Annual Report **2010**

SOUTHERN**GOLD**

Contents

Cover: Hydrothermal alteration in drill core, Anchor Prospect, Cambodia.

Southern Gold Limited
ACN 107 424 519
ABN 30 107 424 519

Corporate Directory

Directors

Gregory Boulton AM	Chairman
Nanette Anderson (appointed 23 September 2010)	Managing Director
Michael Billing	Non-executive Director
David Turvey	Non-executive Director

Company Secretary

Nicholas Harding

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Chairman's Letter

GREG BOULTON AM
CHAIRMAN

On behalf of the Directors of Southern Gold Limited, I have pleasure in presenting to you, the Company's 2010 annual report.

Junior Explorer Equity Market Conditions

Equity markets showed a recovery of 13% for the year ended 30th June, 2010 but the higher risk exploration and small cap equities were well below these recovery percentages.

In the world economy, there remain concerns that the recovery may stall, caused by European Government austerity measures, China slowdown and weak consumer demand. On the positive side, this uncertainty has pushed the price of gold to beyond US$1200/oz. On the negative side, companies purely focusing on exploration have had a small recovery in share prices relative to mineral producers.

Exploration Focus

Your management team responded to these tough trading conditions by keeping costs within budget. Exploration expenditure was targeted to gain maximum value on our tenements.

The focus during the past 12 months has been:

- Increase spending on the Bulong project area in Western Australia to determine the high potential of gold deposits of mineable grade and to increase the near-term value of tenements.
- Continue drilling and soil sampling in Cambodia to enable assessment of project areas where increased focus is desired by ourselves or in joint venture (JV) with our partner, the Japanese Government-backed JOGMEC.
- Earn 51% of the JV with Dominion Mining Ltd on tenements neighbouring the million ounce Challenger gold mine in South Australia.
- Prepare and lodge an application for a $7 million grant from the Australian Government Geothermal Drilling Program.

Progress and Achievements

Specific announcements made to the ASX and our shareholders since our last Annual General Meeting, have included:

September 2009	- Mr Grant Thomas appointed General Manager (GM) in Cambodia.
October 2009	- Southern Gold earnt 51% stake in gold JV with Dominion Mining Ltd.
October 2009	- Southern Gold expands gold exploration footprint at Bulong South Project in WA through a new farm-in Joint Venture on three adjoining exploration licences held by Heron Resources Ltd (ASX:HRR)
October 2009	- Southern Gold and Northern Mining Ltd (ASX:NMI) commenced a joint funded reverse circulation (RC) drilling program on the boundary linking the Bulong South tenements of Southern Gold and Northern Mining.
November 2009	- An outstanding gold intersection of 66 m at 2.9 g/t intersected amid range of multiple large gold intersections on boundary of Bulong South.
November 2009	- Announce proposed placement of 40 million ordinary shares in Southern Gold at 12.5c each.
February 2010	- First ever JORC Compliant Inferred resource of 102,000 ounces of gold announced for the Golf Bore (SA) Prospect.
May 2010	- New intersection of 14 m at 4.26 g/t Au from RC drilling new high tenor gold-in-soil anomaly at Cannon Prospect in Bulong South (WA) project.
June 2010	- New multi metallic zone drilled at Anchor Prospect, Cambodia with results from 3 drill holes showing > 4.3 m @ 4.76 g/t Au > 1.0 m @ 11.36 g/t Au

Post-balance date

August 2010	- Exploration programs completed at Southern Gold's Kratie South Project, Cambodia (JOGMEC earning 51%) during 2009-2010 field season, identify new high grade gold discovery at the Gossan prospect within Preak Khlong tenement.
September 2010	- Maiden gold resource of 79,100 ounces at Cannon deposit, Bulong, WA and further exploration projected.

Future Focus

- Following the announcement of the maiden resource estimate of 79,100 ounces of gold at our Cannon Deposit, additional reverse circulation (RC) and diamond drilling is scheduled to test the extensions of gold mineralisation and increase the resource classification of near-surface mineralisation. The near-term objective is to find additional gold deposits in close proximity to the central mining lease with the ultimate aim of sustaining profitable gold production.
- The 2010/11 exploration program will be devoted to testing for extensions of the Cannon gold deposit (in particular to the west and at depth) and testing adjoining prospects at Pinner, Homerton, Monument and Arsenal for similar gold mineralisation as occurs at Cannon. These deposits all lie within a 1.5 km trend.
- In addition, several new gold prospects have been identified via calcrete sampling within a 5 km radius of Cannon.
- The focus at Challenger (SA) will be on greenfields exploration.
- No further work will be performed on geothermal sites, and tenements have been relinquished. This will enable a total focus on all of our gold assets.
- In Cambodia, the drilling dry season commences in November 2010 and encouraging results from assays last season will focus drilling efforts at Kratie South Project (JV with JOGMEC) and Snoul.

The past 12 months have remained challenging for the Company and I congratulate all staff for their untiring work to further mature the exploration upside within our projects. Shareholders can be assured of outstanding expertise and loyalty by staff and Directors to improve the value of your Company.

Staff

Mr Stephen Biggins, one of the founding shareholders and our inaugural Managing Director, resigned on 2 July, 2010 after six years at the helm of our Company. Stephen's effort and commitment during this volatile period for equities, placed us in a strong position for the future. The Board wishes Stephen all the best for the future.

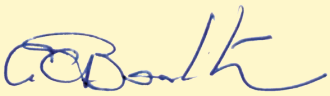
Ms Nanette Anderson was appointed as Managing Director and commenced in the role on 23 September, 2010. Her understanding of both capital raising and involvement in active development and growth of a portfolio of projects, align with the Company's strategic directions.

Our non-executive Directors increased from two to three in June 2010 with the appointment of Mr David Turvey. He is a geologist with more than 27 years experience in the Australian and Asian mining industries where he has driven business development and corporate merger and acquisition activities. David has been an outstanding contributor to the Board in the short time he has been a non-executive Director.

I would also like to thank Mr Mick Billing who acted as Executive Director during the period of recruiting a replacement Managing Director.

Shareholders

Thankyou to our shareholders for your ongoing support and we look forward to you joining us at our AGM, scheduled for Thursday 11th November, 2010. This will provide you with the opportunity to meet our new Managing Director and be updated on our future.



Greg Boulton AM
CHAIRMAN

RC drilling at the Cannon Deposit.

Highlights

AUSTRALIA

Bulong South Project

- Defined an Indicated and Inferred Resource of 79,100 oz @ 3.1 g/t Au, open to the west and at depth at Cannon Deposit.
- Cannon upgraded from 'Prospect' to Deposit in eight months.
- Multiple new advanced targets for testing within two kilometres.

Challenger Gold Project

- Southern Gold completed its earn-in commitment and now holds 51% of the gold rights over the JV tenements with Dominion Mining Limited.
- Inferred Resource Statement of 102,600 oz @ 1.0 g/t Au at Golf Bore.
- Continuing with exploration over large holdings of near-mine tenure.

CAMBODIA

Anchor Prospect (SAU 100%)

- Intense drill program defines new gold and base metal province.
- Additional high grade zones intersected, including:
4.3 m @ 4.76 g/t Au with 136 g/t silver,
1.0 m @ 11.36 g/t Au
1.0 m @ 9.09 g/t Au with 307 g/t silver, plus notable copper, lead and zinc.

Kratie South and Kratie North JV's (JOGMEC earning 51%)

- Further development of valuable JOGMEC JV with funding support and political presence.
- New drill intersection of 3 m @ 5.5 g/t Au and 1 m @ 16.1 g/t Au, plus notable copper, silver and zinc at Preak Khlong Prospect.
- New drill intersection of 3 m @14.6 g/t Au and 2 m @ 1.4 g/t Au, plus notable copper, silver and zinc at Gossan Prospect.

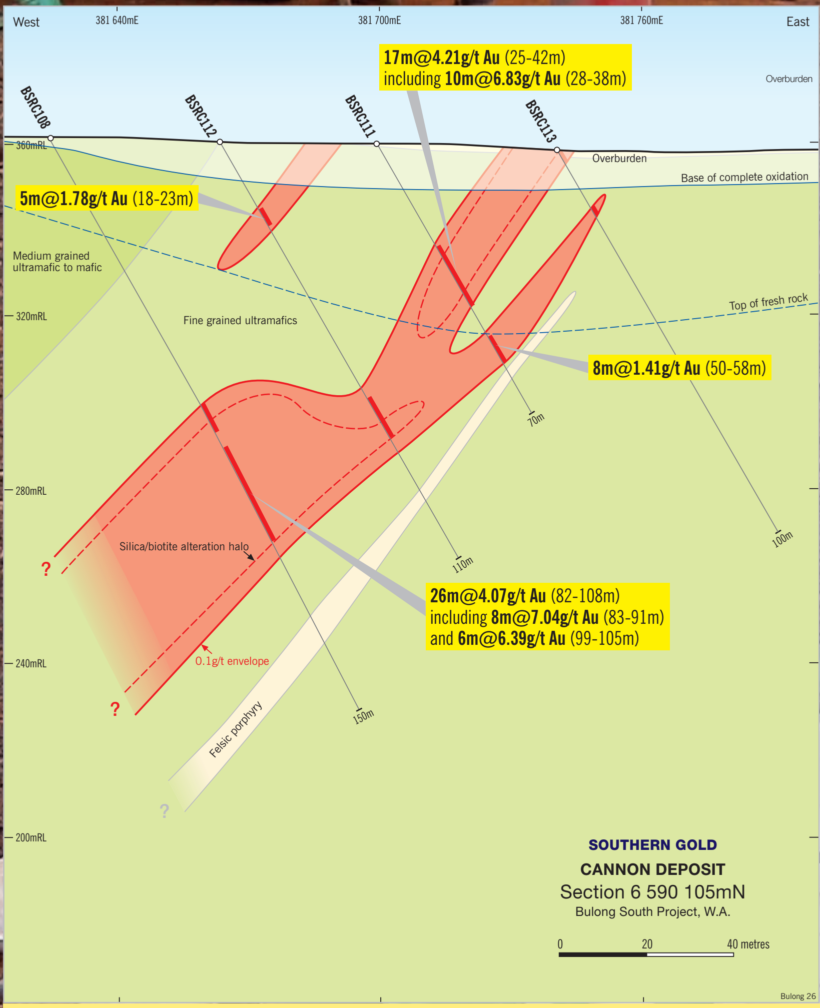


Figure 1 *Surface projection of the Cannon Gold Deposit's mineralised envelope overlain by RC drill collar locations and significant drill intersections incorporated in the resource model.*

Review of activities

Bulong South Project

Bulong South Project, W.A.

