Australian Mines Limited
ABN 68 073 914 191

QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 31 DECEMBER 2010

HIGHLIGHTS

- **AUZ has signed a binding share sale agreement with the major shareholders of Nigeria Gold Pty Ltd which, through its 100% owned subsidiary Mines Geotechniques Ltd, owns significant exploration leases in Nigeria, West Africa.**
- **The MGL acquisition includes 4,101 km² of exploration licences (46 ELs) and applications awaiting grant (18 ELAs).**
- **The Nigerian gold tenements have never been explored by modern exploration methods and have the ability to host million-ounce gold deposits. Exploration is planned on high priority ELAs as soon as they are awarded.**
- **NGL acquisition is subject to approval at shareholder meeting to be held in March 2011.**
- **Also during the quarter the Golden Ridge tenements were explored for both nickel and gold.**
- **A first pass RAB drilling programme was conducted over a very large gold-in-soil anomaly along the Woolibar Fault.**
- **GRJV completed a SQUID EM ground survey which was effective in locating a number of buried conductors with the potential to be nickel sulphide orebodies.**

GOLD EXPLORATION (AUZ 100%)

1. Nigeria Gold - Geology of Nigeria

The schist belts of Nigeria are known as the Birimian schists and are considered highly prospective for gold and base metals. They have been compared to the better known Birimian schist belt of Ghana, Mali and Burkino Faso and are contained in the Basement Complex of Nigeria which occupies the western part of the Pan-African Mobile Belt. The Basement Complex occupies about half the surface area of Nigeria, with the remainder of the country being covered by sediment-filled troughs of younger age.

Commercial deposits of gold associated with other metallic minerals occur within the schist belts of the Basement Complex that host gold deposits of Ghana and areas in West Africa.

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Nigeria Gold tenements

In 2006 the Ministry of Solid Minerals Development commenced reforming the country's mineral resources industry. It passed a new mining act and revived competition in its minerals industry. These reforms have resulted in the re-issue of exploration leases that were not being worked.

The approximately 4,101km^2 of granted tenements (46 ELs) and applications awaiting grant (18 ELAs) acquired by Nigeria Gold Pty Ltd ('NGL") through its 100% owned subsidiary Mines Geotechniques Ltd ("MGL") are in the north-west part of the country, and mainly located along regional scale schist belts within the Basement Complex.

The tenement list includes numerous tenements with artisanal gold workings and within these areas grass roots exploration has begun with mapping of the surface workings and geology with hand held GPS's, and then cross-referencing this mapping with aeromagnetic images so as to identify gross structural controls over mineralisation as a prelude to follow-up soil sampling and trench sampling.

