



**QUARTERLY REPORT ON ACTIVITIES
FOR PERIOD ENDED 30th SEPTEMBER 2010**

HIGHLIGHTS

- A preliminary cutback design has been completed on the Mt Martin open pit indicating a profitable cutback producing approx 50,000 ozs of Au at A\$1,350/oz under various treatment and haulage options.
- Swift resource modelling indicates that it would be a profitable to mine approx 5,800 ozs Au at the Swift pit which is adjacent to Mt Martin.
- Further exploration drilling will be undertaken on the shallow East Shear North lodes to prove up more ore in support of the Mt Martin cutback.
- The Company is seeking treatment arrangements for Mt Martin gold mine.
- New updated Mt Martin Indicated and Inferred Resources reported of 4.0m tonnes at 2.0 g/t for 264,500 ozs of Au at a cut off grade of 0.5 g/t.
- Exploration work has been advanced on Goldstar and Commando at Golden Ridge.
- AUZ nickel assets are being reviewed for their future potential.

GOLD EXPLORATION (AUZ 100%)

MT MARTIN PROJECT

Mine design and financial evaluation.

After the successful RC and diamond drilling campaigns in the June 2010 quarter, Australian Mines Limited ("AUZ") (the Company") has now completed an open pit mine design exercise and financial evaluation using various treatment and haulage options.

The mine design (see figure 1 & 2), completed by a consulting mining engineer, indicates that at a gold price of A\$1,350 per ounce and a mill recovery of 85%, an open pit cutback would be economic under certain operating costs and milling availability.

An open pit cutback at Mt Martin could produce 50,000 ounces of gold down to a maximum depth of 158 metres below surface, after which there may be potential for an underground mine.

The Company will engage an experienced geotechnical engineer to review the design with regards to geotechnical issues and pit wall stability.

Issues relating to groundwater inflows into the pit will be minimal. However the Company will investigate the feasibility of cheaply disposing of groundwater from the pit into a nearby palaeo-channel via a reinjection bore.

