

# March 2011 Quarterly Activity Report

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30 April 2012

The Board of Austral Gold Limited (ASX: AGD) is pleased to report the following update to shareholders for the quarter ended 31 March 2012.

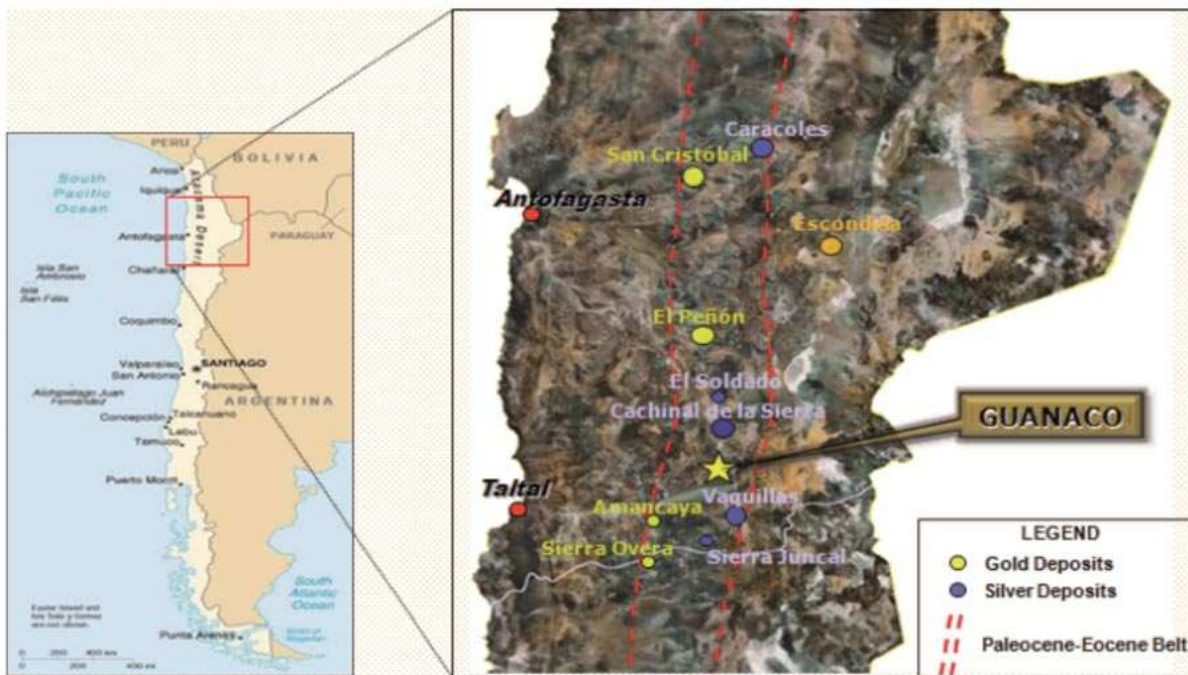
## Key Highlights

- Guanaco Gold Mine produced 5,646 of gold and gold equivalent ounces (of which 93% was gold and the rest was silver) in the first quarter of 2012.
- Guanaco expands exploration program to identify high-grade mineralised zones leading to 6,000m RC program being defined for the next quarter.
- Development of an exploration model for the deep copper porphyry system at Guanaco commenced with the engagement of a senior consulting geologist with extensive copper porphyry experience.
- Supporting this study of the copper porphyry system, Geophysical Resources Service (GRS) was also engaged to develop a geophysics program using the highly sophisticated 3D MIMDAS geophysical survey method.
- Cash generated from the sale of gold and silver has generated positive operating cash flows for the first time and enabled the Company to cease drawing funds from their facilities with major shareholder IFISA; end of quarter cash position was AUD \$ 3.9 million.
- Austral Gold continues its exploration program in Santa Cruz, Argentina, with a geophysics campaign to be conducted during Q2.

