



**AUSTRALGOLD**



**AUSTRAL GOLD LIMITED  
ANNUAL REPORT  
2011**

## Contents

Chairman's Letter .....	1
Corporate Directory .....	2
Review of Activities .....	3 – 9
Directors' Report .....	10 - 19
Auditors Independence Declaration.....	20
Statement of Comprehensive Income.....	21
Statement of Financial Position.....	22
Statement of Changes in Equity .....	23
Statement of Cash Flows .....	24
Notes to the Financial Statements .....	25 - 56
Directors' Declaration .....	57
Independent Auditors' Report .....	58- 59
 Additional Information Required by Australian Stock Exchange Limited	
Corporate Governance Statement.....	60 - 64
Statement of Issued Capital.....	65
Substantial Shareholders.....	65
Top Twenty Shareholders.....	66



## **Chairman´s Letter**

Dear Shareholders,

I am pleased to present this annual report for the 2011 year, my first as Chairman of Austral Gold.

This has been a promising year for Austral Gold with the completion of the bankable feasibility study and commencement of gold and silver production at our major project, Guanaco in Chile.

With gold recently trading at record high prices, it is indeed a good time to be focused on gold mining and precious metals exploration. I am pleased to say that we now have a solid plan in place to take Austral Gold to the next stage in its growth.

We have invested heavily in the Guanaco operation, and will continue to do so in order to make this asset a highly successful gold and silver mine. The Board is currently assessing a number of options to strengthen Guanaco and expand our asset base in Chile. We are assessing additional gold and silver opportunities around Guanaco that include possible acquisitions, farm-in agreements and joint ventures here.

We also plan to strengthen our presence in Argentina by broadening our exploration focus and adding to our asset. Argentina is an important focus for us and we see considerable upside opportunity in this market.

The major shareholder, IFISA and their associates in South America, have a track record of success in building leadership positions in real estate investment, retail, asset management, banking and agribusiness in Argentina and Brazil. They have supported Austral Gold and provided financing to develop the Guanaco project to its current gold producing position.

With IFISA's help and network, it is our plan to establish Austral Gold in a similar leadership position in the resources sector. I have no doubt that our skilled staff and Board will make it possible to transform Austral Gold into one of the leading mining companies in South America.

We will continue to update shareholders on our developments, and I would like to thank you for your continued support of Austral Gold.

Yours sincerely,

**Eduardo Elsztain**  
**Chairman**

## **Corporate Directory**

Directors: Eduardo Elsztain - Chairman & Non Executive Director  
Saul Zang - Non Executive Director  
Pablo Vergara del Carril - Non Executive Director  
Stabro Kasaneva - Executive Director  
Robert Trzebski - Independent Non-Executive Director  
Ben Jarvis - Independent Non-Executive Director  
(appointed 2 Jun 2011)

Company Secretary: Catherine Lloyd

Registered Principal Office: Suite 605, 80 William Street  
Sydney NSW 2011  
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Website: [www.australgold.com.au](http://www.australgold.com.au)

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Antofagasta, Chile  
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Share Registry: Computershare  
GPO Box 2975  
Melbourne VIC 3001  
Tel (within Australia) 1300 850 505  
Tel (outside Australia) +61 3 9415 5000

Auditors: PKF  
[www.pkf.com.au](http://www.pkf.com.au)

Principal Bankers: National Australia Bank Limited  
[www.nab.com.au](http://www.nab.com.au)

Solicitors: Norton Rose  
[www.nortonrose.com.au](http://www.nortonrose.com.au)

Listed: Australian Stock Exchange  
ASX: AGD

Place of Incorporation: Western Australia

## Review of Activities

The strategy of Austral Gold Limited (the Company) is to maximize shareholder value through the development of mineral deposits in which the Company has an interest.

The Company continues to explore and invest in its Guanaco gold and silver mine ("Guanaco") in northern Chile to expand its mineral resources, increase the mine's annual production and improve its financial viability. This is our primary focus.

The Company is also seeking to acquire further properties in the Guanaco region and has acquired properties in Argentina. The Company is also assessing a number of options to expand its asset base in Chile and Argentina.

## Guanaco Gold and Silver Mine, Chile (100% interest)

### Background

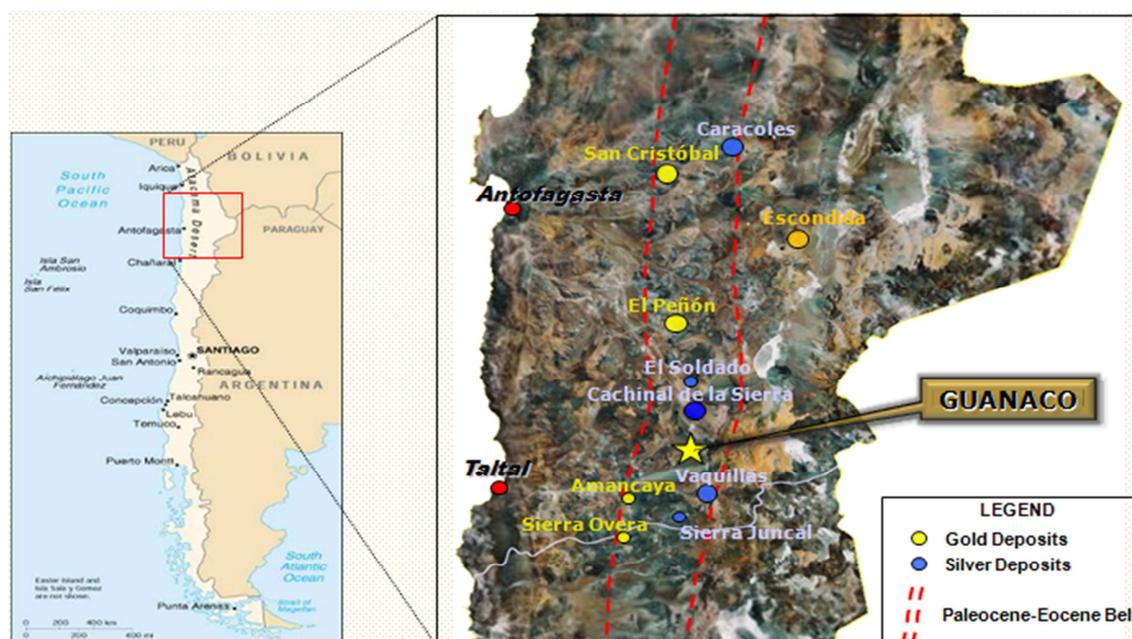
In January 2003 Austral Gold Limited obtained, through its subsidiary Golden Rose International Limited (GRIL), an option to acquire the Guanaco Project in Chile from subsidiaries of Kinross Gold Corporation. At the General Meeting of the Company held on 14 March 2003, the Shareholders approved the acquisition by the Company of an interest in the Guanaco Project.

The Guanaco Project was acquired from Compañía Minera Kinam Guanaco and Kinam de Chile Limited (wholly owned subsidiaries of Kinross Gold Corporation) by a company that is currently wholly owned by Guanaco Mining Company Limited (GMC) called Guanaco Compañía Minera Limitada, incorporated in Chile.

### Project and Mine Description

The Guanaco Mine is the Company's main asset and is located some 220 kilometres south east of Antofagasta in Northern Chile. It is at an elevation of some 2,700 metres and close to the Pan American Highway which runs north/south through Chile.

Guanaco is located in the Palaeocene/Eocene belt, a structural trend which runs north/south down the centre of Chile. This trend accommodates several large gold and copper mining operations including Zaldivar, El Peñon and Escondida.



Mining was undertaken at Guanaco from 1886 - with some interruptions - until 2001. Gold, copper and silver have been mined at Guanaco with more than 1 million ounces of gold produced.

The year ended 30 June 2011 has been an exciting time at Guanaco. In August 2010 the Bankable Feasibility Study (BFS) was finalised confirming viability of the project, then in early October it was announced that a local contractor had been engaged to undertake open pit and heap leach operations.

On 26 October 2010, the Company proudly announced that the first gold doré bar had been poured. Since this time through to 31 August 2011, 8,126 gold ounces and 18,386 silver ounces have been produced enabling the Company to record operating income for the first time.



Panoramic view taken from “Cerro Estrella” of the Dumbo Pit and behind it the processing plant, Heaps 1, 2 and 3 and the pregnant solution ponds.

The refurbished crushing plant.



The first gold doré pouring in October 2010.

## Bankable Feasibility Study

Key parameters of the BFS released in August 2010 and undertaken by AMEC International (Chile S.A.) were as follows:

### Reserves (probable)

Underground	1.51Mt @ 4.23 g/t Au	205,000 oz Au
Open Pit & Heap Leach	9.0Mt @ 0.62 g/t Au	179,000 oz Au

### Financial Results

<b>Start Up Capital Cost</b> (including 10% contingency)	USD51.8M
<b>Average Annual Gold Production</b>	50,000oz
<b>Payback</b>	3.0 years
<b>Internal Rate of Return</b>	36.9%
<b>Net Present Value</b> (8% discount rate on cumulative net cash flow)	USD32.9M
<b>Cash costs</b> net of silver credit over projected mine life	USD560 per ounce

The reserves identified above have been calculated using a gold price of USD825 per oz and a silver price of USD12.50 per oz.

The financial results were calculated on a gold price declining from USD1130/oz in 2010 to USD960/oz in 2016 and a silver price of \$15.15/oz remaining constant over the projected mine life of five years.

### Exploration Decline and Drilling Campaigns

An increase to gold and silver resources attributable to the Natalia mineralisation structure at Guanaco was reported in September 2011.

This brings total gold and gold equivalent silver resources to almost 1 million ounces.

The decline totalling 1,641 meters was constructed between March and December 2010 and allowed the underground delineation of the Cachinalito structure and nearby vein systems.

Decline portal at Guanaco.





A safety refuge for underground personnel.

A safety chimney with fortified ladder for underground personnel, which also allows natural ventilation.



Mesh and bolts cover the length of the decline.

Exploration continues to be a driving force of value at Guanaco through identifying, ranking and investigating targets in our current tenements as well as considering new gold and silver opportunities around Guanaco including staking new claims, possible acquisitions, farm-in arrangements and joint ventures.

There has been an increase of about 22% in the Company's tenements holdings around Guanaco since June 2010. New claims were submitted during the year for 28 tenements totalling 7,500 hectares.



### Gold and Silver Production

Since production commenced in late 2010 through to 31 August 2011, 8,126 gold ounces and 18,386 silver ounces have been produced through heap leach. Whilst these figures are behind budget, our rate of production has increased in recent months as technical difficulties have been resolved. Production from underground reserves has not yet commenced.

A third leach pad has been constructed with pre-treated ore and fresh ore from the open pit for retreatment. The pregnant solution ponds can be seen in the foreground.



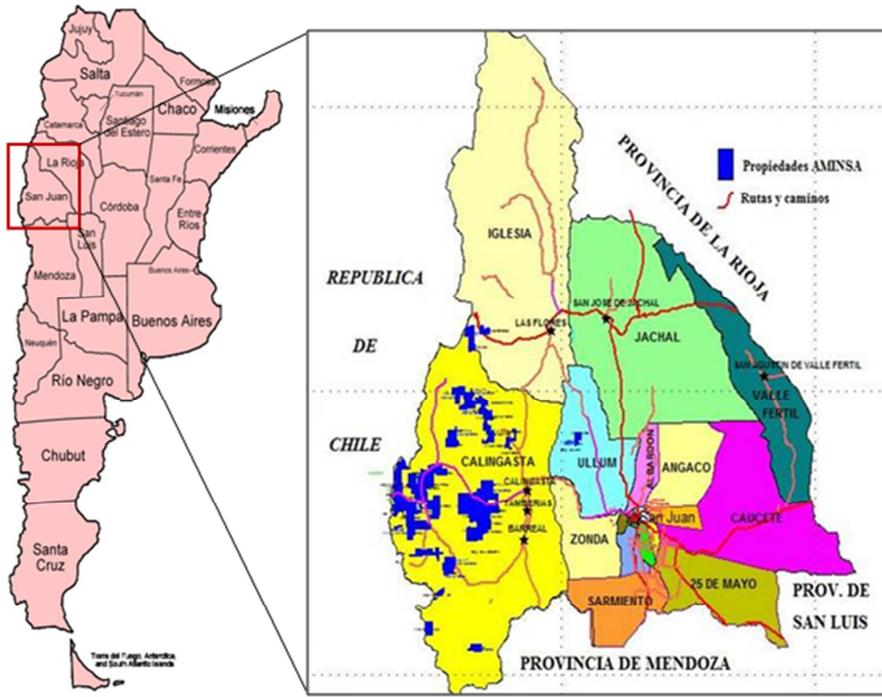
A 30 ton truck discharging ore for crushing.

