AUSTRAL GOLD LIMITED

AND ITS SUBSIDIARIES

ACN 075 860 472

ANNUAL REPORT
2007

Austral Gold Limited
ACN 075 860 472

Contents

Austral Gold Limited

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Chairman's Letter

Dear Shareholder

It is a pleasure to introduce my first report as Chairman of Austral Gold Limited.

2007 has been a challenging year with substantial changes to your Board and management team.

We thank the outgoing Chairman, Hon Marcus Einfeld and outgoing Non-Executive Director Mr Terence Willsteed for their contributions to the Company over several years. We also thank the outgoing Company Secretary, Henry Kinstlinger for the services provided to Austral Gold Limited and for contributing to a smooth transition to the new team.

What has not changed has been the support of the Company's major shareholder, Guanaco Capital Holding. Guanaco Capital Holding has been generous with both financial and technical resources to ensure that the Company's major asset – the Guanaco project in Chile – continues to advance.

The year has seen significant drilling at Guanaco, over 15,000 metres in all. This drilling has substantially increased the gold resources at Guanaco and we continue to be optimistic of the project's ultimate development.

There has been significant rationalisation of the Company's Australian exploration acreage, particularly since 1 July 2007. Your Company is now focused on fewer, more prospective areas in Australia than was previously the case.

We are fortunate to have the continuing support of Guanaco Capital Holding, and also high calibre managers to advance the Company's prospects, particularly in Chile.

Mark Bethwaite
Chairman

Corporate Directory

Directors:	Mark Bethwaite - Chairman Eduardo Elsztain – Non Executive Director Saul Zang – Non Executive Director Pablo Vergara del Carril - Non Executive Director Robert Trzebski - Non Executive Director Natalia Zang – Alternate Non Executive Director
Company Secretary:	Denise Lindfield
Management:	Ema Volavola - Office Manager
Registered Principal Office:	Suite 605, Level 6 80 William Street Sydney NSW 2011 Telephone: (02) 9380 7233 Facsimile: (02) 9380 7972 Email: info@australgold.com.au Website: www.australgold.com.au
Auditors:	PKF
Share Registry:	Computershare Investor Services Pty Ltd Level 3, 60 Carrington Street Sydney NSW 2000 Telephone: (02) 8216 5531 Facsimile: (02) 8235 8120
Principal Bankers:	National Bank Limited
Solicitors:	Steinepreis Paganin, Perth
Listed:	Australian Stock Exchange Limited
Place of Incorporation:	Western Australia

Review of Activities

The Company's strategy is to maximize shareholder value by the development of mineral deposits in which Austral Gold has an interest, providing such development demonstrates superior rates of return.

Guanaco Gold Project, Chile

Background

In January 2003 Austral Gold Limited (formerly Diamond Rose NL) obtained through its subsidiary Golden Rose International Limited (GRIL), an option to acquire the Guanaco gold-copper project in Chile from subsidiaries of Kinross Gold Corporation (Guanaco Project). At a general meeting of the Company held on 14 March 2003, the Shareholders approved the acquisition by the Company of an interest in the Guanaco Project.

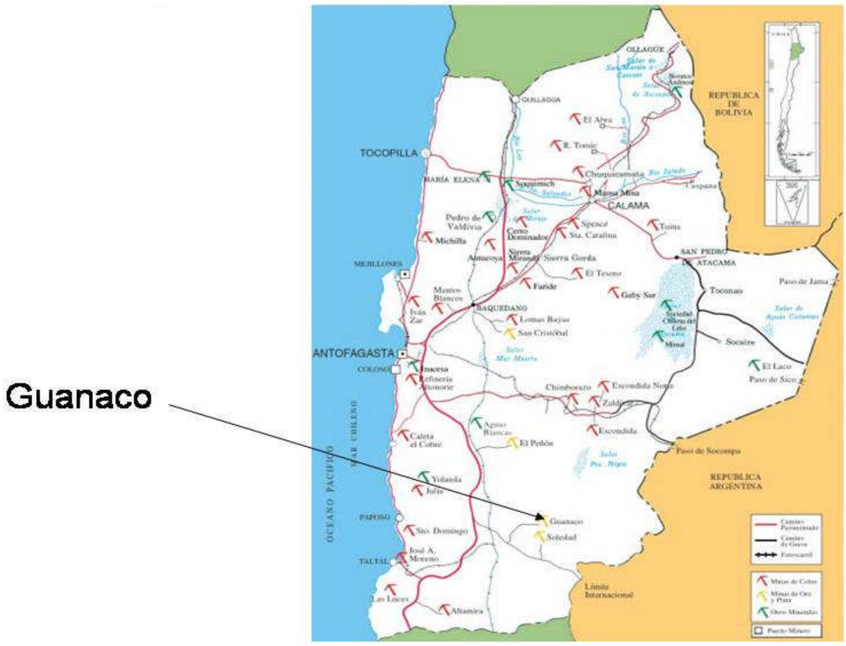
Guanaco Capital Holding (GCH) (an entity under the control of Eduardo Elsztain, a prominent South American fund manager) agreed to provide funds to complete the purchase. The agreement to fund the acquisition was conditional on GCH holding title in the Guanaco Project pending an equitable distribution of equity being concluded and also on Austral Gold Limited managing the project on terms and conditions to be agreed upon.

The Guanaco Project was acquired from Compania Minera Kinam Guanaco and Kinam de Chile Limited (wholly owned subsidiaries of Kinross Gold Corporation) by a company that is currently wholly owned by Guanaco Mining Company Limited (GMC).

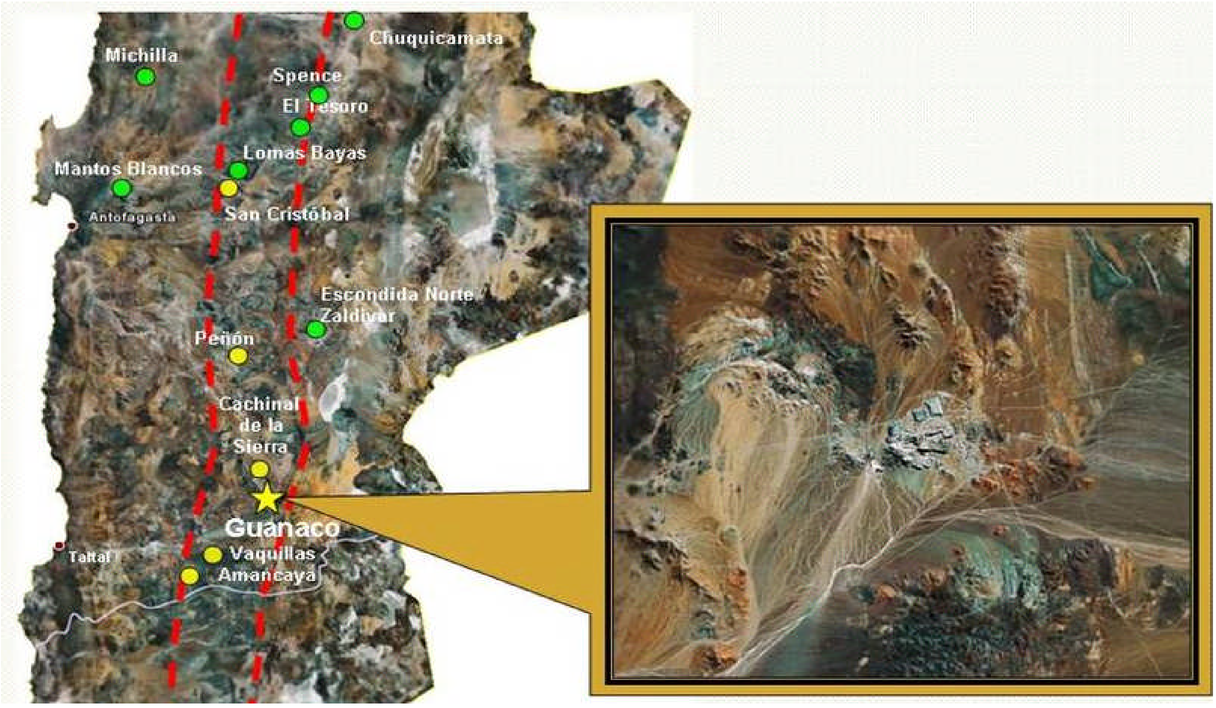
In July 2003, a binding international arbitration determined that GCH should hold 51% of the equity in the Guanaco Project in return for an initial investment of US$1,100,000 plus an additional US$900,000 expenditure on the Guanaco Project. In December 2003 an Implementation Agreement between Vageta (Austral Gold former controlling shareholder), GCH, GMC and Austral Gold was executed pursuant to which a series of transactions were to be carried as approved by the shareholders of Austral Gold in September 2004. In January 2005 the parties completed the set of agreements and in March 2005 GCH became the major shareholder of Austral Gold. The Board of the Company changed and its securities were reinstated by the ASX in May 2005. In December 2005, Vageta sold its remaining interest in the Company. In November 2006, Austral Gold, GCH, GRIL and GMC executed a Deed of Acknowledgement and Release to formally resolve the apportionment of shares in GMC and the obligations of the parties to contribute to the expenses in GMC. The Deed of Restructure resulted in the corporate reorganization was put forward to the shareholders at the last General Meeting. On 22 May 2007, the shareholders approved the reconstruction of the share capital so that Austral Gold Limited now holds 51% of GMC and 100% of GRIL and the appointment of a new Board to lead the Company in a new era.

Project Description

Guanaco is located some 200 kilometres south east of Antofagasta in Northern Chile. It is at an elevation of 2700 metres and close to the Pan-American highway which runs north/south through Chile.



Guanaco is located in a structural trend which runs north/south down the centre of Chile. This porphyry copper trend accommodates several large Chilean copper/gold mining operations including Chuquicamata, San Cristobal, El Peñon and Escondida.



Mining was undertaken at Guanaco from 1886 - with some interruptions - until 1997.

Both copper and gold have been mined at Guanaco and more than one million ounces of gold have been produced.

