



**Company Announcements Office
Australian Stock Exchange Limited**

**Monday 5 December 2005
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ASIC PROCEEDINGS & MEETING OF CREDITORS - UPDATE

We advise that at the meeting of creditors held on Friday 25 November 2005, creditors of the company resolved to adjourn the meeting for a period of 59 days, with the Administrators to have the discretion to reconvene the meeting earlier on 5 business days notice.

A similar resolution was passed by the creditors of the company's subsidiary, Australis Mining Operations Qld Pty Limited (administrator appointed), at a separate meeting also held on Friday 25 November 2005.

Proceedings in the Supreme Court brought by the Australian Securities & Investment Commission which were due for a further hearing on Monday 28 November 2005 were adjourned until 30 January 2005.

Accompanying this release is a copy of the report provided to creditors for the purposes of the above meetings.

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17th November 2005

REPORT TO CREDITORS OF

**AUSTRALIS MINING CORPORATION LIMITED
(ADMINISTRATORS APPOINTED)
A.C.N. 108 649 421
("AMC")**

AND

**AUSTRALIS MINING OPERATIONS QLD PTY
LIMITED
(ADMINISTRATORS APPOINTED)
A.C.N. 081 347 891
("AMO")**

("AUSTRALIS GROUP")

PURSUANT TO SECTION 439A

OF

THE CORPORATIONS ACT 2001

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1. INTRODUCTION

By way of initial circular dated 1st November 2005, creditors were informed of the following appointments pursuant to Section 436A of the Corporations Act 2001 ("the Act"):

- Australis Mining Corporation Limited – Richard Albarran & Robert Elliott
- Australis Mining Operations QLD Pty Limited – Blair Pleash & Robert Elliott

AMC was incorporated in April 2004 to undertake gemstone mining and exploration in Australia and sales of the production via an established network of distribution channels throughout the world. Shortly after its incorporation, AMC acquired the privately owned gem and semi-precious gem miner and distributor, Junior Mining (Operations) Pty Limited, which is now a wholly owned subsidiary company called Australis Mining Operations QLD Pty Limited ("AMO"). Due to the inter-related nature of the companies' business, I have combined the results of my investigations into a single Section 439A report. Accordingly, creditors of each company may receive information with respect to a company to which they are not directly indebted.

I have taken this approach to provide creditors a comprehensive explanation of the group's position. Further, I note much of the information disclosed with respect to AMO is a matter of public record due to the status of AMC as a public company and its associated disclosure requirements.

Pursuant to Section 439A(1) of the Act, an Administrator is required to convene a meeting of creditors within the convening period as fixed by Section 439A(5) of the Act or extended under Section 439A(6) of the Act. In this instance the convening period under Section 439A(5) is 21 days from the date of the appointment of the Administrator. Pursuant to Section 439A(2) of the Act the meeting must be held within 5 business days after the end of the convening period. Therefore, the meetings of creditors have been convened for Friday 25th November 2005 as follows:

- Australis Mining Operations QLD Pty Limited at the Gateway Motel, Corner of Hospital & Teresa Street, Emerald QLD at 9:30am.
- Australis Mining Corporation Limited at the offices of Hall Chadwick, Level 29, 31 Market Street Sydney NSW at 12.00noon.

A Formal Notice of the Meeting, Proof of Debt and Proxy Form are attached for your attention. If you have already lodged a Proof of Debt with my office there is no requirement to lodge another. All corporations wishing to be represented at the meetings or any creditor wishing someone else to represent them at the forthcoming meetings must complete the attached Proxy Form and return it to my office before the meetings. To assist with the smooth running of the meetings, I request that all proxies be received by my office 24 hours before the appointed time for the meetings.

In accordance with Section 439C of the Act, creditors attending the major meetings will be asked to resolve in respect of each company whether:

- the Company should execute a Deed of Company Arrangement ("Deed");
or
- the Administration should end and for control of the Company to revert to the Director; or
- that the Company be wound up.

Alternatively, creditors may resolve to adjourn each major meeting for a maximum period of sixty (60) days.

Section 439A(4)(b) of the Act also requires an Administrator provide a statement setting out the Administrator's opinion as to which course of action is in the best interests of creditors and to provide a statement dealing with the reasons for the Administrator's opinion. I refer you to Section 14 of this report under the heading Administrators Recommendations for my statement in accordance with Section 439A(4)(b) of the Act.

Creditors will note, as detailed later in this report that it is the intention of the company directors to propose a Deed of Company Arrangement.

I have received an outline of the directors intended proposal for a Deed of Company Arrangement. A copy of this outline is attached to this report.

For the reasons set out later in this report, I am not currently in a position to express an opinion as to whether it is in creditors interests to execute a Deed of Company Arrangement.

In view of the above, and for the reasons discussed within the Opinion section of this Report, I recommend that it is in the best interests of creditors of each company that the major meetings be adjourned for a maximum period of fifty nine (59) days with the Administrators to have a discretion to reconvene the meeting earlier by way of five (5) business days notice.

The contents of this report form the report by the Administrator required pursuant to Section 439A(4)(a) of the Act about the company's business, property, affairs and financial circumstances which is required to accompany the Notice of Meeting.

I advise creditors that the information contained in this report is confidential, and is only provided to the creditors of the companies. You are not authorised to make any information contained in this report available to third parties, other than your own professional advisers. If commercially sensitive information is provided to third parties it may jeopardise the return available to the creditors of the companies.

2. OBJECTS OF THE LAW

The stated purposes of the provisions of the Act regarding Voluntary Administrations is for the affairs of a company to be administered in such a way that:

- a) maximises the chances of the company, or as much as possible of its business, continuing in existence; or
- b) if it is not possible for the company or its business to continue in existence - results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

I have attempted to maximise the chances of the business remaining in existence by continuing to trade the group during the Administration period. The directors have provided me with an outline proposal for the group to execute a Deed of Company Arrangement and this proposal is discussed later in this report under the heading Deed of Company Arrangement.

3. INDEPENDENCE OF THE ADMINISTRATORS

Richard Albarran and I are partners and Blair Pleash is an associate of Hall Chadwick Chartered Accountants & Business Advisers ("Hall Chadwick").

Hall Chadwick is one of the largest and most experienced accounting groups in Australia, servicing clients in every major capital city and many regional centres in Australia. Nationally, Hall Chadwick is an association of independent firms that have the ability to undertake work in all disciplines of Accounting.

The Partners of Hall Chadwick have not received any payments as an inducement for the acceptance of this appointment and the Partners of Hall Chadwick have not paid any inducement to secure this appointment.

Hall Chadwick is not a creditor of the Company or its Directors, past and present.

Richard Albarran, Blair Pleash and I are not disqualified from acting as Administrators, Liquidators or Deed Administrators of the respective companies by virtue of the provisions of the Act or any other rules.

As noted in my initial report to creditors dated 1st November 2005, I advise I was appointed as Administrator and Deed Administrator of a company Queensland Sapphires Mining Pty Limited ("Queensland Sapphires") on 19 June 2003 and 6 August 2003 respectively. The effectuation of the Queensland Sapphires Deed of Company Arrangement resulted in a dividend to that company's "external" creditors of 100 cents in the dollar. The Directors of that company, Mr. Ted Tzovaras and Mr. Elias Christianos are a Director and Alternative Director respectively of Australis Mining Corporation Limited and Mr. Tzovaras is also a Director of Australis Mining Operations Qld Pty Limited.

Although it is not a creditor or third party relationship, I advise that my personal superannuation fund and I both purchased 10,000 shares with 5,000 options attached (the minimum subscription) in the prospectus issue of February 2005.

This disclosure was also made at the initial meetings of creditors for the respective companies. I note that this does not disqualify Richard Albarran, Blair Pleash or myself from acting as Administrators, Deed Administrators or Liquidators of the company by virtue of the provisions of the Corporations Act or any other rules.

4. INITIAL MEETINGS OF CREDITORS

Initial meetings of creditors were held on Monday 7th November 2005 as follows:

- Australis Mining Operations QLD Pty Limited was held at the Emerald Memorial Club, 10-12 Opal Street, Emerald, Queensland at 9.30am and:
- Australis Mining Corporation Limited was held at the office of Hall Chadwick Level 29, 31 Market Street, Sydney at 11.30am (EST).

At these meetings creditors endorsed the appointment of the incumbent Administrators as there was no nomination for an alternative Administrator to be appointed.



At these meetings the general history of the companies was discussed along with my understanding of the assets and liabilities of the companies. Creditors were advised that the directors were considering putting forward a proposal for the Australis Group to execute a Deed of Company Arrangement.

Creditors of each company also determined that the conduct of the Administrations did not require the formation of a Committee of Creditors.

Creditors were informed they would have the opportunity to appoint a committee of inspection at the forthcoming major meetings.

The minutes of the initial meetings of creditors have been drawn up and lodged with the Australian Securities and Investments Commission ("ASIC") as required by Corporations Regulation 5.6.27. Copies of these minutes are available to creditors from the ASIC or by contacting my office.

At the meetings creditors were requested to provide me with any information which may assist with my investigations into the affairs of the company.

5. HISTORY OF THE COMPANIES

AUSTRALIS MINING CORPORATION LIMITED ("AMC")

A search of the ASIC data base ("company search") indicates that the company was incorporated on 6th April 2004.

The principal business activity of the company is to undertake gemstone mining and exploration in Australia and sales of the production via an established network of distribution channels throughout the world. The company's registered office is located at Level 35, Suite 3504, 100 Miller Street, North Sydney NSW.

AMC is a public company listed on the Australian Stock Exchange (ASX Code AUV), that listing is currently suspended.

The company search indicates that the Directors and Secretary of the Company are as follows:

<u>Name</u>	<u>Position</u>	<u>Appointment Date</u>	<u>Cessation Date</u>
Robert Coenraads	Director	6 th April 2004	Current
Anthony Damianos	Director	6 th April 2004	Current
Ted Tzovaras	Director	6 th April 2004	Current
William Duchatel	Director / Non Executive Chairman	19 th May 2004	Current
John Goddard	Director	28 th April 2005	Current
Warren Kember	Secretary	6 th December 2004	Current

Mr. William Duchatel has informed me that he wishes to resign as a Director, at the date of this Report I have not accepted, nor do I intend to accept his resignation.

Australis is a new precious gem production company that shortly after its incorporation acquired the privately owned gem and semi-precious gem miner and distributor,

Junior Mining (Operations) P/L ("JMO"), which is now a wholly owned subsidiary company called Australis Mining Operations QLD Pty Limited ("AMO").

In 2003, JMO purchased from Great Northern Mining Pty Limited four major mining leases over a property known as "Nardoo". With the acquisition of these tenements, the potential to support a world-scale sapphire production operation was realised. In acquiring 100 percent of JMO, Australis now controls 10 mining tenements and has 23 mining tenement applications within the Anakie Field of Central Queensland, covering approximately 3,300 hectares of land either containing, or with the potential to contain, commercial grade deposits of sapphire.

A summary of the tenements is as follows:

Australis Mining Corporation Tenements as at 1st May 2004.

