PROSPECTUS

AUSTRAL RESOURCES LIMITED

ACN 150 166 831

For an Offer of 25,000,000 Shares at an issue price of $0.20 per Share, together with one free-attaching Option exercisable at $0.20 each on or before 31 March 2016 for every Share issued, to raise $5,000,000.

Oversubscriptions of up to a further 15,000,000 Shares at an issue price of $0.20 per Share, together with one free-attaching Option exercisable at $0.20 each on or before 31 March 2016 for every Share issued, to raise up to a further $3,000,000 may be accepted.

The Joint Lead Managers to the Offer are Helmsec Global Capital Limited and Paradigm Securities Pty Ltd.

IMPORTANT NOTICE

This is an important document and investors should read the document in its entirety and are advised to consult with their professional advisers before deciding whether to apply for securities pursuant to this Prospectus.

TABLE OF CONTENTS

AUSTRAL RESOURCES LTD
(ACN 150 166 831)
SUPPLEMENTARY PROSPECTUS

IMPORTANT NOTICE

- This Supplementary Prospectus is dated 1 March 2013 and contains particulars of changes to and supplements the Prospectus dated 15 February 2013 issued by Austral Resources Limited ("the Company") in respect of the offer of 25,000,000 Shares at $0.20 each together with one free attaching option exercisable at $0.20 each on or before 31 March 2016 for every share issued to raise up to $5,000,000 ("Prospectus").

- This Supplementary Prospectus is dated 1 March 2013 and was lodged with ASIC on that date. Neither ASIC nor ASX take any responsibility as to the contents of this Supplementary Prospectus.

- This Supplementary Prospectus must be read together with the Prospectus. To the extent of any inconsistency between this Supplementary Prospectus and the Prospectus, the provisions of this Supplementary Prospectus will prevail. Unless otherwise indicated, terms defined and used in the Prospectus have the same meaning in this Supplementary Prospectus.

- This Supplementary Prospectus will be issued with the Prospectus as an electronic prospectus and may be accessed on the Company's website, www.austral-resources.com. The Company will send a copy of this Supplementary Prospectus to all Applicants who have subscribed for Shares pursuant to the Prospectus prior to the date of this Supplementary Prospectus

- This Supplementary Prospectus and the Prospectus are important documents that should be read in their entirety. If you have any questions about the Shares and Attaching Options being offered under the Prospectus or any other matter, you should consult your professional advisers.

- Other than the changes set out below, all other details in relation to the Prospectus remain unchanged.

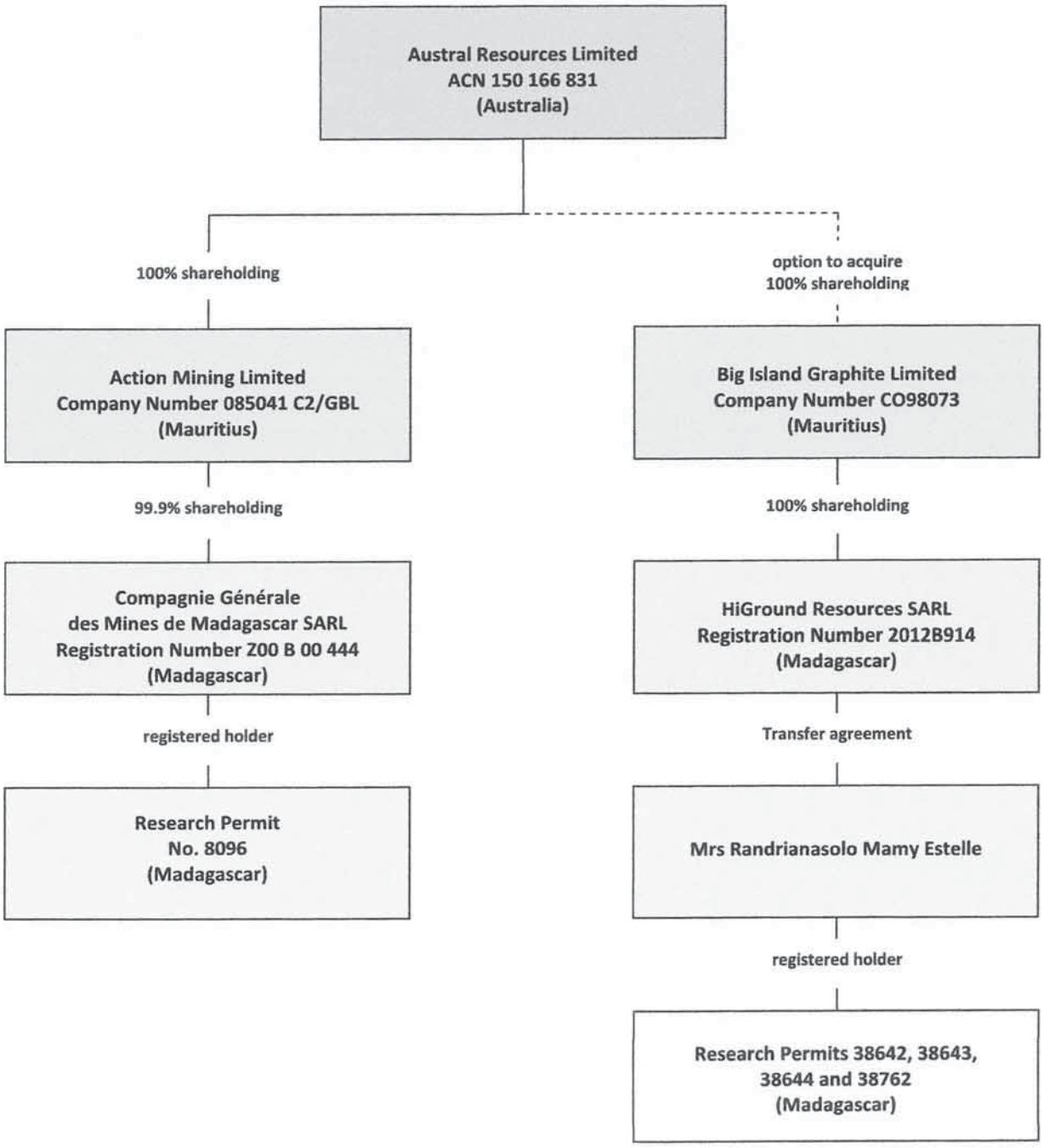
1. KEY INFORMATION

The Company wishes to vary the table appearing at the foot of page 4 of the Prospectus by replace it with the following:

Event	Date
Lodgement of Prospectus with ASIC	Friday 15 February 2013
Offer Opening Date	Monday 25 February 2013
Offer Closing Date	Friday 12 April 2013
Despatch of Holding Statements	Friday 19 April 20013
Expected date for Shares to commence trading on ASX	Wednesday 24 April 2013

2. CORPORATE STRUCTURE

The Company wishes to vary the Corporate Structure set out on page 16 of the Prospectus by replacing the diagram with the following:



3. BERAVINA ZIRCON PROJECT OVERVIEW

(f) Target Potential

The Company wishes to replace the first paragraph on page 21 of the Prospectus with the following:

The Company is currently targeting an annual production of up to 35,000t of zircon concentrate, over a period of approximately 13 years from an open pit. This production target has been based upon the Company having an indicated resource of 1.8mt at 29.47% zircon grade. The Company has obtained quotes for the construction work. Whilst this target is considered to be both economically viable and realistic, the Company estimates it will require an investment in the order of $20,000,000. Commencement of production will be dependent upon a number of factors, including further drilling to delineate the resource, completion of feasibility studies, the construction of the production facilities and the provision of infrastructure. Furthermore, the funding of this, to a total of $20,000,000, will be reliant on the Company's ability to raise further equity, the availability of debt funding, and possibly the establishment of off-take funding arrangements. There can be no certainty that any combination of these funding sources will be available to the Company when they are required or that should the Company commence production that the goal of 35,000t of zircon concentrate per annum for a period of 13 years will be achieved.

4. INDEPENDENT GEOLOGIST'S REPORT

6. Resource Potential

The Company wishes to replace the last paragraph on page 37 of the Prospectus, the Independent Geologist's Report with the following:

Currently Austral considers that with an investment of an additional $20M, establishment of a medium-term mine producing zircon would be economically viable and realistic. On the basis of:

(i) previous scoping work done by the Vendors of the project;

(ii) an examination of the work done by the Company in obtaining quotes for construction; and

(iii) my discussions with the Company regarding its working capital requirements.

I consider the Company's aims reasonable.

5. CONSENT

Independent Geologist

Minnelex Pty Ltd has given, and has not before lodgement of this Supplementary Prospectus withdrawn, its written consent to be named in this Supplementary Prospectus as the Independent Geologist and to the amendment of the Independent Geologist's Report by this Supplementary Prospectus in the form and context in which it is included, together with all references to that report in the Prospectus. Minnelex has not authorised or caused the issue of this Supplementary Prospectus and does not take any responsibility for any part of this Supplementary Prospectus other than the amendment to its report and any references to it.

6. DIRECTORS' AUTHORISATION

This Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of the Supplementary Prospectus with the ASIC.

Signed for and on behalf of
AUSTRAL RESOURCES LIMITED

Terry Willsteed
Chairman
28 February 2013

1. IMPORTANT INFORMATION

1.1 GENERAL

The Prospectus is dated 15 February 2013 and a copy of the Prospectus was lodged with ASIC on that date. Neither ASIC nor the ASX take responsibility as to the contents of this Prospectus.

Within 7 days of the date of this Prospectus, the Company will make an application to the ASX for the Shares and Options offered pursuant to the Prospectus to be admitted for quotation on the ASX.

No Shares or Options will be issued pursuant to this Prospectus later than 13 months after the date of this Prospectus.

1.2 EXPOSURE PERIOD

This Prospectus is subject to an exposure period of 7 days from the date of lodgement with ASIC. The exposure period may be extended by ASIC by a further period of up to 7 days.

The purpose of the exposure period is to enable the Prospectus to be examined by market participants prior to the raising of funds. The examination may result in the identification of deficiencies in the Prospectus. If deficiencies are detected, any application that has been received may need to be dealt with in accordance with Section 724 of the Corporations Act. During the exposure period, the Prospectus may be viewed online at the Company's website or a hard copy of the Prospectus will be made available upon request to the Company. Applications received during the exposure period will not be processed until after expiration of the exposure period. No preference will be conferred on applications received during the exposure period and all such applications will be treated as if they were simultaneously received on the Opening Date.

1.3 APPLICATIONS FOR SHARES AND SPECULATIVE INVESTMENTS

Persons wishing to apply for Shares pursuant to this Offer must do so using the Application Forms attached to or accompanying this Prospectus. Before applying for Shares potential investors should carefully read the Prospectus so that they can make an informed assessment of the rights and liabilities attaching to the Shares, the assets and liabilities of the Company, its financial position and performance, profits and losses, and prospects.

Potential investors should read this Prospectus in its entirety before making an investment decision. Securities offered by this Prospectus should be considered speculative. Potential investors should consider the risk factors that may affect the financial performance of the Company. A summary of these factors is contained in Section 9.

Prospective investors should consider carefully these factors in the light of the potential investor's personal circumstances (including financial and taxation issues) and seek professional advice from an accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest.

1.4 REPRESENTATIONS

No person is authorised to give any information or to make any representation in relation to the Offer which is not contained in this Prospectus. Any information or representation that is not contained in this Prospectus may not be relied upon as having been authorised by the Company or its Directors.

1.5 NO OFFERS OUTSIDE AUSTRALIA

The Offer of Shares and Options made pursuant to this Prospectus is not made to persons or places to which, or in which, it would not be lawful to make such an offer of securities. Any persons who come into possession of this Prospectus should seek advice on and comply with any legal restrictions.

1.6 COMPETENT PERSON'S STATEMENT – JORC CODE

Information contained in this Prospectus that relates to exploration results, mineral resources or ore reserves is based on information compiled by Mr Robert Pyper, who is a Fellow of the Australasian Institute of Mining and Metallurgy. Mr Pyper is an independent geologist consultant at Minnelex Pty Ltd. Mr Pyper has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking in respect of the Beravina Zircon Project and the Madagascar Graphite Project to qualify as a Competent Person within the meaning set out in the JORC Code. Mr Pyper consents to the inclusion in this Prospectus of the matters based on his information in the form and context in which it appears.

In addition, part of the information in this Report that relates to mineral resources or ore reserves is based on information compiled by Mr Derek Anderson, who is a Member of the South African Institute of Mining and Metallurgy and is also a Professional Natural Scientist (Pr.Sci. Nat.), registered with the South African Council for Natural Scientific Professions, a 'Recognised Overseas Professional Organisation' ('ROPO') included in a list promulgated by the ASX from time to time. Derek Anderson is an independent consultant to Badger Mining and Consulting (Pty) Ltd, and has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Anderson consents to the inclusion in the Independent Geologist's Report of the matters based on his information in the form and context in which it appears.

Otherwise, information in this Prospectus that relates to exploration results is based on information compiled by Mr Scott Reid, who is a Member of the Australasian Institute of Geoscientists. Mr Reid is a full time employee of the Company. Mr Reid has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking in respect of the Beravina Zircon Project and the Madagascar Graphite Project to qualify as a Competent Person within the meaning set out in the JORC Code. Mr Reid consents to the inclusion in this Prospectus of the matters based on his information in the form and context in which it appears.

1.7 FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements which incorporate an element of uncertainty or risk, such as 'intends', 'may', 'could', 'believes', 'estimates', 'targets' or 'expects'. These statements are based on an evaluation of current economic and operating conditions, as well as assumptions regarding future events. These events are, as at the date of this Prospectus, expected to take place, but there is no guarantee that such will occur as anticipated or at all given that many of the events are outside the Company's control.

Accordingly, the Company cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Prospectus will actually occur. Further, other than by lodgement of a replacement or supplementary prospectus during the Offer Period, the Company may not update or revise any forward-looking statement if events subsequently occur or information subsequently becomes available that affects the original forward-looking statement.

1.8 ELECTRONIC PROSPECTUS

In addition to issuing the Prospectus in printed form, a read-only version of the Prospectus is also available on the Company's website, www.austral-resources.com. There is no facility for online applications. Any person accessing the electronic version of this Prospectus for the purpose of making an investment in the Company must be an Australian resident and must only access the Prospectus from within Australia.

The Corporations Act prohibits any person passing an Application Form onto another person unless it is attached to a hard copy of this Prospectus or it accompanies the complete and unaltered electronic version of this Prospectus.

1.9 PRIVACY DISCLOSURE

The Company and the Share Registry collect, hold and use information provided by Applicants to assess applications for securities, to provide facilities and services to shareholders and to carry out various administrative functions. Some of this information collected may be personal information.

Access to the information collected may be provided to the Company's agents and service providers, ASX, ASIC and to other regulatory bodies on the basis that they deal with such information in accordance with relevant privacy laws.

1.10 PHOTOGRAPHS

Photographs used in this Prospectus which do not have descriptions are for illustration purposes only and should not be interpreted to mean that any person shown endorses the Prospectus or its content, or that the assets shown in them are owned by the Company. Diagrams are illustrative only and may not have been drawn to scale.

1.11 DEFINED TERMS, CURRENCY AND TIME

A number of terms and abbreviations used in this Prospectus have defined meanings which appear in Section 13. All amounts are stated in Australian dollars unless expressly stated otherwise. All references to time refer to Australian Western Standard Time.

2. CHAIRMAN'S LETTER

It is with great pleasure that I invite you to become a shareholder in Austral Resources Limited ("**Austral**").

Austral is a mineral exploration company with a portfolio of mineral exploration tenements in Madagascar. Austral was incorporated in 2011 and, following the initial seed capital raising in May 2011, Austral acquired 100% of the Beravina Zircon Project. To date, Austral has conducted an exploration and drilling programme and Austral's objective is to bring the Project into production.

The Beravina Zircon Project (formerly the Ambatofotsy zircon occurrence) is located in central western Madagascar, approximately 420 kilometres from the country's capital, Antananarivo. The mineralisation in this area was initially discovered during regional geological mapping in the 1950's by the French BRGM (Bureau de Recherches Géologiques et Minières). Subsequent exploration work including trenching, pits and metallurgical studies was conducted by the Russian consultant Zarubejgeologia in 1989.

Austral completed an exploration program in 2011 which included a 10 hole diamond drilling programme. All drill holes intersected zircon mineralisation, with significant widths of high grade mineralisation. The high grade zone showed continuity of zircon mineralisation over at least 300 metres, with interpreted widths of between 5 and 25 metres and a depth extending beyond 100 metres. Further broad lower grade zircon intercepts in one drill hole indicated the possibility of a significant lower grade ore body (in addition to the primary higher grade zone).

Austral's exploration activities conducted at the Beravina Zircon Project have identified a JORC Code compliant Indicated Mineral Resource of 1.8Mt at 29.47% zircon grade ($ZrSiO_4$).

Zircon is traditionally mined from alluvial mineral sands deposits at low grades which generally require significant beneficiation to deliver economic grades. However, the mineralisation of the Beravina Zircon Project occurs as high grade crystal inclusions disseminated within a quartz host rock. Initial metallurgical work indicates that the zircon should be recoverable by fairly simple dense media and magnetic separation methods.

Zircon is used in foundry sand moulds, molten metal moulds, and for continuous steel casting nozzles. Finely ground zircon is used in ceramic glazes and specialised ceramics such as porcelain used in electrical equipment. A range of hard, tough zirconia-based engineering refractories has been developed for uses such as extrusion dyes and engine parts. The zircon market itself has moved dramatically in a positive direction during Austral's formative process. During 2011/2012, zircon moved from under AUD$1,000 per tonne to above AUD$2,000 per tonne, and is currently about AUD$1,500 per tonne. Europe is currently a major destination for zircon end use, however much of the future demand growth is forecast to come from China.

In addition to the Beravina Zircon Project, Austral also holds the exclusive option to acquire a prospective graphite prospect in Madagascar, which has potential for further exploration.

Upon listing on the ASX, Austral will undertake an in-fill drilling programme, further resource delineation and metallurgical testwork to progress the exploration and development of the Beravina Zircon Project.

This Prospectus contains detailed information about the Offer as well as risks associated with an investment in the Company. Potential investors are encouraged to read it carefully before making a decision on whether or not to invest.

On behalf of the Board, I look forward to welcoming you as a shareholder in Austral.

Terry Willsteed
Chairman
AUSTRAL RESOURCES LIMITED

3. INVESTMENT OVERVIEW

3.1 THE COMPANY

The Company is an Australian based exploration company established for the purpose of identifying and developing mineral exploration projects. The Company currently holds:

- the Beravina Zircon Project, being a zircon exploration project located in Madagascar; and
- an exclusive option to acquire the Madagascar Graphite Project, being a graphite exploration project located in Eastern Madagascar.

Further details of the Beravina Zircon Project and Madagascar Graphite Project are set out in the Independent Geologist's Report in Section 6.

3.2 KEY INFORMATION ON THE OFFER

The Company is offering 25,000,000 Shares at $0.20 per Share to raise $5,000,000 together with one free attaching Option exercisable at $0.20 each on or before 31 March 2016 for every share issued on the terms set out in this Prospectus. The Offer is conditional upon a minimum subscription of 17,500,000 Shares at $0.20 per Share to raise $3,500,000. Oversubscriptions of up to an additional 15,000,000 Shares at an issue price of $0.20 per Share together with one free attaching Option exercisable at $0.20 each on or before 31 March 2016 for every share issued to raise a further $3,000,000 may be accepted at the Directors' discretion.

The Shares issued under this Prospectus will rank equally with existing Shares on issue by the Company. Further details of the Company's capital structure on completion of the Offer are set out in Section 4.5.

The following are indicative dates in respect of the Offer:

EVENT	DATE
Lodgement of Prospectus with ASIC	Friday 15 February 2013
Offer Opening Date	Monday 25 February 2013
Offer Closing Date	Thursday 28 March 2013
Despatch of Holding Statements	Friday 5 April 2013
Expected date for Shares to commence trading on the ASX	Wednesday 10 April 2013

3.3 PURPOSE OF THE OFFER

The principal purposes of the Offer are to provide funding to:

- enable the Company to develop and advance the Beravina Zircon Project;
- provide funds for project generation and the assessment of further potential acquisitions, including the Madagascar Graphite Project by exercise of the Graphite Option;
- provide working capital for the Company in advance of commencement of development at the Beravina Zircon Project; and
- facilitate the admission and quotation of the Company to the ASX.

3.4 INVESTMENT HIGHLIGHTS

The following are some of the highlights of investment in the Company. This information is selective and you should review the rest of this Prospectus before deciding whether or not to invest.

- ***Beravina Zircon Project***
  - Advanced stage exploration at the high grade Beravina zircon deposit in Madagascar.
  - Highlights from the Company's 2011 drilling program include:
    - 14.8m @ 36.88% zircon from 30.4m;
    - 16.85m @ 31.33% zircon from 35.5m;
    - 35.65m @ 18.28% zircon from 56.05m (ending in mineralisation).
  - A JORC Code compliant Indicated Mineral Resource of 1.8Mt at 29.47% zircon grade ($ZrSiO_4$):
    - estimated to a depth of approximately 80 metres;
    - cone shaped deposit ideally suited to open pit mining with beneficial effect on mining and strip ratios; and
    - newly identified banded zone of mineralisation of lower grade zircon present potentially to increase the resource.
  - Drilling and bulk sampling planned in 2013 to further increase and upgrade the Company's Indicated Mineral Resource at the Beravina Zircon Project and to move towards feasibility studies.
  - Positive supply/demand fundamentals likely to support high prices.

- ***Madagascar Graphite Project Option***
  - Option to acquire 100% of four exploration tenements prospective for graphite.
  - These tenements are located in the Tamatave region which has historically been a major producer of high quality carbon rich flake graphite.

- ***Madagascar Generally***
  - The adoption of the new Mining Code which is supported by the World Bank, has resulted in mining being the fastest growing sector in the Madagascan economy.

- ***Board and Management***
  - The Company's Board and management have significant experience in managing ASX and AIM listed mining and resource companies.

3.5 INVESTMENT RISKS

Before deciding on whether to apply for Shares under this Prospectus, prospective investors should read the Prospectus in its entirety and consider the risk factors set out in this Investment Overview, and also in Section 9, which include, but are not limited to the key risks described below.

RISK	DESCRIPTION	SECTION REFERENCE
Exploration, Geophysical and Development Risks	The Zircon Permit is at an early stage of exploration and development and investors should understand that mineral exploration carries certain high risks. Although the Company has delineated a JORC code compliant indicated mineral resource at the Beravina Zircon Project, there is no guarantee that the resource will be commercially viable.	9.1(a)
Operational Risks	There are significant operating risks in mining exploration ventures such as those conducted by the Company. Many of these risks are outside the control of the Company and may result in delays or significantly increased costs of conducting operations.	9.1(b)
Tenure Risks	The grant of the Zircon Permit is subject to terms and conditions imposed by the Bureau of Mines and Minerals of Madagascar under the Mining Code. Failure to comply with these terms and conditions may lead to forfeiture of the Zircon Permit.	9.1(d)
Country and Sovereign Risks	Madagascar has been subject to political instability and civil unrest in its main cities and regional centres, including outbreaks of violence and protests. Although the Southern African Development Community (SADC) has been involved in mediating a resolution to the conflict, the situation remains unstable.	9.1(e)
Government or Regulatory Approval Risks	The operations of the Company may require the Company to obtain approvals, consents or permits from government or regulatory authorities. There is no assurance that any such approvals, consents or permits will be obtained. Further, the Government of Madagascar has imposed a moratorium on new mining and exploration permits applications and transfers, but not renewals of existing mining and exploration permits. The Zircon Exploration Permit which has been granted to CGMM expires on 31 July 2013, however an application for a Mining Permit was lodged with the government in December 2012, but the delivery of the mining permit may be delayed. In addition, the Company's ability to procure good title to the Madagascar Graphite Project on exercise of the Graphite Option may be impeded or delayed.	9.1(f)
Share Purchase Risks	The Company's acquisition of 50% of the shares in Action Mining from the heirs of the late Bernard Furth may be adversely affected if additional persons are subsequently determined to have an interest in Mr Furth's estate, which includes those shares in Action Mining. Further, if the Company does not obtain admission to the ASX by 30 June 2013, these vendors may require the Company to transfer the Action Mining Shares back to them.	9.1(h)

Resource and Reserve Estimate Risk	The geological analysis and interpretations set out in this Prospectus are opinions based upon information available at that time. These analyses and interpretations may change when additional information becomes available. Accordingly, this additional information may have adverse implications on the Company's operations.	9.1(i)
Madagascar Graphite Option Transfer Risk	The exercise of the Graphite Option is conditional upon the present owner, Randrianasolo Mamy Estelle, successfully removing the suspension order placed over the Graphite Permits and having them transformed into Research or Exploration Permits so that they can be transferred to a non-Malagasy owner (i.e. HiGround Resources). There can be no guarantee that either or both applications will be successful, or if granted, that they will not be subject to terms and conditions that are unacceptable to the Company.	9.1(d)
Investment Risks	The Shares and Options issued under this Prospectus are considered speculative. Accordingly, there is no guarantee that dividends or return of capital will result from these Shares. Further, the investment is subject to economic risks such as changes in commodity prices and exchange rates which can adversely affect the returns to the Company.	9.2(a)

The above table of risk factors ought not to be taken as an exhaustive list of the risks faced by the Company or by investors in the Company. Prospective investors must refer to the risk factors set out in full in Section 9 before making a decision to subscribe for Shares under this Prospectus.

3.6 OVERVIEW OF THE COMPANY'S BUSINESS AND PROJECTS

By transactions on 2 December 2011 and 3 March 2012, the Company acquired 100% of the shares in Action Mining, being a Mauritian holding company that ultimately controls the Beravina Zircon Project (see Section 5.3 for further details). In addition the Company holds an exclusive option to purchase the Madagascar Graphite Project, consisting of four exploration tenements that cover prospective graphite mineralisation (see Section 5.5 for further details).

Diamond drilling by the Company in 2011 defined a substantial high grade zircon deposit at the Beravina Zircon Project. Following an independent review of the drilling and geological work, it was determined that the deposit hosts a JORC Code compliant Indicated Mineral Resource of 1.8 million tonnes at a zircon grade ($ZrSiO_4$) of 29.47% to a depth of approximately 80 metres. The final depth and hence final resource tonnage, will be subject to the final pit design. Please see the Independent Geologist's Report in Section 6 for further information.

The Company is planning further in-fill drilling and bulk sampling in 2013 with the intention of increasing and upgrading the Company's resource at the Beravina Zircon Project and moving towards feasibility studies.

The Company will invest funds raised under this Prospectus (and future capital raisings) towards further zircon exploration and development, and graphite exploration if the Company's Graphite Option is exercised (see Section 10.5). In the short-medium term, the Company's sole operation is to implement exploration programmes at the Beravina Zircon Project with a view to examining potential development into a mining and production operation.

The Company will continue to evaluate and acquire complementary resource assets and explore other potential resource projects that meet the Company's objectives, both in Madagascar and elsewhere, to increase value to Shareholders. The Board intends to utilise its extensive mining and resource network to assist in this process. The Board's present intention is to operate wholly within Madagascar and the Board considers that the region has significant resource potential to generate value for Shareholders. The Company's business model is dependent upon the success of exploration programmes.

Further details on the Beravina Zircon Project and Madagascar Graphite Project can be found in Section 5, and more detailed information is contained in the Independent Geologist's Report in Section 6. Information regarding the legal rights and status of the Beravina Zircon Project and Madagascar Graphite Project can be found in the In-country Lawyer's Report in Section 7.

3.7 KEY FINANCIAL INFORMATION

(a) Limited Operation

Due to the short period of time since the Company's incorporation, it has limited information on its historical financial performance. Further, the Company does not have any operating history which may be used to provide an evaluation of its prospects.

Accordingly, the Company cannot disclose any key financial ratios other than its balance sheet and pro forma financial position which are included in the Investigating Accountant's Report in Section 8. It is recommended that you review this report fully before making a decision as to whether or not to apply under the Offer.

(b) Operations and Proposed Use of Funds

The exploration activities at the Beravina Zircon Project have advanced the geological knowledge and prospects to the stage where additional working capital funds are required for drilling and resource definition, as well as pre-development programmes. Accordingly, a principal purpose of this Offer is to provide the Company with sufficient funds to enable it to conduct additional exploration, drilling and evaluation, feasibility and pre-development programmes on its existing tenements, and to continue with project generation activities that may result in additional project acquisitions.

The Directors are satisfied that upon completion of the Offer, the Company will have sufficient capital to meet its objectives as stated in this Prospectus.

The use of further equity funding or share placements will be considered by the Directors where it is appropriate to accelerate a specific project or fund a specific operational requirement.

It is also possible that future acquisitions and exploration may be contemplated which may exceed the current or projected financial resources of the Company. In that event these acquisitions would require additional funding by project finance and/or further equity issues (subject to Shareholder approvals).

Access to additional funding will depend on market conditions and Company results. Any subsequent equity raising may dilute Shareholders' interest in the Company.

The proposed use of the funds raised by the Company under the Offer in the 2 years following admission to the ASX is set out in the following table.

Expenditure (minimum subscription of AUD$3,500,000)	**Year 1**	**Year 2**	**2 Year Total**
Zircon Exploration & Pre-Development Programme	546,500	437,000	983,500
Graphite Exploration Programme	128,000	47,500	175,500
Pilot Plant Test Work (Beravina Zircon Project)	35,000	0	35,000
Mining Scoping Study (Phase 1) (Beravina Zircon Project)	50,000	0	50,000
Plant engineering and Design (Scoping) (Beravina Zircon Project)	25,000	0	25,000
Infrastructure and Logistics Programme (Beravina Zircon Project)	10,000	0	10,000
Sub Total- Exploration & Technical Management	794,500	484,500	1,279,000
Vendor Payment - Decision to Mine (Beravina Zircon Project)	0	500,000	500,000
Working Capital	98,141	95,000	193,141
Corporate Administration & Overheads	508,000	508,000	1,016,000
Offer Expenses	511,859	0	511,859
Total Expenses	**1,912,500**	**1,587,500**	**3,500,000**

Expenditure (Full subscription AUD$5,000,000)	Year 1	Year 2	2 Year Total
Zircon Exploration & Pre-Development Programme	681,500	583,500	1,265,000
Graphite Exploration Programme	173,000	115,000	288,000
Pilot Plant Test Work (Beravina Zircon Project)	50,000	0	50,000
Mining Scoping Study (Beravina Zircon Project)	60,000	0	60,000
Plant engineering and Design (Phase I) (Beravina Zircon Project)	45,000	0	45,000
Infrastructure and Logistics Programme (Beravina Zircon Project)	20,000	15,000	35,000
Sub Total- Exploration & Technical Management	1,029,500	713,500	1,743,000
Vendor Payment - Decision to Mine	0	500,000	500,000
Working Capital	280,000	230,000	510,000
Corporate Administration & Overheads	822,000	820,169	1,642,169
Offer Expenses	604,831	0	604,831
Total Expenses	**2,736,331**	**2,263,669**	**5,000,000**

Expenditure (Maximum subscription of AUD$8,000,000)	Year 1	Year 2	2 Year Total
Zircon Exploration & Pre-Development Programme	1,194,000	1,388,000	2,582,000
Graphite Exploration Programme	206,500	125,500	332,000
Pilot Plant Test Work (Beravina Zircon Project)	120,000	0	120,000
Mining Scoping Study (Beravina Zircon Project)	230,000	0	230,000
Plant engineering and Design (Phase I) (Beravina Zircon Project)	282,000	40,000	322,000
Infrastructure and Logistics Programme (Beravina Zircon Project)	45,000	100,000	145,000
Sub Total- Exploration & Technical Management	2,077,500	1,653,500	3,731,000
Vendor Payment - Decision to Mine (Beravina Zircon Project)	500,000	0	500,000
Working Capital	342,188	310,000	652,188
Corporate Administration & Overheads	1,165,000	1,165,000	2,330,000
Offer Expenses	786,812	0	786,812
Total Expenses	**4,871,500**	**3,128,500**	**8,000,000**

NOTES:

1. *The above table is a statement of current intentions as of the date of lodgement of this Prospectus with ASIC. As with any budget, intervening events (including exploration success or failure) and new circumstances have the potential to affect the ultimate way funds will be applied. The Board reserves the right to alter the way funds are applied on this basis.*

2. *Exploration expenditures will be reviewed on an on-going basis, depending upon the nature of results forthcoming from the respective work programmes.*

3. *It is the Company's intention to increase and accelerate its exploration and drilling programmes to achieve results as soon as practicable and, subject to encouraging results being obtained, to delineate resources. The Company may seek to raise additional funds within two years after listing on ASX to the extent required to increase and accelerate the exploration and drilling programs as determined by the Board.*

3.8 DIRECTORS' INTERESTS

(a) Directors' Remuneration

The Company's Constitution provides that each Director is entitled to such remuneration from the Company as the Directors decide, but the total amount provided to all Directors must not exceed in aggregate the amount fixed by the Directors prior to the Company's first annual general meeting.

This amount may only be increased by a resolution of the Shareholders at a subsequent general meeting. In addition, the Board may determine the remuneration payable to executive Directors for additional services provided to the Company from time to time.

The aggregate remuneration for all non-executive Directors was set at $150,000 plus superannuation per annum on 8 April 2011. The remuneration of each Director before and after listing on the ASX is set out in the table below.

DIRECTOR	REMUNERATION PRE-ADMISSION	REMUNERATION POST-ADMISSION
Terry Willsteed (Chairman and Non-executive Director)	$32,270 per annum (inclusive of statutory superannuation) for Director's fees. [1]	$32,270 per annum (inclusive of statutory superannuation) for Director's fees. [2]
Wayne Kernaghan (Non-executive Director)	$32,700 per annum (inclusive of statutory superannuation) for Director's fees.	$32,700 per annum (inclusive ofstatutory superannuation) for Director's fees.
Glenn Tetley (Non-executive Director)	$32,700 per annum (inclusive of statutory superannuation) for Director's fees.	$32,700 per annum (inclusive of statutory superannuation) for Director's fees.
NOTES: 1-2 – Director's fees for Terry Willsteed are paid to Patermat Pty Ltd (ACN 000 841 270) pursuant to its Services Agreement with the Company. Please see Sections 3.8(c)(iii) and 10.8 for further details.		

(b) Agreements with Directors

As at the date of this Prospectus, the following agreements are in place between the Company and the Directors:

- Non-Executive Directors' Letters of Engagement – details are provided in Section 10.7;
- Services Agreement between the Company, Patermat Pty Ltd (ACN 000 841 270) and Terry Willsteed – details are provided in Section 10.8; and
- Deeds of Access, Indemnity and Insurance – details are provided in Section 10.89.

(c) Agreements with Related Parties of the Directors

(i) ***Idameneo (No 62) Pty Ltd***

The Company receives public relations and marketing services, promotional services, capital raising services and services to assist the Company in obtaining admission to the ASX from Idameneo (No 62) Pty Ltd (ACN 002 675 023) ("**Idameneo**"). Idameneo is a company owned and controlled by Glenn Tetley, and is therefore a Related Party of the Company.

At the date of this Prospectus, Idameneo is paid $7,500 per month plus GST by the Company for its services.

(ii) ***Tetley Corporation Pty Ltd***

The Company receives public relations and marketing services, promotional services, capital raising services and services to assist the Company in obtaining admission to the ASX from Tetley Corporation Pty Ltd (ACN 153 360 751) ("**Tetley Corp**"). Tetley Corp is a company owned and controlled by James Tetley, who is the son of Glenn Tetley and therefore is a Related Party of the Company.

At the date of this Prospectus, Tetley Corp is paid $7,500 per month plus GST by the Company for its services.

(iii) ***Patermat Pty Ltd***

The Company has entered into a Services Agreement with Patermat Pty Ltd (ACN 000 841 270) ("**Patermat**") for the provision of Terry Willsteed's directorship and management services. Patermat is a company owned and controlled by Terry Willsteed, and is therefore a Related Party of the Company.

At the date of this Prospectus, Patermat is paid $2,725 per month plus GST by the Company for its services. Please see Section 10.8 for further details of this Services Agreement.

