

# MEDIA RELEASE

14 November 2014

## AUSTRAL GOLD LIMITED ANNUAL GENERAL MEETING

Austral Gold Limited (ASX: AGD) advises that the following documents will be sent to shareholders today:

- Notice of Annual General Meeting 2014
- Independent Expert's Report
- Proxy Form
- Annual Report (to those shareholders who have requested it)

The Notice of Annual General Meeting, Independent Expert's Report and Proxy Form are attached.

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# **Notice of Annual General Meeting and Explanatory Statement**

# **2014**

**Austral Gold Limited ACN 075 860 472**

**Annual General Meeting to be held at**

**the offices of BDO, located at Level 11, 1 Margaret Street, Sydney, NSW 2000**

**on Tuesday, 16 December 2014 at 10.00 a.m. (AEDT)**

This notice of Annual General Meeting and Explanatory Statement should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser without delay.

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# The meeting and how to vote

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## Venue

The Annual General Meeting of the Shareholders of Austral Gold Limited will be held at the offices of BDO, located at Level 11, 1 Margaret Street, Sydney, New South Wales 2000 on **Tuesday, 16 December 2014 at 10.00 a.m. (AEDT)**.

## Your vote is important

The business of the General Meeting affects your shareholding and your vote is important.

## Voting in person

To vote in person, please attend the General Meeting on the date and at the place set out above.

## Appointing a proxy

To appoint a proxy, please complete and sign the Proxy Form enclosed and send it either:

- by post, to Computershare Investor Services Pty Limited, GPO Box 242, Melbourne 3001, Victoria, Australia; or
  - by facsimile, to Computershare on 1300 783 447 (within Australia) or +61 3 9473 2555 (outside Australia),
- or lodge your proxy appointment online at:
- [www.investorvote.com.au](http://www.investorvote.com.au); or
  - for Intermediary Online subscribers only (custodians), please go to [www.intermediaryonline.com](http://www.intermediaryonline.com)
- so that it is received no later than **10.00 a.m. (AEDT) on Sunday, 14 December 2014**.

**PROXY FORMS RECEIVED LATER THAN THIS TIME AND DATE WILL BE INVALID.**

# Notice of Annual General Meeting

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Notice is given that an Annual General Meeting of Shareholders of Austral Gold Limited (Company) will be held at the offices of BDO located at Level 11, 1 Margaret Street, Sydney, New South Wales 2000 on Tuesday, 16 December 2014 at 10.00 a.m. (AEDT).

The Explanatory Statement to this Notice of Meeting provides additional information on matters to be considered at the General Meeting.

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001 (Cth)* that the persons eligible to vote at the General Meeting are those who are registered Shareholders on Sunday, 14 December 2014 at 10.00 a.m. (AEDT).

## AGENDA FOR ANNUAL GENERAL MEETING

### **Item 1 – Adoption of 2014 Annual Report**

To receive and consider the Annual Financial Report, the Directors' Report and the Auditor's Report for the year ended 30 June 2014.

Shareholders are reminded that the 2014 Annual Report has only been mailed to those Shareholders who have elected to receive annual reports in hard copy. The 2014 Annual Report can be viewed on the Company's website at [www.australgold.com.au](http://www.australgold.com.au).

If you have not previously elected to receive a printed copy of the Annual Financial Report and would like one, please phone +61 (2) 9380 7233 or email [info@australgold.com.au](mailto:info@australgold.com.au), and a copy will be sent to you free of charge.

### **Item 2 – Adoption of Remuneration Report**

To receive, consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

**"To adopt the Remuneration Report for the year ended 30 June 2014."**

**(Resolution 2)**

### **Item 3 – Re-election of Mr Saul Zang**

To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

**"That Mr Saul Zang be re-elected as a Director of the Company."**

**(Resolution 3)**

### **Item 4 – Re-election of Mr Ben Jarvis**

To consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

**"That Mr Ben Jarvis be re-elected as a Director of the Company."**

**(Resolution 4)**

### **Item 5 – Re-election of Mr Wayne Hubert**

To consider and if thought fit, to pass the following Resolution as an Ordinary Resolution:

**"That Mr Wayne Hubert be re-elected as a Director of the Company."**

**(Resolution 5)**

## **Item 6 – Approval of 10% capacity to issue Equity Securities**

To consider and, if thought fit, pass the following Resolution as a Special Resolution:

**“That for the purposes of Listing Rule 7.1A and for all other purposes, approval be given for the Company to issue and allot, or agree to issue and allot, Equity Securities up to 10% of the issued capital in the Company (at the time of issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Statement.”**

**(Resolution 6)**

## **Item 7 – Approval of Debt Conversion**

To receive, consider and, if thought fit, to pass the following Resolution as an Ordinary Resolution:

**“That for the purposes of Listing Rule 10.11 and in accordance with the provisions of section 611, Item 7 of the Corporations Act, and for all other purposes required by law, approval be given to the issue of up to a maximum of 312,500,000 Shares to IFISA or its nominee or nominees, at a price of A\$0.20 per Share, and in consideration for which IFISA will:**

- agree that all indebtedness owed by the Company to IFISA – which as at 30 September 2014 was US\$53,733,935.00 (at the Agreed Conversion Rate, being A\$61,586,172.00) - will have been fully repaid, and**
- increase its voting power in the Company from its current level of 84.77% up to a maximum of 94.62%,**

**and otherwise on such other terms and conditions as are set out in Item 7 of the Explanatory Statement that accompanies this Notice of Meeting.”**

**(Resolution 7)**

## **Other Business**

To transact any other business as may be brought before the Annual General Meeting.



Dated: **12 November 2014**

By Order of the Board

Andrew Bursill  
Company Secretary  
Austral Gold Limited

# Voting Exclusion Statement

For the definitions of Key Management Personnel (**KMP**) and Closely Related Parties, please refer to the **Glossary**.

The Corporations Act restricts members of the KMP and their Closely Related Parties from voting in relation to remuneration related Resolutions (such as Resolution 2). In addition, separate voting restrictions apply in respect of other Resolutions in accordance with the provisions of the Listing Rules.

**What this means for Shareholders:** If you intend to appoint a member of the KMP (other than the Chair of the Meeting) as your proxy, please ensure that you direct them how to vote on Resolution 2. If you do not do so, your proxy will not be able to vote on your behalf on Resolution 2.

If you intend to appoint the Chair of the Meeting as your proxy, you are encouraged to direct him/her as to how to vote by marking the relevant box for Resolution 2 (for example, if you wish to vote for, or against, or to abstain from voting). If you appoint the Chair as your proxy without directing him/her how to vote, the Proxy Form authorises him/her to vote as he/she decides on Resolution 2 (even though Resolution 2 may be connected to the remuneration of KMP). The Chair of the Meeting intends, where permitted to do so, to vote in favour of Resolution 2.

The Company will disregard votes cast on the Resolutions by the persons detailed in the table below.

Resolution	Voting exclusions
<b>Resolution 2 – Adoption of Remuneration Report</b>	<p>A vote must not be cast in any capacity by:</p> <ul style="list-style-type: none"><li>- a current or former member of the KMP whose remuneration details are included in the Remuneration Report for the year ended 30 June 2014; and</li><li>- any Closely Related Party of any such member of the KMP.</li></ul> <p>In addition, no votes may be cast as a proxy by any other person who has become a member of the KMP by the time of the Meeting or any of their Closely Related Parties.</p> <p>However, the Company need not disregard a vote cast as proxy for a person who is entitled to vote on Resolution 2, if:</p> <ul style="list-style-type: none"><li>- the vote is cast in accordance with the directions on the Proxy Form, specifying how the proxy is to vote on Resolution 2; or</li><li>- the vote is cast by the Chair of the Meeting and the Proxy Form authorises him/her to vote as he/she decides on Resolution 2 (even though it is connected with the remuneration of members of the KMP, including the Chair).</li></ul>
<b>Resolution 6 – Approval of 10% capacity to issue Equity Securities</b>	<p>A vote must not be cast by:</p> <ul style="list-style-type: none"><li>- the persons referred to in Section 6.5 of the Explanatory Statement, being any of the persons who may participate in the proposed issue of the securities that are the subject of Resolution 6, and any persons who might obtain a benefit, except a benefit solely in the capacity as a holder of Shares; and</li><li>- any Associate of any of those persons.</li></ul> <p>However, the Company need not disregard a vote cast as proxy for a person who is entitled to vote on Resolution 6 if:</p> <ul style="list-style-type: none"><li>- the vote is cast in accordance with the directions on the Proxy Form, specifying how the proxy is to vote on Resolution 6; or</li><li>- the vote is cast by the Chair of the Meeting, in accordance with a direction on the Proxy Form, to vote as the proxy decides.</li></ul>

<b>Resolution 7 – Debt Conversion</b>	<p>A vote must not be cast by:</p> <ul style="list-style-type: none"> <li>- any person who is to receive any Debt Conversion Shares; and</li> <li>- any Associate of any such person.</li> </ul> <p>However, the Company need not disregard a vote cast as a proxy for a person who is entitled to vote on Resolution 7, if:</p> <ul style="list-style-type: none"> <li>- the vote is cast in accordance with the directions on the Proxy Form specifying how the proxy is to vote on Resolution 7; or</li> <li>- the vote is cast by the Chair of the Meeting in accordance with a direction on the Proxy Form to vote as the proxy decides.</li> </ul> <p>For the sake of clarity, neither IFISA nor any of its Associates (who include each of the Non-Independent Directors) will be entitled to vote on Resolution 7.</p>
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# Explanatory Statement

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This Explanatory Statement has been prepared for the information of the Shareholders of Austral Gold Limited (Company) in connection with the business to be conducted at the Annual General Meeting of the Company to be held at the offices of BDO located at Level 11, 1 Margaret Street, Sydney, New South Wales 2000 on Tuesday, 16 December 2014 at 10.00 a.m. (AEDT).

The purpose of this Explanatory Statement is to provide information that the Directors believe to be material to Shareholders in deciding whether or not to pass any or all of the Resolutions.

## **Item 1 – Adoption of 2014 Annual Report**

The business of the General Meeting will include receipt and consideration of the Company's Annual Financial Report, the Directors' Report and the Auditor's Report for the year ended 30 June 2014, which are included in the 2014 Annual Report.

In accordance with the Corporations Act, Shareholders will be given a reasonable opportunity at the General Meeting to ask questions and make comments on the 2014 Annual Report, and on the management of the Company.

The Company's auditor will be present at the General Meeting. During the discussion of this Item 1, the auditor will be available to answer questions on:

- the conduct of the audit;
- the preparation and content of the Auditor's Report;
- the accounting policies adopted by the Company in relation to the preparation of the Financial Statements; and
- the independence of the auditor in relation to the conduct of the audit.

### **Written questions for the auditor**

If you would like to submit a written question about the content of the Auditor's Report or the conduct of the audit of the 2014 Annual Report to the Company's auditor, please send your question to the Company Secretary. A list of qualifying questions will be made available at the General Meeting.

Please note that all written questions must be received at least five business days before the General Meeting, that is, by no later than **Tuesday, 9 December 2014**.

## **Item 2 – Adoption of Remuneration Report**

The Remuneration Report is set out in the 2014 Annual Report. The Remuneration Report details the Company's remuneration arrangements for the Directors and senior management of the Company.

Section 250R(2) of the Corporations Act requires that a resolution to adopt the Remuneration Report be put to the vote of the Company. Shareholders should note that the vote on Resolution 2 is advisory only and not binding on the Company or its Directors.

However, under the Corporations Act, if at least 25% of the votes cast on Resolution 2 are against the adoption of the Remuneration Report,<sup>1</sup> then:

- if comments are made on the Remuneration Report at the General Meeting, the Company's 2015 Remuneration Report will be required to include an explanation of the Board's proposed action in response to those comments or, if no action is proposed, the Board's reasons for this; and

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<sup>1</sup> See Part 2G.2, Division 9 of Corporations Act

- if, at the Company's annual general meeting for the financial year ended 30 June 2015 (**2015 AGM**), at least 25% of the votes cast on the resolution for adoption of the Remuneration Report in respect of that financial year are against that resolution, the Company will be required to put to Shareholders at the 2015 AGM, a resolution proposing that an extraordinary general meeting (**EGM**) be called no later than 90 days after the date of the 2015 AGM, to consider the election of Directors (**Spill Resolution**). If the Spill Resolution is passed at the 2015 AGM (i.e. more than 50% of the votes cast are in favour of it), all of the Directors (other than the Managing Director) will cease to hold office at that subsequent EGM, unless re-elected at that EGM.

For the financial year ended 30 June 2013, in excess of 75% of votes cast on a resolution to adopt the 2013 Remuneration Report, were in favour of the adoption of that Remuneration Report.

In accordance with the Corporations Act, Shareholders will be given a reasonable opportunity at the General Meeting to ask questions and make comments on the Remuneration Report.

**Board recommendation:** *The Remuneration Report forms part of the Directors' Report, which was approved in accordance with a unanimous resolution of the Board. Each Director recommends that Shareholders vote in favour of adopting the Remuneration Report.*

### **Item 3 – Re-election of Mr Saul Zang**

Clause 13.2 of the Constitution requires that one third of the Directors (or if their number is not a multiple of three, then the number nearest one third, rounded upwards) must retire at each annual general meeting. It also provides that a Director who retires under clause 13.2 is eligible for re-election.

Mr Zang was appointed as a Director on 29 June 2007 and was re-elected at the annual general meeting of the Company held on 30 November 2011. He now retires by rotation and, being eligible, seeks re-election in accordance with clause 13.2 of the Constitution.

#### **Brief resume of Mr Saul Zang**

Non-independent Non-executive Director

#### **Experience and expertise**

Mr Zang obtained a law degree from Universidad de Buenos Aires. He is a member of the International Bar Association and the Interamerican Federation of Lawyers and is a founding member of the law firm Zang, Bergel & Viñes. Mr Zang is an adviser and Member of the Board of Directors of BASE and provides legal advice to national and international companies, including the privatisation process of YPF SA and the Province of Buenos Aires' electricity company.

Mr Zang currently holds (i) Vice-Chairmanships on the Boards of IRSA (NYSE: IRSA, BASE: IRSA), Alto Palermo (NASDAQ: APSA, BASE: APSA), Cresud (NASDAQ: CRESY, BASE: CRES) and (ii) holds Directorships with Banco Hipotecario (BASE: BHIP), BrasilAgro (NYSE: LND, BOVESPA:AGRO3), IDB Development Corporation Ltd. (TASE:IDBD) – a leading conglomerate in the State of Israel which directly and indirectly owns Clal Insurance Enterprises Holdings (TASE: CLIS), Shufersal (TASE: SAE), Cellcom (NYSE & TASE: CEL), Properties & Building Corp. (TASE: PTBL), ADAMA Agricultural Solutions, Elron Electronic Industries (TASE: ELRN) among others.

**Board recommendation:** *The Directors unanimously recommend the re-election of Mr Zang.*

### **Item 4 – Re-election of Mr Ben Jarvis**

Mr Jarvis was appointed as a Director on 2 June 2011 and was re-elected at the annual general meeting of the Company held on 30 November 2011. He now retires by rotation and, being eligible, seeks re-election in accordance with clause 13.2 of the Constitution.

#### **Brief resume of Mr Ben Jarvis**

Independent Non-executive Director

#### **Experience and expertise**

Mr Jarvis is the Managing Director and co-founder of Six Degrees Investor Relations, an Australian advisory firm that provides investor relations to a broad range of companies listed on the ASX.

Mr Jarvis is also a director of South American Tin Limited, an unlisted public company focused on tin exploration and project development in Bolivia. Mr Jarvis was educated at the University of Adelaide where he majored in Politics.

In the last three years, Mr Jarvis also held directorships with the listed companies, Connexion Limited and Eagle Nickel Limited.

**Board recommendation:** *The Directors unanimously recommend the re-election of Mr Jarvis.*

## **Item 5 – Re-election of Mr Wayne Hubert**

Mr Hubert was appointed as a Director on 18 October 2011 and was re-elected at the annual general meeting of the Company held on 30 November 2011. He now retires by rotation and, being eligible, seeks re-election in accordance with clause 13.2 of the Constitution.

### **Brief resume of Mr Wayne Hubert**

Independent Non-executive Director

### **Experience and expertise**

Mr Hubert is a mining executive with over 15 years' experience working in the South American resources sector. From 2006 until 2010 he was the Chief Executive Officer of ASX-listed Andean Resources Limited, and led the team that increased Andean's value from \$70 million to \$3.5 billion in four years. Andean was developing a world-class silver and gold mine in Argentina with a resource of over 5 million ounces of gold when it was acquired by Goldcorp Inc. of Canada.

Mr Hubert holds a Bachelor degree in Engineering and a Master of Business Administration, and has held executive roles for Meridian Gold with experience in operations, finance and investor relations. Currently he is a director of: Midas Gold Corp (TSE: MAX), a Canadian company with a 5.7 million ounce gold resource, InZinc Mining Ltd (TSX-V: IZN) and Argentex Mining Corporation (TSX-V: ATX).

**Board recommendation:** *The Directors unanimously recommend the re-election of Mr Hubert.*

## **Item 6 – Approval of 10% capacity to issue Equity Securities**

### **Listing Rule 7.1**

Listing Rule 7.1 restricts listed companies in relation to the number of Equity Securities that they can issue or agree to issue without shareholder approval. Generally, a listed company cannot, in any 12 month period, issue a number of Equity Securities which is more than 15% of its fully paid ordinary shares on issue without shareholder approval (**15% limit**), unless an exception applies. The Company has not exceeded its 15% limit.

### **Listing Rule 7.1A**

Listing Rule 7.1A enables eligible entities to issue Equity Securities up to 10% of their issued capital (**10% limit**) through placements over a 12 month period after an annual general meeting. This placement capacity is in addition to the Company's ability to issue Shares up to the 15% limit without prior Shareholder approval and otherwise in accordance with Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of A\$300 million or less. The Company is an eligible entity.

Shareholder approval is being sought in accordance with Listing Rule 7.1A to give the Company the ability to issue Equity Securities under Listing Rule 7.1A up to the 10% limit.

### **Current securities on issue**

As at the date of this Notice, the Company has the following classes and numbers of Equity Securities on issue:

Security Class	Number on issue
Shares	170,831,137
Unlisted Options, exercise price A\$0.30, expiry date 15 November 2016	140,949

## Duration of approval of 10% limit

Shareholder approval of the 10% limit under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained (**Approval Date**) and expires on the earlier to occur of:

- the date that is 12 months after the date of the General Meeting; or
- the subsequent date of the approval by shareholders of a transaction under Listing Rule 11.1.2 (*a significant change to the nature or scale of activities*) or Listing Rule 11.2 (*disposal of main undertaking*),

(**Approval Period**).