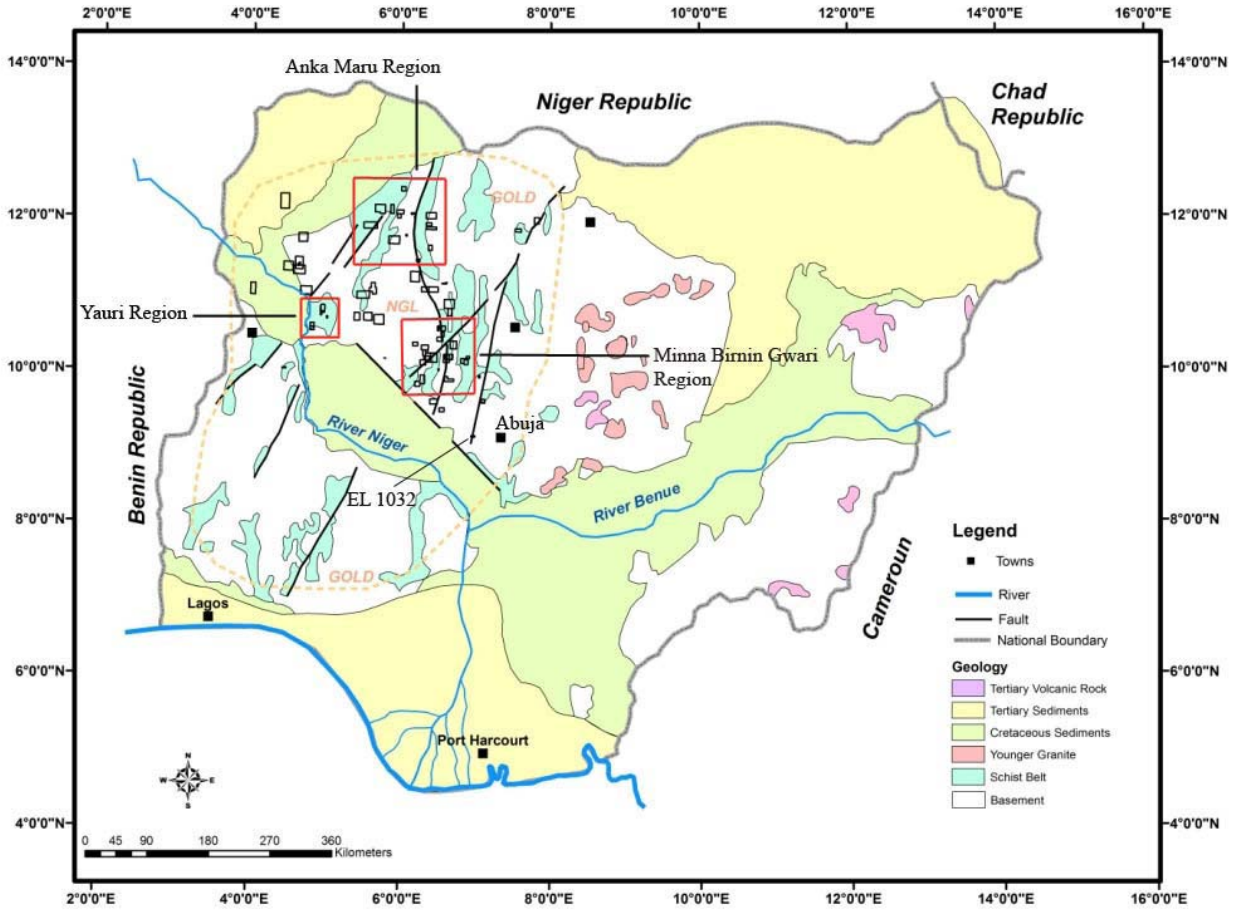


Figure 1 Nigeria Gold – simplified geology map overlain by tenement groups

Work programmes completed by Nigeria Gold in 2010.

Nigeria Gold engaged the services of a consulting geologist with international exploration experience, who during 2010 conducted regular field visits to Nigeria to review and evaluate the tenements.

The consulting geologist was actively involved in recruiting and training local geologists and field crew, and together they were involved on the ground performing grass roots exploration activities such as mapping of old British workings and more recent artisanal workings, mapping of surface geological features, soil sampling, and targeting and ground selection based on aeromagnetic interpretations.

The consulting geologist's photographs and written reports were provided to Australian Mines Limited during the December quarter, and these were utilised in the due diligence process.

Work programmes to be completed by Nigeria Gold in 2011.

In line with best exploration practice, Nigeria Gold will continue to evaluate and explore projects during the first half of 2011, with the intention of commencing drill testing of the top ranked targets in the second half of the year.

The work programme to June 30th 2011 is as follows:

(a) Work to be carried out by consulting geologist.

- Drafting of detailed work programme based on results of 2010 work. This is likely to consist of a combination of additional reconnaissance mapping and soil sampling, as well as follow-up sampling and trenching of anomalous areas. In addition to delineating additional anomalies for follow-up, it is hoped that this work (particularly trenching) will lead to the delineation of specific drill targets.
- Organisation and overall supervision of field work by local teams, including some on-site work.
- Ongoing interpretation of results of field work and redirection as appropriate. Generation of targets for follow-up work, including drilling.
- Organisation and supervision of specialist consultants as required.

