DIRECTORS REPORT

The directors present this annual financial report of Southern Gold Limited for the financial year ended 30 June 2007. 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 economic 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 $1,511,170 (2006:$ 694,883)

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 economic 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 the economic entity offered shares in its subsidiary Southern Uranium Limited in an Initial Public Offer. Southern Uranium Limited subsequently listed on the exchange of ASX Limited with the economic entity retaining a 39% interest.

Other than as stated above, or elsewhere referred to in the financial statements or notes thereto there were no changes in the state of affairs of the economic entity.

Subsequent Events

Other than as stated elsewhere in this report, 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 economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Environmental Developments

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

The economic entity's exploration operations are subject to environmental regulations under the various laws of state governments and the Commonwealth. While its exploration activities to date have had a low level of environmental impact, the economic 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 economic entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the economic 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	125,000
30.1.2004	31.12.2007	0.20	125,000
10.2.2004	31.12.2007	0.20	50,000
2.3.2004	31.12.2007	0.20	150,000
10.3.2004	31.12.2007	0.20	250,000
10.11.2004	31.12.2007	0.20	1,263,900
31.3.2005	31.3.2008	0.20	50,000
1.6.2005	1.6.2008	0.20	75,000
15.5.2006	30.6.2010	0.35	1,720,000
8.12.2006	7.12.2011	0.315	250,000
19.2.2007	27.11.2011	0.50	1,000,000
19.2.2007	7.2.2012	0.50	500,000
7.5.2007	7.2.2012	0.50	500,000
27.3.2007	27.3.2012	0.49	400,000
			8,958,900

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 is a founding Managing Director of Southern Gold and has been running the Company since its inception in early 2004. Previous to this, Stephen 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's experience in small company, large corporate and government context within the mining industry provides insight for decision making and strategy.

Stephen is also a Non-Executive Director of Southern Uranium Limited.

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.
John is also Managing Director of Southern Uranium Limited.

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 an accountant with in excess of 30 years of mining industry experience in company secretarial, senior commercial, and chief financial officer roles including lengthy periods with Bougainville Copper Ltd and WMC Resources Ltd. He has had experience with corporate governance issues, debt and equity raising, and project evaluation and feasibility studies in Australia and overseas, and consults to a number of companies in these fields.

He is a director of Australasia Gold Limited, and chairman of Western Desert Resources Limited. During the year he was also an alternative director of Flinders Diamonds Limited, which position terminated on 14th August 2007

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 economic entity as at the date of this report

Directors	Shares		Options	
	Direct	Indirect	Direct	Indirect
C M Horn	1,775,000	310,000	575,000	50,000
S R Biggins	1,500,000	1,937,727	1,500,000	350,000
J A Anderson	2,522,727	81,000	700,000	46,500
M W McDonald	1,714,320	157,500	607,160	-
M R Billing	1,500,000	297,045	500,000	65,000

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

The movement in directors fully paid ordinary shares issued by Southern Gold Limited is as follows:

Directors	Balance 1/7/06	Net Changes	Balance 30/6/07
C M Horn	2,072,727	12,273	2,085,000
S R Biggins	3,322,727	115,000	3,437,727
J A Anderson	2,684,727	(81,000)	2,603,727
M W McDonald	1,952,047	(80,227)	1,871,820
M R Billing	1,783,181	14,364	1,797,545

Directors	Balance 1/7/05	Net Changes	Balance 30/6/06
C M Horn	2,070,500	2,227	2,072,727
S R Biggins	3,345,000	(22,273)	3,322,727
J A Anderson	2,662,000	22,727	2,684,727
M W McDonald	1,954,320	(2,273)	1,952,047
M R Billing	1,815,000	(31,819)	1,783,181

Options to acquire fully paid ordinary shares issued by Southern Gold Limited

Directors	Balance 1/7/06	Net Change	Balance 30/6/07	Balance held Nominally	Vested and exercisable
C M Horn	705,000	(80,000)	625,000	625,000	625,000
S R Biggins	1,025,000	800,000	1,850,000	1,850,000	1,850,000
J A Anderson	781,000	(34,500)	746,500	746,500	746,500
M W McDonald	714,660	(107,500)	607,160	607,160	607,160
M R Billing	657,500	(92,500)	565,000	565,000	565,000

Directors	Balance 1/7/05	Net Change	Balance 30/6/06	Balance held Nominally	Vested and exercisable
C M Horn	705,000	-	705,000	705,000	705,000
S R Biggins	1,047,500	(22,500)	1,025,000	1,025,000	1,025,000
J A Anderson	781,000	-	781,000	781,000	781,000
M W McDonald	727,160	(12,500)	714,660	714,660	714,660
M R Billing	657,500	-	657,500	657,500	657,500

The above table includes shares held by “director-related entities”

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 economic 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. Fees for non-executive directors are not linked to the performance of the economic entity.

