Hall Chadwick
Chartered Accountants & Business Advisers

Facsimile Message

TO: Company Announcements Office

OF: Australian Securities Exchange ("ASX")

NO: (02) 1900 999 279

FROM: Anthony Damianos

RE: Australis Mining Corporation Limited
(Subject To Deed Company Arrangement)

Company Code: **AUV**

DATE: 21 December 2007

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Please find attached Company Announcement.

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18th December 2007

REPORT TO CREDITORS

OF

AUSTRALIS MINING CORPORATION LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
("AUSTRALIS") ACN 108 649 421

&

AUSTRALIS MINING OPERATIONS QLD PTY LIMITED
(SUBJECT TO DEED OF COMPANY ARRANGEMENT)
("AUSTRALIS QLD") ACN 081 347 891

I refer to previous correspondence relating to the above companies and now write to provide an update. As you are aware the following appointments pursuant to Section 436A of the Corporations Act 2001 ("the Act") took place on 31 October 2005.

- Australis Administrators – Robert Elliott and Richard Albarran.
- Australis Qld Administrators – Robert Elliott and Blair Pleash.

On 23 January 2006 Creditors resolved that the companies should enter into Deeds of Company Arrangement ("DoCA"). The DoCA were entered into by the companies and the Deed Administrators appointed were appointed as follows:

- Australis – Robert Elliott and Richard Albarran.
- Australis Qld – Robert Elliott and Blair Pleash.

As you are aware there have been a number of amendments to the Australis and Australis Qld first DoCA dated 27 February 2006.

On 19 May 2006 the Creditors agreed to amend that DoCA and again on 8 September 2006 the DoCA was further amended.

Each of the amendments to the DoCA related to instalments payable by Nikiticorp Limited ("Nikiticorp").

At the time of the September 2006 meeting, I understood from the Directors of Nikiticorp that they had arrangements in place for funds to be generated from a mining operation that Nikiticorp has in Western Australia.

The first instalment was due on 22 December 2006. That instalment was not received as the mining operations of Nikiticorp in Western Australia were behind time due to delays in registering the lease and weather conditions in the area of the mine. I was assured by the Directors that before the end of January 2007 the first instalment would be paid. As a consequence of this assurance, I provided an extension of time.

At all times the Directors of both Australis and Nikiticorp attempted to keep me informed of the progress in raising the $500,000 for the first instalment. I was given to understand that the production from the mine in Western Australia had provided sufficient material to meet both the first and second instalments and that the material had been exported to Thailand for sale. I note the second instalment was due on 22 March 2007.

Difficulties arose between Nikiticorp and the agent acting for the sale of the product. I understood that the agent was a Thai national who was also a shareholder and investor in Nikiticorp. Because of the breakdown in the relationship with the Thai shareholder and agent, funds did not become available during the months of February and March 2007. During the whole of this period I was in regular contact with Mr. Jerry Goddard who is a non-executive Director of the Australis companies, Mr. Ted Tzovaras who is a non-executive Director of the Australis companies and a Director of Nikiticorp, Mr. Anthony Damianos the CEO and a Director of the Australis companies and Mr. Eli Christianos who is the Chairman and Managing Director of Nikiticorp and an Alternate Director of the Australis companies. I continued to receive assurances that funds would be available from the sale of the mined material exported to Thailand from the Western Australian operations of Nikiticorp.

On 28 March 2007, funds were made available and I banked to the Administration account an amount of $250,000. On 5 April 2007, I received and banked a further $250,000.

In relation to the balance of funds due under the DoCA, please be advised that I have been in regular contact, at times on a daily basis, with the Directors and other relevant parties (outlined above) of both Australis and Nikiticorp. These discussions have been in relation to various proposals and opportunities that Australis and Nikiticorp have been working on and which they believed would provide sufficient funds to enable the unsecured creditors of the companies who had not subrogated their debt to be paid in full.

I note that at all times Nikiticorp has and remains committed and confident of completing an arrangement that would result in all of Australis' unsecured creditors who had not subrogated their claims to be paid in full.

On the 26th November 2007, I received correspondence from Nikiticorp stating that it would soon be in a position to submit a firm proposal for consideration by Australis' unsecured creditors. The correspondence goes on to state that a related entity of Nikiticorp has the opportunity to enter a Joint Venture Business arrangement which would enable the raising of substantial capital for the Joint Venture Business and also produce a surplus for the payment of Australis' unsecured creditors who had not subrogated their claims through Nikiticorp.

For reasons of commercial confidentiality I am unable to provide further details at this time, however my daily discussions with the Directors of Australis and Nikiticorp have indicated that the afore mentioned Joint Venture Business arrangement is close to being finalised and a proposal to pay the DoCA funds should be submitted to my office late January 2008.

On receipt of this proposal I will provide creditors with a detailed report which will outline the proposal, discuss my recommendations and convene a meeting of creditors to accept or reject the proposal.

