Australian Mines Limited
ABN 68 073 914 191

27 January 2012

QUARTERLY ACTIVITES REPORT
FOR PERIOD ENDED 31 DECEMBER 2011

HIGHLIGHTS

- Commenced accelerated exploration program targeting four key project areas;
  - Yargarma
  - Kasele
  - Kagara
  - Tsauni
- Fully-funded Nigerian exploration program through to 2014
- Extensive artisanal workings indicate gold mineralisation present within Yargarma, Kasele and Tsauni project areas
- Rock chip samples up to 65 g/t gold returned from Kasele
- Initial rock chip sampling of Yargarma returning over 9 g/t gold
- Completed initial soil sampling program at Kasele (assays pending)
- High-resolution aeromagnetic survey over entire Yargarma and Kasele project areas commencing in February
- Completed $7.5 million divestment of non-core asset, the Mt Martin gold deposit
- Appointed experienced gold geologist and geophysicist, Benjamin Bell, as MD

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Australian Mines Limited ("Australian Mines" or the "Company") (ASX: AUZ) is pleased to provide shareholders its Quarterly Activities Report for the period ended 31 December 2011.

EXPLORATION SUMMARY OF NIGERIAN PROJECT AREAS

During this Quarter, Australian Mines announced its intention to focus its exploration efforts exclusively on the Company's 100%-owned Nigerian assets, which consist of 2,774 square kilometres of granted exploration licences within Nigeria's northwest goldfields.

Australian Mines firmly believes that Nigeria (Figure 1) has the potential to host gold deposits equivalent to those being discovered in neighbouring West African countries, due to the similarity of mineralisation being concentrated within, or proximal to, large shear zones. As one of the first international companies targeting mining within Nigeria, the Company is well placed to exploit its first mover advantage.