(Eight tenements - SAU 100%, three tenements in JV with Heron Resources Limited)

This year's detailed surface sampling program across the entire project area revealed several new gold in soil anomalies. The intense drill exploration of a very strong high priority soil anomaly next to Cannon discovered a new gold system that extends from the surface to beyond the 150 m depth of current drilling.

The four RC drilling programs at Bulong South this year have shown the excellent mineral potential of the entire project area and produced measurable value of this project for the Company and shareholders by the publication of the first gold resource statement for the project. The resource estimate is believed to be the first in a series that is likely to grow substantially, with an objective of identifying sufficient resources in the near term to warrant development and the establishment of a profitable self contained gold mining and processing operation.

This resource estimate was announced to the Australian Securities Exchange on 20 September 2010.

Gold occurs as multiple high grade gold shoots within broader mineralised envelopes of altered felsic porphyries and ultramafic rocks (Figure 1).

Substantial intersections (Figure 2) at Cannon include:

15 m @ 9.55 g/t Au from 138 m in BSRC078

26 m @ 4.07 g/t Au from 82m in BSRC108, including 8 m @7.04 g/t Au from 83 m and 6 m @ 6.39 g/t Au from 99 m.

16 m @ 3.24 g/t Au from 83 m in BSRC103, including 9 m @ 5.33 g/t Au from 86 m

32 m @ 2.14 g/t Au from 128 m in BSRC104, including 11 m @ 4.09 g/t Au from 140 m

14 m @ 4.26 g/t Au from surface in BSRC098

23 m @ 4.42 g/t Au from 57 m in BSRC095

Additionally the resource is open to the west and at depth and drill testing for extensions in both directions is scheduled for the coming year. Repetitions in the hanging and footwall of the deposit will be targeted.

Table A: Cannon Deposit July 2010 ID2 Mineral Resource Estimate - 1.0g/t Au Cut-off

Type	Indicated			Inferred			Total		
	Tonnes	Au	Au	Tonnes	Au	Au	Tonnes	Au	Au
	t	g/t	Ounces	t	g/t	Ounces	t	g/t	Ounces
Oxide	2,000	1.7	100	6,000	3.6	700	8,000	3.1	800
Transitional	14,900	2.6	1,300	89,600	3.5	10,100	105,000	3.4	11,300
Fresh	445,600	2.8	40,700	245,200	3.3	26,300	691,000	3.0	67,000
Total	463,000	2.8	42,100	341,000	3.4	37,100	803,000	3.1	79,100

Totals may not add due to rouding of input numbers

Competent Persons Statement:

The information in this report that relates to Mineral Resources is based on information compiled by Mr P Payne.

Mr Payne, who is a full time employee of Runge and a Member of the Australian Institute of Mining and Metallurgy, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for the Reporting of Mineral Resources and Ore Reserves.

The Mineral Resource estimate complies with recommendations in the Australian Code for Reporting of Mineral Resources and Ore Reserves (2004) by the Joint Ore Reserves Committee (JORC). Therefore it is suitable for public reporting.

Review of activities

Bulong South Project

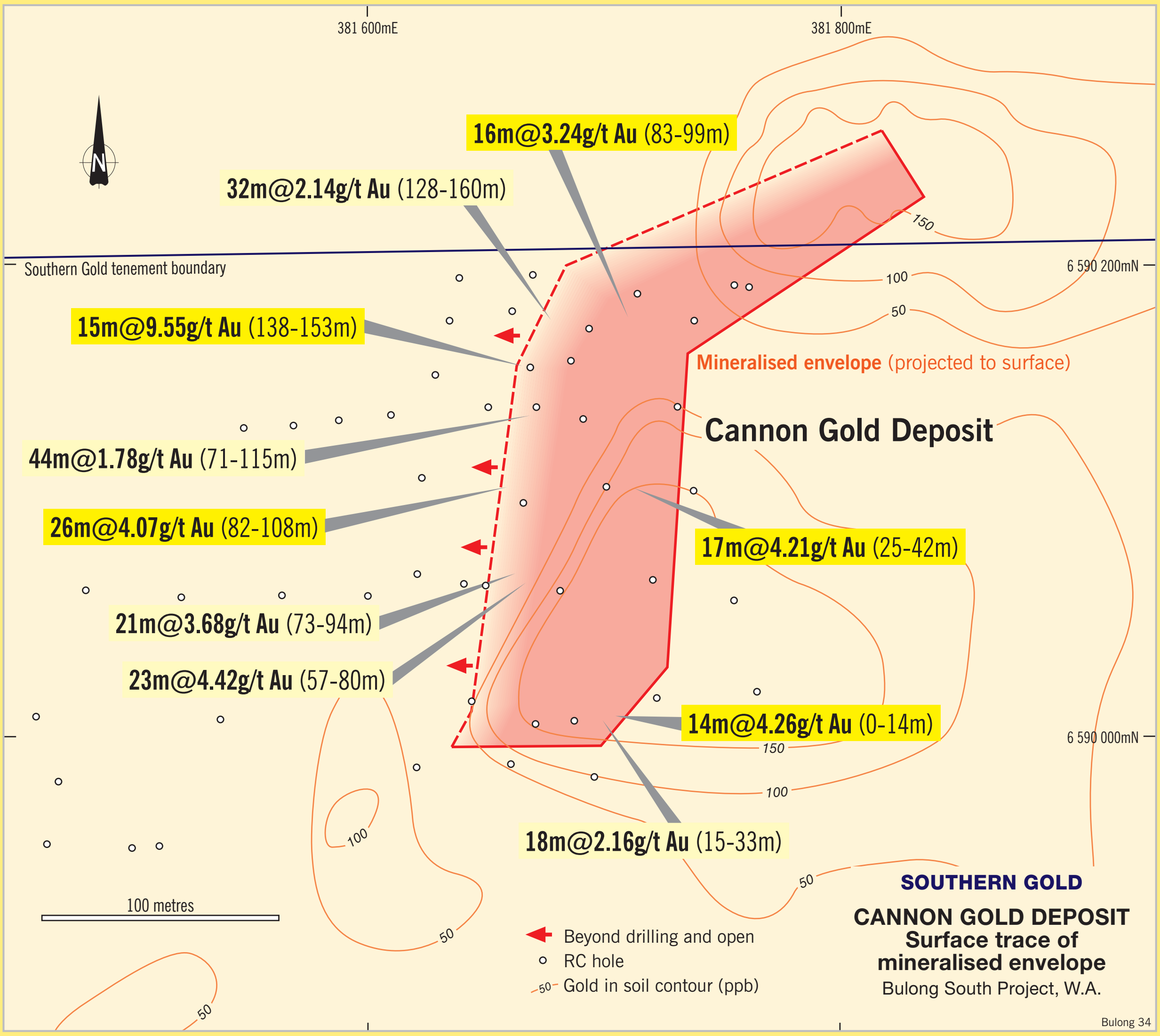


Figure 2 *Surface projection of the Cannon Gold Deposit's mineralised envelope overlain by RC drill collar locations and significant drill intersections incorporated in the resource model.*

Review of activities

Bulong South Project

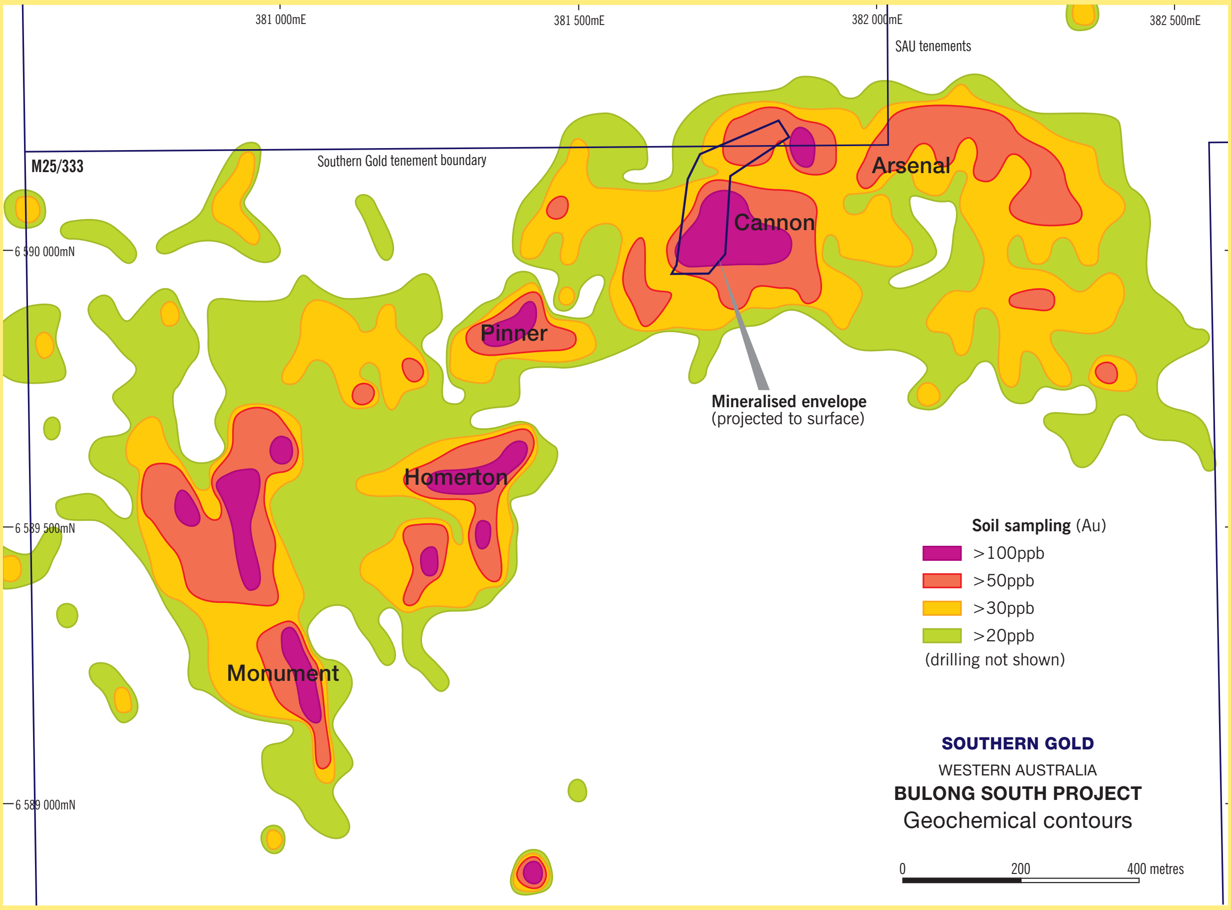


Figure 3 *Contoured gold-in-soil from the central tenement M 25/333. (Drilling not shown). Four high priority targets to be drill tested in the upcoming drill program.*

High priority soil anomalies of similar orders of magnitude as those defined over the Cannon Gold Deposit, are to be drill tested in the final quarter 2010 and early into 2011. Drill targets include extensions of the Cannon Gold Deposit (in particular to the west and at depth) and adjoining prospects including Pinner, Homerton, Monument, and Arsenal (Figure 3). A successful outcome from one or more of these has the potential to substantially increase the resource base of the Bulong South project.

