AUSTRAL GOLD LIMITED

AND ITS SUBSIDIARIES

ABN 30 075 860 472

ANNUAL REPORT
2010

AUSTRALGOLD

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ABN 30 075 860 472

Contents

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Chairman's Letter

Dear Shareholder

2009/10 was dominated by activity at our wholly owned Guanaco gold/silver/copper project in northern Chile.

One major task at Guanaco has been the refurbishment of existing crushing plant and the construction of a third leach pad to retreat former heap leach material. As a result Austral Gold is now an emerging producer, with first gold pour to take place at Guanaco in October 2010.

Another milestone at Guanaco in recent months is completion and release to the ASX of a Bankable Feasibility Study into restarting open cut and underground mining operations. Whilst decisions on restarting underground and open cut mining at Guanaco are yet to be made, the decline to allow underground delineation of the Cachinalito and nearby vein systems continues to be driven and should be complete by December 2010.

A third major activity at Guanaco was the evaluation of a number of nearby deposits with the potential to provide supplementary ore to the Guanaco processing facility.

Exploration drilling into the Dumbo, Cachinalito, San Lorenzo and Natalia veins at Guanaco has continued in 2010 as has exploration in Argentina.

Austral Gold continues to be well served by its operational staff in Antofagasta and Guanaco in Chile and in our small Sydney office. On behalf of shareholders I thank them for their loyalty and their achievements in the past year.

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 Stabro Kasaneva - Executive Director (appointed 7 October 2009) Natalia Zang - Non Executive Director (resigned 3 December 2009)
Company Secretary:	Catherine Lloyd
Registered Principal Office:	Suite 605, 80 William Street Sydney NSW 2011 Telephone: (02) 9380 7233 Facsimile: (02) 9380 7972 Email: info@australgold.com.au Website: www.australgold.com.au
Antofagasta, Chile Office:	14 de Febrero 1822, of. 8 Antofagasta, Chile Telephone: 56-55-440304 Facsimile: 56-55-440305
Auditors:	PKF Level 10, 1 Margaret Street Sydney NSW 2000
Share Registry:	Computershare GPO Box 2975 Melbourne VIC 3001 Tel (within Australia) 1300 850 505 Tel (outside Australia) +61 3 9415 5000
Principal Bankers:	National Australia Bank Limited
Solicitors:	Norton Rose
Listed: Code:	Australian Stock Exchange AGD
Place of Incorporation:	Western Australia

Review of Activities

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

The Company continues to explore and invest in its Guanaco Project ("Guanaco") in northern Chile to expand its mineral resources, increase the Project's potential annual production and improve its financial viability.

The Company also expects to acquire further properties in the Guanaco region and has acquired properties in Argentina.

Guanaco Project, Chile (100% interest)

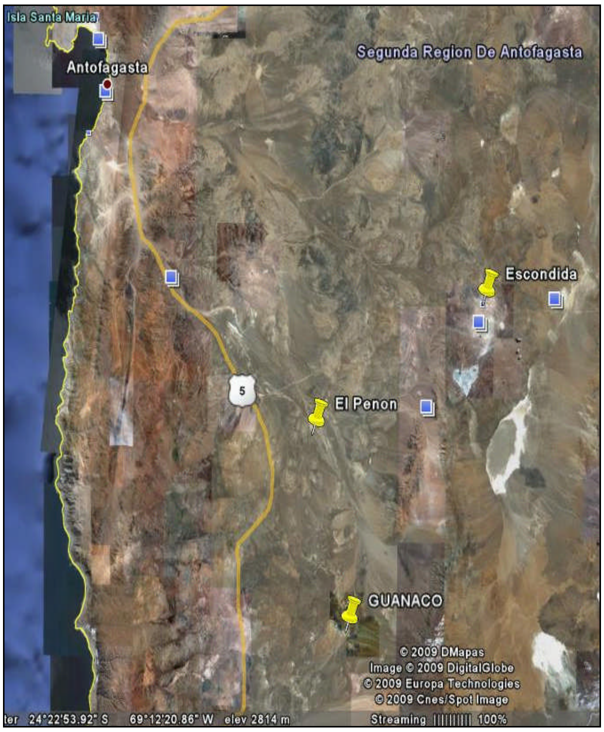
Background

In January 2003 Austral Gold Limited obtained, through its subsidiary Golden Rose International Limited (GRIL), an option to acquire the Guanaco Project in Chile from subsidiaries of Kinross Gold Corporation. 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.

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) called Guanaco Compañía Minera Limitada, incorporated in Chile.

Project Description

Guanaco is located some 220 kilometres south east of Antofagasta in Northern Chile. It is at an elevation of some 2,700 metres and close to the Pan American Highway which runs north/south through Chile.



Guanaco is located in the Palaeocene/Eocene belt, a structural trend which runs north/south down the centre of Chile. This trend accommodates several large copper/gold mining operations including Zaldivar, El Peñon and Escondida.

Mining was undertaken at Guanaco from 1886 - with some interruptions - until 2001. Gold, copper and silver have been mined at Guanaco with more than 1.0 million ounces of gold produced.

Austral Gold's predecessors entered into an Option Agreement to acquire an interest in Guanaco in September 2002 that was finalized in March 2003. Since 2004, Austral Gold has pursued exploration activities at Guanaco.

Early Gold Production at Guanaco

A decision was taken in the December 2009 quarter to restart gold production from retreatment of existing heap leach material on site.

Refurbishment of critical components of the crushing and gold recovery facilities has taken place offsite and this equipment is now reassembled and recommissioned.

The photograph opposite shows sections of both secondary (right side) and tertiary (left side) crushers being removed for refurbishment.

A third leach pad has been constructed with pre-treated ore now stacked on it for retreatment.

The photograph opposite shows earthworks during the establishment of the Pregnant Solution Pond at Guanaco.

Other site works including upgrades to roads, maintenance facilities, power and water supply, camp and other infrastructure have been undertaken.

The Company will achieve first production from retreatment of heap leach material in October at the rate of approximately 2,000 oz per month.

Feasibility Study into Restarting Mining Operations at Guanaco

In October 2009, Austral Gold mandated AMEC International (Chile SA) to undertake a Bankable Feasibility Study (BFS) into the restart of mining operations at Guanaco.

On 16 August 2010, the BFS was released to the ASX. Key parameters were as follows:

Reserves (probable)

Underground	1.51Mt @ 4.23 g/t Au	205,000 oz Au
Open Pit & Heap Leach	9.0Mt @ 0.62 g/t Au	179,000 oz Au

Financial Results

Start Up Capital Cost (including 10% contingency)	USD51.8M
Average Annual Gold Production	50,000oz
Payback	3.0 years
Internal Rate of Return	36.9%
Net Present Value (8% discount rate on cumulative net cash flow)	USD32.9M
Cash costs net of silver credit over projected mine life	USD560 per ounce

The underground and open pit and heap leach reserves appearing above have been calculated using a gold price of USD825 per oz and a silver price of USD12.50 per oz.

The above financial results are projected on a gold price declining from USD1130 in 2010 to USD960 in 2016 per oz and a silver price of $15.15 per ounce remaining constant over the projected mine life of five years.

Environmental approvals for the project have been granted by the relevant authority for Region II of Chile in July 2009 and the Company holds adequate water rights for the project.

Whilst the Company has yet to make decisions in relation to restarting underground and open cut mining at Guanaco, the decline to allow underground delineation of the Cachinalito and nearby vein systems continues to be driven and should be complete by December 2010.

This photograph (also on the cover) shows the decline portal at Guanaco

The decline has now advanced some 900 metres on two headings. This photograph shows one of several safety refuges for underground personnel.

Exploration drilling into the Dumbo, Cachinalito, San Lorenzo and Natalia veins at Guanaco has continued in 2010 with results announced in successive Quarterly Reports to the ASX.

AMINSA Project – Argentina

Exploration has also continued in Argentina.

In the Province of San Juan, in the north west of Argentina, Austral Gold continues to earn an interest in the AMINSA project with tenements covering approximately 227.000 hectares. These properties are located near Xstrata's advanced El Pachon copper exploration project in Argentina and Los Pelambres owned by Antofagasta Minerals in Chile.

The 2010 drilling campaign is now finished. This campaign concentrated on drilling geochemical and geophysical (conductivity) anomalies and was targeted at potential copper mineralisation identified in adjacent areas. Five holes of approximately 600 metres each were drilled, totalling 3,048 metres. The results for copper have been sub economical to date, however geological studies have indicated potential for gold in the area and as a result future exploration activities will be targeted at gold.

Santa Cruz Project – Argentina

In southern Patagonia, Austral Gold has nine tenement applications totalling almost 85,000 hectares in the Macizo el Deseado area in the Province of Santa Cruz.

Austral Gold technical staff and consultants visited the area in February and March 2010 to undertake field assessments and to plan exploration activities. The main objective of the visit was to identify rocks belonging to the Chon Aike Formation (Deseado Massif) which hosts gold mineralisation elsewhere in Santa Cruz Province. During the field review, different locations with this formation were observed and some low sulphidation epithermal systems were recognised.