MINING LEASES (ML's) CONTAINING A PROVEN SAPPHIRE RESERVE

ML Number	Company	Status	Area (Hectares)	Resources Status
70004 Nardoo	JMO/Australis	Granted	130.0000	Partly explored Proven Sapphire Reserve
70005 Nardoo	JMO/Australis	Granted	130.0000	Proven Sapphire Reserve
70006 Nardoo	JMO/Australis	Granted	130.0000	Proven Sapphire Reserve

MINING LEASES

70029 Nardoo	JMO/Australis	Granted	218.6700	Unexplored
2181 Subera	JMO/Australis	Granted	15.1400	Under rehabilitation
1841	JMO/Australis	Granted	3.6170	Residence and workshop
2123 Subera	JMO/Australis	Granted	19.1600	Under rehabilitation
70144 Rubyvale	JMO/Australis	Granted	2.0000	Unexplored
70132 Rubyvale	JMO/Australis	Granted	6.4300	Unexplored
2077 Rubyvale	JMO/Australis	Granted	7.9470	Unexplored
		Total area	662.964	

MINING LEASE APPLICATIONS (MLA's)

MLA Number	Company	Status	Area (Hectares)	Resources Status
70245 Nardoo	JMO/Australis	Application	1,157.4506	Unexplored
70246 Nardoo	JMO/Australis	Application	916.0339	Unexplored
70247 Nardoo	JMO/Australis	Application	123.6603	Unexplored
70248 The Common	JMO/Australis	Application*	17.8340	Unexplored
70249 The Common	JMO/Australis	Application*	17.8340	Unexplored
70250 The Common	JMO/Australis	Application*	17.8340	Unexplored
70251 The Common	JMO/Australis	Application*	18.9850	Unexplored
70272 The Common	JMO/Australis	Application*	11.5682	Unexplored
70273 The Common	JMO/Australis	Application*	20.0000	Unexplored
70274 The Common	JMO/Australis	Application*	20.0000	Unexplored
70275 The Common	JMO/Australis	Application*	19.9986	Unexplored
70276 The Common	JMO/Australis	Application*	19.9986	Unexplored
70277 The Common	JMO/Australis	Application*	17.7536	Unexplored
70278 The Common	JMO/Australis	Application*	18.0831	Unexplored
70279 The Common	JMO/Australis	Application*	19.9829	Unexplored
70280 The Common	JMO/Australis	Application*	20.0000	Unexplored
70281 The Common	JMO/Australis	Application*	20.0000	Unexplored
70282 The Common	JMO/Australis	Application*	20.0000	Unexplored
70283 The Common	JMO/Australis	Application*	20.0000	Unexplored
70284 The Common	JMO/Australis	Application*	173.9399	Unexplored
70172 The Common	JMO/Australis	Application	14.3169	Unexplored
70173 The Common	JMO/Australis	Application	16.1049	Unexplored
70174 The Common	JMO/Australis	Application	13.6072	Unexplored
		Total area	2,558.9819	

AMC planned to raise \$3.5 million minimum subscription by offering 17.5 million fully paid shares at 20 cents and with the ability to accept a further \$2.5 million in oversubscriptions, with the objective of developing a large scale commercial sapphire mining and marketing operation on tenements containing already proven sapphire reserves and to conduct extensive sampling and resource evaluation over as yet unexplored parts of the mining tenements as well as exploration of areas the subject of application.

The company raised \$1,295,000 prior to the public offering and \$3,997,000 through the public offering. The Transaction costs of the share issue were \$1,088,000. During the 2004/5 financial year a net \$4,184,000 was raised in share capital. The shares were listed on the Australian Stock Exchange in March 2005.

I note that AMC's majority shareholder, Nikiticorp Limited ("Nikiticorp") has provided financial and management support to Australis during its start-up phase and it is my understanding that a letter has been provided to the Directors of the company from Nikiticorp confirming its intention to provide continued financial support to the company as long as it is required.

On the 29th September 2005, AMC requested a trading halt on its listed shares and options from the 30th September 2005. Subsequently, on the 4th October 2005, AMC requested voluntary suspension of trading on its listed shares and options pursuant to listing rule 17.2. The Australian Stock Exchange ("ASX") granted this request and the shares were suspended from trading on the 4th October 2005 pending the release of an announcement. I note that the shares remain suspended from trading.

Please be advised that I have informed the ASX of my appointment on the 31st October 2005 by way of public announcement.

AUSTRALIS MINING OPERATIONS QLD PTY LIMITED ("AMO")

A search of the ASIC data base ("company search") indicates that the company was incorporated on 20th January 1998.

AMO was formerly known as Junior Mining Operations Pty Limited and when purchased by Australis Mining Corporation Limited changed its name to Australis Mining Operations QLD Pty Limited on the 5th August 2004.

The company search indicates that the Directors and Secretary of the Company are as follows:

<u>Name</u>	<u>Position</u>	<u>Appointment Date</u>	<u>Cessation Date</u>
Robert Coenraads	Director	11 th August 2004	Current
Anthony Damianos	Director	12 th August 2004	Current
Ted Tzovaras	Director	8 th April 2004	Current
William Duchatel	Director	11 th August 2004	Current
John Goddard	Director	28 th April 2004	Current
Warren Kember	Secretary	20 th April 2004	Current

Mr. William Duchatel has informed me that he wishes to resign as a Director, at the date of this Report I have not accepted, nor do I intend to accept his resignation.

As stated previously in this report, the principal business activity of the company and AMC is to undertake gemstone mining and exploration in Australia and the sales of production via an established network of distribution channels throughout the world.

It is my understanding that AMO is the trading company and holds the leases, mining tenements, and other assets as well as incurring the liabilities and expenses associated with trading the business. AMO trades from premises located at Lot 1057, Rubyvale Road, Sapphire Queensland.

In essence, AMC acquires raw uncut sapphire from AMO for on-sale and distribution.

6. REASONS FOR FAILURE

During the period of Administration my staff held discussions with the Directors of the Company regarding the financial position of the Company. The Directors have advised that the following factors contributed to the Company's financial difficulties, ultimately leading to the appointment of the Administrators.

On the 30th September 2005, RSM Bird Cameron Partners completed their independent audit report and issued a qualified opinion in relation to the group's ability to operate as a going concern. It is alleged that this report coupled with a few disgruntled vocal creditors and a report about the group appearing on a business television program may have led the Australian Securities and Investments Commission to increase its investigations into the financial affairs and dealings of the companies.

On the 17th October 2005, the Australian Securities and Investments Commission ("ASIC") filed an originating process with the Supreme Court of New South Wales for orders that AMC and AMO be wound up in insolvency pursuant to Sections 459A, 459B, 464 and 472 of the Corporations Act 2001.

The hearing of this matter was set down for the 24th October 2005 and after discussions between solicitors for both parties, the matter was stood over until the 2nd November 2005.

On the 25th October 2005, a without prejudice meeting was held between the solicitors for both parties and an oral proposal was put forward to ASIC regarding the payment of group creditors. Correspondence was sent to ASIC on the 26th October confirming the proposal put forward.

AMC and AMO, with the support of Nikiticorp, had formulated several proposals which it is claimed would have resulted in the payment of all the group's small (under \$5,000), unrelated claims within seven days and its other unrelated creditors being fully paid within 3 months.

ASIC rejected the proposal on 26th October 2005 and the matter was to proceed before the court on 2nd November 2005.

As noted earlier the respective appointments of Administrators to AMC & AMO took effect on Monday 31st October 2005.

The matter was heard on the 2nd November 2005 and the Administrators made an application to have the matter adjourned until the 28th November 2005. The application was based on the following contentions:

- That it was in the interests of the creditors of the company for the Administrations to continue due to the availability of finance to fund the trading of the business during the Administration period and beyond;
- That the prospective return to creditors would be greater under a Deed of Company Arrangement scenario as opposed to an immediate Liquidation scenario.

I advise that ASIC did not oppose the application and the matter was stood over until the 28th November 2005 with the Administrators being required to report to ASIC by 14th November 2005 regarding issues relating to the Remuneration Report in the Annual Report of the Company for the 2005 year. A non-binding resolution to accept this Report was proposed for the consideration of Shareholders at the Annual General Meeting of the AMC called for Wednesday 30th November 2005. I advise that the report prepared by me was provided to ASIC on 14th November 2005. I have asked the ASIC to advise me if there are any further issues they need clarified as a consequence of that report. At the date of this Report I have not received any further request from ASIC, in the event that I do before the 25th of November 2005, I will inform Creditors at the proposed meetings.

7. TRADING THE BUSINESS

Consistent with the objectives of the Voluntary Administration provisions of the Act which were discussed in Section 3 of this report upon appointment as Administrator of the Company I chose to continue trading the business operations of the group to allow the Directors an opportunity to propose a Deed of Company Arrangement.

In addition to taking control of the companies bank accounts and monitoring all incurred expenses, the group suppliers have been advised that all purchase orders from the date of my appointment must not be accepted unless they have been authorised by my staff and I. I have also opened administration accounts with the group suppliers to facilitate trading during the administration period.

I have implemented a system of daily reporting which incorporates daily production reports to monitor whether the business is trading profitably and meeting its production forecasts / targets. This information is to enable me to determine the operating efficiency of the business's operations and to determine whether or not the business has the capacity to increase its production capabilities and sapphire output so as to meet the terms and conditions of a Deed of Company Arrangement as outlined in Section 11 of this report.

Discussions with the Directors revealed that the insurance policies of the business had lapsed as at 30th June 2005, as such I have contacted AON Insurance Limited and arranged for immediate cover to be put in place for the administration period. In addition I advise that I have instructed an Occupational Health and Safety auditor to conduct a review and report of the various trading sites of the company, I am currently awaiting a reply.

As noted previously in this report, I have been advised by the Directors of the company that Nikiticorp, the group's secured creditor, will be providing \$300,000 to fund the ongoing trading of the business during the administration period. To date I have received approximately \$57,000 which has allowed me to continue trading the business to date. I have been advised that \$109,000 will be transferred from the Tzovaras Legal trust account to the Administrators bank account today. I am informed that the balance of funding will be paid by 28th November 2005.

I am not comfortable with the funding. I am in contact with Nikiticorp in relation to it honoring its original undertaking. If I remain uncomfortable and on a "drip feed of funds" I and my fellow administrators will have no alternative but to close the mine, the office at North Sydney and call a meeting of creditors to wind up the companies.

Since the date of my appointment the trading results of the companies can be summarized as follows:

PRODUCTION RESULTS

Month	Actual Production carats	Target Production carats	Compared to target %	Selling Value of Production \$
November (to 11/11/05 - 10 available working days)	160,848	202,546	79%	\$ 144,763

8. BOOKS AND RECORDS

Creditors should be aware, that an Administrator is required to conduct an investigation into the financial position of the company. In doing so, a preliminary review has been conducted of the books & records of the company in the Administrator's possession.

Section 286 of the Act provides "that a company must keep written financial records that:

- (a) correctly record and explain its transactions and financial position and performance; and
- (b) would enable true and fair financial statements to be prepared and audited."

The books and records received to date consist of:

- management accounts from the company's internal accounting records;
- externally prepared financial reports;
- bank statements;
- creditor ledgers;
- employee entitlement information and;
- various creditor correspondence.

In addition to this, I have also been supplied with the Company's prospectus and Replacement Prospectus, the Annual report as at 30th June 2005, which contains the financial statements as at 30th June 2005. I have also been provided with monthly reports covering July to October 2005. My staff and I will continue to collect and review the records of the company that are required to satisfy the obligations of the Administrators.

Subject to further review of the remaining records, given the size and nature of the business operated by the AMC & AMO, it appears that the both companies' books and records are adequate to comply with Section 286 of the Act. In providing this opinion I note that, an audit has not been completed (nor will an audit be completed) by my office of the group financial records.

An Audit of the Australis Group Financial Accounts for the year ended 30 June 2005 was completed by the group's external auditors prior to my appointment, there is no reference in their report to any inadequacy in the group's books and records.

Because of the short time period as prescribed by the Act for this report to be completed the Administrators have only reviewed the books and records of the company pertinent for the preparation of this report and the continued trading of each company's business. Not all of each company's books and records have been reviewed and as such this opinion is based on the records reviewed to date.

Investigations in this regard will continue if the company is placed into liquidation.

9. PREVIOUS TRADING RESULTS

Please find below an extract from the 30 June 2005 Balance Sheet and Profit & Loss Account disclosing the most recent financial position as prepared by the Company's internal Accountant.

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Total Current Assets	293	442	104	442
Total Non Current Assets	18,802	15,490	14,905	10,786
Total Assets	19,095	15,932	15,009	11,228
Current Liabilities	2,332	2,261	1,012	131
Non Current Liabilities	2,998	2,761	-	-
Total Liabilities	5,330	5,022	1,012	131
Net Assets	12,765	10,910	13,997	11,097

As can be seen from the above table, it appears that the Australis Group had a healthy net asset position as at 30 June 2005 of \$12,765,000. However I note that the Non-Current Asset classification includes an amount of \$12,752,000 for Exploration and Development. The notes to the financial statements indicate that this amount relates to Development Costs – Production Phase and contains a 2004 Directors' valuation of \$11,959,000. I have requested more information in regards to the Directors' Valuation.