Nearby prospects

In addition, a number of new anomalies identified from soil sampling programs, within a 10 kilometre radius of Cannon, are scheduled for follow up RAB and RC drill testing in 2010/11.

Euston Nickel Sulphide Prospect

Further drilling has been scheduled to test for extensions of the nickel sulphide intersections of up to 2 m @ 2.44% Ni including 4 m @ 1.78% Ni, and 6 m @ 1.4% Ni at the Euston Prospect in the Bulong South project.

Mineralisation at the Anchor Prospect, Cambodia.

Review of activities

Cambodia

Southern Gold has seven granted Exploration Licences (EL) prospective for gold and base metals covering over 1,500km^2 in north east Cambodia.

The Company's exploration program has included drilling and extensive trenching and soil sampling and geological mapping programs. Early stage exploration work over the past 3 years has now defined a number of highly attractive drill targets for testing.

Southern Gold is sole funding exploration on Southern Gold's four 100% owned tenements in Cambodia. This includes exploration work at the Anchor Prospect on the Snoul EL and also the Srae Pok EL.

Exploration on three of Southern Gold's seven tenements in Cambodia, has been fully funded by the Japanese Government-backed JOGMEC pursuant to a Joint Venture agreement whereby JOGMEC can fully fund exploration activity for gold and base metals to a total of US$4.5 million over 3 years to earn a 51% interest in these tenements – Phnum Khtong (Kratie North Project), and two adjoining blocks, Preak Khlong and O'Kthung (Kratie South Project), all to the northeast of Phnom Penh

JOGMEC has recently committed to its third year of the Joint Venture in the Kratie South Project. JOGMEC has spent over US$2.2 million on the JV projects to date, and the third phase of the program is expected to reach US$1.4 million.

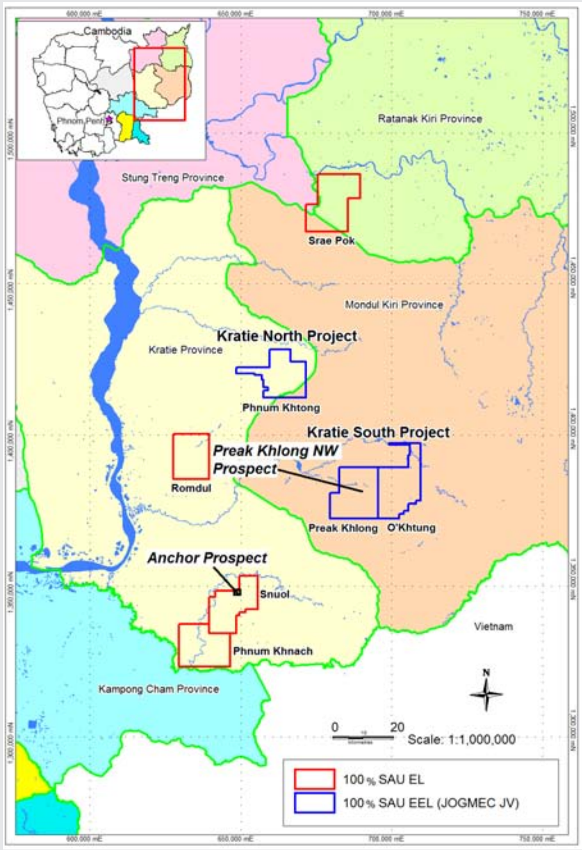


Figure 4 *Southern Gold's Cambodian tenements*

Snoul Project

(Snoul EL - SAU 100%)

A number of prominent gold intersections included 8 m @ 6.31 g/t Au, 4.3 m @ 4.76 g/t Au (with 117 g/t silver), and 1 m @ 11.36 g/t Au have been intercepted by the Company's drilling programs at the Anchor Project at Snoul in northeast Cambodia. High levels of other metals were associated with the gold mineralisation including 1 m @ 307 g/t silver (with 9.09 g/t Au), plus copper, lead and zinc. In the 2009-2010 field season a total of 19 core drillholes for a total of 2099 m was completed.

Gold mineralisation at the Anchor and Snoul Prospects is associated with a series of north striking sulphide-rich quartz veins and alteration. Southern Gold believes this 10 km x 10 km area within the Snoul Project is prospective for intrusive related, epithermal gold vein and polymetallic skarn systems. The mineralised veins drilled at the Anchor Prospect cover only 1% of this area, on the southwest corner of one of these four interpreted intrusives. In addition, small scale artisanal gold mining of similar sulphide veins occurs at the Snoul Prospect, 1 km to the northeast within the same intrusive. Considering the relatively limited distribution of drilling to date, the potential of the area to host additional gold vein sets is high.

The Anchor Prospect, within the Snoul Project, is located 10 km from the main sealed road linking the regional centre of Snoul to Kampong Cham, and Kratie. Road access to this area is good allowing a longer exploration season once the monsoon rains ease.

Follow-up diamond drilling is scheduled at the Anchor Prospect and also over the large (200 km^2) Snoul Project with a view to extending the significant potential of the mineralisation discovered to date.

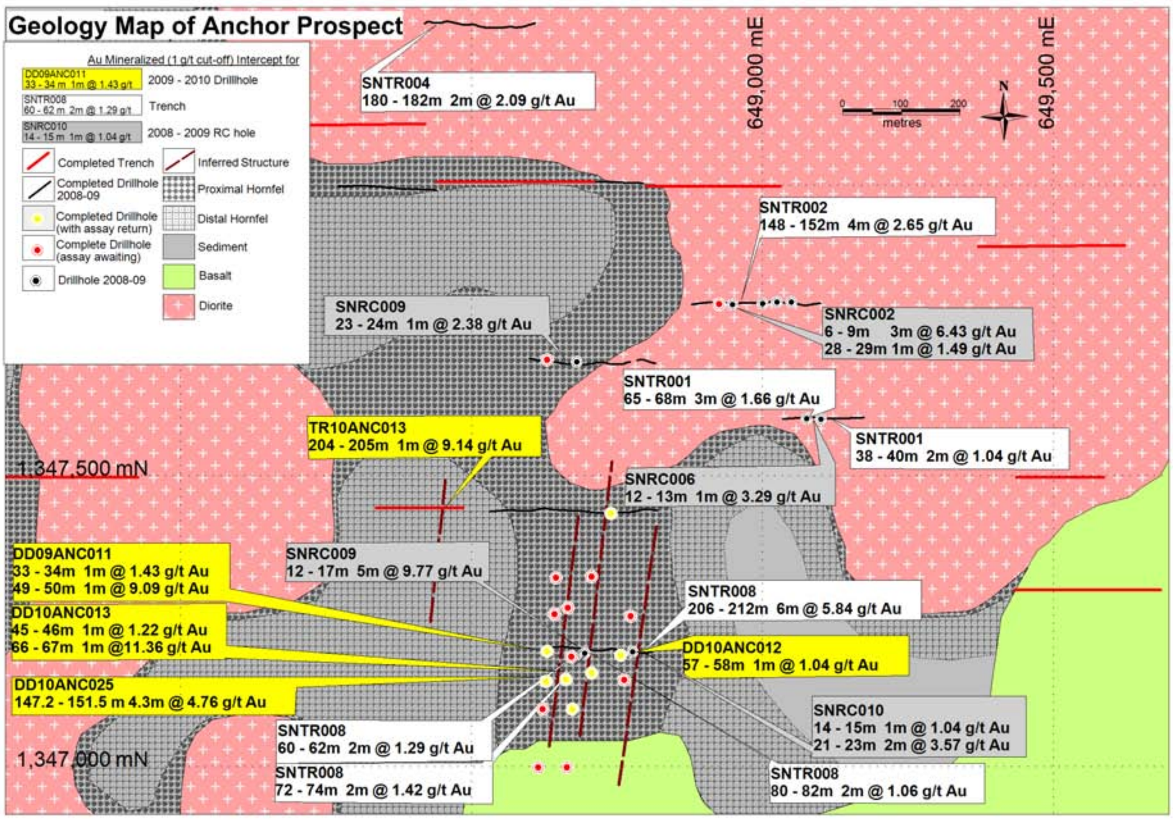


Figure 5 *Geology map of Anchor Prospect*

Figure 6 *Anchor Prospect core samples*

Kratie South Project

(Preak Khlong & O'Khtung EELs, SAU 100% - JOGMEC earning 51%)

The Preak Khlong NW Prospect forms a very strong and coherent gold – arsenic soil anomaly that is approximately 1800 x 250 m in size, with a peak value of 0.1 g/t Au. Diamond drilling in the past year has intercepted 3 m @ 5.5 g/t Au, including 1 m @ 16.1 g/t Au along with notable silver, copper and zinc in each hole. This will be followed up on re-commencement of field activities scheduled for November.

Two diamond drillholes at the Gossan Prospect intercepted 3 m @ 14.6 g/t Au and 2 m @ 1.4 g/t Au along with notable silver, copper, lead and zinc in each hole. These holes were in response to substantial rock chip sample assays nearby, and will be followed up with more diamond drilling in the next field season.