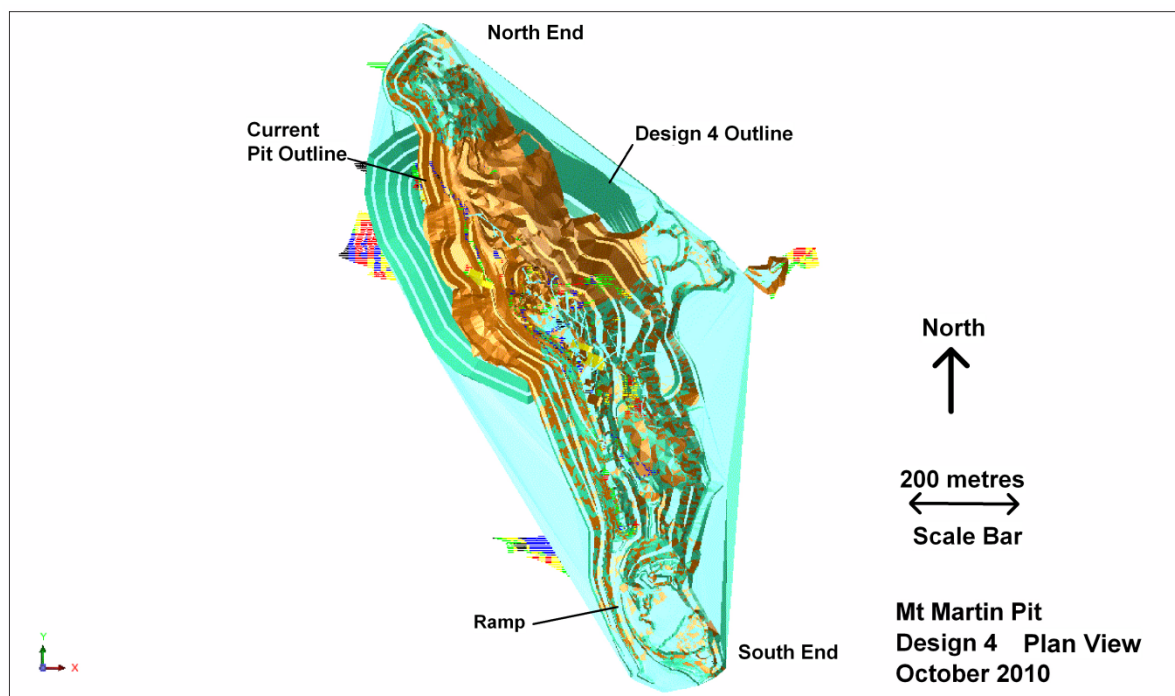


Figure 1: Plan view of Mt Martin open pit design

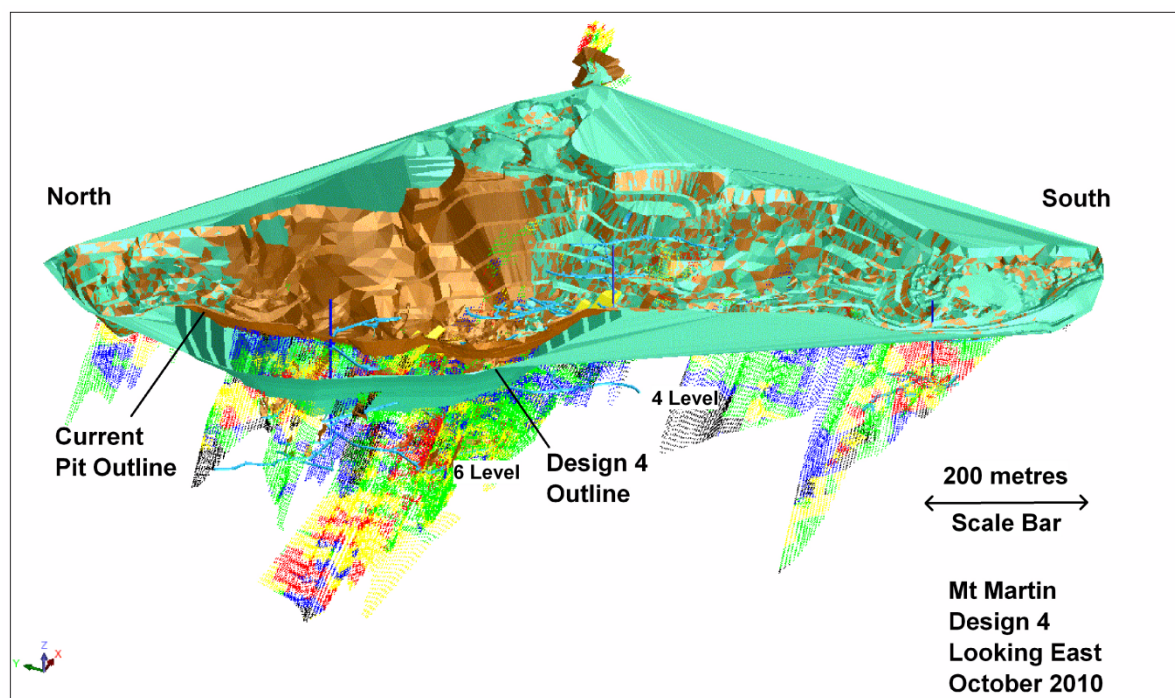


Figure 2: Long section view of the Mt Martin open pit design



Resource Update.

The latest resource figures for Mt Martin gold mine following diamond and RC programmes in the June 2010 quarter have now been completed.

The ore wireframes were modified to include shallow oxide resources on the East Lode plus new shapes for the East Lode below the existing 6 level workings.

A study of old mine plans resulted in changes to the void model to include stoping above the lowest workings of the South Shaft.

The latest model now contains combined Indicated and Inferred Resources of 4.0m tonnes at 2.0g/t for 264,500 ozs of Au at a cut off grade of 0.5 g/t, as shown below:

Material	Tonnes (t)	Grade (g/t) Au	Ounces (ozs Au)
Measured	0	0.0	0
Indicated	2,847,500	1.9	176,500
Inferred	1,194,500	2.3	88,000
Total	4,042,000	2.0	264,500

