

Gold

Southern Gold Limited
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Highlights

- **IPO raises \$4.0 million** and Southern Gold (ASX code: SAU) lists on the ASX in April.
- Immediately moved to build ground holding and uranium position after IPO period through joint ventures and pegging.
 - > **\$2.5 million Uranium Joint Venture** with Hindmarsh Resources Limited (HMR) for exploration for:
 - » Uranium only at Challenger West project
 - » Olympic Dam style targets on Southern Gawler Arc and Yarlbrinda projects
 - » SAU to earn into HMR's **Tallaringa uranium project**.
 - > **Acquisition of 35% interest in Yarlbrinda South uranium project** increases our uranium interests. SAU has option to earn 70% of project **covering uranium mineralised Narlaby palaeochannel** and IOCGU targets of the Olympic Dam style.
 - > Commenced a campaign of pegging Gawler Craton ground with IOCGU potential using SAU expertise and new ideas, establishing a very strong platform for aggressive exploration in coming year.
- Conducted exploration across all project areas in the Gawler Craton, NSW and WA.
 - > Further defined the Olympic Dam style Victory target at **Southern Gawler Arc** and gained **\$80,000 government PACE funding** to drill test the target for copper gold uranium early in October.
 - > Designed drill tests and gained another \$46,000 of PACE funding to investigate the shear-hosted gold and IOCGU targets at **Yarlbrinda**.
 - > RAB drilling program on the **Challenger West project** confirmed the prospectivity of the Garford target area including 24 m @ 0.1% copper and 8 m @ 0.1 grams per tonne (g/t) gold.
 - > At the Grenfell goldfield, mapped targets and negotiated access to undertake geophysical surveying of the Lawson's Line at **Grenfell Goldfield**.
 - > RAB drilling of the **Bulong South** project delineated the New West nickel target requiring EM definition.

Chairman's Report

Since listing on the ASX on 21 April 2005 your Company has significantly increased its tenement holdings on the highly-prospective Gawler Craton and has increased the tempo of exploration activities.

Ric Horn

Challenger West Garford drilling May 2005



Dear Shareholder

I am pleased to present the 2005 annual report of Southern Gold Limited (SAU) and to invite you to attend the Annual General Meeting of the Company to be held on 23 November 2005.

Since listing on the ASX on 21 April 2005 your Company has significantly increased its tenement holdings on the highly-prospective Gawler Craton and has increased the tempo of exploration activities. The revitalised mineral potential of South Australia has seen the mineral exploration industry gather momentum and your directors have actively pursued new prospects in key geological terrains.

The global demand for uranium has rapidly increased with a resultant upturn in the price of and exploration for the commodity. Australia has a unique opportunity to become the world's largest uranium producer. Your directors believe the world's energy generation industry will require serious adjustment to help provide clean energy to the world's developing nations and reduce greenhouse gas emissions to the atmosphere. At the same time the Australian community would benefit through the creation of employment, the provision of royalties, the establishment of new infrastructure and the sale of a valuable commodity.

With this in mind, your Company has expanded its primary focus from gold and base metals into the exploration for uranium in South Australia and is currently involved in exploring for iron oxide copper gold uranium deposits (IOCGU) with examples in the Gawler Craton such as Olympic Dam, Prominent Hill and the recent Carrapateena discovery as well as palaeochannel uranium deposits similar to Beverley and Honeymoon.

In South Australia we have a very supportive exploration and development environment provided by the State Government and your directors believe your Company is in a strong position to further develop an already existing uranium industry within the highly-prospective and under explored geological terrains of South Australia.

Southern Gold Limited has formed a subsidiary company, Southern Uranium Limited to manage the Company's uranium assets. Directors believe this will allow greater flexibility for the development and financing of the uranium projects.

Since listing, the management team has completed a drilling program at the Challenger West project which defined encouraging copper and gold mineralisation and a drilling program at the Bulong South project with promising

nickel and gold results. The team has also secured South Australian Government PACE funding (\$126,000) for the Olympic Dam style Victory gravity target to be drilled in October November 2005 and the Yarlrinda Shear Zone gold targets.

The directors are continuing to seek advanced projects and have held preliminary discussions with potential alliance partners to assist with the future development of our range of projects.

I take this opportunity to thank my fellow directors and staff for their dedication, motivation, and innovation throughout the year. Your Company is now well positioned for rapid growth and a bright future which will provide significant benefits to shareholders. I thank all shareholders for their continuing support and look forward to your attendance and meeting with you at our Annual General Meeting.

Yours faithfully

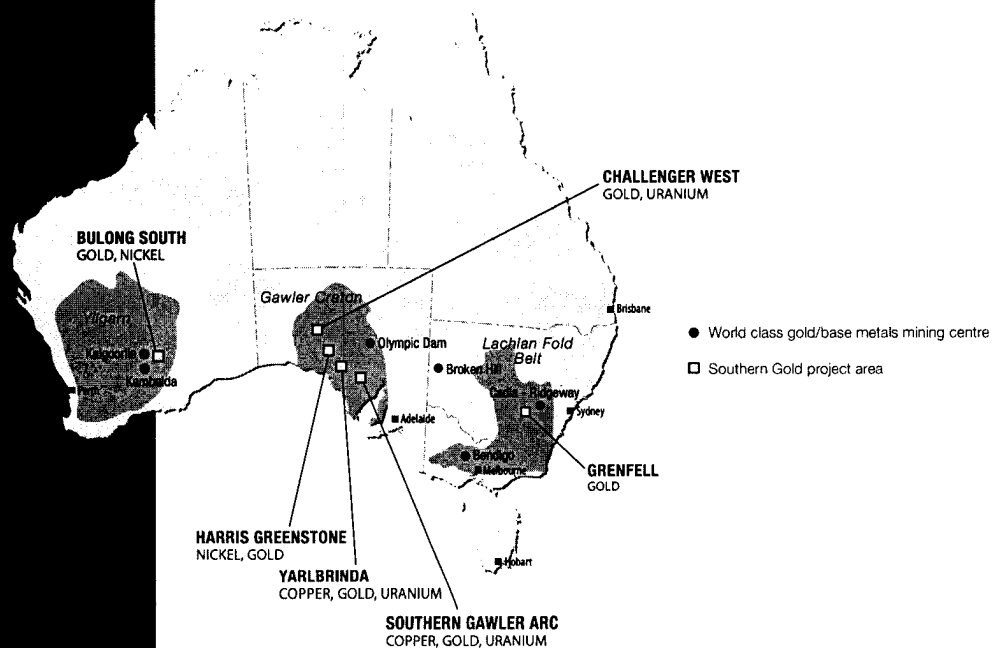


Ric Horn
Chairman

Stephen Biggins

Managing Director's Report

After listing in April, Southern Gold Limited completed two drilling programs, executed a \$2.5 million uranium joint venture, acquired an interest in Yarlbrinda South and made two new licence applications before the end of June 2005. The company will continue to aggressively increase its uranium interests through its subsidiary Southern Uranium and by trebling and exploring its granted tenement holdings.



CORPORATE ACTIVITY

Southern Uranium: Formation of a new Uranium Company

Southern Gold Limited formed a wholly-owned subsidiary, Southern Uranium Limited to house and manage Southern Gold's uranium only assets and related activities.

The new Company provides a vehicle dedicated to rapidly developing the uranium interests of Southern Gold Limited in order to capitalise on the current and forecast state of the world uranium market for the benefit of all Southern Gold Limited shareholders. Southern Uranium Ltd also enables greater flexibility for the development and financing of the uranium assets.

Assets and Location

Southern Uranium will have access to uranium interests in a number of tenements within the Company's 10,000 square kilometres (km) of tenements in the Gawler Craton in South Australia. This province houses the world's second largest

uranium mine, BHP Billiton's Olympic Dam Iron Oxide Copper Gold Uranium (IOCGU) deposit and hosts 38% of the world's uranium resources.

The Company's combined uranium assets in South Australia are both hardrock IOCGU targets similar to Olympic Dam and palaeochannel uranium targets similar to Paladin Resources Limited's Langer Heinrich deposit in Namibia. The tenements cover 2 established IOCGU "Olympic Dam" style targets at Victory and Westpoint and 5 additional targets awaiting further definition.

Importantly, these are within the same geological setting as Olympic Dam and show IOCGU target signatures, providing an excellent opportunity for the discovery of new uranium bearing deposits.

Southern Gold's tenements also cover over 250 km length of palaeochannels draining from the uranium-rich Gawler Craton. Preliminary exploration, abandoned largely due to political policies since the early 1980s, showed the palaeochannels in the Gawler Craton had the right processes and

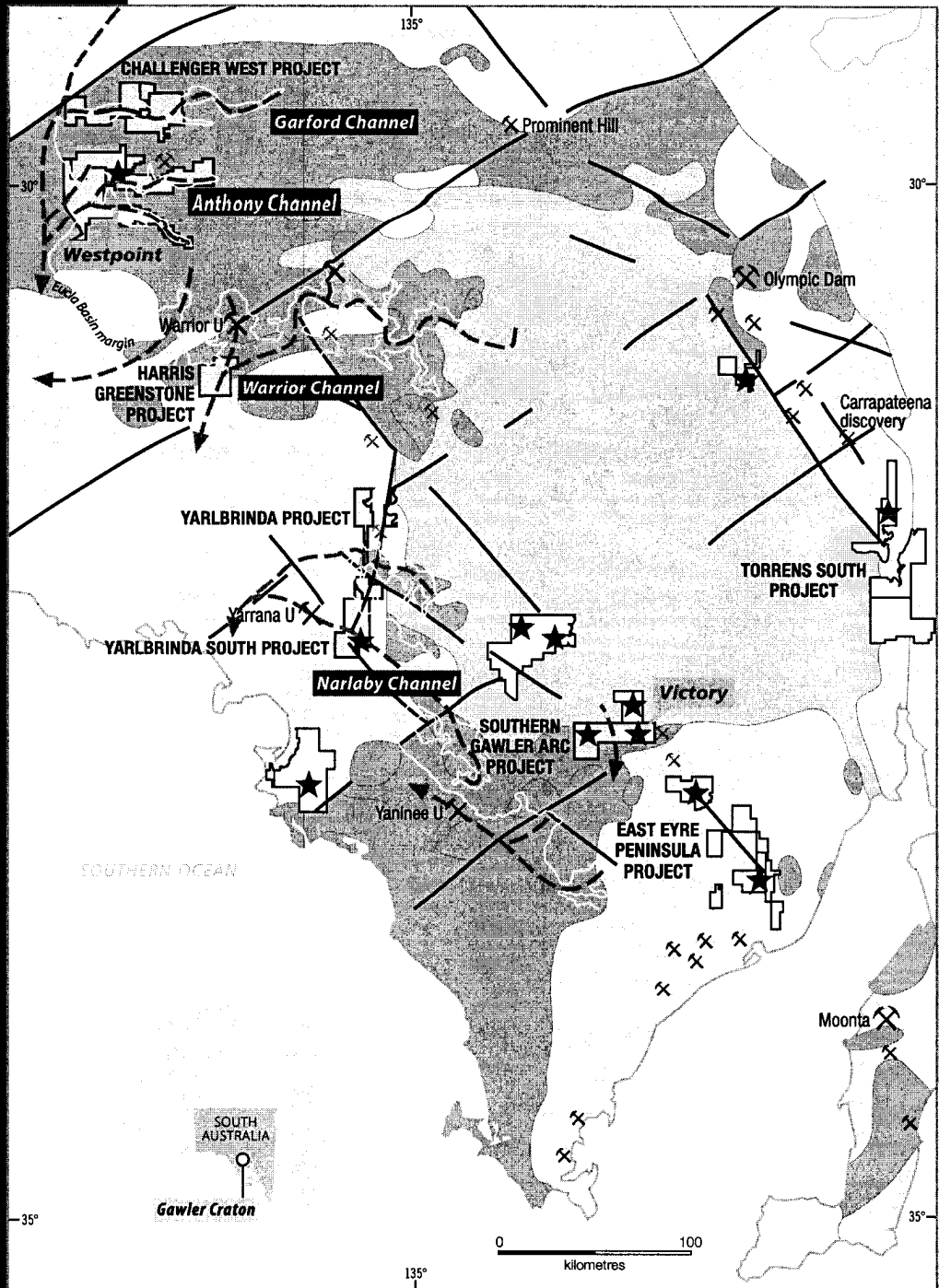
environments to form secondary uranium deposits like Beverley and Honeymoon in eastern South Australia.

South Australia and Uranium

Southern Gold identified an evolving opportunity to explore for and develop uranium resources in Australia. In particular, the State of South Australia has significant unexplored uranium potential and is demonstrating a greater preparedness to develop a uranium industry than other States in Australia. South Australia already hosts two of the three producing uranium mines in Australia. The State Government of South Australia currently provides incentives for exploration by junior explorers through the Plan for Accelerating Exploration (PACE) which includes acquisition and provision of geological, geochemical and geophysical data and subsidised exploratory drilling programs. Government support for South Australia's untapped mineral potential has already shown success through the recent Carrapateena IOCGU discovery intersected on a "greenfields" gravity target



Rotary airblast drilling at the Bilong South Prospect May 2005



SOUTH AUSTRALIA
Gawler Craton

- Gawler Range Volcanics
- Hiltaba Granite
- Proterozoic gneiss, granite
- Archaean gneiss, greenstone
- Major fault zone
- Iron oxide copper/gold/uranium mine, deposit
- Other gold/base metal deposit
- IOCGU target locations
- Paleochannels
- Paleochannel uranium deposit
- Other uranium occurrence
- Southern Gold and JV Exploration Licence
- Southern Gold and JV EL applications

SOUTH AUSTRALIA
GAWLER CRATON PROJECTS
Location Map

approximately 100 km from Olympic Dam on the Gawler Craton.

