



QUARTERLY REPORT ON ACTIVITIES FOR PERIOD ENDED 30 SEPTEMBER 2011

Australian Mines Limited ('Australian Mines', 'AUZ' or 'the Company') is pleased to provide its quarterly report for the period ended 30 September 2011.

HIGHLIGHTS

AUSTRALIA

- Australian Mines entered into a binding agreement to sell Mt Martin Gold Mine and associated tenements for \$7.5m.
- Funds will be used to further expedite exploration in Nigeria.
- Discussions are continuing with interested parties for the sale of the Company's remaining Australian assets, including the Blair Nickel mine and associated gold tenements as well as the Marriott's nickel project.

CORPORATE

- Completed acquisition of 100% of Nigeria Gold Pty Ltd.
- Based on the shares currently on issue, the \$7.5m amounts to 1.2 cents per share.

EXPLORATION NIGERIA

- High-grade gold assays returned from the extension of the Kasele (EL 9447) soil grid include 350, 480, 650, 1060, and 1420 ppb Au in soil; new rock chip sampling results include 2.90 g/t Au and 5.18 g/t Au.
- A further six artisanal workings have been discovered on the Kasele Licence (EL 9447). Rock chip sampling from these returned gold assays ranging from 0.51 to 168.00 g/t Au.
- A new soil grid on the Kasele licence called Baruba has commenced, and 894 soil samples have been taken to date.
- During reconnaissance mapping two large artisanal workings were discovered south of Kasele. This area, called Dogonrami (ELA 12284) has been applied for.
- In the Yargarma Licence (EL 8732) two areas of artisanal workings have been located. These are Dogondagi (6 workings) and Yargarma (5 workings); rock chip sampling from these returned gold assays ranging from 0.51 to 9.83 g/t Au.
- In the Kagara area small alluvial gold workings were found in the headwaters of drainage systems on the Hanawanka (EL 8591) and Ogu (EL 8585) licences. These could indicate a proximal source for primary gold.

EXPLORATION AUSTRALIA

- The exploration program for the December 2011 quarter includes reconnaissance aircore drilling of geochemical and magnetic targets.



\$7.5M DIVESTMENT OF MT MARTIN

AUZ entered into a binding agreement ('Agreement') for the sale of Mt Martin and associated leases for \$7.5m, to HBJ Minerals Pty Ltd, a wholly owned subsidiary of Alacer Gold Corp. (TSX : ASR, ASX: AQG).

The terms of the Agreement and the payment of the purchase consideration of \$7.5m are as follows: -

1. Deposit of \$250,000, which has already been paid
2. First instalment of \$2.25m payable at the earlier of completion of the sale or within 30 days from 30 September 2011.
3. Second instalment of \$2.5m payable on 29 June 2012
4. Third instalment payable \$2.5m on 28 June 2013

The leases included in the Agreement are East Location 45, including two associated leases M 26/464, M26/132, Duplex Hill (Woodline Project) and the southern portion of E26/139.

The Agreement does not include the Golden Ridge tenements (other than the southern portion of E26/139), where AUZ controls 100% of the gold rights, in addition to 44% of the nickel rights through the Golden Ridge JV with Pioneer Resources (56%). The sale also does not include the Blair nickel mine (AUZ 100%) and associated infrastructure or the Marriott's nickel project.

The Agreement is conditional on obtaining the required Government and Lessor approval to transfer the Mt Martin Gold Mine and its associated leases. Government approval has already been received and the Directors are confident the conditions will be met and the transaction will be completed as planned. If the transaction does not complete within 6 months, then unless the parties agree to extend, any consideration received is refundable.

COMPLETION OF THE ACQUISITION OF 100% OF NIGERIA GOLD.

The Company completed the acquisition of the final 19% of Nigeria Gold Pty Ltd. ('Acquisition'). Thus far 60m of a possible 120m shares have been issued in respect of the Acquisition.

The directors of Nigeria Gold Pty Ltd and the independent directors of AUZ are seeking legal advice regarding the achievement of the Milestones and the issue of shares for the Acquisition. Potentially a further 60m shares could be issued as full and final settlement. Depending on the outcome of the legal advice the total number of AUZ shares on issue will be either 696,910,317 if it is deemed the Nigeria Gold Milestone has been achieved, or 636,910,317 if it is deemed the Nigeria Gold Milestone has not been achieved.

Based on the above possible share numbers, the \$7.5m proceeds from the sale of Mt Martin on per share basis are either 1.1 or 1.2 cents/share respectively.



NIGERIA

AUZ holds an extensive tenement portfolio of 53 approved Exploration Licences ('ELs') spanning 2,774 km² covering prospective gold areas on and adjoining the schist belts in northwest Nigeria, including the Anka, Maru and Birnin Gwari belts (Figure 1). The Company holds a further 12 Exploration Licence Applications ('ELAs') covering an area of 1,026 km². AUZ recently leased premises in Abuja which is being utilised as the company's head office in Nigeria and accommodation for expatriate staff.

During the period work was undertaken in three regions of northwest Nigeria, these being the Anka, Birnin-Gwari, and Yauri regions (Figure 1). Field work was suspended on the 11th August due to the onset of heavy rains. The company is excited by the results of the initial surface exploration results on our project areas.