I note that if the \$12,752,000 Exploration and Development value is removed from the calculation of net assets, the net asset position of the Consolidated entity decreases to \$13,000. Should the Companies be placed into Liquidation at the forthcoming meeting of creditors the Development and Exploration asset would be difficult to realise for its "book" value.

In addition to the above, it is important to note that the Current Liabilities contains a Loan from the ultimate parent Company of \$200,000 and Loans from a Director and or Director related entities in the amount of \$540,000, being a total of \$740,000. Under Non-Current Liabilities there is an interest-bearing loan from a Director of \$2,683,000. The "un-related" Current Liabilities were \$1,436,000 and the "un-related" Non-Current Liabilities for Leasing were \$315,0000.

STATEMENT OF FINANCIAL PERFORMANCE
AS AT 30 JUNE 2005

	Consolidated Entity		Parent Entity	
	2005	2004	2005	2004
	\$000	\$000	\$000	\$000
Revenue	43	-	29	-
Materials & Consumable Used	(325)	(98)	-	-
Depreciation Expense	(132)	-	(9)	-
Employee Benefits Expense	(1,109)	(152)	(856)	(137)
Borrowing Costs Expense	(206)	(40)	(14)	-
Other Expenses	(600)	(95)	(434)	(63)
Loss from Ordinary Activities before Income Tax Expense	(2,329)	(385)	(1,284)	(198)
Net Loss from Ordinary Activities after Income Tax Expense	(2,329)	(385)	(1,284)	(198)

The figures contained in the above table show the business has been making a loss since its formation in April 2004. This may be attributed to the high start up costs of establishing the necessary infrastructure associated with mining and distributing sapphires as well as the costs of exploration and development which are only now starting to produce results.

The Replacement Prospectus of AMC on page 77, Statement of Financial Performance recorded the Following "Economic Entity Forecast Reviewed Year Ended 30 June 2005 information:

	Consolidated Entity 2005 -Forecast
Revenue	\$9,074,806
Cost of Sales	(\$3,783,918)
Gross Profit	\$5,290,888
Distribution & Marketing expenses	(\$641,614)
Administrative expenses	(\$1,114,765)
Borrowing Expense (net)	(\$134,490)
Profit from ordinary activities before income tax	\$3,400,019
Income tax expense relating to ordinary activities	(\$911,066)
Profit from ordinary activities after related income tax expense	\$2,488,953

From the above, the ordinary activities of the Australis Group have achieved a Net result to 30 June 2005 which is \$4.8 million less than forecast. This result has eliminated the cash funds raised and has meant that the group have had to rely on funding provided by the ultimate holding company, Nikiticorp. It is clear that the business of the Australis Group is heavily dependant on the ongoing financial support of Nikiticorp Limited, the ultimate holding company and a secured creditor.

Financial Results as at 31 October 2005

The following tables which show the Financial Performance and the Financial Position of the business as at October 2005, again indicate that the group is heavily dependant on the ongoing financial support of Nikiticorp.

Financial Performance Summary

	Year to Date	
	Actual	Breakeven Budget
Revenue	\$671,455	\$727,875
Cost of Sales	(\$1,084,695)	(\$1,047,179)
Gross Profit	(413,240)	(\$319,304)
Gross Profit %		
Head Office Expenses	(\$541,035)	(\$530,166)
Marketing Expenses	\$0	\$0
Operating Profit / (Loss)	(\$954,275)	(\$849,470)
Interest	(\$126,955)	(\$102,830)
Tax	\$0	\$0
Net Profit / Loss	(\$1,081,230)	(\$952,300)
Net Profit %		

The following can be noted with respect to these figures:

- For the first four months of the year, the company has been unable to meet its budgeted revenue targets;
- Actual costs incurred exceed budget notwithstanding the poor revenue result.

Financial Position Summary

31st October 2005	\$
Net Working Capital	(1,062,731)
Security Deposit & Other Debtors	139,500
Plant & Equipment	5,054,588
Development & Exploration	12,826,122
Provisions	(167,833)
Interest Bearing Debts	(4,095,565)
Deferred Creditors	(1,010,705)
Net Assets	\$11,683,376

Production Difficulties

The company has forecasted breakeven production of 16,204 grams of sapphire per week at an average cost of \$4.50. A summary of the year to date production of the company is as follows:

Month	Actual Production	Compared to Breakeven Target	Value of Production
	GRAMS	%	\$
July	37,050	48%	166,725
August	45,808	59%	206,136
September	35,286	45%	158,787
October	56,163	72%	252,734
TOTAL	174,307	56%	784,382

Accordingly, the company has been unable to even reach its forecasted break even point, hence the need for significant reliance upon external financial support.

Factors contributing to the production shortfall include:

- Downtime in respect of the company's processing equipment;
- The inability to run two shifts per day;
- Poor recovery rates in respect of mined areas. Indeed the company's production increased in the month of October notwithstanding a less efficient use of the company's plant due to a better quality of resource area.

10. ASSETS AND LIABILITIES

Following the appointment, my staff provided to the Directors of the companies a Report As To Affairs ("RATA") for completion in accordance with Section 438B(2) of



the Act. At the date of this Report being dispatched to creditors, the RATA's have been completed by the Directors in draft and returned to my office.

Detailed below is a schedule of the assets and liabilities of the company. The figures below have been compiled with the assistance of the company's accountant, the company's MYOB Accounting File and various other documents. The figures are listed under the headings "Going Concern", (being the value at the date of my appointment) and "Estimated Realisable Value - Liquidation", (being the amount which it is expected would be obtained on a close down of the business).

I refer you to the discussion immediately following the table on each of the assets and liabilities recorded in the table.

THIS SECTION HAS BEEN LEFT BLANK INTENTIONALLY

	Australis Mining Corporation Limited (AMC)		Australis Mining Operations QLD Pty Ltd (AMO)	
	RATA/ Going Concern \$	Estimated Realisable Value- Liquidation \$	RATA/ Going Concern \$	Estimated Realisable Value - Liquidation \$
Assets				
Cash on Hand	1,093	1,093	2,336	2,336
Cash at Bank	92,853	111,854	Nil	Nil
Debtors	643	643	N/A	N/A
Related Party Loans	4,977,907	Nil	N/A	N/A
Plant & Equipment -Unencumbered				
	29,950	11,550	2,306,375	546,225
Plant & Equipment - Encumbered	N/A	N/A	795,500	584,735
Less: Payout Figure			(548,414)	(548,414)
Shares in AMO	10,000,000	Nil	N/A	N/A
Finished Goods	N/A	N/A	88,215	88,215
Deposits Paid	N/A	N/A	28,730	28,730
Mine Development Costs	N/A	N/A	12,543,972	Unknown
TOTAL ASSETS	15,102,446	125,140	15,216,714	701,827
Liabilities				
Priority Creditors				
- Administrators Fees Fixed (Including GST)	75,000	75,000	75,000	75,000
- Administrators Disbursements	25,000	25,000	25,000	25,000
- Deed Administrators Fees Fixed (including GST)	25,000	25,000	25,000	25,000
- Deed Administrators Disbursements	10,000	10,000	10,000	10,000
- Secured Creditor	300,000	300,000	300,000	300,000
- Employee Entitlements	133,907	133,907	170,001	170,001
TOTAL PRIORITY CREDITORS	568,907	568,907	605,001	605,001
Amount available to Unsecured Creditors	14,533,539	(443,767)	14,611,713	96,826
Unsecured Creditors Claims	840,093	840,093	1,153,711	1,153,711
Related Party Loans	N/A	N/A	7,744,926	7,744,926
Estimated Surplus / Deficiency	13,693,446	(1,283,860)	5,713,076	(8,801,811)
Return cents in \$	N/A	Nil	N/A	Subject to value of leased tenements on forced sale basis

10.1 Assets

AUSTRALIS MINING CORPORATION LIMITED

Cash at Bank

At the date of my appointment, the Company operated four bank accounts, two with the Commonwealth Bank of Australia ("CBA") and two with the HSBC Bank Australia Limited ("HSBC"). The balance sheet as at October 2005 shows total cash on hand as \$92,853 and the Directors RATA shows cash at bank as \$1,138. I have been advised that the reason for this difference is that the monies held in the HSBC account relate to a rental bond on the company's premises at 100 Miller Street North Sydney. I have been advised that this amount will be collectible should the terms of the lease be fulfilled.

I advise that I have been in contact with the both the HSBC and CBA requesting the trading accounts of the company be closed and any funds forwarded to my Administrators account. I note that I am still waiting on a response from the banks and as such, to date I have not realised any funds from the accounts mentioned above.

Debtors

I have been advised that the outstanding debtor figure of \$643 relates to a withholding tax refund due from the Australian Taxation Office.

Related Party Loans

The figure of \$4,977,907 relates to amounts that the company has lent to its wholly owned subsidiary to finance the trading operations of the business. In the event that the company is placed into Liquidation it is unlikely this balance would be recoverable in whole.

Plant & Equipment (Unencumbered)

At the date of my appointment I engaged the services of a registered valuer, Hymans Auctioneers and Valuers ("Hymans"), who attended the Company's premises at 100 Miller Street, North Sydney in order to ascertain the going concern and auction value of the tangible assets of the company.

Hymans indicated the following values for the Company's unencumbered assets:-

- | | |
|----------------------------------|-----------|
| ▪ Going concern value | \$ 29,950 |
| ▪ Orderly sale Liquidation value | \$ 17,985 |
| ▪ Forced sale Liquidation value | \$ 11,550 |

These amounts are not inclusive of any realisation or auction costs. Should the Companies be placed into Liquidation at the forthcoming meeting, the plant and equipment would be sold by the Liquidator. I have used the forced Liquidation estimate that Hymans provided in the above table when assessing the likely net return on a sale of these assets in a Liquidation scenario.

Shares

The figure shown on the Directors Report As to Affairs and the Balance sheet of the company as at October 2005 is \$10,000,000. This figure represents the book value of the shares (at the date of purchase) of the business formerly known as Junior Mining (Operations) P/L and now known as AMO the trading entity and wholly owned subsidiary.

The value of this investment would be heavily discounted in the event the subsidiary company was placed into Liquidation.

ASSETS – AUSTRALIS MINING OPERATIONS QLD PTY LIMITED***Cash at Bank***

The balance sheet as at October 2005 indicates that the Company had one bank account with the Commonwealth Bank of Australia ("CBA") which was overdrawn. I advise that I have been in contact with the CBA requesting that the signatories on the account be changed from the current signatories to the Administrators. I note that I have done this for security reasons as well as enabling the ongoing trading of the mine in Queensland to run as smoothly as possible.

Deposits Paid

This figure relates to a security deposit made to the Queensland Government – Environmental Protection Agency ("EPA"), lodged in respect of the mining leases held by the company. The amount of the security payment is approximately \$27,000 and will be returned upon surrender of the lease and the necessary rectification works as specified by the Queensland Government.

The balance of this figure relates to a rental bond paid on a unit in Emerald QLD for the mine manager Mr. George Christianos.

Finished Goods

The finished goods figure relates to rough sapphire stock held at the mine whether it is sorted or unsorted.

Prior to my appointment the company had entered into an agreement with AMC and Nikiticorp for Nikiticorp to acquire 100% of the output of the company for a 12 month period at \$4.50 per gram (90 cents per carat) I have sighted a draft of this agreement.

I note chapter 10 of the Listing Rules of the ASX requires shareholders of a listed company to approve a transaction, or series of transactions involving the disposal of a substantial asset to a substantial shareholder. Nikiticorp holds 50.2% of the issued share capital of AMC and thus qualifies as a substantial shareholder. In addition Section 208(1) of the Corporations Act requires the company to obtain shareholder approval by ordinary resolution before it can provide a "financial" benefit to a related party.

A related party includes a majority shareholder and directors of that shareholder who are directors of the company.

Sales pursuant to this agreement for the four months to 31 October 2005 have been 759,000 carats for a total sale value of \$660,000.