Southern Uranium will however also look for opportunities outside South Australia including where appropriate overseas.

The uranium market is currently being driven by growing world demand as a fuel for power generation.

There are a number of nuclear power stations under construction globally including in China which is planning to build 27 plants by 2020 and in India which is planning to build 17 plants by 2012, according to the Energy Bulletin.

\$2.5M Uranium Joint Venture

Southern Gold Limited executed a \$2.5 million joint venture package in April, to explore some of its uranium assets in South Australia with recently ASX listed Hindmarsh Resources Ltd (HMR).

Southern Gold has secured separate agreements for its uranium interests close to the Challenger gold mine, and on the Yarlbrinda and Southern Gawler Arc projects on the Gawler Craton. Southern Gold will manage and retain a majority holding in the Southern Gawler Arc and Yarlbrinda projects.

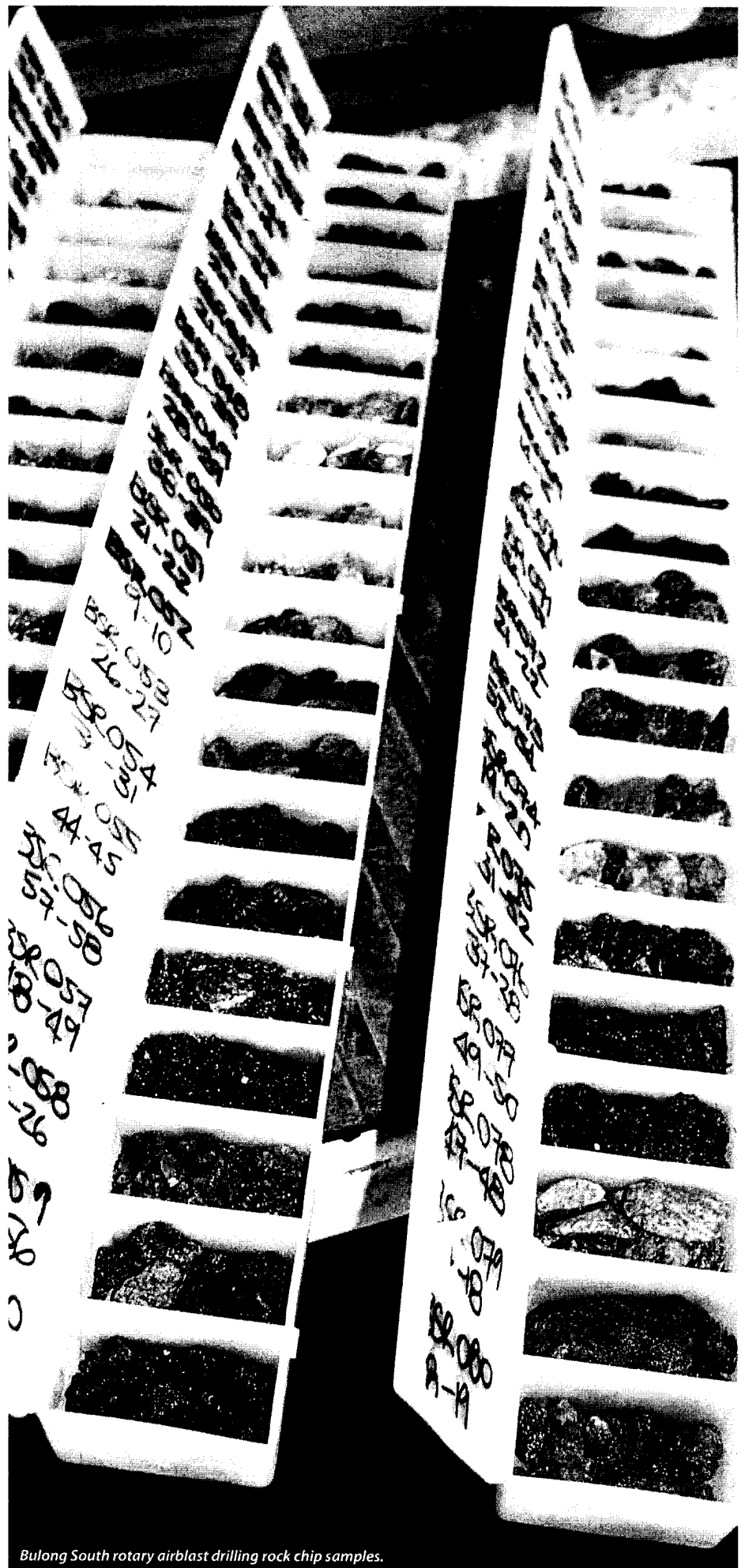
The joint ventures provide maximum exposure for the exploration, discovery and commercialisation of uranium deposits on the Gawler Craton, a province hosting 38% of the world's uranium.

\$126,000 PACE Funding approved

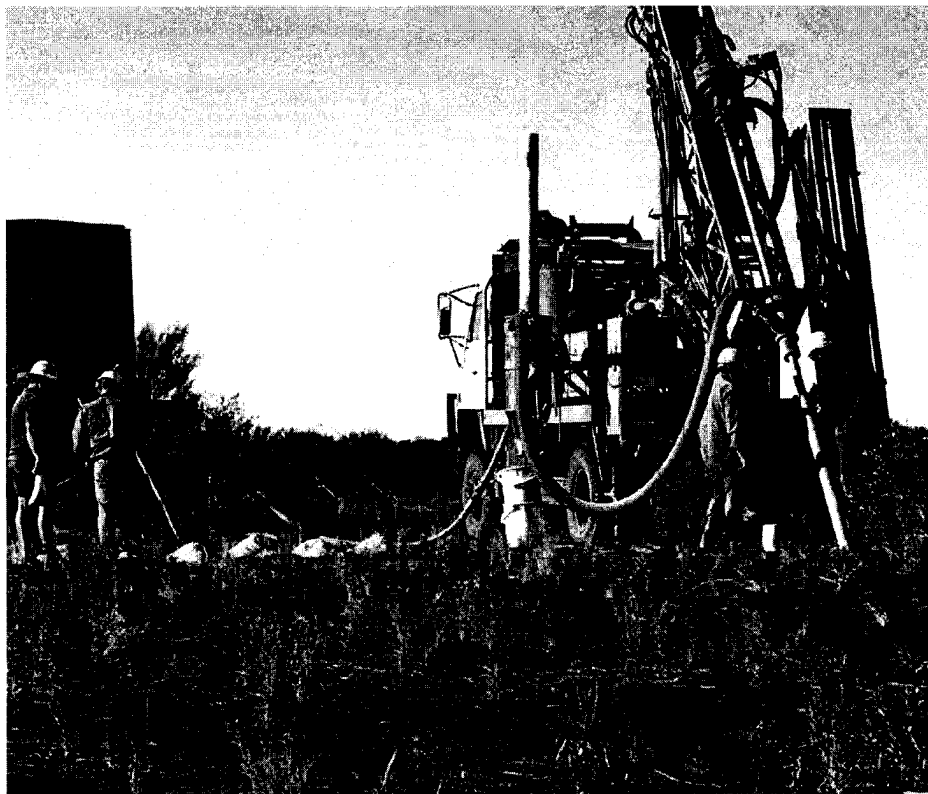
\$126,000 funding was approved in May to Southern Gold by the South Australian Government for drilling on the Southern Gawler Arc and Yarlbrinda projects.

In the first allocation, \$80,000 has been awarded for the drilling of the Olympic Dam style (copper, uranium, gold) gravity target at the Victory Prospect on the Southern Gawler Arc Project, EL 3158. Drilling of the Victory Gravity target is planned for October 2005.

Under a second allocation, \$46,000 has been awarded for the drilling of gold targets within the Yarlbrinda Shear Zone (YSZ) system on the Yarlbrinda (EL 3217) Project.



Bulong South rotary airblast drilling rock chip samples.



Challenger West Garford drilling May 2005

PROJECT ACTIVITIES

Southern Gold Limited moved its projects forward in South Australia, WA and goldfields in NSW as well as strengthening targets in the Gawler Craton whilst preparing palaeochannel uranium projects for testing through our Joint Venture with Hindmarsh Resources.

Challenger West Project

(EL3080, EL3097, EL3080, ELA199/05 and ELA96/05)

RAB Drilling

Significant gold and copper anomalism has been identified by Southern Gold Limited in its maiden exploration program adjacent to the Challenger gold mine in South Australia's far west.

3,827 metres of Rotary Air Blast drilling targeting gold and copper resources at the Company's Challenger West project on EL 3080 included investigation of the first 500 metres of the magnetic trend at Garford Prospect and encountered copper and gold anomalism along that entire length.

Results include 24 m @ 0.1% Cu including 8 m @ 0.1 g/t Au within a 100 m wide zone, averaging 0.1% Cu, coincident with the magnetic trend in rocks similar to Challenger. The additional 5 km of this magnetic structure awaiting exploration will be detailed with calcrete geochemistry to define further drill targets.

Uranium Joint Venture

HMR proposes to spend \$250,000 over the next two years on each of SAU's Challenger West project ELs 3080, 3097 and 3308 in far northwestern South Australia, in respect of uranium only. Drilling for uranium is proposed to start in the December quarter. Uranium mineralisation of 0.64 kg/t U₃O₈ has been identified within the 80 kilometres of ancient river beds (palaeochannels) covered by these tenements, which are known to be highly prospective for uranium deposits such as the Beverley and Honeymoon uranium projects which employ in-situ leach technology.

Bulong South RAB Drilling

(P25/1680, P25/1681 and PLA 25/1729)

Nickel and gold mineralisation has been intersected at Bulong South Project in WA. A programme of 126 vertical rotary airblast drillholes averaging 29 m depth and covering a 600 m by 2000 m area defined gold and nickel targets detected by previous nugget prospectors and gold explorers.

New West Nickel Prospect









The drilling delineated the New West Nickel Prospect as a 1200 m long by 250 m wide and northeast trending zone of ultramafics with a 500 m long core of weathered nickeliferous peridotite assaying up to 4 m @ 0.9% Ni (within 32 m @ 0.5% Ni). These results have very encouraging potential for deeper sulphide nickel resources similar to the Blair deposit being mined 15 km to the south.

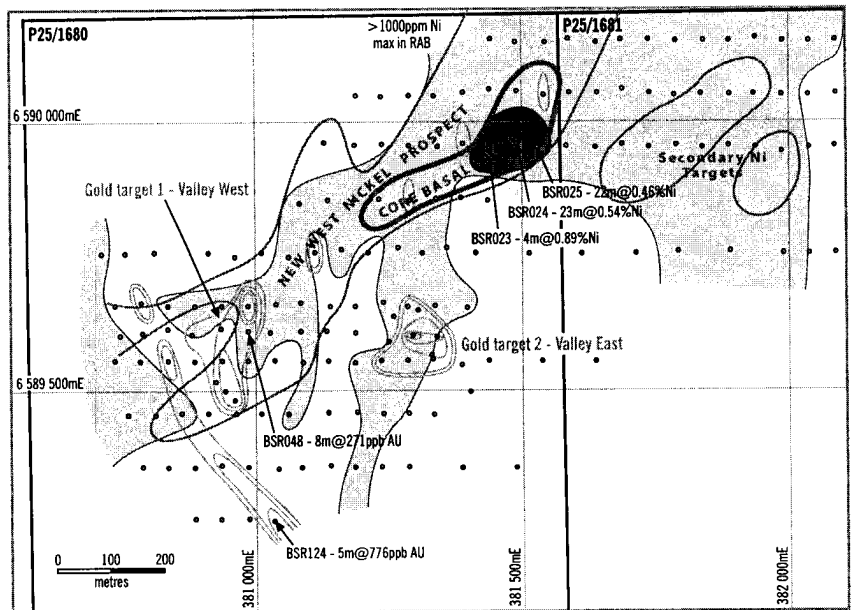
Valley Gold Prospect

The drilling also showed the Valley Gold Prospect comprises northwest gold-mineralised structures traversing the southern end of the ultramafic zone. Two targets were delineated as a 700 m long trend, open beyond the most southeastern intersection of 5 m @ 0.8 g/t Au in BSR124, which intersected gold anomalism from surface to the bottom of the hole.