Performance Based Remuneration (audited)

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

The economic 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

a) Primary benefits – salary/fees;

b) Post employment benefits – superannuation

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

2007	Primary Salary & Fees $	Post Employment Superannuation $	Share based remuneration $	Total $
C M Horn	125,991	4,127		130,118
S R Biggins	190,150	20,400	239,139	449,689
J A Anderson	176,115	2,477		178,592
M W McDonald	222,964	27,500		250,464
M R Billing	117,070	3,000		120,070
2007 Total	832,290	57,504	239,139	1,128,933

2006	Primary Salary & Fees $	Post Employment Superannuation $	Share based remuneration $	Total $
C M Horn	75,830	4,128	-	79,958
S R Biggins	146,667	13,200	-	159,867
J A Anderson	189,523	2,477	-	192,000
M W McDonald	63,904	23,904	-	87,808
M R Billing	77,700	3,000	-	80,700
2006 Total	553,624	46,709	-	600,333

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 focussed 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 expiring on 21st April 2009.
- Remuneration of $220,000 per annum plus 15% superannuation contributions, pursuant to an amended agreement effective from April 2007.
- 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 3 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 2007 was:

	Number of Board Meetings Held	Number of Board Meetings Attended
C M Horn	13	12
S R Biggins	13	13
J A Anderson	13	13
M W McDonald	13	13
M R Billing	13	13

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 APES 110 Code of Ethics for Professional Accountants.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2007:

	$
Preparation of Income Tax returns	4,400
Assistance with ATO GST audit	1,375

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.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001for leave to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. There were no such proceedings brought or interventions on behalf of the Company with leave from the Court under section 237 of the Corporations Act 2001.

Auditor of the Company

The auditor of the Company for the financial year was Grant Thornton.

Auditor's Independence Declaration

The auditor's independence declaration as required by section 307C of the Corporations Act 2001for the year ended 30 June 2007 is set out immediately following the end of the directors report.

Signed at Adelaide this 27th day of September 2007 in accordance with a resolution of the directors.

Director

Grant Thornton

Chartered Accountants and Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF SOUTHERN GOLD LIMITED & CONTROLLED ENTITIES

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 2007, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

S J GRAY
Partner

Signed at Adelaide this 27 day of September 2007

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Consolidated income statement for the financial year ended 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
Revenue from ordinary activities	3	207,692	150,806	207,692	150,806
Exploration expense written off		(68,935)	(16,628)	(68,935)	(16,628)
Salaries and wages		(152,442)	(139,439)	(152,442)	(139,439)
Directors fees		(140,000)	(140,000)	(140,000)	(140,000)
Audit fees		(28,000)	(17,900)	(28,000)	(17,900)
Legal expenses		(63,890)	(38,634)	(63,890)	(38,634)
Insurance expenses		(21,536)	(17,624)	(21,536)	(17,624)
Shareholder relations		(210,580)	(87,545)	(210,580)	(87,545)
Other consulting expenses		(155,422)	(222,674)	(155,422)	(222,674)
Other administrative expenses		(226,665)	(149,110)	(226,665)	(149,110)
Depreciation		(22,959)	(16,085)	(22,959)	(16,085)
Share based payments		(481,588)	-	(481,588)	-
Share of subsidiary loss		(146,845)	-	-	-
Loss from ordinary activities before income tax expense	**3**	(1,511,170)	(694,883)	(1,364,325)	(694,883)
Income tax expense relating to ordinary activities	**4**	-	-	-	-
Net loss for the year		(1,511,170)	(694,883)	(1,364,325)	(694,883)
Earnings Per Share					
Basic (cents per share) – Loss	**22**	(2.56)	(1.58)		
Diluted (cents per share) – Loss	**22**	(2.56)	(1.58)		

