23 April 2018

**AUSTRAL GOLD LIMITED**
**AMENDED ANNUAL REPORT**

Austral Gold Limited (ASX: AGD and TSX-V: AGLD) (the "**Company**") is providing an amended copy of its Annual Report for 2017, originally lodged on 27 March 2018.

The Company advises of typographical errors on Page 24 of its Annual Report in relation to the Mineral Resources and Ore Reserves Statement for 31 December 2017. The disclosure of probable reserves of Amancaya gold and silver has been corrected as follows:

- Number of probable Gold reserves for the Amancaya Underground mine corrected to 693kT at 6.5g/t
- Number of probable Silver reserves for the Amancaya Underground mine corrected to 693kT at 42.5 g/t

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Company Secretary
Austral Gold Limited

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AUSTRALGOLD

# ANNUAL REPORT

For the 6 months ended December 2017

Austral Gold Limited has changed its financial year end to 31 December (previously 30 June)

www.australgold.com

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# Directory

## Directors

**Eduardo Elsztain**
Chairman & Non-Executive Director

**Saul Zang**
Non-Executive Director

**Pablo Vergara del Carril**
Non-Executive Director

**Stabro Kasaneva**
Executive Director

**Wayne Hubert**
Independent Non-Executive Director

**Robert Trzebski**
Independent Non-Executive Director

**Ben Jarvis**
Independent Non-Executive Director

## Company Secretary

**Andrew Bursill**
Franks & Associates

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Fax: +1 604 661 9549

## Auditors

**KPMG**
www.kpmg.com.au

## Principal Bankers

**National Australia Bank Limited**
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## Solicitors

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## Listed

**Australian Securities Exchange**
ASX: AGD

**TSX Venture Exchange**
TSXV: AGLD

## Place of Incorporation:

Western Australia

# Chairman's Letter

"We anticipate this will be a landmark year of growth and development as we ramp up processing at the new agitation leaching plant from the combined Guanaco mine and Amancaya mine in Chile, continue to streamline and enhance production at Casposo in Argentina, secure further brownfield opportunities in both Chile and Argentina and explore new strategic opportunities."

## Dear Shareholders,

The 6-month period ended 31 December 2017 has been a period of challenges for Austral Gold Limited and also a pivotal year for the company as we have made considerable operational progress at our mines in Chile and Argentina and look to continue to grow and seek value enhancing opportunities.

In Chile, we finalized the commissioning phase of the new agitation leaching plant at the Guanaco mine and we commenced open pit operations at Amancaya, while starting the development of the decline to access underground reserves. We also stabilised production at the Casposo mine in Argentina after reaching the first complete year of commercial production since our initial investment into the project in 2016.

The commissioning phase of the new processing plant in Chile took longer than expected which required us to leverage our balance sheet. In addition, this delay resulted in lower sales and gross margins for the 6-month period ended 31 December 2017. However, based on the investments we made to expand our production capacity at Guanaco and Amancaya, and to improve operations at Casposo, we forecast that our 2018 production will increase by 43% to 92,000 gold equivalent ounces from 64,488 gold equivalent ounces in calendar 2017 (attributable basis). We also expect our cash costs and all in sustaining costs ("AISC") to significantly decrease in FY2018.

During the period, we grew our portfolio of strategic assets with the acquisition of the San Guillermo and Reprado silver and gold projects in Chile. These assets are close to the Amancaya mine and have the potential to add considerable value to our Chilean asset base.

The Board is especially proud of some key milestones that Austral Gold achieved during the 6-month period ended 31 December 2017:

- We finalized the commissioning phase of our new agitation leaching plant at Guanaco.
- We executed the company's first power supply agreement with the northern Chile power grid after finalizing the construction of a new 40km 33Kva electrical line during the first half of calendar year 2017. This grid connection should significantly reduce the carbon footprint of the Guanaco operation by avoiding the diesel consumption that was historically used to generate power at the on-site power plant while also reducing the former power consumption cost by more than 50%.

- We completed the pre-feasibility study for the combined operation of both Guanaco and Amancaya. The Amancaya ore is being trucked to the nearby plant at Guanaco. We expect Amancaya to be a platform for long term production in Chile, with significant exploration opportunity to potentially expand mining operations on the property, which we believe represents a significant vein camp.
- We completed the purchase of 100% of the San Guillermo and Reprado gold-silver projects to Revelo Resources Corp (TSXV:RVL) for consideration of ten million Austral Gold fully paid ordinary shares. Both projects are strategically located in the prominent Amancaya precious metals district.
- We increased production at the Casposo mine in (Argentina), which we operate and in which we have a 70% economic interest.
- We ramped up exploration activities throughout the year with the most prospective results realised to date including the discovery of a new high-grade gold vein (Nueva Vein) at our Amancaya property. The proximity of this discovery to the existing operation is very encouraging for future development potential.
- Our CEO, Stabro Kasaneva structured and strengthened the corporate and technical teams to manage the scale up of our operations, and to lead efforts to continuously improve operations and pursue further value adding opportunities.
- Other opportunities aligning with our strategic vision for value accretive investments in Latin America are being explored.

Safety remains a key focus for our company. We are committed to the well-being of our employees and the communities in which we operate and continue to promote the highest health, safety and environmental standards. We are committed to supporting the local communities in which we operate through local hiring of personnel and community and education initiatives.

Austral Gold is well placed for FY2018. Our strategic acquisitions, backed by an experienced management team with a proven operational and exploration track record, an exceptional understanding of the Chilean and Argentinean resources markets and precious metals asset base provide the platform for continued growth.

We anticipate this will be a landmark year of growth and development as we ramp up processing at the new agitation leaching plant from the combined Guanaco mine and Amancaya mine in Chile, continue to streamline and enhance production at Casposo in Argentina, secure further brownfield opportunities in both Chile and Argentina and explore new strategic opportunities. Furthermore, we have laid the foundation to have a stronger balance sheet in the coming year.

"We are also beginning to see gold and silver prices trend upward and we expect Austral Gold to deliver value to investors by increasing both our revenues, profit margins and the capital value of our mineral resources."

We are also beginning to see gold and silver prices trend upward and we expect Austral Gold to deliver value to investors by increasing both our revenues, profit margins and the capital value of our mineral resources.

I would like to thank our shareholders for their continued support, all of our employees and contractors, and our Board members for their hard work and dedication during this year.

**Eduardo Elsztain**
Chairman

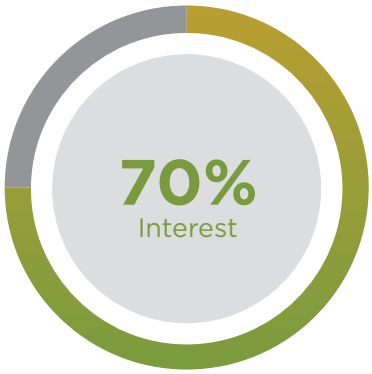
# Review of Activities

# Properties

- Operations (Guanaco/Amancaya & Casposo)
- Projects (Pingüino)

### Guanaco & Amancaya mines
Antofagasta, Chile

### Casposo mine
San Juan, Argentina




### Pingüino project
Santa Cruz, Argentina

Austral Gold Limited ('the Company' or 'Austral') and its subsidiaries ('the Group') is a growing precious metals mining and exploration company building a portfolio of assets in South America.

The Group produces gold and silver from Guanaco and Amancaya mines in Chile (100% interest) and the Casposo mine in San Juan, Argentina (70% interest). The Group also holds an attractive portfolio of exploration projects including the Pingüino project in Santa Cruz, Argentina (100% interest) and the recently acquired San Guillermo and Reprado projects within the Amancaya district (100% interest). 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.

# Total combined production for calendar year 2017 reached

A summary of key operational parameters for the six months ended December 2017 and 2016 and twelve months ended June 2017 is set out in the following table for comparative purposes:

| Operations | Guanaco/Amancaya Mines | | | Casposo Mine (100% basis) | | | Net to Austral Gold* | | |
|---|---|---|---|---|---|---|---|---|---|
| | 6 months ended Dec 2017 | 6 months ended Dec 2016 | 12 months ended June 2017 | 6 months ended Dec 2017 | 6 months ended Dec 2016 | 12 months ended June 2017 | 6 months ended Dec 2017 | 6 months ended Dec 2016 | 12 months ended June 2017 |
| Processed (t) | 201,148 | 281,848 | 505,711 | 125,423 | 134,383 | 248,109 | 288,944 | 350,383 | 653,855 |
| Gold produced (oz) | 17,456 | 26,575 | 44,275 | 9,939 | 8,946 | 16,793 | 24,414 | 31,137 | 54,330 |
| Silver produced (oz) | 117,497 | 30,470 | 58,832 | 1,022,639 | 748,372 | 1,411,282 | 833,344 | 412,140 | 904,539 |
| Gold-Equivalent (oz) | 18,997 | 26,985 | 45,098 | 23,340 | 18,718 | 35,811 | 35,335 | 36,531 | 66,609 |
| C1 Cash Cost (US$/AuEq oz)** | 1,103 | 591 | 759 | 924 | 893 | 952 | 1,004 | 715 | 844 |
| All-in Sustaining Cost (US$/Au oz)# | 1,330 | 746 | 908 | 1,096 | 1,200 | 1,262 | 1,201 | 932 | 1,065 |
| Realised gold price (US$/Au oz) | 1,276 | 1,281 | 1,251 | 1,278 | 1,278 | 1,259 | 1,277 | 1,280 | 1,253 |
| Realised silver price (US$/Ag oz) | 17 | 19 | 17 | 17 | 19 | 18 | 17 | 19 | 18 |

* Austral Gold owned 70% of Casposo since March 2017; 51% since March 2016
** The cash cost (C1) includes: Mine, Plant, On-Site G&A, Smelting, Refining, and Royalties (excludes Corporate G&A)
*** The AuEq ratio is calculated at 76:1 for the 6 months ended December 2017 (90:1 for the 6 months ended December 2016; 74:1 for the 12 months ended June 2017)
# The All-in Sustaining Cost (AISC) includes: C1, Sustaining Capex, Brownfield Exploration, and Mine Closure Amortisation

# 64,488
# net gold equivalent ounces

## Actual 2017 and Forecasted 2018 Production:

Total combined production for calendar year 2017 reached 77,546 gold equivalent ounces (100% basis) or 64,488 (net to Austral Gold*) with an average C1 and AISC of US$1,061/oz and US$1,265 per ounce of gold equivalent respectively.

The table below provides with the forecasted production figures for 2018. Total C1 and AISC are forecasted to decrease mainly due to the completion of the commissioning phase at the new agitation leach in Chile. C1 and AISC (combined basis) are forecasted to be US$700-800/oz and US$900-1,050/oz respectively.

| Operations | Guanaco/Amancaya Mines | | Casposo Mine (100% basis) | | Net to Austral Gold* | |
|---|---|---|---|---|---|---|
| | Calendar 2017 Actual | Calendar 2018 Forecasted | Calendar 2017 Actual | Calendar 2018 Forecasted | Calendar 2017 Actual | Calendar 2018 Forecasted |
| Gold produced (oz) | 35,160 | 54,000 | 17,787 | 24,000 | 47,178 | 71,000 |
| Silver produced (oz) | 145,761 | 520,000 | 1,685,524 | 1,400,000 | 1,291,576 | 1,520,000 |
| Gold-Equivalent (oz)*** | 37,096 | 62,000 | 40,450 | 43,000 | 64,488 | 92,000 |
| C1 Cash Cost (US$/AuEq oz)** | 1,070 | 600-700 | 1,041 | 800-900 | 1,055 | 700-800 |
| All-in Sustaining Cost (US$/Au oz)# | 1,255 | 850-950 | 1,274 | 1,050–1,150 | 1,265 | 900-1,050 |
| Sustaining Capital ($000's) | 5,005 | 13,500 | 8,469 | 13,500 | 13,473 | 26,500 |
| Realised gold price (US$/Au oz) | 1,258 | 1,250 | 1,257 | 1,250 | 1,257 | 1,250 |
| Realised silver price (US$/Ag oz) | 17 | 17 | 17 | 17 | 17 | 17 |

* Austral Gold owned 70% of Casposo since March 2017; 51% since March 2016
** The cash cost (C1) includes: Mine, Plant, On-Site G&A, Smelting, Refining, and Royalties (excludes Corporate G&A)
*** The AuEq ratio is calculated at 77:1 for calendar 2017
# The All-in Sustaining Cost (AISC) includes: C1, Sustaining Capex, Brownfield Exploration, and Mine Closure Amortisation

# Chile

The Guanaco and Amancaya mines remain the Company's flagship assets.

## Guanaco and Amancaya Mines

**Background**

The Guanaco and Amancaya mines remain 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 feature which runs north/south through the centre of the Antofagasta region, Chile.

Gold mineralisation at Guanaco is controlled by pervasively silicified, sub-vertical east/northeast-west/southwest trending zones with related hydrothermal breccias. Silicification grades outward into advanced argillic alteration and further into zones with argillic and propylitic alteration. In the Cachinalito vein system, most of the gold mineralisation is concentrated between depths of 75m and 200m and is contained in horizontally elongated mineralised shoots. The alteration pattern and the mineralogical composition of the Guanaco mineralisation have led to the classification as a high-sulfidation epithermal deposit.

In July 2014, the Company acquired the Amancaya Project ('Amancaya') from Yamana Gold Inc which is located approximately 60km south-west of the Guanaco mine. Amancaya is a low sulfidation epithermal gold-silver deposit consisting of eight mining exploration concessions covering 1,755 hectares (and a further 1,390 hectares of second layer mining claims).

At Amancaya, open-pit mining operations began during the first half of 2017. The Amancaya ore is being trucked to the new plant at Guanaco for processing. The development of the decline to access underground reserves commenced in late 2017.

## San Guillermo and Reprado Properties

On 14 November 2017, Austral Gold completed its purchase of a 100% interest in the San Guillermo and Reprado gold-silver projects, located in the emerging Amancaya precious metals district of northern Chile, from Revelo Resources Corp. (TSX-V:RVL) for consideration of ten million Austral Gold ordinary shares. Revelo has retained Net Smelter Return (NSR) Royalties on future metals production of 1% and 0.5% at Reprado and San Guillermo, respectively.

The San Guillermo property consists of concessions totalling 12,175 hectares that surround the company's high-grade gold and silver Amancaya operation, which Austral began mining via open pit operations in 2017. The Reprado Project consists of concessions totalling 3,960 hectares situated approximately 20km north of the Company's Amancaya operation. Historical drilling undertaken by Teck Resources Ltd intersected gold in low sulfidation quartz veins trending essentially east-west.

## New plant and technical report on combined resources

Construction of a new agitation leaching plant at Guanaco mine site was completed in August 2017 with commissioning phase completed by November.

The Company released the results of an independent resource and reserve estimate in accordance with the CIM Definitions 2014 in National Instrument ("NI") 43-101 and Joint Ore Reserves Committee Code, 2012 (JORC 2012) on 8 June 2017. Highlights from the estimate confirms the high-grade nature of the Amancaya project:

**Amancaya:**

- Total Indicated resource of 804,690 tonnes at 9.64 g/t gold and 80.7 g/t silver for 277,352 Gold Equivalent ("AuEq") ounces, including a maiden probable reserve of 948,053 tonnes grading 6.77 g/t gold and 63.2 g/t silver for 232,074 AuEq ounces which includes a maiden open pit probable reserve of 254,596 tonnes grading 7.56 g/t gold and 119.5 g/t silver for 74,993 AuEq ounces; and
- Total Inferred resource of 959,554 tonnes at 6.79 g/t gold and 36.1 g/t Ag for 220,000 AuEq ounces.

**Guanaco:**

- Measured and Indicated resource of 2,193,000 tonnes grading 2.9 g/t gold and 13.0 g/t silver for 217,000 AuEq ounces, including;
- Total reserves of 489,635 tonnes grading 2.99 g/t gold and 3.6 g/t silver for 47,907 AuEq ounces, including Proven reserves of 189,613 tonnes grading 3.41 g/t gold and 4.1 g/t silver for 21,106 AuEq ounces and Probable reserves of 300,022 tonnes grading 2.73 g/t gold and 3.4 g/t silver for 26,801 AuEq ounces.
- Inferred resource: 1,200,000 tonnes grading 2.6 g/t gold and 12.9 g/t silver for 110,000 AuEq ounces.

## Production

During the 6-month period ended December 2017, total production at Guanaco/Amancaya was 17,456 Au oz and 117,497 Ag oz (or 18,997 AuEq oz) compared to 26,985 AuEq oz during same period of previous year. The decreased in production was affected by lower tonnes processed due to some delays in the commissioning phase of the new agitation leach plant, lower head grades due to the initial modelling and selectivity challenges at Amancaya and lower recoveries with higher cyanide consumption and processing problems at the plant. Substantially all of these issues were resolved as of 31 December 2017.

The operating cash cost (C1) at Guanaco/Amancaya for the six months ended 31 December 2017 and 2016 were US$1,103/AuEq oz and US$591 AuEq while the all-in sustaining cost (AISC) was US$1,330/AuEq oz and US$746/AuEq. The reason for the increase in costs is explained above. C1 and AISC are forecasted to decrease in 2018 mainly due to the completion of the commissioning phase at the new agitation leach in Chile. C1 and AISC are forecasted to be US$600-700/oz and US$850-950/oz respectively.

## Mining

During the six months ended 31 December 2017, mining continued at the Guanaco underground operations with a total of 112,110 tonnes mined while 57,414 tonnes were mined at the Amancaya open pit. The geological team continues to investigate opportunities to extend the life of mine of the Guanaco deposit since the current reserves will be depleted during 2018.

| Operations | Guanaco/Amancaya Mines | | |
|---|---|---|---|
| | 6 months ended 31 December 2017 | 6 months ended 31 December 2016 | 12 months ended 30 June 2017 |
| Processed (t) | 201,148 | 281,848 | 505,711 |
| Average Plant Grade (g/t Au) | 3.57 | 4.62 | 3.96 |
| Average Plant Grade (g/t Ag) | 45.21 | 8.85 | 8.44 |
| Gold produced (oz) | 17,456 | 26,575 | 44,275 |
| Silver produced (oz) | 117,497 | 30,470 | 58,832 |
| Gold-Equivalent (oz) | 18,997 | 26,985 | 45,098 |
| C1 Cash Cost (US$/AuEq oz) | 1,103 | 591 | 759 |
| All-in Sustaining Cost (US$/Au oz) | 1,330 | 746 | 908 |
| Realised gold price (US$/Au oz) | 1,276 | 1,281 | 1,251 |
| Realised silver price (US$/Ag oz) | 17 | 19 | 17 |

## Safety and Environmental protection

Ever since Austral Gold arrived in the region of Atacama through its operating company Guanaco Compañía Minera ("GCM"), it has been committed to support development in the region by participating in various social initiatives.

## Community activities

In March 2012 GCM carried out a study of alternatives through which it could contribute to the present and future sustainability of the closest town Taltal, located 173k from Guanaco Mine.

Among the alternatives, education was chosen as we believe through education it is possible to improve citizens socio-economic conditions and contribute to youth remaining and contributing to the community. The objective is to contribute to the training of future graduates with competencies that meet the requirements of the mining industry in the region.

## Guanaco Mine Exploration

Drilling on the western extensions of Dumbo (DW) was commenced in November to test extensions of known mineralised structures. The target was divided in two, the northern part (Dumbo West Norte or DW-N) and the southern portion (Dumbo West Sur or DW-S). A total of 1,929.61m was completed in the program testing DW-N (testing seven sub-parallel mineralised structures: Dumbo Norte Norte 2, Dumbo Norte Norte 1, Dumbo Norte Este 1, Dumbo Norte, Dumbo Sur, Dumbo Sur 1, and Dumbo Sur Sur) by the end of December.

Drilling is expected to continue in Q1 2018 to complete the targets at DW-S, and start on Dumbo East and Cachinalito West mine targets.

Exploration drilling on western extensions of Dumbo vein have identified the continuity of a number of high grade gold and copper structures in the northern portion (DW-N).

[1] The cash cost (C1) for the Guanaco Mine includes: Mine, Plant, On-Site G&A, Smelting, Refining, and Royalties (excludes Corporte G&A)
[2] The All-in Sustaining Cost (AISC) for the Guanaco Mine includes: C1, Sustaining Capex, Exploration, and Mine Closure Amortisation

## Best intercepts* from results to date include:

**Dumbo Norte Norte 2 (DNN-2):**

- 1.74m @ 3.38 g/t Au; 0.04% Cu (DDH-1120)
- 3.06m @ 1.78 g/t Au 0.04% Cu (DDH-1122)
- 1.57m @ 3.11 g/t Au 0.02% Cu (DDH-1122)

**Dumbo Norte Norte 1 (DNN-1):**

- 3.89m @ 2.68 g/t Au; 1.55% Cu (DDH-1121)
- 3.02m @ 1.54 g/t Au 0.06% Cu (DDH-1125)

**Dumbo Norte Este 1 (DN-E1):**

- 4.19m @ 3.18 g/t Au; 0.1% Cu (DDH-1118)

**Dumbo Norte (DN):**

- 0.92m @ 12.37 g/t Au; 3.31% Cu (DDH-1121)

**Dumbo Sur (DS):**

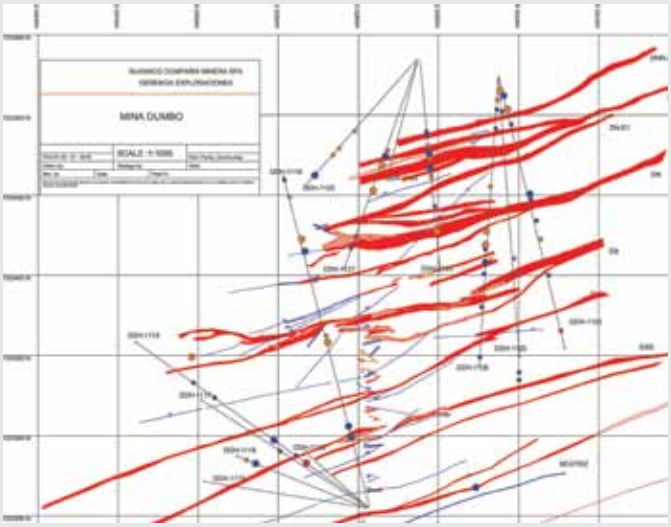
- 1.10m @ 3.98 g/t Au; 2.57% Cu (DDH-1118)

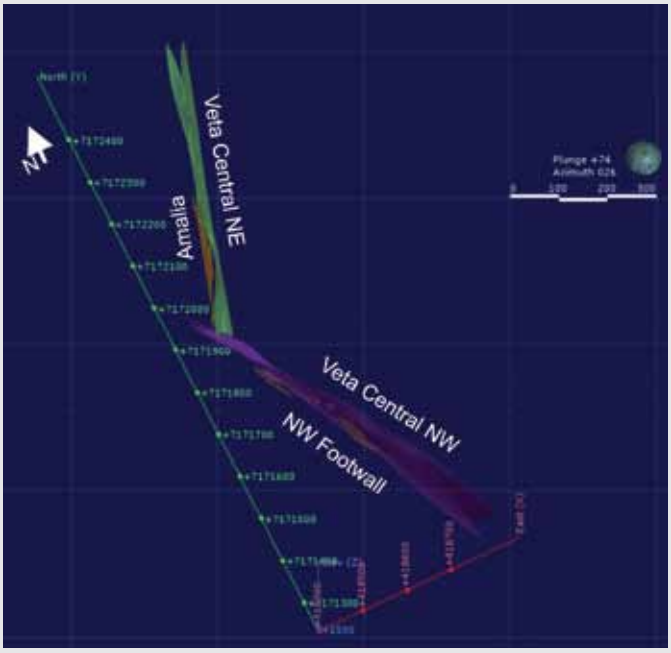
**Dumbo Sur Sur (DSS):**

- 3.22m @ 7.95 g/t Au; 1.43% Cu (DDH-1114)

## Amancaya Mine Exploration:

23 reverse circulation holes were completed (1,409m) in the 6 months ended 31 December 2017 to improve the block model in the near surface area of the existing mineral resource. The program included three geological drill holes (to test the depth of the alluvial cover), and was undertaken to investigate differences in grade reconciliation with the block model in the upper benches of the Amancaya open pit. Drilling has added to the geological model of the deposit, with five veins now being defined at the project; one vein in the Central NW vein (south), and four veins were found in the northern portion of the Centra NNE vein. These are the main Central NE vein, Central NE Norte (displaced and in the northern part), and Amalia and Pia veins (parallel to Central NE).