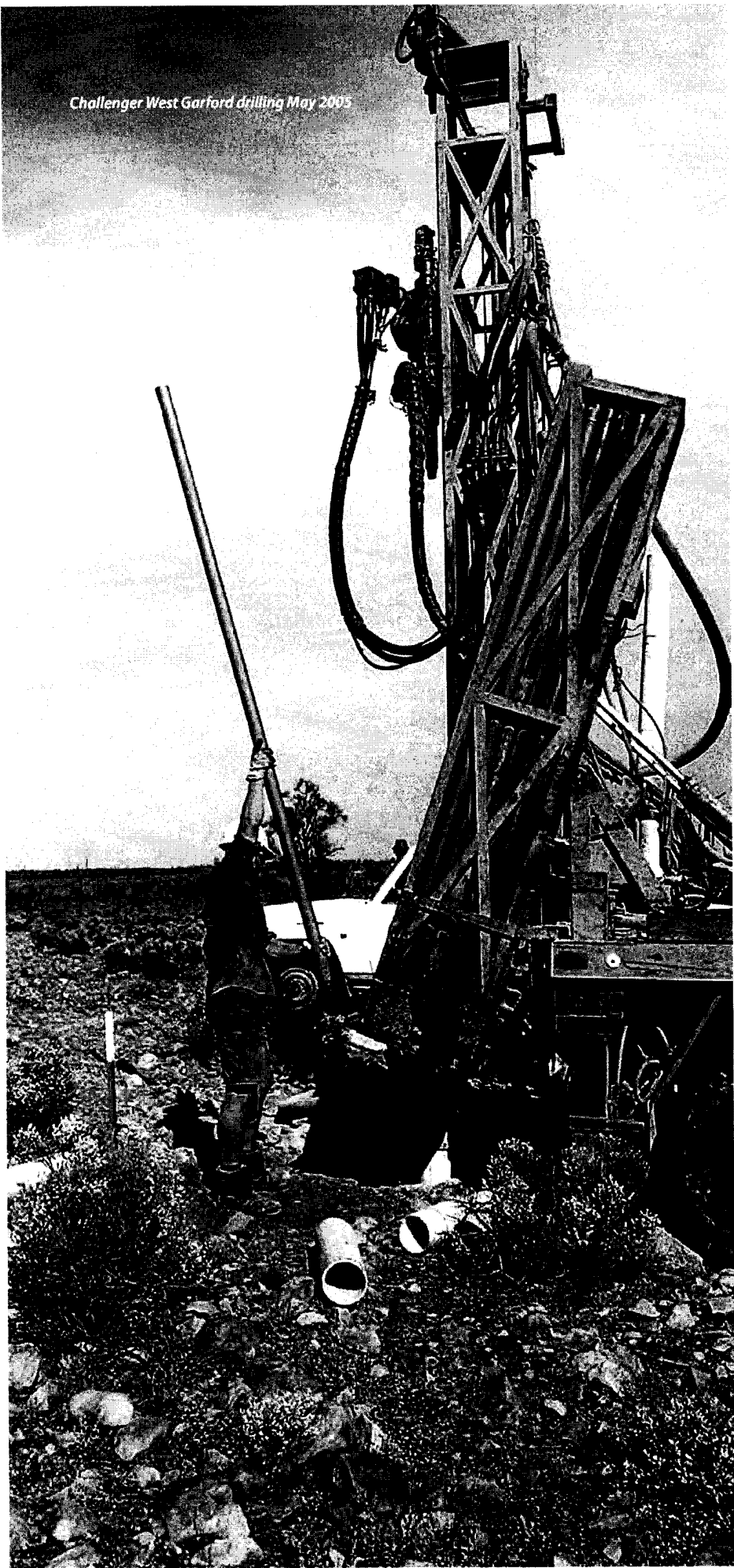
Also a broader zone was intersected by three holes over 100 m with a best intersection of 8 m @ 0.3 g/t Au. The association of the gold anomalism with intense silica alteration and arsenic anomalism supports these zones as priority bedrock gold targets.



-  Peridotite
-  Ultramafic
-  Basalt/high MgO basalt
-  Southern Gold RAB drill hole location
-  Previous RAB drill hole location
-  Gold contours (interval 50, 100, 500, 1000, 3000ppb Au)
-  Nickel contours
-  P25/1681 Southern Gold Licence area



WESTERN AUSTRALIA BULONG SOUTH PROJECT SUMMARY



**Southern Gawler Arc Project
(EL 3158)**

The Southern Gawler Arc project lies on the southern margin of the Gawler Range Volcanics on the Eyre Peninsula approximately 300 km North East of Adelaide. Southern Gold Limited generated a new prospectivity model for Olympic Dam style uranium-copper-gold deposits based on the Company's experience in the area and a review of available company exploration data.

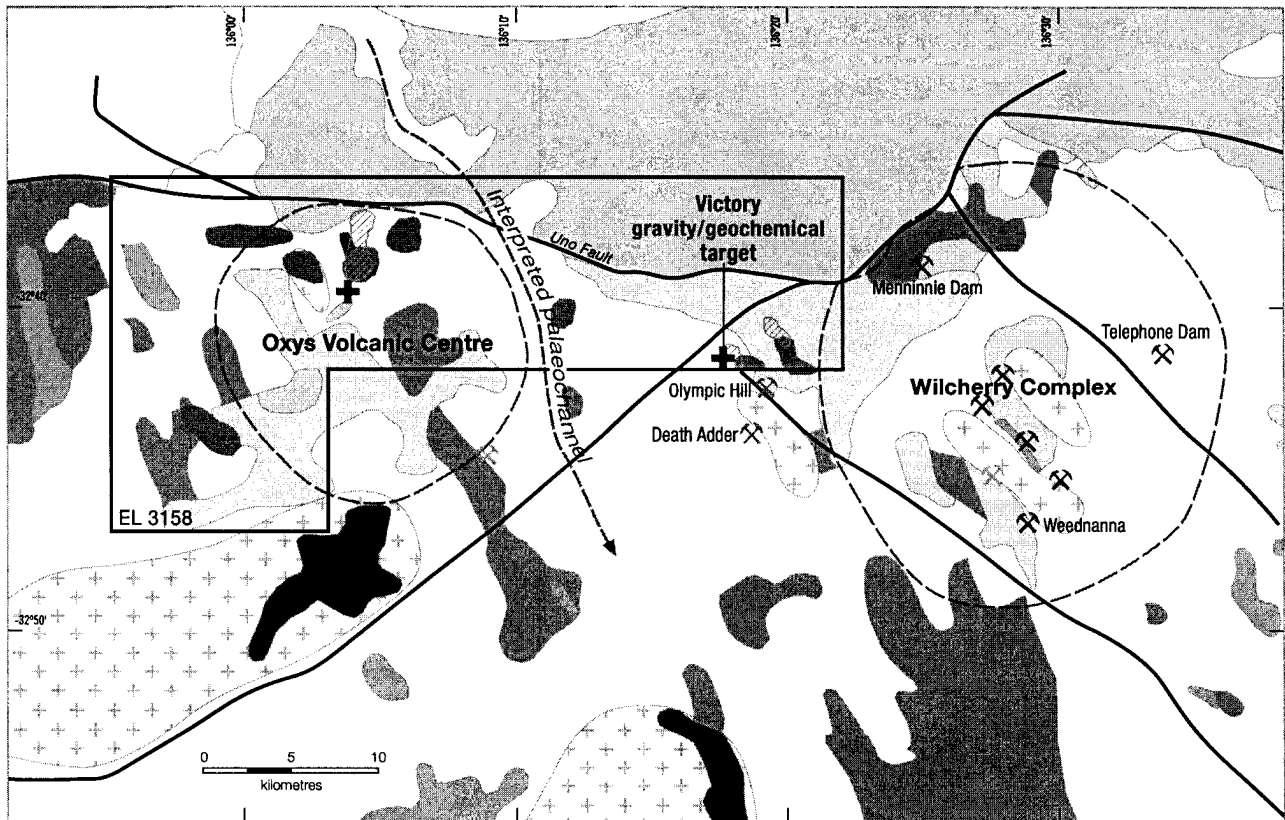
Importantly, the southern margin of the Gawler Craton is interpreted to have the same geological setting as the Olympic Dam area. The Victory target, within EL 3158, is located at a highly prospective geological position supported by minor hematite mineralisation in the nearest outcrop two kilometres distance.

Victory Gravity Target

Victory is a high priority Iron Oxide Copper Gold Uranium (IOCGU) "Olympic Dam style" target that has funding support from the State Government's Plan for Accelerated Exploration ("PACE") scheme. The 6 mgal gravity anomaly is similar to the signature of the recent Carrapateena IOCGU discovery.

Extensive geological, geophysical and geochemical work has characterized Victory as an Iron Oxide Copper Gold Uranium (IOCGU) "Olympic Dam" style target.

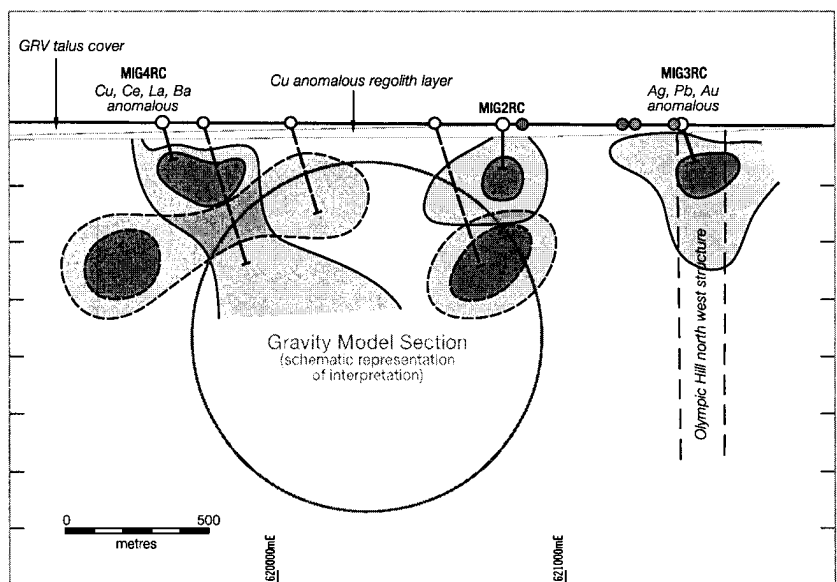
Three hole diamond drilling program to test the Victory gravity target in the Gawler Craton starting October 2005. This deep drilling program will be jointly funded by Joint Venture partners Southern Gold Limited and Hindmarsh Resources Ltd (earning 25%) and is supported by \$80,000 of Government PACE funding.



**SOUTH AUSTRALIA
SOUTHERN GAWLER ARC PROJECT
Location Plan**

- Cainozoic cover
- Mesoproterozoic**
- Interpreted Hiltaba Suite subcrop
- Hiltaba Suite Granite
- Rhyolite breccia
- Upper Gawler Range Volcanics
- Younger sequence of Lower Gawler Range Volcanics
- Older sequence of Lower Gawler Range Volcanics
- Palaeoproterozoic**
- Banded Iron Formation
- Warrow Quartzite
- Lincoln Complex
- Archaean**
- Sleaford Complex
- Fault
- Victory gravity target
- Nankivel epithermal target
- Calcrete gold anomaly
- Calcrete copper anomaly
- Gold - copper skarn prospect
- Lead - zinc - silver prospect
- Copper prospect
- Gold - base metal prospect

**SOUTH AUSTRALIA
VICTORY DAM PROSPECT
Geophysics and drilling section**



- Transported cover
- Cu anomalous regolith layer
- Calcrete anomalies**
- Cu ≥ 15ppm
- Au ≥ 3ppb
- Chargeability targets (inversion model after MIM)**
- Traverse 1600N
- Traverse 2400N (projected)
- MIM drill hole
- Proposed drill hole



Geologist John Howard logging samples at the Challenger West Garford drilling May 2005

Yarbrinda Project (EL 3217)

SAU and joint venture partner Hindmarsh Resources have agreed to conduct assessment of new gravity data and detailed airborne magnetics and radiometrics and targeted calcrete surveys on SAU's Yarbrinda project (EL 3217). New gravity survey data has just been released on these tenements by PIRSA, which may produce additional Olympic Dam style gravity targets.

Three radiometric anomalies have been identified at the Yarbrinda Project. The three radiometric anomalies cover a total area of 4 square kilometres (km) and are located near modern palaeochannel-type drainage systems draining off the nearby hot Hiltaba Granites and the uranium-rich Gawler Craton.

The close relationship between the uranium radiometric anomalies and the likely Hiltaba Granite associated uranium source provides a good model for targeting the uranium enriching processes in this area.

Yarbrinda South Project (EL3160)

SAU has added to its uranium exploration portfolio with the acquisition of an interest in the Yarbrinda South licence in far west South Australia. Southern Gold has acquired 35% of the 470 km² Yarbrinda South Project (EL 3160) and has the right to earn up to 70% of the project .