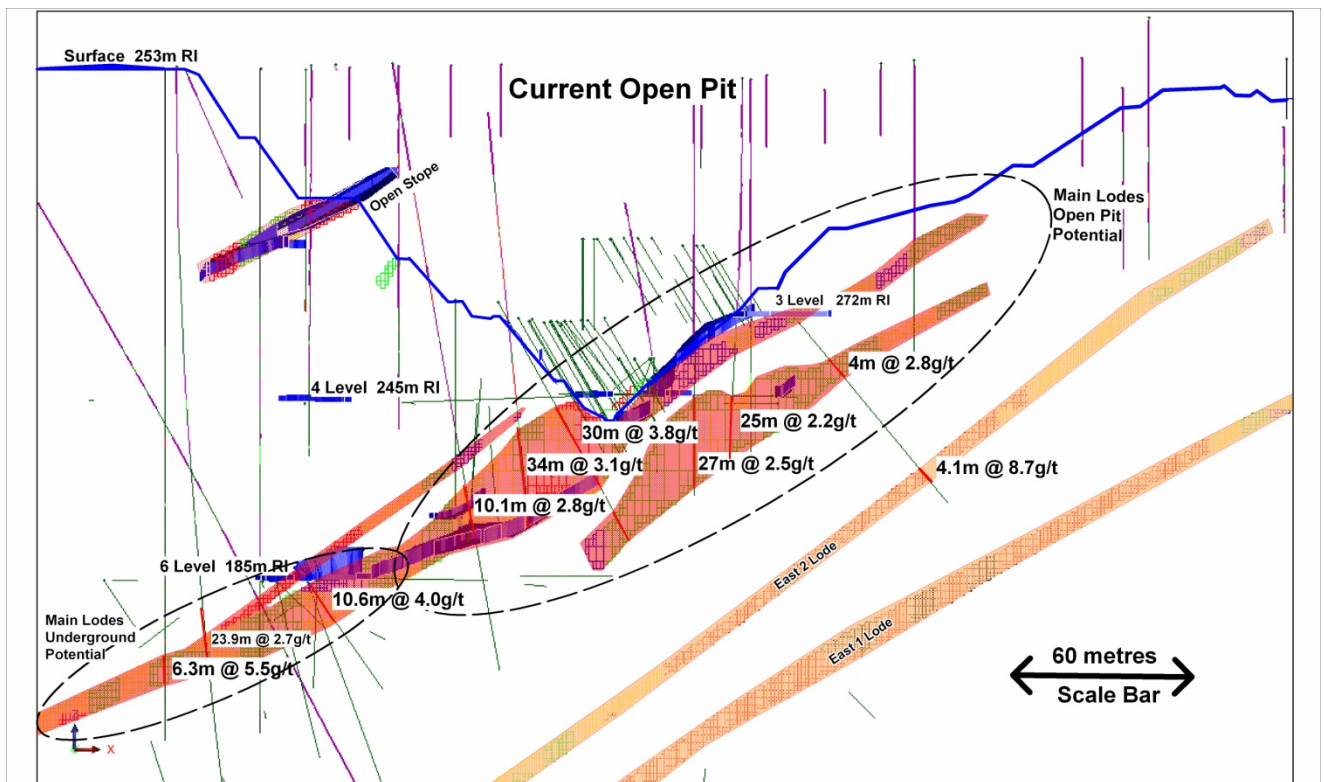


Figure 3: Mt Martin interpreted cross-section 6,568,140 North (+/- 10 metres) with drill holes, underground stopes and current pit outline.



Swift Pit

During the quarter the Company completed an open pit mine design exercise and financial evaluation at Swift pit which is located approximately 500 metres to the south-west of the Mt Martin open pit.

The Swift resource is hosted in sheared and carbonate altered ultramafics in the hangingwall of the main shear system at Mt Martin.

A small oxide pit has been mined to a depth of 18 metres by a previous owner. The orebody was RC drilled in 2003 by New Hampton Goldfields as 20 metre spaced lines to a vertical depth of 70 metres.

The gold mineralisation appears to plunge to the north-west in a manner similar to Mt Martin, and there is potential for additional ore at depth below the current drilling.

The latest resource model, which was constructed by AUZ in 2009, contains an Indicated Resource of 130,000 tonnes at 2.56g/t for 10,700 ozs of Au, at a cut off grade of 0.5 g/t, and using an SG of 2.0 tonnes/m³ for all ore.

Category	Resource Tonnes	Gold g/t	Gold Ounces
Indicated	130,000	2.56	10,700
Inferred			
Sub-total	130,000	2.56	10,700

Mine design and financial evaluation.

A mine design, recently completed by a consulting mining engineer, indicates that at a gold price of A\$1,350 per ounce and a mill recovery of 90% an open pit cutback would be economic under certain operating costs and milling availability.

At a cut off grade of 0.5 g/t Au, the design pit would produce 103,000 tonnes of ore at a grade of 1.96 g/t for 5,800 ozs of gold.

Maximum depth for the design pit is 69 metres. The design pit walls angles are judged to be appropriate for an open pit mine in weathered ultramafics but would be subject to a review by a geotechnical engineer.