## Formula for calculation of 10% limit

The exact number of Equity Securities to be issued under the 10% limit will be determined in accordance with the following formula, which is prescribed in Listing Rule 7.1A.2:

Eligible entities which have obtained shareholder approval at an annual general meeting may issue or agree to issue, during the Approval Period, a number of Equity Securities calculated in accordance with the following formula:

$$(A \times D) - E$$

Where:

**A** is the number of shares on issue 12 months before the date of issue or agreement to issue Equity Securities up to the 10% limit (**Issue Date**):

*plus* the number of fully paid ordinary shares issued in the 12 months immediately preceding the Issue Date under an exception in Listing Rule 7.2;

*plus* the number of partly paid ordinary shares that became fully paid in the 12 months immediately preceding the Issue Date;

*plus* the number of fully paid ordinary shares issued in the 12 months immediately preceding the Issue Date with approval of holders of shares under Listing Rule 7.1 or Listing Rule 7.4. This does not include an issue of fully paid ordinary shares under the entity's 15% limit without shareholder approval;

*less* the number of fully paid ordinary shares cancelled in the 12 months immediately preceding the Issue Date.

**A** has the same meaning in Listing Rule 7.1 when calculating an entity's 15% limit.

**D** is 10%

**E** is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months immediately preceding the Issue Date and that are not issued with the approval of shareholders under Listing Rule 7.1 or Listing Rule 7.4.

Listing Rule 7.3A requires the following information to be provided to Shareholders:

### 6.1 Minimum Price

The issue price of Equity Securities under Listing Rule 7.1A must be not less than 75% of the VWAP of the Company's Equity Securities in the same class, calculated over the 15 trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within five Trading Days of the date in sub-paragraph (i) above, the date on which the Equity Securities are issued.

### 6.2 Risk of voting dilution

If Resolution 6 is approved by Shareholders and the Company issues Equity Securities up to the 10% limit under Listing Rule 7.1A, the existing Shareholders' voting power in the Company will be diluted as shown in the below table. Furthermore there is a risk that:

- (i) the market price for the Company's Equity Securities may be significantly lower on the date of the issue of those Equity Securities than on the date of approval of Resolution 6 under Listing Rule 7.1A; or

- (ii) the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date of those securities

any or all of which may cause a material reduction in the amount of funds (if any) raised by the issue of the Equity Securities.

The table below shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of Shares for variable 'A', calculated in accordance with the formula in Listing Rule 7.1A(2), as at 4 November 2014.

The table also shows:

- (i) two examples where variable 'A' has increased, by 50% and 100%. Variable 'A' is based on the number of Shares the Company currently has on issue. The number of Shares on issue may increase as a result of issues of Shares that do not require Shareholder approval (for example, a pro rata entitlements issue or scrip issued under a takeover offer) or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting; and
- (ii) two examples of where the issue price of Shares has decreased by 50% and increased by 100% as against the current market price.

Variable 'A' in Listing Rule 7.1A.2		Dilution		
		\$0.065 50% decrease in Issue Price	\$0.13 Issue Price	\$0.26 100% increase in Issue Price
Current Variable 'A' 170,831,137	10% Voting Dilution	17,083,114 Shares	17,083,114 Shares	17,083,114 Shares
	Funds Raised	\$1,110,402	\$2,220,805	\$4,441,610
50% increase in current variable 'A' 256,246,705	10% Voting Dilution	25,624,671 Shares	25,624,671 Shares	25,624,671 Shares
	Funds Raised	\$1,665,604	\$3,331,207	\$6,662,414
100% increase in current variable 'A' 341,662,274	10% Voting Dilution	34,166,227 Shares	34,166,227 Shares	34,166,227 Shares
	Funds Raised	\$2,220,805	\$4,441,610	\$8,883,219

The above table has been prepared on the following assumptions:

- (i) Resolution 6 is validly passed in accordance with its terms;
- (ii) the Company issues the maximum number of Equity Securities available under the 10% limit;
- (iii) no Options (including any Options issued under the 10% limit) are exercised and any Shares consequentially are issued, before the date of the issue of Equity Securities under Listing Rule 7.1A;
- (iv) the 10% voting dilution reflects the aggregate percentage dilution against the issued share capital of the Company at the time of issue. This is why the voting dilution is shown in each example as 10%;
- (v) the above table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% limit, based on that Shareholder's holding at the date of the Meeting;
- (vi) the above table shows only the effect of the issue of Equity Securities under Listing Rule 7.1A, but not under the 15% limit under Listing Rule 7.1;
- (vii) the issue of Equity Securities under the 10% limit consists only of Shares. If the issue of Equity Securities includes Options, it is assumed that those Options are exercised upon issue and the requisite number of Shares are consequentially issued, for the purpose of calculating the voting dilution effect on existing Shareholders; and
- (viii) the issue price is \$0.13 per Share being the closing market price of the Shares on the ASX on 4 November 2014.

### 6.3 Purpose of issue under 10% limit

The Company may seek to issue the Equity Securities in order to effect the payment of either or both:

- (i) non-cash consideration for the acquisition of new resources, assets and investments. In such circumstances the Company is required to provide a valuation of the non-cash consideration as required by Listing Rule 7.1A.3; and
- (ii) cash consideration, where the Company intends to use the funds raised by the issue of the Equity Securities towards the acquisition of new assets or investments (including expenses associated with such acquisition), continued exploration and feasibility expenditure on the Company's current assets and/or general working capital.

The Company will comply with the disclosure obligations under Listing Rules 7.1A(4) and 3.10.5A upon issue of any Equity Securities.

As at the date of this Notice of Meeting, the Company has not formed an intention to offer any Equity Securities under Listing Rule 7.1A, to any particular person or at any particular time, assuming that Resolution 6 is passed.

### 6.4 Allocation policy

The Company's allocation policy is dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% limit. The identity of the allottees of Equity Securities will be determined on a case by case basis, having regard to the factors including but not limited to the following:

- (i) the purpose of the issue;
- (ii) the alternative methods for raising funds that are available to the Company at the time, including but not limited to, rights issues or other issues in which existing security holders can participate;
- (iii) the effect of the issue of the Equity Securities on the control of the Company;
- (iv) the circumstances of the Company, including the financial position and solvency of the Company; and
- (v) advice from corporate, financial and broking advisors (if available).

The allottees of an issue of Equity Securities under Listing Rule 7.1A up to the 10% limit have not been determined as at the date of this Notice but may include existing substantial Shareholders and/or new Shareholders who are not related parties or Associates of a related party of the Company.

### 6.5 Voting exclusion statement

A voting exclusion statement in respect of Resolution 6 is shown on pages 6 and 7 of the Notice of Meeting.

At the date of the Notice of Meeting, other than the proposed issue of Debt Conversion Shares (see Section 7 below), the Company has not approached any particular existing Shareholder or security holder to participate in an issue of Equity Securities. Therefore, no existing Shareholder's vote in respect of Resolution 6 will be excluded under the voting exclusion in this Notice of Meeting.

### 6.6 Previous approval under Listing Rule 7.1A

The Company previously obtained Shareholder approval under Listing Rule 7.1A at the Company's annual general meeting on 27 November 2013 (**2013 AGM**).

Since the 2013 AGM and up to the date of this Meeting, being from and including 28 November 2013 to and including 15 December 2014 (**preceding 12 month period**):

- the Company has issued in aggregate the following Equity Securities - 1,691,398 Shares; and
- those Equity Securities issued during the preceding 12 month period represent, on a fully diluted basis, approximately 1% of the total number of Equity Securities that were issued on the first day of the preceding 12 month period.

Further details of the Equity Securities issued during the preceding 12 month period are set below.

<b>Issue Date</b>	29 November 2013
<b>Class of Equity Securities issued</b>	Ordinary Shares
<b>Allottee of Equity Securities or basis of allotment</b>	Stabro Kasaneva (executive remuneration, approved by Shareholders at annual general meeting on 27 November 2013)
<b>Issue price per Equity Security</b>	Approximately \$0.13 per Share
<b>Discount to market price (if any)</b>	Nil
<b>Total cash consideration raised</b>	Nil
<b>Amount of cash consideration spent, what it was spent on and proposed application of balance of funds raised</b>	Nil
<b>Particulars of any non-cash consideration raised and its current value</b>	Nil. The Ordinary Shares were issued to Mr Kasaneva in consideration for services he had provided for the benefit of the Company. The value of those services is equated to the product of the number of Shares issued to Mr Kasaneva and their current market price, which was at 29 October 2014, \$0.13 per Share i.e. a value of A\$219,881.74
<b>Number of Shares</b>	1,691,398

**Board recommendation:** *The Directors unanimously recommend that Shareholders vote in favour of approving Resolution 6. This will enable the Company to have the flexibility to issue Equity Securities representing up to 10% of the Company's share capital under Listing Rule 7.1A, during the subsequent 12 month period without seeking further Shareholder approval, as well as being permitted to issue up to an additional 15% of the Company's share capital under Listing Rule 7.1, without seeking further Shareholder approval.*

## **Item 7 – Approval of Debt Conversion**

### **7.1 Background**

As at 30 September 2014:

- the Company owes US\$53,733,935.00 in indebtedness (**IFISA Debt**) to Inversiones Financieras Del Sur S.A. (**IFISA**) – which at the Agreed Conversion Rate, is the equivalent of A\$61,586,172.00);
- IFISA and its Associates hold approximately 84.77% of the voting power in the Company;
- three of the Directors – namely Eduardo Elsztain (Non-executive Chairman), Saul Zang and Pablo Vergara del Carril (both Non-executive Directors) are Associates of IFISA;
- in light of the foregoing, IFISA is a “related party” of the Company for the purposes of the Listing Rules and the Corporations Act;
- one other Director – Stabro Kasaneva – is also a full time employee of the Company or one of its subsidiaries, and accordingly is not an independent Director of the Company; and
- the only independent Directors of the Company are Wayne Hubert, Robert Trzebski and Ben Jarvis (collectively, **Independent Directors**).

### **7.2 Proposal for Debt Conversion**

For the reasons set out under Section 7.3 and Section 7.4 below, the Independent Directors unanimously believe that it is in the best interests of the Company and the Minority Shareholders that, subject to the approval of Resolution 7 by the prescribed majority of the Minority Shareholders:

- (a) the Company issue up to a maximum of 312,500,000 Debt Conversion Shares to IFISA at a price of A\$0.20 per Debt Conversion Share (**Conversion Price**); and
- (b) in consideration for the issue to IFISA of the Debt Conversion Shares at the Conversion Price, the entire IFISA Debt, including all accrued interest, will be wholly repaid and paid.

### 7.3 Increase in voting power of IFISA

After completion of the Debt Conversion, the percentage voting power of IFISA and its Associates will increase from 84.77% to a maximum of 94.62%.

The Independent Directors are of the view that the implementation of the Debt Conversion and the acquisition by IFISA of the Compulsory Acquisition Power is likely to be in the best interests of the Minority Shareholders in light of the following considerations:

- (a) IFISA has given an undertaking in writing to the Company (**IFISA Undertaking**) to the effect that, subject to the passage of Resolution 7 and the completion of the Debt Conversion in the manner contemplated in Resolution 7 and this Explanatory Statement, neither IFISA nor any of its Associates would for the duration of the Restraint Period:
  - (i) exercise any power or right that it acquires as a result of the implementation of the Debt Conversion, to compulsorily acquire any or all of the remaining Shares that it does not already hold (**Compulsory Acquisition Power**)<sup>2</sup>; nor
  - (ii) under any circumstances, deal in any of the Shares in which it has a relevant interest, without the prior approval of Minority Shareholders;
- (b) the extent of control that IFISA already has over the Austral Group, through its representation on the Board, its controlling level of holding of, and voting power in, the Shares, the current level of the IFISA Debt and the current rights attaching to that indebtedness;
- (c) the conclusions of the Independent Expert as stated in the Expert's Report and summarised in Section 7.5; and
- (d) the unanimous view of the Independent Directors that IFISA and, where applicable, its Associates, will:
  - (i) as a practical matter, only benefit (if at all) from the Debt Conversion, including the issue of the Debt Conversion Shares, to the same or a lesser extent than all other Shareholders;
  - (ii) not acquire any of the Debt Conversion Shares at a discount to their arm's length value or in consideration for receiving any other benefit or advantage, other than that referred to in subparagraph (a) immediately above;
  - (iii) not receive any meaningful enhancement in its current level of control of the Company, as a result of its acquisition of the Compulsory Acquisition Power during the Restraint Period; and
  - (iv) forego a right, that currently ranks ahead of the equivalent rights of all Shareholders, to recover the entire IFISA Debt and any accrued interest in the event of the insolvency and liquidation of the Company.

### 7.4 Recommendations of Independent Directors

Each of the Independent Directors recommends that Shareholders should vote all of their respective voting power in favour of Resolution 7, for the following reasons:

- (a) without at least a material reduction in the IFISA Debt, and the interest that accrues and remains payable in respect of the IFISA Debt, the Independent Directors are of the opinion that the Company is not, and is not likely for the foreseeable future to become, able to pay any dividends to Shareholders, or effect any

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<sup>2</sup> See Part 6A.2 of the Corporations Act. Under Australian corporate law, once a shareholder holds the beneficial interest in 90% or more of the shares in a company, it is essentially entitled to compulsorily acquire all of the remaining shares in that company that it does not already hold

material acquisition that could be value accretive to Shareholders, upon terms and conditions that are likely to be acceptable to the Independent Directors and the Shareholders;

- (b) the continued existence of the IFISA Debt at its current level, relative to the value of the assets and equity of the Company, makes the Company an unattractive investment, thereby depressing the price, value and liquidity of trading of Shares. Consequentially the potential of the Company to attract new investors who could, amongst other things, facilitate a meaningful reduction in the current level of IFISA Debt, a dilution or reduction in the relative holding of Shares by, and voting power in the Company of, IFISA and its Associates and an increase in the general liquidity of the Shares, is materially prejudiced;
- (c) IFISA has agreed to effect the Debt Conversion at the Conversion Price per Share, which represents, as at 30 September 2014, a premium of 60% above the 60 day VWAP and 54% above the 30 day VWAP of the Shares. The Independent Directors are of the view that the implementation of the Debt Conversion at the Conversion Price will provide a significant benefit to the Minority Shareholders. Consistent with what has been stated in sub-paragraphs (a) and (b) immediately above, the Independent Directors are of the view that the Company has no current or foreseeable capacity to raise capital through an issue of Shares or other Equity Securities at or above the Conversion Price and in an amount that would enable the Company to repay all or a material portion of the IFISA Debt, upon terms and conditions as favourable to the Minority Shareholders as are offered under the proposed Debt Conversion and that are likely to be acceptable to the Independent Directors and the Shareholders;
- (d) under the current provisions of the documentation evidencing and regulating the IFISA Debt, IFISA has the unilateral right to convert all or part of the IFISA Debt at a conversion price equal to the 30 day VWAP per Share without any premium being offered. If IFISA made and implemented such an election, it would have a 1.5%<sup>3</sup> more dilutive effect on the position of the Minority Shareholders compared to IFISA's relative shareholding, than would the dilutionary effect on the position of the Minority Shareholders arising from the implementation of the proposed Debt Conversion;
- (e) it is the intention of the Directors that after implementation of the Debt Conversion, the Company will seek to effect, at the appropriate time and on terms acceptable to the Directors, and where applicable Shareholders, a capital raising and/or asset acquisition programme, that will result in a material reduction in the aggregate voting power of IFISA and its associates in the Company.

In light of the matters stated in Section 7.3 and this Section 7.4, the Independent Directors are unanimously of the view that, in all the applicable circumstances referred to above and that otherwise are relevant to the Debt Conversion, the proposed terms and conditions of the Debt Conversion are:

- at least arm's length in nature and in all likelihood, less favourable to IFISA than arm's length terms<sup>4</sup>; and
- in the best interests of the Minority Shareholders.

## 7.5 Independent Expert's Report

Austral Gold engaged InterFinancial Corporate Finance Limited (**Expert**) to prepare an independent expert's report (**Expert's Report**) as to whether the Debt Conversion is 'fair and reasonable' for the Shareholders not associated with the Debt Conversion (**Non-Associated Shareholders**).

The Expert concluded that the Debt Conversion is 'fair and reasonable' for the Non-Associated Shareholders.

A complete copy of the Expert's Report is enclosed with this Notice of Meeting. You should carefully read the Expert's Report in its entirety and if you have any questions, you should seek advice from your accountant, solicitor or other professional adviser, without delay.

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<sup>3</sup> Based on the 30 day VWAP Share price as at 30 September 2014

<sup>4</sup> See Part 2E.1 (especially section 210) of the Corporations Act

## 7.6 Directors' intentions regarding future shareholding

In addition to the matters stated in Section 7.7 below, the Directors advise Shareholders that it is their intention that, subject to the Debt Conversion being implemented in accordance with its proposed terms, the Company will seek to complete further corporate or asset acquisitions, and/or capital raisings – possibly occurring in connection with and at the same time as each other – that will be required to:

- (a) be value accretive to, and otherwise in the best interests of, all Shareholders; and
- (b) achieve any one or more of the following outcomes:
  - i. an increase in the issued capital of the Company which will be held by new investors and/or vendors of assets acquired by the Company, all of whom are expected not to be or become an Associate of IFISA;
  - ii. a greater liquidity of trading in the Shares;
  - iii. reduction in the voting power of IFISA and its Associates; and
  - iv. greater interest shown in the Company by analysts and brokers.

## 7.7 Listing Rule 10.11

As stated above, IFISA is a “related party” of the Company. Details of that relationship are more particularly stated in Paragraph 7.1 of Item 7 above. Accordingly, Shareholder approval under Listing Rule 10.11 is required to the proposed issue of the Debt Conversion Shares to IFISA or its nominee(s).

In accordance with the requirements of Listing Rule 10.13, the following information is required to be provided in relation to the proposed issue of the Debt Conversion Shares to IFISA:

- (a) the Debt Conversion Shares are to be issued to IFISA or its nominee or nominees, the identity of the latter not being known at the date of this Explanatory Statement, but each of whom, in any event, are and will remain an Associate of IFISA;
- (b) the aggregate maximum number of the Debt Conversion Shares to be issued to IFISA or its nominee or nominees is 312,500,000;
- (c) the Debt Conversion Shares will be issued within 30 days after the date of the Meeting and it is anticipated that all Debt Conversion Shares will be issued on one date;
- (d) the Debt Conversion Shares will be issued at a price of A\$0.20 per Debt Conversion Share. If all of the Debt Conversion Shares referred to in paragraph (b) immediately above were to be issued in the course of implementing the Debt Conversion, that issue would effectively equate to a total amount of A\$62,500,000 of IFISA Debt being repaid. However, it is uncertain at the date of issuing this Notice as to what the exact Australian dollar amount of the IFISA Debt will be at the date upon which – subject to Resolution 7 being approved – the Debt Conversion is actually effected. For this reason, the terms of Resolution 7 have been drafted to accommodate the issue of *up to a maximum number* of Debt Conversion Shares, so that once the exact Australian dollar amount of the IFISA Debt has been determined, then the exact number of Debt Conversion Shares will also be able to be determined and issued;
- (e) the Debt Conversion Shares issued will rank equally with the Company's currently issued Shares; and
- (f) no cash funds will be raised from the issue of the Debt Conversion Shares.