(d) **Directors' Interests**

(i) ***No Interests***

Except as disclosed in this Prospectus, no Director has or has had, within 2 years before lodgement of this Prospectus with ASIC:

- any interest in:
  - the formation or promotion of the Company;
  - in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer; or
  - in the Offer; and
- no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director, either to induce him to become, or to qualify him as a Director, or otherwise, for services rendered by him in connection with the formation or promotion of the Company or the Offer.

(ii) ***Directors' Security Holdings***

The Directors are not required to hold any Shares under the Company's Constitution and nothing in this Prospectus precludes the Directors from participating in the Offer.

Set out in the table below are details of the Directors' relevant interests in the securities of the Company as at the date of this Prospectus:

Director	Shares Held Directly	Shares Held Indirectly	Total Relevant Interest	Percentage Interest Pre-IPO (rounded)
Terry Willsteed	-	-	-	-
Wayne Kernaghan	-	2,000,000 [1]	2,000,000	2.18%
Glenn Tetley	1,833,333	2,583,333 [2]	4,416,666	4.82%

NOTES:

1. *These Shares are held by WJK Investments Pty Ltd (ACN 062 789 860) and Mining Investors Australia Pty Ltd (ACN 010 800 450) which are associates of Wayne Kernaghan.*
2. *These Shares are held by Gigapulse Pty Ltd (ACN 132 196 037) as trustee for Idameneo (No.62) Pty Ltd Superannuation Fund and Alexander James Tetley, which are associates of Glenn Tetley.*

4. DETAILS OF THE OFFER

4.1 GENERAL

The Company invites applications for 25,000,000 Shares at an issue price of $0.20 per Share, together with one free-attaching Option exercisable at $0.20 each on or before 31 March 2016 for every Share issued, to raise funds of $5,000,000. Oversubscriptions of up to a further 15,000,000 Shares at an issue price of $0.20 per Share, together with one free-attaching Option exercisable at $0.20 each on or before 31 March 2016 for every Share issued, to raise up to a further $3,000,000 may be accepted.

The Shares to be issued pursuant to this Prospectus are of the same class and will rank equally in all respects with the Existing Shares in the Company. The rights and liabilities attaching to Shares and Options are further described in Section 11.1 and 11.2 of the Prospectus.

4.2 MINIMUM SUBSCRIPTION

The minimum subscription for this Prospectus is 17,500,000 Shares at an issue price of $0.20 per Share to raise a minimum of $3,500,000. No Shares will be allotted or issued until the Offer has reached its minimum subscription. If the minimum subscription of the Offer has not been achieved within three (3) months after the date of this Prospectus, all Application Monies will be refunded without interest in accordance with the Corporations Act.

4.3 OVERSUBSCRIPTIONS

Oversubscriptions of up to an additional 15,000,000 Shares at an issue price of $0.20 per Share together with one free attaching Option exercisable at $0.20 each on or before 31 March 2016 for every share issued to raise a further $3,000,000 may be accepted at the Directors' discretion. The maximum amount that may be raised under this Prospectus is $8,000,000.

4.4 PUBLIC OFFER

Under the Offer, members of the general public may apply for Shares pursuant to this Prospectus. Applications for Shares under the Offer can only be made on the Application Form contained at the back of the Prospectus. The Application Form should be completed in accordance with the instructions set out on the back of the form.

Applications under the Offer must be for a minimum of 10,000 Shares at $0.20 totalling $2,000, and then in increments of 1,000 Shares at $0.20 totalling $200 each. No brokerage, stamp duty or other costs are payable by applicants. Refer to Section 4.8 below for payment and lodgement details.

4.5 CAPITAL STRUCTURE

Set out in the table below is a summary of the capital structure of the Company before and after completion of the Offer.

	Minimum Subscription ($3,500,000)	Full Subscription ($5,000,000)	Full Oversubscription ($8,000,000)
Shares			
Seed Capital Shares [1]	82,623,001	82,623,001	82,623,001
Vendor Shares [2]	9,000,000	9,000,000	9,000,000
Sub Total of Existing Shares	**91,623,001**	**91,623,001**	**91,623,001**
Shares Issued Under the Offer	17,500,000	25,000,000	40,000,000
Total Shares on completion of the Public Offer	**109,123,001**	**116,623,001**	**131,623,001**
Options			
Options on issue at date of Prospectus[3]	550,000	550,000	550,000
Options to be issued to parties that assist with raising funds under the Public Offer[4]	1,050,000	1,500,000	2,400,000
Options issued under Public Offer[5]	17,500,000	25,000,000	40,000,000
Total Options on completion of the Public Offer	19,100,000	27,050,000	42,950,000

NOTES:

1. *A total of 32,048,498 Shares issued to seed capitalists are restricted securities under the ASX Listing Rules and are subject to escrow. Further details in respect of this can be found in Section 4.7.*
2. *These Shares were issued to the Vendors pursuant to the Share Purchase Agreements as part of the*

consideration for the acquisition of Action Mining by the Company. The Vendors' Shares are restricted securities under the ASX Listing Rules. The Shares issued to Olivier Petyt are subject to 12 months' escrow from 12 December 2011.The Shares issued to Olivier Petyt as trustee for Catherine Sylvie Lannes (aka Roxane De Saule) and Alice Ormen Furth are subject to 12 months' escrow from 17 April 2012. Both these parties are also subject to the voluntary escrow as described in Sections 4.7(b) and 10.11.

3. *Each Option will be unquoted and is exercisable at 20 cents on or before 5 February 2017.*
4. *Each Option will be unquoted and is each exercisable at 24 cents and each expiring on 1 April 2017.*
5. *The rights attaching to the Options offered pursuant to this Prospectus are summarised in Section 11.2 of this Prospectus*

The Company has 550,000 unlisted options on issue which are exercisable at $0.20 expiring 5 February 2017.

4.6 SUBSTANTIAL HOLDERS

A "substantial holder" in relation to a company is defined under the Corporations Act and Listing Rules as a person (including their associates) who has a relevant interest in 5% of the total number of votes attaching to shares in that company.

The following are substantial holders in respect of the Company as at the date of this Prospectus:

Holder	Number of Shares in which Relevant Interest Held	Percentage Interest at the date of this Prospectus (rounded)
Mark Damion Kawecki [1]	4,880,000	5.33%
Carl Dickson [2]	9,385,000	10.24%

NOTES:

1. *Mark Damion Kawecki's relevant interest arises through his shareholding and the holding of the following associates – Seed Capital Strategists Pty Ltd, Buy Write Pty Ltd, Design Strategists Pty Ltd, FX Arbitrage Pty Ltd, Original Name Pty Ltd, Property Strategists Pty Ltd, Retirement Strategists Pty Ltd, Share Trading Pty Ltd, Stock Trading Pty Ltd, Accounting Strategists Pty Ltd, Environmental Strategists Pty Ltd, Family Office Strategists Pty Ltd, Financial Planning Strategists Pty Ltd, Foreign Exchange Arbitrage Pty Ltd, Finance Strategists Pty Ltd, Forex Arbitrage Pty Ltd, Funding Strategists Pty Ltd, Healthy Wealthy & Wise Strategists Pty Ltd, Life Advice Pty Ltd, Life Coaching Pty Ltd, Mechanical Trading Pty Ltd, Professional and Sophisticated Investors Pty Ltd, Superannuation Strategists Pty Ltd, Technical Analysts Pty Ltd and Wealth Management Strategists Pty Ltd.*
2. *Carl Dickson's relevant interest arises through the following associates – Nequam Pty Ltd and Nearest the Pin Pty Ltd.*

Following the Offer being closed, the above substantial holders will have the following holdings (assuming that they do not subscribe under the Offer):

Holder	Number of Shares in which Relevant Interest Held	Percentage Interest – Minimum Subscription (rounded)	Percentage Interest – Full Subscription (rounded)	Percentage Interest – Full Oversubscription (rounded)
Mark Damion Kawecki	4,880,000	4.47%	3.70%	3.44%
Carl Dickson	9,385,000	8.6%	7.13%	6.63%

4.7 RESTRICTED SECURITIES

(a) ASX Imposed Escrow
Pursuant to the ASX Listing Rules, certain securities issued to seed capitalists, promoters and vendors of classified assets (as defined under the ASX Listing Rules) prior to the Company being admitted to the Official List may

be required to be held in escrow for between 12 to 24 months and may not be transferred, assigned or otherwise disposed of during that period.

A total of 32,748,498 Existing Shares may be subject to the restricted securities provisions as follows:

- 16,575,000 Existing Shares may be escrowed for a period of 12 months from their respective issue dates; and
- 16,173,498 Existing Shares may be escrowed for a period of 24 months from the date of the quotation of the Company's Shares on the ASX.

Restriction Agreements in relation to the above Shares have been entered into in accordance with the ASX Listing Rules. The ASX may determine further escrow restrictions once the Company lodges its application for quotation of the Shares.

(b) Voluntary Escrow

In addition to the ASX imposed escrow restrictions, the Company has entered into voluntary escrow agreements with those Existing Shareholders that are not subject to ASX imposed escrow restrictions ("**Voluntary Escrow**").

A total of 85,873,001 Existing Shares are subject to the Voluntary Escrow as follows:

- 17,174,600 Existing Shares will be freely tradable on quotation of the Company's Shares on the ASX;
- 34,349,200 Existing Shares will be escrowed for a period of 6 months from the date of quotation of the Company's Shares on the ASX: and
- 34,349,201 Existing Shares will be escrowed for a period of 12 months from the date of the quotation of the Company's Shares on the ASX.

ASIC has granted the Company relief from the Voluntary Escrow constituting a 'relevant interest' by the Company in its own Shares for the purposes of Chapter 6 of the Corporation Act. Chapter 6 restricts persons or entities obtaining a relevant interest of more than 20% in the shares of a public company with more than 50 members. If relief was not granted, the Company would have had a relevant interest in the Shares subject to Voluntary Escrow in contravention of Chapter 6.

Further details of the Voluntary Escrow terms can be found in Section 10.11.

4.8 PAYMENT AND LODGEMENT DETAILS

All Application Forms must be completed in accordance with the instructions accompanying the Application Form and must be accompanied by a cheque in Australian dollars for the full amount of the application being $0.20 cents per Share. Cheques must be made payable to "Austral Resources Ltd – Trust Account" and should be crossed "Not Negotiable". All applications Monies will be paid into a trust account.

Completed Application Forms and cheques must be received before 5.00pm WST on the Closing Date at either of the following addresses:

Delivered to:	**Mailed to:**
Austral Resources Limited	Austral Resources Limited
c/- Security Transfer Registrars	c/- Security Transfer Registrars
770 Canning Highway	PO Box 535
Applecross, Western Australia 6153	Applecross, Western Australia 6953

Applicants are urged to lodge their Application Forms as soon as possible, as the Offer may close early without notice.

An original, completed and lodged Application Form for Shares together with a cheque for the Application Monies, constitutes a binding and irrevocable offer to subscribe for the number of Shares specified in each Application Form. The Application Form does not need to be signed to be valid. If the Application Form is not completed correctly or if the accompanying payment is for the wrong amount, it may be treated by the Company as valid.

The Directors' decision as to whether to treat such an application as valid and how to construe, amend or complete the Application Form is final. However an applicant will not be treated as having applied for more Shares than is indicated by the amount of the cheque for the Application Monies.

4.9 ARRANGEMENT WITH JOINT LEAD MANAGERS

Helmsec (Australian Financial Services Licence No. 334838) and Paradigm (as corporate authorised representative of Aureus Capital Pty Ltd (ABN 45 122 871 742), Australian Financial Services Licence No. 307706) have agreed to act as joint lead managers and equity capital markets advisors to the Offer.
A summary of Helmsec and Paradigm's mandate with the Company is provided in Section 10.10 of this Prospectus. In addition, Helmsec and Paradigm's fees are summarised in Section 11.5.

4.10 ALLOCATION AND ALLOTMENT OF SHARES AND OPTIONS

The Directors (in conjunction with the Joint Lead Managers), reserve the right to reject any application or to allot a lesser number of Shares and Options than that applied for. If the number of Shares allocated is less than that applied for, or no allotment is made, the surplus Application Monies will be promptly refunded without interest.

Subject to the ASX granting approval for quotation of the Shares and Options, the allotment of Shares and Options will occur as soon as practicable after the Offer closes. Statements of security holding will be dispatched as required by the ASX. It is the responsibility of applicants to determine their allocation prior to trading in the Shares.

Applicants who sell the Shares before they receive their statement of shareholding do so at their own risk.

4.11 APPLICATION MONIES TO BE HELD IN TRUST

The Application Monies for Shares to be issued pursuant to the Offer will be held in a separate bank account on behalf of applicants until the Shares are allotted. All Interest earned on Application Monies (including those which do not result in allotment of Shares and Options) will be retained by the Company.

4.12 ASX LISTING

The Company will apply to the ASX no later than 7 days from the date of this Prospectus for the ASX to admit the Shares and Options issued under this Prospectus to quotation on the Official List of the ASX.

If the Shares and Options are not admitted to quotation within 3 months after the date of this Prospectus, no Shares or Options will be issued. Application Monies will be refunded in full without interest in accordance with the Corporations Act.

Neither ASIC nor the ASX take responsibility for the contents of this Prospectus. The fact that the ASX may grant official quotation to the Shares and Options issued pursuant to this Prospectus is not to be taken in any way as an indication by the ASX as to the merits of the Company or the Shares or Options.

4.13 CHESS AND ISSUER SPONSORSHIP

The Company will apply to CHESS. The Company will operate an electronic CHESS sub-register and an electronic issuer sponsored sub-register. These two sub-registers will make up the Company's register of Shares and Options.

The Company will not issue certificates to shareholders. Rather, holding statements (similar to bank statements) will be dispatched to shareholders as soon as practicable after allotment. Holding statements will be sent either by CHESS (for Shareholders who elect to hold Shares and Options on the CHESS sub-register) or by the Company's Share Registry (for Shareholders who elect to hold their Shares and Options on the issuer sponsored sub-register). The statements will set out the number of Shares and Options allotted under the Prospectus and provide details of a Shareholder's Holder Identification Number (for Shareholders who elect to hold Shares and Options on the CHESS sub register) or Shareholder Reference Number (for Shareholders who elect to hold their Shares and Options on the issue sponsored sub-register).

Updated holding statements will also be sent to each shareholder following the month in which the balance of their shareholding changes, and also as required by the ASX Listing Rules or the Corporations Act.

4.14 OVERSEAS INVESTORS

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or to extend such an invitation. No action has been taken to register this Prospectus or otherwise to permit a public offering of Shares or Options in any jurisdiction outside Australia. It is the responsibility of non-Australian resident investors to obtain all necessary approvals for the issue to them of Shares and Options offered pursuant to this Prospectus.

4.15 TAXATION

It is the responsibility of all persons to satisfy themselves of the particular taxation treatment that applies to them in relation to the Offer, by consulting their own professional tax advisers. Neither the Company nor any of its Directors or officers accepts any liability or responsibility in respect of the taxation consequences of the matters referred to in this Prospectus.

4.16 PRIVACY DISCLOSURE

Persons who apply for Shares pursuant to this Prospectus are asked to provide personal information to the Company, either directly or through the Share Registry. The Company and the Share Registry collect, hold and use that personal information to assess applications for Shares, to provide facilities and services to shareholders, and to carry out various administrative functions.

Access to the information collected may be provided to the Company's agents and service providers and to the ASX, ASIC and other regulatory bodies on the basis that they deal with such information in accordance with the relevant privacy laws. If the information requested is not supplied, applications for Shares will not be processed. In accordance with privacy laws, information collected in relation to specific shareholders can be obtained by that shareholder through contacting the Company or the Share Registry.

4.17 ENQUIRIES

This document is important and should be read in its entirety. Persons who are in any doubt as to a course of action to be followed should consult their stockbroker, lawyer, accountant or other professional advisor without delay.

Questions relating to the Offer can be directed to the Company's registered office on (02) 9290 3099, Helmsec on (02) 9993 4444 or Paradigm on (02) 9222 9111.

Questions relating to the completion of the Application Forms can be directed to the Share Registry on (08) 9315 2333.

5. COMPANY AND PROJECT OVERVIEW

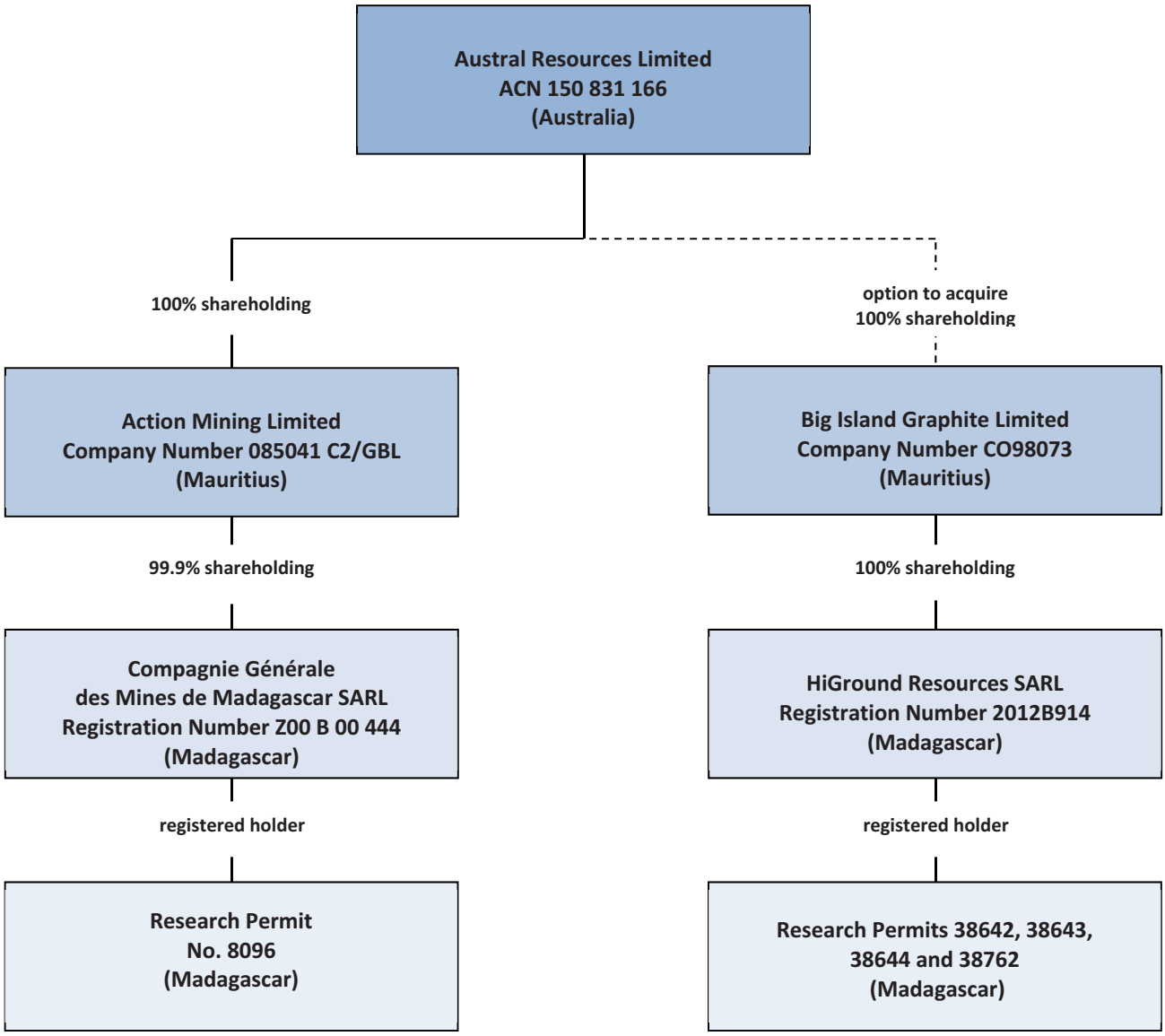
The information provided in this Section 5 is summary form only. Investors should read the remainder of this Prospectus which contains more detailed information before making a decision to apply for Shares.

5.1 BACKGROUND

The Company was incorporated as a proprietary company limited by shares on 31 March 2011 in Australia. The Company was converted to a public company limited by shares on 22 December 2011 pursuant to a resolution of its Shareholders at a general meeting held on 26 September 2011.

The Company was established for the purpose of carrying on mineral exploration operations, and specifically the acquisition and further development of the Beravina Zircon Project in Madagascar.

The following diagram sets out the Company's corporate structure.



The Company owns 100% of the share capital in the Mauritian registered company, Action Mining. In turn, Action Mining owns 99.9% of the share capital in the Madagascan registered company, CGMM, which is the registered holder of the Zircon Permit.

The Company acquired the shares in Action Mining from the Vendors pursuant to the Share Purchase Agreements, with the intention of ultimately obtaining control of CGMM and its key asset, the Beravina Zircon Project. For further information in respect of the Share Purchase Agreements, please see Section 10.2.

Further, the Company also holds an option (Graphite Option) to acquire 100% of the share capital in the Mauritian registered company, Big Island Graphite. Big Island Graphite owns 100% of the share capital in the Madagascan registered company, HiGround Resources, which in turn is the registered holder of the Graphite Permits.

The Company was granted the Graphite Option pursuant to the Option Deed with Intercontinental Nominees Limited and Trove Corporation. The intention is to obtain control of HiGround Resources and its key asset, the Madagascar Graphite Project. For further information in respect of the Option Deed, please see Section 10.5.

Additional information on this holding structure can be found in the In-country Lawyer's Report in Section 7.

5.2 BOARD AND SENIOR MANAGEMENT

Terry Willsteed
Chairman and Non-executive Director

Terry Willsteed is a mining engineer with over 51 years' experience in mining operations, corporate management and private consultancy. He is currently the principal of Terence Willsteed & Associates, Consulting Mining Engineers. Mr Willsteed has extensive experience in management of listed public companies operating in the mining and resources sector. He also has technical expertise in due diligence, scoping studies, feasibility studies and other technical mining reports.

Mr Willsteed holds a Bachelor of Engineering (Mining) and Bachelor of Arts from the University of Queensland and also holds a First Class Mine Manager's Certificate (Metalliferous). He was a member and past chairman of the Mineral Industry Consultants Association, a Registered member of the Society of Mining Engineers, a Fellow of the Australiasian Institute of Mining and Metallurgy and a past Councillor of the Australian Professional Consultants Council.

Mr Willsteed was appointed as chairman and non-executive director of the Company on 8 November 2012. Mr Willsteed is also a director of South American Ferro Metals (ACN 128 806 977), Takoradi Limited (ACN 006 708 676), Vantage Goldfields Limited (ACN 140 157 820), Goldsearch Limited (ACN 006 645 754) and Niuminco Group Limited (ACN 009 163 919) which are all companies listed on the ASX. Further, Mr Willsteed is a director of International Ferro Metals Limited which is a company listed on the London Stock Exchange.

Wayne Kernaghan
Non-executive Director

Wayne Kernaghan is a qualified Chartered Accountant who has extensive experience in the management of listed public companies, specifically in the mining and resource sector. He has previously worked for Price Waterhouse (now Price Waterhouse Coopers) as an accountant, following which he worked for more than 25 years as Finance Director and Company Secretary within the mining industry for ASX listed companies and as an Investment Manager in Australia and the United Kingdom.

Mr Kernaghan is a member of the Institute of Chartered Accountants in Australia, a Fellow of the Australian Institute of Company Directors and a Chartered Secretary.

Mr Kernaghan was appointed as a director of the Company on 15 August 2011.

Mr Kernaghan is also a director of South American Ferro Metals Limited (ACN 128 806 977), Gulf Industrials Limited (ACN 115 027 033) and a director and company secretary of Cullen Resources Limited (ACN 006 045 790) which are all companies listed on the ASX. Further, Mr Kernaghan is the company secretary of Vantage Goldfields Limited (ACN 140 157 820) and International Ferro Metals Limited which is a company listed on the London Stock Exchange.

Glenn Tetley
Non-executive Director

Glenn Tetley has over 30 years' experience in investment analysis, funds management and business development with a range of public and private companies. He has during this time developed specific expertise in the industrial, mining, resources and commodities sector.

Mr Tetley holds a Bachelor of Economics and is a Fellow of the Financial Services Institute of Australia.

Mr Tetley was appointed a director of the Company on 31 March 2011.

Mr Tetley is also a director of Safenet Technologies Limited (ACN 084 983 086) ("**Safenet**") for which a Receiver Manager was appointed on 30 June 2009. Safenet was returned to the directors' control on 13 August 2010 and continues to operate at the date of this Prospectus.

Scott Reid
Chief Executive Officer

Scott Reid is a geophysicist with extensive management and technical experience in mining and resources project acquisition, development and financing.

He has held positions as Chairman, Director, CEO, Managing Director and Operations Manager in various mining and resource companies over the last 20 years, operating in Australia, Asia, Africa, North America and South America. Mr Reid was a founding Director of the Company.

Mr Reid holds Australian graduate and postgraduate qualifications in geophysics, applied finance and mineral economics.

Mr Reid was appointed as the Chief Executive Officer of the Company on 31 March 2011 and manages the Company's operations in Madagascar.

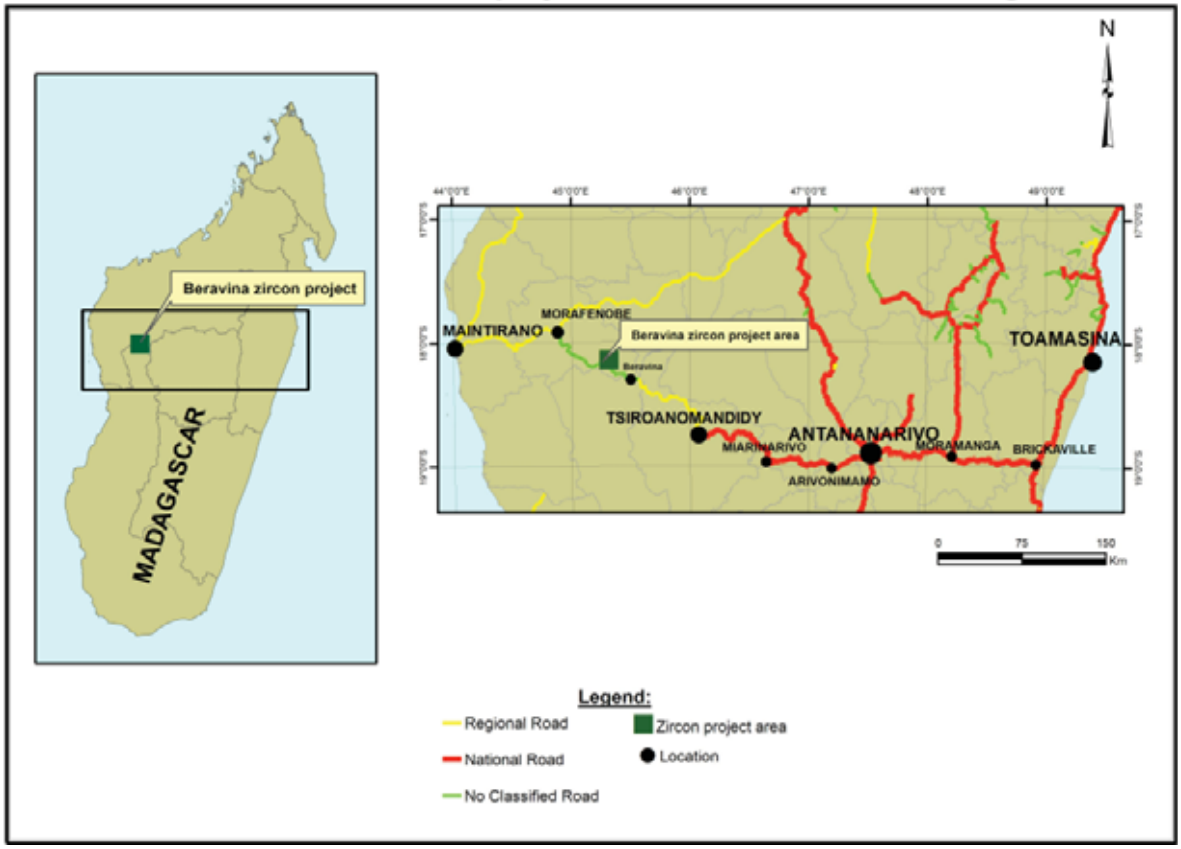
Mr Reid entered into a Personal Insolvency Agreement (PIA) on 21 December 2012 as a result of a dispute with the Australian Taxation Office regarding his personal taxation affairs. The PIA was fulfilled on 21 December 2012 and Mr Reid has no ongoing disputes with creditors which affect his capacity to act as CEO of the Company.

5.3 BERAVINA ZIRCON PROJECT OVERVIEW

(a) Location

The Beravina Zircon Project is located near Beravina, approximately 440 kilometres North-West of the Madagascan capital, Antananarivo, in close proximity to the RN1 road which links Antananarivo with the port town of Maintirano. The project covers an area of approximately 625 hectares in the Beravina Hill zircon occurrence.

Location of Beravina zircon project in the West coast of Madagascar



(b) **History**

The Beravina zircon occurrence was discovered during regional geological mapping of the Beravina area in Madagascar during the 1950s and was examined by the BRGM (Bureau de Recherches Géologiques et Minières) at the request of Swiss industrial group, Alusuisse. In 1989 the Russian consulting group, Zarubejgeologia, was engaged to explore the prospect and its work included trenches and pits and the collection of bulk samples for metallurgical studies.

Zarubejgologia produced an extensive report on the basis of which CGMM applied for and was granted in August 2003, the 10 year Zircon Permit (Permit de Recherche No. 8096) to conduct exploration activities over an area of 6.25 square kilometres (see the In-country Lawyer's Report in Section 7 for further details in respect of the Zircon Permit).

CGMM conducted verification work in 2004 and 2005, including the collection of surface samples that were analysed by the Iluka Resources laboratories in Australia. This confirmed the high zircon grades advanced by Zarubejgeologia.

The Company commenced its field program over the Beravina Zircon Project in 2011, including the re-establishment of a field camp, improving road access for drilling, revision of the geology with further mapping, Niton sampling of trench and core, radiometrics and diamond drilling.

(c) **Description of Deposit**

Two zircon-bearing quartz zones were initially recognised at surface and in the drill holes:

- No. 1 Zone is located in the Northern part of the Beravina Hill and outcrops over a length of approximately 140 metres, demonstrating a thickness varying between 5 metres and 12 metres with 85° dip towards the centre of the hill.
- No. 2 Zone is located on the Southern part of the Beravina Hill and can be followed at surface over 150 metres, at times forming very large cliffs, which drill hole S2 demonstrated is cut by a granite wedge. The visible width varies from a few metres to 13 metres.

The Western part of both of these zircon-rich zones appears to be cut by a strong fault, whereas in the East, the No. 1 zone abuts against the breccia and the No. 2 zone appears to thin-out and disappear.

Drilling in early 2012 confirmed the continuity of the high grade zircon mineralised zone, which was found to extend for at least 300 metres with interpreted widths of between 5 metres and 25 metres, with depth extent of over 120 metres. The broad zone of lower grade bands of mineralisation encountered in hole S11, which remains open at a depth of 104 metres, indicates the possibility of further tonnage potential.

(d) **Drilling Results**

The following drilling has been conducted to date at the Beravina Zircon Project:

Hole	Result	Year of Drilling
S1	5.69 metres @ 32.14% zircon and 0.42% hafnium from 28.71 metres	2006
S2	Failed to intersect the mineralisation due to an initial misunderstanding of the ore body geometry	2006
S3	7.30m @ 28.76% zircon and 0.30% hafnium from 35.0 metres	2006
S4	16.85m @ 31.33% zircon and 0.4% hafnium[1] from 35.50 metres	2011
S5	8.40m @ 30.82% zircon and 0.36% hafnium from 29.1 metres	2011
S6	5.43m @ 24.64% zircon and 0.3% hafnium from 27.7 metres	2011
S7	0.2m @ 59.39% zircon and 0.82% hafnium from 14.1 metres	2011
S8	9.55m @ 26.89% zircon and 0.28% hafnium from 3.30 metres	2011

S9	10.10m @ 24.57% zircon and 0.25% hafnium from 27.7 metres	2011
S9bisV	0.25m @ 30.27% zircon and 0.35% hafnium from 3.1 metres	2011
S10	16.30m @ 22.30% zircon and 0.23% hafnium from 34.1 metres	2011
S11	35.65m @ 18.28% zircon and 0.21% hafnium from 56.05 metres (ending in mineralisation). Thin bands of mineralisation were also intersected from 3.15 m to 41.10 metres, including: • 2.55m @34.80% zircon and 0.46% hafnium from 3.15 metres; • 2.25m @31.34% zircon and 0.39% hafnium from 24.10 metres; and • 2.40m @ 13.49% zircon and 0.17% hafnium from 38.70 metres	2011
S12	14.8m @ 36.88% zircon and 0.45% hafnium from 30.4 metres	2011
NOTE 1: Hafnium is chemically similar to zirconium and is almost always present with zircon in concentrations up to 4%.		

These drillholes were split using a diamond saw and half core sent to Intertek Genalysis Laboratory Services in Perth, Australia.

(e) **Bulk Sampling and Metallurgy Test Work**

In 2012 a 2 tonne bulk sample from the Beravina Zircon Project was obtained for preliminary metallurgical investigation and shipped to South Africa. The Madagascar Ministry of Mines certified that the radioactivity of the shipment was well below normal accepted radioactive limits and that radioactivity measurements undertaken within its laboratory were between 0.34 and 0.64 µSv/h, (indicating almost no radioactivity).

It was projected from the initial metallurgical test work that dense media separation (DMS) and the deployment of four stages of spiralling (roughers, scavengers, cleaners & re-cleaners) will facilitate the production of >60% ZrO_2 concentrate with high recovery efficiency. The metallurgical plant has been designed to produce 40,000 tons/annum of >60% ZrO_2 concentrate from processing ore exhibiting a head grade of 26% ZrO_2 at a rate of 20 - 30 t/hour.

The Company plans to carry out further orientation metallurgical testing utilising the second bulk sample collected in December 2012 to determine the best concentration flow sheet and its costs parameters. For this, the Company has a contract in place with Process Consulting & Engineering in South Africa, to complete the necessary test work and provide advice on the proposed plant design.

(f) **Target Potential**

The work carried out to date by the Company has confirmed the preliminary conclusion of CGMM and points to the presence of a high grade zirconium deposit.

Evaluation of the diamond drilling by independent mining group, Badger Mining & Consultants (Pty) Ltd ("**Badger**"), has led to estimation of a high grade zircon deposit at the Beravina Zircon Project. Badger completed an independent review of the drilling and outlined an indicated resource of 1.8 million tonnes at a zircon grade (ZrSiO4) of 29.47% to a depth of approximately 80 metres. The final depth and hence final resource tonnage, will be subject to the final pit design. Please see the Independent Geologist's Report in Section 6 for further information.

The broad zone of lower grade bands of mineralisation encountered in hole S11, which remains open at a depth of 104 metres, is extremely encouraging and indicates the possibility of a much larger tonnage within the Beravina Zircon Project. The presence of zircon in the eluvium, the laterite and in the alluvium of the nearby streams indicates a complex erosional history; this detrital material could add to the eventual resource.

The Company is currently targeting an annual production of up to 35,000t of zircon concentrate, over a period of approximately 13 years from an open pit. This target is considered to be both economically viable and realistic and the Company estimates it would require an investment in the order of $20,000,000.

(g) **Exploration Development Strategy**

The Company's planned work at the Beravina Zircon Project is focused on completing further systematic drilling and trenching to upgrade its indicated mineral resource to a mining reserve (in accordance with the JORC Code) and to further extend the boundaries of the known zircon mineralisation to increase the resource base.

On the development front, the Company is planning to perform further pilot plant test work on a further 1,000 kg sample of the zircon ore. This test work will serve to help determine the ore characteristics at a high level of confidence and finalise plant process designs.

Plant process design work will be based on interpretation of the pilot plant test results and metallurgical flow-sheet development work. This will include:

- generation of process flow diagrams;
- mass balance calculations;
- generation of piping & instrumentation diagrams;
- equipment lists;
- plant layout sketches;
- suitable tailings disposal methodology; and
- water management system.

This will be followed by preparation of an initial mining operation in conjunction with the project engineering group and the preparation of a civil engineering scope of works.