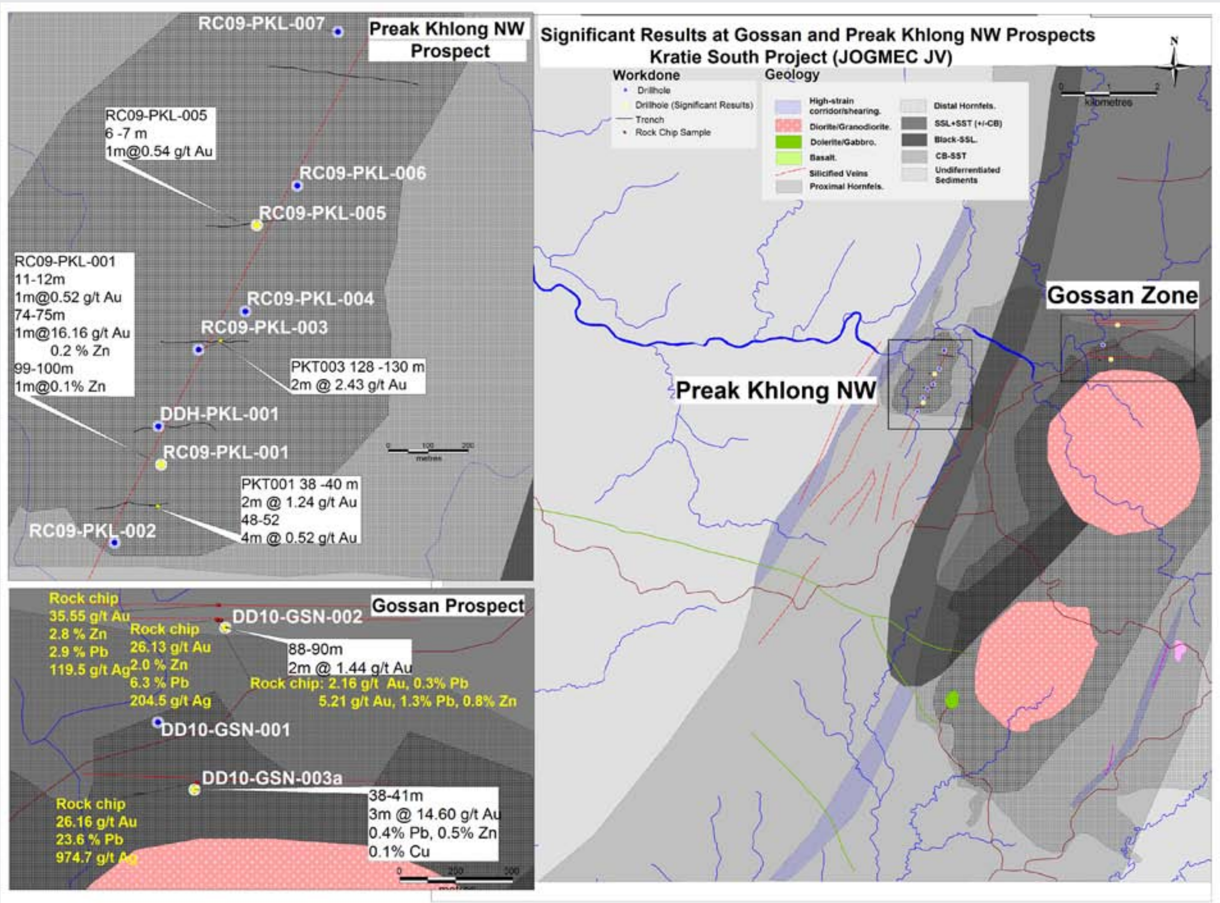
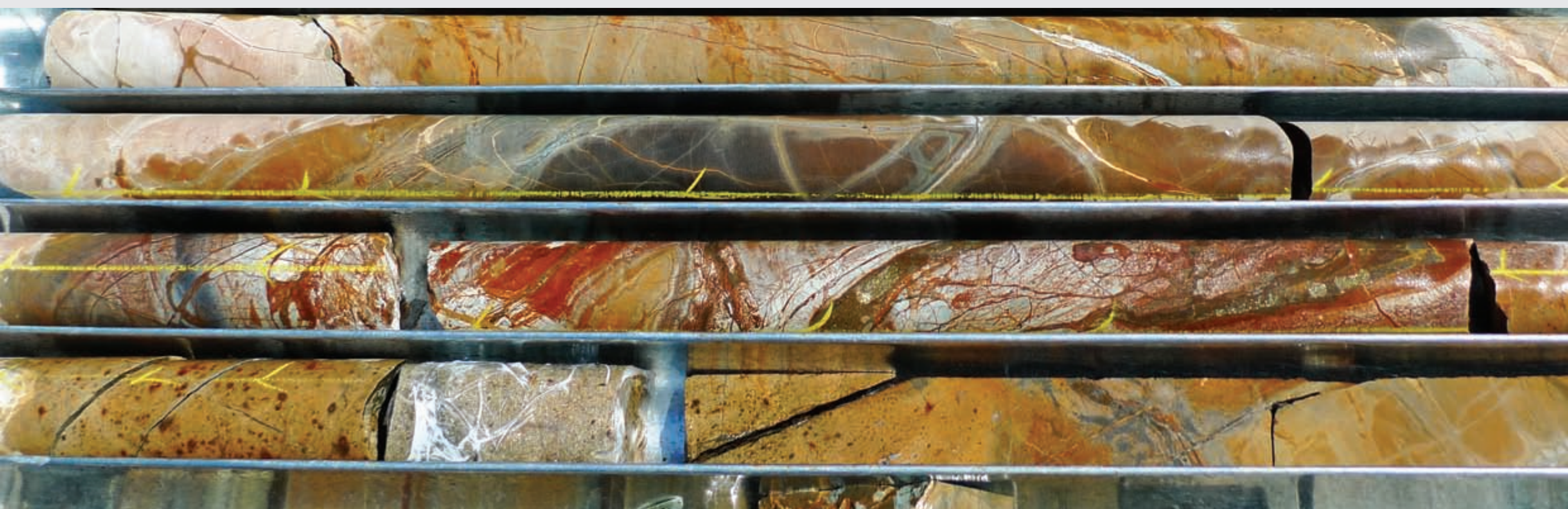


Figure 7 *Preak Khlong and Gossan Prospects*



RC drilling in the Challenger JV.

Review of activities

Challenger Area Gold Project

Challenger Area Gold Project, S.A.

(Seven tenements – SAU 51%)

(Four Tenements – SAU 100%)

During the year Southern Gold earned a 51% interest in the gold rights on seven tenements surrounding (but excluding) the Challenger Mine held by its JV partner Dominion Mining (ASX:DOM).

Golf Bore

On February 24th 2010 Southern Gold announced a JORC compliant Inferred Resource Estimate for the Golf Bore deposit 40 kilometres northeast of the Challenger Mine.

Near Mine Regional Exploration

Elsewhere in the tenement package Southern Gold is continuing with target generation in the regional gold trends and areas of prospective geological packages within the Archaean rocks that host the million ounce Challenger ore body.

Table B: Golf Bore Deposit Inferred Mineral Resource Estimate (0.5 g/t Gold cut-off)

Type	Inferred Mineral Resource		
	Tonnes	Au	Au
	T	g/t	Ounces
Oxide	806,000	1.2	31,300
Fresh	2,430,000	0.9	71,300
Total	3,236,000	1.0	102,600

The information in this report that relates to Mineral Resources is based on information compiled by Mr Aaron Green.

Mr Green, who is a full time employee of Runge Ltd and a Member of the Australian Institute of Geoscientists, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for the Reporting of Mineral Resources and Ore Reserves.

The Mineral Resource estimate complies with recommendations in the Australian Code for Reporting of Mineral Resources and Ore Reserves (2004) by the Joint Ore Reserves Committee (JORC). Therefore it is suitable for public reporting.

Other Projects

New South Wales Projects

At the start of the year Southern Gold held a number of exploration projects in the central western area of New South Wales. Exploration activity to date has not added to their prospectivity and these tenements have been relinquished.

The Eurow (Devils Elbow) and Grenfell projects are considered worthy of continued exploration for intrusive related gold and base metal mineralisation and have been retained.

Roxby Geothermal Project

Southern Gold Limited acquired twenty-two licences to conduct geothermal exploration activities in South Australia during the year. Following a subsequent review of priority activities, the Directors elected not to continue with this project and the Company has relinquished these tenements.

Tenement Schedule

Tenements held during the reporting year.

Project Name	Tenure Number	Name	Registered Titleholder	Area (sq km)	Appplication/ Grant Date	Comments
WESTERN AUSTRALIA						
Bulong South	P25/1680	Bulong South	Southern Gold Limited	200 ha	2/8/2001	replaced by M25/333
Bulong South	P25/1681	Bulong South	Southern Gold Limited	200 ha	2/8/2001	replaced by M25/333
Bulong South	P25/1729	Bulong South	Southern Gold Limited	54 ha	3/1/2006	
Bulong South	P25/1896	Bulong South	Southern Gold Limited	49ha	10/17/2007	
Bulong South	M25/182	Bulong South	Inferus Resources Pty Ltd	429 ha	3/3/2009	
Bulong South	M25/183	Bulong South	Inferus Resources Pty Ltd	295 ha	3/3/2009	
Bulong South	E25/349	Bulong South	Southern Gold Limited	922 ha	3/20/2008	
Bulong South	P25/1990	Bulong South	Southen Gold Limited	121 ha	3/20/2008	
Bulong South	M25/333	Bulong South	Southern Gold Limited	400 ha	3/29/2010	replacement of P25/1680,1681
Bulong South	E25/405	Bulong South	Inferus Resources Pty Ltd	1158 ha	24/03/210	
Bulong South	P 25/2126 appl.	Clinker Hill	Southern Gold Limited	100 ha	1/21/2010	
Bulong South	P 25/2127 appl.	Clinker Hill	Southern Gold Limited	121 ha	1/21/2010	
Bulong South	P 25/2128 appl.	Clinker Hill	Southern Gold Limited	122 ha	1/21/2010	
Bulong South	P 25/2129 appl.	Clinker Hill	Southern Gold Limited	75 ha	1/21/2010	
Bulong South	P 25/2130 appl.	Clinker Hill	Southern Gold Limited	189 ha	1/21/2010	
Bulong South	P 25/2131 appl.	Clinker Hill	Southern Gold Limited	93 ha	1/21/2010	
Bulong South	P 25/2132 appl.	Clinker Hill	Southern Gold Limited	199 ha	1/22/2010	
Bulong South	P 25/2133 appl.	Clinker Hill	Southern Gold Limited	190 ha	1/22/2010	
Bulong South	P 25/2134 appl.	Clinker Hill	Southern Gold Limited	122 ha	1/21/2010	
Bulong South	P 25/2135 appl.	Clinker Hill	Southern Gold Limited	121 ha	1/21/2010	
Bulong South	P 25/2136 appl.	Clinker Hill	Southern Gold Limited	122 ha	1/21/2010	
Bulong South	P 25/2137 appl.	Clinker Hill	Southern Gold Limited	121 ha	1/21/2010	
Bulong South	P 25/2138 appl.	Clinker Hill	Southern Gold Limited	200 ha	1/22/2010	
Bulong South	P 25/2139 appl.	Clinker Hill	Southern Gold Limited	126 ha	1/22/2010	
Bulong South	P 25/2140 appl.	Clinker Hill	Southern Gold Limited	121 ha	1/22/2010	
Bulong South	P 25/2141 appl.	Clinker Hill	Southern Gold Limited	188 ha	1/22/2010	
Bulong South	P 25/2142 appl.	Clinker Hill	Southern Gold Limited	166 ha	1/22/2010	
Bulong South	P 25/2155 appl.	Clinker Hill	Southern Gold Limited	122 ha	4/24/2010	
Bulong South	P 25/2156 appl.	Clinker Hill	Southern Gold Limited	122 ha	4/24/2010	
Bulong South	P 26/3762 appl.	Clinker Hill	Southern Gold Limited	118 ha	1/22/2010	
Bulong South	P 26/3781 appl.	Clinker Hill	Southern Gold Limited	160 ha	4/22/2010	
Bulong South	P 26/3782 appl.	Clinker Hill	Southern Gold Limited	193 ha	4/22/2010	
Bulong South	P 26/3783 appl.	Clinker Hill	Southern Gold Limited	188 ha	4/22/2010	
CAMBODIA						
Kratie South		O'Kthung	Southern Gold Ltd (100%), JV with JOGMEC	271.5 / 245	2/3/2007	reduced to 245km2 on renewal in July 2009
Kratie South		Preak Khlong	Southern Gold Ltd (100%), JV with JOGMEC	274 / 247	2/3/2007	reduced to 247km2 on renewal in July 2009
Kratie North		Phnum Khtong	Southern Gold Ltd (100%), JV with JOGMEC	234 / 211	2/3/2007	reduced to 211km2 on renewal in July 2009
Phnum Romdul		Phnum Romdul	Southern Gold Ltd (100%)	180	24/06/2007	
Snoul		Snoul	Southern Gold Ltd (100%)	198	24/06/2007	
Srae Pok		Srae Pok	Southern Gold Ltd (100%)	258	2/12/2007	
Phnum Khnach		Phnum Khnach	Southern Gold Ltd (100%)	225	29/04/2007	