If approval to the Resolution is received under Listing Rule 10.11, approval will not be required under Listing Rule 7.1 to exempt the issue of the Debt Conversion Shares from being included in any determination of the 15% of the issued capital of the Company that can be issued in any 12 month period without prior Shareholder approval.<sup>5</sup>

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<sup>5</sup> See Listing Rule 7.1

## 7.8 Section 611, Item 7 of the Corporations Act

The acquisition of the Debt Conversion Shares by IFISA technically constitutes circumstances that would require IFISA to make a “takeover bid” for all outstanding Shares under the provisions of the Corporations Act<sup>6</sup>. In order to enable IFISA to avoid having to make a takeover bid for all Shares held by the Minority Shareholders, it will be necessary to satisfy an exemption to the above general rule. In the circumstances, that exemption will be obtained through compliance with section 611, item 7 of the Corporations Act.

In accordance with the provisions and requirements of section 611, item 7, as well as ASIC Regulatory Guide 74, “Acquisitions approved by members”, the Company is required to disclose all information known to IFISA or its Associates, or to the Company, that is material to the decision of the Minority Shareholders, on how to vote on the Resolution, including:

- (a) the identity of IFISA and its Associates – the ultimate beneficial owner of IFISA is Mr Eduardo Elsztain. Mr Elsztain and Mr Saul Zang are directors of IFISA. Mr Elsztain is also the ultimate beneficial owner of Guanaco Capital Holding Corp, a substantial shareholder of the Company. Mr Elsztain, Mr Zang and Mr Pablo Vergara del Carril are directors of Guanaco Capital Holding Corp.
- (b) the maximum extent of the increase in IFISA’s voting power in the Company that would result from the Debt Conversion - an increase from 84.77% to a maximum of 94.62%, assuming that the Debt Conversion is effected on or before 19 December 2014;
- (c) the voting power that IFISA would have as a result of the Debt Conversion – a maximum of 94.62%, assuming that the Debt Conversion is effected on or before 19 December 2014;
- (d) details of the Compulsory Acquisition Power that IFISA would acquire as a result of the Debt Conversion - after completion of the Debt Conversion, on the terms proposed in this Explanatory Statement, IFISA and its related bodies corporate would hold full beneficial interests in excess of 90% (by number) of all Shares, thereby giving IFISA the statutory right to compulsorily acquire all Shares that it does not then hold. However, as stated in Section 7.3 above, IFISA has given the IFISA Undertaking to the Company that it will not exercise that statutory right during the Restraint Period;
- (e) the terms and conditions of the IFISA Undertaking – see Section 7.3(a) above;
- (f) the maximum extent of the increase in the voting power of each of IFISA’s Associates that would result from the Debt Conversion - an increase from 84.77% to a maximum of 94.62%, assuming that the Debt Conversion is effected on or before 19 December 2014;
- (g) the voting power that each of IFISA’s Associates would have as a result of the Debt Conversion - a maximum of 94.62%, assuming that the Debt Conversion is effected on or before 19 December 2014;
- (h) details of the terms of any agreement (other than the IFISA Undertaking) between IFISA and the Company (or any of their respective Associates) that is conditional on (or directly or indirectly depends on) the approval of the Resolution – there are no such agreements;
- (i) a statement of IFISA’s intentions regarding the future of the Company if members approve the Debt Conversion and, in particular:
  - i. any intention to change the business of any member of the Austral Group - at the date of this Notice, IFISA does not have any such intention;
  - ii. any intention to inject further capital into any member of the Austral Group - at the date of this Notice, IFISA does not have any such intention;
  - iii. the future employment of present employees of any member of the Austral Group - at the date of this Notice, IFISA does not have any intention to increase or decrease the number of employees of the Company or any other member of the Austral Group; and

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<sup>6</sup> See section 606(1) of the Corporations Act

- iv. any proposal where assets will be transferred between any member of the Austral Group and IFISA or their respective Associates - at the date of this Notice, IFISA does not have any such proposal;
- (j) any intention to otherwise re-deploy the fixed assets of any member of the Austral Group - at the date of this Notice, IFISA does not have any such intention;
- (k) any intention of IFISA to significantly change the financial or dividend distribution policies of any member of the Austral Group - at the date of this Notice, IFISA does not have any such intention; and
- (l) the personal interests that any Director or his Associate has in the Debt Conversion or any relevant agreement disclosed under paragraph (h) above - as stated above, IFISA and its Associates currently hold 84.77% of the Shares and voting power of the Company. Further:
  - each of the Company's non-executive Chairman, Mr Eduardo Elsztain, and non-executive directors, Messrs Saul Zang and Pablo Vergara del Carril, are associates of IFISA; and
  - executive director Stabro Kasaneva is a full time employee of the Company or one of its subsidiaries.

Accordingly each of these persons are regarded as not being independent directors of the Company.

In light of the above, the Directors unanimously resolved to appoint a sub-committee constituted solely of the independent non-executive directors of the Company – being Wayne Hubert, Robert Trzebski and Ben Jarvis – each of whom are not associated with IFISA, and unanimously delegated to that sub-committee the authority and responsibility to:

1. consider and recommend whether or not the Debt Conversion is in the best interests of the Minority Shareholders;
2. engage and instruct the Expert for the purpose of preparing the Expert's Report, and submitting the same to all Shareholders, when dispatching the Notice of Meeting and the Explanatory Statement; and
3. implement the necessary steps to effect the Debt Conversion, if and when approved by the Minority Shareholders.

# Glossary

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In this Notice of Meeting, Explanatory Statement and the accompanying Proxy Form:

- **2014 Annual Report** means the annual report of the Austral Group in respect of the financial year ended 30 June 2014
- **AEDT** means Australian Eastern Daylight Saving time
- **Agreed Conversion Rate** means an exchange rate where US\$0.8725 is deemed to equal A\$1.00, as agreed between the Company and IFISA
- **Associate** has the meaning given to that term in the note to Listing Rule 14.11
- **ASX** means ASX Limited or the Australian Securities Exchange, as the context may require
- **Austral Group** means the Company and its controlled entities
- **Board** means the board of Directors
- **Closely Related Parties**, in relation to a member of KMP, means the member's spouse, child or dependent (or a child or dependent of the member's spouse), anyone else in the member's family who may be expected to influence or be influenced by the member in the member's dealings with the Company (or the Austral Group), and any company the member controls
- **Constitution** means the constitution of the Company, as amended from time to time
- **Company** means Austral Gold Limited ACN 075 860 472
- **Corporations Act** means the *Corporations Act 2001 (Cth)*
- **Debt Conversion Shares** means all those Shares that are, subject to the passage of Resolution 7, to be issued in consideration for the repayment of all IFISA Debt, as more particularly described in Section 7.2 of the Explanatory Statement
- **Directors** means the directors of the Company from time to time
- **Equity Security** has the meaning given to that term in Listing Rule 19.12
- **Explanatory Statement** means the explanatory notes which accompany and are incorporated as part of this Notice of Meeting
- **General Meeting or Meeting** means the Annual General Meeting of the Company to be held at 10.00 am (AEDT) on Tuesday, 16 December 2014 or at any adjournment thereof
- **Item** means an item referred to in the Notice of Meeting
- **IFISA** means Inversiones Financieras Del Sur S.A.
- **IFISA Debt** means the indebtedness of the Company to IFISA, as more particularly described in Section 7.1 of the Explanatory Statement
- **Independent Director** means any of Wayne Hubert, Ben Jarvis or Robert Trzebski.
- **Key Management Personnel or KMP** means those persons having authority and responsibility for planning, directing and controlling the activities of the Company or the Austral Group, whether directly or indirectly. Members of the KMP include Directors and certain senior executives
- **Listing Rule** means the listing rules of and issued by ASX
- **Minority Shareholder** means each Shareholder, other than IFISA and its Associates.
- **Non-Independent Director** means any of Eduardo Elsztein, Saul Zang, Pablo Vergara del Carril or Stabro Kasaneva
- **Notice of Meeting** means this notice of meeting including the Explanatory Statement, the Proxy Form and any other document accompanying this notice of the Meeting
- **Option** means an option to acquire a Share
- **Ordinary Resolution** means a resolution that is approved by more than 50% of the votes at a general meeting of Shareholders
- **Proxy Form** means the proxy form that accompanies the Notice of Meeting

- **Remuneration Report** means the remuneration report of the Austral Group for the financial year ended 30 June, 2014 and that is referred to in Item 2 of the Explanatory Statement and as set out in pages 23 to 26 of the 2014 Annual Report
  - **Resolution** means one of the resolutions set out in the Notice of Meeting
  - **Restraint Period** means a period of 6 consecutive months that commences on the first day upon which IFISA (and any of its Associates) acquires, in aggregate, the full beneficial interest in at least 90% (in number) of the Shares
  - **Share** means a fully paid ordinary share in the issued capital of the Company
  - **Shareholder** means the holder of a Share
  - **Share Registry** means Computershare Investor Services Pty Limited, contactable on 1300 783 447 (within Australia) or +61 3 9473 2555 (outside Australia)
  - **Special Resolution** means a resolution that is approved by at least 75% of the votes at a general meeting of Shareholders
  - **Trading Day** has the meaning given to that term in Listing Rule 19.12
  - **voting power** has the meaning given to that term in section 610 of the Corporations Act
  - **VWAP** means the volume weighted average price of trading in Shares on the ASX market and the Chi-X market over a specified period, excluding block trades, large portfolio trades, permitted trades during the pre-trading hours period, permitted trades during the post-trading hours period, out of hours trades and exchange traded option exercises
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**InterFinancial**  
MERGERS AND ACQUISITIONS  
achieve more

**Austral Gold Limited**  
**November 2014**



*Independent Expert's Report*

**CLAIRFIELD  
INTERNATIONAL**

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CORPORATE FINANCE | MERGERS & ACQUISITIONS | PRIVATE EQUITY

## InterFinancial Corporate Finance Limited ACN 136 962 966 Financial Services Guide

### About us

InterFinancial Corporate Finance Limited (**InterFinancial**, **IFL** or **we** or **us** or **our**) (Australian Financial Services Licence 341675) has been engaged by Austral Gold Limited (**Austral** or **Company**) to provide general financial product advice in the form of an independent expert's report (**Report**) in connection with the proposed Transaction. Our Report sets out our opinion as to whether the Transaction is fair and reasonable and our reasons for forming those conclusions.

The Corporations Act 2001 (Cth) requires us to provide this Financial Services Guide (**FSG**) in connection with the attached Report prepared for Austral. You are not the party who engaged us to prepare this Report and we are not acting for any person other than Austral. This FSG provides important information designed to assist Shareholders in forming their views of the Transaction and in understanding any general financial advice provided by IFL in this Report. Our Report is not intended to comprise personal retail financial product advice to retail investors or market-related advice to retail investors. This FSG contains information about our engagement by the directors of Austral to prepare this Report in connection with the Transaction (**Engagement**), the financial services we are authorised to provide, the remuneration we (and any other relevant parties) may receive in connection with the Engagement, and details of our internal and external dispute resolution systems and how these may be accessed.

### Financial services we are authorised to provide

Our Australian Financial Services Licence authorises us to provide the following services to both retail and wholesale clients, financial product advice in relation to securities, and government debentures, stocks and bonds, underwriting an issue of securities and dealing in a financial product by arranging for another person to apply for, acquire, vary or dispose of the abovementioned financial products.

### General financial product advice

This Report contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs. Where the advice relates to the application for or acquisition of a financial product, you should also obtain and read carefully the relevant Transaction document or explanatory memorandum provided by the issuer or seller of the financial product before making a decision regarding the application for or acquisition of the financial product.

### Remuneration, commissions and other benefits

IFL charges fees for its services, and will receive a fee of \$35,000 (excluding GST) for its work on this Report. These fees have been agreed on, and will be paid solely by Austral, which has engaged our services for the purpose of providing this Report. IFL may seek reimbursement of any out of pocket expenses incurred in providing these services. Our advisers are directors and employees of IFL who are paid salaries and dividends by IFL, and may also receive bonuses and other benefits from IFL. Our advisers may alternatively be paid by means of commission determined by a percentage of revenue written by the adviser.

### Associations and relationships

IFL has been assisted by Victor Rudenno in preparing this Report. Mr Rudenno is the Executive Director of Revaluate Pty Ltd who has prepared a valuation for Austral (specifically the Guanaco Gold Project) as at 30 June 2014. InterFinancial has not previously performed any other work for Austral. Other than as set out in this FSG or this Report, IFL has no association or relationship with any person who might reasonably be expected to be capable of influencing them in providing advice under the Engagement. IFL, its officers and employees and other related parties have not and will not receive, whether directly or indirectly, any commission, fees, or benefits, except for the fees to be paid to IFL for services rendered in producing this Report. IFL, its directors and executives do not have an interest in securities, directly or indirectly, which are the subject of this Report. IFL may perform paid services in the ordinary course of business for entities, which are the subject of this Report.

### Risks associated with our advice

This FSG is provided in connection with the attached Report relating to the Transaction. The Report comprises general product advice and does not comprise personal retail financial product advice to retail investors or market-related advice to retail investors. The Report is an expression of IFL's opinion as to whether the Transaction is fair and reasonable. However, IFL's opinion should not be construed as a recommendation as to whether or not to approve the Transaction. Approval of the Transaction is a matter for individual shareholders based on their own circumstances, including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in any doubt as to the action they should take in relation to the Transaction should consult their own independent professional advisers. Further information on the risks, assumptions and qualifications associated with the advice is contained within the Report.

### Compensation arrangements

The law requires IFL to have arrangements in place to compensate certain persons for loss or damage they suffer from certain breaches of the Corporations Act by IFL or its representatives. IFL has internal compensation arrangements as well as professional indemnity insurance that satisfy these requirements.

### Complaints

As an Australian Financial Services Licence holder, we are required to have an internal complaints-handling mechanism. All complaints must be addressed to us in writing at Level 3, 145 Eagle Street Brisbane, Queensland, 4000. You may contact us on P: 07 3218 9100, F: 07 3218 9199, E: pkeehan@interfinancial.com.au. If we are not able to resolve your complaint to your satisfaction within 45 days of first lodging it with us, you are entitled to have your matter referred to the Financial Ombudsman Service (**FOS**). You will not be charged for using the FOS service.

To contact the FOS:  
GPO Box 3  
MELBOURNE, VIC 3001  
Tel: 1300 780 808  
Fax: (03) 9613 6399

### Privacy & use of information

We do not collect personal information on individual clients and are bound by the IFL Privacy Policy in the way that it governs personal information collected on clients. If you have any questions on privacy please contact us on the details above.



27 October 2014

The Directors  
Austral Gold Limited  
Terrace Towers  
Suite 206  
80 William Street  
Sydney NSW 2011

Dear Directors

## INDEPENDENT EXPERT'S REPORT – CONVERSION OF LOAN TO EQUITY

### Introduction

On 27 October 2014, Austral Gold Limited ("**Austral**" or "**AGD**") announced to the Australian Securities Exchange ("**ASX**") that it had agreed with Inversiones Financieras Del Sur S.A. ("**IFISA**") that subject to shareholder approval, it will repay the entire balance (principal and interest) of its current debt to IFISA through the issue of fully paid ordinary shares in Austral at A\$0.20 per share ("**the Transaction**").

The independent directors of Austral ("**Independent Directors**") have requested InterFinancial Corporate Finance Limited ("**IFL**"), to prepare an Independent Expert's Report ("**IER**" or "**Report**") expressing an opinion as to whether the Transaction is "fair and reasonable" for the shareholders of Austral not associated with IFISA ("**Non-Associated Shareholders**" or "**Shareholders**").

The effect of the Transaction, if approved by the Non-Associated Shareholders, will be that IFISA and its associates will hold up to 94.6% of the reconstituted share capital. As at 30 September 2014, IFISA and its associates held 84.77% or 144,817,951 of the issued shares in Austral.

### Summary of Opinion

In our opinion, the Transaction is fair and reasonable to the Non-Associated Shareholders and as a result is "fair and reasonable".

### Fairness

In forming our opinion in relation to the fairness of the proposed Transaction, we have assessed the fair value of an Austral share on a controlling basis pre-transaction and the fair value of an Austral share on a minority basis post-transaction.

**Table 1: Fair Value of the Transaction**

	Low Value	High Value
Value of Austral share on a controlling basis - pre Transaction	\$ -	\$ -
Value of an Austral share on a minority basis - post Transaction	\$ 0.053	\$ 0.070
<b>Difference</b>	<b>\$ 0.053</b>	<b>\$ 0.070</b>
<b>Premium / (Discount)</b>	<b>Premium</b>	<b>Premium</b>

Source: IFL Analysis

IFL has assessed that the fair market value of the consideration provided by IFISA is in the range of \$0.053 to \$0.070 per Austral share, the value of an Austral share pre transaction is nil and, as a result, the Transaction is fair.

### Reasonableness

As the Transaction is fair, it is also reasonable. To assist Shareholders in their decision making process we have detailed the following:

- The likely advantages and disadvantages associated with the Transaction; and
- Alternatives, including the position of Shareholders if the Transaction does not proceed.



**Table 2: Advantages and disadvantages of the Transaction**

Advantages	Disadvantages
IFISA has offered to convert the loan at a higher share price than is required under the loan agreement, thereby causing less dilution to Shareholders than if IFISA converted the loan in accordance with the loan agreement.	Existing Shareholders will be diluted by the Transaction.
The Transaction avoids any potential default event under the loan agreement.	IFISA and its associates will hold approximately 94.6% of the issued ordinary shares in AGD on a fully diluted basis.
The Transaction will improve the balance sheet of AGD with the reduction in the liabilities.	The greater concentration of shareholding is likely to exacerbate the current situation of reduced trading/liquidity in Austral's shares.
There will be a reduction in the interest expenses in Austral as a result of the conversion of the loan.	
The restructuring of the balance sheet makes Austral more attractive in terms of any future capital raising or any other asset acquisition, equity transaction or stock for stock merger.	

Source: IFL Analysis

## Implications for Austral Shareholders of Rejecting the Transaction

### *Concessional Conversion Ratio*

IFISA has offered to convert the loan at a higher share price than is required under the loan agreement and this offer may be withdrawn if not accepted.

### *Ability to Repay the Loan*

Austral is not currently generating the cash flows that are sufficient to service and repay the IFISA loan in accordance with its current terms. If the IFISA loan is not converted to shares it is unclear, in light of the current capital structure of Austral, how it will repay the IFISA loan and it may lead to default under the loan agreement.

### *Future Capital Raising*

If the Transaction is not approved Austral may not be able to raise capital from other sources on terms as favourable as the proposed Transaction to enable it to continue its exploration program.

### **Availability of alternative transaction**

Austral has been actively looking at capital raising alternatives and has been unable to identify any other viable options.

### **Shareholder circumstances**

A Shareholder's decision to vote in favour of the Transaction is likely to be influenced by their particular circumstances, for example, tax considerations particular to that person. This Report does not address circumstances specific to an individual Shareholder. Shareholders should consult with their own independent professional advisers with regard to their circumstances.