In addition, an environmental impact assessment study, currently commissioned, will be updated and baseline studies maintained.

A final feasibility study and financial model will be constructed to generate plant capital expenditure and operating expenditure estimates.

5.4 COMMERCIALISATION

The Company's exploration activities to date have advanced the geological knowledge and prospects at the Beravina Zircon Project to the stage where additional funds are required for drilling, resource definition, feasibility study and pre development infrastructure programs in order to evaluate potential commercialisation strategies for the project.

At the Beravina Zircon Project, the planned work is focused on completion of further systematic drilling and trenching to establish a Measured and Indicated Mineral Resource and then to extend the boundaries of the know zircon mineralisation to further increase this resource base.

In respect of development, it is planned to perform pilot plant test work on a further 1 tonne (1,000 kg) sample of the zircon ore. This further test work will serve to validate the laboratory test results and will determine the ore characteristics at a high level of confidence.

Plant process design work will be based on interpretation of the pilot plant test results and metallurgical flowsheet development work. This will be followed by preparation of an initial mining operation in conjunction with the project engineering group and the preparation of a civil engineering scope of works. As well, the environmental impact assessment study, currently commissioned, will be updated and baseline studies maintained.

A final feasibility study and financial model will be constructed to evaluate the appropriate pathway to commercialisation.

5.5 MADAGASCAR GRAPHITE PROJECT

(a) **Option**

Pursuant to an Option Deed between the Company and Intercontinental Nominees Limited (Company Number 4658/5903, registered under the laws of Mauritius) ("**INL**") dated 30 May 2012, the Company holds an option to purchase 100% of the share capital in a Mauritian registered company, Big Island Graphite ("**Graphite Option**"). The Graphite Option must be exercised on or before the date falling six (6) months from the date that the Bureau du Cadastre Minier de Madagascar (BCMM) registers the conversion of the Graphite Permits from mining tenement (PRE) to Research (R) or Exploitation (E) Permits. Further details in respect of the Option Deed are set out in Section 10.5.

Big Island Graphite holds a 100% beneficial interest in all the issued shares in the Madagascan registered company, HiGround Resources. HiGround has entered into a Mining Permit Sale Agreement and Deed of Transfer of Equitable Interest on 2 February 2012 with Mamy Estelle Randianasolo who holds the 100% interest in the Madagascar Graphite Project, consisting of the following four (4) permits reserved for small operators (Permit "PRE") prospective for graphite and covering a 75 square kilometre area:

- PRE38642 43.75 square kilometres;
- PRE38643 12.5 square kilometres;
- PRE38644 6.25 square kilometres; and
- PRE38762 12.5 square kilometres.

These permits are subject to the registration of transfers to HiGround that have not yet been effected. There is a risk that these transfers will not be effected and HiGround will not become the registered holder of the permits. Refer to Section 9.1(d) for further information.

The potential reserves of flake graphite in Madagascar are considered to be amongst the most important in the world, with numerous deposits disseminated across the island in the "Graphite System". Current and abandoned mines are located principally south of the Eastern sea port of Tamatave (also known as Toamasina), however no systematic exploration or exploitation has taken place of surface deposits in the lateritic zone.

Target generation followed by area selection of the Madagascar Graphite Project has been based on historical data and proven regional graphite occurrences with both current and past graphite mining operations adjacent to the selected areas.

Location and Access

The Tamatave region has historically been a major producer of high quality carbon rich flake graphite.

The Madagascar Graphite Project is located in the region found between the villages of Ambalarondra and Mahatera, which lies between 60 kilometres and 85 kilometres South/South-West of the port city of Tamatave.

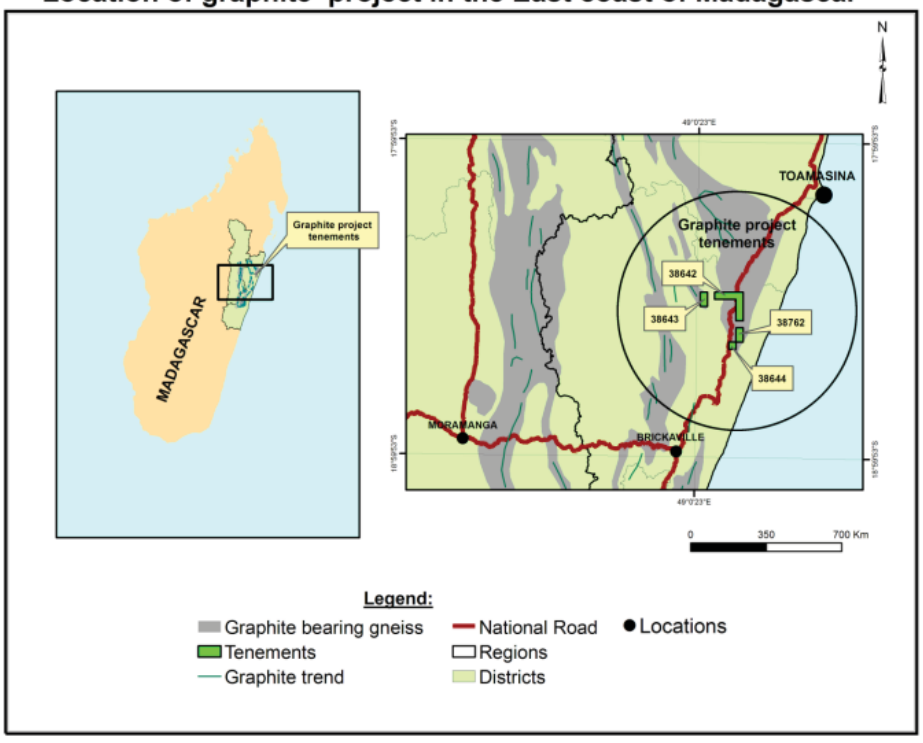
Access to the Madagascar Graphite Project is by way of a 60 kilometre sealed highway, then by various unsealed vehicle tracks to abandoned workings.

Further unexploited occurrences of graphite mineralisation have been identified which are currently only accessible by foot track. The Madagascar Graphite Project extends over hilly terrain. Much of this area has not been subjected to geological exploration. Water is generally available from numerous nearby streams. The port city of Tamatave is the principal port of Madagascar, located within 50-75 kilometres of the majority of the mine sites in the region either currently being or previously exploited.

(b) **Proposed Graphite Exploration**

If the Company acquires the Madagascar Graphite Project, exploration operations would be focused on following up existing graphite mineralisation observed in the project area, in addition to completing first pass geochemical and geophysical coverage over the prospective permit areas to define targets for follow up.

Location of graphite project in the East coast of Madagascar



The Company anticipates initial exploration to include:

- geological mapping to locate the axes of the mineralised zones and identify alteration types that are associated with graphite including nontronite, kaolinite and the accessory minerals such as sillimanite, garnets, tremolite and biotite;
- geochemical surveying;
- trenching of anomalous geochemistry;
- geophysics as the low resistivity of the graphite produces a significant contrast in electrical resistivity which can be located with electromagnetic and electrical geophysical methods; and
- drilling.

(c) **Exploration Development Strategy and Budgets**

The Company's exploration activities to date have advanced the geological knowledge and prospects of its permits to the stage where additional funds are required for drilling, resource definition, feasibility studies and pre-development infrastructure programs.

5.6 MADAGASCAN RESOURCE SECTOR

Madagascar's resource and mining sector has evolved from an artesian mining origin. It was significantly developed by exploration for resources by the colonial French who established a semi-industrial mineral operation leading to the creation of a strong geological survey.

Madagascar has recently adopted a new Mining Code which was supported by the World Bank and has greatly reformed and improved the industry for mining and exploration operations. This has seen the development of new maps and production of new regional geophysical and geochemical data. It has also seen the introduction of an attractive mining tax model and establishment of a modern digital cadastral title system.

Recent investments in Madagascar include the $5.5 billion Ambatovy (Sherritt International) nickel project and the $800 million QMM (Rio Tinto) mineral sands project.

5.7 ADDITIONAL INFORMATION

Additional information in respect of the Zircon and Madagascar Graphite Projects is set out in the Independent Geologist's Report at Section 6 and the In-Country Lawyer's Report in Section 7.

Zircon

6. INDEPENDENT GEOLOGIST'S REPORT

MINNELEX PTY. LTD.

GEOLOGICAL CONSULTING SERVICES & VALUATIONS
ABN 99 096 513 276

Principal, Minnelex Pty Ltd
283 Huntingdale Street
Pullenvale, Qld 4069
Ph/Fx 07 33742443 M 04-19661342
February 1, 2013

The Directors
Austral Resources
Level 10 Goldfields House
1 Alfred Street
Sydney 2000

Dear Sirs

INDEPENDENT GEOLOGICAL REPORT OF THE MINERAL PROPERTIES OF AUSTRAL RESOURCES

At the request of the Directors of Austral Resources (Austral), Minnelex Pty Ltd (Minnelex), was engaged to prepare an Independent Experts Report of Austral's project areas; these are the wholly owned Beravina Zircon project PR8069 and the Madagascar Graphite Project, held under an option to purchase. The project areas are for inclusion in a Prospectus prepared by Austral, relating to the raising of an intended $5 million (M) via the issue of 25 M shares at $0.20 per share. Budgets have also been prepared for a $3.5 M and $8 M capital raising.

The Report includes an opinion as to Austral's proposed exploration programs and budget estimates and is prepared to conform to the JORC Code of AusIMM and is in accordance with the relevant requirements and listing rules of ASX Limited, and the Australian Securities and Investments Commission (ASIC) Regulatory Guides, 111, 112 and 55. Regulatory Guide 111 provides guidance on how an expert can help security holders make informed decisions about transactions. Regulatory Guide 112 explains how ASIC interprets the requirement that an expert is independent of the party that commissions the expert report (commissioning party) and other interested parties. Regulatory Guide 55 covers the citing of experts and statements of interest.

The information used to prepare the report is drawn from summary reports, plans and sections prepared by Austral's qualified consultants and staff and from a field visit to the site undertaken in December 2011. We do not doubt the authenticity or substance of investigative reports and we have not carried out a total audit of the available information. The status and tenure of the tenements are detailed in the In-country Lawyer's Report. Austral has confirmed that all material information currently available has been provided for a proper assessment to be carried out and that the information is complete, accurate and true.

The report has been prepared by R C W Pyper, BSc. FAusIMM, GAICD. Consultant Geologist.

Yours faithfully

Contents

1. Introduction

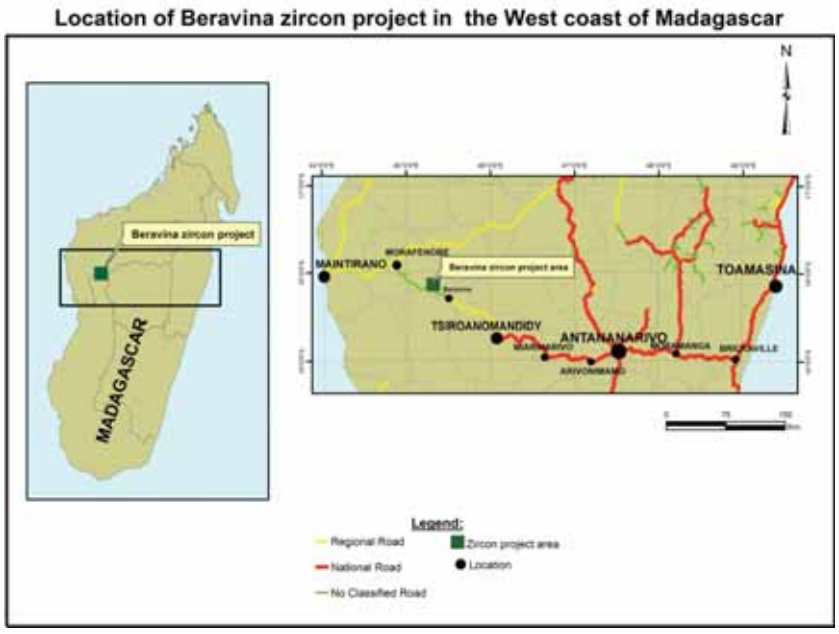
Austral is at an advanced stage in its exploration of the high grade Beravina zircon deposit in Madagascar. The company also has an option to purchase four exploration tenements that cover prospective graphite mineralisation.

First pass diamond drilling at the Beravina zircon deposit has defined an Indicated Resource 1.8 M tonnes (t) grading 29.4 percent zircon ($ZrSiO_4$). The zircon horizon outcrops to form a semi-circular body at the top of a hill with good continuity between drillholes and is ideally positioned for open cut mining. The final resource will be subject to final pit design. The cone shaped deposit is ideally suited to open pit mining with beneficial effect on mining and on the waste : ore ratio and pit slope conditions. The intended production rate is about 7000 t/month (approximately 50% ore) that will give the mine a life expectancy of approximately 13 years.

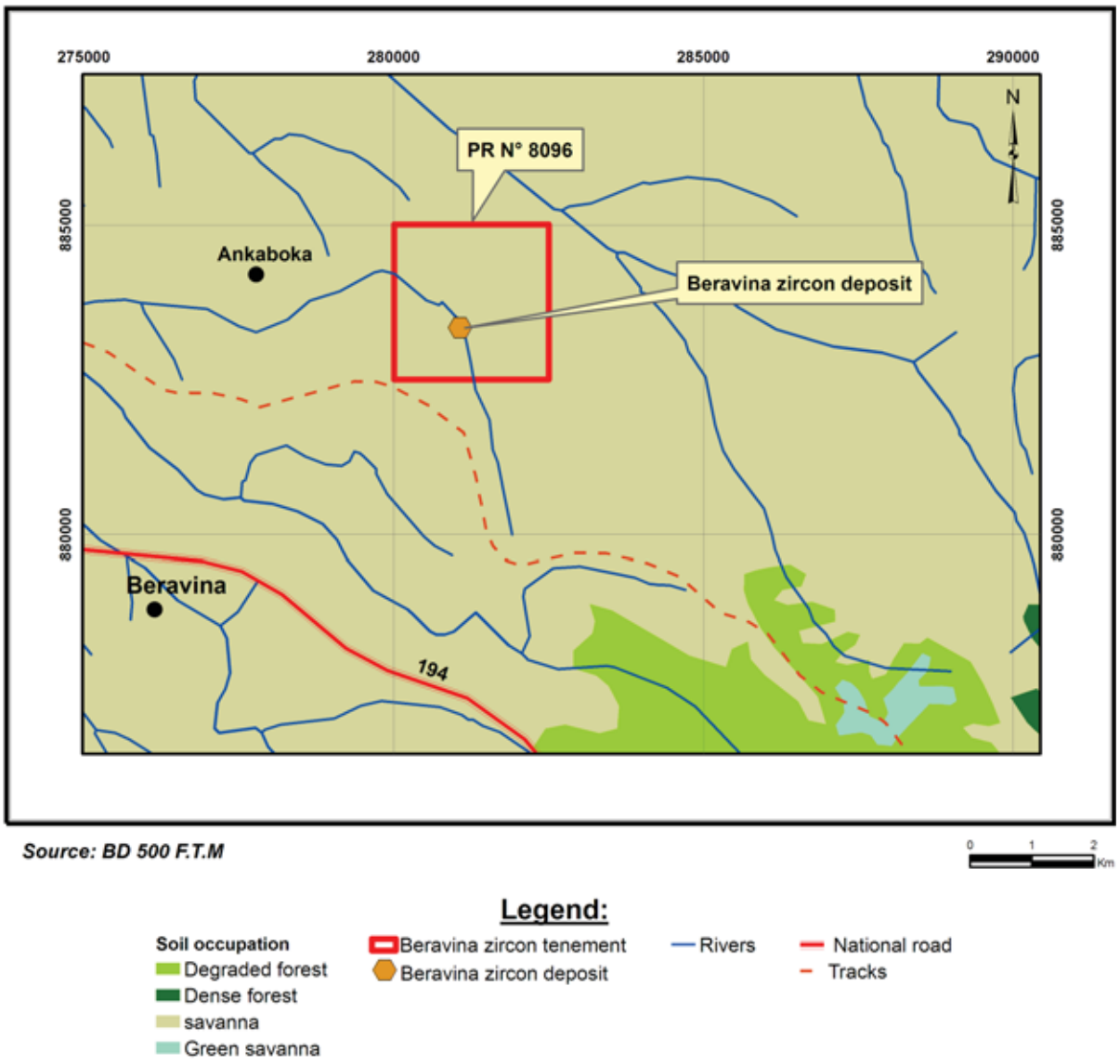
The broad zone of lower grade bands of mineralisation encountered in hole S11, which remains open at a depth of 104m, is encouraging and indicates the possibility of a much larger tonnage within the Project; this will be subject to a further drilling program. The presence of zircon in the eluvium, the laterite and in the alluvium of the nearby streams indicates a complex erosional history; this detrital material could add to the eventual resource.

Metallurgical test work indicated that dense media separation (DMS) results can yield a concentrate grade of 57.2% ZrO_2 whilst attaining 93.12% ZrO_2 recovery efficiency. The spiral tests yielded a concentrate grade of 53.1% ZrO_2 from a head grade of 17.2% ZrO_2. It was projected that deployment of four stages of spiralling (roughers, scavengers, cleaners & re-cleaners) will facilitate the production of >60% ZrO_2 concentrate with high recovery efficiency and a metallurgical plant has been designed to produce 40,000 tons/annum of >60% ZrO_2 concentrate from processing ore exhibiting a head grade of 26% ZrO_2 at a rate of 20 - 30 t/hour.

2. Location and Access



Austral's Beravina zircon project is centered at 18° 08’ 65’’ S / 45° 18’ 77’’ E, and lies 423 km westerly from Antananarivo, the capital city of Madagascar. It is accessible from the RN1 (National Road Antanarivo to Maintirano) through a 7 km track. The RN1 is sealed for about 220 km, and continues as a gravel road for the next 70 km before turning into a very poor and in places a difficult track. Some 150 km of the RN1 road, between Tsiroanomandidy and Orimbato, have been recently rehabilitated.



Beravina zircon deposit access to coast

The project area is 207 km from the deep water harbor of Maintirano. A fully maintained and registered aerodrome exists at Morafenobe, 90 km to the west, served with regular flights by Air Madagascar. A landing strip 3 km from the project area currently exists and will be relocated to a better position subject to project finance. Access by helicopter takes one and a half hours from Antananarivo. Power to the project site is provided by diesel generator and good quality water is supplied by boreholes.

3. Property

Zircon

In 2003, the Compagnie Générale Des Mines De Madagascar (CGMM Sarl) acquired a 10-year renewable Exploration Permit (Permis Recherche type R, No 8096). It covers 625 ha over the Beravina Hill (formerly Ambatofotsy) zircon occurrence. A preliminary environmental permit obtained in 2007, allowed exploration to take place.

Graphite

CGMM also have an option to acquire 100% of the Madagascar Graphite Project that comprises four exploitation tenements:

PRE38642	43.75 sq km
PRE38643	12.5 sq km
PRE38644	6.25 sq km
PRE38762	12.5 sq km

4. Historical

4.1 Introduction

Madagascar, the fourth largest island in the world with a population of around 21 M, has a history of artisanal mining, particularly for free gold and gemstones but also for graphite and mining is now the fastest growing sector of the economy. A revised, investor friendly mining code was passed in 1999 and further amended in 2005. The code is supported by the World Bank with a program of new mapping produced from geochemical and geophysical data that is accompanied by a digital title system and a supportive mining tax. Major projects currently underway in the country include the $5.5 billion Ambatovy Nickel Project (Sherrit International) and the $800 M QMM mineral sands project of Rio Tinto.

4.2 Zircon Project Area

The Beravina zircon occurrence was discovered during regional geological mapping of the area in the 1950s and was examined by the BRGM (French Mining Geological Bureau) at the request of Alusuisse. In 1989 the Russian consulting group, Zarubejgeologia was engaged to explore the prospect and their work included trenches and pits and the collection of bulk samples for metallurgical studies. They produced an extensive report on the basis of which CGMM applied for and was granted in August 2003, a ten years Exploration Licence (Permit de Recherche) over an area of 6.25 square km.

CGMM conducted verification work in 2004 and 2005, including the collection of surface samples that were analysed by the Iluka Resources laboratories in Australia; it confirmed the high zircon grades advanced by Zarubejgeologia. A pre feasibility study was compiled in 2005, taking into account all results obtained by CGMM and the previous workers. This pre-feasibility study concluded that there was a reasonable expectation that mining of the deposit should be economically viable.

4.3 Graphite Project Area

The deposits of flake graphite in Madagascar have been described as amongst the most important in the world because of the number of deposits and their less common and more valuable flake characteristics as against the more common amorphous graphite. Numerous deposits are disseminated all over the Island. Current and abandoned mines are located principally south of Tamatave but no systematic exploration has taken place with mining exploiting surface deposits in the lateritic zone.

4.4 Recent Exploration

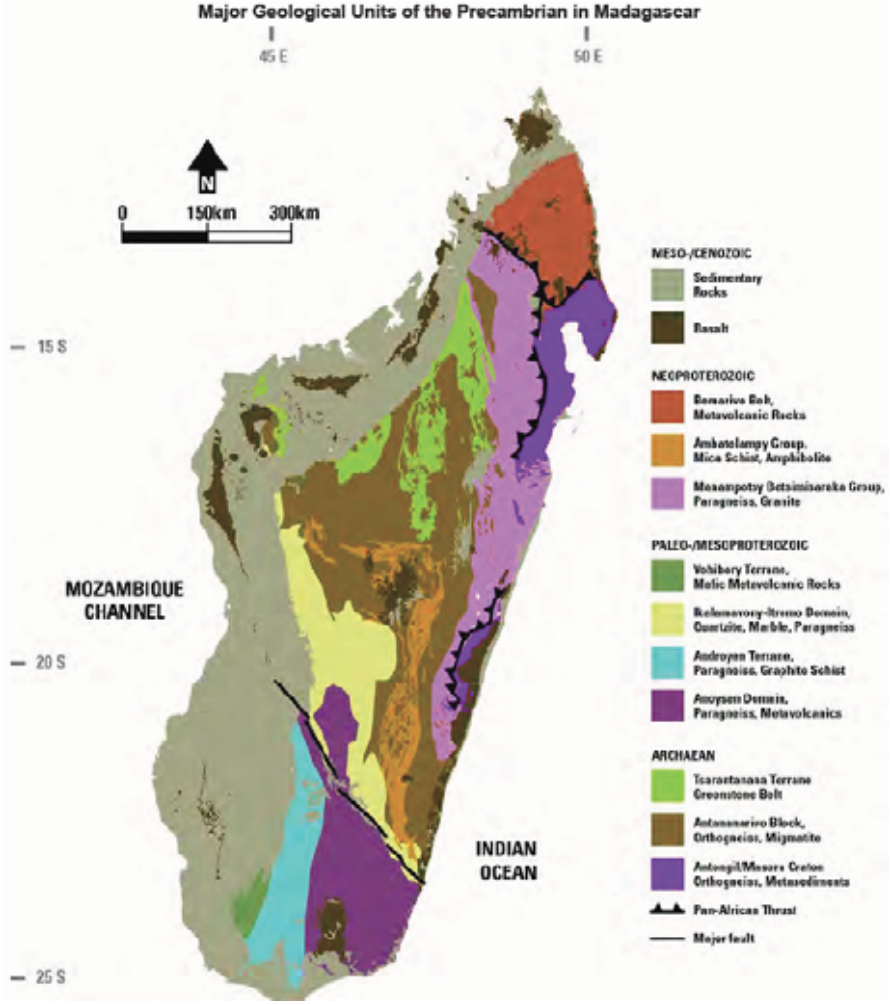
Austral commenced its field program over the prospect in 2011. The work included rehabilitating the field camp, improving road access for drilling, revision of the geology with further mapping, Niton sampling of trench and core, radiometrics and diamond drilling. In 2012 it completed initial metallurgical studies and engineering studies that produced an Indicated Resource of 1.8 Mt grading 29.4% zircon.

5. Geology

5.1 Regional Geology

Madagascar comprises two geological entities: One Precambrian crystalline basement made up of metamorphic and magmatic rocks on which unconformably lies the Phanerozoic sedimentary cover. The crystalline basement can be subdivided into five stable tectono-metamorphic blocks with overlapping faults. The main tectonic structures include the overlapping ductile Ranotsara shear zone, the Angavo-Ifamadiana shear zone and three shear zones in the south.

The Beravina zircon deposit is located at the western side of Antananarivo block, in the vicinity of the sedimentary basin.



5.2 Local Geology

The Beravina pegmatite, in which a zircon rich phase is present, is of Panafrican age (500-600 Ma) and intrudes a migmatitic formation (early Proterozoic circa 2 GA) – which mainly comprises hornblende bearing gneiss, granitoid intruded by rhyolitic dykes. The migmatite exhibits a porphyroid structure with whitish plagioclase (andesine-oligoclase) and must be tonalitic in composition within a high grade anatexis metamorphic environment. Outcropping in the river bed in the vicinity of the ore body are: quartzite, jaspilite boulders and rhyolitic dykes.

The occurrence forms a very distinct 50 m high hill reaching an elevation of 586 m, and dominating a vast dissected and undulated plateau between the Bongolava granitic escarpments rising to the east and the low lying Karroo plains to the west. The zircon-rich zone outcrops are an ellipse-shaped ring within the pegmatitic body and form a possible cone shaped structure plunging northerly with flat dips on the southern side and steeper dips on the northern side. Drilling to date has shown it extends for at least 300 m at widths of between 5 and 25m and for at least 120 m down dip. The broad zone of lower grade bands of mineralisation encountered in drill hole S11, which remains open at a depth of 104 m, indicates the possibility of a much larger tonnage within the Project.

The host pegmatite includes a massive core of microcline feldspar with some very large crystals up to 50 cm long and with small to massive lenses of massive milky white to greenish quartz; sugary quartz may also be present. Rare pyrite is present in occasional blebs.

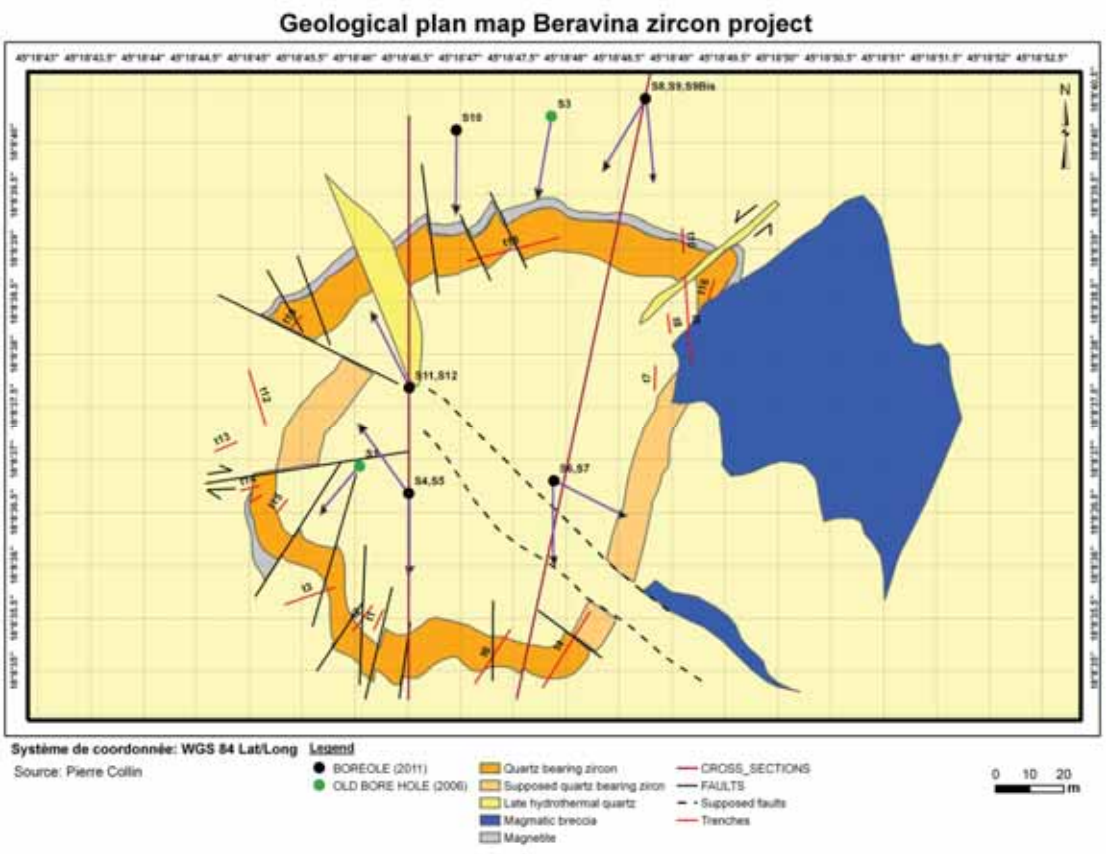
The deposit consists of a peripheral zircon bearing cataclastic quartz ‘‘dykes’’ edging a non mineralised two zone pegmatite (quartz and microcline) within a shear zone as demonstrated by the barren breccias exposed in tectonic contact with the ore body and the mineralised breccias found in the middle of the pegmatite (drill hole S11). This complex assemblage could be related to an extensional tectonic setting which determined the nature of the parent magma.

Pegmatite classification schemes are strongly influenced by depth of emplacement, metamorphic grade and minor element content to give 4 main categories or classes. These are Abyssal (high grade, high to low pressure), Muscovite (high pressure, lower temperature), Rare-Element (low temperature and pressure), and Miarolitic (shallow level). The Rare-Element Classes are subdivided further based on composition into LCT and NYF types: LCT for Lithium, Cesium, and Tantalum enrichment and NYF for Niobium, Yttrium, and Fluorine enrichment. Various investigations since this classification have revealed pegmatites that don't fit into these categories, especially some of the Madagascan pegmatites such as the Beravina pegmatite that are unique.

Since there is a significant grade of niobium and yttrium in the updated analysis, then the Beravina pegmatite falls more or less into the niobium, yttrium, fluorine (NYF) family and abyssal class (Cerny classification 1991). The typical minor element should comprise U, Th, Zr, Nb, Ti, Y, REE. The typical environment of formation is the upper to granulite facies (low to high pressure- 700-800ºC).

Photo showing the location of the Beravina pegmatite. Boulders are of the breccia.

A discontinued border of magnetite quartz, from tens of centimetres to several metres thick, forms a fringe on the exo-contact of the zircon bearing horizon and seems to be metasomatosed product within a Fe-Mg rich environment.


Geological plan map Beravina zircon project
N
S10
S3
S8,S9,S9Bis
S11,S12
S4,S5
S6,S7
Système de coordonnée: WGS 84 Lat/Long
Source: Pierre Collin
Legend
BOREOLE (2011)
OLD BORE HOLE (2006)
Quartz bearing zircon
Supposed quartz bearing zircon
Late hydrothermal quartz
Magmatic breccia
Magnetite
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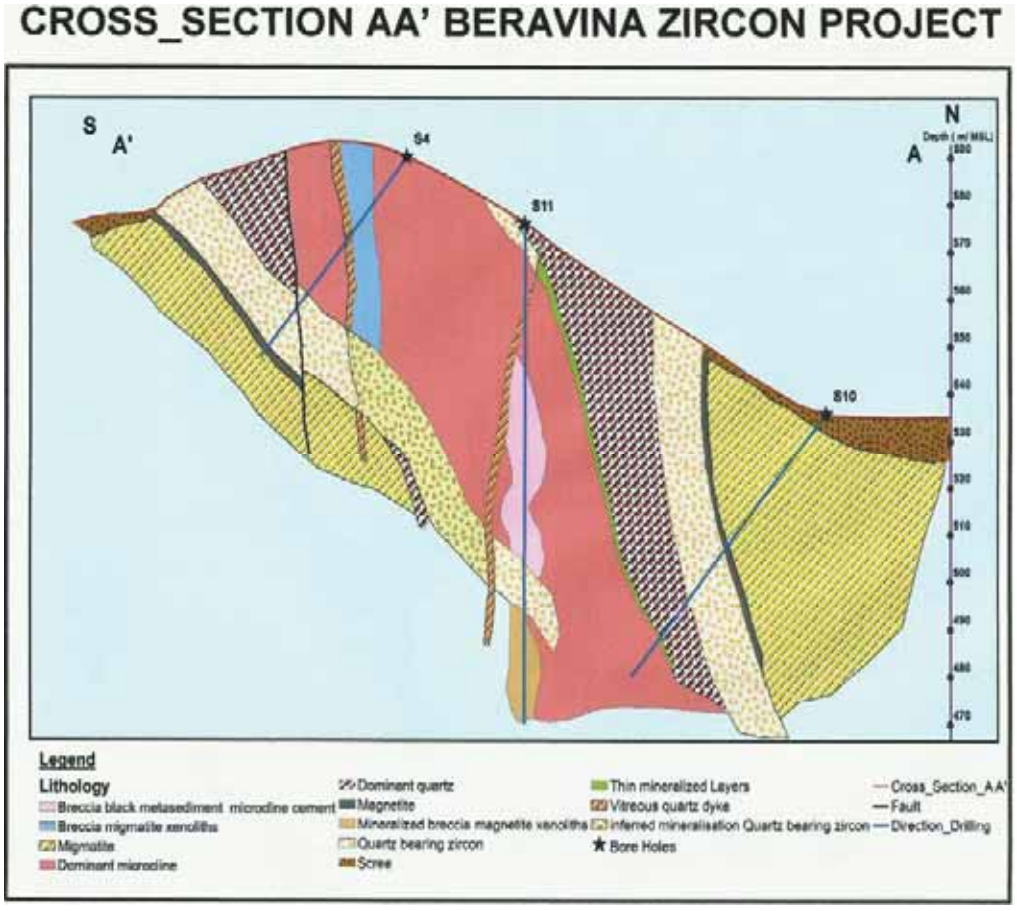
CROSS_SECTION AA' BERAVINA ZIRCON PROJECT
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Depth (m/ MSL)
Legend
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Migmatite
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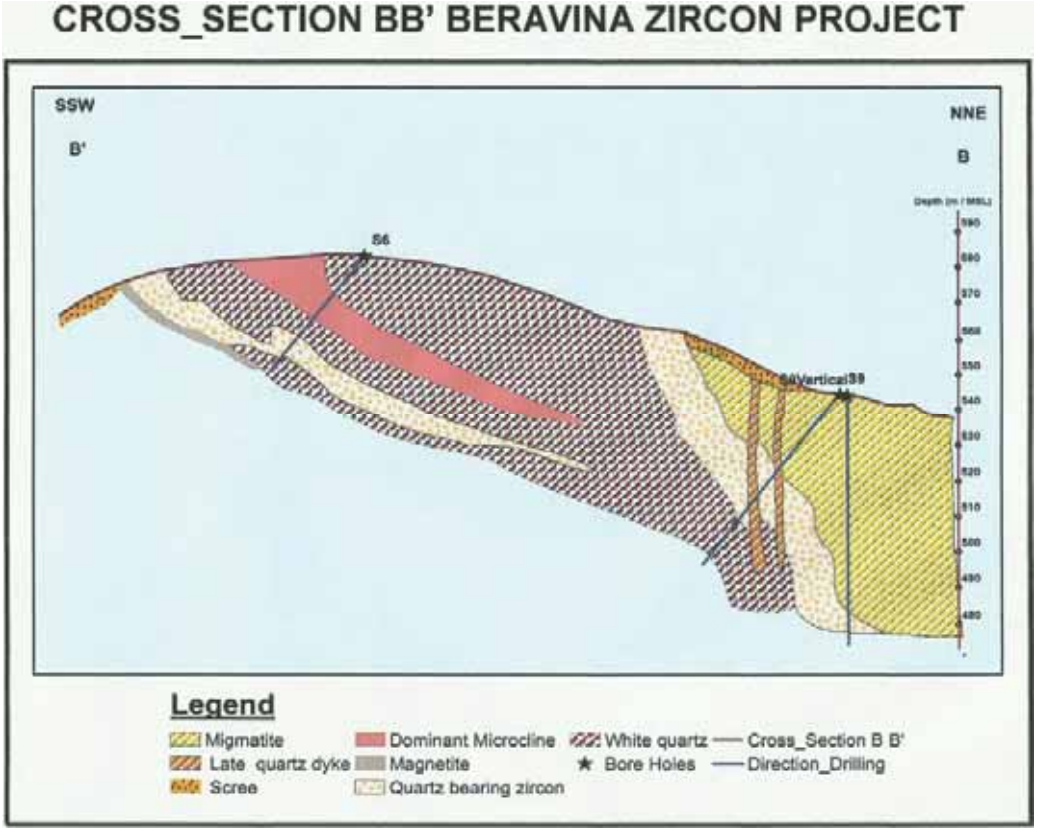


A large body of breccia outcrops to the immediate west of the occurrence, the inferred tectonic contact which has been observed westward. The breccia is made up of migmatite, varying in size from few centimeters to several metres and cemented by an often clearly zoned aggregate of milky quartz and grey feldspar. To the west, in the immediate surroundings, the same breccia outcrops for 200 m.

