HIGHLIGHTS

EXPLORATION DURING THE QUARTER
- **Discovery Drilling of new nickel sulphides (up to 2m @ 2.1% Ni) Bulong South, W.A.**
- **IOCGU Gravity targets identified on Torrens South JV, S.A.**

CORPORATE NEWS
- **Southern Uranium IPO initiated for early 2007**

UPCOMING DRILLING
- **Resource Drilling of Eurow base metal/gold Project, N.S.W. (1st Qtr 2007)**
- **Drilling High Grade gold targets, Challenger Gold JV, S.A. (2nd Qtr 2007)**

EXPLORATION ACTIVITY DURING THE QUARTER

New Nickel Sulphide Discovery
Bulong South Project, W.A.

(PL 25/1680, 25/1681, 25/1729 & PLA 1896– 100%)

A new nickel sulphide discovery grading as high as 2.06% has been made in Western Australia by Southern Gold Limited. The nickel sulphide mineralisation is at shallow depth of around 40-50 metres and was confirmed in assay results from a Reverse Circulation hole drilled late last month on the Bulong South project, 20 kilometres east of Kalgoorlie.

Assays in Hole BSRC004 showed two 2 metre intervals that are mineralised at 2.06% nickel and 1.7% nickel from 52 metres and 56 metres drill depth respectively. The nickel sulphide occurs with elevated levels of cobalt, copper and gold and is hosted within Archaean komatiite of the Yilgarn Craton, typical of Kambalda style nickel ore bodies (Figure 1).

Additional significant nickel intersections (10m at 1.2% nickel) and gold intersections (14m at 2.41g/t - Including 2m at 12.1g/t) have also been encountered in holes BSRC002, BSRC006 and BSRC007 (Table 2).

The intersections in BSRC004 represent a new discovery of nickel sulphides in a portion of a komatiite sequence which has not previously been explored for nickel. The nearest nickel sulphide occurrence is located 10 km to the southwest at the Blair Nickel mine and the closest nickel sulphide smelter is at Kambalda 40km to the south.

From late December 2006 to early January 2007, eleven drill holes (1408 m RC, 323m core) tested nickel and gold targets initially detected by Southern Gold's RAB drilling and other historical drilling as well as three deeper targets delineated by Southern Gold's follow-up electromagnetics survey in March 2006.

Table 1. BSRC004. (-60° to grid East, total drill depth 100 m).

Drill interval	**Nickel**	Cobalt	Sulphur	Copper	Mg	Au
52-54 m	**2.06%**	372 ppm	2.7%	0.17%	18.0%	69 ppb
54-56 m (unmineralised)	*0.4%*	*102 ppm*	*0.44%*	*0.03%*	*19.7%*	*9 ppb*
56-58 m	**1.7%**	219 ppm	2.1%	0.20%	16.8%	51 ppb

NB: analyses of 2m composite samples completed by Genalysis Laboratory Services P/L using 4 Acid Digest in Teflon tube and Optical Emission Spectroscopy for Ni, Co, S, Cu, Mg (and other elements not reported here); Gold assay by Aqua regia digest and graphite furnace atomic absorption spectroscopy.

Table 2. Other significant intersections from the December 2006 RC drilling

Drill hole	Interval	metals	Geology
BSRC002 (angled -60° to 140°)	**12-22m**	**1.2% nickel; 700ppm cobalt**	Supergene enriched saprolite/saprock; follow-up to SAU's RAB program.
	82-84m	5.4 g/t gold	ultramafic
	86-88m	2.3 g/t gold	ultramafic
BSRC007	24-26m	5.9 g/t gold	granitoid
	36-38m	0.61 g/t gold	granitoid
BSRC006	**52-54m**	**1.42 g/t gold**	granitoid
BSRC006	**56-58m**	**2.9 g/t to 12.1g/t gold**	Sheared margin to granitoid
	62-64m	**0.86 g/t to 1.5 g/t**	granitoid
	64-66m	**3.82 g/t to 7.4 g/t**	Sheared margin to granitoid
Other elements			
BSRC005	56-58m	0.53% zinc	
BSRC004	28-30m	0.49% zinc	
BSRC011	70-72 m	0.26 % zinc	