### **Other Matters**

This Report has been requested by the Independent Directors to assist the Shareholders in their decision on how to vote in respect of the Transaction.

This Report should not be used for any other purpose and IFL does not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of this Report, in whole or in part, should be reproduced without IFL's prior written consent.

This Report will accompany the Notice of Meeting and related explanatory statement to be provided by the Directors to all Shareholders (collectively "**Notice of Meeting**"). This Report has been prepared to assist the Directors to fulfil



their obligation to the Shareholders and to assist the Non-Associated Shareholders in deciding whether or not to approve the Transaction. IFL acknowledges that this Report may be lodged by Austral with the ASX and ASIC.

## **Conclusion**

We have concluded that the Transaction is “fair and reasonable” for the Non-Associated Shareholders.

This summary opinion should be read in conjunction with the following Report that sets out in full the purpose, scope, basis of evaluation, limitations, valuation analysis and our other findings.

Yours Faithfully

A handwritten signature in black ink, appearing to read "Brett Plant".

Brett Plant - Authorised Representative

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## Glossary of Terms

**Table 3: Glossary**

Term	Meaning
Act or Corporations Act	Corporations Act 2001
AFSL	Australian Financial Services Licence
AGM	Annual General Meeting
AMINSA	Argentina Minera S.A
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUASB	Australian Auditing and Assurance Standards Board
AUD or \$	Australian dollars
Austral, AGD or Company	Austral Gold Limited (ACN 075 860 472)
BASE	Buenos Aires Stock Exchange
CAD	Canadian dollars
CAPM	Capital Asset Pricing Model - is used to determine a theoretically appropriate required rate of return on equity invested in a project, company or asset
Cateo	An exploration concession which does not permit mining but gives the owner a preferential right to explore the area for minerals for a period of time and to apply for a mining concession within the same area
CY	Calendar Year
Directors	Directors of Austral Gold Limited
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Engagement	Our engagement by the independent Directors of Austral to prepare this Report in connection with the Transaction
Enterprise Value	The total value of the business and is equal to net debt plus equity
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
FY	Financial year ended 30 June
GEO	Gold equivalent ounces
GMC	Guanaco Mining Company Limited
IFISA	Inversiones Financieras Del Sur S.A.
IFISA and its associates	IFISA, Guanaco Capital Holding Corp and Eduardo Elsztein
IFL or we or us or our	InterFinancial Corporate Finance Limited
JORC Code	The Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves
Management	Management of Austral
Manifestation of discovery	Declared when a point within a cateo is nominated as a discovery point for further exploration.
Meeting	The meeting of Shareholders at which the Non-Associated Shareholders will be asked to approve the Transaction
Non-Associated Shareholders	Shareholders of Austral not associated with IFISA
NPAT	Net profit after tax
NPV	Net present value
NSR	Net smelter return
Report	This Independent Expert's report commissioned by the independent Directors
RG 74	ASIC Regulatory Guide 74 "Acquisitions Approved by Members"
RG 111	ASIC Regulatory Guide 111 "Content of Expert Reports"
Share	A fully paid ordinary share in Austral
Shareholders	Each holder of a Share
Transaction	Proposed Transaction announced by Austral on 27 October 2014
TSX.V	Toronto Stock Exchange Venture Exchange
USD or US\$	US dollars

Source: IFL



# 1. Outline of the Transaction

## 1.1 Introduction and Background

It is proposed that, subject to obtaining the approval of a majority of all Shareholders other than IFISA and its associates who are entitled to vote at the Meeting:

- Austral will issue up to a maximum of 312,500,000 Shares to IFISA or its nominee or nominees ("Debt Conversion Shares"); and
- In consideration of the issue to IFISA or its nominee or nominees of the Debt Conversion Shares, IFISA will treat the entire balance of Austral's debt to IFISA (including all principal and interest) which was, based on a USD:AUD exchange rate of 0.8725, A\$61,586,172 as at 30 September 2014 ("IFISA Debt") as being wholly repaid.

## 1.2 Transaction Formula

The formula for conversion of the debt to equity is \$0.20 per debt conversion share issued to IFISA in consideration for the repayment of the IFISA Debt.

## 1.3 Transaction Outcome

We have completed an analysis of the post-Transaction shareholding based on the top 10 Shareholders as at 30 September 2014.

**Table 4: Top Ten Shareholders Post Transaction**

Shareholder	Pre-Proposed Transaction		Post-Conversion of Loan		
	Total Shares	%	Maximum Shares Issued	Total Shares	%
Inversiones Financieras Del Sur S.A.	115,842,415	67.8%	312,500,000	428,342,415	88.6%
Guanaco Capital Holding Corp.	24,289,330	14.2%		24,289,330	5.0%
Eduardo Elsztain	4,686,206	2.7%		4,686,206	1.0%
LGT Bank in Liechtenstein Ltd	2,895,780	1.7%		2,895,780	0.6%
Wayne Hubert	1,750,000	1.0%		1,750,000	0.4%
Bank Vontobel AG	1,735,715	1.0%		1,735,715	0.4%
Stabro Kasaneva	1,691,398	1.0%		1,691,398	0.3%
Saul Zang	1,435,668	0.8%		1,435,668	0.3%
Various Private Clients of Forsyth Barr Ltd.	1,586,699	0.9%		1,586,699	0.3%
Credit Suisse Private Banking (Switzerland)	1,188,694	0.7%		1,188,694	0.2%
<b>Top 10 Shareholders</b>	<b>157,101,905</b>	<b>92.0%</b>	<b>312,500,000</b>	<b>469,601,905</b>	<b>97.2%</b>
<b>Other Shareholders</b>	<b>13,729,232</b>	<b>8.0%</b>		<b>13,729,232</b>	<b>2.8%</b>
<b>Total Issued Shares</b>	<b>170,831,137</b>	<b>100%</b>		<b>483,331,137</b>	<b>100%</b>

Source: IFL Analysis



## 2. Purpose, Scope and Limitations

### 2.1 Legislative Requirements

The Transaction is subject to Sections 606 and 611, Item 7 of the Corporations Act 2001 (“Act”).

Section 606 of the Act (“Section 606”) does not allow, inter alia, a person to acquire a relevant interest in shares in a listed company such that they would control 20% or more of the voting shares in a company without making a takeover offer, where the starting point is greater than 20% but less than 90% of the issued capital.

Section 611, Item 7 of the Act (“Section 611, Item 7”) provides an exemption to Section 606 if the proposed transaction is approved by a resolution of the shareholders at a general meeting called for that purpose.

Section 611, Item 7 requires shareholders to be given all relevant information known to the person making the proposed acquisition, their associates or the company, which is material to the proposal.

Whilst Section 611, Item 7 does not explicitly state that an expert opinion is required in relation to such acquisitions, RG 74 paragraphs 17-37 inclusive specifies that a company may commission an expert report (prepared in accordance with RG 111) to supply all the material information to the shareholders or a director’s report to the same standard as an expert report if the directors have the expertise, experience and resources to do so.

### 2.2 Purpose of Report

The independent Directors have engaged IFL to prepare an independent expert’s report in relation to the Transaction and to express an opinion as to whether or not it is “fair and reasonable” for the Non-Associated Shareholders of Austral for the purposes of Section 611, Item 7, and to provide reasons for that opinion.

This Report has been prepared for use by the Shareholders to provide them with information relating to the Transaction and should not be used by any other person or for any other purpose. This Report will be provided to Shareholders to assist them to make an informed decision as to whether to accept the Transaction. This Report should be read in full, including all of the assumptions upon which our work is based. The Report should be read together with the Notice of Meeting and any other information provided to Shareholders in connection with the Transaction.

A Shareholder’s decision whether to accept the Transaction is likely to be influenced by their particular circumstances, for example, tax considerations particular to that person. This Report does not address circumstances specific to an individual Shareholder. Shareholders should consult with their own independent professional advisers with regard to their circumstances.

### 2.3 Scope

For the purposes of assisting the Directors to satisfy the requirements of Section 611, Item 7 and RG 74, the independent Directors requested IFL to prepare this Report expressing IFL’s opinion as to whether the Transaction is “fair and reasonable” for the Non-Associated Shareholders. IFL’s work has been limited to those procedures we believed were required in order to form our opinion. IFL’s procedures, in the preparation of this Report, do not include verification work nor constitute an audit or assurance engagement in accordance with Australian Auditing and Assurance Standards issued by the Australian Auditing and Assurance Standards Board (**AUASB**) or its predecessors. The Report has been prepared in accordance with APES 225 Valuation Services.

The assessment of whether the Transaction is “fair and reasonable” will necessarily involve determining the “fair market value” of various securities, assets and interests.

For the purposes of our opinion, the term “fair market value” is defined as the price that would be negotiated in an open and unrestricted market between a knowledgeable, willing, but not anxious purchaser and a knowledgeable, willing, but not anxious vendor, acting at arm’s length.

By its very nature, the formulation of a valuation assessment necessarily contains significant uncertainties and the conclusions arrived at in many cases will be subjective and dependant on the exercise of individual judgement. There is therefore no indisputable value, and we normally express our opinion as falling within a likely range.

We have not considered the effect of the Transaction on the particular circumstances of individual Shareholders. Some individual Shareholders may place a different emphasis on various aspects of the Transaction from the one

adopted in this Report. Accordingly, individual Shareholders may reach different conclusions on whether or not the Transaction is fair and reasonable to them.

It is IFL's understanding that this Report will accompany the Notice of Meeting to be sent to Austral's Shareholders by Austral. The sole purpose of this Report is to provide the Directors and Shareholders with an expression of IFL's opinion as to whether the Transaction is fair and reasonable for the non-Associated Shareholders.

IFL's opinion should not be construed as a recommendation as to whether or not the Independent Directors should recommend the Transaction. The substance of any such recommendation is a matter for each individual Director.

## 2.4 Basis of Evaluation

The Act does not define the expression "fair and reasonable". RG 111 draws a distinction between "fair" and "reasonable". A Transaction is "fair" if the consideration is equal to or greater than the value of the securities subject to the Transaction. RG 111 considers a transaction to be "reasonable" if:

- the Transaction is "fair"; or
- despite not being "fair", the expert believes that there are sufficient reasons for security holders to accept the transaction in the absence of any higher offer.

RG 111 states that a Transaction will be "fair" if the value of the Transaction price or consideration is equal to or greater than the value of the securities that are the subject of the Transaction. In assessing if the Transaction is "fair", the comparison should be made:

- assuming a knowledgeable and willing, but not anxious, buyer and a knowledgeable and willing but not anxious, seller acting at arm's length;
- assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash; and
- irrespective of the percentage holding of the bidder or its associates in the target company prior to the proposed transaction.

RG 111 sets out some of the factors that an expert might consider in assessing the reasonableness of a Transaction including:

- the bidder's pre-existing voting power in the target company;
- other significant security holding blocks in the target;
- the liquidity of the market in the target's securities;
- taxation losses, cash flow or other benefits arising through achieving 100% ownership of the target;
- any special value of the target to the bidder;
- the likely market price if the Transaction is unsuccessful; and
- the value to an alternative bidder and likelihood of an alternative transaction being made.

In our opinion, the Transaction will be "fair" if the value of the consideration is equal to or greater than the fair market value of the securities in Austral.

In considering whether the Transaction is "reasonable", other factors that have been considered include:

- the estimated value of Austral;
- the existing shareholding structure of Austral;
- the likelihood of an alternative transaction that could realise fair value;
- the likely market price and liquidity of Austral shares in the absence of the Transaction; and
- other advantages and disadvantages for Austral shareholders of approving the Transaction.

## 2.5 Reliance on Information

This Report is based upon financial and other information provided by Austral. IFL has considered and relied upon this information. IFL believes the information provided to be reliable, complete and not misleading, and has no reason

to believe that any material facts have been withheld. The information provided was evaluated through analysis, inquiry and review for the purpose of forming an opinion as to whether the Transaction is fair and reasonable.

IFL does not warrant that its inquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. In any event, an opinion as to whether a corporate transaction is fair and reasonable is in the nature of an overall opinion rather than an audit or detailed investigation.

It is understood that the accounting information provided to IFL was prepared in accordance with generally accepted accounting principles and except where noted, prepared in a manner consistent with the method of accounting used by Austral in previous accounting periods.

Where IFL has relied on the views and judgement of Management, the information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of direct external verification or validation. In the context of this Report, the views not capable of direct external verification or validation related principally to matters such as the likely future actions of Management, IFISA and/or the likely future behaviour of competitors.

## 2.6 Current Market Conditions

Our opinion is based on economic, market and other conditions prevailing at the date of this Report. Such conditions can change significantly over relatively short periods of time. Accordingly, changes in those conditions may result in any valuation opinions becoming quickly out-dated and in need of revision. IFL reserves the right to revise any valuation, or other opinion, in the light of material information existing at the date of this Report that subsequently becomes known to IFL. It should be noted that currently market conditions are extremely volatile with the value of like assets varying greatly and in some cases displaying a general lack of fundamentals. Equity raising under such circumstances is extremely difficult even at significant discounts to trading prices.

## 2.7 Sources of Information

Appendix A to this Report sets out details of information referred to and relied upon by IFL during the course of preparing this Report and forming our opinion.

Under the terms of IFL’s Engagement, Austral has agreed to indemnify the directors and staff (as appropriate) of IFL, against any claim, liability, loss or expense, costs or damage, arising out of reliance on any information or documentation provided by Austral which is false and misleading or omits any material particulars, or arising from failure to supply relevant information.

## 2.8 Assumptions

In forming IFL’s opinion, as expressed in this Report, the following has been assumed:

- All relevant parties have complied, and will continue to comply, with all applicable laws and regulations and existing contracts and there are no alleged or actual material breaches of the same or disputes (including, but not limited to, legal proceedings), other than as publicly disclosed and that there has been no formal or informal indication that any relevant party wishes to terminate or materially renegotiate any aspect of any existing contract, agreement or material understanding, other than as publicly disclosed;
- That matters relating to title and ownership of assets (both tangible and intangible) are in good standing, and will remain so, and that there are no material legal proceedings, or disputes, other than as publicly disclosed;
- Information in relation to the Transaction provided to the Shareholders, the ASX or any statutory authority by the parties as part of the ASX announcement and Notice of Meeting is complete, accurate and fairly presented in all material respects;
- If the Transaction is accepted, it will be implemented in accordance with its disclosed terms; and
- The legal mechanisms to implement the Transaction are correct and effective.

## 3. Austral Company Profile

### 3.1 Company overview

Austral is a public company listed on the ASX (ASX code AGD). Austral is engaged in the production, exploration and evaluation of gold, silver, and copper in South America.

Austral holds a 100% interest in the Guanaco mine located to the south east of Antofagasta in northern Chile and a 100% interest in the 8 de Julio project located in Santa Cruz, Argentina.

Austral has 171 million ordinary shares on issue as at 30 September 2014.

Major shareholders in Austral as at 30 September 2014, include:

- Inversiones Financieras Del Sur S.A. (67.8%);
- Guanaco Capital Holding Corp. (14.2%); and
- Eduardo Sergio Elsztein (2.7%).

Collectively IFISA and its associates hold 84.8% (prior to the Transaction).

Austral's operations and assets include:

- The Company's flagship Guanaco project in Chile;
- A 51% shareholding in Humberto Reyes, a mining contracting business;
- The Amancaya Project;
- The 8 de Julio Project - 9 tenement applications totalling 82,101 hectares in the Macizo el Deseado area in the Province of Santa Cruz in southern Patagonia;
- A 19.9% shareholding in Argentex Mining Corporation ("Argentex") (TSX-V:ATX); and
- A 15% shareholding in Goldrock Mines Corp Limited ("Goldrock") (TSX-V:GRM).

Since its incorporation, Austral has been an explorer for gold. First production of gold and silver from Guanaco occurred in late 2010, with gold production steadily increasing since this time. The Guanaco gold and silver mine remains the Company's key asset and a focus for management, along with its new acquisition Amancaya.

### 3.2 Company History

Key milestones in the Company history are shown in Table 5 below.

**Table 5: Austral Company Historical Milestones**

Year	Milestone
2003	<ul style="list-style-type: none"><li>▪ Reinstated on the ASX in January 2003.</li><li>▪ In January 2003 Austral obtained, through its subsidiary Golden Rose International Limited (GRIL), an option to acquire the Guanaco Project in Chile from Compañía Minera Kinam Guanaco Limitada, a wholly-owned subsidiary of Kinross Gold Corporation.</li><li>▪ In March 2003, the Guanaco Project was acquired by Guanaco Compañía Minera Limitada - a company wholly owned by Guanaco Mining Company Limited (GMC) and incorporated in Chile.</li></ul>
2010	<ul style="list-style-type: none"><li>▪ Bankable Feasibility Study completed for Guanaco, confirming the viability of a new mine at the site.</li><li>▪ First gold dore bar poured at Guanaco in October 2010.</li></ul>
2011	<ul style="list-style-type: none"><li>▪ First sales from Guanaco.</li></ul>



2013	<ul style="list-style-type: none"> <li>In April 2013 Austral exited its earn-in agreement with AMINSA for the 8 de Julio Project and has replaced this investment with a royalty agreement over the project with regard to future production from the project.</li> <li>In July 2013 Austral made a CAD\$5 million investment (in consideration for acquiring a 19.9% shareholding) in Argentex Mining Corporation, which is listed on the Toronto Stock Exchange (TSX) Venture Exchange.</li> <li>In November 2013 Austral completed the first tranche of its investment into Goldrock Mines Corp Limited which is listed on the TSX. The agreement is for up to 11,560,000 new shares (representing a 15% shareholding) for a total investment of CAD\$9.3 million.</li> </ul>
2014	<ul style="list-style-type: none"> <li>In June 2014 Austral signed an agreement to acquire the Amancaya exploration property.</li> <li>Acquired a 51% shareholding in underground mining contractor for Guanaco mine since 2011, Humberto Reyes SpA (now Ingeniería y Minería Cachinalito Ltd)</li> </ul>

Source: Austral

## 3.3 Operations

### 3.3.1 Guanaco Project

In March 2003 Austral acquired the Guanaco Project in Chile from Compañía Minera Kinam Guanaco Limitada ("Kinam"), a wholly-owned subsidiary of Kinross Gold Corporation.

The Guanaco Project ("Guanaco") is a gold and silver mine in northern Chile.

The 100% owned Guanaco mine has been operated by Austral since September 2009 and remains the Company's flagship asset. Guanaco is located approximately 220km SE of Antofagasta in Northern Chile at an elevation of 2,700m and 45km from the Pan American Highway. Guanaco is located in the Palaeocene/Eocene belt, a structural trend which runs north/south down the centre of Chile, and hosts several large gold and copper mining operations including: Zaldivar, El Penon and Escondida.

**Figure 1: Guanaco Project**



Source: Austral

The Guanaco operation includes the mining of ore from the Quillota open pit. However, the majority of the ore processed comes from the Cachinalito underground and nearby vein systems with higher average grades.