The circular pattern of differentiated rock types within the pegmatite can be summarised as:

ZONE I	1	Milky saccaharoidal and vitreous quartz forming the core
ZONE II	2	Potassic feldspar. Microcline
	3	Microcline and quartz pegmatitic structure
ZONE III	4	Peripheral cataclastic zircon bearing quartz crossing either zone I or zone II

The zircon belt is characterised by a minor radial faulting with limited fault displacement of less than one metre, underlined by two late hydrothermal white quartz dykes very similar to those of the pegmatite core. On the western part, the lack of mineralised outcrop is due to a NE- trending fault, where the mineralisation has been intersected by the drill hole S5.

5.3 Mineralisation

Two zircon-bearing quartz zones were initially recognised on surface and in the drill holes:

- The No 1 zone is in the northern part of the Beravina Hill and outcrops over a length of about 140 m with a thickness varying between 5 and 12 m with 85º dip towards the center of the hill;
- The No 2 zone on the southern part of the hill can be followed on surface over 150 m, forming sometimes very massive cliffs. The drill hole S2 showed that it is cut by a granite wedge. The visible width varies from a few metres to 13 m.

The western part of both zircon-rich zones seems to be cut by a strong fault whereas in the east, the No1 zone abuts against the breccia and the No 2 zone seems to thin out and disappear.

Both zones show fairly sharp exo-contact with the magnetite-bearing quartz border and migmatites outside. The endo-contact is not as sharp, mineralisation or remobilised mineralisation is filling fractured quartz, this observation has been later on confirmed by the opening of the access to the S12 drill hole. This means that additional zircon mineralisation is present inside the pegmatite core itself.

The mineralised zones are made up of massive, vughy, whitish to grey quartz, strongly fractured and recemented with sugary microcrystalline white to greenish quartz. The zircon, forming about 20% of the rock, occurs as crystal inclusions disseminated within the quartz, or as filling of fractures, vughs and small cavities.

The bipyramidal or prismatic zircon crystals vary from millimetre to several centimetres in size and are whitish or light grey to dark brown in colour; they appear generally distinctly zoned with fine lines accentuated by clayey deposits with iron oxides and possibly urano-thorium minerals.

Accessory minerals are the magnetite, ilmenite and sphene, monazite and urano-thorium minerals. The ilmenite and monazite as well as magnetite and other metallic minerals and some zircon were also noted in the feldspar and quartz bodies in the core of the pegmatite.

Further work in 2011 noted a circular pattern to the pegmatite:

ZONE I	1	Milky saccaharoidal and vitreous quartz forming the core
ZONE II	2	Potassic feldspar. Microcline
	3	Microcline and quartz pegmatitic structure
ZONE III	4	Peripheral cataclastic zircon bearing quartz crossing either zone I or zone II.

The early 2012, drilling confirmed continuity of the high grade zircon mineralised zone, which was found to extend for at least 300 m with interpreted widths of between five and 25 m and depth extent of over 120 m. The broad zone of lower grade bands of mineralisation encountered in hole S11 which remains open at a depth of 104m indicates the possibility of a further tonnage potential.

5.4 Drilling Results

Three holes (S1, S2 and S3) were drilled in 2006:

Hole S1	5.69m at 32.14% zircon and 0.42% hafnium from 28.71m
Hole S3	7.30 m at 28.76% zircon and 0.30% hafnium from 35.0 m

Drill hole S2 failed to intersect the mineralisation due to an initial misunderstanding of the ore body geometry.

In 2011, holes S4 to S12 were drilled. The summary results are summarised below:

Hole S4	16.85 m at 31.33% zircon and 0.4% hafnium* from 35.50 m
Hole S5	8.40 m at 30.82% zircon and 0.36% hafnium from 29.1 m
Hole S6	5.43 m at 24.64% zircon and 0.3% hafnium from 27.7 m
Hole S7	0.20 m at 59.39% zircon and 0.82% hafnium from 14.1 m
Hole S8	9.55 m at 26.89% zircon and 0.28% hafnium from 3.30 m
Hole S9	10.10 m at 24.57% zircon and 0.25% hafnium from 27.7 m
Hole S9bisV	0.25 m at 30.27% zircon and 0.35% hafnium from 3.1 m
Hole S10	16.30 m at 22.30% zircon and 0.23% hafnium from 34.1 m
Hole S11	35.65 m at 18.28% zircon and 0.21% hafnium from 56.05m, (ending in mineralisation). Thin bands of mineralisation were also intersected from 3.15 m to 41.10 m, including; 2.55 m at 34.80% zircon and 0.46% hafnium from 3.1 5 m 2.25 m at 31.34% zircon and 0.39% hafnium from 24.10 m 2.40 m at 13.49% zircon and 0.17% hafnium from 38.70 m
Hole S12	14.8 m at 36.88% and 0.45% hafnium from 30.4 m

The holes were split using a diamond saw and half core sent to Intertek Genalysis Laboratory Services in Perth, Australia.

*Hafnium is chemically similar to zirconium and is almost always present with zircon in concentrations up to 4%.

5.5 Radiometrics

A preliminary airborne spectrometric survey showed the intense Beravina Th-U radiometric anomaly and also revealed the NNE trend of several radiometric anomalies which are of interest for further exploration. A follow-up detailed ground radiometric survey over the project area, shown in the figure below for total count radiometric, defined the zircon zone and two anomalous areas in the north and east; these two areas may represent extensions to the deposit but have not yet been followed up.

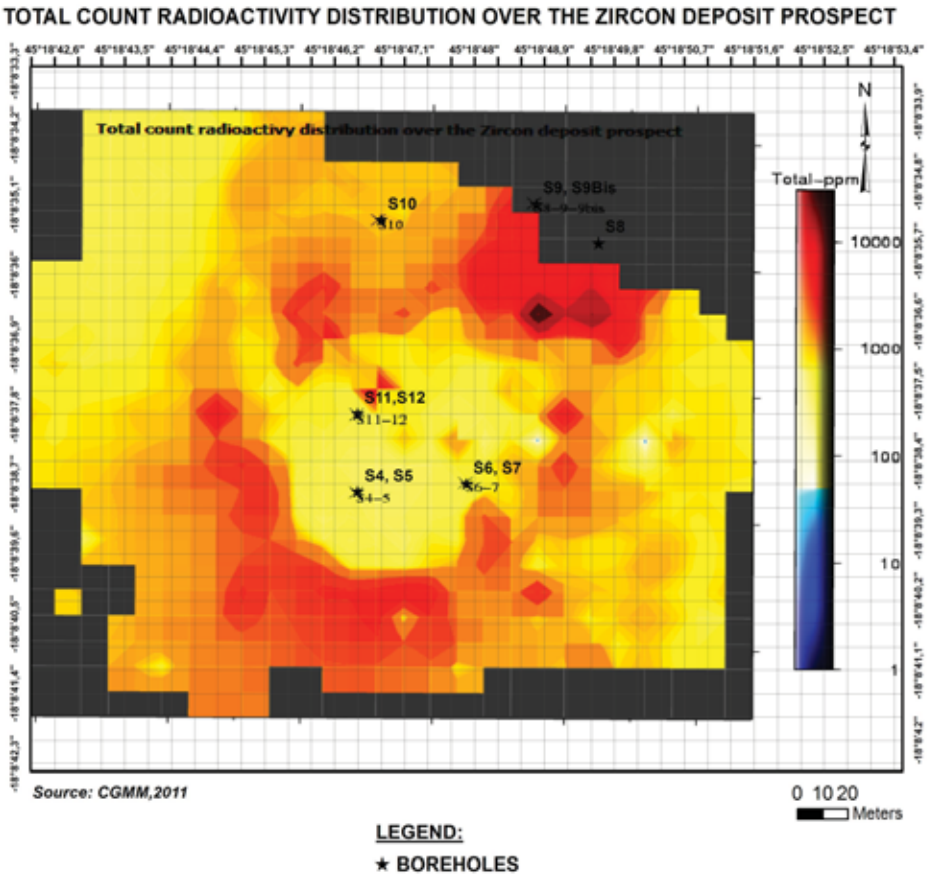


Figure showing total count radiometric over the main zircon zone

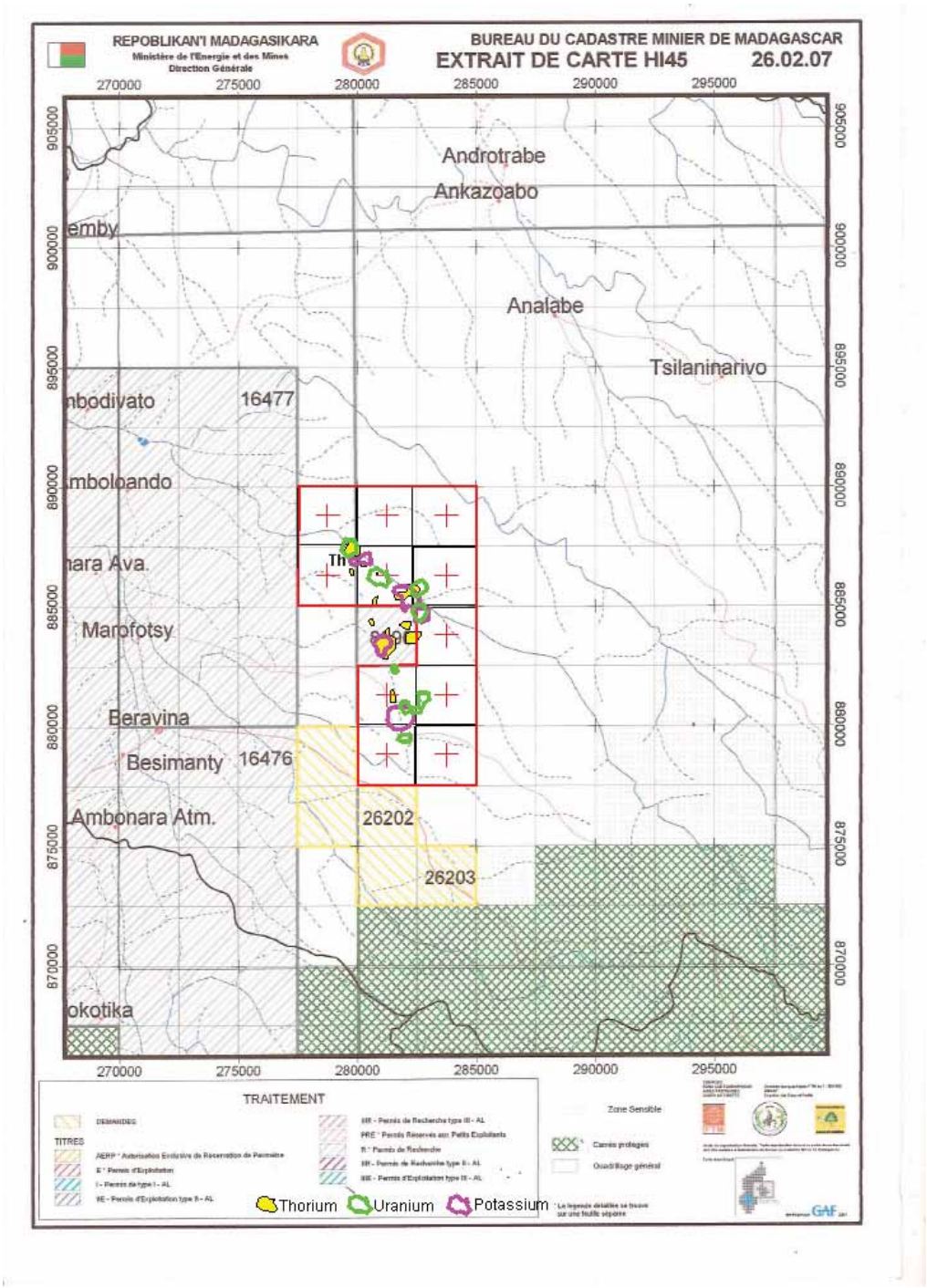


Figure showing regional radiometric anomalies for follow-up exploration

5.6 Trenching

In 2006 ALM-Forex on behalf of CGMM, carried out detailed mapping, cleaned out and re-sampled the old trenches and completed 130 m of new trenching. All excavations were systematically sampled in 1 m in intervals (45 samples) for surface grade assessment using a Niton Xlt 800, and in 2012 a 2 t bulk sample was obtained for preliminary metallurgical investigation and shipped to South Africa. The Madagascar Ministry of Mines certified that the radioactivity of the shipment was well below normal accepted radioactive limits and that measurements undertaken within their laboratory were between 0.34 and 0.64 µSv/h, (indicating almost no radioactivity).

Table of trench results

Trench	Length Mineralised	Length Sampled	Average Grade
	(m)	(m)	% $ZrSiO_4$
T9 & 10	12.50	7.50	20.92
T17		3.00	24.58
T18		4.00	22.34
T19	5.80	3.00	19.72
T2	6.00	6.00	14.02
T3	8.50	8.50	21.40
T11	7.50	5.50	21.80
T15	6.00	5.00	15.56
P4	5.50	5.50	22.20

5.7 Metallurgy

It had originally been assumed that the zircon should be recoverable by fairly simple dense media separation (DMS) and magnetic separation methods, together with a light acid wash to eliminate the bulk of the radioactive minerals. In 2012, orientation metallurgical testing was carried out by Process Consulting Engineering using the bulk sample collected in early 2012. The report aimed to provide details for the subsequent plant design & costing study.

The work included crushing, screening to produce three size fractions for testing i.e. -12mm +6mm; -6mm +1mm and -1mm. The former two size fractions were subjected to DMS tests whilst the latter size fraction underwent gravity separation via heavy mineral spirals. Jigging tests were also undertaken but produced poor results.

The -6mm +1mm size fraction yielded the best DMS results both in terms of ZrO_2 upgrade and ZrO_2 recovery efficiency. A concentrate grade of 57.2% ZrO_2 was achieved at an SG cut point of 3.00 t/m^3 whilst attaining 93.12% ZrO_2 recovery efficiency and a concentrate mass yield of 55.66%. The grade/recovery curve for the -6mm +1mm size fraction suggests that a higher concentrate grade will be achievable at an elevated SG cut point whilst maintaining excellent recovery efficiency and concentrate mass yield.

The spiral tests yielded a concentrate grade of 53.1% ZrO_2 from a head grade of 17.2% ZrO_2. It was projected that deployment of four stages of spiralling (roughers, scavengers, cleaners & re-cleaners) will facilitate the production of >60% ZrO_2 concentrate with high recovery efficiency.

Hafnium, Uranium and Thorium in the ore were also upgraded via the DMS and spiral tests with the following grades in the concentrates: Hf = 1.11 - 1.24%; U = 40.7 – 66.4 ppm and Th = 427.9 – 647.2 ppm.

The proposed commercial plant will be of modular configuration and will embrace four process areas viz. ore preparation; a DMS plant for beneficiating the -6mm +1mm ore stream; a multistage spiral plant for beneficiating the de-slimed -1mm ore stream and a fine tailings de-gritting system as part of the water management area.

The preliminary metallurgical plant has been designed to produce 40,000 tons/annum of >60% ZrO_2 concentrate from processing ore exhibiting a head grade of 26% ZrO_2 at a rate of 20 - 30 t/hour with 64% plant uptime.

Further metallurgical test work is proposed to validate and refine the process design parameters adopted for the plant.

6. Resource Potential

The work done so far has confirmed the preliminary conclusion of CGMM and has pointed to the presence of a zirconium deposit amenable to open cut mining. Preliminary three dimensional modelling by Badger Mining and Consulting (Pty) Ltd, in conjunction with other data has shown that there is a 1.8 Mt Indicated Resource with 29.4% zircon to a depth of 80m. The final resource will be subject to final pit design. The cone shaped deposit is ideally suited to open pit mining with beneficial effect on mining and the waste : ore ratio and pit slope conditions.

Several assumptions were made in the resource estimation. These are:

- The host rock is generally competent.
- Mining is allowed to take place within 50m of the banks of a stream.
- There is full access to all explosives required for the work to be done.

The southward mining limit due to the stream results in the sterilisation of a significant portion of the southern ore block

The broad zone of lower grade bands of mineralisation encountered in hole S11, which remains open at a depth of 104m, is encouraging and indicates the possibility of a much larger tonnage within the Project; this will be subject to a further drilling program. The presence of zircon in the eluvium, the laterite and in the alluvium of the nearby streams indicates a complex erosional history; this detrital material could add to the eventual resource.

The intended production rate is about 7000 t/month (approximately 50% ore) that will give the mine a life expectancy of approximately 13 years (7000t x 12 months x 13 years).

Currently Austral considers that with an investment of an additional $20 M, establishment of a medium-term mine producing zircon would be economically viable and realistic. The author considers this reasonable on the information provided.

7. Graphite

7.1 Introduction

Austral has an option (expiring on 31 Dec 2013) to purchase 100% of the Mauritian registered company Big Island Graphite, which holds a 100% beneficial interest in the Malagasy registered company HiGround Resources SARL. HiGround has entered into a Mining Permit Sale Agreement and Deed of Transfer of Equitable Interest with the Malagasy individual who holds the 100% interest in four exploration tenements prospective for graphite. The leases lie within a district prospective for graphite.

The flake graphite deposits in Madagascar are thought to be among the most important in the world because of the number of deposits and their less common and more valuable flake characteristics as against the more common amorphous graphite. Numerous deposits are disseminated all over the Island in the "Graphite System" of the Pre-Cambrian metamorphics. Current and abandoned mines are located principally south of Tamatave but no systematic exploration has taken place with mining exploiting surface deposits in the lateritic zone.

Target generation followed by area selection of the leases has been based on historical data and regional graphite potential with current and past graphite mining operations adjacent to the selected areas.

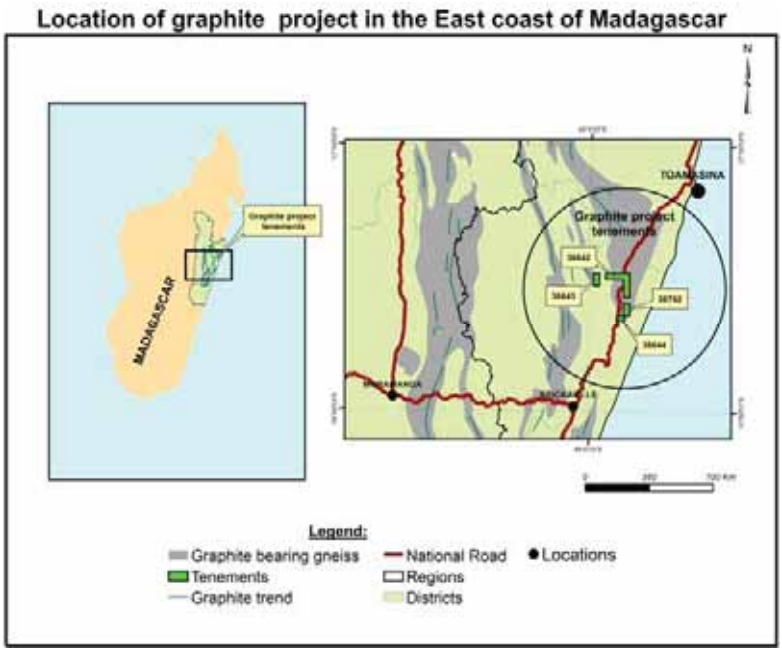
7.2 Location and Access

The Tamatave region historically has been a major producer of high quality carbon rich flake graphite. The graphite project under option contains four tenements covering a total area of 75 sq km in the region found between the villages of Ambalarondra and Mahatera. This region lies 60 - 85 km SSW of the port city of Tamatave.

Access is by 60 km of sealed highway then by variously unsealed vehicle tracks to abandoned workings. Further unexploited occurrences of graphite have been identified which are currently only accessible by foot track. The four leases extend over hilly terrain with often dense cover and for much of their area have not yet been subjected to geological exploration. Water is generally available from numerous streams.

The city of Tamatave, the principal port of Madagascar, lies only 50-75 km from most of the mines sites either currently or previously exploited in this region. The HiGround leases share this advantage.

The district which includes the four permits selected outside of protected areas is particularly attractive for its mineralised zone extending over more than 20 km from north to south and should benefit from new surveys southward along a mineralised trend inside the leases.



7.3 Previous Work

In 1925, Madagascar was the world's number one graphite exporter with superficial mining in the Ambatolampy, Ampanihy districts and most production principally from the Tamatave district. Most of these mines were destroyed in 1947.

In 1942 the Battle of Madagascar (Operation Ironclad) was successfully fought by the Allies to wrest control of Madagascar from the Vichy French forces. This was done not only to deny Japanese forces a western Indian Ocean naval base, but crucially to control the graphite deposits of Madagascar and deny German access to what was the world's only known source of such pure high grade flake graphite that was critical to the U.S. (and German) efforts to develop the atomic bomb. The consequence of controlling this graphite source is now history.

Currently the production from about ten deposits located in the region Tamatave-Moramanga barely reaches 5,000 t a year (it reached 35,000 t in 1947). Deposits are worked by open pits and until now only the lateritised part of the ore body was exploited. The ore is handpicked, sorted, washed, winnowed and sieved to produce concentrated graphite containing up to 90% carbon.

7.4 Geology

The majority of the lease area is graphite gneiss of the Manampotsy group and the remaining areas are Brickaville granitoid migmatites. The graphite can be recognised along zones arranged in lenses the widths which can exceed a hundred meters. Generally trending N-S along axes of several tens of kilometres, these zones may be in mica schists or quartzites. Most of the graphite bodies are lenses enriched in sillimanite and they are commonly injected by numerous pegmatitic veins. Few can be recognised on surface.

Mineralisation is not uniform. In certain rocks the graphite shows up as isolated glitter irregularly distributed, particularly in granoblastic migmatite. In the more slatey rocks, the graphite appears more homogeneous, forming continuous benches over large distances.

The advantage of Malagasy graphite lies in its high flake content. The metamorphic rocks have been decomposed by weathering and graphite is seen on the surface as bright flakes. The incidence of graphite averages 10 to 12% of the rock; selected areas may give a higher percentage, up to 25% or more.

7.5 Tenements in the Sahanavo Valley Prospect

The four tenements are located in one district. There are two main axis of graphite present trending northerly for several tens of kilometres and up to 300 m wide. The permits selected are to the south of this set and exploratory work is required.

Lease 38643 – Mankarana (12.5 sq km)

The geology includes strongly folded graphite-bearing siliceous alumina gneisses (Sakanila Formation). An old quarry, 60 x 60 m in size, shows a graphitic arenaceous formation 20 m thick containing 5 to 7% carbon. The right side of the Sahanavo valley in the neighbourhood of Ambalarondra, an area of relatively gentle relief shows, a graphitic zone more than 100 m wide with three benches separated by barren rock about 10 m thick. The mineralisation has been traced for some 20 km.

The mined area is partly spread along a northwest lineament 5 km in length. The south extension continues within the lease for over 3 km. Several mining works were in progress in the sixties in the vicinity of the lease. Due to the lack of investment, this area has not been completely explored and consequently retains good potential.

Lease 38642 - Ampositrabe (43.75 sq km)

This includes an old mine in biotite and graphite bearing quartz gneiss (middle size flakes) along a north trending structure dipping 40°E. There is evidence that past mining did not extract all the graphite mineralisation (Rasoamahenina –Rapport fin de mission 1966) and this target will be defined by a detailed survey. Significant early work has been recognised at Ampositrabe (PER 38642) but no data concerning remaining mineralisation has been published. Exploration mainly relates to the presence of graphite located north of the permit 38642. Surface clusters from 100 to a maximum 10,000 t / km have been mined in the region and up to 10,000 t / km might still be recoverable on the Mankarana licence (PER 38643) however this will be clarified using modern exploration techniques that will look at the alteration zone as in the past but will also target extensions in depth.

Lease 38762 - Marovato (12.5 sq km)
There is no specific data for this area. The graphitic series disappear westward under Cretaceous sandstones.

Lease 38644 - Mahatera (6.25 sq km)
No specific data.

7.6 Proposed Graphite Exploration

Exploration planned for the graphite project focuses on following up existing graphite mineralisation observed in the project area as well as completing first pass geochemical and geophysical coverage over the prospective permit areas to define targets for follow up. The work will include:

- Geological mapping, required to locate the axes of the mineralised zones and pick up the alteration types that are associated with graphite such as nontronite, kaolinite and the accessory minerals such as sillimanite, garnets, tremolite and biotite.
- Geochemical surveying.
- Trenching of anomalous geochemistry.
- Geophysics. The low resistivity of the graphite produces a significant contrast in electrical resistivity which can be located with EM and self potential.
- Drilling.

8. Exploration Development Strategy and Budgets

Austral's exploration activities to date have advanced the geological knowledge and prospects at its permits to the stage where additional funds are required for drilling, resource definition, feasibility study and pre development infrastructure programs.

At the Beravina Zircon Project, the planned work is focused on completion of further systematic drilling and trenching to establish a Measured and Indicated Mining Reserve and then to test the feasibility of extending the boundaries of the know zircon mineralisation so as to further increase whatever resource base is finally determined.

On the development front it is planned to perform pilot plant test work on a further 1 t (1,000 kg) sample of the zircon ore. This further test work will serve to validate the laboratory test results and will determine the ore characteristics at a high level of confidence.

Plant process design work will be based on interpretation of the pilot plant test results and metallurgical flowsheet development work. It will include generation of process flow diagrams, mass balance calculations, the generation of piping & instrumentation diagrams, equipment lists, plant layout sketches and suitable tailings disposal methodology and a water management system.

This will be followed by preparation of an initial mining operation in conjunction with the project engineering group and the preparation of a civil engineering scope of works. As well, environmental impact assessment study, currently commissioned, will be updated and baseline studies maintained.

A final feasibility study and financial model will be constructed to generate plant Capital Expenditure and Operating Expenditure estimates.

9. Exploration Budgets

Exploration and Development budgets have been developed for capital raisings of $3.5M, $5M and $8M and are set out below for the first two years.

Zircon Project - Exploration & Pre-Development

Activity	Minimum Subscription (A$3.5M) (A$)		
	Year 1	Year 2	Total
Administration & In Country Staffing Costs	240,000	240,000	480,000
Capital Items > $ 1000	30,000	0	30,000
Community Relations	5,000	10,000	15,000
Environmental Studies	12,000	5,000	17,000
Exploration Development	12,500	0	12,500
Geological Resource Work	25,000	25,000	50,000
Geological Field Work	45,000	65,000	110,000
Geophysics	30,000	0	30,000
Infill drilling & trenching Sample Analysis	120,000	50,000	25,000
Logistics	5,000	20,000	25,000
Permits & Acquisitions	5,000	5,000	10,000
Contractor & Consultants	12,000	12,000	24,000
Survey & Satellite Mapping	5,000	5,000	10,000
	546,500	**437,000**	**983,500**

Zircon Project - Exploration & Pre-Development

Activity	Target Subscription (A$5M) (A$)		
	Year 1	Year 2	Total
Administration &In Country Staffing Costs	216,000	216,000	432,000
Capital Items > $ 1000	30,000	25,000	55,000
Community Relations	5,000	10,000	15,000
Environmental Studies	60,000	5,000	65,000
Exploration Development	12,500	12,500	25,000
Geological Resource Work	25,000	25,000	50,000
Geological Field Work	45,000	65,000	110,000
Geophysics	30,000	25,000	55,000
Infill drilling & trenching Sample Analysis	120,000	50,000	170,000
Logistics	30,000	55,000	85,000
Permits & Acquisitions	5,000	5,000	10,000
Contractor & Consultants	85,000	85,000	170,000
Survey & Satellite Mapping	18,000	5,000	23,000
	681,500	**583,500**	**1,265,000**

Zircon Project - Exploration & Pre-Development

Activity	Maximum Subscription (A$8M) (A$)		
	Year 1	Year 2	Total
Administration &In Country Staffing Costs	216,000	216,000	432,000
Capital Items > $ 1000	60,000	25,000	85,000
Community Relations	15,000	15,000	30,000
Environmental Studies	60,000	15,000	75,000
Exploration Development	25,000	25,000	50,000
Geological Resource Work	55,000	22,000	77,000
Geological Field Work	190,000	210000	400,000
Geophysics	90,000	180,000	270,000
Infill drilling & trenching Sample Analysis	345,000	350,000	695,000
Logistics	30,000	235,000	265,000
Permits & Acquisitions	5,000	5,000	10,000
Contractor & Consultants	85,000	85,000	170,000
Survey & Satellite Mapping	18,000	5,000	23,000
	1,194,000	**1,388,000**	**2,582,000**

Graphite Exploration Project

Activity	Minimum Subscription ($3.5M) (A$)		
	Year 1	Year 2	Total
Capital Items > $ 1000	10,000	10,000	20,000
Community Relations	2,000	0	2,000
Geochemistry& Sample Analysis	0	1,500	1,500
Environmental Studies	1,000	2,500	3,500
Geological Work	2,500	7,500	10,000
Geophysics	5,000	0	5,000
Logistics	6,000	6,000	12,000
Permits & Acquisitions	85,000	0	85,000
Staffing, Contractor & Consultants	15,000	15,000	30,000
Survey & Cartography	1,500	5,000	6,500
Drilling & Sample Analysis	0	0	0
Total	**128,000**	**47,500**	**175,500**

Graphite Exploration Project

Activity	Target Subscription ($5M) (A$)		
	Year 1	Year 2	Total
Capital Items > $ 1000	10,000	10,000	20,000
Community Relations	2,000	0	2,000
Geochemistry& Sample Analysis	2,000	1,500	3,500
Environmental Studies	1,000	2,500	3,500
Geological Work	5,000	15,000	20,000
Geophysics	0	15,000	15,000
Logistics	6,000	6,000	12,000
Permits & Acquisitions	85,000	0	85,000
Staffing, Contractor & Consultants	60,000	60,000	120,000
Survey & Cartography	2,000	5,000	7,000
Drilling&Sample Analysis	0	0	0
Total	**173,000**	**115,000**	**288,000**

Graphite Exploration Project

Activity	Maximum Subscription ($8M) (A$)		
	Year 1	Year 2	Total
Capital Items > $ 1000	10,000	10,000	20,000
Community Relations	5,000	5,000	10,000
Geochemistry& Sample Analysis	10,000	0	10,000
Environmental Studies	2,500	3,500	6,000
Geological Work	15,000	15,000	30,000
Geophysics	5,000	15,000	20,000
Logistics	12,000	12,000	24,000
Permits & Acquisitions	85,000	0	85,000
Staffing, Contractor & Consultants	60,000	60,000	120,000
Survey & Cartography	2,000	5,000	7,000
Drilling & Sample Analysis	0	0	0
Total	**206,500**	**125,500**	**332,000**

10. Declaration

Declaration
This report has been prepared for inclusion in a Prospectus prepared by Austral, relating to the raising of an intended $8 million and was not prepared for any other purpose. The statements and opinions contained in this report are given in good faith but, in the preparation of this report, Minnelex has relied substantially on information provided by the Directors and Management of Austral. We do not have reason to doubt the information so provided.

Neither the whole nor any part of this report, nor any references thereto, may be included in or with or attached to any document, circular, resolution, letter or statement without the prior written consent of Minnelex.

Qualifications and Experience
Minnelex is a geological consultancy, which has had considerable experience in the valuation of exploration properties. The person responsible for this report is:

R.C.W. Pyper. BSc. (geol.). MAICD. FAusIMM. Consulting Geologist

Mr Pyper is the Principal of Minnelex and is a geologist with 50 years of industry experience and 30 years of consulting practice in precious metals, base metals, coal, bauxite, gemstones, industrial minerals and mineral sands. He has had extensive experience in the valuation of mineral exploration properties. Mr Pyper has the appropriate qualifications, experience, competence and independence to be considered an “Expert” under the definitions provided in the Valmin Code and “Competent Person” as defined in the JORC Code.

Disclaimer of Interests

At the date of this report, Minnelex and R C Pyper do not have, nor have had any relationship with Austral other than as may have occurred as a result of providing consultancy services in the ordinary course of business. Minnelex and R C Pyper have neither relevant interest in, nor any interest in the acquisition or disposal of any securities of Austral. Minnelex has no pecuniary or other interest that could be regarded as being capable of affecting its ability to give an unbiased opinion in relation to the acquisition of the mineral interests of Austral.

Neither Minnelex nor Mr Pyper has received or may receive any pecuniary or other benefits, whether direct or indirect or in connection with the preparing of this report other than normal consultancy fees based on fee time at normal professional rates plus out-of-pocket expenses.

11. Glossary

alteration	Change in mineral composition of a rock, usually from weathering or hydrothermal solutions.
amphibolite	metamorphic mineral assemblage derived from Ca, Mg, Fe, Na rich aluminium silicates.
anatexis	The differential, or partial, melting of rocks.
andesite	A fine grained igneous rock with intermediate silica content.
anomaly	Usually soil or rock assay or geophysical result considered to be different from the norm.
Archaean	The oldest rocks of the Precambrian era, older than about 2,500 million years.
assayed	The testing and quantification metals of interest within a sample.
AusIMM	The Australasian Institute of Mining and Metallurgy.
basement complex	Undifferentiated rocks, usually igneous and metamorphic that underlie the rocks of interest.
bedrock	Any solid rock underlying unconsolidated material.
bipyramidal	Consisting of two pyramids placed base to base; having a pyramid at each of the extremities of a prism, as in quartz crystals.
block	A body of rock.
breccia	Rock fragments in a finer grained matrix.
calcarious	Carbonate rich.
carbonate	Carbon and oxygen in the ratio 1:3.
Carboniferous	345-280 million years ago.
cataclastic	Relating to rocks consisting of cemented fragments that originate from the mechanical breakdown of rock associated with plate tectonic processes.
clastic	Rock comprised of fragments of re-existing rocks.
country rock	Rocks surrounding a vein or anomaly which in themselves are of no economic value.
Craton	Part of the earth's crust that has attained stability. Restricted to continents.
diamond hole	Mineral exploration hole completed using a diamond set or diamond impregnated bit for retrieving a cylindrical core of rock.
FAusIMM	Fellow, Australasian Institute of mining and metallurgy.
fault	A fracture in a rock mass, with the movement of one side past the other.
feldspar	A group of rock forming minerals.
felsic	Rock with abundant light coloured minerals such as quartz, feldspar and mica.
ferruginous	Iron rich.
GA	Giga-annum. I billion years.
gabbro	Basic intrusive igneous rock.
GAICD	Graduate of Australian Institute of Company Directors
gangue	Waste rock or mineral associated with ores.
geochemistry	Study of the values and relationships of elements in soils and rocks.
geophysics	Study of the earth by quantitative physical methods.
gneiss	Foliated rock formed by regional metamorphism.
grade	The quantity of ore or metal present relative to other constituents of the rock or ore.
granite	Coarse grained acid igneous rock containing quartz and feldspar.
granoblastic	Having a texture in which the fragments are irregular and angular and appear like a mosaic.
greenstone belts	Generally elongate, Archean to Proterozoic terrains comprising intrusive and extrusive mafic to ultramafic igneous rocks.
hafnium	A silver-grey transitional metal similar to zircon.
hornblende	An informal name for dark green to black amphiboles.
igneous	Rocks formed from a molten state.
Inferred/Indicated Resource	See Resource
intrusive	A body of hot igneous rock which invades the overlying rocks.
intrusive contact	The zone around the margins of an intrusive rock.
I-Type	Granitoids derived from igneous source rocks.
jasperoid	Dense chert-like siliceous rock.
jaspilites	Iron rich chert.
lithology	The description of rocks.
Ma	Million years.
magmatism	The formation of igneous rock from magma.

magnetite	A magnetic oxide of iron.
metallurgical	Concerned with the production of raw metals from ores.
metamorphic	Alteration of rocks by heat and pressure.
micro-	Small.
Microcline	Potassium-rich alkali feldspar.
migmatite	Metamorphic (altered) host material that is streaked or veined with granite; the name means “mixed rock.
mineralisation	The process of introducing minerals into a rock. This can result in the formation of ore bodies.
monazite	Phosphate mineral containing rare earth metals.
palaeo	Old or ancient.
Paleogene	The early Tertiary period up to Oligocene.
Paleozoic	Period from the end of the Precambrian to the beginning of the Mesozoic.
Paragneiss	A gneiss presumed to have formed from an original sedimentary rock.
pegmatite	An intrusive igneous rock with very large crystals that forms in the later stages of a magma chamber's crystallisation.
petrology	Examination of rocks by microscope.
Porphyric	Different spelling for porphyritic?
porphyritic	Large crystals set in a fine groundmass.
Proterozoic	Around 3000-600 Ma.
ppb	Parts per billion.
ppm	Parts per million.
pyritic	Containing pyrite.
quartz	Crystalline silica.
Quartzites	Sandstone converted into *quartzite* through heating and pressure.
radiometric	Measurement of uranium, thorium and potassium radiation.
RC drilling	Reverse circulation drilling. Gives a less contaminated sample than open hole drilling.