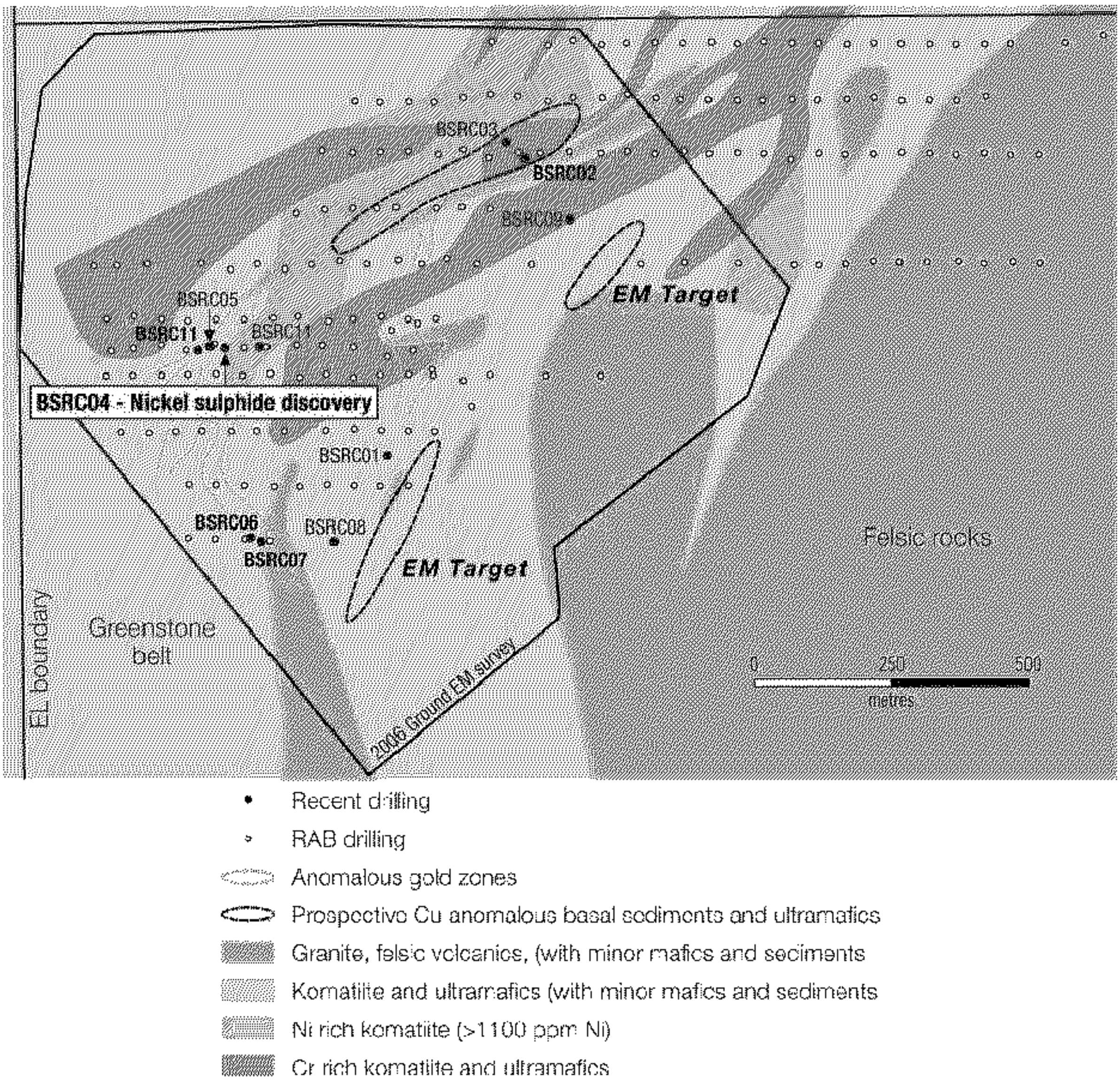
NB: 1. where primary and repeat assays differ significantly due to a 'nugget effect' (granules of free gold in sample) they have been reported as a range of values.
2. Analyses of 2m composite samples using 4 Acid Digest in Teflon tube and Optical Emission Spectroscopy Gold assay by Aqua regia digest and graphite furnace atomic absorption spectroscopy and where Au>500ppb repeat assay by lead collection fire assay with atomic absorption spectroscopy.