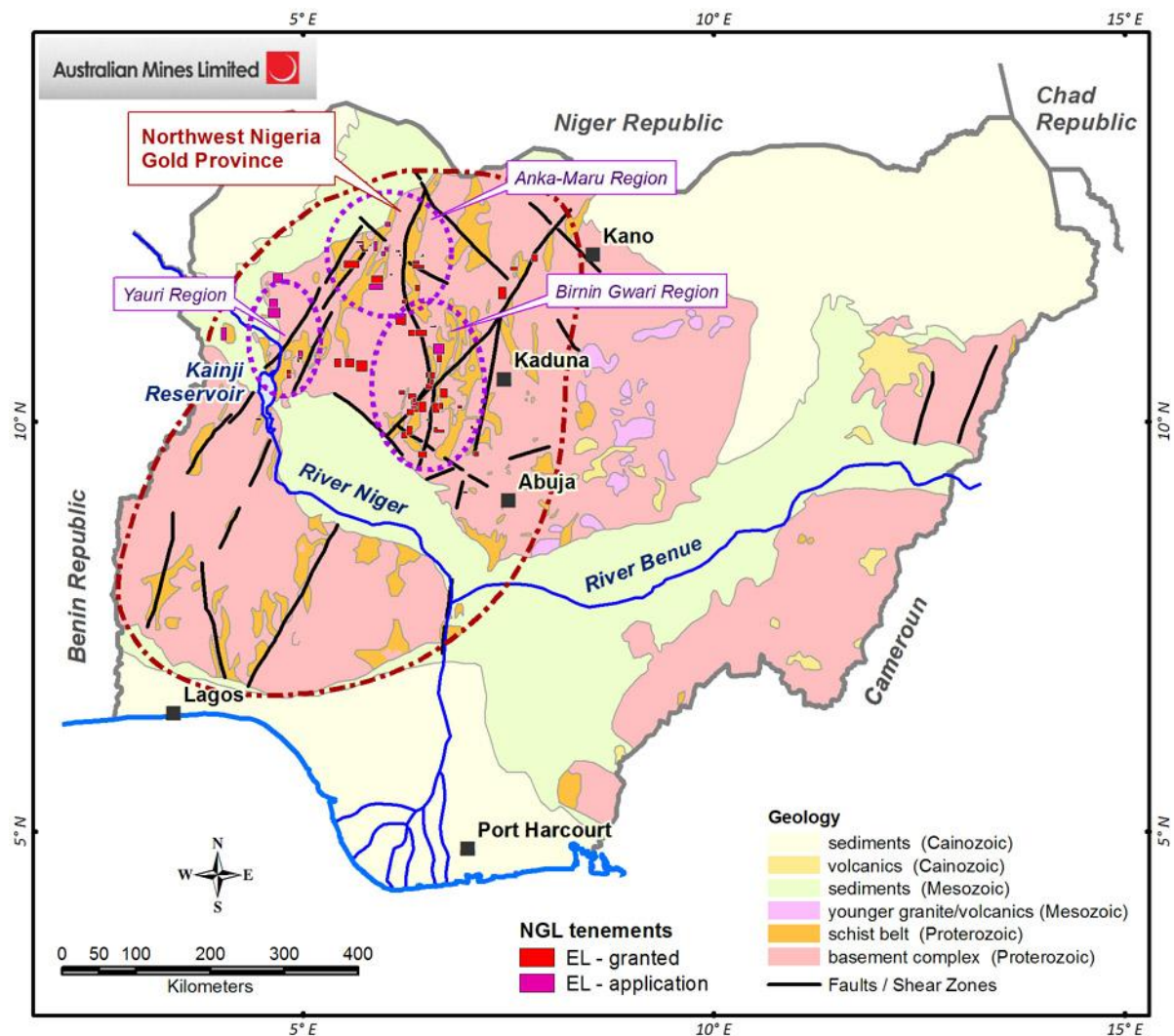


Figure 1 – Simplified Nigerian Geology Map overlain by the Company's Tenements



ANKA - MARU REGION

Anka is located approximately seven hours drive north of the federal capital of Abuja. AUZ's 13 ELs in the Anka-Marú region cover 502 km² while the 6 ELAs extend over a further 290km². The Company considers this region to be its highest priority for exploration, with several historic British gold mines which were mined circa 1930's, which demonstrate significant potential.

During the quarter work was undertaken on three granted exploration licences - Kasele (EL9447), Yargarma (EL 8732) and Damsaralan (EL 9451), in addition work was also undertaken on exploration application Dogonrama (ELA 12284).

KASELE LICENCE (EL 9447)

During the quarter the Kasele soil grid was completed, a new grid at Baruba was commenced, airborne data was interpreted and mapping was undertaken.

Interpretation of Airborne Data

Interpretation of the aeromagnetic and satellite imagery indicates two main structures - a shear zone that trends at about 020 (Baruba shear zone) which contains the Baruba and Dogonrami workings. The second structure trends 340 and the two Kasele south workings occur on this structure. The two large workings in the Dogonrami licence occur at the intersection of these two structures.