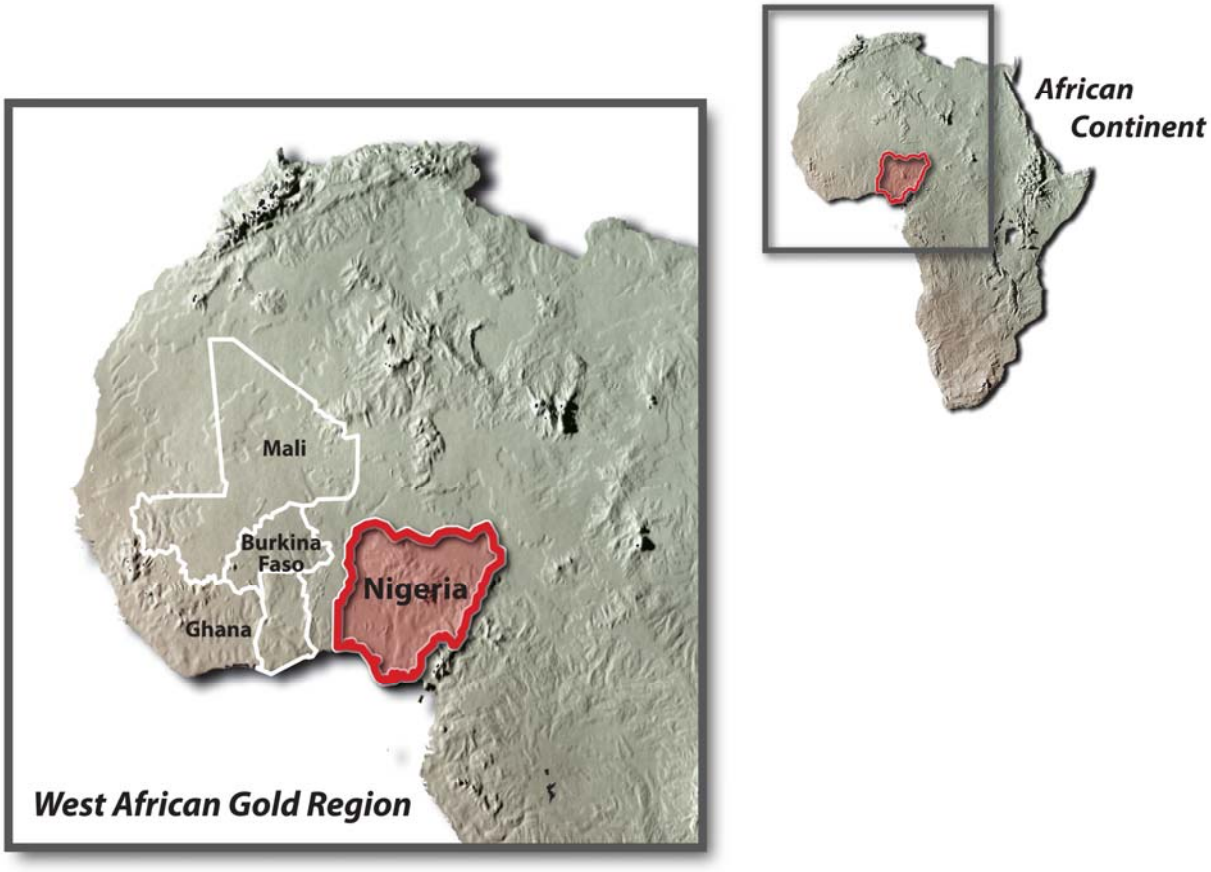

Figure 1: Position of Nigeria within the highly-endowed West African goldfields. Australian Mines holds a substantial tenement portfolio covering 2,774 km^2 of favourable gold geology across northwest Nigeria.

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Under the guidance of newly-appointed Managing Director Benjamin Bell, Australian Mines has defined four key project areas, which the Company is targeting through its accelerated exploration program; **Yargarma, Kasele, Kagara** and **Tsauni** (Figure 2).