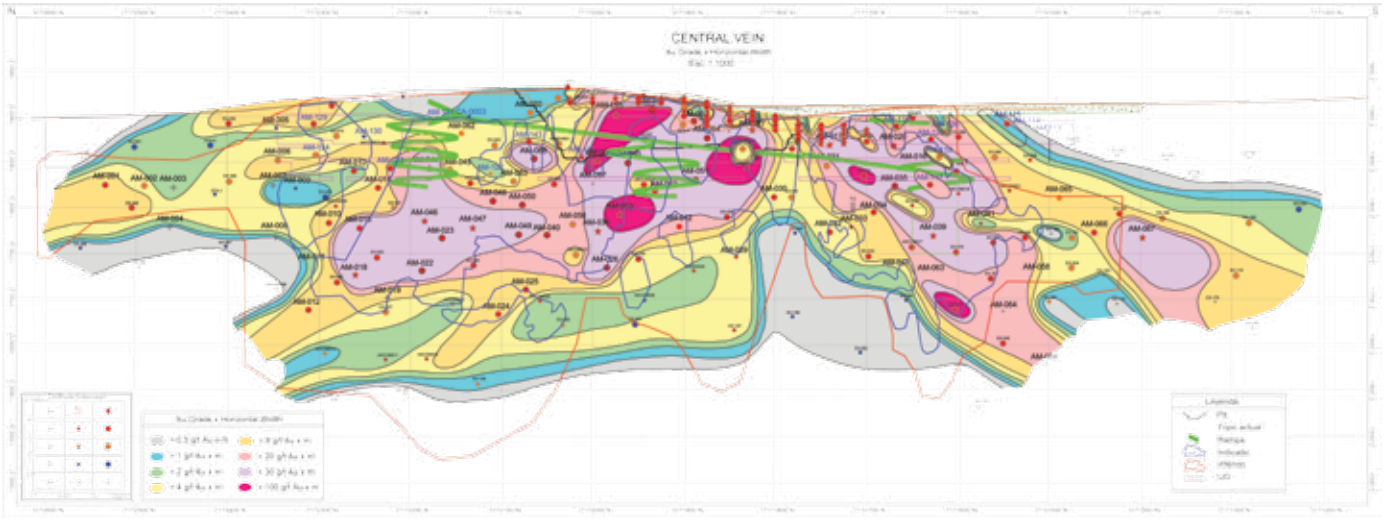



* Interval length is representative of true width as most holes are sub-horizontal and perpendicular to structure, except for those shown in the above map which are at more oblique angle to the veins. True widths for these holes is assumed to be 75-80% of the interval.

## Best interceptions include:

| Hole ID | From | Interval | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|
| AM-115 | 29 | 2.00 | 8.15 | 162 |
| AM-116 | 26 | 3.00 | 6.34 | 173 |
| AM-117 | 110 | 3.00 | 13.98 | 85 |
| AM-119 | 70 | 2.00 | 3.33 | 71 |
| | 75 | 2.00 | 5.69 | 100 |
| AM-123 | 87 | 5.00 | 9.07 | 168 |
| AM-124 | 64 | 2.00 | 4.84 | 86 |
| AM-125 | 41 | 4.00 | 12.45 | 198 |
| AM-127 | 39 | 2.00 | 4.41 | 176 |
| AM-129 | 24 | 3.00 | 10.38 | 290 |
| AM-141 | 89 | 4.00 | 24.08 | 221 |
| AM-142 | 27 | 1.00 | 11.87 | 112 |
| AM-143 | 64 | 7.00 | 3.43 | 145 |
| | 78 | 3.00 | 8.23 | 239 |




## Amancaya Brownfield Exploration: Nueva Vein

The 240km sq geophysics (ground magnetics) completed over Nueva vein structure confirmed the presence of a strong lineament that is the northern prolongation of the Julia vein (located in the south). The Julia/Nueva structure is divided in two by a strong NW magnetic lineament, which is interpreted as a mafic dike. This lineament hosts the NW Central vein in the SE, and divides the Julia/Nueva in two segments with different orientations (N-S to NNE in the southern portion, and N-S to NNW in the northern area).

A short program (1,367m), comprising 31 shallow RC holes were completed, following up on encouraging results from an initial trenching program (see Company news release dated 21 August 2017). The drilling confirmed a strike continuity of the Nueva Vein of approximately 2.8km and encountered four areas of gold mineralisation hosted quartz-iron oxide veinlets.

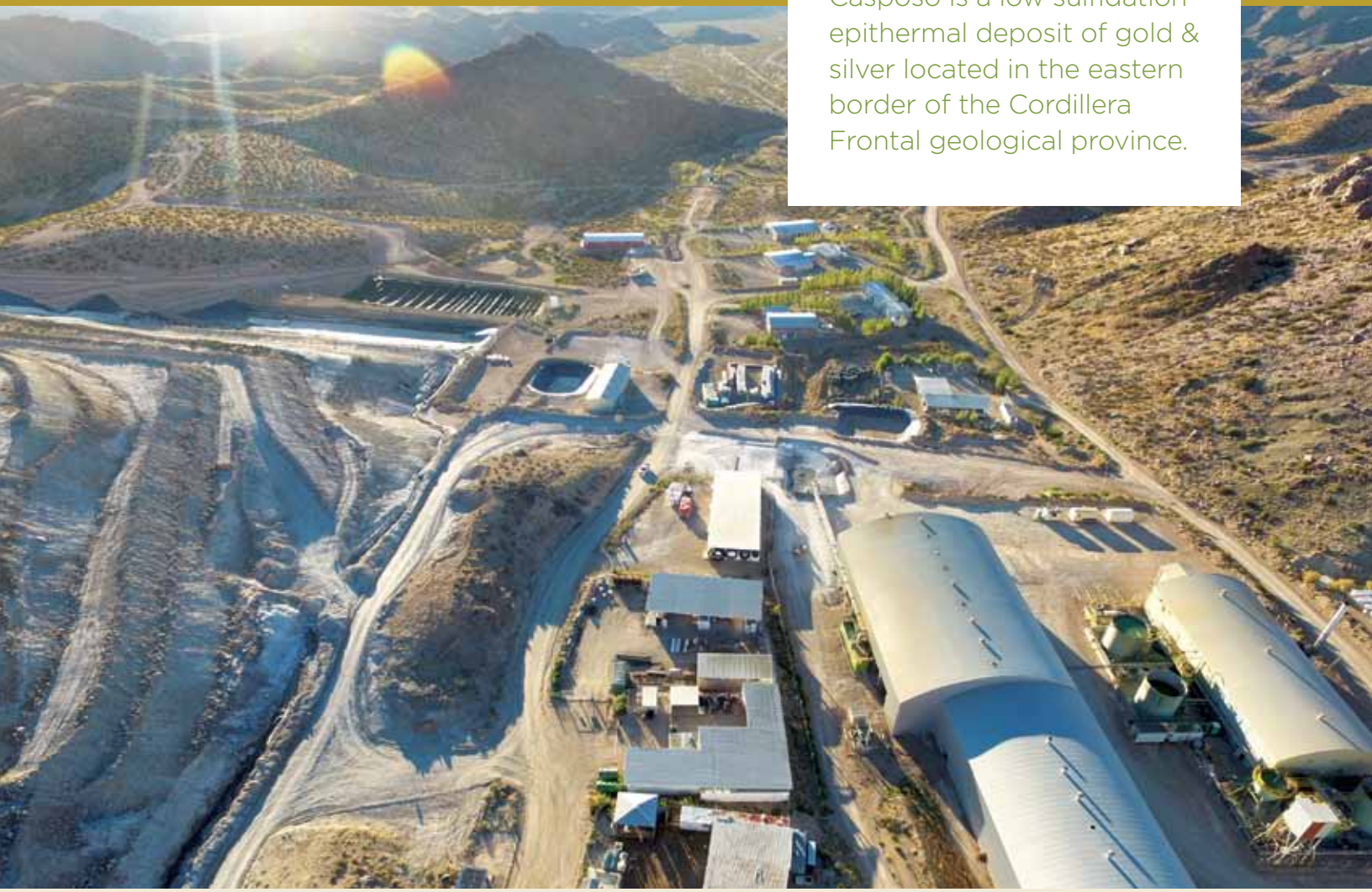
A complimentary DDH plan started in Q1 2018 in order to confirm these RC holes and to assist in evaluating potential zones for further exploration for gold targets.

## Best intercepts include:

| Hole ID | From | Interval | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|
| AM-154 | 46 | 2.00 | 2.87 | 2 |
| AM-137 | 20 | 1.00 | 12.27 | 85 |
| AM-155 | 47 | 2.00 | 4.46 | 10 |
| AM-139 | 30 | 2.00 | 2.44 | 7 |
| AM-147 | 18 | 5.00 | 3.17 | 13 |
| AM-158 | 33 | 5.00 | 1.57 | 16 |

# Argentina

Casposo is a low sulfidation epithermal deposit of gold & silver located in the eastern border of the Cordillera Frontal geological province.

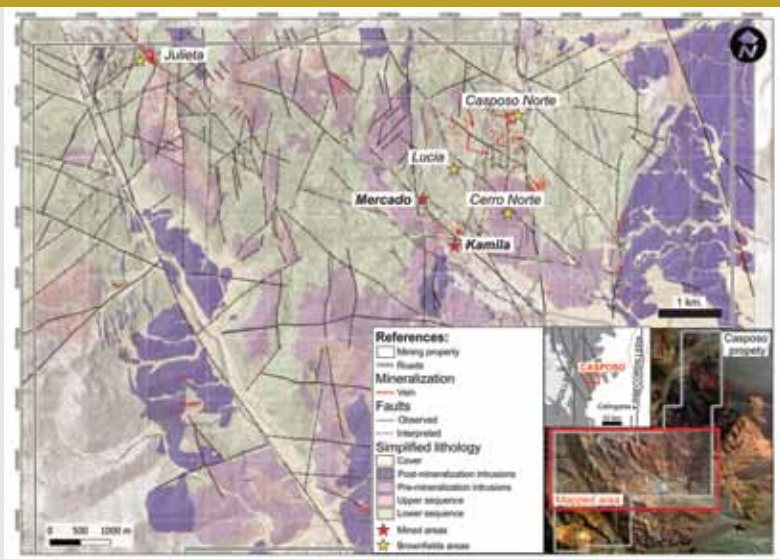


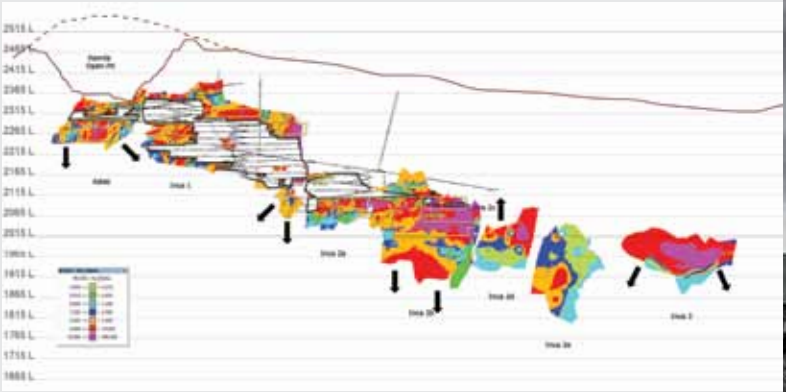
## Casposo Mine

The Casposo mine is located in the department of Calingasta, San Juan Province, Argentina, approximately 150km from the city of San Juan, and covers an area of 100.21km$^2$. Casposo is a low sulfidation epithermal deposit of gold and silver located in the eastern border of the Cordillera Frontal geological province.

The Cordillera Frontal represents the eastern portion of the Cordillera Principal that runs along the Chile-Argentine border for approximately 1,500km. The Casposo gold–silver mineralisation is Permian in age, and occurs in the extensive Permo-Triassic volcanic rocks of the Choiyoi Group, at both rhyolite, and underlying andesitic rocks, where it is associated with NW-SE, E-W and N-S striking banded quartz, chalcedony and calcite veins, typical of low sulfidation epithermal environments. Post-mineralisation dykes of rhyolitic, mafic, and trachytic composition often cut the vein systems. These dykes, sometimes reaching up to 30m thickness, are usually steeply dipping and north–south oriented. Mineralisation at Casposo occurs along a 10km long northwest to southeast trending regional structural corridor, with the main Kamila Vein system forming a 500m long sigmoidal set near the centre. The Mercado Vein system is the northwest continuation of Kamila and is separated by an east–west fault from the Kamila deposit.

Austral Gold has undertaken a complete revision of historical work (geology, geochemistry, geophysics and drillings), and finished a regional mapping at a 1:10,000 scale, defining significant potential for discovering additional mineralisation in Casposo, and ranking a series of mine and brownfield exploration targets.



Above: Gold Equivalent Long Section of Casposo Block Model. Arrows indicate where mineralisation is open.

## Underground mine

The Casposo Mine consists of a number of narrow steeply dipping ore bodies known as Aztec, B-Vein, B-Vein1, Inca0, Inca1, Inca2A, Inca2B, and Mercado. The main production from the underground mine to date has been from Inca1, Aztec, and Inca2A.

The mining method used at the Casposo Mine is Longitudinal Longhole Retreat. Mine production is made up of a combination of ore development through sill drifts (34%) and stope production (66%).

The processing and recovery method is well known and widespread throughout the gold and silver mining industry, agitation leaching in tanks followed by Merrill Crowe. Gold recovery from the plant is ~91% and 83% for silver.

The table below summarises the results for the 6 months ended December 2017 and 2016 results for Casposo as well as for the 12 months ended June 2017. In addition, C1 and AISC in 2018 are forecasted to be US$800–900/oz and US$1,050–1,150/oz respectively.

| Operations | Casposo Mine | | |
|---|---|---|---|
| | 6 months ended 31 December 2017 | 6 months ended 31 December 2016 | 12 months ended 30 June 2017 |
| Processed (t) | 125,423 | 134,383 | 248,109** |
| Average Plant Grade (g/t Au) | 3.0 | 2.3 | 2.6 |
| Average Plant Grade (g/t Ag) | 331.3 | 241.6 | 215.5 |
| Gold produced (oz) | 9,939 | 8,496 | 16,793 |
| Share of Gold produced* | 6,458 | 4,715 | 9,622 |
| Silver produced (oz) | 1,022,639 | 748,372 | 1,411,282 |
| Share of Silver produced* | 715,848 | 381,670 | 811,662 |
| C1 Cash Cost (US$/AuEq oz) | 924 | 893 | 952 |
| All-in Sustaining Cost (US$/Au oz) | 1,096 | 1,200 | 1,262 |
| Realised gold price (US$/Au oz) | 1,278 | 1,278 | 1,259 |
| Realised silver price (US$/Ag oz) | 17 | 19 | 18 |

## Safety and Environmental protection

The implementation of best practice safety standards along with a sound risk management program are key priorities for Austral Gold as safety and environmental protection are core values of the Company. During the 6 months ended 2017 December 31, there were five lost-time accidents (LTA) and eleven nil-lost-time accidents (NLTA) involving employees of Casposo and third party contractors.

We share our commitment to the environment by conducting participatory social monitoring every six months. We are committed to work with local communities and suppliers and we have an environmental policy, in which we promote responsible behavior towards the environment and promote safety and health. We also seek to implement best practices in environmental management, complying with current local and international legislation.

## Casposo Mine Exploration:

Mine exploration in 2018 is expected to focus on increasing the resources of the Kamila (deeper portions of Inca 0, Aztec, Inca 2a and Inca 2b zones) and Mercado (deeper portions below the open pit) underground mine areas, plus the addition of shallow resources for open pit activities at Mercado (Mercado vein NW and SE extensions, and MV1 vein).

Channel sampling was started at the Mercado vein area, with the following preliminary results: CH1: 4.6m @ 1.98 g/t Au & 99.8 g/t Ag, CH2: 5.5m @ 2.49 g/t Au & 45.8 g/t Ag, and CH3: 3m @ 4.02 g/t Au & 22.4 g/t Ag. This sampling is expected to be completed during Q1 2018.

Underground drilling commenced in mid-December at the Kamila area, with a total of 7 DDH holes (506.7m) drilled on the Inca 0 and Aztec veins. The objective of this drill program is to extend the mineralisation at depth at the Casposo mine, following new structural interpretations. More drilling is expected to be undertaken in Q1 2018 at these two targets, plus Inca 2A, Mercado, and MV1 vein targets. Highlights from the beginning of this drill program are:

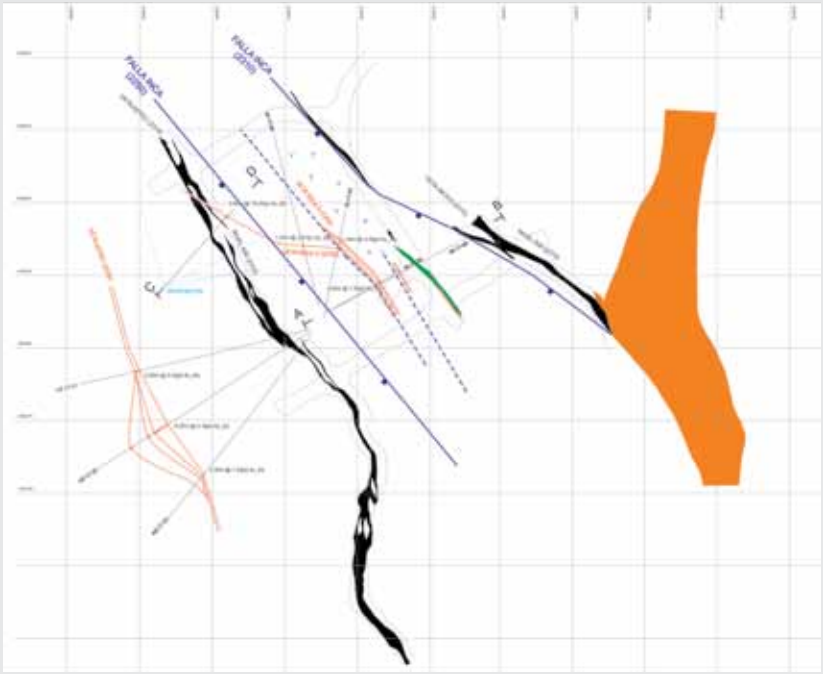
| Hole ID | From | Interval | Au (g/t) | Ag (g/t) |
|---|---|---|---|---|
| AZ-17-22 | 79.95 | 0.90 | 0.90 | 574.90 |
| IN-17-87 | 37.70 | 1.45 | 0.67 | 378.47 |

* Austral Gold owned 70% of Casposo since March 2017; 51% since March 2016
** Casposo production includes the last three Quarters of the 12 months ended 30 June 2017 and also includes production during recommissioning

## Casposo Brownfield Exploration:

Brownfield exploration in 2018 will be focused in Julieta (NW-SE vein, 5km along strike to the northwest of the Kamila and Mercado deposits, within the same regional structural corridor), Casposo Norte (E-W striking veins), Lucía (N-S striking veins) and Cerro Norte (E-W striking veins) areas.

These areas have been prioritised as highly prospective for near term potential resource additions. Activities in the 6 month period ended 31 December 2017 included revision of previous geological and geophysical information (ground magnetics and IP) from these targets, together with complimentary mapping and surface channel sampling in some areas, in order to define future drilling targets. Best results from the channel sampling are:



| Target | Sampling | Easting | Northing | Altitude | Length (m) | Au ppm | Ag ppm |
|---|---|---|---|---|---|---|---|
| Julieta | 3247 | 2434088 | 6551654 | 3359 | 1.00 | 14.59 | 78.88 |
| | 3248 | 2434066 | 6551645 | 3337 | 0.40 | 14.39 | 81.98 |
| | 3264 | 2434376 | 6551375 | 3354 | 0.80 | 15.60 | 162.05 |
| | 3265 | 2434496 | 6551322 | 3332 | 0.60 | 13.49 | 158.24 |
| Lucia | 5399 | 2439169 | 6549848 | 2460 | 0.70 | 20.50 | 196.92 |
| | 5402 | 2439210 | 6550162 | 2529 | 0.50 | 18.00 | 60.88 |
| | 5404 | 2439208 | 6550212 | 2518 | 1.00 | 21.40 | 38.07 |
| Cerro Norte | 5218 | 2440107 | 6549384 | 2420 | 1.00 | 6.23 | 9.26 |
| | 5219 | 2440077 | 6549388 | 2406 | 1.00 | 7.00 | 7.99 |
| | 5220 | 2440079 | 6549391 | 2406 | 1.00 | 7.74 | 11.77 |
| | 5290 | 2439873 | 6549272 | 2446 | 1.00 | 6.49 | 10.33 |
| | 5355 | 2439676 | 6549021 | 2505 | 0.40 | 12.10 | 26.04 |
| | 5361 | 2440055 | 6549001 | 2431 | 0.80 | 9.62 | 15.89 |

In addition, preliminary metallurgical results from (bottle roll leaching test) have returned very encouraging results from samples at Lucia and Casposo Norte; 91.72% Au and Au (92.04%) and Ag (90.19%) recovery respectively.

## Casposo Regional Exploration

During the 6 month period ended 31 December 2017 Casposo Argentina, a subsidiary of Austral Gold entered into an agreement to purchase the Cristina project, which is located just 35km from Casposo and is 11km SE of Calingasta, San Juan, Argentina. This property has been reviewed by company geologists and epithermal veins from historical work have been confirmed as prospective for precious metals. Historical grab and channel samples from the area have returned up to 23 g/t Au from quartz-carbonate-Fe oxide veins and breccias. Austral Gold has filed for additional claims (4,826 hectares) adjacent to the Cristina project.