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

Consolidated balance sheet as at 30 June 2007

	Note	Economic Entity		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	5	3,540,889	1,991,053	3,540,889	1,991,053
Trade receivables	**6**	165,275	77,025	165,275	77,025
Other financial assets	**7**	89,937	14,478	89,937	14,478
TOTAL CURRENT ASSETS		3,796,101	2,082,556	3,796,101	2,082,556
NON-CURRENT ASSETS					
Exploration and evaluation expenditure	**8**	4,671,811	1,822,352	2,272,766	1,181,213
Plant and equipment	**9**	93,921	53,432	93,921	53,432
Receivables from related parties	**10**	-	-	2,399,045	581,139
Investments	**13**	1,129,240		1,252,685	
TOTAL NON-CURRENT ASSETS		5,894,972	1,875,784	6,018,417	1,815,784
TOTAL ASSETS		9,691,073	3,958,340	9,814,518	3,898,340
CURRENT LIABILITIES					
Trade and other payables	**11**	380,770	233,863	380,770	233,863
Unearned interest		-	1,641	-	1,641
Provision for employee entitlements	**12**	44,063	21,650	44,063	21,650
TOTAL CURRENT LIABILITIES		424,833	257,154	424,833	257,154
NON-CURRENT LIABILITIES					
Provision for employee entitlements	**12**	4,385	9,317	4,385	9,317
Deferred income		16,385	73,885	16,385	13,885
TOTAL NON-CURRENT LIABILITIES		20,770	83,202	20,770	23,202
TOTAL LIABILITIES		445,603	340,356	445,603	280,356
NET ASSETS		9,245,470	3,617,984	9,368,915	3,617,984
EQUITY					
Contributed equity	**14**	11,208,031	4,923,206	11,208,031	4,923,206
Reserve		822,054		798,654	
Accumulated losses		(2,784,615)	(1,305,222)	(2,637,770)	(1,305,222)
TOTAL EQUITY		9,245,470	3,617,984	9,368,915	3,617,984

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

Statement of change in equity for the year ended 30 June 2007

	Consolidated Entity				Parent Entity			
	Share Capital $	Accumulated Losses $	Reserve $	Total $	Share Capital $	Accumulated Losses $	Reserve $	Total $
Balance at 1 July 2005	3,985,824	(610,339)	-	3,375,485	3,985,824	(610,339)	-	3,375,485
Profit/(loss) attributable to members of the parent entity	-	(694,883)	-	(694,883)	-	(694,883)	-	(694,883)
Issue of Share Capital	937,382	-	-	937,382	937,382	-	-	937,382
Balance at 30 June 2006	4,923,206	(1,305,222)	-	3,617,984	4,923,206	(1,305,222)	-	3,617,984

	Consolidated Entity				Parent Entity			
	Share Capital $	Accumulated Losses $	Reserve $	Total $	Share Capital $	Accumulated Losses $	Reserve $	Total $
Balance at 1 July 2006	4,923,206	(1,305,222)	-	3,617,984	4,923,206	(1,305,222)	-	3,617,984
Profit/(loss) attributable to members of the parent entity	-	(1,511,170)	-	(1,511,170)	-	(1,364,325)	-	(1,364,325)
Movement in reserves	-	31,777	822,054	853,831	-	31,777	798,654	830,431
Issue of Share Capital	6,284,825	-	-	6,284,825	6,284,825	-	-	6,284,825
Balance at 30 June 2007	11,208,031	(2,784,615)	822,054	9,245,470	11,208,031	(2,637,770)	798,654	9,368,915

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated cash flow statement for the year ended 30 June 2007

	Note	Inflows/(Outflows)			
		Economic Entity		Parent Entity	
		2007	2006	2007	2006
		$	$	$	$
Cash flows relating to operating activities					
Interest received	3	177,818	137,902	177,818	137,902
Payments to suppliers and employees		(1,158,414)	(675,937)	(1,158,414)	(615,937)
Net operating cash flows (Note (a))		(980,597)	(536,862)	(980,597)	(536,862)
Cash flows relating to investing activities					
Government grants received		-	73,885	-	13,885
Payments for mining tenements, exploration and evaluation expenditure	8	(3,644,903)	(1,312,747)	(3,644,903)	(1,252,747)
Reimbursed from co-venturers	8	46,041	34,612	46,041	34,612
Payments for plant and equipment	9	(63,448)	(57,172)	(63,448)	(57,172)
Net investing cash flows		(3,754,392)	(1,261,422)	(3,754,392)	(1,261,422)
Cash flows relating to financing activities					
Proceeds from share issues	14	6,385,796	937,482	6,385,796	937,482
Payments for share issue costs	14	(100,971)	(100)	(100,971)	(100)
Net financing cash flows		6,284,825	937,382	6,284,825	937,382
Net increase/(decrease) in cash		1,549,836	(860,902)	1,549,836	(860,902)
Cash at beginning of financial year	5	1,991,053	2,851,955	1,991,053	2,851,955
Cash at end of financial year	5	3,540,889	1,991,053	3,540,889	1,991,053

Note (a): Reconciliation of net loss from ordinary activities to net cash flow from ordinary activities.