Refurbishment of critical components of the crushing and gold recovery facilities has been completed and they are now in operation.

Other site works including upgrades to roads, maintenance facilities, power and water supply, camp and other infrastructure has been undertaken.

## AMINSA Project – San Juan, Argentina

San Juan is in the north west of Argentina, near the border with Chile. Under an Agreement with Argentina Minera SA (AMINSA), Austral Gold is earning an interest in tenements covering approximately 266,000 hectares in San Juan.



The properties are located near Xstrata's advanced El Pachón copper exploration project in Argentina and Los Pelambres owned by Antofagasta Minerals in Chile.

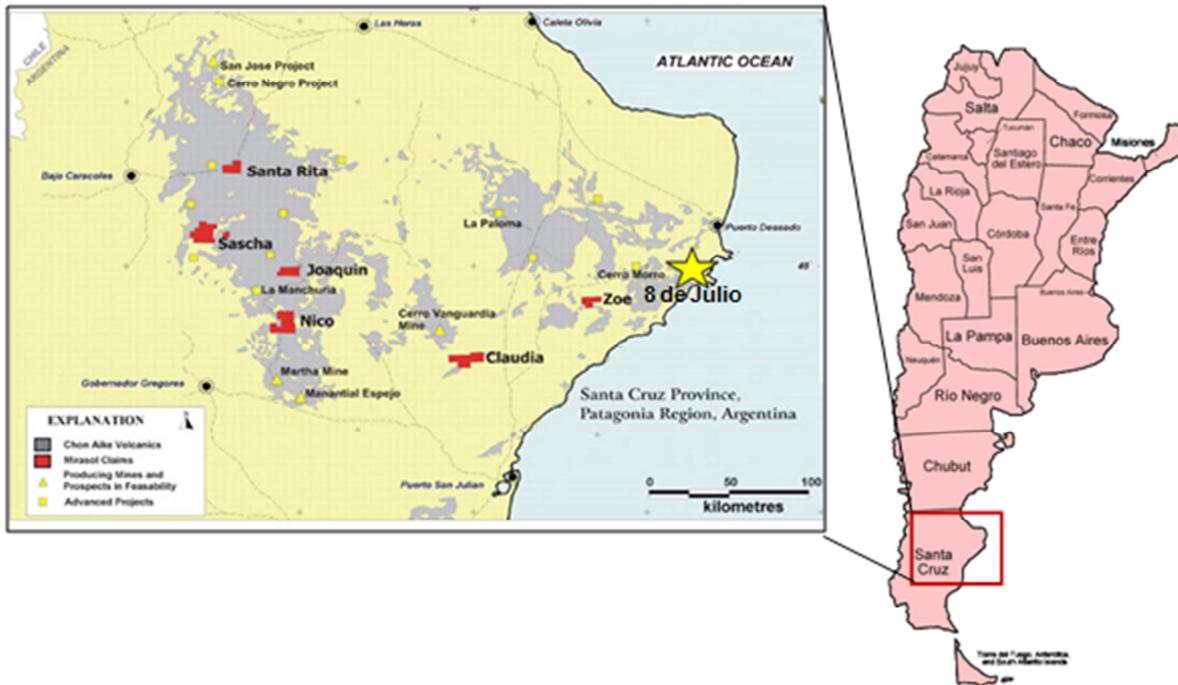
During 2010/2011 the exploration program focussed on analysing the gold anomaly discovered in the Rincones de Araya project.

Further exploration at the Calderon-Calderoncito project commenced during the year prior to the shutdown of activities at the end of the summer season.



## 8 de Julio Project - Santa Cruz, Argentina

In southern Patagonia, Austral Gold has nine tenement applications totalling almost 85,000 hectares in the Macizo el Deseado area in the Province of Santa Cruz.



During December 2010, geological mapping of the entire property of 8 de Julio was completed. Chief Operating Officer & Director Stabro Kasaneva and a consultant reviewed the results and 13 target areas predominantly in the west were mapped at a larger scale. Veins with potential ore shoots were identified in three areas and 91 samples were sent for geochemical assaying.

The Los Pino-Aguada Norte and Barroso Grande areas both showed anomalies for gold and silver and ore considered to have the greatest potential for the project. The most attractive results were found in the Barroso Grande area.

A ground magnetic program was completed in the Barroso Grande area followed by a geochemical sampling campaign. Trench works have been designed and are planned to be carried out in the next few months.



## **DIRECTORS REPORT**

### **AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011**

Your Directors present the following report for the financial year ended 30 June 2011 together with the financial report of Austral Gold Limited ("the Company") and the consolidated financial report of the economic entity, being the Company and its subsidiaries, (referred to hereafter as the Group) for the year ended 30 June 2011 and the auditors' report thereon.

#### **PRINCIPAL ACTIVITIES**

The principal activities of the Company during the course of the financial year were exploration, evaluation of mineral properties, and gold and silver production as described in preceding sections of this report.

The Company is a company limited by shares and incorporated and domiciled in Australia.

Detailed information on the Company's operations during the year ended 30 June 2011 has been released through the Company's announcements and reports to the Australian Stock Exchange. This information can also be accessed from the Company's website at [www.australgold.com.au](http://www.australgold.com.au).

#### **REVIEW AND RESULTS OF OPERATIONS**

##### **Operating Results and Dividends**

The Group's net profit attributable to members for the year ended 30 June 2011 was \$13,325,218 (2010: loss \$9,165,580).

No dividends of the Company or its subsidiaries have been paid, declared or recommended since the end of the financial year. The Board does not recommend the payment of a dividend in respect of the reporting period.

##### **Financial Position**

The total assets of the Group have increased by \$32,579,540 since 30 June 2010 to \$102,687,843 at 30 June 2011. The investment in the Guanaco Project has been assessed at fair value in accordance with Accounting Standards.

The Company has the support of its substantial shareholder, Inversiones Financieras del Sur S.A. (IFISA) and associates, who confirm that they will continue to support Austral Gold Limited by providing adequate financial assistance in accordance with the details contained in the Funding Agreements between Austral Gold Limited and IFISA.

The Directors believe the Company is in a position to maintain its current operations.

##### **Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Group during the financial year.

#### **FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES**

Since its incorporation, Austral Gold has been an explorer for gold. First production of gold and silver from Guanaco occurred in late 2010, and in line with the forecast commissioning period, commercial production generated the company's first operating income in January 2011. The focus is now shifting to stabilise and increase production levels.

Further effort is being directed towards identifying and where possible, securing alternate sources of ore from tenements within haulage distance from Guanaco, so that the newly refurbished crushing and gold treatment facilities can be utilised to full capacity.

The Company is also exploring in both the San Juan and Santa Cruz provinces of Argentina. Whilst no resources have yet been identified on these tenements, the geological prospectivity of some areas is encouraging.

## **DIRECTORS REPORT**

### **AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011**

In summary, Austral Gold is an emerging gold producer and will continue working toward increasing production, acquiring surrounding areas to continue with exploration and thus, extending the life of mine program and working toward full capacity.

#### **EVENTS SUBSEQUENT TO BALANCE DATE**

On 26 July 2011 Austral Gold Limited signed amendments to the funding agreements with Inversiones Financieras del Sur S.A. (IFISA) to extend total borrowing facilities to USD59 million, an increase of USD8 million. In addition, the termination date was extended to 30 September 2014 on both agreements.

On 6 September 2011 Austral Gold announced an increase to gold and silver resources at Guanaco. The increase of 73,000 gold ounces and 3.8 million silver ounces is primarily attributable to the underground Natalia structure. Gold resources at Guanaco now total 884,653 ounces with approximately 95,000 additional gold equivalent ounces of silver.

#### **PERFORMANCE IN RELATION TO ENVIRONMENTAL REGULATION**

The Group's exploration activities are subject to environmental regulations.

In relation to the Group's mineral exploration operations in Chile, licence requirements relating to "Bases Generales de Medio Ambiente" exist under the Chilean Law No. 19,300. The Directors are not aware of any significant breaches during the period covered by this report. Moreover, all the exploration activities performed so far have been approved by the Environmental Authority, Comisión Nacional de Medio Ambiente (CONAMA).

*Dr Robert Trzebski is a Director of Austral Gold Limited. He has a Degree in Geology, a PhD in Geophysics, a Masters in International Project Management and has over 17 years professional experience in mineral exploration, project management and research and development.*

*Dr Robert Trzebski is a member of the Australian Institute of Mining and Metallurgy (AUSIMM) and qualifies as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Dr Robert Trzebski consents to the inclusion of the resources noted in this Annual Report.*

## DIRECTORS REPORT

### AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

#### DIRECTORS AND OFFICERS

The Directors and Officers of the Company at any time during or since the end of the financial year are:

Name and Qualifications	Experience and Special Responsibilities
<p>Eduardo Elzstain <i>Chairman / Non-Executive Director</i></p>	<p>Mr. Elsztain is the Chairman of: (i) IRSA, a public company listed on the New York Stock Exchange and the Buenos Aires Stock Exchange and Argentina's largest real estate company; (ii) Cresud, a leading agribusiness public company listed on the NASDAQ and the Buenos Aires Stock Exchange, which directly and indirectly controls approximately 1 million hectares of rural land; (iii) APSA, a retail leading public company listed on the NASDAQ and the Buenos Aires Stock Exchange; (iv) Banco Hipotecario, one of Argentina's largest commercial banks, listed on the Buenos Aires Stock Exchange and with an ADR Program in New York with its shares traded over the counter; and (v) BrasilAgro—Companhia Brasileira de Propriedades Agrícolas, a public company listed on the BOVESPA (Brazil). Mr. Elsztain is also a director of Hersha Hospitality Trust, a hospitality public company listed on the New York Stock Exchange.</p> <p>Mr. Elsztain has extensive experience in capital markets in a variety of economic cycles and geographic locations. Mr. Elsztain is also the Chairman of the Governing Board of the World Jewish Congress, member of the World Economic Forum, the Group of 50, Argentina's Association of Corporations (AEA) and Endeavor, an organization that helps high-impact entrepreneurs in emerging countries to promote economic growth and development. He was also an attendee of the G20 Business Summit in Seoul. Mr Elsztain is also a member of the Board of Directors of the Buenos Aires Stock Exchange</p> <p><b>Appointed 29 June 2007, re-elected by shareholders 20 November 2009, Appointed Chairman 2 June 2011</b></p>
<p>Mark Bethwaite AM <i>Chairman / Non-Executive Director (part year only)</i></p>	<p>Mr. Bethwaite has qualifications of Bachelor of Engineering, Master of Building Science and Master of Business Administration. His mining career spans some 26 years including periods living and working in Mount Isa and Broken Hill. Mark worked for North Limited from 1978 to 1987, including five years as Managing Director. He worked for Renison Goldfields Consolidated Limited from 1987 to 1998, including six years as Managing Director. From 1998 to 2001, Mark worked with Deutsche Bank, principally in the financing of mining projects.</p> <p>Mr Bethwaite was Chairman of the Australian National Maritime Museum from 2001 - 2007. He is a non-executive Director of New South Innovations Pty Limited, Digital Core Pty Limited and of a number of not for profit organisations.</p> <p><b>Resigned as Director and Chairman 2 June 2011</b></p>

