

# ANNUAL REPORT / 2011

ASX: SOC | ACN 145 184 667



SOVEREIGN GOLD  
COMPANY LIMITED



## CORPORATE DIRECTORY

Sovereign Gold Company Limited  
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ABN 12 145 184 667

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### Directors

John Dawkins AO (Chairman)  
Michael Leu (CEO)  
Peter Meers  
Rado Jacob Rebek  
Qinjing Qiu

### Joint Company Secretaries

David L Hughes  
Henry Kinstlinger

### ASX Code – SOC

Sovereign Gold Company Limited shares are listed on the Australian Securities Exchange.

This financial report covers both Sovereign Gold Company Limited as an individual entity and the consolidated entity consisting of Sovereign Gold Company Limited and its consolidated entities.

Sovereign Gold Company Limited is a company limited by shares, incorporated and domiciled in Australia.

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### Annual General Meeting

The Annual General Meeting of Sovereign Gold Company Limited

**will be held at** Level 2  
Hudson House  
131 Macquarie Street  
Sydney, NSW, 2000

**time** 3.00 pm

**date** 28 May 2012

A formal notice of meeting will be sent in accordance with the Company's constitution and the Corporations Act, 2001.

## CHAIRMAN'S REVIEW 2011

Dear Shareholders,

On behalf of the Board of Directors I am pleased to present the Annual Report for Sovereign Gold Company Limited (ASX: **SO**C) for the twelve months to 31 December 2011.

After listing on 3 December 2010 your Company mobilised swiftly into drilling and has confirmed the presence of a newly discovered large Intrusion-Related Gold System (**IRGS**) within its key tenements around the Rocky-River Uralla Goldfield. The recent drilling has established Proof of Concept and validates the potential for a major gold discovery. The gold lode at Martins Shaft returned some impressive drill intersections including Diamond Drill Hole SGRDD002: 22metres @ 3.28 grams/tonne gold from 18-40 metres downhole including 10 metres @ 6.06 grams/tonne gold from 27-37 metres downhole and 2 metres @ 18.85 grams/tonne gold from 35-37m metres downhole. Drilling has proven the gold bearing lode extends to at least 130 metres vertically (still open) – in similar systems the gold lodes have been proven to be part of deep tapping structures that extend to at least 500 metres vertically, the limit of drilling. Deep drilling is planned for 2012. Exploration, although in the very earliest of stages, has already resulted in the discovery of significant gold mineralisation and the identification of many more potential drill targets for 2012.

Drilling along the Goldsworth Mine confirmed gold mineralisation for over 570 metres along the strike of a continuous magnetic linear with over 40 kilometres of untested potential. This long gold channelling structure hosts several historic gold mines and Sovereign's geologists have discovered new gold-bearing areas along it. A detailed low level airborne magnetic and radiometric survey has been completed that revealed the location of many other long gold-channelling conduits.

Sovereign has also secured a 50% shareholding in the Ibam Hill gold project located in the Eastern Gold Belt of Peninsular Malaysia. This under-explored region has excellent potential for a major gold discovery. Other gold opportunities are also being evaluated in the Central Gold Belt that hosts million ounce operating gold mines.

Sovereign Gold is now a leader in exploration of IRGS and through application of its explorations team's new understanding on the controls on gold mineralisation within these large systems has identified several high priority targets for drilling in early 2012 (mid-April).

Your Board is confident that the planned upcoming drilling program will discover further significant gold lodes and looks forward to continuously reporting these exciting discoveries to you.



**John Dawkins AO**  
Chairman

## REVIEW OF OPERATIONS

This Review covers the period to 31 December 2011.

### Background

Sovereign Gold Company Limited (**Sovereign**) is exploring large Intrusion-Related Gold Systems (**IRGS**) at the Rocky River-Uralla Goldfield in New South Wales and in the Eastern and Central Gold Belts of Peninsular Malaysia.

Sovereign's Rocky River-Uralla Goldfield Project covers 2,400 square kilometres.

The project is located around the township of Uralla, 21km southwest of Armidale, New South Wales, Australia, with superb infrastructure logistics. It is close to major roads, rail, airport, labour source, university, power, and engineering.

Available production records indicate that the Rocky River-Uralla Goldfield yielded 5,193 kg (approximately 167,000 ounces) of gold mostly from Tertiary deep leads during the period 1858-1967.

Sovereign's exploration objective is to locate the hard rock gold sources.

### Highlights of the year include:

#### Rocky River-Uralla Goldfield

- Exploration, although in the very earliest of stages, has already resulted in the discovery of significant gold mineralisation and the identification of many more potential drill targets.
- Drilling has confirmed the presence of a large, newly discovered IRGS at the Rocky-River Uralla Goldfield. 'Proof of Concept' validates the potential for a major gold discovery.
- The gold mineralisation discovered at Martins Shaft and the Goldsworth Mine is very significant as this style of mineralisation was predicted from the application of Sovereign's IRGS Model.
- Sovereign is now a leader in exploration of IRGS and through application of its exploration team's new understanding on the controls on gold mineralisation within these large systems has identified several high priority targets for drilling in early 2012 (mid-April).
- A detailed low level airborne magnetic and radiometric survey has been completed that revealed the location of many long gold-channelling conduits.
- Potential exists for the discovery of multiple Martins Shaft-type deposits, of similar and larger size, within the large IRGS. Sovereign's well-calculated drill programmes have defined a multitude of targets, over 15 separate gold-bearing deposits and numerous geochemical anomalies, in a large 60 square kilometre mineralising system.
- Multiple drill ready targets identified for the 2012 drilling campaign. These include several known and other recently discovered hard rock gold targets, as well as several targets on the largely unexplored 41 kilometres long magnetic linear that host several historic gold occurrences.
- Senior Geoscientists from the NSW Geological Survey are collaborating with Sovereign as the new understanding of these gold systems has potential to invigorate gold exploration in the New England Fold Belt.
- Sovereign has mastered the ability to swiftly identify multiple potential gold lodes and target this mineralisation through cleverly calculated programmes. Sovereign is spearheading Eastern Australia's ascent into what may prove to be a significant IRGS exploration boom. As results continue to stream in throughout 2012, Sovereign's leading position in this relatively new golden opportunity is not one to underestimate.

#### Malaysia

Sovereign Gold is a 50% joint venture partner in the advanced gold exploration Ibam Hill Project, located in the Eastern Gold Belt in the Malaysian state of Pahang in the Bukit Ibam State Forest Reserve; which is 152km ENE of Kuala Lumpur.

The geology of Ibam Hill is not dissimilar to the Selinsing Gold Deposit in the Central Gold Belt. The Eastern Gold Belt is an under-explored part of the world with excellent exploration potential for gold, tin, iron ore and other commodities.

**REVIEW OF OPERATIONS** continued

The exploration target is for several hundred thousand ounces gold in an obvious near surface, open pitable resource that averages 1 - 2 grams gold per tonne (g/t). Potential exists for significant extensions, outside the block selected for phase 1 drilling, of gold mineralisation at depth and along the strike. Fieldwork also confirms there is potential for new targets in the near surroundings.

**Corporate**

17 February 2011	Incorporation of two subsidiaries, IRGS Northern Pty Ltd and IRGS Southern Pty Ltd that hold further exploration tenements prospective for IRGS.
25 May 2011	Successful completion of a placement of 7 million shares at \$0.35 to raise \$2.45 million before costs to sophisticated and professional investors. Proceeds from the issue are being used to fund drilling, geophysical and geochemical exploration programs and for additional working capital purposes.
10 June 2011	Appointment of Qinjing Qiu as a director.
17 June 2011	50% Joint venture for Ibam Hill gold exploration project in Malaysia.
6 September 2011	5,125,000 ordinary shares were released as restricted securities.
13 September 2011	Incorporation of Pahang Minerals Pty Ltd to pursue gold exploration activities in Malaysia.
4 January 2012	Director and Chief Geologist, Michael Leu was appointed acting CEO following the resignation of Nick Raffan as a director and CEO.

**Exploration**

Sovereign's tenements bear significant similarities to other one million ounce IRGS projects globally. They house a large grassroots discovery in a historic gold province surrounded by ideal road, rail and coastal infrastructure to support a future operation and they continue to offer significant exploration upside.

Sovereign's IRGS has striking similarities to the 28 million ounces Donlin Creek IRGS deposit (gold in dykes like Martins Shaft) of the Yukon-Alaska running Tintina Gold Province. This has been taken into account when formulating a target model of satellite mineralised zones of up to 100,000 gold ounces, with a global resource of over 1 million ounces.

Current exploration and research substantiates that the auriferous system of the Rocky River-Uralla Goldfield is emerging as one of the best defined examples of an IRGS found in Australia. The newly discovered mineralised system has a plethora of characteristics distinctly diagnostic of the classic, extensively researched IRGS discovered in the vast Tintina Gold Province of Alaska and Yukon. IRGS are a newly-defined (1999) deposit classification based mainly on well-studied deposits in Alaska and Yukon (Hart, 2005). An integrated interpretation of geological, geophysical, geochemical and metallogenic data to determine the size and intensity of the gold-bearing mineral system exposed in the Rocky River-Uralla Goldfield has confirmed the existence of a very large, attractive target.

Potential targets for an IRGS are very large, up to 1 million ounces (**Moz**) gold or more. Fieldwork on the Sovereign Gold Project Tenements would indicate:

- Target grade: >1-2 g/t Au in disseminated systems, and the potential for 100,000 to >1 Moz Au.
- Potential for 50,000 to 100,000 oz Au deposits in vein/vein dyke deposits carrying > 5 g/t Au, and bulk open cuttable, closed-spaced multiple vein systems and stockworks.
- Potential also exists for deeper hypogene gold.
- The main mineralised area encompasses approximately 60 square kilometres with a global target of finding >1 Moz Au.

Benefitting from abundant research and historical data for Uralla, Sovereign quickly identified that its ground housed the all-important diagnostic characteristics needed to chase such a system.

Drawing on these analogous characteristics to formulate its exploration plans, Sovereign's drilling drive kicked in this year. To date, activity has focused principally on Martins Shaft and the Goldsworth Mine. Drilling along the Goldsworth Mine confirmed gold mineralisation, over 570 metres along a continuous magnetic linear 41 kilometres long that hosts several historic gold mines. Sovereign has confirmed new gold-bearing structures there, including in-situ rock samples of up to 7.58 g/t gold.

Two zones of mineralisation were encountered Vickers Prospect, 2 metres at 1.69 g/t gold in SGRRC023 at a down-hole depth of 21-23 metres, and 1 metre at 3.1 g/t gold in SGRRC024 at a down-hole depth of 33-34 metres. High silver grades were also encountered with up to 1 metre (21-22m) at 2.54 ounces per tonne in SGRRC023.

**REVIEW OF OPERATIONS** continued

A significant discovery has already taken place at Martins Shaft which demonstrates "Proof of Concept", some drill intersections include: Diamond Drill Hole SGRDD002: 22metres @ 3.28 g/t gold from 18-40 metres downhole Including 10 metres @ 6.06 g/t gold from 27-37 metres downhole and 2 metres @ 18.85 g/t gold from 35-37m metres downhole; Diamond Drill Hole SGRDD004: 18 metres @ 3.51 g/t gold from 52-70 metres downhole, including 7 metres @ 7.47 g/t gold from 57-64 metres downhole and 1 metre @ 19.60 g/t gold from 58-59 metres downhole.

In 2012, Sovereign will deep drill Martins Shaft and the Goldsworth mine from 300-500 metres as these systems can typically extend to such depths. Before these campaigns take place, a 20 target diamond drill programme will be staged including some priority targets - Frasers Find (gold in granite traced for over 250 metres), Hudsons Prospect, Sueys Claim-Hudsons McCrossins (gold mineralisation traced in structures for over 600 metres), Melvaines Mine (sheeted gold-bearing veins in dyke –Martins Shaft look-a-like) and several targets identified along the kilometres long magnetic linear.

Sovereign conducts its exploration to the highest environmental standards. In particular drilling was undertaken by low impact tracked rigs that do not require construction of access road and pads. Consequently all the principal landowners have signed Access and Compensation Agreements.

In addition to gold, Sovereign has also located further resource potential within its other exploration licences including antimony (EL 7768 and EL 7700) and tin (EL 7701).

**Exploration progress**

In January 2011 Sovereign commenced its initial 2,000 metres RC drilling program at Martins Shaft at the Rocky River – Uralla goldfield project. The first phase drilling program was to test the dyke along the strike and down dip targeting known mineralised lodes that extend to the surface.

In February 2011 Sovereign confirmed that an IRGS was present at Rocky River–Uralla Goldfield. Assays confirmed broad zones of gold mineralisation in the initial two holes at Martin's Shaft. The initial results were as predicted by the geological model being used in the style of IRGS.

Further tenements were granted to the Company being EL 7700 and EL7701.

In March 2011 drilling commenced at the Goldsworth Mine with sulphide bearing mineralisation encountered in the RC drill holes. Also drilling commenced at Vickers Prospect targeting the source of high grade rock samples taken from the old dump near one of two shafts. Gold mineralisation was found at these additional mines.

In April 2011 Sovereign commenced its first diamond drilling program at Martins Shaft to provide gold ore for metallurgical analysis. Initial assay results for the infill diamond drill samples returned some very high–grade gold intercepts with visible gold in the core; long and high grade intercepts up to 22.5 g/t gold and high silver grades ranging from 30 – 159 g/t. A twin diamond hole (SGRDD014) had an overall 30% higher gold content than its reverse circulation twin (SGRCC005).

In June 2011, 5 additional tenements were granted to Sovereign being EL 7766, 7767, 7768, 7769 and 7770.

In August 2011 a fixed wing geophysical survey, that identified several potential gold-bearing structures, was completed over 5,008 line kilometres covering a large part of EL 6483 and parts of EL 7491 and EL 7700. The low level magnetic and radiometric survey provided a detailed structural image for identification of potential conduits for gold bearing fluids and helped define the extent and alteration of individual dykes and dyke swarms. Soil and rock sampling anomalies coincide with clearly defined magnetic linear anomalies and confirm previous interpretation that these are defining the conduits for gold-bearing fluids.

In September 2011 Sovereign announced early success following the airborne magnetic survey with arteries of a vast gold bearing fluid plumbing system revealed and new targets identified around Reedy Creek which represents a separate but linked occurrence to gold mineralisation at Martins Shaft and the Goldsworth Mine. This survey confirmed the presence of a large gold mineralisation system with potential for gold lodes like Martins Shaft extending several hundred metres vertically.

The survey mapped several kilometres of gold channelling conduits that define a gold mineralised system that extends at least 11 kilometres from north to south and 6.5 kilometres from east to west. The geophysical survey also confirmed the connection of known gold mineralisation with the alteration structures that channelled and concentrated gold-bearing fluids. The magnetic data has revealed the existence of kilometres of untested gold potential. Martins Shaft, Little Gracie, Gracie, Wilsons Creek and the Goldsworth Mine are all located on major magnetic linears. Significant drill targets occur where major magnetic lineaments intersect. Interpretation of the magnetic and radiometric data is continuing together with geochemical surveys and mapping of alteration and structure. The new targets identified are assisting planning the 2012 drilling campaign.

REVIEW OF OPERATIONS continued

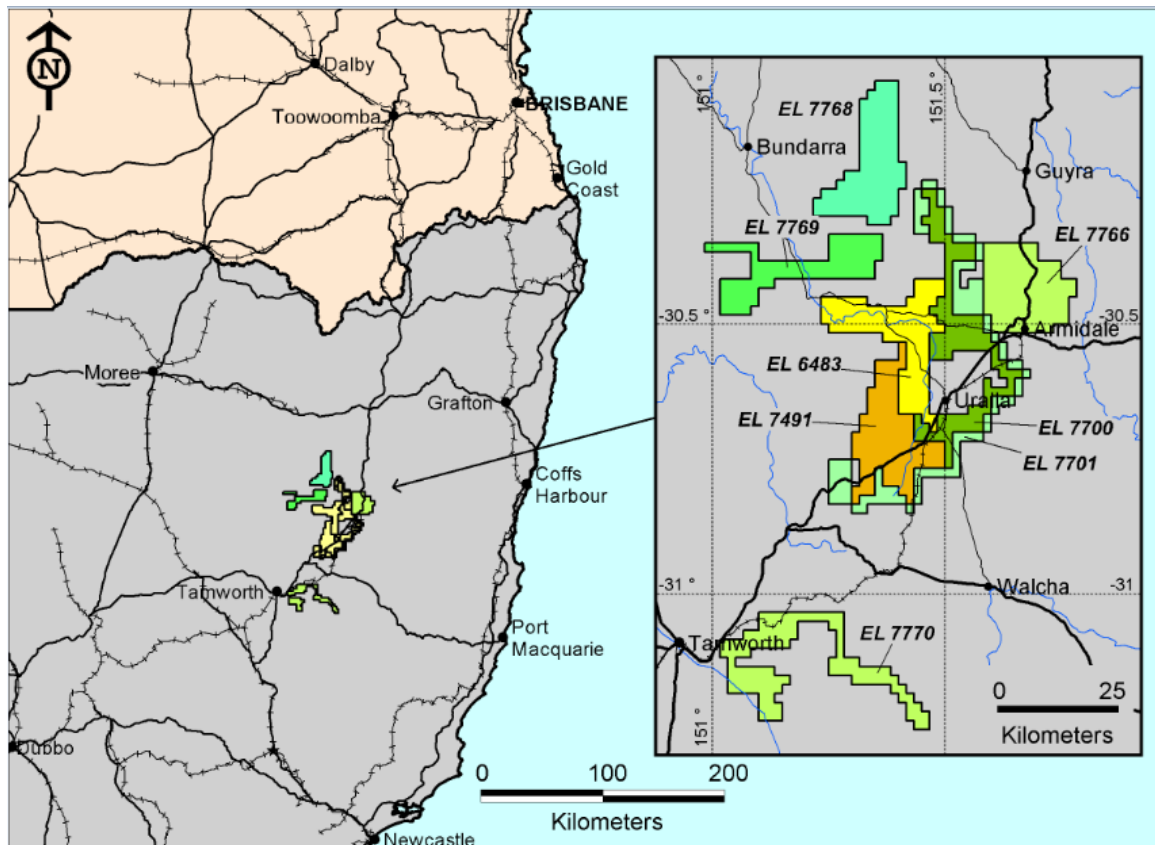


Figure 1: Location of Exploration Licence, regional NSW context, held by 100% owned subsidiaries of Sovereign Gold Company Limited.