Australian Exploration

Austral Gold no longer has any Australian exploration interests as the Bullabulling gold project in Western Australia was relinquished early in 2010.

DIRECTORS REPORT
AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES
FOR THE YEAR ENDED 30 JUNE 2010

Your Directors present the following report for the financial year ended 30 June 2010 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, (referred to hereafter as the Group) for the year ended 30 June 2010 and the auditors' report thereon.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the course of the financial year were exploration and evaluation of mineral properties, 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 2010 has been released in the Company's announcements and reports to the Australian Stock Exchange. It is available for review on the Company's website at www.australgold.com.au.

REVIEW AND RESULTS OF OPERATIONS

Operating Results and Dividends

The Group's net loss attributable to members for the year ended 30 June 2010 was $9,165,580 (2009: loss $4,262,025).

No dividends of the Company or its subsidiaries have been paid, declared or recommended since the end of the financial year. The Board does not recommend the payment of a dividend in respect of the reporting period.

Financial Position

The total assets of the Group have increased by $10,843,700 from 30 June 2009 to $70,108,302. The investment in the Guanaco Project has been assessed at fair value in accordance with Accounting Standards.

The Company has the support of its substantial shareholder, Inversiones Financieras del Sur SA (IFISA) and associates, who confirm that they will continue to support Austral Gold Limited by providing adequate financial assistance in accordance with the details contained in the Funding Agreements between Austral Gold Limited and GCH and IFISA.

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 Group during the financial year.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

Since its incorporation, Austral Gold has been an explorer for gold. With first production from Guanaco scheduled for mid October 2010, the Company is poised to join the ranks of gold producers.

As such, the future cash flows of the Company are critically dependent on the gold price. We are fortunate to be commencing production when the price of gold is close to USD1200 per ounce.

With the completion of the Bankable Feasibility Study into recommencing open cut and underground mining at Guananco, it is anticipated that commitment to both initiatives will occur in the near future.

Austral Gold staff are also identifying and where possible, securing alternate sources of ore from tenements within haulage distance from Guananco, so that our newly refurbished crushing and gold treatment facilities can be utilised to full capacity.

The Company is also exploring in both the San Juan and Santa Cruz provinces of Argentina. Whilst no resources have yet been identified on the these tenements, the geological prospectivity of some areas is encouraging.

In summary, Austral Gold an emerging gold producer, initially at the rate of 25,000 - 30,000 ounces per annum from heap leach retreatment, increasing to 60,000 – 70,000 ounces per annum as identified in the Bankable Feasibility Study. The Company continues to enjoy the financial support of its major shareholder and looks to the future with confidence.

EVENTS SUBSEQUENT TO BALANCE DATE

On 17 August 2010, Austral Gold announced the results of the Bankable Feasibility Study (BFS) performed by AMEC at the Company's 100% owned Guanaco Project located in Region II, in Northern Chile. Information relating to this press release has been included in the Review of Activities on page 6 of this report.

On 22 September a new Funding Agreement was signed between Austral Gold Limited and Inversiones Financieras Del Sur S.A. (IFISA). This has provided the Group with an additional USD10million facility, in addition to the existing USD25million facility with Guanaco Capital Holding Corp. to finance further development of the Guanaco Project and other projects as approved by the Board. Interest on the new Funding Agreement with IFISA will be charged at 12%pa.

On 22 September a revision was made to the existing Funding Agreement between Austral Gold Limited and Guanaco Capital Holding Corp (GCH) which provides a USD25million facility to the Group. The revision was to extend the termination date of the Agreement from 31 March 2011 to 30 September 2011. Interest on this Agreement with GCH is charged at the Business Development Rate published by Westpac and is reviewed quarterly.

PERFORMANCE IN RELATION TO ENVIRONMENTAL REGULATION

The Group's exploration activities are subject to environmental.

In relation to the Group's mineral exploration operations in Chile, licence requirements relating to "Bases Generales de Medio Ambiente" exist under the Chilean Law No. 19,300. The Directors are not aware of any significant breaches during the period covered by this report. Moreover, all the exploration activities performed so far have been approved by the Environmental Authority, Comisión Nacional de Medio Ambiente (CONAMA).

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
Mark Bethwaite *Chairman/ Non Executive Director*	Mr. Bethwaite has qualifications of Bachelor of Engineering, Master of Building Science and Master of Business Administration. His mining career spans some 26 years including periods living and working in Mount Isa and Broken Hill. Mark 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, Mark worked with Deutsche Bank, principally in the financing of mining projects. Mr Bethwaite was Chairman of the Australian National Maritime Museum from 2001 - 2007. He is a non-executive Director of South American Iron & Steel Corporation Limited (SAY), New South Innovations Pty Limited, Digital Core Pty Limited and of a number of not for profit organisations. **Appointed Director and Chairman 3 April 2007, elected as a Director and Chairman by shareholders 22 May 2007, re-elected as a Director and Chairman by shareholders 26 November 2008.**
Eduardo Elzstain *Non Executive Director*	Mr Elsztain studied Economic Sciences at University of Buenos Aires (Universidad de Buenos Aires). He is a member of the World Economic Forum, the Group of Fifty and Asociación Empresaria Argentina (Argentine Business Association) and has been engaged in the real estate businesses for more than twenty years. He is the Chairman of the Board of Directors of IRSA Inversiones y Representaciones SA [NYSE: IRS], Argentina's largest and most diversified real estate company, Alto Palermo, Shopping Alto Palermo SA. [NASDAQ: APSA], Argentina’s leading shopping centre company with more than 10 shopping malls, Cresud SA.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, Banco Hipotecario SA. [BASE: BHIP], Argentina’s largest mortgage bank, BACS Banco de Crédito & Securitización and Consultores Asset Management among other companies. He is also Vice-Chairman of E-Commerce Latina SA, and BrasilAgro – Companhia Brasileira de Propriedades Agricolas [BOVESPA: AGRO3]; a company which replicates Cresud’s business strategy in Brazil among other companies. **Appointed 29 June 2007, re-elected by shareholders on 20 November 2009**

Saul Zang

Non Executive Director

Mr Zang obtained a law degree from University of Buenos Aires (Universidad de Buenos Aires). He is a member of the International Bar Association (Asociación Internacional de Abogados) and the Interamerican Federation of Lawyers (Federación Interamericana de Abogados). He is a founding member of the law firm Zang, Bergel & Viñes.

He is also first Vice-Chairman of the Board of Directors of IRSA and Shopping Alto Palermo SA, and Vice-Chairman of Alto Palermo, Puerto Retiro and Fibesa; and Director of Banco Hipotecario, Nuevas Fronteras SA., Tarshop and Palermo Invest SA.

Mr Zang is Adviser and Member of the Board of Directors of the Buenos Aires Stock Exchange and he has also advised national and international companies in different areas of the legal practice, including the privatization process of YPF SA and State Owned Electricity Company of the Province of Buenos Aires.

Appointed 29 June 2007, re-elected by shareholders on 20 November 2009

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 SA. [BASE: BHIP], Milkaut SA (an Argentine leading dairy company), Nuevas Fronteras (owner of the Intercontinental Hotel in Buenos Aires) and Emprendimiento Recoleta SA (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, re-elected by shareholders 26 November 2008.

Robert Trzebski

Non Executive Director

Dr 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.

Dr 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, re-elected by shareholders on 20 November 2009

Natalia Zang

Non Executive Director

(part year only)

Ms Zang holds a Bachelor of Business Administration and a Masters in Finance (Capital Markets) from the Universidad del CEMA (Argentina). She has over 11 years professional experience in corporate finance and asset management having worked for Alto Palermo SA and Jazzya Investments including two years as Managing Director.

Appointed 19 March, resigned from the Board 3 December 2009

Stabro Kaseneva

Executive Director

(part year only)

Mr Kasaneva is the also the Chief Operating Officer for Austral Gold Limited. Mr Kasaneva holds a degree in Geology from the Universidad Católica del Norte, Chile. He has more than 20 years experience in geology and exploration of gold deposits, mainly focused on the Paleocene belt in Northern Chile, where Guanaco Austral Gold's flagship gold/copper project is located.

Appointed 7 October 2009, re-elected by shareholders on 20 November 2009

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 Group during the financial year are:

	Directors' meetings		Audit Committee meetings	
Director	**A**	**B**	**A**	**B**
Mark Bethwaite	6	6	2	2
Pablo Vergara del Carril	6	6	2	2
Robert Trzebski	6	6	*	*
Eduardo Elsztain	4	6	*	*
Saul Zang	4	6	*	*
Natalia Zang**	3	4	1	1
Stabro Kasaneva***	4	4	*	*

A Number of meetings attended.

B Number of meetings held during the time the Director held office.

***** Not a member of this committee

****** Natalia Zang resigned from the Board and Audit Committee on 3 December 2009.

*** Stabro Kasaneva was appointed to the Board on 7 October 2009.

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 there are no unissued shares under option.

