



1 May 2009

Dear Shareholder,

2008 ANNUAL GENERAL MEETING

Please find attached a Notice of Annual General Meeting and Proxy Form for Australian Mines Limited 2008 AGM together with despatch of the Annual Report 2008. The 2008 Annual Report can also be found on our website (www.australianmines.com.au) and on ASX online (www.asx.com.au).

As you aware the Company was suspended on 30 September 2008 and was unable to hold its 2008 Annual General Meeting in the calendar year ended 31 December 2008.

The Company has been able to negotiate a restructure and recapitalisation plan which is being voted on at this AGM to be held on 2 June 2009.

Firstly, details of the investor capital raising through a potentially underwritten entitlements issue to shareholders are contained in the attached Notice. The Company has retained both its nickel and gold programmes on the Blair project tenements including East Location 45 and these are prospective for gold.

Secondly, Australian Mines is negotiating a Creditors' Placement with its creditors to settle outstanding debts owed by the Company.

We encourage all shareholders to read the Explanatory Statement attached to the Notice of Annual General Meeting. We also recommend that shareholders vote in favour of all the resolutions. Whilst considering your vote for resolutions 3, 4 and 5, we would like to underline that the Company's future survival is dependent on these resolutions being passed.

The Board takes this opportunity to thank you for your support throughout the year. It has been a very difficult year for Australian Mines which has led to a significant change in the financial position of the Company. The Board at Australian Mines are looking forward to further developing these opportunities in this financial year.

Yours sincerely

Neil Warburton
Chairman
Australian Mines Limited

LEVEL 1, 681 MURRAY STREET, WEST PERTH, 6005
(PO BOX 883, West Perth, WA 6872)

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AUSTRALIAN MINES LIMITED
ABN 68 073 914 191

NOTICE OF ANNUAL GENERAL MEETING

AND

EXPLANATORY STATEMENT

For the Annual General Meeting to be held on
2 June 2009 at 2.00pm (WST)

The Celtic Club
48 Ord St
West Perth, Western Australia

*This is an important document. Please read it carefully and in its entirety.
If you do not understand it please consult with your professional advisers.*

*If you are unable to attend the Meeting, please complete the Proxy Form enclosed and return it
in accordance with the instructions set out on that form.*

TIME AND PLACE OF ANNUAL GENERAL MEETING AND HOW TO VOTE

This Annual General Meeting of the Shareholders of Australian Mines Limited will be held at:

**Seminar Room 2
The Celtic Club
48 Ord St
West Perth, Western Australia**

**Commencing
at 2.00pm (WST)
on 2 June 2009**

How to Vote

You may vote by attending the Meeting in person, by proxy or authorised representative.

Voting in Person

To vote in person you need to attend the Meeting on the date and at the place set out above. The meeting will commence at 2.00pm (WST).

Voting by Proxy

To vote by proxy, please complete and sign the Proxy Form enclosed with this Notice of Annual General Meeting as soon as possible and either:

- return the Proxy Form to the Company's registered office at Level 1, 681 Murray Street, West Perth, Western Australia;
- post the Proxy Form addressed to Australian Mines Limited, P O Box 883, West Perth, WA 6872; or
- send the Proxy Form by facsimile to facsimile number (08) 9481 5611,

so that it is received not later than 2.00pm (WST) on 31 May 2009.

Your Proxy Form is enclosed.

**AUSTRALIAN MINES LIMITED
ABN 68 073 914 191**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the Shareholders of
AUSTRALIAN MINES LIMITED
will be held on 2 June 2009 at 2.00pm (WST) at

**The Celtic Club
48 Ord St
West Perth, Western Australia**

for the purpose of transacting the following business.

The attached Explanatory Statement is provided to supply Shareholders with information to enable Shareholders to make an informed decision regarding the Resolutions set out in this Notice. The Explanatory Statement is to be read in conjunction with this Notice.

AGENDA

GENERAL BUSINESS

Accounts and Reports

To receive and consider the financial reports of the Company and the consolidated entity for the financial year ended 30 June 2008 and the reports of the Directors and Auditors thereon.

1. Resolution 1 – Adoption of Remuneration Report

To consider and, if thought fit, to pass with or without amendment, the following in accordance with section 250R(2) of the Corporations Act:

"That the Remuneration Report in the 2008 Annual Report of the Company be adopted."