During the course of the DoCA, I have received numerous calls, faxes and queries from creditors requesting an update on the progress of the DoCA payments, reasons for delay and querying why the DoCA has not been terminated and the companies placed into Liquidation.

In dealing with this issue I have been particularly conscious of the following facts:-

1. The mining operation of Australia Qld Sapphires outside of Emerald in Queensland ceased operating in early April 2006.

2. The market for Sapphires and Australian Sapphires in particular has not been strong. The market has started to improve and is expected to improve as the other sources of Sapphires, in particular Madagascar, Africa, run down.

3. According to the Registrar of Mines in Queensland there is very little large scale mining for Sapphires in the Emerald area nor I understand from other areas in Australia generally. Accordingly, whilst the mining tenements/leases that Australis has are of value, they are not readily realisable.

4. Following the closure of the mine all of the leased or otherwise financed equipment was taken back by the finance companies and has been sold. Accordingly, there is no value in that equipment over and above the amount owing to the finance companies that would have contributed to payments to unsecured creditors. The processing plant is still on site, however, the cost of moving it and difficulties in finding a buyer for equipment of its processing capacity, means that there may be limited immediately available value to creditors from the sale of the plant and the residual assets. The land holdings in Queensland act as security for undertakings given to the Registrar of Mining in Queensland.

5. The two properties owned by the company and located in the suburb of Sapphire Queensland have been mortgaged to Upper Hunter Resources Pty Limited for an amount of $252,000. The proceeds of the mortgage have been used to pay out the Commonwealth Bank of Australia's first mortgage over the properties with the balance of the funds being repaid to Nikiticorp to assist with payment of the outstanding and ongoing expenses associated with the Joint Venture Business Arrangement previously referred to in this report. Creditors will note that the loan is to run for a period of six months from the date of the advance and that the decision to loan the monies was reached at a meeting of the Directors of the Company on the 13th June 2007.

6. The amount owing to Nikiticorp is $767,153 and the amount owing to associates of Nikiticorp is $3,719,080. These amounts are the amounts that Nikiticorp and its associates had agreed to subordinate under the DoCA.

7. The only other substantial asset that might be available to secured creditors, which would include the whole body of unsecured creditors including Nikiticorp and its associates, would be the proceeds of sale of the restructured company, commonly called "a listed company shell". My recent experience is that the reconstruction of public companies can yield up to $650,000.

If the "listed company shell" was the only asset realised and the cost of the administration, including creditors paid by the administrators personally, there would be a surplus of about $150,000 for distribution to creditors totalling $5,414,152.

This amount of $150,000 could be augmented depending on the value ultimately realised from the sale of the mining tenements/leases the net value of the Queensland real estate and the residual plant and equipment.

As noted above, there does not appear to be a great deal of current interest from large commercial operators for Sapphire mining tenements/leases in Queensland.

In allowing Nikiticorp and the Directors of the company additional time to raise the money to meet the instalments due under the DoCA proposal, I was conscious of all of the above issues. I was also aware that there was a very positive attitude amongst the owners of Nikiticorp and the Directors of the Australis that they wanted to raise the money, to pay all of the non related unsecured creditors 100 cents in the dollar. This was not purely altruism as my understanding is that they have long term plans to revive the Australis public listed company. This may enable them to restructure the Australis operations with a view to providing an opportunity for a return to value for shareholders of the company. Finally I note that should Nikiticorp and its associates meet the DoCA funding requirements they will be owed approximately $6 million.

I set out hereunder a copy of a status report which was made by the company, Australis Mining to the Australian Stock Exchange on 29 June 2007. This is provided for information purposes only.

AUSTRALIS

Company Announcements Office ***Friday 29 June 2007***
Australian Stock Exchange ***One Page***

ASX Code: AUV

<u>STATUS REPORT</u>

The Board of Australis advises that it is continuing to work with its major shareholders and the Deed Administrator, Mr. Robert Elliott to pay out all of the Company's creditors.

The Board has recently made significant progress with these endeavours and hopes that it will be in a position to make a further announcement to the market in the near future.

The Company is also currently in discussions with its solicitors, TressCox Lawyers, as to the most appropriate method of recapitalisation.

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I am conscious that I have allowed the Directors of the companies and Nikiticorp leeway in meeting the instalements due under the DoCA, but I believe that the outcome achieved which is the payment of the first instalment and the prospect of the payment of the remaining instalments so that Creditors are paid 100 cents in the dollar warrants the leniency.

As noted previously in this report, upon receipt of the proposal from Australis and Nikiticorp, I will provide creditors with a detailed report which will outline the proposal, discuss my recommendations and convene a meeting of creditors to accept or reject the proposal. I expect this meeting to be held late January or early February 2008. If I do not have a proposal to amend the Deed of Company Arrangement from the directors by 31 January 2008, I will call a meeting of creditors for no later that 14 February 2008.

Should you have any queries in relation to this matter, please contact David Ingram of my office on (02 9263 2600) or via his e-mail dingram@hallchadwick.com.au.

Yours faithfully,

Robert Elliott
Deed Administrator