Loss from ordinary activities after related income tax	(1,511,170)	(694,883)	(1,364,325)	(694,883)
Share of subsidiary Loss	146,845	-	-	-
Share based remuneration	584,988		584,988	
Unearned Income	(59,141)	1,641	(59,141)	1,641
Depreciation	22,959	16,084	22,959	16,084
Exploration written off	68,935	16,628	68,935	16,628
(Increase) decrease in receivables	(42,209)	105,021	(42,209)	105,021
(Increase) decrease in prepayments	(75,459)	10,200	(75,459)	10,200
Increase/(decrease) in payables	93,019	(19,813)	93,019	(19,813)
Increase/(decrease) in provisions	17,481	28,260	17,481	28,260
Net operating cash flows	(980,597)	(536,862)	(980,597)	(536,862)

The above cash flow statement should be read in conjunction with the accompanying notes.

Notes to the Financial Statements for the Financial Year Ended 30 June 2007

Note 1: Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board1 and the Corporations Act 2001.
The financial report covers the consolidated group of Southern Gold Limited and controlled entities, and Southern Gold Limited as an individual parent entity. Southern Gold Limited is a listed public company, incorporated and domiciled in Australia.
The financial report of Southern Gold Limited and controlled entities, and Southern Gold Limited as an individual parent entity comply with all International Financial Reporting Standards (IFRS) in their entirety.

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

Basis of Preparation
Compliance with IFRS
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of Southern Gold Limited comply with International Financial Reporting Standards (IFRS). The Parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 Financial instruments: Disclosure and presentation.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit and loss, certain classes of property, lant and equipment, and investment property.

The accounting policies set out below have been consistently applied to all years presented.
Reporting Basis and Conventions
The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

a. Principles of Consolidation

A controlled entity is any entity Southern Gold Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in Note 24 to the financial statements. All controlled entities have a June financial year-end.
Subsidiaries are all those entities (including special purpose entities) over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The purchase method of accounting is used to account for the acquisition of subsidiaries.
All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.
Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.
Minority equity interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

b. Income Tax

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

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Southern Gold Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax liabilities, except for any deferred tax liabilities resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liability of each group entity is then subsequently assumed by the parent entity. The group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2006. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

c. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset’s employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset’s original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Plant and equipment 5–33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.
Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

d. Exploration and Development Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. 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. Costs of site restoration are provided over the life of the facility from when exploration commences and are included in the costs of that stage. Site restoration costs include the dismantling and removal of mining plant, equipment and building structures, waste removal, and rehabilitation of the site in accordance with clauses of the mining permits. Such costs have been determined using estimates of future costs, current legal requirements and technology on an undiscounted basis. Any changes in the estimates for the costs are accounted on a prospective basis. In determining the costs of site restoration, there is uncertainty regarding the nature and extent of the restoration due to community expectations and future legislation. Accordingly the costs have been determined on the basis that the restoration will be completed within one year of abandoning the site.

e. Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: Recognition and Measurement of Financial Instruments. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments

These investments have fixed maturities, and it is the group's intention to hold these investments to maturity. Any held-to-maturity investments held by the group are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets

Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Derivative instruments

Derivative instruments are measured at fair value. Gains and losses arising from changes in fair value are taken to the income statement unless they are designated as hedges.
Southern Gold Limited and Controlled Entities designate certain derivatives as either:

i. hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
ii. hedges of highly probably forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

Impairment

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

f. Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

g. Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

h. Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognised the group's share of post-acquisition reserves of its associates.

Where there has been a change recognised directly in an associate's equity, the group recognises its share of any changes and discloses this in the statement of recognised income and expense. The reporting dates of the associates and the group are identical and the associates accounting policies conform to those used by the group for like transactions and events in similar circumstances.

i. Interests in Joint Ventures

The consolidated group's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the consolidated financial statements. Details of the consolidated group's interests are shown at Note 18.

The consolidated group's interests in joint venture entities are brought to account using the equity method of accounting in the consolidated financial statements. The parent entity's interests in joint venture entities are brought to account using the cost method.

j. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Share based payments

The Company has an Employee Share Option Plan where employees may be provided with options to acquire shares in the Company. He bonus element over the exercise price of the employee services rendered in exchange for the grant of shares is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined to the fair value of shares granted.

k. Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

l. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

m. Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Revenue from investment properties is recognised on an accruals basis or straight-line basis in accordance with leases agreements. Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.
All revenue is stated net of the amount of goods and services tax (GST).

n. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the financial position.
Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

o. Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

p. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

q. Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined.

r. Earnings per share

i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares during the year.

s. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2007 reporting periods. The Group’s and parent entity’s assessment of the impact of these new standards and interpretations is considered to be not material.