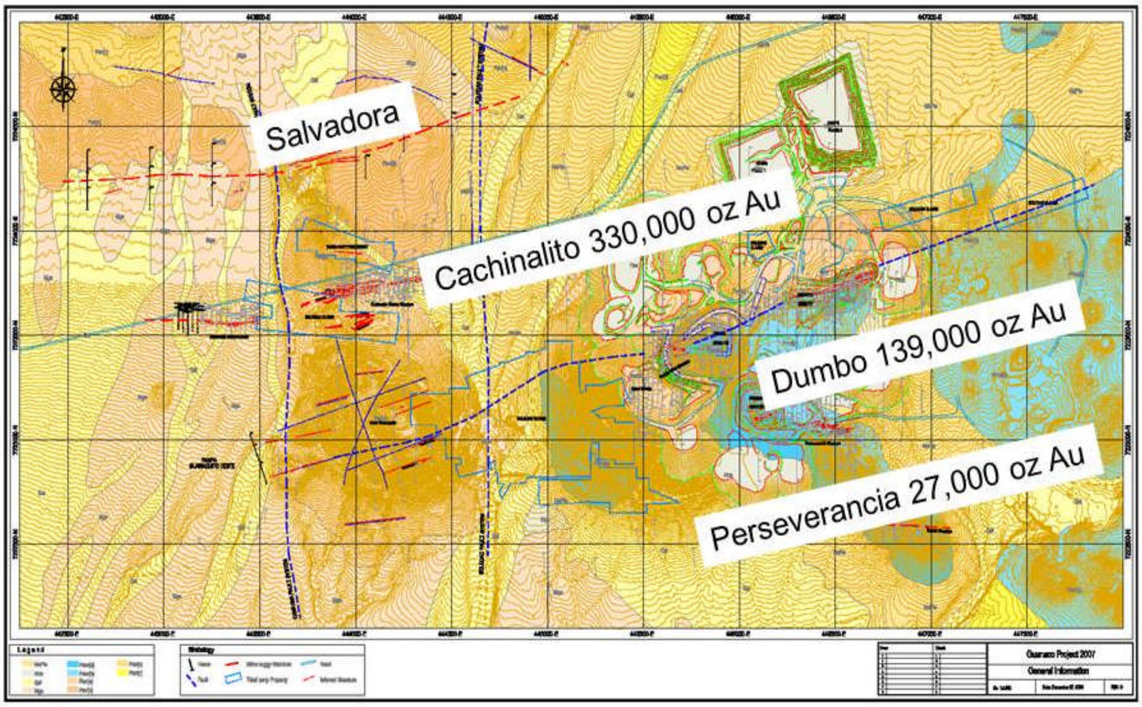
Austral Gold's predecessors entered into an Option Agreement to acquire an interest in Guanaco in September 2002. Since that time, Austral Gold has pursued exploration activities at Guanaco with our joint venture partner, Guanaco Capital Holding, which is also Austral Gold's majority shareholder.

The photograph above shows the Dumbo open pit, the deepest of the past workings.

The smaller photograph on the lower right shows the leach pads beyond the crushing circuit which supported earlier mining operations.

A legacy from prior operations at Guanaco is significant infrastructure in the form of crushing, conveying, milling and processing plant, together with accommodation and offices, some of which are shown in the photographs above.

Whilst any resumption of operations at this site would require significant investment to bring existing plant up to operating standard, and some sections of the plant would require complete replacement, any future operations at Guanaco will have the benefit of significant former investment.



These gold figures are based on 31 December 2006 resource estimates

The Dumbo vein system, on which the Dumbo open pit shown in an earlier photograph was sited, can be seen to the east. The Perseverancia vein system is to the south of Dumbo and the Cachinalito and Salvadora vein systems are to its north.

These systems all strike east north east/west south west and dip steeply to the north.

Exploration drilling in 2006/07 was focused on the Cachinalito Oeste, Cerro Guanaquito, and Salvadora vein systems. The combined measured, indicated and inferred resources as at 31 December 2007 of contained ounces of gold as a result of that drilling, is shown on each vein.

Resource Position as at 31 December 2006

Resource	oz Au
Measured	150,690
Indicated	185,141
Inferred	160,310
Total	**496,141**
	oz Ag
Measured	186,264
Indicated	369,611
Inferred	651,493
Total	**1,207,368**

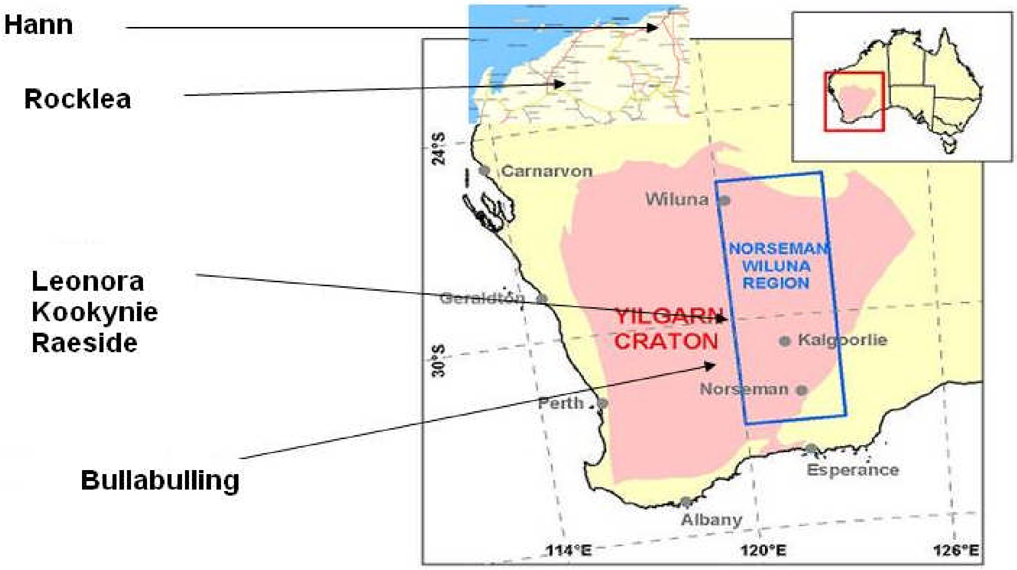
Measured, indicated and inferred resources amount to 500 000 ounces excluding any gold or silver remaining in the leach pads from earlier operations, estimated to be just under 200 000 additional ounces.

Guanaco is Austral Gold's principal asset and the focus of our exploration and technical effort.

Exploration at the site will continue in 2007/08 with the objective of increasing the measured, indicated and inferred resources of gold and silver significantly above current levels.

It is anticipated that in the second half of 2008, the Company will embark on a feasibility study into the restarting of gold mining and processing operations at Guanaco. Any feasibility study will take some months to complete, and may lead to a development decision in 2009.

Australian exploration areas



Austral Gold's Australian exploration areas are all in Western Australia. They are of varying quality and some have administrative issues which are being addressed by the Board.

In late 2006, the Company initiated an independent technical review of its Australian exploration portfolio by an independent expert geologist. Based on that review, the Company's portfolio has been rationalised to allow Austral Gold to focus on those areas of greatest prospectivity.

Bullabulling Project (95% interest)

The Bullabulling Project is located about 60 km west-southwest of the City of Kalgoorlie-Boulder in the Eastern Goldfields Province of Western Australia. The project comprises eight granted Prospecting Licences covering a total area of 1,233 ha in the historical Bullabulling gold mining area.

Exploration by the Company has comprised geological structural interpretation of satellite imagery that resulted in identification of a major shear zone about 12 to 14 kilometres wide which cuts across the P15/4514 to P15/4516 tenement group. In November – December 2006, 22 lag samples were collected along a 1,800 metres long north-south traverse to the north of the Great Eastern Highway. The results of this program indicated a significant anomaly. The analytical results indicate that background gold values range between 2 parts per billion (ppb) and 6 ppb. The anomaly has a peak of more than 300 ppb (0.34 parts per million).

Exploration of the Bullabulling Project is an ongoing project. Extensive additional soil lag sampling is planned for the southern tenement group. Soil lag sampling is also planned to investigate an interpreted shear zone in P15/4518 and P15/4519 of the northern tenement group. A program of soil lag sampling is planned for the P15/4514 to P15/4519 tenements. The objective is to identify significant gold targets and investigate deep target potential by RC drilling.

Kookynie Project (95% interest)

The Kookynie Project is located about 45 km south east of Leonora in the Eastern Goldfields Province. It comprises two Exploration Licence applications E40/197 and E40/198 together with four Prospecting Licence applications P40/1112 and P40/1116 to P40/1118 covering a total area of 10.56 square kilometres [sq km]. Previous exploration activity has been concentrated on the search for regolith (weathered rock) hosted near surface small gold deposits.

The interpretation of both aeromagnetic data and Landsat TM satellite imagery has resulted in identification of numerous potential targets. Follow-up reconnaissance soil lag sampling was planned in order to assign priorities as a precursor to more detailed sampling with possible follow-up by RC drilling.

In July 2007, a reconnaissance program of soil lag sampling was hampered by heavy rains including consequent flooding of areas of the project.

Due to low mineral prospectivity, the Company decided to relinquish tenements E40/197 and E40/198.

Rocklea Project (100% interest)

Rocklea Project comprises Exploration Licence Application E04/832 covering a total area of approximately 207 sq km and is located in the West Pilbara Mineral Field of Western Australia.
Grant of the application is dependant on execution of Heritage Protection Agreements with the Innawonga Bunjima Nyiyaparli and Eastern Guruma Peoples and a State Deed with respect to the tenement. The Company is pursuing available options to meet the requirements of the Native Title Act in this regard.

Leonora Project (75% interest)

The Leonora Project is located about 10 km west of Leonora in the Eastern Goldfields Region of Western Australia. The Leonora Project comprises Exploration Licences E37/728 and E37/729 covering a total area of 414 sq km.

In the opinion of the Company's consultants the potential for discovery of significant gold or base metal deposits is limited and this tenement was relinquished.

Raeside Project (75% interest)

The Raeside Project comprises Exploration Licence application E37/736 covering a total area of about 210 sq km and is centred 60 km west-northwest of Leonora.

Following a re-evaluation of all available data, this tenement was relinquished.

Hann Project (100% interest)

In February 2006 the Company applied for two exploration licences (E80/2782 - 2783) covering 388 sq km, located 350 km northeast of Derby.

Exploration in these areas is high cost and in view of low prospectivity, the application has been withdrawn.

Directors' report

The Directors present the following report for the financial year ended 30 June 2007 together with the financial report of Austral Gold Limited ("the Company") and the consolidated financial report of the economic entity, being the Company and its subsidiaries, for the year ended 30 June 2007 and the auditors' report thereon.

PRINCIPAL ACTIVITIES

The principal activities of the economic entity during the course of the financial year were gold and base metals exploration, as described in preceding sections of this report.