RESOURCES

Inferred Resource

The Inferred category is intended to cover situations where a mineral concentration or occurrence has been identified and limited measurements and sampling completed, but where the data are insufficient to allow the geological and/or grade continuity to be confidently interpreted. Commonly, it would be reasonable to expect that the majority of Inferred Mineral Resources would upgrade to Indicated Mineral Resources with continued exploration. However, due to the uncertainty of Inferred Mineral Resources, it should not be assumed that such upgrading will always occur.

Confidence in the estimate of Inferred Mineral Resources is usually not sufficient to allow the results of the application of technical and economic parameters to be used for detailed planning. For this reason, there is no direct link from an Inferred Resource to any category of Ore Reserves. Caution should be exercised if this category is considered in technical and economic studies.

Indicated Resource

An ‘Indicated Mineral Resource’ is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological and/or grade continuity but are spaced closely enough for continuity to be assumed.

An Indicated Mineral Resource has a lower level of confidence than that applying to a Measured Mineral Resource, but has a higher level of confidence than that applying to an Inferred Mineral Resource.

Mineralisation may be classified as an Indicated Mineral Resource when the nature, quality, amount and distribution of data are such as to allow confident interpretation of the geological framework and to assume continuity of mineralisation. Confidence in the estimate is sufficient to allow the application of technical and economic parameters, and to enable an evaluation of economic viability.

ring fracture	Circular structures usually related to calderas.
saccaharoidal	Sugary.
skarn	Deposit that results from alteration and mineralisation of lime rich rocks.
sphene	A brilliant yellowish-green, green or brown *gemstone.*
sulphide	A mineral compound linked to sulphur.
supergene	Near surface enrichment usually from descending solutions.
syncline	Convex down.
tectonic	Pertaining to forces and the geological architecture that results such as faults, folds etc.
tectonic plate	The lithosphere is divided into a number of plates that move and collide with each other causing seismic and tectonic activity along the boundaries.
tenement	Ground granted for exploration or mining purposes.
terrane	General location for a rock or group of rocks.
thorium	A natural radioactive chemical element with the symbol Th and atomic number 90.
volcanic	Related to volcanoes or volcanism.
vughs	Cavity in a rock, often with a mineral lining of different composition from that of the surrounding rock.
Zircon	A silver-grey transitional metal similar to hafnium found as zirconium silicate $ZrSiO_4$.

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7. IN COUNTRY LAWYER'S REPORT

Cabinet indépendant

Antananarivo, 14 November 2012

The Directors
Austral Resources Ltd
Goldfields House Suite 3 Level 10
1 Alfred Street, Sydney NSW 2000
Australia
Email: scott@austral-resources.com

Ref: 204/LJF/12

Re: Legal opinion relating to the Beravina and Graphite Project Tenements and the shareholdings of CGMM Sarl and Action Mining Ltd

Dear Sirs,

We have been requested to provide you with a legal opinion covering:

I) the general rules regarding the granting, renewal, extension and conversion of a research permit, the environmental obligations related to mining activities, securing rights in the land covered by the mining perimeter and the payment of the mining royalties;

II) the protection granted by the treaty between Mauritius and Madagascar on mutual protection and promotion of investments;

III) a due diligence covering the existence, validity, ownership and rights in and to the following mining permits:
- one (1) mining permit which is held by Compagnie Générale des Mines de Madagascar (hereinafter "CGMM") ("the Beravina Zircon Project tenement"); and
- four (4) mining permits which are held by Mrs. Randrianasolo Mamy Estelle and subject to a transfer agreement dated 2nd February 2012 to HiGround Resources Sarl (hereinafter "HiGround Resources")("the Graphite Project tenements").

For the purpose of issuing the present legal opinion, we have considered the relevant legislation applicable in Madagascar governing mining permits and environmental obligations for the holders of a research permit and a permit reserved for the small holders ("PRE"), as well as all other documents which we have deemed necessary for the purpose of issuing this legal opinion, namely:
- the transfer agreement of the Graphite Project Tenements dated 2nd February 2012 entered into between Mrs. Randrianasolo Mamy Estelle and HiGround Resources;
- a draft variation to the abovementioned transfer agreement;
- an option deed for the purchase of the Big Island Graphite shares (hereinafter "Big Island Graphite") by Austral Resources Ltd;
- various corporate documents related to CGMM;
- the share register of Action Mining Ltd; and
- the loan agreement between Austral Resources Limited and HiGround Resources.

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In addition, we have requested the intervention and assistance of the legal and technical departments of the national mining cadastral office (*Bureau du Cadastre Minier de Madagascar* – "BCMM"). We have also requested the assistance of Knights and Johns Management Ltd (KJM), the Mauritian management company which is in charge of keeping the corporate registers of Action Mining Ltd.

I- GENERAL RULES ON MINING PERMITS, ENVIRONNEMENTAL OBLIGATIONS RELATED TO MINING ACTIVITIES, SECURING LAND RIGHTS OVER THE MINING PERIMETER AND MINING ROYALTIES

A) Granting of mining permits

Pursuant to articles 44, 45 and 46 of the Mining Code, mining permits are granted within 30 business day as from the date of the submission of the application by:

- the Minister of Mines in the case of a research permit (Permit "R") or an exploitation permit (Permit "E");
- the Interregional Director of the Ministry of Mines or the technical authority of Mines of the Decentralised Territorial Community in the case of permits reserved for small operators (Permit "PRE").

The application for the granting of a mining permit is submitted and processed in accordance with the provisions of articles 100 et seq of Decree n°2006-910 of 19/12/2006 (hereinafter the "Application Decree") which sets out the conditions of application of the Mining Code. The procedure to be followed is as follows:

- Submission of the application file at the BCMM and payment of 25% of the mining administration fees payable for the first year [1];
- If, after verifications, the file is seen to be complete, the BCMM issues a temporary receipt evidencing submission of the file;
- Transcription of the application for a new permit in the register of mining permit applications at the BCMM;
- Confirmation of the applicant's eligibility, verification of the number of squares applied for and whether the squares are adjacent or joined;
- Preparation of the final receipt evidencing the submission of the file;
- Transcription of the relevant information on the mining permits map, as the case may be;
- Drawing up of the payment order for three quarters (3/4) of the remaining 75% of the mining administration fees payable for the first year;
- Drafting of the granting Arrêté to be submitted to the Minister of Mines;
- Decision of the Minister of Mines to grant the research or exploitation permit;
- Transfer of the signed Arrêté and file to the BCMM;
- The applicant is informed of the granting decision by the BCMM and the latter sends to the applicant the payment notice for the remaining quarter (1/4) of the 75% of the mining administration fees;
- Temporary recording of the granting decision in the mining permits register at the BCMM;
- Amendment of the mining permit map;
- Upon production of the receipt evidencing the payment of the remaining quarter of mining administration fees, the new permit is drawn up;
- Final recording of the new permit in the mining permits register;
- The new permit is indicated on the mining permit map.

[1] Article 101 of the Application Decree provides that: "In order for an application for a mining permit to be admissible, the applicant must pay the processing fees, which represent the equivalent of twenty-five per cent (25%) of the mining administration fees payable with respect to the number of mining squares requested and according to the type of permit applied for. The amount paid with respect to the processing fees is imputable on the amount of mining administration fees actually due."

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The documents which need to be submitted as part of the application file for the granting of a new permit, as set out in article 104 of the Application Decree, are:

- The duly completed and signed application form;
- The investment program and the research/exploitation program plan ;
- The mining cadastral map issued by the BCMM ;
- Copy of the receipt evidencing the payment of the process fees ;
- The environmental commitment plan (PEE), in the case of an application for PRE or research permits ("R permit"), or the commitment letter established by the applicant to not start any mining activity before obtaining the environmental authorisation, in the case of an exploitation permit ("E permit").

The legal deadline (as per article 107-a of the Application Decree) for the decision by the Minister of Mines is thirty (30) days as from the date on which the admissibility of the application file has been confirmed by the BCMM.

B) Renewal of mining permits

According to article 51 of the Mining Code, an application for the renewal of a mining permit is registered by the BCMM upon the payment of the relevant renewal fee, whose value and payment procedures are set out in a regulation.

Pursuant to article 116-a) of the Application Decree, the application for the renewal of a mining permit needs to be submitted to the BCMM within forty-five (45) business days at most before the expiry date of the said permit.

The application file for the renewal of a mining permit should consist of the following documents:

- The duly completed and signed application form;
- Copies of all receipts evidencing the payment of the annual mining administration fees for the previous year;
- Copies of receipts or invoices evidencing the payment of mining royalties and duties for the previous year (for E permits);
- Copy of the receipt evidencing the payment of the renewal fee;
- The mining permit which is the object of the renewal application;
- The signed and certified research and/or exploitation program plan;
- The true certified copy of the document evidencing the identity of the applicant;
- Copy of the environmental authorisation related to the activities performed under the initial mining permit;
- A description of the works carried out during the previous validity period of the permit;
- The results of the environmental audit or evaluation of the works undertaken towards the rehabilitation and the protection of the environment, in accordance with the environmental obligations and undertakings under the initial mining permit;
- As the case may be, a true and certified copy of any pledge or mortgage affecting the mining permit.

In addition, a person who wishes to renew a mining permit must be in a position to prove that he is still eligible to be maintained as the permit holder and that there has been an effective commencement of research or exploitation activities. A further condition for the renewal of the whole of the mining permit is set out in article 52-1 of Mining Code which provides that in the event that no research or exploitation activity has been initiated with respect to a permit, the renewal or the conversion of the permit can only be granted for half of the initial perimeter at most; in the case of a permit consisting of only one mining square, the renewal or the conversion will be refused. Therefore, if the permit holder wishes to obtain the renewal or the conversion of the whole of his mining permit, he must evidence the beginning of mining activities.

The holder of an exploitation permit must pay the mining royalties and duties due with respect to the year preceding the expiry date of the permit which is being renewed.

As regards the renewal of research and exploitation permits, the application file is sent from the BCMM to the Ministry of Mines; the latter should take a decision within 30 business days from the date of submission of the renewal request at the BCMM. The decision to renew a mining permit is published in the Government Gazette after the Ministry of Mines sends its decision to the BCMM.

C) Extension of mining permits

When a permit is granted, it allows the permit holder to carry out mining research or exploitation works – depending on whether it is a research or exploitation permit – on a given area and with respect to specific mineral substances listed in a limitative way on the permit.

However, article 30 of the Mining Code provides that "a mining permit covers the mining substance(s) present in the perimeter and for which the permit has been granted. In the event that indications of other mineral substances which are not covered by the mining permit are found, and which the permit holder proposes to research and/or exploit, the latter must, prior to any work relating to the new substances, submit a declaration before the Bureau du Cadastre Minier and obtain an extension of the permit and, as the case may be, an environmental authorisation from the competent authority".

Moreover, in accordance with the provisions of article 105-B of the Application Decree, the BCMM first carries out a verification of the availability, as at the date of the initial submission of the application, of the requested mining squares, especially in order to ensure that the request does not impede on mining areas which are already the object of previous applications in process. If one or more of the requested mining squares are no longer available for a new permit, the application is rejected by the BCMM by way of a rejection letter.

A study of the above legal provisions leads us to conclude that no new mining right can be granted with respect to a mining area which is already covered by a permit granted to a person or company, even with respect to the exploration or exploitation of substances which are not included in that permit, but which are found within the mining area covered by the permit in question. The applicant for or holder of a mining permit therefore has the exclusive right on all substances present within the mining area covered by the permit.

Hence, in the event that new substances are found within a mining perimeter, the permit holder can make an application before the BCMM for the extension of the substances covered by the permit.

On the basis of articles 112 and 113 of the Application Decree, the procedure for the extension of a mining permit is as follows:

- Submission of the application file at the BCMM and payment of the fixed fee provided at article 84 of the Application Decree;
- The BCMM issues a receipt evidencing submission of the file;
- Drafting of the Arrêté granting the extension;
- Decision of the Minister of Mines to grant the extension, which is materialised by the signing of the Arrêté;
- Transfer of the signed Arrêté and file to the BCMM;
- The new mineral substances are added to the initial permit.

The list of documents which need to be submitted as part of the application file for the extension of a mining permit is set out in article 111 of the Application Decree.

The application file for the renewal of a mining permit consists of the following documents:

- The duly completed and signed application form;
- The research or exploitation plan with respect to the new substances;
- As the case may be, copies of the terms of reference ("*cahier des charges*") approved by the competent authority, when the extension relates to radioactive minerals;
- The valid mining permit; and
- If, at the time of the application for extension of the mining permit, the environmental approval has already been by the competent authority, the document evidencing same.

D) Conversion of a Permit "R" into a Permit "E"

Articles 162 and 164 of the Application Decree provide for the possibility of converting:

- A permit reserved for small operators (PRE) into a research permit or exploitation permit,
- A research permit into an exploitation permit, provided that:
- The applicant is eligible for holding a mining permit in accordance with the provisions of articles 9 et seq of the Mining Code; and
- In the case of a conversion into an exploitation permit, the applicant shows that research works have started on the relevant mining perimeter.

Pursuant to article 162 al. 3 of the Application Decree, the application for the conversion of a mining permit is submitted and processed in accordance with the provisions of articles 100 et seq of the said Application Decree. The procedure for the conversion of a mining permit is as follows:

- Submission of the application file at the BCMM and payment of 25% of the mining administration fees payable for the first year;
- If, after verifications, the file is seen to be complete, the BCMM issues a temporary receipt evidencing submission of the file;
- Transcription of the application for a new permit in the register of mining permit applications at the BCMM;
- Confirmation of the applicant's eligibility, verification of the number of squares applied for and whether the squares are adjacent or joined;
- Preparation of the final receipt evidencing the submission of the file;
- Transcription of the relevant information on the mining permits map, as the case may be;
- Drawing up of the payment order for three quarters (¾) of the remaining 75% of the mining administration fees payable for the first year;
- Drafting of the granting Arrêté to be submitted to the Minister of Mines;
- Decision of the Minister of Mines to grant the research or exploitation permit;
- Transfer of the signed Arrêté and file to the BCMM;
- The applicant is informed of the granting decision by the BCMM and the latter sends to the applicant the payment notice for the remaining quarter (¼) of the 75% of the mining administration fees;
- Temporary recording of the granting decision in the mining permits register at the BCMM;
- Amendment of the mining permit map;
- Upon production of the receipt evidencing the payment of the remaining quarter of mining administration fees, the new permit is drawn up;
- Final recording of the new permit in the mining permits register;
- The new permit is indicated on the mining permit map.

The list of documents which need to be submitted as part of the application file for the conversion of a permit is set out in article 104 of the Application Decree.

Pursuant to article 36 of the Mining Code, the holder of a research permit has a priority right to apply for its conversion into an exploitation permit.

Before beginning the works of exploitation, the mining holder has to submit for approval the documents required for an environmental impact study (EIE). Please note that the implementation of the EIE is compulsory for the exploitation permit.

E) Environmental Obligations

The holder of a PRE or a research permit needs to submit an environmental commitment plan ("PEE") to the BCMM and to obtain an environmental authorisation before being entitled to exercise its rights under the permit.

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The PEE required in relation to a research permit can be either a "PEE-RIM"[2] if the mining operations involved are considered as having minimal impact on the environment or a "PEE-RS" [3] for operations whose environmental impact exceeds that of the "PEE-RIM".

Pursuant to Article 73 of the joint ministerial Arrêté n°12032/2000 dated 6 November 2000 relating the regulation of the mining sector in relation to the protection of the environment (hereinafter "joint ministerial Arrêté"), the environmental authorisation for a research permit is issued by the Minister of Mines or his representative. According to Article 104 al. 3 of the Application Decree, the PEE related to a research permit can be submitted to the BCMM after the mining permit has been granted.

In accordance with Article 86 of the joint ministerial Arrêté, the environmental authorisation for a PRE is issued by the head of the provincial Department of the Ministry of Mines, at the same time that the PRE itself is granted.

Pursuant to the provisions of the joint ministerial Arrêté, the respective procedures for the application and processing of the various types of PEE are as follows:

Procedure related to the assessment of a PEE-RIM

- Submission of the PEE-RIM before the BCMM;
- Transmission of the PEE-RIM file from the BCMM to the environmental cell at the Ministry of Mines;
- Assessment of the PEE by the environmental cell, and request for additional information from the permit holder, as the case may be;
- If the PEE-RIM is not in accordance with the template set out in the joint ministerial Arrêté, the environmental cell informs the permit holder thereof within 15 business days from the date of submission of the PEE-RIM;
- Transmission, by the environmental cell, of its reasoned opinion to the Minister of Mines within a maximum of 30 business days from the date of submission of the PEE-RIM;
- Approval or refusal by the Minister of Mines within 10 business days from the date of receipt of the reasoned opinion from the environmental cell.

Procedure related to the assessment of a PEE-RS

- Submission of the PEE-RS before the BCMM;
- Transmission of the PEE-RS file from the BCMM to the environmental cell at the Ministry of Mines;
- Assessment of the PEE by the environmental cell, and request for additional information from the permit holder, as the case may be;
- If the PEE-RS is not in accordance with the template set out in the joint ministerial Arrêt, the environmental cell informs the permit holder thereof within 20 business days from the date of submission of the PEE-RS;
- Transmission, by the environmental cell, of its reasoned opinion, to the Minister of Mines within amaximum of 35 business days from the date of the submission of the PEE-RS;
- If the object of the PEE-RS is research works within a sensitive zone or at a development and/or feasibility stage, submission of the PEE-RS by the environmental cell to the *ad hoc* assessment committee 10 days from the date of submission of the PEE file;
- Transmission of the reasoned opinion from the *ad hoc* assessment committee to the Minister of Mines within 30 business days from the date of submission of the PEE-RS by the environmental cell;
- Approval or refusal by the Minister of Mines within 10 business days from the date of the receipt of the reasoned opinion from the *ad hoc* assessment committee.

2 environmental commitment plan required for the mining activities carried out under a research permit and which have a minimal environmental impact

3 environmental commitment plan required for the mining activities carried out under a regular research permit.

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Procedure related to the assessment of a PEE-PRE

- Submission of the PEE-PRE before the BCMM;
- Transmission of the PEE-PRE file from the BCMM to the environmental cell at the Ministry of Mines;
- Assessment of the PEE by the environmental cell, and request for additional information from the permit holder, as the case may be;
- If the PEE-PRE is not in accordance with the template set out in the joint ministerial Arrêté, the environmental cell informs the permit holder thereof within 10 business days from the date of submission of the PEE-PRE;
- Except for a PEE-PRE related to the operations in the areas situated within a concentration zone of the mining operations, the reasoned opinion of the environmental cell is transmitted to the head of the provincial Department of the Ministry of Mines within 20 business days from the date of submission of the PEE-PRE;
- Approval or refusal by the head of the provincial Department of the Ministry of Mines within 5 business days from the date of the receipt of the reasoned opinion of the environmental cell.

F) Securing land rights over the project areas

Under the provisions of article 13 of the Mining Code, the mines and fossil deposits are separated from land ownership. In other words, the holder of a mining permit does not automatically become the owner of the land representing the mining perimeters within which the mineral substances, whose research or exploitation is authorised by the permits, are found.

The holder must therefore verify the ownership of the land covered by the mining perimeter, which can be evidenced by a copy of the land title or the updated certificate of legal situation pertaining to.

The copy of the land title can be requested from the owner if contact has already been made with the latter. The land register can also be consulted, with a power of attorney from the owner, at the Regional Land Department having jurisdiction over the area where the mining perimeter is located. Moreover, a certificate of legal situation dated less than 3 months can be requested at the Regional Land Department, by providing the land title number and the name of the property.

In addition to obtaining a mining permit, Articles 307, 311 and 316 of the Application Decree of the Mining Code provide for the need for the permit holder, before starting mining exploration or exploitation:
- to enter into a lease agreement with the owner or owners of the land, and
- to inform them of the permit holder's right to occupy the plots covered by its permit(s).

1) A lease agreement over State-owned land:

In the event that the land covered by the permits is State-owned, the permit holder needs, as provided by article 307 of the abovementioned Application Decree, to enter into an agreement with the authority in charge of the management of State land (currently the "*Ministre de l'Aménagement du Territoire*"). Pursuant to Article 19 of Law No. 2008-014 dated 23/07/2008, the contract with the State may take the form of an ordinary lease for a maximum period of 18 years or a long term lease ("*bail emphytéotique*") agreement for a period which cannot exceed 99 years.

In order to enter into a lease agreement, the permit holder must identify the owner of the land. Under the article 316 al.2 of the abovementioned Application Decree, in case that the owners of the parcels covered by the mining permit exist, but their identity and/or address unknown, the permit holder, in collaboration with the Mayor of the "Commune" in which the land is found, conducts a diligent research in order to identify and find the land owners, according to a research and identification procedure set out in the same Decree.

The terms of the lease agreement are freely negotiable between the permit holder and the landowner, whether a private or public entity. However, there are procedures relating to the request for and granting of a lease over land that belongs to the State as follows:
- Public posting of the applicant's request and possibility for opposition by third parties;
- Request, to the ministry in charge of land, for the drawing up of land titles over the required plot of land in the name of the State;
- Drawing up of formal land titles in the name of the State with respect to the plot of land in question;

- Registration and transcription of the land title at the land registry having jurisdiction over the area in which the land is located;
- Application for the granting of a long term lease by the State;
- Signing of the lease agreement between the permit holder and the State, represented by the minister in charge of land; and
- In the case of a long term lease ("bail emphyteotique") - which is recommended for mining activities - registration and transcription of the rights of the leasee at the land registry, which results in the issuing of a land title in the name of the leasee which reflects its leasehold rights.

The procedures described above usually takes several months to complete and also involves, in parallel, discussions with various local players such as the members and head of the "Commune" and "Region". As regards the rent, there are schedules of prices; however these vary depending on the regions concerned and, to our knowledge, the common practice is that the State negotiates the rent with the applicant on a case by case basis.

In addition to the above, we are not aware of any other prescribed procedures required or preconditions to be satisfied prior to the permit holder and the landowner entering into a lease agreement.

2) A long term lease entered into with a private person:

In the event that the lessor is a private person, the procedures are as follows.

The parties have to enter into the long term lease in front of a notary. After that, the notary deals with all the administrative formalities, namely the registration of the long term lease agreement at the tax administration and at the regional department of land.

Besides, pursuant to article 318 of the Application Decree, in the event that the private landowner refuses to agree on the terms of the lease agreement, the mining holder shall submit the dispute to the Mayor of the "Commune" of the concerned area, and the latter, in case of a failure to achieve a conciliation between the parties, shall submit the case to the Provincial Mining Committee ("*Comité Provincial des Mines*") which will initiate an amicable settlement procedure. If the amicable settlement procedure fails, the terms of the standard lease agreement template set out by an Arrêté of the Ministry of Mines shall be taken as reference by the jurisdiction to which the dispute has been referred for its final settlement.

The abovementioned provisions of article 318, along with those of article 126 of the Mining Code – which are backed by article 316 of the Application Decree – which states that "the permit holder has the obligation to inform the landowner of its right to occupy the portion of the property covered by its mining permit…" tend to show that the permit holder has a right to occupy the land covered by its permit, although the said occupation needs to be formalised by the signing of a lease with the landowner, and that only the terms and conditions of the lease agreement can be subject to negotiation and approval by the landowner. Article 318 of the Application Decree, in particular, comforts us into thinking that there is no real possibility for the private landowner to refuse outright to grant the lease. Indeed, at the end of the dispute resolution procedure provided by that article, the outcome seems the imposition of certain terms and conditions of a template lease agreement, without the possibility of a scenario where no agreement is signed.

However, this is not provided for clearly in the law and, in the case of a private landowner that has a land title, the above reasoning – if such is the spirit of this section of the Mining Code – would be against the more fundamental principle that a person's rights in his land are protected (the exception being expropriation by the State on the ground of public utility and following a specific process).

It should also be noted that the abovementioned provisions of article 318 would not apply in the case of an application for a lease agreement over State-owned land.

Article 125 al.2 of the Mining Code specifically provides that: "If there is no lease agreement, and if the permit holder has carried some works on a parcel of land with respect to which the landowner would subsequently require the enjoyment, the permit holder is only entitled to the reimbursement, by the landowner, of the expenses incurred and made useless by the eviction, as well as compensation, if any, of the benefits that it could have obtained therefrom." In case that there is no lease agreement, the permit holder would also have, under article 129 of the Mining Code, the obligation to repair any damage that these works might have caused to private or public property.

The abovementioned long term leases shall be registered at the land office in order to make them opposable to third parties, and can also be mortgaged to secure a loan; they therefore give to the lessee land rights which are of comparable significance to freehold rights in the land.

G) Mining royalties and duties

Article 284 of the Application Decree provides that the mining permit holder has an obligation to pay mining royalties and duties due upon the first sale of the extracted mining products, with respect to the exploitation permit and for the integrated mining activities. The payment of mining royalties and duties are therefore not required for the holders of a research permit or a permit reserved for the small holders.

According to Article 294 of the Application Decree, the rates of mining royalties and duties are respectively 0.60% and 1.40%, which are allocated as follows:

	Beneficiary	**R**
Mining royalties (“*Redevances minières*”)	General budget (Central Department of Mines, Interregional	6 5
	Gold authority (“*Agence de l’or*”)	1
	National Mining Committee (“*Comité National des Mines*”)	1
	National Mining Cadastral Office (“BCMM”)	1
	Total	**1**

	Beneficiary	**R**
Mining duty (“*Ristournes minières*”)	“Commune”	6
	Region	3
	Province	1
	Total	**1**

II- PROTECTION GRANTED BY THE TREATY BETWEEN MAURITIUS AND MADAGASCAR ON MUTUAL PROTECTION AND PROMOTION OF INVESTMENTS

A) Relevant law

For the purpose of issuing the present legal opinion, we have studied the following documents, which comprise the relevant body of law:

- the Agreement for the promotion and protection of investments between the Government of the Republic of Mauritius and the Government of the Republic of Madagascar, signed on the 06th April 2004 (**Treaty);**

- the Decision No. 10-HCC/D1 dated 20 July 2005 of the High Constitutional Court of Madagascar relating to the Treaty (**Decision**);
- the Law N° 2005-001 dated 02 August 2005 authorising the ratification of the Treaty in Madagascar (**Ratification Law**);
- Notification of ratification of the Treaty to the Republic of Mauritius by the Republic of Madagascar, dated 27 September 2005 (**Madagascar Notification**); and
- Notification of ratification from the Embassy of the Republic of Mauritius to the Malagasy Ministry of Foreign Affairs dated 29 November 2010 (**Mauritius Notification**).

B) Legal standing and enforceability of the Treaty

Pursuant to article 82.3 of the Constitution of Madagascar, "*Ratification or approval of treaties of alliance, trade agreements, treaties or agreements relating to the international organization of those who commit the finances of the state, that modify provisions of a legislative nature, or relating to personal status, treaties of peace, or contain modification of territory must be authorised by law. Before ratification, the treaties are submitted by the President of the Republic, to the constitutional review of the High Constitutional Court. In case of non-compliance with the Constitution, the agreement or treaty can only be ratified after reviews thereof.*"

In compliance with the above article, the Treaty, being a trade agreement, has been submitted to the constitutional review required before the ratification. In this respect and having decided positively on the said compliance with the Constitution, the High Constitutional Court has released its Decision. The ratification of the Treaty has been duly authorised by the passing of the Ratification Law, which was published in the Official Gazette n°2 995 dated 24/10/05, page 5121.

Article 13 a) of the Treaty provides that "*Each Contracting Party shall notify the other of the procedures required by law for the entry into force of this Agreement. This will take effect one month after the date of receipt of the last notification*". Therefore, we requested and obtained, from the Ministry of Foreign Affairs, copies of the notifications of ratifications sent to each party to the other in order to make the Treaty enforceable.

Regarding the formalities of ratification notified by Madagascar, the notification sent to the Embassy of Mauritius refers to the Ratification Law which both authorises the ratification of, and ratifies, the Treaty.

The Mauritius Notification was given the Malagasy Ministry of Foreign Affairs on 29 November 2010. This completed the legal process required to fully implement the Treaty. Therefore the Treaty has been fully implemented and enforceable since 29 December 2010.

C) Protection under the Treaty

<u>1- Scope of Protection</u>

The Treaty's protections apply to "investment", which article 1 defines to mean "*assets of any kind invested by investors of one contracting Party in accordance with the laws and regulations of the other Contracting Party in the territory of the latter, and particularly but not exclusively: (...) the rights (...) from contracts legally concluded, including concessions granted for exploration, extraction, and exploitation of natural resources*. The term "investor" includes, for each contracting party, (...) *corporations and economic organisations, incorporated under the laws in force in the territory of the Contracting Party and having there its place of effective management*".

We have been informed that HiGround Resources is a subsidiary of Big Island Graphite registered under and according to the laws of Madagascar after the date of the Treaty; as such, HiGround Resources and its permits and rights to permits fall within the scope of the protection granted by the treaty. We have also been informed that Big Island Graphite is a company incorporated in Mauritius after the date of the treaty; on this basis, it will therefore be protected as "investor" under the treaty if its place of effective management is in Mauritius. Hence, based on the above, the Treaty can be relied upon in relation to Big Island Graphite's investment in HiGround Resources and its mining permits in Madagascar.

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2- Types of Protection

The Treaty provides various rights and protections to investors of which we consider the following to be of particular relevance to the security of HiGround Resources tenure to mining permits and related contractual rights:

- Fair and equitable treatment;
- National and Most Favoured Nation treatment;
- Restriction on Expropriation and compensation rights; and
- Free Transfer of payments.

a) Fair and equitable treatment

All kinds of discriminatory or unjustified measures which might impede or obstruct the management, use, maintenance, or benefit and enjoyment of an investment are excluded by the Treaty. Accordingly, the Malagasy State grants to Big Island Graphite a complete assurance of the good development of its activities, in a fair, quiet and secure environment, notwithstanding its foreign status, so long as Madagascar's territorial laws are respected, provided always that these transfers comply with the Malagasy Law related to the exchanges, namely the Law n°2006-008 dated 02 August 2006.

However, the Treaty allows the Malagasy Government to take all measures deemed necessary or urgent to protect its essential security and public order, environment, public health and prevention of diseases affecting animals and plants. Only to that extent can it take measures which could affect HiGround Resources's activities.

b) National and Most Favoured Nation Treatment Compensation for losses resulting from wars and conflicts

This engagement means that each party will grant to the investments of the other party located in its territory at least the same and equal treatment as those that it grants to its own investors and to most favoured nations' investors in its territory. Article 6 applies this same treatment to ensure that if any compensation rights would be available either to a Malagasy national or a national of a most favoured nation in respect of damages caused to HiGround Resources by war or other armed conflict, revolution, state of national emergency, revolt, insurrection or riot, act of terrorism against its investments in the territory of Madagascar, then such compensation rights apply to Big Island Graphite.

c) Expropriation and compensation

The Treaty prevents the Malagasy State from taking measures of expropriation, nationalization or other similar measures that would directly or indirectly deprive Big Island Graphite of their Malagasy investment, unless the measures taken are:

- in public interest and within a proper administration of justice; or
- not discriminatory or contrary to the commitments made as a Contracting Party to the Treaty; and
- taken against the payment of adequate compensation, which amount and conditions are set in accordance with the laws in force in the territory of Madagascar and shall match the value of the investment concerned immediately before the date that the measure was made public. Such compensation is assessed and paid in the currency of Madagascar although freely convertible to foreign currency.

As a further protection, the legality of the expropriation, nationalization or similar measure and the amount of compensation shall be audited by an ordinary legal proceeding.

d) Free Transfer of payments

The Treaty ensures the right of Mauritian investors to freely transfer from Madagascar (in accordance with Malagasy law) monies resulting from their investment including, for example, any payments of income/dividends from their Malagasy assets, proceeds from the sale of assets, and the repayment of loans made to subsidiaries.

This freedom can be restricted in case of exceptional difficulty of the balance of payments. Restrictions must be implemented in good faith in a fair and non-discriminatory manner and their duration must not exceed six months, unless such restrictions are part of a program with the International Monetary Fund.

D) Dispute between an investor and the State related to an investment

The guarantees provided by the Treaty are, to our opinion, very well secured by the litigation provisions. In particular article 10 provides that if a dispute can not be settled amicably within 9 months, then a Mauritian investor (eg Big Island Graphite) has the choice to initiate arbitration of or judicial proceedings in Madagascar or to refer the matter to "*an arbitration of the International Centre for Settlement of Investment Disputes (ICSID) for settlement or arbitration, in compliance with the Convention on the Settlement of Investment Disputes between States and investors of other States opened for signature on 18 March 1965 in Washington*.

Article10c. provides that in the case of an ICSID referral: "*The arbitral court will decide on the basis of national law of the Contracting Party to the dispute over the territory of which the investment is located, and on the basis of rules on conflict of laws, provisions of this Agreement, terms of specific agreements concluded on the investment and the principles of international law*"

Therefore, it has to be noted that in case of an expropriation of mining permits or a permit holding subsidiary owned by a Mauritius entity, such as Big Island Graphite, the Mauritian entities will have the choice to resolve disputes before the ICSID, rather than in Madagascar, informed by the principles of international law and the protections afforded in the Treaty.

III- BERAVINA ZIRCON PROJECT TENEMENT A) Validity of the mining permit

1) Current legal situation of the permit n°8096 ("Beravina Zircon Project Tenement")

a- Permit validly granted

In the course of this due diligence, we have received a copy of the research permit n°8096. We also have in our possession a registration certificate dated 1 August 2012 with respect to the said permit.

An analysis of the relevant law and regulations shows that only the registration certificate related to a mining permit, issued by the BCMM to any person requesting same, can evidence the final legal status of the said permits. According to article 75 of the Application Decree, the registration certificate sets out the up to date situation of the permit in the same manner as it is stated in the mining permits register, namely:

- the permit number,
- the number and date of the granting Arrêté or Order,
- the number and date of the renewal Arrêté or Order,
- the name and address of the permit holder,
- the type of mining permit,
- the authorised substances,
- an identification of the mining squares covered by the permit,
- the inscription encumbering the permit,
- the validity expiry date of the mining permit.

It is worth noting that the BCMM issues registration certificates only with respect to mining permits which have been granted for good.

In addition, article 108 of the Application Decree specifies that: "*(…).The mining permit becomes effective only as from the date of the Arrêté or Order which grants same. The mining permit is issued after it is signed by the Director of the Bureau du Cadastre Minier, without the need to wait for the publication formality of the granting Arrêté or Order in the Official Journal*". Therefore, as the physical permits have been issued and both the existence and date of the Arrêtés are noted in the registration certificate, there is conclusive evidence in terms of the Application Decree that the permits have been validly granted.