## DIRECTORS REPORT

### AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

Name and Qualifications	Experience and Special Responsibilities
<p>Robert Trzebski <i>Non-Executive Director</i></p>	<p>Dr Robert Trzebski holds a Degree in Geology (equivalent to BSc), PhD in Geophysics, Master in International Project Management and has over 18 years of professional experience in mineral exploration, project management and mining services. This includes his role as Executive Officer of Austmine Ltd, Executive Director of Australia-Latin America Business Council and Director of a junior gold exploration company with interests in Colombia, Columbus Minerals Pty Ltd.</p> <p>As a fellow member of the Australian Institute of Mining and Metallurgy (The AusIMM), Dr Trzebski has acted as the Competent Person (CP) for the Company's ASX releases.</p> <p><b>Appointed 10 April 2007, re-elected by shareholders 20 November 2009</b></p>
<p>Saul Zang <i>Non-Executive Director</i></p>	<p>Mr Zang obtained a law degree from University of Buenos Aires (Universidad de Buenos Aires). He is a member of the International Bar Association (Asociación Internacional de Abogados) and the Interamerican Federation of Lawyers (Federación Interamericana de Abogados). He is a founding member of the law firm Zang, Bergel &amp; Viñes.</p> <p>He is also first Vice-Chairman of the Board of Directors of IRSA and Shopping Alto Palermo SA, and Vice-Chairman of Alto Palermo, Puerto Retiro and Fibesa; and Director of Banco Hipotecario, Nuevas Fronteras SA., Tarshop and Palermo Invest SA.</p> <p>Mr Zang is Adviser and Member of the Board of Directors of the Buenos Aires Stock Exchange and he has also advised national and international companies in different areas of the legal practice, including the privatization process of YPF SA and State Owned Electricity Company of the Province of Buenos Aires.</p> <p><b>Appointed 29 June 2007, re-elected by shareholders 20 November 2009</b></p>
<p>Pablo Vergara del Carril <i>Non-Executive Director</i></p>	<p>Mr Vergara del Carril is a lawyer and is professor of Postgraduate Degrees for Capital Markets, Contracts, Corporate Law and Business Law at the Argentine Catholic University.</p> <p>He is a director of Banco Hipotecario SA. [BASE: BHIP], Milkaut SA (an Argentine leading dairy company), Nuevas Fronteras (owner of the Intercontinental Hotel in Buenos Aires) and Emprendimiento Recoleta SA (owner of the Buenos Aires Design Shopping Centre). Mr Vergara del Carril is also a director of Guanaco Mining Company Limited and Guanaco Capital Holding Corp.</p> <p><b>Appointed 18 May 2006, re-elected by shareholders 26 November 2008</b></p>

## DIRECTORS REPORT

### AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

Name and Qualifications	Experience and Special Responsibilities
<p>Stabro Kasaneva <i>Non-Executive Director</i></p>	<p>Mr Kasaneva is the also the Chief Operating Officer for Austral Gold Limited. Mr Kasaneva holds a degree in Geology from the Universidad Católica del Norte, Chile. He has more than 20 years' experience in geology and exploration of gold deposits, mainly focused on the Paleocene belt in Northern Chile, where Guanaco Austral Gold's flagship gold/copper project is located.</p> <p><b>Appointed 7 October 2009, re-elected by shareholders 20 November 2009</b></p>
<p>Ben Jarvis <i>Non-Executive Director</i> <i>(part year only)</i></p>	<p>Ben Jarvis is the Managing Director and co-founder of Six Degrees Investor Relations, an Australian advisory firm that provides investor relations and investor communication services to a wide range of resources, technology, healthcare and industrial services companies listed on the Australian Securities Exchange.</p> <p>Ben is also a Director of South American Tin Limited, a company focused on tin exploration and development in Bolivia, ORO SA Limited, a gold exploration company with projects in Bolivia, and Arena Minerals Pty Limited, a private company developing an iron sands mining operation in Indonesia. Ben was educated at the University of Adelaide where he majored in Politics.</p> <p><b>Appointed 2 June 2011</b></p>

## DIRECTORS REPORT

### AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

#### DIRECTORS' MEETINGS

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Group during the financial year are:

Director	Directors' meetings		Audit Committee meetings	
	A	B	A	B
Mark Bethwaite AM**	7	8	3	3
Pablo Vergara del Carril	7	8	3	3
Robert Trzebski	8	8	*	*
Eduardo Elsztain	7	8	*	*
Saul Zang	5	8	*	*
Stabro Kasaneva	6	8	*	*
Ben Jarvis***	1	1	*	*

**A** Number of meetings attended.

**B** Number of meetings held during the time the Director held office.

\* Not a member of this committee

\*\* Mark Bethwaite AM resigned from the Board and Audit Committee on 2 June 2011

\*\*\* Ben Jarvis was appointed to the Board on 2 June 2011

#### OPTIONS

During or since the end of the financial year, the Company has not granted options over unissued ordinary shares to any Director or to any employee.

#### UNISSUED SHARES UNDER OPTION

At the date of this report there are no unissued shares under option.

#### INDEMNITY OF OFFICERS

The Company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- Indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- Paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

## DIRECTORS REPORT

### AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

#### INTERESTS OF DIRECTORS

The relevant interest of each director (directly or indirectly) in the share capital of the Company, as notified by the Directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary Shares
P Vergara del Carril	68,119
R Trzebski	-
E Elsztain	144,934,945
S Zang	1,435,668
S Kasaneva	-
B Jarvis	-

It is also noted:

1. P Vergara de Carril, E Elsztain and S Zang are directors of Guanaco Capital Holding Corp which holds 24,289,330 shares according to the last substantial holder notice lodged in November 2009.
2. E Elsztain and S Zang are directors of IFISA which holds 116,881,722 shares according to the last substantial holder notice lodged in November 2009.

#### REMUNERATION REPORT

The remuneration report is set out under the following headings:

- A) **Remuneration Policy**
- B) **Details of Remuneration**
- C) **Service Agreements**
- D) **Share Based Payments**

##### A) **Remuneration Policy**

The Company has a Remuneration Policy which aims to ensure remuneration packages of directors and senior executives properly reflect the person's duties and responsibilities and level of performance and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

To give effect to this policy the Company reviews available information which measures the remuneration levels in the various labour markets in which it competes. The expectation of the Company is that, for a particular grade of employee, the total fixed compensation will be at the median level of the relevant market.

Remuneration of key management personnel is currently not linked to shareholder wealth generation and is determined with reference to labour market rates.

##### *Non-executive directors remuneration*

Non-executive directors who are associates of the Company's major shareholder (Eduardo Elsztain, Saul Zang and Pablo Vergara del Carril) do not receive any fees or payments from the Group. Independent non-executive directors (Robert Trzebski and Ben Jarvis) receive \$40,000pa which reflects the demands and responsibilities of their position.

## DIRECTORS REPORT

### AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

#### B) Details of Remuneration

Year ended 30 June 2011	PRIMARY			POST-EMPLOYMENT		SHARE-BASED		Total
	Cash Salary & Fees \$	Cash bonus \$	Non monetary benefits \$	Super- annuation \$	Retirement benefits \$	Shares \$	Options \$	
<b>Directors</b>								
M Bethwaite	44,372	-	-	47,295	-	-	-	91,667
R Trzebski	36,697	-	-	3,303	-	-	-	40,000
S Kaseneva	300,955	-	-	-	-	-	-	300,955
B Jarvis	3,058	-	-	275	-	-	-	3,333
<b>Total Directors</b>	<b>385,082</b>	<b>-</b>	<b>-</b>	<b>50,873</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>435,955</b>
<b>Other Key Management Personnel</b>								
C Lloyd	59,633	-	-	5,367	-	-	-	65,000
J Dudley-Smith	49,541	-	-	4,459	-	-	-	54,000
<b>TOTAL</b>	<b>494,256</b>	<b>-</b>	<b>-</b>	<b>60,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>554,955</b>

Year ended 30 June 2010	PRIMARY			POST-EMPLOYMENT		SHARE-BASED		Total
	Cash Salary & Fees \$	Cash bonus \$	Non monetary benefits \$	Super- annuation \$	Retirement benefits \$	Shares \$	Options \$	
<b>Directors</b>								
M Bethwaite	51,876	-	-	48,124	-	-	-	100,000
R Trzebski	36,697	-	-	3,303	-	-	-	40,000
S Kaseneva	230,001	-	-	-	-	-	-	230,001
<b>Total Directors</b>	<b>318,574</b>	<b>-</b>	<b>-</b>	<b>51,427</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>370,001</b>
<b>Other Key Management Personnel</b>								
C Lloyd	82,569	-	-	7,431	-	-	-	90,000
<b>TOTAL</b>	<b>401,143</b>	<b>-</b>	<b>-</b>	<b>58,858</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>460,001</b>

## DIRECTORS REPORT

### AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

#### C) Service Agreements

Further to his responsibilities as a Director of Austral Gold Limited, Stabro Kasaneva is employed by the Group in the capacity of Chief Operating Officer. His employment contract commenced in September 2009 and does not have a fixed termination date. The termination notice period is 30 days by either party. His salary is paid in Chilean pesos and is subject to a 6 monthly review. Details of payments made for the year ended 30 June 2011 are contained in the table above.

#### D) Share Based Payments

There were no share based payments made during the year.

#### Auditors

PKF continues in office as auditors in accordance with the requirements of the Corporations Act 2001.

#### Non-audit services

The company may decide to employ the auditors on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Company are important.

Details of amounts paid or payable to the auditors, PKF, for audit and non-audit services provided during the year are set out below:

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditors, as set out below, did not compromise the auditors independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditors.
- None of the services undermine the general principles relating to auditors independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditors of Austral Gold Limited:

	2011	2010
	\$	\$
<b>Audit services</b>		
Audit and review of financial reports	55,500	56,750
<b>Non-audit services</b>	-	4,500
<b>Total</b>	<b>55,500</b>	<b>61,250</b>

## **DIRECTORS REPORT**

### **AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011**

#### **PROCEEDINGS ON BEHALF OF THE COMPANY**

Other than stated below, no person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

#### **AUDITORS INDEPENDENCE DECLARATION**

The lead auditors' independence declaration for the year ended 30 June 2011 has been received and is included in this report.

Signed in accordance with a resolution of Directors at Sydney



Ben Jarvis  
Director

20 September 2011

**Lead auditor's independence declaration under Section 307C of the Corporations Act 2001**

**To:** the directors of Austral Gold Limited and the entities it controlled during the year

I declare to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2011 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and
- no contraventions of any applicable code of professional conduct in relation to the audit.

**PKF**

**Tim Sydenham**  
Partner

**20 September 2011**  
Sydney

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PKF East Coast Practice is a member of PKF Australia Limited a national association of independent chartered accounting and consulting firms each trading as PKF. The East Coast Practice has offices in NSW, Victoria and Brisbane. PKF East Coast Practice is also a member of PKF International, an association of legally independent chartered accounting and consulting firms

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# STATEMENT OF COMPREHENSIVE INCOME

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES  
FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated	
		2011 \$	2010 \$
<b>Continuing Operations</b>			
Revenue	4	8,265,081	2,666
		<b>8,265,081</b>	<b>2,666</b>
Cost of sales		(8,568,851)	-
Depreciation and amortisation expense	5	(826,888)	(74,732)
Exploration and evaluation expenditure written off	5	-	(5,059)
Finance costs	5	(652,503)	(652,723)
Administration expenses		(1,376,302)	(576,028)
Employee benefits expense		(1,111,706)	(332,039)
Reversal of impairment /(impairment losses)	5	10,564,676	(6,971,678)
Gain/(loss) from foreign exchange		7,031,711	(555,987)
<b>Profit/(loss) before income tax</b>		<b>13,325,218</b>	<b>(9,165,580)</b>
Income tax expense	7	-	-
<b>Profit/(loss) after income tax</b>		<b>13,325,218</b>	<b>(9,165,580)</b>
Profit/(loss) after tax attributable to outside equity interest		-	-
<b>Net profit/(loss) for the year</b>		<b>13,325,218</b>	<b>(9,165,580)</b>
<b>Other comprehensive income</b>			
Foreign currency translation		(9,956,531)	(1,317,820)
Income tax on items of comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>3,368,687</b>	<b>(10,483,400)</b>
Earnings /(loss) per share (cents per share):			
Basic earnings/(loss) per share	8	7.9c	(5.4)c
Diluted earnings/(loss) per share	8	7.9c	(5.4)c

