australasian Institute of Mining and Metallurgy and has a minimum of 5 years relevant experience in the estimation, assessment of, and evaluation of Mineral Resources and Ore Reserves.