The Company is a company limited by shares and incorporated and domiciled in Australia.

Detailed information on the Company's operations during the year ended 30 June 2007 has been released in the Company's announcements and reports to the Australian Stock Exchange and is available for review on the Company's website at www.australgold.com.au.

REVIEW AND RESULTS OF OPERATIONS

Operating Results and Dividends

The Economic Entity's net loss attributable to members for the year ended 30 June 2007 was $1,397,449 (2006: profit $912,343).

No dividends of the Parent entity or any entity of the Economic Entity have been paid, declared or recommended since the end of the preceding financial year. The Board does not recommend the payment of a dividend in respect of the reporting period.

Financial Position

The net assets of the Economic Entity have increased by $18,255,176 from 30 June 2006 to $24,190,375. This increase was primarily as a result of the restructure as approved by the shareholders at the General Meeting on 22 May 2007. The resultant investment in Guanaco Mining Company has been assessed as fair value according to Accounting Standards.

The Company has the support of its substantial shareholder, Guanaco Capital Holding.

The Directors believe the Company is in a position to maintain its current operations.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Economic Entity during the financial year:

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Guancao (Chile)

Drilling will continue and there will be geophysical and geochemical exploration to support the drilling program. It is anticipated that in 2008 the Company will embark on a feasibility study into the relaunch of gold mining and processing operations at Guanaco. Any feasibility study will take some months to complete, and may lead to a development decision in 2009.

Australian Tenements

Further reconnaissance exploration will be undertaken at Bullabulling to assess the prospectivity of the project.

The Rocklea and Kookynie Projects will be retained.

All other Australian exploration areas have been or will be relinquished.

EVENTS SUBSEQUENT TO BALANCE DATE

Several Australian tenements have been relinquished since 30 June 2007 due to low prospectivity, high exploration costs or administrative issues. A decision was made to write these tenements off at that date.

A further 54 holes equivalent to over 12,000 metres have been drilled at Guanaco.

Further funding of $100k has been received in July from the substantial shareholder, Guanaco Capital Holding.

Austral Gold and Guanaco Capital Holding proposed to increase the share capital of Guanaco Mining Company from 72,751 to 15,373,475 shares, with Austral Gold maintaining its current 51% interest and without increasing Guanaco Capital Holding's shareholding in Austral Gold. This follows the capital reorganization approved by shareholders on 22 May 2007.

PERFORMANCE IN RELATION TO ENVIRONMENTAL REGULATION

The Economic Entity's operations are subject to significant environmental regulations under both Commonwealth and State legislation in relation to its exploration activities.

In Australia the Economic Entity's mining exploration operations are primarily concentrated in Western Australia.

There are significant environmental regulations under the Western Australian Mining Act 1978 and Environmental Protection Act 1986. Licence requirements relating to waste disposal, water and air pollution exist in relation to mining activities.

The Directors are not aware of any significant breaches during the period covered by this report.

DIRECTORS AND OFFICERS

The Directors and Officers of the Company at any time during or since the end of the financial year are:

Name and Qualifications	Experience and Special Responsibilities
Current Directors	
Francis Mark Bethwaite *Chairman/ Non Executive Director*	Mr Bethwaite holds the degrees of Bachelor of Engineering, Master of Building Science and Master of Business Administration. His mining career spans some 23 years including periods living and working in Mount Isa and Broken Hill. Mr Bethwaite worked for North Limited from 1978 to 1987, including five years as Managing Director. He worked for Renison Goldfields Consolidated Limited from 1987 to 1998, including six years as Managing Director. From 1998 to 2001, Mr Bethwaite worked with Deutsche Bank, principally in the financing of mining projects. Mr Bethwaite was Chairman of the Australian National Maritime Museum from 2001 - 2007. Currently he is a non-executive Director of Deacons – Lawyers, Note Printing Australia Limited (wholly owned by the Reserve Bank of Australia), NewSouth Innovations Limited and of a number of not for profit organisations. **Appointed Director, 2 April 2007; Chairman 3 April 2007, elected as a Director and Chairman by shareholders 22 May 2007**
Pablo Vergara del Carril *Non-Executive Director*	Mr Vergara del Carril is a lawyer and is professor of Postgraduate Degrees for Capital Markets, Contracts, Corporate Law and Business Law at the Argentine Catholic University. He is a director of Banco Hipotecario (a listed company, named the best Latin American Bank in 2004 by Latin Finance), Milkaut S.A (an Argentine leading dairy company), Nuevas Fronteras (owner of the Intercontinental Hotel in Buenos Aires) and

Emprendimiento Recoleta S.A. (owner of the Buenos Aires Design Shopping Centre). Mr Vergara del Carril is also a director of Guanaco Mining Company Limited and Guanaco Capital Holding Corp.

Appointed 18 May 2006

Robert Trzebski

Non-Executive Director

Mr Robert Trzebski holds a Degree in Geology (equivalent to BSc), a PhD in Geophysics, a Master in International Project Management and has over 13 years of professional experience in mineral exploration, project management and research and development. This includes eight years of developing collaborative research projects between mining companies and scientific institutions in Latin America, USA, Africa, Europe, Asia and Australia.

Mr Trzebski has been involved in developing international relationships between Australian and overseas mining companies. He is also actively involved with several bilateral chambers of commerce and has extensive industry networks in Australia and overseas.

Elected as a Director by shareholders on 22 May 2007

Eduardo Elsztain

Non Executive Director

Mr Elsztain is a member of the World Economic Forum, the Group of Fifty and Asociación Empresaria Argentina (Argentine Business Association) and currently serves as Vice Chairman and Chairman of the Executive Committee of Banco Hipotecario S.A. [BASE: BHIP], Argentina's largest mortgage bank, having assets close to US$3 billion, in addition to a 25% share of the mortgage market in that country.

Mr Elsztain is Chairman of IRSA Inversiones y Representaciones S.A. [NYSE: IRS], Argentina's largest and most diversified real estate company with a current market capitalisation above US$ 700 million Alto Palermo S.A. [NASDAQ: APSA], Argentina's leading shopping centre company with 10 shopping malls and two currently under construction and of Cresud S.A.C.I.F. y A. [NASDAQ: CRESY], a leading agricultural company in Latin America devoted to the operation and conformation of a valuable portfolio of farmland.

He is also a Board Member of BrasilAgro – Companhia Brasileira de Propriedades Agricolas [BOVESPA: AGRO3]; a company which replicates Cresud's business strategy in Brazil as well as Director of YPF S.A. [NYSE: YPF], the largest oil and gas company in Argentina.

Appointed 29 June 2007

Saul Zang

Non Executive Director

Mr Zang graduated as a lawyer from Buenos Aires University in 1968 and founded the law firm Zang, Bergel and Vines where he is a Senior Partner. He has advised national and international companies in different areas of the legal practice, including the privatization process of YPF S.A. and State Owned Electricity Company of the Province of Buenos Aires.

Mr Zang serves as Vice Chairman of IRSA Inversiones y Representaciones S.A., Cresud S.A.C.I.F. y A. and Alto Palermo

S.A.

Mr Zang is Adviser and Member of the Board of Directors of the Buenos Aires Stock Exchange, a Member of the Executive Board of Directors of Banco Hipotecario S.A. and a member of the International Bar Association.

Appointed 29 June 2007

Denise Lindfield *B.Bus., CA,ACIS,GradDipAppCorpGov, MAICD*
Company Secretary

Ms Lindfield is a Chartered Accountant by profession and holds a Bachelor of Business degree and a Graduate Diploma in Corporate Governance.

Ms Lindfield is a member of the Institute of Chartered Accountants, Institute of Chartered Secretaries and the Institute of Company Directors.

Appointed 2 April 2007

Former Directors

The Hon Marcus Einfeld AO *QC (Chairman)*

Appointed 9 March 2005 – Resigned 2 April 2007

Terence V. Willsteed
BE (MIN) HONS BA
FAUSIMM MSME MMICA
(*Non Executive Director)*

Appointed 9 March 2005 – Retired 22 May 2007

Henry Kinstlinger
(Company Secretary)

Appointed 1997 – Resigned 22 May 2007

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 consolidated entity during the financial year are:

	Directors' meetings		Audit Committee meetings		Remuneration Committee meeting	
Director	**A**	**B**	**A**	**B**	**A**	**B**
Marcus Einfeld	12	12	*	*	*	*
Mark Bethwaite	5	5	*	*	2	2
Terence Willsteed	14	14	1	1	1	1
Pablo Vergara del Carril	17	17	1	1	2	2
Robert Trzebski	4	4	1	1	1	1

A Number of meetings attended.

B Reflects the number of meetings held during the time the Director held office.

***** Not a member of this committee

OPTIONS

During or since the end of the financial year, the Company has not granted options over unissued ordinary shares to any Director or to any employee.

Unissued Shares under Option

At the date of this report unissued ordinary shares of the Company under option, all of which have vested are:

Expiry Date	Exercise Price	Number of Shares
30 November 2007	$1.20	2,300,000
30 November 2007	$2.00	4,424,511
14 October 2009	$0.40	877,334
14 October 2009	$2.00	2,773,204

INDEMNITY OF OFFICERS

The Company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- Indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- Paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs or expenses to defend legal proceedings.

INTERESTS OF DIRECTORS

The relevant interest of each director in the share capital of the Company, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Direct shares	Indirect shares	Options
F M Bethwaite	Nil	37,987	Nil
P Vergara del Carril	Nil	52,196,153*	9,920,049
R Trzebski	Nil	Nil	Nil
E Elsztain	Nil	52,196,153*	9,920,049
S Zang	Nil	52,196,153*	9,920,049

- P Vergara de Carril, E Elsztain and S Zang are directors and shareholders of Guanaco Capital Holding which holds directly or indirectly 52,196,153 shares and 9,920,049 options.

REMUNERATION REPORT

Remuneration Policy

The Economic Entity has a Remuneration Policy which aims to ensure remuneration packages of Board Members and senior executives properly reflect the person's duties and responsibilities and level of performance and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

To give effect to this policy the Economic Entity reviews available information which measures the remuneration levels in the various labour markets in which it competes. The expectation of the Economic Entity is that, for a particular grade of employee, the total fixed compensation will be at the median level of the relevant market.

No shares or options were issued to executives during the year ended 30 June 2007.

There are no performance-based components of executive or non-executive remuneration.