Creditors will note this agreement is subject to and yet to receive shareholder approval. The directors have advised me it is their intention to seek the ratification of members at a duly convened meeting of shareholders.

Further comments with respect to the commerciality of this transaction are included under the heading Voidable Transactions.

Plant & Equipment (Unencumbered)

At the date of my appointment I engaged the services of a registered valuer, Hymans Auctioneers and Valuers ("Hymans"), who attended the Company's premises at Lot 1057 Rubyvale, Sapphire QLD and the company's "Nardoo" mining tenements in order to ascertain the going concern and auction value of the tangible assets of the company. I note that Hymans travelled to the company's premises to ensure that all assets were sighted so an accurate valuation could be given.

The company's plant and equipment consists of an alluvial sapphire recovery plant and associated mining and on processing equipment.

Hymans indicated the following values for the Company's unencumbered assets:-

- Going concern value \$ 2,306,375
- Forced sale Liquidation value \$ 546,225
- Orderly sale Liquidation value \$ 1,205,995

These amounts are not inclusive of any realisation or auction costs. Should the Companies be placed into Liquidation at the forthcoming meeting, then the plant and equipment would be sold by the Liquidator. I have used the forced Liquidation estimate that Hymans provided in the above table when assessing the likely net return on a sale of these assets in a Liquidation scenario.

Plant & Equipment (Encumbered)

The company has several items that are subject to leases:

Lessor	Description	Payout Figure \$	Auction Valuation Amount \$
Westpac Equipment Finance	(3) Used Caterpillar 777 Rear Dump Truck	\$159,728.19	\$105,000
Westpac Equipment Finance	Used Caterpillar 777 Rear Dump Truck	Unknown	\$35,000
Queensland Government	Mining Leases	\$27,435.45	\$27,435.35
Queensland Government	Inspection Report Fee	\$9,300.00	\$9,300.00
CBFC Limited	Toyota Landcruiser	\$36,507.43	\$7,500
CBFC Limited	Toyota Landcruiser	\$56,261.57	\$19,000
CBFC Limited	Toyota Landcruiser GLX	Unknown	\$38,000
CBFC Limited	Toyota Hilux	Unknown	\$13,500
CBFC Limited	Toyota Hilux	Unknown	\$2,500
Komatsu Australia	D475A-2 Dozer	\$75,587.42	\$125,000
Esanda Finance Corp	Excavator	\$183,594.46	\$130,000
Esanda Finance Corp	Wheel Leader	Unknown	\$65,000
	TOTAL	\$548,414.52	\$584,735.35



Should the Company be placed into Liquidation at the forthcoming meeting, it is likely the equipment would be disclaimed by the Liquidator as there is no equity in these vehicles (after the costs of realisation). As such the leasing companies would repossess the goods and any shortfall on the sale of these goods would rank as an unsecured creditor of the Company. I have used the conservative estimate that Hymans provided in the above table when assessing the likely auction value of these assets.

Should the Company continue to trade and a Deed of Company Arrangement is proposed and accepted, then it is likely that these leases will be maintained and paid in the normal course of business.

Mine Development Costs

Discussions with the company secretary have revealed that the \$12,543,972 as shown in the company's October 2005 balance sheet can be divided into 2 amounts. Approximately \$10,000,000 represents the original value given to the leases held by AMO upon the release of the IPO of shares in AMC. The balance relates to the capital expenditure which was required to get the mine and processing site to its current operational status.

I note that this amount has been included in the audited financial accounts of the business, however should the companies be placed into Liquidation at the forthcoming meeting of creditors it is anticipated that the realisable value of this asset will be significantly lower.

Land & Buildings

I have been advised by the company secretary that the company owns three properties in the suburb of Sapphire, Queensland. I note that the properties are the subject of a charge with the Commonwealth Bank of Australia. The charge secures a performance bond issued by the CBA to the Department of Mines. I am yet to receive a valuation on the properties and thus am unable to determine if there is any equity in the properties. As such I have not included a figure in the asset section of the above table.

10.2 Liabilities

AUSTRALIS MINING CORPORATION LIMITED

Secured Creditor

The company search obtained from the records of the ASIC show that Nikiticorp Limited holds a fixed and floating charge over the assets of the company. The charge was created on 28th October 2005 and was registered with ASIC on 31st October 2005.

The company has a standby loan facility provided by its majority shareholder, Nikiticorp. The facility was renewed on 1 July 2005 and is subject to annual review which is next due to occur on 30 June 2006. The standby loan facility has a limit of \$2 million and bears interest at commercial interest rates, currently at 10%. Interest is capitalised monthly.

Advances pursuant to the facility agreement have been historically unsecured.

It is likely that that securities registered on 31 October 2006 will only be effective to secure advances post that date in accordance with Section 588FJ(1) of the Act.

Accordingly, the balance of advances prior to my appointment of \$767,153 would be accorded unsecured status.

Administrators'/ Deed Administrator's / Liquidators' Fees

I have sought to estimate my professional costs in this matter, as detailed in Section 13 of this report.

Employee Entitlements

As at the date of my appointment, the outstanding employee entitlements are as follows:

• Annual Leave	\$ 36,557
• Unpaid Wages	\$ 35,929
• Superannuation	\$ 61,421
TOTAL	\$ 133,907

I note that the Company has not paid any superannuation since its incorporation.

Under Section 556 of the Corporations Act, in a Liquidation employee entitlements are afforded a priority over unsecured creditors in any distribution of the assets of the company. Pursuant to Subsection 556(1A) and (1B) of the Act, in a Liquidation, a Director, spouse or relative of a Director, as an excluded employee of a company is limited to a maximum priority claim of \$2,000 in relation to outstanding wages and superannuation and \$1,500 in respect of outstanding leave of absence respectively. In accordance with Subsection 556(1C) of the Act a Director, spouse or relative of a Director, is not entitled to any priority payment for retrenchment payable by the company

Should insufficient funds would be available to pay employee entitlements in a Liquidation of the Company, employees would then be able claim for payment through the Department of Employment and Workplace Relations ("DEWR") General Employee Entitlements & Redundancy Scheme ("GEERS"). The aim of GEERS is to provide for the payment by the Government of certain entitlements of employees whose employment has been terminated as a result of their employer's insolvency. If the employer is a corporation, as in this case then the company must be in liquidation or provisional liquidation for the employees to be eligible for a GEERS advance. GEERS provides payment to employees for all unpaid wages, annual leave, long service leave, payment in lieu of notice and up to 8 weeks redundancy pay subject to a defined salary cap. GEERS does not pay outstanding superannuation. I note that GEERS is a discretionary scheme and each claim is assessed on its own merits by the DEWR. My staff will assist employees in lodging claims against the company and with GEERS should the Liquidation scenario eventuate.

I believe that it is important that employees are aware that the GEERS Operational Arrangements state (as from 1 November 2005):

"The Australian Government established GEERS as a basic payment scheme for Employees' unpaid Eligible Entitlements when:

- i) their Employer has been subject to an Insolvency Event;*
- ii) there are insufficient funds or assets available to the Employer to pay those entitlements; and*
- iii) no other source of funds is available to pay those entitlements."*

An Insolvency Event is defined under the GEERS Operational Arrangements as one of the following:

- i) in the case of an incorporated Employer, when a provisional liquidator or liquidator has been appointed under the Corporations Act 2001;*
- ii) in the case of an unincorporated Employer, where the Employer is subject to Bankruptcy;*
- iii) where the Employer is subject to insolvency proceedings not governed by the Corporations Act 2001 or the Bankruptcy Act 1966, or in other extraordinary circumstances, the Decision Maker is satisfied that the objects and principles in clause 4 (of the operational arrangements) can be satisfied.*

Therefore in the event a Deed of Company Arrangement is accepted by creditors employees will not be eligible to claim any entitlements owing to them by the company under GEERS.

In the event a Deed of Company Arrangement was proposed, employee creditors would have to balance their rights pursuant to the Deed in terms of preservation of employment and entitlements as against their rights under the GEERS operational guidelines.

I reiterate for the benefit of the employees of the Company that the DEWR will not pay any amounts to employees of the company under GEERS if a Deed of Company Arrangement is accepted by creditors.

Unsecured Creditors

As at the date of my appointment I was advised by the Company, that the debts to unsecured creditors were \$840,093. I note that this figure relates primarily to trade creditors. This figure will be subject to variance pending receipt of final Proof of Debts. The break up of unsecured creditors is detailed as follows;

Australian Taxation Office	\$ 85,121
Office Of State Revenue	\$ 46,094
Trade Creditors	\$708,878
Total	\$840,093

LIABILITIES – AUSTRALIS MINING OPERATIONS QLD PTY LIMITED***Administrators'/ Deed Administrator's / Liquidators' Fees***

I have sought to estimate my professional costs in this matter, as detailed in Section 13 of this report.

Employee Entitlements

As at the date of my appointment, the outstanding employee entitlements are as follows:

• Annual Leave	\$ 13,423
• Unpaid Wages	\$ 7,290
• Superannuation	\$ 149,288
TOTAL	\$ 170,001

I note that the Company has not paid any superannuation since its incorporation.

I refer creditors to the Priorities and GEERS section as outlined under the AMC Employee Entitlements Liability section of the report above.

Unsecured Creditors

As at the date of my appointment I was advised by the Company, that the debts to unsecured creditors were \$8,898,637. This figure will be subject to variation pending receipt of Formal Proof of Debts. The break up of unsecured creditors is detailed as follows;

Australian Taxation Office	\$ 153,468
Office Of State Revenue QLD	\$ 7,658
Trade Creditors	\$ 787,463
Staff Loans	\$ 205,122
Related Party Loans	\$7,744,926
Total	\$8,898,637

I note that the Related party Loans figure is made up of two loans. The first loan is to the parent company AMC and relates to monies forwarded to continue the ongoing trading operations of the business. The Second loan is from Mr. Eli Christianos for \$2,767,019 and also relates to monies loaned to fund the ongoing trading of the business.

11. DEED OF COMPANY ARRANGEMENT

Please be advised that I received a Deed of Company Arrangement outline from the Directors of the companies at 12.00 noon 17th November 2005.

Below is a copy of the text of the letter and attached and marked Annexure A is a copy of the letter.

"Dear Mr. Elliott

We write to advise you on the status of operations and our expectations as to the future.

Since its inception until the date of your appointment as administrator on 31st October, the mine has produced 1,106,000 carats. This represents an average of 7,600 carats per day, averaged over the total possible production days of 144 from 1st May.

Since that time the mine has produced 160,000 carats from 10 days production or an average of 16,000 carats per day, which approaches the estimated breakeven point of 20,200 carats per day.

We note that during the period from 1st to 6th November production of sapphire exceed breakeven levels, however since that time a few days has been lost for a number of reasons, thereby affecting the daily averages.

*The Directors have been advised that Nikiticorp Limited (**Nikiticorp**) is willing to continue to provide substantial funding in accordance with the undertakings given to you at the date of your appointment. Specifically, Nikiticorp has provided approximately \$150,000 to today and indicated to the Board that it will provide a further \$150,000 by 28th November 2005. Thereafter, during the term of the administration, Nikiticorp will provide an amount of \$300,000 per month.*

Further Nikiticorp has also advised that if the value of production, and therefore shipments, exceeds \$300,000 then an additional sum will be provided to ensure that Australis is paid in full for its shipments on a monthly basis.

Nikiticorp is formulating a proposal to the Administrator whereby the unrelated creditors of the Australis group are paid in full within a 3-month period and other related creditors are paid over some agreed longer time frame. The proposal will also provide an appropriate amount for working capital.

Once this proposal has been put and accepted by creditors then the Board will seek an end to the Administration and the lifting of the suspension of its securities on the Australian Stock Exchange Limited.

Yours sincerely

AUSTRALIS MINING CORPORATION LIMITED
(ADMINISTRATOR APPOINTED)

Anthony Damianos
Director"

As can be seen from the above Deed proposal outline the group are still formulating where the Deed funds are to come from. However it is anticipated that the Deed funds are to come from the future trading profits of the business with assistance from Nikiticorp Limited. I note that the production of sapphire is approaching the estimated break-even point and it is for this reason that, as noted in Section 14 of this report, I am recommending the adjournment of the major meetings of creditors to enable finalisation of the deed proposal.