## REVIEW OF OPERATIONS continued

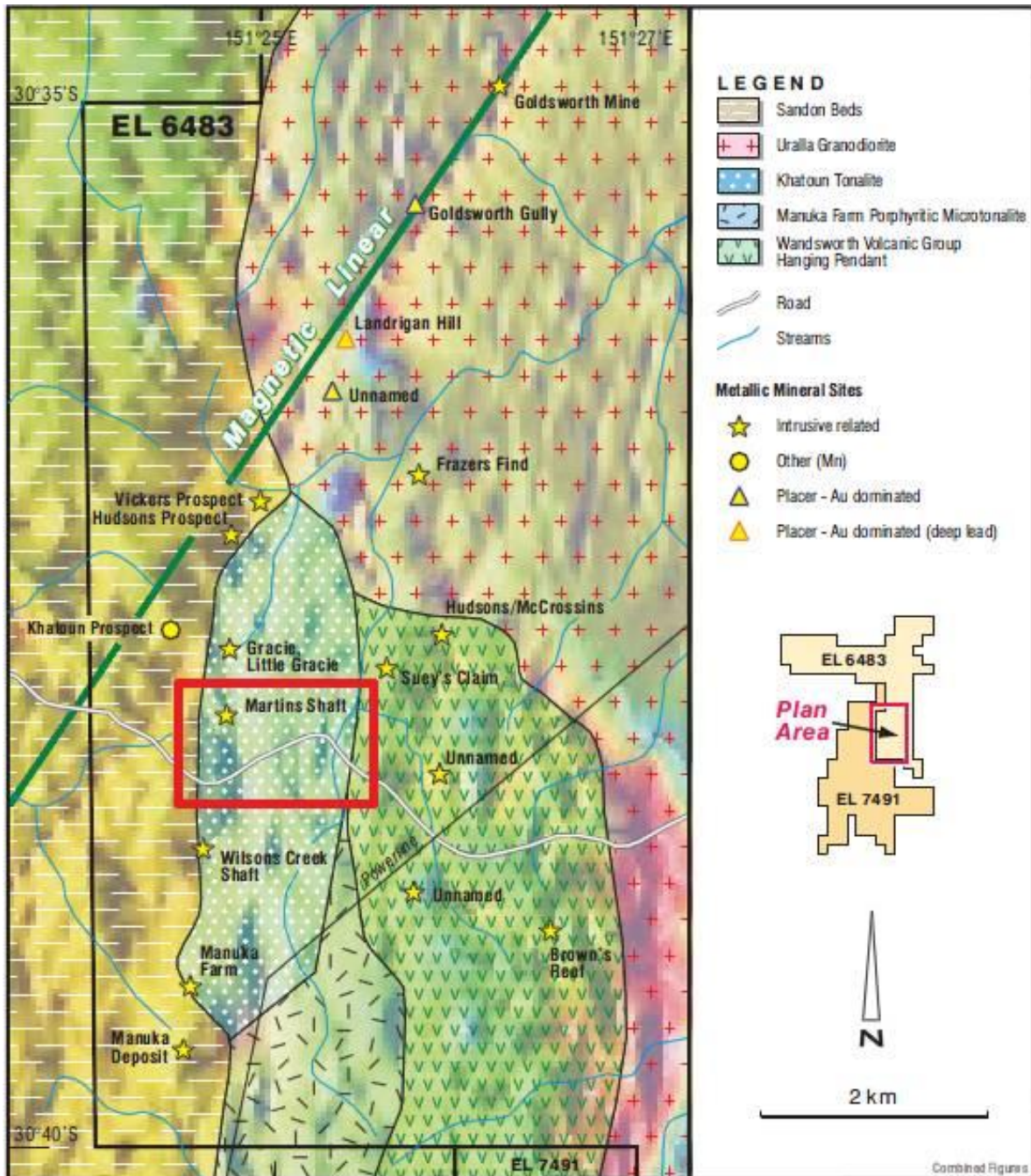


Figure 2: Locations of the principal auriferous hard rock mines discussed in this report. Magnetic image (from Brown R. E. 2003, Quarterly Notes No. 114, Geological Survey of New South Wales) overlaid on geology (geological boundaries defined by thin white lines). The striking structural and magmatic control to mineralisation indicates the possible existence of a large IRGS. Many gold lodes plot on the north-east trending magnetic linear. Note also the NNE trending series of mines along contact of the small plutons (Khatoun Tonalite and Manuka Farm Porphyritic Microtonalite) and the Sandon Beds. Other mines are situated within the inlier of Wandsworth Volcanic Group.

## REVIEW OF OPERATIONS continued

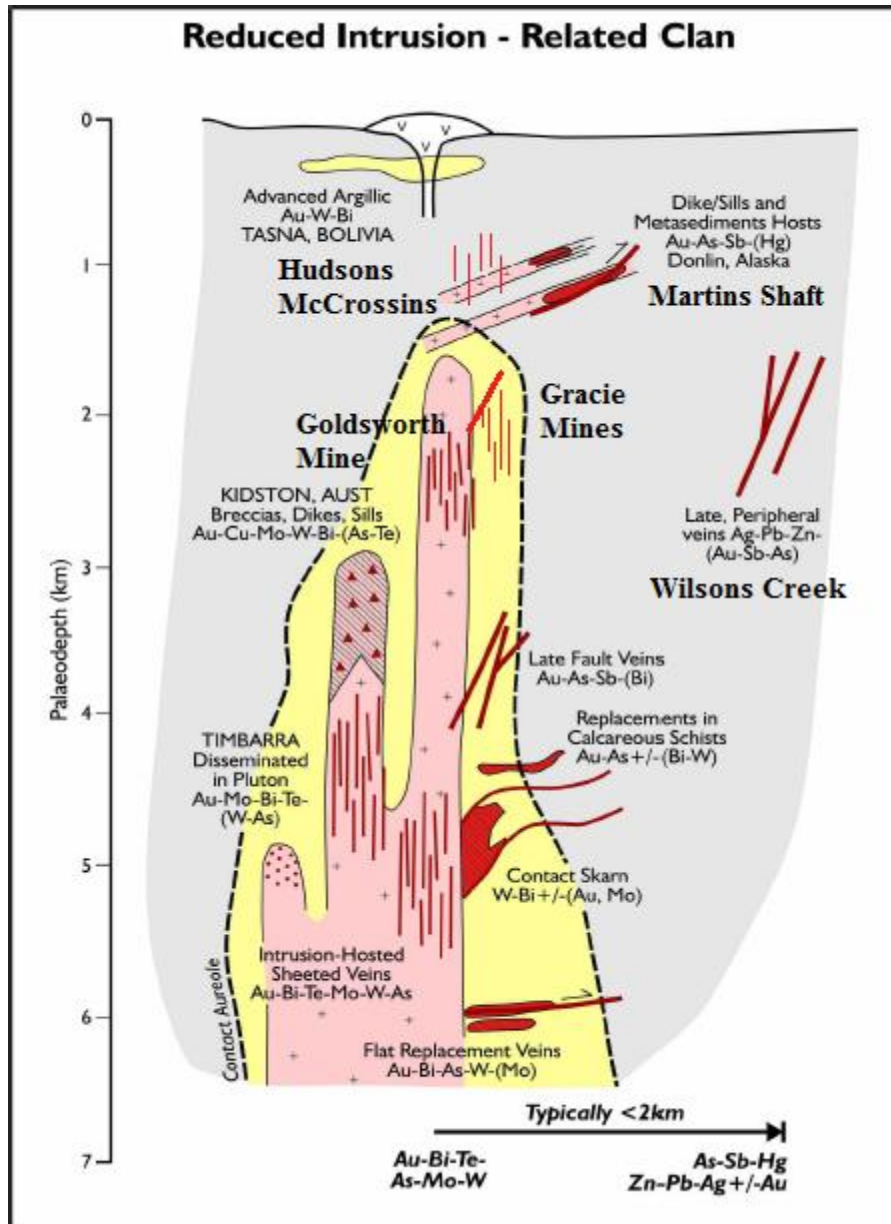


Figure 3: Interpretation of deposit styles, structural and depth settings of the Goldsworth Mine, Martins Shaft, Hudsons McCrossins, Gracie Mines and Wilsons Creek Shaft within a Reduced Intrusion-Related Gold System. Diagram modified from Lang et al. (2000) and Brommecker R. et al. showing exploration zoning model for intrusion-related gold systems, with an emphasis on systems in Yukon-Alaska but including variations from other intrusion-related gold system provinces.

## REVIEW OF OPERATIONS continued

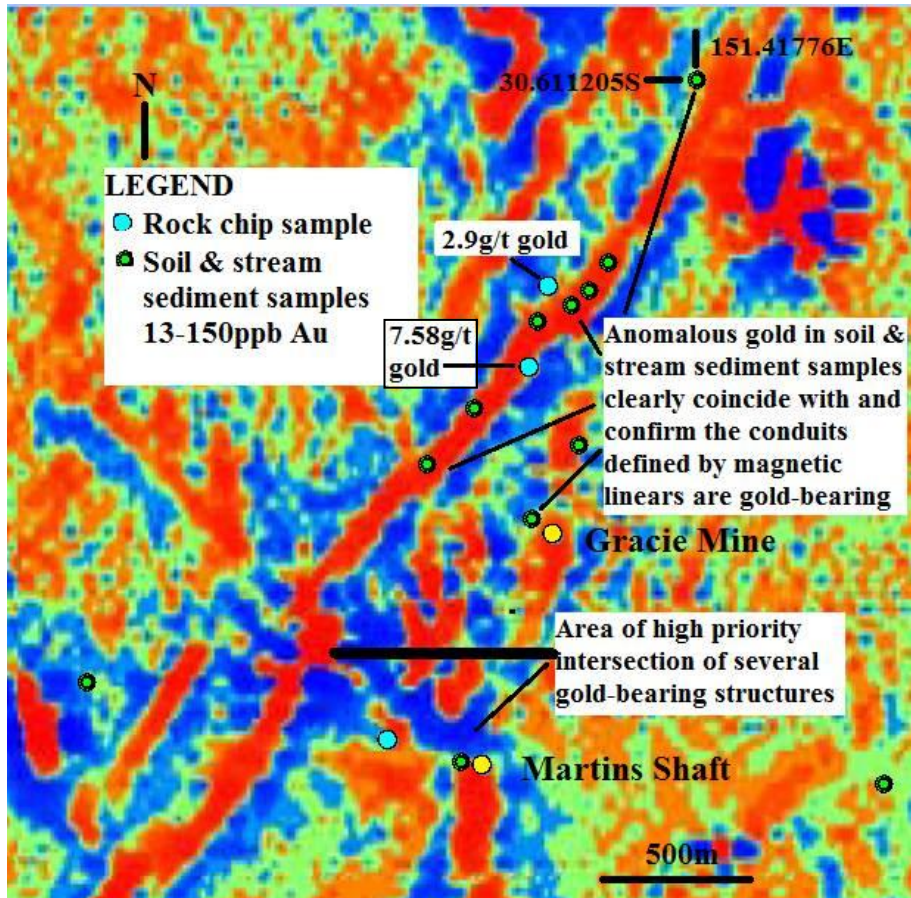


Figure 4: Sections of Magnetic Linears showing coinciding anomalous gold in soil, stream and rock chips samples collected in the December quarter.

## Projects

### Martins Shaft

Martins Shaft: 29 reverse circulation holes for a total of 2,534 metres and 11 diamond holes for a total of 678.30 metres.

The gold mineralisation at Martins Shaft is very significant as this style of mineralisation was predicted from the application of Sovereign's IRGS Model. The mineralisation comprises sheeted veins and disseminated gold mineralisation within a felsic dyke and confirms the potential of the large IRGS to host several primary hard rock gold deposits. Gold has been located in drill hole (SGRDD010) to a vertical depth of 130 metres. Mineralisation is widening down plunge (Figure 5 and 6). Strong phyllic alteration extends beyond the mineralised envelope. The felsic dyke has acted as a brittle host for magmatic fluids. It is clear from the presence of gold mineralisation and associated alteration that igneous textures are very conducive to the permeation/dissemination of gold-bearing fluids. Potential exists for multiple Martins Shaft-type deposits, of similar and larger size, within the large IRGS. Associated sulphide mineralisation consists of pyrite, arsenopyrite and stibnite.

REVIEW OF OPERATIONS continued

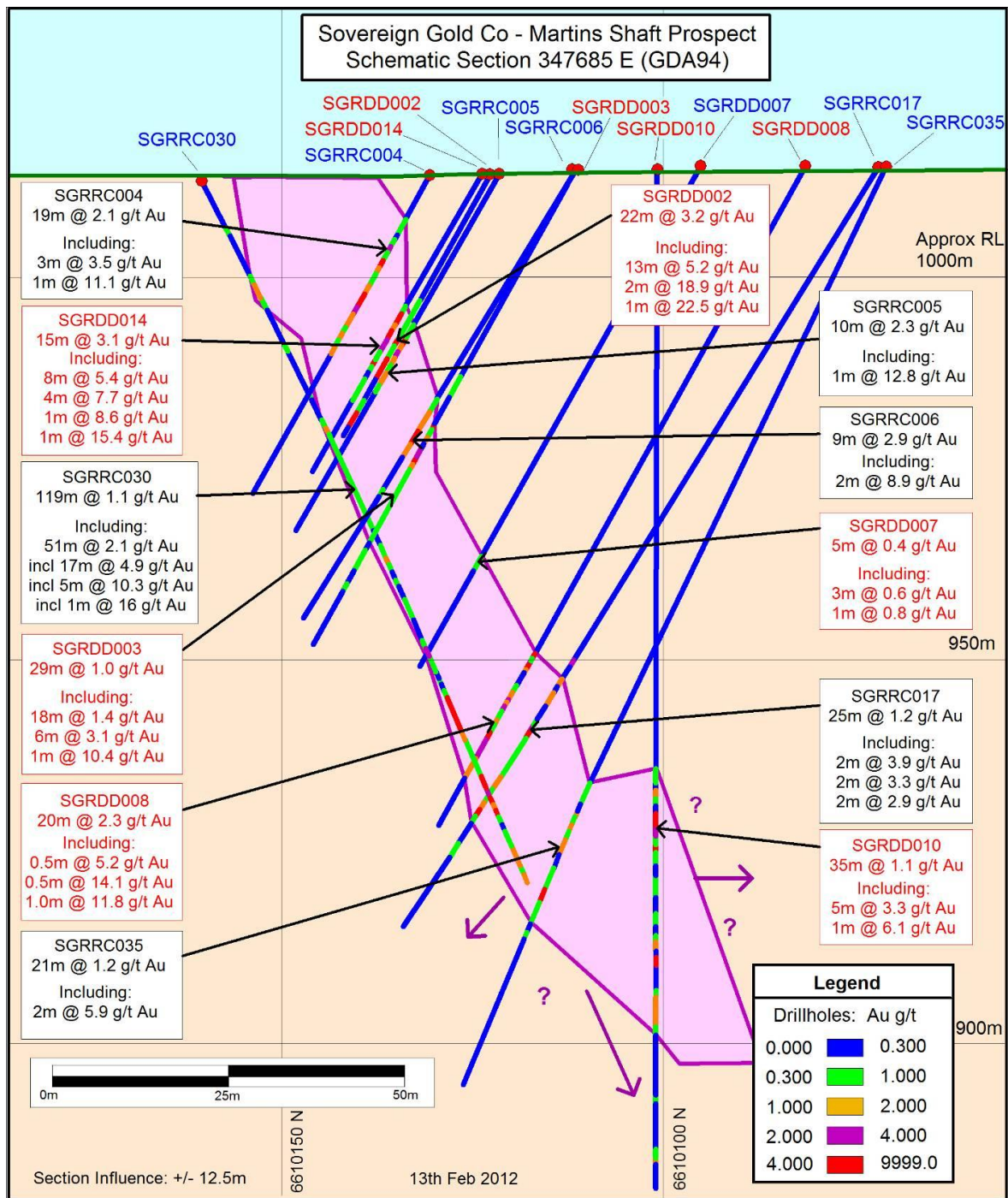


Figure 5: Martins Shaft, diamond and reverse circulation drill intersections for gold, schematic section 347685E (GDA94).