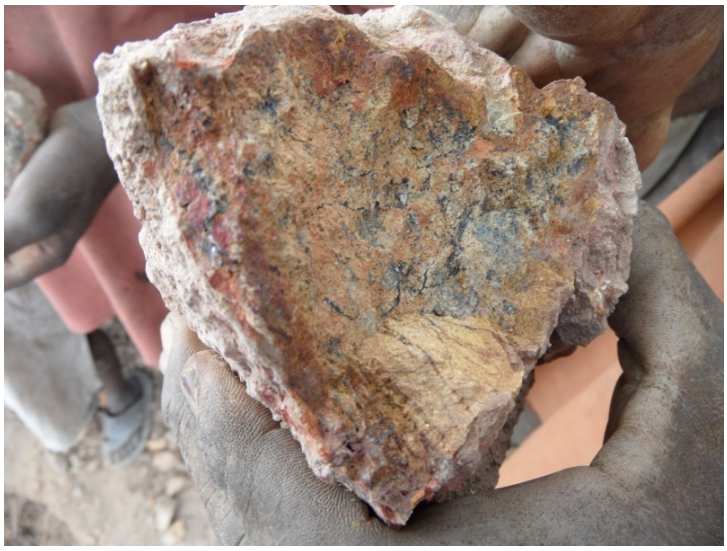
(b) Work to be carried out by local Nigerian geologists and field crews.

- Ongoing reconnaissance work on tenements to locate and sample artisanal workings and other relevant features and to locate access routes.
- Follow-up soil sampling as appropriate.
- Supervision of trenching programmes over anomalous areas.
- Plotting of all field data and production of various maps as required.

The Company's consulting geologist has concluded that:

'While the tenements in the Minna/Birnin Gwari region are very much at the greenfields stage, preliminary geophysical interpretation and the limited field mapping carried out to date indicate that they have excellent potential for hosting gold and possibly base metal deposits. Rigorous exploration work is recommended on all of the Minna-Birnin Gwari tenements'.

Nigeria Gold _ field crew sampling outcropping extensional quartz veins for gold.



Micro veined and silicic altered country rock with visible free gold.

Coarse gold panned from the specimen in the photo above

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2. Kalgoorlie – Golden Ridge – Mt Martin
Woolibar Fault Flexure.

The target presents as a very large gold in soils anomaly (peak value +152 ppb Au) centred along a section of the Woolibar Fault system. Surface mapping has noted some areas of semicutaneous nodular outcrop and a 0.5m to 1 m wide outcrop of quartz reef with minor vughs. The peak anomalism is interpreted to coincide with a flexure of the Woolibar fault system, proximal to a Proterozoic dyke swarm.

Exploration during the quarter

Three lines of vertical RAB holes were drilled to bedrock, and sampled as 4 metre composites for low level gold. The RAB lines were not extended onto tenement E26/139 because it was not granted at the time.

A NE-trending Proterozoic dyke swarm was interpreted from drilling of the most northern drill line but the surrounding bedrock was generally logged as Archean sediment (with minor-fault emplaced ultramafic slivers).

It is not possible to be definitive as to the source of the gold anomaly, but it may be possible to make some generalisations based on field mapping and drill hole logs:
(a) the level of gold in the soils appears to be more elevated in those areas where cutaneous nodules were mapped at the surface, which suggests that the best part of the anomaly is not transported.
(b) Based on RAB drilling to date, the best regolith response is proximal to interpreted faults.

Future work

The Phase 1 RAB coverage will be extended to test the soil anomaly on tenement E26/139, which was recently granted.