The financial report was authorised for issue on 27 September 2007 by the board of directors.

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
3. LOSS FROM ORDINARY ACTIVITIES				
Loss from ordinary activities included the following items of revenue and expense:				
a.) **Operating Revenue**				
Interest received/receivable	179,459	136,260	179,459	136,260
Other Income	28,233	14,546	28,233	14,546
	207,692	150,806	207,692	150,806
b.) **Expenses**				
Depreciation of plant and equipment	22,959	16,084	22,959	16,084
Exploration write-offs	68,935	16,628	68,935	16,628

4. 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	1,511,170	694,883	1,364,325	694,883
Income tax benefit calculated at 30% of operating loss	453,351	208,463	409,298	208,463
Tax effect of capital raising costs	30,291	20	30,291	20
Income tax adjusted for temporary differences	483,642	208,483	439,589	208,483
Timing differences and tax losses not brought to account	(483,642)	(208,483)	(439,589)	(208,483)
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	30,291	20	30,291	20
Operating Losses	453,351	208,463	409,298	208,463
	483,642	208,483	439,589	208,483

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.

	Economic Entity		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
5. CASH ASSETS				
Westpac Banking Corporation Cheque Account	110,875	407,276	110,875	407,276
Westpac Banking Corporation Deposit Account – Interest rate of 5.0% (2006: 5.47%)	630,014	83,777	630,014	83,777
Westpac Banking Corporation Bank Bills – Interest rate of 5.73% (2006: 5.47%)	2,800,000	1,500,000	2,800,000	1,500,000
	3,540,889	1,991,053	3,540,889	1,991,053

6. TRADE AND OTHER RECEIVABLES				
Trade Accounts Receivable	165,275	77,025	165,275	77,025
	165,275	77,025	165,275	77,025
7. OTHER FINANCIAL ASSETS				
Prepayments	49,937	2,234	49,937	2,234
Exploration tenement bond	40,000	10,000	40,000	10,000
Other financial assets	-	2,244	-	2,244
	89,937	14,478	89,937	14,478
8. MINING TENEMENTS, EXPLORATION AND EVALUATION EXPENDITURE				
Costs brought forward	1,822,352	586,658	1,181,213	245,187
Less: value of tenements transferred to subsidiaries	-		(35,766)	
Less: value of tenements sold to Southern Uranium Limited	(578,499)	-	(317,135)	-
Expenditure incurred during the year	3,727,255	1,356,424	1,527,274	952,654
Less: Expenditure recovered from co-venturer & via government grants	(230,362)	(104,102)	(13,885)	-
Expenditure written off	(68,935)	(16,628)	(68,935)	(16,628)
	4,671,811	1,822,352	2,272,766	1,181,213

Recoverability of the carrying amount of exploration assets is dependent upon successful exploration, development, and operational activities.

9. PLANT AND EQUIPMENT				
Plant and equipment at cost	134,101	70,653	134,101	70,653
Less: Accumulated depreciation	(40,180)	(17,221)	(40,180)	(17,221)
	93,921	53,432	93,921	53,432
Movement schedule for plant and equipment				
Opening written down value	53,432	12,344	53,432	12,344
Additions	63,448	57,172	63,448	57,172
Disposals	-	-	-	-
Depreciation	(22,959)	(16,084)	(22,959)	(16,084)
Closing written down value	93,921	53,432	93,921	53,432

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
10. NON-CURRENT RECEIVABLES				
Amount due from controlled entity				
- Challenger West Holdings Pty Limited	-	-	289,579	281,121
- CMH Resources Pty Limited	-	-	72,395	69,112
- Gawler Arc Holdings Pty Limited	-	-	75,714	230,906
- Southern Mining Pty Limited	-	-	125,538	-
- New Southern Mining Pty Limited	-	-	27,572	-
- Southern Gold Asia Pty Limited	-	-	1,808,247	-
			2,399,045	581,139

Amounts due from controlled entities accrue no interest and are not subject to repayment schedules

11. CURRENT LIABILITIES – PAYABLES				
Trade payables and accruals	380,770	233,863	380,770	233,863

12. EMPLOYEE ENTITLEMENTS

The aggregate employee entitlement liability recognised in and included in the financial statements is as follows

Provision for employee entitlements				
Current	44,063	21,650	44,063	21,650
Non-Current	4,385	9,317	4,385	9,317
	48,448	30,967	48,448	30,967
Movement schedule for employee provisions				
Opening balance	30,967	2,707	30,967	2,707
Additional provision	36,154	31,491	36,154	31,491
Entitlement utilised	(18,673)	(3,231)	(18,673)	(3,231)
Closing balance	48,448	30,967	48,448	30,967

The current provision portion relates to annual leave, while the non-current portion relates to long service leave.