REVIEW OF OPERATIONS continued

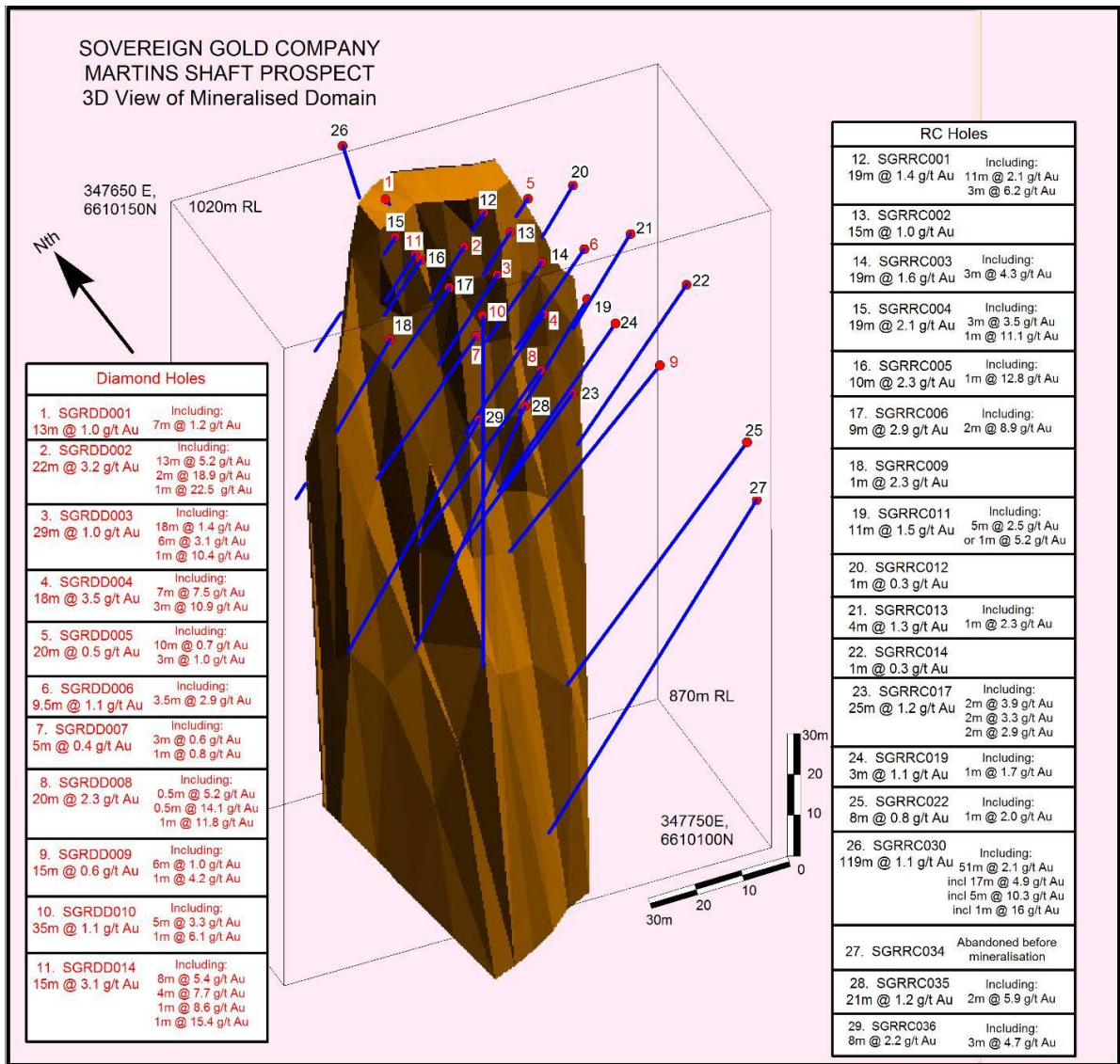
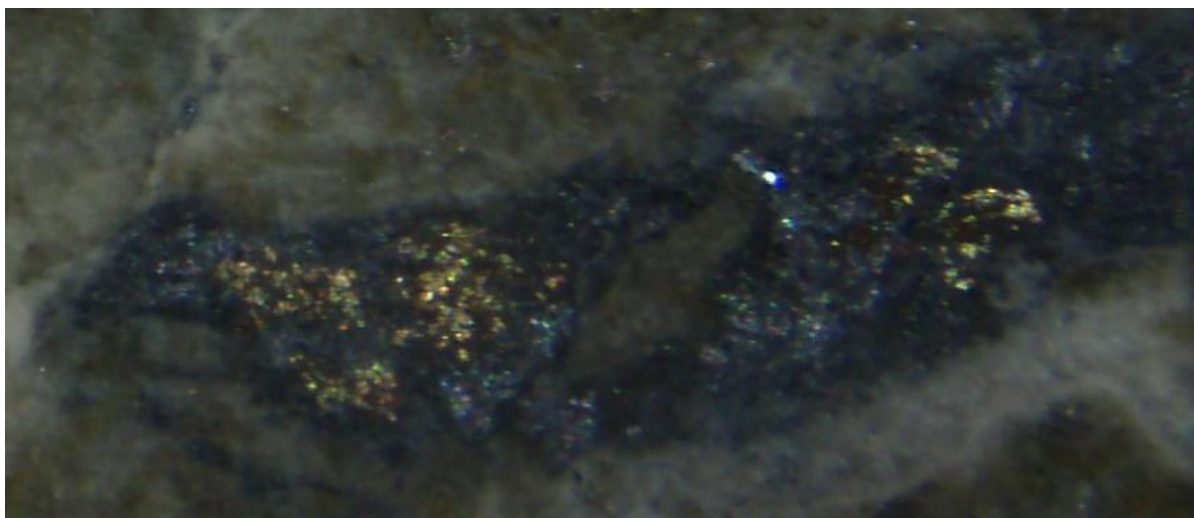
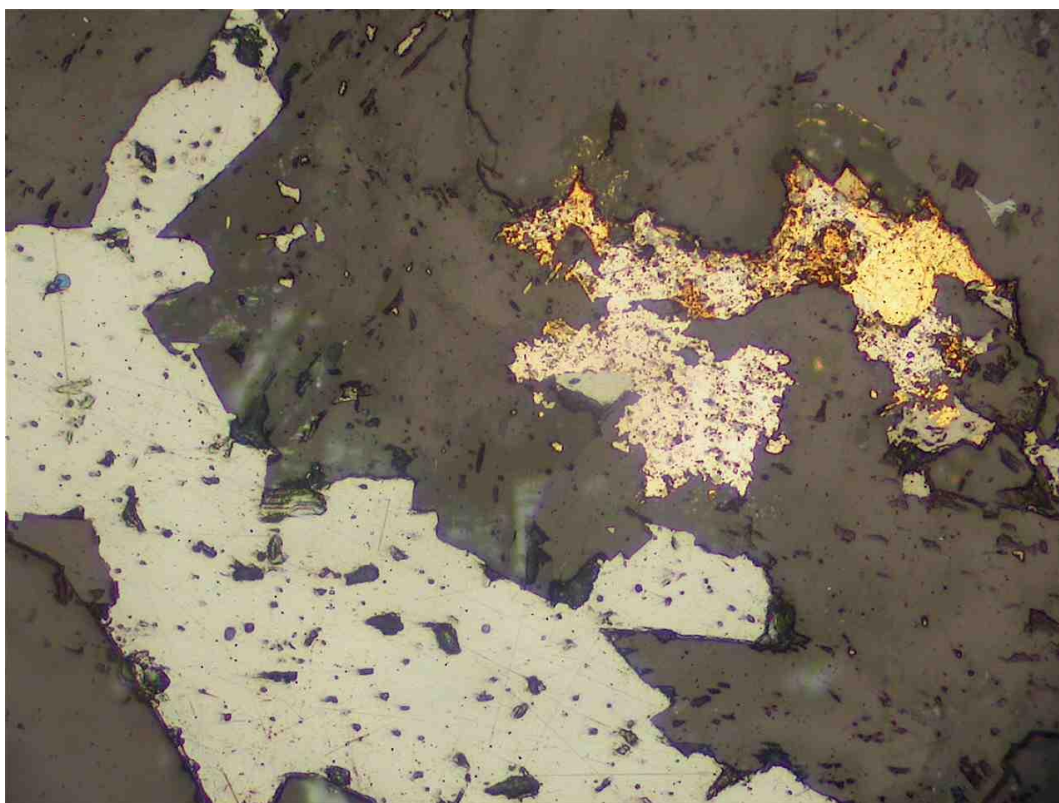


Figure 6: Martins Shaft, diamond and reverse circulation drill intersections for gold (all holes) and 3-dimensional wireframe model of mineralised lode – widening with depth.

## REVIEW OF OPERATIONS continued



Martins Shaft, visible gold in core SGRDD002 from 36-37m; 22.5 grams/tonne gold, 11.35 grams/tonne silver, 0.66% Antimony (Sb). Scale: clump of gold on left-hand-side 6mm x 3mm.



Microphotograph of the polished thin section from diamond drill hole core SGRDD002 @35.95m shows a composite aggregate containing gold (largest grain about 60  $\mu\text{m}$  across), aurostibite (very pale creamy pink) and pale grey stibnite, adjacent to a large stibnite aggregate and hosted in dark grey carbonate. Plane polarised reflected light, field of view 0.5 mm across.

**Goldsworth Mine**

18 RC holes were drilled in the Goldsworth Mine area for a total of 1,404 metres. The Goldsworth Mine area was the first drill target located on the 41km long magnetic linear. The objective at Goldsworth was to drill test immediately along strike of and below the historical mine workings, and to test the magnetic linear for gold mineralisation over a significant strike length. Most holes were shallow and targeted to test the magnetic linear at less than 60 metres vertically. Each hole intersected a zone of strong phyllic alteration, pyrite, arsenopyrite, green sericite and quartz. Narrow zones of gold mineralisation ranging from 1-4 metres wide (down-hole width) were recorded.

**REVIEW OF OPERATIONS** continued

Gold mineralisation was primarily present associated with sheeted quartz-sulphide veins and disseminated phyllic alteration within the Uralla Granodiorite. Some dykes were encountered in drill holes but most mineralisation was associated with veining and alteration.

The Goldsworth Mine area was tested over a strike length of 700 metres, subsequent plotting on drill collars and magnetics showed RC holes SGRR061-063 were not drilled into the main magnetic linear. Gold mineralisation is present along 570 metres to a depth of 108 metres downhole. Costeans extended the known length of the altered zone to 750 metres and it remains open in both directions. The widest intercept was 4 metres downhole averaging 1.17 g/t gold, including 1 metre at 2.7 g/t gold (SGRR054). The highest grade was 1 metre at 5.14 g/t gold from 103-104 metres downhole (SGRR065). In addition to the main lode, two other parallel zones of low grade gold mineralisation were recorded in some holes.

Although exploration is at a very early stage, it seems that the magnetic linear is defining a zone of intense hydrothermal alteration, marking a structure that has provided a pathway for hydrothermal fluids and gold mineralisation. Along with drilling at Martin Shaft, early results from Goldsworth have confirmed the existence of a large IRGS. There are untested targets over many kilometres that are either on/or immediately adjacent to the magnetic linear.

The magnetic linear at Goldsworth is highly anomalous with respect to gold; squirts of mineralisation are very encouraging and support deeper drilling to test the potential at Goldsworth. It is noteworthy that the zone of mineralisation appears widening at depth in places. The gold mineralisation intersected may potentially be derived from a larger, 'blind' (concealed) gold-bearing pluton that has intruded the structure hosting the magnetic linear. The source of the gold mineralisation lies open both vertically and laterally (over several kilometres).

Drilling will continue after a soil sampling survey has been completed; and after an aeromagnetic/radiometric survey has defined structural sites favourable for mineralisation. An extensive soil sampling survey is underway.

**Vickers Prospect**

Vickers Prospect is located 1.85km north-east of the gold mineralisation at Martins Shaft. Seven shallow reverse circulation drill holes were completed at Vickers Prospect. The depth of most holes ranged from 51-69 metres. All holes intersected wide spread phyllic alteration and some anomalous gold. Mineralisation is associated with the long conduit of the main magnetic linear. Ore from an historical shaft showed sheeted quartz-arsenopyrite veins up to 2cm wide in metasediments with assays up to 30.9 grams/tonne gold and 158 grams/tonne silver (5.08 ounces).

Two zones of mineralisation were encountered:

- i) SGRR023 Gold: 3 metres @ 1.19 g/t gold from 21-24 metres downhole including 1 metre @ 2.80 g/t gold from 22-23 metres downhole; SGRR023 Silver: 3 metres @ 38.39 g/t silver from 21-24 metres downhole including 2 metres @ 56.30 g/t silver from 21-23 metres downhole and 1 metre @ 78.90 g/t silver and 5940 g/t lead from 21-22 metres downhole. Clearly the lead and silver correlate and presumably the silver is within the galena.
- ii) SGRR024 Gold: 2 metres @ 1.71 g/t gold from 32-34 metres downhole including 1 metre @ 3.08 g/t gold from 33-34 metres downhole; SGRR024 Silver 1 metre @ 53.60 g/t silver from 33-34 metres downhole.

Anomalous gold was encountered in some intervals of the other holes associated with silica flooding and variable sulphides (pyrite dominant, lesser arsenopyrite) and alteration veining

**Gracie and Little Gracie Mines**

3 diamond holes and 3 reverse circulation holes were drilled at the Gracie and Little Gracie Mines. All reverse circulation holes were abandoned before target depth objectives due to rig problems and the drilling contract terminated. Consequently the RC holes were shallow ranging from 27 to 55 metres in depth. All holes encountered anomalous gold with highest being SGRR037 with 0.75 g/t gold from 3-4metres downhole.

SGRDD012 (dip 60°, azimuth 345°) was targeted to intercept the main mineralised lode beneath the lowest level workings of the main Gracie Mine. It intersected the lode between 95.3 metres to 95.7 metres. The ore body consisted of highly fractured quartz with arsenopyrite. This interval assayed up to 0.56 g/t gold and 10.7 g/t silver.

**REVIEW OF OPERATIONS** continued

Drilling has confirmed the main Gracie Lode persists to depth and it is clear SGRCDD012 intercepted a highly mineralised interval. Historical records showed this main lode contained some extremely rich patches of gold. *Department of Mines New South Wales, Annual Reports*, 5 tons @ Au 8oz/t (1899), 3.5 tons @ Au 18oz/t (1905), 130 tons @ Au 3oz/t (1905), 2 tons @ Au 15.4oz Au (1914), 203.21kg yields 25.99oz Au, equivalent to Au 127.88oz/t (1914). Maurice Melvaine DCM, whose Uncle worked on the mine said Albert Nash described parts of the lode as "like a jewellers shop, pieces of gold as big as grains of corn sticking in the face everywhere".

Several drill targets have been identified at the Gracie Mines including testing a zone of sheeted veins and the main lode along strike and at depth.

**Wilsons Creek**

6 shallow diamond holes (average depth 53 metres downhole) were drilled at the Wilsons Creek. The mineralisation at Wilsons Creek is associated with a shear zone breccia that is potentially kilometres long. A series of pits/shallow shafts on this structure establishes that it is at least 660 metres long and this portion trends 8°. Samples of mineralisation from dumps around the main Wilsons Creek workings ranged from 0.2–3.02 grams/tonne Au, 13.85-165 grams/ tonne Ag, 294–343 g/t Bi, 81.1–225 g/t Sb, 39–6,790 g/t Zn and 936–7,810 g/t Pb.

The main mineralised shear zone extends through metasediments of the Sandon Beds and also impacts some late stage porphyritic quartz microdiorite dykes. Drilling demonstrated the main shear zone within the metasediments is generally less than one metre wide. The highest drill hole assay was 0.85 grams/tonne Au from a 10cm wide vein in SGRDD016, from 45.9–46 metres downhole. Diamond drill holes SGRDD019 and SGRDD020 intersected a porphyritic quartz microdiorite dyke that had been extensively altered by magmatic fluids associated with the shear zone. Although mainly weakly anomalous in Au, alteration (disseminated and sheeted veins) was apparent of over 20 metres downhole. The highest drill hole assay was 0.56 grams/tonne Au from 9-10 metres downhole SGRDD019. SGRDD020 also demonstrated widespread sulphide alteration through the dyke with anomalous gold up to 0.51 grams/tonne gold (28-29 metres downhole).

Widespread disseminated and sheeted vein alteration associated with gold in porphyritic quartz microdiorite dykes is significant as it indicates the potential for repetition of Martins Shaft-style mineralisation where gold-bearing magmatic fluids channelled by the long Wilsons Creek structure interact with intrusives. Geochemical sampling will continue along the Wilsons Creek shear structure to identify drill targets where it intersects felsic dykes.

## DIRECTORS' REPORT

Your directors present their report together with the financial statements on the parent entity and the consolidated entity (referred to hereafter as the Group) consisting of Sovereign Gold Company Limited (the Company) and the entities it controlled at the end of or during the year ended 31 December 2011.

### Principal activities

The principal continuing activities of the Group during the course of the financial year were conducting the gold exploration and development programs.

### Consolidated results

The net loss of the Group for the year ended 31 December 2011 was \$1,047,356 (2010: loss \$457,946). The loss arises largely due to exploration activities incurred during the year.

Total Shareholders' Funds as at 31 December 2011 are \$4.21 million (2010: \$3.25 million).

Additional information on the operations of the Group is disclosed in both the Chairman's Review and the Review of Operations section of this report.

### Review of operations

Information on the operations and financial position of the Group and its business strategies and prospects are set out in the Review of Operations on pages 3 to 14 of this annual report.

### Dividends

The Directors of the Company do not recommend that any amount be paid by way of dividend. The Company has not paid or declared any amount by way of dividend since the commencement of the financial year.

### Directors

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

John S Dawkins AO	Non-Executive Chairman	Appointed on 16 September 2010
Michael Leu	Chief Executive Officer – Acting	Appointed on 10 August 2010
Peter J Meers	Non-Executive Director	Appointed on 10 August 2010
Rado Jacob Rebek	Non-Executive Director	Appointed on 16 September 2010
Qinjing Qiu	Non-Executive Director	Appointed on 10 June 2011
Nick Raffan	Chief Executive Officer	Appointed on 16 September 2010 Resigned 4 January 2012

### Information on directors & management

#### Directors

#### Non-Executive Chairman – John S Dawkins, AO BEc, RDA

Mr Dawkins' earliest exposure to the mining industry was when, as Minister for Trade in the Hawke Government, he was responsible for the administration of export controls on certain minerals until he proposed the abolition of these arrangements in order to improve the operation of the market.

During his time in Government he also served in a number of other portfolios including Treasurer. Since leaving politics he has been an occasional adviser to the World Bank and OECD and has held a number of board positions including Elders Rural Bank (now Rural Bank); Sealcorp Holdings (now Asgard Wealth Solutions); and his current appointments are with the listed companies Archer Exploration; MGM Wireless and Integrated Legal Holdings and the unlisted Government Relations Australia Advisory Ltd. He also chairs the Australian Qualifications Framework Council and the Board of Governors of the Institute for International Trade at the University of Adelaide.

Mr Dawkins is a non-executive and independent Director.

#### *Other Current Directorships*

Mr Dawkins is Director of Archer Exploration Limited, Director of MGM Wireless Limited and Director of Integrated Legal Holdings Limited and Non-Executive Director of Australian Bauxite Limited

#### *Former directorships in the last three years of listed companies*

None

#### *Special Responsibilities*

Member of Remuneration Committee

#### *Interests in shares and options*

John Dawkins holds a direct interest in 100,000 shares and 500,000 employee share options due to expire 15 September, 2013.

**Directors' Report** continued**Michael Leu, B Sc. (Hons I)  
Acting Chief Executive Officer & Chief Geologist**

Michael Leu is a geologist with over 30 years professional experience in exploration and mining across a range of mineral commodities within Australia and some Pacific and Asian countries.

He has worked in industry (Freeport, Getty Oil, Queensland Ores), as a private consultant and for seven years on the academic staff of Macquarie University.