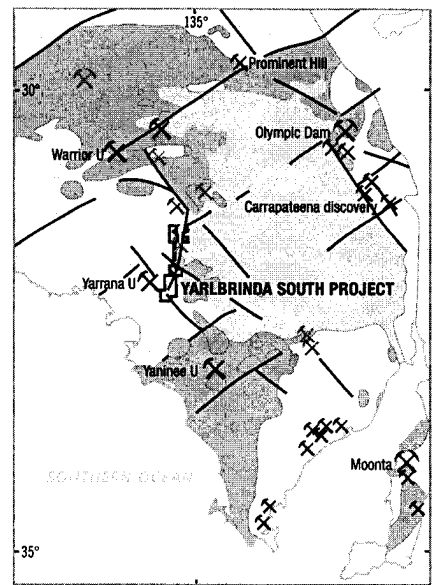
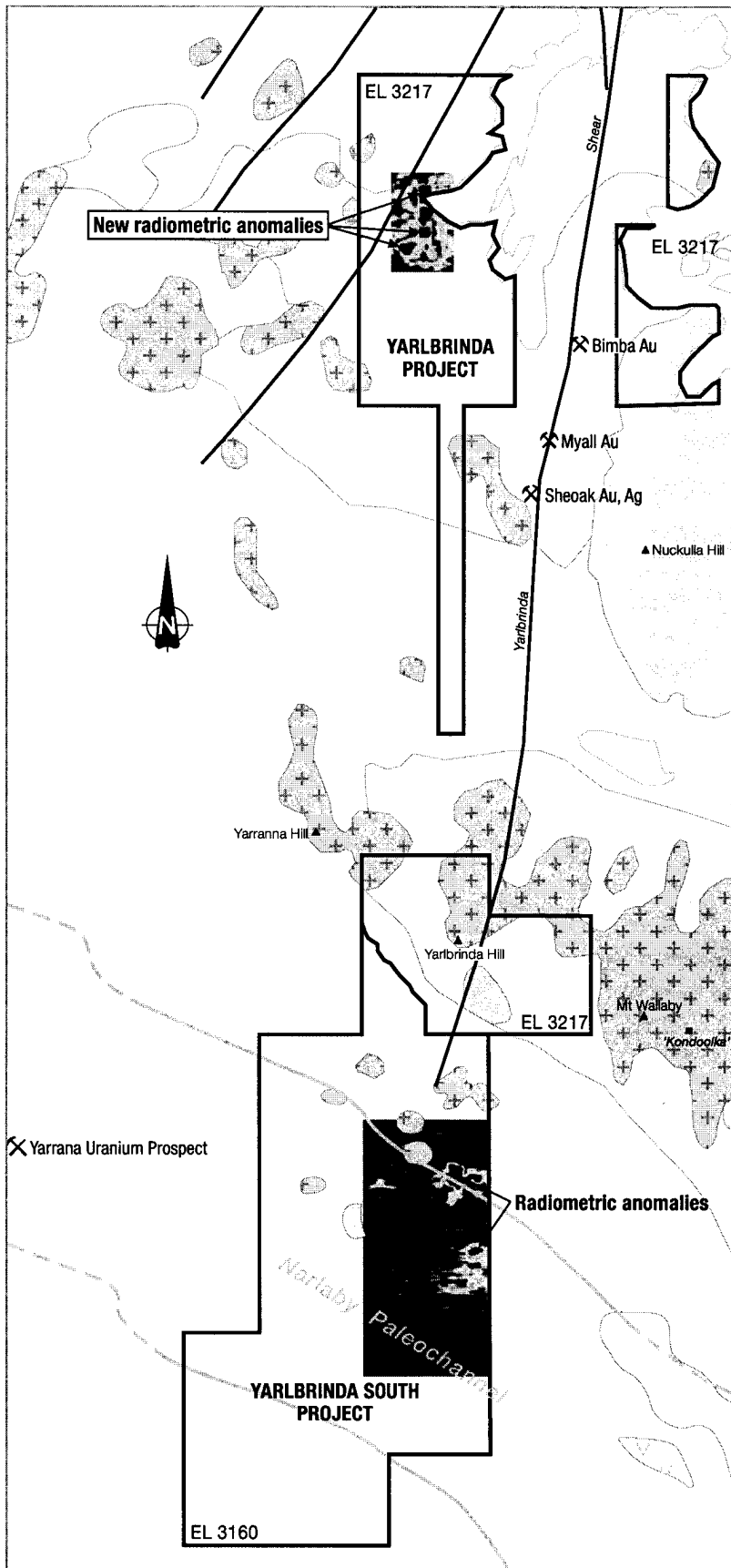
The newly acquired licence area also includes the uranium mineralised Narlaby Palaeochannel that drains off the nearby uranium rich Hiltaba granites.

Two large radiometric anomalies have been identified at the Yarbrinda South Project. The assessment by Southern Uranium of an airborne radiometric survey returned readings up to 30 times uranium background indicating the presence of uranium bearing mineralisation.

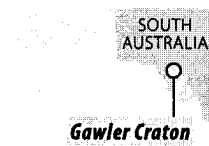
The two radiometric anomalies cover a total area of 9 square kilometres (km) and overlie the major Narlaby palaeochannel system (see attached map) draining off the uranium-rich Gawler Craton.

These radiometric anomalies are located approximately 25 km upstream from the known Yarranna uranium deposit that is also within the Narlaby palaeochannel.

Ground radiometric and surface sampling surveys are planned for September 2005.

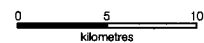


Gawler Craton



- Quaternary**
- Aeolian sediments
- Alluvial/fluvial sediments
- Mesoproterozoic**
- Hiltaba Suite Granite
- Lower Gawler Range Volcanics
- Major fault, interpreted from geophysics
- Inferred fault, interpreted from geophysics
- Gold prospect
- Uranium deposit
- Lake
- Southern Gold Exploration Licence

SOUTH AUSTRALIA
YARBRINDA SOUTH PROJECT
Yarbrinda and Yarbrinda South
Location Map



Grenfell Goldfield Project

(EL 6122)

Southern Gold's EL 6122 covers an area of approximately 250 square kilometres surrounding the town of Grenfell, including the historic Grenfell goldfield about 380 km west of Sydney, in Central Western New South Wales.

The Grenfell Goldfield is one of the significant historic goldfields in New South Wales. It was discovered in 1865 with an ensuing rush. Most of the mining was undertaken before official records were kept from 1875, however Gold Escort records show that at least 10 tonnes (320,000 oz) of gold was produced from the field.

The Grenfell Goldfield lies within the triangle containing the large Cowal, Northparkes and Cadia porphyry gold mines.

Lawson's Line Targets

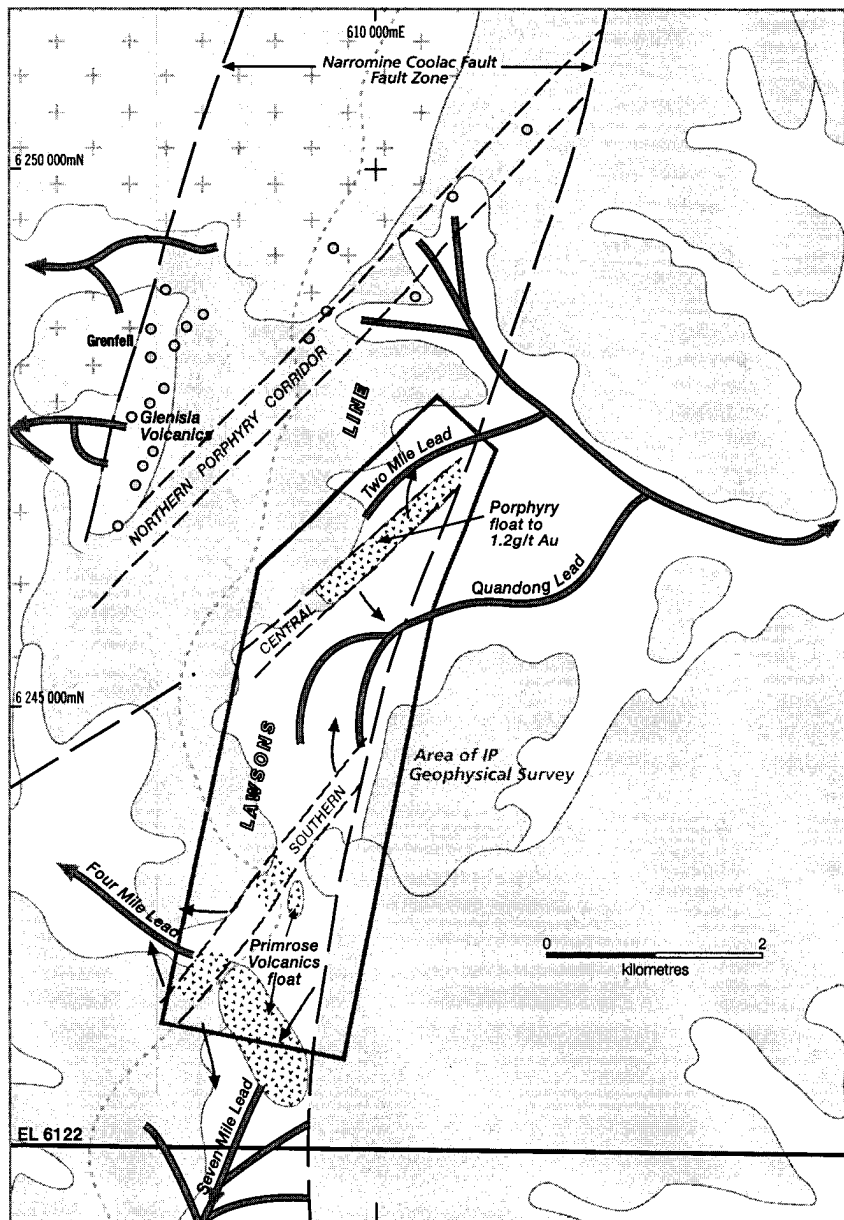
Southern Gold's mapping of subtle outcrop and float in farmland has delineated extensive volcanics (Primrose Volcanics), possible hydrothermal breccias and mineralized intrusive quartz porphyries in the headwaters to the alluvial leads. The porphyry float assays up to 1.2 g/t gold. Southern Gold Ltd is advancing the development of its Lawson's Line gold targets located 3 km from Grenfell with the commencement of Induced Polarisation (IP) geophysical surveys.

IP Surveying

IP surveys are an effective surface electrical geophysical surveying process in mapping the presence of sulphides which are associated with gold mineralisation in porphyry hosted gold deposits like Newcrest's Cadia Mine. The technique is particularly useful for mapping the shallow target potential under the thin cover of the Lawson's Line.

A geophysical contractor will be surveying Lawson's Line during September. Twelve kilometres of survey lines are planned to be conducted during a two week period.

Gold targets identified by the IP surveys will be drilled by Southern Gold toward the end of 2005.

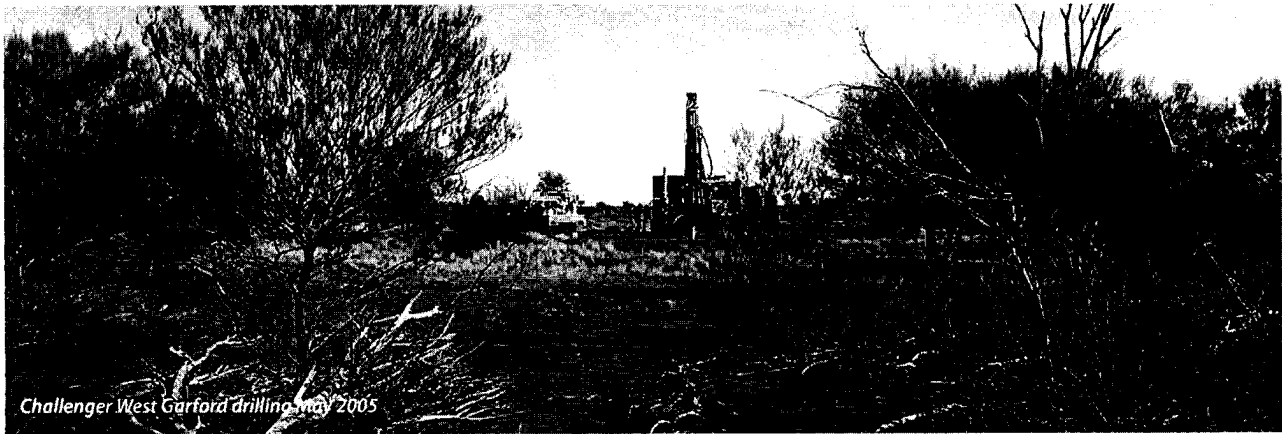


	Devonian granite		Hardrock gold mines
	Siluro-Devonian sediment		Historical alluvial lead
	Glenisla Volcanics		Interpreted porphyry corridor
	Ordovician sediment		Dispersion direction from hardrock targets to alluvial leads
	Altered and mineralised porphyry float		Interpreted fault
			Principal drainage divide

GRENFELL - NEW SOUTH WALES LAWSON'S LINE PROJECT

Summary Plan





Harris Greenstone Project

EL 3284 covers 321 square kilometres of highly prospective nickel and gold terrain at the west end of the Harris Greenstone Belt. During the last decade, PIRSA geologists demonstrated a similar Archaean geology and age to the komatiite-basalt greenstone belts of the Kalgoorlie–Kambalda area. The project area is poorly exposed and under-explored for nickel copper deposits and gold deposits of the Eastern Goldfields styles.

The project is located near rail infrastructure and the nickel exploration projects of major companies. The tenement lies within the Yellabinna Regional Reserve. The exploration licence is subject to dual proclamation conditions with prescribed procedures for environmental management.

Southern Gold proposes to conduct detailed airborne EM surveys and detailed magnetic and radiometric geophysical surveys during 2006.

New Projects and Exploration Licence Applications

The Southern Gold Ltd (SAU) group announced (01/09/2005) interest in 10,000 km² of exploration licences and exploration licence applications in one of the world's richest uranium provinces, the Gawler Craton in South Australia.

SAU has extended its granted licence interests by more than 2000 km² through acquisition and joint ventures since SAU listed in April. In addition, 5000 km² of

exploration licence applications have been lodged since May based on strategic geological and identified geophysical targets some of which were highlighted in PIRSA's new gravity surveys.

The Company's combined assets in South Australia are both hardrock Iron Oxide Copper Gold Uranium (IOCGU) targets and palaeochannel uranium targets.

Targeting Strategy and Tenement Position

Eight additional tenements have been applied for by SAU over priority IOCGU and palaeochannel uranium targets within the highly prospective Gawler Craton (refer map, page 6). The new applications will double Southern Gold's current holding of about 5,000 sq km of granted exploration licences.

Southern Gold has identified the new areas with uranium potential by using its extensive South Australian expertise, re-analysis of past curtailed palaeochannel exploration and new targeting insights for IOCGU deposits developed from the recent Prominent Hill and Carrapateena discoveries. The recent Carrapateena discovery by RMG Services Pty Ltd and a recent gravity survey by the State Government has revitalized interest in gravity targeting for IOCGU deposits.

Southern Gold has taken a lead position in evaluating the PIRSA and regional gravity data to pinpoint potential IOCGU targets in prospective geological areas. The company aims to maximise the opportunities for

discovery success by testing a pipeline of these priority targets.

SAU's tenements now cover 6 deposit centres including established IOCGU targets at Victory and Westpoint and at least nine additional new IOCGU "Olympic Dam" style gravity targets (refer map, page 6) providing an excellent opportunity for the discovery of new uranium bearing deposits.