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

# STATEMENT OF FINANCIAL POSITION

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

AS AT 30 JUNE 2011

	Note	Consolidated	
		2011	2010
		\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	10	1,309,145	1,399,382
Trade and other receivables	12	3,289,022	3,061,046
Inventories	11	1,438,653	-
<b>TOTAL CURRENT ASSETS</b>		<b>6,036,820</b>	<b>4,460,428</b>
<b>NON-CURRENT ASSETS</b>			
Other receivables	12	2,077,241	280,943
Financial assets	13	4,306,285	4,061,595
Intangible assets	14	70,129,488	57,000,000
Plant and equipment	15	20,021,794	4,266,272
Exploration and evaluation expenditure	16	116,215	39,065
<b>TOTAL NON-CURRENT ASSETS</b>		<b>96,651,023</b>	<b>65,647,875</b>
<b>TOTAL ASSETS</b>		<b>102,687,843</b>	<b>70,108,303</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	17	6,139,889	5,007,846
Provisions	18	12,179	12,142
Borrowings	19	181,680	22,561,292
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,333,748</b>	<b>27,581,280</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions	18	639,755	-
Borrowings	19	49,818,669	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>50,458,424</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>56,792,172</b>	<b>27,581,280</b>
<b>NET ASSETS</b>		<b>45,895,671</b>	<b>42,527,023</b>
<b>EQUITY</b>			
Issued capital	20	44,400,742	44,400,742
Retained earnings/(accumulated losses)	21	9,818,120	(3,507,098)
Reserves	23	(8,323,247)	1,633,284
Outside equity interest	22	56	95
<b>TOTAL EQUITY</b>		<b>45,895,671</b>	<b>42,527,023</b>

The above Statement of Financial Position should be read in conjunction with the accompanying notes

## STATEMENT OF CHANGES IN EQUITY

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Issued capital	Retained earnings/ (accumulated losses)	Reserves	Minority interest	Total
		\$	\$	\$	\$	\$
<b>Consolidated</b>						
Balance at 30 June 2009		44,398,254	5,658,482	2,951,104	101	53,007,941
Total comprehensive income for the year	21	-	(9,165,580)	(1,317,820)	-	(10,483,400)
Increase in minority interest attributable to foreign exchange	22	-	-	-	(6)	(6)
Shares issued during the year	20	2,488	-	-	-	2,488
<b>Balance at 30 June 2010</b>		<b>44,400,742</b>	<b>(3,507,098)</b>	<b>1,633,284</b>	<b>95</b>	<b>42,527,023</b>
Total comprehensive income for the year	21	-	13,325,218	(9,956,531)	-	3,368,687
Decrease in minority interest attributable to foreign exchange	22	-	-	-	(39)	(39)
<b>Balance at 30 June 2011</b>		<b>44,400,742</b>	<b>9,818,120</b>	<b>(8,323,247)</b>	<b>56</b>	<b>45,895,671</b>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

# STATEMENT OF CASH FLOWS

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated	
		2011	2010
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers		8,088,356	-
Payments to suppliers and employees		(13,036,020)	(2,328,760)
<b>Net cash used in operating activities</b>	28	<b>(4,947,664)</b>	<b>(2,328,760)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(16,104,284)	(4,079,834)
Investment in unlisted shares		(1,261,127)	(2,029,326)
Payment for exploration and evaluation expenditure		(93,660)	(38,862)
Investment in development assets		(7,589,164)	(5,810,339)
Interest received		7,102	2,353
<b>Net cash used in investing activities</b>		<b>(25,041,133)</b>	<b>(11,956,008)</b>
<b>Cash flows from financing activities</b>			
Loans from related party		31,222,579	15,995,020
<b>Net cash provided through financing activities</b>		<b>31,222,579</b>	<b>15,995,020</b>
Movement attributable to foreign currency translation		(1,324,019)	(551,549)
Net increase/(decrease) in cash held		1,233,782	1,710,252
Cash at beginning of financial year		1,399,382	240,679
<b>Cash at end of financial year</b>	10	<b>1,309,145</b>	<b>1,399,382</b>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### 1. Corporate information

The financial report of Austral Gold Limited (“the Company”) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the Directors on 20 September 2011.

Austral Gold Limited is a company limited by shares that is incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange.

The nature of the operations and principal activities of the Group are described in the Directors’ Report.

### 2. Summary of accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the Economic Entity of Austral Gold Limited and its’ subsidiaries (“the Group”) and are presented in English.

The financial report of Austral Gold Limited and its’ subsidiaries complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety and International Financial Reporting Standards (IFRS).

#### *Parent entity information*

In accordance with the Corporations Act, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

The following is a summary of the material accounting policies adopted by the Group in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

#### **(a) Basis of preparation**

The financial report has been prepared on a historical cost basis, except for certain financial assets and liabilities which are stated at fair value.

#### **(b) Statement of compliance**

The accounting policies set out below have been consistently applied to all years presented.

#### **(c) Presentation currency**

The financial report is presented in Australian dollars which is the presentation currency of the Group.

#### **(d) Use of estimates and judgements**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities with the next financial year are discussed below:

#### *Estimated impairment / reversal of impairment of development assets*

Where indicators of impairment or reversal of impairment are identified the recoverable amounts of the assets are determined. The recoverable amounts of the assets have been determined using reports from independent experts. The calculations require the use of assumptions. Refer to note 14 for details of these assumptions.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### *Estimated impairment of exploration and evaluation assets*

The Group tests at each reporting date whether there are any indicators of impairment as identified by AASB 6 "Exploration for and Evaluation of Mineral Resources". Where indicators of impairment are identified the recoverable amounts of the assets are determined. No indicators of impairment were identified in the current year.

### **(e) Basis of consolidation**

A subsidiary is any entity that Austral Gold Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of subsidiaries is contained in note 27 to the financial statements. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation.

Outside equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

The financial statements of subsidiaries are included from the date control commences until the date control ceases.

### **(f) Revenue recognition**

Revenue from the sale of goods is recognised when control of the goods has passed to the buyer, the amount of revenue can be measured reliably and it is probable that it will be received by the Group.

#### *Sale of minerals*

Sale of minerals is recognised at the point of sale, which is when the customer has taken delivery of the goods, the risks and rewards have been transferred to the customer and there is a valid contract.

#### *Interest revenue*

Interest revenue is recognised as it accrues, using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### **(g) Goods and services tax/ Value added tax**

Revenues, expenses and assets are recognised net of the amount of GST/VAT, except where the amount of GST/VAT incurred is not recoverable from the Tax Office. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the Statement of Financial Position are shown inclusive of GST/VAT.

Cash flows are presented in the cash flow statements on a gross basis, except for the GST/VAT component of investing and financing activities, which are disclosed as operating cash flows.

### **(h) Intangibles**

#### *Development assets*

When the technical and commercial feasibility of an undeveloped mining project has been demonstrated the project enters the development phase. The cost of the project assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditure. When full commercial operation commences, the accumulated costs are transferred into producing assets.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### **(i) Exploration and evaluation expenditure**

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest and are carried forward in the Statement of Financial Position where:

- (i) rights to tenure of the area of interest are current; and
- (ii) one of the following conditions is met:
  - such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sales; or
  - exploration and/or evaluation activities in the area of interest have not, at Statement of Financial Position date, yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or relation to, the areas are continuing.

Expenditure relating to pre-exploration activities is written off to the Statement of Comprehensive Income during the period in which the expenditure is incurred.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated expenditure on areas that have been abandoned, or are considered to be of no value, are written off in the year in which such a decision is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

### **(j) Investments**

Investments in subsidiaries are carried in the Parent Entity's financial statements at the lower of cost and recoverable amount.

### **(k) Plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

#### *Depreciation*

Items of plant and equipment have limited useful lives and are depreciated on a straight line basis over their estimated useful lives.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation rate used is between 5% - 33%.

#### *De-recognition and disposal*

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is de-recognised.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### **(l) Translation of foreign currency items**

The functional and presentation currency of Austral Gold Limited is Australian dollars (\$).

The functional currency of Guanaco Mining Company is American dollars (US\$) and its presentation currency is Australian dollars (\$).

The functional currency of Austral Gold Argentina is Argentinean Pesos and its presentation currency is Australian dollars (\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at Statement of Financial Position date.

Exchange differences are recognised as revenues or expenses in net profit or loss in the period in which exchange rates change except for qualifying assets and hedge transactions.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The results and financial position of all Group entities that have a functional currency different from the parent's functional currency are translated into Australian Dollars as follows:

- Assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position.
- Income and expenses for each Statement of Comprehensive Income are translated at the average rate of exchange; and
- All resulting exchange differences are recognised as a separate component of equity

### **(m) Cash and cash equivalents**

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions; and
- Other short-term highly liquid investments with original maturities of three month or less, and bank overdrafts.

### **(n) Income Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by Statement of Financial Position date.

Deferred income tax is provided on all temporary differences at Statement of Financial Position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except :

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries, associates, or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

### FOR THE YEAR ENDED 30 JUNE 2011

- When the deductible temporary difference is associated with investments in subsidiaries, associates, or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of any deferred income tax assets recognised is reviewed at each Statement of Financial Position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply for the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or substantively enacted at Statement of Financial Position date.

Income taxes relating to items recognised directly to equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

#### **(o) Inventories**

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a first-in-first-out basis. Cost comprises direct materials and delivery costs, direct labour import duties and other taxes and an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

#### **(p) Trade and other receivables**

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

#### **(q) Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

#### **(r) Interest bearing liabilities**

All loans and borrowings are initially recognised at cost, being the fair value of consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the Statement of Comprehensive Income when the liabilities are derecognised and as well as through the amortisation process.

#### **(s) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### **(t) Leases**

Lease payments for operating leases, where all the risks and benefits remain with the lessor, are recognised as an expense in the Statement of Comprehensive Income on a straight line basis over the lease term.

### **(u) Impairment of assets**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell or value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the Statement of Comprehensive Income. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### **(v) De-recognition of financial assets and financial liabilities**

#### ***Financial assets***

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired
- The group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

#### ***Available-for-sale financial assets***

The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or determined to be impaired, at which time the accumulative gain or loss previously reported in equity is recognised in profit or loss. Where the value of available-for-sale financial assets cannot be reliably estimated the asset is carried at cost.

#### ***Financial liabilities***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss

### **(w) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### **(x) Earnings per share**

#### *Basic earnings per share*

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the parent, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### **(y) Borrowing costs**

Borrowing costs are recognised as an expense when incurred unless they are capitalised for qualifying assets.

### **(z) Employee leave benefits**

#### *Wages and salaries, annual leave and sick leave*

Liabilities for employees' entitlements to wages and salaries, annual leave and other employee entitlements expected to be settled within 12 months of the reporting date are recognised in the current provisions in respect of employees' services up to reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

#### *Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated cash outflows.

#### *Superannuation*

The Company contributes to employee superannuation funds. Contributions made by the Company are legally enforceable. Contributions are made in accordance with the requirements of the Superannuation Guarantee Legislation.

### **(za) Going concern**

At the reporting date the Group had net current liabilities of \$296,928 (2010: \$23,120,852) and had net cash outflows from operations of \$4,947,664 (2010: \$2,328,760) for the year ended 30 June 2011. Notwithstanding this the following events occurred during the year:

- the repayment terms of the Group's loan from IFISA (refer to note 19 for details) were renegotiated so that repayment in cash can be deferred up to 30 September 2014;
- production from Guanaco commenced in the 2nd half of the financial year and yielded revenue from operations of \$8,088,356. This is expected to increase as the mine increases production, yielding positive cash flows; and
- the Group is able to draw down an additional \$10,402,493 on the loan from IFISA should it be necessary.

Based on the above, the directors believe the going concern basis of preparation of the financial report is appropriate.

### **(zb) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Financial Officer.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### 3. New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2011 but have not been applied in preparing this financial report. They are not expected to have a material impact on the Group when they are adopted.

The following standards are considered applicable to the Group and will be adopted during the first annual reporting period after the effective date of each pronouncement.