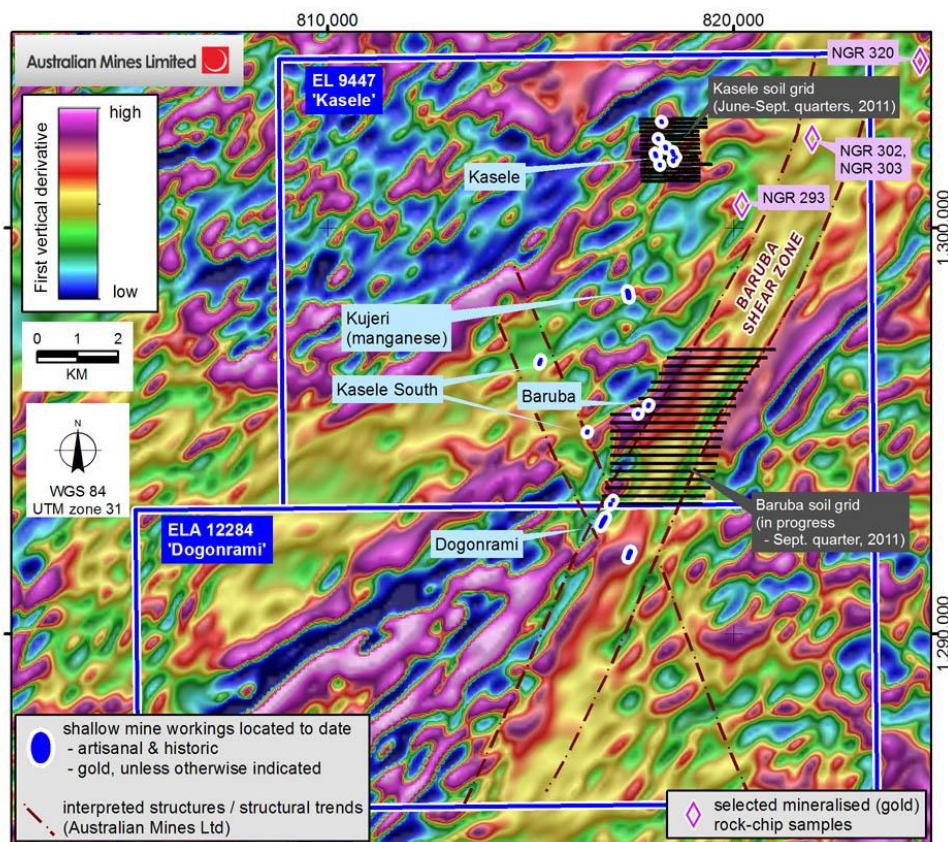


Figure 2 – Aeromagnetic (1VD) Map of Kasele and Dogonrami Licences showing soil grids and artisanal workings.



Kasele soil grid

At Kasele, grid samples were taken at 20m intervals on EW lines on a NS line spacing of 100m. During the quarter the grid was extended 300m north and 200m south, and 385 new samples were taken. A total of 1120 samples have been taken to date and the grid covers an area of about 1.5 × 1.5km.

Best results from the soils include:

- **1420, 635, 523, 151 & 70 ppb gold**, in the NE part of the grid.
- **1060, 535, 504, 446, 280, 141, 136, 121 & 86 ppb gold** in the SW of the grid.
- **137, 106, & 83 ppb gold** in the central workings area.
- **650, 480, 350, 69, 65 & 64 ppb gold** in the SE part of the grid.

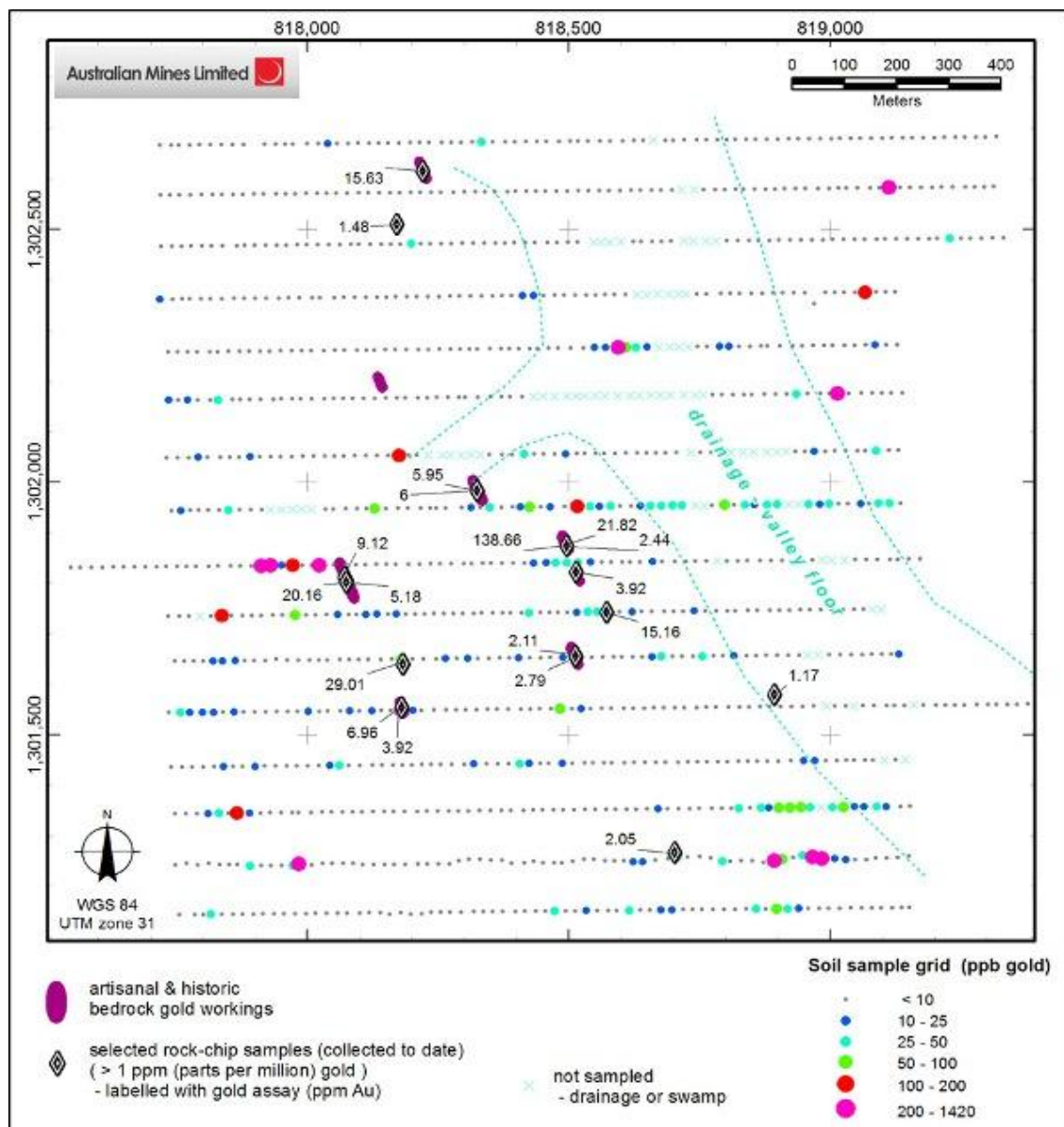


Figure 3 – Kasele sampling grid showing soil samples (ppb Au) and also highlighting selected rock chip samples (ppm Au)



Rock chip sampling was undertaken on the grid. Results of the best samples are shown in figure 3. The best 19 samples gave values above 1 g/t Au ranging from **1.17 to 138.66 g/t Au**, most of which were from quartz veins. However the highest and lowest values were from silicified and brecciated wall rock.