Eastern Eyre Peninsula Project - ELA 256/05 and ELA 309/05

In addition to the Southern Gawler Arc EL 3158, Southern Gold has applied for 950 sq km of exploration licences during June 2005 over key target areas with uranium, base metal and gold potential in eastern Eyre Peninsula.

The primary targets are gravity anomalies with Olympic Dam-style potential within the interpreted corridor of Hiltaba source granites and mineralisation extending from Moonta through the Menninnie Dam–Victory area then on to Tunkillia and Tarcoola. This corridor is analogous to the other major NW structure associated with the Olympic Dam, Prominent Hill and Carrapateena deposits.

Gravity anomalies have been identified in the ideal geological settings from recent PIRSA and exploration work and pegged with ELAs.

There is also potential near the Charleston Granite for vein and secondary uranium along the northeast structures and in palaeochannels indicated by salt lakes that are reportedly uranium anomalous.

Tenement Schedule

Tenement No	Tenement Name	Registered Holder	Area (sq km)	Application/ Grant Date	Expiry Date	Annual Expenditure Commitment \$	Comments
SOUTH AUSTRALIA							
EL 3080	Challenger West	Challenger West Holdings Pty Ltd (80%), CMH Resources Pty Ltd (20%)	497	4/30/03	4/29/06	160,00 (2 yrs)	
EL 3097	Challenger West	Challenger West Holdings Pty Ltd (80%), CMH Resources Pty Ltd (20%)	496	6/12/03	6/11/06	160,00 (2 yrs)	
EL 3158	Southern Gawler Arc	Gawler Arc Holdings Pty Ltd	583	1/20/04	1/19/06	85,000	
EL 3284	Harris Greenstone	Challenger West Holdings Pty Ltd	321	12/2/04	12/1/05	60,000	
EL 3217	Yaribrinda	Southern Gold Ltd	372	7/12/04	7/11/05	65,000	
EL 3308	Challenger West	Southern Gold Ltd	517	2/17/05	2/16/06	80,000	
EL 3160	Yaribrinda South	Ian Garsed 70%), Southern Gold Ltd (30%)	470	1/20/04	1/19/06	75,000	
EL 3395	Tallaringa South	Hindmarsh Resources Ltd	990	15/8/05	14/8/06		
EL 3396	Tallaringa South	Hindmarsh Resources Ltd	505	15/8/05	14/8/06		
ELA 256/05	Lake Gilles	Southern Gold Limited	672	5/18/05			
ELA 309/05	Moonabie	Southern Gold Limited	402	6/28/05			
WESTERN AUSTRALIA							
P25/1680	Bulong South	Southern Gold Ltd	200 ha	2/8/01	2/7/05	8,000	Application M25/333
P25/1681	Bulong South	Southern Gold Ltd	200 ha	2/8/01	2/7/05	8,000	Application M25/333
P25/1729	Bulong South	Colin Douglas Zappelli	54 ha	1/16/02			
NEW SOUTH WALES							
EL 6122	Grenfell	Donald John Perkin, Minexchange Pty Ltd	84 units (~250 sq km)	9/1/03	8/31/05	62,000	Renewal pending

Corporate Governance Statement

In March 2003 the Australian Stock Exchange Corporate Governance Council ("ASXCGC") released its best practice recommendations based on ten core principles for corporate governance. These recommendations were not intended to be prescriptions to be followed by all ASX listed companies, but rather guidelines designed to produce an efficiency, quality or integrity outcome. The Corporate Governance Council has recognised that a "one size fits all" approach to Corporate Governance is not required. Instead, it states aspirations of best practice for optimising corporate performance and accountability in the interests of shareholders and the broader economy. A company may consider that a recommendation is not appropriate to its particular circumstances and has flexibility to not adopt it and explain why.

Southern Gold Limited to date has not adopted the ASXCGC best practice recommendations other than those specifically identified and disclosed below because the Board believes that it cannot justify the necessary cost given the size and early stage of its life as a listed exploration company. However the Board is committed to ensuring that appropriate Corporate Governance practices are in place for the proper direction and management of the Company.

This statement outlines the main Corporate Governance practices of the Company disclosed under the principles outlined in the ASXCGC including those that comply with best practice that, unless otherwise disclosed, were in place during the whole of the financial year ended 30 June 2005.

Principle 1: Lay solid foundations for management and oversight

Role of the Board

The Board is governed by the Corporations Act 2001, ASX listing rules and a formal constitution. The Board's primary role is the protection and enhancement of shareholder value.

The Board takes responsibility for the overall Corporate Governance of the Company including its strategic direction, management goal setting and monitoring, internal risk control, risk management and financial reporting.

Board processes and management

The Board has an established framework for the management of the company including a system

of internal control, a business risk management process and appropriate ethical standards. To assist in the execution of its responsibilities, the Board has an Audit Committee to deal with internal control, ethical standards and financial reporting.

The Board appoints a Managing Director with responsibility for the day to day management of the Company including management of financial, physical, and human resources, development and implementation of risk management, internal control and regulatory compliance policies and procedures, recommending strategic direction and planning for the operations of the business and the provision of relevant information to the Board.

Principle 2: Structure the Board to add value

Composition of the Board

The names of the directors of the Company and terms in office at the date of this Statement together with their experience and expertise are set out in the Directors' Report section of this report. The directors' terms in office are considered appropriate in view of the fact that the company listed in April 2005.

The composition of the Board consists of five directors of whom four, including the Chairman, are non-executives. Mr Horn's role as Chairman of the Board is separate from that of the managing Director, Mr Biggins who is responsible for the day to day management of the Company and is in compliance with the ASXCGC best practice recommendation that these roles not be exercised by the same individual.

The Company's constitution stipulated that the number of directors must be at least three and no more than ten. The Board may at any time appoint a director to fill a casual vacancy. Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Managing Director) are subject to re-election at least every three years. The tenure for executive directors is linked to their holding of executive office.

Formal deeds have been entered into by the Company with directors whereby all directors are entitled to take such legal advice as they require at any time, and from time to time, on any matter concerning or in relation to their rights, duties, and obligations as directors in relation to the affairs of the Company.

Principle 3: Promote ethical and responsible decision making

Ethical standards

The Company aims for a high standard of corporate governance and ethical standard by directors and employees.

All directors are required to provide the Company with details of all securities registered in the director's name or an entity in which the director has a relevant interest within the meaning of section 9 of the Corporations Act 2001 and details of all contracts, other than contracts to which the Company is a party to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with section 195 of the Corporations Act 2001, a director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

Trading in the Company's Securities

Directors, officers and employees are not permitted to trade in securities of the Company at any time whilst in possession of price sensitive information not readily available to the market. Section 1043A of the Corporations Act 2001 also prohibits the acquisition and disposal of securities where a person possesses information that is not readily available and which may reasonably be expected to have a material effect on the price of the securities if the information was generally available.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

Southern Gold Limited was not a Company required by ASX Listing Rule 12.7 to have an Audit Committee during the year, although it is a best practice recommendation of the ASXCGC. Notwithstanding the Listing Rule requirement, Southern Gold has an Audit Committee to oversee the Company's internal controls, ethical standards, financial reporting, and external accounting and compliance procedures. The committee currently consists

of three non-executive Board directors, Messrs Horn, Anderson, and McDonald, and is chaired by Mr Horn.

The main responsibilities of the audit committee are:

- Monitor the integrity of the financial statements of the Company and review significant financial reporting changes.
- Review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems.
- Make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The Committee is to meet at least twice a year, with further meetings on an as required basis. The Committee has authority to investigate any activity within its terms of reference or any matter specifically requested by the Board. The Committee has unrestricted access to all records and staff of the Company including full access to the external auditors. The Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Committee.

Principle 5: Make timely and balanced disclosure

Continuous Disclosure

The Company operates under the continuous disclosure requirements of the ASX Listing Rules and ensures that all information, apart from information which is confidential, and ASX has not formed the view that the information has ceased to be confidential, which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to material information concerning the Company. This information is made publicly available on the Company's website following release to the ASX

Principle 6: Respect the rights of shareholders

Communication with shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. In accordance with the ASXCGC best practice recommendations,

information is communicated to shareholders as follows:

- The annual financial report which includes relevant information about the operations of the Company during the year, changes in the state of affairs of the entity and details of future developments, in addition to other disclosures required by the Corporations Act 2001;
- The half yearly financial report lodged with the Australian Stock Exchange and Australian Securities and Investments Commission and sent to all shareholders who request it;
- Notifications relating to any proposed major changes in the Company which may impact on share ownership rights that are submitted to a vote of shareholders;
- Notices of all meetings of shareholders;
- Publicly released documents including the full text of notices of meetings and explanatory material made available on the Company's internet web-site at www.southerngold.com.au; and
- Disclosure of the Company's Corporate Governance practices and communications strategy on the internet web-site.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor of the Company is also invited to the Annual General Meeting of shareholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report. Pursuant to Section 249K of the Corporations Act 2001 the external auditor is provided with a copy of the notice of meeting and related communications received by shareholders.

Principle 7: Recognise and manage risk

Risk Assessment and Management

The Board recognises that there are inherent risks associated with the Company's operations including mineral exploration, environmental, title, native title, legal, and other operational risks. The Board endeavours to mitigate such risks by continually reviewing the activities of the Company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed.

Principle 8: Encourage enhanced performance

Performance Evaluation

The Board evaluates the performance of the Managing Director on a regular basis and encourages continuing professional development.

Principle 9: Remunerate fairly and responsibly

Remuneration Policy

The Company's Constitution specifies that the total amount of remuneration of non-executive directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of non-executive directors is set at \$200,000 per annum. Directors may apportion any amount up to this maximum amount amongst the non-executive directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as directors.

The remuneration of the Managing Director is determined by the Board as part of the terms and conditions of his employment which are subject to review from time to time. The remuneration of employees is determined by the Managing Director subject to the approval of the Board

Further details of directors' and executives/officers' remuneration, superannuation and retirement payments are set out in the Directors' Report.

Principle 10: Recognise the legitimate interests of stakeholders

Code of Conduct

The Company requires all its directors and employees to abide by the highest standards of behaviour, business ethics, and in accordance with the law. In discharging their duties, Directors of the Company are required to:

- Act in good faith and in the best interests of the Company;
- Exercise care and diligence that a reasonable person in that role would exercise;
- Exercise their powers in good faith for a proper purpose and in the best interests of the Company;
- Not improperly use their position or information obtained through their position to gain a personal advantage or for the advantage of another person to the detriment of the Company;
- Disclose material personal interests and avoid actual or potential conflicts of interests;
- Keep themselves informed of relevant Company matters;
- Keep confidential the business of all directors meetings; and

Observe and support the Board's Corporate Governance practices and procedures.



Financial Statements

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Directors Report

The directors present this annual financial report of Southern Gold Limited for the financial year ended 30 June 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Principal Activities

The principal continuing activity of the consolidated entity is the exploration for gold, copper, uranium, nickel, and other economic mineral deposits.

Financial Results

The net result of operations for the year was a loss after income tax of \$195,033 (2004:\$38,439)

Dividends

No dividends were paid or declared since the start of the financial year, and the directors do not recommend the payment of dividends in respect of the financial year.

Review of Operations

During the year the consolidated entity carried out exploration on its tenements and applied for or acquired additional tenements with the objective of identifying gold, copper, nickel, uranium and other economic mineral deposits.

Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

Subsequent Events

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Environmental Developments

The consolidated entity carries out exploration activities on its properties in South Australia. No mining activity has been conducted by the consolidated entity on its properties.

The consolidated entity's exploration operations are subject to environmental regulations under the various laws of South Australia and the Commonwealth. While its exploration activities to date have had a low level of environmental impact, the consolidated entity has adopted a best practice approach in satisfaction of the regulations of relevant government authorities.

Future Developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Options

At the date of this report, the unissued ordinary shares of Southern Gold Limited under option are as follows

Grant Date	Date of Expiry	Exercise Price	Number under Option
2.1.2004	31.12.2007	0.20	2,500,000
20.1.2004	31.12.2007	0.20	250,000
30.1.2004	31.12.2007	0.20	450,000
10.2.2004	31.12.2007	0.20	739,500
2.1.3004	31.12.2007	0.20	250,000
10.3.2004	31.12.2007	0.20	400,000
10.11.2004	31.12.2007	0.20	3,078,900
31.3.2005	31.3.2008	0.20	150,000
20.4.2005	31.3.2007	0.20	9,990,003
20.4.2005	31.3.2007	0.20	1,500,000
1.6.2005	1.6.2008	0.20	350,000
			19,658,403

Directors

The names and details of the directors of the company during or since the end of the financial year are:

Ric Horn (Chairman) - Director since 2004

Formerly managing director of Magnesium International (formerly Pima Mining), Ric's foresight generated the Magnesium International project.

Ric joined as MD of Pima Mining in 1996 after successfully leading South Australian Exploration Initiative (SAEI) as director of Mineral Resources for Mines and Energy SA (MESA). Ric joined the South Australian Mines Department after a successful period with Emperor Mines in Fiji and a number of gold and other mining projects in the Oceania Region. Ric has been a key figure in the South Australian Exploration Mining industry for many years and has the reputation for innovative ventures and delivering success for stakeholders. Ric is a Fellow of the AusIMM and a Certified Practising Geologist.

Stephen Biggins (Managing Director) - Director since 2004

Stephen has accumulated broad experience as a geologist in mineral exploration, development and mining throughout Australia over the past 15 years. He has also applied his MBA to the management of exploration, resource definition and feasibility studies.