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
9	Financial Instruments	Dec 2010	1 Jan 2013
10	Consolidation	Jun 2011	1 Jan 2013
12	Disclosure of Interests in Other Entities	Jun 2011	1 Jan 2013
13	Fair Value Measurement	Jun 2011	1 Jan 2013
1053	Application of Tiers of Australian Accounting Standards	Jun 2010	1 Jul 2013
2009 – 12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	Dec 2009	1 Jan 2011
2010 – 2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	Jun 2010	1 Jul 2013
2010 – 4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	Jun 2010	1 Jan 2011
2010 – 5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	Oct 2010	1 Jan 2011
2010 – 6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	Nov 2010	1 Jul 2011

## NOTES TO THE FINANCIAL STATEMENTS

### AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
2010 – 7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127]	Dec 2010	1 Jan 2013
2010 – 8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	Dec 2010	1 Jan 2012
2010 – 9	Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1]	Dec 2010	1 Jul 2011
2010 – 10	Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7]	Dec 2010	1 Jan 2013
2011 - 1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132 & AASB 134 and Interpretations 2, 112 & 113]	May 2011	1 Jul 2011
2011 - 2	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence Project – Reduced Disclosure Requirements [AASB 101 & AASB 1054]	May 2011	1 Jul 2013
2011 - 4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	Jul 2011	1 Jul 2013

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### AASB 9 Financial Instruments

The revised AASB 9 incorporates the IASB's completed work on Phase 1 of its project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement) on the classification and measurement of financial assets and financial liabilities. In addition, the IASB completed its project on derecognition of financial instruments.

The Standard includes requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments. AASB 9 (issued in 2009) only included requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 (AASB 139).

The main changes in this Standard compared with AASB 139 are described below.

(a) Financial assets are classified based on:

- (i) the objective of the entity's business model for managing the financial assets; and
- (ii) the characteristics of the contractual cash flows.

This replaces the categories of financial assets in AASB 139, each of which had its own classification criteria. Application guidance has been included in AASB 9 on the conditions necessary for a financial asset to be measured at amortised cost.

- (b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment are recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- (d) Hybrid contracts with financial asset hosts are classified and measured in their entirety in accordance with the classification criteria. (The treatment of embedded derivatives in respect of financial liability hosts has not changed.)
- (e) Investments in unquoted equity instruments (and contracts on those investments that must be settled by delivery of the unquoted equity instrument) must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value.
- (f) Investments in contractually linked instruments that create concentrations of credit risk (tranches) are classified and measured using a 'look through' approach. Such an approach looks to the underlying assets generating cash flows and assesses the cash flows against the classification criteria (discussed in (a) above) to determine whether the investment is measured at fair value or amortised cost.
- (g) Financial assets are reclassified only in the rare circumstances when there is a relevant change in the entity's business model.
- (h) The portion of a change of fair value relating to the entity's own credit risk for financial liabilities

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

measured at fair value utilising the fair value option is presented in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

### **AASB 10 Consolidation**

AASB 10 replaces AASB 127 and 3 key elements of control. According to AASB 10 an investor controls an investee if and only if the investor has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of the investor's returns.

Additional guidance is provided in how to evaluate each of the three limbs above. While this is not a wholesale change from the current definition of control within AASB 127 (and for many entities no change in practice will result) some entities may be impacted by the change. The limbs above are more principle based rather than hard and fast rules. For instance, an example provided in AASB 10 is:

An investor acquires 48 per cent of the voting rights of an investee. The remaining voting rights are held by thousands of shareholders, none individually holding more than 1 per cent of the voting rights. None of the shareholders have any arrangements to consult any of the others or make collective decisions. When assessing the proportion of voting rights to acquire, on the basis of the relative size of the other shareholdings, the investor determined that a 48 per cent interest would be sufficient to give it control. In this case, on the basis of the absolute size of its holding and the relative size of the other shareholdings, the investor concludes that it has a sufficiently dominant voting interest to meet the power criterion without the need to consider any other evidence of power.

Potential voting rights are also discussed within AASB 10 and the following example provided:

Investor A holds 70 per cent of the voting rights of an investee. Investor B has 30 per cent of the voting rights of the investee as well as an option to acquire half of investor A's voting rights. The option is exercisable for the next two years at a fixed price that is deeply out of the money (and is expected to remain so for that two-year period). Investor A has been exercising its votes and is actively directing the relevant activities of the investee. In such a case, investor A is likely to meet the power criterion because it appears to have the current ability to direct the relevant activities. Although investor B has currently exercisable options to purchase additional voting rights (that, if exercised, would give it a majority of the voting rights in the investee), the terms and conditions associated with those options are such that the options are not considered substantive (i.e. remote possibility of being exercised).

Entities are advised to re-consider control of related entities in light of AASB 10 on adoption.

### **AASB 12 Disclosure of Interests in Other Entities**

AASB 12 provides the disclosure requirements for entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. As such, it pulls together and replaces disclosure requirements from many existing standards.

The IASB noted:

"The global financial crisis that started in 2007 also highlighted a lack of transparency about the risks to which a reporting entity was exposed from its involvement with structured entities, including those that it had sponsored."

AASB 12 is an attempt to improve the level of disclosure around these types of arrangements and to enhance existing disclosures with regard to interests in a subsidiary, a joint arrangement and an associate.

The AASB requires an entity to disclose information that enables users of financial statements to evaluate:

## **NOTES TO THE FINANCIAL STATEMENTS**

### **AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011**

- (a) the nature of, and risks associated with, its interests in other entities; and
- (b) the effects of those interests on its financial position, financial performance and cash flows.

Entities are advised to review AASB 12 in more detail in the lead up to adoption as the disclosures are generally more detailed and enhanced compared to current requirements.

#### **AASB 13 Fair Value Measurement**

AASB 13:

- (a) defines fair value;
- (b) sets out in a single IFRS a framework for measuring fair value; and
- (c) requires disclosures about fair value measurements.

Fair value is defined as:

“the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price)”

The standard does not require fair value measurements in addition to those already required or permitted by other IFRSs.

The IASB note:

“That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity’s intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.”

Entities are advised to review their current policies with regards to measuring fair value in light of the guidance in AASB 13 and the principles highlighted above.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated	
		2011 \$	2010 \$
<b>4</b>	<b>Revenue</b>		
	<i>Operating activities</i>		
	Revenue from gold and silver sales	8,088,356	-
	Interest revenue	7,102	2,353
	Other	169,623	313
		8,265,081	2,666
<b>5</b>	<b>Profit/loss for the year</b>		
<b>(a)</b>	<b>Expenses</b>		
	Depreciation of plant and equipment	565,219	74,732
	Amortisation	261,669	-
		826,888	74,732
	Exploration and evaluation expenditure written off	-	5,059
	Finance costs - related parties	652,503	652,723
	Rental expense on operating leases	19,224	23,022
<b>(b)</b>	<b>Reversal of impairment/(impairment losses)</b>		
	Impairment of intangible assets	-	(6,971,678)
	Reversal of prior years' impairment	10,564,676	-
		10,564,676	(6,971,678)

The fair value of the Group's project in Guanaco is determined by an independent expert at each reporting date. At 30 June 2011 the fair value of the project was estimated at \$135.3 million. This has resulted in the reversal of previously recognised impairment losses of \$10,564,676 in the current year. Refer note 14 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

		<b>Consolidated</b>	
		<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
<b>6</b>	<b>Auditors' remuneration</b>		
	Remuneration of the auditors of the Parent Entity for:		
	- auditing or reviewing the financial reports	55,500	56,750
	- other services/taxation	-	4,500
		55,500	61,250
	Remuneration of auditors of subsidiaries for:		
	- auditing or reviewing the financial reports	41,492	18,048
	- other services/taxation	-	268
		41,492	18,316
<b>7</b>	<b>Income tax benefit</b>		
	Prima facie income tax expense/(benefit) calculated at 30% on the profit/(loss)	3,997,565	(2,749,674)
	Tax loss (utilised)/carried forward	(617,476)	484,027
	(Exempt revenue)/non deductible expenses	(3,380,089)	2,265,647
		-	-
	Total income tax benefit	-	-
	Cumulative tax losses carried forward	16,600,062	20,245,279

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because it is not probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

The potential future income tax benefit will be obtained if:

- i. The relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be realised by another company in the Group in accordance with Division 170 of the Income Tax Assessment Act 1997;
- ii. The relevant company and/or Group continues to comply with the conditions for deductibility imposed by the law; and
- iii. No changes in tax legislation adversely affect the Company and/or the Group in realising the benefit.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

### 8 Earnings/(loss) per share

#### Classification of securities as ordinary shares

Ordinary shares have been included in basic earnings/(loss) per share.

	Consolidated	
	2011 \$	2010 \$
<b>Earnings reconciliation</b>		
Net profit/(loss)	13,325,218	(9,165,580)
Net profit/(loss) attributable to outside equity interests	-	-
Net profit/(loss)	13,325,218	(9,165,580)

	2011 Number	2010 Number
	<b>Weighted average number of shares used as the denominator</b>	
Number for basic and diluted earnings per share	169,139,739	169,134,049
Number for diluted earnings per share	169,139,739	169,134,049
<b>Basic earnings/(loss) per ordinary share</b>	7.9c	(5.4)c
<b>Diluted earnings/(loss) per ordinary share</b>	7.9c	(5.4)c

### 9 Segments

Management have determined the operating segments based on reports reviewed by the Chief Operating Decision Maker ("CODM"). The CODM considers the business from both an operations and geographic perspective and has identified two reportable segments, Australia and South America. The CODM monitors the performance in these two regions separately.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

	2011 \$	2011 \$	2011 \$	2010 \$	2010 \$	2010 \$
	Australia	South America	Consolidated	Australia	South America	Consolidated
Revenue from gold and silver sales	-	8,088,356	<b>8,088,356</b>	-	-	-
Interest revenue	1,841	5,261	<b>7,102</b>	2,203	150	<b>2,353</b>
Other	-	169,623	<b>169,623</b>	-	313	<b>313</b>
<b>Total segment revenue</b>	<b>1,841</b>	<b>8,263,240</b>	<b>8,265,081</b>	<b>2,203</b>	<b>463</b>	<b>2,666</b>
Amortisation	-	(261,669)	<b>(261,669)</b>	-	-	-
Depreciation	(1,449)	(563,770)	<b>(565,219)</b>	(977)	(73,755)	<b>(74,732)</b>
Reversal of impairment / (impairment)	-	10,564,676	<b>10,564,676</b>	-	(6,971,678)	<b>(6,971,678)</b>
Finance costs	(652,503)	-	<b>(652,503)</b>	(652,723)	-	<b>(652,723)</b>
Other	3,275,224	(7,300,372)	<b>(4,025,148)</b>	(1,118,959)	(350,154)	<b>(1,469,113)</b>
<b>Segment profit/(loss)</b>	<b>2,623,113</b>	<b>10,702,105</b>	<b>13,325,218</b>	<b>(1,770,456)</b>	<b>(7,395,124)</b>	<b>(9,165,580)</b>
<b>Segment assets</b>	<b>84,739</b>	<b>102,603,104</b>	<b>102,687,843</b>	<b>114,219</b>	<b>69,994,084</b>	<b>70,108,303</b>
<b>Segment liabilities</b>	<b>49,945,132</b>	<b>6,847,040</b>	<b>56,792,172</b>	<b>(22,303,982)</b>	<b>(5,277,298)</b>	<b>(27,581,280)</b>

		Consolidated	
		2011 \$	2010 \$
<b>10</b>	<b>Cash and cash equivalents</b>		
	Cash at call and in hand	1,302,124	1,393,607
	Short-term bank deposits	7,021	5,775
		<b>1,309,145</b>	<b>1,399,382</b>
	<b>Reconciliation of Cash</b>		
	Cash at the end of the financial year as shown in the statement of cashflow, is reconciled to items in the Statement of Financial Position as follows:		
	Cash and cash equivalents	<b>1,309,145</b>	<b>1,399,382</b>

### Risk Exposure

The Group's exposure to interest rate risk is discussed in note 24. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated	
		2011 \$	2010 \$
<b>11</b>	<b>Inventories</b>		
	Raw materials	278,441	-
	Work in progress	165,781	-
	Finished goods	994,431	-
		1,438,653	-
<b>12</b>	<b>Trade and other receivables</b>		
	<b>Current</b>		
	Other receivables	23,030	61,382
	GST/VAT receivable	2,800,645	2,999,664
	Trade receivables	465,347	-
		3,289,022	3,061,046
	<b>Non current</b>		
	GST/VAT receivable	2,077,241	280,943
		2,077,241	280,943
	<b>Trade debtors</b>		
	The ageing of trade receivables is		
	0 – 30 days	465,347	-

### a) Past due but not impaired

There were no receivables past due at 30 June 2011.