Details of Remuneration for the Year ended 30 June 2007

Key Management Personnel	Salary and Fees including Superannuation $	Options issued $	Total $
Non-Executive			
F M Bethwaite	24,999	NIL	24,999
R Trzebski	4,300	NIL	4,300
D Lindfield	17,114	NIL	17,114

Former directors

The following were directors of the Company during the financial year ended 30 June 2007

Directors	Salary and Fees including Superannuation $	Options issued $	Total $
Non-Executive			
M Einfeld	90,000	-	90,000
T Willsteed	41,706	-	41,706

Details of Remuneration for the Year ended 30 June 2006

Directors	Salary and Fees including Superannuation $	Options issued $	Total $
Non-Executive			
M Einfeld	120,000	-	120,000
T Willsteed	60,000	-	60,000

Former directors

The following were directors of the Company during the financial year ended 30 June 2006

Key Management Personnel	Salary and Fees including Superannuation $	Options issued $	Total $
Non-Executive			
M Schabas	-	-	-
Executive			
Laura Rovner	106,503	-	106,503
Pablo Kohen	103,945	-	103,945
Total	***210,448***	-	***210,448***

PROCEEDINGS ON BEHALF OF THE COMPANY

Other than stated below, 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.

AUDITORS INDEPENDENCE DECLARATION

The lead auditors' independence declaration for the year ended 30 June 2007 has been received and is included in this report.

Signed in accordance with a resolution of Directors at Sydney, 28 September 2007.

Francis Mark Bethwaite

Director

Robert Trzebski

Director

PKF

Chartered Accountants
& Business Advisers

Auditor's Independence Declaration

As lead auditor for the audit of Austral Gold Limited for the year ended 30 June 2007, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Austral Gold Limited and the entities it controlled during the year.

PKF

Bruce Gordon
Partner

28 September 2007
Sydney

PKF is a national association of independent chartered accounting and consulting firms, each trading as PKF. PKF Australia Ltd is also a member of PKF International, an association of legally independent chartered accounting and consulting firms.

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INCOME STATEMENTS

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
Revenue					
Operating activities	3	156,888	178,952	156,888	178,952
Non-operating activities	3	(995)	91,785	(995)	91,785
Income from Deed of Termination and Release		-	1,820,000	-	1,820,000
		155,893	2,090,737	155,893	2,090,737
Depreciation expense	4	(2,155)	(4,185)	(2,155)	(4,185)
Exploration and evaluation expenditure	4	(80,416)	(230,940)	(22,280)	(163,986)
Finance costs	5	(10)	(307,789)	(10)	(307,789)
Impairment of loans and receivables			-		(66,957)
Administration expenses	4	(818,047)	(861,003)	(840,584)	(854,790)
(Losses)/gains from foreign exchange	4	(585,692)	225,523	(585,692)	225,523
Share of net losses of equity accounted investments	24	(67,022)	**-**	-	
Profit/(Loss) before income tax		**(1,397,449)**	**912,343**	**(1,294,828)**	**918,553**
Income tax benefit	6	-	-	-	-
Profit/(loss) for the year		**(1,397,449)**	**912,343**	**(1,294,828)**	**918,553**
Loss attributable to minority equity interest					-
Profit/(loss) attributable to members of the Parent Entity		**(1,397,449)**	**912,343**	**(1,294,828)**	**918,553**
Earnings/(loss) per share (cents per share):					
Basic earnings/(loss) per share		(0.02)	0.32		
Diluted earnings/(loss) per share	7	(0.02)	0.32		

The above Income Statements should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

AS AT 30 JUNE 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	9	136,317	223,650	136,103	223,266
Trade and other receivables	10	28,086	24,165	92,731	43,155
TOTAL CURRENT ASSETS		164,403	247,815	228,834	266,421
NON-CURRENT ASSETS					
Trade and other receivables	10	-	5,232,443	-	5,232,443
Financial assets	11	22,301,517	-	14,675,068	913,906
Intangible assets	12	2,116,888	467,621	-	-
Plant and equipment	13	12,848	9,805	12,848	9,805
Exploration and evaluation expenditure	14	7,086	26,532	580	7,539
TOTAL NON-CURRENT ASSETS		24,438,339	5,736,401	14,688,496	6,163,693
TOTAL ASSETS		24,602,742	5,984,216	14,917,330	6,430,114
LIABILITIES					
CURRENT LIABILITIES					
Trade and other payables	15	47,933	49,017	47,904	46,548
Short-term borrowings	16	250,000	-	250,000	-
TOTAL CURRENT LIABILITIES		297,933	49,017	297,904	46,548
TOTAL LIABILITIES		297,933	49,017	297,904	46,548
NET ASSETS		24,304,809	5,935,199	14,619,426	6,383,566
EQUITY					
Issued capital	17	47,812,680	37,281,992	47,812,680	37,281,992
Equity - share capital pending issue	17	-	1,000,000	-	1,000,000
Accumulated losses	18	(33,744,242)	(32,346,793)	(33,193,254)	(31,898,426)
Reserves	20	10,236,371	-	-	-
TOTAL EQUITY		24,304,809	5,935,199	14,619,426	6,383,566

STATEMENTS OF CHANGES IN EQUITY

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2007

	Note	Issued capital	Equity share capital pending issue	Accumulated losses	Reserves	Total
		$	$	$	$	$
Economic Entity						
Balance at 1 July 2005		37,272,925	1,000,000	(33,259,136)	-	5,013,789
Loss attributable to members of Parent Entity				912,343	-	912,343
Shares issued during the year		9,067	-	-	-	9,067
Balance at 30 June 2006		37,281,992	1,000,000	(32,346,793)	-	5,935,199
Loss attributable to members of Parent Entity		-	-	(1,397,449)	-	(1,397,449)
Asset revaluation reserve	20	-	-	-	10,121,937	10,121,937
Shares issued during the year		10,530,688	(1,000,000)	-	-	9,530,688
Balance at 30 June 2007		47,812,680	-	(33,744,242)	10,121,937	24,190,375
Parent Entity						
Balance at 1 July 2005		37,272,925	1,000,000	(32,816,979)	-	5,455,946
Loss attributable to members of Parent Entity		-	-	918,553	-	918,553
Shares issued during the year		9,067	-	-	-	9,067
Balance at 30 June 2006		37,281,992	1,000,000	(31,898,426)	-	6,383,566
Loss attributable to members of Parent Entity		-	-	(1,294,828)	-	(1,294,828)
Shares issued during the year		10,530,668	(1,000,000)	-	-	9,530,668
Balance at 30 June 2007		47,812,680	-	(33,193,254)	-	14,619,426

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

CASH FLOW STATEMENTS

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
Cash flows from operating activities					
Payments to suppliers and employees		(859,398)	(1,410,817)	(973,415)	(1,407,071)
Finance costs		-	(34,874)	-	(34,874)
Net cash used in operating activities	25	**(859,398)**	**(1,445,691)**	**(973,415)**	**(1,441,945)**
Cash flows from investing activities					
Proceeds from sale of plant and equipment		5,013	97,958	5,013	97,958
Purchase of property, plant and equipment		(6,153)	-	(6,153)	-
Interest received		44,175	31,497	112,713	31,497
Payments for exploration and evaluation expenditure		(60,970)	(72,975)	(15,321)	(46,021)
Loans to subsidiaries		-	-	-	(30,528)
Net cash provided by investing activities		**(17,935)**	**56,480**	**96,252**	**52,906**
Cash flows from financing activities					
Proceeds from issue of shares		540,000	9,067	540,000	9,067
Borrowings from related Party		250,000	-	250,000	-
Net cash provided by financing activities		**790,000**	**9,067**	**790,000**	**9,067**
Net increase (decrease) in cash held		(87,333)	(1,380,144)	(87,163)	(1,379,972)
Cash at beginning of financial year		223,650	1,603,794	223,266	1,603,238
Cash at end of financial year	9	136,317	223,650	136,103	223,266

NOTES TO THE FINANCIAL STATEMENTS
AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2007

1. Corporate information

The financial report of Austral Gold Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the Directors on 27 September 2007.

Austral Gold Limited is a company limited by shares that is incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Stock Exchange. Austral Gold Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year.

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

2. Summary of accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report covers the Economic Entity of Austral Gold Limited and subsidiaries, and as an individual parent entity. Austral Gold Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Austral Gold Limited and subsidiaries, and Austral Gold Limited as an individual parent entity complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

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

(a) Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The financial report has been prepared on a historical cost basis, except for certain financial assets and liabilities which are stated at fair value.

The financial report is presented in Australian dollars.

(b) Statement of Compliance

The accounting policies set out below have been consistently applied to all years presented.

Accounting Policies
(a) Basis of consolidation

A subsidiary is any entity Austral Gold Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of subsidiaries is contained in Note 25 to the financial statements. The financial statements of the subsidiaries are prepared for the same reporting periods the parent company using consistent accounting policies.

All inter-company balances and transactions between entities in the Economic Entity, including any unrealised profits or losses, have been eliminated on consolidation.

Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

Subsidiaries

The financial statements of subsidiaries are included from the date control commences until the date control ceases.

Associates

Associates are those entities over which the Economic Entity exercises significant influence, which are neither a subsidiary nor a joint venture.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associate. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any additional impairment loss with respect to the Group's net investment in the associate. The consolidated income statement reflects the Group's share of the results of operations of the associate.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in the consolidated statement of changes in equity.

The financial statements of associates are prepared for the same reporting period as the parent company using consistent accounting policies.

The Economic Entity's equity accounted share of the associates net profit or loss is recognised in the consolidated income statement from the date significant influence commences until the date significant influence ceases.

(b) Revenue recognition

Revenue from the sale of goods is recognised when control of the goods has passed to the buyer, the amount of revenue can be measured reliably and it is probable that it will be received by the Company.

Interest revenue

Interest revenue is recognised as it accrues, using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Sale of non-current assets

The net gain on sale of non-current assets is included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of the disposal and the net proceeds on disposal.

(c) Goods and services tax

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

Receivables and payables in the balance sheets are shown inclusive of GST.

Cash flows are presented in the cash flow statements on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(d) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

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.

Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with relevant clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis.

Any changes in the estimates of the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

(e) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash generating unit to which goodwill relates. When the recoverable amount of the cash generating unit is less than the carrying amount, an impairment loss is recognised.

Impairment losses recognised for goodwill are not subsequently reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(f) Joint ventures

Expenditure incurred in relation to earning the Economic Entity's beneficial interest under Joint Venture agreements is carried forward to the extent that management consider that it is probable that future economic benefits will eventuate and can be measured reliably.

