

# December 2015

## QUARTERLY ACTIVITY REPORT

### Key Highlights

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#### Production

- Quarterly production reached 9,244 Au oz and 11,157 Ag oz leading to a total annual production of 46,872 AuEq oz for calendar year 2015.
- For a third consecutive year, the Guanaco Mine delivered total gold production in the 45,000-51,000 Au oz range. For the 12-month period ended December 2015, total gold production reached 46,250 Au oz.
- Strong profitability ratios with an average cash cost of US\$626/AuEq oz and an average realised selling price of US\$1,168/Au oz during calendar year 2015.

#### Exploration

- The company continued with its on-going exploration program at Guanaco with an underground drilling campaign of 1,300 metres during the quarter to continue supporting annual production in the 45,000 to 50,000 Au oz range.

#### Mergers & Acquisitions

- The definitive Arrangement Agreement with Argentex is expected to be executed shortly.
- The Company continued exploring opportunities relating to its consolidation strategy in Chile and in Argentina.

#### Cash Generation

- Quarterly cash flow from operations was US\$2.9 million.
- Cash and cash equivalents reached US\$10 million at year end.

# CHILE

## Guanaco Mine

### Background

The wholly-owned Guanaco mine remains the Company's flagship asset. Guanaco is located approximately 220km south-east of Antofagasta in Northern Chile at an elevation of 2,700m and 45km from the Pan American Highway. Guanaco is embedded in the Paleocene/Eocene belt, a geological structural system which runs north/south through the centre of Chile, and hosts several large gold and copper mining operations including: Zaldivar, El Peñon and Escondida.

Currently, the majority of the ore processed from the Guanaco operation comes from the Cachinalito underground system and nearby vein systems with higher average grades.

Gold mineralisation at Guanaco is controlled by pervasively silicified, sub-vertical E/NE trending 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 depths of 75m and 200m and is contained in elongated ore shoots. High grade ore shoots (up to 180 g/t Au), 0.5m to 3.0m wide, have been exploited, but the lower grade halos, below 3 g/t Au, can reach up to 20m in width. The alteration pattern and the mineralogical composition of the Guanaco ores have led to the classification as a high-sulfidation epithermal deposit.

### Production

Production from underground operations using the heap leach process generated 9,244 Au oz and 11,157 Ag oz during the quarter ended 31 December 2015. When measured in gold equivalent ounces<sup>1</sup> (AuEq oz) total production was 9,411 AuEq oz compared to 13,553 AuEq oz in the prior quarter.

The lower production for the quarter meant that actual production for the calendar year 2015 fell just short of the budgeted 50,000 Au oz. This was due to the low feed of gold ounces to the heap leach pads from the mine in the latter part of 2015. The main reasons for the lower production were due to several factors: (i) delays in the benching sequence caused by delays in the scheduled preparations for changes in geometry between the long-term and short-term models (ii) geotechnical conditions and (iii) operational disruptions such as lack of ventilation, increased fortification, delays in the arrival of equipment, amongst others.