12. INSOLVENT TRADING & VOIDABLE TRANSACTIONS

This discussion on voidable transactions together with the following section titled 'Opinion' comprise the statement required pursuant to Section 439A(4)(b) to accompany the notice of meeting. The information provided in this statement is based on my investigations during the short period of my appointment and further detailed investigations would be required.

Pursuant to Section 439A(4)(b) and Regulation 5.3A.02 of the Act, an Administrator in convening a meeting under Section 439A of the Act must specify whether there are any transactions which appear to be voidable transactions. Any such transactions are not recoverable by an Administrator or by a Deed Administrator but may be recoverable by a Liquidator. These transactions generally fall into the following categories, being unfair preferences, uncommercial transactions, insolvent transactions, unfair loans, unreasonable director related transactions and floating charges created within 6 months before relation back day.

Although not a voidable transaction a Liquidator, if appointed is capable of recovering compensation or loss resulting from insolvent trading. Although this is not a voidable transaction it is a potential action available in a Liquidation and I believe that it is relevant for it to be discussed in this report.

12.1 Insolvent Trading

A director of a company has a duty to prevent the company from incurring a debt when the company is insolvent or there are reasonable grounds to suspect that the company is or would become insolvent.

A director would fail to fulfil that duty if the director was aware that there are grounds for suspecting the company is or would become insolvent or a reasonable person in a like position would be aware of such grounds.

Pursuant to Sections 588G and 588M of the Act, a Liquidator can recover from a director of a company, as a debt due to the company, compensation equal to the amount of the loss or damage suffered by the company after a time that it is shown that a reasonable person would have suspected that the company could not pay its debts as and when they fell due.

Other than in cases of fraud and in exceptional circumstances such as when the ASIC take action, the director of a company may only be sued for insolvent trading if the company is in liquidation.

When a Voluntary Administrator has been appointed, assessment as to the possibility of insolvent trading can be an important criteria in the decision that creditors make as to whether they should choose between a Deed of Company Arrangement or a Liquidation. The possibility may exist that if the Company was placed in to liquidation, money may become available to unsecured creditors from a successful prosecution that would not be available under a Deed of Company Arrangement. A liquidation also preserves the possibility of individual creditors taking action in their own right.

In addition to actions against directors for insolvent trading, a holding company may be held liable for the debts of its subsidiaries under Section 588V of the Act where, the holding company, or one of its directors, are aware at the time of the company incurring debts that the company is insolvent or is likely to become insolvent by incurring the debt. I am of the opinion that AMC Limited would meet the Corporations Act 2001 definition of "holding company" in respect of AMO Pty Ltd and as such may be liable under Section 588V of the Act.

Further the prospect of liability for insolvent trading extends to "shadow directors".

The concept of shadow directorship arises from Section 9 of the Corporations Act, which defines a director to include:

" a person who is not validly appointed as a director if the directors of the company or body are accustomed to act in accordance with the persons instructions or wishes"

It is clear from the decided cases that the threshold into shadow directorship will have been crossed when the duly elected directors effectively abrogate their responsibility for managerial decision making to another party

That is the board of directors acts in accordance with the directions of others rather than exercise its own discretion or judgment.

The relationship of the group companies to the major shareholder, Nikiticorp at least raises the possibility of shadow directorship. Further investigation would be required as to whether Nikiticorp exercised the degree of control over the respective boards of the group companies to be construed as a shadow director.

There are a number of presumptions afforded to a Liquidator in the assessment and recovery of an insolvent trading claim. Two important presumptions are:

- a) Presumption of Continued Insolvency - Section 588E(3) of the Act provides that if it is proved that a Company is insolvent at any time during the twelve months preceding the Administrators appointment, then the Company is presumed to remain insolvent continuously from that point until the appointment date. This presumption assists a Liquidator who would otherwise be required to prove that the Company was insolvent at each time a new debt was incurred.
- b) Presumption of Insolvency - Section 588E(4) of the Act provides that a Company is presumed to be insolvent if it has failed to maintain books and records in accordance with Section 286 of the Act.

However, whilst it is acknowledged that these presumptions exist, a Liquidator would nonetheless conduct an investigation and review other documentation bearing on the Company's solvency. An initial discussion on the Companies solvency is outlined below.

A company is considered to be insolvent at the point when it is unable to pay its debts as and when they fall due for payment. Consideration is given to when the debts are commercially due for payment. Accordingly, the test of insolvency is primarily a cash flow test.

Mandie J in *ASIC v Plymin (2003) 46 ACSR 126* referred to a checklist of indicators of insolvency as follows:

1. Continuing losses
2. Liquidity ratios below 1
3. Overdue Commonwealth and State taxes
4. Poor relationship with present Bank, including inability to borrow further funds.
5. No access to alternative finance.
6. Suppliers placing Company on COD, or otherwise demanding special payments before resuming supply.
7. Inability to raise further equity capital.
8. Creditors unpaid outside trading terms.
9. Issuing of post-dated cheques.
10. Dishonoured cheques
11. Special arrangements with selected creditors.
12. Solicitors' letters, summons, judgments or warrants issued against the company.
13. Payments to creditors of rounded sums which are not reconcilable to specific invoices.
14. Inability to produce timely and accurate financial information to display the company's trading performance and financial position, and make reliable forecasts.

Taking into consideration the above I note the following:

a) Trading Losses

I note that group's financial accounts have reflected the following trading results: -

- Financial Year Ending 30 June 2004 – \$385,000 loss
- Financial Year Ending 30 June 2005 – \$2,329,000 loss

I note that these figures have been adjusted from the financial accounts to show the net trading result.

Consistent trading losses experienced by the Company may be an indication that the Company has been experiencing financial difficulties.

b) Payment of Tax Liabilities to the Australian Taxation Office

As previously discussed, there are amounts outstanding to the Australian Taxation Office ("ATO") for GST and PAYG.

The outstanding running account balance of the ATO provides an indication of when the group may have become insolvent by virtue of its inability to meet its tax debts as and when they fell due. I note that I am currently waiting for the ATO to lodge a proof of debt form so I may determine this date.

In addition to the above, I note that the group has never paid its Superannuation commitments. Contributions are owing from the date the business began employing staff and must now be paid to the ATO under the Superannuation Guarantee Act and are accruing interest and charges. This year's contributions are also outstanding.

c) Non Renewal of Insurance

It would appear that the company's general insurances (other than Directors & Officers insurance) were cancelled as at 30 June 2005 due to non payment and were not renewed.

The fact the company was not in a position to renew such a fundamental business expense is an indicator of financial difficulty.

Creditors will note I have arranged my own Administrators insurance with respect to the assets of the company.

d) Qualified Auditors Report

As stated previously , on 30th September 2005, RSM Bird Cameron Partners completed their independent audit report and issued the following qualified opinion with respect to the going concern assumption

"Inherent Uncertainty Regarding Financial Dependence on Related Party

The company at year end has a deficiency in working capital of \$2.039 million. As stated in Note 24 the company has subsequent to year end renewed and increased its stand by loan facility with its major shareholder Nikiticorp Limited to \$2 million repayable at 20 June 2006.

In addition the directors have received a letter from Nikiticorp Limited confirming its intention to provide continued financial support to the company as long as it is required.

In Note 27, the company has identified that it is dependent upon Nikiticorp to continually purchase the mine product of the company. As at the date of this report all product sales subsequent to year end have been to Nikiticorp Limited.

As at the date of this report the company's production levels are below anticipated levels which means that the company's operations are still in cashflow deficiency. This places even more reliance on the continued financial support of the major shareholder and primary purchaser of its products.

While the directors and majority shareholder are confident the company will continue to operate as a going concern and pay its debts as and when they fall due, we are unable to satisfy ourselves as to the financial capacity of Nikiticorp to be able to provide financial support under the standby loan facility and as the company's primary purchaser of its products and hence the concern of the company."

The above analysis of the Company's solvency at least raises the possibility that the Company may have been traded whilst insolvent, further investigations would be required to fix a possible date of insolvency and hence the potential quantum of any claim.

The Directors may be liable to compensate the Company for the debts incurred from the date of insolvency that remain outstanding at the date of the appointment of the Administrators.

If the matter were pursued, a Liquidator would be required to present sufficient evidence to show that the Company was insolvent and secondly to refute any statutory defense provided by the Directors.

Directors have several defences available to them, which are outlined as follows:

- (a) the director had reasonable grounds to expect and did expect that the Company was solvent and would remain so (Section 588H(2));
- (b) the director had reasonable grounds to believe and did believe that a competent and reliable person was providing adequate information to the director and based on that information the director expected the Company to be solvent and to remain so (Section 588H(3));
- (c) the director did not take part in the management of the Company at the time due to illness or other good reason (Section 588H (4)); or
- (d) the director took reasonable steps to prevent the Company from incurring the debt (Section 588H(5)).

In this respect creditors should note the following:

- An solvency analysis focuses on the capacity of a company to pay its debts as and when they fall "due and payable." The significant proportion of the debts of the group companies are owed to related entities and hence would not be classed as due and payable for the purposes of any solvency analysis.

Accordingly the quantum of any insolvent trading claim would be limited to sums outstanding to unrelated, unsecured creditors which would influence the commerciality of any claim.

- Further as related creditors constitute the largest quantum of debt of the company, they would obviously share in a greater proportion of any insolvent trading recovery in accordance with pari passu principle;
- Third party Support -

I note that AMC's majority shareholder, Nikiticorp Limited ("Nikiticorp") has provided financial and management support to Australis during its start-up phase and is continuing to fund the trading operations of the group. It is my understanding that a letter of comfort has been provided to the Directors of the company from Nikiticorp confirming its intention to provide continued financial support to the group as and when required.

Expectations of financial support can be considered as to whether a Director has reasonable grounds to expect a company is solvent. However that reliance must be reasonable.

Despite the reservations expressed in the auditors report, the historical financial support provided by Nikiticorp in respect of group operations would provide persuasive evidence that the directors behaved reasonably with respect to the incurrence of debt.

- Any court action against the directors for insolvent trading would in all likelihood take well over 12 months to be finalised and would involve substantial legal and accounting fees being incurred. These costs may not be recovered in full. A Liquidator may be without sufficient funds to undertake such an action to its full conclusion and as such creditors may be asked to provide the funds to cover all such professional costs. In circumstances where a Liquidator is without sufficient funds to bring a legal action the Liquidator may obtain funding from a litigation lender. In these circumstances, the litigation lender will indemnify the Liquidator against any adverse cost order and fund the legal case. If the litigation is successful, the litigation lender receives as first priority out of the sum received the repayment of the legal costs they have paid and a commission, usually 30% of the sum received. The Liquidator then receives the balance of the funds for the benefit of creditors. Therefore there is a cost involved in obtaining this type of funding.

An action for insolvent trading would only be brought against possible defendants by a Liquidator if a benefit would accrue to creditors from doing so. A further detailed analysis of the Company would need to be undertaken by a Liquidator to evaluate the merits of any such action.

Unfortunately, the uncertainties of any complex litigation does not allow me to provide any greater guidance to creditors on this issue at this time.

12.2 Unfair Preferences

Pursuant to Section 588FA of the Corporations Act 2001 and associated provisions of the Act, a Liquidator is able to recover from creditors any payments, preferences or advantages obtained by them from the company. This generally relates to a period of six months prior to the commencement of the winding up.

For a preference claim to be successful, a Liquidator needs to prove that the recipient of the preference payment suspected (or should have suspected) that the company was insolvent. In addition, the Liquidator may need to prove that the payment was not made to the recipient pursuant to a running account or in the ordinary course of business and/or that pressure had been applied by the recipient prior to the receipt of the payment.

For a preference claim to be successful, a Liquidator needs to prove that the recipient of the preference payment suspected (or should reasonably have suspected) that the company was insolvent.

Difficulties with pursuing preferences may include:-

1. Legal fees could be substantial and the matter may take some time to resolve
2. The creditor may have a valid defence.
3. The creditor may not be in a position to pay back those monies if and when a favourable judgement is received.
4. It is difficult to sustain a claim against a creditor for the receipt of a preferential payment as the issue of suspicion of insolvency can be disputed.

