

**QUARTERLY REPORT
FOR THE THREE MONTHS ENDED 30 JUNE 2005**

Australis has made significant progress in the commissioning of its sapphire mine located in the Central Queensland Gem Fields. Sapphire produced by the Company has been well received by potential buyers internationally. The Board of Australis remains committed to achieving the goal of establishing Australis as a world-class sapphire producer during the next 18-month period.

Highlights

- During the wash plant commissioning phase in May and June, a total of 46,900 grams (234,500 carats) of sapphire has been produced from the processing of 19,800 loose cubic meters ("lcm") (39,600 tonnes) of sapphire-bearing alluvial.
- Processing plant commissioning has been completed to the stage that it is now operating at reasonable levels of throughput. An average throughput of 104 lcm/hour (208 tonnes per hour) was achieved during June.
- Total capital expenditure of \$2.5 million has been incurred since June 2004 (\$800,000 March quarter).
- The first phase of exploration was commenced in April and consisted of drilling and geophysical surveys. The subsequent phases of the exploration work will be undertaken during the 2006 financial year.
- The Company's forecast operating result was re-forecast at a loss of \$2.4 million, as announced to the market on 1 July 2005.

Capital Expenditure

- Expenditure on plant and equipment of \$1.7 million has been incurred since June 2004 (\$0.4 million in the June quarter).
- The rough sapphire concentration plant was erected on the prepared site and commissioned during April 2005.
- Commissioning trials of the wash processing plant during May achieved average plant throughput of 112 lcm/hour (224 tonnes per hour), which was below the anticipated 250 lcm/hour (500 tonnes per hour).
- The lower than expected rate of throughput was considered to be mainly as a result of the higher clay content of the soil in the Nardoo area, compared to areas previously mined. To address this issue, processing was suspended while further plant modifications were made.
- The work undertaken on the processing plant during June was as follows:
 - Strengthening and modifying of the internal structure of trommel barrel with steel lifter bars. This improvement enables it to more effectively clean and separate the oversize rocks from the sapphire bearing gravels, and to break down clay.
 - Adjustment to the primary jig configuration and cell undersize mesh dimensions.
 - Upgrading of the plant's electrical system
 - Development of a heating system, using recycled exhaust gasses from the diesel generator, to warm the walls of the plant feed bin so that damp or wet wash can be more easily processed.
- After a period of approximately two weeks was spent implementing the modifications, the plant recommenced processing on 18 June.
- Average plant throughput for the period from re-commencement until 30 June was 104 lcm/hour (208 tonnes per hour), however this was conducted on limited throughput whilst further trials of the modifications were being tested. Processing levels since 30 June have been above this rate.
- Mine Development expenditure of \$741,000 has been incurred since June 2004 (\$0.3 million in the June quarter) and the initial phase of mine site establishment is now substantially complete.
- Photo galleries of the assembly of the wash plant and the mine site development are contained on the Company's web site at www.australismining.com.au

Production & Sales

- During the period to 30 June 46,900 grams (234,500 carats) of sapphire were produced from the processing of 19,800 lcm (39,600 tonnes) of material. The average grade was 2.4 grams/lcm (5.9 carats per tonne).
- Discussions with buyers have commenced and market interest in the product produced so far has been at a high level. Sales are expected to commence during the September quarter.
- The number of sapphires recovered in the size range of greater than 5.5 millimeters was higher than expected. A number of very attractive "special" stones (those over about 10 carats in weight) have also been produced. Sapphires in this size range carry a significant premium to the smaller sapphires. Please visit the Australis website (www.australismining.com.au) to view photographs of some of the production.

Some of the largest stones produced have been:

- 63 carat dark blue sapphire
 - 41 carat yellow/green/blue parti-colour sapphire
 - 33 carat yellow green sapphire
 - 31 carat blue sapphire
 - 20 carat green sapphire
- Operation of a second shift is planned to commence during the 2006 financial year.

Exploration

- The initial phase of the exploration program has shown that geophysical methods (gamma ray logging and ground magnetics) to be valuable exploration techniques to accompanying drilling and sampling.
- The results of this program will be reported in the 2006 financial year.
- Exploration expenditure of \$0.1 million was incurred during the 4th quarter.

AUSTRALIS MINING CORPORATION LIMITED

Quarterly Report to 30 June 2005

Corporate Information

Directors

CW (Bill) Duchatel	Chair
Ted Tzovaras	Director
JW (Jerry) Goddard	Director
Anthony Damianos	Executive Director & CEO
Robert Coenraads	Executive Director

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