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 (directly or indirectly) 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	**Ordinary Shares**
M Bethwaite	37,987
P Vergara del Carril	68,119
R Trzebski	-
E Elsztain	146,511,115
S Zang	1,435,668
S Kasaneva	-

It is also noted:

1. P Vergara de Carril, E Elsztain and S Zang are directors of Guanaco Capital Holding Corp which holds 24,289,330 shares.

2. E Elsztain and S Zang are directors of IFISA which holds 116,881,722 shares.

REMUNERATION REPORT

The remuneration report is set out under the following headings:

A) Remuneration Policy

B) Details of Remuneration

C) Service Agreements

D) Share Based Payments

A) Remuneration Policy

The Company has a Remuneration Policy which aims to ensure remuneration packages of directors 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 Company reviews available information which measures the remuneration levels in the various labour markets in which it competes. The expectation of the Company is that, for a particular grade of employee, the total fixed compensation will be at the median level of the relevant market.

B) Details of Remuneration

Details of Remuneration for the Year ended 30 June 2010

2010	PRIMARY			POST-EMPLOYMENT		SHARE-BASED		Total
	Cash & Salary Fees $	Cash bonus $	Non monetary benefits $	Super-annuation $	Retirement benefits $	Shares $	Options $	$
Directors								
M Bethwaite	51,876	-	-	48,124	-	-	-	100,000
R Trzebski	36,697	-	-	3,303	-	-	-	40,000
S Kaseneva	230,001	-	-	-	-	-	-	230,001
Total Directors	**318,574**	**-**	**-**	**51,427**	**-**	**-**	**-**	**370,001**
Other Key Management Personnel								
C Lloyd	82,569	-	-	7,431	-	-	-	90,000
R Ramirez	220,673	14,537*	-	-	-	-	-	235,210
C Cubelli	193,300	13,752*	-	-	-	-	-	207,052
I Caceres	203,070	18,470*	-	-	-	-	-	221,540
TOTAL	**1,018,186**	**46,759**	**-**	**58,858**	**-**	**-**	**-**	**1,123,803**

** The cash bonuses paid represent two months salary adjusted for the period of time the manager has been with the company.*

Details of Remuneration for the Year ended 30 June 2009

2009	PRIMARY			POST-EMPLOYMENT		SHARE-BASED		Total
	Cash & Salary Fees $	Cash bonus $	Non monetary benefits $	Super-annuation $	Retirement benefits $	Shares $	Options $	$
Directors								
M Bethwaite	-	-	-	100,000*	-	-	-	100,000
R Trzebski	36,697	-	-	3,303	-	-	-	40,000
N Zang	-	-	-	-	-	48,000**	-	48,000
Directors	**36,697**	**-**	**-**	**103,303**	**-**	**48,000**	**-**	**188,000**
Other Key Management Personnel								
C Lloyd	107,033	-	-	9,633	-	-	-	116,666
C Peralta	270,754	-	-	-	-	16,000***	-	286,745
T Strasser	7,339	-	-	661	-	-	-	8,000
TOTAL	**421,823**	**-**	**-**	**113,596**	**-**	**64,000**	**-**	**599,420**

**Salary Sacrifice*

*** This represents 100% of Ms Zang's remuneration from the Group for the year*

**** This represents 6% of Mr Peralta's remuneration for the year*

C) Share Based Payments

27,614 shares were issued in September 2009 to Mr Carlos Peralta, who was at the time the Exploration and Geology Manager at Guanaco.

Other than noted above, there were no share based payments made during the year under review.

Auditors

PKF continues in office as auditors in accordance with the requirements of the Corporations Act 2001.

Non-audit services

The company may decide to employ the auditors on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Company are important.

Details of amounts paid or payable to the auditors, PKF, for audit and non-audit services provided during the year are set out below:

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditors, as set out below, did not compromise the auditors independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditors.
- None of the services undermine the general principles relating to auditors independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for services provided by the auditors of Austral Gold Limited:

	2010 $	2009 $
Audit services		
Audit and review of financial reports	56,750	53,750
Non-audit services	4,500	-
Total	**61,250**	**53,750**

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 2010 has been received and is included in this report.

Signed in accordance with a resolution of Directors at Sydney, 22 September 2010.

Mark Bethwaite

Director

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Austral Gold Limited for the year ended 30 June 2010, 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

PKF

Tim Sydenham
Partner

Sydney
22 September 2010

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STATEMENT OF COMPREHENSIVE INCOME

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Continuing Operations			
Operating activities	3	2,666	27,454
Other revenue	3	-	28,632
		2,666	**56,086**
Depreciation expense	4	(74,732)	(67,452)
Exploration and evaluation expenditure written off	4	(5,059)	(41,313)
Finance costs	4	(652,723)	(140,714)
Administration expenses		(576,028)	(436,481)
Employee benefits expense		(332,039)	(406,521)
Impairment losses	4	(6,971,678)	(3,626,989)
(Loss)/gain from foreign exchange	4	(555,987)	401,359
Loss from continuing operations before income tax		**(9,165,580)**	**(4,262,025)**
Income tax expense	6	-	-
Loss from continuing operations after income tax		**(9,165,580)**	**(4,262,025)**
Loss after tax attributable to minority equity interest		-	-
Net loss for the period		**(9,165,580)**	**(4,262,025)**
Other Comprehensive (Loss)/Income			
Foreign currency translation		(1,317,820)	2,970,172
Impairment losses	20	-	(9,959,985)
Income tax on items of comprehensive income		-	-
Total comprehensive loss for the period		**(10,483,400)**	**(11,251,838)**
Loss per share (cents per share):			
Diluted loss per share	7	(5.4)c	(2.5) c
Diluted loss per share	7	(5.4)c	(2.5) c

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

AS AT 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	1,399,382	240,679
Other receivables	10	3,061,046	54,046
TOTAL CURRENT ASSETS		4,460,428	294,725
NON-CURRENT ASSETS			
Other receivables	10	280,943	1,573,458
Financial assets	11	4,061,595	2,236,831
Intangible assets	12	57,000,000	-
Plant and equipment	13	4,266,272	154,529
Exploration and evaluation expenditure	14	39,065	55,005,059
TOTAL NON-CURRENT ASSETS		65,647,875	58,969,877
TOTAL ASSETS		70,108,303	59,264,602
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	15	5,007,846	229,385
Provisions	15	12,142	11,464
Borrowings	16	22,561,292	5,775,638
TOTAL CURRENT LIABILITIES		27,581,280	6,016,487
NON-CURRENT LIABILITIES			
Borrowings	16	-	240,174
TOTAL NON-CURRENT LIABILITIES		-	240,174
TOTAL LIABILITIES		27,581,280	6,256,661
NET ASSETS		42,527,023	53,007,941
EQUITY			
Issued capital	17	44,400,742	44,398,254
(Accumulated losses)/retained earnings	18	(3,507,098)	5,658,482
Reserves	20	1,633,284	2,951,104
Minority Interest	19	95	101
TOTAL EQUITY		42,527,023	53,007,941

The above Statement of Financial Position should be read in conjunction with the accompanying notes

STATEMENT OF CHANGES IN EQUITY

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Issued capital	Retained earnings/ (accumulated losses)	Reserves	Minority interest	Total
		$	$	$	$	$
Consolidated					-	
Balance at 30 June 2008		**44,334,254**	**9,920,507**	**9,940,917**	**88**	**64,195,766**
Total comprehensive loss for the period		-	(4,262,025)	(6,989,813)	-	(11,251,838)
Increase in minority interest attributable to foreign exchange	19	-	-	-	13	13
Shares issued during the year	17	64,000	-	-	-	64,000
Balance at 30 June 2009		**44,398,254**	**5,658,482**	**2,951,104**	**101**	**53,007,941**
Total comprehensive loss for the period	18	-	(9,165,580)	(1,317,820)	-	(10,483,400)
Decrease in minority interest attributable to foreign exchange	19	-	-	-	(6)	(6)
Shares issued during the year	17	2,488	-	-	-	2,488
Balance at 30 June 2010		**44,400,742**	**(3,507,098)**	**1,633,284**	**95**	**42,527,023**

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

STATEMENT OF CASH FLOWS

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated 2010 $	Consolidated 2009 $
Cash flows from operating activities			
Payments to suppliers and employees		(2,328,760)	(1,926,072)
Net cash used in operating activities	26	**(2,328,760)**	**(1,926,072)**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		-	30,389
Purchase of property, plant and equipment		(4,079,834)	(48,519)
Investment in unlisted shares		(2,029,326)	(2,236,831)
Payment for exploration and evaluation expenditure		(38,862)	(3,358,104)
Investment in development assets		(5,810,339)	-
Interest received		2,353	21,062
Net cash (used in)/provided through investing activities		**(11,956,008)**	**(5,592,003)**
Cash flows from financing activities			
Loans from related party		15,995,020	5,447,661
Net cash provided through/(used in) financing activities		**15,995,020**	**5,447,661**
Movement attributable to foreign currency translation		(551,549)	-
Net increase/(decrease) in cash held		1,710,252	(2,070,414)
Cash at beginning of financial year		240,679	2,311,093
Cash at end of financial year	9	**1,399,382**	**240,679**

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

NOTES TO THE FINANCIAL STATEMENTS

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2010

1. Corporate information

The financial report of Austral Gold Limited ("the Company") for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the Directors on 22 September 2010.