2. Resolution 2 – Re-election of Mr Neil Warburton as Director

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That, Mr Neil Warburton, who retires by rotation in accordance with rule 7.3 of the Constitution of the Company, and being eligible offers himself for election, is hereby re-elected as a Director of the Company."

Short Explanation: Mr Neil Warburton has been a Director of the Company since 22 April 2003 and was re-elected on 29 November 2005. Mr Warburton is presented for re-election in accordance with the rotation requirements of the Company's Constitution.

SPECIAL BUSINESS

3. Resolution 3 – Approval of Entitlement Issue

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to Resolutions 4 and 5 being passed, approval is given for the Company to proceed with a non-renounceable entitlement issue of fully paid ordinary shares on the basis of 5 new Shares for every 1 Share held by a Shareholder on the record date at an issue price of 0.1 cents per Share together with 1 free attaching Option for every 20 Shares subscribed for and allotted on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”

Short Explanation: Listing Rule 7.11.3 prohibits an entity from conducting a non-renounceable entitlement issue if the ratio of securities offered is greater than one security for each security held. On 3 April 2009, ASX granted a waiver from Listing Rule 7.11.3 to allow the Company to offer a 5 for 1 non-renounceable entitlement issue of Shares together with 1 Option for every 20 Shares subscribed for. A condition of the waiver is that Shareholder approval for the issue is obtained. Please refer to the Explanatory Statement for details.

The Company will disregard any votes cast on this Resolution by a substantial holder of the Company (as that term is defined in the Listing Rules) and any proposed underwriter or sub-underwriter of the Entitlement Issue and any associate of those persons. However, the Company will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form; or
- (b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form to vote as the proxy decides.

4. Resolution 4 – Creditor Placement

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to Resolutions 3 and 5 being passed, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to allot and issue up to 2,800,000,000 Shares at an issue price of 0.1 cents each together with 1 free attaching Option for every 20 Shares subscribed for and allotted to Creditors of the Company (or their nominees) on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”

Short Explanation: Listing Rule 7.1 provides that the prior approval of shareholders is required if the number of securities issued by the Company exceeds 15% of its issued capital in any 12 month period. The Company proposes to offer to Creditors up to 2,800,000,000 Shares (together with 1 free attaching Option for every 20 Shares subscribed for and allotted) pursuant to a Prospectus for no consideration in satisfaction of the total net outstanding debt owing to Creditors, subject to completion of the issue of Shares and Options under the Entitlement Issue.

The Company will disregard any votes cast on this Resolution by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if this Resolution is passed and any associate of those persons. However, the Company will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form; or
- (b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form to vote as the proxy decides.

5. Resolution 5 – Issue of Options to Underwriter

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, subject to Resolutions 3 and 4 being passed, for the purposes of ASX Listing Rule 7.1 and for all other purposes, approval is given for the Company to allot and issue up to 831,125,515 Options to the Underwriter (or its nominees) on the terms and conditions set out in the Explanatory Statement accompanying this Notice.”

Short Explanation: Subject to the agreement by the Underwriter to underwrite the Entitlement Issue, the Company shall issue up to 831,125,515 Options to the Underwriter (or its nominees) under the terms of an Underwriting Agreement to induce sub-underwriting commitments in relation to the underwriting. The Options will be issued on the same terms as the free attaching Options to be issued under the Entitlement Issue.

The Company will disregard any votes cast on this Resolution by a person who may participate in the proposed issue and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities if this Resolution is passed and any associate of those persons. However, the Company will not disregard a vote if:

- (a) it is cast by a person as proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form; or
- (b) it is cast by a person chairing that meeting as a proxy for a person who is entitled to vote in accordance with the directions on the Proxy Form to vote as the proxy decides.

VOTING AND PROXIES

1. A Shareholder of the Company entitled to attend and vote is entitled to appoint not more than two proxies. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the Shareholder's voting rights. If the Shareholder appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half of the votes. A proxy need not be a Shareholder of the Company.
2. Where a voting exclusion applies, the Company need not disregard a vote if it is cast by the person who is entitled to vote in accordance with the directions on the Proxy Form or it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.
3. In accordance with Regulation 7.11.37 of the Corporations Act, the Directors have set a date to determine the identity of those entitled to attend and vote at the Meeting. The date is 31 May 2009 at 2.00pm (WST).
4. A Proxy Form is attached. If required it should be completed, signed and returned to the Company's registered office in accordance with the instructions on that form.