Late in 2012 the high-grade Despreciada vein system was identified with a new strike trend of NNW which opened up the potential for additional vein systems with a similar NNW strike to be identified in the area.

Late in 2013 a new drilling program was designed with the objective to study the extension of the Despreciada vein and also a new ore shoot called Cachinalito extension. In addition, the Quillota structure will be explored considering the positive reconciliation between the resource model and the actual ore mined to date.

More recently, a new mineralisation vein was developed – "Veta Nueva" – and will be explored in FY15 as it has some higher grade intercepts.

The following table is a list of tenements in which Austral currently has an interest.

**Figure 2: Guanaco tenements**

Property Name	Claim Type	Size (hectares)
Mining Concessions under exploitation	Constituted Mining Claims	14,931
Las Pailas I to Las Pailas XIII / G-3 a G-16	Mining claims in process	6,300
G-17, 1/20 to G-40, 1/20.	Mining claims in process	6,300
Chancho2, 1/20 to Chancho 16, 1/30	Mining claims in process	3,200
Escondida I, 1/30; Escondida II, III, V, VI, VII, VIII and IX.	Mining claims in process	2,400
Fortuna VII 1/30, VIII 1/20, IX 1/30, X 1/20, XI 1/30, XII 1/20, XIII 1/30 and XIV 1/20.	Mining claims in process	2,000
Mateo I, II, III, IV, V and VI	Mining claims in process	1,700
Fortuna I, 1/30 to Fortuna VI, 1/20.	Mining claims in process	1,500
Escondida IV 1/30, X 1/30, XI 1/20 and XII 1/30	Mining claims in process	1,100
Salvadora 1, 1/20; Salvadora 2, 1/20 and Salvadora 3, 1/20	Mining claims in process	565
Fortuna XV, 1 to 5	Mining claims in process	50
<b>Total</b>		<b>40,046</b>

Source: Austral

Recent production numbers are detailed in the table below:

**Figure 3: Guanaco Gold and Silver Production**

	CY11 Oz	CY12 Oz	CY13 Oz	FY14 Oz	CY14 Budget Oz
Silver	37,511	74,807	74,031	61,240	35,715
Gold	12,373	28,911	50,226	50,193	50,278

Source: Austral

AMEC International Chile S.A. undertook the most recent reserve and resource assessment of Guanaco as at 31 December 2013 (report released 21 April 2014). Underground resources as at 30 June 2014 were estimated as shown in the table below.

**Figure 4: Estimated Guanaco resource inventory as at 30 June 2014**

	Gold 000 oz	Silver 000 oz
Resources as at 31 December 2013	396.4	955.7
Less production for 6 months to 30 June 2014	(22.4)	(26.7)
Estimated Resources as at 30 June 2014	374.0	929.0

Source: AMEC Technical Report prepared for Austral and Austral quarterly activities reports for March and June 2014

During FY14 Austral exercised the exit option of the royalty agreement with Kinam by which the Company paid US\$7.5m (\$8.1m) as an exit fee in three quarterly instalments during the year. Those payments eliminated the need to pay any future royalties that would have been paid as a percentage of Guanaco mine gold production.

**Figure 5: Open Pit Guanaco Mine - Chile**



Source: Austral

### 3.3.2 Humberto Reyes

#### 3.3.2.1 The Acquisition

In June 2014 Austral acquired a 51% shareholding in a Chilean mining services provider, Humberto Reyes Arriendo de Maquinarias SpA ('Humberto Reyes'), who has been providing underground mining services to the Guanaco operation since 2011.

The book value of the mining equipment and associated vehicles is US\$4m and the purchase price was US\$2.7m to be paid in an upfront payment of \$450k and the remainder in monthly cash instalments over 3 years. Austral also has an option to acquire the remaining 49% of shares in 2.5 years at a price to be agreed upon by both parties.

Guanaco Compania Minera SpA, a subsidiary of Austral, will assume management of the business.

The purpose of the acquisition was to deliver cost and operational efficiencies and allow greater control over safety and production practices at the mine.

#### 3.3.2.2 The business

Humberto Reyes is Guanaco's main supplier providing ~ 30 vehicles/equipment for the underground mining operation. Guanaco is also Humberto Reyes' main client and as mentioned above has been providing services to Guanaco since 2011.

### 3.3.3 Amancaya Project

In June 2014 Austral signed an agreement to acquire the Amancaya Project in Chile.

Amancaya is located about 60km from the Guanaco mine, 70km east of the city of Tatal in Northern Chile. Amancaya has an estimated high grade inferred resource of 407,000 ounces of gold equivalent and consists of 8 mining exploitation concessions covering 1,755 ha. Mining and processing facilities from Guanaco are expected to be shared to bring Amancaya to production.

Historical drilling at Amancaya has identified several mineralised veins and although the exploration focus to date has been on the Central Vein, drilling outside the Central Vein has demonstrated potential for parallel veins throughout the property.

Total consideration will be US\$12m paid in cash instalments, with the initial payment of US\$3m paid in September 2014 and subsequently within each 6-month period, payments of US\$1m, US\$3m, US\$3m and US\$2m respectively. The deferred payments are secured by all of the mining concessions and real property of the Amancaya Project, of which ownership has been transferred but titles will not be released until all deferred payments are made.

A royalty agreement is in place whereby Austral will pay 2.25% of the net smelter return (NSR) to the vendor on production from the Amancaya mining concessions.

Note that the term inferred resource has the meaning as ascribed by the Canadian Institute of Mining, Metallurgy and Petroleum and is not in accordance with the JORC Code. A competent person is yet to classify these foreign estimates as inferred mineral resources in accordance with the JORC Code.

Austral will spend FY15 focusing on bringing Amancaya to production stage starting with an in-house feasibility study expected to be completed by the end of 2014. The addition of Amancaya to Austral's assets gives Austral a larger exploration footprint in northern Chile and is expected to increase total production to 100,000 ounces of gold by the end of FY16.

### 3.3.4 AMINSA (San Juan)

Austral previously held an interest in gold explorer Argentina Minera S.A. (AMINSA) by contributing up to US\$15m over a 5 year period. AMINSA is located in the San Juan Province, in NW Argentina, in the Porphyry Piuquenes- Los Azules corridor near Xstrata's advanced exploration copper project called El Pachón in Argentina and Los Pelambres owned by Antofagasta Minerals in Chile.

In April 2013 Austral withdrew from the 2008 earn in agreement with AMINSA. By exiting the agreement Austral has reduced its future investment obligations in the project from US \$8.7 million over two years to a payment of US\$350,000. The new NSR agreement provides Austral with a 2% royalty from the project until all funds invested have been recovered (US\$6.65m in total), after which the royalty will decrease to 0.5% providing a new on-going revenue stream with no further outlay.

The carrying value of Austral's investment in AMINSA was reduced to nil during FY13.

### 3.3.5 8 de Julio Project

The 8 de Julio site is comprised of 82,101 hectares in the Deseado Massif corridor in the Province of Santa Cruz in southern Patagonia in Argentina. Four of these properties are classified as “Cateos” while the remaining properties are already “Manifestation of discovery”.

In 2013 Austral completed the 2013 exploration season of this project where a new systematic surface channel sampling program was executed. During the year, environmental approval was granted to commence trenching and drilling at the 8 de Julio property.

In 2014 Austral completed an Environmental Impact Report as requested by the mining authorities of the province of Santa Cruz. In addition, Austral continues with the conversion of cateos to Manifestation of discovery status and the completion of base geological reports in compliance with local regulations.

Currently, activities at all of the 8 de Julio sites are suspended as Austral focuses its exploration resources at the Guanaco mine, Amancaya and other brownfield exploration targets.

The following table includes a list of tenements at the 8 de Julio site.

**Figure 6: 8 de Julio tenements**

Property Name	Claim Type	Size (hectares)
8 de Julio IX	Cateo	7,002
8 de Julio VII	Cateo	5,238
8 de Julio VIII	Cateo	4,336
Juanguí II	Manifestation of discovery	4,200
Juanguí VII-B	Manifestation of discovery	4,000
Juanguí VI-B	Manifestation of discovery	4,000
Juanguí VI-D	Manifestation of discovery	4,000
Juanguí IV-E	Manifestation of discovery	3,979
Juanguí I	Manifestation of discovery	3,970
Juanguí IV	Manifestation of discovery	3,968
Juanguí I-B	Manifestation of discovery	3,937
Juanguí II-D	Manifestation of discovery	3,740
Juanguí VIII-A	Manifestation of discovery	3,440
Juanguí VI-C	Manifestation of discovery	3,258
Juanguí III	Manifestation of discovery	2,963
Juanguí IV-F	Manifestation of discovery	2,287
Juanguí I-A	Manifestation of discovery	2,009
Juanguí V	Manifestation of discovery	1,920
Juanguí II-A	Manifestation of discovery	840
Juanguí VI-A	Manifestation of discovery	840
Juanguí VII-A	Manifestation of discovery	840
Juanguí VI	Manifestation of discovery	840
Juanguí IV-A	Manifestation of discovery	840
Juanguí IV-B	Manifestation of discovery	840
Juanguí IV-C	Manifestation of discovery	840
Juanguí IV-D	Manifestation of discovery	840
Juanguí IV- E 1	Manifestation of discovery	840
Juanguí IV- E 2	Manifestation of discovery	840
Juanguí IV- E 3	Manifestation of discovery	840
Juanguí IV- E 4	Manifestation of discovery	840
Juanguí IV- E 5	Manifestation of discovery	840
Juanguí V-A	Manifestation of discovery	840
Juanguí V-B	Manifestation of discovery	840
Juanguí II-C	Manifestation of discovery	639
Juanguí II-B	Manifestation of discovery	615
<b>Total</b>		<b>82,101</b>

Source: Austral

### 3.3.6 Argentex Mining Corporation

In July 2013 Austral acquired a 19.9% shareholding in Argentex Mining Corporation which is listed on the TSX. This investment makes Austral the largest shareholder in Argentex. Austral has one position on the Board of Argentex and has one position on its Technical Committee.

### 3.3.7 Goldrock Mines Corp Limited

In November 2013 Austral acquired a 15% shareholding in Goldrock Mines Corp Limited ("Goldrock"), which is listed on the TSX. The agreement was for up to 11,560,000 new shares for a total investment of CAD\$9.3 million.

## 3.4 Competitive Position or SWOT Analysis

Set out below is an analysis of the strengths, weaknesses, opportunities and threats ("SWOT") of Austral:

**Table 6: SWOT Analysis**

Strengths	Weaknesses
<ul style="list-style-type: none"><li>▪ Good cash flow (cash flow positive) allowing the business to take advantage of opportunities as they arise e.g. strategic acquisitions.</li><li>▪ Debt funding provided by major shareholder.</li><li>▪ Strong technical team.</li><li>▪ Strong Board, shareholder support and management team.</li><li>▪ Recent acquisition of a contract underground mining services business that may allow for vertical integration at the Guanaco mine, thereby assisting with better control over costs and production levels.</li><li>▪ Recently renewed agreement with workforce to align and incentivise employees to increase production levels.</li><li>▪ Low cost production compared to Australia, with all operations in South America and minimal staff in Australia.</li><li>▪ Operations in Chile are subject to similar sovereign (country) risk as Australia.</li></ul>	<ul style="list-style-type: none"><li>▪ Reliance on key personnel.</li><li>▪ Limited diversification amongst other commodities.</li><li>▪ Shares are very illiquid due to majority shareholding.</li><li>▪ Large amount of debt on the balance sheet (debt/equity ratio of greater than one).</li><li>▪ Loss making at a net profit level.</li></ul>
Opportunities	Threats
<ul style="list-style-type: none"><li>▪ Improving gold prices may assist with profitability of mines and projects.</li><li>▪ Other acquisition opportunities to provide for scale and efficiency in operations and/or vertical integration.</li><li>▪ Potential to acquire distressed assets of value given that the mining industry in general is currently in a depressed state.</li></ul>	<ul style="list-style-type: none"><li>▪ Adverse gold price / foreign exchange rates fluctuations / inflation impacting project profitability.</li><li>▪ Uncertain economic environment globally, especially in regard to the mining industry.</li><li>▪ Political risk in Argentina, where Austral holds an investment.</li><li>▪ Enforcement of IFISA's loan in accordance with terms.</li></ul>

Source: Austral and IFL



### 3.5 Board and Management

**Table 7: Board members and Key Management**

Name	Title
Eduardo Elsztain, Non-Executive Chairman	<p>Mr Elsztain was appointed Chairman in June 2011 and Non-Executive Director in June 2007.</p> <p>Mr Elsztain is also the Chairman of:</p> <ul style="list-style-type: none"> <li>IRSA (NYSE: IRSA, BASE: IRSA): Argentina's largest real estate company, operating a diversified portfolio of shopping centres, office buildings, luxury hotels and residential properties in Argentina and United States;</li> <li>Cresud (NASDAQ: CRESY, BASE: CRES): a leading agri-business company, with presence in Argentina and Bolivia, involved in activities such as crop production, beef cattle raising and milk production;</li> <li>BrasilAgro (NYSE: LND, BOVESPA: AGRO3): Companhia Brasileira de Propriedades Agrícolas, Cresud's arm in Brazil and Paraguay;;</li> <li>Banco Hipotecario (BASE: BHIP), one of Argentina's largest commercial banks, engaged in the personal banking and corporate banking sectors; and</li> <li>(Co-Chairman) IDB Development (TASE:IDBD), a leading conglomerate in the State of Israel which directly and indirectly owns Clal Insurance Enterprises Holdings (TASE: CLIS), Shufersal (TASE: SAE), Cellcom (NYSE &amp; TASE: CEL), Properties &amp; Building Corp. (TASE: PTBL), ADAMA Agricultural Solutions, Elron Electronic Industries (TASE: ELRN) among others.</li> </ul> <p>Mr Elsztain is a member of the World Economic Forum, the Group of 50 and of Argentina's Association of Corporations (AEA).</p> <p>He is Chairman of "Fundación IRSA", a foundation that promotes education for children and young adults and also serves as Vice-President of the World Jewish Congress.</p>
Saul Zang, Non-Executive Director	<p>Mr Zang was appointed Non-Executive Director in June 2007.</p> <p>Mr Zang obtained a law degree from Universidad de Buenos Aires. He is a member of the International Bar Association and the Interamerican Federation of Lawyers and is a founding member of the law firm Zang, Bergel &amp; Viñes.</p> <p>Mr Zang currently holds Vice-Chairmanships on the Boards of IRSA (NYSE; IRSA, BASE: IRSA), Shopping Alto Palermo SA, and Alto Palermo and holds Directorships with Cresud [NASDAQ; CRESY, BASE: CRES], Alto Palermo [NASDAQ: APSA, BASE: APSA] Banco Hipotecario [BASE: BHIP], BrasilAgro [NYSE:LND, BOVESPA: AGRO3], Puerto Retiro and Fibesa; Nuevas Fronteras SA, Tarshop and Palermo Invest SA.</p>
Pablo Vergara del Carril, Non-Executive Director	<p>Mr Vergara del Carril was appointed Non-Executive Director in May 2006.</p> <p>Mr Vergara del Carril is a lawyer and is professor of Postgraduate Degrees for Capital Markets, Corporate Law and Business Law at the Argentine Catholic University.</p> <p>He is a director of Banco Hipotecario SA. (BASE: BHIP), Nuevas Fronteras (owner of the Intercontinental Hotel in Buenos Aires), Alto Palermo (Nasdaq / BASE) and Emprendimiento Recoleta SA (owner of the Buenos Aires Design Shopping Centre).</p> <p>Mr Vergara del Carril is also a director of Guanaco Mining Company Limited and Guanaco Capital Holding Corp.</p>
Stabro Kasaneva, Executive Director and Chief Operating Officer	<p>Mr Kasaneva was appointed Executive Director and Chief Operating Officer in October 2009.</p> <p>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/silver project is located.</p>

Name	Title
Wayne Hubert, Independent Non-Executive Director	<p>Mr Hubert was appointed Non-Executive Director in October 2011.</p> <p>Mr Hubert is a mining executive with over 15 years' experience working in the South American resources sector. From 2006 until 2010 he was the Chief Executive Officer of ASX-listed Andean Resources Limited, and led the team that increased Andean's value from \$70 million to \$3.5 billion in four years. Andean was developing a world-class silver and gold mine in Argentina with a resource of over 5 million ounces of gold when it was acquired by Goldcorp Inc. of Canada.</p> <p>Mr Hubert holds a Bachelor degree in Engineering and a Master of Business Administration and has held executive roles for Meridian Gold with experience in operations, finance and investor relations. Currently he is a Director of Midas Gold Corp (TSX), a Canadian company with a 5.7 million ounce gold resource, Lithic Resources (TSX) and Argentex Mining Corporation (ATX).</p>
Robert Trzebski Independent Non-Executive Director	<p>Dr Trzebski was appointed Non-Executive Director in April 2007.</p> <p>Dr Trzebski holds a degree in Geology, PhD in Geophysics, Masters in Project Management and has over 20 years of professional experience in mineral exploration, project management and mining services. He is currently Chief Operating Officer of Austmine LtdAs a fellow of the Australian Institute of Mining and Metallurgy, Dr Trzebski has acted as the Competent Person (CP) for the Company's ASX releases.</p>
Ben Jarvis Independent Non-Executive Director	<p>Mr Jarvis was appointed Non-Executive Director in June 2011.</p> <p>Mr Jarvis is the Managing Director and co-founder of Six Degrees Investor Relations, an Australian advisory firm that provides investor relations to a range of companies listed on the Australian Securities Exchange.</p> <p>Mr Jarvis is also a Director of ASX-listed companies Eagle Nickel Limited and Connexion Limited as well as South American Tin Limited, an unlisted public company focused on tin exploration and project development in Bolivia. Mr Jarvis was educated at the University of Adelaide where he majored in Politics.</p>

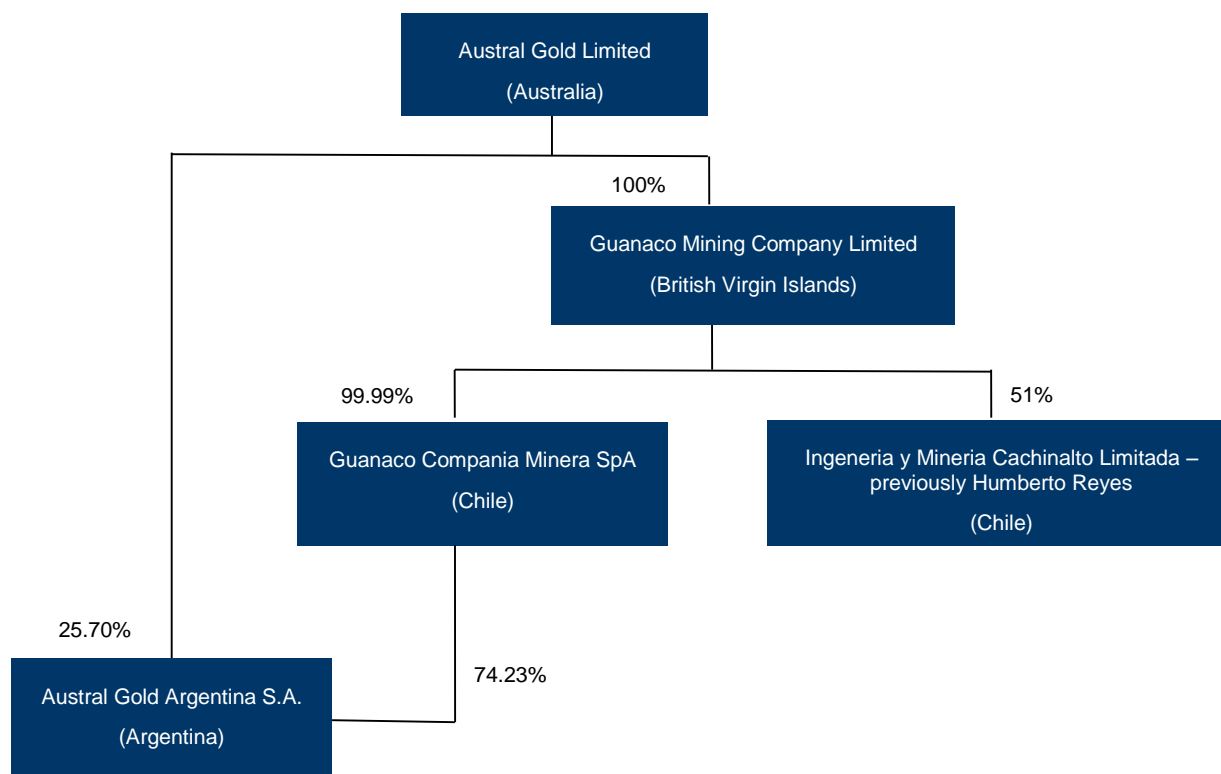
Source: Austral



### 3.6 Ownership and Capital Structure

The corporate structure of Austral is detailed below.