Results of previous sampling

During the quarter, assays were received for rock chip samples taken during reconnaissance mapping in the NE part of the Kasele licence in June. Of 30 samples taken, four returned significant assays (Fig 2), confirming the presence of gold mineralisation in this highly prospective corner of the Kasele licence. NGR 293 returned 2.9 g/t Au and was weakly anomalous for copper and lead. NGR 302 (within the Baruba shear zone) returned 5.18 g/t Au.

Baruba soil grid

The Baruba soil grid is located in the south east of the permit and overlies a NNE –SSW trending shear zone indicated by aeromagnetic, satellite imagery, and field mapping. Samples are being taken at 40m intervals on EW lines at a spacing of 200m. To date, 894 samples covering 2.6 km x 2.5 km area have been taken and the Company is currently awaiting results.

Licence Mapping

During the quarter mapping located a number of new mineral occurrences, these include a manganese working and six gold workings described in the table below:

Working Name	Description	Sample Results
Kujeri Manganese working	A 20m deep, 200m by 30m open pit mine that is located in the centre of the licence (Figure 3). There is evidence that a backhoe was used to dig this excavation which previously was an illegal but commercial manganese operation.	
Baruba working 1	This 20m long working trends at 020 and is located in the Baruba soil grid.	0.21 g/t Au from quartz vein and 0.51g/t Au from wall rock schist.
Baruba working 2	This 60m long working trends at 020 and is located within the Baruba soil grid	6.94 g/t Au in quartz vein and 2.87g/t Au in wall rock schist.
Kasele South working 1	A 110m long oval working, with mineralisation occurring in pods of white quartz vein at an intersection of 020 and 340 trending structures.	0.51 g/t Au from quartz vein and 0.54 g/t Au from iron (Fe) rich schist.



Kasele South working 2	This is a 40m long working. The mineralisation occurs in a pod of white quartz vein that is trending at 020 and dipping 70E.	0.42 g/t Au from Fe rich schist and 2.27 g/t Au from quartz vein.
Dogonrami North working 1	40m long working trending at 020, is located in the Baruba shear zone.	17.20 g/t Au
Dogonrami North working 2	This 20m long working trends at 020 is also located in the Baruba shear zone	A sample of ferruginous schist from the working returned 168.00 g/t Au



Photo 1 – Dogonrami North working 2

DOGONRAMI LICENCE (ELA 12284)

During mapping in the Kasele area, AUZ identified two artisanal workings just outside the southern boundary of the licence in an area known as Dogonrami. Due to Dogonrami being located within the southern extension of the Baruba shear zone and the favourable structures demonstrated in the aeromagnetics, the Company applied for the EL covering this area in August.



Working Name	Description
Dogonrami Main working	This working is along strike from Dogonrami 1 and 2. The combined strike of the three Dogonrami workings is 650m, the working is currently 270m long and about 8m deep. Due to safety reasons, it has not been possible to sample this working to date but the extent of the working suggests the potential for high grade mineralisation.
British workings	This working is located about 1 km southeast of Dogonrami Main. The working is also in the shear zone and is reputed to have been worked by the British in colonial times. The working is 110m long and consists of five 2m wide parallel stopes over a width of about 40m that trend at 020. Quartz vein and sheared meta-sediment were mined.

YARGARMA LICENCE (EL 8732)

The Yargarma licence was granted in April 2011 and a review of the geophysical and satellite maps indicates that this tenement has excellent potential due to two branches of the prolific Anka schist belt passing through the licence.

During reconnaissance mapping, artisanal workings were located and sampled. It is important to note that only a very small part of licence was covered by this preliminary mapping and that a large part of the licence is underlain by schist belt rocks, demonstrating significant upside.

The artisanal workings located to date are grouped in two areas - Dogondagi in the northeast and Yargarma in the west.