Stephen joined Pima Mining in the mid 1990s as an exploration geologist, supervising various exploration projects in Gold and Base Metals on the Gawler Craton. Prior to this, he spent 3 years

with Mines and Energy SA (MESA) as an exploration geophysicist during the South Australian Exploration Initiative (SAEI). As a mineral geophysicist, Stephen has also worked with BHP (Iron Duke) and Hamersley Iron (Tom Price) in near-mine and in-pit iron ore exploration.

John Anderson (Non-Executive Director) - Director since 2004

John is a Brisbane-based geologist and exploration manager of 26 years experience with Aberfoyle and MIM, most recently as General Manager – Exploration Australia for MIM Exploration Pty Ltd.

John has explored in all Australian jurisdictions and for most commodities with an emphasis on the major base metal/gold mining centres of the Proterozoic including Broken Hill, Mount Isa/Ernest Henry and the Gawler Craton. He has considerable experience with generative and brownfields exploration for both large and small resources using a variety of conceptual, empirical and high technology targeting techniques.

John led teams in the discoveries of the Angas zinc resource, the major portion of the Menninnie Dam zinc deposit, the White Dam gold copper deposit and several mineral sands deposits in the Murray Basin. He is former President of the South Australian Chamber of Mines and Energy.

Mike McDonald (Non-Executive Director) - Director since 2004

Mike is a lawyer and partner in specialist resources law firm McDonald Steed. Mike has over 25 years experience working within the resources sector, having been in-house counsel for the Bell Group and Delhi Petroleum prior to founding McDonald Steed in 1988.

Mike has specialised in providing start up and operation services to mining and infrastructure projects in South Australia and elsewhere and has extensive experience in native title matters. He has negotiated various exploration and production agreements including recently for the Beverley Uranium Mine, the Magnesium International magnesium project and the Dominion Challenger Mine. Mike was nominated by the Australian Legal Businesses' Legal "Who's Who" in 2003 as one of Australia's leading practitioners in energy & resources.

Mick Billing (Non-Executive Director / Company Secretary) - Director since 2004

Mick is a qualified associate of the Australian Society of Certified Practising Accountants with in excess of 25 years of mining industry experience in company secretarial and chief financial officer roles. He has had experience with debt and equity raising and project evaluation and feasibility studies in Australia and overseas.

He is a director of Australasia Gold Limited and company secretary and an alternate director of Flinders Diamonds Limited.

Remuneration Report (audited)

This report describes the remuneration arrangements in place for directors and executives of Southern Gold Limited

The names of the directors of the company during or since the end of the financial year are: C M Horn, S R Biggins, J A Anderson, M M McDonald, and M R Billing.

Directors' Shareholdings (audited)

The following table sets out each director's relevant interest in shares in the consolidated entity as at the date of this report

Directors	Shares		Options	
	Direct	Indirect	Direct	Indirect
C M Horn	1,650,000	420,500	575,000	130,000
S R Biggins	1,500,000	1,845,000	500,000	547,500
J A Anderson	2,593,000	69,000	746,500	34,500
M M McDonald	1,714,320	240,000	607,160	120,000
M R Billing	1,500,000	315,000	500,000	157,500

The above table includes shares held by "director-related entities" which include immediate relatives of directors.

Remuneration Policy (audited)

The remuneration policy is designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration package to non executive directors and time based remuneration to executive directors. The board of Southern Gold believes the policy to be appropriate and effective in attracting and retaining the best directors and executives to manage and direct the economic entity.

All remuneration paid to directors and executives is valued at the cost to the consolidated entity and expensed. Directors have not received share options as part of remuneration packages. Any options acquired have been purchased on market or as part of the acquisition of shares.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to the non-executive directors and reviews their remuneration annually, based upon market practice, duties, and, accountability. Independent external advice is sought when required. The maximum aggregate of fees that can be paid to non-executive directors is subject to approval by shareholders (currently \$200,000). Current board policy is not to seek an increase in the aggregate of directors' fees until the discovery of economic resources. Fees for non-executive directors are not linked to the performance of the economic entity.

Performance Based Remuneration (audited)

The consolidated entity currently has no performance based remuneration component built into director and executive remuneration packages.

The consolidated entity has one executive director, and four non-executive directors. The managing director is paid a salary, while non-executive directors are paid directors' fees. The directors do not currently participate in any incentive scheme. Directors' option holdings are disclosed under Directors' Shareholdings above.

Remuneration packages contain the following key elements

- Primary benefits – salary/fees;
- Post employment benefits – superannuation.

The following table discloses the remuneration of its directors of the consolidated entity.

2005	Primary Salary & Fees \$	Post Employment Superannuation \$	Total \$
C M Horn	64,868	1,032	65,900
S R Biggins	181,333	2,391	183,724
J A Anderson	91,806	619	92,425
M W McDonald	261,771	619	262,390
M R Billing	50,625	750	51,375
2005 Total	650,403	5,411	655,814

2004	Primary Salary & Fees \$	Post Employment Superannuation \$	Total \$
C M Horn	5,000	-	5,000
S R Biggins	32,232	-	32,232
J A Anderson	9,500	-	9,500
M W McDonald	5,000	-	5,000
M R Billing	5,000	-	5,000
Total	56,732	-	56,732

Details of shares and options issued to Directors during the year ended 30 June 2005 are disclosed in Notes to the Financial Statements (Note 18 – Related Party Transactions).

Remuneration Objectives – Executive Officers and Senior Management (audited)

To achieve its objectives of discovery of economic resources in a cost effective manner, Southern Gold aims to attract and retain a skilled senior management team focused upon contributing to that objective. To do this the Board has established a principle of offering competitive remuneration packages.

Service Agreement – Managing Director (audited)

Remuneration and other items of employment for the Managing Director, Mr Stephen Biggins, are formalised in a service agreement formalised by the Board. The major provisions are as follows:

- Mr Biggins agrees to provide his services for 2 years commencing from 3 days after the Company listed on the Australian Stock Exchange on 21st April 2005.
- Remuneration of \$140,000 per annum plus statutory superannuation contributions.
- Termination without notice in the event that Mr Biggins:
 - › is guilty of serious or wilful misconduct
 - › fails to remedy a breach of the Agreement within 14 days of receipt of notice to do so.
- Termination without cause by either party with the provision of 6 calendar months notice.

Service Agreement – Non executive directors (audited)

The Company entered into service agreements with entities associated with each non-executive director from 24 April 2005, with a term covering their term as directors, according to the constitution of the Company. Details of the current service agreements are set out below:

Director	Associated Entity	Terms
C M Horn	Hornet Resource Assessment Services Pty Ltd	Daily rate of \$900
J A Anderson	Austrike Resources Pty Ltd	Daily rate of \$900
M R Billing	MBB Trading Pty Ltd	Daily rate of \$900
M W McDonald	McDonald Steed McGrath Lawyers	Commercial Rates

Meetings of Directors

The number of meetings of the Company's Board of Directors attended by each Director during the year ended 30 June 2005 was:

	Number of Board Meetings Held	Number of Board Meetings Attended
C M Horn	13	8
S R Biggins	13	13
J A Anderson	13	13
M W McDonald	13	13
M R Billing	13	13

Audit committee functions to 30th June 2005 have been performed by the full board. Since balance date an audit committee comprising CM Horn (as chairman), J A Anderson, and M W McDonald has been formed.

Non-audit services

The board of directors 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 as set out below, did not compromise the audit independence requirement of the Corporations Act 2001 for the following reasons.

- All non-audit services have been reviewed by the Board to ensure they do not impact the impartiality and objectivity of the auditor.
- the nature of the services provided do not compromise the general principle relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Standard F1: Professional Independence.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2005:

	\$
Due diligence investigations	3,000

Indemnification of Officers and Auditors

During the year the company arranged insurance cover and paid a premium for directors in respect of indemnity against third party liability.

Signed at Adelaide this 30th day of September 2005 in accordance with a resolution of the directors.



C M Horn
Director

Directors' Declaration

The Directors declare that:

- 1 The attached financial statements and notes, and the additional disclosures included in the Remuneration Report of the Director's Report designated as "audited", are in accordance with the Corporations Act 2001, and:
 - a comply with accounting standards and the Corporations Regulations 2001; and
 - b give a true and fair view of the consolidated entities' financial position as at 30 June 2005 and of its performance for the year ended on that date.
- 2 The declarations required by Section 295A of the Corporations Act 2001 have been obtained from the Managing Director and Company Secretary; and
- 3 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.

This declaration is made in accordance with a resolution of the Board of Directors



C M Horn

Chairman

Adelaide, South Australia

30 September 2005

Auditor's Independence Declaration

Chartered Accountants and Business Advisers

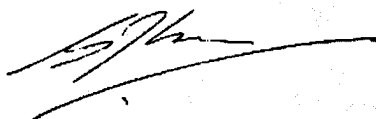
Grant Thornton 

TO THE DIRECTORS OF SOUTHERN GOLD LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Southern Gold Limited for the period ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Regulations 2001 in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON



S J GRAY
Partner

Adelaide

Dated this 30th day of September 2005

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Statement of Financial Performance

for the Financial Year Ended 30 June 2005

	Note	Consolidated		Company	
		2005 \$	2004 \$	2005 \$	2004 \$
Revenue from ordinary activities		62,655	6,857	62,655	6,857
Exploration expense written off		(30,913)	-	(30,913)	-
Salaries and wages		(37,387)	-	(37,387)	-
Directors fees		(31,990)	-	(31,990)	-
Audit and accounting fees		(9,500)	(5,000)	(9,500)	(5,000)
Legal expenses		(2,140)	(4,560)	(2,140)	(4,560)
Insurance expenses		(69,784)	(19,124)	(69,784)	(19,124)
Other consulting expenses		(41,850)	(4,850)	(41,850)	(4,850)
Other administrative expenses		(34,124)	(11,762)	(34,124)	(11,762)
Loss from ordinary activities before income tax expense	2	(195,033)	(38,439)	(195,033)	(38,439)
Income tax expense relating to ordinary activities	3	-	-	-	-
Net Loss	15	(195,033)	(38,439)	(195,033)	(38,439)
Total decrease in equity other than that resulting from transactions with Owners as Owners					
Earnings Per Share					
Basic (cents per share) – Loss	23	(0.95)	(0.3)		
Diluted (cents per share) – Loss	23	(0.70)	(0.3)		

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

Statement of Financial Position

as at 30 June 2005

	Note	Consolidated		Company	
		2005 \$	2004 \$	2005 \$	2004 \$
CURRENT ASSETS					
Cash		351,955	168,412	351,955	168,412
Interest Bearing Investments		2,500,000	-	2,500,000	-
Receivables	5	112,556	21,444	112,556	21,444
Other financial assets	6	24,678	199,295	24,678	199,295
TOTAL CURRENT ASSETS		2,989,189	389,151	2,989,189	389,151
NON-CURRENT ASSETS					
Exploration and evaluation expenditure	7	586,658	199,619	245,187	68,950
Plant and equipment	8	12,344	-	12,344	-
Receivable	9	-	-	341,471	130,669
TOTAL NON-CURRENT ASSETS		599,002	199,619	599,002	199,619
TOTAL ASSETS		3,588,191	588,770	3,588,191	588,770
CURRENT LIABILITIES					
Payables	10	209,999	98,459	209,999	98,459
Provisions	11	2,043	-	2,043	-
TOTAL CURRENT LIABILITIES		212,042	98,459	212,042	98,459
NON-CURRENT LIABILITIES					
Provisions	12	664	-	664	-
TOTAL NON-CURRENT LIABILITIES		664	-	664	-
TOTAL LIABILITIES		212,706	98,459	212,706	98,459
NET ASSETS		3,375,485	490,311	3,375,485	490,311
EQUITY					
Contributed equity	14	3,608,957	528,750	3,608,957	528,750
Accumulated losses	15	(233,472)	(38,439)	(233,472)	(38,439)
TOTAL EQUITY		3,375,485	490,311	3,375,485	490,311

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

Statement of Cash Flows

for the Year Ended 30 June 2005

	Inflows/(Outflows)			
	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
Cash flows relating to operating activities				
Interest received	62,655	6,857	62,655	6,857
Payments to suppliers and employees	(122,083)	(184,511)	(122,083)	(184,511)
Net operating cash flows (Note (a))	(59,428)	(177,654)	(59,428)	(177,654)
Cash flows relating to investing activities				
Payments for mining tenements, exploration and evaluation expenditure	(323,755)	(203,334)	(323,755)	(203,334)
Payments for plant and equipment	(13,481)	-	(13,481)	-
Net investing cash flows	(337,236)	(203,334)	(337,236)	(203,334)
Cash flows relating to financing activities				
Proceeds from share issues	4,315,781	549,400	4,315,781	549,400
Payments for share issue costs	(1,235,574)	-	(1,235,574)	-
Net financing cash flows	3,080,207	549,400	3,080,207	549,400
Net increase/(decrease) in cash	2,683,543	168,412	2,683,543	168,412
Cash at beginning of financial year	168,412	-	168,412	-
Cash at end of financial year	2,851,955	168,412	2,851,955	168,412
Note (a): Reconciliation of net loss from ordinary activities to net cash flow from ordinary activities.				
Loss from ordinary activities after related income tax	(195,033)	(38,439)	(195,033)	(38,439)
Depreciation	1,137	-	1,137	-
Exploration written off	30,913	-	30,913	-
(Increase) decrease in receivables	(91,112)	-	(91,112)	-
(Increase) decrease in prepayments	174,617	-	174,617	-
Increase/(decrease) in payables	17,343	(139,215)	17,343	(139,215)
Increase/(decrease) in provisions	2,707	-	2,707	-
Net operating cash flows	(59,428)	(177,654)	(59,428)	(177,654)

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

Notes to the Financial Statements

for the Financial Year Ended 30 June 2005

1. SUMMARY OF ACCOUNTING POLICIES

General System of Accounting Underlying the Financial Report

This financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation of the financial report:

- a) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure in relation to separate areas of interest, for which rights of tenure are current, are capitalised in the year in which they are incurred and are carried at cost.