## Pingüino Project

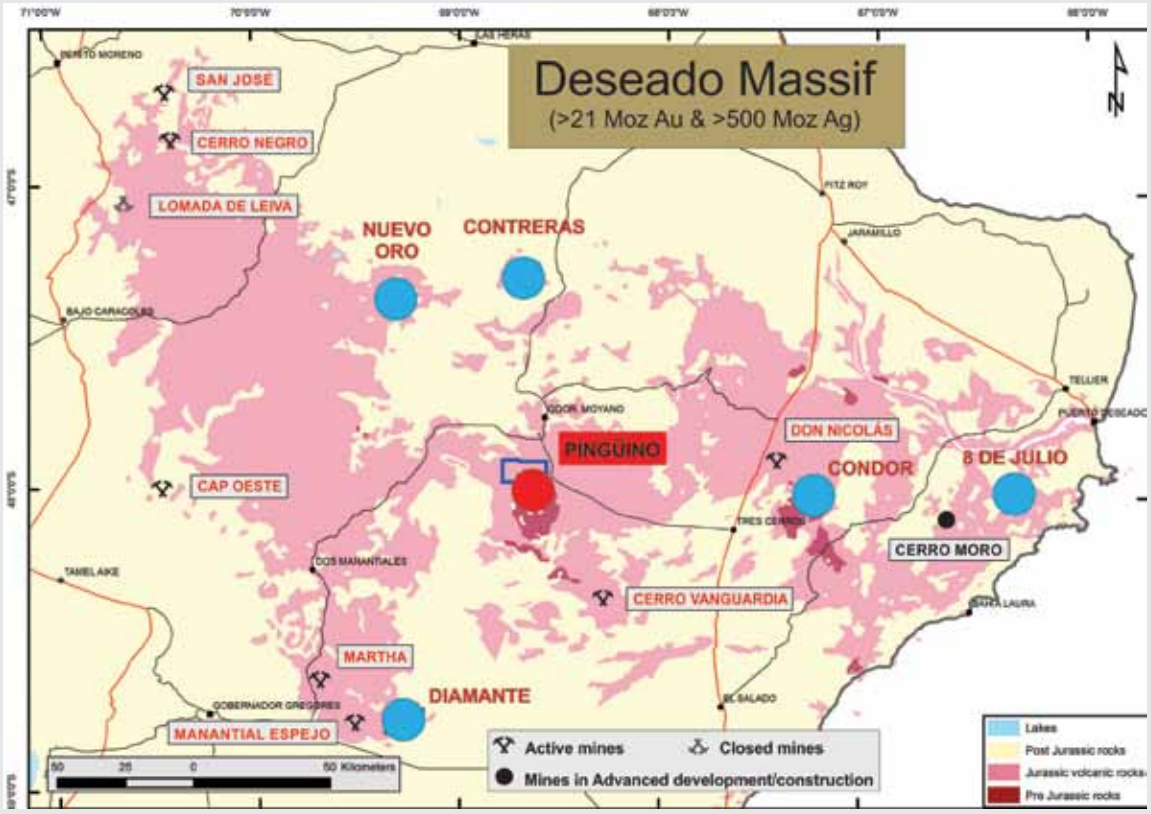
The Company completed the acquisition of Toronto Venture Exchange listed company, Argentex Mining Corporation ('Argentex') on 22 August 2016. Currently, Argentex owns 100% mineral rights of 20 properties with over 51,000 hectares of land. These properties are located within two prominent geographical features, the Deseado and Somuncura Massifs, both of which have proven to host significant epithermal precious metal deposits. The large epithermal vein swarm at Pingüino contains Argentex's discovery of indium-enriched vein-hosted base metal mineralisations which represented a new deposit type for the region, as well as low sulphidation precious metal vein mineralisation. The combination of these two types of mineralisation within the same property is unique for the province of Santa Cruz and a significant asset for the Company.

The Silver-Gold-Zinc-Lead-Indium Pingüino Project is an advanced stage development project located in south-central Argentina, 300km southwest of the city of Comodoro Rivadavia and 220km northwest of Puerto San Julián. In the last 15 years, six mines have been constructed in Santa Cruz, making it one of the most prolific precious metal provinces in the world, including world class deposits such as Cerro Vanguardia and Cerro Negro.

The Pingüino Project lies in a vein field similar but smaller to Cerro Vanguardia some 35kms north-west along same controlling structure as Pingüino deposit (225km strike length of veins vs 115 km strike length of veins).

The project has year round access, is close to major infrastructure, has no nearby communities and more than 70% of surface land is owned by the Company.

Review of the geological and resource model is planned for Q1 2018. Mineralogical samples were taken from representative samples from 27 veins. Previous mineralogical studies were limited to 9 veins.




### 8 de Julio

(100% owned)

Argentex Properties including Pingüino Project (100% owned)

**Competent person statement**
The information in this report that relates to Exploration Results listed in the Review of Activities section of this December 2017 Annual Report is based on work supervised, or compiled on behalf of, Dr. Robert Trzebski, a Non-Executive Director of the Company.

Technical Information in this included has been reviewed by Dr. Robert Trzebski, who is a fellow of the Australian Institute of Mining and Metallurgy (AUSIMM)and qualifies as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'.

Dr Robert Trzebski consents to the inclusion in the report of matters based on his information in the form and context in which it appears.

Dr Robert Trzebski has sufficient experience which is relevant to the style of mineralisation and types of deposits under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the JORC Code 2012.

# Mineral Resources & Ore Reserves Statement

Tables 1 and 2 are the Company's Mineral Reserves and Resource Estimates as at 31 December 2017 compared to Tables 3 and 4 which are the Company's Mineral Reserves and Resource Estimates as at 30 June 2017.

**Please note that numbers in the tables are subject to rounding differences.**

## Table 1: Ore Reserves Estimate

31 December 2017

| Ore Reserves (JORC 2012 and NI 43-101 Compliant) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Location | Proven Reserves | | | Probable Reserves | | | Total Ore Reserves | | |
| Gold (Au) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) |
| Guanaco | | | | | | | | | |
| Underground | 100 | 4.4 | 14 | 183 | 3.1 | 18 | 283 | 3.5 | 32 |
| **Total Guanaco** | **100** | **4.4** | **14** | **183** | **3.1** | **18** | **283** | **3.5** | **32** |
| Amancaya | | | | | | | | | |
| Open Pit | – | – | – | 157 | 7.6 | 38 | 157 | 7.6 | 38 |
| Underground | – | – | – | 693 | 6.5 | 145 | 693 | 6.5 | 145 |
| **Total Amancaya** | **–** | **–** | **–** | **850** | **6.7** | **183** | **850** | **6.7** | **183** |
| **Total Combined** | **100** | **4.4** | **14** | **1,033** | **6.1** | **201** | **1,133** | **5.9** | **215** |
| Casposo | | | | | | | | | |
| Underground | 5 | 2.7 | 0.5 | 742 | 2.6 | 63 | 747 | 2.6 | 63 |
| **Total Casposo** | **5** | **2.7** | **0.5** | **742** | **2.62** | **63** | **747** | **2.6** | **63** |
| **Total** | **105** | **4.3** | **14** | **1,775** | **4.6** | **264** | **1,880** | **4.6** | **278** |
| Silver (Ag) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) |
| Guanaco | | | | | | | | | |
| Underground | 100 | 5 | 17 | 183 | 3.6 | 21 | 283 | 4.2 | 38 |
| **Total Guanaco** | **100** | **5** | **17** | **183** | **3.6** | **21** | **283** | **4.2** | **38** |
| Amancaya | | | | | | | | | |
| Open Pit | – | – | – | 157 | 113.4 | 572 | 157 | 113 | 572 |
| Underground | – | – | – | 693 | 42.5 | 946 | 693 | 42 | 946 |
| **Total Amancaya** | **–** | **–** | **–** | **850** | **55.5** | **1,518** | **850** | **55.5** | **1,518** |
| **Total Combined** | **100** | **5** | **17** | **1,033** | **46.3** | **1,539** | **1,133** | **43** | **1,556** |
| Casposo | | | | | | | | | |
| Underground | 5 | 355 | 59 | 742 | 214 | 5,108 | 747 | 215 | 5,167 |
| **Total Casposo** | **5** | **355** | **59** | **742** | **214** | **5,108** | **747** | **215** | **5,167** |
| **Total** | **105** | **23** | **76** | **1,775** | **116** | **6,647** | **1,880** | **111** | **6,723** |

## Table 2: Mineral Resources Estimate

31 December 2017

| Mineral Resources (JORC 2012 and NI 43-101 Compliant) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Location | Measured (Me) | | | Indicated (Ind) | | | Total (Me + Ind) | | | Inferred (Inf) | | |
| Gold (Au) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) |
| Guanaco | | | | | | | | | | | | |
| Underground | 447 | 3.0 | 43 | 1,255 | 2.9 | 115 | 1,703 | 2.9 | 157 | 1,136 | 2.6 | 96 |
| **Total Guanaco** | **447** | **3.0** | **43** | **1,255** | **2.9** | **115** | **1,703** | **2.9** | **157** | **1,136** | **2.6** | **96** |
| Amancaya | | | | | | | | | | | | |
| Open Pit | 0 | 0 | 0 | 106 | 11.3 | 38 | 106 | 11.3 | 38 | 41 | 6.11 | 8 |
| Underground | 0 | 0 | 0 | 633 | 9.2 | 187 | 633 | 9.2 | 187 | 900 | 6.70 | 194 |
| **Total Amancaya** | **0** | **0** | **0** | **739** | **9.5** | **225** | **739** | **9.5** | **225** | **941** | **6.7** | **203** |
| **Total Combined** | **447** | **3.0** | **43** | **1,994** | **5.3** | **341** | **2,441** | **4.9** | **382** | **2,077** | **4.5** | **299** |
| Casposo | | | | | | | | | | | | |
| Underground | 167 | 2.7 | 14 | 1,144 | 3.0 | 110 | 1,311 | 2.9 | 124 | 1,050 | 4.2 | 142 |
| **Total Casposo** | **167** | **2.7** | **14** | **1,144** | **3.0** | **110** | **1,311** | **2.9** | **124** | **1,050** | **4.2** | **142** |
| **Total** | **615** | **2.9** | **57** | **3,138** | **4.5** | **451** | **3,753** | **4.2** | **507** | **3,127** | **4.4** | **441** |
| Silver (Ag) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) |
| Guanaco | | | | | | | | | | | | |
| Underground | 447 | 17 | 244 | 1,255 | 15 | 596 | 1,703 | 15 | 840 | 1,136 | 13 | 485 |
| **Total Guanaco** | **447** | **17** | **244** | **1,255** | **15** | **596** | **1,703** | **15** | **840** | **1,136** | **13** | **485** |
| Amancaya | | | | | | | | | | | | |
| Open Pit | 0 | 0 | 0 | 106 | 169 | 576 | 106 | 169 | 576 | 41 | 77 | 101 |
| Underground | 0 | 0 | 0 | 633 | 54 | 1,109 | 633 | 54 | 1,109 | 900 | 31 | 901 |
| **Total Amancaya** | **0** | **0** | **0** | **739** | **71** | **1,682** | **739** | **71** | **1,682** | **941** | **33** | **1,001** |
| **Total Combined** | **447** | **17** | **244** | **1,994** | **36** | **2,278** | **2,441** | **32** | **2,522** | **2,077** | **22** | **1,485** |
| Casposo | | | | | | | | | | | | |
| Underground | 167 | 257 | 1,382 | 1,144 | 206 | 7,568 | 1,311 | 212 | 8,950 | 1,050 | 136 | 4,605 |
| **Total Casposo** | **167** | **257** | **1,382** | **1,144** | **206** | **7,568** | **1,311** | **212** | **8,950** | **1,050** | **136** | **4,605** |
| **Total** | **615** | **82** | **1,625** | **3,138** | **98** | **9,846** | **3,753** | **95** | **11,472** | **3,127** | **61** | **6,091** |

## Table 3: Ore Reserves Estimate

30 June 2017

| Ore Reserves (JORC 2012 and NI 43-101 Compliant)Ore (JORC 2012 and NI 43-101 Compliant) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Location | Proven Reserves | | | Probable Reserves | | | Total Ore Reserves | | |
| Gold (Au) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) |
| Guanaco | | | | | | | | | |
| Underground | 126 | 3.9 | 16 | 200 | 3.2 | 21 | 326 | 3.5 | 36 |
| **Total Guanaco** | **126** | **3.9** | **16** | **200** | **3.2** | **21** | **326** | **3.5** | **36** |
| Amancaya | | | | | | | | | |
| Open Pit | – | – | – | 255 | 7.6 | 62 | 255 | 7.6 | 62 |
| Underground | – | – | – | 693 | 6.5 | 145 | 693 | 6.5 | 145 |
| **Total Amancaya** | **–** | **–** | **–** | **948** | **6.8** | **207** | **948** | **6.8** | **207** |
| **Total Combined** | **126** | **3.9** | **16** | **1,148** | **6.2** | **228** | **1,274** | **5.9** | **244** |
| Casposo | | | | | | | | | |
| Underground | 27 | 2.0 | 2.0 | 792 | 2.6 | 66 | 819 | 2.6 | 68 |
| **Total Casposo** | **27** | **2.0** | **2.0** | **792** | **2.6** | **66** | **819** | **2.6** | **68** |
| **Total** | **153** | **3.6** | **18** | **1,940** | **4.7** | **294** | **2,093** | **4.6** | **311** |
| Silver (Ag) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) |
| Guanaco | | | | | | | | | |
| Underground | 126 | 4.8 | 19 | 200 | 3.7 | 24 | 326 | 4.1 | 43 |
| **Total Guanaco** | **126** | **4.8** | **19** | **200** | **3.7** | **24** | **326** | **4.1** | **43** |
| Amancaya | | | | | | | | | |
| Open Pit | – | – | – | 255 | 119.5 | 980 | 255 | 119.5 | 980 |
| Underground | – | – | – | 693 | 42.5 | 946 | 693 | 42.5 | 946 |
| **Total Amancaya** | **–** | **–** | **–** | **948** | **63.2** | **1,926** | **948** | **63.2** | **1,926** |
| **Total Combined** | **126** | **4.8** | **19** | **1,148** | **52.8** | **1,950** | **1,274** | **48.1** | **1,969** |
| Casposo | | | | | | | | | |
| Underground | 27 | 320.0 | 278 | 792 | 227.0 | 5,780 | 819 | 230.1 | 6,058 |
| **Total Casposo** | **27** | **320.0** | **278** | **792** | **227.0** | **5,780** | **819** | **230.1** | **6,058** |
| **Total** | **153** | **60.4** | **297** | **1,940** | **123.9** | **7,730** | **2,093** | **119.3** | **8,027** |

## Table 4: Mineral Resources Estimate

30 June 2017

| Mineral Resources (JORC 2012 and NI 43-101 Compliant) | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Location | Measured (Me) | | | Indicated (Ind) | | | Total (Me + Ind) | | | Inferred (Inf) | | |
| Gold (Au) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) |
| Guanaco | | | | | | | | | | | | |
| Underground | 583 | 3.0 | 57 | 1,436 | 2.9 | 132 | 2,019 | 2.9 | 189 | 1,165 | 2.6 | 97 |
| **Total Guanaco** | 583 | 3.0 | 57 | 1,436 | 2.9 | 132 | 2,019 | 2.9 | 189 | 1,165 | 2.6 | 97 |
| Amancaya | | | | | | | | | | | | |
| Open Pit | – | – | – | 172 | 11.2 | 62 | 172 | 11.2 | 62 | 60 | 7.6 | 15 |
| Underground | – | – | – | 633 | 9.2 | 187 | 633 | 9.2 | 187 | 900 | 6.7 | 194 |
| **Total Amancaya** | **–** | **–** | **–** | 805 | 9.6 | 250 | 805 | 9.6 | 250 | 960 | 6.8 | 209 |
| **Total Combined** | 583 | 3.0 | 57 | 2,241 | 5.3 | 382 | 2,824 | 4.8 | 438 | 2,125 | 4.5 | 306 |
| Casposo | | | | | | | | | | | | |
| Underground | 176 | 2.7 | 15 | 1,186 | 3.0 | 114 | 1,362 | 3.0 | 130 | 1,052 | 4.2 | 142 |
| **Total Casposo** | 176 | 2.7 | 15 | 1,186 | 3.0 | 114 | 1,362 | 3.0 | 130 | 1,052 | 4.2 | 142 |
| **Total** | 759 | 2.9 | 72 | 3,427 | 4.5 | 496 | 4,186 | 4.2 | 568 | 3,177 | 4.4 | 448 |
| Silver (Ag) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) | Tonnes (Kt) | Grade (g/t) | Contained Metal (koz) |
| Guanaco | | | | | | | | | | | | |
| Underground | 583 | 13.7 | 257 | 1,436 | 13.4 | 619 | 2,019 | 13.5 | 875 | 1,165 | 13.0 | 487 |
| **Total Guanaco** | **583** | **13.7** | **257** | **1,436** | **13.4** | **619** | **2,019** | **13.5** | **875** | **1,165** | **13.0** | **487** |
| Amancaya | | | | | | | | | | | | |
| Open Pit | – | – | – | 172 | 177.5 | 982 | 172 | 177.5 | 982 | 60 | 110.0 | 212 |
| Underground | – | – | – | 633 | 54.5 | 1,109 | 633 | 54.5 | 1,109 | 900 | 31.0 | 897 |
| **Total Amancaya** | **–** | **–** | **–** | 805 | 37.9 | 2,091 | 805 | 80.8 | 2,091 | 960 | 35.9 | 1,109 |
| **Total Combined** | 583 | 13.7 | 257 | 2,241 | 37.6 | 2,709 | 2,824 | 32.7 | 2,966 | 2,125 | 23.4 | 1,596 |
| Casposo | | | | | | | | | | | | |
| Underground | 176 | 251.0 | 1,420 | 1,186 | 218.2 | 8,320 | 1,362 | 222.4 | 9,740 | 1,052 | 137.0 | 4,634 |
| **Total Casposo** | 176 | 251.0 | 1,420 | 1,186 | 218.2 | 8,320 | 1,362 | 222.4 | 9,740 | 1,052 | 137.0 | 4,634 |
| **Total** | 759 | 68.7 | 1,677 | 3,427 | 100.1 | 11,030 | 4,186 | 94.4 | 12,707 | 3,177 | 61.0 | 6,230 |

# Notes to the Mineral Resources & Ore Reserves Statement

## Casposo Mine

The RPA Qualified Persons ('QP') for the Casposo Reserve and Resource Estimate include: Jason J. Cox, P.Eng. (Mineral Reserves) and Chester M. Moore, P.Eng., (Mineral Resources). The Mineral Resources and Reserves are classified and reported in accordance with Canadian Institute of Mining, Metallurgy and Petroleum Definition Standards for Mineral Resources and Ore Reserves dated May 10, 2014 ('CIM') definitions as incorporated in NI 43-101, as well as JORC 2012, within the Technical Report on the Casposo Gold-Silver Mine, Department of Calingasta, San Juan Province, Argentina dated 7 September 2016.

Mineral resources have been updated to account for depletion from mining activities by Nicolas Pizarro, P.Eng, an Austral Gold employee and a QP as per NI-43-101 and a Competent Person ('CP') as per JORC 2012. Ore reserves have been updated to account for depletion from mining activities by Dr Robert Trzebski, who is an Independent Director of Austral Gold, and a QP as per NI-43-101 and a CP as per JORC 2012.

The information is extracted from the news release published on the ASX website (www.asx.com.au) on 27 September 2016. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the CP's findings are presented have not been materially modified from the original market announcement.

## Guanaco and Amancaya Mines

The RPA Qualified Persons (QPs) for the Amancaya and Guanaco Reserve and Resource Estimate include: Kathleen Ann Altman, P.E., Ph.D. (Metallurgy); Jason J. Cox, P.Eng. (Mineral Reserves); Ian Weir, P.Eng. (Mineral Reserves); Chester M. Moore, P.Eng., (Mineral Resources). The Mineral Resources and Reserves are classified and reported in accordance with CIM definitions as incorporated in NI 43-101, as well as JORC 2012, within the Guanaco and Amancaya Gold Project, Region II, Chile, dated 16 June, 2017, with an effective date of 31 December 2016. Mineral resources have been updated to account for depletion from mining activities by Nicolas Pizarro, P.Eng, an Austral Gold employee and a QP as per NI-43-101 and a CP as per JORC 2012. Ore reserves have been updated to account for depletion from mining activities by Dr Robert Trzebski, who is an Independent Director of Austral Gold, and a QP as per NI-43-101 and a CP as per JORC 2012.

The information is extracted from the news release published on the ASX website (www.asx.com.au) on 13 June 2017. The Company confirms that it is not aware of any new information or data that materially affects the information included in the original market announcement and, in the case of estimates of Mineral Resources or Ore Reserves, that all material assumptions and technical parameters underpinning the estimates in the relevant market announcement continue to apply and have not materially changed. The Company confirms that the form and context in which the CP's findings are presented have not been materially modified from the original market announcement.

The Company ensures that the Ore Reserves and Mineral Resource Estimates are subject to appropriate levels of governance and internal controls.

Governance of the Company's Ore Reserves and Mineral Resources development and the estimation process is a key responsibility of the Executive Management of the Company.

The Chief Executive Officer of the Company oversees the review and technical evaluations of the Ore Reserves and Mineral Resource estimates.

## Competent Persons Statements

The information in the report to which this statement is attached that relates to Mineral Resources is based upon information compiled by Nicolas Pizarro, a Competent Person who is a registered member of The Association of Professional Engineers and Geoscientists of BC. Nicolas Pizarro is a full time employee of the company and has sufficient experience that is relevant to the style of mineralisation and the type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Nicolas Pizarro consents to the inclusion in the report of matters based on his information in the form and context in which it appears.

The information in the report to which this statement is attached that relates to Ore Reserves is based upon information compiled by Dr Robert Trzebski, a Competent Person who is a fellow of the Australian Institute of Mining and Metallurgy (AUSIMM). Dr Robert Trzebski is a Non-Executive Director of the Company and has sufficient experience that is relevant to the style of mineralisation and the type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Dr Robert Trzebski consents to the inclusion in the report of matters based on his information in the form and context in which it appears.

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# Directors' Report

## Austral Gold Limited and its Subsidiaries

For the 6 Months Ended 31 December 2017

Your Directors present the following report for the 6-month period ended 31 December 2017 together with the consolidated financial report of Austral Gold Limited (the Company) and its subsidiaries, (referred to hereafter as the Group) and the auditor's report thereon. The report is for the 6-month period ended 31 December 2017 as the Company changed its year end to align the Company's financial year with that of its operating subsidiaries.

## Principal Activities

The principal activities of the Group during the course of the 6-month period were gold and silver production, commissioning of the Company's new agitation leaching plant in Chile, commencement of open pit operations at Amancaya and exploration and evaluation of mineral properties as described in the Review of Activities. There were no significant changes in the nature of those activities during the period.

## Review and Results of Operations

**Operating Results and Dividends**

The Group's net loss attributable to shareholders for the 6-month period ended 31 December 2017 (FYD17) was US$13.380m (12 months ended 30 June 2017: net loss US$4.480m) (FYJ17).