**Figure 7: Austral's Corporate Structure**



Source: Austral

As at 30 September 2014, Austral had approximately 171 million ordinary shares on issue. The top 10 Shareholders and total Shares as at this date are summarised below.

**Table 8: Top 10 Shareholders as at 30 September 2014**

Shareholder	Number of Ordinary Shares held	Percentage held of issued Ordinary Capital
Inversiones Financieras Del Sur S.A.	115,842,415	67.8%
Guanaco Capital Holding Corp.	24,289,330	14.2%
Eduardo Elsztain	4,686,206	2.7%
LGT Bank in Liechtenstein Ltd	2,895,780	1.7%
Wayne Hubert	1,750,000	1.0%
Bank Vontobel AG	1,735,715	1.0%
Stabro Kasaneva	1,691,398	1.0%
Saul Zang	1,435,668	0.8%
Various Private Clients of Forsyth Barr Ltd.	1,586,699	0.9%
Credit Suisse Private Banking (Switzerland)	1,188,694	0.7%
<b>Top 10 Shareholders</b>	<b>157,101,905</b>	<b>92.0%</b>
<b>Other Shareholders</b>	<b>13,729,232</b>	<b>8.0%</b>
<b>Total Issued Shares</b>	<b>170,831,137</b>	<b>100.0%</b>

Source: Austral (information for non-related shareholders was based on the share registry as at 30 June 2014, noting that there were no significant share trades from 30 June 2014 to 30 September 2014)

The top 10 Shareholders hold 92.0% of the total Shares on issue in Austral, whilst the remaining Shareholders hold parcels which are individually less than 0.5% of the total Shares on issue.

Eduardo Elsztain is the ultimate beneficial owner of IFISA and Guanaco Capital Holding Corp.

At 30 June 2014 there were 140,949 unissued shares under option with an exercise price of \$0.30 expiring 15 November 2016. These options were issued to Chad Williams, a consultant of Austral. At the current share price of \$0.115 (as at 26 October 2014) these options are out of the money.

### 3.7 Functional Currency

Austral changed the group's reporting currency to US dollars (USD) on 1 July 2013.

The majority of Austral's sales and earnings originate in USD or USD-quoted commodities (e.g. gold).

Austral's FY14 annual report was presented in USD but for consistency we have presented all figures throughout this report in Australian dollars (AUD) except where otherwise stated.

The exchange rates that we have used are as follows:

**Table 9: AUD:USD exchange rates**

AUD:USD	FY12	FY13	FY14	30-Oct-14	26-Oct-14
Average rate for year	1.0323	1.0212	0.9179		
Closing rate at year end	1.0159	0.9133	0.9419	0.8725	0.8787

Source: FY12 and FY13 from Austral annual report, FY14 and onwards from Oanda

### 3.8 Historical Financial Performance

Austral's historical P&L for full years FY12 to FY14 is shown in the table below.

**Table 10: Austral's Historical P&L**

	FY12 Actual AUD	FY13 Actual AUD	FY14 Actual AUD
<b>\$'000</b>			
Revenue	30,112	62,776	72,064
Cost of Goods Sold	(22,872)	(35,517)	(34,987)
<b>Gross Profit</b>	<b>7,240</b>	<b>27,259</b>	<b>37,077</b>
Other Income	276	96	234
Foreign exchange gains/(losses)	(2,230)	(6,021)	594
Impairment Expense	(4,918)	(1,601)	(10,894)
Royalty Agreement Exit Fee	0	0	(8,171)
Administration Expenses	(4,917)	(5,616)	(7,323)
<b>Total Operating Expenses</b>	<b>(12,065)</b>	<b>(13,238)</b>	<b>(25,795)</b>
<b>EBITDA</b>	<b>(4,549)</b>	<b>14,117</b>	<b>11,517</b>
Depreciation	(2,496)	(5,417)	(6,417)
Amortisation	(2,915)	(11,125)	(12,301)
<b>EBIT</b>	<b>(9,960)</b>	<b>(2,425)</b>	<b>(7,201)</b>
Interest Revenue	2	5	15
Finance Costs	(4,859)	(2,135)	(2,582)
<b>Net Loss Before Tax</b>	<b>(14,817)</b>	<b>(4,555)</b>	<b>(9,768)</b>

Source: Austral

Notes to the Profit and Loss Statement:

- During FY14 Austral exercised the exit option of the royalty agreement with Kinam and paid \$8.2m (US\$7.5m) as an exit fee in three quarterly instalments during the year. This eliminates the need to pay any future royalties that would have been paid as a percentage of Guanaco mine gold production.
- There have been impairment charges over the past few years. These are discussed in further detail in section 3.9.

### 3.9 Historical Financial Position

Table 11: Austral's Historical Balance Sheet

\$'000	30-Jun 2012 AUD	30-Jun 2013 AUD	30-Jun 2014 AUD
<b>Current Assets</b>			
Cash and Cash Equivalents	470	5,022	4,615
Trade and Other Receivables	3,088	11,303	3,584
Financial Assets - Bonds	0	0	295
Inventory	3,556	3,737	4,178
<b>Total Current Assets</b>	<b>7,114</b>	<b>20,062</b>	<b>12,672</b>
<b>Non-Current Assets</b>			
Other Receivables (Prepayments)	3,828	1,800	625
Financial Assets - investment in shares	340	51	6,731
Intangible Assets	66,333	59,124	38,591
Plant and Equipment	20,186	24,042	29,859
Exploration and Evaluation Assets	172	380	538
<b>Total Non-Current Assets</b>	<b>90,859</b>	<b>85,397</b>	<b>76,345</b>
<b>TOTAL ASSETS</b>	<b>97,973</b>	<b>105,459</b>	<b>89,017</b>
<b>Current Liabilities</b>			
Trade and Other Payables	5,925	5,670	5,968
Provisions - Employee Entitlements	22	27	633
Borrowings - Royalty Payable	722	1,882	2,411
<b>Total Current Liabilities</b>	<b>6,669</b>	<b>7,579</b>	<b>9,012</b>
<b>Non-Current Liabilities</b>			
Trade and Other Payables	0	0	1,197
Provisions - Restoration	743	910	1,801
Borrowings - Loan from IFISA	57,352	60,894	56,477
Borrowings - Lease Liability	0	0	1,144
Deferred Tax Liability	1,128	4,462	4,419
<b>Total Non-Current Liabilities</b>	<b>59,223</b>	<b>66,266</b>	<b>65,038</b>
<b>TOTAL LIABILITIES</b>	<b>65,892</b>	<b>73,845</b>	<b>74,049</b>
<b>NET ASSETS</b>	<b>32,081</b>	<b>31,614</b>	<b>14,968</b>
<b>EQUITY</b>			
Issued Capital	44,401	44,401	42,258
Reserves	(6,215)	740	(3,511)
Accumulated Losses	(6,105)	(13,527)	(25,519)
Non-Controlling Interest			1,739
<b>TOTAL EQUITY</b>	<b>32,081</b>	<b>31,614</b>	<b>14,968</b>

Source: Austral

Notes to the balance sheet:

- We have used a USD:AUD exchange rate of 0.9419 (exchange rate as at 30 June 2014) for the translation of the balance sheet at 30 June 2014.
- Intangible assets include Guanaco development assets and goodwill on acquisitions in FY14.



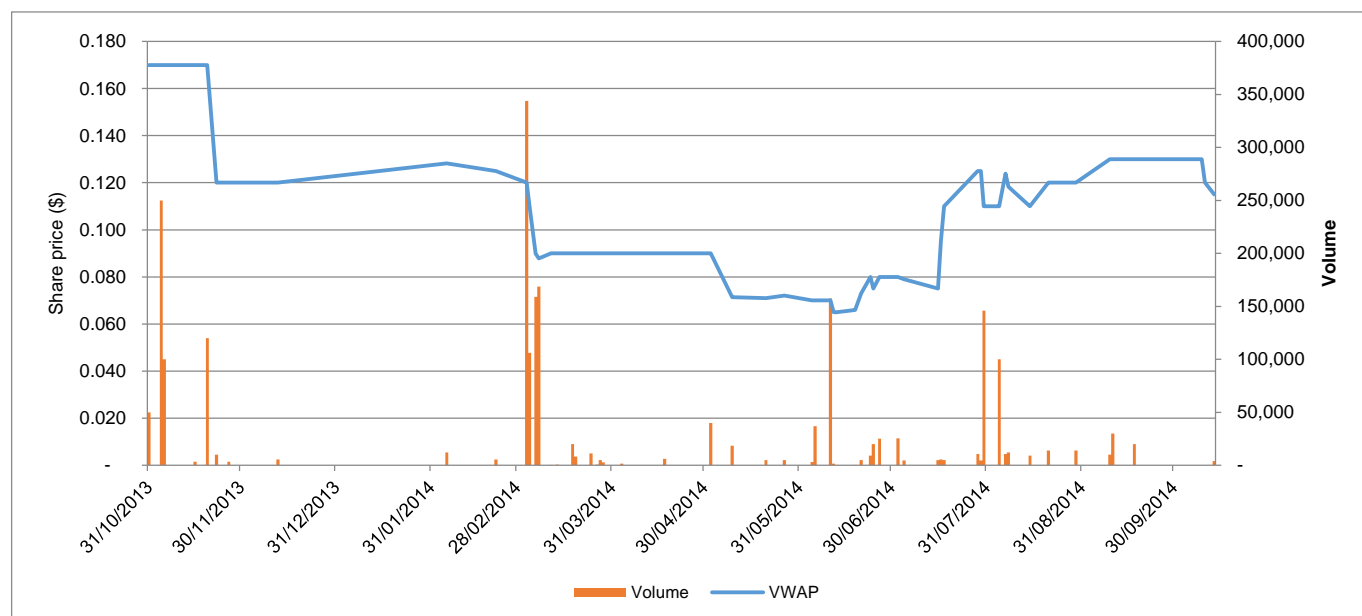
- During FY14 there was a \$10.9m (US\$10.0m) impairment charge on the Guanaco mine. The fair value of Guanaco (based on an independent valuation using a DCF model) was \$73m (US\$59m) based on the following assumptions:
  - Gold price US\$1,278/oz – US\$1,228/oz
  - Life of Mine: 5 years
  - Real Discount Rate Post-Tax: 7.0%
- 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 loan with IFISA will be fully converted to equity as part of this Transaction. The details of the loan are as follows:
  - The borrowings are unsecured.
  - Interest is charged at 4% per annum and capitalised.
  - As at 30 June 2014 the loan, with a fair value of \$56.5m (US\$53.2m), comprised principal of \$45.2m (US\$42.5m) and capitalised interest of \$11.3m (US\$10.7m).
  - The terms of repayment are that the loan is repayable on the first to occur of:
    - When sufficient cash flows of Austral allow;
    - At the election of IFISA to subscribe for shares in Austral (contingent on shareholder approval);
    - On successful completion of an equity raising by Austral; or
    - By 31 December 2015.
- Plant and equipment at 30 June 2014 includes the ~US\$5m of mining equipment and vehicles acquired as part of the acquisition of Humberto Reyes.
- Current financial assets at 30 June 2014 are USD Argentina government bonds maturing in October 2015, but with the ability to redeem at any time.
- Non-current financial assets at 30 June 2014 represent the fair value of the equity investments in Argentex Mining and Goldrock Mines (both acquired during FY14) at their market prices traded on the TSX-V. A fair value movement of US\$3.9m (reduction in value) relating to these investments was recognised in other comprehensive income during the year.



### 3.10 Share Price Analysis

We have analysed Austral's daily share close price and volume traded over the past 12 months to 26 October 2014.

**Figure 8: Share price analysis**



Source: Capital IQ (26 October 2013 to 26 October 2014)

It does not appear that there were any events that resulted in a notable impact on Austral's share price movements and trading volumes, other than possible trading windows for the trading of Shares controlled by the Board and/or Management.

Of the total Shares on issue of 171 million, at least 95% are held by institutional and/or related-party investors who are not trading their Shares.

Based on the volumes in the chart above we conclude that Austral is a very illiquid stock.

The 30 day VWAP for the Shares prior to 26 October 2014 was \$0.130 and we have used this as a cross check of the equity value of Austral.

**Table 12: Austral share price analysis up to 26 October 2014**

	High	Low	VWAP	Average daily volume
As at 26 Oct 2014	\$0.115	\$0.115	\$0.115	472
1 month to 26 Oct 2014	\$0.130	\$0.115	\$0.127	513
3 months to 26 Oct 2014	\$0.160	\$0.110	\$0.125	12,818
6 months to 26 Oct 2014	\$0.160	\$0.065	\$0.106	15,460
12 months to 26 Oct 2014	\$0.170	\$0.065	\$0.110	29,079

Source: Capital IQ (26 October 2013 to 26 October 2014)

## 4. Industry Environment

In arriving at our opinion, we have considered the outlook for the gold mining industry affecting Austral.

### 4.1 Industry Analysis

In order to assess the value of Austral and the merits of the Transaction, we have considered the industry within which Austral operates. Austral participates in the gold ore mining industry (**"the Industry"**). An analysis of the Industry is set out below.

### 4.2 Industry Overview

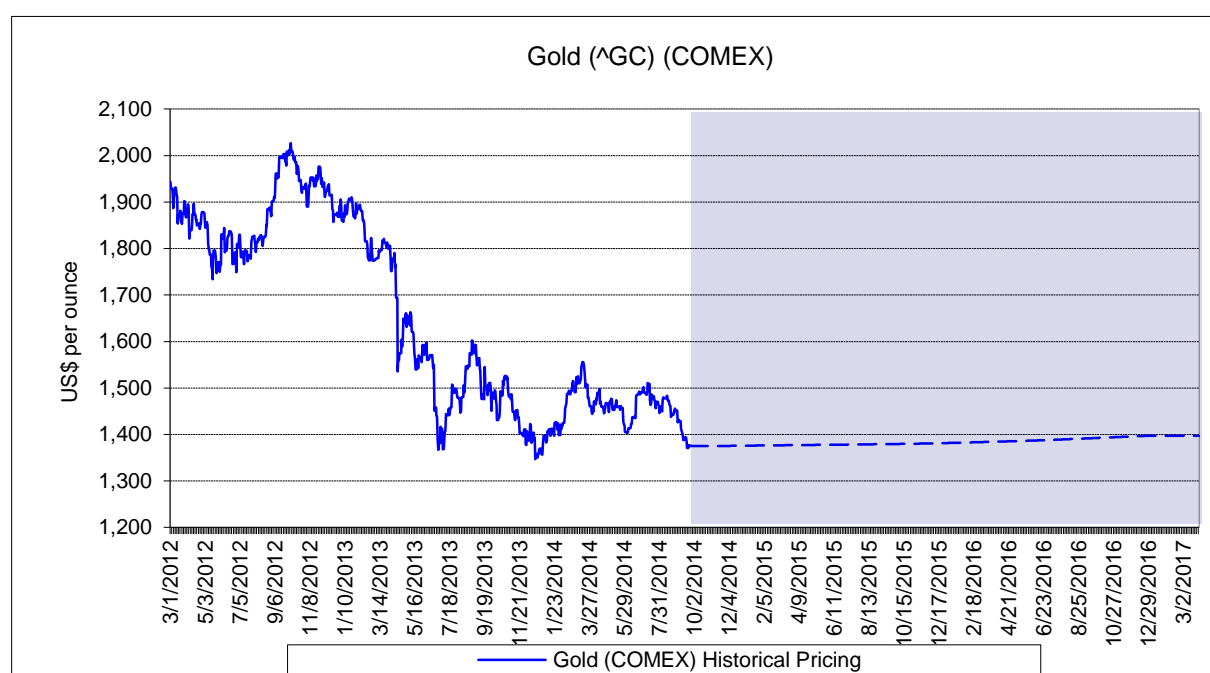
Although gold prices are expected to remain relatively high, rising supply worldwide is forecast to constrain price growth. Gold will remain an important part of central bank reserves around the world, while growing affluence in China will likely boost demand for gold jewellery. Gold will continue to be viewed as a portable store of value throughout Asia. Major political shocks to the global economy have the potential to cause large short-term fluctuations in the price of gold (although the price of gold tends to be counter-cyclical to general economic conditions). Similarly, a major unexpected flow of gold from stocks onto the market can push the price down. This situation is complicated by the fact that fluctuations in the gold price reflect changes in the value placed on the US dollar, as well as shifts in the market for gold itself.

### 4.3 Outlook for the Gold Price

High gold prices will have a longer term effect on the industry, providing an incentive to re-examine techniques aimed at exploiting lower grade ore. The long-term, high-risk nature of greenfield gold exploration, and the resources required to fund it, mean that gold exploration and production will remain the province of large companies. This trend will be reinforced by production requirements, including the large amounts of capital required for open-cut mining at depth, the technology needed to make the transition to underground operations as shallow reserves are depleted, and the higher costs of processing deeper sulphide ores rather than shallow oxide ores.

The figure below graphs the actual mean gold price for the financial years from 2009 to 2013 and the mean consensus estimates for the target price from 2014 to 2018.

**Figure 9 Gold Price**



Source: S&P Capital IQ



## 4.4 The Global Market for Gold

Global gold supply reached 4,277 tonnes in 2013, according to the World Gold Council. Approximately two thirds of this supply came from mining and one third from the recycling of gold.