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.

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, Australian Accounting 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 its' subsidiaries ("the Group") are presented in English.

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

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

(a) Basis of preparation

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

Financial Statement Presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the new revised standard.

(b) Statement of compliance

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

(c) Functional and presentation currency

The financial report is presented in Australian dollars which is the presentation currency of the Company.

(d) Use of estimates and judgements

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of the assets and liabilities with the next financial year are discussed below:

Estimated impairment of goodwill

The Group tests at each reporting date whether goodwill has suffered any impairment. The recoverable amount of cash generating units has been determined based on independent expert reports. The calculations require the use of assumptions. Refer to note 12 for details of these assumptions and the potential impact of changes to the assumptions.

Estimated impairment of development assets

Where indicators of impairment are identified the recoverable amounts of the assets are determined. The recoverable amounts of the assets have been determined using reports from independent experts. The calculations require the use of assumptions. Refer to note 12 for details of these assumptions and the potential impact of changes to the assumptions.

Estimated impairment of exploration and evaluation assets

The Group tests at each reporting date whether there are any indicators of impairment as identified by AASB 6 “Exploration for and Evaluation of Mineral Resources”. Where indicators of impairment are identified the recoverable amounts of the assets are determined. The recoverable amounts of the assets have been determined using reports from independent experts. The calculations require the use of assumptions. Refer to note 14 for details of these assumptions and the potential impact of changes to the assumptions.

NOTES TO THE FINANCIAL STATEMENTS

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2010

Accounting Policies

(a) Basis of consolidation

A subsidiary is any entity that 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 24 to the financial statements. The financial statements of the subsidiaries are prepared for the same reporting periods as the parent company using consistent accounting policies.

All inter-company balances and transactions between entities in the Group, 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 Group 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 Statement of Financial Position 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 Statement of Comprehensive Income 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 Group's equity accounted share of the associates net profit or loss is recognised in the consolidated Statement of Comprehensive Income 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 Group.

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/ Value added tax

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

Receivables and payables in the Statement of Financial Position are shown inclusive of GST/VAT.

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

(d) Intangibles

Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a subsidiary 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.

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

Acquisition discount on consolidation is recorded at the amount by which the purchase price for a business or for an ownership interest in a subsidiary is less than the fair value attributed to its net assets at the date of acquisition. Acquisition discount is recognised in the profit and loss in the period in which it occurs.

Development assets

When the technical and commercial feasibility of an underdeveloped mining project has been demonstrated the project enters the development phase. The cost of the project assets are transferred from exploration and evaluation expenditure and reclassified into development phase and include past exploration and evaluation costs, development drilling and other subsurface expenditure. When full commercial operation commences, the accumulated costs are transferred into producing assets.

(e) Exploration and evaluation expenditure

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest and are carried forward in the Statement of Financial Position where:

(i) rights to tenure of the area of interest are current; and

(ii) one of the following conditions is met:

- such costs are expected to be recouped through successful development and exploitation of the area of interest or alternatively, by its sales; or
- exploration and/or evaluation activities in the area of interest have not, at Statement of Financial Position date, yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or relation to, the areas are continuing.

Expenditure relating to pre-exploration activities is written off to the Statement of Comprehensive Income during the period in which the expenditure is incurred.

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

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

When 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.

(f) 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.

(g) 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 is between 5% - 33%.

De-recognition 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 de-recognition 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.

(h) Translation of foreign currency items

The functional and presentation currency of Austral Gold Limited is Australian dollars ($).
The functional currency of Guanaco Mining Company is American dollars (US$) and its presentation currency is Australian dollars ($).
The functional currency of Austral Gold Argentina is Argentinean Pesos and its presentation currency is Australian dollars ($).

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 Statement of Financial Position 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 results and financial position of all Group entities that have a functional currency different from the parent's functional currency are translated into Australian Dollars as follows:

- Assets and liabilities for each Statement of Financial Position presented are translated at the closing rate at the date of that Statement of Financial Position.
- Income and expenses for each Statement of Comprehensive Income are translated at the average rate of exchange; and
- All resulting exchange differences are recognised as a separate component of equity

(i) 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.

(j) 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 Statement of Financial Position date.

Deferred income tax is provided on all temporary differences at Statement of Financial Position 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 Statement of Financial Position 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 Statement of Financial Position 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 formed a tax consolidated group from 1 Jul 2008.

(k) 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.

(l) 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.

(m) 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 Statement of Comprehensive Income when the liabilities are derecognised and as well as through the amortisation process.

(n) 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.

(o) Leases

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

(p) 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 Statement of Comprehensive Income. 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.

(q) De-recognition of Financial Assets and Financial Liabilities

Financial assets

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

- 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.

Available-for-sale financial assets
The Group's investments in equity securities are classified as available-for-sale financial assets. Subsequent to initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or determined to be impaired, at which time the accumulative gain or loss previously reported in equity is recognised in profit or loss.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) Going concern

The Group recorded a loss of $9,165,580 for the year ended 30 June 2010 and had net current liabilities of $23,120,852. This result along with other conditions detailed below, create a material uncertainty which may cast doubt over the Group's ability to continue as a going concern.

The ongoing viability of the Group and the recoverability of their non-current assets is dependent on the successful development of the Guanaco Project. In light of the completion of the Bankable Feasibility Study and the imminent commencement of gold production, the Directors believe that the Guanaco 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.

At the date of this report further funds are being sought to fund future working capital requirements of the Group.

The Directors believe that they will be successful in raising sufficient funds to ensure that the Group can continue to meet their 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.

The Directors have negotiated with the Group's principal shareholder in September 2010 to provide a new loan facility of USD10million in addition to the existing facility of USD25million (refer note 16 for terms and conditions), at the reporting date the Group had drawn down USD19million. The Directors have reviewed the cash flow forecasts of the Group for the 12 months to September 2011 and believe the funding will be sufficient to enable the Group to pay its debts.

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Financial Officer.

Change in accounting policy
The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting. The segments identified under the requirements of AASB 8 are the same as those previously identified under AASB 114, therefore the adoption AASB 8 has had no impact on the financial statements of the Group.

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 2010 but have not been applied in preparing this financial report:

Analysis of changes – Accounting Standards

The following standards are considered applicable to the Group and will be adopted during the first annual reporting period after the effective date of each pronouncement.

Australian Accounting Standards

AASB No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
9	Financial Instruments	Dec 2009	1 Jan 2013
1053	Application of Tiers of Australian Accounting Standards	June 2010	1 Jul 2013
2009 – 5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	May 2009	1 Jan 2010
2009 – 8	Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]	Jul 2009	1 Jan 2010
2009 – 10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	Oct 2009	1 Feb 2010
2009 – 12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	Dec 2009	1 Jan 2011
2010 – 2	Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	June 2010	1 Jul 2013
2010 – 3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	June 2010	1 Jul 2010
2010 – 4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]	June 2010	1 Jul 2011

Australian Interpretations

Int No.	Title	Issue Date	Operative Date (Annual reporting periods beginning on or after)
19	Extinguishing Financial Liabilities with Equity Instruments	Dec 2009	1 Jul 2010

Main features of newly issued or amended Australian Accounting Standards

The following standards should be adopted by an entity during the first annual reporting period commencing after the effective date of each pronouncement. In certain circumstances earlier adoption may be permitted, refer to the full pronouncements for further detail.

AASB 9 Financial Instruments

AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The IASB plans to complete its work on financial liabilities during 2010 and will issue requirements for financial liabilities that will be included in AASB 9 in due course.

The main changes from AASB 139 are described below.

(a) Financial assets are classified based on (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. Application guidance has been included in AASB 9 on how to apply the conditions necessary for amortised cost measurement.

(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.

(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

(d) Hybrid contracts with financial asset hosts are classified and measured in their entirety in accordance with the classification criteria. Embedded derivative assets that are separated from financial liability or non-financial hosts in accordance with AASB 139 are to be accounted for in accordance with AASB 9.

(e) Investments in unquoted equity instruments (and contracts on those investments that must be settled by delivery of the unquoted equity instrument) must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value.

(f) Investments in contractually linked instruments that create concentrations of credit risk (tranches) are classified and measured using a 'look through' approach. Such an approach looks to the underlying assets generating cash flows and assesses the cash flows against the classification criteria (discussed in (a) above) to determine whether the investment is measured at fair value or amortised cost.

(g) Financial assets are reclassified when there is a relevant change in the entity's business model changes.

Directors have been unable to determine the effect of these changes on the financial statements.