The Group earned sales revenue of US$48.867m in FYD17 (FYJ17: US$101.025m) as production (100% basis) was 35,335 AuEq oz (FYJ17: 66,609 AuEq oz). The decrease in revenue was due to (i) 6-month period as compared to a 12-month year (ii) delays in the commissioning phase of the new agitation leaching plant in Chile which led to lower throughput, (iii) lower head grades due to the initial modelling and selectivity challenges at Amancaya, and (iv) lower recoveries with higher cyanide consumption at Guanaco.

## FYD17 Production Summary

| Operations | Guanaco/ Amancaya Mines | | | Casposo Mine (100% basis) | | | Net to Austral Gold* | | |
|---|---|---|---|---|---|---|---|---|---|
| | 6 months ended Dec 2017 | 6 months ended Dec 2016 | 12 months ended June 2017 | 6 months ended Dec 2017 | 6 months ended Dec 2016 | 12 months ended June 2017 | 6 months ended Dec 2017 | 6 months ended Dec 2016 | 12 months ended June 2017 |
| Processed (t) | 201,148 | 281,848 | 505,711 | 125,423 | 134,383 | 248,109 | 288,944 | 350,383 | 653,855 |
| Gold produced (oz) | 17,456 | 26,575 | 44,275 | 9,939 | 8,946 | 16,793 | 24,414 | 31,137 | 54,330 |
| Silver produced (oz) | 117,497 | 30,470 | 58,832 | 1,022,639 | 748,372 | 1,411,282 | 833,344 | 412,140 | 904,539 |
| Gold-Equivalent (oz) | 18,997 | 26,985 | 45,098 | 23,340 | 18,718 | 35,811 | 35,335 | 36,531 | 66,609 |
| C1 Cash Cost (US$/AuEq oz) | 1,103 | 591 | 759 | 924 | 893 | 952 | 1,004 | 715 | 844 |
| All-in Sustaining Cost (US$/Au oz) | 1,330 | 746 | 908 | 1,096 | 1,200 | 1,262 | 1,201 | 932 | 1,065 |
| Realised gold price (US$/Au oz) | 1,276 | 1,281 | 1,251 | 1,278 | 1,278 | 1,259 | 1,277 | 1,280 | 1,253 |
| Realised silver price (US$/Ag oz) | 17 | 19 | 17 | 17 | 19 | 18 | 17 | 19 | 18 |

Overall operating cash costs were US$994/AuEq oz during FYD17 compared to US$849/AuEq oz during FYJ17. Operating cash costs at Casposo were relatively constant during FYD17 (US$ 924/AuEq oz) when compared to FYJ17 cash cost of US$998/AuEq oz. The higher costs in FYJ17 were due to the start-up of the Casposo mine. The cash costs of production at the Guanaco/Amancaya mine increased from US$759/AuEq oz as of FYJ17 to US$1,103/AuEq oz in FYD17. The increase in costs was mainly due to the commissioning phase of the new agitation leaching plant.

The Group incurred a negative gross profit of US$3.958m (including US$13.910m of depreciation and amortization) during FYD17 (FYJ17: gross profit US$9.586m or 9.5% and US$29.993m respectively). Excluding depreciation, the Group earned a gross profit of US$9.952m or 20.4% (FYJ17: US$39.579m or 39.2%).

FYD17 administration expenses were US$8.645m (FYJ17: US$15.498m), an increase of approximately 2.5% as a percentage of revenue. The increase is mainly due to higher payroll expenses due to a performance bonus paid in shares to the CEO, the hiring of a new COO in August 2017 and certain severance payable from the termination of employment agreements between the Company and its former Vice President of Corporate Development and General Manager of Casposo.

A gain on movements in financial assets of US$0.625m was realised in FYD17 compared to a loss of US$2.017 in FYJ17. The gain realised in FYD17 was primarily due to the increase in the value of the option to acquire the remaining 30% interest in Casposo and other financial assets held by the Company.

Finance costs were US$3.027m in FYD17 compared to US$1.023 in FYJ17. The increase was mainly due to an increase in the loss in foreign exchange which was mainly due to the decrease in the US dollar versus the Chilean pesos. In addition, interest expense was higher for the FYD17 when extrapolated for 12 months as compared to FYJ17 due to the increased debt secured by the Company primarily in Chile to address higher working capital requirements during the commissioning phase of the new agitation leaching plant.

FYD17 EBITDA was US$1.932 (FYD17: US$22.064m). Excluding the gain/(loss) on movements in financial assets FYD17 resulted in adjusted EBITDA of US$1.307m (FYJ17: US$24.081m).

| | 6 months ended 31 December 2017 US$000 | 12 months ended 30 June 2017 US$000 |
|---|---|---|
| Revenue | 48,867 | 101,025 |
| Gross (loss) profit | (3,958) | 9,586 |
| Gross (loss) profit % | (8.1%) | 9.49% |
| Adjusted gross profit (excluding depreciation and amortization) | 9,952 | 39,579 |
| Adjusted gross profit % | 20.37% | 39.18% |
| EBITDA | 1,932 | 22,064 |
| EBITDA per share (basic) | 0.37c | 4.30c |
| Adjusted EBITDA* | 1,307 | 24,081 |
| Adjusted EBITDA per share (basic) | 0.25c | 4.69c |
| (Loss)/profit attributed to shareholders | (13,299) | (4,380) |
| (Loss)/profit attributed to non-controlling interests | (81) | (100) |
| (Loss)/earnings per share (Basic) | (2.56)c | (0.85)c |
| (Loss) /earnings per share (Diluted) | (2.56)c | (0.85)c |
| Comprehensive loss/(income) | (13,357) | (3,905) |

*excluding gain/(loss) on financial assets
Note: Readers are cautioned that adjusted gross profit and net/(loss) profit before finance costs, income tax expense and depreciation ('Adjusted EBITDA') do not have standardised meanings as prescribed by IFRS and may not be comparable to similar measures presented by other companies. Further, readers are cautioned that Adjusted EBITDA should not replace profit or loss or cash flows from operating, investing and financing activities (as determined in accordance with IFRS), as an indicator of the Company's performance. are cautioned that Adjusted EBITDA should not replace profit or loss or cash flows from operating, investing and financing activities (as determined in accordance with IFRS), as an indicator of the Company's performance.

**Financial Position**

The net assets of the Group have decreased by US$11.963m since 30 June 2017 to US$91.416m at 31 December 2017 (30 June 2017: US$103.379m). Working capital was US$1.415m at 31 December 2017, a decrease of US$10.236m compared to working capital of US$11.651m at 30 June 2017. The decrease in working capital arose mainly due to delays in the commissioning phase of the new agitation leaching plant at Guanaco and related the other issues as described above.

Trade and other receivables decreased by US$2.314m mainly due to a decrease in VAT credits due to collections and the depreciation of the ARS against the US dollar.

Inventory increased by US$3.484m and is mainly due to (i) the higher stock of ore at in Guanaco due to the startup of the open pit operation at Amancaya, the accumulated stock due to the new plant not operating at full capacity; and (ii) higher stock of material and supplies at Guanaco. There was no change in the allowance for inventory obsolescence during the 6-month period ended December 2017.

Non-current assets decreased by US$3.854m in FYD17 compared to FYJ17 primarily due to the depreciation of the mine properties and property, plant and equipment. The decrease was slightly offset by an increase in deferred tax assets.

Trade and other payables increased by $US9.031m in FYD17 compared to FYJ17 and is mainly due to higher payables at Guanaco which resulted from delays in the commissioning phase of the new agitation leaching plant at Guanaco.

**Cash flow**

Net cash provided from operating activities before and after changes in assets and liabilities was US$2.008m and US$9.181m during FYD17 compared to US$27.909m and US$27.626m during FYJ17 respectively. In addition to the FYD17 being for 6 months compared to 12 months for FYJ17, the decrease is mainly due to lower cash generation at Guanaco as described above.

Cash used in investing activities totaled US$8.072m during FYD17 compared to US$41.323m during FYJ17. Cash was used for capital expenditures, primarily at Guanaco-US$7.469m (FYJ17-US$34.480m) and for exploration and evaluation-US$0.744m (FYJ17-US$1.008m).

Cash flows from financing activities were US$(591K) during FYD17 compared to US$7.913m during FYJ17. There was a slight decrease in net borrowings/financial leases during DYD17.

**Liquidity**

As at 31 December 2017, the Group had a current ratio equal to 1.03x (FYJ171.39x) along with US$6.612m (FYD17 $6.094m) cash and cash equivalents. Subsequent to 2017 December 31, the Group obtained US$2.0 million from a revolving facility with Santander Chile. Although the Group's financial position weakened during the 6 month period, the Group forecasts record production of 92,000 gold equivalent ounces in FY18 and the Directors are confident that the Company is in a position to maintain its current operations.

**Significant Changes in the State of Affairs**

During the financial year, the Group changed its financial year end to 31 December. Other changes are disclosed in the Review and Results of Operations above.

## Future Developments, Prospects and Business Strategies

In terms of organic growth, exploration is a key activity for the Company. Activity will be focused primarily on Casposo and Amancaya. Austral Gold has and continues to work on advancing technical changes at its 70% owned and operated Casposo mine and it forecasts an increase in production and reduction of per unit production costs in FY18. Discovery of additional ounces to feed the mill is a key goal to potentially improve production efficiency. Brownfield exploration is ongoing and there are numerous indications of mineralisation that are currently being investigated and are the ongoing focus for exploration activities at Casposo. Located to the north of the open pit operation at Amancaya, the recent discovery of high grade mineralisation from trenching, the Nueva Vein, is a potentially significant discovery given its closeness to Guanaco and Amancaya. Exploration by Austral Gold has already doubled the strike length of known veins on the property and delineation of drill targets and continued greenfield exploration will be a high priority for the Company. The Company is also looking to advance its silver-zinc-gold-lead-indium Pingüino project in Santa Cruz Argentina, given the current outlook for zinc and the significant potential of untested veins on the project.

The expertise and proven track record in precious metal underground mining, agitation leaching, exploration and strong local networks is a considerable competitive advantage for Austral Gold. The Company hopes to leverage these capabilities in identifying and securing new projects in Latin America to create value for shareholders and is very active in searching for and evaluating such opportunities.

## Performance In Relation to Environmental Regulation

The Group has no exploration activities in Australia and is therefore not subject to any particular and significant environmental regulations under a law of the Commonwealth or of a State or Territory.

In relation to the Group's mineral exploration operations in Chile and Argentina, the Directors are not aware of any breaches during the period covered by this report.

# The Directors

The Directors and Officers of the Company throughout & since the end of the financial period.

## Eduardo Elsztain
Chairman

Mr. Eduardo Elsztain is Chairman of IRSA Inversiones y Representaciones S.A. (NYSE:IRS; BASE:IRSA), one of Argentina's largest and most diversified real estate companies; and IRSA Commercial Properties (NASDAQ:IRCP; BASE: IRCP), with 16 shopping centres in Argentina, premium office buildings, five-star hotels and residential developments. These investments are also extended into the US real estate market.

He also serves as Chairman of Cresud (NASDAQ:CRESY; BASE: CRES) and BrasilAgro (NYSE:LND; BVMF: AGRO3), leading Latin American agricultural companies that own directly and indirectly almost one million hectares of farmland.

Mr Elsztain is also Chairman of Banco Hipotecario S.A. (BASE:BHIP) and of BACS, a leading Argentinean bank specialised in providing innovative financial solutions to local companies.

He is Chairman of IDB Development, a leading conglomerate in Israel which directly and indirectly owns Discount Investment Corporation Ltd. (TASE: DISI); Property & Building Corp. (TASE: PTBL); Elron Electronic Industries (TASE: ELRN); Clal Insurance Enterprises Holdings (TASE: CLIS); Shufersal (TASE: SAE); and Cellcom (NYSE: CEL; TASE: CEL), among others.

Mr. Elsztain has not held any other Directorships with Australian or Canadian listed companies in the last three years.

Mr. Elsztain is also a member of the World Economic Forum, the Council of the Americas, the Group of 50 and Argentina's Business Association (AEA).

He is President of Fundación IRSA, which promotes education among children and young people, including "Puerta 18", a program that provides free computing and technology education for young people from low-income backgrounds in order to develop their scientific, artistic and professional talents.

Appointed Director 29 Jun 2007
Appointed Chairman on 2 Jun 2011
Re-elected by shareholders on 29 Nov 2017

## Stabro Kasaneva
Executive Director, Chief Executive Officer

Mr. Kasaneva is a Geologist with a degree from the Universidad Católica del Norte, Chile and has over 30 years of experience in production geology, exploration and management of precious metal mining operations.

Since Mr. Kasaneva joined Austral Gold in 2009, he has been instrumental in transforming the Company by consolidating the operation of Guanaco Mine in Chile, restarting operations at the Casposo Mine in Argentina as well as identifying a number of opportunities that represent the growth potential for Austral Gold.

Throughout his career as a geologist, he worked on exploration and production gaining vast experience in grade control, QA/QC, modeling and geological resources estimation.

Mr. Kasaneva led Business Development Departments for several years evaluating a number of mining business opportunities in South America, Central America and North America. He has held the roles of General Manager of Mining Operations, Vice-President of Operations and COO.

Mr. Kasaneva has not held any other Directorships.

Appointed 7 Oct 2009
Re-elected by shareholders on 29 Nov 2017

## Saul Zang
Non-Executive Director

Mr. Zang obtained a law degree from Universidad de Buenos Aires. He is a founding member of the law firm Zang, Bergel & Viñes.

Mr Zang is an adviser and Member of the Board of Directors of the Buenos Aires Stock Exchange and provides legal advice to national and international companies.

Mr Zang currently holds:

I. Vice-Chairmanships on the Boards of IRSA (NYSE: IRS, BASE: IRSA), IRSA Commercial Properties (NASDAQ: IRCP, BASE: IRCP), Cresud (NASDAQ: CRESY, BASE: CRES) and

II. Directorships with Banco Hipotecario (BASE: BHIP), BrasilAgro (NYSE: LND, BVMF:AGRO3), IDB Development – 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.

Mr Zang has not held any other Directorships with listed companies in the last three years.

Appointed 29 Jun 2007
Re-elected by shareholders on 29 Nov 2017

# The Directors & Members of Audit Committee

## Wayne Hubert

Non-Executive Director,
Member of the Audit Committee

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 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. In addition to his role at Austral Gold Limited, Mr Hubert is the Chief Executive Officer and Director of InZinc Mining Limited (TSX-V: IZN).

Appointed 18 Oct 2011
Re-elected by shareholders on 29 Nov 2017

## Ben Jarvis

Non-Executive Director

Mr Jarvis is the Managing Director of Six Degrees Investor Relations, an Australian advisory firm that provides investor relations services to a broad range of companies listed on the Australian Securities Exchange.

Mr Jarvis was educated at the University of Adelaide where he majored in Politics.

Mr Jarvis has not held any other Directorships with listed companies in the last three years.

Appointed 2 Jun 2011
Re-elected by shareholders on 29 Nov 2017

The Company's Board believes that a highly credentialed Board, with a diversity of background, skills and perspectives, will be effective in supporting and enabling delivery of good governance for the Company and value for the Company's shareholders. The Board brings a broad mix of experience and skills to the Company including in the areas of corporate governance, legal, geological expertise and financial management.

## Pablo Vergara del Carril

Non-Executive Director,
Member of the Audit Committee

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.

He is a member of the International Bar Association, the American Bar Association and the AMCHAM, among other legal and business organisations. He is a founding Board member of the recently incorporated Australian-Argentinean Chamber of Commerce. He is a Board member of the Argentine Chamber of Corporations and also an officer of its Legal Committee. He is recognised as a leading lawyer in Corporate, Real Estate, M&A, Banking & Finance and Real Estate Law by international publications such as Chamber & Partners, Legal 500, International Financial Law Review, Latin Lawyer and Best Lawyer.

He is a Director of Banco Hipotecario SA. (BASE: BHIP), Nuevas Fronteras (owner of the Intercontinental Hotel in Buenos Aires), IRSA Commercial Properties (NASDAQ: IRCP, BASE: APSA) and Emprendimiento Recoleta SA (owner of the Buenos Aires Design Shopping Centre), among other companies. Mr Vergara del Carril is also a Director of Guanaco Mining Company Limited and Guanaco Capital Holding Corp.

Mr Vergara del Carril has not held any other Directorships with listed companies in the last three years.

Appointed 18 May 2006
Re-elected by shareholders on 29 Nov 2017

## Robert Trzebski

Non-Executive Director,
Chairman of the Audit Committee

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 Ltd. As 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.

Dr Trzebski has not held any other Directorships with listed companies in the last three years.

Appointed 10 Apr 2007
Re-elected by shareholders on 29 Nov 2017

# Company Secretary

## Andrew Bursill
(Franks & Associates), Company Secretary

Mr. Bursill holds a Bachelor of Agricultural Economics from the University of Sydney and is a Chartered Accountant, qualifying with PricewaterhouseCoopers (formerly Price Waterhouse).

Since commencing his career as an outsourced CFO and Company Secretary in 1998, Mr Bursill has been CFO, Company Secretary and/ or Director for numerous ASX listed, unlisted public and private companies, in a range of industries covering mineral exploration, oil and gas exploration, biotechnology, technology, medical devices, retail, venture capital and wine manufacture and distribution.

In addition to his role at Austral Gold Limited, Mr Bursill is currently a Director of Argonaut Resources Limited.

Appointed 10 Jan 2014

## Austral Gold represents a compelling story

- Experienced Technical team with proven epithermal track record (El Peñon, Guanaco, Pingüino, Amancaya, Casposo) able to leverage underground narrow vein mining experience
- Experienced operators in Chile and Argentina with significant growth potential, and self supporting cash flow
- Exceptional networking in Chile and Argentina and a deep knowledge of the industry in both countries

## Directors' Meetings

The number of Directors' meetings (including meetings of Committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year were:

| | Directors' meetings | | Audit Committee meetings | |
|---|---|---|---|---|
| Director | A | B | A | B |
| Pablo Vergara del Carril | 1 | 1 | 1 | 1 |
| Robert Trzebski | 1 | 1 | 1 | 1 |
| Wayne Hubert | 1 | 1 | 1 | 1 |
| Eduardo Elsztain | 1 | 1 | N/A | N/A |
| Saul Zang | 1 | 1 | N/A | N/A |
| Stabro Kasaneva | 1 | 1 | N/A | N/A |
| Ben Jarvis | 1 | 1 | N/A | N/A |

A: Number of meetings attended

B: Number of meetings held during the time the Director held office during the financial year

Board & Audit Committee Meetings held from July 2017 — December 2017

## Shares and Options

At the date of this report there are no options over the Company's ordinary shares.

During or since the end of the financial year, the Company has not granted options over its ordinary shares.

## Indemnity and Insurance of Officers

Under a deed of access, indemnity and insurance, the Company indemnifies each person who is a Director or secretary of Austral Gold Limited against:

- any liability (other than for legal costs) incurred by a Director or secretary in his or her capacity as an officer of the Company or of a subsidiary of the Company; and
- reasonable legal costs incurred in defending an action for a liability incurred or allegedly incurred by a secretary in his or her capacity as an officer of the Company or of a subsidiary of the Company.

The above indemnities:

- apply only to the extent the Company is permitted by law to indemnify a Director or secretary;
- are subject to the Company's constitution and the prohibitions in section 199A of the Corporations Act; and
- apply only to the extent and for the amount that a Director or secretary is not otherwise entitled to be indemnified and is not actually indemnified by another person (including a related body corporate or an insurer).

## Indemnity and Insurance of Auditor

- The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.
- During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

## Interests Key Management Personnel

- The relevant interest of each Director (directly or indirectly) in the share capital of the Company, as notified by the Directors to the Australian Securities Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

| Director | Ordinary Shares |
|---|---|
| P Vergara del Carril | 68,119 |
| R Trzebski | - |
| E Elsztain | 451,573,010 |
| S Zang | 1,435,668 |
| S Kasaneva | 6,881,230 |
| B Jarvis | - |
| W Hubert | 1,750,000 |
| R Ramirez | 279,514 |
| M Brown | 34,716 |

It is also noted:

1. P Vergara del Carril, E Elsztain and S Zang are Directors of Guanaco Capital Holding Corp which holds 31,386,890 shares according to the last substantial holder notice lodged in November 2017.
2. E Elsztain and S Zang are Directors of IFISA which holds 414,880,857 shares according to the last substantial holder notice lodged in November 2017.

E Elsztain is the ultimate beneficial owner of IFISA.

## Remuneration Report (Audited)

**Remuneration Policy**

The full Board of Austral Gold is responsible for determining remuneration policies in respect of executives and Key Management Personnel (KMP).

The Company has a Remuneration Policy that aims to ensure the remuneration packages of Directors and senior executives properly reflect the person's duties, responsibilities and level of performance, as well as ensuring that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

The level of remuneration for non-executive Directors is considered with regard to the practices of other public companies and the aggregate amount of fees paid to non-executive Directors approved by shareholders.

At this stage, the level of remuneration is based on market rates and is not directly linked to shareholders' wealth.

**The Key Management Personnel (KMP) during or since the end of the financial year were:**
The Directors of the Group during or since the end of the financial year:

- **Eduardo Elsztain** Non-Executive Chairman
- **Saul Zang** Non-Executive Director
- **Pablo Vergara de Carril** Non-Executive Director
- **Wayne Hubert** Non-Executive Director
- **Robert Trzebski** Non-Executive Director
- **Ben Jarvis** Non-Executive Director
- **Stabro Kasaneva** Chief Executive Officer

The Senior Executive KMP during or since the end of the financial year:

- **José Bordogna** Chief Financial Officer
- **Juan Andres Morel** Chief Operating Officer (Appointed 7 August 2017)
- **Rodrigo Ramirez** Vice President Technical Services (Appointed 7 August 2017)
- **Diego Guido** Vice President Exploration
- **Michael Brown** Vice President Corporate Development

**Remuneration of KMP**
The Group has employment agreements with all executive KMP in accordance with the laws in the jurisdiction in which the KMP is employed.

Remuneration of executive KMP is made up of a fixed component and a variable component comprising short-term and long-term goals. Performance against pre-deter-mined targets (KPIs) are used to determine the portion of the variable component paid annually.

The KPIs are based on financial and non-financial indicators and include production, safety, cash flow generation and new business and value accretive investments.

