

June 2014

QUARTERLY ACTIVITY REPORT

Key Highlights

- **Total production for the quarter was 10,219 ounces of gold and 11,339 ounces of silver (10,418 GEO) - a 17% decrease in GEO compared to the 12,493 GEO from previous quarter. Year-to-date production was 22,242 ounces of gold and 26,749 ounces of silver (22,911 GEO) for the six-month period ended June 2014.**
- **Production in the quarter was negatively affected by unusually harsh winter conditions, scheduled maintenance, and lower than expected grades in a small portion of the underground mine due to grade estimation variability which occurs from time to time because of geologic variability. This shortfall is expected to be offset by higher than previously expected production in the second half of 2014 so the annual production target of 50,000 GEO is still in effect.**
- **All-in sustaining production cost of the Guanaco Mine remains very competitive at US\$756 per gold equivalent ounce.**
- **Strong cash balance at end of the quarter of US\$4.2 million** after significant cash outlays made on new project investments and final royalty payment.
- **An asset transfer agreement was signed with Minera Meridian Ltda (wholly owned subsidiary of Yamana Gold Inc.) to acquire the Amancaya project in Chile for US\$12 million plus NSR royalty.** Amancaya is located about 60km from Austral Gold's Guanaco Mine and, when combined with Guanaco, will significantly enhance Austral Gold's resources and production profile.
- **Austral Gold acquired 51% of Humberto Reyes, the company which provides underground contract mining services to the Guanaco Mine, for circa US\$2.7 million.** Key outcomes from this transaction are expected to be safety improvements, better cost control and greater flexibility over the Guanaco project.
- **Guanaco paid US\$2.3 million to Compañia Minera Kinam Guanaco as part of the last instalment of the US\$7.5 million royalty agreement exit fee.**

CHILE

Guanaco Mine



Background

The 100% owned Guanaco mine 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 geological structural trend which runs north/south down the centre of Chile which hosts several large gold and copper mining operations including: Zaldivar, El Peñon and Escondida.

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, 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 depths of 75m and 200m and is contained in elongated 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 10,219 gold ounces and 11,339 silver ounces during the quarter ended 30 June 2014.

When measured in Gold Equivalent Ounces (GEO) total production was 10,418 gold ounces compared to 12,493 in the prior quarter. The decrease in production was due to harsh winter conditions, scheduled maintenance, and lower than expected grades in a small portion of the underground mine due to grade estimation variability which occurs from time to time because of geologic variability.

For the June 2014 quarter the average operating cash cost¹ (C1) of the Guanaco Mine project was US\$631/GEO while the all-in sustaining cost² (AISC) was US\$756/GEO (US\$612/GEO and US\$732/GEO respectively for the previous quarter ended 31 March 2014).

Gold and Silver Production

Production	2011 Actual Calendar Year	2012 Actual Calendar Year	2013 Actual Calendar Year	2014 Actual 3-months ⁽³⁾	2014 Actual 6-months ⁽⁴⁾	2014 Budget Calendar Year
Gold (Au Oz)	12,373	28,902	50,226	10,219	22,442	50,000
Silver (Ag Oz)	37,511	74,807	74,031	11,339	26,749	35,000