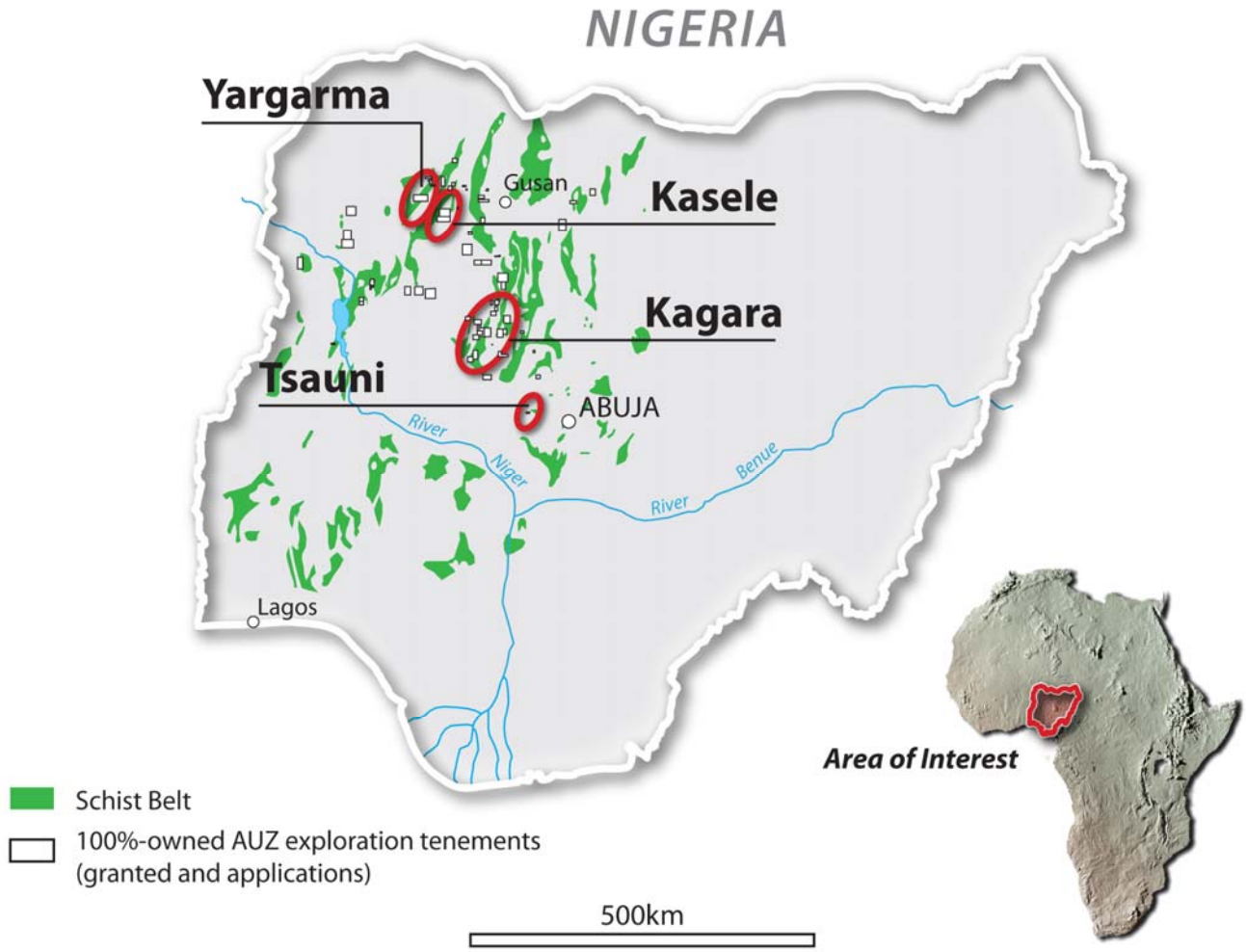

Figure 2: Location of Australian Mines' priority project areas within Nigeria's northwest goldfields. Artisanal workings are present across the Company's four key project areas, with the gold mineralisation appearing similar in style to deposits being discovered in neighbouring West African countries.

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Yargarma (AUZ 100%)

The Company's Yargarma project covers 172 square kilometres of highly-prospective ground, situated 350 kilometres northwest of Nigeria's capital city, Abuja (Figure 2).

Australian Mines' principal target within its Yargarma project is the northeast-trending regional shear zone that transects the entire project area and which is known to host gold mineralisation.

During this Quarter, seven separate artisanal working sites were recorded within the Company's Yargarma program area and which were all hosted within this regional shear zone.

In addition, rock chip sampling conducted by Australian Mines as part of its reconnaissance mapping program of the shear zone returned assays that included:

Assay (g/t Au)	Description	East	North
9.83	Quartz vein trending east-west	772969	1318240
3.57	Quartz vein on 340^0 structure	772941	1318231
7.45	Quartz vein on 020^0 structure	774086	1319483
1.43	Quartz vein on 340^0 structure	776292	1321162
6.49	Quartz vein on 340^0 structure	776461	1321668

Co-ordinates are in WGS84 UTMN Zone 31
All assays determined using Fire Assay by Intertek in Accra, Ghana.

A detailed soil sampling program also commenced over the Yargarma shear zone during the latter half of this Quarter. On completion in March, this survey will have covered an area of seven kilometres by four kilometres, with the Company having taken a total of 6,500 individual soil samples. To date, Australian Mines has collected 3,078 samples, which have since been sent to an assay laboratory in Ghana for gold and multi-element analysis. Assay results for these samples are currently pending.

Australian Mines also recently signed an agreement with airborne geophysical contractor, Aeroquest Airborne, for a high-resolution aeromagnetic survey to be flown over the entire Yargarma project area.

With a flight-line spacing of 50 metres and a nominal survey flight height of only 30 metres above the ground, this survey will enable Australian Mines to map the project area's geology with great precision. This survey is scheduled to commence in February with the final interpretation and modelling due to be delivered to Australian Mines in June 2012.

Kasele (AUZ 100%)

The Kasele project area is located approximately 300 kilometres northwest of Abuja and sits over a parallel shear zone to the Yargarma project area (Figure 2).