Project Name	Tenure Number	Name	Registered Titleholder	Area (sq km)	Appplication/ Grant Date	Comments
SOUTH AUSTRALIA						
Challenger West	4161	Garford	Challenger West Holdings Pty Ltd (80%), CMH Resources Pty Ltd (20%)	497	6/24/2008	
Challenger West	4165	Indooroopilly	Challenger West Holdings Pty Ltd (80%), CMH Resources Pty Ltd (20%)	496	7/15/2008	
Challenger West	3308	Half Moon Lake	Southern Gold Limited	517	2/17/2005	
Challenger West	4156	Commonwealth Hill	Challenger West Holdings Pty Ltd	526	6/16/2008	
Challenger Dominion JV	3782	Campfire Bore	Dominion Gold Operations Pty Ltd, Coombedown Resources Pty Ltd	42	5/21/2007	
Challenger Dominion JV	4014	Mulgathing	Dominion Gold Operations Pty Ltd	1704	1/2/2008	
Challenger Dominion JV	3262	Sandstone JV	Dominion Gold Operations Pty Ltd, Coombedown Resources Pty Ltd	226	10/14/2004	
Challenger Dominion JV	3270	Jumbuck	Dominion Gold Operations Pty Ltd	933	10/27/2004	
Challenger Dominion JV	3300	Mobella	Dominion Gold Operations Pty Ltd	270	1/24/2005	
Challenger Dominion JV	3435	Sandstone	Dominion Gold Operations Pty Ltd	89	10/20/2005	
Challenger Dominion JV	3554	Blowout	Dominion Gold Operations Pty Ltd	336	5/8/2006	
Challenger Dominion JV	3629	Skye	Dominion Gold Operations Pty Ltd	48	9/15/2006	
Roxby Geothermal	GEL 297	Oak Dam	Inferus Resources Pty Ltd	499	8/12/2008	
Roxby Geothermal	GEL 300	Punt Hill Geothermal	Inferus Resources Pty Ltd	499	8/12/2008	
Roxby Geothermal	GEL 301	Torrens	Inferus Resources Pty Ltd	498	8/12/2008	
Roxby Geothermal	GEL 302	Harris Crossing	Inferus Resources Pty Ltd	499	8/12/2008	
Roxby Geothermal	GEL's 462-463, 465-480	Stuart Shelf (18 GEL areas)	Inferus Resources Pty Ltd	8029	8/12/2009	
Torrens South	3513	Lake Torrens	Inferus Resources Pty Ltd	860	1/31/2006	relinquished 30 January 2010
Torrens South	3515	Harris Crossing	Inferus Resources Pty Ltd	634	1/31/2006	relinquished 30 January 2010
Warrior South	3284	Mount Finke	Challenger West Holdings Pty Ltd	321	12/2/2004	
Yarlbrinda	3217	Nuckulla	Southern Gold Limited	372	7/12/2004	relinquished October 2009
NEW SOUTH WALES						
Grenfell	6122	Grenfell	Inferus Resources Pty Ltd	239 / 152	9/1/2003	reduced to 152km2 on renewal in Aug 2009
Eurow-Vychan	6653	Devil's Elbow	Southern Gold Limited	283	10/20/2006	
Southern NSW	6903	Binda	Southern Gold Limited	82.35	10/8/2007	

Corporate Governance Statement

In March 2003 the Australian Securities Exchange Corporate Governance Council ("ASXCGC") released its best practice Principles and Recommendations for corporate governance for ASX listed companies, with a revision of these effective from 1 January 2008. 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 2010.

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 currently consists of four directors of whom three, including the Chairman, are Non-executives. Mr Boulton's role as Chairman of the Board is separate from that of the Managing Director, Ms Anderson 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 regards to their rights, duties, and obligations as Directors in relation to the affairs of the Company.

Principle 3 Promote ethical and responsible decision making

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.

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 two non-executive Board directors, Messrs Billing, and Boulton, and is chaired by Mr Billing.

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 Securities 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 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 $300,000 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.

Performance Evaluation

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

Nanette Anderson
MANAGING DIRECTOR
Appointed 23 September 2010

David Turvey
NON-EXECUTIVE DIRECTOR
Appointed 18 June 2010

Southern Gold Board (as at 30 June 2010), from left to right,
Director M R Billing, Managing Director S Biggins, Chairman G C Boulton AM and Company Secretary N J Harding

Southern Gold Limited – Consolidated Entity

Directors' Report

The directors present their report of Southern Gold Limited (the Company) and its controlled entities (consolidated group or group) for the financial year ended 30 June 2010.

Principal Activities

The principal continuing activity of the group in the year was the exploration for gold, copper, nickel, and other economic mineral deposits.

Financial Results

The net result of operations for the group for the year was a loss after income tax of $1,232,405 (2009: $3,557,337).

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

Southern Gold actively explored its project tenements during the year with the principle focus directed towards Bulong South, Challenger, and in Cambodia

Drilling results at **Bulong South** during the year have substantially improved the value of this project to the Company and shareholders, with the publication of the first gold resource statement at the Cannon prospect for the project. This resource estimate is believed to be the first in a story that is likely to grow substantially, with an objective of identifying sufficient resources in the near term to warrant development and the establishment of a profitable self contained gold mining and processing operation. In the coming months Southern Gold will be conducting an aggressive drilling campaign to build on this resource and also test a number of very near targets aimed at discovering additional deposits.

The total estimate of resources confirmed from Reverse Circulation drilling to date comprises 803,000 tonnes at 3.1 g/t for 79,100 ounces of gold. This resource estimate was announced to the Australian Securities Exchange on 20 September 2010.

Cannon Gold Deposit Initial Mineral Resource Estimate - 1.0g/t Au Cut-off

Type	Indicated			Inferred			Total		
	Tonnes t	Au g/t	Au Ounces	Tonnes t	Au g/t	Au Ounces	Tonnes t	Au g/t	Au Ounces
Oxide	2,000	1.7	100	6,000	3.6	700	**8,000**	**3.1**	**800**
Transitional	14,900	2.6	1,300	89,600	3.5	10,100	**105,000**	**3.4**	**11,300**
Fresh	445,600	2.8	40,700	245,200	3.3	26,300	**691,000**	**3.0**	**67,000**
Total	**463,000**	**2.8**	**42,100**	**341,000**	**3.4**	**37,100**	**803,000**	**3.1**	**79,100**

This estimate was conducted by, and the above table prepared by Runge Limited in compliance with recommendations in the Australasian Code for Reporting Mineral Resources and Ore Reserves (2004) by the Joint Ore Reserves Committee (JORC).

The information in this report that relates to Mineral Resources is based on information compiled by Mr P Payne. Mr Payne, who is a full time employee of Runge Limited and a Member of the Australian Institute of Mining and Metallurgy, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he has undertaken to qualify as a Competent Person as defined in the 2004 Edition of the Australasian Code for the Reporting of Mineral Resources and Ore Reserves. Mr Payne consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

Southern Gold Limited – Consolidated Entity

At the **Challenger Project** in South Australia Southern Gold announced a JORC compliant Inferred Resource Estimate for the Gold Bore deposit 40 kilometres northeast of the Challenger Mine

During the year Southern Gold also earned a 51% interest in the gold rights on eight tenements surrounding (but excluding) the Challenger Mine held by its JV partner Dominion Mining (ASX:DOM). Dominion has exercised its right to co-contribute to project exploration and a joint venture has been formed with Southern Gold managing activities.

At **Snoul in northeast Cambodia** a number of prominent gold intersections included **8m @ 5.9g/t gold, 4 metres @ 5.8 g/t gold, and 1 metre @ 11.36 g/t gold** have been intercepted by the Company's drilling programs at the Anchor project. High levels of other metals were associated with the gold mineralisation including 8m @ 307g/t silver, plus copper, lead and zinc.

In the joint venture with JOGMEC The **Preak Khlong NW Anomaly** is a very strong and coherent gold – arsenic anomaly that is approximately 1800 X 250m in size, with a peak value of 0.1 g/t gold. Diamond drilling in the past year has intercepted 3 metres @ 5.5 g/t gold and 1 metre @ 16.1 g/t gold along with notable silver, copper, and zinc in each hole. This will be followed up on re-commencement of field activities scheduled for November.

Two diamond drill holes at the **Gossan anomaly** intercepted 3 metres @ 14.6 g/t gold and 2 metres @ 1.4 g/t gold along with notable silver, copper, lead, and zinc in each hole. These holes were in response to substantial rock chip sample assays nearby, and will be followed up with more diamond drilling in the next field season.

Changes in State of Affairs

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

Events Subsequent to Balance Date

On 2 July 2010 the Managing Director Stephen Biggins resigned from the Company. Ms Nanette Anderson has been announced as the new Managing Director of Southern Gold and will commence in late September 2010. Mick Billing has assumed Executive Director duties for the interim period.