Where these benefits cannot be measured reliably, these costs are fully provided for in the financial period.

(g) Investments

Subsidiaries

Investments in subsidiaries are carried in the Parent Entity's financial statements at the lower of cost and recoverable amount.

Associates

Investments in associate entities are recognised in the financial statements by applying the equity method of accounting.

(h) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Items of plant and equipment have limited useful lives and are depreciated on a straight line basis over their estimated useful lives.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation rate used for plant and equipment is between 10% - 20%.

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

Impairment exists when the carrying value of an asset of cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

Derecognition and disposal

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

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

(i) Translation of foreign currency items

Both the functional and presentation currency of Austral Gold Limited and its Australian subsidiaries is Australian dollars ($).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at balance sheet date.

Exchange differences are recognised as revenues or expenses in net profit or loss in the period in which exchange rates change except for qualifying assets and hedge transactions.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The functional currency of the Company's associate company Guanaco Mining Company is United States dollar (US$).

(j) Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions; and
- Other short-term highly liquid investments with original maturities of three month or less, and bank overdrafts.

(k) 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 balance sheet date.

Deferred income tax is provided on all temporary differences at balance sheet 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 :

- 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
- 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:

- 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

- 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 balance sheet 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 the tax rates and tax laws that have been enacted or substantively enacted at balance sheet 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.

Tax consolidation

For the purposes of income tax, Austral Gold Limited and its subsidiaries do not form a tax consolidated group. The individual companies lodge tax returns independently of each other.

(l) Acquisition of assets

All assets acquired including plant and equipment are initially recorded at their cost of acquisition, being the fair value of consideration provided plus incidental costs directly attributable to the acquisition. Where there is an acquisition of a group of assets the cost of acquisition is apportioned in proportion to the fair value of the assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of acquisition. The discount rate used is the incremental borrowing rate, being the rate at which similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(m) 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.

(n) Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

(o) Interest bearing liabilities

All loans and borrowings are initially recognised at cost, being the fair value of consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(p) 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.

(q) Leases

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

(r) Operating cycle

An operating cycle of 12 months has been used as the basis for identifying current assets and current liabilities in the balance sheets.

(s) Impairment of 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 and 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 income statement. In assessing value in use, the estimated future cash flows discounted to their present value using a pre-tax discount rate.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives or more frequently if events or changes in 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.

(t) Derecognition 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:

- The rights to receive cash flows from the asset have expired
- 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
- 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.

When continuing involvement takes the form of a written and/or purchased option(including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

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 derecognition 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.

(u) 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.

(v) 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.

(w) Borrowing costs

Borrowing costs are recognised as an expense when incurred and capitalised for qualifying assets. There were no costs or fees capitalised on amounts borrowed during the period.

(x) Employee leave benefits

Wages and salaries, annual leave and sick leave

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 an employee superannuation fund. Contributions made by the Company are legally enforceable. Contributions are made in accordance with the requirements of the Superannuation Guarantee Legislation.

(y) Going concern

The Company and its subsidiaries derived a loss of $1,397,449 for the year ended 30 June 2007. Goodwill relating to Golden Rose International of $467,621 on initial acquisition and goodwill of $1,683,318 on subsequent acquisition are included in non-current assets.

The on going viability of the Economic Entity and the recoverability of its non-current assets is dependent on the success of the project. The Directors believe that the project will be ultimately successful and that the non-current assets are included in the Financial Report at their recoverable amount.

The financial report has been prepared on the basis of a going concern. This basis presumes that funds will be available to finance future operations, project expenditure exploration commitments and to repay liabilities and that the realisation of assets and settlement of liabilities will occur in the normal course of business. The Directors believe that the Economic Entity will be able to fund future operations through equity raising, and sale or joint venturing of interests held in mineral tenements and projects.

At the date of this report other sources of funds are being sought to fund future working capital requirements of the Company.

The Directors believe that they will be successful in raising sufficient funds to ensure that the Company can continue to meet its debts as and when they become due and payable. However, if additional funds are not raised, the going concern basis may not be appropriate with the result that the company may have to realise its assets and extinguish its liabilities other than in the ordinary course of business and in amounts different from those stated in the Financial Report. No allowance for such circumstances has been made in the Financial Report.

New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007 but have not been applied in preparing this financial report:

- AASB 7 Financial Instruments: Disclosures (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require additional disclosures with respect to the EDMS Group's financial instruments and share capital.

- AASB 2005-10 Amendments to Australian Accounting Standards (September 2005) makes consequential amendments to AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133 Earnings per Share,

AASB 139 Financial Instruments: Recognition and Measurement, and AASB 1 First Time Adoption of Australian Equivalents to International Reporting Standards arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007 and is only expected to impact disclosures contained within the consolidated financial report.

- AASB 8 Operating Segments replaces the presentation requirements of segment reporting in AASB 114 Segment Reporting. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company of the EDMS Group as the standard is only concerned with disclosures.

- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 6 Exploration and Evaluation of Mineral Resources, AASB 102 Inventories, AASB 107 Cash Flow Statements, AASB 134 Interim Reporting, AASB 119 Employee Benefits, AASB 127 Consolidated and Separate Financial Statements, and AASB 136 Impairment. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 Operating Segments. This standard is only expected to impact disclosures within the financial report.

- Interpretation 10 Interim Financial Reporting and Impairment prohibits the reversal of an impairment loss recognised in the previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the EDMS Group's 2008 financial statements and will apply to goodwill, investments in equity instruments, financial assets carried at cost prospectively from the date that the EDMS Group first applied the measurement criteria of AASB 136 and AASB 139 respectively (i.e. 1 July 2004 and 1 July 2005, respectively). The adoption of Interpretation 10 is not expected to have an impact on the financial results of the Company or the EDMS Group.

- AASB 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]. AASB 2007-4 is applicable to annual reporting periods beginning on or after 1 July 2007. The Company has not adopted this standard early. The amendments arising from the standard reflect the AASB's decision that all options that currently exist under IFRSs should be included in the AIFRS and additional Australian disclosures should be eliminated, other than those now considered particularly relevant in the Australian reporting environment. A number of editorial changes were also made. Application of this standard will not affect any of the amounts recognised in the financial statements. No significant impact to the existing disclosures is anticipated

		Economic Entity		Company	
		2007 $	2006 $	2007 $	2006 $
3	**Revenue**				
	From operating activities				
	Interest revenue from:				
	Associated company	112,713	147,455	112,713	147,456
	Other parties	44,175	31,497	44,175	31,496
		156,888	178,952	156,888	178,952
	Non-operating activities				
	- Gain/(loss) on disposal of plant & equipment	(995)	90,785	(995)	90,785
	- Other	-	1,000	-	1,000
		155,893	270,737	155,893	270,737
4	**Profit/(Loss) from the year**				
(a)	***Expenses***				
	Depreciation of plant and equipment	2,155	4,185	2,155	4,185
	Finance costs:				
	- ultimate parent company	-	-	-	-
	- related parties	-	-	-	-
	-discount on issue of financial assets	-	294,158	-	294,158
	- other	10	13,631	10	13,631
		10	307,789	10	307,789
	Exploration and evaluation expenditure	80,416	230,940	22,280	163,986
	Rental expense on operating leases - minimum lease payments	62,208	66,419	62,208	66,419
(b)	***Revenue and Net Gains***				
	Foreign currency translation (loss)/gain	(585,692)	225,523	(585,692)	225,523
(c)	***Individually significant items included in loss from ordinary activities before income tax***				
	Impairment of loans	-	-	-	66,957
5	**Auditors' remuneration**				
	Remuneration of the auditor of the Parent Entity for:				
	- auditing or reviewing the financial reports	97,915	87,753	97,915	87,753
	- other services/taxation	20,522	10,685	20,522	10,685
		118,437	98,438	118,437	98,438
6	**Income tax benefit**				
	Prima facie income tax benefit calculated at 30% (2006:30%)on the operating loss from ordinary activities	(419,235)	273,703	(388,448)	275,566

	Economic Entity		Company	
	2007 $	2006 $	2007 $	2006 $
Non-allowable expenditure		-		20,087
Future income tax benefit not brought to account	419,235	(273,703)	388,448	(295,653)
Total income tax benefit	-	-	-	-
Tax losses carried forward	6,178,832	4,781,383	5,223,865	3,929,037

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt.

The potential future income tax benefit will be obtained if:

i. The relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be realised by another company in the Economic Entity in accordance with Division 170 of the Income Tax Assessment Act 1997;

ii. The relevant company and/or Economic Entity continues to comply with the conditions for deductibility imposed by the law; and

iii. No changes in tax legislation adversely affect the Company and/or the Economic Entity in realising the benefit.

7 Earnings per share

Classification of securities as ordinary shares

Ordinary shares have been included in basic earnings per share.

Classification of securities as potential ordinary shares

There are no dilutive potential ordinary shares. The following options were in issue at the balance date and are not dilutive:

	Economic Entity	
	2007 $	2006 $
Earnings reconciliation		
Net profit/(loss)	(1,397,449)	912,343
Net loss attributable to outside equity interests	-	-
Basic and diluted earnings	(1,397,449)	912,343
	2007 Number	2006 Number
Weighted average number of shares used as the denominator		
Number for basic and diluted earnings per share	64,889,724	40,420,583
Number for diluted earnings per share	64,889,724	40,460,225

Basic profit/(loss) per ordinary share	(0.02)c	3.2c
Basic and diluted profit/(loss) per ordinary share	(0.02)c	3.2¢

8 Segment information

Business segments

The Economic Entity operates in one business segment being precious mineral exploration.

Geographical segments

The Economic Entity's operations are conducted primarily in Australia. At 30 June 2007 the Company holds a significant interest in Guanaco Mining Company, the owner of the Guanaco Project in Chile.