To date I have not identified any transactions of this nature.

Investigations are continuing and would be facilitated in the event creditors resolve to adjourn the forthcoming major meeting.

12.3 Uncommercial Transactions

Pursuant to Section 588FB of the Act a transaction is an uncommercial transaction if it may be expected that a reasonable person in the company's circumstances would not have entered into the transaction having regard to:

- (a) the benefits (if any) to the company of entering into the transaction;
- (b) the detriment to the company of entering into the transaction;
- (c) the respective benefits to other parties to the transaction of entering into it;
- (d) any other relevant matter.

In relation to the above, I refer to the Sales agreement entered into between AMC and Nikiticorp Limited, the majority shareholder (and related entity) of the group.

The agreement provides for the purchase of all sapphire produced by the group from its central Queensland mine at a price of \$4.50 per gram. As discussed earlier in this report this agreement has not been ratified by the company's members.

In essence Nikiticorp has utilised this agreement to reduce the indebtedness under its facility agreement referred to in point 10.2 of this report.

The issue arises as to whether this transaction could be classified as uncommercial.

I am informed by the company's directors that the benefits of this agreement are as follows:

- It reduces risks associated with the production mix of sapphires;
- It reduces risks associated with the sales process;
- AMC does not incur marketing costs which are estimated to be at least \$.8 million per year;
- the agreement is structured to allow for a renewal in one years time, so that any improvements to the mix of quality of sapphire being produced can be factored into the negotiation of the average sale price;
- It creates a assured customer for 100% of the group sapphire production;
- AMC has the ability to terminate the agreement in the event of non performance on the part of Nikiticorp.

The disadvantages of the agreement as I see them at this time are as follows:

- If quality of output is significantly better than the average price set by the agreement the group does not benefit from the possible increased sale price in such circumstances;
- The group is unable to establish sales relationships with other parties during the period of the Agreement.

I note that the \$4.50 per gram figure is the same as that applied by the company as the expected price per gram in the financial forecasts contained in the AMC December 2004 prospectus.

That document included an independent valuation of sapphire sales completed by BR Senior & Associates Pty Ltd – Geoscience Consultants. That valuation concluded:

"In light of the aforementioned market forces, the average price of \$4.50 per gram appears reasonable, even conservative, provided future sales are averaged over a period of at least three years and that past marketing continue at similar levels into the future. Australis's impact on sapphire sales should easily be absorbed in the international market, provided there are no similar sapphire mining companies with large deposits coming into production."

Prima facie this would be persuasive evidence to rebut the application of Section 588FB of the Act to these circumstances.

I do not propose to engage a further expert report with respect to this issue due to commercial considerations

12.4 Insolvent Transactions

Pursuant to Section 588FC of the Act a transaction is an insolvent transaction if it is an unfair preference given by the company, or an uncommercial transaction of the company and;

- (a) any of the following happens at a time when the company is insolvent;
 - (i) the transaction is entered into; or
 - (ii) an act is done or an omission is made, for the purpose of giving effect to the transaction; or
- (b) the company becomes insolvent because of, or because of matters including;
 - (i) entering into the transaction; or
 - (ii) a person doing an act, or making an omission, for the purpose of giving effect to the transaction.

12.5 Unfair Loans

Pursuant to Section 588FD of the Act a loan to a company is unfair if;

- (a) the interest on the loan was extortionate when the loan was made, or has since become extortionate; or
- (b) the charges in relation to the loan were extortionate when the loan was made, or have since become extortionate, even if the interest or the charges are no longer extortionate.

To date I have not identified any loans which would be classified as unfair.

Investigations would be facilitated in this regard in the event that creditors resolve in favour of an adjournment of the major meeting

12.6 Unreasonable Director Related Transactions

Pursuant to Section 588FDA of the Act a transaction is an unreasonable director related transaction if it is made to a director, close associate of the director, or a person on behalf of, or for the benefit of a director or close associate of a director and it may be expected that a reasonable person in the company's circumstances would not have entered into the transaction, having regard to;

- (i) the benefits (if any) to the company of entering into the transaction;
- (ii) the detriment to the company of entering into the transaction;
- (iii) the respective benefits to other parties to the transaction of entering into the transaction;
- (iv) any other relevant matter.

To date I have not identified any transactions of this nature.

Investigations are continuing and are necessarily complex given the interrelated nature of the group companies' affairs.

Investigations in this regard would be facilitated in the event that creditors resolve in favour of the adjournment of the major meeting.

12.7 Summary of Voidable Transactions

A transaction is voidable pursuant to Section 588FE(2) of the Act if it is an insolvent transaction and it was entered into during the period of 6 months before the appointment of the Administrators.

A transaction is voidable pursuant to Section 588FE(3) of the Act if it is an insolvent transaction and also an uncommercial transaction and it was entered into during the period of 2 years before the appointment of the Administrator.

A transaction is voidable pursuant to Section 588FE(4) of the Act if it is an insolvent transaction and a related entity of the company is a party to it and it was entered into during the period of 4 years before the appointment of the Administrator.

A transaction is voidable pursuant to Section 588FE(5) of the Act if it is an insolvent transaction and the company became a party to it for the purpose of defeating, delaying or interfering with the rights of any or all of its creditors on a winding up and it was entered into during the period of 10 years before the appointment of the Administrator.

A transaction is voidable pursuant to Section 588FE(6) of the Act if it is an unfair loan to the company made at any time on or before the appointment of the Administrator.

A transaction is voidable pursuant to Section 588FE(6A) if it is an unreasonable director related transaction and it was entered into during the 4 years before the appointment of the Administrator.

Difficulties with pursuing voidable transactions may include:-

1. Legal and accounting fees could be substantial and the matter may take some time to resolve,
2. The recipient of the potential voidable transaction may have a valid defence;
3. The recipient of the potential voidable transaction may not be in a position to pay back those monies if and when a favourable judgement is received;
4. It can be difficult to sustain a claim against a creditor for the receipt of certain types of voidable transaction as the issue of suspicion of insolvency can be disputed.

Based on the above potential difficulties and past experience an estimated return from any voidable transaction recoveries has not been included in any estimated return to creditor's calculation at this time.

12.8 Floating Charge Created Within 6 Months Before Relation Back Date

Pursuant to Section 588FJ of the Act, if a company is being wound up and the Company created a floating charge on its property during the 6 months before the date of appointment of the Administrators, the charge is void except so far as it secures:

- (a) an advance paid to the company, or at its direction, at or after that time and as consideration for the charge; or
- (b) interest on such an advance; or
- (c) the amount of a liability under a guarantee or other obligation undertaken at or after that time on behalf of, or for the benefit of, the company; or
- (d) an amount payable for property or services supplied to the company at or after that time; or
- (e) interest on an amount so payable.

In this instance a fixed and floating charge has been created within the 6 months before the date of the appointment of the Administrators.

However, the charge relates to fresh advances to the group following its creation and registration and as set out in Section 10.2 of this Report would seem to validly secure the quantum of such advances.

13. ACTIVITIES AND FEES OF THE ADMINISTRATORS

Pursuant to Section 449E of the Act the Administrator is entitled to such remuneration as is fixed by a resolution of the company's creditors. If no remuneration is fixed by the creditors, the Administrator is entitled to such remuneration as the Court fixes on the application of the Administrator.

An Administrator, when seeking approval for remuneration, should provide sufficient information to enable creditors to properly consider the reasonableness of the remuneration sought. If creditors do not believe that they have received sufficient information in this report to allow them to approve the Administrator's fees at the forthcoming meeting of creditors then I request that you immediately contact this office to determine whether further information can be provided.

While a company is under administration, the Administrator has control of the company's business, property and affairs, may carry on that business and manage that property and those affairs, may terminate or dispose of all or part of that business and may dispose of any of that property and may perform any function, and exercise any power, that the company or any of its officers could perform or exercise if the company were not under Administration.

Since the date of my appointment, I have been in control of the affairs of the company and conducted investigations relevant to my statutory responsibilities and the preparation of this report.

The work, to the extent possible has been conducted by staff other than senior persons and partners, but under the supervision of senior staff and partners.

In particular the Administrator and my staff have been involved in:-

- Meeting with the directors of the companies regarding the placing of the companies into Administration, the companies structure generally, background in relation to the affairs of the companies, the alternatives available to the Directors regarding dealing with the major creditors and considerations regarding the appropriate appointment.
- Preparation of notice for the appointment of the Administrator and meeting with the directors for the execution of the relevant documents.
- Preparation of documentation to the Directors of the companies regarding the requirement to lodge a Report as to Affairs and books and records with the Administrator in accordance with the Corporations Act 2001.
- Preparation and dispatch of Notice to the Landlord.
- Preparation and dispatch of notifications to taxation authorities (both State and Federal).
- Preparation and dispatch of notification to ASIC of the appointment of the Administrator.
- Preparation and dispatch of correspondence to essential service suppliers.
- Preparation and dispatch of Notice to Creditors advising them of the appointment and of the initial meeting of creditors.
- Preparation and dispatch of advertisement for the initial meeting of creditors and appointment of Administrator, in accordance with the Act.
- Conducting the initial meeting of creditors and the preparation of the minutes of the meeting, in accordance with the Act.
- Securing company assets and arranging for valuation of assets by Auctioneers and Valuers.
- Proceeding to open the relevant "Administrator Appointed" bank accounts.
- Dealing with inquiries from creditors.
- Establishing procedures for the purchase of supplies for the business.
- Monitored the trading operations of the company, analysing purchases and recording sales performance.
- General administration of the company's affairs in accordance with the obligations of the Administrator pursuant to the Corporations Act 2001 and generally.
- Continuing to monitor and control the company's operations until the end of my Administration period and if a Deed is drawn until the date the Deed is executed.
- Conducting an investigation into the company's business, property, affairs and financial circumstances.
- Preparation and dispatch of this report to convene the Section 439A meeting of creditors.

- Preparation and dispatch of advertisement for the Section 439A meeting of creditors, in accordance with the Act
- Attendance at and conducting the Section 439A meeting of creditors.

As stated in my initial report to creditors the following quotation was provided prior to appointment, to cover the estimated total fees for both Australis Mining Corporation Pty Limited and Australis Mining Operations Qld Pty Limited.

"You have asked us to provide a quotation of our expected fees for the Administration and if a Deed of Company Arrangement is approved, the Deed period. Because of the complexities and reporting requirements we are prepared to provide a fixed quotation of \$50,000 for the first month, and as the subsequent months will be trade on and general administration, \$25,000 per month thereafter until a Deed of Company Arrangement is approved by the creditors or a liquidator is appointed (which we expect is unlikely). Once a Deed of Company Arrangement is in place, and the Australis Group goes back under the control of the directors, we envisage that the cost of the Deed work would be \$50,000.

Any decision about fees will ultimately be made by the creditors of the company, this quotation has been provided to enable the directors to assess the expected costs and to take those costs in to account in assessing the viability of any Deed of Company Arrangement proposal, which would be for the benefit of unsecured creditors and would lead to the re-listing of the company. In the event that substantial additional costs are incurred by this firm as a consequence of unforeseen matters we reserve the right to take the issue to a meeting of unsecured creditors and to seek approval of additional fees should such circumstances arise. In the normal course of events, the quotation is a fixed quotation and should be a guide to you as to the funding requirements of the proposed administration and the Deed of Company Arrangement."

As a result of the above, the fees that I will seek approval of at the forthcoming meeting of creditors for the period from my introduction to the Director of the company up to the date of the forthcoming major meeting will be a fixed amount of \$50,000 including GST. This is a fixed quote. This fee has been calculated by the Administrators taking into account the nature and extent of the work performed, the urgency and degree of skill required to complete the tasks at hand, the degree of responsibility undertaken by the Administrators and my staff and the quality and quantity of the work provided to the company and the creditors, the degree of risk and personal exposure to the Administrators from such activities, the normal degree of risk that the remuneration cannot be met and the degree of credit being given before any payment of those fees can be expected.

This fee is fixed in the amount that the Administrators believes is appropriate to be charged in the circumstances. It is not based strictly on rates per hour charged.