	No.	No.	No.	No.
Number of employees at end of year	9	8	9	8

13. INVESTMENTS IN ASSOCIATES

	$	$	$	$
Investments in associates	1,129,240	-	-	-

	Balance Date	Ownership interest held by consolidated entity	
		2007	2006
		%	%
Southern Uranium Limited	30 June 2007	39%	-

i) Principle Activity

Southern Ura\nium

– Mineral Exploration

There were no impairment losses relating to the investment in associate and no capital commitments or other commitments relating to the associate

Reconciliation of movement in carrying amount of investment in associates:		
- First time recognition of investment in associates at cost	1,252,685	-
	(123,445)	
- Share of combined net profit/(loss) and movement in reserves after income tax	1,129,240	-
Market value of investments in associates		
- Aggregate market value of investments in associates	11,475,000	-

14. CONTRIBUTED EQUITY

	$	$	$	$
a) Ordinary Shares				
Issued share capital:	10,957,281	4,923,206		
74,285,074 fully paid ordinary shares				
(2006: 45,904,221)				

Movement in issued shares for the year:	2007		2006	
	No.	**$**	**No.**	**$**
Balance at beginning of financial year	45,904,221	4,923,206	41,181,805	3,985,824
Issued at 20 cents	14,075,853	2,815,171	947,500	189,500
Issued at 22 cents	4,500,000	990,000	3,399,916	747,982
Issued at 25 cents	8,900,000	2,225,000	-	-
Issued at 31.5 cents	125,000	39,375	-	-
Issued at 35 cents	180,000	63,000	-	-
Issued as consideration to unrelated parties for project acquisition	600,000	253,250	300,000	-
Issued as consideration to unrelated party for corporate advice	-	-	75,000	-
Costs associated with the issue of shares	-	-	-	(100)
Balance at end of financial year	74,285,074	11,208,031	45,904,221	4,923,206

Fully paid shares carry one vote per share and carry the right to dividends

b) Options on Issue

21,245,903 options to acquire ordinary shares @ $0.20/share (2006: 20,293,403)

Unissued ordinary shares of Southern Gold Limited under option as at 30 June 2007 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	125,000
30.1.2004	31.12.2007	0.20	125,000
10.2.2004	31.12.2007	0.20	50,000
2.3.2004	31.12.2007	0.20	150,000
10.3.2004	31.12.2007	0.20	250,000
10.11.2004	31.12.2007	0.20	1,263,900
31.3.2005	31.3.2008	0.20	50,000
1.6.2005	1.6.2008	0.20	75,000
15.5.2006	30.6.2010	0.35	1,720,000
8.12.2006	7.12.2011	0.315	250,000
19.2.2007	27.11.2011	0.50	1,000,000
19.2.2007	7.2.2012	0.50	500,000
7.5.2007	7.2.2012	0.50	500,000
27.3.2007	27.3.2012	0.49	400,000
			8,958,900

15. DIRECTORS AND EXECUTIVES REMUNERATION

Remuneration disclosures are provided in the Remuneration Report of the Director's Report and designated as "Audited"

16. REMUNERATION OF AUDITORS

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$	$	$	$
Auditing the financial report	20,500	17,900	20,500	17,900
Other services	5,775	2,770	5,775	2,770
	26,275	20,670	26,275	20,670

17, RELATED PARTY DISCLOSURES

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

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 22 to the financial statements

Equity Interests in joint ventures

Details of interests in joint ventures are disclosed in Note 17 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 entities

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

Amounts receivable from the controlled entities are disclosed in Note 10 to the financial statements.

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

c) Transactions with directors

The following comprises payments made to entities in which directors have an interest.