On 20 September 2010 the Company announced a maiden indicated and inferred resource of 79,100 ozs gold at 3.1 g/t for the Cannon deposit at the Bulong South project in Western Australia.

Other than the above, there has not arisen in the interval any matters or circumstances, since the end of the financial year which significantly affected or could affect the operations of the Company, the results of those operations, or the state of the Company in future years.

Likely Developments

Further information about likely developments in the operations of the Company and the expected results of those operations in future years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company.

Environmental Regulation and Performance Statement

The Company's operations are subject to significant environmental regulations under Commonwealth, South Australian, Western Australian and NSW legislation in relation to discharge of hazardous waste and materials arsing from any mining activities and development conducted by the Company on any of its tenements. To date the Company has only carried out exploration activities and there have been no known breaches of any environmental obligations.

Southern Gold Limited – Consolidated Entity

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	Fair Value at Grant Date ($)	Exercise Price ($)	Number under Option
8.12.2006	7.12.2011	0.254	0.315	250,000
19.02.2007	7.02.2012	0.231	0.50	500,000
7.05.2007	7.02.2012	0.467	0.50	500,000
22.10.2007	21.10.2012	0.310	0.35	50,000
26.02.2008	28.11.2012	0.132	0.75	500,000
25.06.2008	25.03.2013	0.131	0.19	200,000
26.08.2008	25.05.2013	0.109	0.20	100,000
30.09.2008	30.09.2013	0.096	0.15	425,000
30.09.2008	30.09.2013	0.093	0.15	425,000
29.06.2009	29.06.2012	0.080	0.15	1,500,000
30.06.2009	30.06.2014	0.098	0.30	150,000
23.10.2009	23.10.2014	0.096	0.15	250,000
30.10.2009	30.10.2014	0.082	0.15	500,000
				5,350,000

Option holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

For details of options issued to Directors and Executives as remuneration, refer to the Remuneration Report.

During the year ended 30 June 2010, no ordinary shares of Southern Gold Limited were issued on the exercise of options granted. No further shares have been issued since year end.

Directors

The Directors of the Company at any time during the financial year are as set out below. Details of Directors' qualifications, experience and special responsibilities are as follows:

Greg Boulton AM

B.A (Accounting), FCA, FCPA, FAICD (Non-Executive Chairman)

Greg has extensive commercial experience spanning over 25 years as CEO and Non-Executive Director for many Private and Public companies. He has broad experience in capital raisings, acquisitions and commercial negotiations and is a Fellow of the Institute of Chartered Accountants, CPA Australia and the Australian Institute of Company Directors.

Greg is currently Chairman of Paragon Equity Limited, an Adelaide based private equity firm and Deputy Chairman of ASX listed K&S Corporation Limited. He is also on the board of the Statewide Superannuation Trust.

Greg currently has 900,000 shares and 500,000 options to acquire further shares in Southern Gold Limited.

Southern Gold Limited – Consolidated Entity

Mick Billing
B Bus, ASA, MAICD (Executive Director)

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.

Mick is also Executive Chairman of AIM listed Thor Mining PLC. He previously has acted as Chairman of ASX listed Western Desert Resources Limited and as a Non-Executive Director of Australasia Gold Limited.

Mick currently has 1,856,061 shares and 500,000 options to acquire further shares in Southern Gold Limited.

David Turvey
B Sc(Hons) Geol, MAusIMM (Non-Executive Director) – (commenced 18 June 2010)

David is a geologist with over 27 years experience in the Australian and Asian mining industries where he has driven business development and corporate M&A activities in precious metals, bulk commodities and industrial minerals. His experiences include holding key management roles and consulting assignments in minerals exploration, technical marketing, project development and commercial evaluation of mineral asset investments.

David is currently a Non-Executive Director of ASX listed Lawson Gold Limited and is a former Managing Director of FerrAus Limited.

He currently owns no shares or options to acquire further shares in Southern Gold Limited.

Stephen Biggins
BSc (Hons) Geol, MBA, MAusIMM (Managing Director) – (resigned 2 July 2010)

Stephen is a founding Managing Director of Southern Gold and has been running the Company since its inception in early 2004. Prior 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 previously has acted as a Non-Executive Director of ASX listed Southern Uranium Limited.

He currently has 3,757,727 shares and 2,500,000 options to acquire further shares in Southern Gold Limited.

Company Secretary
The following person held the position of Company Secretary at the end of the financial year:

Nick Harding
B.A (Acc),Grad Dip (Acc), Grad Dip (Applied Finance), Grad Dip (Corp Governance), FCPA, F Fin, ACIS (Company Secretary)

Nick is an accountant with over 25 years experience in the resources industry. He has held senior financial roles at various times with WMC Resources Limited, Normandy Mining Limited and Newmont Australia Limited and currently consults to a number of exploration companies in providing financial and company secretarial services.

Southern Gold Limited – Consolidated Entity

Remuneration Report (audited)

Remuneration Policy (audited)

The remuneration policy is designed to align Key Management Personnel 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 Group, as well as create goal congruence between Directors, Executives and shareholders.

The Company's policy for determining the nature and amounts of emoluments of board members and other Key Management Personnel of the Company is as follows:

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 has been set at $300,000 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 Non-executive Directors and approved 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 other executive officers and employees is determined by the Managing Director subject to the approval of the Board.

Non-executive Director remuneration is by way of fees and statutory superannuation contributions. Non-executive Directors do not participate in schemes designed for remuneration of executives and are not provided with retirement benefits other than salary sacrifice and statutory superannuation.

The Company's remuneration structure is based on a number of factors including the particular experience and performance of the individual in meeting key objectives of the Company. The Board is responsible for assessing relevant employment market conditions and achieving the overall, long term objective of maximising shareholder benefits, through the retention of high quality personnel.

The Company does not presently emphasise payment for results through the provision of cash bonus schemes or other incentive payments based on key performance indicators of Southern Gold given the nature of the Company's business as a mineral exploration entity and the current status of its activities. However the Board may approve the payment of cash bonuses from time to time in order to reward individual executive performance in achieving key objectives as considered appropriate by the Board.

The Company also has an Employee Share Option Plan approved by shareholders that enables the Board to offer eligible employees options to acquire ordinary fully paid shares in the Company. Under the terms of the Plan, options to acquire ordinary fully paid shares may be offered to the Company's eligible employees at no cost unless otherwise determined by the Board in accordance with the terms and conditions of the Plan. The objective of the Plan is to align the interests of employees and shareholders by providing employees of the Company with the opportunity to participate in the equity of the Company as an incentive to achieve greater success and profitability for the Company and to maximise the long term performance of the Company.

The employment conditions of the Managing Director are formalised in a contract of employment. The base salary as set out in the employment contract is reviewed annually. The Managing Director's contract may be terminated at any time by mutual agreement. The Company may terminate the contract without notice in instances of serious misconduct.

Mr Harding is not employed by the Company. His services are provided in his capacity as a consultant to act as Chief Financial Officer and Company Secretary of Southern Gold.

Performance-based Remuneration (audited)

The Group currently has no performance based remuneration component built in to Non-executive Director packages. The Managing Director has included in his remuneration package an incentive payment based on a percentage of fixed remuneration, conditional upon the achievement of certain performance criteria being met. The maximum percentage of fixed remuneration for the current financial year is 25%. The performance conditions, or Key Performance Indicators (KPI's) are set by the Board, and may vary from year to year, but reflect the financial and operating goals of Southern Gold Limited. The Board has set KPI measures, which must be achieved in any individual KPI before an entitlement to any payment for that KPI.

Southern Gold Limited – Consolidated Entity

The Group has one Executive Director, and three 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.

Remuneration packages contain the following key elements:

Primary Benefits – salary/fees;

Post Employment Benefits – superannuation

Shares issued on exercise of remuneration options (audited)

No shares were issued to Directors as a result of the exercise of remuneration options during the financial year.

Directors' interests in shares and options (audited)

Directors' relevant interests in shares and options of the Company are disclosed in Note 4 of the Financial Report.

Options granted as remuneration (audited)

Details of options granted as remuneration to key management personnel in the year are as follows:

Key Management Personnel	Grant Date	Number	Value $	Exercise Price	Value per option at Grant Date	Amount paid / payable by recipient	% of total remuneration
G Thomas	23 October 2009	250,000	24,066	$0.15	$0.096	0	12%
G C Boulton	30 October 2009	500,000	40,928	$0.15	$0.082	0	34%
S R Biggins[1]	30 October 2009	1,000,000	81,856	$0.15	$0.082	0	23%

[1] S Biggins options lapsed on his resignation as a director under the terms of the option agreement. The value of options that have lapsed during the year due to vesting conditions not being satisfied have been determined at the time of their lapsing as if vesting conditions have been satisfied.

All options granted have vested and no options were exercised in the financial year.

Remuneration of Directors and Key Management Personnel (audited)

This report details the nature and amount of remuneration for each Key Management Person of Southern Gold Limited and for Executives receiving the highest remuneration.

Southern Gold Limited – Consolidated Entity

(a) Directors and Key Management Personnel

The names and positions held by Directors and Key Management Personnel of the Company during or since the end of the financial year are:

Directors	Position
G C Boulton AM	Chairman – Non-executive
S R Biggins[1]	Managing Director - Executive
M R Billing[2]	Director – Non-executive
D J Turvey [3]	Director – Non-executive

Key Management Personnel	Position
N J Harding	Chief Financial Officer / Company Secretary
P W Hill	Exploration Manager
G Thomas [4]	General Manager - Cambodia

1 S R Biggins resigned 2 July 2010
2 M R Billing acting as Executive Director from 2 July 2010
3 D J Turvey commenced 18 June 2010
4 G Thomas commenced 31 August 2009

(b) Directors' remuneration

2010 Primary Benefits	Directors' Fees $	Salary and Leave $	Cash Bonus $	Performance Incentive Payments $	Super Contribution $	Options [1] $	Total $
G C Boulton AM	80,004	-	-	-	-	40,928	120,932
S R Biggins	-	236,133	-	-	35,420	81,856	353,409
M R Billing	36,400	-	-	-	3,600	-	40,000
D J Turvey	1,517	-	-	-	150	-	1,667
	117,921	236,133	-	-	39,170	122,784	516,008

2009 Primary Benefits	Directors' Fees $	Salary and Leave $	Cash Bonus $	Performance Incentive Payments $	Super Contribution $	Options $	Total $
G C Boulton AM	80,000	-	-	-	-	-	80,000
S R Biggins	-	267,556	-	-	37,950	-	305,506
M R Billing	36,400	-	-	-	3,600	-	40,000
J A Anderson	15,291	-	-	-	1,376	-	16,667
M W McDonald	23,333	-	-	-	-	-	23,333
M S Duffy	-	-	-	-	-	-	-
	155,024	267,556	-	-	42,926	-	465,506

[1] G Boulton and S Biggins were issued 500,000 and 1,000,000 options respectively at an exercise price of 15 cents in October 2009, expiring on 30 October 2013.