**Link Between Remuneration and Performance**
The Group aims to align its executive remuneration to its strategic and business objectives and the creation of shareholder wealth. The table below shows the measures of the Group's financial performance over the last 5 financial years as required by the Corporations Act 2001. However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMP. As a consequence, there may not always be a direct correlation between the statutory key performance measure and the variable remuneration awarded.

| | 12 months ended 30 June 2014 | 12 months ended 30 June 2015 | 12 months ended 30 June 2016 | 12 months ended 30 June 2017 | 6 months ended 31 December 2017 |
|---|---|---|---|---|---|
| Sales Revenue (US$'000) | 66,376 | 62,465 | 55,865 | 101,025 | 48,867 |
| Profit/(loss) before tax (US$'000) | (8,966) | (3,088) | 27,711 | (6,232) | (14,905) |
| Basic EPS (US cents per share) | (6.82) | (1.58) | 5.25 | (0.85) | (2.56) |
| Share price (cents AUD) | 7.6 | 14.2 | 15.6 | 15.0 | 15.0 |

**Details of Remuneration**

Details of the nature and amount of each major element of the remuneration of each Directors of the Group and each of the KMP of the Group during the financial year are:

**Six month period ended 31 December 2017**

| | Primary | | | Post-employment | | Share-based | | Total |
|---|---|---|---|---|---|---|---|---|
| | Cash and accrued Salary and Fees US$ | Accrued Cash Bonus US$ | Non-monetary benefits US$* | Superannuation US$ | Retirement/ Termination benefits US$ | Shares US$ | Options US$ | US$ |
| Directors | | | | | | | | |
| E Elsztain | 40,000 | – | – | – | – | – | – | 40,000 |
| S Zang | 20,000 | – | – | – | – | – | – | 20,000 |
| S Kasaneva | 187,916 | 170,000 | – | – | – | 547,330 | – | 905,246 |
| W Hubert | 24,000 | – | – | – | – | – | – | 24,000 |
| R Trzebski | 14,282 | – | – | 1,357 | – | – | – | 15,639 |
| B Jarvis | 14,282 | – | – | 1,357 | – | – | – | 15,639 |
| P Vergara del Carril | 20,000 | – | – | – | – | – | – | 20,000 |
| **Total Directors** | **320,480** | **170,000** | **–** | **2,714** | **–** | **547,330** | **–** | **1,040,524** |
| Executive KMP | | | | | | | | |
| J Bordogna | 91,906 | 50,000 | – | – | – | – | – | 141,906 |
| J. Morel** | 134,493 | 121,000 | – | – | – | – | – | 255,493 |
| R. Ramirez** | 151,893 | 135,000 | – | – | – | – | – | 286,893 |
| D Guido | 92,522 | 50,000 | – | – | – | – | – | 142,522 |
| M Brown | 107,085 | – | 6,111 | – | 322,161 | – | – | 435,357 |
| **Total Executive KMP** | **577,899** | **356,000** | **6,111** | **–** | **322,161** | **–** | **–** | **1,262,171** |
| **Total 2017 December** | **898,379** | **526,000** | **6,111** | **2,714** | **322,161** | **547,330** | **–** | **2,302,695** |

*Represents health benefits

**As J. Morel and R. Ramirez became KMP's on 1 August 2017 they are not included in the June 2017 KMP remuneration table

**Twelve month period ended 30 June 2017**

| | Primary | | | Post-employment | | Share-based | | Total |
|---|---|---|---|---|---|---|---|---|
| | Cash Salary and Fees US$ | Cash Bonus US$ | Non-monetary benefits US$ | Superannuation US$ | Retirement benefits US$ | Shares US$ | Options US$ | US$ |
| Directors | | | | | | | | |
| E Elsztain | 80,000 | – | – | – | – | – | – | 80,000 |
| S Zang | 40,000 | – | – | – | – | – | – | 40,000 |
| S Kasaneva | 353,880 | 490,377 | – | - | – | – | – | 844,257 |
| W Hubert | 48,000 | – | – | – | – | – | – | 48,000 |
| R Trzebski | 27,681 | – | – | 2,630 | – | – | – | 30,311 |
| B Jarvis | 27,681 | – | – | 2,630 | – | – | – | 30,311 |
| P Vergara del Carril | 40,000 | – | – | – | – | – | – | 40,000 |
| **Total Directors** | **617,242** | **490,377** | **–** | **5,260** | **–** | **–** | **–** | **1,112,879** |
| Executive KMP | | | | | | | | |
| J Bordogna | 99,912 | 99,249 | – | – | – | – | – | 199,161 |
| D Guido* | 144,562 | 20,905 | – | – | – | – | – | 165,467 |
| M Brown* | 167,817 | 117,737 | 6,963 | – | – | – | – | 292,517 |
| **Total Executive KMP** | **412,291** | **237,891** | **6,693** | **-** | **–** | **–** | **–** | **657,145** |
| **Total 2017 June** | **1,029,553** | **728,268** | **6,963** | **5,260** | **-** | **-** | **-** | **1,770,024** |

* KMP was not employed by the Group for the full financial year.

**Contractual Arrangement with Executive KMP**

| Name | Term of Agreement and notice period | Base salary | Termination payments |
|---|---|---|---|
| Stabro Kasaneva<br>Chief Executive Officer | No fixed term<br>30 days notice | Base salary is paid in Chilean pesos annually<br>(US$396,658 at USD:CLP exchange rate 1:605) | Pro rata bonus accrued |
| Jose Bordogna<br>Chief Financial Officer | No fixed term<br>30 days notice | Base salary is paid in Argentine pesos annually<br>(US$170,000 at ARS:USD exchange rate 20:1) | Pro rata bonus accrued |
| Juan Andrés Morel<br>Chief Operating Officer | No fixed term<br>30 days notice | Base salary is paid in Chilean pesos annually<br>(US$339,310 at USD:CLP exchange rate 1:605) | Pro rata bonus accrued |
| Rodrigo Ramirez<br>VP Technical Services | No fixed term<br>30 days notice | Base salary is paid in Chilean pesos annually<br>(US$320,610 at USD:CLP exchange rate 1:605) | Pro rata bonus accrued |
| Diego Guido<br>VP Exploration | No fixed term<br>30 days notice | Base salary is paid in Argentine pesos annually<br>(US$200,000 at ARS:USD exchange rate 20:1) | Pro rata bonus accrued |
| Michael Brown<br>VP Corporate Development | No fixed term<br>30 days notice | 250,000 Canadian dollars annually<br>(US$200,000 at USD:CAD exchange rate 1:1.25) | Terminated effective 31 December,2017<br>Per settlement agreement, Mr. Brown is to be paid an aggregate of CDN$404,167 (US$322,161) less deductions required by law in three installments: 31 January 2018, 28 February 2018 and 31 March 31 2018. Total comprised of: (1) 14 months of base salary — CDN$291,667 (US$322,161) as per section V1.02(2)i of Mr. Brown's employment agreement and (2) 90% of 50% of Base salary equating to ($CDN 112,500 US$89,674) as pro-rated bonus, as per section V1.02(2)iii of Mr. Brown's employment agreement |

**Relative Proportion of Fixed vs Variable Remuneration Expense**

The following table shows the relative proportions of executive remuneration that are linked to performance and those that are fixed, based on the amounts disclosed as statutory remuneration expense in the tables above

| Name | Fixed remuneration | | At risk — short-term incentive | | At risk — long-term incentive | |
|---|---|---|---|---|---|---|
| | December 2017 | June 2017 | December 2017 | June 2017 | December 2017 | June 2017 |
| Executive Directors | | | | | | |
| Stabro Kasaneva | 21% | 42% | 79% | 58% | 0% | 0% |
| KMP | | | | | | |
| Jose Bordogna | 46% | 50% | 54% | 50% | 0% | 0% |
| Juan Andrés Morel | 53% | N/A | 47% | N/A | 0% | N/A |
| Rodrigo Ramirez | 53% | N/A | 47% | N/A | 0% | N/A |
| Diego Guido | 65% | 35% | 0% | 33% | 0% | 0% |
| Michael Brown | 79% | 60% | 21% | 40% | 0% | 0% |

End of Remuneration Report (Audited)

**Other transactions with KMP**
Zang, Bergel & Viñes Abogados is a related party since two Directors, Saul Zang and Pablo Vergara del Carril have significant influence over this law firm based in Buenos Aires, Argentina. Legal fees charged to the Company for the six month period ended 31 December 2017 amounted to US$63,536 (twelve months ended 30 June 2017: US$129,532). This concludes the remuneration report, which has been audited.

**Auditors**
KPMG continues in office as auditors in accordance with the requirements of the Corporations Act 2001..

**Non-audit services**
Details of the amounts paid or payable to the auditor for non-audit services provided during the period by the auditor are outlined in note 6 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the period by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 6 to the period do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

**Proceedings on Behalf of the Company**
No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

**Auditor's Independence Declaration**
The lead auditor's independence declaration for the period ended 31 December 2017 has been received and is included in this report.

Signed in accordance with a resolution of Directors at Sydney.

**Rounding of Amounts**
The Company is a company of the kind referred to in ASIC Instrument 2016/191, dated 1 April 2016, and in accordance with that Instrument amounts in the Directors' Report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of Directors made pursuant to s.298(2) of the Corporations Act 2001.

For and on behalf of the board

**Robert Trzebski**
Director
27 March 2018

KPMG

# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

## To the Directors of Austral Gold Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Austral Gold Limited for the six months ended 31 December 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Daniel Camilleri
*Partner*

Sydney
27 March 2018

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

# Financial Statements

# Statement of profit or loss & other comprehensive income

## Austral Gold Limited and its Subsidiaries

For the 6 months ended 31 December 2017 and 12 months ended 30 June 2017
All figures are reported in US$

| | Notes | Consolidated 6 months ended 31 December 2017 US$'000 | Consolidated 12 months ended 30 June 2017 US$'000 |
|---|---|---|---|
| Continuing operations | | | |
| Sales revenue | 9 | 48,867 | 101,025 |
| Cost of sales | 4 | (52,825) | (91,439) |
| **Gross (loss) profit** | | **(3,958)** | **9,586** |
| Other income | | 100 | 2,720 |
| Administration expenses | | (8,645) | (15,498) |
| Net finance costs | 5 | (3,027) | (1,023) |
| Gain/(loss) on financial assets | 13 | 625 | (2,017) |
| **(Loss)/Profit before income tax** | | **(14,905)** | **(6,232)** |
| Income tax benefit | 7 | 1,525 | 1,752 |
| **(Loss)/Profit after income tax expense** | | **(13,380)** | **(4,480)** |
| | | | |
| **(Loss)/Profit attributable to:** | | | |
| Owners of the Company | 22 | (13,299) | (4,380) |
| Non-controlling interests | | (81) | (100) |
| | | **(13,380)** | **(4,480)** |
| | | | |
| Other comprehensive income/(loss) | | | |
| Items that may not be classified subsequently to profit or loss | | | |
| Profit/(Loss) arising on revaluation of financial assets, net of tax | 24 | – | 824 |
| Items that may be classified subsequently to profit or loss | | | |
| Foreign currency translation | 24 | 23 | (249) |
| **Total comprehensive (loss)/income for the year** | | **(13,357)** | **(3,905)** |
| | | | |
| **Comprehensive (loss)/income attributable to:** | | | |
| Owners of the Company | | (13,276) | (3,805) |
| Non-controlling interests | | (81) | (100) |
| | | **(13,357)** | **(3,905)** |
| Earnings per share (cents per share): | | | |
| Basic earnings per share | 8 | (2.56)c | (0.85)c |
| Diluted earnings per share | 8 | (2.56)c | (0.85)c |

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

# Statement of financial position

## Austral Gold Limited and its Subsidiaries

As at 31 December 2017

All figures are reported in US$

| | Notes | Consolidated 31 December 2017 US$'000 | Consolidated 30 June 2017 US$'000 |
|---|---|---|---|
| Assets | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 10 | 6,612 | 6,094 |
| Trade and other receivables | 12 | 12,722 | 14,781 |
| Other financial assets | 13 | 1,354 | 975 |
| Inventories | 11 | 22,831 | 19,347 |
| **Total current assets** | | **43,519** | **41,197** |
| **Non-current assets** | | | |
| Other receivables | 12 | 371 | 626 |
| Mine properties | 14 | 12,336 | 15,942 |
| Property, plant and equipment | 15 | 78,839 | 80,554 |
| Exploration and evaluation expenditure | 16 | 15,891 | 14,175 |
| Goodwill | 14 | 926 | 926 |
| Deferred tax assets | 7 | 2,879 | 2,873 |
| **Total non-current assets** | | **111,242** | **115,096** |
| **Total assets** | | **154,761** | **156,293** |
| Liabilities | | | |
| **Current liabilities** | | | |
| Trade and other payables | 17 | 25,966 | 16,933 |
| Employee entitlements | 18 | 2,049 | 1,733 |
| Borrowings | 20 | 14,089 | 10,880 |
| **Total current liabilities** | | **42,104** | **29,546** |
| Non-current liabilities | | | |
| Trade and other payables | 17 | 6 | 8 |
| Provisions | 19 | 11,729 | 10,195 |
| Borrowings | 20 | 8,503 | 11,649 |
| Employee entitlements | 18 | 1,003 | - |
| Deferred tax liability | 7 | – | 1,516 |
| **Total non-current liabilities** | | **21,241** | **23,368** |
| **Total liabilities** | | **63,345** | **52,914** |
| **Net assets** | | **91,416** | **103,379** |
| Equity | | | |
| Issued capital | 21 | 100,569 | 99,050 |
| Accumulated losses | 22 | (23,210) | (9,911) |
| Reserves | 24 | 62 | 39 |
| Non-controlling interest | 23 | 13,995 | 14,201 |
| **Total equity** | | **91,416** | **103,379** |

# Statement of changes in equity

## Austral Gold Limited and its Subsidiaries

For the 6 months ended 31 December 2017
and 12 months ended 30 June 2017

| | Consolidated | | | | | |
|---|---|---|---|---|---|---|
| | Note | Issued capital US$'000 | Accumulated losses US$'000 | Reserves US$'000 | Non-controlling interest US$'000 | Total US$'000 |
| **Balance at 30 June 2016** | | **93,537** | **235** | **(7,448)** | **21,650** | **107,974** |
| Profit/(loss) for the year | | – | (4,380) | – | (100) | (4,480) |
| Other comprehensive income for the year, net of income tax: | | | | | | |
| Revaluation of financial assets | 24 | – | – | 824 | – | 824 |
| Revaluation of financial assets transferred to accumulated losses | 24, 22 | – | (1,741) | 1,741 | – | – |
| Share options expired | 24, 22 | | 13 | (13) | | |
| Profits transferred to profit reserve | 24, 22 | – | (3,362) | 3,362 | – | – |
| Foreign exchange movements from translation of financial statements to US dollars | 24 | – | – | (249) | – | (249) |
| **Total comprehensive income/(loss) for the year** | | **–** | **(9,470)** | **5,665** | **(100)** | **(3,905)** |
| Transfer of minority interest to retained earnings | 22 | – | (991) | – | 991 | – |
| Acquisition of additional 19% of Casposo with recognition of non-controlling interest | 24 | – | 315 | 5,184 | (8,184) | (2,685) |
| Transactions with owners in their capacity as owners: | | | | | | |
| Shares issued | 21 | 5,513 | – | – | – | 5,513 |
| Dividend distribution | 26 | – | – | (3,362) | (156) | (3,518) |
| **Balance at 30 June 2017** | | **99,050** | **(9,911)** | **39** | **14,201** | **103,379** |
| Profit (loss) for the period | | | (13,299) | – | (81) | (13,380) |
| Foreign exchange movements from translation of financial statements to USD | 24 | – | – | 23 | – | 23 |
| **Total comprehensive income / (loss)** | | **–** | **(13,299)** | **23** | **(81)** | **(13,257)** |
| Shares issued | 21 | 1,519 | – | – | – | 1,519 |
| Dividends declared | 26 | – | – | – | (125) | (125) |
| **Balance at 31 December 2017** | | **100,569** | **(23,210)** | **62** | **13,995** | **91,416** |

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

# Statement of cash flows

## Austral Gold Limited and its Subsidiaries

For the 6 months ended 31 December 2017
All figures are reported in US$

| | | Consolidated | |
|---|---|---|---|
| | Notes | 6 months ended 31 December 2017 US$'000 | 12 months ended 30 June 2017 US$'000 |
| Changes in cash and cash equivalents | | | |
| Cash and cash equivalents at the beginning of the period | | 6,094 | 11,878 |
| Cash and cash equivalents, at the end of the period | 10 | 6,612 | 6,094 |
| **Net increase / (decrease) in cash and cash equivalents** | | **518** | **(5,784)** |
| **Causes of change in cash and cash equivalents** | | | |
| **Operating activities** | | | |
| Profit/(Loss) after income tax | | (13,380) | (4,480) |
| **Non-cash items** | | | |
| Income tax benefit recognised in profit or loss | | (1,525) | (1,752) |
| Depreciation and amortisation | | 13,910 | 29,993 |
| Interest received | | – | (14) |
| Non-cash net finance charges | | 1,763 | 532 |
| Expense recognized related to the mine closure provision | | – | 170 |
| Expense recognized related to inventory obsolescence | | – | 949 |
| Allowance for doubtful debts | | – | 97 |
| Performance bonus paid through issuance of ordinary shares | | 547 | - |
| Non-cash employee entitlements | | 1,318 | 397 |
| (Gain)/loss in fair value of other financial assets | | (625) | 2,017 |
| **Net cash from operating activities before change in assets and liabilities** | | **2,008** | **27,909** |
| Changes in working capital: | | | |
| Decrease / (increase) in inventory | | (3,484) | (6,094) |
| Decrease / (increase) in trade and other receivables | | 2,314 | (3,866) |
| Increase / (decrease) in trade and other payables | | 8,343 | 9,677 |
| **Net cash provided through operating activities** | | **9,181** | **27,626** |
| **Cash flows from investing activities** | | | |
| Exercise of option to acquire further 19% of Casposo | 22 | – | (3,000) |
| Net additions to plant and equipment | 15 | (7,469) | (34,480) |
| Net proceeds from sale of investment in listed shares | | 246 | 1,907 |
| Deferred consideration for investment in subsidiaries (Cachinalito) | | – | (246) |
| Final payment for Amancaya exploration and evaluation | | – | (2,000) |

# Statement of cash flows

## Austral Gold Limited and its Subsidiaries

For the 6 months ended 31 December 2017

All figures are reported in US$

| | | Consolidated | |
|---|---|---|---|
| | Notes | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Cash acquired Argentex acquisition | 29 | - | 26 |
| Payment for investment in exploration and evaluation | 16 | (744) | (1,008) |
| Payment for investment in mine properties | 14 | (105) | (2,536) |
| Interest received | | - | 14 |
| **Net cash used in investing activities** | | **(8,072)** | **(41,323)** |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings | 20 | 5,333 | 12,607 |
| Repayment of borrowings | 20 | (2,047) | - |
| Financial leases payments | 20 | (3,877) | (4,052) |
| Dividend distribution to shareholders | 26 | - | (3,362) |
| Repayment of loan issued to related party | 32 | - | 2,720 |
| **Net cash (used in) provided by financing activities** | | **(591)** | **7,913** |
| **Net increase / (decrease) in cash and cash equivalents** | | **518** | **(5,784)** |

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the financial statements

## 1. Basis of preparation

### 1.1 Reporting entity

Austral Gold Limited ("the Company") is a company limited by shares that is incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange under the symbol AGD and on the TSX Venture Exchange under the symbol AGLD.

These consolidated financial statements comprise the Company and its subsidiaries ('the Group') and are presented in English. They were authorised for issue in accordance with a resolution of the Board of Directors on 27 March 2018.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

### 1.2 Basis of accounting

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for profit oriented entities. The consolidated financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities which are stated at fair value.

### 1.3 Going concern

For the six months ended 31 December 2017, the Group had a loss after income tax of $13.380 million (30 June 2017–12 month period: loss after income tax of $4,480 million) from continuing operations and net cash flow from operating activities of $9.181 million (30 June 2017–12 month period: net cash flow from operating activities of $27.909 million).

The Directors note the following with regards to the ability of the Group to continue as a going concern:

i. At 31 December 2017, the Group had a cash balance of $6.612 million;

ii. At 31 December 2017, the Group has surplus net current assets of $1.415 million;

iii. The Group's cash flow forecasts following the most likely mine plan that were also used for impairment testing purposes, indicate that the Group forecasts that it will have free cash flow from operations to meet its current and non-current borrowing obligations and to meet forecasted capital expenditures.

The financial statements have been prepared on a going concern basis, which contemplates the continuation of normal business operations and the realization of assets and settlement of liabilities in the normal course of business. On the basis of the factors set at above, the Directors believe that the going concern basis of preparation is appropriate and the Group will be able to repay its debts as and when they fall due.

### 1.4 Presentation and functional currency

These consolidated financial statements are presented in United States dollars (US$), which is the presentation and functional currency of the Group. Comparative figures have been restated to be consistent with disclosure of the current year financial statements.

### 1.5 Rounding off

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Instrument, amounts in the financial report and Directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

### 1.6 Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the 6 months ended 31 December 2017 is detailed below:

**Ore reserves and resources**

The Group estimates its ore reserves and mineral resources annually at each year end and reports within the following three months, based on information compiled by Competent Persons as defined in accordance with the Australasian code for reporting Exploration Results, Mineral Resources and Ore Resources (JORC code 2012). The estimated quantities of economically recoverable reserves are based upon interpretations of geological models and require assumptions to be made regarding factors such as estimates of short and long-term exchange rates, estimates of short and long-term commodity prices, future capital requirements and future operating performance. Changes in reported reserves estimates can impact the carrying amount of mine development (including mine properties, property, plant and equipment and exploration and evaluation assets), the provision for mine closure provisions, the recognition of deferred tax assets, as well as the amount of amortization charged to the statement of profit or loss.

**Impairment**

Significant judgements, estimates and assumptions are required in determining value in use or fair value less costs of disposal. This is particularly so in the assessment of long life assets. It should be noted that the CGU recoverable amounts are subject to variability in key assumptions including, but not limited to, gold and silver prices, currency exchange rates, discount rates, production profiles and operating and capital costs. A change in one or more of the assumptions used to determine value in use or fair value less costs of disposal could result in a change in a CGU's recoverable amount.

**Estimated impairment of exploration and evaluation assets**

The Group tests at each reporting date whether there are any indicators of impairment as identified by AASB 6 "Exploration for and Evaluation of Mineral Resources". Where indicators of impairment are identified, the recoverable amounts of the assets are determined. No indicators of impairment were identified in the current year.

**Estimate of mine closure provisions**

Obligations associated with exploration and mine properties are recognised when the Group has a present obligation, the future sacrifice of the economic benefits is probable, and the provision can be measured reliably. The provision is measured at the present value of the future expenditure and a corresponding rehabilitation asset is also recognised. On an ongoing basis, the rehabilitation will be remeasured in line with the changes in the time value of money (recognised as an expense and an increase in the provision), and additional disturbances (recognised as additions to a corresponding asset and rehabilitation liability).

**Measurement of fair values**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1 — the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 — inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly (i.e. as prices), or indirectly (i.e. derived from prices)
- Level 3 — inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group holds listed equity securities at fair value, which are measured at the closing bid price at the end of the reporting period. These financial assets held at fair value fall within Level 1 of the fair value hierarchy. The Group also holds options (warrants) which rely on estimates and judgements to calculate a fair value for these financial instruments using the Black Scholes model. These financial assets held at fair value fall within Level 2 of the fair value hierarchy. The option to buy a further 10% in the Casposo mine is within Level 3 of the fair value hierarchy.

**1.7 Parent entity information**

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 30.