# CHILE - Guanaco

## Background

The Guanaco mine is the company's primary asset located approximately 220km SE of Antofagasta in Northern Chile. It is at an elevation of some 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.



The Guanaco operation includes the mining of ore from two open pits (Defensa and Perseverancia) at an average grade of 1.6 g/t gold. The majority of the ore processed came from the Cachinalito underground and nearby vein systems with 419,000oz in gold JORC Measured and Indicated resources averaging 3.2 g/t. Gold mineralisation at Guanaco is controlled by pervasively silicified, E/NE trending sub-vertical zones with related hydrothermal breccias. Silicification grades outward into advanced argillic alteration and further into zones with propylitic alteration. In the Cachinalito vein system most of the gold mineralisation is concentrated between the 75m and 200m levels and is contained in long shoots. High grade ore shoots (up to 180 g/t Au), 0.5 to 3.0m wide, have been mined out, but the lower grade halos, below 3 g/t, can reach up to 20m in width. The alteration pattern and the mineralogical makeup of the Guanaco ores have led to its classification as a high sulfidation epithermal deposit.

Guanaco recommenced operations in August 2010 and poured its first dore bars in October 2010. In 2012 the company is forecasting total production of approximately 36,000oz of gold and approximately 100,000oz of silver from the operations.

## Production

Production from heap leach processes, using existing leach pads and new ore mined from two open pit mines, plus the underground operation generated 5,252oz of gold and 19,894oz of silver in the quarter. The cash operating cost was approximately US\$ 1,100 /oz. Our forecast cash operating cost for the 2012 calendar year is US\$ 650 /oz.

The Guanaco operations performed below operating capacity in the quarter due to labour supply issues being experienced by the mining contractors; lower grade ore from the open pit, along with ongoing supply issues for cyanide being experienced across the mining sector in Chile.

Despite the production result for the quarter coming in below forecast, an exhaustive review of the mine plan shows there is a high level of confidence in achieving budgeted production in the June quarter. Furthermore, it is expected that the recovery of the shortfall in ounces for the quarter being reported will be made up in the September quarter due to additional production from the Perseverancia open pit plus ore from the underground mine area.

**In summary, despite the shortfall in ounces this quarter, we are confident of meeting our 35-36,000oz production guidance range for the 2012 calendar year.**

### Gold and Silver Production:

Production	2010 Calendar Year	2011 Calendar Year	March 2012 Qtr	2012 Forecast
Gold (Au Oz)	332	12,373	5,252	35,000
Silver (Ag Oz)	431	37,511	19,894	99,000

### Guanaco Operational Performance:

	Mar 2012 Qtr	2012 Year to Date
Total Ore Mined (t)	241,493	241,493
Open Pits (t)	194,660	194,660
Grade (Au g/t)	1.2	1.2
Underground (t)	20,310	20,310
Grade (Au /t)	8.4	8.4
Old Heaps (t)	26,523	26,523
Grade (Au g/t)	0.8	0.8
Weighted Average Recovery (%)	58	58
Gold Produced (oz)	5,252	5,252
Silver Produced (oz)	19,894	19,894
Cash operating cost (US\$/oz)	1,100	1,100

## Mining

Mining for the quarter continued from both the open pit and underground mining operations. A total of 334,265t from two open pits (Perseverancia & Defensa) were loaded and hauled, with 194,660t corresponding to ore at a grade of 1.17 g/t Au and 9.60 g/t Ag and 139,605t to waste.

Underground mine development of 518m, which is 333m under the budget, was completed during the quarter with 20,310t of ore produced at a grade of 8.40 g/t Au and 5.77 g/t Ag.

The underground mine program was affected by some mechanical problems with the mine equipment and by lack of labour in the UG contractor company. Recruitment to fulfill these shortages is now substantially complete with performance improving.