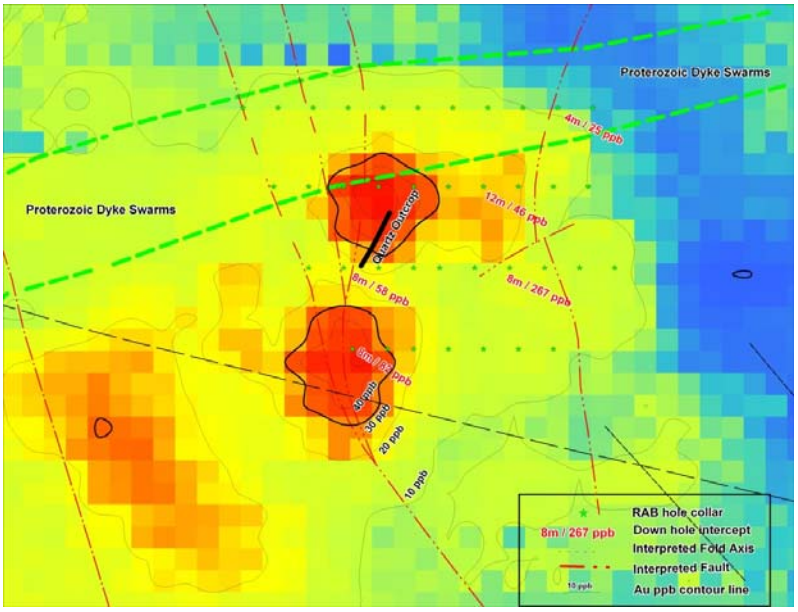

Figure 2: RAB drilling over contoured Au in soils geochemistry and interpreted geology.

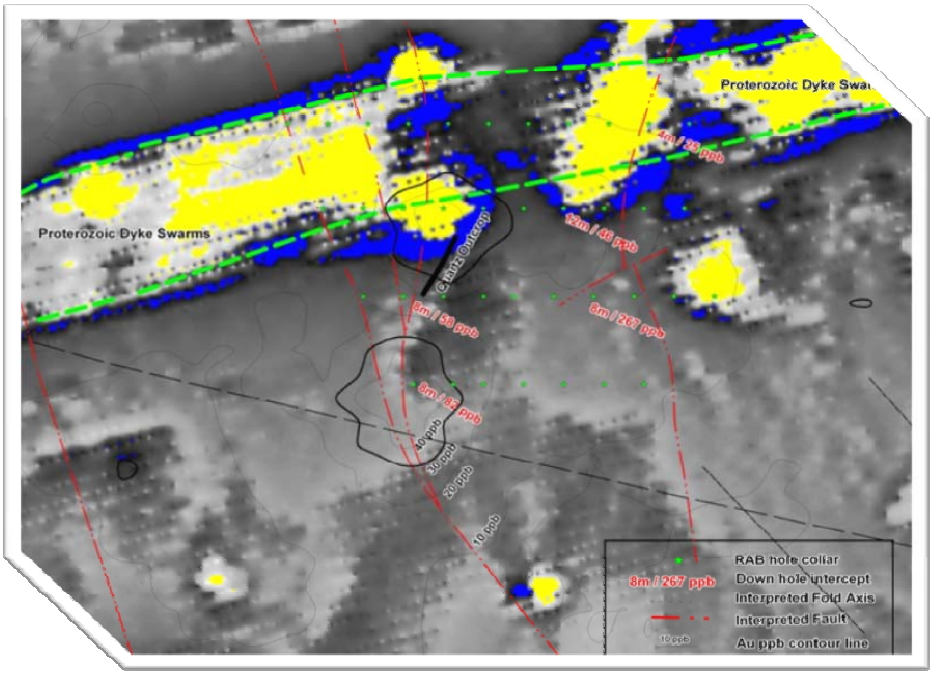

Figure 3: RAB drilling over contoured Au in soils anomalism, tem-shallow-1vd-gauss aeromagnetics and interpreted geology.

GRJV NICKEL SULPHIDE EXPLORATION (AUZ 44%)

GOLDEN RIDGE NICKEL JV PROJECT: EM Targets Generated, Follow-up Planned

(Pioneer 56%, Australian Mines Limited 44%.)
Each Company contributes to exploration expenditure on a pro-rata basis.