By order of the Board



Mr Brett Young
Executive Director and Chief Operating Officer
Dated: 1 May 2009

AUSTRALIAN MINES LIMITED
ABN 68 073 914 191

EXPLANATORY STATEMENT

This Explanatory Statement is intended to provide Shareholders with sufficient information to assess the merits of the Resolutions contained in the Notice.

The Directors recommend that Shareholders read this Explanatory Statement in full before making any decision in relation to the Resolutions.

1. BACKGROUND

The recent decline in the world nickel price has caused major cash flow difficulties for the Company. The Company has addressed these difficulties by closing the Blair Nickel Mine and selling plant and equipment for \$1.25 million. The Company was unable to sell mining projects in the current market and therefore has retained these projects. Proceeds of assets sales have been used to pay some creditors and the costs associated with a capital raising.

1.1 Accounts and Reports

As announced to ASX in its quarterly report dated 31 January 2009, the Company has not lodged an Annual Report for the year ended 30 June 2008 within the timeframe prescribed in Chapter 2M of the Corporations Act and did not hold its annual general meeting before 30 November 2008 due to its financial uncertainty and the suspension from quotation of the Company's Shares. Given the implementation of a proposed recapitalisation strategy, the Company intends to comply with its obligations as a disclosing entity moving forward including releasing a half yearly report in the near future.

1.2 Blair Nickel Mine

The Blair Nickel Mine was closed on 19 December due to the current nickel price severely affecting the operating cash margin.

Production for the June 2008, September 2008 and December 2008 quarters was at 451, 447 and 441 tonnes of contained nickel metal respectively. However, lower nickel prices and adjustments to revenue on the Company's 90 day quotation period have adversely affected the financial position of the Company. The June, September and December 2008 quarters nickel revenue received was A\$11.50/lb, A\$9.98/lb and \$5.62 respectively which is well down on previous quarters.

The higher production levels for the three quarters were after capital development was completed to the 325mRL (commencing from 480mRL). The revised mine production schedule for the June, September and December quarters restored the mine to near record production levels.

In addition to the revised mine production schedule, mining costs were reduced with lower overall mine operating costs. However notwithstanding the higher revised mine production schedule and reduced mine operating costs, the mining operation could not operate at lower nickel prices.

1.3 Investec Cash Receivable Facility

The Company and its subsidiary, Blair Nickel Mine Pty Ltd, had a receivables facility, a guarantee facility and a hedging facility with Investec Bank (Australia) Limited. The receivables and hedging facility has been closed with repayment of all loans outstanding.

1.4 Hedge book

The balance of the hedge book at the end of 31 March 2009 was nil. The Board approved the closure of the remaining hedge contracts and funds were used to repay loans to Investec.

1.5 Settlement of outstanding debt to Creditors

The Company currently has a net outstanding debt from mining operations of approximately \$2.8 million that is owing to Creditors. The Company is negotiating with Creditors whereby Creditors will be offered the opportunity to accept equity in the Company by way of repayment of the debt of \$2.8 million. The Company proposes to offer to Creditors up to 2,800,000,000 Shares pursuant to a Prospectus for no consideration together with 1 free Option for every 20 Shares subscribed for and allotted at an exercise price of 0.2 cents per Share ("Creditor Placement"), subject to completion of the issue of Shares and Options under the Entitlement Issue. Creditor Placement Shares will be effectively issued at 0.1 cents each and allotted after the Entitlement Issue Record Date and as such Creditors will not be eligible to participate in the Rights Issue. The Company is seeking Shareholder approval for the Creditor Placement under Resolution 4.

1.6 Entitlement Issue

The Company is seeking to raise approximately \$2,284,031 pursuant to a non-renounceable entitlement issue on the basis of 5 new Shares for every 1 Share held by Shareholders at an issue price of 0.1 cents per Share together with 1 free option for every 20 Shares subscribed for and allotted at an exercise price of 0.2 cents per Share ("Entitlement Issue"). The issue price of 0.1 cents per Share is the lowest price at which shares can trade on ASX. This will enable small Shareholders to maintain their proportionate holding in the Company without outlaying large sums and therefore not being significantly diluted.

The Entitlement Issue is proposed to be underwritten by Patersons Securities Limited, subject to satisfaction of a number of conditions precedent, including acceptances under the Creditor Placement achieving a minimum level of 90% by value of the total Creditor debt.