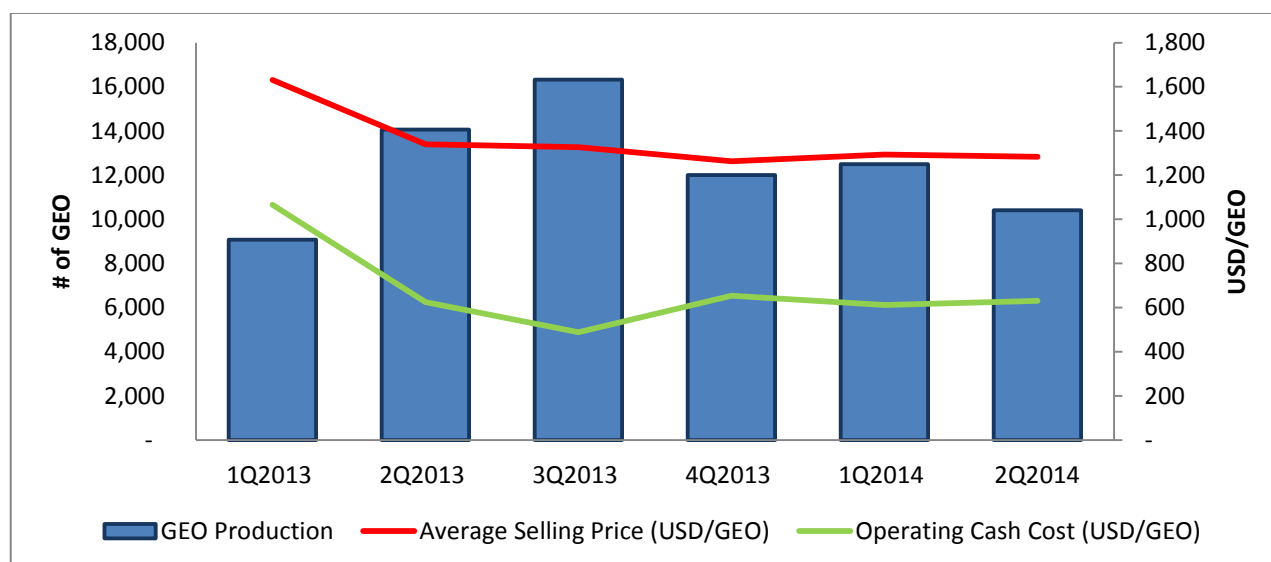
(1) The operating cash cost (C1) for the Guanaco Mine includes: Mine, Plant, On-Site G&A, Smelting, and Refining.

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

(3) Three-month period ended 30 June 2014.

(4) Six-month period ended 30 June 2014.

GEO Production per quarter (calendar year)



Mining

During the June 2014 quarter, a total of 88,230 tonnes were mined from the Cachinalito underground operations at an average grade of 5.36 g/t Au and 4.70 g/t Ag.

Underground mine development of 1,452 metres was completed. The advancements resulting from the underground operation represent an improvement in terms of safety, program achievement and cost control.

Safety

During this quarter, no lost-time accident (LTA) occurred, however three nil-lost-time accidents (NLTA's) were reported involving employees of Guanaco and third party contractors. All accidents were investigated and corrective actions were identified and implemented to prevent recurrence. Safety and environmental

Guanaco Operational Performance

June Quarter (3-months actual) 2014	
Total Ore mined (t)	88,230
Total Ore processed (t)	90,392
Ore from underground (%)	100%
Underground grade (g/t Au)	5.36
Weighted average recovery (%)	80.4
Gold produced (oz)	10,219
Silver produced (oz)	11,339
Operating cash cost (US\$/GEO)	631

protection are core values of the company. The implementation of safety best practices along with a sound risk management program are key priorities for Austral Gold.

Exploration Program

Development of “Veta Nueva”: This new mineralization vein was selected as one of the targets with high potential to be explored this year, since it has some higher grade intercepts, but insufficient drilling has been undertaken to date.

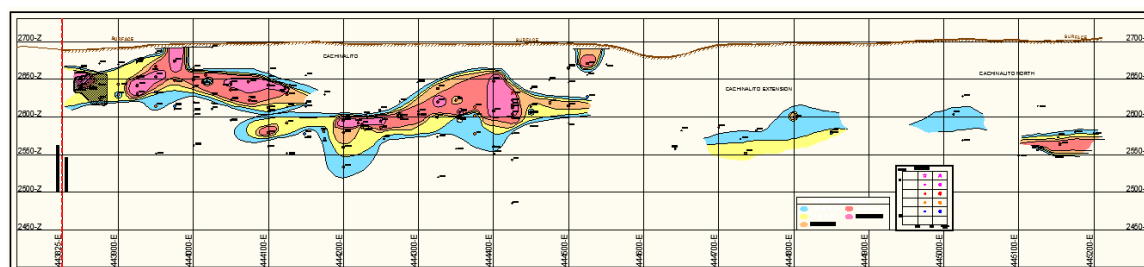
During this period, advances have been made along the 2590W and 2590E drifts where high-grade veins were intercepted.