He has extensive expertise in mineral exploration for epithermal and porphyry gold±Cu deposits; intrusion-related gold systems; metahydrothermal gold, greisen-hosted molybdenite, wolfram and tin; volcanic-hosted massive sulphides; chromite; uranium, alluvial gold and platinum and a range of industrial minerals.

Mr Leu is not an independent Director.

*Other Current Directorships*

Non-Executive Director of Precious Metal Resources Limited.

*Former directorships in the last three years of listed companies*

None

*Special Responsibilities*

Member of Remuneration Committee

*Interests in shares and options*

Michael Leu holds a direct interest in 4,875,000 shares and 750,000 employee share options due to expire 15 September 2013.

**Peter J Meers, BA (Economics) FAIB  
Non-Executive Director**

Peter Meers has broad business experience across a range of industries including consumer, commercial and investment banking, securities trading and origination, mining and exploration and building materials. He is CEO of Tiaro Coal Limited, a subsidiary of Hudson Resources Limited.

Mr Meers held senior executive positions and portfolio management roles in agribusiness, mining, property and trade finance during a career spanning 25 years with ANZ Bank in Australia and Asia. Past directorships include appointment on company boards in Malaysia, Indonesia and Singapore.

Mr Meers is not an independent Director.

*Other Current Directorships*

Mr Meers is Executive Chairman of Hudson Resources Limited, Executive Director of Tiaro Coal Limited, Executive Deputy Chairman of Australian Bauxite Limited, Non-Executive Director of Hudson Investment Group Limited, Precious Metal Resources Limited and Archer Exploration Limited.

*Former Directorships in Last Three Years of Listed Companies*

None

*Special Responsibilities*

Member of the Audit Committee, Member of Remuneration Committee

*Interests in shares and options*

Peter Meers holds an indirect interest in 10,000 shares held by a related party. Hudson Resources Limited holds 40 million shares and Mr Meers, by virtue being a Director of Hudson Resources Limited, reports this as an indirect holding. He has no capacity to vote the shares without approval of the Hudson Resources Limited Board of Directors. Mr Meers holds a direct interest in 500,000 employee share scheme options due to expire 15 September 2013.

**Rado Jacob Rebek  
Non-Executive Director**

Jacob Rebek is an Australian geologist with forty years' experience in exploration. From 1970 to 2003 he worked for CRA and Rio Tinto in various parts of Australia and overseas. His roles included that of Exploration Manager for Papua New Guinea in the 1970's, South Australia and Northern Territory from 1981 to 1984, Eastern Australia from 1987 to 1993 and Exploration Director for South America from 1997 to 2000.

He led teams which discovered new zinc, copper and gold deposits. Since 2003, he worked for emerging companies, generating new projects. In 2006, he started working for Hudson Resources as Chief Geologist.

Mr Rebek is not an independent Director.

**Directors' Report** continued*Other Current Directorships*

Mr Rebek is Executive Director of Australian Bauxite Limited and Non-Executive Director of Tiaro Coal Limited.

*Former Directorships in Last Three Years of Listed Companies*

Director of Xtreme Resources Limited

*Special Responsibilities*

Member of Remuneration Committee

*Interests in shares and options*

Rado Jacob Rebek holds a direct interest in 500,000 employee share options due to expire 15 September 2013.

**Qinjing Qiu****Non-Executive Director**

Qinjing holds a Bachelor of Science (Advanced Mathematics) (2007); Honours (First Class) in Statistics (2008) and a Masters in Commerce (2009) (Sydney University).

Qinjing pursues various business interests in the Zhejiang Province, particularly in the area of international trading and investor relations, real estate development and mineral exploration.

Mr Qiu is an independent Director.

*Other Current Directorships*

Non-Executive Director of Tiaro Coal Limited (ASX: TCM)

*Former Directorships in Last Three Years of Listed Companies*

None

*Special Responsibilities*

None

*Interests in shares and options*

Qinjing Qiu holds an indirect interest in 6 million shares held by a related party.

**Nicholas Raffan, BA; Diploma in Geoscience**

Appointed 16 September 2010

Resigned 4 January 2012

**Officers****Joint Company Secretary****David Hughes**

Mr Hughes has held similar positions with other listed companies for over 20 years. He is currently the Company Secretary of the following ASX listed public companies; Latrobe Magnesium Limited, Hudson Investment Group Limited, and joint company secretary for Hudson Resources Limited, Tiaro Coal Limited, Australian Bauxite Limited, Empire Energy Group Limited and Raffles Capital Limited.

**Joint Company Secretary****Henry Kinstlinger**

Henry Kinstlinger has the past thirty years been actively involved in the financial and corporate management of a number of public companies and non-governmental organisations. He is a corporate consultant with broad experience in investor and community relations and corporate and statutory compliance. He is currently the joint company secretary of Australian Bauxite Limited, Raffles Capital Limited and Precious Metal Resources Limited.

**Chief Financial Officer****Francis Choy, MComm, MBA, FCPA (HK), FCPA**

Francis Choy has held a number of senior positions in corporate financial management roles throughout Australia and South East Asia. He has extensive experience in project finance, compliance, acquisition and investment appraisals. He has been involved in project financial, financial management of property development and telecommunication projects in South East Asia. He held senior financial roles for numerous public listed companies both in Hong Kong and Australia.

**Directors' Report** continued**Meetings of directors**

The number of Directors' Meetings and Directors' Committee Meetings held, and the number of meetings attended, by each of the Directors of the Company during the financial year were:

Directors	Directors Meetings		Remuneration Committee <sup>3</sup>		Audit Committee <sup>4</sup>	
	Attended	Held Whilst in Office	Attended	Held Whilst in Office	Attended	Held Whilst in Office
John Dawkins AO (Chairman)	12	12	1	1	2	2
Nick Raffan <sup>5</sup>	12	12	1	1	2	2
Michael Leu (CEO)	12	12	1	1	2	2
Peter Meers	12	12	1	1	2	2
Rado Jacob Rebek <sup>2</sup>	9	12	0	1	0	0
Qinjing Qiu <sup>1</sup>	2	2	0	0	2	2

<sup>1</sup> Q. Qiu was appointed on 10 June 2011.

<sup>2</sup> J. Rebek travels extensively on Company business.

<sup>3</sup> The Remuneration Committee is composed of the entire Board.

<sup>4</sup> The Audit Committee is composed of the entire Board.

<sup>5</sup> N. Raffan resigned on 4 January 2012.

**Likely developments**

Information on likely developments in the operations of the Group, known at the date of this report have been covered generally within the report. In the opinion of the Directors providing further information would prejudice the interests of the Group.

**Significant changes in state of affairs**

The company issued 7 million shares at \$0.35, raised \$2.45 million before cost in June 2011.

Please refer to Review of Operations section of this report.

**Matters subsequent to balance date**

On 26th March 2012, the Company through its wholly owned subsidiary Micksture Pty Limited entered into a cooperation and investment agreement with Jiangsu Geology and Engineering Co Ltd (SUGEC), a Chinese SOE, whereby SUGEC will provide \$2 million in exploration funding on EL 7491. Upon completion of the expenditure, SUGEC will be entitled to have a 30% interest in EL 7491.

On 26th March 2012, the Company through its wholly owned subsidiary IRGS Northern Gold Pty Limited entered into a cooperation and investment agreement with Jiangsu Geology and Engineering Co Ltd (SUGEC), a Chinese SOE, whereby SUGEC will provide \$2 million in exploration funding on EL 7768. Upon completion of the expenditure, SUGEC will be entitled to have a 30% interest in EL 7768.

At the date of this report there are no other matters or circumstances, which have arisen since 31 December 2011 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2011, of the Group;
- the results of those operations; or,
- the state of affairs, in financial years subsequent to 31 December 2011, of the Group.

**Environmental regulations**

The Group is subject to significant environmental regulation in respect of its exploration activities as follows:

The Company's operations in the State of New South Wales involve exploration activities. These operations are governed by the Environment Planning and Assessment Act 1979.

The Company operates within the resources sector and conducts its business activities with respect for the environment while continuing to meet the expectations of the shareholders, employees and suppliers.

The Company aims to ensure that the highest standard of environmental care is achieved, and that it complies with all relevant environmental legislation. The Directors are mindful of the regulatory regime in relation to the impact of the Company's activities on the environment.

**Directors' Report** continued

To the best of the directors' knowledge, the Group has adequate systems in place to ensure compliance with the requirements of all environmental legislation described above and are not aware of any breach of those requirements during the financial year and up to the date of the Directors' Report.

**Environmental Code of Practice for Mineral Exploration**

The Company is committed to conducting its exploration programs by following industry best practice in accordance with published government guidelines and codes.

The following policy is specific to gold exploration on the Company's exploration projects.

**Access to Land**

Prior to the commencement of any work, the Company makes contact with landholders/leaseholders and discusses the general aims and types of work likely to be conducted.

Discussion with landowners, leaseholders and Native Title Claimants is ongoing. It commences prior to any work being conducted and continues throughout the program and beyond the cessation of exploration work.

The Company establishes conditions of access with landholders and where practicable, signs a written access agreement that sets out conditions and includes a schedule of agreed compensation payments.

The Company endeavours to provide landholders with ample warning prior to commencing any work and landholders are kept informed upon commencement, during and upon completion of an exploration program.

**Type of Land**

The type of land is determined and its inhabitants are assessed to identify areas of particular environmental concern including identification of sensitive areas or areas prone to erosion, water catchment, heritage sites, and areas home to vulnerable and endangered species.

Land use is taken into consideration and land under cultivation is not disturbed without the express consent of the landholder.

**Mineral Exploration Programs****Access**

The Company utilises existing tracks for access where possible.

Climatic conditions are considered when assessing areas to avoid access during extreme conditions such as during bush fire risk during hot, windy conditions and damage to tracks after heavy rain.

Surface disturbances are kept to a minimum.

**Drilling**

Drilling programs include rehabilitation and where possible holes are positioned in areas requiring little or no clearing.

Small, manoeuvrable drill rigs are used to minimise the need for track clearing and to reduce ground compaction.

Where required, topsoil is removed and stored separately so that it can be replaced during rehabilitation of the site.

Ground sheets are used where required to avoid oil/fuel spills contaminating the soil.

**Rehabilitation**

Drill sites are rehabilitated as soon as practicable and drill holes are filled and capped where necessary.

Landholders are asked to confirm at the end of each program that exploration has been conducted to their satisfaction and that sites have been rehabilitated.

**Directors' Report** continued**REMUNERATION REPORT - AUDITED**

The information provided in this Remuneration Report has been audited as required by Section 308 (3c) of the *Corporations Act 2001*.

This report outlines the remuneration arrangements in place for Directors and Executives of the Company.

**Remuneration committee**

The Remuneration Committee which presently consists of the whole Board will serve to determine the remuneration levels of any Executive Directors' remuneration (including base salary, incentive payments, equity awards and service contracts) and remuneration issues for Non-Executive Directors.

The Committee meets as often as required but not less than once per year.

Options granted to directors and key management personnel do not have performance conditions. As such the Group does not have a policy for directors and key management personnel removing the "at risk" aspect of options granted to them as part of their remuneration.

**Directors' and other Key Management Personnel remuneration**

The following persons were Directors of the Company during the financial year unless otherwise stated.

- |                    |                                  |                             |
|--------------------|----------------------------------|-----------------------------|
| • John Dawkins     | Non-Executive Chairman           | appointed 16 September 2010 |
| • Michael Leu      | Chief Executive Officer - Acting | appointed 10 August 2010    |
| • Peter Meers      | Non-Executive Director           | appointed 10 August 2010    |
| • Rado Jacob Rebek | Non-Executive Director           | appointed 16 September 2010 |
| • Qinjing Qiu      | Non-Executive Director           | appointed 10 June 2011      |
| • Nicholas Raffan  | Executive Director               | resigned 4 January 2012     |

The following persons were other key management personnel of the Company during the financial year:

- |                     |                         |
|---------------------|-------------------------|
| • Henry Kinstlinger | Joint Company Secretary |
| • David L Hughes    | Joint Company Secretary |
| • Francis Choy      | Chief Financial Officer |

Executive's remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice. As well as basic salary, remuneration packages include superannuation. Directors are also able to participate in an Employee Share Option Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the Group's operations.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

Remuneration of Non-Executive Directors is determined by the Board based on recommendations from the Remuneration Committee and the maximum amount approved by shareholders from time to time.

**Performance conditions**

The elements of remuneration as detailed within the Remuneration Report are dependent on the satisfaction of the individual's performance and the Group's financial performance.

The Board undertakes an annual review of its performance and the performance of the Board Committees.

Details of the nature and amount of each element of the remuneration of each Director of the Company and each specified executive of the Company and the Group receiving the highest remuneration are set out in the following tables. The remuneration amounts are the same for the Company and the Group.

## Directors' Report continued

## Remuneration Report continued

## Directors and other Key Management Personnel of Sovereign Gold Company Limited

Consolidated 2011	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits	Share based payments (options)	Total
	Salary and other fees	Travelling Allowance	Super- annuation	Long Service Leave		
<b>Director</b>	\$	\$	\$	\$	\$	\$
John Dawkins	41,212	-	-	-	-	41,212
Nick Raffan*	153,915	9,900	-	-	-	163,815
Michael Leu	154,500	10,800	-	-	-	165,300
Peter Meers	-	-	-	-	-	-
Rado J Rebek	-	6,300	-	-	-	6,300
Qinjing Qiu	-	-	-	-	-	-
Total - Directors	349,627	27,000	-	-	-	376,627
<b>Key Management Personnel</b>						
David L Hughes	-	-	-	-	-	-
Henry Kinstlinger	-	-	-	-	-	-
Francis Choy	-	-	-	-	-	-
Total - KMP	-	-	-	-	-	-

\* Resigned 4 January 2012

Consolidated 2010	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits	Share based payments (options)*	Total
	Salary and other fees	Travelling Allowance	Super- annuation	Long Service Leave		
<b>Director</b>	\$	\$	\$	\$	\$	\$
John Dawkins	-	-	-	-	23,570	23,570
Nick Raffan	40,750	-	-	-	35,355	76,105
Michael Leu	30,600	1,800	-	-	35,355	67,755
Peter Meers	-	-	-	-	23,570	23,570
Rado J Rebek	-	-	-	-	23,570	23,570
Vincent Tan	-	-	-	-	-	-
Total - Directors	71,350	1,800	-	-	141,420	214,570
<b>Key Management Personnel</b>						
David L Hughes	-	-	-	-	11,875	11,875
Henry Kinstlinger	22,500	-	-	-	23,570	46,070
Francis Choy	-	-	-	-	11,875	11,875
Total - KMP	22,500	-	-	-	47,320	69,820

\*Sovereign Gold Company Limited issued options to directors and offices under Employee Share Option Plan.

The amounts reported represent the total remuneration paid by entities in the Sovereign Gold Group of companies in relation to managing the affairs of all the entities within the Sovereign Gold Group.

There are no performance conditions related to any of the above payments.

There is no other element of Directors and Executives remuneration.

**Directors' Report** continued**Remuneration Report** continued**Services agreement**

The Company has entered into a Service Agreement with Hudson Corporate Limited pursuant to which Hudson Corporate Limited has agreed to provide its management, registered office, administrative accounting, secretarial and compliance services.

The term of the Services Agreement is two years and the fee payable is that amount agreed between the parties from time to time. The terms of the Services Agreement provide that Hudson Corporate Limited shall act in accordance with the Directions of the Board.

The Company has entered into a geological services agreement with Michael Leu for fixed remuneration per day.

**Share options granted to Directors and Other Key Management Personnel**

4,500,000 employee share options were granted over unissued shares to directors and other key management personnel. For details please refer to note 23 to the financial statements.

**End of audited remuneration report**

**Directors' Report** continued**Loans to Directors and Key Management Personnel**

Details of individual with loan above \$100,000 during the year are set out below:

2011	Balance at the start of the year	Advance/ (Repayments)	Interest payable for the year	Balance as at end of the year	Highest indebtedness during the year	Additional interest otherwise payable*
<b>Key management personnel</b>	\$	\$	\$	\$	\$	\$
Consolidated	-	-	-	-	-	-

\* Market interest rate 7% (2010: N/A). This represents the difference between interest charged at the latter and interest paid.

**Terms and conditions of loans**

Loans are secured against the shares only. Loans are repayable should the Consultant leave the Company. None were written down during the year.

There were no other loans made to Directors or Specified Executives of the Company and the Group during the period commencing at the beginning of the financial year and up to the date of this report.

**Shares under option**

Unissued ordinary shares of Sovereign Gold Company Limited under option at the date of this report are as follows:

Class	Date options granted	Expiry Date	Exercise Price	No. of Options
Employee Share Options	3 December 2010	15 September 2013	\$0.30	4,500,000
Performance Options *		15 September 2013	\$0.30	1,250,000
IPO - Success Option	3 December 2010	3 December 2013	\$0.30	2,750,000
				<u>8,500,000</u>

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

\* Unallocated options under the Employee Share Option Plan, expiry date is on 15 September 2013.

**Shares Issued on the exercise of options**

No options have been exercised and no options expired during the financial year and in the period up to the date of this report.

**Directors' and Officers' indemnities and insurance**

During the financial year Hudson Resources Limited (ultimate holding company) paid an insurance premium, insuring the Company's Directors, (as named in this report), Company Secretary, Executive officers and employees against liabilities not prohibited from insurance by the *Corporations Act 2001*.

A confidentiality clause in the insurance contract prohibits disclosure of the amount of the premium and the nature of insured liabilities.

**Proceedings on behalf of the Company**

No person has applied to the Court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the Company with leave of the Court under Section 237 of the *Corporations Act 2001*.

**Auditors' independence declaration**

The auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* has been received and is set out on page 25.

**Non-audit services**

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

Details of the amounts paid or payable to the auditor (K.S. Black & Co) for audit and non-audit services provided during the year are set out below.

**Directors' Report** continued

The board of directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

1. All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor.
2. None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.
3. During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Audit services:</b>				
Amounts paid or payable to auditors for audit and review of the financial report for the entity or any entity in the Group				
Audit and review services	<b>24,945</b>	22,138	<b>24,945</b>	22,138
<b>Taxation and other advisory services:</b>				
Amounts paid or payable to auditors for non audit taxation and advisory services for the entity or any entity in the Group.				
Taxation	<b>7,745</b>	7,200	<b>7,745</b>	7,200
Advisory Services	-	15,855	-	15,855
	<b>7,745</b>	23,055	<b>7,745</b>	23,055

**Auditor**

K.S. Black & Co continues in office in accordance with section 327 of the Corporations Act 2001.