The funds raised by the Entitlement Issue will be used to fund exploration on the Company's prospective gold tenements, to supplement payments to statutory creditors and for working capital.

In accordance with the terms of a waiver obtained from ASX, the Company is seeking Shareholder approval for the Entitlement Issue under Resolution 3 on the basis that the offer is to be conducted on a non renounceable basis and on a ratio of greater than 1 Share for every Share held which is prohibited by the ASX Listing Rules.

1.7 Capital Structure

The capital structure of the Company assuming all the Resolutions in the Notice are carried into effect will be as follows:

| Capital Structure | Number of Shares | Number of Options |
|------------------------------------|-------------------------|--------------------------|
| Securities currently on issue | 456,806,128 | 6,050,000 ¹ |
| Entitlement Issue (Resolution 3) | 2,284,030,640 | 114,201,532 |
| Creditor Placement (Resolution 4) | 2,800,000,000 | 140,000,000 |
| Underwriter Options (Resolution 5) | - | 831,125,515 |
| Total | 5,540,836,768 | 1,091,377,047 |

1. Unquoted options including 1,500,000 Director options (exercise price 5 cents, expiry 31/12/2011), 3,250,000 Director options (exercise price 7.5 cents, expiry 31/12/2011), 500,000 employee options (exercise price 7.5 cents, expiry 31/12/2011) and 500,000 employee options (exercise price 7.5 cents, expiry 31/12/2012).

1.8 Focus on exploration assets of the Company

The Company will be seeking to focus its activities on gold exploration in the future. The Company's exploration assets include an extensive package of prospective gold and base metals tenements. The exploration area comprises 223 km² of project area located approximately 35 km from Kalgoorlie which includes 16 granted mining leases, 4 granted prospecting licences, 1 large freehold block, 1 large exploration licence application and 1 miscellaneous licence.

Duplex Hill South Prospect and East Location 45 - Gold

Proceeds from the Entitlement Issue will provide required working capital and enable the Company to continue its exploration programs over its prospective tenements following encouraging results obtained on advance targets at Duplex Hill South for gold.

The Duplex Hill South Prospect has previously been drilled for gold with success. From this drilling the initial Woodline resource of 12,000 ounces was discovered and has subsequently been sold to a private syndicate for cash.

The Woodline resource is open to the northwest and southeast and future potential is retained by the Company. The proceeds from the Entitlement Issue will fund further drilling to fully define the extent and significance of the gold mineralisation along strike and at depth.

A high priority will also be East Location 45 which contains the Mt Martin gold mine which is currently under lease to Dioro Exploration NL until January 2010 and where the Company announced the Indicated Resource of 221,000 ounces of gold.

The proceeds from the Entitlement Issue will enable exploration to continue to define the potential of these exploration projects.

Blair Project – Nickel - Golden Ridge Joint Venture ("GRJV")

Nickel exploration will continue on prospects identified at Leo Dam however exploration at Anomaly 11, BSA and Blair South Prospects will be deferred.

The Company has a 44.59% participating interest in the GRJV however has retained 100% of the gold rights. The GRJV has planned follow up drilling at Leo Dam after intercepting 68 metres of disseminated sulphides grading 0.56% nickel in favourable high MgO ultramafic during the June quarter.

Marriott's and Goodyear Nickel Projects

The Company also retains the Marriott's Nickel Project where the Company has announced an Indicated and Inferred Resource of 9,500 contained nickel tonnes. Also retained is the Goodyear Nickel Project where an initial inferred resource of 14,700 nickel tonnes was announced.

The information contained in this section is summary information of reports previously announced by the Company on 25 March 2009 and Duplex Hill South Gold Project update 18 January 2008 and 23 March 2005. Shareholders should refer to these announcements for further details about the Company's exploration results.

Shareholders should note that despite the Entitlement Issue proceeding, mineral development and exploration activities contain significant risks, and it is not possible to guarantee that the Company will achieve success in the future. The mineral exploration and development activities, that the Company is involved in, carries with it significant risks for the Company.

The information in this report that relates to Exploration 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

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

The Remuneration Report is in the Directors Report section of the Company's Annual Report.