	Economic Entity		Company	
	2007 $	**2006 $**	**2007 $**	**2006 $**
9 Cash and cash equivalents				
Cash at bank an in hand	82,337	123,650	82,123	123,266
Short-term bank deposits	53,980	100,000	53,980	100,000
	136,317	223,650	136,103	223,266
The effective interest rate on short-term bank deposits was 5.45% (2006: 5.2%); these deposits have an average maturity of 30 days.				
Reconciliation of Cash				
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheets as follows:				
Cash and cash equivalents	136,317	223,650	136,103	223,266
10 Trade and other receivables				
Current				
Advances	-	-	-	10,650
Other debtors	-	-	-	13,515
Amounts receivable from controlled entities	28,086	24,165	92,731	85,947
Provision for impairment of amounts receivable from controlled entities	-	-	-	(66,957)
	28,086	24,165	92,731	43,155
Non current	-	-	-	-
Amounts receivable from:	-	-	-	-
Ultimate parent entity		-		-
Less: Provision for diminution – ultimate parent entity	-	-	-	-

	Economic Entity		Company	
	2007 $	2006 $	2007 $	2006 $
Associated entities	-	5,232,443	-	5,232,443
Less: Provision for diminution – associated entities	-	-	-	-
Subsidiaries	-	-	-	-
	-	5,232,443	-	5,232,443

Loans to subsidiaries and associated entities are unsecured, interest free and with no fixed repayment terms.

11 Financial assets

Non-current

Shares in subsidiaries	-	-	5,886,975	467,623
Investments in subsidiaries	-	-	448,717	446,283
Investments in associates	22,301,517	-	8,339,376	-
	22,301,517	-	14,675,068	913,906

Available-for-sale financial assets comprise investments in the ordinary issued capital of various entities. There are no fixed returns or fixed maturity date attached to these investments.

a) Golden Rose International Ltd. (GRIL) 100% Investment:

The Investment amount arises from the acquisition of 26.99% of GRIL by Austral Gold Limited (AGD) and the revaluation of the 73.01% already held by AGD. This was in accordance with step acquisition accounting as prescribed by AASB 3 "Business Combinations

For the valuation of GRIL, AGD applied the equity method on the fair value of the company.

The determination of the fair value of Guanaco Mining Company based on the principle of prudence was achieved by calculating the average of the range of AUD 40 million and AUD 55 million determined by Interfinancial Limited Services in the Independent Expert´s Report laid before the shareholders at the Extraordinary Shareholders Meeting held on May 22, 2007. The calculated fair value amounts to AUD 47.5 million. On May 22, 2007, the Shareholders Meeting approved several transactions which resulted in the change of control of Guanaco Mining Company from GCH to AGD. Guanaco Capital Holding abstained from voting and the minority shareholders approved the proposal based on a valuation of Guanaco Mining Company of USD 49 million as agreed by GCH and AGD.

The additional value related to the 73.01% that AGD already held in GRIL and was considered a revaluation reserve (refer to Note 20).

b) Capitalisation of the loan granted by AGD to GMC.

Capitalisation of the loan granted by AGD to GMC and direct acquisition of an additional 8.7% resulted in an additional AUD$ 8,339,376 investment in GMC.

This amount includes the loan capitalized by AGD of AUD 4,790,748 and the amount paid for the acquisition of an additional 8.7% in the amount of AUD 3,548,628.

12 Intangible assets

Goodwill - at cost	2,116,888	467,621	-	-

The intangible assets comprise the following:

Goodwill: original acquisition of GRIL (73.01%)	AUD 467,621
Goodwill in respect of the 26.99% acquisition of GRIL	AUD 1,649,267
Total	AUD 2,116,888

13 Plant and equipment

	Economic Entity 2007 $	Economic Entity 2006 $	Company 2007 $	Company 2006 $
Plant and equipment - at cost	16,354	12,755	16,354	12,755
Accumulated depreciation	(3,506)	(2,950)	(3,506)	(2,950)
	12,848	9,805	12,848	9,805

Movements in carrying value

Reconciliations of the carrying amounts for each class of plant and equipment are set out below:

Plant and equipment

	Economic Entity 2007 $	Economic Entity 2006 $	Company 2007 $	Company 2006 $
Carrying amount at beginning of year	9,805	27,461	9,805	27,461
Additions	6,153	-	6,153	-
Disposals	(955)	(13,471)	(955)	(13,471)
Depreciation	(2,155)	(4,185)	(2,155)	(4,185)
Carrying amount at end of year	12,848	9,805	12,848	9,805

14 Exploration and evaluation expenditure

Costs carried forward in respect of areas of interest in:

	Economic Entity 2007 $	Economic Entity 2006 $	Company 2007 $	Company 2006 $
Exploration and/or evaluation phase	7,086	26,532	580	7,539
Provision for diminution	-	-	-	-
	7,086	26,532	580	7,539

The ultimate recoupment of costs carried forward for exploration and evaluation phases is dependent on the successful development and commercial exploration or sale of the respective areas.

15 Trade and other payables

	Economic Entity 2007 $	Economic Entity 2006 $	Company 2007 $	Company 2006 $
Current				
Trade creditors and accruals	47,933	49,017	47,904	46,548
	47,933	49,017	47,904	46,548

16 Borrowings

	Economic Entity 2007 $	Economic Entity 2006 $	Company 2007 $	Company 2006 $
Current				
Amount due to related entity (unsecured)	250,000	-	250,000	-
Non current				
Amount due to related entities (unsecured)	-	-	-	-
	250,000	-	250,000	-

17 Issued capital

	Economic Entity 2007 $	Economic Entity 2006 $	Company 2007 $	Company 2006 $
66,812,125 (2006: 404,418,205) fully paid ordinary shares	47,812,680	37,281,992	47,812,680	37,281,992
Equity – share capital pending issue				
Advance by GCH in consideration of a later issue of securities +	-	1,000,000	-	1,000,000

	2007 No.	2006 No.	2007 No.	2006 No.
Ordinary Shares ++				
Balance at the beginning of the year	404,418,205	404,191,542	404,418,205	404,191,542
Shares issued during the year				
28 Nov 2006	35,813,954		35,813,954	
Consolidation 1 for 10 ordinary shares	(396,208,861)		(396,208,861)	
7 June 2007	22,788,827		22,788,827	
7 June 2006	-	226,663	-	226,663
Balance at end of year	66,812,125	404,418,205	66,812,125	404,418,205

++ 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.

	Economic Entity		Company	
	2007 $	2006 $	2007 $	2006 $
18 Accumulated losses				
Accumulated losses at beginning of year	(32,346,793)	(33,259,136)	(31,898,426)	(32,816,979)
Net Profit/(loss)	(1,397,449)	912,343	(1,294,828)	918,553
Accumulated losses at end of year	(33,744,242)	(32,346,793)	(33,193,254)	(31,898,426)
19 Minority equity interests				
Minority equity interests in subsidiaries comprise:				
Interest in loss from ordinary activities after income tax	-	(217,468)	-	-
Interest in share capital	-	217,468	-	-
Total minority equity interests	-	-	-	-
20 Reserves				
Asset Revaluation Reserve				
Balance at beginning of year	-	-	-	-
Additions	10,236,371	-	-	-
Balance at end of year	-	-	-	-
	10,236,371			

Corresponds to the amount related to the recognized fair value of the 73.01% of GRIL.

During the year under review Austral Gold acquired an additional 26.99% share in Golden Rose International Limited, this increased it's holding to 100%. In accordance with AASB "Business Combinations" the fair of the identifiable assets and liabilities of Golden Rose International was determined at the acquisition date. 73.01% of the fair adjustment relates to the interest held by Austral Gold and in accordance with AASB 3 "Business Combinations" has been recognised as a revaluation reserve.

21 Financial risk management objectives and policies

(a) Credit risk exposure

The maximum credit risk exposure of financial assets is represented by the carrying amounts of assets recognised in the Consolidated Balance Sheet net any provisions for losses.

(b) Liquidity Risk

As the Group currently has no material borrowings, the Group's exposure to liquidity risk is minimal.

(c) Foreign currency risk

Loans due from associate undertaking of the Group are denominated in US$ therefore the Group's balance sheet is exposed to movements in the US$/A$ exchange rates. The Group does not seek to hedge this exposure.

(d) Commodity risk

The Group currently has no material exposure to commodity risk

22 Financial instruments

(a) Fair values

There is no material difference between the fair value of the Group's financial instruments and the carrying amounts recognised in the financial statements.

(b) Interest rate risk

The Economic Entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below

	Note	Non-Interest Bearing $	Fixed rate of 1 Year or less	Fixed Rate Over 1 to 5 Years	Floating Interest Rate	Total $	Weighted Average effective *Interest Rate*
2007 Consolidated							
Financial assets							
Cash assets	9	-	-	-	136,317	136,317	5.2%
Trade and other receivables	10	28,086	-	-	-	28,086	
		28,086	-	-	136,317	164,403	
Financial liabilities							
Trade and other payables	15	8,439	-	-	-	8,439	
Interest bearing liabilities	16	-	250,000	-	-	250,000	3%
		8,439	250,000	-	-	258,439	

2006

Consolidated

Financial assets							
Cash assets	9	-	-	-	223,650	223,650	5.2%
Trade and other receivables	10	24,165	-	-	-	24,165	
Receivables	10	-	5,232,443	-	-	5,232,443	3.6%
		24,165	5,232,443	-	223,650	5,480,258	
Financial liabilities							
Trade and other payables	15	49,017	-	-	-	49,017	
Interest bearing liabilities		-	-	-	-	-	
		49,017	-	-	-	49,017	

	Note	Non-Interest Bearing $	Fixed rate of 1 Year or less	Fixed Rate Over 1 to 5 Years	Floating Interest Rate	Total $	Weighted Average effective *Interest Rate*
2007							
Parent							
Financial assets							
Cash assets	9	-	-	-	136,103	136,103	5.2%
Trade and other receivables	10	92,731	-	-	-	92,731	
		92,731	-	-	136,103	228,834	
Financial liabilities							
Trade and other payables	15	8,404	-	-	-	8,404	
Interest bearing liabilities	16	250,000	-	-	-	250,000	
		258,404	-	-	-	258,404	
2006							
Parent							
Financial assets							
Cash assets	9	-	-	-	223,666	223,666	
Trade and other receivables	10	43,155	-	-	-	43,155	
Receivables	10	-	-	5,232,443	-	5,232,443	

Investments in subsidiaries	11	913,906	-	-	-	913,906
		957,061	-	5,232,443	223,666	6,413,170
Financial liabilities						
Trade and other payables	15	46,548	-	-	-	46,548
		46,548	-	-	-	46,548

23 Dividends

No dividends were paid or proposed during the year

24 Commitments

Exploration expenditure commitments

In order to maintain current rights of tenure to exploration tenements, the Economic Entity is required to perform exploration work to meet the minimum expenditure requirements specified by various State governments. These obligations are subject to renegotiation when application for a mining lease is made and at other times. These obligations are not provided for in the accounts and are payable:

	Economic Entity		Company	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Within one year	55,460	233,133	55,460	233,133
One year or later and no later than five years	80,455	745,421	80,455	745,421
Later than 5 years	-	104,467	-	104,467
	135,915	1,083,021	135,915	1,083,021

Operating lease commitments

Future operating lease rentals not provided for in the financial statements and payable:

	Economic Entity		Company	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Within one year	21,000	68,010	21,000	68,010
One year or later and no later than five years	36,750	59,803	36750	59,803
	57,750	127,813	57,750	127,813

The Economic Entity rents offices at 605/ 80 William Street, Sydney. The property lease in a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minium lease payments be increased by reference to the CPI. An option exists at the end of the three-year term for an additional term of two years.