Background and work completed

The Golden Ridge JV Project is located 30km SE of Kalgoorlie and is prospective for nickel sulphide deposits like the Blair Nickel Mine which was closed in December 2008.

An extensive program of moving loop and fixed loop electromagnetic ("EM") surveys was undertaken, which tested for the presence of conductive bodies which may include lenses of massive nickel sulphides. The validation of the EM anomalies will be the culmination of a rigorous exploration process involving earlier drilling, geological and geochemical investigations. In all, 30 line kilometres of EM readings covering 13 prospective locations were taken. Ground EM is considered well suited to this area as an exploration tool for nickel sulphide mineralisation.

Three anomalies of significance have been identified, which, from the information to hand, project onto sediment-free ultramafic rock contacts. The locations of conductors, including the three priority anomalies, B-1, A36-38_6 and A20_2, are shown on the accompanying map. (see Figure 4)

The three anomalies were modelled as discrete, late-time, strongly conductive responses. Other anomalies also modelled correlated with known sulphidic black shale sediments, and are therefore considered non-prospective.

Planned work

The three priority anomalies require a more detailed EM survey to better resolve their depth and orientation before starting drill testing and the planned EM surveys are as follows:

- Follow-up EM surveys of the Blair East B1 target area.

  The highest priority target at Blair East is around conductor B1, which is located on the same ultramafic surface as the Blair nickel mine, and work is ongoing in assessing the historic drilling within a revised structural framework so that future exploration programs at Blair East will be focussed on areas of high potential and limited drilling coverage.

- Follow-up EM surveys of the Anomaly 36-38-2 conductor, which is ranked second to the Blair east conductor.

- Follow-up EM surveys of the A20-2 target area.

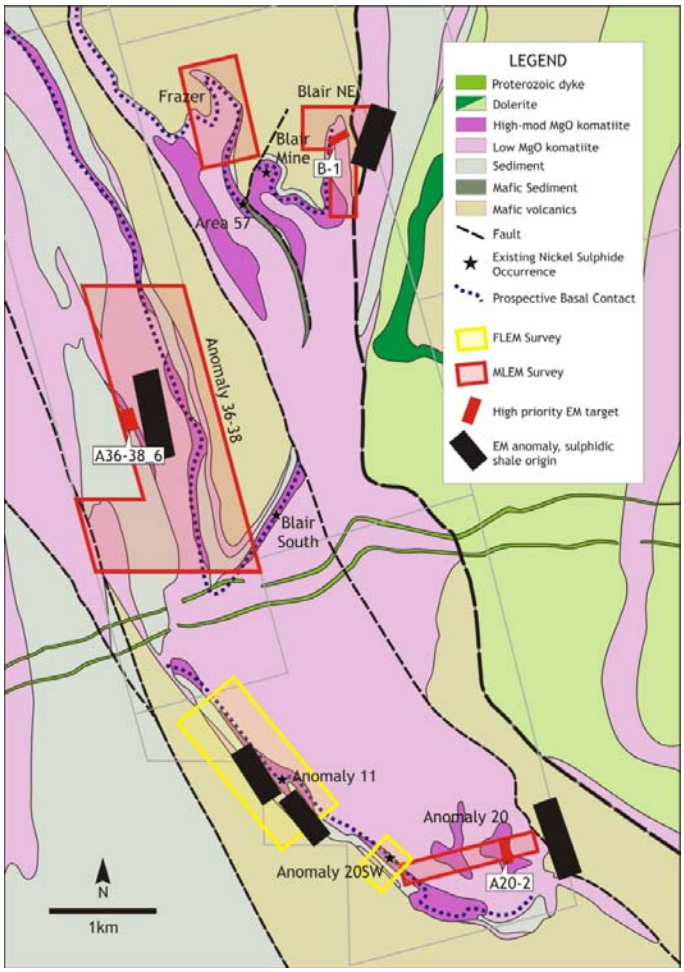

Figure 4: Golden Ridge JV Project, showing areas of EM surveys, conductive sediments (black) and priority EM targets (solid red)

RESOURCES

GOLD MINERAL RESOURCES (UNDILUTED)

The gold mineral resources are located on the Golden Ridge Project tenements, some 30 km south-east of Kalgoorlie in Western Australia.