By way of summary, the Remuneration Report:

- (a) explains the Company's remuneration policy and the process for determining the remuneration of its directors and executive officers;
- (b) addresses the relationship between the Company's remuneration policy and the Company's performance; and
- (c) sets out remuneration details for each Director and each of the Company's executives and group executives named in the Remuneration Report for the financial year ended 30 June 2008.

The Directors recommend that Shareholders vote in favour of Resolution 1. Section 250R(2) of the Corporations Act requires companies to put a resolution to their members that the Remuneration Report be adopted. The vote on this resolution is advisory only and will not bind the Board or the Company.

The Chairman will give Shareholders a reasonable opportunity to ask questions about or to make comments on the Remuneration Report.

3. RESOLUTION 2 – RE-ELECTION OF MR NEIL WARBURTON AS DIRECTOR

Rule 7.3 of the Company's Constitution provides that one third of the current Directors (not including any Director appointed as the managing director and any Directors appointed as casual vacancies) must retire from office by rotation at each Annual General Meeting.

In accordance with rule 7.3, Mr Neil Warburton is presented for re-election by Resolution 2. Mr Warburton has been a Director since 22 April 2003 and was most recently re-elected at the 2005 Annual General Meeting of the Company.

Mr Warburton offers himself for re-election by Resolution 2.

Details of the qualifications and experience of Mr Warburton are set out in the 2008 Annual Report for the Company.

4. RESOLUTION 3 – ENTITLEMENT ISSUE

4.1 Purpose of Entitlement Issue

Resolution 3 seeks Shareholder approval for a pro-rata non-renounceable Entitlement Issue of securities to Shareholders who are registered on a specified record date.

The offer is proposed to be made on the basis that for every 1 Share held as at a record date, Shareholders as Eligible Participants will have the right to subscribe for 5 new Shares at an issue price of 0.1 cents pursuant to a prospectus. Each Eligible Participant will also be entitled to 1 free attaching Option for

every 20 Shares subscribed for and allotted ("Entitlement Issue"). The Options are exercisable at 0.2 cents each on or before 30 June 2013 and will be issued on the terms and conditions set out in the Schedule.

Based on the capital structure of the Company at the date of this Notice approximately 2,284,030,640 Shares and 114,201,532 Options will be offered to raise up to approximately \$2,284,031 (before the costs of the offer).

The Entitlement Issue will be made on a non-renounceable basis such that Eligible Participants may not sell or transfer all or any part of their entitlement.

The Entitlement Issue is proposed to be underwritten by Patersons Securities Limited, subject to satisfaction of a number of conditions precedent, including acceptances under the Creditor Placement achieving a minimum level of 90% by value of the total Creditor debt.

The funds raised by the Entitlement Issue will be used to fund exploration on gold prospects on the Blair tenements south of Kalgoorlie known as Golden Ridge, East Location 45 containing the Mt Martin gold mine and Duplex Hill South which contains the Woodline Project, to supplement payments to statutory creditors and to provide working capital for the Company.

The Company considers that the funds raised from the Entitlement Issue will provide sufficient capital for it to fund exploration on its tenements together with providing a solution with Creditors to restructure debt and also for the current working capital requirements of the Company.

4.2 Shareholder Approval

ASX Listing Rule 7.11.3 does not allow a company to offer a pro-rata Entitlement Issue of securities that is greater than 1 security for each security held unless the offer is renounceable (that is, the rights may be traded as a separate entitlement before the closing date of the Entitlement Issue).

The Company has a commercial need for funds beyond what is obtainable on a 1 for 1 basis. Accordingly, the Company applied for and ASX has granted a waiver from Listing Rule 7.11.3 to allow the Company to proceed with the Entitlement Issue as proposed.

The waiver was granted on condition that the Company obtains Shareholder approval for the issue and that the notice of meeting contains a voting exclusion statement excluding the votes cast on the resolution by all substantial Shareholders of the Company (as that term is defined in the Listing Rules) and any proposed underwriter or sub-underwriter of the Entitlement Issue. The only substantial Shareholder of the Company whose votes will be excluded is Michlange Pty Ltd.

In addition to the information set out above, the Company provides the following information:

- (a) Based on the Company's current share capital, the total number of Shares to be issued under the Entitlement Issue will be approximately 2,284,030,640 Shares and 114,201,532 Options. The actual number of Shares and Options that are issued on completion of the Offer will depend on whether any of the existing option holders exercise their options into Shares before the record date determining entitlements.
- (b) The Company will raise approximately \$2,284,031 from the Entitlement Issue and these funds will be used:
 - (i) to pay for the expenses of the issue \$250,000;
 - (ii) to conduct further exploration on the Company's tenements \$1,500,000;
 - (iii) to supplement payments to statutory creditors of approximately of \$250,000; and
 - (iv) for general working capital \$250,000.