On the basis of the copy of the said permit and registration certificate, we have noted the following general information on the Beravina Project Tenement:

- Permit holder: Compagnie Générale des Mines de Madagascar ("CGMM")
- Number of mining squares: 16
- Authorised substance: Zircon
- Type of permit: research permit
- Date of grant: 1 August 2003
- Validity period: 10 years

b- Mining administration fees paid

The failure to pay mining administration fees can put at risk the validity of a mining permit. Article 165 of the Application Decree provides that: "*(…). The non-payment of mining administration fees or mining royalties or duties leads to the annulment of the relevant mining permit (…)*". The payment of mining royalties and duties due upon the first sale of the mining products extracted is at the burden of holders of exploitation mining permits only, so does not apply here.

We note that the mining administration fees with respect to the Beravina Zircon Project tenement held by CGMM have been duly settled, from the date of granting of the permit until 2012. The validity of these permits cannot therefore be challenged.

2) Scope of the rights related to the mining substances covered by the Beravina Project Tenement

To date, the mining substance covered by the Beravina Project Tenement is Zircon (see the table below – summary of mining tenements).

Pursuant to article 33 of the Mining Code, CGMM have, during the validity period of the permits and within the limits of the relevant mining areas covered by same, the exclusive right to carry out prospection and research of the substance(s) for which the permit has been granted, without having any obligation to pay mining royalties or duties.

Article 105-B of the Application Decree indicates that: *« The BCMM first carries out a verification of the availability, as at the date of the initial submission of the application, of the requested mining squares, especially in order to ensure that the request does not impede on mining areas which are already the object of previous applications in process. If one or more of the requested mining squares are no longer available for a new permit, the application is rejected by the BCMM by way of a rejection letter. (…)* ».

A study of the above legal provisions leads us to conclude that no new mining right can be granted with respect to a mining area which is already covered by a permit granted to a person or company, even with respect to the exploration or exploitation of substances which are not included in that permit, but which are found within the mining area covered by the permit in question. However, the permit holder needs to make a request for the extension of mining substances at the BCMM before commencing any research or exploitation activity with respect to that substance.

B) Environmental authorisation for the Beravina Project Tenement

As we mentioned above, the holder of a research permit needs to obtain an environmental authorisation before being entitled to exercise its rights under the permit.

We have received the copy of an environmental authorisation related to the Beravina Project Tenement issued by the Minister of Mines on 3 January 2007.

According to Articles 73 of the joint ministerial Arrêté and 104 al.3 of the Application Decree, the environmental authorization for a research permit can be issued by the Minister of Mines after the mining permit has been granted.

We are therefore of opinion that the environmental authorisation related to the Beravina Project Tenement has been issued in accordance with the Malagasy mining regulations and is valid.

C) Renewal of the Beravina Project Tenement

Pursuant to article 116-a) of the Application Decree, the application for the renewal of a mining permit needs to be submitted to the BCMM within forty-five (45) business days at most before the expiry date of the said permit. The application to renew the Beravina Project Tenement will therefore have to be submitted within (45) business days at most before the expiry date of the permit, that is, by the 30th May 2013 at latest.

As explained at section I (B) above, CGMM would need to evidence that it is still eligible to be a permit holder and that research activities on the Beravina Project Tenement have effectively started; if this is not the case, the permit will be renewed for, at most, only half of the mining perimeter that is currently covers. The same rule applies if an application is made for conversion of the Beravina Project Tenement into an exploitation permit, as opposed to a renewal of the existing research permit.

In terms of the procedure involved in the renewal process, after the application file has been lodged by CGMM and processed by the BCMM, it is subsequently sent to the Ministry of Mines which, according to the Application Decree to the Mining Code, should make a decision within 30 business days from the date of submission of the renewal request at the BCMM. The decision of the Ministry of Mines is sent to the BCMM, and is then published in the Government Gazette. This said, we cannot attest as to whether the abovementioned time frame is actually complied with in practice and in all cases. However, in the event that the decision to renew the permit is not ready within this time frame, CGMM may, thirty-five business days from the date of submission of the application, request a grant attestation from the BCMM with respect to the permit. Inasmuch as the application file as been found admissible by the BCMM, the grant attestation would mention the fact that the renewal of the permit is in process.

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D) Attestation regarding the shareholding of CGMM and Action Mining Ltd

As of this date and on the basis of the information and documents that we hold – being namely the minutes of the special shareholders meeting of CGMM held on 30 June 2011 and a share transfer deed dated 1 July 2011, Action Mining Ltd, a company incorporated under the laws of Mauritius, having its registered office at 9th Floor, Raffles Tower, 19 Cybercity, Ebene, Mauritius, owns 999 shares out of the 1000 shares representing the share capital of CGMM.

We have also viewed the register of members and share ledger of Action Mining Ltd delivered on 6 October 2012 by Knights & Johns Management Ltd, a management company in charge of setting up, managing and providing domiciliation to Action Mining Ltd. The said register shows that 100% of the shares of Action Mining Ltd are currently held by Austral Resources Pty Ltd.

E) Land rights over the Beravina Project Tenement perimeter

As a company controlled and held by a foreign entity, CGMM needs to enter into a long term lease over the land which covers the mining permit perimeter, with the owner(s) of the land and/or the State, as the case may be. On the basis of the information which we have received from CGMM, a lease has not yet been secured on the land in question although the process, as described at Section I (F) above, has been initiated. In this respect:

- we have been informed by CGMM that a meeting has been held with the Land Office which verbally confirmed that the land is not subject to any application for ownership by any private entity;
- we have received and viewed a letter from the mayor of Beravina, stating that the plot of land of an area of 2.5 square kilometres and situated in Ambatofotsy, Beravina commune, district of Morafenobe, Melaky region, is not subject to any application to mark its boundaries;
- we have recommended to CGMM to secure a similar statement as that made by the mayor of Beravina, from the Land Office, where an application for boundary marking or acquisition, if any, would have been filed; we have been informed that discussions are in progress in view of obtaining a letter from the Land Office attesting same and/or that the plot of land is State-owned.

IV- GRAPHITE PROJECT TENEMENTS

A) Validity of the mining permits

1) Current legal situation of permits reserved for small operators n°38642, 38643, 38644 and 38762

a- Permits validly granted

In the course of this due diligence, we have received the copies of PRE permits n°38642, 38643, 38644 and 38762 ("Graphite Project tenements"). We have also obtained from the BCMM the registration certificates dated 13 June 2012 relating to these permits. The Graphite Project Tenements registration certificates expressly mention that these mining permits have been suspended until further notice, following the letter of the former Minister of Mines n°662/MMH dated 31 May 2011.

However, article 108 of the Application Decree specifies that: "*(…).The mining permit becomes effective only as from the date of the Arrêté or Order which grants same. The mining permit is issued after it is signed by the Director of the Bureau du Cadastre Minier, without the need to wait for the publication formality of the granting Arrêté or Order in the Official Journal*". Therefore, as the physical permits have been issued and both the existence and date of the Arrêtés are noted in the registration certificate, there is conclusive evidence in terms of the Application Decree that the permits have been validly granted.

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On the basis of the copies of the said permits and registration certificates, we have noted the following general information on the Graphite Project Tenements:

Permit number	Permit holder	No. of mining squares	Authorised substances	Type of permit	Date of grant	Validity period
38642	Randrianasolo Mamy Estelle*	112	Graphite, Pyrite, Pink Quartz, Gold and Ruby	PRE	01/12/2010	8 years
38643	Randrianasolo Mamy Estelle*	32	Graphite, Pyrite, Pink Quartz, Gold and Ruby	PRE	01/12/2010	8 years
38644	Randrianasolo Mamy Estelle*	16	Graphite, Pyrite, Pink Quartz, Gold and Ruby	PRE	01/12/2010	8 years
38762	Randrianasolo Mamy Estelle*	32	Graphite, Pyrite, Pink Quartz, Gold and Ruby	PRE	01/12/2010	8 years

* subject to a transfer agreement to HiGround Resources and subsequently an option to purchase agreement of the parent company of HiGround Resources, Big Island Graphite, by Austral Resources Ltd

b- Mining administration fees paid

The failure to pay mining administration fees can put at risk the validity of a mining permit. Article 165 of the Application Decree provides that: *« (…). The non-payment of mining administration fees or mining royalties or duties leads to the annulment of the relevant mining permit (…) »*. The payment of mining royalties and duties due upon the first sale of the mining products extracted is at the burden of holders of exploitation mining permits only, so does not apply here.

We note that in relation to the Graphite Project Tenements, which is subject to a transfer agreement to HiGround Resources and subsequently an option to purchase agreement of the parent company (Big Island Graphite) by Austral Resources Ltd, the registration certificates show that the mining administration fees related to the four (4) mining permits n°38642, 38643, 38644 and 38762 held by Mrs. Mamy Estelle have been duly settled, from the date of granting of the permits until 2011.

Please note that the mining administration fees for 2012 should be paid at the most 31 March 2012, pursuant to article 89 of the Application Decree. As regards permits n°38642, 38643, 38644 and 38762, we do not hold any document pertaining to the payment of mining administration fees for 2012.

B) Scope of the rights related to the mining substances covered by the Graphite Project Tenements

To date, graphite, pyrite, pink quartz, gold and ruby are the mining substances covered by the Graphite Project Tenements (see the above table).

In accordance with the provisions of article 39 of Mining Code, Mrs. Mamy Estelle has the exclusive right to undertake at the same time prospecting, research and exploitation activities within the delimited perimeter, without having any obligation to pay mining royalties or duties.

Article 105-B of the Application Decree indicates that: *« The BCMM first carries out a verification of the availability, as at the date of the initial submission of the application, of the requested mining squares, especially in order to ensure that the request does not impede on mining areas which are already the object of previous applications in process. If one or more of the requested mining squares are no longer available for a new permit, the application is rejected by the BCMM by way of a rejection letter. (…)* ».

A study of the above legal provisions leads us to conclude that no new mining right can be granted with respect to a mining area which is already covered by a permit granted to a person or company, even with respect to the exploration or exploitation of substances which are not included in that permit, but which are found within the mining area covered by the permit in question. However, the permit holder needs to make a request for the extension of mining substances at the BCMM before commencing any research or exploitation activity with respect to that substance.

In addition, as mentioned previously, the mining permits n°38642, 38643, 38644 and 38762 held by Mrs Mamy Estelle have been suspended following the letter n°662/MMH dated 31 May 2011 from the former Minister of Mines, which indicates that all the mining permits issued since 8 September 2009 should be suspended until further notice.

The abovementioned mining permits have been issued on 1 December 2010. The registration certificates dated 13 June 2012 show that the said permits are suspended.

Moreover, the mining administration, especially the BCMM and the Direction of Mines, indicated that Mrs Mamy Estelle was not under the obligation to pay mining administration fees for 2012, because of the suspension of the said permits.

Pursuant to article 16 of the Application Decree, the declaration of temporary reserve ("*réserves temporaires*") is the only ground of the suspension of the validity of the mining permits.

Article 17 of the Application Decree provides that during the period of classification as a reserved zone, the obligation to pay the mining administration fees is suspended.

Mrs Mamy Estelle indicated that she has not received any notification of the declaration of temporary reserve pertaining to the abovementioned mining permits.

In any case, there is no provision in the Mining Code and the Application Decree which allow the suspension of the mining permits and the obligation to pay the mining administration fees, except the case of the declaration of temporary reserve.

At last, we and Mrs Mamy Estelle have sent two (2) different letters to the Minister of Mines in order to request a clarification for the said permits but we have not yet received any response until now.

Therefore, with respect to the Graphite Project tenements, due to the suspension, it is not materially possible to undertake any mining activities under the permits n°38642, 38643, 38644 and 38762, until the suspension is lifted.

C) Environmental authorisation for the Graphite Project Tenements

To date, we have not received any document evidencing the granting of the relevant environmental authorisation or the approval of the PEE with respect to the PRE permits n°38642, 38643, 38644 and 38762. We have only been verbally informed by the permit holder herself that:

- she had been verbally notified by the BCMM of the need for her to present herself at the provincial Department of the Ministry of Mines in view of enquiring or collecting the authorisation, and
- that this will be done as soon as the suspension over the permits is lifted.

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D) Validity of the transfer agreement of the Graphite Project Tenements

We have examined an agreement for the transfer of mining permits dated 2 February 2012 pertaining to the PRE permits n°38642, 38643, 38644 and 38762, between Mr. Randrianasolo Mamy Estelle (the transferor) and HiGround Resources, represented by Mr Randrianatoandro Jean Christian (the transferee), as well as the draft of a variation to the said transfer agreement, which, we have been informed, is in the process of being signed between the parties. The registration certificates dated 13 June 2012 with respect to permits n°38642, 38643, 38644 and 38762 do not contain any information regarding the submission of the transfer of those permits to HiGround Resources or to any other party.

In light of the above, we have noted that:

- the four (4) abovementioned mining permits are permits reserved for small operators ("PRE");
- the permits have a validity period of eight years;
- the current holder of the permits is Mrs Randrianasolo Mamy Estelle;
- the transfers of the permits to HiGround Resources have not yet been submitted to BCMM;
- the said permits give the holder the exclusive right to carry out the prospecting, research and the exploitation of Graphite, Pyrite, Pink quartz, Gold and Ruby within the mining area covered by the permit.

Article 11 of the Mining Code provides expressly that: *"(…) only Malagasy citizens and organisations legally formed with Malagasy citizens, using traditional techniques, can acquire and hold mining permits for small mining developers ("PRE" permit)".*

As we have been informed that HiGround Resources is 100% owned by a Mauritian registered entity, Big Island Graphite, it cannot be the transferee of the four (4) said PRE permits until the formalities for their conversion into either Research or Exploitation permits, by the submission of the conversion applications at the BCMM, are completed.

The variation deed to the transfer agreement stipulates that two (2) new conditions precedents are included in the agreement, namely:

1) the current situation of the four (4) abovementioned PRE permits held by Mrs Mamy Estelle Randrianasolo should be clarified; and
2) these permits should be converted into Research or Exploitation permits before the transfer from the current holder to HiGround Resources can occur.

E) Option agreement for the purchase of Big Island Graphite by Austral Resources Ltd

We have been informed that the parent company of HiGround Resources is a Mauritian registered company, Big Island Graphite, which holds 100% of its share capital. Austral Resources Ltd has entered into an option agreement ("Option Deed"), which we have viewed, with Intercontinental Nominees Limited, as the nominee legal shareholder of Big Island Graphite, and Trove Corporation, as the beneficial owner of the shares in Big Island Graphite, to purchase 100% of the shares in the latter company. The key terms of the Option Deed include:

- The payment of an option fee by Austral Resources amounting to 15,000 USD for the grant of the option to purchase the legal and beneficial rights in the shares of Big Island Graphite;
- Upon exercise of the option, Austral Resources must pay the purchase price of 85,000 USD for the Big Island Graphite shares and, following the completion of certain stated conditions, issue 1,333,333 fully paid shares in Austral Resources to Intercontinental Nominees Limited;
- The option to purchase the shares of Big Island Graphite shall expire 6 months following the date on which the conversion of the mining permits (PRE) n°38642, 38643, 38644 and 38762 into either Research or Exploitation permits is registered at the BCMM.

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F) Loan agreement between Austral Resources and HiGround Resources

As part of the abovementioned option to purchase deal, Austral Resources Ltd has agreed to make loan funding of up to 250,000 Australian Dollars to HiGround Resources. In this respect, we have also received and viewed a copy of the relevant Loan Agreement entered into between Austral Resources Limited and HiGround Resources in May 2012, whose main characteristics are as follows:

- The loan consists of a principal amount of 250 000 AUD, with an interest at the rate per annum of 2% above the LIBOR; further amounts may be advanced by Austral Resources upon request by HiGround Resources, at Austral Resources' discretion;
- HiGround Resources may use the loaned funds only for the purpose of working capital funding for the exploration and commercial development of permits no. 38642, 38643, 38644 and 38762;
- The drawdown shall occur on the date on which Austral Resources acquires 100% of the share capital of Big Island Graphite, pursuant to the Option Deed, and the loan must be reimbursed within five years following the said drawdown;
- As security for this loan, HiGround Resources has, as per the said loan agreement, agreed to mortgage and pledge all of its assets capable of being mortgaged or pledged in favour of Austral Resources.

It should be noted that, in accordance with the provisions of article 3 of the Law no. 2006-008 of 02/08/2006 regulating foreign exchange, as well as those of Arrêté n° 11174/2003 of 17/07/2003 related to foreign transfers of current, capital and financial transactions, a foreign loan – being a loan granted by a foreign entity to a Malagasy person or company incorporated in Madagascar – is subject to the prior authorisation of the department of the Ministry of Finance in charge of foreign exchange transactions ("S.O.C."). We are not aware of the granting of such authorisation in the case of the abovementioned loan to HiGround Resources.

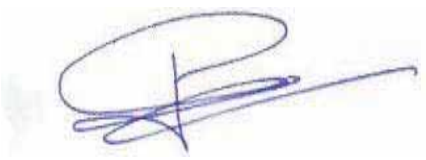
In the event that the said authorisation has not been applied for or granted, the provisions of the loan agreement would still bind the parties contractually; however, in the absence of the authorisation, HiGround Resources would be liable to penal sanctions. Indeed, according to article 20 of the Law no. 2006-008, a person who has breached or attempted to breach the provisions of the law by, namely, failing to obtain a required authorisation or to comply with the conditions associated with an authorisation, is liable to significant penalties. Moreover, in practical terms, a bank which receives a request from a Malagasy company to make payments to a foreign entity on the basis of the reimbursement of a loan would generally require the communication of the authorisation first.

In our experience, it is possible to regularize the S.O.C. authorisation subject to the payment of an agreed reasonable fine.

We remain at your disposal for any additional information or clarification.

Yours truly,

For LEXEL Juridique & Fiscal



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AJG/SB

14 February 2013
The Directors
Austral Resources Limited
Level 14, 275 George Street
Sydney, NSW 2000

Dear Sirs

Investigating Accountant's Report ("Report")

1. Introduction

1.1 This Report has been prepared at the request of the Directors of Austral Resources Limited ("Austral" or "the Company") for inclusion in a Prospectus to be dated on or about 14 February 2013 relating to the proposed offer of 25,000,000 fully paid ordinary shares in the Company, at an issue price of $0.20 per share and 25,000,000 free attaching options, on the basis of one option for every share subscribed, to raise $5,000,000.

1.2 The Company may also accept oversubscriptions of up to 15,000,000 additional Shares at a price of $0.20 each, to raise up to an additional $3,000,000. The minimum subscription of the offer is 17,500,000 fully paid ordinary shares at an issue price of $0.20 to raise $3,500,000.

1.3 This Report has been prepared in accordance with the general disclosure requirements of the *Corporations Act 2001* to assist investors to make an informed assessment of the financial position and performance of Austral.

1.4 The future prospects of Austral, other than the preparation of a Pro-forma Unaudited Consolidated Statement of Financial Position of Austral, assuming completion of the transactions summarised in Sections 5 and 6 of this Report, are not addressed in this Report. This Report also does not address the rights attaching to the shares or options to be issued pursuant to this Prospectus, nor the risks associated with the investment.

2. Background

2.1 Austral was incorporated as a proprietary company limited by shares on 31 March 2011 in Australia. The Company was then converted to a public company limited by shares on 22 December 2011.

2.2 On 31 December 2011 Austral acquired Action Mining Ltd ("Action Mining"), a company incorporated in Mauritius, which has a 99.9% interest in the issued shares of Compagnie Generale Des Mines de Madagascar SARL ("CGMM"), a company incorporated in Madagascar which operates the Beravina

Zircon Project. The consideration for the acquisition was US$500,000 and 9,000,000 ordinary Austral shares, issued at a deemed issue price of $0.05 per share.

2.3 On 30 May 2012, Austral entered into an option deed with Trove Corporation Limited ("Trove") to acquire the Madagascar Graphite Project ("Option Deed").

2.4 Under the Option Deed, the Company holds an option ("Graphite Option") to acquire 100% of the share capital in the Mauritian registered company, Big Island Graphite Limited ("Big Island Graphite"). Big Island Graphite owns 100% of the share capital in the Madagascan registered company, HiGround Resources SARL ("HiGround Resources"), which in turn is the registered holder of a number of mining tenements prospective for graphite ("Graphite Permits").

2.5 The Graphite Option requires an option fee to be paid of $15,000 and the option has a six month term from when the Graphite Permits are transformed from mining tenements to either Research permits or Exploitation permits. The option is exercisable by Austral issuing 1,333,333 ordinary shares and paying a further $85,000 to Trove.

3. Scope of Examination

3.1 You have requested RSM Bird Cameron Corporate Pty Ltd to prepare an Investigating Accountant's Report for inclusion in the Prospectus covering the following financial information ("the Historical and Pro-forma Financial Information"):

- The Audited Consolidated Statement of Comprehensive Income of Austral for the period 31 March 2011 to 30 June 2012;
- The Audited Consolidated Statement of Financial Position of Austral as at 30 June 2012;
- The Pro-forma Unaudited Consolidated Statement of Financial Position of the Company as at 30 June 2012, assuming completion of the transactions summarised in Sections 5 and 6 of this Report; and
- The relevant notes to the Historical and Pro-forma Financial Information.

3.2 The Historical and Pro-forma Financial Information has been prepared and presented in accordance with the accounting policies set out in Note 1 to the Historical and Pro-forma Financial Information.

3.3 Our review of the Historical and Pro-forma Financial Information has been conducted in accordance with Australian Auditing Standards applicable to review engagements. We made such enquiries and performed such procedures as we, in our professional judgment, considered reasonable in the circumstances including:

- an analytical review of all the financial information presented, including a review of the reasonableness of the adjustments used to compile the Unaudited Consolidated Pro-forma Statement of Financial Position as at 30 June 2012;
- a comparison of consistency in the application of the recognition and measurement principles in Australian Accounting Standards (including Australian Accounting Interpretations) and the accounting policies adopted by the Company and disclosed in Note 1 of the Appendix to this Report;
- inspection of financial records; and
- enquiries of directors and management.

4. Responsibility

4.1 The Directors are responsible for the preparation of the Historical and Pro-forma Financial Information.

4.2 It is our responsibility to review the Historical and Pro-forma Financial Information and report thereon. We disclaim any responsibility for any reliance on this Report or the Historical and Pro-forma Financial Information to which it relates for any other purpose other than for which it is prepared. This Report should be read in conjunction with the rest of the Prospectus.

5. Subsequent Events

5.1 Since 30 June 2012, the Company has issued a total of 6,550,000 ordinary shares at $0.10 to raise $655,000 in seed capital.

5.2 On 5 February 2013, Austral issued of 550,000 options to the Joint Lead Managers for services provided in relation to seed capital raised. The options are exercisable at $0.20 and expire on 5 February 2017. This cost has been netted against share capital raised.

5.3 Apart from the matters dealt with in this Report, having regard to the scope of our work, to the best of our knowledge and belief, no material transactions or events outside the ordinary business of the Company have come to our attention that are not otherwise disclosed in this Prospectus, which require further comment upon, or adjustment to the information referred to in this Report, or which would cause the information in this Report to be misleading.

6. Assumptions adopted in compiling the Unaudited Pro-forma Statement of Financial Position

6.1 The Unaudited Consolidated Pro-forma Statement of Financial Position of Austral has been included for illustrative purposes only. The Unaudited Consolidated Pro-forma Statement of Financial Position as at 30 June 2012 has been prepared by adjusting the Unaudited Statement of Financial Position to reflect the financial effects of the following transactions as if they had occurred as at 30 June 2012:

i) The issue of 25,000,000 ordinary fully paid Austral shares at $0.20 each and 25,000,000 free attaching options, exercisable at $0.20 any time before 1 April 2016,to raise $5,000,000 share capital pursuant to this Prospectus (“the Capital Raising”);

ii) The cash payment of costs associated with the Capital Raising, estimated to be $660,000. These costs have been netted against share capital raised;

iii) The cash payment of the option fee of $15,000 and the exercise of the Graphite Option through the further cash payment of $85,000 and the issue of 1,333,333 ordinary fully paid Austral shares, as required under the Option Deed; and

iv) The issue of options to the Joint Lead Managers on the basis of 6% of the total number of shares issued under the Capital Raising. Therefore, on the basis of a fully subscribed Capital Raising, a total of 1,500,000 options are to be issued to the Joint Lead Manager. The options are exercisable at $0.24 and have a term of four years from the date of issue. This cost has been netted against share capital raised.

7. Review Statement of Audited Historical and Unaudited Pro-forma Financial Information

7.1 Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the Historical and Pro-forma Financial Information set out in the Appendix to this Report does not present fairly:

- The Audited Consolidated Statement of Comprehensive Income of Austral for the period 31 March 2011 to 30 June 2012;

- The Audited Consolidated Statement of Financial Position of Austral as at 30 June 2012; and

- The Unaudited Consolidated Pro-forma Statement of Financial Position of Austral as at 30 June 2012 adjusted to include the effects of the Capital Raising proposed in the Prospectus and the completion of the other transactions summarised in Sections 5 and 6 of this Report.

8. Declaration

8.1 RSM Bird Cameron Corporate Pty Ltd is a licensed investment adviser under the *Corporations Act 2001* and is beneficially owned by the directors of RSM Bird Cameron, a large national firm of chartered accountants.

8.2 Mr A J Gilmour FCA is a director and representative of RSM Bird Cameron Corporate Pty Ltd and a director of RSM Bird Cameron. He has professional qualifications and experience appropriate to the advice offered.

8.3 RSM Bird Cameron Corporate Pty Ltd has acted as Investigating Accountant for the Company but has not been involved in the preparation of any other part of this Prospectus. Accordingly, we make no representations as to the completeness and accuracy of the information in any other part of this Prospectus. RSM Bird Cameron Corporate Pty Ltd has not made and will not make any recommendation, through the issue of this Report, to potential investors in the Company as to the merits of the investment.

8.4 RSM Bird Cameron Corporate Pty Ltd will receive a fee for the preparation of this Report based on actual hours spent on the assignment at normal professional rates. Neither Mr A J Gilmour nor RSM Bird Cameron Corporate Pty Ltd will receive any other benefits, either directly or indirectly, from the preparation of this Report and have no pecuniary or other interest which could be regarded as affecting the ability to provide an unbiased opinion in relation to the proposed transaction.

8.5 RSM Bird Cameron Corporate Pty Ltd has consented to the inclusion of this Report in the Prospectus in the form and context in which it appears. At the date of this Report, this consent has not been withdrawn.

Yours faithfully

Andrew Gilmour

A J GILMOUR
Director

AUSTRAL RESOURCES LIMITED
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE PERIOD 31 MARCH 2011 TO 30 JUNE 2012

	Audited 31 Mar 2011 to 30 Jun 12 $
Revenue from continuing operations	423
Depreciation and amortisation expense	(17,418)
Employee benefits expense	(138,100)
Exploration expenses	(718,949)
Other expenses from continuing operations	(496,191)
Profit/(loss) before income tax	(1,370,235)
Income tax expense	-
Net profit (loss) for the period attributable to members of the parent entity	(1,370,235)
Total comprehensive income for the period attributable to members of the parent entity	**(1,370,235)**

The Consolidated Statement of Comprehensive Income should be read in conjunction with the notes to the Historical and Pro-forma Financial Information.

Appendix A – Historical and Pro-Forma Financial Information

AUSTRAL RESOURCES LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

	Note	Austral Audited 30-Jun-12 $	Subsequent events $	Pro-forma Adjustments $	Pro-forma Unaudited 30-Jun-12 $
Current assets					
Cash	2	8,510	655,000	4,240,000	4,903,510
Trade and other receivables		170,829	-	-	170,829
Total current assets		**179,339**	**655,000**	**4,240,000**	**5,074,339**
Non-current assets					
Property, plant and equipment		88,982	-	-	88,982
Mineral exploration and evaluation expenditure	3	1,565,119	-	366,667	1,931,786
Total non-current assets		**1,654,101**	**-**	**366,667**	**2,020,768**
Total assets		**1,833,440**	**655,000**	**4,606,667**	**7,095,107**
Current liabilities					
Trade and other payables		133,772	-	-	133,772
Total current liabilities		**133,772**	**-**	**-**	**133,772**
Total liabilities		**133,772**	**-**	**-**	**133,772**
Net assets		**1,699,668**	**655,000**	**4,606,667**	**6,961,335**
Equity					
Issued capital	4	3,015,452	622,880	4,405,667	8,043,999
Reserves	5	54,451	32,120	201,000	287,571
Retained earnings	6	(1,370,235)	-	-	(1,370,235)
Total equity		**1,699,668**	**655,000**	**4,606,667**	**6,961,335**

The Unaudited Consolidated Pro-forma Statement of Financial Position represents the Audited Statement of Financial Position as at 30 June 2012 adjusted for Subsequent Events and the Pro-forma transactions outlined in Sections 5 and 6 respectively of this Report. It should be read in conjunction with the notes to the Historical and Pro-forma Financial Information.

AUSTRAL RESOURCES LIMITED
NOTES TO THE HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION
AS AT 30 JUNE 2012

1. Summary of significant accounting policies

This Historical and Pro-forma Financial Information and notes represent those of Austral Resources Limited and Controlled entities (the Group).

The separate Historical and Pro-forma Financial Information of the parent entity, Austral Resources Limited, have not been presented within this financial report as permitted by the *Corporations Act 2001.*

Basis of preparation

The Historical and Pro-forma Financial Information are general purpose Historical and Pro-forma Financial Information that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001.*

The Historical and Pro-forma Financial Information include the consolidated entity consisting of Austral Resources Limited and its subsidiaries. The parent entity Austral Resources Limited is a public company incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in Historical and Pro-forma Financial Information containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the Historical and Pro-forma Financial Information and notes also comply with International Financial Reporting Standards as issued by the IASB. Material accounting policies adopted in the preparation of these Historical and Pro-forma Financial Information are presented below and have been consistently applied unless otherwise stated.

Except for cash flow information, the Historical and Pro-forma Financial Information have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principals of consolidation

The consolidated Historical and Pro-forma Financial Information incorporate the assets, liabilities and results of entities controlled by Austral Resources Limited at the end of the reporting period.

A controlled entity is any entity controlled by the Company. Control exists where the Company has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of the Company.

A list of controlled entities is contained in Note 9 to the Historical and Pro-forma Financial Information. All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the consolidated group during the year, their financial performance has been included from the date control was obtained or until the date control ceased.

AUSTRAL RESOURCES LIMITED
NOTES TO THE HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION
AS AT 30 JUNE 2012

1. Summary of significant accounting policies (cont.)

(b) Mineral exploration, evaluation and development expenditure

Mining tenements are carried at cost, less accumulated impairment losses.

Mineral exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area of interest or sale of that area of interest, or exploration and evaluation activities have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active or significant operations in or in relation to, the area of interest are continuing.

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

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.

(c) Income tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates and tax laws that have been enacted or are subsequently enacted by the reporting date.

Current tax losses for current and prior periods are not recognised as an asset as the future income tax benefit can be carried forward only as an asset where realisation of the benefit can be regarded as being probable.

(d) Foreign currency transactions and balances

Functional & presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The Consolidated Historical and Pro-forma Financial Information are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction & Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedge.

AUSTRAL RESOURCES LIMITED
NOTES TO THE HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION
AS AT 30 JUNE 2012

1. Summary of significant accounting policies (cont.)

(d) Foreign currency transactions and balances (cont.)

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses and translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of comprehensive income. These differences are recognised in the statement of comprehensive income in the period in which the operation is disposed.

(e) Equity settled compensation

The Company operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting year, with a corresponding increase to the option reserve.

Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve

The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a binomial pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

AUSTRAL RESOURCES LIMITED
NOTES TO THE HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION
AS AT 30 JUNE 2012

2. Cash and cash equivalents

	Audited 30 Jun 12 $	Pro-forma Unaudited After Issue $
Cash and cash equivalents	8,510	4,903,510
As at 30 June 2012		8,510
Subsequent events		
6,550,000 ordinary shares issued post 30 June 2012 at $0.10 each (paragraph 5.1)		655,000
Adjustments arising in the preparation of the Pro-forma Statement of Financial Position are summarised as follows		
Proceeds from the issue of 40,000,000 ordinary shares at $0.20 each pursuant to the Prospectus (paragraph 6.1(i))		5,000,000
Payment of capital raising costs (paragraph 6.1(ii))		(660,000)
Payment of the option fee to acquire the Graphite Option under the Option Deed (paragraph 6.1(iii))		(15,000)
Payment to exercise the Graphite Option to acquire the Graphite Permits under the Option Deed (paragraph 6.1(iii))		(85,000)
		4,240,000
Pro-forma balance		4,903,510

3. Mineral exploration and evaluation expenditure

	Audited 30 Jun 12 $	Pro-forma Unaudited After Issue $
Mineral exploration and evaluation expenditure	1,565,119	1,931,786
As at 30 June 2012		1,565,119
Adjustments arising in the preparation of the Pro-forma Statement of Financial Position are summarised as follows		
Option fee to acquire the Graphite Option (paragraph 6.1(iii))		15,000
Payment to exercise the Graphite Option to acquire the Graphite Permits under the Option Deed (paragraph 6.1(iii))		85,000
The issue of 1,333,333 fully paid ordinary shares at $0.20 to acquire the Graphite Permits under the Option Deed (paragraph 6.1(iii))		266,667
		366,667
Pro-forma balance		1,931,786

AUSTRAL RESOURCES LIMITED
NOTES TO THE HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION
AS AT 30 JUNE 2012

4. Issued capital

	Number of ordinary shares	$
As at 30 June 2012	90,223,001	3,015,452
Subsequent events		
6,550,000 ordinary shares issued post 30 June 2012 at $0.10 each (paragraph 5.1)	6,550,000	655,000
Recognition of cost of options issued to the Joint Lead Managers on 5 February 2013 (paragraph 5.1)	-	(32,120)
Adjustments arising in the preparation of the pro-forma balance are summarized as follows:		
Fully paid ordinary shares issued at $0.20 pursuant to the Prospectus (paragraph 6.1(i))	25,000,000	5,000,000
Cash costs associated with the share issue pursuant to the Prospectus (paragraph 6.1(ii))	-	(660,000)
Fully paid ordinary shares issued at $0.20 to exercise the Graphite Option under the Option Deed (paragraph 6.1(iii))	1,333,333	266,667
Recognition of cost of options issued to the Joint Lead Managers pursuant to the Prospectus (paragraph 6.1(iv))	-	(201,000)
Pro-forma balance	123,106,334	8,043,999

Oversubscriptions

The Prospectus has provision to accept oversubscriptions of up to a further 15,000,000 shares to raise up to a further $3,000,000.

In this situation, the cash costs associated with the share issue would increase to $900,000, the cash at bank balance would rise by $2,760,000 to $7,663,510, the cost of the options issued would increase by $120,600 to $321,600, the contributed equity would increase by $2,639,400 to $10,683,399 and the total number of shares on issue would be 138,106,334.

Minimum subscription

The minimum subscription provided for in the Prospectus is 17,500,000 shares to raise $3,500,000.

In this situation, the cash costs associated with the share issue would decrease to $375,000, the cash at bank balance would fall by $1,215,000 to $3,688,510, the cost of the options issued would decrease by $60,300 to $140,700, the contributed equity would decrease by $1,154,700 to $6,889,299 and the total number of shares on issue would be 115,606,334.

AUSTRAL RESOURCES LIMITED
NOTES TO THE HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION
AS AT 30 JUNE 2012

5. Share based payment reserve

	Note	Number of options	$
As at 30 June 2012		-	-
Subsequent events			
Recognition of cost of options issued to the Joint Lead Managers on 5 February 2013 (paragraph 5.2)	(a)	550,000	32,120
Adjustments arising in the preparation of the pro-forma balance are summarized as follows:			
Free attaching options issued pursuant to the Offer (paragraph 6.1(i))		25,000,000	-
Options issued to the Joint Lead Managers pursuant to the Offer (paragraph 6.1(iv))	(b)	1,500,000	201,000
Pro-forma balance		27,050,000	233,120

(a) 550,000 options in Austral were issued to the Joint Lead Managers on 5 February 2013 for services rendered in relation to seed raisings. Using a Binomial Valuation Model the fair value of the 550,000 Austral options to be issued has been assessed based on the following assumptions:

Underlying share price	$0.10
Exercise price	$0.20
Expected volatility	100%
Option life	4 years
Risk-free interest rate	2.57%
Value per option	$0.0584
Share based payment	$32,120

(b) 2,400,000 options in Austral, being 6% of the number of shares issued under the Capital Raising, will be issued to the Joint Lead Managers for services rendered in relation to the Capital Raising. Using a Binomial Valuation Model the fair value of the 2,400,000 Austral options to be issued has been assessed based on the following assumptions:

Underlying share price	$0.20
Exercise price	$0.24
Expected volatility	100%
Option life	4 years
Risk-free interest rate	2.57%
Value per option	$0.134
Share based payment	$201,000

As number of options issued to the Joint Lead Managers is to be 6% of the total shares issued under the Capital Raising, the number of options issued to the Joint Lead Managers variable based on the number of shares issued under the Capital Raising and may be as low as 1,050,000 and as high as 2,400,000 under the minimum and maximum subscription limits respectively.

