

MEDIA RELEASE

27 October 2014

AUSTRAL GOLD POSITIONS FOR GROWTH WITH PROPOSED REPAYMENT OF AUD61.6 MILLION OF DEBT BY SHARE ISSUE

- Repayment of ALL outstanding debt to IFISA, subject to shareholder approval
- Debt-for-equity swap at a price of \$0.20 per share
- Austral Gold will significantly strengthen balance sheet to pursue growth opportunities
- Strong cash flow from producing Guanaco mine deployed to strengthen production and grow asset base
- Further asset consolidation opportunities around Guanaco and equity investments being assessed by Austral Gold's Board

South American focused precious metals mining and development company **Austral Gold Limited (ASX Code: AGD) (Austral or Company)** is pleased to announce that it has agreed with Inversiones Financieras Del Sur S.A. (IFISA) that, subject to Austral shareholder approval, Austral will repay all of its outstanding debt to IFISA, the balance of which was, as at 30 September, 2014, USD53,733,935.00 (AUD61,586,172.00), through the issue of fully paid ordinary shares in Austral (**Shares**) at A\$0.20 per Share to IFISA or its nominee.

Subject to shareholder approval, Austral will issue up to a maximum of 312,500,000 Shares to IFISA or its nominee or nominees resulting in IFISA's aggregate shareholding in Austral increasing from 84.77% to a maximum of 94.62%. IFISA is an entity operated by Austral Gold's Non-Executive Chairman Mr Eduardo Elsztain.

Austral Gold's Independent Non-Executive Directors recommend the transaction to shareholders.

Should shareholders approve the transaction, Austral Gold will be essentially debt free and have the balance sheet flexibility and production profile to achieve the Company's stated goal of becoming a leading precious metals mining company with a diverse asset base in South America.

With annual production now exceeding 50,000 gold equivalent ounces at an average cash operating cost of \$630 per gold equivalent ounce, Austral Gold's strong cash flows can be deployed to project expansions, the acquisition of new projects currently under review, and additional equity investments in undervalued precious metals listed companies. The Board's immediate objective is to fast-track development of the recently acquired Amancaya project with project works now advancing.

Austral Gold's Independent Non-Executive Director Wayne Hubert commented: "Austral Gold's Independent Directors have carefully reviewed this proposal and we unanimously recommend the transaction to shareholders. With a strong debt-free balance sheet and growing production profile, Austral Gold is well placed to pursue a number of growth opportunities open to the Company."

Non-Executive Chairman Eduardo Elsztain added: "For five years IFISA has been committed to funding the growth and development of Austral Gold through the provision of debt funding and this has been instrumental in establishing a solid growth platform for the Company."

“However, IFISA and the Independent Directors of Austral believe that now is the right time to strengthen the Company’s balance sheet with current market conditions presenting a number of compelling investment opportunities. We are determined to transform Austral Gold into a leading precious metals company focused on South America. This will be achieved through strengthening its balance sheet, attracting more investors to its register and growing the Company’s asset base.”

For further details about this transaction, please see the attached Appendix.

About Austral Gold

Austral Gold Limited is listed on the Australian Securities Exchange (ASX: AGD) and is a growing precious metals mining and exploration company building a portfolio of assets in South America. The Company's flagship Guanaco project in Chile is a low-cost producing mine with further exploration upside. With an experienced and highly regarded major shareholder, Austral Gold is strengthening its asset base by investing in new precious metals projects in Chile and Argentina that have near-term development potential. For more information, please consult the company's website www.australgold.com.au

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Appendix

Introduction

Austral Gold Limited (ASX Code: AGD) (**Austral** or **Company**) is pleased to announce that it has:

- agreed with Inversiones Financieras Del Sur S.A. (**IFISA**) that subject to Austral shareholder approval, Austral will repay all of its outstanding debt to IFISA, the balance of which was, as at 30 September, 2014, US\$53,733,935.00 (A\$61,586,172.00)¹ (**IFISA Debt**), through the issue of fully paid ordinary shares in Austral (**Shares**) at A\$0.20 per Share (**Conversion Price**) to IFISA or its nominee (**Debt Conversion**);
- Austral:
 - proposes to seek shareholder approval to the Debt Conversion at the Company's annual general meeting of shareholders (**AGM**), that is to be convened on Tuesday, 16 December, 2014²; and
 - has engaged InterFinancial Corporate Finance Limited (**Independent Expert**) to prepare an independent expert's report on the Debt Conversion (**IER**) that will be provided to all Austral shareholders together with the notice convening the AGM (**AGM Notice**) and a related explanatory statement (**Explanatory Statement**); and
- conditional upon the Debt Conversion being approved at the AGM by the requisite majority of non-associated Austral shareholders who are entitled to vote (**Minority Shareholders**), IFISA has undertaken to the Company (**IFISA Undertaking**) that, for the duration of the period of 6 consecutive months commencing on the first day upon which IFISA (and any of its related bodies corporate) acquire, in aggregate, the full beneficial interest in at least 90% (in number) of the Shares (**Undertaking Period**)³, neither IFISA nor any associate of IFISA will:
 - exercise any right to compulsorily acquire any or all of the remaining Shares that it does not already hold (**Compulsory Acquisition Power**); or
 - under any circumstances, deal in any of the Shares in which it has a relevant interest, without the prior approval of the requisite majority of Austral shareholders who are entitled to vote and which will exclude from any such vote, IFISA and its associates. However, without limitation to the above undertakings, IFISA, and any associate of IFISA, will during the Undertaking Period, be permitted to offer to purchase, and purchase, Shares from willing sellers, provided that IFISA procures that any such purchase is effected and disclosed in accordance with the provisions of the Corporations Act and the ASX Listing Rules.