This Director's Report, incorporating the remuneration report, is signed in accordance with a resolution of the Board of Directors.



**John Dawkins, AO**  
Chairman



**Michael Leu**  
Chief Executive Officer

Signed at Sydney  
29 March 2012

## AUDITOR'S INDEPENDENCE DECLARATION

### Declaration of independence to the Directors of Sovereign Gold Company Limited and Controlled Entities

As lead auditor of Sovereign Gold Company Limited for the year ended 31 December 2011, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

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

**KS Black & Co**  
**Chartered Accountants**



**Faizal Ajmat**  
**Partner**

Sydney, 29 March 2012

## CORPORATE GOVERNANCE STATEMENT

Sovereign Gold Company Limited (the Company) provides the following statement disclosing the extent to which the Company has followed the best practice recommendations set by the Australian Securities Exchange (ASX) Corporate Governance Council and where the Company has not followed all of the recommendations, those recommendations that have not been followed have been identified and reasons for not following them given.

### Overview

The Company and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance and aim to comply with the "Principles of Good Corporate Governance and Best Practice recommendations" set by the ASX Corporate Governance Council.

However, given the current size of both the Company's operations and the Board of Directors, it is not appropriate, cost effective or practical to comply fully with those principles and recommendations.

Consistent with the ASX best practice recommendations, the Company's corporate governance practices are regularly reviewed and are available on the Company's website.

### Compliance with ASX Corporate Governance Council best practice recommendations

The ASX Listing Rules requires public listed companies to include in their annual report a statement regarding the extent to which they have adopted the ASX Corporate Governance Council best practice recommendations.

This statement provides details of the Company's adoption of the best practice recommendations.

### Principle 1 – Lay Solid Foundations for Management and Oversight

Companies should establish and disclose the respective roles and responsibilities of board and management.

#### Board responsibilities

The Board of directors is accountable to shareholders for the performance of the group. In carrying out its responsibilities, the board undertakes to serve the interest of shareholders honestly, fairly and diligently.

The Board's responsibilities are encompassed in a formal charter published on the Company's website. The charter is reviewed annually to determine whether any changes are necessary or desirable.

The responsibilities of the board include:

- Reporting to shareholders and the market;
- Ensuring adequate risk management processes exist and are complied with;
- Reviewing internal controls and external audit reports;
- Ensuring regulatory compliance;
- Monitoring financial performance, including approval of the annual and half-yearly financial reports and liaison with the Company auditors;
- Reviewing the performance of senior management;
- Monitoring the Board composition, Director selection and Board processes and performance;
- Validating and approving corporate strategy;
- Reviewing the assumptions and rationale underlying the annual plans; and
- Authorising and monitoring major investment and strategic commitments.

#### Directors' education

The Company issues a formal letter of appointment for new directors setting out the terms and conditions relevant to that appointment and the expectations of the role of the director.

The Company also provides a formal induction process which provides key information on the nature of the business and its operations.

Continuing education is provided via the regular Board updates provided by the divisional chief executives.

#### Role of Chairman

The Chairman is appointed by fellow board members and acts as the link between the board and the Chief Executive Officer (CEO).

He acts as the link between the board and the Company, establishing and maintaining an effective working relationship with the CEO. The Chairman sets the tone for the board, including the establishment of a common purpose. He is responsible for chairing board meetings and shaping the agenda in relation to goals, strategy, budget and executive performance.

**Corporate Governance Statement** continued

The Chairman ensures all board members contribute and reach consensus in making decisions. He also assists in the selection of board committee members. The Chairman provides direction to the board in matters of corporate governance.

**Role of Chief Executive Officer**

The Board delegates responsibility for implementing the strategic direction and for managing the day to day operations of the Company to the CEO.

There are clear lines of communication established between the Chairman and CEO to ensure that the responsibilities and accountabilities of each are clearly understood.

The CEO has a formal service contract in place setting out duties, responsibilities, and rights, conditions of service and termination entitlements. Performance is assessed against pre-determined objectives on an annual basis or more frequently if required.

The assessment and monitoring of the CEO is the responsibility of the Chairman. The Chairman provides an initial assessment and recommendation to the Board. The matter is then considered by the Board and their views are communicated to the CEO by the Chairman.

**Principle 2 – Structure the Board to Add Value**

Companies should have a board of an effective composition, size and commitment to efficiently discharge its responsibilities and duties.

**Composition of the Board**

The Board of Directors is comprised of one Executive director and four Non-Executive directors, all of whom have a broad range of skills and experience.

There is one director who is the Chairman.

In determining independence the board has regard to the guidelines of directors' independence in the ASX Corporate Governance Council and Best practice Recommendations and other best practice guidelines.

Each director's independent status is regularly assessed by the Board.

The Company does not comply with recommendation 2.1 which provides that a majority of the board be independent directors.

At this stage of the Company's development, the board considers it is neither appropriate nor cost effective for there to be a majority of independent directors.

This matter continues to be under review and as circumstances allow, consideration will be given to the appropriate time to move to adopting the ASX Corporate Governance Guidelines.

The board considers that its composition provides for the timely and efficient decision making required for the Company in its current circumstances.

The board's size and composition is subject to limits imposed by the Company's constitution which provides for a minimum of three directors and a maximum of ten. Details of the members of the Board, their experience, expertise, qualifications are set out in the Directors' Report on pages 15-17.

The position/status and term in office of each director at the date of this report is as follows:

<b>Name of Director</b>	<b>Position/Status</b>	<b>Term in Office</b>
John Dawkins	Non-Executive Chairman - Independent	1 year 6 months
Michael Leu	Chief Executive Officer – Non-independent	1 year 7 months
Peter Meers	Non-Executive Director – Non-independent	1 year 7 months
Rado Jacob Rebek	Non-Executive Director – Non-independent	1 year 6 months
Qinjing Qiu	Non-Executive Director – Non-independent	9 months

The Board currently holds 6 scheduled meetings each year together with any ad hoc meetings as may be necessary. The Board met 12 times during the year and Directors attendance is disclosed on page 18 of the Directors' Report.

**Access to independent professional advice**

All directors are required to bring an independent judgement to bear on Board decisions.

To facilitate this, the Board has adopted a procedure which allows each Director the right of access to all relevant Company information and to the Company's Executives. The directors also have access to external resources as required to fully discharge their obligations as Directors of the Company. The use of these resources is co-ordinated through the Chairman of the board.

**Corporate Governance Statement** continued**Principle 2 – Structure the Board to Add Value** continued**Nomination Committee**

The role of the Nomination Committee is undertaken by the full Board.

The Board reviews its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reasons, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisors may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

For directors retiring by rotation the Board assesses that Director before recommending re-election.

The company has not adopted recommendation 2.4 in that it has not formed a separate nomination committee. The board considers that the company and the board are currently not at sufficient size to justify the establishment of a separate nomination committee.

**Board performance evaluation**

The Company has processes in place to review the performance of the board and its committees and individual directors. Each year the board of directors will give consideration to broad corporate governance matters, including the relevance of existing committees and to reviewing its own and individual directors' performance. The Chairman is responsible for monitoring the contribution of individual directors and consulting with them in any areas of improvement.

Individual Directors use an approved form to assess the performance of the Board and the Chairman.

**Principle 3 – Promote Ethical and Responsible Decision making**

Companies should actively promote ethical and responsible decision making.

**Code of conduct**

The Board acknowledges the need for continued maintenance of the highest standards of Corporate Governance Practices and ethical conduct by all Directors and employees of the consolidated entity.

The Company has established a code of conduct applicable to all Directors and employees. The requirement to comply with the code is mandatory and is communicated to all employees. The code sets out standards of conduct, behaviour and professionalism.

The shareholder communications strategy, the securities trading policy, the continuous disclosure policy collectively form a solid ethical foundation for the Company's ethical practices.

**Policy on dealing in Company securities**

The Company has a policy on how and when the Directors and employees may deal in the Company's securities.

In addition to these legal and regulatory restrictions, Sovereign Gold has adopted a robust trading policy whereby trading in Company shares are prohibited under certain circumstances, and short-term trading is discouraged.

The purpose of this policy is to ensure that the Directors and employees deal in the Company's securities in a manner which properly reflects their fiduciary duty, and that they do not transact in those securities whilst in possession of price sensitive information.

This policy requires that all Directors and Senior Executives to disclose their share trade intentions to the Managing Director or Chairman prior to dealing in the Company's securities.

The Company maintains compliance standards and procedures to ensure that the policy is properly implemented. In addition there is also an internal review mechanism to assess compliance and effectiveness.

Details of both the Company's Code of Conduct and Share Trading Policy which, among other things, describes 'closed periods' and 'prohibited periods' that describes when trading is restricted. These policies have been lodged with the ASX and are contained on the Company's website under Corporate Governance.

**Diversity and Gender**

The Company is yet to establish a diversity policy although it recognises the benefits of diversity at boards in senior management and within the organisation generally and recognises the organisation strengths, deeper problem solving ability and opportunity for innovation that diversity brings to an organisation.

The Company does not currently comply with recommendation 3.2 and 3.3 in that it has not established a policy concerning diversity and accordingly has not reported as the measurable objectives towards achieving diversity.

**Corporate Governance Statement** continued**Principle 3 – Promote Ethical and Responsible Decision making continued**

The implementation of an appropriate diversity policy to reflect the circumstances of the Company and the industry in which the Company operates is currently under review by the Board.

While no formal policy is currently in place the Company and the Board is committed to providing an environment in which all employees are treated with fairness, respect and have equal access to employment opportunities at work.

Female employees are represented in the organisation workforce as follows:

	Actual at 31 December 2011	
	Number	Percentage
Employees in whole workforce	0	0%
Employees in senior management positions	0	0%
Board members	0	0%

**Principle 4 – Safeguard Integrity in Financial Reporting**

Companies should have a structure to independently verify and safeguard the integrity of their financial reporting.

**Audit committee**

The audit committee consists of the full Board. The structure of the audit committee does not comply with recommendation 4.2 which recommends that the audit committee consists of only Non-Executive Directors and the committee should have an independent Chairperson who is not the Chairperson of the Board.

The Board considers that given its current size and structure it is neither appropriate nor cost effective for the establishment of a separate audit committee.

The committee met twice during the year. The audit committee has adopted a formal charter which sets out the responsibilities of the audit committee.

Details of the Formal Charter have been posted on the Company's website.

These responsibilities include:

- Reviewing the annual and half year financial reports to ensure compliance with Australian Accounting Standards and generally accepted accounting principles;
- Monitoring corporate risk management practices;
- Review and approval of the Group's accounting policies and procedures;
- Reviewing the external audit plans;
- Reviewing the nomination, performance and independence of the external auditors; and
- Organising, reviewing and reporting on any special reviews or investigations deemed necessary by the Board.

The audit committee has received confirmation in writing from the Chief Executive Officer and Chief Financial Officer that the Company's Financial Report for the financial year ended 31 December 2011 presents a true and fair view in all material respects of the Company's financial position and operational results and are in accordance with relevant accounting standards.

**External auditors**

The full Board is responsible for the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit. In fulfilling its responsibilities, the Board will receive regular reports from management and the external auditors at least once a year, or more frequently if necessary. The external auditors have a clear line of direct communication at any time to the Chairman of the Board.

K. S. Black & Co were approved auditors on 10 August 2010.

The Australian accounting bodies' statement on professional independence requires mandatory rotation of audit partners for listed companies every five years.

K.S. Black & Co confirms that they conform with the requirements of the statement.

K.S. Black & Co are required to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the Auditor's Report.

**Corporate Governance Statement** continued**Principle 5 – Make Timely and Balanced Disclosure**

The Company promotes timely and balanced disclosure of any material matters concerning the Company.

The Company has adopted a policy on information disclosure. It focuses on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

The Company Secretary in consultation with the Chairman, is responsible for communications with the ASX. He is also responsible for ensuring compliance with the continuous disclosure requirements of the ASX Listing Rules, and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the general public.

A copy of the company's continuous disclosure policy is posted on the company's website.

**Principle 6 – Respect the Rights of Shareholders**

Companies should respect the rights of shareholders and facilitate the effective exercise of those rights.

**Communication with shareholders**

The Board recognises and respects the rights of our shareholders as the beneficial owners of the Company. In order to facilitate the effective exercise of those rights, the Company has adopted a shareholder communications policy that aims to empower shareholders by:

- communicating effectively with them;
- providing easy access to balanced and understandable information about the Company; and
- encouraging and facilitating shareholder participation in general meetings.

The Company will achieve this through the following avenues:

**Regular mailings**

The Company provides shareholders with copies of all announcements made to the ASX by mail on request. Copies are also available via an electronic link to the ASX web site, ensuring that all shareholders are kept informed about the Company.

Shareholders also have the option of receiving a hard copy of the Annual Report each year.

**Email update service**

An email update service has been established and is available to the general public as well as shareholders at the Company's website or upon request.

**General meetings**

All shareholders are invited to attend the Annual General Meetings which are to be held at the Company's Head Office in Sydney. The full Board and senior executives will be present and available to answer questions from the floor, as are the External Auditor and a representative from the Company's legal advisors.

A copy of the company's shareholder communication policy is posted on the Company's website.

The Company also posts corporate information on the Investor Section of its company website at "[www.sovereigngold.com.au](http://www.sovereigngold.com.au)".

**Principle 7 – Recognise and Manage Risks**

Companies should establish a sound system of risk oversight and management and internal control.

The Board oversees the establishment, implementation and review of the Company's Risk Management System. To ensure it meets its responsibilities, the Board has implemented appropriate systems for identifying, assessing, monitoring and managing material risk throughout the organisation.

Management is required to provide monthly status reports to the Board which identify potential areas of business risk arising from changes in the financial and economic circumstances of its operating environment.

The Board regularly assess the Company's performance in light of risks identified by such reports.

Management are also required to design, implement and review the Company's risk management and internal control system. The Board reviews the effectiveness of the implementation of the Company's risk, management and internal control system on a regular basis.

The Board does not employ an internal auditor, although as part of the Company's strategy to implement an integrated framework of control, the Board requested the external auditors review internal control procedures. Recommendations once presented are considered by the Board.

The Chief Executive Officer and Chief Financial Officer have stated in writing to the Board that

**Corporate Governance Statement** continued**Principle 7 – Recognise and Manage Risks** continued

- The Company's financial reports present a true and fair view in all material respects of the Company's financial position and operating results and are in accordance with relevant accounting standards.
- The integrity of the financial statements is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.
- The company's risk management and internal compliance and control system is operating efficiently in all material respects.

The Board requires this declaration to be made bi-annually.

**Principle 8 – Remunerate Fairly and Responsibly**

Companies should ensure that the level and composition of remuneration is sufficient and reasonable and that its relationship to performance is clear.

The role of the remuneration committee is undertaken by the whole Board.

The Committee has adopted a formal charter.

The main responsibilities of the Remuneration Committee will include:

- review and approve the Group's policy for determining executive remuneration and any amendments to that policy;
- review the on-going appropriateness and relevance of the policy;
- consider and make recommendations to the Board on the remuneration of executive Directors (including base salary, incentive payments, equity awards and service contracts);
- review and approve the design of all equity based plans;
- review and approve the total proposed payments under each plan; and
- review and approve the remuneration levels for non-executive Directors.
- The committee will meet as often as required but not less than once per year.

The committee met once during the year and the committee members' attendance is disclosed in the table of directors meetings including the directors report on page 18.

**Executive Directors and executive remuneration**

The remuneration committee reviews and approves the policy for determining executive's remuneration and any amendments to that policy.

Executive remuneration and other terms of employment are reviewed annually having regard to relevant comparative information and independent expert advice.

Remuneration packages include basic salary, superannuation and the rights of participation in the Company's Share Option Plan and Employee Share Purchase Plan.

Remuneration packages are set at levels that are intended to attract and retain executives capable of effectively managing the Company's operation.

Consideration is also given to reasonableness, acceptability to shareholders and appropriateness for the current level of operations.

**Non-Executive Directors**

Remuneration of Non-Executive Directors will be determined by the Board based on relevant comparative independent expert advice and the maximum amount approved by shareholders from time to time.

Directors have the right to participate in the Company's Share Option Plan and Employee Share Purchase Plan.

Further information on directors and executive remuneration is included in the Remuneration Report which forms part of the Directors' Report.

The Company does not comply with recommendation 8.2 in relation to the composition of the remuneration committee in that it does not consist of a majority of independent directors.

The Board considers that as this stage of the Company's development it is neither appropriate nor cost effective to adopt the ASX Corporate Governance Guidelines.

This matter continues to be under review. A copy of the charter adopted by the remuneration committee is posted on the Company's website.