Regional Gold Exploration

Gold mineralisation around Kalgoorlie is known to be associated with deep crustal feeder fault systems, and the Company has consolidated a large contiguous package of tenements along two such regional feeder fault systems, namely the Woolibar to Boorara Shear, and the Mt Monger to Kanowna Fault.

Some of the newly acquired tenements lacked soil sample coverage and during the year shallow (1.5 metre) auger drilling programmes and low level gold assaying of the most carbonate rich horizons were successful in highlighting strong gold-in-soil anomalism at Woolibar North and along the Woolibar Fault Flexure (Figure 4).



The soil geochemistry highlights a number of structural targets with strong gold-in-soil anomalism, and drilling activity on these targets during the quarter is summarised below.

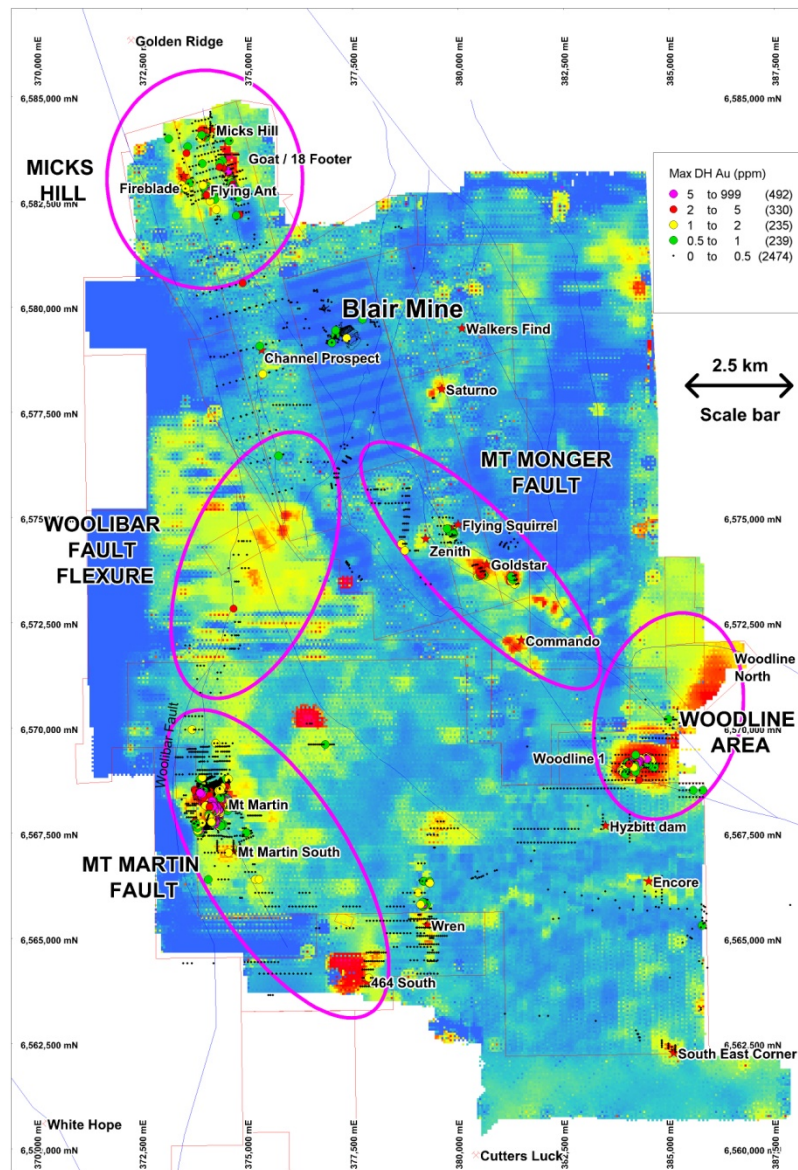


Figure 4: AUZ tenement outline with 10ppb gold in soils contours overlain by drainage, regional faults, drill hole collars and gold target areas.

Mt Monger Fault Targets

The regional scale Mt Monger to Kanowna Fault system is believed to be the feeder fault to the world class gold camp at Kanowna. On the Company's tenements it presents as a high ranking target box where it changes direction into a more east-west orientation, with associated strong gold-in-soils anomalism, and a number of encouraging intercepts in the wide spaced reconnaissance RAB drilling.

During the year RAB programmes were completed at Goldstar and Commando as detailed below.