The cost of acquisition of an area of interest and exploration expenditure will be carried forward as an asset in the

statement of financial position where:

- i) it is expected that the expenditure will be recovered through the successful development and exploitation of an area of interest or by its sale; or
- ii) exploration activities are continuing in an area and activities have not yet reached a stage which permits a reasonable estimate of the existence or otherwise of economically recoverable ore reserves.

Should an area of interest be abandoned, the expenditure will be written off in the year in which the decision is made.

Where there has been a decision to proceed with development, the accumulated expenditure will be amortised over the life of the associated reserves once mining operations have commenced.

Amounts received during the exploration, evaluation or development phases which are in the nature of reimbursement or recoupment of previously incurred costs are offset against such costs.

- b) Acquisition of Assets

Assets acquired are recognised at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred,

Notes to the Financial Statements continued

the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

c) Recoverable Amount

Where the carrying values of non-current assets exceed their recoverable amount the assets are written down to the recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

d) Depreciation

Plant and equipment are depreciated at rates based upon their useful lives. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over the expected useful life. The estimated useful lives of plant and equipment used in the calculation of depreciation are 3 to 5 years.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Assets	Depreciation Rate
Computer Equipment	25%
Computer Software	40%
Furniture & Fixtures	20%
Office Equipment	20-40%

e) Income Tax

Tax effect accounting procedures are followed whereby the income tax is matched with the accounting results (after allowing for permanent differences). The future income tax benefit relating to income tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised (refer to Note 3).

During the financial year the directors elected that the company and all its wholly-owned Australian resident entities would join a tax consolidation group. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax consolidated group are recognised in the financial statements of the parent entity.

Due to the existence of a tax sharing agreement between the entities in the tax consolidation group, the income tax expense/revenue of the parent entity includes the tax contribution amounts paid or payable between the parent entity and subsidiary entity made in accordance with the agreement. Further information about the tax sharing agreement is detailed in note 3 to the financial statements.

The current and deferred tax assets and liabilities of the parent entity are not reduced by any amounts owing from or to the subsidiary entity in accordance with the tax sharing agreement as these amounts are recognised as intercompany receivables and payables.

f) Receivables

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

g) Accounts payable

Trade and other payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

h) Employee Benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, and long service leave, expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

i) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

j) Revenue Recognition

Disposal of Assets

Revenue from the disposal of assets is recognised when the consolidated entity has passed control of the asset to the buyer.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

k) Joint Ventures

The consolidated entity's proportionate interests in the assets, liabilities and expenses of joint ventures have been incorporated in the financial statements under the appropriate headings. Details of the consolidated entity's joint venture interests are shown in Note 19.

l) Principles of Consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its controlled entities as defined in Accounting Standard AASB 1024 'Consolidated Accounts'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions and unrealised profits arising within the consolidated entity are eliminated in full.

m) Investments

Investments in controlled entities are recorded at cost. Other investments are recorded at cost.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

Notes to the Financial Statements continued

	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
2. LOSS FROM ORDINARY ACTIVITIES				
Loss from ordinary activities included the following items of revenue and expense:				
a) Operating Revenue				
Interest received/receivable	62,655	6,857	62,655	6,857
Other Income	-	-	-	-
	62,655	6,857	62,655	6,857
b) Expenses				
Depreciation of plant and equipment	1,137	-	1,137	-
Exploration write-offs	30,913	-	30,913	-
	30,913	-	30,913	-
3. INCOME TAX				
a) The prima facie income tax expense on pre-tax accounting loss reconciles to the income tax attributable to operating loss as follows:				
Loss from ordinary activities	195,033	38,439	195,033	38,439
Income tax benefit calculated at 30% of operating loss	58,510	11,532	58,510	11,532
Tax effect of capital raising costs	75,374	-	75,374	-
Income tax adjusted for temporary differences	133,884	-	133,884	-
Timing differences and tax losses not brought to account	(133,884)	(11,532)	(133,884)	(11,532)
Income tax attributable to loss from ordinary activities	-	-	-	-
b) Future income tax benefits not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 (e) occur				
Timing differences	75,374	-	75,374	-
Operating Losses	70,042	11,532	70,042	11,532
	145,414	11,532	145,414	11,532
The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:				
i) assessable income is derived of a nature and of amount sufficient to enable the benefit from the deductions to be realised;				
ii) conditions for deductibility imposed by the law are complied with; and				
iii) no changes in tax legislation adversely affect the realisation of the benefit from the deductions.				
	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
4. CASH ASSETS				
Westpac Banking Corporation Cheque Account	29,986	168,412	29,986	168,412
Westpac Banking Corporation Deposit Account	321,969	-	321,969	-
Westpac Banking Corporation Bank Bills	2,500,000	-	2,500,000	-
	2,851,955	168,412	2,851,955	168,412
5. CURRENT ASSETS - RECEIVABLES				
Non Trade Accounts Receivable	112,556	21,444	112,556	21,444
	112,556	21,444	112,556	21,444
6. OTHER FINANCIAL ASSETS				
Prepayments	14,678	189,295	14,678	189,295
Exploration tenement bond	10,000	10,000	10,000	10,000
	24,678	199,295	24,678	199,295

Notes to the Financial Statements continued

	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
7. MINING TENEMENTS, EXPLORATION AND EVALUATION EXPENDITURE				
Costs brought forward	199,619	-	68,950	-
Expenditure incurred during the year	417,952	199,619	207,150	68,950
Expenditure written off	(30,913)	-	(30,913)	-
	586,658	199,619	245,187	68,950
8. PLANT AND EQUIPMENT				
Plant and equipment at cost	13,481	-	13,481	-
Less: Accumulated depreciation	(1,137)	-	(1,137)	-
	12,344	-	12,344	-
Movement schedule for plant and equipment				
Opening written down value	-	-	-	-
Additions	13,481	-	13,481	-
Disposals	-	-	-	-
Depreciation	(1,137)	-	(1,137)	-
Closing written down value	12,344	-	12,344	-
9. NON-CURRENT RECEIVABLES				
Amount due from controlled entity	-	-	341,471	130,669
Allowance for doubtful debt	-	-	-	-
	-	-	341,471	130,669
10. CURRENT LIABILITIES – PAYABLES				
Trade payables and accruals	209,999	98,459	209,999	98,459
11. CURRENT LIABILITIES – PROVISIONS				
Employee entitlements	2,043	-	2,043	-
12. NON-CURRENT LIABILITIES – PROVISIONS				
Employee entitlements	664	-	664	-
13. EMPLOYEE ENTITLEMENTS				
The aggregate employee entitlement liability recognised in and included in the financial statements is as follows				
Provision for employee entitlements				
Current (Note 11)	2,043	-	2,043	-
Non-Current (Note 12)	664	-	664	-
	2,707	-	2,707	-
	No.	No.	No.	No.
Number of employees at end of year	6	-	6	-

Notes to the Financial Statements continued

	Consolidated		Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
14. CONTRIBUTED EQUITY				
a) Ordinary Shares				
Issued share capital:	3,608,957	339,539		
41,181,805 fully paid ordinary shares (2004: 12,929,000)				
Movement in issued shares for the year:				
	2005		2004	
	No.	\$	No.	\$
Balance at beginning of financial year	12,929,000	528,750	-	-
Issued at 0.1 cents			7,500,000	7,500
Issued at 10 cents	3,157,800	315,780	5,429,000	541,900
Issued pursuant to the IPO	20,000,005	4,000,001	-	-
Issued as consideration to unrelated party for IPO support	95,000	-	-	-
Issued as consideration for project acquisition	5,000,000	-	-	-
Costs associated with the issue of shares	-	(1,235,574)	-	(20,650)
Balance at end of financial year	41,181,805	3,608,957	12,929,000	528,750
Fully paid shares carry one vote per share and carry the right to dividends				
b) Options on Issue				
20,293,403 options to acquire ordinary shares @ \$0.20/ share (2004: 5,214,500)				

Unissued ordinary shares of Southern Gold Limited under option as at 30 June 2005 are as follows

Grant Date	Date of Expiry	Exercise Price	Number under Option
2.1.2004	31.12.2007	0.20	2,500,000
20.1.2004	31.12.2007	0.20	250,000
30.1.2004	31.12.2007	0.20	450,000
10.2.2004	31.12.2007	0.20	1,364,500
2.1.3004	31.12.2007	0.20	250,000
10.3.2004	31.12.2007	0.20	400,000
10.11.2004	31.12.2007	0.20	3,078,900
31.3.2005	31.3.2008	0.20	150,000
20.4.2005	31.3.2007	0.20	10,000,003
20.4.2005	31.3.2007	0.20	1,500,000
1.6.2005	1.6.2008	0.20	350,000
			20,293,403

Since balance date 635,000 options to acquire ordinary shares have been exercised.

15. ACCUMULATED LOSSES

	Consolidated		Company	
	2005	2004	2005	2004
	\$	\$	\$	\$
Balance at beginning of financial year	38,439	-	38,439	-
Net loss	195,033	38,439	195,033	38,439
Balance at end of financial year	233,472	38,439	233,472	38,439

Notes to the Financial Statements continued

16. DIRECTORS AND EXECUTIVES REMUNERATION

The consolidated entity has applied the exemption under Corporations Amendments Regulations 2005 which exempts listed companies from providing remuneration disclosures in relation to their specified Directors and specified Executives in their annual financial reports by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities. These remuneration disclosures are provided in the "Remuneration Report" of the Director's Report and designated as "Audited".

17. REMUNERATION OF AUDITORS

	Consolidated		Company	
	2005 \$	2004 \$	2005 \$	2004 \$
Auditing the financial report	15,000	5,000	15,000	5,000
Other services	3,000	-	3,000	-
	18,000	5,000	18,000	5,000

18. RELATED PARTY DISCLOSURES

a) Equity Interests in related parties

Equity Interests in controlled entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 24 to the financial statements

Equity Interests in joint ventures

Details of interests in joint ventures are disclosed in Note 19 to the financial statements

b) Transactions within wholly owned group

The wholly owned group includes:

- The ultimate parent entity in the wholly-owned group and;
- The wholly-owned controlled entity

The ultimate parent entity in the wholly-owned group is Southern Gold Limited

Amounts receivable from the controlled entity are disclosed in Note 9 to the financial statements.

During the financial year Southern Gold Limited provided accounting and administrative services at no cost to the controlled entity and the advancement of interest free loans.

c) Directors' Equity Holdings

Fully paid ordinary shares issued by Southern Gold Limited

Directors	Balance 1/7/04 Number.	Net Changes Number	Balance 30/6/05 Number	Balance held Nominally Number
C M Horn	1,500,000	150,000	1,650,000	420,500
S R Biggins	1,500,000	-	1,500,000	1,845,000
J A Anderson	1,500,000	1,093,000	2,593,000	69,000
M W McDonald	1,500,000	214,320	1,714,320	240,000
M R Billing	1,500,000	-	1,500,000	315,000

Options to acquire fully paid ordinary shares issued by Southern Gold Limited at 20 cents per share

Directors	Balance 1/7/04 Number.	Net Changes Number	Balance 30/6/05 Number	Balance held Nominally Number
C M Horn	500,000	75,000	575,000	132,000
S R Biggins	500,000	-	500,000	547,500
J A Anderson	500,000	246,500	746,500	34,500
M W McDonald	500,000	107,160	607,160	120,160
M R Billing	500,000	-	500,000	157,500

The above tables include shares held by "director-related entities" which include immediate relatives of directors.

19. JOINT VENTURES

The consolidated entity had interests in unincorporated joint ventures at 30 June 2005 as follows:

	Percentage Interest 2005	Percentage Interest 2004
a) Challenger West Joint Venture – Palaeochannel uranium exploration	100%	100%
b) Tallaringa Joint Venture – Palaeochannel uranium exploration	0%	0%
c) Southern Gawler Arc Joint Venture – Iron Oxide Copper Gold Uranium exploration	100%	100%
d) Yarlbrinda Joint Venture – Iron Oxide Copper Gold Uranium exploration	100%	100%
e) Yarlbrinda South Joint Venture – Iron Oxide Copper Gold Uranium exploration	30%	0%

Notes:

- a) Under the terms of an agreement between Challenger West Holdings Pty Ltd, CMH Resources Pty Ltd and Hindmarsh Resources Limited (HMR), HMR may earn a 51% interest in palaeochannel uranium resources in tenements EL3080, EL3097, and EL3308 by funding \$250,000 in exploration activities in each tenement, a total of \$750,000. Subsequently HMR may earn a further 29% interest by funding an additional \$250,000 in exploration activities in each tenement. At 30 June 2005 HMR had spent a total of \$795 (2004: NIL)
- b) Under the terms of an agreement between the consolidated entity and Hindmarsh Resources Limited (HMR), the consolidated entity may earn a 30% interest in palaeochannel uranium resources in tenement applications ELA95/05, and ELA199/05 by funding \$400,000 in exploration activities. At 30 June 2005 the consolidated entity had spent a total of NIL (2004: NIL)
- c) Under the terms of an agreement between Gawler Arc Holdings Pty Ltd and Hindmarsh Resources Limited (HMR), HMR may earn a 25% interest in tenement EL3158 by funding \$250,000 in exploration activities. Subsequently HMR may earn a further 10% interest by funding an additional \$250,000 in exploration activities. At 30 June 2005 HMR had spent a total of \$1,532 (2004: NIL)
- d) Under the terms of an agreement between the consolidated entity and Hindmarsh Resources Limited (HMR), HMR may earn a 25% interest in tenement EL3284 by funding \$250,000 in exploration activities. Subsequently HMR may earn a further 10% interest by funding an additional \$250,000 in exploration activities. At 30 June 2005 HMR had spent a total of \$164 (2004: NIL)
- e) Under the terms of an agreement between the consolidated entity and Mr Ian Garsed, the Consolidated entity has acquired a 35% interest in tenement EL6130. The Consolidated entity may increase this interest to 70% by funding \$300,000 in exploration activities, over a three year period. At 30 June 2005 the consolidated entity had spent a total of \$3,146 (2004: NIL)

20. COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES

a) Exploration Expenditure Commitments

The consolidated entity has certain obligations to perform exploration work and expend minimum amounts of money on such works on mineral exploration tenements.

