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BUSINESS UPDATE – DECEMBER 2008

KEY ISSUES

- Ramp up is progressing with high grade ores now being mined at the Company's Munali Nickel Project.
- Ore milling rate expected to be ~900,000tpa March 2009 quarter at a grade of 0.8%Ni, thereafter at 1.2 million tpa at 0.9%Ni.
- This results in expected cash costs of ~US$5.00/lb in the March 2009 quarter and US$4.00/lb ongoing.
- Targeting reduction of costs below US$4.00/lb.
- Current production forecast for 2009 is 8,300t Ni in concentrate.
- Recently raised US$16 million in additional funding. This was made up of US$8.8 million (net) in equity (at A$0.40 per share) and US$7.2 million in proceeds from the hedge close-out.
- New working capital will be applied toward bringing the mine into full production.
- The Company is also assessing a number of corporate options for further strengthening its balance sheet.
- Accordingly, the Company's ability to continue operating through to steady state and beyond is dependent upon several factors detailed in this business update.

OVERVIEW

Albidon has made the transition from explorer to producer and has done so with a safety performance record in line with industry best practice. The Company's operations are progressively ramping up to steady state, while maintaining our good safety record.

The Company is facing a number of challenges following the global economic downturn and a fall in nickel price from US$9.50/lb to US$4.00/lb over the last three months. This, combined with a slower than expected production ramp up, has caused working capital constraints. This shortfall has been largely addressed via recently announced capital injections:

- Albidon has raised US$16 million in additional funding. This was made up of US$8.8 million (net) in equity and US$7.2 million in proceeds from our hedge close-out.

- The equity raising was completed in two tranches with the first tranche being completed under the Company's ASX 15% placing capacity. A UK based fund invested US$4 million at a price of A$0.40 per share. This amount has been received and 10.6 million shares have been issued under the first tranche of the placement.

- Jinchuan Group Limited ("Jinchuan") has committed to invest US$5 million at the same price of A$0.40 per share. The second tranche of shares will be issued subject to shareholder approval at a meeting to be held on 18 December 2008. These will be allotted and issued under the second tranche as Jinchuan is also converting US$5 million of subordinated debt at a price of A$0.78 per share. There are no market capitalisation or share price related conditions with respect to the second tranche. Jinchuan has confirmed that these funds will be received by Albidon on 23 December 2008 following foreign currency clearances and shareholder approval. Jinchuan will then have an equity interest in the company of 18.4% and the right to appoint a director to the Albidon board.

- With the recent close-out of the Company's hedge book, senior debt has been halved to US$40 million. Funds from hedge close-out proceeds in the amount of US$7.2 million have been received. As a result of the debt reduction, we are currently finalising a revised repayment schedule with our senior lenders. The Company has also agreed to raise a minimum of US$6 million in additional working capital by 31 March 2008 as part of the debt restructuring.

These recent funding sources will be utilised to provide working capital to bring the Munali Nickel Project into full production during the March 2009 quarter. However, in view of the volatile nickel price environment and to allow an operating buffer, the Company is also assessing a number of options for further strengthening its balance sheet.

Accordingly, the Company's ability to continue operating through to steady state and beyond is dependent upon:

- prices for nickel and by-products remaining at or exceeding current levels;
- operating ramp-up forecast being met or exceeded;
- cost reduction targets being met when expected;
- raising the additional working capital; and
- the ongoing support of key stakeholders.

OPERATIONS

Our immediate focus is to reduce costs, accelerate production ramp up and improve product quality.

MINING:

As previously advised, the mined ore grades achieved from development in the transitional zone at the top of the Enterprise Deposit have been lower than anticipated. This ore was sourced from the 1040 and 1020 levels in the Northern zone. This grade variability has been mainly attributed to mining dilution and mining beyond the mine plan.

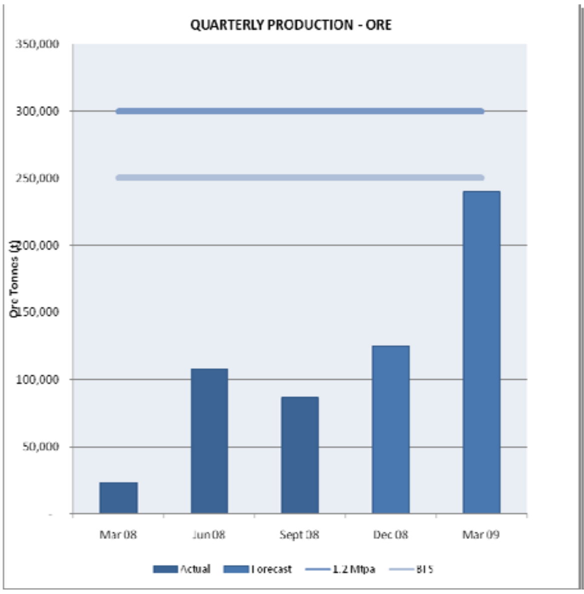
The Company has addressed these issues with the appointment of a number of new site-based senior management appointments including a new General Manager, Mr. Grant Pierce. Grant is a qualified mining engineer with 23 years operational experience, ten years of which have been in Africa, initially at Golden Pride in Tanzania, followed by a mining company in the DRC's Copperbelt region