- (c) The Entitlement Issue offer will be made under a prospectus to be sent to Shareholders.
- (d) The issue price of 0.1 cents will enable small Shareholders to maintain their proportionate holding in the Company without outlaying large sums and therefore not being significantly diluted.
- (e) The free attaching Options will be issued on the terms and conditions set out in the Schedule.
- (f) An indicative timetable for completion of the Entitlement Issue is set out below:

| | |
|--|--------------|
| Lodgement of Prospectus with ASIC and ASX | 15 May 2009 |
| Notice sent to Shareholders containing information required by Appendix 3B | 19 May 2009 |
| Ex Date | 20 May 2009 |
| Record Date for determining Shareholder entitlements | 26 May 2009 |
| Opening Date and Dispatch of Prospectus to Shareholders | 27 May 2009 |
| Closing date of Entitlement Issue | 17 June 2009 |
| Shares quoted on deferred settlement basis | 18 June 2009 |
| Notify ASX of under-subscriptions | 22 June 2009 |
| Dispatch date. Shares entered into Shareholders security holdings | 25 June 2009 |

5. RESOLUTION 4 – CREDITOR PLACEMENT

The Company is proposing to restructure its debt with Creditors arising from its mining operations. The Company has an outstanding debt of \$2,800,000 (inclusive of GST) and has agreed to settle the debt by issuing up to 2,800,000,000 Shares to Creditors pursuant to a prospectus. All Creditors are being afforded the opportunity, but not the obligation, at their individual and respective discretion, to elect to have their outstanding debts repaid by way of an issue of Shares in the Company. Each Creditor that accepts the offer will also be entitled to 1 free attaching Option for every 20 Shares allotted and issued. The Options will be issued on the same terms as the free attaching Options to be issued under the Entitlement Issue. It is a condition of the Creditor Placement that the Company receives irrevocable acceptances from Creditors equivalent to 90% of the total dollar value of all Creditor claims. Each accepting Creditor will receive Shares in the Company to the value that equals their outstanding debt payable at an effective issue price of 0.1 cents per Share together with 1 free attaching Option for every 20 Shares allotted and issued. The issue of Shares to Creditors will be in full and final settlement of all outstanding debts between Creditors and the Company as at 31 March 2009.

It is also proposed that Patersons Securities Limited will facilitate an orderly sell-down of any Creditor Placement Shares and Options on a ‘best endeavours’ basis to give Creditors an opportunity to immediately on sell those Shares and Options upon issue should they wish.

Resolution 4 seeks Shareholder approval under Listing Rule 7.1 for the allotment and issue of up to 2,800,000,000 Shares together with 1 free attaching Option for every 20 Shares allotted and issued to Creditors.

ASX Listing Rule 7.1 provides that a company must not, subject to certain exceptions, issue during any 12 month period any equity securities or other securities with rights of conversion to equity if the number of those securities exceeds 15% of the total ordinary securities on issue at the commencement of that 12 month period. One circumstance where an issue is not taken into account in the calculation of this 15% threshold is where the issue has the prior approval of Shareholders in a general meeting. The effect of Resolution 4 will be to allow the Directors to issue the Shares and Options pursuant to the Creditor Placement during the period of 3 months after the Meeting (or a longer period if allowed by the ASX), without using the Company's annual 15% placement capacity.

ASX Listing Rule 7.3 sets out the matters which must be included in the notice of meeting convened to seek shareholder approval under ASX Listing Rule 7.1. For the purposes of ASX Listing Rule 7.3, the following information is provided to Shareholders in relation to Resolution 4:

- (a) The maximum number of securities to be issued is 2,800,000,000 Shares and 140,000,000 Options.
- (b) The Shares and Options will be issued and allotted within 7 days after the issue of Shares and Options under the Entitlement Issue and in any event no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules).
- (c) The Shares will be issued at a deemed issue price of 0.1 cents each and the Options will be issued for free.
- (d) The Shares and Options will be issued to participating Creditors.
- (e) The Shares and Options (when exercised) will be fully paid ordinary shares in the capital of the Company and will rank equally with the Company's current issued shares.
- (f) The Options will be issued on the terms and conditions set out in the Schedule
- (g) No funds will be raised from the issue of Shares and Options to Creditors. The Shares and Options will be issued as part of an arrangement to satisfy the outstanding debt owing to Creditors (refer to section 1.5 above for details).
- (h) The Shares and Options will be allotted and issued on one date.