(1) Goldstar

Background and work completed

Previous RAB drilling of the 3 km by 0.7km linear soil anomaly, with peak Au value of +260 ppb, has identified an area with a number of significant gold intercepts and this area was the focus of exploration at Goldstar during the year.

The most significant intercept from the Company's previously released RAB programmes at Goldstar was **AMBR0332, 70m – 85m, 15m @ 1.6 g/t Au** as supergene mineralisation at the base of the clay zone derived from a gabbro host rock (see figure 5).

The Company completed surface mapping at Goldstar and sub-cropping quartz and quartz floaters were noted approximately 100 metres to the north of the intercept in AMBR0332, and consequently two lines of angled RAB holes were drilled across this area, with the most significant intercept being **ABR0465, 60m – 76m, 16 m @ 0.44 g/t Au** as supergene mineralisation at the base of the clay zone derived from a gabbro host rock.

Planned Work

The supergene mineralisation at Goldstar appears to be strengthening to the south-east and this will be tested by the next programme of drilling.

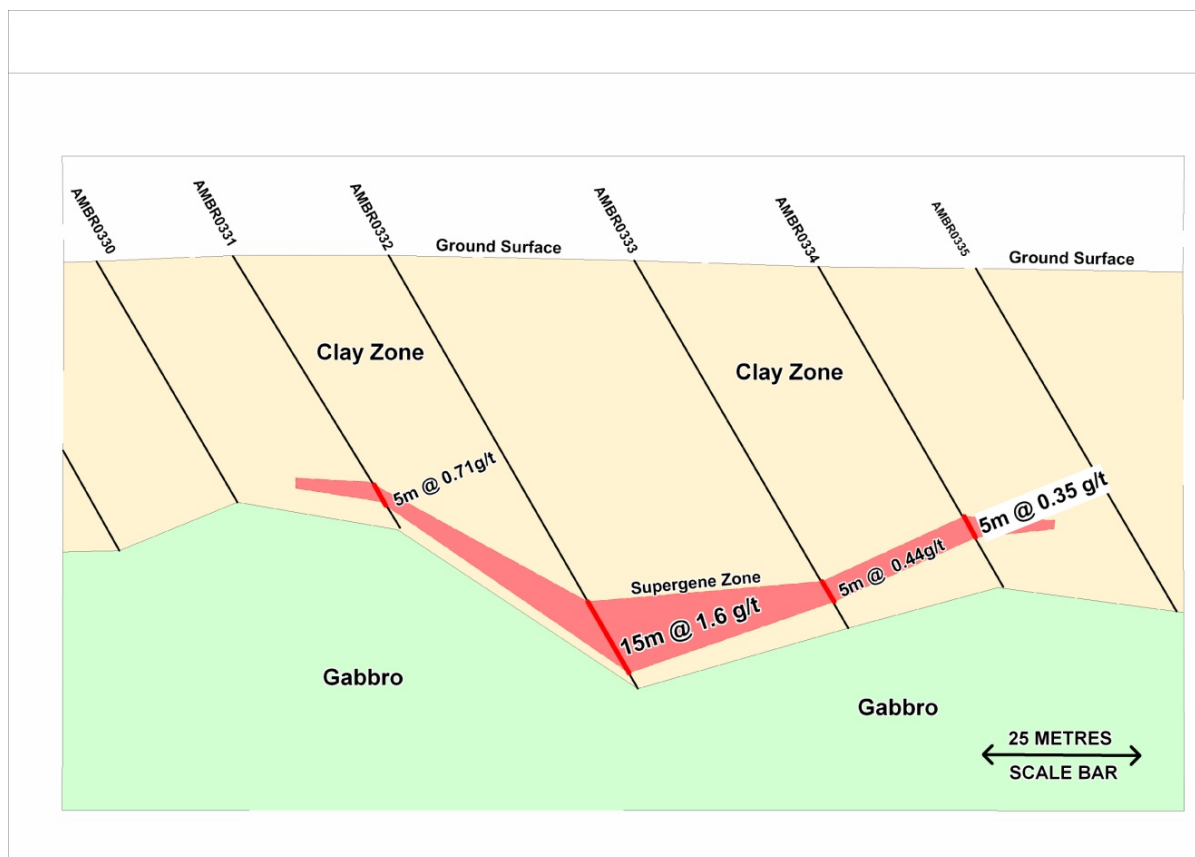


Figure 5: Goldstar oblique RAB section with interpreted geology and downhole intercepts.