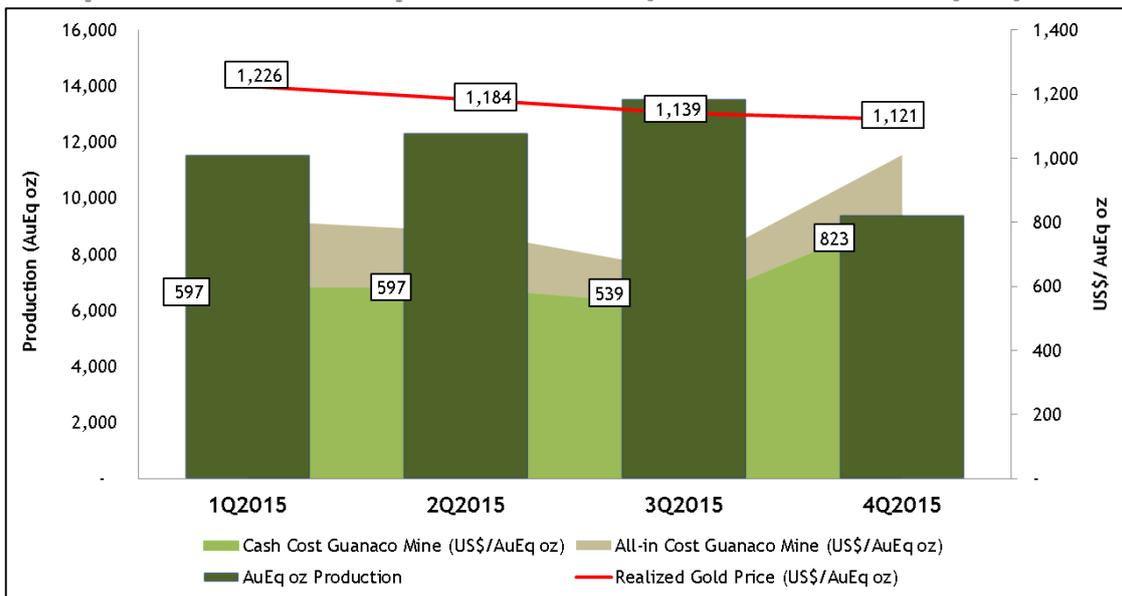
### Gold and Silver Production

Production	2013 Actual Calendar Year	2014 Actual Calendar Year	2015 Actual Calendar Year	2016 Budget Range Calendar Year
Gold (Au oz)	50,226	50,375	46,250	45,000 – 50,000
Silver (Ag oz)	74,031	46,458	41,080	40,000 – 45,000

<sup>1</sup> AuEq ratio is calculated at 67:1 Ag:Au

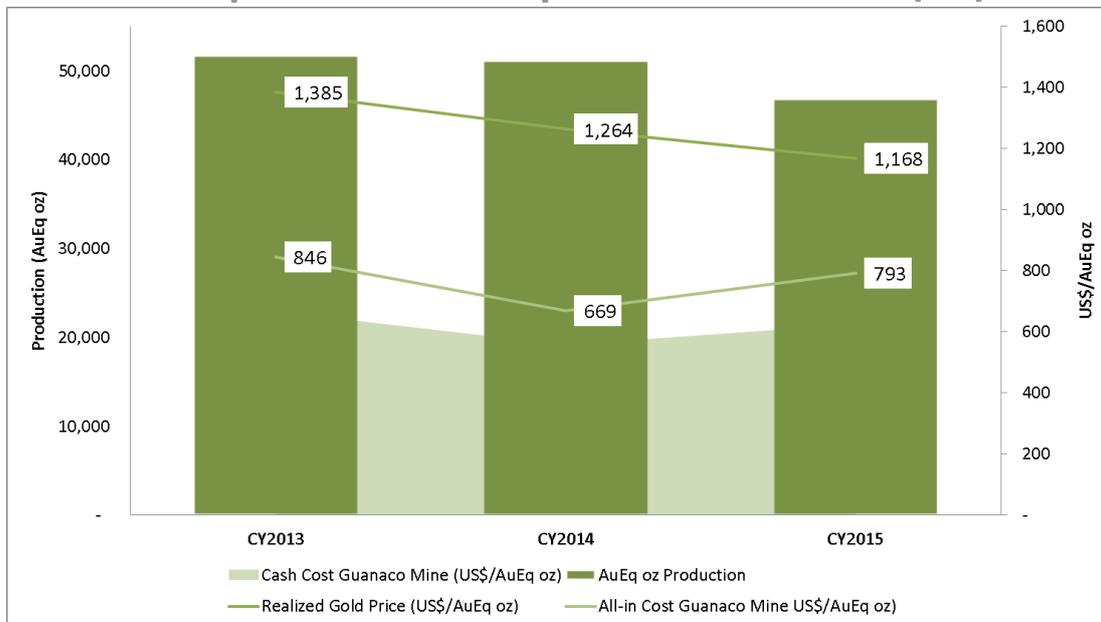
At the same time, the December 2015 quarter operating cash cost<sup>2</sup> (C1) increased to US\$823/AuEq oz while the all-in sustaining cost<sup>3</sup> (AISC) was US\$1,010/AuEq oz (US\$539/AuEq oz and US\$649/AuEq oz respectively for the quarter ended 30 September 2015).

### AuEq oz Production per Quarter (Calendar Year (CY) 2015)



For full calendar year 2015, average C1 remained as expected at US\$626/AuEq oz while total AISC was US\$793/AuEq oz (US\$558/AuEq oz and US\$669/AuEq oz respectively for the 12-month period ended 31 December 2014). The Austral Gold operational cashflow for the quarter remained steady, despite lower production, as a result of the devaluation of the Chilean peso and due to the drop in prices of key consumables of the operation such as cyanide and oil.

### AuEq oz Production per Calendar Year (CY)



<sup>2</sup> The operating cash cost (C1) for the Guanaco Mine includes: Mine, Plant, On-Site G&A, Smelting, Refining, and 3% ENAMI Royalty.

<sup>3</sup> The all-in sustaining cost (AISC) for the Guanaco Mine includes: C1, Sustaining Capex, Exploration, and Mine Closure Amortisation.