Kasele has already demonstrated its potential to host gold mineralisation with extensive artisanal works being observed by Australian Mines during the course of its field reconnaissance program (Figure 3).

Likewise, rock chip samples taken by the Company within the Kasele project area returned values up to an impressive 65 g/t gold (as shown below).

Assay (g/t Au)	Description	East	North
65.00	Quartz vein trending east-west	815372	1296910
2.27	Quartz vein on 020^0 structure	816392	1294975
6.95	Quartz vein on 020^0 structure	817902	1295607
3.68	Quartz vein on 020^0 structure	817923	1295669
2.02	Quartz vein on 020^0 structure	817992	1295809
7.14	Quartz vein on 020^0 structure	818044	1295957
4.58	Quartz vein on 020^0 structure	817691	1295466
7.35	Quartz vein on 020^0 structure	817765	1295300
3.85	Quartz vein on 020^0 structure	817935	1295695
2.27	Quartz vein on 020^0 structure	816392	1294975

Co-ordinates are in WGS84 UTMN Zone 31
All assays determined using Fire Assay by Intertek in Accra, Ghana.
Assay results exceeding 50ppm Au are measured to the nearest 1ppm Au.

Figure 3: An example of the artisanal working present within Australian Mines' Kasele project area. Estimated depth of the working as shown in this figure is 10 metres. The quartz veining that hosts the gold mineralisation may be seen in this image as swarms of white layers within the walls of the working. As illustrated in this image, primary (or bedrock-hosted) gold mineralisation outcrops on surface across many parts of the Nigerian goldfields.

Encouraged by gold grades returned from this initial rock chip sampling program, and increasing scale of the artisanal mines within Australian Mines' Kasele project area, the Company has similarly commissioned Aeroquest Airborne to fly a high-resolution aeromagnetic survey over the entire Kasele project. This will be completed immediately after the Yargarma survey.

This airborne geophysical survey should enable the identification of any additional gold targets within Kasele project area that Australian Mines can sample and prioritise prior to

the commencement of the Company's drilling program, proposed for the second half of this year.

During this Quarter, Australian Mines also completed a soil sampling program within the southeast of the Kasele project area. This sampling program, which comprised 1,863 soil samples, was designed to identify additional gold anomalies along the regional shear zone in the southeast of the project area. Assays from this geochemical sampling program are currently pending with the Company anticipating receiving these results in March.

Kagara (AUZ 100%)

Australian Mines' Kagara project area is located 130 kilometres northwest of Abuja and consists of 473 square kilometres (Figures 2 and 4).

A first-pass reconnaissance program combined with interpretation of the regional geophysical data has identified at least three distinct target areas within the Kagara project that warrant exploration.

One such target area is the laterally extensive northeast-trending regional shear, having similar geological and geophysical characteristics to the mineralised shear zones within the Company's Yargarma and Kasele project areas (Figure 4).

Given the potential of this project area, Australian Mines proposes to undertake further field mapping and sampling of the Kagara project area in the coming months.