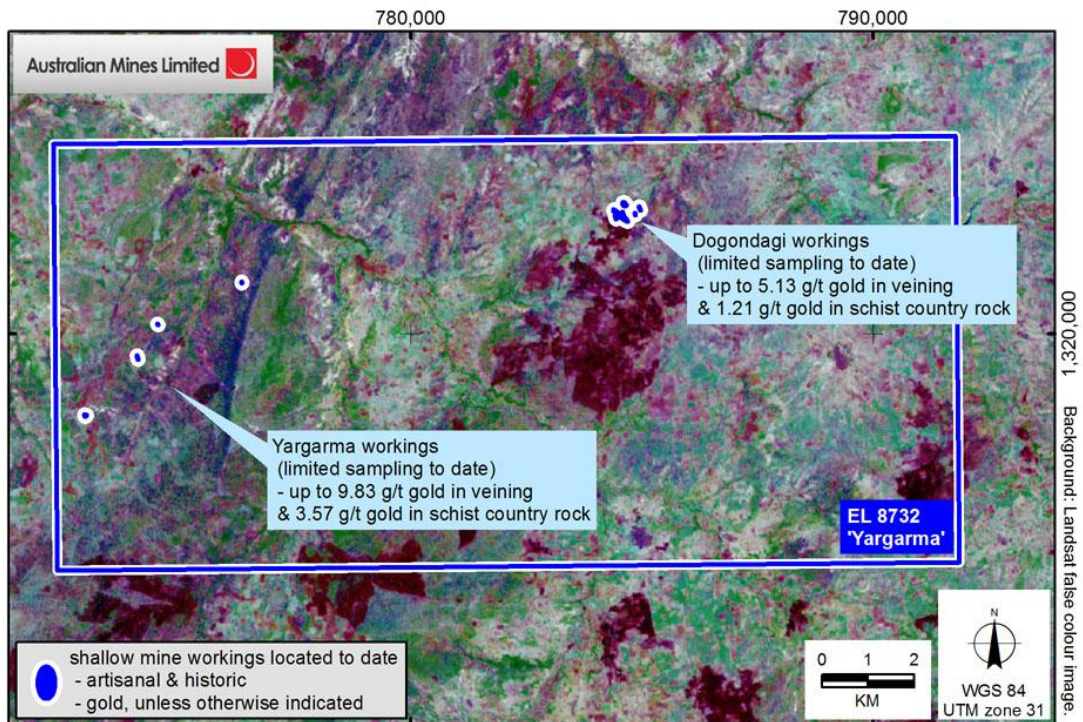


Figure 4 – Satellite Image of Yargama Licence showing location of artisanal workings

Dogondagi Area Workings

This is an area of workings covering approximately 400m X 400m. There are five parallel zones of hard rock workings ranging in length from 50m to 360m and striking at 340 with a separation of approximately 100m between them. There is a sixth zone of colluvial workings to the northwest of the hard rock workings. The hard rock workings are described from east to west below:

Working Name	Description	Sample Results
Dogondagi 1	This 100m long active working trends at 340 and dips 70E. The 3m deep working is on a quartz vein within country rock of black quartzite that sometimes contains pyrite.	0.62g/t Au in quartz vein and 0.08 g/t Au in pyritic quartzite.
Dogondagi 2	This is a 50m long and 4m deep active working that trends at 340 and dips 70E.	0.62 g/t Au in brecciated schist country rock and 5.13 g/t Au in banded grey and pink quartz.



Dogondagi 3	This 110m long and 4m deep abandoned working trends at 340 and dips 70E. The working is on a quartz vein within country rock of basalt.	0.41 g/t Au from banded quartz in the dump.
Dogondagi 4	This is a 360m long NW-SE trending continuous zone of workings on an echelon quartz veins in basalt that strike 340 and dip 80W. The workings were abandoned at a depth of 4 – 6m due to caving and/or water issues; therefore only the waste dumps could be sampled.	Samples of quartz vein from the dump gave 0.26 g/t Au and 0.84 g/t Au , and the Company suspects that due to the size of the workings, the actual mined grades are higher.
Dogondagi 5	This 80m long and 4m deep abandoned working trends at 340 and dips 70W, and is on a quartz vein within country rock of silicified schist.	0.16 g/t Au in quartz vein and 1.21 g/t Au silicified schist country rock.
Dogondagi Colluvial Workings	This area of colluvial workings is to the NW of Dogondagi 4 and is about 100m long and 50m wide and possibly overlies an extension of the Dogondagi 4 bedrock mineralisation.	Samples of quartz vein rubble gave 1.39 g/t Au and 0.51 g/t Au



Photo 2 – Dogondagi 4 Artisanal working



Yargarma Area Workings

The Yargarma workings cover an area approximately 3km X 2km in the western part of the licence and include the five small workings identified to date with dimensions of 30m to 100m.

Working Name	Description	Sample Results
Yargarma 1	This 30m long working trends at 340 and is on a quartz vein in schist	A sample of glassy white quartz vein gave 1.37g/t Au .
Yargarma 2	This 100m long working trends at 340. A 15m deep shaft has been excavated to access the quartz vein in schist that is being mined	A sample of glassy white quartz vein gave 3.36 g/t Au .
Yargarma 3	This 60m long working trends at 340 and is on a quartz vein in schist.	Samples from this working returned 1.43 g/t Au, 1.43g/t Au and 0.39 g/t Au from quartz vein.
Yargarma 4	This 60m long working trends at 340 and is on a series of en echelon quartz veins in a silicified and brecciated schist.	Samples from this working returned 0.51 g/t Au in quartz vein and 3.57g/t Au in silicified and brecciated schist.
Yargarma 5	This 40m long working trends at 270 and is on a quartz vein in schist	Sample of quartz vein in schist 9.83 g/t Au

Of geological interest are the Dogondagi 2 and Yargarma 4 samples of auriferous brecciated schist country rock with assays of 0.62 g/t Au and 3.57g/t Au respectively, and the Dogondagi 5 silicified schist country rock which gave 1.21 g/t Au. These results increase the potential of the area as they demonstrate that gold mineralisation is not limited to the quartz veins.

Future Developments

It is proposed that soil sampling will be undertaken over the Dogondagi and Yargarma areas after the wet season rains finish in October 2011. The remainder of the licence will be mapped.

DAMSARALAN LICENCE (EL 9451)

Since the Damsaralan licence was granted in June 2011, AUZ has conducted two reconnaissance trips. A borrow pit next to the main road was investigated and boulders of magnetite gneiss were observed. Samples of these returned some very high Fe assays ranging up to 57.5%:



Sample	Description	Sample Results
NGR 333	Centimetre-scale iron veinlets were selectively sampled	55% Fe
NGR 334	Gossanous lateritised float within a very intense shear/alteration zone	57.5% Fe and 0.06% copper
NGR 335 & 336	Bedrock samples from small pits, and could therefore represent greater width	52 & 30% Fe
NGR 337	A 2m wide sample from solid magnetite bedrock	The most significant result was 42.4% Fe

The location of the samples was within an intense magnetic anomaly approximately 2km in diameter. The presence of very intense shearing and hydrothermal alteration of the bedrock, high-grade magnetite mineralisation, and associated anomalous copper mineralisation in the vicinity of such a magnetic anomaly suggests that this is a significant target for a follow-up exploration.

Old workings, of 200m X 50m were located west of the sampled area. They are most likely iron workings as >50-year-old smelting sites with iron slag were also found.