**STATEMENT OF COMPREHENSIVE INCOME**

For the Year Ended 31 December 2011

Corresponding Period: for the 5 Months Ended 31 December 2010

	Notes	Consolidated		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Revenue</b>	4	<b>184,501</b>	10,215	<b>184,501</b>	10,215
		<b>184,501</b>	10,215	<b>184,501</b>	10,215
Exploration expenses		<b>(1,225,537)</b>	(255,765)	<b>(789,718)</b>	(213,756)
Finance costs		<b>(6,320)</b>	(266)	<b>(6,320)</b>	(266)
Share based payment expenses	5	-	(212,130)	-	(212,130)
<b>(Loss)/Profit before tax</b>		<b>(1,047,356)</b>	(457,946)	<b>(611,537)</b>	(415,937)
Income tax expense	6(a)	-	-	-	-
<b>(Loss)/Profit before tax</b>		<b>(1,047,356)</b>	(457,946)	<b>(611,537)</b>	(415,937)
Other Comprehensive Income					
Other comprehensive income for the year net of tax		-	-	-	-
<b>Total Comprehensive Income attributable to members of the Parent Entity</b>		<b>(1,047,356)</b>	(457,946)	<b>(611,537)</b>	(415,937)
Basic earnings/(loss) per share	22	<b>(1.42)</b>	(2.50)		
Diluted earnings/(loss) per share	22	<b>(1.28)</b>	(1.71)		

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

**STATEMENT OF FINANCIAL POSITION**

As at 31 December 2011

	Notes	Consolidated		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Current assets</b>					
Cash and cash equivalents	7	<b>1,413,956</b>	2,842,776	<b>1,413,956</b>	2,842,776
Trade and other receivables	8	<b>761,477</b>	362,994	<b>661,477</b>	332,994
Other current assets	9	<b>99,000</b>	-	<b>99,000</b>	-
Total current assets		<b>2,274,433</b>	3,205,770	<b>2,174,433</b>	3,175,770
<b>Non-current assets</b>					
Trade and other receivables	8	-	-	<b>2,534,233</b>	242,009
Mining tenements	10	<b>1,956,726</b>	170,000	-	-
Financial assets	11	-	-	<b>671</b>	250
Plant and equipment	12	<b>39,333</b>	3,134	<b>39,333</b>	3,134
Deferred tax assets	6(e)	-	-	-	-
Total non-current assets		<b>1,996,059</b>	173,134	<b>2,574,237</b>	245,393
<b>Total Assets</b>		<b>4,270,492</b>	3,378,904	<b>4,748,670</b>	3,421,163
<b>Current liabilities</b>					
Trade and other payables	13	<b>51,523</b>	128,776	<b>51,523</b>	128,776
Employee benefits provision	14	-	-	-	-
Total current liabilities		<b>51,523</b>	128,776	<b>51,523</b>	128,776
<b>Non-current liabilities</b>					
Trade and other payable	13	-	-	<b>100</b>	-
Deferred tax liabilities	6(f)	-	-	-	-
Employee benefits provision	14	-	-	-	-
Total non-current liabilities		-	-	<b>100</b>	-
<b>Total liabilities</b>		<b>51,523</b>	128,776	<b>51,623</b>	128,776
<b>Net assets</b>		<b>4,218,969</b>	3,250,128	<b>4,697,047</b>	3,292,387
<b>Equity</b>					
Issued capital	15	<b>5,382,756</b>	3,366,559	<b>5,382,756</b>	3,366,559
Reserves		<b>341,515</b>	341,515	<b>341,765</b>	341,765
Accumulated losses		<b>(1,505,302)</b>	(457,946)	<b>(1,027,474)</b>	(415,937)
<b>Total equity</b>		<b>4,218,969</b>	3,250,128	<b>4,697,047</b>	3,292,387

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

**STATEMENT OF CHANGES IN EQUITY**

For the Year Ended 31 December 2011

Corresponding Period: for the 5 Months Ended 31 December 2010

<b>Consolidated</b>	<b>Issued Capital</b>	<b>Reserve</b>	<b>Options Reserve</b>	<b>Accumulat ed Losses</b>	<b>Total Equity</b>
	\$	\$	\$	\$	\$
<b>Balance at 1 January 2011</b>	<b>3,366,559</b>	<b>(250)</b>	<b>341,765</b>	<b>(457,946)</b>	<b>3,250,128</b>
Shares issued	2,450,000	-	-	-	2,450,000
Share issuing cost	(433,803)	-	-	-	(433,803)
Loss for the year	-	-	-	(1,047,356)	(1,047,356)
<b>Balance at 31 December 2011</b>	<b>5,382,756</b>	<b>(250)</b>	<b>341,765</b>	<b>(1,505,302)</b>	<b>4,218,969</b>
<b>Balance at 1 January 2010</b>	-	-	-	-	-
Share issues	4,001,250	-	-	-	4,001,250
Share issuing cost	(634,691)	-	-	-	(634,691)
Options issued	-	-	341,765	-	341,765
Movement for the year	-	(250)	-	-	(250)
Loss for the year	-	-	-	(457,946)	(457,946)
	3,366,559	(250)	341,765	(457,946)	3,250,128
<b>Parent Entity</b>	<b>Issued Capital</b>	<b>Reserve</b>	<b>Options Reserve</b>	<b>Accumulat ed Losses</b>	<b>Total Equity</b>
	\$	\$	\$	\$	\$
<b>Balance at 1 January 2011</b>	<b>3,366,559</b>	<b>-</b>	<b>341,765</b>	<b>(415,937)</b>	<b>3,292,387</b>
Shares issued	2,450,000	-	-	-	2,450,000
Share issuing cost	(433,803)	-	-	-	(433,803)
Options issued	-	-	-	-	-
Loss for the year	-	-	-	(611,537)	(611,537)
<b>Balance at 31 December 2011</b>	<b>5,382,756</b>	<b>-</b>	<b>341,765</b>	<b>(1,027,474)</b>	<b>4,697,047</b>
<b>Balance at 1 January 2010</b>	-	-	-	-	-
Shares issued	4,001,250	-	-	-	4,001,250
Share issuing cost	(634,691)	-	-	-	(634,691)
Options issued	-	-	341,765	-	341,765
Loss for the year	-	-	-	(415,937)	(415,937)
<b>Balance at 31 December 2010</b>	<b>3,366,559</b>	<b>-</b>	<b>341,765</b>	<b>(415,937)</b>	<b>3,292,387</b>

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

**STATEMENT OF CASH FLOWS**

For the Year Ended 31 December 2011

Corresponding Period for the 5 Months Ended 31 December 2010

	Notes	Consolidated		Parent Entity	
		2011	2010	2011	2010
		\$	\$	\$	\$
<b>Cash flows from operating activities</b>					
Receipts from customers		-	-	-	-
Payments to suppliers and employees		(3,162,760)	(169,659)	(940,216)	(127,207)
Interest paid		-	-	-	-
Interest received		161,273	7,242	161,273	7,242
<b>Net cash (outflow)/inflow from operating activities</b>	17	<b>(3,001,487)</b>	<b>(162,417)</b>	<b>(778,943)</b>	<b>(119,965)</b>
<b>Cash flows from investing activities</b>					
Payment for tenement prospects and interest		(70,000)	(200,000)	-	-
Acquired plant and equipments		(41,030)	(3,251)	(41,030)	(3,251)
Payments for investments in subsidiaries		-	-	-	(250)
Advance to other parties		287,500	(287,500)	287,500	(287,943)
Advance to other parties		(620,000)	-	(620,000)	-
Advance to controlled entities		-	-	(2,292,544)	(242,009)
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(443,530)</b>	<b>(490,751)</b>	<b>(2,666,074)</b>	<b>(533,453)</b>
<b>Cash flows from financing activities</b>					
Proceeds from issue of shares		2,450,000	4,001,000	2,450,000	4,001,250
Share issuing cost		(433,803)	(505,056)	(433,803)	(505,056)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>2,016,197</b>	<b>3,495,944</b>	<b>2,016,197</b>	<b>3,496,194</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(1,428,820)</b>	<b>2,842,776</b>	<b>(1,428,820)</b>	<b>2,842,776</b>
Cash and cash equivalents at the beginning of the year		2,842,776	-	2,842,776	-
<b>Cash and cash equivalents at the end of the year</b>	7	<b>1,413,956</b>	<b>2,842,776</b>	<b>1,413,956</b>	<b>2,842,776</b>

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

## NOTES TO THE FINANCIAL STATEMENTS

for the Year Ended 31 December 2011

### 1 Corporate Information

The financial report of Sovereign Gold Company Limited (the Company) for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the Directors and covers Sovereign Gold Company Limited as an individual parent entity as well as the consolidated entity consisting of Sovereign Gold Company Limited and its subsidiaries (the Group) as required by the Corporations Act 2001.

The financial report is presented in the Australian currency.

Sovereign Gold Company Limited is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange (ASX).

The Company was incorporated as an unlisted public company on 10 August 2010 and successfully listed on the ASX on 3 December 2010.

### 2 Summary of Significant Accounting Policies

#### a. Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporation Act 2001.

##### *Statement of Compliance*

Compliance with Australian Accounting Standards Board (AASB's) ensures that the financial report of Sovereign Gold Company Limited also complies with International Financial Reporting Standards ("IFRS").

##### *Critical accounting estimates*

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

##### *i. Options valuation*

Refer to Note 25 for estimates and assumptions used to calculate the valuation of options.

##### *Critical judgements*

Management have made the following judgements when applying the Group's accounting policies:

##### *Capitalisation of exploration costs*

The Group follows the guidance of AASB 6 Exploration for and Evaluation of Mineral Resources when determining if exploration costs incurred can be capitalised. This determination requires significant judgement. In making this judgement, the Group evaluates if any one of the following conditions is met:

- The exploration and evaluation expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively, by its sale; and
- Exploration and evaluation activities in the area of interest have not at the reporting date reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

If one of the above conditions is met then the Group has made the judgement to capitalise the associated exploration expenses.

##### *Historical cost convention*

These financial statements have been prepared on an accruals basis and are based on the historical cost convention except where noted in these accounting policies.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

**Notes to the Financial Statements** continued**2 Summary of Significant Accounting Policies continued****b. Principles of consolidation***Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Sovereign Gold Company Limited (the "parent entity") as at reporting date and the results of all subsidiaries for the year then ended. Sovereign Gold Company Limited and its subsidiaries together are referred to in this financial report as the Group.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The financial performance of those activities is included only for the period of the year that they were controlled.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and unrealised gains on transactions between consolidated entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

**c. Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. Reporting to management by segments is on this basis.

**d. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised for the major business activities as follows:

*Interest Revenue*

Interest revenue is recognised as it accrues taking into account the effective yield on the financial asset.

*Other Income*

Income from other sources is recognised when proceeds or the fee in respect of other products or service provided is receivable. All revenue is stated net of the amount of goods and services tax (GST).

**e. Income Tax**

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

**Notes to the Financial Statements** continued**2 Summary of Significant Accounting Policies continued****e. Income tax continued**

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

The Company and its wholly owned entities are part of a tax-consolidated group under Australian taxation law. Sovereign Gold Company Limited is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax-consolidated group are recognised by the Company (as head entity in the tax-consolidated group).

The amounts receivable/payable under tax funding arrangements are due upon notification by the entity which is issued soon after the end of each financial year. Interim funding notices may also be issued by the head entity to its wholly owned subsidiary. These amounts are recognised as current intercompany receivables or payables.

**f. Goods and services tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.
- The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis except for the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**g. Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting period. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

**h. Cash and cash equivalents**

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand and in at call deposits with banks or financial institutions, investment in money market instruments maturing within less than two months, net of bank overdrafts.

**i. Trade and other receivables**

Trade receivables are recognised initially at original invoice amounts and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that entities in the Group will not be able to collect all amounts due according to the original terms of receivables.

**Notes to the Financial Statements** continued**2 Summary of Significant Accounting Policies** continued**j. Financial Instruments***Recognition and initial measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

*Classification and subsequent measurement*

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

- (a) the amount at which the financial asset or financial liability is measured at initial recognition;
- (b) less principal repayments;
- (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and
- (d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

*i. Financial assets at fair value through profit or loss*

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

*ii. Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after reporting date. (All other loans and receivables are classified as non-current assets.)

*iii. Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after reporting date. (All other investments are classified as current assets.)

**Notes to the Financial Statements** continued**2 Summary of Significant Accounting Policies** continued**j. Financial Instruments** continued

If during the period the Group sold or reclassified more than an insignificant amount of the held-to-maturity investments before maturity, the entire held-to-maturity investments category would be tainted and reclassified as available-for-sale.

*iv. Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to be disposed of within 12 months after reporting date. (All other financial assets are classified as current assets.)

*v. Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

## Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

## Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

## Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**k. Tenement exploration, valuation and development costs**

Costs incurred in the exploration for, and evaluation of, tenements for suitable resources are carried forward as assets provided that one of the following conditions is met:

- the carrying values are expected to be justified through successful development and exploitation of the area of interest; or
- exploration activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of recoverable mineral resources, and active and significant operations in relation to the area are continuing.

Expenses failing to meet at least one of the aforementioned conditions expensed as incurred.

Costs associated with the commercial development of resources are deferred to future periods, provided they are, beyond any reasonable doubt, expected to be recoverable. These costs are amortised from the commencement of commercial production of the product to which they relate on a straight-line basis over the period of the expected benefit. 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.

**l. Trade and other payables**

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

**Notes to the Financial Statements** continued**2 Summary of Significant Accounting Policies continued****m. Restoration and rehabilitation provisions**

Both for close down and restoration and for environmental clean-up costs from exploration programs, if any, a provision will be made in the accounting period when the related disturbance occurs, based on the net present value of estimated future costs.

**n. Employee benefits****(i) Wages, salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

**(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

**o. Contributed Equity**

Ordinary shares are classified as equity.

**p. Share based payments**

Ownership-based remuneration is provided to employees via an employee share option plan.

Share-based compensation is recognised as an expense in respect of the services received, measured on a fair value basis.

The fair value of the options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance date, the Group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

**q. Earnings per share (EPS)**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for costs of servicing equity (other than dividends), the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**r. New Accounting Standards for Application**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. We have reviewed these standards and interpretations and there are none having any material effect.

**Notes to the Financial Statements** continued**3 Financial Risk Management****a. General Objectives, Policies and Processes**

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Groups' risk management policies and objectives are therefore designed to minimise the potential impacts of these risks on the results of the Group where such impacts may be material.

The Board receives reports from the Chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The Group's finance function also reviews the risk management policies and processes and reports their findings to the Audit Committee.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility.

Further details regarding these policies are set out below:

**b. Credit Risk**

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Group incurring a financial loss. This usually occurs when debtors or counterparties to derivative contracts fail to settle their obligations owing to the Group.

The maximum exposure to credit risk at balance date is as follows:

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Current</b>				
Cash and cash equivalents	<b>1,413,956</b>	2,842,776	<b>1,413,956</b>	2,842,776
Trade and other receivables	<b>761,477</b>	362,994	<b>661,477</b>	332,994
<b>Non Current</b>				
Trade and other receivables	-	-	<b>2,534,233</b>	242,009
	<b>2,175,433</b>	3,205,770	<b>4,609,666</b>	3,417,779

**c. Liquidity Risk**

Liquidity risk is the risk that the group may encounter difficulties raising funds to meet commitments associated with financial instruments that is, borrowing repayments. there is no bank borrowing at the balance date. it is the policy of the board of directors that treasury reviews and maintains adequate committed credit facilities and the ability to close-out market positions.

## Notes to the Financial Statements continued

## 3 Financial Risk Management continued

Maturity Analysis	Carrying Amount	Contractual Cash Flows	< 6 mths	6 - 12 mths	1 - 3 years	> 3 years
	\$	\$	\$	\$	\$	\$
<b>Consolidated - 2011</b>						
<b>Financial Liabilities</b>						
<b>Current</b>						
Trade and other payables	37,773	37,773	37,773	-	-	-
Accrued payable	13,750	-	-	-	-	-
<b>Non-Current</b>						
Other Liabilities	-	-	-	-	-	-
Total financial liabilities at amortised cost	51,523	37,773	37,773	-	-	-
<b>Consolidated - 2010</b>						
<b>Financial Liabilities</b>						
<b>Current</b>						
Trade and other payables	128,776	128,776	128,776	-	-	-
<b>Non-Current</b>						
Other Liabilities	-	-	-	-	-	-
Total financial liabilities at amortised cost	128,776	128,776	128,776	-	-	-
<b>Parent Entity-2011</b>						
<b>Financial Liabilities</b>						
<b>Current</b>						
Trade and other payables	37,773	37,773	37,773	-	-	-
Accrued payable	13,750	-	-	-	-	-
<b>Non-Current</b>						
Other Liabilities	-	-	-	-	-	-
Total financial liabilities at amortised cost	51,523	37,773	37,773	-	-	-
<b>Parent Entity - 2010</b>						
<b>Financial Liabilities</b>						
<b>Current</b>						
Trade and other payables	128,776	128,776	128,776	-	-	-
<b>Non-Current</b>						
Other Liabilities	-	-	-	-	-	-
Total financial liabilities at amortised cost	128,776	128,776	128,776	-	-	-

## d. Interest Rate Risk

The Group is constantly monitoring its exposure to trends and fluctuations in interest rates in order to manage interest rate risk. There is no bank borrowing at the balance date, therefore there is no material exposure to interest rate risk.

## Sensitivity Analysis

There is no bank borrowing at the balance date.

The following tables demonstrate the sensitivity to a reasonably possible changes in interest rates, with all other variables held constant, of the Group's profit after tax (through the impact on fluctuation on deposit interest rate). There is no impact on the Group's equity.

## Notes to the Financial Statements continued

## 3 Financial Risk Management continued

## d. Interest Rate Risk continued

	Carrying Amount \$	+1% Profit/ (Loss) \$	-1% Profit/ (Loss) \$
<b>Consolidated - 2011</b>			
Cash and cash equivalents	1,413,956	14,139	(14,139)
Tax charge of 30%	-	(4,242)	4,242
After tax increase/(decrease)	1,413,956	9,897	(9,897)
<b>Consolidated - 2010</b>			
Cash and cash equivalents	2,842,776	28,428	(28,428)
Tax charge of 30%	-	(8,528)	8,528
After tax increase/(decrease)	2,842,776	19,900	(19,900)

The above analysis assumes all other variables remain constant.

**Parent Entity - 2011**

Cash and cash equivalents	1,413,956	14,139	(14,139)
Tax charge of 30%	-	(4,242)	4,242
After tax increase/(decrease)	1,413,956	9,897	(9,897)

**Parent Entity - 2010**

Cash and cash equivalents	2,842,776	28,428	(28,428)
Tax charge of 30%	-	(8,528)	8,528
After tax increase/(decrease)	2,842,776	19,900	(19,900)

## e. Currency Risk

In 2011, the consolidated entity and parent entity were not exposed to foreign currency risk (2010: nil)

## f. Capital Risk Management

The group considers its capital to comprise its ordinary share capital and reserves. In managing its capital, the group's primary objectives are to pay dividends and maintain liquidity. These objectives dictate any adjustments to capital structure. Rather than set policies, advice is taken from professional advisors as to how to achieve these objectives. There has been no change in either these objectives, or what is considered capital in the year.