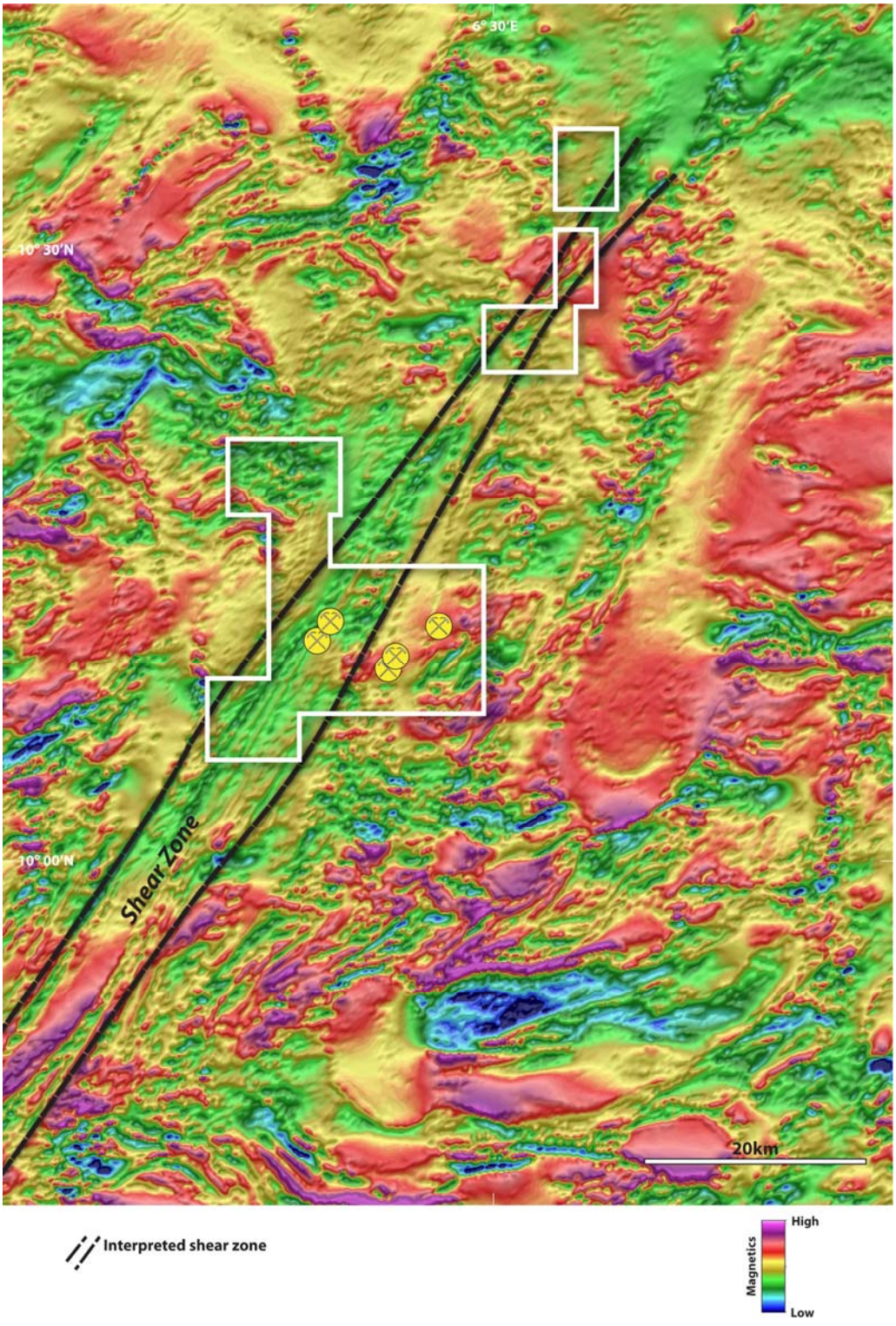

Figure 4: Interpreted position of the regional shear targeted by Australian Mines superimposed over the regional aeromagnetic (Total Magnetic Intensity or TMI) image of the Company's Kagara project area. Outline of Australian Mines' exploration tenements are shown in white. The style of gold mineralisation being targeted within Australian Mines' project areas, including Kagara, are typically concentrated within, or proximal to, large shear zones.

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Tsauni (AUZ 100%)

Another exciting project defined by Australian Mines, is the Tsauni project area, located only 20 kilometres west of Abuja (Figure 2), which is highly attractive for gold and base metal mineralisation.

A field reconnaissance program completed by the Company during this Quarter confirmed artisanal miners are extracting gold and silver from a series of workings within Australian Mines' Tsauni tenement.

The total length of these workings presently exceeds 600 metres to a depth of approximately 10 metres.

Whilst Australian Mines is presently awaiting the assay results of rock chip samples taken across this project area, the Company's geologists are sufficiently encouraged by their initial observations and mapping of this project area to commence planning a reverse circulation ("RC") drill program for Tsauni, which is anticipated to commence early in the second half of this year.