A more detailed reconciliation of my fees will be disclosed to creditors at the forthcoming meeting. If creditors require a copy of this detailed reconciliation prior to the meeting, you may contact my office to obtain a copy. This meeting is the forum for the administrator's fees to be approved. Please note that this method of calculation was disclosed in my initial report to creditors.

As outlined in my initial report to creditors, I note that should the Administration of the companies be extended due to the adjournment of the Major Meeting of Creditors, I will be seeking further fees of \$25,000 per month thereafter until a Deed of Company Arrangement is approved by creditors or a

Liquidator is appointed. Further details in relation to any further fees will be provided in my future reports to creditors.

Pursuant to Section 443D(b) of the Act the Administrator has a right of indemnity from the assets of the Company with respect to the remuneration fixed under Section 449E of the Act.

14. ADMINISTRATORS RECOMMENDATION

Pursuant to Section 439A(4)(b) of the Act, an Administrator must set out his or her opinion and the reasons for that opinion as to whether it would be in the creditors interests for:

1. The company to execute a deed of company arrangement; or
2. The administration to end; or
3. The company to be wound up; or
4. The Meeting be Adjourned.

Under Section 439C of the Act, creditors may pass a resolution in terms of any one of the above alternatives. Alternatively, under Section 439B of the Act, a meeting can be adjourned for up to 60 days.

Dealing with each of the above alternatives, I advise as follows:

14.1 Deed of Company Arrangement

As discussed above, the Directors have put forward an outline of a proposal for a Deed of Company Arrangement.

Creditors will note I received this outline on Thursday 17 November 2005. I am obliged by the Corporations Act to forward my report to creditors by no later than close of business on that day, to provide creditors with sufficient notice of the respective meetings of creditors.

Accordingly I have not had sufficient time to formulate a reasoned opinion with respect to the directors deed proposal for the benefit of creditors. In such circumstances it would be inappropriate for me to express an opinion with respect to the execution or otherwise of a Deed of Company Arrangement at this time.

As a consequence it is my recommendation, as outlined below that this major meeting be adjourned in accordance with Section 439B(2) for a period of 59 days to enable finalization of the proposal and to enable me to finalise my recommendations with respect thereto.

In particular the following matters need to be addressed prior to my finalizing an opinion with respect to an Deed of Company Arrangement.

- The capacity of the tenements and associated mineral processing plant to trade profitably into the future, in addition to funding Deed contributions;
- The security of deed fund contributions;

- The status of related parties to participate in deed distributions;
- The implementation of initiatives to increase productivity efficiency of the groups processing operations at the Nardoo Tenements;
- Review the possibility of cost reductions to improve group profitability. In particular I am reviewing the need for the head office function of the group at its North Sydney premises;
- The possible introduction of additional capital into the company by way of existing shareholders and/ or new investors;

Accordingly, I am unable at this stage to express an opinion as to whether it would be in the creditors interest for the Company to execute a Deed of Company Arrangement.

14.2 The Administration to End

I refer to the company's schedule of assets and liabilities earlier in this report and note that the company is insolvent. As Administrator, I do not see any reason to recommend to creditors that the Administration should end and the company be handed back to the Directors without any arrangement having been made with respect to its creditors. If this were to happen the Company would be vulnerable to some other form of insolvency administration.

Accordingly, it is my opinion that it is not in the interest of creditors for the Administration to end.

14.3 The company to be wound up

The Directors outline for a Deed of Company Arrangement anticipates a return of 100 cents in the dollar to the company's unrelated unsecured creditors.

In addition Nikiticorp has indicated that it will not continue to fund the company in circumstances where a receiver / provisional Liquidator is appointed to the group of companies as contemplated by the ASIC's court proceedings.

Without external funding, it is clear the group is unable to continue to trade with the resultant detrimental effect on asset values and employment of the company's staff.

Accordingly, due to the above considerations it is my opinion that it is not in the interests of creditors for the company to be wound up at this time.

This recommendation is caveated on the condition of further funding being available to the Administrators.

Prior to my appointment on the 31st October 2005, I received an undertaking from Nikiticorp that I would receive \$300,000 to cover the initial month's trade on of the Administration. To date I have received \$57,000 of that balance. I have indicated to the directors that this situation is untenable to maintain the groups mining operations at optimum capacity. Indeed it has been necessary to reduce shifts at the company's mine site to conserve the available working capital.

Accordingly, in the event I do not receive the balance of the \$253,000 initial funding by the time of the major meeting, it would be my recommendation to creditors that the company be wound up.

14.4 The Meeting be Adjourned

As noted above it is my recommendation subject to the condition noted at Section 14.3, that the major meeting be adjourned in accordance with Section 439B(2) of the Act.

The adjournment will enable the following:

- The assessment of the capacity of the group tenements and associated mineral processing plant to trade profitably into the future, in addition to funding Deed contributions.
- The security of deed fund contributions.
- The status of related parties to participate in deed distributions;
- The implementation of initiatives to increase productivity/efficiency of the groups processing operations at the Nardoo tenements;
- The review of cost reductions to improve group profitability;
- The possible introduction of additional capital into the group by way of existing shareholders and/ or new investors.
- Further investigations to be conducted in respect of the availability of recoveries in respect of insolvent trading and voidable transactions.
- In addition an adjournment of the major meeting will provide the opportunity to review the feasibility of a going concern sale of the Group's operations to external parties

Accordingly, I recommend that the forthcoming meeting of creditors be adjourned for a maximum period of 59 days in accordance with Section 439B(2) of the Act, with the Administrators to have the discretion to reconvene the meeting earlier on five business days notice to creditors.

15. FURTHER INFORMATION

The information contained in this report is based upon preliminary investigations into the affairs of the company and advice from relevant parties. In these circumstances creditors must appreciate the limitations in the information provided. The Corporations Act 2001 timetable necessitates the completion of this report in a relatively short period of time.

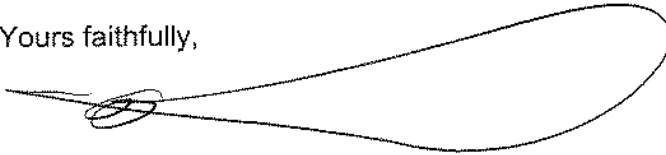
Creditors will be aware that the Administrator must act as Chairman of the forthcoming meeting of creditors. Further, it may be necessary for the Chairman to use a casting vote in respect of a motion to wind up the company or for the company to enter into a Deed of Company Arrangement.

It is the Administrator's intention to use any casting vote in accordance with the recommendations contained within this report. This intention is based on the information available at the date of this report and the reasons set out in this report. This position is subject to the Administrator not receiving any further information before or during the meeting that would result in the recommendation being changed.

I trust that this report adequately discloses information pertaining to the company's position and therefore allows creditors to make an informed decision as to the company's future. I welcome further advice or comments from creditors on the report and the affairs of the company in general.

Should you have any further queries, please do not hesitate to contact Shumit Banerjee or David Ingram of this office.

Yours faithfully,



ROBERT ELLIOTT
ADMINISTRATOR

Enquiries: Shumit Banerjee

Paragraph 5.6.12(2)(aa)

FORM 529

Corporations Act 2001

**NOTICE OF MAJOR MEETING OF CREDITORS
OF COMPANY UNDER ADMINISTRATION**

**AUSTRALIS MINING CORPORATION LIMITED
(ADMINISTRATORS APPOINTED)
("the Company")**

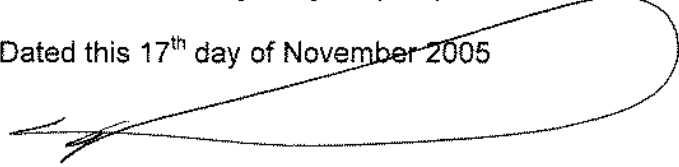
Notice is now given that the Major Meeting of the creditors of the abovenamed Company will be held at the offices of **Hall Chadwick, Level 29, 31 Market Street Sydney NSW at 12:00 noon on Friday 25th November 2005 (creditors may appoint a proxy to attend on their behalf).**

The purpose of the meeting is to consider and if thought fit, vote on the following issues:-

- (a) Whether to adjourn the meeting (for a maximum of 60 days);
- (b) Whether the Company execute a Deed of Company Arrangement;
- (c) Whether to end the Administration;
- (d) Whether the Company be wound up
- (e) If a Deed of Company Arrangement is approved, the appointment of an Administrator of that Deed;
- (f) To discuss the ongoing funding of the company subject to Administration;
- (g) The remuneration of the Administrator; and
- (h) Any other business.

A Form of Proxy and Form of Proof of Debt are enclosed for your convenience. These documents must be lodged at this office prior to the meeting. If a Proof of Debt has already been lodged, there is no need to provide further details to the Administrator. Please note the requirement to lodge original proxy forms in addition to any faxed copy.

Dated this 17th day of November 2005



ROBERT ELLIOTT
ADMINISTRATOR
Hall Chadwick
Level 29, 31 Market Street
Sydney, New South Wales

**Regulations Relating to the Conduct of Meetings Convened under the
Corporations Act 2001.**

Regulation 5.6.19(1) - A resolution put to the vote of a meeting must be decided on the voices unless, subject to subregulation (5), a poll is demanded, before or on the declaration of the result of the voices:

- (a) by the chairperson; or
- (b) by at least 2 persons present in person, by proxy or by attorney and entitled to vote at the meeting; or
- (c) by a person present in person, by proxy or by attorney and representing not less than 10% of the total voting rights of all the persons entitled to vote at the meeting.

Regulation 5.6.21(2) - A resolution is carried if:

- (a) a majority of the creditors voting (whether in person, by attorney or by proxy) vote in favour of the resolution; and
- (b) the value of the debts owed by the corporation to those voting in favour of the resolution is more than half the total debts owed to all the creditors voting (whether in person, by proxy or by attorney).

Regulation 5.6.28(3) - A person claiming to be the proxy of a person entitled to attend and vote at a meeting is not entitled to speak or vote as proxy at the meeting (except in relation to the election of a chairperson) unless the instrument of appointment of the proxy, as required by regulation 5.6.29, or a facsimile copy of the instrument, has been lodged with the person named in the notice convening the meeting as the person who is to receive the instrument, or with the chairperson.

Regulation 5.6.33(1) - Subject to subregulations (2) and (3), a person acting under:

- (a) a general proxy; or
- (b) a special proxy;

must not vote in favour of any resolution which would directly or indirectly place:

- (c) the person; or
- (d) the person's partner; or
- (e) the person's employer;

in a position to receive any remuneration out of assets of the Company except as a creditor rateably with the other creditors of the Company.

Regulation 5.6.33(3) - If a person holds a special proxy to vote:-

- (a) in favour of his or her appointment as the administrator of a Company under administration or of a deed of Company arrangement; or

- (b) against the termination of his or her appointment as the administrator of a Company under administration or of a deed of Company arrangement;

he or she may use the proxy and vote accordingly.

Regulation 5.6.35 - A document:

- (a) purporting to be a copy of a resolution under subsection 249(3) of the Corporations Act 2001 authorising a person to act as proxy at a meeting; and
- (b) that has been verified as a true copy of the resolution or that is under the seal of the corporation;

is conclusive evidence of his or her authority to do so.

Regulation 5.6.36A - A person who, for the purposes of a meeting, lodges a faxed copy of an instrument appointing a proxy or of any document relating to the validity of the appointment, must lodge the original instrument or document in the manner referred to in subregulation 5.6.28(3) within 72 hours after lodging the faxed copy.

Sub-Regulation 5.6.49(2)

COMPANY FORM 535
Corporations Act 2001

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

**To the Administrators of
AUSTRALIS MINING CORPORATION LIMITED**

1. This is to state that the Company was at 31 October 2005 and still is, justly and truly indebted to

(1) _____

_____ of _____

in the sum of (2) _____

Particulars of debt are:

(3) Consideration	Amount		(4) Remarks	Date
	\$	c		
_____	_____	_____	_____	_____

2. The creditor has not, nor has any person by the creditor's order, to my knowledge or belief, had or received any manner of satisfaction or security for the sum or any part of it except for the following:(5)

3. (6) I am in the employment of the creditor and duly authorised in writing by the creditor to make this statement and it is within my knowledge that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied, or

3. I am the creditor's agent duly authorised in writing to make this statement in writing and it is within my own knowledge that the debt was incurred and for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied, or

3. (6) I make this Statement personally as the creditor and it is within my knowledge that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.