## 4 Revenue

	Consolidated		Parent Entity	
	12 months ended 31 Dec 2011 \$	5 months ended 31 Dec 2010 \$	12 months ended 31 Dec 2011 \$	5 months ended 31 Dec 2010 \$
Interest income	178,553	10,215	178,553	10,215
Other	5,948	-	5,948	-
	184,501	10,215	184,501	10,215

## 5 Expenses

Profit/(loss) before income tax includes the following specific expenses:

Consulting and professional fee	129,913	13,888	93,913	13,888
Exploration expense not capitalised	504,018	100,392	500,322	58,383
Share based payments (note 25)	-	212,130	-	212,130

## Notes to the Financial Statements continued

## 6 Income Tax

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>(a) Income tax expense</b>				
Current tax expense	-	-	-	-
Deferred tax expense	-	-	-	-
Total income tax expense	-	-	-	-
Deferred tax expense				
Increase/(decrease) in deferred tax expense	-	-	-	-
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Profit/(Loss) from continuing operations before income tax expense	<b>(1,047,356)</b>	(457,946)	<b>(611,537)</b>	(415,937)
Income tax expense (benefit) calculated @ 30% (2010:30%)	<b>(314,207)</b>	(137,384)	<b>(183,461)</b>	(124,781)
Temporary differences not brought to account	<b>(569,974)</b>	69,965	<b>(33,956)</b>	69,965
Tax losses not brought to account	<b>884,181</b>	67,418	<b>217,418</b>	54,816
Income tax expense/(benefit) at effective tax rate of 30% (2010: 30%)	-	-	-	-
<b>(c) Amounts recognised directly in equity</b>				
Aggregate current and deferred tax arising during the reporting period and not recognised in profit and loss but directly debited or credited to equity:				
<i>Current income tax</i>				
Current income tax on transaction costs of issuing equity instruments	-	-	-	-
<b>(d) Unrecognised deferred tax assets and liabilities</b>				
Deferred tax assets and liabilities have not been recognised in the balance sheet for the following items:				
Prior year unrecognised tax losses now ineligible due to change in tax consolidation group	-	-	-	-
Other deductible temporary differences	<b>(113,188)</b>	(224,728)	<b>(113,188)</b>	(182,719)
Deferred tax asset in respect of exploration activities not brought to account	<b>(1,047,356)</b>	-	<b>(611,537)</b>	-
Deferred tax liability in respect of exploration activities not recognised to the extent of unrecognised deferred tax asset	<b>(1,786,726)</b>	-	-	-
	<b>(2,947,270)</b>	(224,728)	<b>(724,725)</b>	(182,719)
Potential benefit/(expense) at 30% (2010: 30%)	<b>884,181</b>	67,418	<b>217,418</b>	54,816
<b>(e) Deferred tax assets</b>				
Deferred tax assets comprise temporary differences attributable to:				
Share issue expenses	-	-	-	-
	-	-	-	-
<b>(f) Deferred tax liabilities</b>				
Deferred tax liabilities comprise temporary differences attributable to:				
Amounts recognised in profit and loss				
Capitalised exploration costs	-	-	-	-

## Notes to the Financial Statements continued

## 7 Cash and Cash Equivalents

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Cash at bank and in hand	<u>1,413,956</u>	<u>2,842,776</u>	<u>1,413,956</u>	<u>2,842,776</u>
Weighted average interest rates	4.90%	5.68%	4.90%	5.68%

## (a) Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

Cash and cash equivalents	<u>1,413,956</u>	<u>2,842,776</u>	<u>1,413,956</u>	<u>2,842,776</u>
Balances per Statement of Cash Flows	<u>1,413,956</u>	<u>2,842,776</u>	<u>1,413,956</u>	<u>2,842,776</u>

## (b) Interest rate risk exposure

The Group's and the parent entity's exposure to interest rate risk is discussed in Note 3.

## 8 Trade and Other Receivables

**Current**

Receivables - other parties	<u>645,695</u>	<u>290,473</u>	<u>645,695</u>	<u>290,473</u>
Other receivables	<u>115,782</u>	<u>72,521</u>	<u>15,782</u>	<u>42,521</u>
	<u>761,477</u>	<u>362,994</u>	<u>661,477</u>	<u>332,994</u>

**Non - Current**

Controlled entities receivables	<u>-</u>	<u>-</u>	<u>2,534,233</u>	<u>242,009</u>
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## (a) Impaired receivables and receivables past due.

None of the current or non-current receivables are impaired or past due but not impaired.

## (b) Other receivables.

These amounts relate to receivables for GST paid and tenement securities deposits paid.

**Receivable - other parties**

The Company advanced \$420,000 to a consultant. The interest bearing loan is secured by shares and has a fixed term on repayment.

The Company placed \$200,000 interest bearing deposit with an entity. The company received the deposit plus interest in full subsequent to the reporting date.

## (c) Interest rate risk

Information about the Group's and the parent entity's exposure to interest rate risk in relation to trade and other receivables is provided in Note 3.

## (d) Fair value and credit risk.

**Current trade and other receivables**

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

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

**Non-current trade and other receivables**

The fair values and carrying values of non-current receivables are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	\$	\$	\$	\$
Consolidated				
Controlled Entities receivables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Parent Entity				
Controlled entities receivables	<u>2,534,233</u>	<u>2,534,233</u>	<u>242,009</u>	<u>242,009</u>

The above controlled entities receivables have no terms of repayment and are not interest bearing.

## Notes to the Financial Statements continued

## 9 Other Current Assets

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Prepayments	99,000	-	99,000	-
	<b>99,000</b>	<b>-</b>	<b>99,000</b>	<b>-</b>

## 10 Mining Tenements and Capitalised Expenditures

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Mining tenements	1,956,726	170,000	-	-
	<b>1,956,726</b>	<b>170,000</b>	<b>-</b>	<b>-</b>

The recoverability of the carrying amount of evaluation and exploration assets is dependent upon successful development and commercial exploitation, or alternatively the sale of the respective areas of interest.

For details please refer tenement schedule of this report.

## 11 Financial Assets

Investment in controlled entities (Note16)	-	-	671	250
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## 12 Plant and Equipment

Plant and equipment - at cost	44,281	3,251	44,281	3,251
Less: Accumulated depreciation	(4,948)	(117)	(4,948)	(117)
Total plant and equipment	<b>39,333</b>	<b>3,134</b>	<b>39,333</b>	<b>3,134</b>

## Reconciliations

Reconciliations of the carrying amount of each class of plant and equipment at the beginning and end of the current financial year are set out below

## Consolidated entity

Carrying amount at beginning of year	3,134	-	3,134	-
Additions	41,030	3,251	41,030	3,251
Depreciation	(4,831)	(117)	(4,831)	(117)
Carrying amount at end of year	<b>39,333</b>	<b>3,134</b>	<b>39,333</b>	<b>3,134</b>

## 13 Trade and Other Payables

## Current

Trade payables	37,773	107,688	37,773	107,688
Accruals	13,750	21,088	13,750	21,088
	<b>51,523</b>	<b>128,776</b>	<b>51,523</b>	<b>128,776</b>

## Non-Current

Trade and other payable	-	-	100	-
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## 14 Employee Benefits Provisions

## Current

Staff Annual leave entitlement	-	-	-	-
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## Non-Current

Staff Long service leave entitlement	-	-	-	-
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## Notes to the Financial Statements continued

## 15 Issued Capital

	Consolidated and Parent Entity		Consolidated and Parent Entity	
	2011 Number of Shares	2010 Number of Shares	2011 \$	2010 \$
Ordinary shares Issued	<b>77,000,000</b>	70,000,000	<b>5,382,756</b>	3,366,559

## (a) Movements in ordinary share capital during 2011:

## Consolidated

Date	Details	No. of shares	Issue price \$	\$
31 December 2010	Balance	70,000,000		3,366,559
June 2011	Share Placement	7,000,000	0.35	2,450,000
	Share issuing costs			(433,803)
31 December 2011	Balance	<b>77,000,000</b>		<b>5,382,756</b>

## (b) Performance Options

No options are granted in 2011. In 2010, 7,250,000 options were granted, the fair value of options granted is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.20, the exercise price of \$0.30, expected volatility of 50.0%, expected dividends of \$Nil and a risk-free interest rate of 4.75%.

## (c) Terms and Conditions

Each ordinary share participates equally in the voting rights of the Company. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

## (d) Options

There were 7,250,000 unissued ordinary shares under option at the end of the financial year.

A further 1,250,000 options have been approved for granting relevant to the Company's Employee Share Option Plan but have not been allocated.

Information relating to the Group's options issued for services rendered is set out in note 25.

## 16 Investments in Controlled Entities

Name of Entity	Class of Shares	Equity Holding		Country of Incorporation
		2011 (%)	2010 (%)	
Biacil Holdings Pty Lad	Ordinary	100	100	Australia
Micksture Pty Ltd	Ordinary	100	100	Australia
Uralla Gold Pty Ltd	Ordinary	100	100	Australia
IRGS Northern Gold Pty Ltd*	Ordinary	100	-	Australia
IRGS Southern Gold Pty Ltd*	Ordinary	100	-	Australia
MAS Gold Pty Ltd*	Ordinary	100	-	Australia
Pahang Minerals Pty Ltd*	Ordinary	100	-	Australia

\* Wholly owned subsidiaries were incorporated to hold exploration tenements.

## Notes to the Financial Statements continued

## 17 Reconciliation of Profit/ (Loss) to Net Cash Inflow/ (Outflow) from Operating Activities

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>(Loss)/Profit for the year</b>	<b>(1,047,256)</b>	(457,946)	<b>(611,537)</b>	(415,937)
Share based payments expense	<b>(1,786,726)</b>	212,130	-	212,130
Change in operating assets and liabilities:				
(Increase)/Decrease in trade and other receivables	<b>(90,152)</b>	-	<b>(97,491)</b>	-
(Increase)/Decrease in other current assets	-	(45,377)	-	(44,934)
Decrease/(Increase) in other operating assets	-	-	-	-
Increase/(Decrease) in trade and other creditors and provisions	<b>(77,253)</b>	128,776	<b>(69,915)</b>	128,776
(Increase) in deferred tax assets	-	-	-	-
Increase in deferred tax liabilities	-	-	-	-
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(3,001,387)</b>	(162,417)	<b>(778,943)</b>	(119,965)

## 18 Operating Segment

The Group operates one operating segment being the mineral, exploration, development and geological surveys of resources in Australia.

## 19 Commitments

## Exploration expenditure commitments

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Minimum tenement exploration expenditure	<b>680,000</b>	70,000	-	-
Tenement lease payment	-	-	-	-
	<b>680,000</b>	70,000	-	-

The minimum exploration expenditure commitments and lease payments on the Company's exploration tenements totalling approximately \$680,000 over the term of tenements.

## Service agreements

The Company has entered into a service agreement with Hudson Corporate Limited pursuant to which Hudson Corporate Limited has agreed to provide its management, registered office, administrative accounting, compliance and secretarial services.

The term of the Services Agreement is two years and the fee payable is that amount agreed between the parties from time to time. The terms of the Services Agreement provide that Hudson Corporate Limited shall act in accordance with the Directions of the Board.

The Company has entered into a geological services agreement with Michael Leu for a fixed remuneration per day.

There are no other material commitments as at the date of this report.

## 20 Contingent Liabilities

There are no other material contingent liabilities as at the date of this report.

No material losses are anticipated in respect of any of the above contingent liabilities.

## 21 Events Subsequent to Balance Date

On 26th March 2012, the Company through its wholly owned subsidiary Micksture Pty Limited entered into a cooperation and investment agreement with Jiangsu Geology and Engineering Co Ltd (SUGEC), a Chinese SOE, whereby SUGEC will provide \$2 million in exploration funding on EL 7491. Upon completion of the expenditure, SUGEC will be entitled to have a 30% interest in EL 7491.

**Notes to the Financial Statements** continued**21 Events Subsequent to Balance Date continued**

On 26th March 2012, the Company through its wholly owned subsidiary IRGS Northern Gold Pty Limited entered into a cooperation and investment agreement with Jiangsu Geology and Engineering Co Ltd (SUGEC), a Chinese SOE, whereby SUGEC will provide \$2 million in exploration funding on EL 7768. Upon completion of the expenditure, SUGEC will be entitled to have a 30% interest in EL 7768.

At the date of this report there are no other matters or circumstances which have arisen since 31 December 2011 that have significantly affected or may significantly affect:

- the operations, in financial years subsequent to 31 December 2011, of the Group;
- the results of those operations; or
- the state of affairs, in financial years subsequent to 31 December 2011, of the Group.

**22 Earnings Per Share**

	<b>Consolidated</b>	
	<b>2011</b>	2010
	<b>Cents</b>	Cents
Basic earnings/(loss) per share	<b>(1.42)</b>	(2.50)
Fully diluted earnings/(loss) per share	<b>(1.28)</b>	(1.71)
	<b>2011</b>	2010
	<b>\$</b>	\$
Profit/(loss) from continuing operations used in calculating basic and fully diluted earnings per share	<b>(1,047,356)</b>	(457,946)
	<b>2011</b>	2010
	<b>Number</b>	Number
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share:	<b>73,500,000</b>	18,333,333
Adjustments for calculation of diluted earnings per share: Options	<b>8,500,000</b>	8,500,000
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<b>82,000,000</b>	26,833,333

**23 Key Management Personnel Disclosures****a Directors**

The following persons were directors of the Company during the whole of the financial year and up to the date of this report, unless otherwise stated:

- |                     |                                  |   |
|---------------------|----------------------------------|---|
| • John S Dawkins AO | Non-Executive Chairman           | Appointed on 16 September 2010                            |
| • Michael Leu       | Chief Executive Officer - Acting | Appointed on 10 August 2010                               |
| • Peter J Meers     | Non-Executive Director           | Appointed on 10 August 2010                               |
| • Rado Jacob Rebek  | Non-Executive Director           | Appointed on 16 September 2010                            |
| • Qinjing Qiu       | Non-Executive Director           | Appointed on 10 June 2011                                 |
| • Nick Raffan       | Chief Executive Officer          | Appointed on 16 September 2010<br>Resigned 4 January 2012 |

**b Other Key Management Personnel**

The following persons were other key management personnel of Sovereign Gold Company Limited during the financial year:

- |                     |                         |
|---------------------|-------------------------|
| • Henry Kinstlinger | Joint Company Secretary |
| • David L Hughes    | Joint Company Secretary |
| • Francis Choy      | Chief Financial Officer |

## Notes to the Financial Statements continued

## 23 Key Management Personnel Disclosures continued

## c Compensation of Key Management Personnel

Directors	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short term employee benefits	376,627	73,150	376,627	73,150
Post employment benefits	-	-	-	-
Long term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	-	141,420	-	141,420
	<b>376,627</b>	<b>214,570</b>	<b>376,627</b>	<b>214,570</b>
<b>Other Key Management Personnel</b>				
Short term employee benefits	-	22,500	-	22,500
Post employment benefits	-	-	-	-
Long term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	-	47,320	-	47,320
	-	69,820	-	69,820

## Notes to the Financial Statements continued

## 23 Key Management Personnel Disclosures continued

## Directors and other Key Management Personnel of Sovereign Gold Company Limited

Consolidated 2011	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits	Share based payments (options)	Total
	Salary and other fees	Travelling Allowance	Super- annuation	Long Service Leave		
<b>Director</b>	\$	\$	\$	\$	\$	\$
John Dawkins	41,212	-	-	-	-	41,212
Nick Raffan*	153,915	9,900	-	-	-	163,815
Michael Leu	154,500	10,800	-	-	-	165,300
Peter Meers	-	-	-	-	-	-
Rado J Rebek	-	6,300	-	-	-	6,300
Qinjing Qiu	-	-	-	-	-	-
Total - Directors	349,627	27,000	-	-	-	376,627
<b>Key Management Personnel</b>						
David L Hughes	-	-	-	-	-	-
Henry Kinstlinger	-	-	-	-	-	-
Francis Choy	-	-	-	-	-	-
Total - KMP	-	-	-	-	-	-

\* Resigned 4 January 2012

Consolidated 2010	Short Term Employee Benefits		Post Employment	Long Term Employee Benefits	Share based payments (options)*	Total
	Salary and other fees	Travelling Allowance	Super- annuation	Long Service Leave		
<b>Director</b>	\$	\$	\$	\$	\$	\$
John Dawkins	-	-	-	-	23,570	23,570
Nick Raffan	40,750	-	-	-	35,355	76,105
Michael Leu	30,600	1,800	-	-	35,355	67,755
Peter Meers	-	-	-	-	23,570	23,570
Rado J Rebek	-	-	-	-	23,570	23,570
Vincent Tan	-	-	-	-	-	-
Total - Directors	71,350	1,800	-	-	141,420	214,570
<b>Key Management Personnel</b>						
David L Hughes	-	-	-	-	11,875	11,875
Henry Kinstlinger	22,500	-	-	-	23,570	46,070
Francis Choy	-	-	-	-	11,875	11,875
Total - KMP	22,500	-	-	-	47,320	69,820

\*Sovereign Gold Company Limited issued options to directors and offices under Employee Share Option Plan.

The amounts reported represent the total remuneration paid by entities in the Sovereign Gold Group of companies in relation to managing the affairs of all the entities within the Sovereign Gold Group.

There are no performance conditions related to any of the above payments.

There is no other element of Directors and Executives remuneration.

## Notes to the Financial Statements continued

## 23 Key Management Personnel Disclosures continued

## d Employee Share Option Plan

Sovereign Gold Company Ltd has adopted an Employee Share Option Plan (ESOP) for its employees. A person is an employee of Sovereign Gold Company Ltd if that person is an Executive Director, Non-executive Director or considered by the Board to be employed by Sovereign Gold Company Ltd or a related party of Sovereign Gold Company Ltd.

The purpose of the ESOP is to provide an opportunity for all eligible employees of Sovereign Gold Company Ltd to participate in the growth and development of Sovereign Gold Company Ltd through participation in the equity of Sovereign Gold Company Ltd.

Sovereign Gold Company Ltd believes it is important to provide incentives to employees in the form of options which provide the opportunity to participate in the share capital of Sovereign Gold Company Ltd. Sovereign Gold Company Ltd expects to apply the proceeds of exercise of the Options to working capital needs, asset or business acquisitions and general corporate purposes. All options to be issued must be consistent with any applicable Listing Rules and having regard to regulatory constraints under the Corporations Act 2001, ASIC policy or any other law applicable to Sovereign Gold Company Ltd.