## Heap Leach Process

Heap leaching is performing better compared to the previous year. Particle size was consistently achieved, with an average  $p_{80} = 9\text{mm}$  for the quarter. Irrigation flow rate has been improved up to  $300\text{ m}^3/\text{hr}$ , however this is consistently below  $350\text{ m}^3/\text{hr}$  which is the design parameter. A huge improvement has been achieved in the control of fine carbon through an installation of a set of new filters. Because of the shortage of cyanide supply, minimal ore from heap number 2 has been processed through the plant during the quarter.

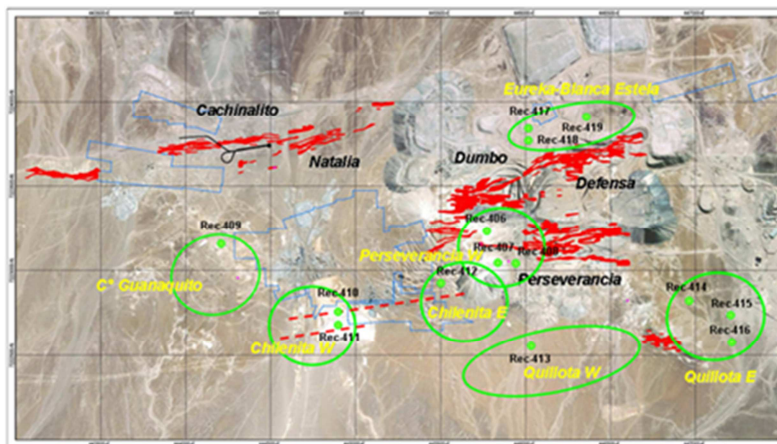
Ore placed on the heap leach pad in the quarter was 240,835t with average grades of 1.74 g/t Au and 8.49 g/t Ag. The quarterly budget planned for 372,000t with average grades of 1.40 g/t Au and 5.20 g/t Ag.

## Safety

There was one lost time incident (LTI) and five no-lost time accidents (NLTA) reported during the quarter that affected Guanaco employees. These incidents have been thoroughly investigated and in all cases corrective actions have been identified and implemented to prevent recurrence. Safety is a core value of the Company and the implementation of strategies to identify and manage risks in our workplaces being our highest priority.

## Exploration Program

With production now well underway, the geological team has been busy undertaking a review of the results from the 2010 drilling campaign to define an approach for the identification of extensions and new resources at Guanaco. In undertaking the review, the geological team has reviewed data from the 50-60,000 metres of drilling completed in 2010.



The 2012 Guanaco exploration program for precious metals consists of a minimum of 12,000 metres of RC drilling. The epithermal program has three main objectives:

### 1 Exploration of new epithermal deposits with ~200k oz resource potential.

This objective corresponds to the activities developed inside of the 11,700 ha of mine property of the company at the Guanaco District. The program is focused mostly in the covered areas both east and west of the Guanaco deposit, that have never seriously been explored in the past where several lineaments following the projection of the major corridors are presents. Currently, Guanaco geologists are working on a reconnaissance program in these areas and an IP Geophysics profile is in progress to support the target generation program.

### 2 Near mine extensions to existing epithermal ore bodies.

Either lateral extensions or parallel zones providing 20-30k oz potential. This program also includes the revision of intersections with gold grades greater than 5 g/t Au identified through previous drilling campaigns such as Veta Nueva (6m/21 g/t Au), San Lorenzo, and Cerro Guanaquito veins (4.8m/10 g/t Au).

### 3 Upgrade of inferred resources.

This program is targeting to upgrade approximately 600,000oz of gold that are currently in the inferred category into the measured and indicated categories.

## Reserves & Resources

Management met with representatives of AMEC this quarter to kick-off a review and update of Guanaco's JORC and NI 43-101 statements. It is expected the work will be completed early in Q3 2012.

In addition, a new exploration program defined for commencement in May will validate and quantify additional resources in the Natalia, Quillota and Dumbo sectors with the objective of identifying reserves for subsequent mining and processing.

Guanaco's current resource inventory is outlined in the table below. The resource inventory was last updated by AMEC in July 2011 and is compliant with NI 43-101 and JORC Standards.