DATED this _____ day of _____ 2005 _____

Signature: _____

Name: _____

Occupation: _____

Address: _____

Please see notes over page to assist in the completion of this form.

- (1) Insert full name and business address of the creditor and, if applicable, the creditor's partners.
- (2) Enter the amount in numbers and words and ensure that the amount reconciles to the information supplied in points (3) and (4).
- (3) Under "consideration" state how the debt arose, for example "goods sold and delivered to the Company between the dates of _____" or "moneys advanced in respect of the Bill of Exchange". If insufficient room, attach a Statement of Account.
- (4) Under "Remarks" include details of vouchers substantiating payment, such as invoice numbers.
- (5) Insert particulars of all securities held. Where the securities are on the property of the Company, assess the value of those securities. If any bills or other negotiable securities are held, provide details of the date, drawer, acceptor, amount and due date.
- (6) Delete whichever paragraph does not apply.

Form 532

Regulation 5.6.29

A.C.N.: 108 649 421

Corporations Act 2001

APPOINTMENT OF PROXY

**I/*We _____ (if a firm, strike out "I" and set out the full name of the firm) of _____ (address), a creditor/*contributory/*debenture holder/*member of Australis Mining Corporation Limited, appoint _____ (name, address and description of the person appointed) or in his or her absence _____ as *my/*our *general/*special proxy to vote at the *meeting of *creditors/*contributories*debenture holders/*members/*joint meeting of members and creditors to be held on 25th November 2005 at 12.00 noon, or at any adjournment of that meeting (if a special proxy add the words "to vote for" or the words "to vote against" and specify the particular resolutions).*

Dated

Signature

CERTIFICATE OF WITNESS

(This certificate is to be completed only if the person giving the proxy is blind or incapable of writing. The signature of the creditor, contributory, debenture holder or member must not be witnessed by the person nominated as proxy)

I _____ (name), of _____ (address), certify that the above instrument appointing a proxy was completed by me in the presence of _____ and at the request of the person appointing the proxy and read to him or her before she signed or marked at the instrument.

Dated

Signature of witness

Description

Place of residence

* Omit if inapplicable.

Paragraph 5.6.12(2)(aa)

FORM 529

Corporations Act 2001

**NOTICE OF MAJOR MEETING OF CREDITORS
OF COMPANY UNDER ADMINISTRATION**

**AUSTRALIS MINING OPERATIONS QLD PTY LIMITED
(ADMINISTRATORS APPOINTED)
("the Company")**

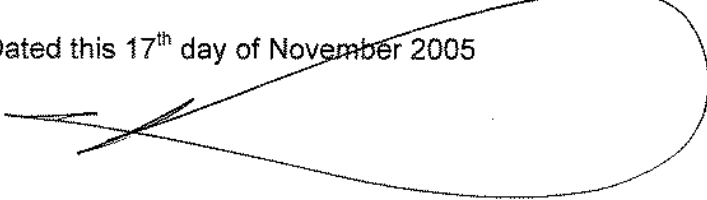
Notice is now given that the Major Meeting of the creditors of the abovenamed Company will be held at **The Gateway Motel, Corner of Hospital Street and Teresa Street, Emerald QLD 4720 at 9:30am on Friday 25th November 2005 (creditors may appoint a proxy to attend on their behalf).**

The purpose of the meeting is to consider and if thought fit, vote on the following issues:-

- (a) Whether to adjourn the meeting (for a maximum of 60 days);
- (b) Whether the Company execute a Deed of Company Arrangement;
- (c) Whether to end the Administration;
- (d) Whether the Company be wound up
- (e) If a Deed of Company Arrangement is approved, the appointment of an Administrator of that Deed;
- (f) To discuss the ongoing funding of the company subject to Administration;
- (g) The remuneration of the Administrator; and
- (h) Any other business.

A Form of Proxy and Form of Proof of Debt are enclosed for your convenience. These documents must be lodged at this office prior to the meeting. If a Proof of Debt has already been lodged, there is no need to provide further details to the Administrator. Please note the requirement to lodge original proxy forms in addition to any faxed copy.

Dated this 17th day of November 2005



ROBERT ELLIOTT
ADMINISTRATOR
Hall Chadwick
Level 29, 31 Market Street
Sydney, New South Wales

**Regulations Relating to the Conduct of Meetings Convened under the
Corporations Act 2001.**

Regulation 5.6.19(1) - A resolution put to the vote of a meeting must be decided on the voices unless, subject to subregulation (5), a poll is demanded, before or on the declaration of the result of the voices:

- (a) by the chairperson; or
- (b) by at least 2 persons present in person, by proxy or by attorney and entitled to vote at the meeting; or
- (c) by a person present in person, by proxy or by attorney and representing not less than 10% of the total voting rights of all the persons entitled to vote at the meeting.

Regulation 5.6.21(2) - A resolution is carried if:

- (a) a majority of the creditors voting (whether in person, by attorney or by proxy) vote in favour of the resolution; and
- (b) the value of the debts owed by the corporation to those voting in favour of the resolution is more than half the total debts owed to all the creditors voting (whether in person, by proxy or by attorney).

Regulation 5.6.28(3) - A person claiming to be the proxy of a person entitled to attend and vote at a meeting is not entitled to speak or vote as proxy at the meeting (except in relation to the election of a chairperson) unless the instrument of appointment of the proxy, as required by regulation 5.6.29, or a facsimile copy of the instrument, has been lodged with the person named in the notice convening the meeting as the person who is to receive the instrument, or with the chairperson.

Regulation 5.6.33(1) - Subject to subregulations (2) and (3), a person acting under:

- (a) a general proxy; or
- (b) a special proxy;

must not vote in favour of any resolution which would directly or indirectly place:

- (c) the person; or
- (d) the person's partner; or
- (e) the person's employer;

in a position to receive any remuneration out of assets of the Company except as a creditor rateably with the other creditors of the Company.

Regulation 5.6.33(3) - If a person holds a special proxy to vote:-

- (a) in favour of his or her appointment as the administrator of a Company under administration or of a deed of Company arrangement; or

- (b) against the termination of his or her appointment as the administrator of a Company under administration or of a deed of Company arrangement;

he or she may use the proxy and vote accordingly.

Regulation 5.6.35 - A document:

- (a) purporting to be a copy of a resolution under subsection 249(3) of the Corporations Act 2001 authorising a person to act as proxy at a meeting; and
- (b) that has been verified as a true copy of the resolution or that is under the seal of the corporation;

is conclusive evidence of his or her authority to do so.

Regulation 5.6.36A - A person who, for the purposes of a meeting, lodges a faxed copy of an instrument appointing a proxy or of any document relating to the validity of the appointment, must lodge the original instrument or document in the manner referred to in subregulation 5.6.28(3) within 72 hours after lodging the faxed copy.

Sub-Regulation 5.6.49(2)

COMPANY FORM 535
Corporations Act 2001

FORMAL PROOF OF DEBT OR CLAIM (GENERAL FORM)

**To the Administrators of
AUSTRALIS MINING OPERATIONS QLD PTY LIMITED**

1. This is to state that the Company was at 31 October 2005 and still is, justly and truly indebted to

(1) _____

_____ of _____

in the sum of (2) _____

Particulars of debt are:

(3) Consideration	Amount	(4) Remarks	Date
	\$ c		

2. The creditor has not, nor has any person by the creditor's order, to my knowledge or belief, had or received any manner of satisfaction or security for the sum or any part of it except for the following: (5)

3. (6) I am in the employment of the creditor and duly authorised in writing by the creditor to make this statement and it is within my knowledge that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied, or

3. I am the creditor's agent duly authorised in writing to make this statement in writing and it is within my own knowledge that the debt was incurred and for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied, or

3. (6) I make this Statement personally as the creditor and it is within my knowledge that the debt was incurred for the consideration stated and that the debt, to the best of my knowledge and belief, still remains unpaid and unsatisfied.

DATED this _____ day of _____ 2005 _____

Signature: _____

Name: _____

Occupation: _____

Address: _____

Please see notes over page to assist in the completion of this form.

- (1) Insert full name and business address of the creditor and, if applicable, the creditor's partners.
- (2) Enter the amount in numbers and words and ensure that the amount reconciles to the information supplied in points (3) and (4).
- (3) Under "consideration" state how the debt arose, for example "goods sold and delivered to the Company between the dates of _____" or "moneys advanced in respect of the Bill of Exchange". If insufficient room, attach a Statement of Account.
- (4) Under "Remarks" include details of vouchers substantiating payment, such as invoice numbers.
- (5) Insert particulars of all securities held. Where the securities are on the property of the Company, assess the value of those securities. If any bills or other negotiable securities are held, provide details of the date, drawer, acceptor, amount and due date.
- (6) Delete whichever paragraph does not apply.

Form 532

Regulation 5.6.29

A.C.N.: 081 347 891

*Corporations Act 2001***APPOINTMENT OF PROXY**

*I/*We _____ (if a firm, strike out "I" and set out the full name of the firm) of _____ (address), a creditor/*contributory/*debenture holder/*member of Australis Mining Operations QLD Pty Limited, appoint _____ (name, address and description of the person appointed) or in his or her absence _____ as *my/*our *general/*special proxy to vote at the *meeting of *creditors/*contributories*debenture holders/*members/*joint meeting of members and creditors to be held on 25th November 2005 at 9.30am, or at any adjournment of that meeting (if a special proxy add the words "to vote for" or the words "to vote against" and specify the particular resolutions).

Dated

Signature

CERTIFICATE OF WITNESS

(This certificate is to be completed only if the person giving the proxy is blind or incapable of writing. The signature of the creditor, contributory, debenture holder or member must not be witnessed by the person nominated as proxy)

I _____ (name), of _____ (address), certify that the above instrument appointing a proxy was completed by me in the presence of _____ and at the request of the person appointing the proxy and read to him or her before she signed or marked at the instrument.

Dated

Signature of witness

Description

Place of residence

* Omit if inapplicable.



17 November 2005

Mr. Robert Elliott
Hall Chadwick
Level 29, 31 Market Street
SYDNEY NSW 2000

Dear Mr. Elliott

We write to advise you on the status of operations and our expectations as to the future.

Since its inception until the date of your appointment as administrator on 31st October, the mine has produced 1,106,000 carats. This represents an average of 7,600 carats per day, averaged over the total possible production days of 144 from 1st May.

Since that time the mine has produced 160,000 carats from 10 days production or an average of 16,000 carats per day, which approaches the estimated breakeven point of 20,200 carats per day.

We note that during the period from 1st to 6th November production of sapphire exceed breakeven levels, however since that time a few days has been lost for a number of reasons, thereby affecting the daily averages.

The Directors have been advised that Nikiticorp Limited (**Nikiticorp**) is willing to continue to provide substantial funding in accordance with the undertakings given to you at the date of your appointment. Specifically, Nikiticorp has provided approximately \$150,000 to today and indicated to the Board that it will provide a further \$150,000 by 28th November 2005. Thereafter, during the term of the administration, Nikiticorp will provide an amount of \$300,000 per month.

Further Nikiticorp has also advised that if the value of production, and therefore shipments, exceeds \$300,000 then an additional sum will be provided to ensure that Australis is paid in full for its shipments on a monthly basis.



Nikiticorp is formulating a proposal to the Administrator whereby the unrelated creditors of the Australis group are paid in full within a 3-month period and other related creditors are paid over some agreed longer time frame. The proposal will also provide an appropriate amount for working capital.

Once this proposal has been put and accepted by creditors then the Board will seek an end to the Administration and the lifting of the suspension of its securities on the Australian Stock Exchange Limited.

Yours sincerely

**AUSTRALIS MINING CORPORATION LIMITED
(ADMINISTRATOR APPOINTED)**

Anthony Damianos
Director