If the Debt Conversion is approved by the Minority Shareholders and implemented in accordance with its proposed terms:

- Austral will have no indebtedness to IFISA; and
- IFISA's aggregate shareholding in Austral will be increased from 84.77% to a maximum of 94.62%⁴.

¹ Applying a US\$:AU\$ exchange rate of US\$0.8725 equals A\$1.00, as agreed between Austral and IFISA.

² This proposed date for the AGM replaces the date stated in the Company's ASX Media Release dated 9 October, 2014 in which it was stated that the AGM would be held on 28 November, 2014.

³ 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. See also sec 664AA(b) of Corporations Act which defines the period in which the Compulsory Acquisition Power is permitted to be exercised.

⁴ Before the Debt Conversion, IFISA and its associates hold a total of 144,817,951 Shares out of a total of 170,831,137 Shares on issue (84.77%). After completion of the Debt Conversion, IFISA and its associates will be holding a maximum of 457,317,951 Shares out of a total of 483,331,137 Shares on issue (94.62%).

Details of Debt Conversion

A. Debt Conversion

It is proposed that, subject to obtaining the approval of a majority of the Minority Shareholders:

1. Austral will issue up to a maximum of 312,500,000 Shares (**Debt Conversion Shares**) to IFISA or its nominee or nominees; and
2. in consideration of the issue and delivery to IFISA or its nominee or nominees of the Debt Conversion Shares, IFISA will treat the total IFISA Debt as being wholly repaid and paid.

B. Impact of Debt Conversion on level of IFISA's shareholding in and control of Austral

The immediate effect of the Debt Conversion would be to increase IFISA's level of shareholding and voting power in Austral, from 84.77% to a maximum of 94.62% thereby entitling IFISA to exercise the Compulsory Acquisition Power. However, all the directors of Austral (each a **Director**) view this increase in the voting power of IFISA and the consequential attainment of the Compulsory Acquisition Power, as an unavoidable step in the process of the necessary re-structuring and re-capitalising of Austral, which they believe will be in the best interests of the Minority Shareholders.

In light of the IFISA Undertaking being given, the Independent Directors (as described below) believe that neither the Debt Conversion nor IFISA's consequential acquisition of Compulsory Acquisition Power, will as a practical matter, materially increase the level of control of the Company that IFISA or its associates currently hold and exercise.

Independent Directors' Committee

As stated above, IFISA and its associates currently hold 84.77% of the Shares and voting power of Austral. Further:

- each of Austral'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 Austral⁵ (each a **Non-Independent Director**).

In light of the above, the Directors have unanimously resolved to appoint a sub-committee constituted solely of the independent non-executive directors of Austral – being Wayne Hubert, Robert Trzebski and Ben Jarvis – each of whom are not associated with IFISA (each an **Independent Director**). The Directors have unanimously delegated to that sub-committee:

1. the consideration and recommendation of whether or not the Debt Conversion is in the best interests of the Minority Shareholders;
2. the engagement and instruction of the Independent Expert for the purpose of preparing the IER, and submitting the same to all Austral shareholders, when dispatching the AGM Notice and the Explanatory Statement; and
3. the power to implement the necessary steps to effect the Debt Conversion, if and when approved by the Minority Shareholders.

Independent Directors' Recommendations

In that context, and in the absence of any intervening and adverse circumstances occurring prior to the convening of the AGM, each of the Independent Directors currently intends to:

⁵ See Principle 2.1 of ASX Corporate Governance Principles and Recommendations (Third Edition)

1. recommend to all Minority Shareholders that they are of the view that the Debt Conversion is in the best interests of the Minority Shareholders;
2. recommend that all Minority Shareholders should vote in favour of the resolution stated in the AGM Notice that is required to be approved as a condition to the implementation of the Debt Conversion; and
3. give their reasons for such recommendations, as will also be stated in the AGM Notice, and which will include:
 - (a) without at least a material reduction in the IFISA Debt, and the interest that accrues and currently 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 Austral shareholders, or effect any material acquisition that could be value accretive to Austral shareholders, upon terms and conditions that are likely to be acceptable to the Independent Directors and the Minority 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 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 an issue of other forms of 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 being offered under the proposed Debt Conversion and that are likely to be acceptable to the Independent Directors and the Minority Shareholders;
 - (d) the fact that 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 being required to increase that price by any premium. If IFISA implemented such an election in respect of all the IFISA Debt, it would have a 1.5%⁶ 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 of Austral, a capital raising and/or asset acquisition programme, that will (subject to sub-paragraph (f) immediately below) result in a material reduction in the aggregate voting power of IFISA and its associates, in the Company; and
 - (f) after completion of the Debt Conversion, the percentage voting power of IFISA and its associates will increase from 84.77% to 94.62%. However, 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