AASB 1053 Application of Tiers of Australian Accounting Standards

This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and
(b) Tier 2: Australian Accounting Standards – Reduced Disclosure

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The following entities apply Tier 1 requirements in preparing general purpose financial statements:

(a) for-profit entities in the private sector that have public accountability (as defined in this Standard); and
(b) the Australian Government and State, Territory and Local Governments.

The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:

(a) for-profit private sector entities that do not have public accountability;
(b) all not-for-profit private sector entities; and
(c) public sector entities other than the Australian Government and State, Territory and Local Governments.

Public accountability means accountability to those existing and potential resource providers and others external to the entity who make economic decisions but are not in a position to demand reports tailored to meet their particular information needs. A for-profit private sector entity has public accountability if:

(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This is typically the case for banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

AASB 2009-5 Amendments Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]

AASB 2009-5 results from the International Accounting Standards Board's annual improvements project. The annual improvements project provides a vehicle for making non-urgent but necessary amendments to accounting standards.

The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting. The subjects of the principal amendments to the Standards are set out in the preface to the standard.

AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]

AASB 2009-8 clarifies the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.

The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by the amendments.

AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]

The amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its own non-derivative equity instruments.

AASB 2009-12 Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]

The amendment to AASB 8 requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures.

This Standard also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB.

These amendments have no major impact on the requirements of the amended pronouncements.

AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements

This Standard gives effect to Australian Accounting Standards – Reduced Disclosure Requirements. AASB 1053 provides further information regarding the differential reporting framework and the two tiers of reporting requirements for preparing general purpose financial statements.

AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]

The subjects of the principal amendments to the Standards are set out below:

AASB 3 Business Combinations

- Measurement of non-controlling interests
- Unreplaced and voluntarily replaced share-based payment awards
- Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised AASB 3 (2008)

AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13]

The subjects of the principal amendments to the Standards are set out below:

AASB 1 First-time Adoption of Australian Accounting Standards

- Accounting policy changes in the year of adoption
- Revaluation basis as deemed cost
- Use of deemed cost for operations subject to rate regulation

AASB 7 Financial Instruments: Disclosures

- Clarification of disclosures

AASB 101 Presentation of Financial Statements

- Clarification of statement of changes in equity

AASB 134 Interim Financial Reporting

- Significant events and transactions

Interpretation 13 Customer Loyalty Programmes

- Fair value of award credits

		Consolidated	
		2010 $	2009 $
3	**Revenue**		
	Operating activities		
	Interest revenue	2,353	21,062
	Other	313	6,392
		2,666	27,454
	Other revenue		
	- Gain on disposal of plant and equipment	-	28,632
		-	28,632
4	**Loss from the year**		
(a)	***Expenses***		
	Depreciation of plant and equipment	74,732	67,452
	Exploration and evaluation expenditure written off	5,059	41,313
	Finance costs - related parties	652,723	140,714
	Rental expense on operating leases	23,022	20,136
(b)	***Revenue and Net Gains***		
	Foreign currency translation (loss)/gain	(555,987)	401,359
(c)	***Impairment losses***		
	Impairment of goodwill	-	33,992
	Impairment of exploration and evaluation expenditure	-	3,592,997
	Impairment of intangible assets	6,971,678	-
		6,971,678	3,626,989

	Consolidated	
	2010 $	2009 $
5 Auditors' remuneration		
Remuneration of the auditors of the Parent Entity for:		
- auditing or reviewing the financial reports	56,750	53,750
- other services/taxation	4,500	-
	61,250	53,750
Remuneration of auditors of subsidiaries for:		
- auditing or reviewing the financial reports	18,048	28,229
- other services/taxation	268	-
	18,316	28,229
6 Income tax benefit		
Prima facie income tax benefit calculated at 30% on the operating (loss)/profit from ordinary activities	(2,749,674)	(1,278,608)
Tax loss carried forward/(utilised)	484,027	291,719
Non deductible expenses	2,265,647	967,689
Total income tax benefit	-	-
Cumulative tax losses carried forward	20,245,279	13,751,271

The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because it is not probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilised.

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 Group in accordance with Division 170 of the Income Tax Assessment Act 1997;

ii. The relevant company and/or Group 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 Group in realising the benefit.

7 (Loss)/earnings per share

Classification of securities as ordinary shares

Ordinary shares have been included in basic (loss)/earnings per share.

	Consolidated 2010 $	Consolidated 2009 $
Earnings reconciliation		
Net (loss)/profit	(9,165,580)	(4,262,025)
Net (loss)/profit attributable to outside equity interests	-	-
Net (loss)/profit	(9,165,580)	(4,262,025)

	2010 Number	2009 Number
Weighted average number of shares used as the denominator		
Number for basic and diluted earnings per share	169,134,049	168,375,687
Number for diluted earnings per share	169,134,049	168,375,687
Basic (loss/)earnings per ordinary share	(5.4)c	(2.5)c
Basic and diluted (loss/)earnings per ordinary share	(5.4)c	(2.5)c

8 Segments

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

	2010 $	2010 $	2010 $	2009 $	2009 $	2009 $
	Australia	**South America**	**Consolidated**	**Australia**	**South America**	**Consolidated**
Interest revenue	2,203	150	2,353	20,854	208	21,062
Gain/(loss) on sale of asset	-	-	-	-	28,632	28,632
Other	-	313	313	-	6,392	6,392
Total segment revenue	2,203	463	**2,666**	20,854	35,232	**56,086**
Segment loss	(1,770,456)	(7,395,124)	**(9,165,580)**	(549,560)	(3,712,465)	**(4,262,025)**
Segment assets	114,219	69,994,084	**70,108,303**	48,775	59,215,827	**59,264,602**
Segment liabilities	(22,303,982)	(5,277,298)	**(27,581,280)**	(5,237,737)	(1,018,924)	**(6,256,661)**
Depreciation	977	73,755	**74,732**	2,185	65,267	**67,452**

9 Cash and cash equivalents

	Consolidated 2010 $	Consolidated 2009 $
Cash at call and in hand	1,393,607	234,684
Short-term bank deposits	5,775	5,995
	1,399,382	240,679

Reconciliation of Cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the Statement of Financial Positions as follows:

Cash and cash equivalents	1,399,382	240,679

Risk Exposure

The Group's exposure to interest rate risk in discussed in note 21. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

10 Other receivables

	Consolidated 2010 $	Consolidated 2009 $
Current		
Advances	30,518	4,920
GST/VAT Receivable	2,999,664	-
Other debtors	30,864	49,126
	3,061,046	54,046
Non current		
Amounts receivable from:		
GST/VAT Receivable	280,943	1,573,458
	280,943	1,573,458

a) Fair value and credit risk

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

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to note 21 for more information on the risk management policy of the Group and the credit quality of the receivables.

11 Financial assets available for sale

	Consolidated 2010 $	Consolidated 2009 $
Investment in unlisted shares – opening balance	2,236,831	-
Additions	2,029,326	2,236,831
Movement attributable to foreign currency translation	(204,562)	-
	4,061,595	2,236,831

These financial assets are carried at cost less accumulated impairment losses. There are no fixed returns or fixed maturity date attached to these investments.

	Consolidated	
	2010 $	2009 $
12 Intangible assets		
Development assets – Guanaco	57,000,000	-
Movements in carrying value		
Reconciliations of the carrying amounts for intangible assets are set out below:		
Carrying amount at beginning of year	-	-
Reclassification from exploration and evaluation expenditure	55,000,000	-
Additions	10,357,388	33,992
Impairment losses	(6,971,678)	(33,992)
Movement attributable to foreign currency translation	(1,385,710)	-
Carrying amount at end of year	57,000,000	-

Impairment

Development assets

As a result of the Bankable Feasibility Study (BFS) compiled by AMEC, Directors identified that the carrying value of development assets may be in excess of their recoverable amount.

As disclosed in the Review of Activities on page 6 of this report, the Bankable Feasibility Study conducted by AMEC calculated an NPV for the Guanaco Project of USD32.9million which converts at the 30 June 2010 exchange rate to AUD38.4million. Because of the highly conservative gold prices used by AMEC to asses reserves and then to assess the financial return of the Project, Directors requested an independent valuation of the Guanaco Project by the same independent valuer used in previous years.

The independent valuation report commissioned by Directors indicated a valuation range between $46.5million and $66.4million with a preferred value of $57million when using a comparative equivalent value methodology.

Directors have assessed fair value of the Guanaco Project at $57million at 30 June 2010 based on their review of the BFS compiled by AMEC and the independent review consistent with previous years.

As a result of the impairment testing, impairment losses amounting to $6,971,678 (2009: $33,992), were recognised in the year ended 30 June 2010. The impairment losses have been disclosed in intangibles above. The impairment losses relate to the Guanaco cash generating unit and South American segment.