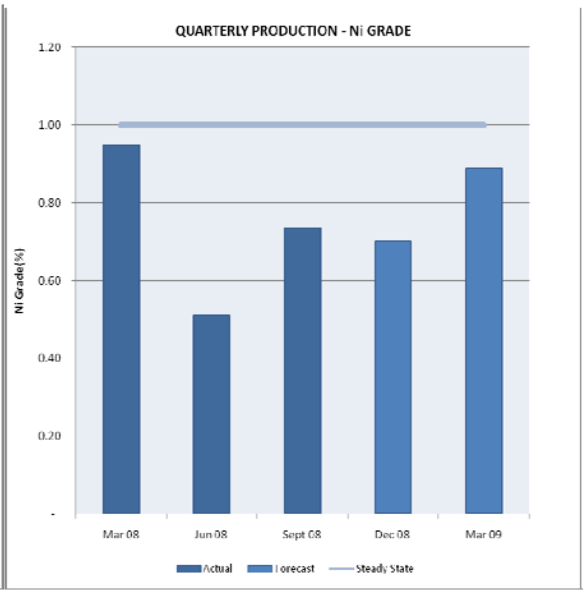
Accelerating decline development in the Southern ore zone, together with level development and stoping on the higher grade 995 level, are the current focus as this area is providing the greatest confidence in terms of grade and orebody continuity.

Mining practices are under review to ensure that they minimise both over-break and costs while accelerating mining rates and grades. This review includes:

- reduced ore drive size to improve dilution and development rates;
- accelerated development rates to access higher grade areas as ore quality and continuity is improving at depth; and
- improved quality control through systems and training including interim experienced technical support staff.

Details of actual and forecast ore tonnes and grade during ramp up are shown in the following graphs:





PROCESSING:

The processing plant has exceeded its 900,000 tpa rated capacity on a number of occasions, and is expected to treat over 1mt during 2009.

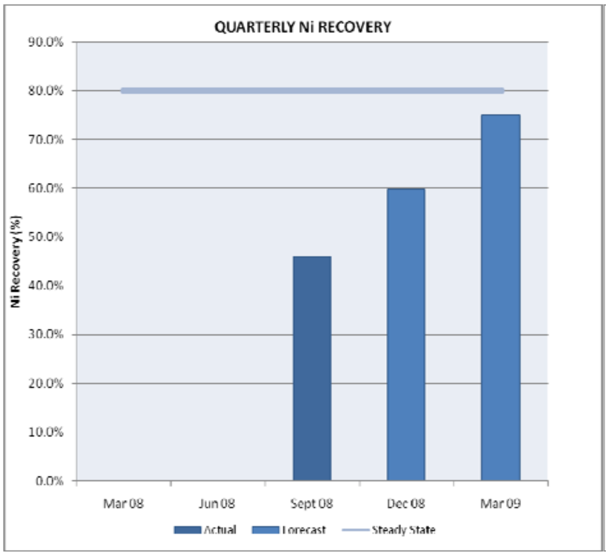
Focus at the processing plant is to:

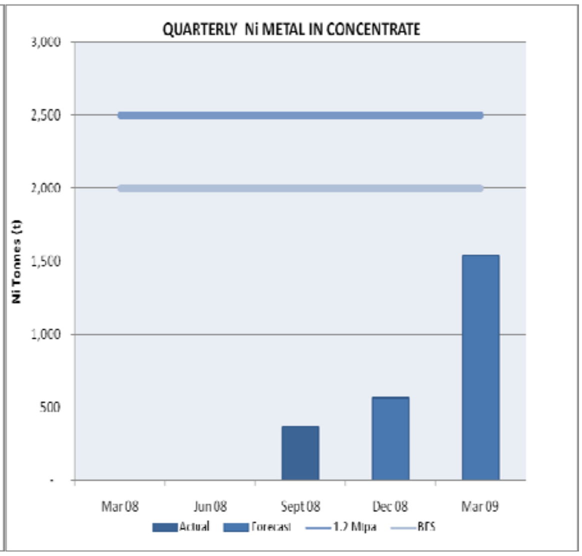
- complete outstanding punch list items;
- increase plant recoveries through improved ore head grade;
- achieve steady state operations through improved preventative maintenance and operating practices; and
- improve process control through commissioning of the on-stream analyser and commissioning of the site lab.