Location	Category	Resource Tonnes	Gold g/t	Gold Ounces
Woodline 1	Measured	-	-	-
	Indicated	90,000	2.19	6,300
	Inferred	2,000	2.12	150
	Sub-total	**92,000**	**2.19**	**6,450**
Mt Martin Mine	Measured	-	-	-
	Indicated	2,847,500	1.90	176,500
	Inferred	1,194,500	2.30	88,000
	Sub-total	**4,042,000**	**2.00**	**264,500**
Swift	Measured	**-**	**-**	**-**
	Indicated	130,000	2.56	10,700
	Inferred	**-**	**-**	**-**
	Sub-total	**130,000**	**2.56**	**10,700**
	Total	**4,264,000**	**2.02**	**281,650**

Table 1: Gold resources above a cut-off grade of 0.5g/t gold, as at December 31st 2010.

NICKEL MINERAL RESOURCES (UNDILUTED)

The nickel sulphide resources are located at Blair Mine and the Goodyear Project on the Golden Ridge Project tenements, and also at the Marriott's Project some 80 km south of Leinster in Western Australia.

Location	Category	Resource Tonnes	Nickel %	Nickel Tonnes
Blair Mine – Ni sulphide Resource	Measured	33,000	4.2	1,400
	Indicated	28,000	4.1	1,100
	Inferred	52,000	3.5	1,800
	Sub-total	**113,000**	**3.8**	**4,300**
Marriott's – Ni Sulphide Resource	Measured			
	Indicated	460,000	1.12	5,100
	Inferred	370,000	1.15	4,300
	Sub-total	**830,000**	**1.13**	**9,400**
Goodyear – Ni Sulphide Resource	Measured			
	Indicated			
	Inferred	390,000	3.78	14,700
	Sub-total	**390,000**	**3.78**	**14,700**
Ni Sulphide Resource	**Total**	**1,332,000**	**2.13**	**28,400**

Table 2: Nickel sulphide resources above a cut-off grade of 0.5% nickel as at December 31st 2010.

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CORPORATE

Cash on hand at the end of the December 2010 quarter was $322,000.

A placement at the end of January 2011 to sophisticated investors raised approximately $1.1m by placing shares at 2.3 cents per share. These funds, along with Nigeria Gold funds of approx $350K, will contribute to exploration in Nigeria. The Kalgoorlie assets could provide further funding options and are being reviewed by the Directors.

The Notice of General Meeting has been prepared for the acquisition of Nigeria Gold Pty Ltd and will be mailed to shareholders for the meeting of the Company to be held in March 2011.

Details can be found on the Company website www.australianmines.com.au

SUMMARY AND OUTLOOK

AUZ has made a decision to diversify its asset base by investing in West Africa. The Nigeria Gold acquisition represents an outstanding opportunity to acquire a large land holding in an underexplored region with potential to host million-ounce gold deposits.

Progress to date has seen 46 exploration leases granted with a further 18 exploration applications pending grant. AUZ will undertake exploration after shareholder approval in March 2011 and will concentrate on the high priority ELAs when awarded.

In WA, the Mt Martin resource model contains an Indicated and inferred Resource of 4.0m tonnes at 2.0g/t Au for 264,500 ozs Au. Opportunities for the Mt Martin mine are being sought from within the local region.

Nickel exploration is continuing with the GRJV which has completed significant SQUID EM surveys on areas near the Blair nickel mine.

The Company has retained all of its nickel assets for future exploration especially with improving nickel prices.