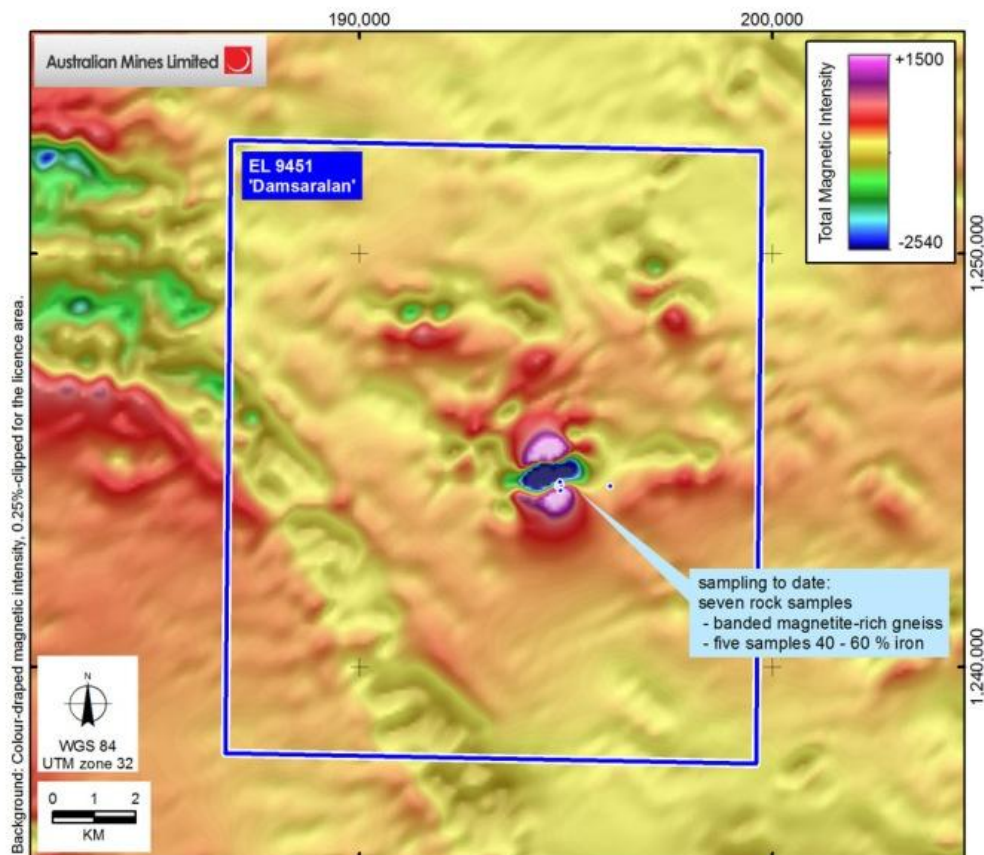


Figure 6 – Aeromagnetic Map of Damsaralan Licence showing location of Iron mineralization



BIRNIN – GWARI REGION

The Birnin – Gwari region is located three to five hours drive north of Abuja. AUZ's 28 ELs in the region cover 1,517 km². The Company has undertaken reconnaissance work in the Kagara area. The main areas of interest are listed below.

KAGARA AREA

There is no history of artisanal gold mining in this area. However limited reconnaissance work carried out by AUZ indicates that the area demonstrates high potential for gold mineralisation.

Reconnaissance work was undertaken on seven exploration licences in this area during the year: Makeri (EL 8586), Guga (EL 9629), Hanawanka (EL 8591), Ogu (EL 8585), Sakaba (EL 8743), Zungeru (EL 9013) and Lua (EL 9014). Interpretation of airborne data, including aeromagnetics, radiometrics and satellite imagery, from this area indicates that the radiometrics clearly distinguish areas of schist belts from granitic areas.