**1.8 Change in year-end**

The financial year end of the Company was changed from 30 June to 31 December to be coterminous with the year end of its operating companies. Accordingly, the current financial statements are prepared for 6 months from 1 July 2017 to 31 December 2017 and the comparative figures stated in the statement of profit or loss and other comprehensive income, statement of changes in equity, statement of cash flows and the related notes and relate to the period 1 July 2016 to 30 June 2017.

# Notes to the financial statements

## 2. Significant accounting policies

The following is a summary of the material accounting policies adopted by the Group in the preparation of the consolidated financial statements. The accounting policies have been consistently applied, unless otherwise stated.

### 2.1 Basis of consolidation

A subsidiary is any entity over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

A list of subsidiaries is contained in note 28 to the financial statements. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

All intercompany balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting.

Non-controlling interests in the equity and results of the subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the Group.

**Business combinations**

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

**Goodwill**

Goodwill has arisen on the acquisition of a subsidiary, Ingenieria y Mineria Cachinalito Limitada. The recoverable amount of the goodwill arising from the Cachinalito business has been determined by including it as part of the combined Guanaco/Amancaya CGU described above.

In light of the results of the independent valuation, management has assessed the goodwill as not being impaired.

### 2.2 Revenue Recognition

**Sale of minerals**

Sale of minerals is recognised at the point of sale, which is when the customer has taken delivery of the goods, the risks and rewards have been transferred to the customer and there is a valid contract.

### 2.3 Goods and services tax (GST)/ Value added tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST/VAT, except where the amount of GST/ VAT incurred is not recoverable from the tax authorities. In these circumstances the GST/VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST/VAT. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST/VAT component of investing and financing activities, which are disclosed as operating cash flows.

### 2.4 Foreign currency translation

The financial statements are presented in United States Dollars (US$), which is the Group's functional and presentation currency.

**Foreign currency transactions**

Foreign currency transactions are translated into US$ using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

## 2.5 Mine Properties

Mines in production represent the aggregated exploration and evaluation expenditure and capitalised development costs in respect of areas of interest in which mining is ready to or has commenced. Mine development costs are deferred until commercial production commences, at which time they are depreciated on a units-of-production basis over the mineable reserves. Once production commences, further development expenditure is classified as part of the cost of production, unless substantial future economic benefits can be established.

**Amortisation**

Aggregated costs on productive areas are amortised over the life of the area of interest to which such costs relate on the units-of-production basis.

**Deferred stripping costs**

Deferred stripping costs represent certain mining costs, principally those that relate to the stripping of waste, which provides access so that future economically recoverable ore can be mined. Stripping (i.e. overburden and other waste removal) costs incurred in the production phase of a surface mine are capitalised to the extent that they improve access to an identified component of the ore body and are subsequently amortised on a systematic basis over the expected useful life of the identified component of the ore body.

Capitalised stripping costs are disclosed as a component of Mine Properties. Components of an ore body are determined with reference to life of mine plans and take account of factors such as the geographical separation of mining locations and/or the economic status of mine development decisions. Capitalised stripping costs are initially measured at cost and represent an accumulation of costs directly incurred in performing the stripping activity that improves access to the identified component of the ore body, plus an allocation of directly attributable overhead costs. The amount of stripping costs deferred is based on a relevant production measure which uses a ratio obtained by dividing the tonnage of waste mined by the quantity of ore mined for an identified component of the ore body. Stripping costs incurred in the period for an identified component of the ore body are deferred to the extent that the current period ratio exceeds the expected waste to ratio for the life of the identified component of the ore body. Such deferred costs are then charged against the statement of profit or loss when the stripping ratio falls below the life of mine ratio. These are a function of the mine design and therefore any changes to the design will generally result in changes to the ratio. Changes in other technical or economic parameters that impact on reserves may also have an impact on the component ratio even though they may not impact the mine design. Changes to the life of mine plan, identified components of an ore body, stripping ratios, units of production and expected useful life are accounted for prospectively. Deferred stripping costs form part of the total investment in a cash generating unit, which is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

## 2.6 Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest and carried forward in the statement of financial position where rights to tenure of the area of interest are current; and one of the following conditions is met:

i. such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sales; or

ii. exploration and/or evaluation activities in the area of interest have not, at reporting date, yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in the area are continuing.

Expenditure relating to pre-exploration activities is written off to the profit or loss during the period in which the expenditure is incurred.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated expenditure on areas that have been abandoned, or are considered to be of no value, are written off in the year in which such a decision is made.

When the technical and commercial feasibility of an undeveloped mining project has been demonstrated, the project enters the construction phase. The cost of the project assets are transferred from exploration and evaluation expenditure and reclassified into construction phase and include past exploration and evaluation costs, development drilling and other subsurface expenditure. When full commercial operation commences, the accumulated costs are transferred into Mine Properties or an appropriate class of property, plant and equipment.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the production output basis.

**2.7 Property, plant and equipment**

Property, plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

The depreciated amount of property, plant and equipment is recorded either on a straight-line basis or on the production output basis to the residual value of the asset over the lesser of mine life or estimated useful life of the asset.

Depreciation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation is expensed, except those that are included in the amount of exploration assets as an allocation of production overheads.

The depreciation rate used for fixed assets which are not used in mining production is between 10%-20%. The depreciation rate used in mining production is provided for over the life of the area of interest on a production output basis.

De-recognition and disposal

An item of property, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on de-recognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year the asset is de-recognised.

**2.8 Cash and cash equivalents**

Cash includes:

i. cash on hand and at call deposits with banks or financial institutions; and

ii. other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

**2.9 Income Tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by reporting date.

Deferred income tax is provided on all temporary differences at reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

i. when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

ii. when the taxable temporary difference is associated with investments in subsidiaries, associates, or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

i. when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

ii. when the deductible temporary difference is associated with investments in subsidiaries, associates, or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of any deferred income tax assets recognised is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply for the year when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted at reporting date.

Income taxes relating to items recognised directly to equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**2.10 Inventories**

Materials and supplies are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity.

If the ore stockpile is not expected to be processed in 12 months after reporting date, it is included in non-current assets and the net realisable value is calculated on a discounted cash flow basis. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the number of contained ounces based on assay data, and the estimated recovery percentage. Stockpile tonnages are verified to periodic surveys.

Gold bullion and gold-in-process are valued at the lower of cost and net realisable value. Net realisable value is determined using the prevailing metal prices.

**2.11 Trade and other receivables**

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

**2.12 Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. They are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**2.13 Interest bearing liabilities**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method. Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

**2.14 Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**2.15 Leases**

Assets held by the Group under leases that transfer to the Group substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments.

Lease payments for operating leases, where all the risks and benefits remain with the lessor, are recognised as an expense in the profit or loss on a straight line basis over the lease term.

**2.16 Impairment of non-financial assets**

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell or value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the profit or loss. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives or more frequently if events or circumstances indicate that the carrying value may be impaired.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**2.17 De-recognition of financial assets and financial liabilities**

**Financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

i. the rights to receive cash flows from the asset have expired; or

ii. the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass- through' arrangement; or

iii. the Group has transferred its rights to receive cash flows from the asset and either;

   a. has transferred substantially all the risks and rewards of the asset; or

   b. has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

**Fair value through other comprehensive income**

The Group's investments in equity securities are classified as 'fair value through Other Comprehensive Income'. Subsequent to initial recognition fair value through other comprehensive income investments are measured at fair value with gains or losses being recognised directly through Other Comprehensive Income in the Statement of Profit or Loss and Other Comprehensive Income.

**Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

**2.18 Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2.19 Earnings per share

### Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the parent, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

### Diluted earnings per share

Diluted earnings per share adjusts the figures used in determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

## 2.20 Borrowing costs

Borrowing costs are recognised as an expense when incurred unless they are attributable to qualifying assets, in which case they are then capitalised as part of the assets.

## 2.21 Employee leave benefits

### Short-term employee benefits

Liabilities for employees' entitlements to wages and salaries, annual leave and other employee entitlements expected to be settled within 12 months of the reporting date are recognised in the current provisions in respect of employees' services up to reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non- accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

### Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated cash outflows.

### Superannuation

The Company contributes to employee superannuation funds. Contributions made by the Company are legally enforceable. Contributions are made in accordance with the requirements of the Superannuation Guarantee Legislation.

## 2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM").

The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

## 2.23 New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

# Notes to the financial statements

## 3. New accounting standards and interpretations not yet mandatory or early adopted

There are currently no AASB standards, amendments to standards and interpretations that have been identified as those which may impact the entity in the period of initial application.

**IFRS 15 Revenue from Contracts with Customers**

The IASB has issued a new standard for the recognition of revenue with an effective date of 1 January 2018. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer — so the notion of control replaces the existing notion of risks and rewards.

A new five-step process must be applied before revenue can be recognised:

- identify contracts with customers
- identify the separate performance obligation
- determine the transaction price of the contract
- allocate the transaction price to each of the separate performance obligations, and
- recognise the revenue as each performance obligation is satisfied.

These accounting changes may have flow-on effects on the entity's business practices regarding systems, processes and controls, compensation and bonus plans, contracts, tax planning and investor communications.

**AASB 16 Leases**

AASB 16 removes the classification of leases as either operating or finance leases – for the lessee – effectively treating all leases as finance leases. Short leases (less than 12 months) and leases of low-value assets (such as personal computers) are exempt from the lease accounting requirements. There are also changes in accounting over the life of a lease. In particular, companies will now recognise a front-loaded pattern of expenses for most leases, even when they pay constant annual rentals. Lessor accounting remains similar to current practice – ie. Lessors continue to classify leases as finance and operating leases.

AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. The Group does not foresee a significant impact for its operations or its financial statement disclosures with regard to this new accounting standard given that the majority of leases held by the Group are already classified as finance leases.

## 4. Cost of sales and Administration

| | Consolidated | |
|---|---|---|
| | 6 months ended 31 December 2017 US$'000 | 12 months ended 30 June 2017 US$'000 |
| **Profit before income tax includes the following specific expenses:** | | |
| Production | 21,312 | 28,829 |
| Staff costs | 15,664 | 28,156 |
| Allowance for inventory obsolescence | – | 634 |
| Royalties | 1,934 | 3,814 |
| Mining Fees | 5 | 13 |
| Depreciation of plant and equipment | 9,184 | 18,386 |
| Depreciation of mine properties | 4,726 | 11,607 |
| **Total cost of sales** | **52,825** | **91,439** |
| Payroll costs within administration expenses | 4,700 | 7,172 |

## 5. Net finance costs

| | Consolidated | |
|---|---|---|
| | 6 months ended 31 December 2017 US$'000 | 12 months ended 30 June 2017 US$'000 |
| Interest (income) | (1) | (18) |
| Interest expense | 666 | 509 |
| Loss from foreign exchange | 1,881 | 532 |
| Present value adjustment to mine closure provision | 508 | – |
| Other | (27) | – |
| **Total finance costs** | **3,027** | **1,023** |

## 6. Auditors' remuneration

| | Consolidated | |
|---|---|---|
| | 6 months ended 31 December 2017 US$ | 12 months ended 30 June 2017 US$ |
| **Remuneration of the auditors (KPMG) of the parent entity for:** | | |
| Auditing or reviewing the financial reports | 47,200 | 76,260 |
| Other services/ taxation | – | 22,350 |
| **Total auditors' remuneration – parent entity** | **47,200** | **98,610** |
| | | |
| **Remuneration of auditors (KPMG) of subsidiaries for:** | | |
| Auditing or reviewing the financial reports | 185,848 | 206,750 |
| Other services/taxation | 14,888 | 40,497 |
| **Total auditors' remuneration – subsidiaries** | **200,736** | **247,247** |

# Notes to the financial statements

## 7. Income tax expense

| | Consolidated | |
|---|---|---|
| | 6 months ended 31 December 2017 US$'000 | 12 months ended 30 June 2017 US$'000 |
| (A) Income tax expense comprises: | | |
| Current tax payable | 694 | 2,164 |
| Deferred tax expense | (2,219) | (3,916) |
| **Income tax (benefit)/expense** | **(1,525)** | **(1,752)** |
| (B) Reconciliation of effective income tax rate | | |
| Profit/ (Loss) before tax | (14,905) | (6,232) |
| Prima facie income tax (benefit)/expense calculated at 30% | (4,471) | (1,870) |
| Difference due to blended overseas tax rate* | 513 | (375) |
| Difference due to change in tax rate | (311) | 322 |
| Allowance for doubtful carry forward tax losses | – | 446 |
| Non-deductible expenses | 2,259 | (968) |
| Temporary differences not brought into account | 485 | 693 |
| **Income tax (benefit)/expense** | **(1,525)** | **(1,752)** |

* Chile tax rate: 25.5% (30 June 2017: 25.5%). Argentina tax rate: 25% and 30% (30 June 2017: 30%)

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2017 US$'000 | | | | 30 June 2017 US$'000 | | | |
| | Chile | Argentina | Other | Total | Chile | Argentina | Other | Total |
| (C) Deferred tax assets and liabilities | | | | | | | | |
| **Deferred tax assets** | | | | | | | | |
| Other receivable | 26 | – | – | 26 | – | – | – | – |
| Inventory | 367 | 477 | – | 844 | – | 703 | – | 703 |
| Mining Concessions | – | 886 | – | 886 | – | 2,028 | – | 2,028 |
| Accrual for mine closure | 920 | 112 | – | 1,032 | 569 | 185 | – | 754 |
| Tax losses carried forward | 2,583 | 463 | 10,307 | 13,353 | – | 955 | 9,822 | 10,777 |
| Property, plant and equipment | – | 585 | – | 585 | – | – | – | – |
| Payroll accrual | 381 | – | – | 381 | 299 | 62 | – | 361 |
| Other | – | 3 | – | 3 | – | 4 | – | 4 |
| Temporary differences not brought into account | – | – | (10,307) | (10,307) | – | – | (9,822) | (9,822) |
| **Deferred tax assets** | **4,277** | **2,526** | **–** | **6,803** | **868** | **3,937** | **–** | **4,805** |
| **Deferred tax liabilities** | | | | | | | | |
| Other provisions | – | (220) | – | (220) | (144) | – | – | (144) |
| Mining concessions | (2,139) | – | – | (2,139) | (1,598) | – | – | (1,598) |
| Purchase price allocation (Casposo) | – | – | – | – | – | (419) | – | (419) |
| Property, plant and equipment | – | – | – | – | – | (517) | – | (517) |
| Financial assets | – | (110) | – | (110) | – | (125) | – | (125) |
| Leasing assets | (1,455) | – | – | (1,455) | (642) | (3) | – | (645) |
| **Deferred tax liabilities** | **(3,594)** | **(330)** | **–** | **(3,924)** | **(2,384)** | **(1,064)** | **–** | **(3,448)** |
| **Net deferred tax assets / (Liabilities)** | **683** | **2,196** | **–** | **2,879** | **(1,516)** | **2,873** | **–** | **1,357** |
| **Movement in deferred tax balances** | | | | | | | | |
| Opening balance | (1,516) | 2,873 | – | 1,357 | (3,306) | 647 | – | (2,659) |
| Exchange rate difference | – | (697) | – | (697) | – | 100 | – | 100 |
| Charged to profit or loss | 2,199 | 20 | – | 2,219 | 1,790 | 2,126 | – | 3,916 |
| **Closing balance** | **683** | **2,196** | – | **2,879** | **(1,516)** | **2,873** | – | **1,357** |

# Notes to the financial statements

## 8. Earnings per share

| | Consolidated | |
|---|---|---|
| | 6 months ended 31 December 2017 US$'000 | 12 months ended 30 June 2017 US$'000 |
| Net profit attributable to owners | (13,299) | (4,380) |
| **Weighted average number of shares used as the denominator** | | |
| Number for basic earnings per share | 519,883,471 | 513,253,037 |
| Number for diluted earnings per share | 519,883,471 | 513,253,037 |
| Basic earnings per ordinary share (cents) | (2.56)c | (0.85)c |
| Diluted earnings per ordinary share (cents) | (2.56)c | (0.85)c |

## 9. Operating segments

Management have determined the operating segments based on reports reviewed by the Chief Operating Decision Maker ("CODM"). The CODM considers the business from both an operations and geographic perspective and has identified two reportable segments, Guanaco and Casposo. The CODM monitors the performance in these two regions separately.

| | Consolidated | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 6 months ended 31 December 2017 | | | | 12 months ended 30 June 2017 | | | |
| | Guanaco/ Amancaya US$'000 | Casposo US$'000 | Group and unallocated items US$'000 | Consolidated US$'000 | Guanaco/ Amancaya US$'000 | Casposo US$'000 | Group and unallocated items US$'000 | Consolidated US$'000 |
| Revenue: | | | | | | | | |
| Gold | 20,077 | 12.307 | – | 32,384 | 56,265 | 20,350 | 1 | 76,616 |
| Silver | 1,910 | 14,573 | – | 16,483 | 1,051 | 23,358 | – | 24,409 |
| Cost of sales | (20,131) | (18,784) | – | (38,915) | (28,082) | (33,364) | – | (61,446) |
| Depreciation and amortisation expense | (8,469) | (5,424) | (17) | (13,910) | (21,279) | (8,688) | (26) | (29,993) |
| Other income | 16 | 84 | – | 100 | 55 | 2,910 | (245) | 2,720 |
| Administration expenses | (3,324) | (3,706) | (1,615) | (8,645) | (7,648) | (3,823) | (4,027) | (15,498) |
| Finance costs | (2,182) | (831) | (14) | (3,027) | 175 | (1,217) | 19 | (1,023) |
| Gain/ (loss) on movements in financial assets | – | 625 | – | 625 | – | 245 | (2,262) | (2,017) |
| Income tax benefit | 1,505 | 20 | – | 1,525 | (144) | 919 | 977 | 1,752 |
| **Segment profit/(loss)** | **(10,598)** | **(1,136)** | **(1,646)** | **(13,380)** | **393** | **690** | **(5,563)** | **(4,480)** |
| Segment assets | 83,623 | 61,801 | 9,337 | 154,761 | 85,910 | 58,664 | 11,719 | 156,293 |
| Segment liabilities | 48,095 | 14,037 | 1,213 | 63,345 | 39,483 | 12,680 | 751 | 52,914 |
| Capital expenditure | 5,131 | 4,900 | 227 | 10,258 | 37,607 | 11,700 | 19 | 49,326 |

# Notes to the financial statements

## Geographical information:

| | Consolidated | |
|---|---|---|
| | 6 months ended 31 December 2017 US$'000 | 12 months ended 30 June 2017 US$'000 |
| **Revenue by geographic location** | | |
| Chile | 21,987 | 57,317 |
| Argentina | 26,880 | 43,708 |
| Australia | – | – |
| Canada | – | – |
| **Total revenue** | **48,867** | **101,025** |
| **Non-current assets by geographic location** | | |
| Chile | 64,849 | 68,875 |
| Argentina | 46,299 | 46,207 |
| Australia | – | – |
| British Virgin Islands | 81 | – |
| Canada | 13 | 14 |
| **Total non-current assets** | **111,242** | **115,096** |

## 10. Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Cash at call and in hand | 6,612 | 6,094 |
| **Total cash and cash equivalents** | **6,612** | **6,094** |
| Reconciliation of Cash | | |
| Cash at the end of the financial year as shown in the Statement of Cash Flows, is reconciled to items in the Statement of Financial Position as follows: | | |
| **Cash and cash equivalents** | **6,612** | **6,094** |

*Risk Exposure*

The Group's exposure to interest rate risk is discussed in note 25. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above

## 11. Inventories

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Materials and supplies | 9,178 | 7,637 |
| Ore stocks* | 5,730 | 3,592 |
| Gold bullion and gold in process | 7,923 | 8,118 |
| **Total inventories** | **22,831** | **19,347** |

*Ore stock inventories require estimates and assumptions most notably in regards to grades, volumes, densities, future completion costs and ultimate sale price. Such estimates and assumptions may change as new information becomes available which may impact upon the carrying value of inventory. The allowance for inventory obsolescence forming part of the above balance is US$949k (30 June 2017: US$949k).

# Notes to the financial statements

## 12. Trade and other receivables

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Current | | |
| Trade receivables | 2,036 | 1,865 |
| Other current receivables | 1,435 | 1,586 |
| Prepaid income tax | 4,402 | 4,245 |
| GST/VAT receivable | 4,849 | 7,085 |
| **Total current receivables** | **12,722** | **14,781** |
| Non current | | |
| GST/VAT receivable | 226 | 265 |
| Other | 145 | 361 |
| **Total non-current receivables** | **371** | **626** |
| **Trade debtors** | | |
| The ageing of trade receivables is 0 – 30 days | 2,036 | 1,865 |

**12.1 Past due but not impaired**

There were no receivables past due at 31 December 2017 (30 June 2017: nil).

**12.2 Fair value and credit risk**

Due to the short term nature of trade receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 25 for more information on the risk management policy of the Group and the credit quality of the receivables.

**12.3 Key customers**

The Company is not reliant on any one customer to sell gold and silver produced from the Guanaco/Amancaya and Casposo mines.

# Notes to the financial statements

## 13. Other financial assets

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Current | | |
| Call option to buy a further 10% of Casposo - level 3 | 903 | 245 |
| Options (warrants) — level 2 | 364 | 417 |
| Listed government bonds — level 1 | 69 | - |
| Listed equity securities — level 1 | 18 | 313 |
| **Total current other financial assets at fair value** | **1,354** | **975** |

The table above sets out the Group's assets and liabilities that are measured and recognised at fair value at 31 December 2017. The options (warrants) are those attaching to the shares of Fortuna Silver (TSE: FVI) and the fair value is based on the Black Scholes method using the following assumptions:

- Spot Price: C$6.57 per share
- Strike Price: C$6.0105
- Volatility: 44.04%
- Maturity: October 2018

Listed equity securities as at 31 December 2017 are shares of Troy Resources Limited (30 June 2017; shares of Fortuna Silver).

The Group has options to buy the remaining 30% of the Casposo mine with only the first 10% tranche option considered to be 'in the money' as at 31 December 2017. The call options were valued by comparing the discounted future cash flows related to each remaining 10% tranche and comparing against the contracted price for each 10% option. Only the first 10% tranche was "in the money" for US$903k.