The vein at Drift 2590W has a N70°W direction and a 70°N dip in the first section. To the west, it is intercepted by an E-W vein with vertical dip. Both veins have high Ag grades, abundant barite and a breccious structure with clasts made up of quartz veins in a barite, quartz, kaolin and jarosite matrix. The characteristics of this vein are similar to the Despreciada vein but with lower Au to Ag ratios. The E-W grain appears to be related to the vein previously mapped at the upper level (2610) and as such, the Geology team is looking for its continuity to the west in the 2590E Drift in the Cachinalito Central East sector.

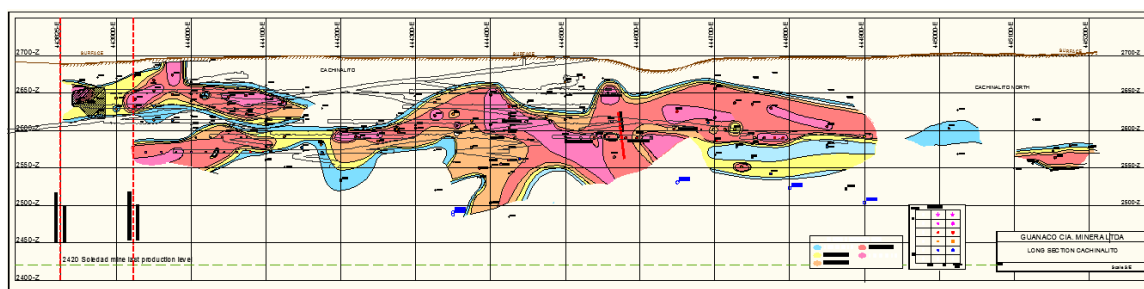
More than one mineralized system was observed in the area, probably formed in different time intervals. Field observations indicate that these systems intersect, generating high-grade oreshoots which have great prospective interest.

Veta Nueva was originally modeled within the Natalia concept, but in view of its clear affinity and continuity with Cachinalito, the exploration team is working on an update of the long-section for this sector, which considers Veta Nueva as part of the Cachinalito system. As shown below, a longitudinal section has been completed with the available drilling information.

Cachinalito Longitudinal Section 2006



Cachinalito Longitudinal Section 2014



Geophysics

During this quarter, a review of field anomalies was performed following the interpretation of the magnetometry data of Salvadora-Los Nanos and Guanaquito sectors. The objective of this work was to define potential exploration targets from the previously interpreted magnetic anomalies. In both sectors, the magnetic method of Tilt Angle Derivative (TDR) was used to highlight relatively shallow structures. From this analysis, the exploration team was able to define the most relevant anomalies with the highest potential for each sector.

Guanaco Area Tenements Status

A complete list of the mining tenements in which the Company has an interest is presented in Appendix 1 attached to this report. There have been minor 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.

ARGENTINA

8 de Julio

All of the 8 de Julio activities have been suspended in 2014 as the company focuses on exploration resources at the Guanaco Mine and brownfield exploration targets.

8 de Julio Area Tenements Status

The 8 de Julio site is comprised of 30 mining properties equivalent to 82,101 hectares. Four of these properties are classified as "Cateos" (23,232 hectares) while the remaining 27 properties are already "Manifestation of discovery" (58,869 hectares).

A complete list of the mining tenements in which the Company has an interest is in Appendix 1 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

Acquisition of Amancaya Project in Chile from Yamana Gold

On 17 June 2014, Austral Gold Limited ('AGD' or the 'Company') and its wholly-owned subsidiary Guanaco Compañía Minera SPA ('Guanaco') entered into an asset transfer agreement with an 100%-owned subsidiary of Yamana Gold Inc. (TSX: YRI; NYSE: AUJ), Minera Meridian Ltda. to acquire the Amancaya exploration property ('Amancaya') located 70km east of the city of Tatal in Northern Chile. Amancaya is a low sulphidation epithermal gold-silver deposit containing about 407,000 inferred resource of gold equivalent ounces and consisting of eight mining exploration concessions covering 1,755 hectares. As part of the acquisition, the Company also secures the rights to exploration projects currently under application, as well as water rights, underlying property and necessary easements.