6. RESOLUTION 5 – ISSUE OF OPTIONS TO UNDERWRITER

6.1 General

Resolution 5 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for the allotment and issue of up to 831,125,515 Options to Patersons Securities Limited (or its nominees) ("Underwriter"), subject to the agreement by the Underwriter to underwrite the Entitlement Issue. The Options will be issued on the same terms as the free attaching Options to be issued under the Entitlement Issue. The Options are proposed to be issued to induce sub-underwriting commitments in relation to the underwriting and equate to 15% of the expanded share capital post the Entitlement Issue and Creditor Placement.

A summary of ASX Listing Rule 7.1 is set out in Section 0 above.

The effect of Resolution 5 will be to allow the Directors to issue the Options to the Underwriter during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

6.2 **Technical information required by ASX Listing Rule 7.1**

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided to Shareholders in relation to Resolution 5:

- (a) The maximum number of Securities to be issued is 831,125,515 Options.
- (b) The Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment and issue of the Options will occur on one and the same date.
- (c) The Options will be issued to Patersons Securities Limited (or its nominees).
- (d) The Options will be issued on the terms and conditions set out in the Schedule.
- (e) The Options will be issued for nil consideration to induce sub-underwriting commitments as part of the terms of an underwriting of the Entitlement Issue. Accordingly, no funds will be raised from the issue of the Options.

AUSTRALIAN MINES LIMITED

ABN 68 073 914 191

GLOSSARY

In this Explanatory Statement the following expressions have the following meanings:

"**Annual General Meeting**" and "**Meeting**" means the meeting convened by this Notice.

"**ASX**" means ASX Limited.

"**ASX Listing Rules**" or "**Listing Rules**" means the Listing Rules of ASX Limited.

"**Board**" means the board of directors of the Company.

"**Chairman**" means the chairman of the Company.

"**Company**" or "**Australian Mines**" means Australian Mines Limited (ABN 68 073 914 191).

"**Constitution**" means the Constitution of the Company.

"**Corporations Act**" means the Corporations Act 2001 (Cth).

"**Creditor**" means a trade creditor of the Company or any of its subsidiaries incurred and still outstanding as at 31 March 2009 not including statutory creditors.

"**Directors**" means the directors of the Company from time to time.

"**Eligible Participant**" means Shareholders who are registered on a specified record date who are entitled to subscribe under the Entitlement Issue offer.

"**Explanatory Statement**" means this explanatory statement.

"**Notice**" means the notice of meeting that accompanies this Explanatory Statement.

"**Options**" means an option to subscribe for a Share on the terms and conditions set out in the Schedule.

"**Underwriter**" means Patersons Securities Limited (ABN 69 008 896 311) AFSL 239052.

"**Proxy Form**" means the proxy form accompanying the Notice.

"**Resolution**" means a resolution contained in this Notice.

"**Entitlement Issue**" means the proposed offer by the Company of a pro rata non-renounceable Entitlement Issue on the basis of 5 new Shares for every 1 Share held as at a record date at an issue price of 0.1 cents per Share together with 1 free attaching Option for every 20 Shares subscribed for and allotted.

"**Share**" means a fully paid ordinary share in the capital of the Company and "**Shares**" has a corresponding meaning.

"**Shareholder**" means a holder of Shares.

"**WST**" means Western Standard Time, Perth, Western Australia.