These obligations will vary from time to time, subject to statutory approval. The terms of current and future joint ventures, the grant or relinquishment of licences and changes to licence areas at renewal or expiry, will alter the expenditure commitments of the consolidated entity.

Total expenditure commitments at balance date in respect of minimum expenditure requirements not provided for in the financial statements are approximately:

	2005 \$	2004 \$
Not later than one year:	736,000	536,000
Later than one year but not later than two years:	736,000	-
Later than two years but not later than five years:	310,000	-

b) Service Agreements

Service agreements between the consolidated entity and non-executive directors are disclosed in the Remuneration Report of the Directors Report

c) Native Title

Native Title claims have been made with respect to tenements in South Australia in which Southern Gold Limited has interests. The consolidated entity is unable to determine the prospects for success or otherwise of the claims and, in any event, whether or not and to what extent the claims may significantly affect the consolidated entity or its projects.

d) Office Rental

The consolidated entity has entered into a rental agreement to occupy its principle office at a cost of \$28,000 per annum, expiring on 19th June 2007

21. FINANCIAL INSTRUMENTS

a) Forward Foreign Currency Contracts

As at 30 June 2005 the consolidated entity does not have any outstanding forward foreign currency contracts.

b) Forward Interest Rate Contracts

As at 30 June 2005 the Consolidated entity does not have any outstanding forward interest rate contracts.

c) Interest Rate Risk

The following table details the exposure to interest rate risk at the reporting date. All other financial assets and liabilities are non-interest bearing.

Notes to the Financial Statements continued

	Average Interest Rate	Variable Interest Rate	Less than 1 Year	1 to 5 Years	Total
			\$	\$	\$
2005					
Cash	5.45%	-	2,851,955	-	2,851,955
Total		-	2,851,955	-	2,851,955
2004					
Cash	4.65%	-	168,412	-	168,412
Total		-	168,412	-	168,412

d) Credit Risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with credit worthy counterparties.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics.

The carrying value of financial assets recorded in the financial statements, net of any provision for losses, represents the consolidated entity's maximum exposure to credit risk.

e) Net Fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

22. SEGMENT INFORMATION

The consolidated entity operates in the mineral exploration industry in Australia.

23. EARNINGS PER SHARE

	Consolidated	
	2005 Cents per share	2004 Cents per share
Basic earnings per share – loss	(0.95)	(0.3)
Diluted earnings per share – loss	(0.70)	(0.3)

Basic and Dilutive Earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	\$	\$
Earnings	(195,033)	(38,439)
Earnings used in the calculation of basic and diluted earnings per share agree directly to net loss in the statement of financial performance.		
	No.	No.
Weighted average number of ordinary shares	20,618,753	12,929,000

The number of ordinary shares used in the calculation of diluted earnings per share is the same as the number used in the calculation of basic earnings per share, as options are not considered dilutive.

24. CONTROLLED ENTITY

Name of Entity	Country of Incorporation	Ownership Interest	
		2005 %	2004 %
Parent Entity			
Southern Gold Limited	Australia		
Controlled Entities			
Challenger West Holdings Pty Limited	Australia	100%	100%
CMH Resources Pty Limited	Australia	100%	100%
Gawler Arc Holdings Pty Limited	Australia	100%	100%

25. REGISTERED OFFICE AND PRINCIPLE OFFICE

The registered office of the Company and its controlled entities is;
262-266 Pirie Street, ADELAIDE, SA, 5000

The principle place of business of the Company and its controlled entities is;

58 North Terrace, KENT TOWN, SA, 5067

26. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Australia has been preparing for the introduction of International Financial Reporting Standards (IFRS) effective for reporting periods commencing from 1 January 2005. The Australian Accounting Standards Board (AASB) has adopted IFRS and has issued Australian equivalents to IFRS, hereafter referred to as AIFRS. The Urgent Issues Group has issued interpretations equivalent to International Accounting Standards Board interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee.

The adoption of AIFRS by the consolidated entity will first be reflected in the financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. On first time adoption of AIFRS, comparatives in financial statements are required to be restated to reflect the application of AIFRS to the comparative period. The majority of AIFRS transitional adjustments will be made retrospectively against opening retained earnings at 1 July 2004.

The Consolidated entity has been assessing the significance of these changes and preparing for their implementation. The Audit Committee is overseeing and managing the consolidated entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the consolidated entity's accounting policies on conversion to AIFRS and the financial effect of the differences where known, are as follows. However, users of financial statements should note that the amounts disclosed represent the Consolidated entity's best estimates as at the date of preparing the 2005 financial report and could change from these estimates if there are any amendments or additional standards to the current AIFRS or interpretation of the AIFRS requirements changes from the ongoing work of the Consolidated entity and Audit Committee. Consequently, until the consolidated entity prepares its first full financial statements under AIFRS, the possibility exists that the following disclosures may need to be adjusted.

On transition to AIFRS, the estimated financial effect on the consolidated entity's reported net profit and equity as at 30 June 2005 is disclosed below. No impacts are expected in relation to the consolidated entity's statement of cash flows. As noted above, the amounts disclosed in this summary represent the consolidated entity's best estimates as at the date of preparing the 2005 financial report and may differ from actuals reported under AIFRS.

a) Impairment of Assets

The consolidated entity currently determines the recoverable amount of an asset on the basis of undiscounted net cash flows that will be received from the asset's use and subsequent disposal. In terms of pending AASB 136: Impairment of Assets, the recoverable amount will be determined as the higher of fair value less costs to sell and value in use. Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset. It is likely that this change in accounting policy will lead to impairments being recognised more often than under the existing policy.

The consolidated entity has tested all assets for impairment as at 1 July 2005 and no assets have been assessed as impaired.

b) Income Tax

Currently, the consolidated entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Future income tax benefits are only brought to account where realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

Under AASB 112: Income Taxes, the consolidated entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable and accounting profit. The standard requires the recognition of temporary differences when it is probable that the consolidated entity will generate sufficient taxable profits in the same period as the reversal of the deductible temporary difference or taxation loss or in the periods into which a tax loss arising from the deferred tax asset can be carried back or forward. At the date of this report, the directors consider that the consolidated entity would not meet this condition.

AASB 112 required the recognition of temporary differences associated with revenues and expenses taken directly to the equity. The effect of recognition of IPO costs directly deducted from share capital is to increase share capital by \$376,867 and increase accumulated losses by \$376,867. The adjustment to accumulated losses is reflective of the Directors opinion that the criteria for recognition of such assets has not been met.

c) Exploration and Evaluation Expenditure

The Consolidated entity currently accumulates exploration, evaluation and development costs in respect of each separate area of interest. Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest, or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest. 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. When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial period the decision is made.

AASB 6 was issued in December 2004 to facilitate the introduction of Australian equivalents to IFRS in respect of the treatment of exploration expenditures. At the date of this report there was still no comprehensive international accounting standard covering extractive industries and AASB 6 provided no real guidance other than allowing to "grandfather" previous accounting policies adopted for the extractive industries. The new AASB 6 retains the Area of Interest approach as contained in AASB 1022.

In light of these changes, the Board initiated a review of the consolidated entity's accounting policy for exploration and evaluation expenditure and as a result, elected to adopt the following key policies keeping strictly in line with AASB 6:

- The consolidated entity will continue to use the Area of Interest Method to define its Exploration and Evaluation expenditure, further defining areas to geological systems;
- Only expenditures which fall within the definition of Exploration and Evaluation activities will be allowed to be capitalised;
- Initial recognition will only be permitted on the basis of historical costs; and
- All Exploration and Evaluation expenditure will be capitalised until a "trigger event" occurs that will enact impairment testing. A trigger event could involve a series of drill holes returning no or sub-economic mineralisation, the relinquishment of an area of interest, a significant farm-out of an area of interest or any similar type event. Once a trigger event occurs, the consolidated entity will complete a full assessment of the recoverable value of the area of interest, which may result in a write down of the carrying value of the area of interest.

In the transition to AASB 6, the consolidated entity completed Impairment Testing on all its Exploration and Evaluation expenditure previously capitalised which resulted in no write downs.

Independent Audit Report

to the members of

SOUTHERN GOLD LIMITED

Chartered Accountants and Business Advisers

Grant Thornton 

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, the disclosures made by the Company in accordance with the Corporations Regulations 2001 as required by AASB 1046 "Directors and Executive Disclosures by Disclosing Entities" in the "Remuneration Report" in the Directors' Report designated as "Audited" and the Directors' Declaration for Southern Gold Limited (the Company) and Consolidated entities, for the period ended 30 June 2005. The Consolidated entity comprises both the Company and the entities it controlled during that year.

The Directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and

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assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

Audit opinion

In our opinion, the financial report of Southern Gold Limited including the remuneration disclosures included in the Directors Report and designated audited are in accordance with:

- a) the Corporations Act 2001, including:
 - i) giving a true and fair view of the Southern Gold's and consolidated entity's financial position as at 30 June 2005, and of its performance for the period ended on that date; and
 - ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

GRANT THORNTON
CHARTERED ACCOUNTANTS



S J GRAY
Partner

Signed at Adelaide this 30th day of September 2005

Shareholder Information

The shareholder information set out below was applicable as at 31 August 2005.

1. Substantial Equity Holders

Name	Fully Paid Shares	
	Number	Percentage
John Alexander Anderson	2,500,000	5.98%

2. Number of Shareholders

Number of Shareholders	Class of Shares	Voting Rights
738	ORD	Full

3. Distribution of Equity Securities

Distribution of holdings:	Number of Holders	Ordinary Shares
1 - 1,000	3	2,797
1,001 - 5,000	68	264,308
5,001 - 10,000	212	2,019,674
10,001 - 100,000	413	14,882,897
100,001 - and over	42	10,419,839
Holding less than a marketable parcel	14	25,097

4. Twenty Largest Shareholders

The names of the twenty largest holders of fully paid ordinary shares comprise:

Name	Number Held	Percentage of Issued Shares
John Alexander Anderson	2,500,000	5.98
Thompson Drilling Company Pty Ltd	2,050,000	4.90
Genex Resources Pty Ltd	1,800,000	4.31
Michael Walsh McDonald	1,714,320	4.10
Cedric Murray Horn	1,575,000	3.77
Stephen Richard Biggins	1,500,000	3.59
Michael Robert Billing	1,500,000	3.59
Minexchange Pty Ltd	1,000,000	2.39
Anthony John Hosking – Hosking Family Account	625,000	1.49
Donald John Perkin	625,000	1.49
Minsk Pty Ltd	526,000	1.26
Jennifer Maher	500,000	1.20
Midway Services Pty Ltd	500,000	1.20
Bradley Mulligan - Bradley Mulligan Invest A/c	455,751	1.09
ANZ Nominees Limited – Cash Income A/c	401,200	0.96
Peter Bruce King	400,000	0.96
Christopher Joseph Gaughan	300,000	0.72
Bradley Mulligan - Mulligan Invest A/c	300,000	0.72
Bond Street Custodians Limited	283,500	0.68
MBB Trading Pty Ltd	280,000	0.68
	18,835,771	45.08

The names of the twenty largest holders of quoted 2007 options comprise:

Name	31 March 2007	
	Number Held	Percentage of Issued Options
Hindmarsh Resources Ltd	713,590	7.14
ANZ Nominees Limited – Cash Income A/c	465,000	4.65
JB Property Consulting Pty Ltd	250,000	2.50
Midway Services Pty Ltd	200,000	2.00
Genex Resources Pty Ltd	175,000	1.75
Thompson Drilling Company Pty Ltd	150,000	1.50
Miss Cassandra Pickering	130,000	1.30
Anna Carina Pty Ltd	125,000	1.25
Ms Stacey Page	120,000	1.20
Gregory J Wood & Associates Pty Ltd	111,380	1.11
Mr Glenn Schnitzerling	110,000	1.10
Ms Abigail Laura Steed	107,500	1.08
MR Trevor Keith Browne	107,500	1.08
Focus Corporate Services Pty Ltd – Focus Super Fund A/c	100,000	1.00
Ms Jane Ha	100,000	1.00
Mr Mark William Kurtz, Mrs Fiona Elizabeth Kurtz	100,000	1.00
Mr Weng Chew Lim	100,000	1.00
M & K Kordidas Pty Ltd Superannuation A/c	100,000	1.00
Mr Jye Page	100,000	1.00
Mrs Hilary Maureen Pluim	100,000	1.00
Mrs Margarita Javier Rodgers, Mr Stephen Wade Rodgers	100,000	1.00
	3,564,970	35.66