### Total Resources

Resources	Measured (Me)			Indicated (Ind)			Total (Me + Ind)			Inferred (Inf)		
Gold (Au)	Ton (kt)	Grade (g/t)	Ounces Au	Ton (kt)	Grade (g/t)	Ounces Au	Ton (kt)	Grade (g/t)	Ounces Au	Ton (kt)	Grade (g/t)	Ounces Au
<b>Underground (&gt;1.0 g/t Au)</b>	1,264	3.7	150,506	2,862	2.91	268,018	4,126	3.15	418,524	2,553	2.42	198,824
<b>Open Pit (&gt;0.4 g/t Au)</b>	657	1.7	35,794	766	1.45	35,692	1,423	1.57	71,486	15	1.63	810
<b>Heap Leach (&gt;0.4 g/t Au)</b>	8,334	0.54	145,748				8,334	0.54	145,748	2,777	0.55	49,261
<b>Total</b>	10,255	1.01	332,048	3,628	2.60	303,710	13,883	1.43	635,758	5,345	1.44	248,895

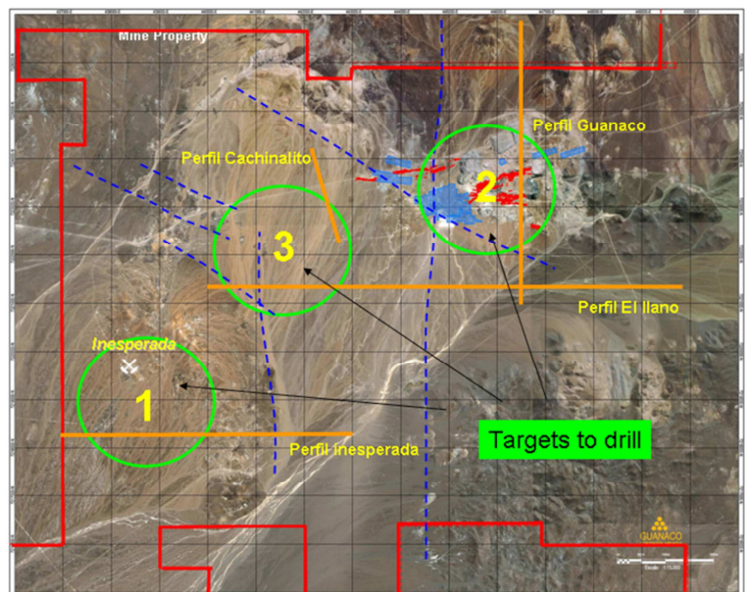
  

Silver(Ag)	Ton (kt)	Grade (g/t)	Ounces Au	Ton (kt)	Grade (g/t)	Ounces Au	Ton (kt)	Grade (g/t)	Ounces Au	Ton (kt)	Grade (g/t)	Ounces Au
<b>Underground</b>	1,264	7.88	320,078	2,862	10.65	979,507	4,126	9.80	1,299,585	2,553	11.34	930,362
<b>Open Pit</b>	657	15.05	317,851	766	12.18	299,879	1,423	13.51	617,730	15	10.27	5,097
<b>Heap Leach</b>	8,334	2.66	712,175				8,334	2.66	712,715	2,777	2.63	234,946
<b>Total</b>	10,255	4.09	1,350,104	3,628	10.97	1,279,386	13,883	5.89	2,629,490	5,345	6.81	1,170,405

## Copper Porphyry System

Work continues to develop the exploration model of the deep copper porphyry system potential at Guanaco. Preliminary recommendations were received during the quarter from a respected geologist following a field visit and review of available geological information. The results were encouraging and confirm the high potential in the area for exploration of this type of mineralisation.

On the back of these encouraging recommendations, an experienced geologist was engaged to identify areas that present the best opportunities for the exploration of a copper porphyry. This report is expected to be received in April 2012.