AUSTRALIAN MINES LIMITED

ABN 68 073 914 191

SCHEDULE

The terms and conditions of the Options are as follows:

- (a) The options have an expiry date of 5.00pm (WST) on 30 June 2013 ("Expiry Date"). Any option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (b) Each option gives the optionholder the right to subscribe for one Share. To obtain the right given by each option, the optionholder must exercise the options in accordance with the terms and conditions of the options.
- (c) The exercise price payable upon exercise of each option will be 0.2 cents ("Exercise Price").
- (d) All or part of the options may be exercised at any time prior to the Expiry Date, from time to time.
- (e) An optionholder may exercise their options by lodging with the Company, before the Expiry Date:
 - (i) a written notice of exercise of options specifying the number of options being exercised; and
 - (ii) a cheque or electronic funds transfer for the Exercise Price for the number of options being exercised,("Exercise Notice").
- (f) An Exercise Notice is only effective when the Company has received the full amount of the Exercise Price in cleared funds.
- (g) Within 5 Business Days of receipt of the Exercise Notice accompanied by the Exercise Price, the Company will allot the number of Shares required under these terms and conditions in respect of the number of options specified in the Exercise Notice.
- (h) All Shares allotted upon the exercise of options will upon allotment rank pari passu in all respects with other Shares.
- (i) The Company will apply for quotation of the options on ASX.
- (j) The Company will also apply for quotation by ASX of all Shares allotted pursuant to the exercise of options within 10 Business Days after the date of allotment of those Shares.
- (k) In the event of any reorganisation (including consolidation, sub-division, reduction or return) of the issued capital of the Company before the expiry of any options, the number of options to which an optionholder is entitled or the Exercise Price of the options or both will be reconstructed (as appropriate) in accordance with the Listing Rules.
- (l) An option does not confer the right to a change in exercise price or a change in the number of underlying securities over which the option can be exercised.
- (m) There are no participating rights or entitlements inherent in the options and optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the options. However, the Company will ensure that for the purposes of the proposed issue notice of the new issue will be given to optionholders at least seven (7) business days before the record date. This will give optionholders the opportunity to exercise their options prior to the date for determining entitlements to participate in any such issue.

AUSTRALIAN MINES LIMITED
(ABN 68 073 914 191)

PROXY FORM
ANNUAL GENERAL MEETING

I/We (name and address)

being a Member of Australian Mines Limited entitled to attend and vote at the Annual General Meeting, hereby

Appoint

Name of proxy

or failing the person so named or, if no person is named, the Chairman of the Annual General Meeting or the Chairman's nominee, to vote in accordance with the following directions or, if no directions have been given, as the proxy sees fit at the Annual General Meeting of Shareholders to be held at The Celtic Club, 48 Ord St, West Perth, Western Australia on 2 June 2009 at 2.00pm (WST) and at any adjournment thereof. **If no directions are given on how to vote, the Chairman will vote in favour of all of the Resolutions.**

Voting on Business of the General Meeting

| | | FOR | AGAINST | ABSTAIN |
|--------------|--|--------------------------|--------------------------|--------------------------|
| Resolution 1 | Adoption of Remuneration Report | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 2 | Re-election of Mr Neil Warburton as a Director | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 3 | Approval of Entitlement Issue | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 4 | Creditor Placement | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| Resolution 5 | Issue of Options to Underwriter | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

If the chair of the meeting is appointed as your proxy, or may be appointed by default and you do not wish to direct your proxy how to vote as your proxy in respect of a resolution, please place a mark in the box. By marking this box, you acknowledge that the Chair of the meeting may exercise your proxy even if he has an interest in the outcome of the Resolutions and that the votes cast by the Chair of the meeting for those Resolutions other than as proxy holder will be disregarded because of that interest. **The Chair intends to vote any such undirected proxies in favour of all Resolutions.** If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on the Resolutions and your votes will not be counted in calculating the required majority if a poll is called on a Resolution.

If you mark the abstain box for a particular item, you are directing your proxy not vote on that item on a show of hands or on a poll and that your Shares are not to be counted in computing the required majority of a poll

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____%.

Please return this Proxy Form to the Company Secretary, Australian Mines Limited Level 1, 681 Murray Street, West Perth, Western Australia, and post to Australian Mines Limited at PO Box 883, West Perth, WA 6872 or fax to (08) 9481 5611 by 2.00pm (WST) on 31 May 2009.

Signed this _____ day of _____ 2009.

By:

Individuals and joint holders

Signature

Signature

Signature

Companies (affix common seal if appropriate)

Director

Director/Company Secretary

Sole Director and Sole Company Secretary

AUSTRALIAN MINES LIMITED
ABN 68 073 914 191
Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and vote at an Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) post to Australian Mines Limited PO Box 883, West Perth, WA 6872; or
 - (b) facsimile to the Company on facsimile number +61 8 9481 5611,so that it is received not later than 2.00pm (WST) on 31 May 2009.

Proxy forms received later than this time will be invalid.