AUSTRAL RESOURCES LIMITED
NOTES TO THE HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION
AS AT 30 JUNE 2012

Oversubscriptions

The Prospectus has provision to accept oversubscriptions of up to a further 15,000,000 shares to raise up to a further $3,000,000.

In this situation, a further 15,000,000 free attaching options and 900,000 Joint Lead Managers' options would be issued with the cost of the Joint Lead Managers' options issued increasing by $120,600 to $321,600 and the total number options outstanding would rise to 42,950,000.

Minimum subscription

The minimum subscription allowed under the Prospectus is for 17,500,000 shares to raise $3,500,000.

In this situation, only 17,500,000 free attaching options and 1,050,000 Joint Lead Managers' options would be issued with the cost of the Joint Lead Managers' options issued decreasing by $60,300 to $140,700 and the total number options outstanding would be 19,100,000.

6. Accumulated losses

	Audited 30 Jun 12 $	Pro-forma Unaudited After Issue $
Accumulated losses	(1,370,235)	(1,370,235)

7. Related party disclosure

(a) The Directors of Austral at the date of this Report are Terry Willsteed, Wayne Kernaghan and Glen Tetley.

(b) Directors' holdings of shares, directors' remuneration and other directors' interests are set out in Section 3.8 "Directors' Interest" of the Prospectus.

AUSTRAL RESOURCES LIMITED
NOTES TO THE HISTORICAL AND PRO-FORMA FINANCIAL INFORMATION
AS AT 30 JUNE 2012

8. Commitments and contingent liabilities

Contingencies

The Company is required to pay to the vendors of Action Mining the following contingent milestone payment:

- a royalty of USD$500,000 upon the announcement to the ASX of a decision to mine zircon at the Beravina Zircon Project ("Royalty"); and
- a production bonus of USD$500,000 following completion of the first commercial shipment of saleable zircon concentrate obtained from mining activities at the Beravina Zircon Project ("Production Bonus"),

and, if not paid, the Company is not able to sell or otherwise dispose of the Beravina Zircon Project or the Action Mining shares purchased from the vendors to any third party unless that third party assumes these obligations.

In the event that the Company is not listed on the ASX by 30 June 2013 and completion of the Furth SPA has not occurred:

- the vendors of Action Mining may require the Company to transfer back 50% of the Action Mining shares that each of the vendors sold to the Company for US$50,000 ("Claw-back"); and
- upon the exercise of the Claw-back, a Shareholders' Agreement for Action Mining will come into effect, and the Royalty and Production Bonus immediately cease to be payable by the Company.

Exploration expenditure

Austral has budgeted approximately $2,077,500 in year one and $1,653,500 in year two for exploration and development expenditure in the next two years, assuming full subscription to the Prospectus. However, it is at Austral's discretion as to whether the expenditure is incurred.

9. Controlled entities

Consolidated Entities	Place of Incorporation	Date of Acquisition	Class of Shares	30 June 2012
Action Mining Ltd	Mauritius	31 Dec 2011	Ordinary	100%
Compagnie Generale Des Mines de Madagascar SARL	Madagascar	31 Dec 2011	Ordinary	99.9%

9. RISK FACTORS

As with any share investment, there are risks involved. The numerous risk factors are both of a specific and a general nature. Some can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated. This section identifies the major areas of risk associated with an investment in the Company, but should not be taken as an exhaustive list of the risk factors to which the Company and its Shareholders are exposed. Potential investors should read the entire Prospectus and consult their professional advisor before deciding whether to apply for Shares.

9.1 SPECIFIC RISKS

(a) Exploration, Geological and Development Risks

Mineral exploration and development is a speculative and high-risk undertaking that may be impeded by circumstances and factors beyond the control of the Company. Success in this process involves (amongst other things):

- discovery and proving-up, or acquiring, an economically recoverable resource or reserve;
- access to adequate capital throughout the acquisition/discovery and project development phases;
- securing and maintaining title to mineral exploration projects;
- obtaining required development consents and approvals necessary for the acquisition, mineral exploration, development and production phases; and
- accessing the necessary experienced operational staff, the applicable financial management and recruiting skilled contractors, consultants and employees.

There can be no assurance that exploration of the Beravina Zircon Project or any other exploration properties that may be acquired in the future will result in the discovery of an economic mineral resource. Even if an apparently viable mineral resource is identified, there is no guarantee that it can be economically exploited.

The exploration activities of the Company may be adversely affected by a range of factors including geological conditions, operational risks (as outlined in Section 9 and changing government laws and regulations. Further, whether positive income flows result from projects on which the Company will expend exploration and development capital is dependent on many factors including successful exploration, establishment of production facilities, cost control, commodity price movements, successful contract negotiations for production and stability in the local political environment.

In addition, significant expenditure may be required to establish necessary metallurgical and mining processes to develop and exploit any mineral reserves identified on the Beravina Zircon Project. There is no assurance that the Company will have sufficient working capital or resources available to do this.

In the event that exploration programmes prove to be unsuccessful, the Beravina Zircon Project may diminish in value, there will be a reduction in the cash reserves of the Company and relinquishment of part or all of the Beravina Zircon Project may occur.

(b) Operational Risks

The operations of the Company may be affected by various factors, including:

- failure to locate or identify mineral deposits;
- failure to achieve predicted grades in exploration and mining;
- operational and technical difficulties encountered in mining;
- insufficient or unreliable infrastructure, such as power, water and transport;
- political or civil unrest, including outbreaks of violence or other hostilities;
- difficulties in commissioning and operating plant and equipment;
- mechanical failure or plant breakdown;
- unanticipated metallurgical problems which may affect extraction costs;
- adverse weather conditions;
- industrial and environmental accidents;
- industrial disputes; and
- unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment.

In particular, Madagascar does not have well developed and reliable infrastructure and services. This may impede and delay the Company's operations which are likely to result in increased costs of exploration and development of the Beravina Zircon Project. This increase in cost may have an adverse affect on the Company's operations.

(c) Limited Operating History

Having been incorporated on 31 March 2011, the Company has a very limited operating history. Although the Company's Directors have between them significant operational experience, the Company's ability to meet its objectives will be largely reliant upon the Company's ability to implement its current operational plans and take appropriate action to amend those plans in respect of any unforeseen circumstances that may arise.

(d) Tenure Risk

The Zircon Permit is granted under and governed by the laws of Madagascar and is granted subject to conditions, including minimum annual expenditure commitments and reporting commitments. Similar conditions may be applied to future mining permits acquired by the Company or its subsidiaries. Failure to comply with these conditions may result in forfeiture of the Zircon Permit.

Further, the Zircon Permit (and any additional future mining permits held by the Company) is subject to periodic renewal. Whist there is no reason to believe that such renewals will not be granted, the Company cannot guarantee that this will occur. New conditions may also be imposed on the Zircon Permit (and any additional future mining permits held by the Company) under the renewal process which may adversely affect the Company.

In addition, the acquisition of the Madagascar Graphite Project is reliant upon the tenement transfers from the vendor of the project, Mamy Estelle Randianasolo, to HiGround Resources being approved. If this does not occur, the Company's acquisition of the Madagascar Graphite Project will be impeded.

(e) Country and Sovereign Risk

All current operations are conducted in Madagascar which has been subject to recent political instability and division. The Madagascan President, Marc Ravalomanana, was overthrown in March 2009 by a military-backed coup resulting in violent protests and civil unrest, as well as disruption to trade, and some loss of international support for the country. The unrest has decreased since that time.

Mediation was conducted between the rival political factions by the Southern African Development Community and an agreement was brokered in September 2011 to hold free elections within 12 months, which has since been extended to May 2013. There is no guarantee that the elections will occur and further instability would likely result. The country remains subject to outbreaks of violence and criminal activities both in its cities and regional areas.

(f) Government and Regulatory Approval Risk

Operations by the Company may require approvals, consents or permits from government or regulatory authorities, including renewals of existing mining permits or title transfer to newly acquired mining permits, which may not be forthcoming or which may not be able to be obtained on terms acceptable to the Company. Importantly, the Bureau of Mines and Minerals of Madagascar has placed a moratorium on the processing of mining permit transfers or applications for new mining permits. Whilst the Directors do not expect that this moratorium will impact the Beravina Zircon Project at this stage, it may impact other planned activities of the Company such as the exercise of the Graphite Option. If HiGround Resources is unable to effect the transfer of the Madagascar Graphite Project and become the registered holder, the Graphite Option may become redundant.

Whilst there is no reason to believe that necessary government and regulatory approvals will not be forthcoming (other than as outlined above in respect of the Company's Madagascan operations), the Company cannot guarantee that those required approvals will be obtained. Failure to obtain any such approvals could mean the ability of the Company to prove-up, develop or operate any project or to acquire any project, may be inhibited or negated.

(g) Commodity Price and Currency Exchange Risk

As the Company's potential earnings will be largely derived from the sale of mineral commodities (including zircon), the Company's future revenues and cash flows will be impacted by changes in the prices and available markets of these commodities. Any substantial decline in the price of those commodities or in transport or distribution costs may have a material adverse effect on the Company and the value of its Shares and Options.

Commodity prices fluctuate and are affected by numerous factors beyond the control of the Company. These factors include current and expected future supply and demand, forward selling by producers, production cost levels in major mineral producing centres as well as macroeconomic conditions such as inflation and interest rates.

Furthermore, the international prices of most commodities are denominated in United States dollars while the Company cost base will be in Australian dollars. Consequently changes in the Australian dollar exchange rate will impact on the earnings of the

Company. The exchange rate is affected by numerous factors beyond the control of the Company, including international markets, interest rates, inflation and the general economic outlook. The United States dollar has been subject to fluctuation against the Australian dollar in the 6 months prior to the date of this Prospectus, reaching a high of AUD$0.9823 in October 2012 and a low of AUD$0.9453 in August 2012.

(h) Share Purchase Risk

50% of the shares in Action Mining (indirectly providing the Company with its interest in the Beravina Zircon Project) were acquired by the Company from the heirs of the late Bernard Furth, acting through their attorney, Olivier Petyt. The Company intended to acquire these shares from Mr Furth directly pursuant to a Memorandum of Understanding (see Sections 10.1 and 10.2).

Mr Furth's heirs were determined by a Notary, Bernard Monier, appointed in accordance with French law. The Company has sought to ensure the consideration is provided to Mr Furth's heirs by paying the consideration for the Action Mining shares into a bare trust established for the benefit of these heirs (see Section 10.3). Whilst the Directors consider the risk is remote, a dispute arising in relation to this payment or the bare trust may adversely affect the Company.

In addition, if the Company does not obtain admission to the ASX by 30 June 2013, the Vendors may require the Company to transfer the Action Mining shares back to them. Please see Section 10.2 for further information on this.

(i) Resource and Reserve Estimates

Even though a JORC Code compliant mineral resource has been discovered at the Project, estimates in respect of that resource are expressions of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally made may change appreciably when further information becomes available. Such resource estimates are by nature imprecise, depending on interpretations which may, with further exploration, prove to be inaccurate. Moreover, should the Company encounter ore bodies or formations which differ from those suggested by past sampling and analysis, resource estimates may have to be adjusted and any production plans altered accordingly which may adversely impact the Company's plans.

(j) Agents and Contractors

The Directors are unable to predict the risk of financial failure or default or the insolvency of any of the contractors which will be used by the Company in any of its activities or other managerial failure by any of the other service providers used by the Company for any activity. Any default or insolvency is outside the Company's control and may have an adverse effect on the Company's operations.

(k) Insurance

The Company intends to adequately insure its operations in accordance with industry practice. However, in certain circumstances, the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company.

Insurance of all risks associated with mineral exploration and production is not always available. Further, where coverage is available, the costs may be prohibitive.

(l) Environmental Risks

The Company's activities are subject to the environmental laws inherent in the mining industry and those specific to Madagascar. The Company intends to conduct its activities in an environmentally responsible manner and in compliance with all applicable laws. However, the Company may be the subject of accidents or unforeseen circumstances that could subject the Company to extensive liability.

In addition, environmental approvals may be required from relevant government or regulatory authorities before activities may be undertaken which are likely to impact the environment. Failure or delay in obtaining such approvals will prevent the Company from undertaking its planned activities. Further, the Company is unable to predict the impact of additional environmental laws and regulations that may be adopted in the future, including whether any such laws or regulations would materially increase the Company's cost of doing business or affect its operations in any area.

9.2 GENERAL RISKS

(a) Investment Risk

The Shares and Options to be issued pursuant to this Prospectus should be considered speculative due to the nature of the Company's business. There is no guarantee as to payment of dividends, return of capital or the market value of the Shares and Options. The prices at which an investor may be able to trade the Shares or Options may be above or below the Offer Price paid for the Shares.

Whilst the Directors commend the Offer, prospective investors must make their own assessment of the likely

risks and determine whether an investment in the Company is appropriate to their own circumstances.

(b) Share Market

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. The market price of the Shares and Options may be subject to fluctuation and may be affected by many factors including but not limited to the following:

- general economic outlook;
- interest rates and inflation rates;
- currency fluctuations;
- mineral/commodity price fluctuations;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital;
- terrorism or other hostilities; and
- other factors beyond the control of the Company.

As the Shares and Options have not been traded on a securities market prior to the Offer, there is no guarantee that an active market for the Shares or Options will develop or that the price of the Shares or Options will increase.

(c) Commercialisation Risks

Even if the Company discovers commercial quantities of minerals, there is a risk the Company will not achieve a commercial return. The Company may not be able to transport any minerals extracted from its operations at a reasonable cost or may not be able to sell the minerals to customers at a rate which would cover its operating and capital costs. The Company has to receive regulatory and environmental approval to convert the Zircon Permit from a research permit to an exploitation permit under the Madagascan Mining Code. There is a risk that these approvals may not be obtained.

(d) Competition Risks

The industry in which the Company will be involved is subject to domestic and global competition. While the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, and such activities or actions may, positively or negatively, affect the operating and financial performance of the Company's projects and business.

(e) No Profit to Date

The Company has incurred losses since its inception and it is therefore not possible to evaluate its prospects based on past performance. Since the Company intends to continue investing in its exploration and development programme, the Directors anticipate making further losses in the foreseeable future.

While the Directors have confidence in the future revenue-earning potential of the Company, there can be no certainty that the Company will achieve or sustain profitability or achieve or sustain positive cash flow from its operating activities.

(f) Future Capital Needs

Additional funding beyond the funds raised under the Offer may be required by the Company to support its ongoing operations and development of the Beravina Zircon Project. There can be no assurance that such funding will be available on satisfactory terms to the Company or at all. Any inability to obtain funding will adversely affect the business and financial condition of the Company and, consequently, its performance and ability to take advantage of opportunities to develop projects.

Further, any additional funding raised by issue of equity will be dilutive to the then current Shareholders. Equally, debt funding, if available in the future, may involve restrictions on financing and operating activities of the Company and its subsidiaries.

(g) Key Management

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. The Company may be detrimentally affected if one or more of the key management or other personnel cease their engagement with the Company.

(h) Economic Risks

The future viability of the Company is also dependent on a number of other factors affecting performance of all industries and not just the exploration and mining industries including, but not limited to, the following:

- general economic conditions;
- changes in Government policies, taxation and other laws;
- the strength of the equity and share markets in Australia and throughout the world, and in particular investor sentiment towards the commodities (resources) sector;
- movement in, or outlook on, interest rates and inflation rates; and
- natural disasters, social upheaval or war.

10. MATERIAL CONTRACTS

Set out below is a summary of the contracts to which the Company is a party that may be material or otherwise may be relevant to a potential investor in the Company.

The whole of the provisions of the Agreements are not repeated in this Prospectus and any intending applicant who wishes to gain a full knowledge of the content of the contracts should inspect the same at the registered office of the Company.

10.1 MEMORANDUM OF UNDERSTANDING

The Company signed a binding Memorandum of Understanding with Assistance et Logistique Minière, Olivier Petyt and Bernard Furth on 28 April 2011 ("**MoU**"). The MoU provided, amongst other things, that:

(a) Petyt and Furth were the sole shareholders of CGMM (in equal portions) which in turn held the Zircon Permit.

(b) A holding company ("**Holding Company**") would be incorporated in Mauritius to which Petyt and Furth would transfer 999 out of 1000 shares held by them in CGMM.

(c) The Company would acquire the 100% of the share capital in the Holding Company pursuant to a formal share purchase agreement in consideration of the Company paying US$500,000 and issuing 9,000,000 fully paid ordinary shares in the Company, subject to the Company successfully raising capital to fund the acquisition in various tranches.

(d) In addition, the Company was required to pay the following contingent milestone payments to Petyt and Furth:
   (i) US$500,000 following an announcement by the Company to the ASX of the Board's decision to mine zircon under the Zircon Permits;
   (ii) US$500,000 following completion of the first commercial shipment of saleable zircon concentrate obtained from the mining activities at the Zircon Permit.

(e) The Company would be required to transfer the shares in the Holding Company back to Petyt and Furth in the event that the Company had not:
   (i) paid US$500,000 of the consideration by 31 December 2011;
   (ii) issued 9,000,000 Shares of the consideration as required under the MoU; and/or
   (iii) the Company had not listed on the ASX by 31 March 2012.

(f) If the Company did not raise US$5,000,000 by 31 October 2012, the Company would sell back the shares in the Holding Company for US$100,000.

10.2 SHARE PURCHASE – ACTION MINING

(a) **Share Purchase Agreements**
Pursuant to the MoU, the Company entered into: a Share Purchase Agreement with Olivier Petyt on 2 December 2011 ("**Petyt SPA**") to acquire 50% of the shares in Action Mining, and subsequently entered into a Share Purchase Agreement with Alice Ormen Furth and Roxane De Saule ("**Heirs**") on 3 March 2012 ("**Furth SPA**") to acquire the remaining 50% of the shares in Action Mining.

The Share Purchase Agreements are identical in their terms save for some minor differences as noted below. The material terms are as follows:
   (i) The consideration payable to each of Petyt and the Heirs ("**Vendors**") consists of USD$250,000 in cash and 4,500,000 Shares (subject to applicable escrow requirements as restricted securities under the ASX Listing Rules).
   (ii) Under the Petyt SPA, the parties acknowledge a payment from the Company to Petyt on 28 September 2011 of USD$50,000 as an advance on the consideration payable. The balance of the consideration is payable upon completion of the Petyt SPA, being the date 15 days following its execution.
   (iii) Under the Furth SPA, the parties acknowledge a payment from the Company to a wholly owned company of Furth, Crescent, on 28 September 2011 of USD$50,000 as an advance on the consideration payable. The balance of the consideration is payable upon completion of the Furth SPA, being the date 7 days following its execution.
   (iv) The Company is required to pay to each of the Vendors the following contingent milestone payment:
      - a royalty of USD$250,000 upon the announcement to the ASX of a decision to mine zircon under the Zircon Permit ("**Royalty**"); and
      - a production bonus of USD$250,000 following completion of the first commercial shipment of saleable zircon concentrate obtained from mining activities under the Zircon Permit ("**Production Bonus**"),

and, if not paid, the Company is not able to sell or otherwise dispose of the Zircon Permit or the Action Mining shares purchased from the Vendors to any third party unless that third party assumes these obligations.

(v) In the event that the Company was not listed on the ASX by 31 December 2012 and completion of the Furth SPA had not occurred:
- the Vendors could require the Company to transfer back 50% of the Action Mining shares that each of the Vendors sold to the Company for US$50,000 ("**Claw-back**"); and
- upon the exercise of the Claw-back, a Shareholders' Agreement for Action Mining (see Section 1.1(b)) will come into effect, and the Royalty and Production Bonus immediately cease to be payable by the Company.

(vi) Following completion of the Share Purchase Agreements, the Company must set up, pursue and or develop a mining project on the Zircon Permit.

(vii) The Share Purchase Agreements are governed by the laws of Madagascar.

(viii) The Share Purchase Agreements contain additional provisions considered standard in agreements of this type, including but not limited to:
- warranties by the Vendors in respect of their ability to perform their obligations under the Share Purchase Agreements, as well as the status of Action Mining, CGMM and the Zircon Permit;
- warranties by the Company as to its status and ability to perform its obligations under the Share Purchase Agreements;
- provisions to effect completion of the Share Purchase Agreements;
- arbitration in the event of a dispute between the parties; and
- confidentiality.

(b) **Shareholders' Agreement – Action Mining**

Each Share Purchase Agreement contained a Shareholders' Agreement for Action Mining as an annexure setting out the aims and objectives of the shareholders in Action Mining. Each of the Company, the Vendors and Action Mining are parties to the Shareholders' Agreement. The material terms of the Shareholders' Agreement are as follows:

(i) The Shareholders' Agreement will only come into effect in the event that the Vendors exercise the claw-back rights under the Share Purchase Agreements to re-acquire 50% of the shares in Action Mining.

(ii) The main objective of Action Mining will be (through its shareholding in CGMM) the exploration and development of the Zircon Permit.

(iii) The share capital of Action Mining must be beneficially held in the following proportions:
- Olivier Petyt – 25%;
- the Heirs – 25%; and
- the Company – 50%.

(iv) The Company may appoint 2 directors, Petyt may appoint 1 director and the Heirs may appoint 1 director between them.

(v) The Managing Director following commencement of the Shareholders' Agreement is to be appointed by Petyt and the Heirs. The Managing Director's responsibilities include:
- ensuring that the Zircon Permit is maintained in good standing and all conditions of grant are complied with;
- actively explore, commercialise and develop the Zircon Permit; and
- obtain a buyer for the Zircon Permit or alternatively secure a joint venture partner, or farm-in party to the Zircon Permit within 12 months of the initial Managing Director's appointment.

(vi) If 12 months after the Shareholders' Agreement comes into effect:
- Action Mining has failed to reasonably fulfil the obligations set under its business plan (or if such occurs at any time thereafter); or
- the Managing Director has failed to reasonably fulfil the obligations and objectives of Action Mining set out in the Shareholders' Agreement (or if such occurs at any time thereafter), then the initial Managing Director shall resign and a new Managing Director nominated by the Company shall be appointed.

(vii) The shareholders of Action Mining must not transfer their shares to any non-related third party without giving notice to Action Mining and offering them to the other shareholders in accordance with the proportion of their current shareholding.

(viii) If a shareholder intends to sell their shares to a third party, the other shareholders may require, as a condition of consent to the sale, that the purchaser also acquire the other shareholders' shares in Action Mining on the same terms.

(ix) If shareholders holding 75% or more of the Action Mining shares intend to sell those shares to a third party, those selling shareholders may require the remaining shareholders to sell their on the same terms.

(x) The Shareholders' Agreement is governed by the laws of Madagascar.

(xi) The Shareholders' Agreement contains additional provisions considered standard in an agreement of this type.

(c) **Letters of Variation**

The Company executed letters of variation with:

(i) Olivier Petyt on 28 October 2012 and 28 January 2013;

(ii) Olivier Petyt as trustee for Catherine Sylvie Lannes on 28 October 2012 and 28 January 2013; and

(iii) Ormen Crenot Hiafabe as legal guardian for Alice Ormen Furth on 17 October 2012 and 29 January 2013,

pursuant to which each Vendor agreed to vary the Share Purchase Agreements to extend the period of time by which the Company must obtain admission to the ASX from 31 December 2012 to 30 June 2013 for the purposes of the Claw-back.

10.3 DECLARATION OF TRUST

Olivier Petyt executed a Declaration of Trust on 13 April 2012 in respect of all consideration and other payments received by him from the Company pursuant to the Furth SPA.

The material terms of the Declaration of Trust are as follows:

(a) Petyt holds all consideration and other payments received by under the Furth SPA on trust ("**Trust Fund**") for the heirs of the late Bernard Furth, being Alice Ormen Furth and Roxane De Saule ("**Beneficiaries**") and Petyt does not have any personal interest in the Trust Fund.

(b) The Trust Fund includes, but is not limited to:

(i) the balance of the cash consideration under the Furth SPA of US$200,000;

(ii) the share consideration under the Furth SPA of 4,500,000 fully paid ordinary shares in the Company;

(iii) if payable, the Royalty and Production Bonuses of US$250,000 each, as set out in Section (a)(iv).

(c) Petyt must only deal with the Trust Fund as directed in writing by both Beneficiaries.

(d) Petyt will hold the Trust Fund until such time as a final determination of the entitlements of each Beneficiary to the estate and property of Bernard Furth is determined, either by agreement between the Beneficiaries or order from a competent court or authority.

(e) The Declaration of Trust is governed by the laws of the State of Western Australia and the Commonwealth of Australia.

10.4 LOAN AGREEMENT WITH CGMM

The Company entered into a Loan Agreement with CGMM on 24 November 2011 ("**CGMM Loan Agreement**") to formalise in writing the terms and condition of various loans advanced to CGMM by the Company, and for any additional advances made.

The material terms of the CGMM Loan Agreement are as follows:

(a) The parties acknowledged that the Company had loaned to CGMM funds totalling approximately US$364,000 and €63,529 between 1 July 2011 and 24 November 2011.

(b) CGMM may request additional loans be advanced by the Company at the Company's absolute discretion.

(c) Interest accrues on outstanding amounts at the rate of two percent (2%) above the London Inter Bank Offer Rate.

(d) CGMM may only apply funds advanced for the purpose of the development and exploration of the Zircon Permit.

(e) CGMM agrees to mortgage and charge all of its title, estate and interest in all land and property capable of being mortgaged and charged in favour of the Company as security for the monies advanced.

(f) CGMM may repay any portion of the loan at any time prior to the designated repayment date without penalty. However, all monies outstanding (including accrued interest) must be repaid to the Company on the earlier of:

(i) the date that CGMM sells or transfers the Zircon Permit;

(ii) the date that CGMM enters into a joint venture or farm-in agreement in relation to the Zircon Permit; or

(iii) 1 January 2014.

(g) CGMM indemnifies the Company against all costs, losses and expenses incurred by the Company following a breach by CGMM of their obligations under the agreement, or the

exercise of any of the Company's rights under the agreement.

(h) Any default (default events are listed in the CGMM Loan Agreement) by CGMM which, following notice from the Company, is then not remedied within 5 business days, will render all outstanding sums due and payable upon demand.

(i) The CGMM Loan Agreement is governed by the laws of Madagascar.

(j) The CGMM Loan Agreement contains additional provisions considered standard in an agreement of this type.

10.5 OPTION DEED

(a) **Option**

The Company entered into an Option Deed with INL and Trove Corporation Limited (Company Number 092014, registered under the laws of the Seychelles) ("**Trove Corporation**") on 30 May 2012 pursuant to which the Company was granted an exclusive option to purchase all of the issued shares in Big Island Graphite.

INL acts as nominee of Trove Corporation.

The material terms of the Option Deed are as follows:

(i) The Company must pay $15,000 within 5 business days of the executing the Option Deed as consideration for the grant of the Graphite Option.

(ii) The Graphite Option will expire, if not exercised, at 5:00pm (Madagascar Standard Time) on the day falling 6 months from the day that the Graphite Permits are transformed to either Exploration (E) permits or Research (R) permits.

(iii) The Company must pay to INL the sum of $85,000 and issue INL 1,333,333 fully paid ordinary shares in the Company ("**Consideration Shares**") to acquire Big Island Graphite on exercise of the Graphite Option.

(iv) Trove Corporation acknowledges and agrees to the transaction as a beneficial interest holder in Big Island Graphite, including agreeing to transfer all of its beneficial estate and interest in Big Island Graphite to the Company.

(v) Exercise of the Graphite Option is conditional upon:

- the Company receiving all necessary shareholder and governmental approvals (if any) to effect the transactions contemplated under the Option Deed;
- there being no material adverse change in respect of Big Island Graphite or HiGround Resources (including in respect of the Madagascar Graphite Project);
- INL not being in default of its obligations under the Option Deed; and
- there being no legal action or proceeding which may restrict the transactions under the Option Deed.

(vi) The Consideration Shares are subject to any applicable escrow provisions under the ASX Listing Rules for restricted securities.

(vii) The Option Deed contains additional provisions considered standard in an agreement of this type.

(b) **Loan Agreement – HiGround Resources**

On 31 May 2012, the Company entered into a Loan Agreement with HiGround Resources ("**HiGround Loan Agreement**") in respect of working capital funding.

The material terms of the HiGround Loan Agreement are as follows:

(i) Subject to completion of the Option Deed occurring, the Company will advance the sum of $250,000 to HiGround Resources to be applied in development of the Madagascar Graphite Project. HiGround Resources may request additional loans be advanced by the Company at the Company's absolute discretion.

(ii) Interest accrues on outstanding amounts at the rate of two percent (2%) above the London Inter Bank Offer Rate.

(iii) HiGround Resources agrees to mortgage and charge all of its title, estate and interest in all land and property capable of being mortgaged and charged in favour of the Company as security for the monies advanced.

(iv) HiGround Resources may repay any portion of the loan at any time prior to the designated repayment date without penalty. However, all monies outstanding (including accrued interest) must be repaid to the Company on or before the fifth (5^{th}) anniversary of the initial drawdown.

(v) HiGround Resources indemnifies the Company against all costs, losses and expenses incurred by the Company following a breach by HiGround Resources of their obligations under the

agreement, or the exercise of any of the Company's rights under the agreement.

(vi) Any default (default events are listed in the HiGround Loan Agreement) by HiGround Resources which, following notice from the Company, is then not remedied within 5 business days, will render all outstanding sums due and payable upon demand.

(vii) The HiGround Loan Agreement is governed by the laws of Madagascar.

(viii) The HiGround Loan Agreement contains additional provisions considered standard in an agreement of this type.

10.6 EXECUTIVE SERVICES AGREEMENT – CHIEF EXECUTIVE OFFICER

The Company entered into an Executive Services Agreement ("**ESA**") with Scott Reid on 24 April 2012 for Mr Reid to provide services as the Chief Executive Officer ("**CEO**") of the Company. Mr Reid was an executive Director of the Company prior to the date of this Prospectus.

The material terms of the ESA are as follows:

(a) The ESA does not come into effect until the Company obtains admission to the ASX. The initial term of the ESA is 3 years, unless otherwise terminated in accordance with the agreement.

(b) Mr Reid is required to:
- (i) undertake such duties and exercise such powers in relation to the Company and its business as the Board shall from time to time assign to or vest in him;
- (ii) observe and comply with all resolutions, regulations and directions from the Board;
- (iii) devote substantially the whole of his time and attention during business hours to the discharge of his duties;
- (iv) conform to such hours of work as may from time to time reasonably be required of him and not be entitled to receive any remuneration for work performed outside his normal hours; and
- (v) perform such services for subsidiary companies of the Company and (without further remuneration unless otherwise agreed) accept such offices in those subsidiary companies as the Board may from time to time reasonably require.

(c) The Company must pay Mr Reid an executive services fee of $240,000 per annum inclusive of any statutory superannuation contributions. The Company must also procure and maintain a policy of international/ex-patriot medical insurance for Mr Reid with British United Provident Association (BUPA) (or another appropriate equivalent insurer), including medical evacuation and travel coverage.

(d) Subject to providing reasonable evidence and documentation, the Company must reimburse Mr Reid for all reasonable out of pocket expenses and imposts incurred along with all reasonable travel and accommodation costs incurred in acting as CEO.

(e) The Company may terminate the ESA:
- (i) without cause by providing 6 months' notice or payment of 6 months fees in lieu of notice, and Mr Reid may retain any shares, options or other securities issued to him; and
- (ii) immediately if various default or other termination events occur.

(f) Mr Reid may terminate the ESA:
- (i) without cause by providing 3 months' written notice; and
- (ii) immediately if various default events occur.

(g) The Company indemnifies Mr Reid from and against all claims, losses and expenses that Mr Reid becomes liable for in respect of carrying out his duties under the ESA, except those that result from his negligence or that are otherwise prohibited by law.

(h) The ESA contains additional provisions considered standard in an agreement of this type.

10.7 NON-EXECUTIVE DIRECTORS' LETTERS OF ENGAGEMENT

On 2 April 2012, the Company provided Wayne Kernaghan and Glenn Tetley letters of engagement setting out the terms of their engagement as non-executive Directors ("**NED Letters**"). Both Mr Kernaghan and Mr Tetley signed their respective letters on that date agreeing to the engagement terms.

The material terms of the NED Letters are as follows:

(a) Continuation of each non-executive Director's engagement subject to the Corporations Act and successful re-election by the Company's Shareholders under the Constitution.

(b) The non-executive Directors' duties, in addition to general fiduciary duties and other duties required by law of a director, include:
- (i) attend Board meetings and any other committee meeting requiring attendance and ensure the Board meets regularly; and
- (ii) ensure the Board is kept properly informed of the financial position and performance of the Company, including matters which have a material adverse impact upon the Company.

(c) The Company is to pay each non-executive Director $30,000 per annum plus statutory superannuation at the minimum rate required under the *Superannuation Guarantee Charge Act 1992* (Cth).

(d) The Company must cover each non-executive Director under the Company's policy for directors' and officers' insurance, which will be effected by a Deed of Access, Indemnity and Insurance (see Section 10.9).

(e) If the non-executive Directors perform any additional consultancy services for the Company, those services must performed:
   (i) in a proper, efficient and timely manner exercising due care and skill; and
   (ii) acting in good faith towards the Company and for its best interests, so as to promote the Company's interests,

   and information must be submitted to the Board on the services from time to time on request.

(f) The non-executive Directors must disclose matters that may give rise to a conflict of interest between the Company and that Director's duties, including as required under the Corporations Act and ASX Listing Rules.

(g) The NED Letters are governed by the laws of Western Australia and contain additional provisions considered standard in documents of this type.

10.8 SERVICES AGREEMENT WITH PATERMAT

On 8 November 2012, the Company entered into a services agreement with Patermat Pty Ltd (ACN 000 841 2740) ("**Patermat**") and Terence Vincent Willsteed ("**Willsteed**") in respect of the provision of non-executive director services to the Company ("**Services Agreement**").

The material terms of the Services Agreement are as follows:

(a) The Company engages Patermat to provide the services of Willsteed as a non-executive director of the Company and any subsidiaries of the Company.

(b) Willsteed agrees to be engaged as a non-executive director of the Company on the terms of the Services Agreement.

(c) The term of the Services Agreement is 3 years and the continuation of Willsteed as a director is subject to the 3 year rotational requirements under the Company's Constitution.

(d) Willsteed will provide the services of a director which include:
   (i) attending Board Meetings and other committee meetings required by the Company; and
   (ii) ensuring the Board is kept properly informed of matters of interest and importance to the Company and its subsidiaries.

(e) The Company will pay Patermat $32,700.00 plus GST per annum inclusive of superannuation. This will be paid pro-rata on a monthly basis.

(f) Willsteed must disclose matters which may give rise to a conflict of interest between the Company and his duties, including as required under the Corporations Act and the ASX Listing Rules.

(g) The Services Agreement is governed by the laws of the State of New South Wales.

(h) The Services Agreement contains standard provisions for termination of a director including:
   (i) after being found guilty of wilful misconduct, fraud or dishonesty;
   (ii) materially breaching the provisions of the Services Agreement; and
   (iii) not being re-elected as a director of the Company at a General Meeting.

(i) Patermat may terminate the Services Agreement by giving the Company 3 month's written notice of termination. The Company may terminate the Services Agreement by giving Patermat 12 months written notice of termination or by paying out 3 months fees in lieu of notice.