## e Shareholdings and Option Holdings of Key Management Personnel

Directors	Ordinary Shares (Number)		Employee Share Option
	Direct Interest	Indirect Interest	
John Dawkins	100,000	-	500,000
Michael Leu	4,875,000	-	750,000
Peter Meers	-	40,010,000	500,000
Rado Jacob Rebek	-	-	500,000
Qinjing Qiu	-	6,000,000	-

Shares held in Sovereign Gold Company Limited - 2011			
Directors	Balance at beginning of year	Changes during the year	Balance at end of year
John Dawkins	100,000	-	100,000
Michael Leu	4,875,000	-	4,875,000
Peter Meers <sup>1</sup>	40,010,000	-	40,010,000
Rado Jacob Rebek	-	-	-
Qinjing Qiu <sup>2</sup>	-	6,000,000	6,000,000

Other Key Management Personnel			
	Balance at beginning of year	Changes during the year	Balance at end of year
Henry Kinstlinger	20,000	-	20,000
David L Hughes	30,000	-	30,000
Francis Choy	-	-	-

<sup>1</sup> Mr Meers has indirect interest in 40,000,000 ordinary shares by virtue of his position as Director of Hudson Resources Limited and an indirect interest in 10,000 ordinary shares held by a related party

<sup>2</sup> Mr Qui has an indirect interest in 6,000,000 ordinary shares held by a related party.

## Shares held in Sovereign Gold Company Limited - 2010

Directors	Balance at beginning of year	Changes during the year	Balance at end of year
John Dawkins	-	100,000	100,000
Nicholas Raffan	-	-	-
Michael Leu	-	4,875,000	4,875,000
Peter Meers*	-	40,010,000	40,010,000
Rado Jacob Rebek	-	-	-

Other Key Management Personnel			
	Balance at beginning of year	Changes during the year	Balance at end of year
Henry Kinstlinger	-	20,000	20,000
David L Hughes	-	30,000	30,000
Francis Choy	-	-	-

\* Mr Meers has an indirect interest in 40,000,000 ordinary shares by virtue of his position as Director of Hudson Resources Limited and an indirect interest in 10,000 ordinary shares held by a related party.

## Notes to the Financial Statements continued

## 23 Key Management Personnel Disclosures continued

## e Shareholdings and Option Holdings of Key Management Personnel continued

## Options held in Sovereign Gold Company Limited - 2011

Directors	Nature	Balance at beginning of year	Changes during the year	Balance at end of year <sup>1</sup>
John Dawkins	Employee Share Option Plan	500,000	-	500,000
Nicholas Raffan <sup>3</sup>	Employee Share Option Plan	750,000	-	750,000
Michael Leu	Employee Share Option Plan	750,000	-	750,000
Peter Meers	Employee Share Option Plan	500,000	-	500,000
Rado Jacob Rebek	Employee Share Option Plan	500,000	-	500,000

## Other Key Management Personnel

Henry Kinstlinger	Employee Share Option Plan	500,000	-	500,000
David L Hughes	Employee Share Option Plan	250,000	-	250,000
Benjamin Amzalak <sup>2</sup>	Employee Share Option Plan	500,000	-	500,000
Francis Choy	Employee Share Option Plan	250,000	-	250,000
				4,500,000

## Options held in Sovereign Gold Company Limited - 2010

Directors	Nature	Balance at beginning of year	Changes during the year	Balance at end of year
John Dawkins	Employee Share Option Plan	-	500,000	500,000
Nicholas Raffan	Employee Share Option Plan	-	750,000	750,000
Michael Leu	Employee Share Option Plan	-	750,000	750,000
Peter Meers	Employee Share Option Plan	-	500,000	500,000
Rado Jacob Rebek	Employee Share Option Plan	-	500,000	500,000

## Other Key Management Personnel

Henry Kinstlinger	Employee Share Option Plan	-	500,000	500,000
David L Hughes	Employee Share Option Plan	-	250,000	250,000
Benjamin Amzalak	Employee Share Option Plan	-	500,000	500,000
Francis Choy	Employee Share Option Plan	-	250,000	250,000
				4,500,000

<sup>1</sup> All options at year end are vested and exercisable

<sup>2</sup> Benjamin Amzalak has an indirect interest in 250,000 success option registered to a related party of Mr Amzalak.

<sup>3</sup> Nicholas Raffan resigned as a director on 4 January 2012

## Notes to the Financial Statements continued

## 24 Remuneration of Auditors

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Audit services:</b>				
Amounts paid or payable to auditors for audit and review of the financial report for the entity or any entity in the Group				
Audit and review services	<b>24,945</b>	22,138	<b>24,945</b>	22,138
<b>Taxation and other advisory services:</b>				
Amounts paid or payable to auditors for non audit taxation and advisory services for the entity or any entity in the Group.				
Taxation	<b>7,745</b>	7,200	<b>7,745</b>	7,200
Advisory Services	-	15,855	-	15,855
	<b>7,745</b>	23,055	<b>7,745</b>	23,055

## 25 Share Based Payments

	Number of instruments	Vesting conditions	Expiry Date
Employee share options were granted to Directors, officers and consultants exercisable at any time prior to expiry	4,500,000	Vested and exercisable	15 September 2013
Initial Public Offer - success options	2,750,000	Vested and exercisable	15 September 2013

The number and weighted average exercise price of share options is as follows:

	Consolidated		Parent Entity	
	2011	2010	2011	2010
	Number	Number	Number	Number
Vested and exercisable at beginning of the year	<b>7,250,000</b>	-	<b>7,250,000</b>	-
Granted during the year	-	7,250,000	-	7,250,000
Vested and exercisable at end of year	<b>7,250,000</b>	7,250,000	<b>7,250,000</b>	7,250,000
<i>Option expenses</i>				
Share options granted	-	7,250,000	-	7,250,000
Expense recognised as costs <sup>1</sup>	-	212,130	-	212,130
Deducted from equity <sup>2</sup>	-	129,635	-	129,635
Fair Value per option at grant time	-	4.7 cents	-	4.7 cents

<sup>1</sup> The fair value of options granted above is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.20, the exercise price of \$0.30, expected volatility of 50%, expected dividends of \$Nil and a risk-free interest rate of 4.75%. There is no service or performance criteria in relation to the options.

<sup>2</sup> The fair value of options granted above is determined using the Black-Scholes formula. The model inputs were: the share price of \$0.20, the exercise price of \$0.30, expected volatility of 50%, expected dividends of \$Nil and a risk-free interest rate of 4.75%.

## Notes to the Financial Statements continued

## 25 Share Based Payments continued

2011 Grant date	Exercise date	Exercise price	Balance at beginning of year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of year	Vested and Exercisable at end of year
3/12/2010	15/09/2013	0.30	4,500,000	-	-	-	-	4,500,000	4,500,000
3/12/2010	15/09/2013	0.30	2,750,000	-	-	-	-	2,750,000	2,750,000
Total			7,250,000	-	-	-	-	7,250,000	7,250,000

Weighted average exercise price 0.30 cents

2010 Grant date	Exercise date	Exercise price	Balance at beginning of year	Granted during the year	Forfeited during the year	Exercised during the year	Expired during the year	Balance at end of year	Vested and Exercisable at end of year
3/12/2010	15/09/2013	0.30	-	4,500,000	-	-	-	4,500,000	4,500,000
3/12/2010	15/09/2013	0.30	-	2,750,000	-	-	-	2,750,000	2,750,000
Total			-	7,250,000	-	-	-	7,250,000	7,250,000

Weighted average exercise price 0.30 cents

## 26 Related Party Transactions

## (a) Parent Entities

The parent entity within the Group is Sovereign Gold Company Limited. The ultimate Australian parent entity is Hudson Resources Limited which at 31 December 2011 owns 51.95% (2010: 57.14%).

## (b) Subsidiaries

Interests in subsidiaries are disclosed in note 16.

## (c) Key Management Personnel Compensation

Key management personnel compensation information is disclosed in note 23.

## (d) Transactions with Related Parties

The following transactions occurred with related parties during the year ended 31 December 2011:

## Pre-IPO expenses

Consolidated and parent entity

In 2010: Hudson Resources Limited paid Sovereign Gold Company Listed pre-IPO expenses: \$224,141. The amount was fully repaid.

## (e) Outstanding Balance

	Consolidated		Parent	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Receivable</b>				
Current				
Advance to other party	200,328	-	200,328	-
Non-current				
Advance to controlled entities	-	-	2,534,233	242,009
Advance to other party	440,367	-	440,367	-
<b>Payable</b>				
Non-current				
Advance from controlled entities	-	-	-	-
Advance from related party	-	-	-	-

**Notes to the Financial Statements** continued**26 Related Party Transactions** continued**(f) Guarantees**

No guarantees were given or received from related parties during the year.

**(g) Terms and conditions**

All transaction were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms or repayment of loans between the parties and that no interest is charged on outstanding balances.

## DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, are in accordance with the *Corporations Act 2001* and:
  - (a) comply with Accounting Standards which as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS) and;
  - (b) give a true and fair view of the financial position as at 31 December 2011 and of the performance for the year ended on that date of the Company and the consolidated entity.
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
3. The remuneration disclosures included on pages 20 to 22 of the directors' report (as part of audited Remuneration Report), for the year ended 31 December 2011, comply with section 300A of the *Corporations Act 2001*.
4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.
5. This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**John Dawkins AO**  
Chairman



**Michael Leu**  
Chief Executive Officer

Signed at Sydney  
29 March 2012

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF SOVEREIGN GOLD COMPANY LIMITED

#### Report on the Financial Report

We have audited the accompanying financial report of Sovereign Gold Company Limited (the company) and Sovereign Gold Company Limited and Controlled Entities (the consolidated entity) which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flow for the year ended on that date, a summary of significant accompanying policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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

#### Director's Responsibility for the Financial Report and the Remuneration Report contained in the Directors' Report

The Directors of Sovereign Gold Company Limited are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report comprising the financial statement and notes, complies with IFRS.

The Directors of the company are also responsible for the remuneration report contained in the Directors' Report in accordance with s300A of the Corporations Act 2001.

#### Auditor's Responsibility

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

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

## INDEPENDENT AUDITOR'S REPORT

### TO THE MEMBERS OF SOVEREIGN GOLD COMPANY LIMITED (Cont'd)

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

#### Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Sovereign Gold Company Limited would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

#### Auditor's Opinion

In our opinion:

- (a) the financial report of Sovereign Gold Company Limited and Sovereign Gold Company Limited and Controlled Entities is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2011 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
- (b) the financial report of the company and consolidated entity also comply with IFRS as disclosed in note 1.

#### Auditor's opinion on the Remuneration Report contained in the Directors' Report.

In our opinion, the remuneration disclosures that are contained on pages 20 to 22 of the Directors' Report comply with S300A of the Corporations Act 2001.

**KS Black & Co**  
**Chartered Accountants**



**Faizal Ajmat**  
**Partner**

Sydney, 29 March 2012

**SHAREHOLDER INFORMATION**

as at 29 February 2012

**A. DIRECTORS DIRECT AND INDIRECT SHAREHOLDINGS**

<b>DIRECTORS</b>	<b>DIRECT</b>	<b>INDIRECT</b>
Hon John Dawkins A.O.	Nil	100,000
Nicholas Raffan <sup>1</sup>	Nil	40,000,000
Michael Leu	4,875,000	Nil
Rado Jacob Rebek	Nil	Nil
Peter Meers	Nil	40,010,000
Qinjing Qiu	Nil	6,000,000

<sup>1</sup> Nicholas Raffan resigned from Sovereign Gold Company Limited on 4 January 2012.**B. SUBSTANTIAL SHAREHOLDERS**

	<b>No. of Shares</b>	<b>% of Shareholding</b>
Hudson Resources Limited	40,000,000	51.95

**C. DISTRIBUTION OF FULLY PAID ORDINARY SHARES****(i) Schedule of holdings**

<b>Range</b>	<b>Total Holders</b>	<b>Units</b>	<b>% of Issued Capital</b>
1 - 1,000	6	2,036	0.003%
1,001 - 5,000	24	68,301	0.089%
5,001 - 10,000	178	1,750,365	2.273%
10,001 - 100,000	118	4,499,189	5.843%
100,001 and above	25	70,680,109	91.792%
<b>Total</b>	<b>351</b>	<b>77,000,000</b>	<b>100.000%</b>

**(ii) Distribution schedule of holdings**

	<b>Minimum Parcel Size</b>	<b> Holders</b>	<b>Units</b>
Minimum \$ 500.00 parcel at \$ 0.29 per unit	2,000	10	8,061

**D. TWENTY LARGEST SHAREHOLDERS**

<b>Rank</b>	<b>Name</b>	<b>Units</b>	<b>% of Units</b>
1.	Hudson Resources Limited	40,000,000	51.95%
2.	Mr Li Ren	6,000,000	7.79%
3.	Michael Roby Leu	4,875,000	6.33%
4.	Russell Lay	4,816,670	6.26%
5.	Mr Geng Du Lou	4,000,000	5.19%
6.	Code Nominees Pty Ltd <Mata>	3,517,957	4.57%
7.	Raffles Capital Limited	1,600,000	2.08%
8.	Ms Nominees Pte Ltd	1,500,000	1.95%
9.	Hudson Corporate Limited	894,455	1.16%
10.	Mr Benjamin Amzalak	869,757	1.13%
11.	Mr Lip Koon Hwang	500,000	0.65%
12.	Phillip Securities Pte Ltd <Client Account>	286,270	0.37%
13.	Ms Ee Hwee Low	260,000	0.34%
14.	John Christopher Slade	250,000	0.32%
15.	Golds Book & Gift Co	200,000	0.26%
16.	Nefco Nominees Pty Ltd	179,000	0.23%
17.	Agressor Corporation Pty Ltd	150,000	0.19%
18.	Jian Hua Su	150,000	0.19%
19.	Yu Gan Chen	150,000	0.19%
20.	Komodo Investments Pty Limited <Lizard Invest Corp S/F AC>	125,000	0.16%
<b>Total</b>		<b>72,101,609</b>	<b>93.64%</b>
<b>Total Remaining Holders Balance</b>		<b>4,898,391</b>	<b>6.36%</b>
		<b>77,000,000</b>	<b>100.00%</b>

## SHAREHOLDER INFORMATION continued

**E. Unquoted Securities (other than options issued under an Employee Share Option Plan)**

Class	Exercise Price	Expiry Date	No. of Securities	No. of Holders	Name (where)	% held
Success Options	\$0.30	29-Nov-13	2,750,000	6	N/A	N/A

**Voting rights**

There are no restrictions on voting rights. On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote. Where a member holds shares which are not fully paid, the number of votes to which that member is entitled on a poll in respect of those part paid shares shall be that fraction of one vote which the amount paid up bears to the total issued price thereof. Option holders have no voting rights until the options are exercised.

Sovereign Gold Company Limited provides the following information with respect to the securities subject to escrow.

The escrow period in each case is 24 months from the date of Official Quotation of the Company's securities on the ASX.

All options are exercisable at 30 cents within 3 years from the date of quotation. All escrowed securities are unquoted.

HOLDER	Number of Securities	Type of Securities	Escrow Period
Hudson Resources Limited	40,000,000	Ordinary	24 months from the date of Official Quotation
LEU, Michael Roby	4,875,000	Ordinary	24 months from the date of Official Quotation
LEU, Michael Roby	750,000	ESOP	24 months from the date of Official Quotation
MEERS, Peter	500,000	ESOP	24 months from the date of Official Quotation
REBEK, Jacob	500,000	ESOP	24 months from the date of Official Quotation
DAWKINS AO, John	500,000	ESOP	24 months from the date of Official Quotation
Arotama Sdn Bhd	500,000	Success Options	24 months from the date of Official Quotation
JT Capital Pty Ltd	500,000	Success Options	24 months from the date of Official Quotation
Safico Sdn Bhd	500,000	Success Options	24 months from the date of Official Quotation
Sing Capital Pty Ltd	500,000	Success Options	24 months from the date of Official Quotation
Calibre Investments Pty Ltd	500,000	Success Options	24 months from the date of Official Quotation
Anything Communications Pty	250,000	Success Options	24 months from the date of Official Quotation

**TENEMENT HOLDINGS**

All tenements are 100% owned by Sovereign Gold Company Limited through its 100% owned subsidiaries as follows:

Tenement No.	Location	Square Kms	Registered Owner/ Applicant/ Assignee	% Interest
EL 7491	Uralla	300	Micksture Pty Ltd	100
EL 6483	Uralla	300	Biacil Holdings Pty Ltd	100
EL 7700	Uralla	300	Uralla Gold Pty Ltd	100
EL 7701	Uralla	300	Uralla Gold Pty Ltd	100
EL 7767	Murrumbateman	300	IRGS Southern Gold	100
EL 7766	Uralla	294	IRGS Northern Gold	100
EL 7768	Uralla	300	IRGS Northern Gold	100
EL 7769	Uralla	246	IRGS Northern Gold	100
EL 7770	Uralla	300	IRGS Northern Gold	100

**COMPLIANCE STATEMENT**

Statement under ASX Listing Rule 4.10.19

From the date of admission of the Company's shares on the ASX (3 December 2010) to the date of this Annual Report, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. Expenditures have been in line with Prospectus estimates.

**JORC CODE COMPLIANT PUBLIC REPORTS**

The Company advises that this Annual Report contains summaries of Exploration Results and Mineral Results as defined in the 2004 Edition of the 'Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves' ("JORC Code").

The following table references the location of the Code-compliant Public Reports or Public Reporting on which the summaries are based. This reference may be viewed on the ASX website.

17/11/2011	Confirmation of New Major Gold Bearing Structures
19/10/2011	Free Gold Discovered at Reedy Creek
28/09/2011	Early Success following Airborne Magnetic Survey
24/08/2011	Airborne Survey Completed Successfully
02/08/2011	Ibam Hills Gold Project Presentation
07/07/2011	Good gold grades - drilling update
28/06/2011	High Grade Gold Intercepts
20/06/2011	Goldsworth Mine Drilling Update
24/05/2011	SOC - 119 Metres Gold Intersection
11/05/2011	Successful First Pass Gold RC Program Completed
15/04/2011	Presentation by Chief Geologist
28/03/2011	New Target - Vickers 1 oz. Gold Source