25 Subsidiaries

Particulars in relation to subsidiaries	Percentage Owned 2007 % owned	2006 % owned	Country of Incorporation
Parent Entity			
Austral Gold Limited		-	Australia
Subsidiaries			
Golden Rose Pty Limited	100	100	Australia
Golden Rose International Limited	100	73	Australia

During 2007 the Company acquired 41,025,000 ordinary shares of Golden Rose International Limited. By the end of 2007, Austral Gold Limited holds 100% of the ordinary shares of Golden Rose International Limited. The consideration of the acquisition was satisfied by the issue of 169,366,734 ordinary shares in Austral Gold Limited to Guanaco Capital Holding as approved by the shareholders at a General Meeting on 22 May 2007.

26 Investments accounted for using the equity method

Details of the investment in associates is as follows:

Name (Principle Activities)	Ownership Interest 2007 %	Ownership Interest 2006 %	Investment carrying amount Consolidated 2007 $	Investment carrying amount Consolidated 2006 $
Guanaco Mining Company Limited (Mining)	51.08	35.78		-

	Economic Entity 2007 $	Economic Entity 2006 $
Movements in carrying value of investments		
Carrying amount of investment in associate at the beginning of the financial year	-	-
Acquisition	22,220,054	411,573
Share of loss	(67,022)	(411,573)
Carrying amount of investment in associate at end of year	22,153,032	-

27 Cash flow information

	Economic Entity 2007 $	Economic Entity 2006 $	Company 2007 $	Company 2006 $
Reconciliation of cash flow from operations with profit (loss) after income tax				
Profit (loss) after income tax	(1,397,449)	912,343	(1,294,828)	918,553
Non-cash flows in profit				
Interest received	(44,175)	(31,497)	(112,713)	(31,497)
Interest paid	-	294,158	-	294,158
Exploration and evaluation expenditure written off	80,416	230,940	22,280	163,986
Exchange Rate Differences	585,692	-	585,692	

Depreciation	2,155	4,185	2,155	4,185
Net gain on disposal of plant and equipment	955	(90,785)	955	(90,785)
Provision for impairment	-	-	-	66,957
Share of associated companies net profit after income tax	67,022	-	24,098	-
Net cash used in operating activities before change in assets and liabilities	(705,384)	1,319,344	(772,361)	1,325,578
Changes in assets and liabilities:				
(Increase)/Decrease in trade and other receivables	(82,595)	(373,131)	(200,214)	(373,129)
(Decrease)/Increase in trade and other payables	(71,419)	(2,391,904)	(840)	(2,394,373)
Cashflow from operations	(859,398)	(1,445,691)	(973,415)	(1,441,944)

There were no unused loan or credit facilities at year-end.

26 Related parties

Directors

The name of each person holding the position of Director during the year are Mark Bethwaite, Pablo Vergara del Carril, Robert Trzebski, Eduardo Elsztain, Saul Zang, Terence Willsteed (retired) the Hon Marcus Einfeld, (resigned) On 29 June 2007, the Board appointed Eduardo Elsztain and Saul Zang as Directors of the Company Amounts paid to Directors are set out in the Directors Report.

Directors' holdings of shares and share options

The parent company, Guanaco Capital Holding holds 78.12% interest in Austral Gold Limited.

Mr Pablo Vergara del Carril is a Director of Austral Gold Limited, Guanaco Capital Holding and of Guanaco Mining Company. He has no direct holding in either shares or options in any of these companies with the exception of Guanaco Capital Holding in which he holds shares.

Messrs. Elsztain and Zang are Directors of Austral Gold Limited, Guanaco Capital Holding and Guanaco Mining Company, and hold, indirectly shares through their interests in Guanaco Capital Holding.

Mr Bethwaite a Director of Austral Gold Limited and Guanaco Mining Company holds 37,987 indirectly in Austral Gold Limited through Fine Wine Superannuation Fund.

Wholly owned and partly owned subsidiaries

Aggregate amounts receivable from Golden Rose Pty Limited as at 30 June 2007 were $64,644 (2006: $85,947). Impairment losses of $99,957 were provided against this loan in the year ended 30 June 2007.

Aggregate amounts receivable from Golden Rose International Limited as at 30 June 2007 were $448,718 (2006: $446,283).

Associated entities

Aggregate amounts receivable from Guanaco Mining Company Limited as at 30 June 2007 was $0 (2006: $5,232,443) including interest and foreign exchange adjustments. This loan was extinguished at 22 May 2007 by the issue of shares in Guanaco Mining Company Limited as approved by shareholders on 22 May 2007.

Subsequent events

In July 2007 the Company received funding from its largest shareholder on the following terms:

1. Funding is in the form of a loan advance of $100,000. Other than as disclosed there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations, or the state of affairs of the Economic Entity, in future financial years.

Ultimate parent entity

The Parent Entity is ultimately controlled by Guanaco Capital Holding which is incorporated in the British Virgin Islands.

Company Details

The registered office of the Company is:

Terrace Tower

Suite 605, 80 William Street, Sydney NSW 2011

AUSTRAL GOLD LIMITED

DIRECTORS' DECLARATION

In the opinion of the directors of Austral Gold Limited:

a) the accompanying financial statements and notes are in accordance with the Corporations Act 2001, comply with the accounting standards and give a true and fair view of the Company's and the Economic Entity's financial position as at 30 June 2007 and of their performance for the year ended on that date.

b) at the date of this declaration there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

c) the directors have been given the declarations by the chief executive officer and chief financial officer required by Section 295A.

Signed in accordance with a resolution of the directors.

Francis Mark Bethwaite

Chairman

Sydney, 27 September 2007

Robert Trzebski

Director

Sydney, 27 September 2007

INDEPENDENT AUDITOR'S REPORT

To the members of Austral Gold Limited

Report on the Financial Report and AASB 124 remuneration disclosures contained in the Directors' Report

We have audited the accompanying financial report of Austral Gold Limited (the disclosing entity) and Austral Gold Limited (the consolidated entity), which comprises the Balance Sheets as at 30 June 2007, and the Income Statements, Statement of Changes in Equity and Cash Flow Statements for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the Directors' Report. As permitted by the Corporations Regulations 2001, the company has disclosed information about remuneration of Directors and executives ('remuneration disclosures') required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in pages 15 to 17 of the Directors' Report and not in the financial report.

Directors' Responsibility for the Financial Report and AASB 124 remuneration disclosures contained in the Directors' Report

The Directors of the disclosing entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The Directors' of the company are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the Directors' Report based on our audit.

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Chartered Accountants
& Business Advisers

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the Directors' Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion

(a) the financial report of Austral Gold Limited is in accordance with the *Corporations Act 2001*, including

(i) giving a true and fair view of the disclosing entity's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Auditors opinion on the AASB 124 remuneration disclosures contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in pages 15 to 17 of the Directors' Report comply with Accounting Standard AASB 124.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As disclosed in Note y, the on going viability of the company and the recoverability of its non-current assets is dependent on the success of the Guanco Mining Project. The Directors believe that the projects will be ultimately successful and that the non-current assets are not included in the Financial Report in excess of their recoverable amounts.

The Financial Report has been prepared on the basis of a going concern. This basis presumes that funds will be available to finance future operations, project expenditure, and to repay liabilities. The Directors believe that the company will be able to fund these commitments through equity raising and external funding.

If additional funds are not raised there is significant uncertainty as to whether Austral Gold Limited will be able to continue as a going concern. If Austral Gold Limited is unable to continue as a going concern, it may be required to realise its assets, and extinguish its liabilities other than in the normal course of business and at amounts different from those currently stated in the Financial Report

Chartered Accountants
& Business Advisers

PKF

Bruce Gordon
Partner

28 September 2007
Sydney

ADDITIONAL INFORMATION REQUIRED BY AUSTRALIAN STOCK EXCHANGE LIMITED

Additional information included in accordance with the Listing Rules of the Australian Stock Exchange Limited.

CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2007

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, uess otherwise stated.

Board of Directors and its Committees

Your board is responsible for the overall Corporate Governance of the Economic Entity including its strategic direction, establishing goals for management and monitoring the achievement of these goals.

To assist in the execution of its responsibilities, your board has established an Audit Committee. The Audit Committee has a written mandate and operating procedures, which are reviewed on a regular basis. The effectiveness of the Audit Committee is also constantly monitored. Your board has also established a framework for the management of the Company including a system of internal control.

Composition of Board

The names of the directors of the Company in office at the date of this Statement are set out in the Directors' Report on pages 10 to17 of the annual report.

Audit Committee

The Audit Committee has a documented Charter, approved by the Board. The role of the Committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Economic Entity.

It also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in the financial report.

The members of the Audit Committee during the year were:

- Mr Mark Bethwaite (Non-Executive Director – Chairman Audit Committee)
- Mr Pablo Vergara del Carril (Non-Executive Director)

Audit Committee Meetings are also attended by the external auditors and management representatives as required.

The responsibility of the audit committee includes:

- Reviewing the financial report and other financial information distributed externally;
- Reviewing any new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditors' independence;
- Liaising with the external auditors and ensuring that the annual and half year statutory audits are conducted in an effective manner;
- Reviewing the Company's policies and procedures for convergence with International Financial Reporting Standards for reporting periods beginning on 1 July 2006; and
- Monitoring the procedure in place to ensure compliance with the Corporation Act 2001 and Stock Exchange Listing Rules and all other regulatory requirements.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the following:

Audit planning:

- To discuss the external audit plan

- To discuss any significant issues that may be foreseen
- To discuss the impact of any proposed changes in accounting policies on the financial statements
- To review the fees proposed for the audit work to be performed

Prior to announcements of results:

- To review the half yearly and preliminary final report prior to lodgement of these documents with ASX, and any significant adjustments required as a result of the audit; and
- To make the necessary recommendations to the Board for the approval of these documents.