## Production Summary

Key Indicators	December Quarter 2015	Calendar Year 2015
Total Ore processed (t)	130,488	441,733
Average Plant grade (g/t Au)	2.90	3.83
Average Plant grade (g/t Ag)	8.30	6.42
Gold produced (oz)	9,244	46,254
Silver produced (oz)	11,157	41,233
C1 Cash Cost (US\$/oz)	823	626
All-in sustaining cost (US\$/oz)	1,010	793
Realised gold price (US\$/oz)	1,121	1,168

### Mining

During the December 2015 quarter, mining continued at the Cachinalito underground operations with a total of 114,129 tonnes mined. The crushed and leached ore totalled 130,488 tonnes for the quarter at an average grade of 2.90 g/t Au and 8.30 g/t Ag.

Total underground mine development was 2,536 metres for the December 2015 quarter leading to a total of 8,809 metres for the calendar year ended December 2015.

As a result of decreasing grades, more tonnes would be needed from the underground mine to reach the expected production targets for next calendar year. This trend can be reversed as the Amancaya Project advances and when the new plant is constructed and used to process the ore from both the Guanaco and Amancaya deposits.

The new budget for 2016 considers underground mining exclusively from the Guanaco deposit and continuing with heap leaching. Budgeted production for the 2016 calendar year is expected to be in the 45,000-50,000 Au oz range but with slightly higher average cash costs(C1) of approximately US\$650/AuEq oz as a result of the lower grades of the deposit as mentioned above.

### Safety

During this quarter, no lost-time accidents (LTA) occurred, and one nil-lost-time accident (NLTA) was reported involving employees of Guanaco and third party contractors. Safety and environmental protection are core values of the Company. The implementation of best practice safety standards along with a sound risk management program are key priorities for Austral Gold.

### Exploration Program

The Geology team continued to advance with the exploration program within the current development area of the Guanaco deposit. During this period, underground works were mainly performed at the Aurora vein and Dumbo sector.

The exploration program during the quarter comprised the following main activities: (i) completion of 1,300 metres underground drilling campaign, (ii) design of the next quarter drilling program (up to 1,000 metres of diamond drilling); (iii) execution of geophysics studies including detailed ground magnetics survey; and (iv) evaluation of potential geological resources located in the south of the Cachinalito structure, amongst others.

## Other Projects

During the December 2015 quarter, components of the new leaching plant were received on site at the Guanaco mine, corresponding to the entire ball mill, flocculant plant and filters; and 50% of the components of the thickeners and agitators. Engineering and preliminary construction works are progressing.

## Guanaco and Amancaya (Chile) Tenements Status

A complete list of the mining tenements in which the Company has an interest is presented in Appendix A attached to this report. Approximately 318 hectares of the Amancaya properties were transferred from being mining claims in process to constituted mining claims during the period. Additionally, 1,000 hectares of mining claims were requested for Loreto I to IV. All mining properties are fully owned by the Company through its subsidiaries.

# ARGENTINA

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## 8 de Julio

The Company has kept the required permits and registrations up-to-date for these mining properties during the period, with payments to the relevant authorities.

### 8 de Julio Area Tenements Status

A complete list of the mining tenements in which the Company has an interest is in Appendix B attached to this report. There have been no changes to the Company's interests in these mining tenements during the quarter. All mining properties are fully owned by the Company through its subsidiaries.

## CORPORATE SUMMARY & FINANCIAL PERFORMANCE

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Austral Gold's total cash position was US\$10 million as of 31 December 2015.

Cash proceeds for gold and silver sales for the quarter was US\$13.8 million (average realised gold price was US\$1,121/Au oz). Recuperation of VAT contributed US\$1.1 million in cash proceeds.

Austral Gold continues to make payments relating to consideration for past acquisitions. During the period US\$239k was paid in relation to the 51% acquisition of the underground mining contractor Humberto Reyes. As at 29 January 2016, US\$579k remains outstanding with the last of the monthly payments due on 10 January 2017.

Payments totalling US\$23k were made to Argentex Mining Corporation ('Argentex') during the quarter to fund their working capital under the C\$400k funding agreement signed by both Austral Gold and Argentex. Both parties are finalising the terms of their Arrangement agreement and in the process of obtaining the relevant regulatory, court, stock exchange and shareholder approvals.

Repayments amounting to US\$250k were made on the loan with Inversiones Financieras der Sur SA, a related party, during the quarter. The loan repayment term has been extended with an amendment to the original loan agreement. The remaining balance of US\$2.6m is now due to be repaid on or before 30 June 2016 with all other terms and conditions of the loan remaining the same.

By order of the Board.

Andrew Bursill  
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 20 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.

The numbers presented in this report are unaudited figures and may be subject to minor variation.