	Consolidated	
	2010 $	2009 $
13 Plant and equipment		
Plant and equipment - at cost	4,641,383	472,595
Accumulated depreciation	(375,111)	(318,066)
	4,266,272	154,529
Movements in carrying value		
Plant and equipment		
Carrying amount at beginning of year	154,529	175,219
Additions	4,079,834	48,519
Disposals	-	(3,942)
Depreciation	(74,733)	(65,267)
Movement attributable to foreign currency translation	106,642	-
Carrying amount at end of year	4,266,272	154,529
14 Exploration and Evaluation Expenditure		
Costs carried forward in respect of areas of interest in:		
Opening balance	55,005,059	62,305,057
Write offs	(5,059)	(41,313)
Reclassification as intangible (refer note 12)	(55,000,000)	-
Additions for the year	38,862	3,358,104
Impairment losses	-	(13,552,990)
Movement attributable to foreign currency translation	203	2,936,201
	39,065	55,005,059

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

	Consolidated 2010 $	Consolidated 2009 $
Current		
Trade creditors and accruals	5,007,846	229,385
Provisions – employee benefits	12,142	11,464
	5,019,988	240,849
Movement in provisions		
Opening balance	11,464	-
Charged to the statement of comprehensive income	678	11,464
Closing balance	12,142	11,464

Amounts not expected to be settled within the next 12 months

The current provision for leave includes all unconditional entitlements in accordance with the applicable legislation. The entire amount is presented as current, since the Group does not have an unconditional right to defer payment.

16 Borrowings

	Consolidated 2010 $	Consolidated 2009 $
Current		
Loan – Guanaco Capital Holding Corp.	22,248,925	5,214,170
Loan – Kinam	312,367	561,468
	22,561,292	5,775,638
Non current		
Financial liabilities – Kinam Loan	-	240,174

Loan Guanaco Capital Holding Corp.

The borrowings are unsecured. Interest is charged at the Westpac Business Development Loan Rate published on its website. The loan comprises principal of $21,465,489 and capitalised interest of $783,436. The loan is repayable as follows:

a) When sufficient cash flows of the Group allow;
b) At the election of Guanaco Capital Holding to subscribe for shares in the Group;
c) On successful completion of a equity raising by the Group; or
d) Failing all of the above 30 September 2011.

Loan Kinam

The borrowings are unsecured, interest free and repayable at a rate of US$75,000 per quarter. The financial liabilities are carried at cost as Management have determined that the amortised cost would not differ materially from the face value of the debt.

Risk exposure

The Group's risk exposure is currency risk, as the Group is responsible for repaying the loans in USD, and interest rate risk on the Guanaco Capital Holding Corp Loan. Further details of these risk exposures is provided in note 21.

Fair value

The carrying value of the loans approximates their fair value.

	Consolidated 2010 $	Consolidated 2009 $
17 Issued capital		
Fully paid ordinary shares	44,400,742	44,398,254

	2010 No.	2009 No.
Ordinary Shares +		
Balance at the beginning of the year	169,112,125	168,312,125
Shares Issued;		
19 May 2009	-	200,000
5 June 2009	-	600,000
14 September 2009	27,614	-
Balance at end of year	**169,139,739**	**169,112,125**

\+ 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.

	Consolidated 2010 $	Consolidated 2009 $
18 (Accumulated losses)/retained earnings		
Retained earnings at beginning of year	5,658,482	9,920,507
Net loss for the year	(9,165,580)	(4,262,025)
(Accumulated losses)/retained earnings at end of year	(3,507,098)	5,658,482
19 Minority equity interests		
Minority equity interests in subsidiaries comprise:		
Acquired as part of subsidiary	95	101

	Consolidated	
	2010 $	2009 $
20 Reserves		
Asset Revaluation Reserve		
Balance at beginning of year	-	9,959,992
Impairment losses	-	(9,959,992)
Balance at end of year	-	-
Foreign Currency Translation Reserve		
Balance at beginning of year	2,951,104	(19,075)
Movement attributable to translation of foreign subsidiaries	(1,317,820)	2,970,179
Balance at end of year	1,633,284	2,951,104
Total Reserves	1,633,284	2,951,104

Nature and purpose of reserves

Asset Revaluation Reserve

The asset revaluation reserve arose from the application of step-acquisition accounting principles for the acquisition of certain subsidiaries within the Group and relates to the exploration and evaluation assets. The exploration and evaluation assets were tested for impairment as described in note 14 and in accordance with the Accounting Standards the impairment loss has first been applied to the asset revaluation reserve and then to the Statement of Comprehensive Income.

Foreign Currency Translation Reserve

Exchange differences arising on translation of the foreign subsidiaries are recognised in the foreign currency translation reserve. The reserve is recognised in the profit and loss when the net investment is disposed of.

21 Financial risk management objectives and policies

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

Although the Group does not have documented risk policies and procedures, the Directors manage the different types of risks to which it is exposed by considering risk and monitoring levels of exposure to interest rate and foreign exchange risk and by being aware of market forecasts for interest rates, foreign exchange and commodity prices. The Group does not have significant exposure to credit risk and liquidity risk is monitored through general business budgets and forecasts.

The Group holds the following financial instruments:

	Consolidated 2010 $	Consolidated 2009 $
Financial assets		
Cash and cash equivalents	1,399,382	240,679
Other receivables	65,626	54,046
Total financial assets	1,465,008	294,725
Financial liabilities		
Trade and other payables	(5,007,846)	(229,385)
Other financial liabilities	(22,561,292)	(6,015,812)
Total financial liabilities	(27,569,138)	(6,245,624)
Net exposure	(26,104,130)	(5,950,899)

Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments that are not traded in an active market such as investments in unlisted subsidiaries is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

The carrying value less impairment provision of receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Risk Exposures and Responses

(a) Interest Rate Risk

The Group's main interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group's borrowings at variable interest rates were denominated in US Dollars, however the risk is within the Australian interest rate market.

As at the reporting date the Group and the parent entity had the following variable interest rate borrowings:

	Weighted Average Interest rate 2010 %	Consolidated 2010 $	Weighted Average Interest rate 2009 %	Consolidated 2009 $
Borrowings	5.6	22,248,925	2.5	5,214,170

Sensitivity analysis

At 30 June 2010, if interest rates had increased/decreased by 100 basis points from the year end rates with all other variables held constant, post tax loss for the year would have been $225,613 higher/lower (2009: movements within reasonable parameters would not have had a material effect) mainly as a result of the Group's borrowings.

(b) Currency Risk

At 30 June 2010 the Group had the following exposure to foreign currency that is not designated in cash flow hedges:

	Consolidated	
	2010	**2009**
	$	**$**
Financial assets		
Cash and cash equivalents	1,296,047	205,150
Other receivables	61,382	48,417
Financial liabilities		
Trade and other payables	(4,964,931)	(216,993)
Borrowings	(22,561,292)	(6,015,812)
Net exposure	(26,168,794)	(5,979,238)

Sensitivity analysis

The net exposure from financial assets and liabilities subject to exchange rate risk has been calculated using an exchange rate of AUD/USD0.8563.

Based on the financial instruments held at 30 June 2010, has the Australian Dollar weakened/strengthened by 10% against the US Dollar with all other variables held constant, the Group's post tax loss would have been $1,229,278 lower/higher (2009: movements within reasonable parameters would not have had a material effect). The movement is mainly due to foreign exchange gains/losses on translation of US Dollar denominated financial instruments as detailed above.

(c) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any allowance for doubtful debts, as disclosed in the Statement of Financial Position and notes to the financial report.

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

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

(d) Price Risk

The Group's exposure to commodity and equity securities price risk is minimal.

(e) Liquidity Risk

The Group manages liquidity risk by monitoring cash flow and maturity profiles of financial assets and liabilities.

Financing arrangements

The Group and the parent entity had access to the following undrawn United States dollar denominated borrowing facilities at the reporting date:

	Consolidated	
	2010 US$	**2009 US$**
Floating rate		
Expiring 31 September 2011 (loan facility)	5,947,355	4,805,568

This loan may be drawn at any time and is repayable on the terms and conditions as set out in note 16.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Year Ended 30 June 2010	**< 6 months $**	**6 – 12 months $**	**1 – 5 years $**	**➢ 5 years $**	**Total $**
Consolidated					
Financial liabilities					
Trade and other payables	5,007,846	-	-	-	5,007,846
Borrowings	22,248,925	312,367	-	-	22,561,292
	27,256,771	**312,367**	**-**	**-**	**27,569,138**

Year Ended 30 June 2009	**< 6 months $**	**6 – 12 months $**	**1 – 5 years $**	**➢ 5 years $**	**Total $**
Consolidated					
Financial liabilities					
Trade and other payables	229,385	-	-	-	229,385
Borrowings	5,494,904	280,734	240,174	-	6,015,812
	5,724,289	**280,734**	**240,174**	**-**	**6,245,197**

Defaults and breaches

During the current and prior years, there were no defaults or breaches on any of the loans.

Capital management

The Group's policy is to maintain a strong and flexible capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Group monitors the return on capital which the Group defines as total shareholders' equity attributable to the members of Austral Gold Limited.

The Group monitors Statement of Financial Position strength and flexibility using cash flow forecast analysis and a detailed budgeted process.