Southern Gold Limited – Consolidated Entity

No proportion of remuneration related to performance conditions.

The Directors conclude that there are no other executives requiring disclosure other than those listed above.

(c) Service agreements

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

- Mr Biggins agreed to provide his services on an annual basis with an option to extend for a further 12 months at the expiration date. The current service agreement expired on 21 April 2010 and Mr Biggins did not extend.
- Remuneration of $253,000 per annum plus 15% 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 three calendar months' notice.

The Company entered into a service agreement with an entity associated with Mr Boulton on 19 February 2008 to provide services over and above his duties as Chairman on an as needs basis at a daily rate of $1,000 covering his term as a Non-executive Director of the Company.

The Company entered into a service agreement with an entity associated with Mr Billing on 24 April 2005 to provide services over and above his duties as a Non-executive Director on an as needs basis at a daily rate of $1,000 covering his term as a Non-executive Director of the Company.

(d) Director related entities

During the year to 30 June 2010 the Company paid consulting fees totalling $10,000 to a Director related entity of Mr Boulton and $4,050 to a Director related entity of Mr Billing for services provided beyond their duties as Non-executive Directors.

Information of amounts paid to director related entities is set out in note 14 to the financial statements.

(e) Key Management Personnel Remuneration

2010 Primary Benefits	Salary and Leave $	Cash Bonus $	Super Contribution $	Options [2] $	Total $
N J Harding [1]	-	-	-	-	-
P W Hill	161,192	-	24,179	-	185,371
G Thomas	167,436	-	15,069	24,066	206,571
	328,628	-	39,248	24,066	391,942

Southern Gold Limited – Consolidated Entity

2009 Primary Benefits	Salary and Leave $	Cash Bonus $	Super Contribution $	Options [2] $	Total $
N J Harding [1]	-	-	-	-	-
P W Hill	154,668	-	19,381	28,429	202,478
	154,668	-	19,381	28,429	202,478

[1] Mr Harding was appointed Chief Financial Officer on 7 April 2008 and Company Secretary from 19 February 2009. Mr Harding is not employed by the Company. His services are provided in his capacity as a consultant to act as Chief Financial Officer and Company Secretary of Southern Gold Limited. Mr Harding was paid $152,437 (2009: $123,608).

[2] Mr Hill was issued 300,000 options at an exercise price of 15 cents in September 2008, expiring on 30 September 2013. Mr Thomas was issued 250,000 options at an exercise price of 15 cents in October 2009, expiring on 23 October 2014.

(f) Post employment/retirement and termination benefits

There were no post employment retirement and termination benefits paid or payable to Directors or Key Management Personnel.

Meetings of Directors

The Company held 15 meetings of Directors (including committees of Directors) during the financial year. Attendances by each Director during the year were as follows:

	Director Meetings		Audit Committee Meetings	
	Number of Board Meetings Eligible to Attend	Number of Board Meetings Attended	Number of Board Meetings Eligible to Attend	Number of Board Meetings Attended
G C Boulton AM	13	13	2	2
S R Biggins	13	12	2	2
M R Billing	13	13	2	2
D J Turvey	1	1	-	-

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 adversely affect the integrity 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 set by the Accounting Professional and Ethical Standards Board.

Southern Gold Limited – Consolidated Entity

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2010:

	$
Preparation of Income Tax returns	12,860
Provision of tax advice	29,680

Indemnification and insurance of officers

Indemnification

The Company is required to indemnify the Directors and other officers of the Company against any liabilities incurred by the Directors and officers that may arise from their position as Directors and officers of the Company. No costs were incurred during the year pursuant to this indemnity.

The Company has entered into deeds of indemnity with each Director whereby, to the extent permitted by the Corporations Act 2001, the Company agreed to indemnify each Director against loss and liability as an officer of the Company, including all liability in defending any relevant proceedings.

Insurance Premiums

Since the end of the previous year the Company has paid insurance premiums in respect of Directors' and Officers' liability and legal expenses' insurance contracts.

The terms of the policies prohibit disclosure of details of the amount of insurance cover, the nature thereof and the premium paid.

Proceedings on behalf of the Company

No person has applied to the Court for leave to bring proceedings on behalf of the Company or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings. The Company was not a party to any such proceedings during the year.

Auditor of the Company

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

Auditor's Independence Declaration

The auditor's independence declaration as required by section 307C of the Corporations Act 2001 for the year ended 30 June 2010 is set out immediately following the end of the Directors' report.

Dated at Adelaide, this 24th day of September 2010

The report of Directors, incorporating the Remuneration Report is signed in accordance with a resolution of the Board of Directors:

G C Boulton AM

Chairman

M R Billing

Director

AUDITORS INDEPENDENCE DECLARATION

GrantThornton

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67 Greenhill Rd
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AUDITOR'S INDEPENDENCE DECLARATION
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 year ended 30 June 2010, 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

J L Humphrey
Partner

Adelaide, 24 September 2010

Southern Gold Limited – Consolidated Entity

Statement of Comprehensive Income for the Year ended 30 June 2010

	Note	2010 $	2009 $
Revenue from ordinary activities	2	324,164	256,297
Net gain on sale of investment in associate	22	2,141,698	-
Exploration expenditure written off		(1,484,607)	(675,659)
Salaries and wages		(658,652)	(803,358)
Directors fees		(117,921)	(155,024)
Shareholder relations		(123,434)	(142,289)
Other consulting expenses		(373,798)	(356,999)
Other administrative expenses	2	(639,285)	(601,050)
Depreciation		(51,621)	(61,889)
Share based payments		(146,849)	(301,121)
Share of associate's loss		-	(665,146)
Loss before income tax expense		(1,130,305)	(3,506,238)
Income tax expense	3	(102,100)	(51,099)
Loss for the year		(1,232,405)	(3,557,337)
Other comprehensive income			
Exchange differences on translation of foreign controlled entity		111,871	156,902
Total comprehensive income for the year		(1,120,534)	(3,400,435)
Earnings Per Share			
Basic (cents per share) – Loss	20	(0.76)	(3.37)
Diluted (cents per share) – Loss	20	(0.76)	(3.37)

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

Southern Gold Limited – Consolidated Entity

Statement of Financial Position as at 30 June 2010

	Note	2010 $	2009 $
CURRENT ASSETS			
Cash and cash equivalents	5	3,131,787	1,961,189
Trade and other receivables	6	651,495	402,654
Other assets	7	107,493	132,622
TOTAL CURRENT ASSETS		3,890,775	2,496,465
NON-CURRENT ASSETS			
Other assets	7	156,326	215,117
Exploration and evaluation expenditure	8	12,960,332	10,641,436
Plant and equipment	9	141,827	142,054
TOTAL NON-CURRENT ASSETS		13,258,485	10,998,607
TOTAL ASSETS		17,149,260	13,495,072
CURRENT LIABILITIES			
Trade and other payables	10	660,670	799,226
Provision for employee benefits	11	22,546	16,854
TOTAL CURRENT LIABILITIES		683,216	816,080
NON-CURRENT LIABILITIES			
Provision for employee benefits	11	20,805	21,836
TOTAL NON-CURRENT LIABILITIES		20,805	21,836
TOTAL LIABILITIES		704,021	837,916
NET ASSETS		16,445,239	12,657,156
EQUITY			
Issued capital	12	25,020,634	20,258,866
Reserves		2,070,784	1,844,707
Retained earnings		(10,646,179)	(9,446,417)
TOTAL EQUITY		16,445,239	12,657,156

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

Southern Gold Limited – Consolidated Entity

Statement of Changes in Equity for the Year ended 30 June 2010

	Issued Capital $	Retained Earnings $	Share-Based Payment Reserve $	Foreign Currency Translation Reserve $	Total $
Balance at 1 July 2008	17,049,441	(5,889,080)	1,419,261	(32,577)	12,547,045
Total comprehensive income	-	(3,557,337)	-	156,902	(3,400,435)
Fair value of options issued to employees	-	-	301,121	-	301,121
Issue of Share Capital	3,209,425	-	-	-	3,209,425
Balance at 30 June 2009	20,258,866	(9,446,417)	1,720,382	124,325	12,657,156
Total comprehensive income	-	(1,232,405)	-	111,871	(1,120,534)
Transfer share of associate's share-based payments to accumulated losses	-	32,643	(32,643)	-	-
Fair value of options issued to employees	-	-	146,849	-	146,849
Issue of Share Capital	4,761,768	-	-	-	4,761,768
Balance at 30 June 2010	25,020,634	(10,646,179)	1,834,588	236,196	16,445,239

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

Southern Gold Limited – Consolidated Entity

Statement of Cash Flows for the year ended 30 June 2010

	Note	2010 $	2009 $
Cash flows relating to operating activities			
Interest received		71,928	45,438
Payments to suppliers and employees		(2,265,508)	(1,363,260)
Net operating cash flows (Note (a))		(2,193,580)	(1,317,822)
Cash flows relating to investing activities			
Payments exploration and evaluation assets		(5,123,986)	(2,492,596)
Reimbursed from co-venturers		1,369,829	1,102,874
Proceeds from sale of investments		2,475,000	-
Payments for plant and equipment		(57,425)	(13,160)
Net investing cash flows		(1,336,582)	(1,402,882)
Cash flows relating to financing activities			
Proceeds from share issues		5,041,092	3,117,564
Payments for share issue costs		(340,332)	(170,330)
Net financing cash flows		4,700,760	2,947,234
Net increase/(decrease) in cash		1,170,598	226,530
Cash at beginning of financial year	5	1,961,189	1,734,659
Cash at end of financial year	5	3,131,787	1,961,189

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

	2010 $	2009 $
Loss from ordinary activities after related income tax	(1,232,405)	(3,557,337)
Non-cash flows in profit		
Share of subsidiary Loss	-	665,146
Share based remuneration	146,849	301,121
Shares issued for tenements	-	170,000
Gain on sale of investment	(2,141,698)	-
Deferred Income	-	(13,885)
Depreciation	51,621	61,889
Movement in foreign exchange	120,107	(24,443)
Tax effect of capital raising expenses	102,100	51,099
Exploration written off	1,486,071	675,659
Changes in assets and liabilities		
(Increase) decrease in receivables	(162,969)	(21,063)
(Increase) decrease in prepayments	83,920	(12,082)
Increase/(decrease) in payables	(651,837)	473,623
Increase/(decrease) in provisions	4,661	(87,549)
Net operating cash flows	(2,193,580)	(1,317,822)

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

Southern Gold Limited – Consolidated Entity

Notes to the Financial Statements for the Financial Year Ended 30 June 2010

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Southern Gold Limited and controlled entities ('Consolidated Group' or 'Group').