(2) Commando

Background and work completed

The Commando prospect is a discrete 900 metre by 500 metre soil anomaly with a peak Au value of +186 ppb gold and a subtle magnetic high. The prospect is underlain by weathered Archean mafic rocks which have been transected by a 200 metre wide and 12 metre deep Tertiary palaeochannel.

During the quarter a programme of three lines of vertical RAB holes was drilled to bedrock and sampled for low level gold. The most northerly line of RAB drilling is interpreted from the assay results to have a broad supergene zone of elevated gold mineralisation some 28 metres below the surface with the most significant intersection being **ABR0457, 28m - 36m, 8 metres @ 0.3 g/t Au.**

Planned Work

It is possible that a gold source is located proximal to a ferruginous scarp which has been mapped at the northern edge of the anomaly, and rock chip sampling and additional RAB holes will be concentrated in this area.

(3) Woolibar Fault Flexure Targets

Background and work completed

The Woolibar to Boorara Shear is widely recognised as the regional feeder fault for a number of major gold orebodies such as the Mt Martin and Golden Ridge orebodies, which both appear to be located on first or second order fault splays off the Woolibar to Boorara Shear.

The Woolibar Fault Flexure target is a high ranking conceptual target with suitable host rocks and a very favourable structural setting which involves a flexure (bend) in the Woolibar Fault, and a number of interpreted second order splays.

The Company has applied for a large exploration licence over the target area which has no record of modern exploration.

The majority of the target area is still under application, but the Company has to date mapped the area and subsequently completed a soil sampling programme on a 200 m by 40m grid spacing, which has defined a large 3 kilometres by 700 metres gold-in-soils anomaly with peak values up to 152 ppb Au.

Planned Work

Drill testing of the bulk of the soil anomaly will have to wait until ELA139 is granted, but meanwhile the northern end of the soil anomaly is on granted mining leases, and here a programme of aircore holes is planned to test for residual gold anomalism beneath the recent alluvial cover.

(4) Mick's Hill Targets

Background and work completed

The Mick's Hill area is located at the northern edge of the Company's tenements some 2 kms south of the Golden Ridge orebody which was mined as an open pit by Harmony Gold during the 1990's producing 250,000 ozs Au.



Mick's Hill has been successfully prospected in the modern era by metal detecting and dry blowing, and two lines of shallow shafts and RC drilling have defined a small but potentially economic resource along the eastern side of Mick's Hill at 'Goat/18 Footer'.

Mapping and surface geochemistry suggested that there may be additional mineralised N-S structures on the western flank of Mick's Hill, and this was tested during the year with two parallel lines of 30 metre spaced RAB holes which returned subtle gold anomalism in the weathered regolith.

Planned Work

Planned exploration at Mick's Hill is as follows:

- Survey the shallow workings at 'Goat/18 Footer' and model the resource in preparation for an open pit optimisation study;
- Drill test for possible mineralised cross structures at Mick's Hill.

NICKEL SULPHIDE EXPLORATION (AUZ 44%)

Golden Ridge Joint Venture ("GRJV") (PIO 56% and manager, AUZ 44%)

Background and work completed

The stratigraphy on the Blair tenements has been folded and faulted such that there is at least 45 kms of prospective basal contact under alluvial cover, including known concentrations of nickel sulphides at Blair Mine, Area 57, Blair South, Anomaly 11, Area 20SW, Marshall, and Duplex Hill.

The GRJV was formed between AUZ and Pioneer Resources Limited in 2006 to accelerate nickel exploration of a large area of folded ultramafic stratigraphy around the Blair Mine exclusion zone. Pioneer has earned 56% equity in the GRJV and AUZ is contributing on a pro-rata basis to maintain its 44% equity stake.

The GRJV endeavours to utilise the latest geochemical and geophysical technology to explore for 'blind' Kambalda style nickel sulphide orebodies, and during the September quarter the joint venture expended a total of \$210,000 to complete a series of SQUID geophysical EM surveys which tested for the presence of conductive bodies, which may include lenses of massive nickel sulphides.

Six prospective areas were surveyed. These included targets near the Blair Mine, at Anomalies 11 and 20SW (where disseminated nickeliferous sulphides occur) and new targets along the Central Ultramafic Unit.

Planned Work

Preliminary data imagery shows that a number of conductors have been detected and comprehensive modelling of data is currently being undertaken by Southern Geoscience Consultants.

Selective drilling of conductors with the highest potential for massive nickel sulphides will follow during 2011.