Assays for the last three drill holes including the diamond core 'tails' are expected from the laboratories within the next few weeks.

Down hole EM surveys are in progress for hole BSRC004. Drill samples with elevated gold or nickel will be re-assayed for platinum group elements.

Drill data is still being assessed and interpretive geological cross-sections incorporating assay results from the diamond tails will be generated when all assay results are received.

Figure 1. Drill hole locations and geology, Bulong South Project, Western Australia.

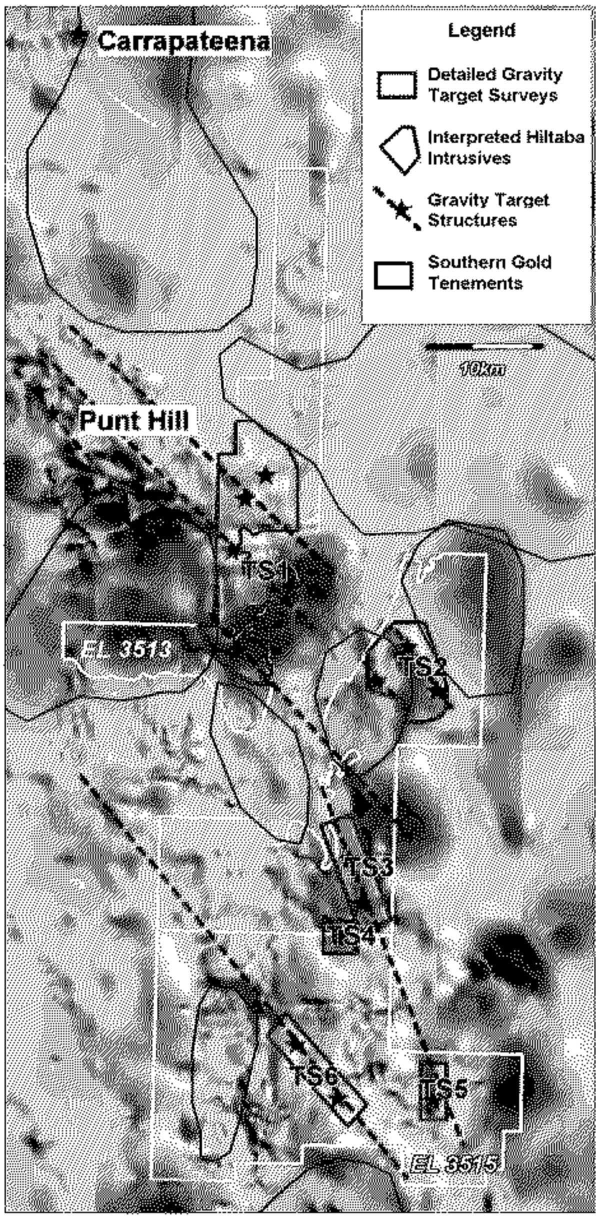


IOCG(U) Targets, Gawler Craton, S.A.

Torrens South Project, S.A.