10.9 DEEDS OF ACCESS, INDEMNITY AND INSURANCE

In or about March 2012, the Company entered into Deeds of Access, Indemnity and Insurance ("**DAII**") with its then Directors, Scott Reid, Wayne Kernaghan and Glenn Tetley. The Company also entered into a DAII on identical terms with Terry Willsteed on 8 November 2012.

The material terms of the DAIIs are as follows:

(a) To the maximum extent permitted by law, the Company indemnifies each Director from liabilities incurred in acting as a Director, and any legal expenses incurred by a Director in relation to that Director's position with the Company.

(b) The Company must procure a policy of directors' and officers' insurance for each Director for the period of their directorship and for 7 years following the cessation of being a Director.

(c) A Director may retain a copy of all company records required to be maintained by law and all papers and documentation circulated to the Board. The Director must maintain the confidentiality of such papers and documentation subject to exceptions for

disclosure to legal advisors, insurers, to comply with a contract which the Company is a party to or as required by the ASX or any other regulation binding the Director.

(d) A Director has the benefit of legal professional privilege attaching to legal advice obtained by the Company provided that such legal advice is not in respect of any potential claim by the Company against the Director.

(e) After the Company is admitted to the ASX, each Director must divulge information in respect of that Director's interests in the securities of Company (both direct and indirect) and contracts that the Company is party to and which the Director has an interest in.

(f) The DAIIs otherwise contain additional provisions considered standard in an agreement of this type.

10.10 JOINT LEAD MANAGERS' MANDATE

On 17 August 2012, the Company entered into a mandate agreement with Helmsec and Paradigm pursuant to which Helmsec and Paradigm were appointed exclusive joint lead managers and equity capital markets advisors to the Company ("**Mandate**").

The material terms of the Mandate are as follows:

(a) The term of the Joint Lead Managers' engagement under the Mandate is 12 months from the date of allotment of securities under the pre-IPO seed capital raising of up to $600,000 ("**Seed Raising**"), unless terminated earlier in accordance with the terms of the Mandate.

(b) The Joint Lead Managers agreed to perform the following services for the Company:
   (i) advise and assist the Company in respect of the pricing, structure and timetable of the Seed Raising and the Offer;
   (ii) assist in promoting and obtaining investment in the Seed Raising in accordance with any applicable requirements of the Corporations Act;
   (iii) assist in the due diligence process;
   (iv) assist in the preparation of announcements and Offer documentation required by the ASX;
   (v) co-ordination of the Offer;
   (vi) manage the Offer, associated transactions and the Company's listing on the ASX with a view to securing an informed and stable register and aftermarket for the Company's securities for the foreseeable future; and
   (vii) to provide ad-hoc corporate advisory services.

(c) The Company is required to pay the following remuneration to the Joint Lead Managers:
   (i) A retainer fee of $10,000 plus GST per month to each Joint Lead Manager. This fee will terminate upon the Company listing on the ASX or after 6 months. If the Company raises less than $400,000 under the Seed Raising, this fee will paid as follows:
      (A) a reduced cash payment equal to the amount raised divided by $400,000, multiplied by $10,000; and
      (B) in Shares equal to the balance of retainer fee not paid in cash.
   (ii) A capital raising fee of 6% plus GST of the amount raised under the Seed Raising, the Offer and any other capital/debt raising for a 12 month period following admission to the ASX. This fee ceases to be payable if the Company does not obtain admission to the ASX within 12 months of signing the Mandate.
   (iii) In respect of the Seed Raising, 275,000 unlisted options have been issued to each of Helmsec and Paradigm with each such unlisted option having an exercise price of $0.20 and each expiring on 5 February 2017.
   (iv) In respect of the offer:
      (A) Based on the Minimum Subscription of $3,500,000, 525,000 unlisted options will be issued to each of Helmsec (or its nominees) and Paradigm with each such option having an exercise price of $0.24 and each expiring 1 April 2017;
      (B) If more than the Minimum Subscription of $3,500,000 is subscribed then the Company will issue unlisted options to each of Helmsec (or its nominees) and Paradigm equal in number to 6% of the total Shares (ie 3% to each Joint Lead Manager) with each such option having an exercise price of $0.24 and expiring 1 April 2017; and
      (C) If the Full Oversubscription of $8,000,000 is subscribed then 1,200,000 unlisted options will each be issued to Helmsec (or its nominees) and Paradigm with each such option having an exercise price of $0.24 and expiring 1 April 2017.
   (v) In respect of any capital/debt raising for a twelve month period following admission to the ASX, the Company shall issue for nil consideration unlisted

options to the Joint Lead Managers equal in number to 6% of the total Shares (ie 3% to each Joint Lead Manager) with each such unlisted option having:
(A) a maturity date of 4 years from the date of issue; and
(B) an exercise price at a 20% premium to the issue price of new capital/debt raising.

(vi) A post-listing support fee of $3,250 plus GST per month to each Joint Lead Manager for a 12 month period following the Company's admission to the ASX.

(d) The Company must reimburse the Joint Lead Managers for out-of-pocket expenses incurred under the Mandate. This includes Joint Lead Managers' legal fees of up $10,000 (inclusive of GST).

(e) The Company indemnifies the Joint Lead Managers against loss, liabilities, damages, costs and expenses incurred by the Joint Lead Managers arising in respect of various matters, including but not limited to the Offer and matters referred to under the Mandate. This indemnity is limited to the extent that such loss, damages, liabilities, costs and expenses result from a negligent act or omission or a breach of contract on the part of the Company.

(f) The Mandate also contains various other provisions considered standard in an agreement of this type, including warranties and representations by the Company.

10.11 VOLUNTARY RESTRICTION AGREEMENTS

In October 2012, the Company entered into voluntary restriction agreements ("**Voluntary Restriction Agreements**") with various Existing Shareholders that were no longer subject to ASX imposed escrow restrictions on their shares, acquired prior to admission to ASX ("**Restricted Shareholder**").

The material terms of the Voluntary Restriction Agreements are as follows:

(a) Each Restricted Shareholder and the controller of that Restricted Shareholder is prohibited from, in effect, disposing of their Shares or any interest in their Shares for certain periods of time.

(b) The escrow restrictions apply for the following periods:
(i) in respect of 20% of the Restricted Shareholder's Shares – no restriction;
(ii) in respect of 40% of the Restricted Shareholder's Shares – restricted from disposal for six (6) months from quotation of the Company's securities on ASX;
(iii) in respect of the balance of the Restricted Shareholder's Shares – restricted from disposal for twelve (12) months from quotation of the Company's securities on ASX.

(c) The Company must release the escrow restrictions if the Restricted Shareholder accepted a successful takeover bid under Chapter 6 of the Corporations Act or if their Shares are to be transferred or cancelled under a merger by scheme of arrangement under Part 5.1 of the Corporations Act.

(d) The Voluntary Restriction Agreements also contained various clauses considered standard in agreements of this type, including warranties and breach clauses.

(e) The Voluntary Restriction Agreements are subject to and conditional upon ASIC granting relief to the Company pursuant to Section 655A(1) of the Corporations Act to the effect that entry into the agreements does not constitute a "relevant interest" by the Company in the Shares subject to restriction for the purposes of Chapter 6 of the Corporations Act.

11. ADDITIONAL INFORMATION

11.1 RIGHTS AND LIABILITIES ATTACHING TO SHARES

The following is a general description of the more significant rights and liabilities attaching to the Shares. This summary is not exhaustive. Full details of provisions relating to rights attaching to the Shares are contained in the Corporations Act, the ASX Listing Rules and the Company's Constitution. A copy of the Company's Constitution is available for inspection at the Company's registered office during normal business hours.

(a) Ranking of Shares

At the date of this Prospectus, all shares are of the same class and rank equally in all respects. Specifically, the Shares issued pursuant to this Prospectus will rank equally with Existing Shares.

(b) Voting Rights

Subject to any special rights or restrictions (at present there are none), at any meeting each member present in person or by proxy has one vote on a show of hands, and on a poll has one vote for each Share held.

(c) Dividend Rights

Subject to any special rights (at present there are none), any dividends that may be declared by the Company are payable on all Shares in proportion to the amount paid-up.

(d) Variation of Rights

The rights attaching to the Shares may only be varied by the consent in writing of the holders of seventy five percent (75%) of the Shares, or with the sanction of a special resolution passed at a general meeting.

(e) Transfer of Shares

Subject to the Company's Constitution, the Corporations Act or any other applicable laws of Australia and the ASX Listing Rules, the Shares are freely transferable. The Directors may refuse to register a transfer of Shares only in limited circumstances, such as where the Company has a lien on those Shares.

(f) General Meetings

Each Shareholder is entitled to receive notice of, and to attend and vote at, general meetings of the Company and to receive all notices, accounts and other documents required to be furnished to Shareholders under the Company's Constitution, the Corporations Act and the ASX Listing Rules.

(g) Rights on Winding Up

If the Company is wound up, the liquidator may, with the sanction of a special resolution;

- divide among the Shareholders (or between different classes of the Shareholders, if applicable) the whole or any part of the Company's property at such value as the liquidator considers fair;
- decide how the division is to be carried out between the Shareholders;
- vest the whole or any part of the Company's property in trustees of such trust, for the benefit of the contributories as the liquidator thinks fit, but so that no Shareholder is compelled to accept any shares or other securities in respect of which there is any liability.

Subject to any special rights (at present there are none), any surplus assets on a winding up are to be distributed to Shareholders in proportion to the number of Shares held by them irrespective of the amounts paid or credited as paid.

11.2 OPTIONS

The Options on offer in the Prospectus will entitle the holders to subscribe for fully paid ordinary shares on the following terms and conditions:

(a) Entitlement

Each Option entitles the holder to subscribe for and be allotted one fully paid ordinary Share in the Company.

(b) Exercise Price

The amount payable upon exercise of each Option will be $0.20 (**Exercise Price**).

(c) Expiry Date

Each Option will expire at 5.00pm (WST) on 31 March 2016 (**Expiry Date**). An Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.

(d) Exercise Period

The Options are exercisable at any time on or prior to the Expiry Date (**Exercise Period**) by notice in writing to

the Directors accompanied by payment of the Exercise Price.

(e) Timing of issue of Shares on exercise

No later than 20 Business Days after receipt by the Company of a Notice of Exercise and payment of the Exercise Price, the Company will:

(i) allot and issue the number of Shares required under these terms and conditions in respect of the number of Options specified in the Notice of Exercise and for which cleared funds have been received by the Company; and

(ii) if admitted to the official list of ASX at the time, apply for official quotation on ASX of Shares issued pursuant to the exercise of Options.

(f) Shares issued on exercise

Shares issued on exercise of the Options rank equally with the then issued shares of the Company.

(f) Quotation of Shares issued on exercise

If admitted to the official list of ASX at the time, , application will be made by the Company to ASX for quotation of the Options and application will be made by the Company to ASX for quotation of the Shares issued upon the exercise of the Options.

(h) Reconstruction of capital

If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.

(i) Participation in new issues

There are no participation rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options without exercising the Options.

However, if from time to time on or prior to the Expiry Date the Company makes an issue of new Shares to the holders of ordinary fully paid shares, the Company will send a notice to each Optionholder at least nine (9) business days before the record date referable to that issue. This will give Optionholders the opportunity to exercise their Options prior to the date for determining entitlements to participate in any such issue.

(j) Adjustment for bonus issue of Shares

If the Company makes a bonus issue of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):

(i) the number of Shares which must be issued on the exercise of an Option will be increased by the number of Shares which the Optionholder would have received if the Optionholder had exercised the Option before the record date for the bonus issue; and

(ii) no change will be made to the exercise price.

(k) Change in exercise price

An Option does not confer the right to a change in Exercise Price or a change in the number of underlying securities over which the Option can be exercised.

(l) Transferability

The Options are freely transferable.

11.3 CORPORATE GOVERNANCE

This summary identifies the main corporate governance policies and practices adopted by the Company's Board. The Board and the management team are committed to high standards of corporate governance in the performance of their duties. Where possible and having regard to the size and nature of the Company's operations, the Board has adopted the Corporate Governance Principles and Recommendations (Second Edition) ("**ASX Recommendations**") issued by the ASX's Corporate Governance Council.

Those of the ASX Recommendations that the Company does not comply with are set out in the table below:

No.	ASX Principal and Recommendation	Company's Position	Reason for Non-compliance
2.	**Structure the Board to add value.**		
2.1	A majority of the Board should be independent Directors.	The Board has considered the guidance to Principle 2: *Structure the Board to Add Value* and in particular, Box 2.1, which contains a list of "relationships affecting independent status". Currently the Board is structured as follows: • Terry Willsteed (Chairman and Non-executive Director). • Wayne Kernaghan (Non-executive Director); and • Glenn Tetley (Non-executive Director).	Given the size and nature of the Company, the Board considers the composition of the Board is appropriate at this stage.
2.4	The Board should establish a Nomination Committee.	The Company currently does not have a separate Nomination Committee. The roles and responsibilities of a Nomination Committee are currently undertaken by the full Board.	Given the size and nature of the Company, the Board considers it is appropriate for the role of the Nomination Committee to be performed by the Board at this stage.
4.	**Safeguard integrity in financial reporting.**		
4.2	The Audit Committee should be structured so that it: • consists only of Non-Executive Directors; • consists of a majority of independent Directors; • is chaired by an independent chair, who is not chair of the Board; • has at least three members.	The Company currently does not have a separate Audit Committee. The roles and responsibilities of an Audit Committee are currently undertaken by the full Board.	Given the size and nature of the Company, the Board considers it is appropriate for the role of the Audit Committee to be performed by the Board at this stage.
8.	**Remunerate fairly and responsibly.**		
8.1	The Board should establish a Remuneration Committee.	The Company has not established a separate Remuneration Committee.	Given the size and nature of the Company, the Board considers it is appropriate for the role of the Remuneration Committee to be performed by the Board at this stage.

No.	ASX Principal and Recommendation	Company's Position	Reason for Non-compliance
8.2	The Remuneration Committee should be structured so that it: • consists of a majority of independent Directors; • is chaired by an independent Director; and • has at least 3 members.	The roles and responsibilities of a Remuneration Committee are currently undertaken by the full Board.	Given the size and nature of the Company, the Board considers it is appropriate for the role of the Remuneration Committee to be performed by the Board at this stage.

A further summary of the Company's corporate governance policies and procedures is summarised below:

(a) The Board

The Board is responsible for the management of the Company primarily to protect and enhance long-term Shareholder value. This role includes the following:

- setting and reviewing strategic direction and planning;
- reviewing financial and operational performance;
- making sure that necessary resources are available to meet the Company's objectives;
- identifying principal risks and reviewing risk management strategies; and
- considering and reviewing significant capital investments and material transactions.

In exercising its responsibilities, the Board recognises that there are many stakeholders in the operations of the Company, including employees, shareholders, co-ventures, the government and the community.

The Board has delegated responsibility for the business operations of the Company to the Chief Executive Officer who is responsible to the Board.

(b) Composition of the Board

The Board is elected primarily by the Shareholders at general meetings of the Company, subject to the Company's Constitution and the ASX Listing Rules.

The current Board comprises three non-executive Directors. The Board seeks to nominate persons for appointment to the Board who have the qualifications, experience and skills to augment the capabilities of the Board and add value to the Company and its operations.

(c) Risk Management

The Board is responsible for the overall oversight of the Company's risk management and control framework. However, day-to-day responsibility for risk management is delegated to the Chief Executive Officer who is ultimately responsible to the Board in this respect.

To mitigate and manage risk to the Company, the Board receives regular updates and information in respect of the operations of the Company so as to facilitate the identification and management of possible risks.

(d) Audit

The Board performs the function of the Company's Audit Committee. The Audit Committee's roles are primarily to:

- review of the Company's financial statements and management of the Company's accountant;
- monitor and review transactions with Related Parties of the Company;
- review and manage the Company's external auditor;
- facilitate communications between the Board, senior financial management, internal control staff and the external auditors;
- establish procedures for confidentiality of internal reporting and complaints in respect of accounting and financial matters;
- review internal accounting, administration and operating policies; and
- oversee the management of the Company's risk management procedures.

(e) Conduct

The Board has adopted a Code of Conduct to promote good corporate conduct based on ethics and responsibility. This is to ensure the professional standards are complied with by the Company, its officers and staff.

(f) Share Trading

The Board has adopted a policy in respect of share trading by its Directors, employees and contractors. Primarily, the policy looks to restrict trading by those persons in periods leading up to an announcement by the Company, and set procedures to reduce the risk of insider trading.

(g) Diversity

The Board has adopted a policy to encourage age, gender, ethnic and cultural diversity in respect of the Company's workforce. This policy is designed to outline the Company's commitment to creating a corporate

culture that embraces such diversity, particularly in respect of the Board and management roles, by:

- encouraging and facilitating opportunities for the employment of people from different backgrounds;
- providing skills and career development initiatives; and
- increasing workforce participation and creating an inclusive environment where all employees feel included and valued.

(h) Shareholder Communication

The Board has adopted a policy aimed at ensuring that the Shareholders are informed of all major developments affecting the Company. This is to be effected by way of announcements to the ASX and the media, updates on the Company's website, encouraging Shareholder participation at the Company's annual general meetings, and distribution of the Company's annual report containing relevant information on the Company's operations and state of affairs to all Shareholders.

11.4 CONTINUOUS DISCLOSURE AND DOCUMENTS AVAILABLE FOR INSPECTION

The Company is a "disclosing entity" for the purposes of Part 1.2A of the Corporations Act. As such, it is subject to regular reporting and disclosure obligations which require it to disclose to the ASX any information which it is or becomes aware of concerning the Company and which a reasonable person would expect to have a material effect on the price or value of the securities of the Company.

11.5 INTERESTS OF EXPERTS AND ADVISERS

(a) General

Other than as set out below or elsewhere in the Prospectus, no expert, promoter, underwriter or any other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, nor any firm in which any of those persons is or was a partner nor any company in which any of those persons is or was associated with has, within 2 years before lodgement of the Prospectus with ASIC:

- had any interest in the formation or promotion of the Company or in any property acquired or proposed to be acquired by the Company in connection with its formation or promotion or in connection with the Offer or in the Offer; and
- not recorded any amounts or benefits or has not agreed to be paid benefits for services rendered by such persons in connection with the formation or promotion of the Company or the Offer.

(b) Australian Lawyers

Price Sierakowski Corporate has acted as Australian lawyers to the Offer. The Company estimates that the total fees paid and payable to Price Sierakowski Corporate for work done in respect of this Prospectus will be approximately $150,000 plus GST. In addition, the Company has paid, or is also expected to pay, approximately $50,000 plus GST for additional legal services provided by Price Sierakowski Corporate in the 2 years preceding this Prospectus.

(c) Independent Geologist

Minnelex Pty Ltd has prepared the Independent Geologist's Report which is included in Section 6 of this Prospectus. Total fees payable to Minnelex for work done in relation to this Prospectus are approximately $12,735 plus GST.

(d) Madagascan Lawyers

Lexel Juridique et Fiscal has prepared the In-country Lawyer's Report in respect of the Company's Madagascan interests which is included in Section 7 of this Prospectus. Total fees payable to Lexel Juridique et Fiscal for legal work done in relation to this report are approximately €3,000.

(e) Investigating Accountants

RSM Bird Cameron has prepared the Investigating Accountant's Report which is included in Section 8 of this Prospectus. Total fees payable to RSM Bird Cameron for work done in relation to this report are approximately $12,000 plus GST.

(f) Joint Lead Managers

Helmsec and Paradigm have acted as Joint Lead Managers to the Offer and equity capital markets advisors to the Company. The Company estimates it will pay each of Helmsec and Paradigm between $204,000 (plus GST) based on the Minimum Subscription of $3,500,000 and $339,000 (plus GST) based on the Full Oversubscription of $8,000,000 for these services, depending on the funds raised. In addition, the Company estimates it will issue to each of Helmsec (or its nominees) and Paradigm between 525,000 unlisted options based on the Minimum Subscription of $3,500,000 and 1,200,000 unlisted options based on the Full Oversubscription of $8,000,000, each having an exercise price of $0.24 and an expiry date of 1 April 2017. (Refer to Section 10.10 above.)

11.6 CONSENTS

The following written consents have been given in accordance with the Corporations Act with respect to the issue of this Prospectus in both paper and electronic form:

(a) Australian Lawyers

Price Sierakowski Corporate has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as Australian lawyers to the Offer. Price Sierakowski Corporate has not authorised or caused the issue of this Prospectus and does not take any responsibility for any part of this Prospectus other than the references to it.

(b) Independent Geologist

Minnelex Pty Ltd has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the Independent Geologist and to the inclusion of the Independent Geologist's Report in Section 6 of this Prospectus in the form and context in which it is included, together with all references to that report in this Prospectus. Minnelex has not authorised or caused the issue of this Prospectus and does not take any responsibility for any part of this Prospectus other than its report and any references to it.

(c) Consulting Geologist

Badger Mining and Consulting (Pty) Ltd ("**Badger**") has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the consulting geologist to the Company in the form and context in which it is included. Badger has not authorised or caused the issue of this Prospectus and does not take any responsibility for any part of this Prospectus other than references to the JORC Code compliant Indicated Mineral Resource at the Beravina Zircon Project.

(d) Madagascan Lawyers

Lexel Juridique et Fiscal has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in the Prospectus as the Company's Madagascan lawyers for the purpose of the In-country Lawyer's Report in Section 7 of this Prospectus in the form and context in which it is included, together with all references to that report in this Prospectus. Lexel Juridique et Fiscal has not authorised or caused the issue of this Prospectus and does not take any responsibility for any part of this Prospectus other than its report and any references to it.

(e) Investigating Accountants

RSM Bird Cameron has given, and have not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as Investigating Accountant and to the inclusion of the Investigating Accountant's Report in Section 8 of this Prospectus in the form and context in which it is included, together with all references to them and to that report in this Prospectus. RSM Bird Cameron has not authorised or caused the issue of this Prospectus and does not take any responsibility for any part of this Prospectus other than its report and any references to it.

(f) Share Registry

Security Transfer Registrars Pty Ltd has given, and has not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as the Share Registry in the form and context in which it is named, together with all references to it in this Prospectus. Security Transfer Registrars has had no involvement in the preparation of any part of this Prospectus other than being named as Share Registry. Security Transfer Registrars has not authorised or caused the issue of this Prospectus and does not take any responsibility for any part of this Prospectus other than the references to it.

(g) Helmsec

Helmsec has given, and have not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as a Joint Lead Manager in the form and context in which it is named, together with all references to it in this Prospectus. Helmsec has not authorised or caused the issue of this Prospectus and does not take any responsibility for any part of this Prospectus other than its report and any references to it.

(h) Paradigm

Paradigm has given, and have not before lodgement of this Prospectus withdrawn, its written consent to be named in this Prospectus as a Joint Lead Manager in the form and context in which it is named, together with all references to it in this Prospectus. Paradigm has not authorised or caused the issue of this Prospectus and does not take any responsibility for any part of this Prospectus other than its report and any references to it.

(i) Other

There are a number of persons and entities referred to elsewhere in this Prospectus who have not made statements included in this Prospectus nor are there any statements made in this Prospectus on the basis of any statements made by those persons or entities. These persons and entities did not consent to being named in this Prospectus and did not authorise or cause the issue of this Prospectus.

11.7 EXPENSES OF THE OFFER

The expenses of the Offer are expected to comprise the following estimated costs and are exclusive of any GST payable by the Company:

EXPENSES OF THE OFFER

	Minimum Subscription $	Percentage of Funds %	Full Subscription $	Percentage of Funds %	Full Over-subscription $	Percentage of Funds %
ASIC Fees	$2,171	0.01%	$2,171	0.04%	$2,171	0.03%
ASX Fees	$80,953	2.3%	$83,925	1.68%	$85,906	1.07%
Joint Lead Managers' fees	$210,000	6.0%	$300,000	6.0%	$480,000	6.0%
Advisor fees	$178,735	5.1%	$178,735	3.57%	$178,735	2.23%
Promotion, printing, distribution and Share Registry	$25,000	0.7%	$25,000	0.5%	$25,000	0.31%
Other Expenses	$15,000	0.4%	$15,000	0.3%	$15,000	0.19%
Total Estimated Expenses	**$511,859**	**14.6%**	**$604,831**	**12.1%**	**$786,812**	**9.84%**

11.8 ELECTRONIC PROSPECTUS

Pursuant to Class Order 00/044 the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an electronic prospectus and electronic application form on the basis of a paper prospectus lodged with ASIC, and the publication of notices referring to an electronic prospectus or electronic application form, subject to compliance with certain conditions.

If you have received this Prospectus as an electronic Prospectus, please ensure that you have received the entire Prospectus accompanied by the Application Form. If you have not, please email the Company at **info@austral-resources.com** and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both. Alternatively, you may obtain a copy of the Prospectus from the Company's website at **www.austral-resources.com**.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the electronic Application Form, it was not provided together with the electronic Prospectus and any relevant supplementary or replacement prospectus or any of those documents were incomplete or altered.

11.9 FORECASTS

The Company is an exploration company with intention to become a Zircon producer in the short to medium term. Given the speculative nature of exploration, mineral development and production, there are significant uncertainties associated with forecasting future revenue. On this basis, the Directors believe that reliable forecasts cannot be prepared and accordingly have not been included in this Prospectus.

11.10 LITIGATION

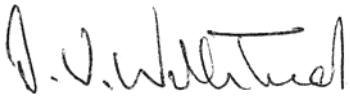
To the Directors knowledge, there is no litigation against the Company or initiated by the Company as at the date of this Prospectus.

12. DIRECTORS' AUTHORISATION

The Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors.

In accordance with Section 720 of the Corporations Act, each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

Signed for and on behalf of Austral Resources Limited (ACN 150 166 831).



Terry Willsteed
Chairman
AUSTRAL RESOURCES LIMITED

13. DEFINITIONS

Action Mining means Action Mining Limited (registration number 085041 C2/GBL), a company registered under the laws of Mauritius.

Advisor means legal accounting and independent geology advisors.

Application Monies means the amount of money in dollars and cents payable for Shares at $0.20 per Share pursuant to this Prospectus.

Application Form means the Application Form attached to and forming parts of this Prospectus.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) operating as the Australian Securities Exchange.

ASX Listing Rules means the listing rules of ASX.

AUD means Australian dollars. All amounts in this prospectus are in Australian dollars unless stated otherwise.

Beravina Zircon Project means the Beravina zircon exploration project conducted by CGMM under the Zircon Permit.

Big Island Graphite means Big Island Graphite Limited(registration number C098073) a company registered under the laws of Mauritius.

Board means the Board of Directors of the Company.

CGMM means Compagnie Générale des Mines de Madagascar SARL (Registration Number 200 B 00444), a company registered under the laws of Madagascar.

CHESS means ASX Clearing House Electronic Sub-register System.

Closing Date means 28 March 2013 or other such date and time as the Directors in conjunction with the Joint Lead Managers determine.

Company means Austral Resources Limited (ACN 150 166 831).

Constitution means the constitution of the Company.

Corporations Act means the *Corporations Act 2001* (Cth).

Declaration of Trust means the Declaration of Trust made by Olivier Petyt on 13 April 2012 on the terms set out in Section 10.3.

Directors means the directors of the Company from time to time.

Existing Shares means the 91,623,001 Shares in the Company on issue at the date of this Prospectus.

Existing Shareholders means the holders of Existing Shares.

Graphite Option means the option granted to the Company by Intercontinental Nominees Limited for the Company (or a nominee) to acquire 100% of the share capital in Big Island Graphite, pursuant to the Option Deed dated 30 May 2012.

Graphite Permits means the following Madagascan mining permits:

(a) PRE 38642;
(b) PRE 38643;
(c) PRE 38644; and
(d) PRE 38762.

Helmsec means Helmsec Global Capital Limited (ACN 129 825 798).

HiGround Resources means HiGround Resources SARL (Registration Number 2010 B914), a company registered under the laws of Madagascar.

Independent Geologist's Report means the Independent Geologist's Report contained in Section 6.

Investigating Accountant's Report means the Investigating Accountant's Report contained in Section 8.

Joint Lead Managers means Helmsec and Paradigm in their capacity is joint lead managers and equity capital markets advisors to the Company in respect of the Offer.

JORC Code means the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 Edition) published by the Joint Ore Reserves Committee of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists and the Minerals Council of Australia.

Madagascar Graphite Project means the graphite exploration project conducted by HiGround Resources in respect of Graphite Permits.

Offer means the offer of up to 40,000,000 Shares at an issue price of $0.20 per Share together with one free attaching option exercisable at $0.20 each on or before 31 March 2016 for every Share issued to raise up to $8,000,000 pursuant to this Prospectus.

Offer Period means the period between the Opening Date and the Closing Date.

Offer Price means $0.20 cents per share.

Official List means the official list of the ASX.

Opening Date means the first date for receipt of completed Application Forms which is 9:00am WST on 25 February 2013 or other such date and time as the Directors in conjunction with the Joint Lead Managers determine.

Option means an option to acquire one or more Shares.

Paradigm means Paradigm Securities Pty Ltd (ABN 95 159 611 060).

Prospectus means this prospectus dated 15 February 2013.

Related Party means a related party within the meaning set out in Section 228 of the Corporations Act.

Share means a fully paid ordinary share in the capital of the Company.

Share Purchase Agreements means:

(a) the Share Purchase Agreement between the Company and Olivier Petyt dated on or about 2 December 2011 for the acquisition by the Company of 50% of the issued shares in Action Mining; and

(b) the Share Purchase Agreement between Alice Ormen Furth and Roxane De Saule by their attorney, Oliver Petyt, and the Company dated on or about 3 March 2012 for the acquisition by the Company of 50% of the issued shares in Action Mining.

Shareholder means the holder of a Share.

Share Registry means Security Transfer Registrars Pty Ltd (ACN 008 894 488).

Subsidiaries means any one or more of the Company's subsidiaries, being at the date of this Prospectus, Action Mining and CGMM.

Vendors means:

(a) Olivier Petyt;

(b) Alice Ormen Furth, by her attorney, Olivier Petyt; and

(c) Catherine Sylvie Lannes (otherwise known as Roxane De Saule), by her attorney, Olivier Petyt.

WST means Australian Standard Time in Western Australia.

Zircon Permit means Madagascan research permit number 8096 held by CGMM.

APPLICATION FORM

AUSTRAL RESOURCES LIMITED (ACN 150 166 831)
ABN 84 150 166 831

Share Registrars Use Only	
Broker reference – Stamp only	
Broker Code	Adviser Code

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(Minimum of 10,000 Shares then multiples of 1,000 Shares)

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You may be allocated all of the Shares above or a lesser number

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D Tax File Number(s)
Or exemption category

Name of applicant 1

Applicant 1/Company

Name of joint applicant 2 or <account name>

Joint applicant 2/ Trust

E Full postal address
Number/Street

F Contact Details
Contact Name

Suburb/Town

State

Postcode

Contact daytime Telephone

( )

G Chess HIN (if applicable)

H Cheque payment details please fill out your cheque details and make your cheque payable to "Austral Resources Limited – Trust Account"

Drawer	Cheque Number	BSB Number	Account Number	Total amount of Chq

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I/We declare that:

(a) this Application is completed according to the declaration/appropriate statements on the reverse of this forma and agree to be bound by the constitution of Austral Resources Limited (ACN 150 166 831); and

(b) I/we have received personally a copy of this Prospectus accompanied by or attached to the Application Form or a copy of the Application Form or a direct derivative of the Application Form, before applying for Shares.

Return of the Application Form with your cheque for the Application Monies will constitute your offer to subscribe for Shares in the Company. Please note that the Company will not accept electronic lodgement of Application Forms or electronic funds transfer.

A signature is not required.

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D Enter your Tax File Number (TFN) or exemption category. Where applicable please enter the TFN for each joint Applicant. Collection of TFN(s) is authorized by taxation laws. Provision of your TFN is not compulsory and will not affect your Application.

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F Please enter your telephone number(s), area code, email address and contact name in case we need to contact you in relation to your Application.

G The Company will apply to the ASX to participate in CHESS, operated by the ASX Settlement Pty Ltd, a wholly owned subsidiary of ASX Limited. In CHESS, the Company will operate an electronic CHESS subregister of securities holdings and an electronic issuer sponsored subregister of securities holdings. Together the two subregisters will make up the Company's principal register of securities. The Company will not be issuing certificates to applicants in respect of securities allotted.

If you are CHESS participant (or are sponsored by a CHESS participant) and you wish to hold securities allotted to you under this Application in uncertified form on the CHESS subregister, complete Section G or forward your Application Form to your sponsoring participant for completion of this section prior to lodgement. Otherwise, leave Section G blank and on allotment, you will be sponsored by the Company and an SRN will be allocated to you. For further information refer to the relevant section of the Prospectus.

H Please complete cheque details as requested.

Make your cheque payable to "Austral Resources Limited – Trust Account" in Australian currency and cross it "Not Negotiable" Your cheque must be drawn on an Australian Bank, and the amount should agree with the amount shown in section B.

Sufficient cleared funds should be held in your account, as cheques returned unpaid are likely to result in your Application being rejected.

I Before completing the Application Form the Applicant(s) should read this Prospectus. By lodging the Application Form, the Applicant(s) agrees that this Application is for shares in the Company upon and subject to the terms of this Prospectus, and agrees to take any number of Shares equal to or less than the number of Shares indicated in Section A that may be allotted to the Applicant(s) pursuant to the Prospectus and declares that all details and statements made are complete and accurate. It is not necessary to sign the Application Form.

Lodgement of Applications: Return your completed Application Form with cheque(s) attached to:

Delivered to:	Mailed to:
Austral Resources Limited c/- Security Transfer Registrars 770 Canning Highway Applecross, Western Australia 6153	Austral Resources Limited c/- Security Transfer Registrars PO Box 535 Applecross, Western Australia 6953

Application Forms must be received no later than the 28 March 2013 which may be changed after the Opening Date at any time at the discretion of the Company.

Correct form of Registrable Title

Note that only legal entities are allowed to hold Shares and Options. Applications must be in the name(s) of a natural person(s), companies or other legal entities acceptable to the Company. At least one full given name and the surname are required for each natural person. The name of the beneficiary or any other non-registrable title may be included by way of an account designation if completed exactly as described in the example of correct forms of registrable title below:

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Partnerships - Use partners personal names, do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith and Son A/C>	John Smith and Son

APPLICATION FORM

AUSTRAL RESOURCES LIMITED (ACN 150 166 831)
ABN 84 150 166 831

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Broker reference – Stamp only	
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Partnerships - Use partners personal names, do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith and Son A/C>	John Smith and Son

CORPORATE DIRECTORY

DIRECTORS

Terry Willsteed
Chairman and Non-executive Director

Wayne Kernaghan
Non-executive Director

Glenn Tetley
Non-executive Director

COMPANY SECRETARY

Jessica Reid

REGISTERED OFFICE

Level 14
275 George Street
Sydney NSW 2000
PO Box R383
Royal Exchange NSW 1225

SHARE REGISTRY

Security Transfer Registrars
770 Canning Highway
Applecross WA 6153

AUDITOR

AD Danieli Chartered Accountants
Level 14, 275 George Street
Sydney NSW 2000

INVESTIGATING ACCOUNTANTS

RSM Bird Cameron
8 St George's Terrace
Perth WA 6000

INDEPENDENT GEOLOGIST

Robert Pyper
Minnelex Pty Ltd
283 Huntingdale Street
Pullenvale QLD 4069

AUSTRALIAN LAWYERS

Price Sierakowski Corporate
Level 24, St Martin's Tower
44 St George's Terrace
Perth WA 6000

MADAGASCAN LAWYERS

Lexel Juridique et Fiscal
Zone Tana Waterfront
Ambodivona
Antananarivo 101
Madagascar

JOINT LEAD MANAGERS

Helmsec Global Capital Limited
Level 17, 15 Castlereagh Street
Sydney NSW 2000
AFSL No. 334 838

Paradigm Securities Pty Ltd
Level 1, Gold Fields House
1 Alfred Street
Sydney NSW 2000
AFSL No. 247 404

PROPOSED ASX CODE

AZW

AUSTRAL RESOURCES LIMITED

ACN 150 166 831

REGISTERED OFFICE

Level 14
275 George Street
Sydney NSW 2000
PO Box R383
Royal Exchange NSW 1225