



AUSTRALGOLD



DECEMBER 2012

QUARTERLY ACTIVITY REPORT

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

Key Highlights

- Guanaco Gold Mine produced 8,528oz of gold in the quarter ended December 2012 consistent with production levels in the previous quarter.
- Gold produced from Guanaco totalled 28,902oz in the 12 months to December 2012. Silver production totalled 74,807oz for the same period.
- A new high grade gold vein was discovered in the underground development during period with gold grades up to 50 g/t Au.
- Austral Gold continues its exploration program in Santa Cruz, Argentina and is seeking environmental approval to commence trenches and drilling.
- The company is forecasting 40,000oz Au production for the 2013 calendar year.

CHILE

Guanaco

Background

The Guanaco mine is the company's primary asset located approximately 220km SE of Antofagasta in Northern Chile. It is at an elevation of some 2,700m and 45km from the Pan American Highway. Guanaco is located in the Palaeocene/Eocene belt, a structural trend which runs north/south down the centre of Chile, and hosts several large gold and copper mining operations including: Zaldivar, El Peñon and Escondida.

The Guanaco operation includes the mining of ore from two open pits (Defensa and Perseverancia) at an average grade of 1.24 g/t Au. The majority of the ore processed is derived from the Cachinalito underground and nearby vein. Gold mineralisation at Guanaco is controlled by pervasively silicified, E/NE trending sub-vertical zones with related hydrothermal breccias. Silicification grades outward into advanced argillic alteration and further into zones with propylitic alteration. In the Cachinalito vein system most of the gold mineralisation is concentrated between depths of 75m and 200m and is contained in elongated shoots. High grade ore shoots (up to 180 g/t Au), 0.5 to 3.0m wide, have been exploited, but the lower grade halos, below 3 g/t Au, can reach up to 20m in width. The alteration pattern and the mineralogical composition of the Guanaco ores have led to its classification as a high sulfidation epithermal deposit.



Guanaco recommenced operations in August 2010 and poured its first doré bar in October 2010.

Production

Production from heap leach process, using existing leach pads and new ore mined from two open pit mines, plus the underground operation generated 28,902oz of gold and 74,807oz of silver in the 12 months to December 2012. The cash operating cost was approximately US\$856 /oz (excluding royalties).

Production results for the December quarter were consistent with the previous quarter. Production improvements are expected with the commissioning of the new higher-capacity carbon regeneration kiln. Further efficiencies are anticipated through crushing optimisation at grain sizes of 5.2mm.

Gold and Silver Production:

Production	2010 Calendar Year	2011 Calendar Year	2012 Calendar Year	2013 Forecast
Gold (Au Oz)	332	12,373	28,902	40,000
Silver (Ag Oz)	431	37,511	74,807	30,150

Mining

Mining continued from both the open pit and underground mining operations. In the 12 months to December 2012 a total of 808,946t from two open pits (Perseverancia & Defensa) and from underground, were leached at an average grade of 1.93 g/t Au and 7.93 g/t Ag.

Underground mine development of 1,226 m was completed in the quarter with 38,976t of ore produced at a grade of 6.93 g/t Au and 9.21 g/t Ag. In the calendar year 2012, a total of 4,824 m was drilled and 117,827t of ore was produced at a grade of 6.78 g/t Au and 7.02 g/t Ag.

Safety

One lost-time incident (LTIs) and 3 nil-lost-time incidents (NLTIs) were reported involving employees of the Company and its subsidiaries during the quarter ended 30 December 2012. Safety is a core value of the Company and the implementation of strategies to identify and manage risks in our workplaces being our highest priority.

Exploration Program

Local and District Program

A total of 4,425m was drilled during 2012 which focused on exploring the new ore shoots hosted in the main known corridors - Cachinalito, Dumbo-Defensa and Perseverancia. The result of this program was not satisfactory and exploration of these areas using geophysics was abandoned.

A new high-grade gold vein was discovered in the underground development and has been named the Despreciada Vein. This vein shows a new and different strike opening providing encouraging potential to extend resources in the Guanaco Deposit.

Despreciada has a N30W strike and is sub vertical. It has been recognised for more than 70m in two levels, cutting the Cachinalito Vein with gold grades up to 50 g/t Au.

A comprehensive exploration plan, both at surface and underground, is being implemented to explore the potential of this new vein which strikes in the EW direction, this being the prevailing control for gold and silver mineralisation.

Porphyry Copper Exploration Program

Five holes totalling 4,873 metres, both RC and DDH, were drilled for copper exploration. The depth varies from 914 to 1,000 meters. The holes RC/DDH-999 and RC/DDH-1016 present characteristics of a porphyry copper environment. Both holes show a strong hydrothermal alteration, characterised by quartz and sericite. This evidence is being used to define the location of the porphyry source and additional holes are being planned for 2013 following the initial indications of a porphyry copper beneath the Guanaco Deposit.

Argentina

8 de Julio - Santa Cruz

An environmental impact study was presented to the authorities during the quarter. The company currently awaits the appropriate permits to start working on the upcoming trenching and drilling programs.

Guanaco Operational Performance:

12 months to December 2012

Total Ore processed (t)	808,946
Ore from open pits (t)	593,903
Open pit grade (Au g/t)	1.18
Ore from underground (t)	117,827
Underground grade (Au /t)	6.78
Ore from old heaps (t)	27,678
Old heap grade (Au g/t)	0.8
Weighted average recovery (%)	61.5
Gold produced (oz)	28,902
Silver produced (oz)	74,807
Cash operating cost (US\$/oz)	856

CORPORATE

Cash generated from the sale of gold and silver resulted in positive operating cash flows for the first time in the March 2012 quarter and the company has experienced a solid and consistent production growth in the months following.

The company has been self-funding since March 2012 and over the course of the 12 months to 31 December 2012 has strengthened its balance sheet with US \$6.3 million of principle debt repayments to its major shareholder Inversiones Financieras del Sur SA (IFISA).

At 31 December 2012 Austral Gold held AU \$1.3 million cash in the bank with US \$2.8 million worth of gold produced and yet to be sold.

The Company does not expect to make any further drawdowns on its debt facility with IFISA and the current financial position adds significant flexibility to further reduce debt and pursue other growth opportunities under consideration.

By order of the Board



Catherine Lloyd
CFO & Company Secretary

Competent Person's Statement

Dr Robert Trzebski is a Director of Austral Gold Limited. He has a Degree in Geology, a PhD in Geophysics, a Masters in International Project Management and has over 20 years professional experience in mineral exploration, project management and research and development.

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

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