Directors	Economic Entity 2007 $	Economic Entity 2006 $	Parent Entity 2007 $	Parent Entity 2006 $
C M Horn (Hornet Resources Assessments Services Pty Ltd)	80,119	29,958	80,119	29,958
S R Biggins (Genex Resources Pty Ltd)	150	-	150	-
J A Anderson (Austrike Resources Pty Ltd)	148,592	162,000	148,592	120,200
M W McDonald (McDonald Steed McGrath)	220,464	57,808	220,464	55,675
M R Billing (MBB Trading Pty Ltd)	90,070	50,700	90,070	50,700

18. JOINT VENTURES

The economic entity had interests in unincorporated joint ventures at 30 June 2007 as follows:

		Percentage Interest 2007	Percentage Interest 2006
a)	Challenger West Joint Venture	NIL	100%
b)	Tallaringa Joint Venture – Paleochannel uranium exploration	NIL	100%
c)	Southern Gawler Arc Joint Venture – Iron Oxide Copper Gold Uranium exploration	NIL	100%
d)	Yarlbrinda Joint Venture – Iron Oxide Copper Gold Uranium exploration	NIL	100%
e)	Yarlbrinda South Joint Venture – Iron Oxide Copper Gold Uranium exploration	NIL	30%
f)	Torrens South Joint Venture – Iron Oxide Copper Gold Uranium exploration	100%	N/A

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 paleochannel 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 2006 HMR had spent a total of $327,464. Equity in this joint venture was passed to Southern Uranium Limited during the year ended 30 June 2007.

(b) Under the terms of an agreement between the economic entity and Hindmarsh Resources Limited (HMR), the economic entity may earn a 30% interest in paleochannel uranium resources in tenement applications ELA95/05, and ELA199/05 by funding $400,000 in exploration activities. At 30 June 2006 the economic entity had spent a total of $72,639. Equity in this joint venture was passed to Southern Uranium Limited during the year ended 30 June 2007.

(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 2006 HMR had spent a total of $84,284. Equity in this joint venture was passed to Southern Uranium Limited during the year ended 30 June 2007.

(d) Under the terms of an agreement between the economic 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 2006 HMR had spent a total of $18,785. Equity in this joint venture was passed to Southern Uranium Limited during the year ended 30 June 2007.

(e) Under the terms of an agreement between the economic entity and Mr Ian Garsed, the economic entity has acquired a 35% interest in tenement EL6130. The Economic entity may increase this interest to 70% by funding $300,000 in exploration activities, over a three year period. At 30 June 2006 the economic entity had spent a total of $132,420. Equity in this joint venture was passed to Southern Uranium Limited during the year ended 30 June 2007.

(f) Under the terms of an agreement between the economic entity and Uranium West Pty Ltd, Uranium West Pty Ltd may earn a 25% interest in tenements EL6130 with the expenditure of $1million. Subsequently HMR may earn a further 25% interest by funding an additional $3 million in exploration activities. At 30 June 2007 Uranium West Pty Ltd had spent a total of $238,124.

19. COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES

(a) Exploration Expenditure Commitments

The economic 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 economic entity.

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

	2007	2006
	$	$
Not later than one year:	858,000	1,434,000
Later than one year but not later than two years:	426,000	362,000
Later than two years but not later than five years:	129,800	-

(b) Service Agreements

Service agreements between the economic 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 economic 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 economic entity or its projects.

(d) Office Rental

The economic 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

20. FINANCIAL INSTRUMENTS

a. Financial Risk Management

The economic entity's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable, accounts payable and loans to related parties.

The main purpose of non-derivative financial instruments is to raise finance for economic entity operations.

i. Treasury Risk Management

The board of the economic entity meets on a regular basis to analyse currency and interest rate exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

ii. Financial Risks

The main risks the economic entity is exposed to through its financial instruments are liquidity risk and credit risk.

Liquidity risk
The economic entity manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk
The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

b. Financial Instruments

i. Interest Rate Risk
The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates The following table details the exposure to interest rate risk at the reporting date. All other financial assets and liabilities are non-interest bearing.

2006	Floating interest rate	Non-interest Bearing	Total	Floating interest rate
Financial assets				
Cash and deposits	1,991,053	-	1,991,053	5.40%
Receivables	-	77,025	77,025	-
Less: Payables		(233,863)	(233,863)	-
Net financial assets	1,991,053	(156,838)	1,834,215	

2007	Floating interest rate	Non-interest Bearing	Total	Floating interest rate
Financial assets				
Cash and deposits	3,540,889	-	3,540,889	6.10%
Receivables	-	165,275	165,275	-
Less: Payables		(380,770)	(380,770)	-
Net financial assets	3,540,889	(215,495)	3,325,394	

ii. Net Fair Values
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.

21. SHARE OPTION PLAN

The consolidated entity has an ownership-based compensation plan for employees. In accordance with the provisions of the Employee Share Option Plan, as approved by shareholders at an Annual General Meeting, directors may issue options to purchase shares in the company to employees at an issue price determined by the market price of ordinary shares at the time the option is granted. No directors participate in the Employee Share Option Plan.