**Fair value hierarchy**
Refer to note 1.6 of these financial statements for details of the fair value hierarchy.

**Transfers**
During the year ended 31 December 2017 there were no transfers between the financial instrument levels of hierarchy

# Notes to the financial statements

## 14. Mine properties

| | Consolidated | | |
|---|---|---|---|
| | Guanaco/Amancaya US$'000 | Casposo US$'000 | Total US$'000 |
| **Mine Properties – 31 December 2017** | | | |
| Cost | 59,915 | 8,715 | 68,630 |
| Accumulated depreciation | (53,307) | (2,987) | (56,294) |
| Carrying value — Mine Properties | 6,608 | 5,728 | 12,336 |
| Movements in carrying value | | | |
| Carrying amount at 1 July 2017 | 8,939 | 7,003 | 15,942 |
| Additions | 105 | – | 105 |
| Increase in mine closure provision | 961 | – | 961 |
| Present value adjustment | – | 54 | 54 |
| Depreciation | (3,397) | (1,329) | (4,726) |
| **Carrying amount at 31 December 2017** | **6,608** | **5,728** | **12,336** |
| **Mine Properties– 30 June 2017** | | | |
| Cost | 58,849 | 8,661 | 67,510 |
| Accumulated depreciation | (49,910) | (1,658) | (51,568) |
| Carrying value — Mine Properties | 8,939 | 7,003 | 15,942 |
| Movements in carrying value | | | |
| Carrying amount at 1 July 2016 | 9,655 | 9,044 | 18,699 |
| Additions | 1,556 | 47 | 1,603 |
| Increase in mine closure provision | 3,593 | – | 3,593 |
| Transfers from Exploration and Evaluation Expenditure | 6,274 | – | 6,274 |
| Disposals | (2,657) | (3) | (2,660) |
| Adjustments | 490 | (450) | 40 |
| Depreciation | (9,972) | (1,635) | (11,607) |
| **Carrying amount at 30 June 2017** | **8,939** | **7,003** | **15,942** |

**Carrying value — Guanaco/Amancaya**

The Guanaco mine has been determined by Management, along with the Amancaya properties in the surrounding areas to be a single cash generating unit ("CGU"). The mine properties noted above and the property, plant and equipment that is an intrinsic part of the mine and its structure (included in note 15) with a total book value of US$46.989m are included in determining the carrying value of the CGU for the purposes of assessing for impairment.

Management have assessed the fair value and book value of the Guanaco project to be both within the acceptable range of between US$72.8m and US$106.2m (preferred value US$89.9m) (30 June 2017: range of between US$84.2m and US$127.5m (preferred value US$105.9m) and therefore no impairment charge has been applied to the assets for the current year. The fair value is based on an independent valuation using a discounted cash flow model and the following assumptions:

- Gold price: US$1,277/oz – US$1,301/oz (30 June 2017 US$1,250/oz – US$1,310/oz)
- Silver price: US$17.30/oz – US$18.10/oz (30 June 2017 US$17.40/oz – US$18.30/oz)
- Life of Mine: 6 years (Life of mine based on most recent financial model used for impairment testing)
- Discount Rate (post-tax): 6.4% (30 June 2017: 6.3%)

**Carrying value — Casposo**

After the recent acquisition of and as part of the restart of full operations at the Casposo gold-silver mine ('Casposo') an update to the Mineral Resource and Ore Reserve estimate was made. The estimates were reviewed by independent consultants Roscoe Postle Associates ("RPA"), and are summarised in a National Instrument 43-101 ("NI 43-101") and JORC 2012 compliant Technical Report dated September 7, 2016. The mine properties noted above and the property, plant and equipment that is an intrinsic part of the mine and its structure (included in note 15) with a total book value of US$27.723m are included in determining the carrying value of the CGU for the purposes of assessing for impairment.

Management have assessed the fair value of Casposo to be within the acceptable range of between US$20.9m and US$44.5m (preferred value US$33.0m) (30 June 2017: US$21.4m and US$43.4m (preferred value US$32.4m)) and therefore no impairment charge has been applied to the assets for the current year. The fair value is based on an independent valuation using a discounted cash flow model and the following assumptions:

- Gold price: US$1,277/oz – US$1,301/oz (30 June 2017 US$1,250/oz – US$1,310/oz)
- Silver price: US$17.30/oz – US$18.10/oz (30 June 2017 US$17.40/oz – US$18.30/oz)
- Life of Mine: 4 years (Life of mine based on most recent financial model used for impairment testing)
- Discount Rate (post-tax): 8.4% (30 June 2017: 8.3%)

## 15. Property, plant and equipment

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Property, plant and equipment — at cost | 139,644 | 132,175 |
| Accumulated depreciation | (60,805) | (51,621) |
| **Carrying amount at end of the period** | **78,839** | **80,554** |
| Movements in carrying value | | |
| Carrying amount at beginning of the period | 80,554 | 54,207 |
| Additions | 7,469 | 45,873 |
| Disposals | – | (1,140) |
| Depreciation | (9,184) | (18,386) |
| **Carrying amount at end of the period** | **78,839** | **80,554** |

The majority of the property, plant and equipment is included in either the Guanaco/Amancaya cash-generating unit or the Casposo cash-generating unit. Refer to note 14 for discussion on impairment. Property, plant and equipment that does not form part of the Guanaco or Casposo cash generating units are being carried at the lower of their book value and recoverable amount.

The Group leases production equipment under a number of finance leases. At 30 December 2017, the net carrying amount of lease equipment was US$16,399k (30 June 2017: US$17,347k).

# Notes to the financial statements

## 16. Exploration and evaluation expenditures

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| **Costs carried forward in respect of areas of interest:** | | |
| Carrying amount at the beginning of the period | 14,175 | 12,247 |
| Additions | 1,723 | 8,202 |
| Write-off for the period | (7) | – |
| Transfers to Mining Properties | – | (6,274) |
| **Carrying amount at end of the period** | **15,891** | **14,175** |

The recovery of the carrying amount of the exploration and evaluation assets is dependent on the successful development and commercial exploration or sale of the areas of interest. This balance mainly relates to expenditure Guanaco, Casposo and Pingüino exploration projects.

Additions for the six months ended 31 December 2017 relate mainly to the acquisition of the San Guillermo and Reprado projects from Revelo Resources Corporation ('Revelo', TSX-V: RVL) for consideration of ten million Austral Gold ordinary shares and subject to existing Net Smelter Royalties ('NSR') and an additional NSR of up to 1%**.** At the time of acquisition, the San Guillermo and Reprado projects were not in production and there was no mine plan to place them into production. For these reasons, among others, the acquisition was accounted for as an asset acquisition. The value of the shares issued was US$972,006 (note 21).

**16.1 Consideration transferred**

The fair value of the ordinary shares issued was based on the listed share price of the Company at the date of issue on 8 December 2017 on the TSX.V, CDN$0.125 (US$0.097) per share, which valued the share consideration transferred at US$0.97m.

Additions for the twelve months ended 30 June 2017 relate mainly to the Argentex acquisition. Refer to Note 29 for further details.

## 17. Trade and other payables

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Current | | |
| Trade payables | 14,655 | 10,088 |
| Accrued expenses | 4,331 | 2,187 |
| Royalty Payable | 2,259 | 1,738 |
| Salaries and bonuses | 4,105 | 2,018 |
| Income tax payable | 241 | 292 |
| Other taxes payable | 277 | 195 |
| Director fees payable | 92 | – |
| Other payables | 6 | 415 |
| **Total current trade and other payables** | **25,966** | **16,933** |
| Non current | | |
| Other payables | 6 | 8 |

# Notes to the financial statements

## 18. Employee entitlements

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Current | | |
| Employee entitlements | 2,049 | 1,733 |

The current provision for employee entitlements includes all unconditional entitlements in accordance with the applicable legislation. The entire amount is presented as current, since the Group does not have an unconditional right to defer payment. The entire balance of employee benefits is expected to be settled within the next 12 months.

| | | |
|---|---|---|
| Non current | | |
| Employee entitlements | 1,003 | – |

The Group entered into a new union agreement to fund retirement benefits for its employees.

**Indemnification for years of service**
Retirement benefits are to be paid upon the death of workers and for disability and retirement.

The methodology followed to determine the provision for all employees adhering to the agreements has considered turnover rates and the RV-2014 mortality table established by the Superintendency of Securities and Insurance to calculate the reserves of life insurance in Chile according to the valuation method called Accumulated Benefit Valuation Method or Accrued Benefit Cost. This methodology is established in the International Accounting Standard No. 19 on Retirement Benefits Costs. The parameters of turnover rates, rates of increase of remunerations and discount rate have been determined by the company.

## 19. Provisions

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| NON CURRENT | | |
| Mine closure | 11,718 | 10,195 |
| Others | 11 | – |
| **Closing balance** | **11,729** | **10,195** |
| Movement in non current provisions | | |
| Opening balance | 10,195 | 5,697 |
| Additions | 961 | 4,458 |
| Reclassifications from payables | 11 | – |
| Present Value Adjustment | 562 | 40 |
| **Closing balance** | **11,729** | **10,195** |

The mine closure (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 period 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.

Concurrent reclamation, along with mining operations, is ongoing throughout the facility and continues to be a vital part of the Company's reclamation practices. The plans are developed taking into consideration all legal, regulatory, governmental, and community requirements and compromises. Thus, the plan incorporates a number of assumptions used to estimate closure and post-closure objectives.

As at 31 December 2017, the total restoration provision amounts to US$7.9m for Guanaco/Amancaya mine. The present value of the restoration provision was determined based on the following assumptions:

- Undiscounted rehabilitation costs: US$8.8m; and
- Remaining life of Mine: 6 years (Life of mine based on most recent financial model used for impairment testing).
- Discount rate: 2.25%

As at 31 December 2017, the total restoration provision amounts US$3.8m for the Casposo mine. The present value of the restoration provision was determined based on the following assumptions:

- Undiscounted rehabilitation costs: US$4.2m; and
- Remaining life of Mine: 4 years (Life of mine based on most recent financial model used for impairment testing).
- Discount rate: 2.49%

## 20. Borrowings

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Current | | |
| Lease liability | 5,640 | 5,825 |
| Credit facilities | 8,449 | 5,055 |
| **Total current borrowings** | **14,089** | **10,880** |
| Non-current | | |
| Lease liability | 5,503 | 8,149 |
| Credit facilities | 3,000 | 3,500 |
| **Total non-current borrowings** | **8,503** | **11,649** |

### 20.1 Lease liabilities

The Group leases production equipment under a number of finance leases. Refer to note 15 for further information.

### 20.2 Current Credit facilities

The current Credit facilities consists of the following facilities:

- a US$1.5m pre-export facility for Casposo mine operation with Banco San Juan (180 days) at an annual interest rate of 4%;
- a US$1.6m pre-export facility and a US$0.3m reverse factoring facility for Guanaco mine operation with Santander Bank, Chile (240 days) at an annual interest rate of 4%; and
- the current portion of a US$8m credit facility with the BAF Latam Credit Fund, amounting to US$5.0m See below for more details.

### 20.3 Non-Current Credit facilities

The non-current borrowings of US$3.0m is part of a US$8m credit facility with the BAF Latam Credit Fund, an unrelated third party lender. The credit facility is secured by a guarantee from the Company and a corresponding proportion of the receipts of doré sales from the Guanaco mine in Chile. Amounts drawn against the credit facility are to be repaid within eighteen months.

# Notes to the financial statements

## 21. Issued capital

| | | Consolidated | |
|---|---|---|---|
| | | 31 December 2017 | 30 June 2017 |
| Fully paid ordinary shares (US$'000) | | 100,569 | 99,050 |
| **Number of ordinary shares at year end** | | **534,173,010** | **518,983,178** |
| Movements in ordinary share capital | Date | Number of ordinary shares | US$'000 |
| **Balance at 30 June 2016** | | **478,761,995** | **93,537** |
| Shares issued to purchase Argentex | 22 Aug 16 | 40,221,183 | 5,513 |
| **Balance at 30 June 2017** | | **518,983,178** | **99,050** |
| Shares issued to purchase properties from Revelo | 08 Dec 17 | 10,000,000 | 972 |
| Shares issued to a Director | 12 Dec 17 | 5,189,832 | 547 |
| **Balance at 31 December 2017** | | **534,173,010** | **100,569** |

On 10 November 2017, Austral purchased the San Guillermo and Reprado Projects from Revelo Resources Corp. ("**Revelo**") through its wholly owned subsidiary, Guanaco Compañía Minera SpA ("**Guanaco**"). Guanaco acquired 100% of the legal and beneficial title to the mining concessions and related assets, including all real estate, mining applications, easements and water rights, if any, comprising the "San Guillermo" and "Reprado" projects (collectively, the "**Projects**"), free of any encumbrances except for the net smelter returns ("**NSR**") royalties of 1% and 0.5% at Repradeo and San Guillermo. The transaction consisted of 10,000,000 Austral Gold shares issued to Revelo. The value of the shares issued was US$972,006.

At the Company's AGM on 29 November 2017, shareholders approved the Board's proposal to issue Stabro Kasaneva 5,189,832 ordinary shares of Austral as part of a performance bonus following his outstanding role in leading the Guanaco Mine project and business development activities as the Chief Executive Officer.

Ordinary shares participate in dividends and the proceeds on winding up of the Parent Entity in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. The ordinary shares do not have any par value.

During the twelve months ended 30 June 2017, Austral Gold issued 40,221,183 new ordinary shares valued at US$5,513k as consideration for the remaining 80.1% of Argentex Mining Corporation not already owned by the Group. Further explanations are given in Note 29.

## 22. Accumulated losses

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Retained earnings/ (Accumulated losses) at beginning of year | (9,911) | 235 |
| Net profit/(loss) for the year | (13,299) | (4,380) |
| Profits transferred to profit reserve | - | (3,362) |
| Acquisition of subsidiary with non-controlling interests | - | (676) |
| Share options expired | - | 13 |
| Transfer to retained earnings realised gain on shares sold during the year | - | (1,741) |
| **Retained earnings/ (Accumulated losses) at end of year** | **(23,210)** | **(9,911)** |

# Notes to the financial statements

## 23. Non-controlling interest

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| **Non controlling interest in subsidiaries comprise:** | | |
| Acquired as part of subsidiary | 13,995 | 14,201 |

## 24. Reserves

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Foreign currency translation reserve | | |
| **Balance at beginning of year** | **360** | **609** |
| Foreign exchange movements from translation of financial statements to US dollars | 23 | (249) |
| **Balance at end of year** | **383** | **360** |
| Share option reserve | | |
| **Balance at beginning of year** | **(321)** | **(5,492)** |
| Options expired | – | (13) |
| Step acquisition of subsidiary with non-controlling interest | – | 5,184 |
| **Balance at end of year** | **(321)** | **(321)** |
| Profit appropriation reserve | | |
| **Balance at beginning of year** | **–** | **–** |
| Profits transferred to profit reserve | – | 3,362 |
| Dividend paid | – | (3,362) |
| **Balance at end of year** | **–** | **–** |
| Asset revaluation reserve | | |
| **Balance at beginning of year** | **–** | **(2,565)** |
| Fair value movement during the year | – | 824 |
| Transfer to retained earnings realised gain on shares sold during the period | – | 1,741 |
| **Balance at end of year** | **–** | **–** |
| **Total Reserves** | **62** | **39** |

## Nature and purpose of reserves

**Foreign Currency Translation Reserve**
Exchange differences arising on translation of the non-US$ denominated non-monetary balances of Group Companies are recognised in the foreign currency translation reserve. The reserve is recognised in profit or loss when the net investment is disposed of.

**Share Option Reserve**
Options granted / issued as share-based payments are recognised in the share option reserve. These options expired during the year ended 30 June 2017.

**Asset Revaluation Reserve**
The reserve is used to recognise increments and decrements in the fair value of equity securities.

# Notes to the financial statements

## 25. Financial instruments

**Financial risk management objectives**

The Group's principal financial instruments comprise borrowings, receivables, listed equity securities, cash and short-term deposits. These activities expose the Group to a variety of financial risks: market risk (interest rate risk and foreign currency risk), credit risk, price risk and liquidity risk.

The Group recognises the importance of risk management, and has adopted a Risk Management and Internal Compliance and Control policy which describes the role and accountabilities of management and of the Board. The Directors manage the different types of risks to which the Group is exposed by considering risk and monitoring levels of exposure to the main financial risks by being aware of market forecasts for interest rates, foreign exchange rates, commodity and market prices. The Group does not have significant exposure to credit risk and liquidity risk is monitored through general business budgets and forecasts.

### The Group holds the following financial instruments:

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Financial Assets | | |
| Cash and cash equivalents | 6,612 | 6,094 |
| Trade and other receivables (excluding VAT refundable) | 8,018 | 8,057 |
| Other financial assets | 1,354 | 975 |
| Financial liabilities | | |
| Trade and other payables | 25,972 | 16,941 |
| Borrowings | 22,592 | 22,529 |

**a. Market Risk**

**i. Foreign Currency Risk**

The Group undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign currency exchange rate fluctuations.

Foreign exchange rate risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the functional currency of the Group. The risk is measured using cash flow forecasting. Foreign currency risk is minimal as most of the transactions are settled in US$.

As at 31 December 2017, the Group was exposed to foreign exchange risk though the following financial assets and liabilities denominated in currencies other than the Company's functional currency ($US).

| | Argentinian Peso (ARS) | Chilean Peso (CLP) | Australian Dollar | Canadian Dollar |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and cash equivalents | 1,271 | 373 | 27 | 34 |
| Trade and other receivables (excluding VAT refundable) | 113 | 60 | 5 | 20 |
| Other financial assets | 69 | – | – | – |
| Financial liabilities | | | | |
| Trade and other payables | 6,482 | 4,547 | 178 | 355 |
| Borrowings | 366 | 10,988 | – | – |

**ii. Price Risk**

The Group's revenues are exposed to fluctuations in the price of gold, silver and other prices. Gold and silver produced is sold at prevailing market prices in US$.

The Group has resolved that for the present time the production should remain unhedged. The Group considers exposure to commodity price fluctuations within reasonable boundaries to be an integral part of the business.

**Historical Evolution in the gold and silver commodity prices (US$)**

**Sensitivity to Changes in Commodity Prices (Gold and Silver)**

The below sensitivity analysis demonstrates the after tax effect on the profit/(loss) and equity which could result if there were changes in the gold and silver commodity prices by +/- 10% of the actual commodity prices realised by the Group for the six months ended 31 December 2017 and the twelve months ended 30 June 2017.

| | Effect on profit/(loss) | | Effect on equity | |
|---|---|---|---|---|
| | 6 months ended 31 December 2017 US$'000 | 12 months ended 30 June 2017 US$'000 | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| 10% increase in gold and silver price | 4,887 | 10,103 | 4,887 | 10,103 |
| 10% decrease in gold and silver price | (4,887) | (10,103) | (4,887) | (10,103) |

**iii. Interest Rate Risk**

The Group's main interest rate risk arises from finance leases. The Group's borrowings are at fixed rates and therefore do not carry any variable interest rate risk.

**b. Financial Market Risk**

The financial market risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate because of changes in market prices, which occurs due to the Group's investment in listed securities where share prices can fluctuate over time. This risk however is not deemed to be significant as these investments are held for long term strategic purposes and therefore movement in the market prices do not impact the short-term profit or loss or cash flows of the Group.

The group holds listed government bonds and listed equity securities (note 13). These are classified as level 1 within the fair value hierarchy as per AASB 7 "Financial Instruments. Options to purchase shares of Fortuna Silver (note 13) are classified as level 2 and the call option to buy a further 10% interest in Casposo (note 3) are classified as level 3.

**c. Credit Risk**

The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any allowance for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There are no significant concentrations of credit risk.

**d. Liquidity Risk**

The liquidity of the Group is managed to ensure sufficient funds are available to meet financial commitments in a timely and cost effective manner.

Management continuously reviews the Group's liquidity position through cash flow projections based upon the current life of mine plan to determine the forecast liquidity position and maintain appropriate liquidity levels.

**Maturities of financial liabilities**

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

The amounts disclosed in the table are the contractual undiscounted cash flows.

| | Consolidated | | | | |
|---|---|---|---|---|---|
| | < 6 months US$'000 | 6-12 months US$'000 | 1-5 years US$'000 | > 5 years US$'000 | Total US$'000 |
| Year Ended 31 December 2017 | | | | | |
| Financial liabilities | | | | | |
| Trade and other payables | 25,966 | – | 6 | – | 25,972 |
| Lease liabilities | 3,150 | 3,149 | 5,526 | – | 11,825 |
| **Total 31 December 2017 liabilities** | **29,116** | **3,149** | **5,532** | **–** | **37,797** |
| Year ended 30 June 2017 | | | | | |
| Financial liabilities | | | | | |
| Trade and other payables | 16,933 | – | 8 | – | 16,941 |
| Lease liabilities | 4,123 | 2,220 | 8,546 | – | 14,889 |
| **Total 30 June 2017 liabilities** | **21,056** | **2,220** | **8,554** | **–** | **31,830** |

## 26. Dividends

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Dividends paid during the financial year were as follows: | | |
| Interim dividend for the year ended 30 June 2017 or A$0.009 per ordinary share | – | 3,362 |

No dividends to shareholders were paid or proposed during the current year. On 31 December 2016 the Directors declared an interim dividend of A$0.009 (US$0.006) per ordinary share. The dividend was paid on 1 February 2017. The total distribution amounted to A$4,670,849 (US$3,361,656) based on the number of ordinary shares on issue as at 18 January 2017.

During the 6 months ended 31 December 2017, a dividend in the amount of US$125k was declared to the minority interest shareholder of Ingenieria y Minera Cashinalito Limitada (12 months ended 30 June 2017—US$156k).

# Notes to the financial statements

## 27. Commitments

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Lease commitments — finance | | |
| Committed at the reporting date and recognised as liabilities, payable: | | |
| Within one year | 6,083 | 6,343 |
| One to five years | 5,743 | 8,546 |
| Total commitment | 11,826 | 14,889 |
| Less: Future finance charges | (683) | (915) |
| Net commitment recognised as liabilities | 11,143 | 13,974 |
| Representing: | | |
| Lease liability — current | 5,640 | 5,825 |
| Lease liability — non-current | 5,503 | 8,149 |

To maintain legal rights to its properties, the company pays fees for mining concessions and exploration. It anticipates that it will need to pay approximately US$0.466m during the next year to maintain legal rights to all of its properties.

## 28. Subsidiaries

| | Country of Incorporation | 31 December 2017 % owned | 30 June 2017 % owned |
|---|---|---|---|
| Parent entity | | | |
| Austral Gold Limited | Australia | | |
| Subsidiaries | | | |
| Guanaco Mining Company Limited | British Virgin Islands | 100.000 | 100.000 |
| Guanaco Compañía Minera SpA | Chile | 99.998 | 99.998 |
| Austral Gold Argentina S.A. | Argentina | 99.970 | 99.970 |
| Ingenieria y Mineria Cachinalito Limitada | Chile | 51.000 | 51.000 |
| Argentex Mining Corporation* | Canada | 100.000 | 100.000 |
| SCRN Properties Ltd. | Canada | 100.000 | 100.000 |
| Casposo Project [1] | Argentina | 70.000 | 70.000 |

[1] The Group has power over the key operating and strategic decisions of the Casposo project and accordingly consolidates the project.

## 29. Acquisition Argentex (asset acquisition)

On 19 August 2016 the plan of arrangement ('the Arrangement') between Austral Gold and Argentex Mining Corporation ('Argentex') was finalised with the dual listing of Austral Gold on the TSX Venture Exchange under code AGLD. Under the terms of the Arrangement, Argentex shareholders received approximately 0.564676 of an ordinary share of Austral for each Argentex common share held at that date. Austral Gold issued a total of 40,221,183 shares to Argentex shareholders and Argentex became a wholly-owned subsidiary of Austral.