Consideration for Amancaya will be an aggregate amount of US\$12M plus NSR royalties of 2.25%.

In a report dated 24 July 2008, Yamana Gold Inc. announced for Amancaya that, at a 1.0 g/t gold equivalent (AuEq) cut-off grade for the potential open pit resources and a 3.4 g/t AuEq cut-off grade for the underground resources, inferred mineral resources is estimated at 407,000 contained ounces of AuEq at a grade of 9.1 g/t AuEq. This is comprised of 351,000 contained ounces of gold and 3,270,000 ounces of silver in 1.4 million tonnes at an average grade of approximately 7.9 g/t Au and 73 g/t Ag, respectively.

The term "inferred mineral resource" in that announcement had the meaning ascribed to those terms by the Canadian Institute of Mining, Metallurgy and Petroleum, as the CIM Definition Standards on Mineral Resources and Mineral Reserves adopted by CIM Council on December 11, 2005.

It is noted that these estimates are foreign estimates and not reported in accordance with the JORC Code 2012 Edition (JORC Code). A competent person has not done sufficient work to classify the foreign estimates as inferred mineral resources in accordance with the JORC Code and it is uncertain that, following evaluation and/or further exploration work, the foreign estimates will be able to be reported as mineral resources in accordance with the JORC Code.

The Company has done limited work to ascertain the reliability of the foreign estimate under Table 1 of the JORC Code, and, upon completion of the acquisition, will commence the process of identifying additional evaluation and exploration work that needs to be completed to verify the foreign estimate.

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.

Preliminary metallurgy testwork consisting of CN leach studies on 135kg of composite sample yielded gold and silver recoveries of 97% and 80% respectively.

This significant transaction for Austral Gold gives our Chilean asset base much greater scale and with existing mining operations at Guanaco located about 60km from Amancaya, it gives Austral Gold a larger exploration footprint in Northern Chile. Austral Gold management's goal is to achieve annual production of 100k GEO within the next 24 months.

Acquisition of a controlling interest in Guanaco underground mine contractor Humberto Reyes

During the period, Austral Gold's 100%-owned subsidiary in Chile, acquired a 51% holding in Humberto Reyes Arriendo de Maquinarias SpA (Humberto Reyes), an underground mining services company in Chile that has been undertaking underground contract mining at Guanaco mine since 2011. Humberto Reyes currently owns mining equipment and associated vehicles with a book value of US\$4 million.

The total purchase price is circa US\$2.7 million, US\$450 thousand paid upfront and the remainder in monthly cash instalments over three years. AGD has an option to acquire the remaining 49% in 2.5 years at a price to be agreed upon by both parties.

Guanaco will assume management of the business and the transaction is expected to deliver important annualised savings to the Guanaco mine and is a key strategic investment for the Company as it:

- provides flexibility to accelerate mining of the Guanaco mine resource
- allows greater control over safety and production practices at the Guanaco mine
- ensures a continued competitive cost for future underground development
- gives management greater control over the Guanaco mine operations

Final royalty payment to exit Guanaco mine royalty agreement

During the quarter, US\$2.3 million, the last instalment of the US\$7.5 million royalty agreement exit fee, was paid to Compania Minera Kinam Guanaco.

Equity investments in South American focused TSX-V listed precious metals exploration and development companies

The Company maintains its 19.9% shareholding in Argentex (TSX-V: ATX). While we remain committed to our investment and to continuing discussions in relation to a future business combination, we note that Argentex have advised Austral Gold and the market that they are undertaking a broader review of strategic alternatives that may be available to them. The Company remains equally committed to its 15% shareholding in **Goldrock Mines Limited** (TSX-V: GRM).

Debt repayment

During the quarter, Austral Gold repaid US\$2.6 million to Inversiones Financieras del Sur S.A. (IFISA). The balance of funds owing to IFISA at 30 June 2014 was US\$53.2 million (including accrued interest).

Other cash flow highlights for the quarter

- During the quarter, Guanaco paid income tax in Chile for US\$958 thousand.
- Austral Gold's cash position at the end of the quarter was US\$4.2 million.