View of float circuit, thickeners and concentrate shed.

View of ore on conveyor to ball mills.

Details of actual and forecast recoveries, nickel tonnes in concentrate and concentrate grade during ramp up are shown in the following graphs:



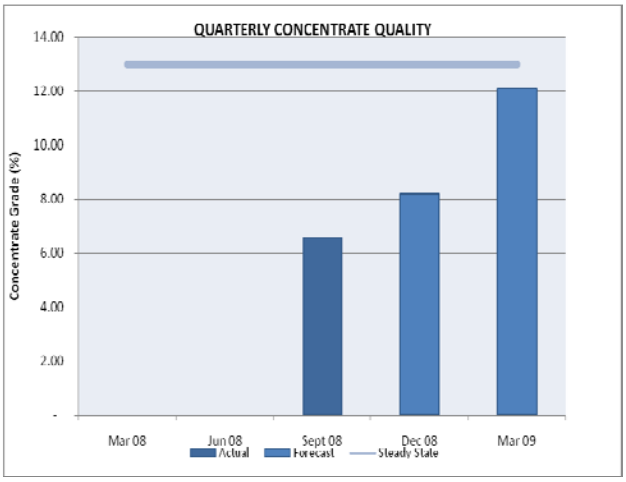


CONCENTRATE SALES:

Jinchuan has taken delivery of, and paid for, all concentrate sales to date. An initial batch of out of specification concentrate has been sold to a smelter in an adjoining country. Concentrate has been stockpiled on site to allow Jinchuan to optimise its transportation strategy. Clearing of stockpiles will commence by Jinchuan in mid December.

Jinchuan continues to perform contractually and Albidon continues to receive encouraging support from Jinchuan's President and CEO.

Initial concentrate grades had higher than expected MgO content but this has already been reduced by more than 50%. Concentrate grades continue to improve and initial PGM analyses, particularly platinum, have been better than expected.



OPERATING COSTS:

The ramp up in production is occurring with the treatment rate expected to be close the 900,000tpa rated capacity in the March 2009 quarter at a grade of 0.8%Ni, thereafter to 1.2 million tpa at 0.9%Ni. Operating cash costs will reduce from around ~US$5.00/lb in the March 2009 quarter to below US$4.00/lb at full production levels.

Infrastructure:

Munali has a dedicated power-line that has been energised and is providing reliable power on a daily basis.

Water supply is currently sufficient with additional bores commissioned. During the wet season return water from the tailings storage facility will supplement supply. A hydrological study is to be initiated to ensure adequate back up water supplies provide continuity of supply through the dry season.

Infrastructure onsite has largely been completed with the exception of the administration building, the warehouse and site drainage, all of which are now well progressed and nearing completion.

CORPORATE

A number of specific cost reduction initiatives are underway including:

- Workforce numbers reduced from approximately 260 to 150 employees, including redundancies made at the Munali Nickel Project last week.
- Exploration office in Cape Town has been closed as well as the Lusaka Corporate office. Perth Office has been downsized and is relocating to shared premises.
- Negotiations with major contractors to reduce costs and to eliminate duplication and waste.
- Review of capital and operating costs and processes to drive efficiencies throughout the business.
- Exploration activities, other than those related to near term production, have been suspended. Joint venture activities have been reduced where Albidon is not a free-carried party.

Mr Dale Rogers' contract as Managing Director of Albidon Limited expired and by mutual agreement it was decided not to extend the contract. As a consequence Mr. Rogers resigned as a Director of the Company. We take the opportunity to thank Mr Rogers for steering Albidon through to this point in time.

As an interim measure, directors Alasdair Cooke and Paul Chapman have been appointed joint Managing Directors to supervise this period of cost reduction and project ramp-up. A permanent Managing Director will be appointed in due course.

The Board appreciates the ongoing support of Albidon's shareholders during this difficult period and undertakes to provide further updates during the production ramp up period.

CONTACTS

If you have any queries please contact Alasdair Cooke and Paul Chapman on +61 8 9211 4600 or email **info@albidon.com**.

Albidon's nominated adviser is RFC Corporate Finance Ltd, contact Stephen Allen +61 8 9480 2500.

Additional information may also be viewed on Albidon's website at **www.albidon.com**.