(EL 3513 & EL 3515 – 100%)

Southern Gold Limited (ASX:SAU) and its Joint Venture partner (Crescent Gold Limited : (ASX:CRE) have identified a number of gravity targets from geophysical interpretation of the recently completed infill gravity surveys along extensions of the Punt Hill trend. Some of the new targets on Southern Gold's Torrens South Project are within 15km SW along strike from the Punt Hill discoveries and on the same gravity structures currently being drilled by Monax (ASX:MOX) on its adjacent tenements. The Joint Venture partners have committed to further detailed gravity surveying of these targets to enable accurate planning for drilling in 2007.



The JV agreement covers 4 tenements covering some 2,500km^2 on the Stuart Shelf province of the Gawler Craton in South Australia. These tenements are within the mineralised corridor which hosts the world's largest copper, gold and uranium deposit (IOCGU) at Olympic Dam and close to the recent copper gold discoveries at Prominent Hill and Carrapateena.

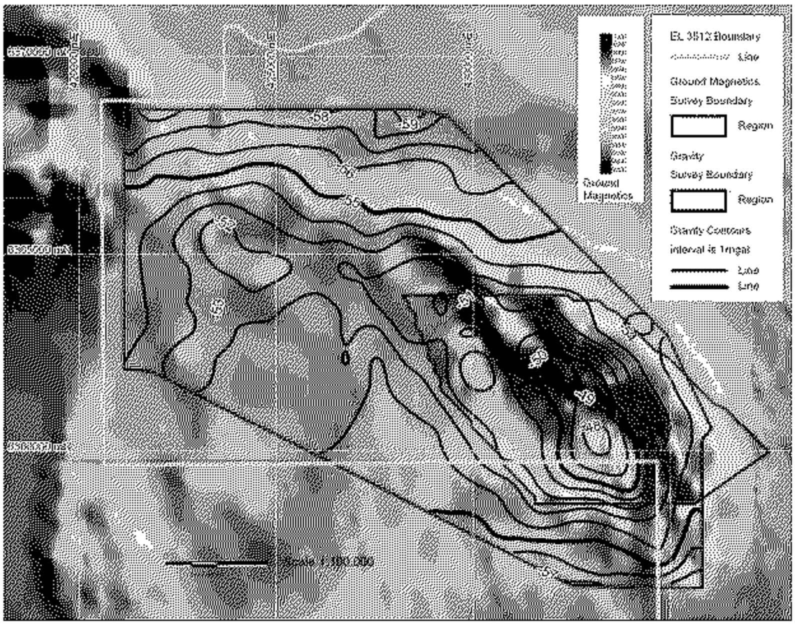
Six new target areas have been identified on the Torrens South Project as having gravity signatures of similar style magnitude to the Punt Hill discoveries. Detailed gravity surveys of these initial targets are now underway and the survey of 3,900 gravity stations at 250m spacing will be completed in late January. Gravity surveying maps the density of rocks, and is the same geophysical exploration technique used to identify the nearby Carrapateena (2005 discovery of 172m @ 1.83% Cu, 0.64g/t Au) and adjacent Punt Hill discoveries. Over 1000 infill gravity stations were initially completed by Southern Gold at 1km spacing.