RE-EMERGENCE OF NIGERIA'S MINING SECTOR

For over half a century the African nation of Nigeria has been considered an attractive destination by the world's oil and gas companies. Global energy giants including Shell, Exxon-Mobil and Chevron have a long history of operating in Nigeria.

Nigeria's success as an international oil producer and exporter has been at the exclusion of almost all other minerals, including gold. Only recently has the country sought to address this imbalance in a bid to unlock the significant wealth potentially contained within the prospective mineralised regions outside Nigeria's southern oil fields.

The potential of uncovering a world-class gold deposit, much like those in nearby Burkina Faso and Ghana, is the driving factor behind companies such as Australian Mines undertaking systematic exploration of the region. The presence of extensive artisanal workings within ground held by Australian Mines only serves to strengthen the Company's position.

Gold Mineralisation within Nigeria

Nigeria lies within the extensive Pan-African mobile belt that separates the West African and Congo cratons. The geology of Nigeria is therefore akin to that of other West African countries where world-class deposits have been identified.

Nigeria, similarly, has a history of gold production dating back as far as 1913, with output peaking during the period of 1933-43 when approximately 3.2 million ounces of gold was produced.

The country's gold production declined during the Second World War when mines were largely abandoned. The discovery of significant oil reserves in the nation's south during the 1950s and the country's on-going success as an international oil producer, subsequently suppressed any resurgence within the gold sector of Nigeria over the next sixty years, despite the potential for large auriferous deposits in the region remaining high. During this time, exploration of Nigeria's goldfields has largely been limited to artisanal mining activities predominantly targeting the gold-bearing quartz reefs and associated alluvial deposits.

Recognising the absence of any systematic mineral exploration across the country, the Nigerian Government recently completed a regional-scale (500 metre flight-line) aeromagnetic and radiometric survey that included the prospective north-west goldfields. The specifications of this airborne geophysical survey were sufficient to permit mineral exploration companies, including Australian Mines, to readily map regional geological structures (shears) thought to be associated with gold mineralisation.

The regional and local controls of gold mineralisation within Nigeria, as well as other West African provinces, appear primarily to be structural.

Regional shears were most likely the main plumbing system that transported the gold-bearing fluids from deep within the earth. Gold deposits are thought to preferentially develop in clusters within bends along these regional shear zones or where these large-scale structures intersect 'second-order' faults. In Nigeria, the strike length of shear-hosted gold mineralisation is known to exceed one kilometre.

Nigeria's New Minerals and Mining Act

Mining of the country's abundant mineral resources is considered a very high priority for the Nigerian Government. It has acknowledged that successful exploration and exploitation of the country's mineral assets requires a level of both technical expertise and financial strength that to a large extent can be provided by foreign investment capital.

In a bid to boost its position as an attractive destination for mineral exploration companies, Nigeria has recently completed a substantial review of its mining code and mineral titles, which has been largely driven by President Goodluck Jonathan. Under the new *Minerals and Mining Act 2007*, the Mining Cadastre Office ("MCO"), an independent statutory agency grants all mineral titles on an objective, time-prioritised basis.

In effect, Nigeria has derived elements of its reformed mining code from that of Chile (one of the most forward-thinking nations in South America) which was originally adapted from Australian mineral law. This process has thrust Nigeria to the forefront of international best practice.

The MCO must grant, on the 'use it or lose it' principle, a mineral title in the form of an exploration license to any qualified applicant within a maximum of 45 days.

The duration of an exploration licence within Nigeria is three years, renewable for two further periods of two years each, provided that the title-holder has complied with minimum work commitments

Having defined an ore body within an exploration licence, the MCO shall issue a mining lease to the tenement holder within 45 days. The duration of a mining lease is 25 years, renewable every 20 years, provided that the holder has complied with minimum work.