**Figure 10 World Gold Supply and Demand**

World Gold Supply and Demand	2013	2014F
<b>Supply</b>		
- Mine production	3,054	3,101
- Scrap	1,269	1,104
- Net Hedging Supply	(46)	42
<b>Total Supply</b>	<b>4,277</b>	<b>4,247</b>
<b>Demand</b>		
- Jewellery	2,368	2,210
- Industrial Fabrication	409	396
- Net Official Sector	409	412
- Retail Investment (Bars and Coins)	1,775	1,156
<b>Physical Demand</b>	<b>4,961</b>	<b>4,174</b>

Source: World Gold Council

In 2013 China became the world's largest producer and consumer of gold. The World Gold Council expects that the private sector demand for Gold in China is forecast to increase 20% from the current level of 1,132 tonnes per annum to at least 1,350 tonnes per annum by 2017. This is primarily due to the past 10 years of rapid growth in middle class affluence and rising real incomes, demonstrated by the following graphic:

**Figure 11 China progress and prospects**



Source: World Gold Council

## 4.5 Conclusions on Industry Analysis

The consensus outlook for the gold price is for limited increases over the next four years. Future demand may be most influenced by the increasing demand from China.



## 5. Valuation of Austral Shares

### 5.1 Valuation Methodology

A number of valuation methodologies are available to determine an estimate of the value of a company and its assets. Each of these valuation methodologies has application in different circumstances and not all of them are applicable to companies involved with resource-based projects, especially those in an early development stage, nor does sufficient information necessarily exist to use them reliably.

The primary factor in determining which methodology is appropriate is the actual practice adopted by purchasers of the type of businesses and assets involved. Among the methods used for companies such as Austral are:

- Discounting projected cash flows (**DCF**);
- Market-based values - applicable to the extent that the ASX share price reflects underlying value and the extent the shares are traded with liquidity;
- Comparable transactions - applicable to the extent that there is a visible market in tenements or data bases acquired and sold by resource explorers and that the markets in which the transactions occurred are similar to the current environment;
- Industry rules of thumb; or
- Net asset or residual value analysis, also referred to as Net Realisable Value (**NRV**).

We have further detailed these methodologies at Appendix B.

The NRV method is appropriate for the following reasons:

- The company is loss making at a net profit level (but has been cash flow and EBITDA positive) and therefore an earnings based method is not appropriate;
- There is inherent uncertainty around the required costs to develop the gold mining projects into production along with inherent uncertainty around the potential future cash flows and production volumes to be generated from the projects. As a result, long term cash flow projections required to perform a discounted cash flow analysis are unable to be prepared on a reasonable basis;
- The specialist nature of the metals in Austral's projects makes it difficult to obtain comparable transactions for similar resources;
- Other mining interests held by Austral are at an early stage and as such future cash flows from these projects are difficult to determine; and
- Given the size of the Company and the minimal volume of trading in the Company's shares, we consider that the Share price valuation may not be the appropriate method to adopt as our primary valuation method as we believe that there is not sufficient liquidity in the Shares traded to place reliance on the share price.

### 5.2 Valuation of Austral

#### 5.2.1 Net Realisable Value (NRV) Valuation

We have assessed the fair market value of Austral based on the NRV of the assets and liabilities.

Valuation of net realisable assets involves:

- Separating the business into components which can be readily sold, such as individual business units or items of plant and equipment; and
- Ascribing a value to each based on the net asset amount that could be obtained for this asset if sold.

In undertaking the valuation of Austral on the NRV basis, we have had regard to:

- The financial position of Austral as at 30 June 2014;
- Any adjustments required to the net asset value of Austral;
- The value of any assets or liabilities not fully reflected in Austral's balance sheet; and

- The applicability of a discount for minority interest and/or lack of marketability.

The recorded book value may not be the most appropriate value to be ascribed to an asset or liability. Accordingly, we have restated the balance sheet of Austral as at 30 June 2014 to reflect fair market value and to include any off-balance sheet assets and liabilities.

### 5.3 Restated Balance Sheet

For the purposes of this Report, we have restated the balance sheet at 30 June 2014 using the USD:AUD exchange rate of 0.8787 as at 26 October 2014.

**Table 13: Restated balance sheet**

	30 June 2014	30 June 2014	Guanaco	Humberto Reyes	Amancaya	Other Assets	30 June 2014	Reference
	Balance Sheet (USD) Per Accounts	Balance Sheet (AUD) Restated					Balance Sheet (AUD) Restated	
<b>Current Assets</b>								
Cash	4,347,075	4,947,166				1,533,032	1,533,032	1
Trade and other receivables	3,375,885	3,841,909	3,841,909				3,841,909	2
Financial Assets	278,072	316,458				316,458	316,458	3
Inventories	3,934,932	4,478,129	4,478,129				4,478,129	2
<b>Total Current Assets</b>	<b>11,935,964</b>	<b>13,583,662</b>	<b>8,320,038</b>	<b>0</b>	<b>0</b>	<b>1,849,490</b>	<b>10,169,528</b>	
<b>Non-Current Assets</b>								
Other Receivables	589,582	670,971	670,971				670,971	2
Financial Assets	6,339,952	7,215,150				7,215,150	7,215,150	4
Intangible assets	36,348,774	41,366,535	40,366,535	1,000,000	13,656,538		55,023,073	5,6
Plant and Equipment	28,124,421	32,006,852	25,094,515	6,387,676		524,094	32,006,285	7
Exploration and evaluation expenditure	506,718	576,668				576,668	576,668	8
<b>Total Non-Current Assets</b>	<b>71,909,447</b>	<b>81,836,175</b>	<b>66,132,020</b>	<b>7,387,676</b>	<b>13,656,538</b>	<b>8,315,912</b>	<b>95,492,146</b>	
<b>TOTAL ASSETS</b>	<b>83,845,411</b>	<b>95,419,837</b>	<b>74,452,058</b>	<b>7,387,676</b>	<b>13,656,538</b>	<b>10,165,402</b>	<b>105,661,674</b>	
<b>Current Liabilities</b>								
Trade and other payables	5,620,582	6,396,474	5,172,694	1,223,781			6,396,474	9
Provisions	595,969	678,239	678,239				678,239	2
Borrowings	2,271,375	2,584,927	1,163,883	1,421,044		0	2,584,927	10
<b>Total Current Liabilities</b>	<b>8,487,926</b>	<b>9,659,640</b>	<b>7,014,816</b>	<b>2,644,824</b>	<b>0</b>	<b>0</b>	<b>9,659,640</b>	
<b>Non-Current Liabilities</b>								
Trade and other payables	1,127,280	1,282,895		1,282,895			1,282,895	10
Provisions	1,695,702	1,929,785	1,929,785				1,929,785	11
Borrowings	54,274,278	61,766,562			10,242,404	61,766,562	72,008,966	6
Deferred tax liability	4,161,853	4,736,375	4,736,375				4,736,375	2
<b>Total Non-Current Liabilities</b>	<b>61,259,113</b>	<b>69,715,617</b>	<b>6,666,160</b>	<b>1,282,895</b>	<b>10,242,404</b>	<b>61,766,562</b>	<b>79,958,021</b>	
<b>TOTAL LIABILITIES</b>	<b>69,747,039</b>	<b>79,375,258</b>	<b>13,680,976</b>	<b>3,927,719</b>	<b>10,242,404</b>	<b>61,766,562</b>	<b>89,617,661</b>	
<b>NET ASSETS</b>	<b>14,098,372</b>	<b>16,044,579</b>	<b>60,771,081</b>	<b>3,459,957</b>	<b>3,414,135</b>	<b>(51,601,160)</b>	<b>16,044,012</b>	

Source: Austral and InterFinancial Analysis

Assumptions for the restated balance sheet:

1. Cash has been reduced by the first instalment for the Amancaya acquisition which was paid in September 2014. We used the exchange rate as at 30 September 2014 for the translation of the USD 3m initial payment for Amancaya.
2. Most of the working capital (except where stated otherwise) relates to Austral's only operating/trading assets, Guanaco.
3. Current financial assets include USD Argentina government bonds which are not specifically related to a particular asset.
4. Non-current financial assets represent Austral's interests in listed companies Argentex and Goldrock. These were stated at market value at 30 June 2014 and we have adopted that value as fair value.
5. The majority of goodwill relates to the capitalised development costs for Guanaco. This was subject to a fair value assessment by Austral's Management at 30 June 2014. \$1 million of goodwill was recognised on the acquisition of Humberto Reyes.
6. Final closing of the Amancaya acquisition took place on 8 August 2014. We have adjusted the balance sheet to include USD 12 million in intangible value (for the full amount of the purchase price) and USD 9million in borrowings, representing the remaining instalments (less the initial payments of USD 3 million which was paid in September 2014 and adjusted from cash). All of these amounts have been translated at the USD:AUD exchange rate as at 30 September 2014.
7. Plant and equipment is majority for Guanaco, except for plant and equipment which was acquired as part of the Humberto Reyes acquisition and office equipment which is not related to any specific project.
8. Capitalised exploration and evaluation expenditure is not project specific.
9. Trade payables are mostly for Guanaco with the exception of acquired payables from the acquisition of Humberto Reyes.
10. Borrowings also include lease liabilities for the leased plant and equipment in the Humberto Reyes business.
11. This is the provision for mine closure at Guanaco.

## 5.4 Asset Values

In arriving at the market value of the net assets, we have given consideration to the following:

### 5.4.1 Guanaco Project

We have assessed the fair value of the Guanaco assets based on the average Enterprise Value per resource (ounce of gold) for companies similar to Austral. The table below includes listed gold companies that were in production at the date of the report. In assessing what factors would make companies comparable, we considered Enterprise Value, location of gold deposits and mines, the type of mining being undertaken, the cost of extraction and country sovereign risk. We have excluded companies with negative Enterprise Values.

Individual mining issues can have an impact on the market's perceived value of a stock. We note that companies with high resource to value multiple's such as Doray's are a function of its high grades despite having a small resource. While companies with lower multiples can be as a result of the higher costs of extraction as a result of deeper mining and increase rock stresses.

**Table 14: Enterprise Value per resource for comparable companies as at 26 October 2014**

Company Name	Location	Share price	Total Enterprise Value \$m	Gold Resource (ounces)	EV/Resource (\$/ounce)
Alacer Gold Corp. (TSX:ASR)	Turkey	2.00	367.9	9,068.8	\$40.57
Medusa Mining Limited (ASX:MML)	Philippines	0.71	143.6	2,851.5	\$50.36
Troy Resources Limited (ASX:TRY)	Brazil and Argentina	0.66	126.0	2,074.8	\$60.73
Saracen Mineral Holdings Limited (ASX:SAR)	WA	0.32	231.9	6,011.0	\$38.58
Beadell Resources Ltd (ASX:BDR)	Brazil	0.33	325.5	4,967.0	\$65.53
Silver Lake Resources Limited (ASX:SLR)	WA	0.33	155.0	6,574.4	\$23.58
Millennium Minerals Limited. (ASX:MOY)	WA	0.08	54.6	1,727.7	\$31.60
Doray Minerals Limited (ASX:DRM)	WA	0.48	79.3	447.6	\$177.17
Norton Gold Fields Limited (ASX:NGF)	WA	0.14	226.5	6,940.0	\$32.64
Unity Mining Limited (ASX:UML)	TAS and NSW	0.01	3.6	609.0	\$5.91
Ramelius Resources Limited (ASX:RMS)	WA	0.05	13.8	2,885.0	\$4.78
Tribune Resources Limited (ASX:TBR)	WA	3.10	170.2	658.2	\$258.58
Alkane Resources (ASX:ALK)	NSW	0.25	80.6	1,035.6	\$77.83
Lachlan Star (ASX:LSA)	Chile, NSW and QLD	0.05	24.6	3,324.0	\$7.40
				Average	\$62.52
				Median	\$39.57

Source: S&P Capital IQ and Gold Nerds

It is difficult to identify a company and mining operation with exactly the same characteristics. Our view is that the best indicator of value for Austral is to use the average and median for the comparable group of companies. We applied the median Enterprise Value per resource as the low end of our valuation range and the average Enterprise Value per resource to the high end of our valuation range.

**Table 15: Valuation of Guanaco project gold resources**

Gold Assets	Low \$	High \$
Gold Resource at 30 June 2014 (oz)	373,959	373,959
Gold EV/Resource (\$/oz)	\$39.57	\$62.52
<b>Gold Enterprise Value on a minority basis</b>	<b>14,798,854</b>	<b>23,379,133</b>
Control premium	30%	30%
<b>Enterprise Value on a controlling basis</b>	<b>19,238,510</b>	<b>30,392,873</b>

Source: IFL analysis

**Table 16: Valuation of Guanaco project silver resources**

Silver Assets	Low \$	High \$
Silver Resource at 30 June 2014 (oz)	928,951	928,951
Gold EV/Resource (\$/oz)	\$39.57	\$62.52
Silver to Gold Ratio	0.014	0.014
<b>Silver Enterprise Value on a minority basis</b>	<b>517,772</b>	<b>817,973</b>
Control premium	30%	30%
<b>Enterprise Value on a controlling basis</b>	<b>673,104</b>	<b>1,063,365</b>

Source: IFL analysis



The silver to gold ratio is an industry wide standard ratio that is used to determine an equivalent gold value which is estimated by dividing the silver price by the gold price. The gold price as at 26 October 2014 was US\$1,231.80 per oz and the silver price on the same day was US\$17.18 per oz. This results in a conversion rate of 0.014 which has been used in our calculation.

**Table 17: Valuation of Guanaco gold and silver tenements**

Assessed Value of Guanaco Tenements	Low \$	High \$
Gold	19,238,510	30,392,873
Silver	673,104	1,063,365
<b>Enterprise Value on a controlling basis</b>	<b>19,911,613</b>	<b>31,456,238</b>

Source: IFL analysis

#### 5.4.2 Humberto Reyes

Austral acquired a controlling 51% shareholding in Humberto Reyes on 3 June 2014. The assets and liabilities that were acquired included plant and equipment (owned and leased), some cash, trade receivables, other receivables, lease liabilities and other liabilities.

We have assumed the fair value of the Humberto Reyes project equates to the book value at 30 June 2014 given the recent timing of this acquisition and in the absence of any significant changes in the operations.

There was goodwill on this acquisition and as the operations have not significantly changed since year end, we have not restated the balance of goodwill as per the balance sheet at 30 June 2014.

In May 2013, Deloitte valued the assets at ~ USD 3.6 million and the remaining lease is for USD 2.3 million.

#### 5.4.3 Amancaya

Austral signed an agreement for the acquisition of the Amancaya project on 17 June 2014, but the tenements were not transferred to Austral until 29 September 2014 (following completion on 8 August 2014).

The consideration for Amancaya is US\$12m split over 6 monthly payments over the course of the 2 years following completion. We have calculated the fair value of this project based on the total consideration payable as there are no conditions that apply to the deferred payments. Rather they have been structured in that way to manage the cash flow of the payments.

The fair value balance sheet in section 5.3.5 includes an asset for the full consideration less a liability for the deferred payments.

#### 5.4.4 Other Assets and Liabilities

- **Cash:** The nature of cash is such that cash is regarded as fairly stated in the accounts and reflects current market value. We have been advised that subsequent to year-end, on 8 August 2014 Austral paid US\$3m into an escrow account for the completion payment for the acquisition of the Amancaya project and as such we have adjusted the balance sheet for this amount.
- **Trade and other receivables:** We have assumed that trade and other receivables (comprising trade receivable, prepayments and GST receivable) are fairly stated in the balance sheet and reflect current market value.
- **Financial assets (bonds):** Bonds are US\$ Argentina government bonds maturing in October 2015, but with the ability to redeem at any time, and with a fixed interest rate of 7% payable bi-annually.
- **Financial assets (investment in shares):** We have reviewed the market value of the shares in Argentex Mining (19.9% shareholding) and Goldrock Mines (15% shareholding) as at 26 October 2014 and as the value has not moved significantly from the fair value at 30 June 2014, we have valued the shares at the book value in the balance sheet at 30 June 2014.
- **Inventory:** The balance of inventory for Austral includes materials at cost and gold bullion and work in progress at net realisable value using the gold price as at 30 June 2014. We have assumed that this equates to fair value.

## 5.5 Premium for Control

RG 111 states that “The expert should not consider the percentage holding of the ‘bidder’ or its associates in the target when making this comparison. For example, in valuing securities in the target entity, it is inappropriate to apply a discount on the basis that the shares being acquired represent a minority or ‘portfolio’ parcel of shares.” As a result, while IFISA already holds a majority shareholding in Austral, we have valued the shares on a controlling basis

When valuing a controlling interest, an appropriate allowance should be made for the premium for control, given the strategic benefit that a controlling interest would provide. Empirical evidence on premiums for control indicates that these premiums tend to range between 15% and 40%. We have valued the Shares on a controlling basis and included a control premium of 30%.

## 5.6 Valuation of Austral shares

We have assessed the fair market value of the Shares on a controlling basis to be zero as ordinary shares cannot have a negative value. .

**Table 18: Austral valuation range**

Valuation Summary AUD\$'000	Low	High
Guanaco	19,912	31,456
Humberto Reyes	3,460	3,460
Amancaya	3,414	3,414
Net Other Assets & Liabilities	(51,601)	(51,601)
Enterprise Value on a Controlling Basis	(24,815)	(13,271)
Issued Shares '000	170,831	170,831
Value per Share on a Controlling Basis \$	(\$0.145)	(\$0.078)

Source: IFL Analysis

## 5.7 Valuation Cross Check

In cross checking our valuation we considered recent share price trading.

### 5.7.1 Share Price

The 30 day VWAP prior to 26 October 2014 was \$0.130 (equity value excluding a control premium). However the Shares are thinly traded and therefore may not correctly reflect the true fundamental value attributable to Austral's Shares.

### 5.7.2 Recent Financial Performance

We note that Austral has been loss making (at a net profit accounting level) for several years and there are no indications that the business will be generating accounting net profits in the near future given its high level of debt. We consider that this gives some support to a value of nil per Share, although we do note that the business is cash flow positive with interest on the loan being capitalised.

## 6. Value of Austral Post-Transaction

We have determined the value of an Austral share post-transaction on a minority basis for the purposes of assessing the consideration received by Austral shareholders. Under the Transaction, if it is approved by the shareholders, the reconstituted issued share capital in Austral will be 483 million shares.

**Table 19: Value of Austral Post-Transaction**

	Low Value ('000)	High Value ('000)
Equity Valuation on a Controlling basis pre-Transaction	-24,815	-13,271
Add Loan Converted to Equity	61,586	61,586
Equity Valuation on a Controlling basis post-Transaction	36,771	48,315
Total shares on issue post transaction	483,331	483,331
Share value post transaction on a controlling basis	0.08	0.10
Minority Interest Discount	30%	30%
<b>Share value on a minority basis</b>	<b>0.05</b>	<b>0.07</b>

Source: IFL Analysis

This value per share does not reflect the price at which Austral's shares may trade assuming that the Transaction is approved by shareholders. The price at which the Austral's share will trade at depends on a range of factors including liquidity in the shares, commodity prices, exchanges rates and the broader performance of the economy



## 7. Assessment of Fairness

In the assessment of the 'fairness' of the Transaction we have considered the value of a Share post Transaction on a minority basis and the value of a Share on a controlling basis pre Transaction.