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.

Appendix 1: List of tenements in which the Company currently has an interest

Guanaco Site (Chile)

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
Chanco2, 1/20 to Chanco 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
Total		40,046

8 de Julio Site (Argentina)

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
Total		82,101

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

AUSTRAL GOLD LIMITED

ABN

30 075 860 472

Quarter ended ("current quarter")

30 June 2014

CONSOLIDATED STATEMENT OF CASH FLOWS

	Current quarter US\$'000	Year to date (12 months) US\$'000
CASH FLOWS RELATED TO OPERATING ACTIVITIES		
1.1 Receipts from product sales and related debtors	16,996	74,644
1.2 Payments for (a) exploration & evaluation	(410)	(1,173)
(b) development	(1,222)	(6,851)
(c) production	(10,670)	(39,974)
(d) administration	(932)	(4,638)
(e) income tax	(958)	(958)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	37
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Movement attributable to foreign currency translation	7	(162)
Net Operating Cash Flows	2,811	20,925
CASH FLOWS RELATED TO INVESTING ACTIVITIES		
1.8 Payment for purchases of:		
(a) prospects	-	(100)
(b) financial assets, net	(99)	(7,882)
(c) Equity investment	(448)	(448)
(d) Royalty exit fee	(4,500)	(7,500)
1.9 Proceeds from sale of:		
(a) prospects	-	-
(b) other fixed assets	-	-
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Movement attributable to foreign currency translation	-	-
Net investing cash flows	(5,047)	(15,930)
1.13 Total operating and investing cash flows	2,236	4,995

+ See chapter 19 for defined terms.

CASH FLOWS RELATED TO FINANCING ACTIVITIES		
1.14	Proceeds from issues of shares, options, etc.	-
1.15	Net proceeds from financial securities	136
1.16	Proceeds from borrowings	-
1.17	Repayment of borrowings	(4,626)
1.18	Dividends paid	-
1.19	Other – return of capital to shareholders	(934)
Net financing cash flows		(2,557)
NET INCREASE (DECREASE) IN CASH HELD		
1.20	Cash at beginning of quarter/year	4,793
1.21	Exchange rate adjustments to item 1.20	(429)
1.22 Cash at end of quarter		4,157

PAYMENTS TO DIRECTORS OF THE ENTITY AND ASSOCIATES OF THE DIRECTORS
PAYMENTS TO 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	273
1.24	Aggregate amount of loans to the parties included in item 1.17	2,557
1.25	Explanation necessary for an understanding of the transactions	
	1.24 relates to partial repayment of the loan with Inversiones Financieras del Sur S.A.	

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 (USD 59 million facility)	16,471	42,529
3.2 Credit standby arrangements		

ESTIMATED CASH OUTFLOWS FOR NEXT QUARTER

	US\$'000
4.1 Exploration and evaluation	310
4.2 Development	2,603
4.3 Production	8,500
4.4 Administration	781
4.5 Royalty	1,023
Total	13,216

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	4,157	8,950
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other (deposits sold awaiting settlement)	-	-
Total: cash at end of quarter (item 1.22)	4,157	8,950

CHANGES IN INTERESTS IN MINING TENEMENTS

	Tenement reference	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	Salvadora (Chile)	Mining claim in process	600 ha	565 ha
6.2 Interests in mining tenements acquired or increased	Fortuna (Chile)	Mining claim in process	0	50 ha

+ See chapter 19 for defined terms.

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	Preference ⁺securities				
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	⁺Ordinary securities	170,831,137	170,831,137		
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5	⁺Convertible debt securities <i>(description)</i>				
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options <i>(description and conversion factor)</i>	<i>1:1 options</i>		<i>Exercise price</i>	<i>Expiry date</i>
		140,949	140,949	AUD\$0.30	15 Nov 2016
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	Debentures <i>(totals only)</i>				
7.12	Unsecured notes <i>(totals only)</i>				

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 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:

Date: 31 July 2014

(Company secretary)

Print name: Andrew Bursill

+ See chapter 19 for defined terms.

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 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, 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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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.