There were no changes in the Group's approach to capital management during the year.

NOTES TO THE FINANCIAL STATEMENTS

AUSTRAL GOLD LIMITED AND ITS SUBSIDIARIES

FOR THE YEAR ENDED 30 JUNE 2010

22 Dividends

No dividends were paid or proposed during the year

23 Commitments

Exploration expenditure commitments

To maintain current rights of tenure to exploration tenements, the Group 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:

	Consolidated	
	2010 $	**2009 $**
Within one year – AMINSA Earn-in Commitments	1,250,000	2,495,415
One year or later and no later than five years	-	-
	1,250,000	2,495,415

Operating lease commitments

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

	Consolidated	
	2010 $	**2009 $**
Within one year	22,646	16,940
One year or later and no later than five years	-	-
	22,646	16,940

The Group rents offices at Suite 605/ 80 William Street, Sydney. The property lease is a non-cancellable lease with a one year term expiring 31 May 2011. Rent is payable monthly in advance.

24 Subsidiaries

	2010 % owned	**2009 % owned**	**Country of incorporation**
Particulars in relation to subsidiaries			
Parent Entity			
Austral Gold Limited			Australia
Subsidiaries			
Guanaco Mining Company	100.000	100.000	British Virgin Islands
Guanaco Compañía Mineria	99.997	99.997	Chile
Austral Gold Argentina	99.499	98.000	Argentina
Golden Rose Pty Limited*	-	100.000	Australia

*Golden Rose Pty Limited was deregistered in May 2010. The assets previously held by Golden Rose Pty Limited were transferred to Austral Gold Limited at their carrying value (nil).

Austral Gold Limited's investment value in Golden Rose International Limited was $2. Net assets were transferred from Golden Rose International Limited at nil resulting in the recognition of a loss in Austral Gold Limited's financial statements of nil.

As Golden Rose Pty Limited was a wholly owned subsidiary of Austral Gold Limited there has been no financial impact recognised in the Consolidated Entity accounts as a result of this de-registration.

26 Cash flow information

	Consolidated 2010 $	Consolidated 2009 $
Reconciliation of cash flow from operations with profit/(loss) after income tax		
Loss after income tax	(9,165,580)	(4,262,025)
Non-cash flows in loss		
Interest expense capitalised	652,723	140,714
Share based payments	2,488	64,000
Impairment losses	6,971,678	3,626,989
Interest received	(2,353)	(21,062)
Exploration and evaluation expenditure written off	5,059	41,313
Exchange rate differences	555,987	(401,359)
Depreciation	74,372	67,452
Net gain on disposal of plant and equipment	-	(28,632)
Net cash used in operating activities before change in assets and liabilities	(905,626)	(772,610)
Changes in assets and liabilities:		
(Increase)/decrease in trade and other receivables	(1,768,347)	(617,758)
(Decrease)/increase in trade and other payables	404,337	(535,704)
Movement attributable to foreign currency translation	(59,124)	-
Cash flow used in operations	**(2,328,760)**	**(1,926,072)**

27 Parent Entity Information

	2010 $	2009 $
Information relating to Austral Gold Limited:		
Current assets	107,579	41,158
Total assets	60,785,620	45,975,365
Current liabilities	22,303,981	5,237,246
Total liabilities	22,303,981	5,237,246
Net Assets	38,481,639	40,738,119
Issued capital	44,400,742	44,398,254
Accumulated losses	(5,919,103)	(3,660,135)
Total shareholders' equity	38,481,639	40,738,119
Profit/(loss) of the parent entity	(2,258,969)	(6,728,039)
Total comprehensive loss of the parent entity	(2,258,969)	(6,728,039)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries	None	None
Details of any contingent liabilities of the parent entity	None	None
Details of any contractual commitments by the parent entity for the acquisition of property, plant or equipment.	None	None

28 Subsequent Events

On 17 August 2010, Austral Gold announced the results of the Bankable Feasibility Study (BFS) performed by AMEC at the Company's 100% owned Guanaco Project located in Region II, in Northern Chile. Information relating to this press release has been included in the Review of Activities on page 6 of this report.

On 22 September a new Funding Agreement was signed between Austral Gold Limited and Inversiones Financieras Del Sur S.A. (IFISA). This has provided the Group with an additional USD10million facility, in addition to the existing USD25million facility with Guanaco Capital Holding Corp. to finance further development of the Guanaco Project and other projects as approved by the Board. Interest on the new Funding Agreement with IFISA will be charged at 12%pa.

On 22 September a revision was made to the existing Funding Agreement between Austral Gold Limited and Guanaco Capital Holding Corp (GCH) which provides a USD25million facility to the Group. The revision was to extend the termination date of the Agreement from 31 March 2011 to 30 September 2011. Interest on this Agreement with GCH is charged at the Business Development Rate published by Westpac and is reviewed quarterly.

29 Related Parties

Directors

The names of each person holding the position of Director during the year are; Mark Bethwaite, Pablo Vergara del Carril, Robert Trzebski, Eduardo Elsztain, Saul Zang, Stabro Kasaneva (appointed 7 October 2009) and Natalia Zang (resigned 3 December 2009). Amounts paid to Directors are set out in the table below.

Directors' holdings of shares and share options

The parent company, IFISA holds 69% 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 holds 68,119 shares directly in Austral Gold Limited.

Mr Elsztain is a Director of Austral Gold Limited, Guanaco Capital Holding, Guanaco Mining Company, Austral Gold Argentina SA. and IFISA. He holds 146,511,115 shares indirectly in Austral Gold Limited.

Mr Zang is a Director of Austral Gold Limited, Guanaco Capital Holding, Guanaco Mining Company, Austral Gold Argentina SA and IFISA and he holds 1,435,668 shares indirectly in Austral Gold Limited.

Ms. Zang was a Director of Austral Gold Limited until her resignation on 3 December 2009. She indirectly held 600,000 shares in Austral Gold Limited at the time of her resignation.

Mr Kasaneva is a Director of Austral Gold Limited and does not hold any shares either directly or indirectly in Austral Gold Limited

P Vergara de Carril, E Elsztain and S Zang are directors of Guanaco Capital Holding Corp which holds 24,289,330 shares.

E Elsztain and S Zang are directors of IFISA which holds 116,881,722 shares

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

Mr Robert Trzebski is a Director of Austral Gold Limited and does not hold any shares either directly or indirectly in Austral Gold Limited.

Directors and Senior Management Remuneration

	PRIMARY			POST-EMPLOYMENT		SHARE-BASED		
2010	**Cash & Salary Fees $**	**Cash bonus $**	**Non monetary benefits $**	**Super-annuation $**	**Cash & Salary Fees $**	**Cash bonus $**	**Non monetary benefits $**	**Super-annuation $**
Directors								
F M Bethwaite	51,876	-	-	48,124	-	-	-	100,000
R Trzebski	36,697	-	-	3,303	-	-	-	40,000
S Kaseneva	230,001	-	-	-	-	-	-	230,001
Total Directors	**318,574**	**-**	**-**	**51,427**	**-**	**-**	**-**	**370,001**
Other Key Management Personnel								
C Lloyd	82,569	-	-	7,431	-	-	-	90,000
R Ramirez	220,673	14,537	-	-	-	-	-	235,210
C Cubelli	193,300	13,752	-	-	-	-	-	207,052
I Caceres	203,070	18,470	-	-	-	-	-	221,540
TOTAL	**1,018,186**	**46,759**	**-**	**58,858**	**-**	**-**	**-**	**1,123,803**

	PRIMARY			POST-EMPLOYMENT		SHARE-BASED		
2009	**Cash & Salary Fees $**	**Cash bonus $**	**Non monetary benefits $**	**Super-annuation $**	**Retirement benefits $**	**Shares $**	**Options $**	**Total $**
Directors								
M Bethwaite	-	-	-	100,000*	-	-	-	100,000
R Trzebski	36,697	-	-	3,303	-	-	-	40,000
N Zang	-	-	-	-	-	48,000**	-	48,000
Directors	**36,697**	**-**	**-**	**103,303**	**-**	**48,000**	**-**	**188,000**
Other Key Management Personnel								
C Lloyd	107,033	-	-	9,633	-	-	-	116,666
C Peralta	270,754	-	-	-	-	16,000***	-	286,745
T Strasser	7,339	-	-	661	-	-	-	8,000
TOTAL	**421,823**	**-**	**-**	**113,596**	**-**	**64,000**	**-**	**599,420**

Wholly owned and partly owned subsidiaries

Aggregate amount payable to Guanaco Capital Holding Corporation as at 30 June 2010 was $22,248,925 (2008: $5,214,170).

Interest paid to Guanaco Capital Holding during the year ended 30 June 2010 was $652,723 (2009: $135,018).

Funds advanced to the Group from Guanaco Capital Holding during the year ended 30 June 2010 was $15,995,020 (2009: $5,214,170).

Funds repaid to Guanaco Capital Holding during the year ended 30 June 2010 were $nil (2009: $nil).