For further information contact:

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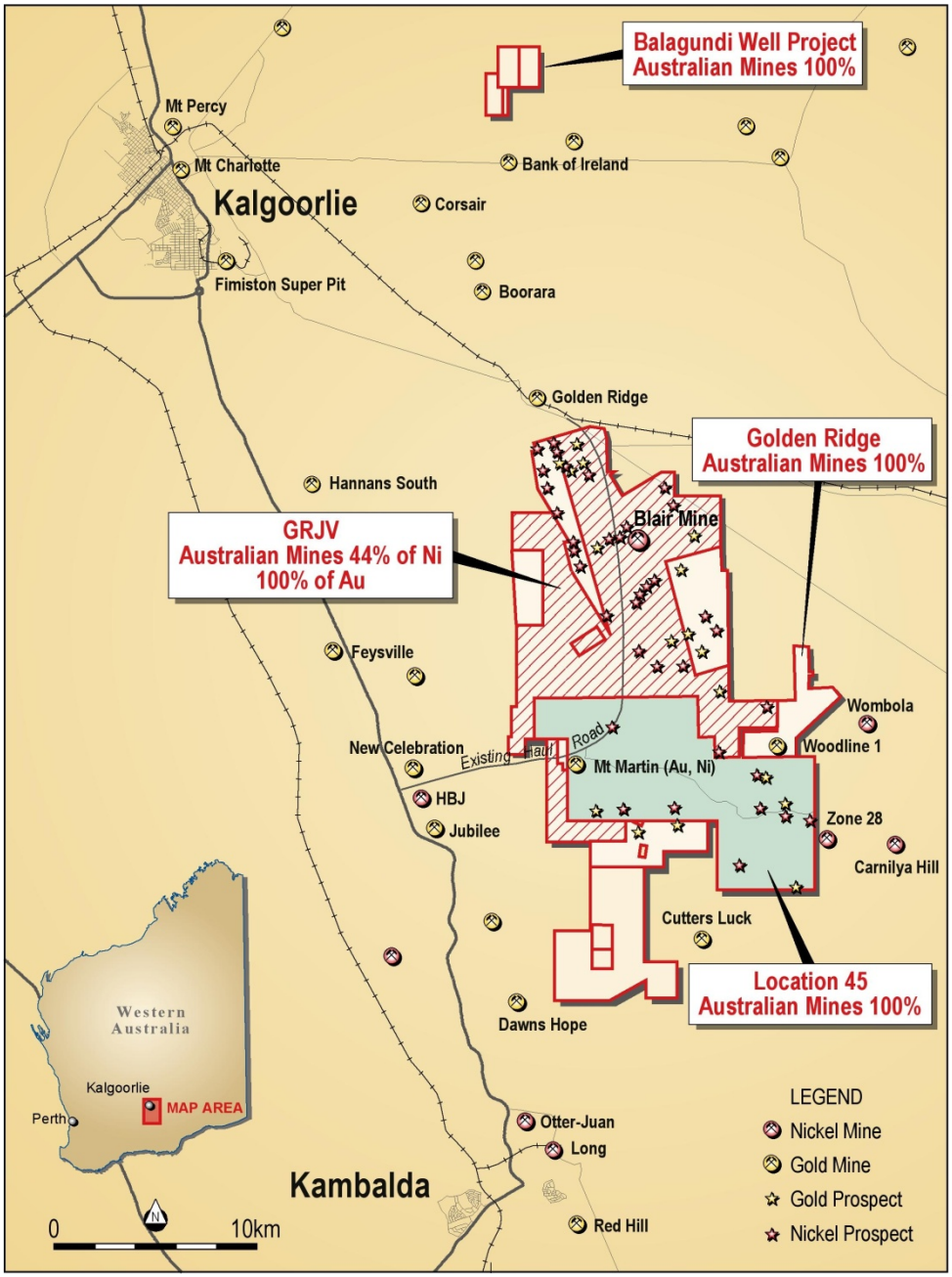
Australian Mines Limited
Tel: 08 9481 5811

The information in this report that relates to Exploration Results and Mineral Resources is based on information compiled by Mr E Poole who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Poole is employed by AUZ. Mr Poole 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". Mr Poole has consented to the inclusion of the information in the form and context in which it appears.



Location plan detailing AUZ's tenement holding

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