### b) Fair value and credit risk

Due to the short term nature of trade receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 24 for more information on the risk management policy of the Group and the credit quality of the receivables.

		Consolidated	
		2011 \$	2010 \$
<b>13</b>	<b>Financial assets available for sale</b>		
	Investment in unlisted shares (AMINSA) – opening balance	4,061,595	2,236,831
	Additions	1,261,127	2,029,326
	Movement attributable to foreign currency translation	(1,016,437)	(204,562)
		4,306,285	4,061,595

These financial assets are carried at cost less accumulated impairment losses. There are no fixed returns or fixed maturity date attached to these investments. Refer to note 24 for detailed information on financial instruments.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated	
		2011 \$	2010 \$
<b>14</b>	<b>Intangible assets</b>		
	<b><i>Guanaco</i></b>		
	Cost	70,391,157	57,000,000
	Accumulated amortisation	(261,669)	-
	Development assets – Guanaco	70,129,488	57,000,000
	<b><i>Movements in carrying value</i></b>		
	Reconciliations of the carrying amounts for intangible assets are set out below:		
	Carrying amount at beginning of year	57,000,000	-
	Reclassification from exploration and evaluation expenditure	-	55,000,000
	Additions	8,495,210	10,357,388
	Recognition of restoration provision	639,755	-
	Amortisation	(261,669)	-
	Impairment reversal/(loss)	10,564,676	(6,971,678)
	Movement attributable to foreign currency translation	(6,308,484)	(1,385,710)
	Carrying amount at end of year	70,129,488	57,000,000

### Impairment

#### *Guanaco*

The Guanaco project has been determined by Management to be a single cash generating unit ("CGU"). The intangible assets noted above and the plant and equipment as included in note 15 below are included in determining the carrying value of the CGU for the purposes of assessing for impairment. At each reporting date the Group commissions an independent expert to determine the fair value of the Guanaco project. At 30 June 2011 the independent expert determined the fair value of the development assets to be \$135.3m which compares to a value of \$57,000,000 as at 30 June 2010. The primary drivers of the increase in value have been the gold price and a de-risking of the project as a result of progression from development to early stage production.

As a result of the uplift in value previously recognised impairment losses of \$10,564,676 have been reversed in the current year.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated	
		2011 \$	2010 \$
<b>15</b>	<b>Plant and equipment</b>		
	Plant and equipment - at cost	20,857,912	4,641,383
	Accumulated depreciation	(836,118)	(375,111)
	Carrying amount at end of year	20,021,794	4,266,272
	<b><i>Movements in carrying value</i></b>		
	<i>Plant and equipment</i>		
	Carrying amount at beginning of year	4,266,272	154,529
	Additions	18,023,147	4,079,834
	Disposals	(287)	-
	Depreciation	(565,219)	(74,733)
	Movement attributable to foreign currency translation	(1,702,119)	106,642
	Carrying amount at end of year	20,021,794	4,266,272

Plant and equipment has been included in the Guanaco cash generating unit. Refer note 14 for discussion on impairment.

<b>16</b>	<b>Exploration and evaluation expenditure</b>		
	Costs carried forward in respect of areas of interest in:		
	Opening balance	39,065	55,005,059
	Write offs	-	(5,059)
	Reclassification as intangible	-	(55,000,000)
	Additions for the year	93,660	38,862
	Movement attributable to foreign currency translation	(16,510)	203
	Carrying amount at end of year	116,215	39,065

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploration or sale of the respective areas.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated	
	2011 \$	2010 \$
<b>17 Trade and other payables</b>		
<i>Current</i>		
Trade creditors and accruals	6,139,889	5,007,846

Refer to note 24 for detailed information on financial instruments.

<b>18 Provisions</b>		
<i>Current</i>		
Employee entitlements	12,179	12,142
<i>Movement in current provisions</i>		
Opening balance	12,142	11,464
Charged to the statement of comprehensive income	37	678
Closing balance	12,179	12,142

### Amounts not expected to be settled within the next 12 months

The current provision for leave includes all unconditional entitlements in accordance with the applicable legislation. The entire amount is presented as current, since the Group does not have an unconditional right to defer payment.

	Consolidated	
	2011 \$	2010 \$
<i>Non current</i>		
Mine closure	639,755	-
<i>Movement in non current provisions</i>		
Opening balance	-	-
Recognised as part of the cost of intangible asset	639,755	-
Closing balance	639,755	-

The restoration provision relates to the estimated costs of dismantling and restoring mining sites and exploration tenements to their original condition at the end of the life of the mine or exploration drilling program. The provision at year end represents the present value of the Directors' best estimate of the future sacrifice of economic benefits that will be required for meeting environmental obligations for existing tenements after activities have been completed. The provision is reviewed annually by the Directors.

The present value of the restoration provision was determined based on the following assumptions:

- Undiscounted rehabilitation costs: US\$1,099,870;
- Life of Mine: 6 years; and
- Discount rate of 12%

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

		Consolidated	
		2011	2010
		\$	\$
<b>19</b>	<b>Borrowings</b>		
	<b>Current</b>		
	Loan – Guanaco Capital Holding Corp.	-	22,248,925
	Loan – Kinam	181,680	312,367
		181,680	22,561,292
	<b>Non current</b>		
	Loan – IFISA #1	29,803,422	-
	Loan – IFISA #2	20,015,247	-
		49,818,669	-

### **Loan Guanaco Capital Holding Corp. (GCH)**

During the year the loan due to GCH was ceded by GCH to Inversiones Financieras del Sur SA.

### **Loan Inversiones Financieras del Sur SA (IFISA) #1**

The borrowings are unsecured. Interest is charged at the Westpac Business Development Loan Rate published on its website. The loan comprises principal of \$26,929,201 and capitalised interest of \$2,874,221. The loan is repayable as follows:

- a) When sufficient cash flows of the Group allow;
- b) At the election of IFISA to subscribe for shares in the Group (contingent on shareholder approval);
- c) On successful completion of an equity raising by the Group; or
- d) Failing all of the above by 30 September 2014.

### **Loan Inversiones Financieras del Sur SA (IFISA) #2**

The borrowings are unsecured. Interest is charged at a fixed rate of 12%pa. The loan comprises principal of \$18,938,708 and capitalised interest of \$1,076,539. The loan is repayable as follows:

- a) When sufficient cash flows of the Group allow;
- b) At the election of IFISA to subscribe for shares in the Group (contingent on shareholder approval);
- c) On successful completion of an equity raising by the Group; or
- d) Failing all of the above by 30 September 2014.

### **Loan Kinam**

The borrowings are unsecured, interest free and repayable at a rate of US\$75,000 per quarter with a final payment of US\$42,492. The financial liabilities are carried at cost as management have determined that the amortised cost would not differ materially from the face value of the debt.

### **Risk exposure**

The Group's risk exposure is currency risk, as the Group is responsible for repaying the loans in USD, and interest rate risk on the IFISA #1 Loan. Further details of these risk exposures is provided in note 24.

### **Fair value**

The carrying value of the loans approximates their fair value.

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES**  
**FOR THE YEAR ENDED 30 JUNE 2011**

		<b>Consolidated</b>	
		<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
<b>20</b>	<b>Issued capital</b>		
	Fully paid ordinary shares	44,400,742	44,400,742
		<b>2011</b>	<b>2010</b>
		<b>No.</b>	<b>No.</b>
	<b>Ordinary Shares<sup>+</sup></b>		
	Balance at the beginning of the year	169,139,739	169,112,125
	Shares Issued;		
	14 September 2009	-	27,614
	<b>Balance at end of year</b>	<b>169,139,739</b>	<b>169,139,739</b>

<sup>+</sup> Ordinary shares participate in dividends and the proceeds on winding up of the Parent Entity in proportion to the number of shares held.

At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

		<b>Consolidated</b>	
		<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
<b>21</b>	<b>Retained earnings/(accumulated losses)</b>		
	(Accumulated losses)/retained earnings at beginning of year	(3,507,098)	5,658,482
	Net profit/(loss) for the year	13,325,218	(9,165,580)
	Retained earnings/(accumulated losses) at end of year	9,818,120	(3,507,098)
<b>22</b>	<b>Outside equity interests</b>		
	Outside equity interests in subsidiaries comprise:		
	Acquired as part of subsidiary	56	95

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES**  
**FOR THE YEAR ENDED 30 JUNE 2011**

		<b>Consolidated</b>	
		<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
<b>23</b>	<b>Reserves</b>		
	<i>Foreign Currency Translation Reserve</i>		
	Balance at beginning of year	1,633,284	2,951,104
	Movement attributable to translation of foreign subsidiaries	(9,956,531)	(1,317,820)
	Balance at end of year	(8,323,247)	1,633,284
	Total Reserves	(8,323,247)	1,633,284

***Nature and purpose of reserves***

**Foreign Currency Translation Reserve**

Exchange differences arising on translation of the foreign subsidiaries are recognised in the foreign currency translation reserve. The reserve is recognised in the profit and loss when the net investment is disposed of.

**24 Financial risk management objectives and policies**

The Group's principal financial instruments comprise borrowings, receivables, cash and short-term deposits. These activities expose the Group to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk.

Although the Group does not have documented risk policies and procedures, the Directors manage the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate and foreign exchange risk and by being aware of market forecasts for interest rates, foreign exchange and commodity prices. The Group does not have significant exposure to credit risk and liquidity risk is monitored through general business budgets and forecasts.

The Group holds the following financial instruments:

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>Financial assets</b>		
Cash and cash equivalents	1,309,145	1,399,382
Trade and other receivables	488,377	65,626
Investment in AMINSA	4,306,285	4,061,595
<b>Total financial assets</b>	<b>6,103,807</b>	<b>5,526,603</b>
<b>Financial liabilities</b>		
Trade and other payables	(5,998,314)	(5,007,846)
Other financial liabilities	(50,000,349)	(22,561,292)
<b>Total financial liabilities</b>	<b>(55,998,663)</b>	<b>(27,569,138)</b>
<b>Net exposure</b>	<b>49,894,856</b>	<b>20,577,527</b>

**Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market such as investments in unlisted subsidiaries is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of the Group's investment in AMINSA cannot be reliably estimated as AMINSA's primary activity is exploration and evaluation of mineral resources. This investment is accordingly carried at cost.

**Risk Exposures and Responses**

**(a) Interest Rate Risk**

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's borrowings at variable interest rates were denominated in US Dollars, however the risk is within the Australian interest rate market.

All other borrowings are at a fixed rate and therefore do not carry interest rate risk.

As at the reporting date the Group had the following variable interest rate borrowings:

	<b>Weighted Average Interest rate</b>	<b>Consolidated</b>	<b>Weighted Average Interest rate</b>	<b>Consolidated</b>
	<b>2011 %</b>	<b>2011 \$</b>	<b>2010 %</b>	<b>2010 \$</b>
Borrowings	8.9	29,803,422	5.6	22,248,925

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

### **Sensitivity analysis**

At 30 June 2011, if interest rates had increased/decreased by 100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been \$298,034 higher/lower (2010: \$225,613) mainly as a result of the Group's variable interest rate borrowings.

### **(b) Currency Risk**

At 30 June 2011 the Group had the following exposure to foreign:

	Consolidated	
	2011	2010
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	1,239,167	1,296,047
Trade and other receivables	484,245	61,382
Investment in AMINSA	4,306,285	4,061,595
<b>Financial liabilities</b>		
Trade and other payables	(5,870,045)	(4,964,931)
Borrowings	(50,000,349)	(22,561,292)
<b>Net exposure</b>	<b>(49,840,697)</b>	<b>(22,107,199)</b>

### **Sensitivity analysis**

The net exposure from financial assets and liabilities subject to exchange rate risk has been calculated using an exchange rate of USD/AUD 1.05951.

Based on the financial instruments held at 30 June 2011, had the Australian Dollar weakened/strengthened by 10% against the US Dollar with all other variables held constant, the Group's post tax profit would have been \$4,132,300 lower/higher (2010: \$1,229,278). The movement is mainly due to foreign exchange gains/losses on translation of US Dollar denominated financial instruments as detailed above.