Ultimate parent entity

The Parent Entity is controlled by IFISA which is incorporated in Uruguay. The ultimate beneficial owner of IFISA is Eduardo Elsztain.

AUSTRAL GOLD LIMITED
DIRECTORS' DECLARATION

The Directors of Austral Limited declare that:

(a) in the directors' opinion the financial statements and notes and the Remuneration report in the Directors Report set out on page 15, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2010 and of their performance, for the financial year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2; and

(c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by Section 295A of the Corporations Act 2001 by the chief financial officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the Directors.

Mark Bethwaite

Chairman

Sydney, 22 September 2010

INDEPENDENT AUDITOR'S REPORT

Chartered Accountants
& Business Advisers

To the members of Austral Gold Limited

Report on the Financial Report

We have audited the accompanying financial report of Austral Gold Limited, which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the Directors' Declaration. The consolidated entity comprises Austral Gold Limited (the company) and the entities it controlled at the year's end and from time to time during the financial year.

Directors' Responsibility for the Financial Report

The Directors of the company 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. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with Australian Equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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.

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.

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

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Chartered Accountants
& Business Advisers

Independence

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

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(v) to the financial statements which indicates that the consolidated entity recorded an operating loss of $9,165,580 for the year ended 30 June 2010 and the current liabilities of the consolidated entity exceed current assets by $23,120,852. These conditions, along with other matters as set forth in Note 2(v), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern, and therefore whether it may realise its assets and extinguish its liabilities in the ordinary course of business and at the amounts stated in the Financial Report.

These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities and appropriate disclosures that may be necessary should the consolidated entity be unable to continue as a going concern.

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 company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 14 to 15 of the Directors' Report for the year ended 30 June 2010. The Directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Austral Gold Limited for the year ended 30 June 2010 complies with Section 300A of the *Corporations Act 2001*.

PKF

PKF

Tim Sydenham
Partner

Sydney
22 September 2010

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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 2010

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

Board of Directors and its Committees

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

Composition of the Board

The names of the directors of the Company in office at the date of this Statement are set out in the Directors' 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 controls and appropriate ethical standards for the management of the Group.

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)
- Ms Natalia Zang (Non Executive Director). Resigned 3 December 2009.

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 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:

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

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;
- 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.

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 as required. The Company reports to shareholders quarterly. 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 Group has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, and levels of authority.

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 available to all shareholders (through the Company web site). The Board ensures that the annual report includes relevant information about the operations of the Group during the year, changes in the state of affairs of the Group 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 Group 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 Groups strategy and goals. Important issues are presented to the shareholders as single resolutions.

Securities Trading Policy

The Group'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 August 2007, the ASX Corporate Governance Council (**Council**) re-released its "Corporate Governance Principles and Recommendations" (**Recommendations**).

Listing Rule 14.10.3 requires a company to disclose the extent to which the entity has followed the 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 Eight Essential Corporate Governance Principles and the corresponding Recommendations as published by the ASX Corporate Governance Council.

Principal No		Recommendation	Compliance or Explanation for Non-compliance
1	1.1	Establish and disclose the functions reserved to the Board and those delegated to senior management.	A formal policy document outlining board and management functions has not been established. 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. Delegation of specific responsibilities to senior management is agreed and documented in Board Meetings.
1	1.2	Disclose the process for evaluating the performance of senior executives	The Board reviews senior management performance and assesses remuneration in line with this review annually.
2	2.1	A majority of the Board should be independent directors.	Four of the six directors are not considered independent due to their relationship with IFISA, the Company's majority shareholder and other significant shareholders. This situation is unlikely to change.
2	2.2	The chairperson should be an independent director.	The Chairman is an independent, non-executive director.
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.
2	2.5	Disclose the process for evaluating the performance of the Board, its Committees and individual directors.	The Board intends to review its overall performance and performance of individual directors within the next 12 months.
3	3.1	Establish a code of conduct and disclose a summary addressing: • the practices necessary to maintain confidence in the company's integrity • the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • the responsibility and accountability of individuals for reporting and investigating reports of unethical behaviour.	The Company is in the process of formalising a code of conduct policy which will be posted on the Company's website when adopted.
3	3.2	Establish and disclose a policy concerning trading in company securities by directors, senior executives and employees.	The Board is in the process of reviewing a share trading policy which will be published on the Company's web site when adopted. Directors and senior management are aware of their disclosure requirements when trading directly or indirectly in the Company

Principal No		Recommendation	Compliance or Explanation for Non-compliance
			shares.
4	4.1	Establish an Audit Committee	Complies.
4	4.2	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. The committee lacks a majority of independent directors as recommended. The members of the Audit Committee possess the requisite financial expertise and industry experience necessary to effectively carry out the Committee's mandate.
4	4.3	The Audit Committee should have a formal charter.	The Audit Committee has a documented charter approved by the Board.
5	5.1	Establish and disclose written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	Formal written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and accountability for that compliance are not currently in place. 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 policy to promote effective communication with shareholders and encourage effective participation at general meetings.	The Board is committed to the objective of proper communication with shareholders and actively promotes 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	Establish and disclose policies for the oversight and management of material business risks.	The board is formulating its policies on these matters which will be posted on the Company's website when adopted.
7	7.2	Design and implement a risk management and internal control system to manage the company's material business risks and report on whether those risks are being managed effectively.	The Company's system of risk management and internal control is basic, yet appropriate for the size and nature of transactions incurred. The Board seek external advice when considering new or significant transactions to ensure risks are identified and addressed in a timely manner.
7	7.3	The Board should disclose whether it has received assurance from senior management that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	The sign-off received by the Board from the CFO relates to financial reporting. It is limited by knowledge and belief and provides a reasonable, but not absolute level of assurance with regards to the system of risk management and internal control.
8	8.1	Establish a Remuneration Committee	The Company cannot justify the operation of a Remuneration Committee. All remuneration decisions are made by the Board.

Principal No		Recommendation	Compliance or Explanation for Non-compliance
8	8.2	Distinguish the structure of non-executive directors' remuneration from that of executive directors and senior management.	The Board is cognisant of the objectives concerning remuneration of directors and senior management and is committed to the design of appropriate structures to fulfil these objectives.

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.

Capital

As at 21 September 2010 the total issued capital of Austral Gold Limited was 169,139,739 ordinary shares.

169,139,739 shares were quoted on the Australian Securities Exchange under the code AGD.

The only shares of the Company on issue are ordinary shares. None of these shares are restricted securities within the meaning of the Listing Rules of the Australian Securities Exchange.

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.

a) Distribution of fully paid ordinary shareholders at 21 September 2010

Size of Holding	Shareholders	Number of Shares Held
1 - 1,000	666	274,775
1,001 - 5,000	316	844,999
5,001 - 10,000	90	733,968
10,001 – 100,000	86	2,683,097
100,001 – 9,999,999,999	28	164,602,900
Total	**1,186**	**169,139,739**

b) Substantial Shareholders

At 21 September 2010, the Company's register of substantial shareholdings shows the following:

Registered Holder	Beneficial Holder	Shares Held
Citicorp Nominees	Inversiones Financieras Del SUR SA (IFISA)	116,881,722
HSBC Custody Nominees	Guanaco Capital Holding Corp	24,289,330
Citicorp Nominees	Eduardo Sergio Elsztain	4,686,206
TOTAL		**145,857,258**

c) Top twenty shareholders as at 21 September 2010

Rank	Holder	No. of shares	% of issued
1.	CITICORP NOMINEES PTY LIMITED	127,110,411	75.15
2.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	24,289,330	14.36
3.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,250,001	1.33
4.	ANZ NOMINEES LIMITED <CASH INCOME A/C>	2,000,747	1.18
5.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	1,969,392	1.16
6.	ASOCIACION ISRAELITA ARGENTINA TZEIRE AGUDATH JABAD	1,158,265	0.68
7.	MR PHILIP DOUGLAS CHISHOLM	610,361	0.36
8.	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	431,476	0.26
9.	FORBAR CUSTODIANS LIMITED <FORSYTH BARR LTD-NOMINEE A/C>	410,702	0.24
10.	J P MORGAN NOMINEES AUSTRALIA LIMITED	337,720	0.20
11.	HAZLAHA INVESTMENTS LIMITED	336,865	0.20
12.	MOSHE AMBARCHI	300,000	0.18
13.	LOXDEN PTY LTD <FRANK BRADY SUPER FUND A/C>	300,000	0.18
14.	JP MORGAN TRUST COMPANY LTD <THE AUSTRIA A/C>	297,445	0.18
15.	LIMOL TRADING CORP	297,445	0.18
16.	MR MARCELO CATZ	297,311	0.18
17.	MR DANIEL GOBERMAN	250,942	0.15
18.	BIRCHALL PROJECTS LTD	230,000	0.14
19.	MR CARLOS PERALTA TORREJON	227,614	0.13
20.	MR PETER ALLAN LEARMONT	225,000	0.13
		163,340,128	**163,331,027**
		5,808,712	**3.43**