⁶ Based on the 30 day VWAP share price as at 30 September 2014

likely to be in the best interests of the Minority Shareholders in light of the following considerations:

- (i) the IFISA Undertaking;
- (ii) the extent of control that IFISA already has over the future of Austral and its subsidiaries, 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;
- (iii) the conclusions of the Independent Expert to the effect that the Debt Conversion is 'fair and reasonable'; and
- (iv) the unanimous view of the Independent Directors that IFISA and, where applicable, its associates, will:
 - (A) 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 to a lesser extent, than the Minority Shareholders;
 - (B) not acquire any of the Debt Conversion Shares at a discount to their value as expressed in the IER, or in consideration for receiving any other benefit or advantage, other than that referred to in sub-paragraph (A) immediately above;
 - (C) 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 for the duration of all or some of the Undertaking Period; and
 - (D) forego a right that currently ranks ahead of the equivalent rights of all Austral shareholders, namely to recover the entire IFISA Debt, and any accrued interest, in the event of the insolvency and liquidation of the Company.

None of the Non-Independent Directors will take part in any deliberations regarding whether or not Austral should participate in the Debt Conversion, nor make any recommendations regarding whether or not the Debt Conversion is in the best interests of the Minority Shareholders.

Extension of Period in which to convene AGM

On 15 October, 2014, and in accordance with its discretion under the Corporations Act⁷, ASIC has agreed to permit Austral to convene the AGM after 30 November, 2014, but in any event by no later than (and including) 19 December, 2014 (**Extension**). As indicated below, it is proposed – and as will be stated in the AGM Notice - that the AGM will be convened at 10.00 a.m. on 16 December, 2014.

The reasons for seeking the Extension were:

1. the inability of Austral to conclude its negotiations with IFISA regarding the terms and conditions of the proposed Debt Conversion sooner than originally expected;
2. the concern of Directors that any further delay in the approval and implementation of the Debt Conversion will materially reduce the value of the equity of all shareholders in Austral;
3. the cost to Austral of having to convene another general meeting, the sole purpose of which would be to seek Austral shareholder vote on the resolution to approve the Debt Conversion, is estimated to be approximately A\$6,000.00 for the convening of that other general meeting, plus approximately an additional A\$6,700.00 per day of interest that accrues on the IFISA Debt for every additional day of delay in effecting the Debt Conversion;

⁷ See Section 250P, Corporations Act

4. in light of current trading volumes of shares in Austral being minimal, the fact that no material transactions will be entered into or concluded by Austral between the date of dispatch of the Shareholder Documents to all Austral shareholders and the date on which the AGM will be held, and the relatively short extension in the period for the holding of the AGM that has been permitted by ASIC, the Directors believe that any prejudice to the general right of Austral shareholders to the holding of the AGM on or before 30 November, 2014 will be relatively inconsequential.

The Directors believe that on balance, and for the reasons stated above, the effect of the Extension will be beneficial to all Austral Shareholders.

Indicative Timetable

Set out below is an indicative timetable for the proposed implementation of the Debt Conversion.

Subject to the requirements of the Corporations Act and the ASX Listing Rules, Austral reserves the right to amend any or all of the dates set out below without being obliged to provide notice of any such change to, or obtain the consent from, Austral shareholders. However, Austral will ensure that any such amendment is disclosed on its announcement platform with the ASX, promptly after it has been decided upon.

Event	Date
Despatch of AGM Notice, Explanatory Statement, proxy form and IER to all Austral Shareholders	13 November, 2014
Convene AGM ⁸	16 December, 2014
Implementation of Debt Conversion (assuming necessary shareholder approval obtained)	18 December, 2014

Conclusion

The Independent Directors unanimously believe that the proposed Debt Conversion will be beneficial for all Minority Shareholders. The Debt Conversion is expected to be the first and necessary step in a process that is intended to transform Austral from a company whose share register and balance sheet is currently dominated by IFISA and its associates, to a company that will feature:

- (a) a strong balance sheet, without any long term debt;
- (b) a debt to equity ratio that has been reduced from 144% to 0.1%; and
- (c) the potential to attract third party investors on a basis that could be value accretive to current Austral shareholders.

The Independent Directors advise that, once Minority Shareholders have received the AGM Notice, Explanatory Statement and IER, they should read each carefully and in their entirety.

If they would like to discuss any aspect of the matters stated above or in the AGM Notice, Explanatory Statement or IER, they should ring Andrew Bursill, Company Secretary on (02) 9299-9690, or seek independent professional advice.

By order of the Board

Andrew Bursill
Company Secretary

⁸ The mandatory notice period is effectively 31 days – see sections 249HA(1) and 249J(4) of Corporations Act