### **(c) Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any allowance for doubtful debts, as disclosed in the Statement of Financial Position and notes to the financial report.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitize its other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

### **(d) Price Risk**

The Group's revenues are exposed to fluctuations in the gold and other prices. Gold and silver produced is sold at prevailing market prices in US Dollars.

The Group has resolved that for the present time the production should remain unhedged. The Group considers exposure to commodity price fluctuations within reasonable boundaries to be an integral part of the business.

### **(e) Liquidity Risk**

The liquidity of the Group is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost effective manner. Management continuously reviews the Group's liquidity position through cash flow projections based upon the current life of mine plan to determine the forecast liquidity position and maintain appropriate liquidity levels.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

### *Financing arrangements*

Under the funding agreements amended in July 2011, the Group had access to the following undrawn United States dollar denominated borrowing facilities at the reporting date:

	Consolidated	
	2011 US\$	2010 US\$
Expiring 30 September 2014 (variable interest rate)	3,468,243	5,947,355
Expiring 30 September 2014 (fixed interest rate)	6,934,250	-
	10,402,493	5,947,355

These loans may be drawn at any time and are repayable on the terms and conditions as set out in note 19.

### *Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Year Ended 30 June 2011	< 6 months \$	6 – 12 months \$	1 – 5 years \$	> 5 years \$	Total \$
<b>Consolidated</b>					
<b>Financial liabilities</b>					
Trade and other payables	5,998,314	-	-	-	5,998,314
Borrowings	-	323,255	65,459,982*	-	65,783,237
	<b>5,998,314</b>	<b>323,255</b>	<b>65,459,982*</b>	-	<b>71,781,551</b>

\*This amount is based on the following assumptions:

- there are no additional draw downs on the IFISA loan facility;
- the loan is held to 30 September 2014 and is not repaid or converted into equity by IFISA; and
- interest of \$15,641,313 calculated using rates disclosed in note 19.

Year Ended 30 June 2010	< 6 months \$	6 – 12 months \$	1 – 5 years \$	> 5 years \$	Total \$
<b>Consolidated</b>					
<b>Financial liabilities</b>					
Trade and other payables	5,007,846	-	-	-	5,007,846
Borrowings	22,248,925	312,367	-	-	22,561,292
	<b>27,256,771</b>	<b>312,367</b>	-	-	<b>27,569,138</b>

### *Defaults and breaches*

During the current and prior years, there were no defaults or breaches on any of the loans.

### *Capital management*

The Group's policy is to maintain a strong and flexible capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the return on capital which the Group defines as total shareholders' equity attributable to the members of Austral Gold Limited. The Group monitors Statement of Financial Position strength and flexibility using cash flow forecast analysis and a detailed budget process. There were no changes in the Group's approach to capital management during the year.

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**25 Dividends**

No dividends were paid or proposed during the year

**26 Commitments**

These obligations are not provided for in the accounts and are payable:

	<b>Consolidated</b>	
	<b>2011</b> <b>\$</b>	<b>2010</b> <b>\$</b>
Within one year – AMINSA Earn-in Commitments	1,190,476	1,470,588
One year or later and no later than five years	-	-
	<b>1,190,476</b>	<b>1,470,588</b>

**Operating lease commitments**

Future operating lease rentals not provided for in the financial statements and payable:

	<b>Consolidated</b>	
	<b>2011</b> <b>\$</b>	<b>2010</b> <b>\$</b>
Within one year	25,529	22,646
One year or later and no later than five years	-	-
	<b>25,529</b>	<b>22,646</b>

The Group rents offices at Suite 605/ 80 William Street, Sydney. The property lease is a non-cancellable lease with a one year term expiring 31 May 2012. Rent is payable monthly in advance.

**27 Subsidiaries**

	<b>2011</b> <b>% owned</b>	<b>2010</b> <b>% owned</b>	<b>Country of incorporation</b>
<b>Parent Entity</b>			
Austral Gold Limited			Australia
<b>Subsidiaries</b>			
Guanaco Mining Company	100.000	100.000	British Virgin Islands
Guanaco Compañía Minera	99.998	99.997	Chile
Austral Gold Argentina	99.661	99.499	Argentina

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES**  
**FOR THE YEAR ENDED 30 JUNE 2011**

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
<b>28 Cash flow information</b>		
<i>Reconciliation of cash flow from operations with profit/(loss) after income tax</i>		
Profit/(loss) after income tax	13,325,218	(9,165,580)
Non-cash flows in profit/(loss)		
Interest expense capitalised	652,503	652,723
Share based payments	-	2,488
Impairment (reversal)/loss	(10,564,676)	6,971,678
Interest received	(7,102)	(2,353)
Exploration and evaluation expenditure written off	-	5,059
Exchange rate (gain)/loss	(7,031,711)	555,987
Depreciation and amortisation	826,888	74,372
Net cash used in operating activities before change in assets and liabilities	(2,798,880)	(905,626)
Changes in assets and liabilities:		
Increase in inventory	(1,438,653)	-
(Increase)/decrease in trade and other receivables	(2,753,594)	(1,768,347)
(Decrease)/increase in trade and other payables	1,942,805	404,337
Movement attributable to foreign currency translation	100,658	(59,124)
<b>Cash flow used in operations</b>	<b>(4,947,664)</b>	<b>(2,328,760)</b>

**NOTES TO THE FINANCIAL STATEMENTS**  
**AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**29 Parent Entity Information**

	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>
Information relating to Austral Gold Limited:		
Current assets	94,943	107,579
Total assets	89,630,448	60,785,620
Current liabilities	49,945,133	22,303,981
Total liabilities	49,945,133	22,303,981
<b>Net Assets</b>	<b>39,685,315</b>	<b>38,481,639</b>
Issued capital	44,400,742	44,400,742
Accumulated losses	(4,715,427)	(5,919,103)
<b>Total shareholders' equity</b>	<b>39,685,315</b>	<b>38,481,639</b>
Profit/(loss) of the parent entity	1,203,676	(2,258,969)
Total comprehensive income of the parent entity	1,203,676	(2,258,969)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	None	None
Details of any contingent liabilities of the parent entity	None	None
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	None	None

**30 Subsequent Events**

On 26 July 2011 Austral Gold Limited signed amendments to the funding agreements with Inversiones Financieras del Sur SA (IFISA) to extend the facility limit across both loans to USD59 million, an increase of USD8 million. In addition the termination date was extended to 30 September 2014 on both agreements.

On 6 September 2011 Austral Gold announced an increase to gold and silver resources at Guanaco. The increase of 73,000 ounces of gold is primarily attributable to the underground Natalia structure. Total gold resources at Guanaco now total 884,653 ounces with approximately 95,000 additional gold equivalent ounces of silver.

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

### 31 Related Parties

#### *Directors*

The names of each person holding the position of Director during the year are; Eduardo Elsztain, Pablo Vergara del Carril, Robert Trzebski, Saul Zang, Stabro Kasaneva, Mark Bethwaite (resigned 2 June 2011), and Ben Jarvis (appointed 2 June 2011). Amounts paid to Directors are set out in the table below.

#### *Directors' holdings of shares and share options*

The parent company, IFISA holds 69% interest in Austral Gold Limited.

Mr Pablo Vergara del Carril is a Director of Austral Gold Limited, Guanaco Capital Holding and of Guanaco Mining Company. He holds 68,119 shares directly in Austral Gold Limited.

Mr Elsztain is a Director of Austral Gold Limited, Guanaco Capital Holding, Guanaco Mining Company, IFISA and President of Austral Gold Argentina SA. He holds 144,934,945 shares indirectly in Austral Gold Limited.

Mr Zang is a Director of Austral Gold Limited, Guanaco Capital Holding, Guanaco Mining Company, Austral Gold Argentina SA and IFISA and he holds 1,435,668 shares indirectly in Austral Gold Limited.

Mr Kasaneva is a Director of Austral Gold Limited and does not hold any shares either directly or indirectly in Austral Gold Limited

P Vergara del Carril, E Elsztain and S Zang are directors of Guanaco Capital Holding Corp which holds 24,289,330 shares according to the last substantial holder notice lodged in November 2009.

E Elsztain and S Zang are directors of IFISA which holds 116,881,722 shares according to the last substantial holder notice lodged in November 2009.

Dr Robert Trzebski is a Director of Austral Gold Limited and does not hold any shares either directly or indirectly in Austral Gold Limited.

Mr Ben Jarvis is a Director of Austral Gold Limited and does not hold any shares either directly or indirectly in Austral Gold Limited.

# NOTES TO THE FINANCIAL STATEMENTS

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

## *Directors and Senior Management Remuneration*

2011	PRIMARY			POST-EMPLOYMENT		SHARE-BASED		TOTAL
	Cash Salary & Fees	Cash bonus	Non monetary benefits	Super-annuation	Retirement benefits	Shares	Options	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>								
F M Bethwaite	44,372	-	-	47,295	-	-	-	91,667
R Trzebski	36,697	-	-	3,303	-	-	-	40,000
S Kaseneva	300,955	-	-	-	-	-	-	300,955
B Jarvis	3,058	-	-	275	-	-	-	3,333
<b>Total Directors</b>	<b>385,082</b>	<b>-</b>	<b>-</b>	<b>50,873</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>435,955</b>
<b>Other Key Management Personnel</b>								
C Lloyd	59,633	-	-	5,367	-	-	-	65,000
J Dudley-Smith	49,541	-	-	4,459	-	-	-	54,000
<b>TOTAL</b>	<b>494,256</b>	<b>-</b>	<b>-</b>	<b>60,699</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>554,955</b>

2010	PRIMARY			POST-EMPLOYMENT		SHARE-BASED		TOTAL
	Cash Salary & Fees	Cash bonus	Non monetary benefits	Super-annuation	Retirement benefits	Shares	Options	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Directors</b>								
F M Bethwaite	51,876	-	-	48,124	-	-	-	100,000
R Trzebski	36,697	-	-	3,303	-	-	-	40,000
S Kaseneva	230,001	-	-	-	-	-	-	230,001
<b>Total Directors</b>	<b>318,574</b>	<b>-</b>	<b>-</b>	<b>51,427</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>370,001</b>
<b>Other Key Management Personnel</b>								
C Lloyd	82,569	-	-	7,431	-	-	-	90,000
<b>TOTAL</b>	<b>401,143</b>	<b>-</b>	<b>-</b>	<b>58,858</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>460,001</b>

# NOTES TO THE FINANCIAL STATEMENTS

## AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2011

### *Borrowings from majority shareholder*

	<b>IFISA</b>	<b>GCH</b>	<b>TOTAL</b>	<b>IFISA</b>	<b>GCH</b>	<b>TOTAL</b>
	<b>2011</b>	<b>2011</b>	<b>2011</b>	<b>2010</b>	<b>2010</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Amount payable at end of year	49,818,669	-	<b>49,818,669</b>	-	22,248,925	<b>22,248,925</b>
Interest	1,504,719	1,964,321	<b>3,469,040</b>	-	652,723	<b>652,723</b>
Funds received	20,045,678	11,112,633	<b>35,158,311</b>	-	15,995,020	<b>15,995,020</b>
Funds repaid	-	-	-	-	-	-

### **Ultimate parent entity**

The Parent Entity is controlled by IFISA which is incorporated in Uruguay. The ultimate beneficial owner of IFISA is Eduardo Elsztein.

# AUSTRAL GOLD LIMITED

## DIRECTORS' DECLARATION

The Directors of Austral Limited declare that:

- (a) in the directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on page 10, are in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2011 and of their performance, for the financial year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001.
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2; and
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the chief financial officer for the financial year ended 30 June 2011.

Signed in accordance with a resolution of the Directors.



Ben Jarvis  
Director

Sydney, 20 September 2011

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF AUSTRAL GOLD LIMITED

#### Report on the Financial Report

We have audited the accompanying financial report of Austral Gold Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies, other explanatory information, and the directors' declaration of Austral Gold Limited ("the company") and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### *Opinion*

In our opinion:

- (a) the financial report of Austral Gold Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Opinion*

In our opinion, the Remuneration Report of Austral Gold Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

PKF

**PKF**



**Tim Sydenham**  
Partner

**20 September 2011**  
Sydney

## **ADDITIONAL INFORMATION REQUIRED BY AUSTRALIAN SECURITIES EXCHANGE LIMITED**

Additional information included in accordance with the Listing Rules of the Australian Stock Exchange Limited.