**Appendices: List of Tenements in which the Company currently has an interest****Appendix A: Guanaco Mine and Amancaya Project (Chile) Tenements**

Property Name	Claim Type	Size (hectares)
Mining Concessions under exploration	Constituted Mining Claims	27,914
G-17, 1/20 to G-40, 1/20.	Mining claims in process	6,300
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
Fortuna XV, 1 to 5	Mining claims in process	50
Loreto I, Loreto II, Loreto III and Loreto IV	Mining claims in process	1,000
<b>Total</b>		<b>43,964</b>

## Appendix B: 8 de Julio Site (Argentina) Tenements

Property Name	Claim Type	Size (hectares)
8 de Julio IX	Cateo	7,002
8 de Julio X	Cateo	3,497
Juanguí II	Manifestation of discovery	4,200
Juanguí VII-B	Manifestation of discovery	4,000
Juanguí VI-D	Manifestation of discovery	4,000
Juanguí I	Manifestation of discovery	3,970
Juanguí IV	Manifestation of discovery	3,226
Juanguí I-B	Manifestation of discovery	3,936
Juanguí II-D	Manifestation of discovery	3,740
Juanguí VIII-A	Manifestation of discovery	840
Juanguí VI-C	Manifestation of discovery	3,148
Juanguí III	Manifestation of discovery	4,081
Juanguí IV-F	Manifestation of discovery	2,286
Juanguí I-A	Manifestation of discovery	2,008
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	638
Juanguí II-B	Manifestation of discovery	615
Barroso Chico I	Manifestation of discovery	840
Barroso Chico II	Manifestation of discovery	840
<b>Total</b>		<b>67,387</b>

# Appendix 5B

## Mining Exploration Entity Quarterly Report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

AUSTRAL GOLD LIMITED

ABN

30 075 860 472

Quarter ended ("current quarter")

31 December 2015

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter US\$'000	Year to date (6 months) US\$'000
1.1 Receipts from product sales and related debtors	14,892	31,136
1.2 Payments for (a) exploration & evaluation	(510)	(893)
(b) development	(1,137)	(2,856)
(c) production	(7,531)	(16,077)
(d) administration	(2,018)	(3,582)
(e) royalties paid	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	1
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	(873)	(2,005)
1.7 Movement attributable to foreign currency translation	(34)	(60)
<b>Net Operating Cash Flows</b>	<b>2,789</b>	<b>5,664</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of:		
(a) prospects	-	(3,000)
(b) financial assets, net	-	-
(c) equity investment	(239)	(515)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.10 Loans to other entities	(23)	(23)
1.11 Loans repaid by other entities	250	400
1.12 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	<b>(12)</b>	<b>(3,138)</b>
<b>1.13 Total operating and investing cash flows</b>	<b>2,777</b>	<b>2,526</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining Exploration Entity Quarterly Report**

		Current quarter US\$'000	Year to date (6 months) US\$'000
<b>Cash flows related to financing activities</b>			
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	-
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Net proceeds from financial securities	(76)	102
<b>Net financing cash flows</b>		<b>(76)</b>	<b>102</b>
<b>Net increase (decrease) in cash held</b>		<b>2,701</b>	<b>2,628</b>
1.20	Cash at beginning of quarter/year to date	7,375	7,448
1.21	Exchange rate adjustments to item 1.20	-	-
1.22	<b>Cash at end of quarter</b>	<b>10,076</b>	<b>10,076</b>

**Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities**

		Current quarter US\$'000
1.23	Aggregate amount of payments to the parties included in item 1.2	177
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

		Amount available US\$'000	Amount used US\$'000
3.1	Loan facilities	-	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

### Estimated cash outflows for next quarter

		US\$'000
4.1	Exploration and evaluation	502
4.2	Development	1,470
4.3	Production	8,160
4.4	Administration	3,011
4.5	Royalties	-
4.6	Other (Investment)	3,240
4.7	Other (Income tax)	840
<b>Total</b>		<b>17,223</b>

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current quarter US\$'000	Previous quarter US\$'000
5.1	Cash on hand and at bank	10,002	3,852
5.2	Deposits at call	74	3,523
5.3	Bank overdraft	-	-
5.4	Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>		<b>10,076</b>	<b>7,375</b>

### Changes in interests in mining tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed	N/A		
6.2	Interests in mining tenements acquired or increased	Loreto I, Loreto II, Loreto III and Loreto IV	-	1000

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining Exploration Entity Quarterly Report**

**Issued and quoted securities at end of current quarter**

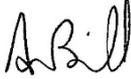
*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> <i>(description)</i>				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	<b>+Ordinary securities</b>	478,761,995	478,761,995		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	<b>+Convertible debt securities</b> <i>(description)</i>				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> <i>(description and conversion factor)</i>	1:1 Unlisted options 140,949	-	<i>Exercise price</i> AUD\$0.30	<i>Expiry date</i> 15 Nov 2016
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> <i>(totals only)</i>				
7.12	<b>Unsecured notes</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:  ..... Date: 29 January 2015  
(Company secretary)

Print name: Andrew Bursill

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.