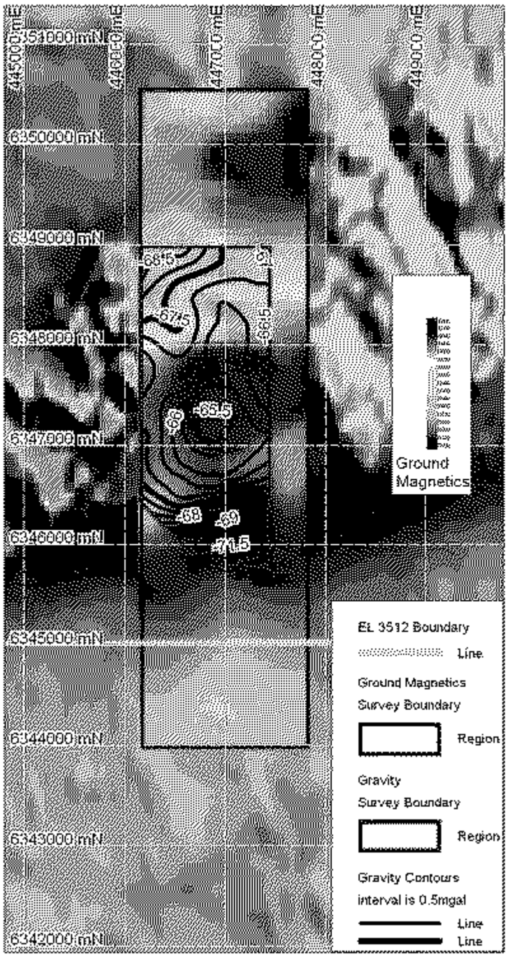
The 2500km^2 covered by the Gawler Craton JV with Crescent is within the prospective IOCGU corridor extending from Olympic Dam and Carrapateena. Under the terms of the recently announced JV, Crescent can earn 50% by spending $4,000,000 by 31/12/2008.

Discussions are currently underway with drilling contractors to enable drilling as soon as rigs are available and targets are defined.

Streaky Bay Project, S.A.
(EL 3512, ELA707/05 & ELA 199/06)

Ground magnetic surveys have been completed over two high-amplitude gravity anomalies identified by detailed gravity surveys completed last Quarter. Geophysical modeling is underway of these priority targets.





Eastern Cambodia Projects

Preliminary assessment is continuing in Cambodia as Southern Gold's team, based in Southern Gold's newly established office in Phnom Penh, is successfully evaluating and expanding exploration opportunities in Cambodia.

Exploration activities include regional geological mapping and geochemistry surveys, remote sensing interpretation and more detailed geochemical sampling of interesting geology.

Results and progress of this initial work will be reported in coming months.

Corporate Activity

Southern Uranium IPO

Southern Gold Limited shareholders have approved the issue of securities for the purpose of listing the subsidiary Company, Southern Uranium Limited (Reserved ASX Code : SNU) on the Australian Stock Exchange (ASX). This action heralds the beginning of an exciting new chapter in the development of uranium exploration in Australia. The listing of SNU will create a strong platform for future growth in the uranium industry and provide improved benefits for shareholders. Southern Gold will hold approximately 40% of SNU after listing.

Southern Uranium was formed to create a dynamic organisation to specifically explore for and develop uranium deposits in Australia. The past two years have seen a rapid increase in the global demand for uranium spurred on by an energy hungry world intent on reducing carbon emissions. The demand for uranium is expected to exceed forecast mine supply for at least 15 years. The resulting significant rise in the price of uranium oxide has reinvigorated exploration for this commodity.

The Company has acquired from Southern Gold Limited ("Southern Gold") interests in certain exploration tenements within the highly prospective Gawler Craton in South Australia. This State has a favourable geological setting for the discovery of world-class uranium deposits and hosts two of the three operating mines in Australia. Over one third of the world's known uranium resources are located within the Gawler Craton. Southern Uranium has a quality exploration portfolio of advanced mineral tenements covering 10,451 sq km of prospective areas in a geological province that is fast emerging as a leading producer of uranium.

Southern Uranium has established a strong and capable Board of Directors with broad expertise and skills in exploration, mining and commercial ventures which will ably guide the Company in its development and growth. The Directors have in excess of 85 years combined mineral exploration experience in Australian geology and including exploration for iron oxide copper gold uranium (IOCGU) deposits similar to Olympic Dam, unconformity related and palaeochannel uranium deposits.