In accordance with the terms of the Employee Share Option Plan, options vest at grant date and may be exercised at any time from the date of their issue to the date of their expiry.

Share options are not listed, carry no rights to dividends and no voting rights.

The following share based payment arrangements were in existence during the period:

Options – Series	**No.**	**Grant Date**	**Expiry Date**	**Exercise Price**	**Fair value at grant date**
Employee Share Option Plan					
November 2006	1,000,000	28/11/2006	27/11/2011	$0.50	$0.2391
December 2006	375,000	8/12/2006	7/12/2006	$0.315	$0.254

March 2007	400,000	27/3/2007	26/3/2012	$0.49	$0.368

Options were valued using the Black-Scholes model using the following inputs:

	Calculated volatility	Risk free interest rate
November 2006	113%	5.6%
December 2006	113%	5.6%
March 2007	104%	5.6%

The following reconciles the outstanding share options granted under the Plan at the beginning and end of the financial year:

Share Option Plan	**2007**		**2006**	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Balance at beginning of financial year	-	-	-	-
Granted during the financial year	1,775,000	$0.45	-	-
Exercised during the financial year (i)	(125,000)	$0.315	-	-
Lapsed during the financial year	-	-	-	-
Balance at end of the financial year (ii)	1,650,000	$0.463	-	-

(i) Options exercised

The following share options granted under the scheme were exercised during the financial year:

	No.	**Grant Date**	**Exercise Date**	**Exercise Price**	**Share price at exercise date**
February 2007	125,000	8/12/2006	12/2/2007	$0.315	$0.59

No share options granted under the scheme were exercised during the previous financial year:

(ii) Options outstanding at end of the financial year

Options – Series	**No.**	**Grant Date**	**Expiry Date**	**Exercise Price**
November 2006	1,000,000	28/11/2006	27/11/2011	$0.50
December 2006	250,000	8/12/2006	7/12/2006	$0.315
March 2007	400,000	27/3/2007	26/3/2012	$0.49

22. SEGMENT INFORMATION

The economic entity operates in the mineral exploration industry in Australia, and Cambodia

23. EARNINGS PER SHARE

	Consolidated	
	2007	**2006**
	Cents per share	**Cents per share**
Basic earnings per share – loss	(2.56)	(1.58)
Diluted earnings per share – loss	(2.56)	(1.58)

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	(1,511,170)	(694,883)
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	58,964,077	43,969,300

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**	
		2007	**2006**
		%	**%**
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%
Southern Uranium Limited	Australia	N/A	100%
Southern Mining Pty Ltd	Australia	100%	100%
Sunthe UraniumPty Ltd (i)	Australia	N/A	100%
Inferus Resources Pty Ltd (ii)	Australia	100%	100%
Southern Gold Asia Pty Ltd	Australia	100%	N/A
New Southern Gold Pty Ltd	Australia	100%	N/A

(i) All shares in Inferus Resources Pty Ltd are held by Southern Mining Pty Ltd

25. DISPOSAL OF A PREVIOUSLY CONTROLLED ENTITY

During the period Southern Uranium Limited exited the group pursuant to an initial public offer (IPO). Refer prospectus dated 19 February 2007.

26. REGISTERED OFFICE AND PRINCIPLE OFFICE

The registered and principle office of the Company and its controlled entities is;

58 North Terrace, KENT TOWN, SA, 5067

Directors' Declaration

In the directors opinion

1) The financial statements and notes set out on pages 7 to 27 are in accordance with the *Corporations Act 2001*, including:
    a) Complying with Accounting Standards, the *Corporations Act 2001* and other mandatory professional reporting requirements, and
    b) Giving a true and fair view of the company and consolidated entity's financial position as at 30 june 2007 and of their performance for the financial year ended on that date; and
2) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
3) The audited remuneration disclosures on pages 3 to 6 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Director
Adelaide, South Australia
27 September 2007

Grant Thornton

Chartered Accountants and Business Advisers

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SOUTHERN GOLD LIMITED AND CONTROLLED ENTITIES

Report on the financial report

We have audited the accompanying financial report of Southern Gold Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosure), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in the directors' report and not in the financial report.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards, which require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance as to whether the financial report is free of material misstatement.

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

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

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Independence

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

Auditor's opinion

In our opinion:

(a) The financial report of Southern Gold Limited is in accordance with the *Corporations Act 2001*, including:

i. Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

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

(b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

(c) The remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

S J GRAY
Partner

Signed at adelaide this 27 day of September 2007