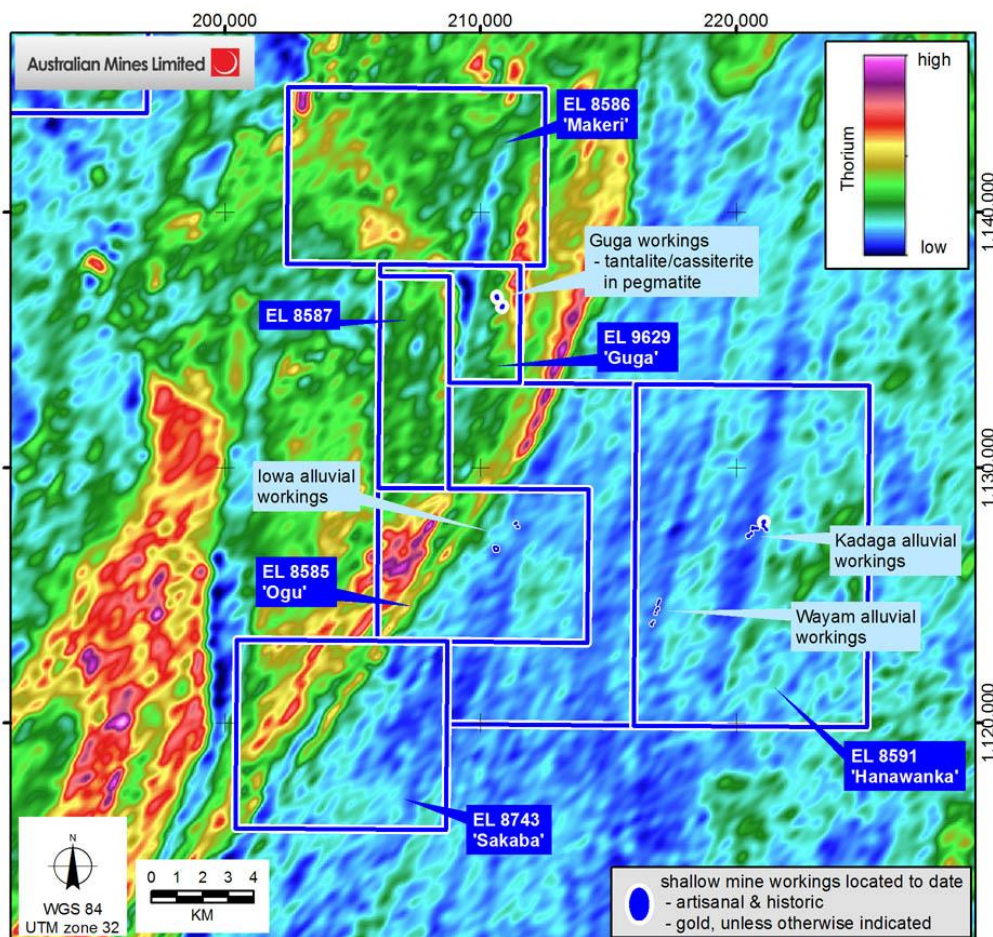


Figure 8 – Radiometric Map (Thorium) of Kagara Area showing location of alluvial workings. Schist belt meta-sediments have low-level response (blue) and granites have high thorium (red and green)



MAKERI LICENCE (EL 8586)

A short traverse was made over this licence and examination of the radiometrics indicates that the majority of this area is underlain by granite. However there is possibly of a small inlier of schist present in the east of the licence.

GUGA LICENCE (EL 9629)

Three small artisanal workings were located on this permit - two for tantalite and one for cassiterite as follows.

Working Name	Description
Guga 1	This working is 80m long and 2-4m deep, striking at 340. A tantalite-bearing quartz-feldspar-muscovite pegmatite intruded into granite is currently being mined.
Guga 2	This working is 20m long and about 2-4m deep striking at 340. A similar pegmatite to Guga 1 intruded into granite is also being mined.
Guga 3	This working contains a small number of pits where rubble of cassiterite-bearing quartz-feldspar-muscovite pegmatite has been found.

HANAWANKA LICENCE (EL 8591)

The licence is underlain by schist belt meta-sediments and small-scale alluvial workings were discovered in two areas - Kadaga and Wayam. The Company believes that the size of some of the streams (less than 2m wide) could indicate a local source for the primary gold.

An area of small hard rock workings in iron-rich biotite schists was also discovered at Kadaga. It is believed that local artisanal miners have recovered gold from these workings. AUZ is still awaiting results from sampling in this area.



Photo 2 – Alluvial working in small stream at Ogu

OGU LICENCE (EL 8585)

This licence is underlain by granites in the north-west and schist belt meta-sediments in the south-east. A number of alluvial gold workings were discovered in the area north of Ogu village. The largest working is located on the main Iowa River and the source of the gold could be distant. There are also workings in small tributaries of the Iowa and the size of these streams (1 – 2m wide) suggests a localised source for the primary gold.

YAURI REGION

The Yauri region is located 5 hours drive northwest of Abuja. AUZ's four ELs in the region cover 78 km², with three ELA's covering a further 450 km². Reconnaissance work has been carried out on the following three ELs: - Laka (EL 1033), Izalo (EL 1127) and Isana (EL s8582). The results from the main tenements of interest are highlighted below.