### **CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2011**

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

#### **Board of Directors and its Committees**

Your board is responsible for the overall Corporate Governance of the Group including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

#### **Composition of the Board**

The names of the directors of the Company in office at the date of this Statement are set out in the Directors' Report.

#### **Audit Committee**

The Audit Committee has a documented Charter, approved by the Board. The role of the Committee is to advise on the establishment and maintenance of a framework of internal controls and appropriate ethical standards for the management of the Group.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

#### ***The members of the Audit Committee during the year were:***

- Mr Mark Bethwaite (Non-Executive Director – Chairman Audit Committee). Resigned 2 June 2011
- Mr Pablo Vergara del Carril (Non-Executive Director)
- Dr Robert Trzebski (Non-Executive Director)

Audit Committee Meetings are also attended by the external auditors and management representatives as required.

#### ***The responsibility of the audit committee includes:***

- Reviewing the financial report and other financial information distributed externally;
- Reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditors' independence;
- Liaising with the external auditors and ensuring that the annual and half year statutory audits are conducted in an effective manner and;
- Monitoring the procedure in place to ensure compliance with the Corporation Act 2001 and Stock Exchange Listing Rules and all other regulatory requirements.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the following:

#### ***Prior to announcements of results:***

- To review the half yearly and preliminary final report prior to lodgement of these documents with ASX, and any significant adjustments required as a result of the audit; and
- To make the necessary recommendations to the Board for the approval of these documents.

#### ***Annual reporting:***

- To review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
- To review the draft financial report and audit report and to make the necessary recommendations to the Board for the approval of the financial report.

## Remuneration Committee

All remuneration decisions are made by the Board.

### ***The Board is cognisant of the objectives concerning remuneration and they are:***

- to appropriately reward and thereby encourage excellent performance by management and directors, as measured by growth of the Company;
- to devise and/or approve appropriate incentives to facilitate growth;
- to take into account the requirements and expectations of all stakeholders, including shareholders, so that remuneration is balanced by expectations concerning profitability of the Company.

### ***The Board will review:***

- policies for the annual remuneration of directors and senior management;
- the basis of calculation of remuneration of those persons to ensure the appearance of reasonableness;
- current industry practice in the remuneration of directors and senior executives of similar size and industry entities;
- different methods of remuneration, including:
  - bonus schemes;
  - employee Share Option Scheme;
  - fringe benefits;
  - superannuation;
  - retirement and termination packages.

### ***The Board will also review:***

- professional indemnity policies;
- related party disclosures in the financial statements;
- communication with major stakeholders to gauge their views on remuneration packages.

The Board's objectives concerning remuneration are to devise appropriate criteria for Board membership, and identify specific individuals for Board membership.

### ***The Board takes into account:***

- the skill sets of current Board members;
- the current and future requirements of the Company for skills in particular areas which it lacks;
- the value to stakeholders of a Board comprising individuals with high levels of independence and stature.

The Board fosters open and confidential communications at its meetings.

The Board will initiate an annual review of Board and individual director performance, including a review of Board size, committee structures, and effectiveness of Board meetings.

## Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described as follows:

- Financial reporting – an annual budget is prepared by management and approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared as required. The Company reports to shareholders quarterly. Procedures are also in place to ensure that price sensitive information is reported to the ASX in accordance with Continuous Disclosure Requirements.
- Investment appraisal – the Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, and levels of authority.

## The Role of Shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the consolidated entities state of affairs. Information is communicated to shareholders as follows:

- The Annual Report is available to all shareholders (through the Company web site). The Board ensures that the annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group and details of future developments, in addition to the other disclosures required by the Corporations Act 2001;
- the quarterly report contains summarised financial information and a review of the operations of the Group during the period.

These reports are posted on the Company's website at [www.australgold.com.au](http://www.australgold.com.au) as are announcements made to the ASX.

The shareholders are responsible for voting on the appointment of directors.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Groups strategy and goals. Important issues are presented to the shareholders as single resolutions.

### Securities Trading Policy

The Group's share trading policy restricts the times and circumstances in which directors, employees and parties legally related to them, may trade in shares of the Company or its listed controlled entity. Trading is not permitted when directors or employees possess price sensitive information which has not yet been disclosed to the market.

### Principles of Good Corporate Governance and Best Practice Recommendations

In August 2007, the ASX Corporate Governance Council (**Council**) re-released its "Corporate Governance Principles and Recommendations" (**Recommendations**).

Listing Rule 14.10.3 requires a company to disclose the extent to which the entity has followed the Recommendations set by the Council during the reporting period. If the entity has not followed all of the recommendations it must identify those recommendations that have not been followed and give reasons for not following them. If a recommendation had been followed for only part of the period, the entity must state the period during which it had been followed.

In accordance with Listing Rule 14.10.3 the Company states that it has complied with each of the Eight Essential Corporate Governance Principles and the corresponding Recommendations as published by the ASX Corporate Governance Council.

Principal No	Recommendation	Compliance or Explanation for Non-compliance
1	1.1 Establish and disclose the functions reserved to the Board and those delegated to senior management.	A formal policy document outlining board and management functions has not been established.  The directors have determined that given the size and direction of the Company, hands on day-to-day management and supervision by directors is currently in its best interests.  Delegation of specific responsibilities to senior management is agreed and documented in Board Meetings.
1	1.2 Disclose the process for evaluating the performance of senior executives	The Board reviews senior management performance and assesses remuneration in line with this review annually.
2	2.1 A majority of the Board should be independent directors.	Four of the six directors are not considered independent due to their relationship with IFISA, the Company's majority shareholder and other significant shareholders. This situation is unlikely to change.
2	2.2 The chairperson should be an independent director.	The Chairman is an independent, non-executive director.

Principal No	Recommendation	Compliance or Explanation for Non-compliance
2	2.3 The same individual should not exercise the roles of chairperson and chief executive officer.	The Company has not appointed a chief executive officer rather they have appointed Stabro Kasaneva as the Chief Operating Officer.
2	2.4 The Board should establish a nomination committee.	The Board does not have a nomination committee because in the directors' view, a Company of this size and stage of development can best operate with the functions of a nomination committee undertaken by the full Board.
2	2.5 Disclose the process for evaluating the performance of the Board, its Committees and individual directors.	The Board intends to review its overall performance and performance of individual directors within the next 12 months.
3	3.1 Establish a code of conduct and disclose a summary addressing: <ul style="list-style-type: none"> <li>• the practices necessary to maintain confidence in the company's integrity</li> <li>• the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders</li> <li>• the responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour.</li> </ul>	The Company's code of conduct is published on the Company's website under Corporate Governance.
3	3.2 Establish and disclose a policy concerning trading in company securities by directors, senior executives and employees.	The Company's Securities Trading Policy was provided to the ASX on 29 December 2010 and is available on the Company's website.
4	4.1 Establish an Audit Committee	Complies. The Company has an Audit Committee.
4	4.2 Structure the audit committee so that it consists of: <ul style="list-style-type: none"> <li>• only non-executive directors</li> <li>• a majority of independent directors</li> <li>• an independent chairperson, who is not chairperson of the board</li> <li>• at least three members</li> </ul>	The Audit Committee comprises Robert Trzebski (as Chairman) and Pablo Vergara del Carril. The committee lacks a majority of independent directors as recommended.  The members of the Audit Committee possess the requisite financial expertise and industry experience necessary to effectively carry out the Committee's mandate.
4	4.3 The Audit Committee should have a formal charter.	The Audit Committee has a documented charter approved by the Board.
5	5.1 Establish and disclose written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	The Company's Continuous Disclosure Policy is available on the Company's website.

Principal No	Recommendation	Compliance or Explanation for Non-compliance
6	6.1 Design and disclose a communications policy to promote effective communication with shareholders and encourage effective participation at general meetings.	The Company's Shareholder Communications Policy is available on the Company's website.
7	7.1 Establish and disclose policies for the oversight and management of material business risks.	The Company's Risk Management and Internal Control Policy is available on the Company's website.
7	7.2 Design and implement a risk management and internal control system to manage the company's material business risks and report on whether those risks are being managed effectively.	The Company's system of risk management and internal control is basic, yet appropriate for the size and nature of transactions incurred.  The Board seek external advice when considering new or significant transactions to ensure risks are identified and addressed in a timely manner.
7	7.3 The Board should disclose whether it has received assurance from senior management that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The sign-off received by the Board from the CFO relates to financial reporting. It is limited by knowledge and belief and provides a reasonable, but not absolute level of assurance with regards to the system of risk management and internal control.
8	8.1 Establish a Remuneration Committee	The Company cannot justify the operation of a Remuneration Committee. All remuneration decisions are made by the Board.
8	8.2 Distinguish the structure of non-executive directors' remuneration from that of executive directors and senior management.	The Board is cognisant of the objectives concerning remuneration of directors and senior management and is committed to the design of appropriate structures to fulfil these objectives.

The Board aspires to the highest standards of corporate governance and is fully supportive of and committed to the aims, spirit and letter of the Recommendations and to their implementation as appropriate for a company of this size.

## Capital

As at 31 August the total issued capital of Austral Gold Limited was 169,139,739 ordinary shares.

169,139,739 shares were quoted on the Australian Securities Exchange under the code AGD.

The only shares of the Company on issue are ordinary shares. None of these shares are restricted securities within the meaning of the Listing Rules of the Australian Securities Exchange.

There are no restrictions on the voting rights attached to the fully paid ordinary shares. On a show of hands, every member present in person shall have one vote and upon a poll, every member present in person or by proxy shall have one vote for every share held.

### a) Distribution of fully paid ordinary shareholders at 31 August 2011

Size of Holding	Total holders	Number of shares held
1 - 100	194	9,777
101 - 1,000	460	256,708
1,001 - 5,000	299	793,051
5,001 - 10,000	84	688,128
10,001 - 50,000	60	1,316,079
50,001 - 100,000	15	1,055,694
100,001 - 9,999,999,999	24	165,020,302
<b>Total</b>	<b>1,136</b>	<b>169,139,739</b>

### b) Substantial Shareholders

At 31 August 2011, the Company's register of substantial shareholdings in line with the last substantial holder notice lodged in November 2009 shows the following:

Registered Holder	Beneficial Holder	Shares Held
Citicorp Nominees	Inversiones Financieras Del SUR SA (IFISA)	116,881,722
HSBC Custody Nominees	Guanaco Capital Holding Corp	24,289,330
Citicorp Nominees	Eduardo Sergio Elsztain	4,686,206
<b>TOTAL</b>		<b>145,857,258</b>

c) Top twenty shareholders as at 31 August 2011

Rank	Name	No. of shares	% of issued capital
1.	CITICORP NOMINEES PTY LIMITED	125,407,138	74.14
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	24,289,330	14.36
3.	JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	3,234,624	1.91
4.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	2,192,682	1.30
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,969,392	1.16
6.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,640,822	0.97
7.	ASOCIACION ISRAELITA ARGENTINA TZEIRE AGUDATH JABAD	1,158,265	0.68
8.	J P MORGAN NOMINEES AUSTRALIA LIMITED	1,148,000	0.68
9.	FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C>	819,557	0.48
10.	HAZLAHA INVESTMENTS LIMITED	336,865	0.20
11.	JP MORGAN TRUST COMPANY LTD <THE AUSTRIA A/C>	297,445	0.18
12.	LIMOL TRADING CORP	297,445	0.18
13.	MOSHE AMBARCHI	250,000	0.15
14.	JOAMEL HOLDINGS PTY LTD <ROXBURGH SUPER FUND A/C>	250,000	0.15
15.	BIRCHALL PROJECTS LTD	230,000	0.14
16.	MR CARLOS PERALTA TORREJON	227,614	0.13
17.	MR MARCUS EINFELD	200,000	0.12
18.	GREENFORD INVESTMENTS LIMITED	200,000	0.12
19.	MOUNTAIN SIDE HOLDINGS LTD	194,800	0.12
20.	MR MARCOS FISCHMAN	190,451	0.11
<b>Total for top 20 shareholders</b>		<b>164,534,430</b>	<b>97.28</b>
Other		4,605,309	2.72
<b>Total shares on issue</b>		<b>169,139,739</b>	<b>100.00</b>