Annual reporting:

- To review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made;
- To review the draft financial report and audit report and to make the necessary recommendations to the Board for the approval of the financial report.

Remuneration Committee

The Company established a Remuneration and Nomination Committee ("the Committee") to oversee the processes of director and senior management remuneration, and nomination to the Board. No members of the original Remuneration Committee remain with the Company and the Board has not re-instated this Committee as it believes the Company can no longer justify such a Committee. All remuneration decisions are made by the Board.

The Board is cognisant of the objectives concerning remuneration and they are:

- to appropriately reward and thereby encourage excellent performance by management and directors, as measured by growth of the Company;
- to devise and/or approve appropriate incentives to facilitate growth, focussing not just on salary but on a range of remuneration methods;
- to take into account the requirements and expectations of all stakeholders, including shareholders, so that remuneration is balanced by expectations concerning profitability of the Company.

The Board will review:

- policies for the annual remuneration of directors and senior management;
- the basis of calculation of remuneration of those persons to ensure the appearance of reasonableness;
- current industry practice in the remuneration of directors and senior executives of similar size and industry entities;
- different methods of remuneration, including:
- bonus schemes;
- employee Share Option Scheme;
- fringe benefits;
- superannuation;
- retirement and termination packages.

The Board will also review:

- professional indemnity policies;
- related party disclosures in the financial statements;
- communication with major stakeholders to gauge their views on remuneration packages.

The Board's objectives concerning remuneration are to devise appropriate criteria for Board membership, and identify specific individuals for Board membership.

The Board takes into account:

- the skill sets of current Board members;
- the current and future requirements of the Company for skills in particular areas which it lacks;
- the value to stakeholders of a Board comprising individuals with high levels of independence and stature.

The Board fosters open and confidential communications at its meetings and with the entire Board on potential nominees.

The Board will initiate an annual review of Board and individual director performance, including a review of Board size, committee structures, and effectiveness of Board meetings.

Internal Control Framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has instigated an internal control framework that can be described as follows:

- Financial reporting – an annual budget is prepared by management and approved by the directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The Company reports to shareholders half-yearly. Procedures are also in place to ensure that price sensitive information is reported to the ASX in accordance with Continuous Disclosure Requirements.
- Investment appraisal – the Economic Entity has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

The Role of Shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the consolidated entities state of affairs. Information is communicated to shareholders as follows:

- The Annual Report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The Board ensures that the annual report includes relevant information about the operations of the Economic Entity during the year, changes in the sate of affairs of the Economic Entity and details of future developments, in addition to the other disclosures required by the Corporations Act 2001;
- the quarterly report contains summarised financial information and a review of the operations of the Economic Entity during the period.

These reports are posted on the Company's website at www.australgold.com.au; as are announcements made to the ASX.

The shareholders are responsible for voting on the appointment of directors.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entities strategy and goals. Important issues are presented to the shareholders as single resolutions.

Securities Trading Policy

The Economic Entity's share trading policy restricts the times and circumstances in which directors, employees and parties legally related to them, may trade in shares of the Company or its listed controlled entity. Trading is not permitted when directors or employees possess price sensitive information which has not yet been disclosed to the market.

Principles of Good Corporate Governance and Best Practice Recommendations

In March 2003, the ASX Corporate Governance Council (**Council**) released its "Principles of Good Corporate Governance and Best Practice Recommendations" (**Recommendations**).

Listing Rule 14.10.3 requires a company to disclose the extent to which the entity has followed the best practice recommendations set by the Council during the reporting period. If the entity has not followed all of the recommendations it must identify those recommendations that have not been followed and give reasons for not following them. If a recommendation had been followed for only part of the period, the entity must state the period during which it had been followed.

In accordance with Listing Rule 14.10.3 the Company states that it has complied with each of the Ten Essential Corporate Governance principles and the corresponding Best Practice recommendations as published by the ASX Corporate Governance Council ("ASX Principals and recommendations"), other than in relation to the matters specified below.

Principal No	Best Practice Recommendation		Compliance or Explanation for Non-compliance
1	1.1	Formalise and disclose the functions reserved to the Board and those delegated to management.	A formal policy document outlining board and management functions has not been established as yet. The directors have determined that given the size and direction of the Company, hands on day-to-day management and supervision by directors is currently in its best interests.
2	2.1	A majority of the Board should be independent directors.	Given the nature and size of the Company, its business interests and the stage of development, the board is of the view that there is an adequate and broad mix of skills required and that given their experience each of the directors are aware of and capable of acting in an independent manner and in the best interests of shareholders.
2	2.3	The same individual should not exercise the roles of chairperson and chief executive officer.	The Company has not appointed a chief executive officer because the directors have determined that the appointment and cost of a chief executive officer is not necessary or justified at this time. For the present the directors are carrying out the responsibilities of chief executive officer with the daily assistance of the company secretary and such outside expert assistance and advice as is necessary.
2	2.4	The Board should establish a nomination committee.	The Board does not have a nomination committee because in the directors' view, a Company of this size and stage of development can best operate with the functions of a nomination committee undertaken by the full Board.
3	3.1	Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to: the practices necessary to maintain confidence in the Company's integrity the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	The Company has not established a code of conduct because it did not inherit a code from the previous Board. The Company will formulate a code appropriate for the Company which will be posted on the Company's website when adopted.
4	4.3	Structure the audit committee so that it consists of: • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board • at least three members	The Audit Committee comprises Mark Bethwaite (as Chairman) and Pablo Vergara del Carril, with the Company Secretary as secretary. The committee thus has fewer than the minimum 3 non-executive member composition and lacks a majority of independent directors as recommended. The Board is keeping the Audit Committee's Charter under constant review in order to meet the guidelines as appropriate to the current size, structure, and stage of development of the Company. The members of the Audit Committee possess the requisite financial expertise and industry experience necessary to effectively carry out the

Principal No	Best Practice Recommendation		Compliance or Explanation for Non-compliance
			Committee's mandate.
5	5.1	Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	No written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability for the compliance were inherited from the previous Board. Formal policies will be drafted and will be posted on the Company's website when adopted. The Company is in regular contact with its solicitors to ensure ASX compliance.
6	6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	The new Board is committed to the objective of proper communication with shareholders and will actively promote shareholder involvement in the Company including regular information on the Company's website. A formal policy will be drafted to express these goals and will be posted on the Company's website when adopted.
7	7.1	The board or appropriate board committee should establish policies on risk oversight and management.	Informal procedures were in place prior to the new Board being appointed. The board is formulating its policies on these matters which will be posted on the Company's website when adopted.
10	10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	The Board considers that its practices are the equivalent to the guidelines. A draft code will be prepared and will be made available on the Company's website when adopted.

The Board aspires to the highest standards of corporate governance and is fully supportive of and committed to the aims, spirit and letter of the Recommendations and to their implementation as appropriate for a company of this size.

Statement of issued capital at 31 August 2007

a) Distribution of fully paid ordinary shareholders

Size of Holding	Shareholders	Number of Shares Held
1 - 1,000	714	305,728
1,001 - 5,000	360	981,726
5,001 - 10,000	103	845,061
10,001 - 100,000	100	2,863,482
100,001 and over	19	61,816,578
Total	**1,296**	**66,812,125**

b) 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 shall have one vote and upon a poll, every member present in person or by proxy shall have one vote for every share held.

Options on Issue at 27 September 2007

There are 10,375,049 unlisted options on issue as detailed below:

No of Options	Exercise price	Expiry date	No of Holders
877,334	.40 cents	14/10/2009	1
2,300,000	1.20	30/11/2007	3
4,424 ,511	2.00	30/11/2007	4
2,773,204	2.00	14/10/2009	2

Global Gold SA and or Guanaco Capital Holding hold 9,920,049 of these options.

Securities approved for the purposes of Item 7 of section 611 of the Corporations Act:

Shareholders approved the issue of shares upon conversion of these options pursuant to Item 7 of section 611 of the Corporations Act. 9,920,049 of these options are yet to be exercised by Global Gold SA or Guanaco Capital Holding.

Substantial Shareholders

At 19 September 2007 the Company's register of substantial shareholdings shows the following:

Name	Shares Held
Guanaco Capital Holding Corp	26,406,823
HSBC Custody Nominees (Australia)*	25,789,330
Total	52,196,153

* beneficially held by Guanaco Capital Holding

Top Twenty Shareholders as at 19 September 2007

Rank	Holder	Number of Shares	% Issued Capital
1	Guanaco Capital Holding Corp	26,406,823	39.52%
2	HSBC Custody Nominees (Australia) Limited – A/C 2	25,789,330	38.60%
3	Citicorp Nominees Pty Limited	4,541,338	6.80%
4	ANZ Nominees Limited <Cash Income A/C>	1,458,127	2.18%
5	HSBC Custody Nominees (Australia) Limited – GSI ECSA	400,000	0.60%
6	Niako Investments Pty Ltd	396,005	0.59%

Rank	Holder	Number of Shares	% Issued Capital
7	Mr Daniel Goberman	385,487	0.58%
8	Moshe Ambarchi	350,000	0.52%
9	Hazlaha Investments Limited	336,865	0.50%
10	HSBC Custody Nominees (Australia) Limited	330,083	0.49%
11	Birchall Projects Ltd	230,000	0.34%
12	Greenford Investments Limited	200,000	0.30%
13	Mountain Side Holdings Ltd	194,800	0.29%
14	D & D Nominees Pty Ltd	176,474	0.26%
15	Mr Peter Allan Learmont	150,000	0.22%
16	A G Irvine Pty Ltd	126,150	0.19%
17	Dana Duneier	108,750	0.16%
18	Gordon Holdings (QLD) Pty Ltd	107,132	0.16%
19	Mr Glen Smith <Glen Smith Super Fund A/c>	103,000	0.15%
20	Warbont Nominees Pty Ltd <Settlement Entrepot A/C>	100,000	0.15%
		61,890,364	92.60%

Schedule of Mineral Tenements as at 28 September 2007

Tenement	Project Name	Interest
P 15/4514	Bullabulling	95%
P 15/4515	Bullabulling	95%
P 15/4516	Bullabulling	95%
P 15/4518	Bullabulling	95%
P 15/4519	Bullabulling	95%
P 15/4520	Bullabulling	95%
P 15/4521	Bullabulling	95%
P 15/4522	Bullabulling	95%
E 40/1116	Kookynie	95%
E 40/1117	Kookynie	95%
E 40/1118	Kookynie	95%
E47/952*	Rocklea	100%

*Application Pending