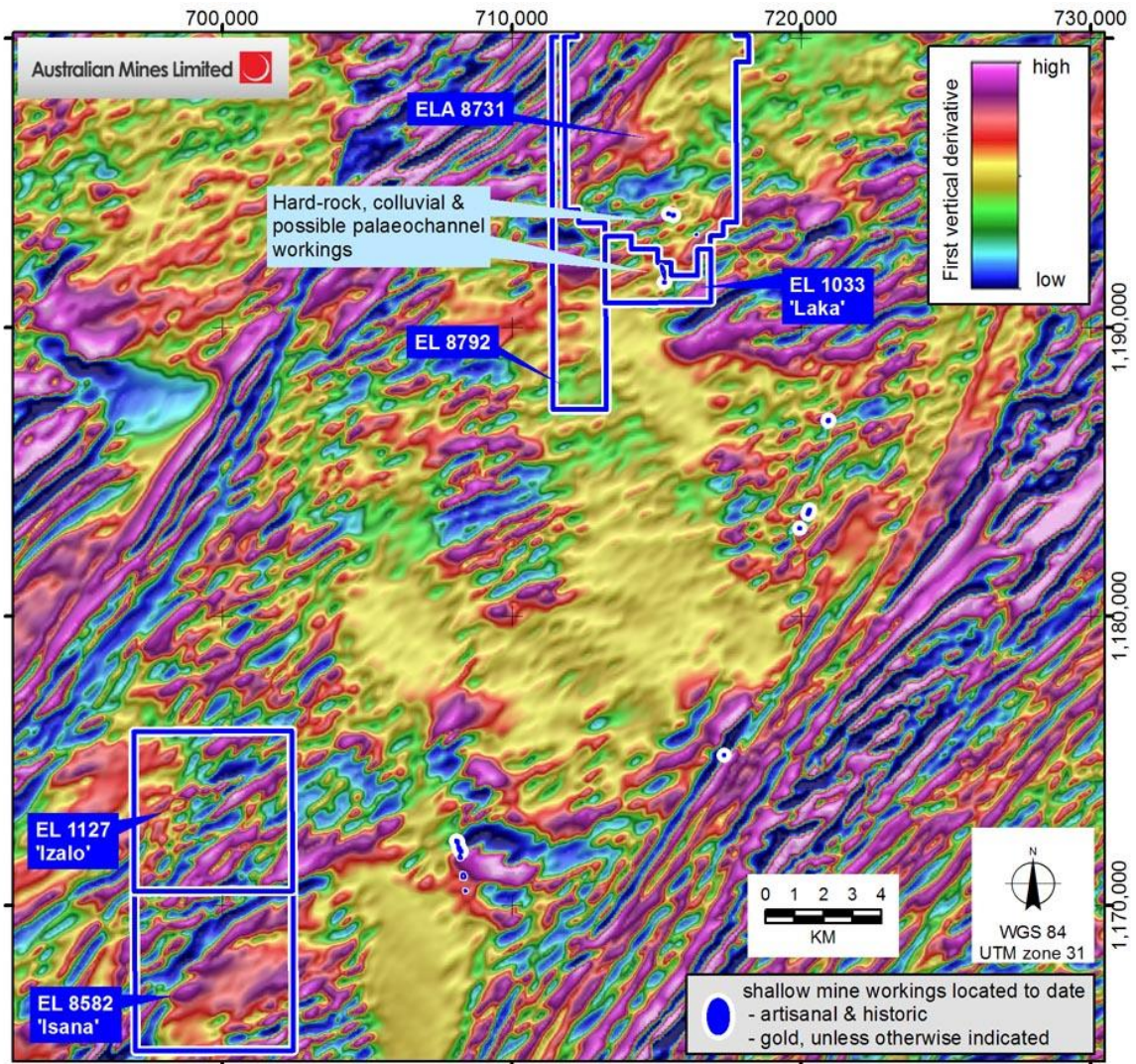


Figure 9 – Aeromagnetic (IVD) Map of the Yauri Area showing location of artisanal workings.



LAKA LICENCE (EL 1033)

The Laka licence is located to the south of AUZ's ELA 8731, which is underlain by schists. There are extensive colluvial/palaeo-alluvial workings and one small hard rock working was also located.

Working Name	Description
Hard rock working	This 15m long working, a quartz vein that strikes 020 and dips 70W, has previously been mined.
Colluvial/palaeo-alluvial workings	These extensive workings cover a large area and it is suspected that the workings are on a palaeo-channel of a large river to the south.

IZALO LICENCE (EL 1127)

This licence is mainly underlain by schists with a small area of granite in the northwest. No artisanal workings have been reported in the area, however a small outcrop of quartz vein with associated low grade manganese was observed.

AUSTRALIA

GOLDEN RIDGE NICKEL JV PROJECT:

Pioneer 56%, Australian Mines Limited 44%. Each Company contributes to exploration expenditure on a pro-rata basis. The Golden Ridge Nickel JV Project is located 30km SE of Kalgoorlie and is prospective for nickel sulphide deposits.

EM surveys generate drill anomalies: The results from the recent SAMSON EM surveys at Golden Ridge interpretation include:

- a relatively discrete late-time zone of enhanced conductivity within a stratigraphic anomaly. The anomaly is confined to an area of 200-300m, and may represent a highly conductive target sitting adjacent to the regional stratigraphic conductor.
- a previously undetected conductive body near A36-38_6 which shows as a late-time response in the SAMSON slingram dataset, but is not evident in the earlier datasets.

Pioneer's consultant geophysicist has recommended drill holes to test these targets.

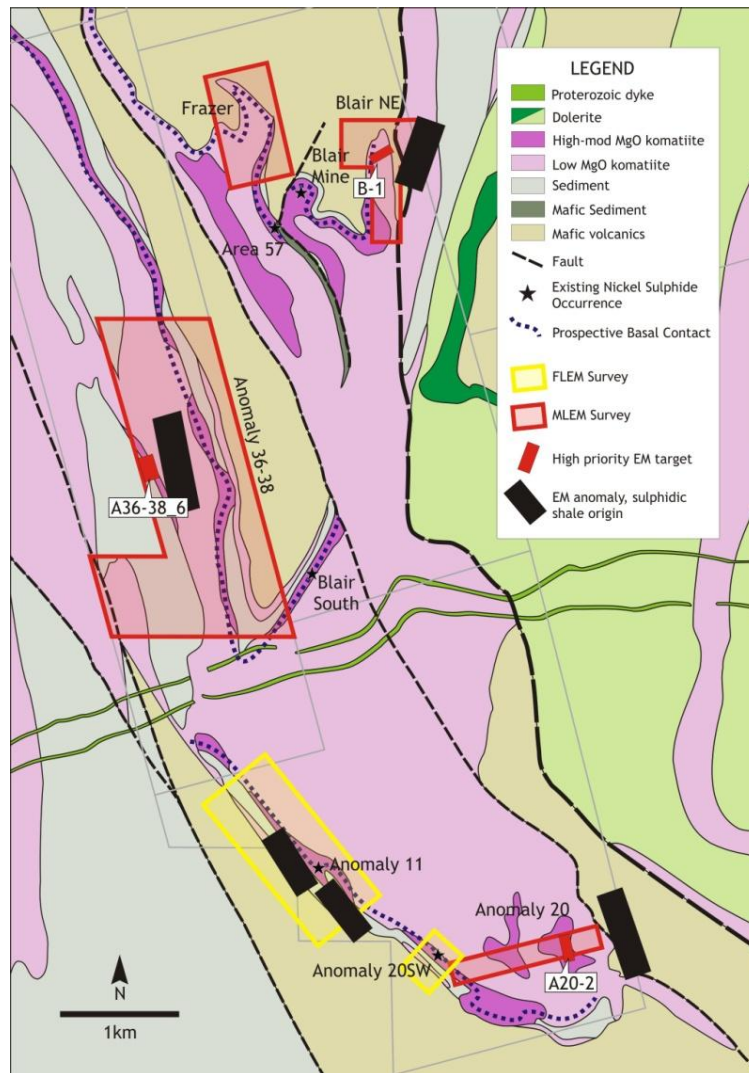


Figure 3. Golden Ridge JV Project, showing areas of EM surveys, conductive sediments (black) and priority EM targets (solid red)

Future Developments

The exploration program for the December 2011 quarter includes traverses of reconnaissance aircore drilling. These will target geochemical and magnetic targets.

*** ENDS ***



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The information in this report that relates to Exploration Results and Mineral Resources 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 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". Mr Elias has consented to the inclusion of the information in the form and context in which it appears.