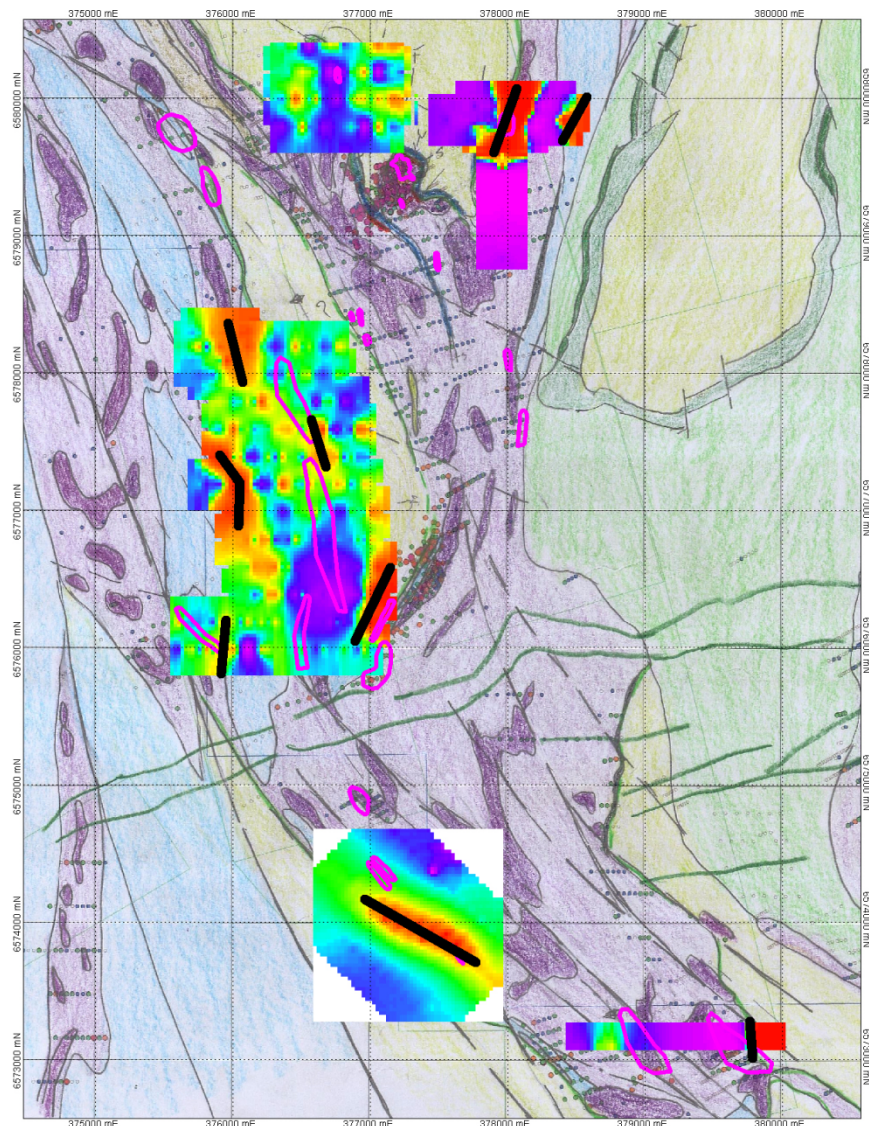


Figure 6: Golden Ridge geology overlain by newly acquired SQUID EM anomalies (black bars), coincident Ni and Cu anomalism in drillholes (purple shapes)

CORPORATE

Cash on hand at the end of the September 2010 quarter was \$629,000.

The Notice of Annual General Meeting has been mailed to shareholders for the 2010 AGM of the Company to be held on 15 November 2010 at 9.00am at the Celtic Club in Ord St, West Perth, WA.

The Annual Report of the Company for the financial year ended 30 June 2010 is available from the Company's website at:

WWW.australianmines.com.au



SUMMARY AND OUTLOOK

The open pit cutback design at Mt Martin would be profitable under various treatment and haulage options producing approx 50,000 ounces of gold at a gold price of A\$1,350/oz Au from outside the current pit shape.

Further plans include proving up further ounces of gold with shallow drilling on the East Shear North at Mt Martin.

Optimisation studies on Swift Pit have also been completed and indicate a further 5,800 ozs can be mined from this resource.

The Directors are seeking opportunities on treatment options for the Mt Martin mine from within the local region.