Although our valuation calculations have resulted in a negative value per Share pre transaction, it is not possible for an ordinary Share to have a value less than nil. For the fairness assessment we have included the value of a Share pre transaction at zero.

**Table 20: Value of Proposal**

	Low Value	High Value
Value of Austral share on a controlling basis - pre Transaction	\$ -	\$ -
Value of an Austral share on a minority basis - post Transaction	\$ 0.053	\$ 0.070
<b>Difference</b>	<b>\$ 0.053</b>	<b>\$ 0.070</b>
<b>Premium / (Discount)</b>	<b>Premium</b>	<b>Premium</b>

Source: IFL Analysis

Based on this analysis, the Transaction is considered to be fair to the Non-Associated Shareholders as the value of a Share post Transaction is greater than the value of a Share pre transaction.



## 8. Assessment of Reasonableness

As the Transaction is “fair” to Non-Associated Shareholders, it is also “reasonable”. To assist Non-Associated Shareholders in their decision making process we have detailed the following:

- The likely advantages and disadvantages associated with the Transaction; and
- Alternatives, including the position of Shareholders if the Transaction does not proceed.

**Table 21: Advantages and disadvantages of the Proposal**

Advantages	Disadvantages
IFISA has offered to convert the loan at a higher Share price than is required under the loan agreement, thereby causing less dilution to Shareholders than if IFISA converted the loan in accordance with the loan agreement.	Existing Shareholders will be diluted by the Transaction.
The Transaction avoids any potential default event under the loan agreement.	IFISA and its associates will hold approximately 94.6% of the issued ordinary shares in AGD on a fully diluted basis.
The Transaction will improve the balance sheet of AGD with the reduction in the liabilities.	The greater concentration of Shareholding is likely to exacerbate the current situation of reduced trading/liquidity in Austral's Shares.
There will be a reduction in the interest expenses in the Company as a result of the conversion of the loan.	
The restructuring of the balance sheet makes the Company more attractive in terms of any future capital raising, or any other asset acquisition, equity transaction or stock for stock merger.	

Source: IFL Analysis

### 8.1 Implications for Austral Shareholders of Rejecting the Transaction

#### ***Concessional Conversion Ratio***

IFISA has offered to convert the loan at a higher Share price than is required under the loan agreement and this offer may be withdrawn if not accepted.

#### ***Ability to Repay the Loan***

Austral is not currently generating the cash flows that are sufficient to service and repay the IFISA loan and interest charges are being capitalised to the loan balance. If the IFISA loan is not converted to Shares it is unclear, in light of the current capital structure of Austral, how it will repay the IFISA loan and it may lead to default under the loan agreement.

#### ***Future Capital Raising***

If the Transaction is not approved Austral may not be able to raise capital from other sources on terms as favourable as the Transaction to enable it to continue its exploration program.

#### ***Availability of alternative transaction***

Austral has been actively looking at capital raising alternatives and has been unable to identify any other viable options.

#### ***Shareholder circumstances***

A Shareholder's decision to vote in favour of the Transaction is likely to be influenced by their particular circumstances, for example, tax considerations particular to that person. This Report does not address circumstances specific to an individual Shareholder. Shareholders should consult with their own independent professional advisers with regard to their circumstances.

## Other Matters

This Report has been requested by the independent Directors to assist the Shareholders in their decision on how to vote in respect of the Transaction.

This Report should not be used for any other purpose and IFL does not accept any responsibility for its use outside this purpose. Except in accordance with the stated purpose, no extract, quote or copy of our Report, in whole or in part, should be reproduced without IFLs prior written consent.

This Report will accompany the Notice of Meeting and related explanatory statement to be provided by the Directors to all Shareholders. This Report has been prepared to assist the Directors to fulfil their obligation to the Shareholders and to assist the Non-Associated Shareholders in deciding whether or not to approve the Transaction. IFL acknowledges that this Report may be lodged by Austral with the ASX and ASIC.

## 8.2 Conclusion

We have concluded that the Transaction is “fair and reasonable” for the Non Associated Shareholders.



## 9. Qualifications, Declarations and Consents

### 9.1 Qualifications

IFL provides corporate advisory services in relation to transactions and acquisitions, capital raisings, corporate proposal and financial matters generally. One of its activities is the preparation of company and business valuations and the provision of independent advice and expert's reports in connection with Transactions and acquisitions, takeovers and schemes of arrangements. IFL directors have prepared a number of public expert's reports since its formation in 1987.

Brett Plant, is a CA Business Valuation Specialist, holds a BBus, MCom, FCA is a Director of IFL and was the principal person responsible for the preparation of the report. Mr Plant has been actively involved in the preparation of this report. Mr Plant has in excess of 20 years' experience in the commerce and the accountancy profession and has been involved in specialist corporate advisory services including company valuations, business sales, due diligence investigations, independent experts' reports as well as other corporate investigations for more than 10 years. Mr Plant has the appropriate experience and professional qualifications to provide the advice offered.

Revaluate has provided valuation assistance and review in preparing this report. Revaluate provides corporate services in relation to the resources industry. One of its activities is the preparation of company and business valuations. The principal person responsible for providing this assistance on behalf of Revaluate is Dr Victor Rudenno B.E. (Mining), M.Com., PhD, SFFinsia, FAusIMM (CP) who has over 30 years of experience in relevant corporate matters.

### 9.2 Declarations

It is not intended that this Report should be used or relied upon for any purpose other than as an expression of IFL's opinion as to whether the Transaction is fair and reasonable. IFL expressly disclaims any liability to any Shareholder who relies or purports to rely on this Report for any other purpose and to any other party who relies or purports to rely on this Report for any purpose.

This Report has been prepared by IFL with care and diligence and the statements and opinions given by IFL in this Report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by IFL or any of its directors, officers or employees for errors or omissions however arising in the preparation of this Report, provided that this shall not absolve IFL from liability arising from an opinion expressed recklessly or in bad faith (unless the law otherwise requires).

IFL has had no involvement in the preparation of the Notice of Meeting and has not verified or approved any of the contents of the Notice of Meeting. IFL does not accept any responsibility for the contents of the Notice of Meeting or any other documents provided to the Shareholders (except for this Report).

### 9.3 Independence

IFL is entitled to receive a fee of \$35,000 (exclusive of GST) for the preparation of this Report. IFL is also entitled to be reimbursed for any out-of-pocket expenses incurred in the preparation of this Report. Except for this fee and the reimbursement of these expenses, IFL has not received and will not receive any pecuniary or other benefit, whether direct or indirect, in connection with the preparation of this Report.

Neither the signatory to this Report nor IFL holds securities in Austral. No such securities have been held at any time over the last two years.

Based on the information to hand, and enquiries made we are not aware of any conflict of interest for InterFinancial or InterFinancial's professional staff who will be involved in the preparation of the IER, which would impact on our ability to provide an independent opinion to Shareholders.

We may wish to rely upon material provided on value by Austral and their other advisors and independent experts. This would include Dr Victor Rudenno of Revaluate Pty Ltd who has previously advised Austral and has advised that he has and will maintain independence in providing us with information to assist in the preparation of the Report.

Prior to accepting this Engagement, IFL considered its independence with respect to Austral and any of its respective associates with reference to ASIC Regulatory Guide 112 entitled "Independence of Experts". In IFL's opinion, it is independent of Austral and its associates.

A draft of this Report was provided to Austral and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this Report as a result of this review and there was no alteration to the methodology, evaluation or opinions set out in this Report as a result of issuing the draft.

## 9.4 Indemnity

Under the terms of our Engagement, Austral has agreed that no claim shall be made by Austral or any of its subsidiaries against IFL, any of their directors, officers, partners, employees or agents ("Indemnified Persons") to recover any loss or damage which Austral or any of its subsidiaries may suffer by reason of or arising out of anything done or omitted in relation to the provision of the services by IFL, provided that such loss or damage does not arise from the negligence or wilful default of any of the Indemnified Persons. Austral has unconditionally indemnified IFL and its related bodies corporate and their respective officers, employees and agents against any losses, claims, damages, liabilities, costs, expenses and outgoings whatsoever ("Losses") which they may suffer or incur directly or indirectly arising out of:

- IFL relying on information provided by Austral or any of its employees, agents or advisers; or
- Austral failing to provide IFL with material information in relation to the Transaction or Austral.

Further, Austral must pay and must indemnify IFL against any losses in relation to any investigations, enquiries or legal proceedings by ASIC or any other competent regulatory body arising out of, or in connection with, the Transaction, including reasonable legal expenses and disbursements incurred by IFL and fees payable to IFL attributable to time reasonably spent by its staff assessed at its hourly rates to the extent that investigation, enquiry or legal proceeding is not caused by an act or omission of the Indemnified Persons.

## 9.5 Consents

IFL consents to the issuing of this Report in the form and context in which it is to be included in the Notice of Meeting to be sent to the Shareholders. Neither the whole nor any part of this Report nor any reference thereto may be included in, or attached to, any other document without the prior written consent of IFL as to the form and context in which it appears.

IFL takes no responsibility for the content of the Notice of Meeting or any other documents provided to the Shareholders, other than this Report.

## 9.6 Other

The opinion of IFL is made at the date of this Report and reflects circumstances and conditions as at that date. In particular, IFL provides no representations or warranties in relation to the future value of shares of Austral.

Shareholders who are in any doubt as to the action they should take should consult their own independent professional advisers.

IFL has prepared a Financial Services Guide as required by the Act. The Financial Services Guide is set out at the beginning of this Report.



## Appendix A – Basis of Information

IFL has relied on the following information in the preparation of this Report:

- Austral's audited accounts for FY12, FY13, and FY14;
- Austral's media and ASX releases;
- Valuation report prepared by Dr Victor Rudenno at 30 June 2014;
- AMEC International Chile S.A. Technical Report on the Guanaco Gold Project, Effective Date 21 April 2014;
- IFL has also held discussions with, and obtained information from, senior management and legal advisers of Austral;
- Publicly available information;
- Data from Standard & Poors' CapitalIQ database
- Research reports from various sources including IBIS World, World Gold Council and stock brokers; and
- Other confidential correspondence, project presentations, and working papers.



## Appendix B – Valuation Methods

In conducting our assessment of the fair market value of the Company, the following commonly used valuation methods have been considered:

### Discounted Cash Flow Method

The discounted cash flow method is based on the premise that the value of a business or any asset is represented by the present value of its future cash flows. It requires two essential elements:

- the forecast of future cash flows of the business asset for a number of years (usually five to 10 years); and
- the discount rate that reflects the riskiness of those cash flows used to discount the forecast cash flows back to net present value (“NPV”).

DCF is appropriate where:

- the businesses' earnings are capable of being forecast for a reasonable period (preferably five to 10 years) with reasonable accuracy;
- earnings or cash flows are expected to fluctuate significantly from year to year;
- the business or asset has a finite life;
- the business is in a 'start up' or in early stages of development;
- the business has irregular capital expenditure requirements;
- the business involves infrastructure projects with major capital expenditure requirements; or
- the business is currently making losses but is expected to recover.

### Capitalisation of Future Maintainable Earnings Method

This method involves the capitalisation of estimated future maintainable earnings by an appropriate multiple. Maintainable earnings are the assessed sustainable profits that can be derived by the vendor's business and excludes any one off profits or losses. An appropriate earnings multiple is assessed by reference to market evidence as to the earnings multiples of comparable companies or transactions.

This method is suitable for the valuation of businesses with indefinite trading lives and where earnings are relatively stable or a reliable trend in earnings is evident.

### Net Realisable Value of Assets

Asset based valuations involve the determination of the fair market value of a business based on the net realisable value of the assets used in the business.

Valuation of net realisable assets involves:

- separating the business or entity into components which can be readily sold, such as individual business units or collection of individual items of plant and equipment and other net assets; and
- ascribing a value to each based on the net amount that could be obtained for this asset if sold.

The net realisable value of the assets can be determined on the basis of:

- *orderly realisation*: this method estimates fair market value by determining the net assets of the underlying business including an allowance for the reasonable costs of carrying out the sale of assets, taxation charges and the time value of money assuming the business is wound up in an orderly manner. This is not a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value;
- *liquidation*: this is a valuation on the basis of a forced sale where the assets might be sold at values materially different from their fair market value; or
- *going concern*: the net assets on a going concern basis estimates the market value of the net assets but does not take into account any realisation costs. This method is often considered appropriate for the valuation of an investment or property holding company. Adjustments may need to be made to the book value of assets and liabilities to reflect their going concern value.

The net realisable value of a trading company's assets will generally provide the lowest possible value for the business. The difference between the value of the company's identifiable net assets (including identifiable intangibles) and the value obtained by capitalising earnings is attributable to goodwill.

The net realisable value of assets is relevant where a company is making sustained losses or profits but at a level less than the required rate of return, where it is close to liquidation, where it is a holding company, or where all its assets are liquid. It is also relevant to businesses which are being segmented and divested and to value assets that are surplus to the core operating business. The net realisable assets methodology is also used as a check for the value derived using other methods.

These approaches ignore the possibility that the company's value could exceed the realisable value of its assets.

## **Share Market Trading History**

The application of the price that a company's shares trade on the ASX is an appropriate basis for valuation where:

- the shares trade in an efficient market place where 'willing' buyers and sellers readily trade the company's shares; and
- the market for the company's shares is active and liquid.

## **Constant Growth Dividend Discount Model**

The dividend discount model works best for:

- firms with stable growth rates;
- firms which pay out dividends that are high and approximate free cash flow to equity;
- firms with stable leverage; and
- firms where there are significant or unusual limitations to the rights of shareholders.

## **Special Value**

Special value is the amount which a potential acquirer may be prepared to pay for a business in excess of the fair market value. This premium represents the value to the potential acquirer of potential economies of scale, reduction in competition or other synergies arising from the acquisition of the asset not available to likely purchases generally. Special value is not normally considered in the assessment of fair market value as it relates to the individual circumstances of special purchases.



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## Proxy Form



### Vote and view the annual report online

- Go to [www.investorvote.com.au](http://www.investorvote.com.au) or scan the QR Code with your mobile device.
- Follow the instructions on the secure website to vote.

### Your access information that you will need to vote:

**Control Number:**

**SRN/HIN:**

PLEASE NOTE: For security reasons it is important that you keep your SRN/HIN confidential.



 **For your vote to be effective it must be received by 10.00 am (AEDT) Sunday, 14 December 2014**

## How to Vote on Items of Business

All your securities will be voted in accordance with your directions.

### Appointment of Proxy

**Voting 100% of your holding:** Direct your proxy how to vote by marking one of the boxes opposite each item of business. If you do not mark a box your proxy may vote or abstain as they choose (to the extent permitted by law). If you mark more than one box on an item your vote will be invalid on that item.

**Voting a portion of your holding:** Indicate a portion of your voting rights by inserting the percentage or number of securities you wish to vote in the For, Against or Abstain box or boxes. The sum of the votes cast must not exceed your voting entitlement or 100%.

**Appointing a second proxy:** If you are entitled to cast two or more votes at the meeting you may appoint up to two proxies to attend the meeting and vote on a poll. If you appoint two proxies you must specify the percentage of votes or number of securities for each proxy, otherwise each proxy may exercise half of the votes. When appointing a second proxy write both names and the percentage of votes or number of securities for each in Step 1 overleaf. Fractions of votes will be disregarded.

**A proxy need not be a securityholder of the Company.**

## Signing Instructions for Postal Forms

**Individual:** Where the holding is in one name, the securityholder must sign.

**Joint Holding:** Where the holding is in more than one name, all of the securityholders should sign.

**Power of Attorney:** If you have not already lodged the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.

**Companies:** Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act 2001) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please sign in the appropriate place to indicate the office held. Delete titles as applicable.

## Attending the Meeting

Bring this form to assist registration. If a representative of a corporate securityholder or proxy is to attend the meeting they will need to provide the appropriate "Certificate of Appointment of Corporate Representative" prior to admission. A form of the certificate may be obtained from Computershare or online at [www.investorcentre.com](http://www.investorcentre.com) under the help tab, "Printable Forms".

**Comments & Questions:** If you have any comments or questions for the company, please write them on a separate sheet of paper and return with this form.

**GO ONLINE TO VOTE,  
or turn over to complete the form →**

☐

**Change of address.** If incorrect, mark this box and make the correction in the space to the left. Securityholders sponsored by a broker (reference number commences with 'X') should advise your broker of any changes.

## Proxy Form

Please mark ☒ to indicate your directions

### STEP 1 Appoint a Proxy to Vote on Your Behalf

I/We being a member/s of Austral Gold Limited hereby appoint

☐

the Chairman  
of the Meeting **OR**



**PLEASE NOTE:** Leave this box blank if you have selected the Chairman of the Meeting. Do not insert your own name(s).

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy to act generally at the Meeting on my/our behalf and to vote in accordance with the following directions (or if no directions have been given, and to the extent permitted by law, as the proxy sees fit) at the Annual General Meeting of Austral Gold Limited to be held at the offices of BDO located at Level 11, 1 Margaret Street, Sydney, New South Wales on Tuesday, 16 December 2014 at 10.00 am (AEDT) and at any adjournment or postponement of that Meeting.

**Chairman authorised to exercise undirected proxies on remuneration related resolutions:** Where I/we have appointed the Chairman of the Meeting as my/our proxy (or the Chairman becomes my/our proxy by default), I/we expressly authorise the Chairman to exercise my/our proxy on, and in connection with, Item 2 even though Item 2 is connected directly or indirectly with the remuneration of a member of key management personnel for the Austral Gold group. (Note: If you do not want the Chairman of the Meeting to vote as your proxy in favour of Item 2, you need to direct your proxy to vote against or to abstain from voting on the Item by marking the appropriate boxes below.)

**Important Note:** If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting on Item 2 by marking the appropriate box in step 2 below.

### STEP 2 Items of Business



**PLEASE NOTE:** If you mark the **Abstain** box for an item, you are directing your proxy not to vote on your behalf on a show of hands or a poll and your votes will not be counted in computing the required majority.

		For	Against	Abstain
2	To adopt the Remuneration Report for the year ended 30 June 2014	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	That Mr Saul Zang be re-elected as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	That Mr Ben Jarvis be re-elected as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	That Mr Wayne Hubert be re-elected as a Director	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Approval of 10% capacity to issue Equity Securities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Approval of Debt Conversion	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

On a poll, the Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

### SIGN

#### Signature of Securityholder(s) *This section must be completed.*

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director/Company Secretary

Contact  
Name

\_\_\_\_\_

Contact  
Daytime  
Telephone

\_\_\_\_\_

Date \_\_\_\_/\_\_\_\_/\_\_\_\_