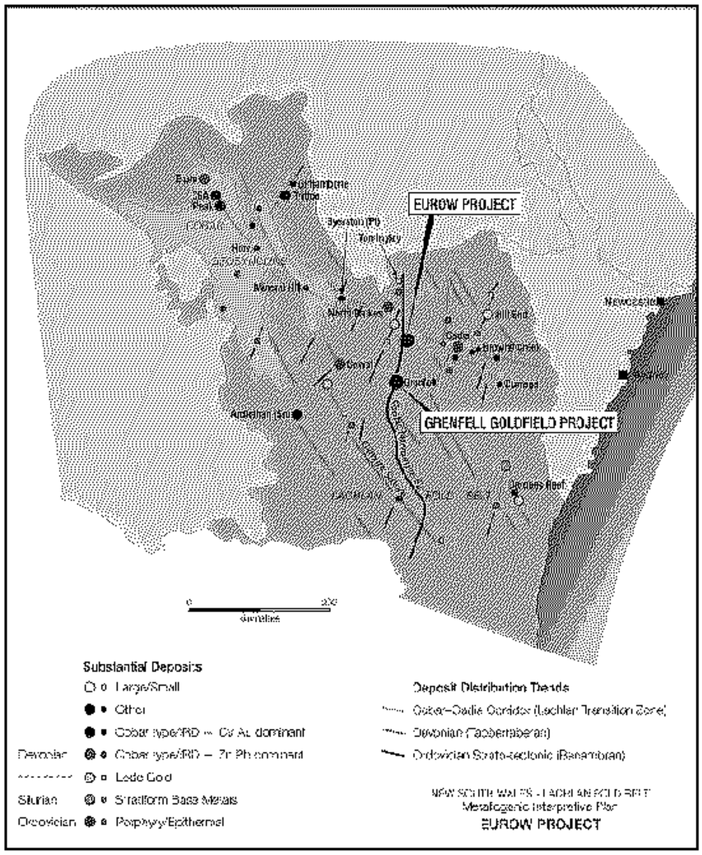
The stated objective of the Company is to create shareholder value through the discovery and development of economic uranium deposits. The working capital will be at levels that ensure adequate liquidity to undertake aggressive exploration and project generation programs. Southern Uranium will commit to joint ventures; farm-ins and acquisitions whenever sound opportunities arise. Directors will develop international contacts and seek joint venture partners with specialized expertise and ability to provide significant finance and markets.

The funds raised under this prospectus will be applied to the established exploration program in the Gawler Craton and to the acquisition of new advanced uranium projects elsewhere in Australia. The priorities for the Gawler Craton will be:- a) targeting IOCGU deposits with more than 10 prospective gravity targets identified within the Company's tenements; and b) modern exploration of approximately 260 kms of prospective palaeochannels with potential for roll-front uranium deposits. The Directors expect to commence exploration immediately following the successful fund raising and look forward to an active and productive first year of operation with considerable emphasis on drilling established and new targets.

Upcoming Drilling

Eurow Project, N.S.W.

(EL 6653 & EL 6698 – 100%)



Southern Gold Limited has been granted two Exploration Licences EL 6653 and EL 6698 in the Parkes district of central NSW, securing substantial base metals and gold potential including a high-calibre drill-ready target.

The tenements are centred on the historic Eurow-Vychan copper gold mine with depth and strike potential for a large sulphide system that warrants immediate drilling.

The Eurow-Vychan system is part of a much larger and newly-recognised mineralised complex with numerous gold and base metal targets covered by Southern Gold's tenement applications.

Southern Gold has secured a drill contractor for the reverse circulation (RC) and diamond core drill program to test the potential for a Resource at Eurow by extending the known mineralisation at depth and along strike from previous drilling.