The Company has completed an updated resource model at Mt Martin with the inclusion of the RC/diamond drilling programs. The Mt Martin resource model to date contains an Indicated and inferred Resource of 4.0m tonnes at 2.0g/t Au for 264,500 ozs Au.

The Company has continued its exploration program on the Golden Ridge tenements Woolibar Fault, and these will be progressed in the December quarter.

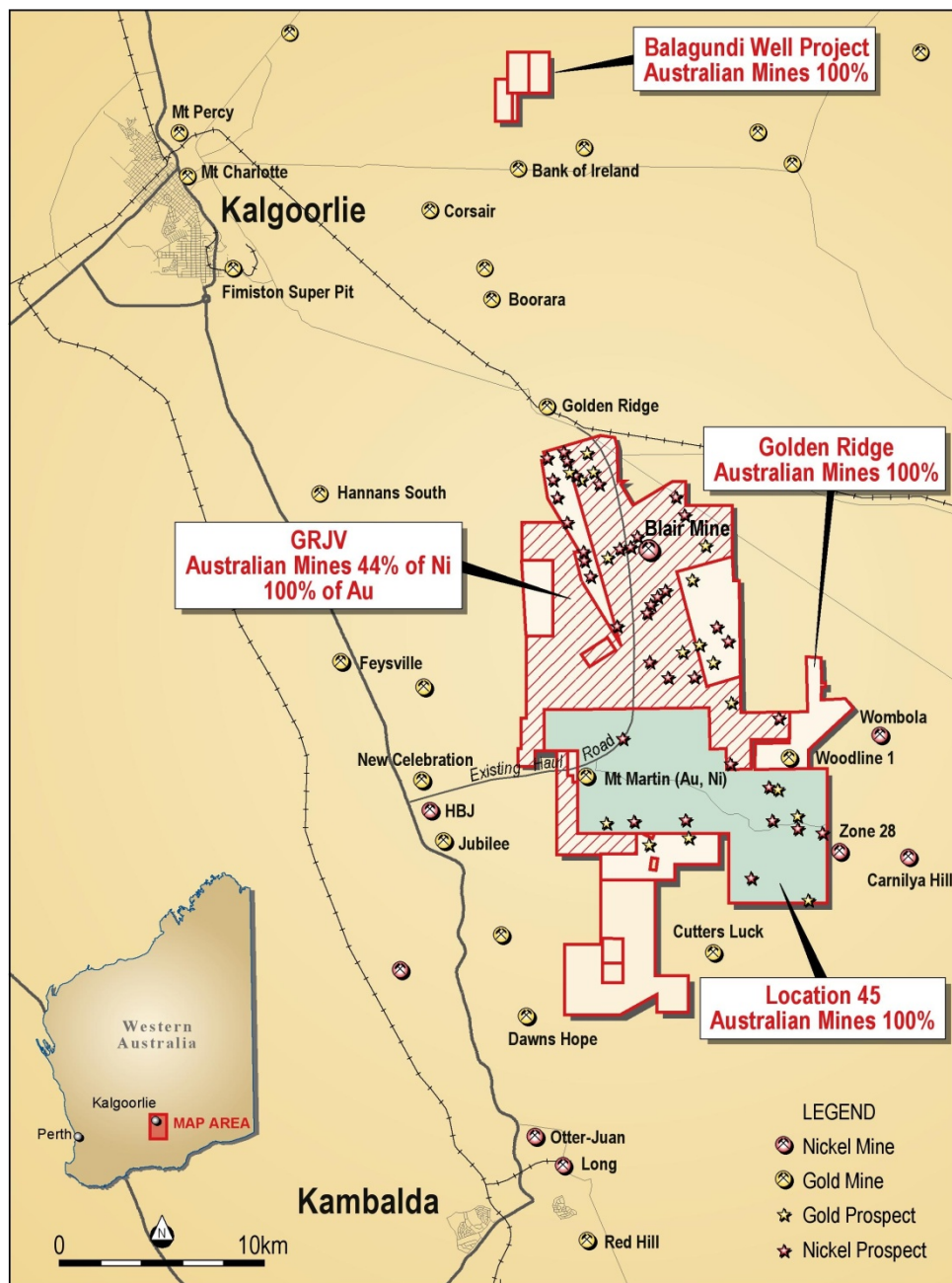
The Company has also advanced its nickel projects. The GRJV has completed significant SQUID EM surveys on areas near the Blair mine.

The Company has retained all of its nickel assets for future exploration.

For further information contact:

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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