During the next quarter we expect to complete a sophisticated 3D MIMDAS geophysical survey also to assist with the identification and targeting of a deep drilling program at Guanaco exploring for a porphyry system.

# ARGENTINA

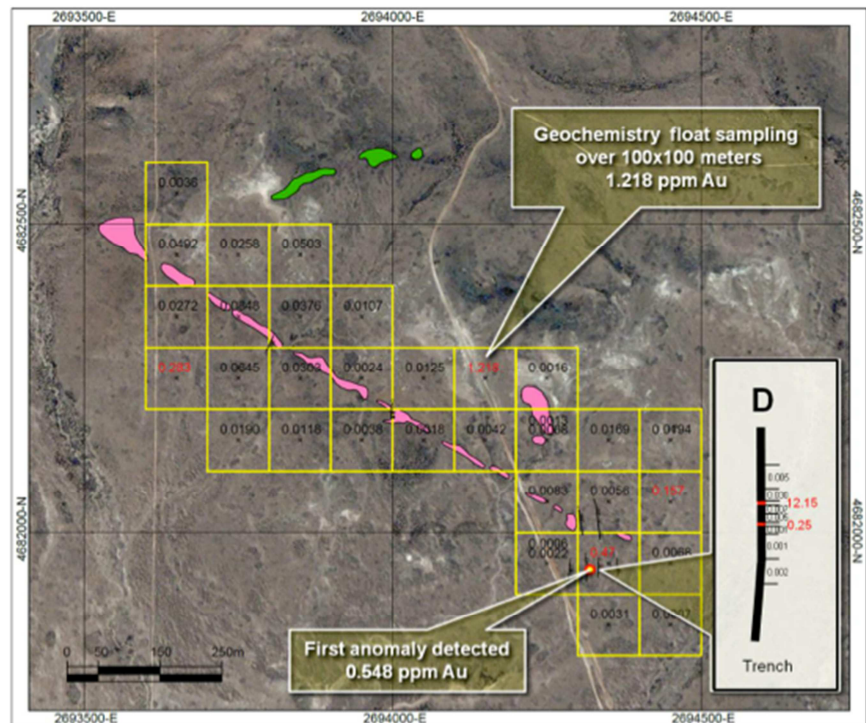
## Estancia 8 de Julio, Santa Cruz

During the period, important results were received from the trench program developed in the Campo Barroso Grande of the Estancia 8 de Julio. A comprehensive strategy is being designed in order to more aggressively advance with the exploration of this prospect.

A geophysics consulting company will perform a resistivity study and the geochemical sampling program in the area will be expanded.

The following figure reflects the level of progress with the latest results and the next activities considered for the projects.

- Expansion of the 100x100m geochemical mesh for silica and quartz vein float, to the entire Barroso Grande field.
- Development of a new geophysical program corresponding to a resistivity gradient in the Barroso Grande field where important gold values were obtained.
- Start with the systematic sampling of the other sectors/targets identified in the geological mapping.
- Planned drilling of holes that will test the vertical extension of the mineralized column.



## AMINSA, San Juan

During the quarter a four-hole program was completed totalling 898 metres designed to recognise a surface gold anomaly in the Rincones de Araya East Sector. Logging of the four holes recognised polymictic brecciated rocks with silica alteration and in some cases argillic alteration. The first few meters of the holes showed a strong oxidation with leaching textures where the gaps were filled with limonite and some vuggy silica. According to the observations of the completed holes and obtained grades, it can be concluded that the strongest surface geochemical gold anomalies, emplaced in a favorable lithology and alteration complemented by favorable geophysics, were entirely drilled.

## CORPORATE

Cash generated from the sale of gold and silver has generated positive operating cash flows for the first time in Austral Gold's history and enabled the Company to cease drawing funds from the funding facilities with major shareholder IFISA.

The company continues to review growth initiatives with the continual review and early stage discussions on regional acquisition opportunities in both Chile and Argentina.

By order of the Board

Catherine Lloyd  
CFO & Company Secretary

### Competent Person's Statement

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

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