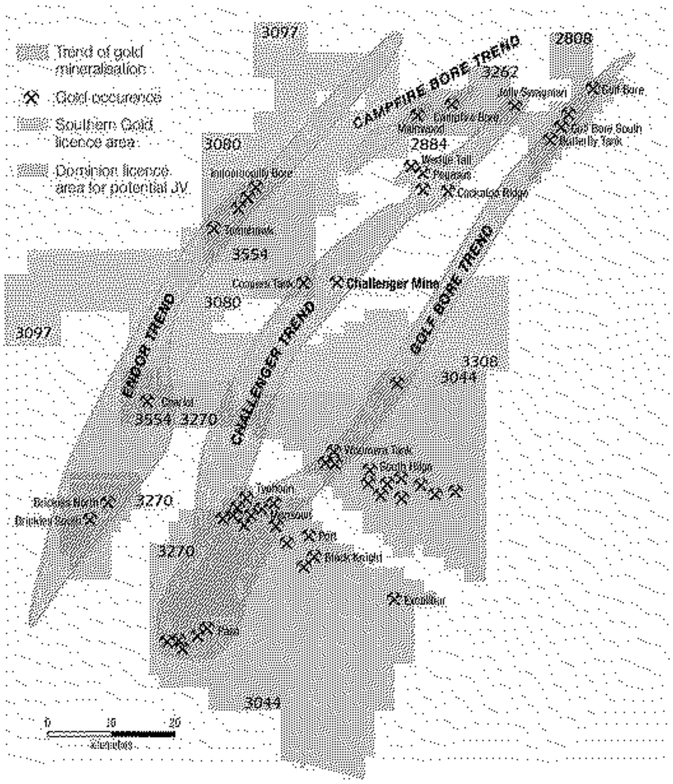
A detailed ground EM geophysical survey will be completed by late January and interpretation of the data will help improve targeting by the eleven drill hole program which is planned to commence in February.

Challenger Region Gold JV, S.A

(Eight EL's – SAU earning 51%)

Southern Gold entered in to a Joint Venture (JV) in October 2006 to find the next "Challenger" with Dominion Mining Ltd on Dominion's Exploration Licences in the north-west Gawler Craton, South Australia. Challenger is currently one of Australia' most profitable gold mines, with mine production for the June 2006 quarter of 25,912 ounces at a cash cost of $329/oz. at a grade of 9.03g/t.

Southern Gold will be applying accurate drilling techniques and the updated structural model of the Challenger Mine to a number of previously identified high grade targets on the exploration licences around Challenger. Southern Gold's substantial drilling program will also be complimented by geophysical methods previously untried in the region, to discover another high grade, low cost gold mine like Challenger.



Challenger Regional Gold Targets

A number of shallow, high-grade gold intercepts were identified by Southern Gold from Dominion's drilling in the mid 1990's. Southern Gold's detailed assessment of the Challenger structural model suggests these targets may be indicators of much larger mineralising systems than previously thought. Priority targets for follow-up drilling are listed in the following table.

These shallow, exploration stage drill results from these prospects are geologically similar to the deep drill intersections of the M1 ore zone at Challenger recently released by Dominion. The M1 ore zone forms the majority of the Mining Reserves at Challenger.

Prospect	Grade	Depth (m)	Hole No.
Golf Bore	52 g/t	71-72	280
Golf Bore	26 g/t	51-52	286
Golf Bore	11 g/t	75-77	290
Mainwood	33.5 g/t	35-36	16
Mainwood	25 g/t	31-32	107
Typhoon	37 g/t	33-34	78
Typhoon	34 g/t	48-49	121
Typhoon	33 g/t	57-58	122
Typhoon	25 g/t	47-48	42
Monsoon	23 g/t	19-20	223
Monsoon	20 g/t	45-46	234
Monsoon	9.7 g/t	47-48	267

High grade gold intercepts on the JV tenements

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This report and further information are available on Southern Gold Limited's website at:

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The information in this report has been compiled by Stephen Biggins (BSc(Hons)Geol, MBA) as a full-time employee of Southern Gold and who is a member of the Australasian Institute of Mining and Metallurgy and is bound by and follows the Institute's codes and recommended practices. As a Competent Person, he has a minimum of 5 years relevant experience in the style of mineralisation and types of activities being reported and has given written consent to the above report in the form and context in which it appears.