A major advantage for companies like Australian Mines operating in Nigeria is the favourable taxation regime provided to foreign mining companies under the Minerals and Mining Bill. Royalty payments are relatively low being less than 5% and Nigeria's corporate tax rate is a competitive 35% of net profit. Mining companies are exempt from all other Nigerian taxes.

SUMMARY OF AUSTRALIAN PROJECTS

On 4th October 2011, Australian Mines announced that the formal Tenement Purchase Agreement ("TPA") relating to the $7.5 million divestment of the Company's non-core asset, the Mt Martin gold deposit in Western Australia, was successfully executed.

The binding TPA provides for the acquisition of the Mt Martin gold deposit and its associated leases by HBJ Minerals Pty Ltd, a wholly-owned subsidiary of Alacer Gold Corp. (TSX: ASR, ASX: AQG).

Under the terms of the TPA, the payment of the purchase consideration of $7.5 million is as follows:

1. Deposit of $0.25 million, which the Company has received
2. First instalment of $2.25 million, which Australian Mines also received this Quarter
3. Second instalment of $2.5 million payable on 29 June 2012
4. Third instalment of $2.5 million payable on 28 June 2013

The Australian assets covered under the TPA do not include the Golden Ridge tenements (other than the southern portion of E26/139), where Australian Mines continues to control 100% of the gold rights, in addition to 44% of the nickel rights through the Golden Ridge Joint Venture with Pioneer Resources.

This sale also does not include the Blair Nickel Mine (AUZ 100%) and associated infrastructure or the Marriott's nickel-sulphide resources near Kalgoorlie in Western Australia.

CORPORATE

During this Quarter, the Company appointed Mr Benjamin Bell as Chief Executive Officer effective 14 November 2011 and was subsequently appointed to the Company's Board of Directors as Managing Director in January 2012. Previously Mr Bell was CEO and Director of ASX-listed explorer Ausgold Limited (ASX: AUC), where under his stewardship, Ausgold successfully identified the Katanning Gold Discovery in Western Australia and subsequently grew the share price from $0.14 to a high of $1.79 within one year.

Mr Bell is a geologist and geophysicist with over 15 years' experience in the mineral industry, including 10 years in gold exploration. He has held senior roles within a number of ASX-listed exploration companies and has Bachelor of Science (Macquarie University), a Masters of Mineral Exploration Technologies (Curtin University of Technology) and a Master of Business Administration (University of Wollongong).

*****ENDS*****

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Competent Persons Statement

The information in this report that relates to the Nigerian Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Benjamin Bell, who is a Member of the Australian Institute of Geoscientists. Mr Bell is the Chief Executive Officer of Australian Mines Limited. Mr Bell has sufficient experience relevant to this style of mineralisation and type of deposit 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 Bell consents to the inclusion in this report of the matters based on his information in the form and context in which is appears.

The information in this report that relates to the Australian Exploration Results, Mineral Resources or Ore Reserves is based on information compiled by Mr Mick Elias, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Elias is a director of Australian Mines Limited. Mr Elias has sufficient experience relevant to this style of mineralisation and type of deposit 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 Elias consents to the inclusion in this report of the matters based on his information in the form and context in which is appears.

About Australian Mines:

Australian Mines (ASX: AUZ) is an Australian-listed resource company targeting gold and base metals.

Australian Mines' key asset is its extensive 100%-owned tenement holding in Nigeria's northwest gold province that contain similar geology to the better known gold producing countries of Ghana, Cote d'ivoire and Burkina Faso – where a combination of advanced exploration and development programs is leading to rapidly expanding output.

Nigeria has a history of gold production and the majority of Australian Mines' tenements contain historic artisanal workings.

The Nigerian Government, which is democratically elected, is actively encouraging foreign investment into the country's mineral sector. The Nigerian *Minerals and Mining Act 2007* guarantees security of tenure and the right of explorers to convert Exploration Licences into Mining Leases following the delineation of an ore resource.

Australian Mines has commenced systematic exploration of its highly-prospective Yargarma, Kasele, Kagara and Tsauni project areas, with this program being fully-funded through to 2014.

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