At the time of acquisition, Argentex's main asset was the Pingüino project with indicated and inferred resources but no probable and proven resources. The Pingüino project was not in production and there was no mine plan to place it into production. For these reasons, the acquisition was accounted for as an acquisition of assets and liabilities and not a business combination as defined under AASB3.

### 29.1 Consideration transferred

The fair value of the ordinary shares issued was based on the listed share price of the Company at the date of issue on 22 August 2016, AUD$0.19 (US$0.137) per share, which valued the share consideration transferred at US$5.5m. In addition, a previously owned 19.9% interest was treated as consideration at fair value of US$1.37m at the date of acquisition.

**29.2 Assets acquired and liabilities assumed**

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

| | 30 June 2017 US$'000 |
|---|---|
| Cash & cash equivalent | 26 |
| Other current receivables | 28 |
| Property, plant and equipment | 229 |
| Exploration areas (Pingüino Project) | 7,194 |
| Accounts payable | (98) |
| Related party liabilities | (482) |
| Other non-current liabilities | (13) |
| **Total identifiable net assets acquired** | **6,884** |

The Group incurred acquisition related costs of US$215,000 on legal fees and due diligence costs. These costs were capitalised against the value of the net assets acquired.

## 30. Parent entity information

| | Consolidated | |
|---|---|---|
| | 31 December 2017 US$'000 | 30 June 2017 US$'000 |
| Current assets | 1,022 | 71 |
| **Total assets** | **67,916** | **66,964** |
| Current liabilities | 12,530 | 12,066 |
| Total liabilities | 12,530 | 12,066 |
| **Net assets** | **55,386** | **54,898** |
| Issued capital | 100,569 | 99,050 |
| Accumulated losses | (44,900) | (40,495) |
| Reserves | (283) | (3,657) |
| **Total shareholders' equity** | **55,386** | **54,898** |
| **Gain/(Loss) of the parent entity** | **(1,056)** | **3,328** |
| **Total comprehensive income/(loss) of the parent entity** | **(1,033)** | **3,328** |
| Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries | A* | A* |
| Details of any contingent liabilities of the parent entity | None | None |
| Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment. | None | None |

A* Austral Gold Limited is guarantor for the credit facility of US$8m between BAF and Guanaco Compañía Minera SpA.

## 31. Related party transactions

**31.1 KMP holdings of shares and share options at 31 December 2017**

- Mr Eduardo Elsztain holds 451,573,010 shares indirectly in Austral Gold Limited. (30 June 2017—450,741,567)
- Mr Saul Zang holds 1,435,668 shares indirectly in Austral Gold Limited. (30 June 2017—1,435,668)
- Mr Pablo Vergara del Carril holds 68,119 shares directly in Austral Gold Limited. (30 June 2017—68,119)
- E Elsztain and S Zang are Directors of IFISA which holds 414,880,857 shares according to the last substantial holder notice lodged in November 2017. (January 2017—421,538,417)
- Mr. Rodrigo Ramirez holds 279,514 shares directly in Austral Gold Limited.

- P Vergara del Carril, E Elsztain and S Zang are Directors of Guanaco Capital Holding Corp which holds 31,386,890 shares according to the last substantial holder notice lodged in November 2017. (February 2017—31,386,890)
- Mr Stabro Kasaneva holds 6,881,230 shares indirectly in Austral Gold Limited. (30 June 2017—1,691,398)
- Mr Wayne Hubert holds 1,750,000 shares indirectly in Austral Gold Limited. (30 June 2017—1,750,000)
- Michael Brown holds 34,716 shares directly in Austral Gold Limited. (30 June 2017—34,716)

**31.2 Directors and Key Management Personnel Remuneration**

The aggregate compensation made to Directors and other members of Key Management Personnel of the Group is set out below:

| | Consolidated | |
|---|---|---|
| | 6 months ended 31 December 2017 US$'000 | 12 months ended 30 June 2017 US$'000 |
| Short-term employment benefits | 1,434 | 1,765 |
| Share-based payment (note 21) | 547 | – |
| Post-employment benefits | 322 | 5 |
| **Total** | **2,303** | **1,770** |

**Other transactions with related parties**

Zang, Bergel & Viñes Abogados is a related party since two Directors, Saul Zang and Pablo Vergara del Carril have significant influence over this law firm based in Buenos Aires, Argentina. Legal fees charged to the Company for the year ended 31 December 2017 amounted to US$63,536 (30 June 2017: US$129,532).

**31.3 Lending to majority shareholder**

In May 2015, a short-term loan for US$3m was made to Inversiones Financieras del Sur SA, a related party, on better than arm's length terms. The loan balance outstanding of US$2,720,364 (Including accrued interest) was fully repaid on 1 February 2017.

**31.4 Ultimate parent entity**

The Parent Entity is controlled by IFISA with a 77.67% interest in Austral Gold Limited and is incorporated in Uruguay.

The ultimate beneficial owner of IFISA is Eduardo Elsztain.

## 32. Unrecognised deferred tax assets

In certain entities of the Group, tax losses have not been recognised as deferred tax assets in respect of the following items, because it is not probable that future taxable profit will be available against which the Group can use the benefits therefrom.

| Australia | US$ '000 | Expiry |
|---|---|---|
| Tax losses | 15,509 | No Expiry |
| Capital losses | 2,518 | No Expiry |
| Argentina | | |
| Capital losses | 1,395 | 2018 |
| Canada | | |
| Tax losses | 16,644 | 2018-2038 |

The ability of the Group to utilise Australian or Canadian tax losses will depend on the applicability and compliance with the respective Australian or Canadian tax laws regarding continuity of ownership or same or similar business tests.

## 33. Subsequent events

On 23 February 2018, the Group secured a six month pre-export facility with Santander Chile for US$2 million at 4.63% per annum interest. The entire amount has been drawn down.

# Directors' Declaration

In the Directors' opinion:

1. the attached consolidated financial statements and notes thereto comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
2. the attached consolidated financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the consolidated financial statements;
3. the attached consolidated financial statements and notes thereto give a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the 6 months ended on that date; and
4. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001. Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

Signed on behalf of the Directors by:

**Robert Trzebski**
Director

Sydney
27 March 2018

# KPMG Independent Audit Report

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# Independent Auditor's Report

To the shareholders of Austral Gold Limited

## Report on the audit of the Financial Report

### Opinion

We have audited the ***Financial Report*** of Austral Gold Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Groups*** financial position as at 31 December 2017 and of its financial performance for the six months ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 December 2017
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the six months then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The ***Group*** consists of the Company and the entities it controlled at the six months end or from time to time during the financial period.

### Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

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## Key Audit Matters

The ***Key Audit Matters*** we identified are:

- Carrying value of mine assets and plant & equipment
- Carrying value of exploration and evaluation assets

***Key Audit Matters*** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Carrying value of mine assets and plant & equipment ($91.2m)

Refer to Note 14 and 15 to the Financial Report

| The key audit matter | How the matter was addressed in our audit |
|---|---|
| The Group's mine assets and plant & equipment were a significant portion (58%) of the Group's total assets, and their carrying value was a key audit matter due to the high level of judgement required by us to assess the carrying value.<br><br>The key judgements involved in the carrying value assessment are forward looking assumptions, as used in the Group's value in use models. The key assumptions are forecast production, gold and silver prices, discount rates and reserve estimates. The Group obtained a reserve report from a third party expert to assist in their carrying value assessment. | Our procedures included:<br><br>• We obtained the Group's value in use models, and:<br>  ◦ In order to identify areas of increased audit focus, we performed sensitivity analysis on key assumptions in the value in use models such as production forecasts, gold and silver prices, discount rates and reserve estimates. We also compared historical production results with the historical production forecast.<br>  ◦ Compared the total forecast production assumptions to board approved future production forecasts and to the Group's third party expert report.<br>  ◦ Corroborated forecast production assumptions and mine closure plans with the key operational and finance personnel.<br>• We assessed the competence, capability and objectivity of the Group's third party experts.<br>• We compared the forecast gold and silver price assumptions against published forecast price expectations of industry commentators and investigated inconsistencies. |

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| Carrying value of exploration and evaluation assets ($15.9m) | |
|---|---|
| Refer to Note 16 to the Financial Report | |
| **The key audit matter** | **How the matter was addressed in our audit** |
| The carrying value of exploration and evaluation assets (E&E assets) is a key audit matter due to:<br>• the significance of the Group's E&E asset balance (being 10% of total assets); and<br>• the greater level of audit effort to evaluate the Group's application of the requirements of the industry specific accounting standard AASB 6 Exploration for and Evaluation of Mineral Resources, in particular the conditions allowing capitalisation of relevant expenditure and presence of impairment indicators. The presence of impairment indicators would necessitate a detailed analysis by the Group of the value of E&E. Therefore, given the criticality of this to the scope and depth of our work, we involved senior team members to challenge the Group's determination that no such indicators existed.<br>In assessing the conditions allowing capitalisation of relevant expenditure, we focused on:<br>• the determination of the areas of interest (areas) in particular evaluating the results of the external expert engaged by the Group;<br>• documentation available regarding rights to tenure, via licensing, and compliance with relevant conditions, to maintain current rights to an area of interest.<br>• the Group's determination of whether the E&E are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale.<br>In assessing the presence of impairment indicators, we focused on those factors that may draw into question the commercial continuation of E&E activities for the areas of interest where significant capitalised E&E exists.<br>In addition to the assessments above we paid | Our procedures included:<br>• Evaluating the Group's accounting policy to recognise exploration and evaluation assets using the criteria in the accounting standard;<br>• We assessed the results of the external expert and the Group's determination of its areas of interest for consistency with the definition in the accounting standard;<br>• For each area of interest, we assessed the Group's current rights to tenure by corroborating the ownership of the relevant license to government registries and evaluating agreements in place with other parties. We also tested for compliance with conditions, such as minimum expenditure requirements, on a sample of licenses;<br>• We tested the Group's additions to E&E for the period by evaluating a sample of recorded expenditure for consistency to underlying records, the capitalisation requirements of the Group's accounting policy and the requirements of the accounting standard;<br>• We evaluated Group documents, such as minutes of directors meetings and ASX market announcements, for consistency with their stated intentions for continuing E&E in certain areas. We corroborated this through interviews with key operational and finance personnel;<br>• We analysed the Group's determination of recoupment through successful development and exploitation of the area (or by its sale) by evaluating the Group's documentation of planned future/continuing activities including work programmes and project and corporate budgets for a sample of areas;<br>• We assessed the impact of changes in the gold and silver prices to the Group's modelling underlying their decision for commercial continuation of activities;<br>• We obtained project and corporate budgets identifying areas with existing funding and those requiring alternate funding sources. We compared this for consistency with areas with E&E, for evidence of the ability to fund continued activities. We identified those areas relying on alternate funding sources and |

| | |
|---|---|
| particular attention to:<br>• The impact of changes in gold and silver prices to the Group's strategy and intentions<br>• The intention of the Group to fund the continuation of activities<br>• Results from latest activities regarding the existence or otherwise of economically recoverable reserves/commercially viable quantity of the reserves. The Group engaged an external third party expert to assist with these assessments. | evaluated the capacity of the Group to secure such funding. |

## Other Information

Other Information is financial and non-financial information in Austral Gold Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon[, with the exception of the Remuneration Report.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.

## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of Austral Gold Limited for the six months ended 31 December 2017, complies with *Section 300A* of the *Corporations Act 2001*.

### Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

### Our responsibilities

We have audited the Remuneration Report included on pages 39 to 43 of the Directors' report for the six months ended 31 December 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Daniel Camilleri
*Partner*

Sydney
27 March 2018

# Additional Information

**Forward Looking Statements**

In this annual report that are not historical facts are forward-looking statements. Forward-looking statements are statements that are not historical, and consist primarily of projections — statements regarding future plans, expectations and developments. Words such as "expects", "intends", "plans", "may", "could", "potential", "should", "anticipates", "likely", "believes" and words of similar import tend to identify forward-looking statements. All forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors that could cause actual events or results to differ from those expressed or implied, including, without limitation, business integration risks; uncertainty of production, development plans and cost estimates, commodity price fluctuations; political or economic instability and regulatory changes; currency fluctuations, the state of the capital markets, uncertainty in the measurement of mineral reserves and resource estimates, Austral's ability to attract and retain qualified personnel and management, potential labour unrest, reclamation and closure requirements for mineral properties; unpredictable risks and hazards related to the development and operation of a mine or mineral property that are beyond the Company's control, the availability of capital to fund all of the Company's projects and other risks and uncertainties identified under the heading "Risk Factors" in the Company's continuous disclosure documents filed on the ASX and SEDAR. You are cautioned that the foregoing list is not exhaustive of all factors and assumptions which may have been used. Austral cannot assure you that actual events, performance or results will be consistent with these forward-looking statements, and management's assumptions may prove to be incorrect. Austral's forward-looking statements reflect current expectations regarding future events and operating performance and speak only as of the date hereof and Austral does not assume any obligation to update forward-looking statements if circumstances or management's beliefs, expectations or opinions should change other than as required by applicable law. For the reasons set forth above, you should not place undue reliance on forward-looking statements.

## Corporate Governance Statement

Austral Gold Limited and its subsidiaries have adopted the corporate governance framework and practices set out in its Corporate Governance Statement. The Corporate Governance Statement is available on the Company's website at www.australgold.com.

## Statement of Issued Capital

As at 28 February 2018 the total issued capital of Austral Gold Limited was 534,173,010 ordinary shares. 493,913,907 shares were quoted on the Australian Securities Exchange under the code AGD. The only shares of the Company on issue are fully paid ordinary shares. None of these shares are restricted securities or securities subject to voluntary escrow within the meaning of the Listing Rules of the Australian Securities Exchange. 40,259,103 shares were quoted on the Toronto Venture Exchange under the code AGLD.

There are no restrictions on the voting rights attached to the fully paid ordinary shares. On a show of hands, every member present in person, by proxy, by attorney or by representative shall have one vote. On a poll, every member present in person, by proxy, by attorney or by representative shall have one vote for every share held.

## Distribution of fully paid ordinary shares

As at 28 February 2018

| Size of Holding | Holders | Shares Held | % of Issued capital |
|---|---|---|---|
| 1-1,000 | 692 | 272,993 | 0.05 |
| 1,001-5,000 | 388 | 1,026,392 | .019 |
| 5,001-10,000 | 142 | 1,088,359 | .02 |
| 10,001-50,000 | 124 | 2,793,972 | 0.52 |
| 50,001-100,000 | 27 | 1,900,287 | 0.36 |
| >100,000 | 53 | 527,091,007 | 98.67 |
| | **1,426** | **534,173,010** | **100.00** |

## Substantial Shareholders

The Company has been notified of the following substantial shareholdings as at 28 February 2018:

| Registered Holder | Beneficial Holder | Shares Held |
|---|---|---|
| Citicorp Nominees | Inversiones Financieras Del Sur SA (IFISA) | 414,880,857 |
| Citicorp Nominees | Eduardo Sergio Elsztain | 5,305,263 |
| HSBC Custody Nominees | Guanaco Capital Holding Corp | 31,386,890 |
| | | **451,573,010** |

## Top twenty shareholders as at 28 February 2018

| Rank | Name | No. of shares | % of issued capital |
|---|---|---|---|
| 1 | CITICORP NOMINEES PTY LIMITED | 428,209,255 | 80.16% |
| 2 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2 | 27,163,170 | 5.09% |
| 3 | CDS & CO | 21,122,111 | 3.95% |
| 4 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 16,044,707 | 3.00% |
| 5 | MINERA MENA CHILE LIMITADA | 10,000,000 | 1.87% |
| 6 | JIWELY INVESTMENTS SA | 6,101,158 | 1.14% |
| 7 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <EUROCLEAR BANK SA NV A/C> | 2,211,726 | 0.41% |
| 8 | FORSYTH BARR CUSTODIANS LTD <FORSYTH BARR LTD-NOMINEE A/C> | 2,076,603 | 0.39% |
| 9 | ASOCIACION ISRAELITA ARGENTINA TZEIRE AGUDATH JABAD | 1,158,265 | 0.22% |
| 10 | NATIONAL FINANCIAL SERVICES LLC | 1,028,920 | 0.19% |
| 11 | J P MORGAN NOMINEES AUSTRALIA LIMITED | 874,494 | 0.16% |
| 12 | BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP> | 783,043 | 0.15% |
| 13 | MR HAROLD JOSEPH FREIMAN | 770,416 | 0.14% |
| 14 | ENDEAVOUR SILVER CORP | 668,011 | 0.13% |
| 15 | MR. RICHARD B ROOK | 628,487 | 0.12% |
| 16 | BNP PARIBAS NOMS PTY LTD <DRP> | 596,838 | 0.11% |
| 17 | MR RUDOLF ALBERT SCHULZ | 379,872 | 0.07% |
| 18 | MR ERLE EDWINSON | 335,653 | 0.06% |
| 19 | MR RODNEY DAVID JACKSON | 300,000 | 0.06% |
| 20 | JP MORGAN TRUST COMPANY LTD <NEW AUSTRIA TRUST LLC A/C> | 297,445 | 0.06% |
| | **Total** | **520,750,174** | **97.49%** |
| | Other | 13,422,836 | 2.51% |
| | **Total shares on issue** | **534,173,010** | **100.00%** |

# Appendices: List of Tenements in which the Company currently has an interest

## Appendix A: Guanaco, Amancaya and Reprado (Chile) Tenements

| Property Name | Claim Type | Size (hectares) |
|---|---|---|
| Mining Concessions under exploration | Constituted Mining Claims | 42,814 |
| VINO (3, 4, 6, 7, 9) | Constituted Mining Claims | 1,800 |
| ARGOMEDO (1 to 6) | Mining claims in process | 1,800 |
| EMILIO (1 to 10) | Mining claims in process | 100 |
| Loreto I, Loreto II, Loreto III and Loreto IV | Mining claims in process | 1,000 |
| Barbara and Flora concessions | Constituted Mining Claims | 3,200 |
| Reprado | Constituted Mining Claims | 500 |
| Reprado | Mining claims in process | 660 |
| Reprado | Mining exploration claims in process | 2,800 |
| **Total** | | **54,674** |

## Appendix B: San Guillermo (Chile) Tenements

| Property Name | Claim Type | Size (hectares) |
|---|---|---|
| Mining Concessions under exploration | Constituted Mining Claims | 8,375 |
| Cepillo Rojo 7D | Mining claims in process | 200 |
| Cepillo Rojo 8D | Mining claims in process | 100 |
| Cepillo Rojo 11C | Mining claims in process | 200 |
| Cepillo Rojo A | Mining claims in process | 100 |
| Cepillo Rojo 1D | Mining claims in process | 300 |
| Cepillo Rojo 2D | Mining claims in process | 300 |
| Cepillo Rojo 3D | Mining claims in process | 300 |
| Cepillo Rojo 4D | Mining claims in process | 300 |
| Cepillo Rojo 5D | Mining claims in process | 300 |
| Cepillo Rojo 6D | Mining claims in process | 300 |
| Cepillo Rojo 9D | Mining claims in process | 200 |
| Cepillo Rojo 10D | Mining claims in process | 200 |
| Cepillo Rojo 12D | Mining claims in process | 200 |
| Cabello 11D | Mining claims in process | 300 |
| Cabello 12D | Mining claims in process | 300 |
| Cabello 13D | Mining claims in process | 200 |
| **Total** | | **12,175** |

## Appendix C: Casposo Mine (Argentina) Tenements

| Property Name | Claim Type | Size (Hectares) |
|---|---|---|
| Kamila | Constituted Mining claim | 3,497 |
| Julieta | Constituted Mining claim | 2,625 |
| Alicia -I | Constituted Mining claim | 16 |
| Various | Mining claims in process | 16,420 |
| Various | Cateos | 17,492 |
| **Total** | | **40,050** |

## Appendix D: Pingüino Project (and surrounds) (Argentina) Tenements

| Property Name | Claim Type | Size (hectares) |
|---|---|---|
| Pingüino | | |
| Tranquilo 1 | Mine | 3,484 |
| Tranquilo 2 | Mine | 3,182 |
| Cañadon | Mine | 1,827 |
| Pingüino | Mine | 1,493 |
| Plata Leon | Manifestation of discovery | 3,500 |
| Other Santa Cruz Properties | | |
| Mina Alto Cóndor | Mine | 3,016 |
| Cóndor | Mine | 1,500 |
| Diamante 1 | Mine | 2,906 |
| Diamante 2 | Mine | 2,862 |
| Contreras Oeste | Mine | 2,938 |
| Contreras Este | Mine | 1,622 |
| Nuevo Oro 2 | Mine | 840 |
| Rio Negro | | |
| Menucos 6 | Manifestation of discovery | 2,999 |
| Menucos 7 | Cateo | 2,880 |
| Menucos 8 | Cateo | 2,959 |
| Menucos 9 | Cateo | 2,999 |
| Menucos 10 | Cateo | 2,730 |
| Menucos 11 | Cateo | 1,840 |
| Menucos 12 | Cateo | 2,920 |
| Menucos 13 | Cateo | 2,965 |
| **Total** | | **51,462** |

## Appendix E: 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 |
| Cerro Contreras Norte | Cateo | 10,000 |
| Juangui II | Manifestation of discovery | 4,200 |
| Juangui VII-B | Manifestation of discovery | 4,000 |
| Juangui VI-D | Manifestation of discovery | 4,000 |
| Juangui I | Manifestation of discovery | 3,970 |
| Juangui IV | Manifestation of discovery | 3,226 |
| Juangui I-B | Manifestation of discovery | 3,936 |
| Juangui II-D | Manifestation of discovery | 3,740 |
| Juangui VIII-A | Manifestation of discovery | 840 |
| Juangui VI-C | Manifestation of discovery | 3,148 |
| Juangui III | Manifestation of discovery | 4,081 |
| Juangui IV-F | Manifestation of discovery | 2,286 |
| Juangui I-A | Manifestation of discovery | 2,008 |
| Juangui V | Manifestation of discovery | 1,920 |
| Juangui II-A | Manifestation of discovery | 840 |
| Juangui VI-A | Manifestation of discovery | 840 |
| Juangui VII-A | Manifestation of discovery | 840 |
| Juangui VI | Manifestation of discovery | 840 |
| Juangui IV-A | Manifestation of discovery | 840 |
| Juangui IV-B | Manifestation of discovery | 840 |
| Juangui IV-C | Manifestation of discovery | 840 |
| Juangui IV-D | Manifestation of discovery | 840 |
| Juangui IV- E 1 | Manifestation of discovery | 840 |
| Juangui IV- E 2 | Manifestation of discovery | 840 |
| Juangui IV- E 3 | Manifestation of discovery | 840 |
| Juangui IV- E 4 | Manifestation of discovery | 840 |
| Juangui IV- E 5 | Manifestation of discovery | 840 |
| Juangui V-A | Manifestation of discovery | 840 |
| Juangui V-B | Manifestation of discovery | 840 |
| Juangui II-C | Manifestation of discovery | 638 |
| Juangui II-B | Manifestation of discovery | 615 |
| Barroso Chico I | Manifestation of discovery | 840 |
| Barroso Chico II | Manifestation of discovery | 840 |
| **Total** | | **77,387** |

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