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

The financial report covers the consolidated group of Southern Gold Limited, a listed public company incorporated and domiciled in Australia.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards.

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.

These financial statements have been prepared on an accruals basis and are based on the historical cost convention where applicable, by the measurement at fair value of selected non current assets, financial assets and financial liabilities.

The accounting policies set out below have been consistently applied to all years presented.

Third statement of financial position

Two comparative periods are presented for the statement of financial position when the Group:

i. Applies an accounting policy retrospectively,

ii. Makes a retrospective restatement of items in its financial statements, or

iii. Reclassifies items in the financial statements

The Group has determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.

Adoption of new and revised accounting standards

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current annual accounting period. The 2009 comparatives contained in these financial statements therefore differ from those published in the financial statements for the year ended 30 June 2009 as described below.

Significant effects on current, prior or future periods arising from the first-time application of the standards discussed above in respect of presentation, recognition and measurement of accounts are described in the following notes.

Adoption of AASB 8 Operating Segments

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports provided to or received by the chief operating decision maker which for the Group is the Board of Directors.

Southern Gold Limited – Consolidated Entity

Adoption of AASB 101 Presentation of Financial Statements (revisions), AASB 2007-8 and 2007-10 Amendments arising from revisions to AASB 101

The Group has adopted the revisions to AASB 101 Presentation of Financial Statements in these financial statements which has resulted in the introduction of the statement of comprehensive income, changes to the statement of changes in equity, and other terminology changes.

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 23 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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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.

Accounting policies of subsidiaries are consistent with those adopted by the Parent Entity.

b. Income Tax

The income tax expense (benefit) for the year comprises current income tax expense/(income) and deferred income tax (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted at reporting date.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax (expense)/benefit is charged or credited directly to equity instead of the profit and loss when the tax relates to items that are credited or charged directly to equity.

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 statement of comprehensive income 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 – Consolidated Entity

b. Income Tax (Continued)

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. Plant and Equipment

Each class of 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.

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 reporting 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 statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

d. Exploration and Evaluation Expenditure

Exploration and evaluation and 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.

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.

Southern Gold Limited – Consolidated Entity

d. Exploration and Evaluation Expenditure (Continued)

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

Initial recognition and measurement

Financial assets and liabilities are recognised when the entity becomes a party to the provisions to the instrument. For financial assets this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset.

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

Classification and subsequent measurement

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

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

i. 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.

ii. Financial liabilities

Non-derivative financial liabilities are subsequently measured at amortised cost.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired.

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 statement of comprehensive income.

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.

Southern Gold Limited – Consolidated Entity

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 17.

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. The cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

Share based payments

The Company has an Employee Share Option Plan where employees may be provided with options to acquire shares in the Company. The fair value of the options are measured at grant date and recognised as an expense over the vesting period with a corresponding increase in equity. The fair value of options is ascertained using the Black-Scholes pricing model which incorporates all market vesting conditions.

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.

m. Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. 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).

Southern Gold Limited – Consolidated Entity

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 statement of financial position 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. Investments in associates

Associate companies are companies in which the group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the company. Investment in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognises the initial investment at cost and adjusted thereafter for the Group's share of post-acquisition reserves and profits/(losses) of its associates.

q. Trade and other payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the group during the period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

r. Comparative Figures

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

s. 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 Judgments — Impairment of Exploration and Evaluation Assets

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

The Group capitalises expenditure relating to exploration and evaluation where it is considered likely to be recoverable or where the activities have not reached a stage which permits a reasonable assessment of the existence of reserves. While there are certain areas of interest from which no reserves have been extracted, the Directors are of the continued belief that such expenditure should not be written off since feasibility studies in such areas have not yet concluded.

Southern Gold Limited – Consolidated Entity

t. Earnings per share

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.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect and other financing costs associated with dilutive potential ordinary shares and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

u. New accounting standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013)

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

The changes made to accounting requirements include:

—simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;

—simplifying the requirements for embedded derivatives;

—removing the tainting rules associated with held-to-maturity assets;

—removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

—allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and

Southern Gold Limited – Consolidated Entity

u. New accounting standards for application in future periods (Continued)

—reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:

a. the objective of the entity's business model for managing the financial assets; and

b. the characteristics of the contractual cash flows.

AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010)

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010)

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010)

These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010)

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011)

Southern Gold Limited – Consolidated Entity

u. New accounting standards for application in future periods (Continued)

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010)

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

The financial report was authorised for issue on 24th September 2010 by the Board of Directors.

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	2010 $	2009 $
2. LOSS FROM ORDINARY ACTIVITIES		
Loss from ordinary activities included the following items of revenue and expense:		
a.) **Operating Revenue**		
Interest received/receivable	144,585	36,236
Net gain on sale of investment in associate	2,141,698	-
Other Income	179,579	220,061
	2,465,862	256,297
b.) **Other Administrative Expenses**		
Office rent	148,289	152,339
3. INCOME TAX EXPENSE		
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	1,130,305	3,506,238
Income tax benefit calculated at 30% of operating loss	339,091	1,051,871
Tax effect of capital raising costs	102,100	51,099
Income tax adjusted for temporary differences	441,191	1,102,970
Timing differences and tax losses not brought to account	(339,091)	(1,051,871)
Income tax attributable to loss from ordinary activities	102,100	51,099
b) Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur		
Operating Losses	339,091	1,051,871
c) Income tax losses		
Total deferred tax asset arising from carried forward tax losses not recognised as meeting probable criteria		
Tax Losses at 30%	2,950,004	2,153,290

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.

Southern Gold Limited – Consolidated Entity

4. INTERESTS OF KEY MANAGEMENT PERSONNEL

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the group's key management personnel for the year ended 30 June 2010. The totals of remuneration paid to key management personnel during the year are as follows:

	2010 $	2009 $
Short term employee benefits	682,682	577,248
Post employment benefits	78,418	62,307
Share-based payments	146,850	28,429
	907,950	667,984

Mr Harding is not employed by the company and provides his services as a consultant. Mr Harding was paid $152,437 (2009: $123,608).

(a) The names and positions held of the group's key management personnel in office at any time during the financial year are:

Directors	Position
G C Boulton AM	Chairman – Non-executive
S R Biggins[1]	Managing Director – Executive
M R Billing	Director – Non-executive
D J Turvey	Director – Non-executive (commenced 18 June 2010)

Key Management Personnel	Position
N J Harding	Chief Financial Officer / Company Secretary
P W Hill	Exploration Manager
G Thomas	General Manager Cambodia

[1] S R Biggins resigned 2 July 2010

Key management personnel remuneration paid or payable has been included in the Remuneration Report of the Directors Report for the year ended 30 June 2010.

(b) The number of ordinary shares held by Key Management Personnel in Southern Gold Limited during the financial year is as follows:

30 June 2010	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during year	Other changes during the year[4]	Balance at end of year
G C Boulton AM	650,000	-	-	250,000	900,000
S R Biggins	3,757,727	-	-	-	3,757,727
M R Billing	1,976,061	-	-	(120,000)	1,856,061
D J Turvey[5]	-	-	-	-	-
N J Harding	-	-	-	-	-
P W Hill	-	-	-	-	-
G Thomas	-	-	-	-	-
	6,383,788	-	-	130,000	6,513,788

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30 June 2009	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during year	Other changes during the year[4]	Balance at end of year
G C Boulton AM	150,000	-	-	500,000	650,000
S R Biggins	3,357,727	-	-	400,000	3,757,727
M R Billing	1,957,045	-	-	19,016	1,976,061
J A Anderson[1]	2,603,727	-	-	-	2,603,727
M W McDonald[2]	1,871,820	-	-	-	1,871,820
M S Duffy[3]	-	-	-	-	-
N J Harding	-	-	-	-	-
P W Hill	-	-	-	-	-
	9,940,319	-	-	919,016	10,859,335

[1] J A Anderson resigned 2 December 2008

[2] M W McDonald resigned 31 January 2009

[3] M S Duffy's Directorship commenced 2 March 2009 and ceased on 28 May 2009

[4] Purchases of shares on market or through take up of shares by Directors under the February 2009 rights issue

[5] D J Turvey commenced 18 June 2010

(c) The number of options over ordinary shares held by Key Management Personnel in Southern Gold Limited during the year is as follows:

30 June 2010	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable
G C Boulton AM	-	500,000	-	-	500,000	500,000	500,000
S R Biggins	1,500,000	1,000,000	-	-	2,500,000	1,000,000	2,500,000
M R Billing	500,000	-	-	-	500,000	-	500,000
D J Turvey	-	-	-	-	-	-	-
N J Harding	350,000	-	-	-	350,000	-	350,000
P W Hill	550,000	-	-	-	550,000	-	550,000
G Thomas	-	250,000	-	-	250,000	250,000	250,000
	2,900,000	1,750,000	-	-	4,650,000	1,750,000	4,650,000

30 June 2009	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year[1]	Balance at end of year	Vested during the year	Vested and exercisable
G C Boulton AM	-	-	-	-	-	-	-
S R Biggins	1,500,000	-	-	-	1,500,000	-	1,500,000
M R Billing	500,000	-	-	-	500,000	-	500,000
J A Anderson	500,000	-	-	(500,000)	-	-	-
M W McDonald	500,000	-	-	(500,000)	-	-	-
M S Duffy	-	-	-	-	-	-	-
N J Harding	-	350,000	-	-	350,000	350,000	350,000
P W Hill	250,000	300,000	-	-	550,000	300,000	550,000
	3,250,000	650,000	-	(1,000,000)	2,900,000	650,000	2,900,000

[1] The options lapsed on resignation as a Director of the Company

Southern Gold Limited – Consolidated Entity

(d) Other Key Management Personnel Transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with key management personnel, refer to Note 14 Related Parties. For details of payables to Key Management Personnel, refer to Note 10 Trade and Other Payables.

	2010 $	2009 $
5. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	1,131,787	1,961,189
Westpac Banking Corporation Term Deposit – Interest rate of 6.8% (2009: Nil)	2,000,000	-
	3,131,787	1,961,189
6. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	578,838	402,654
Interest receivable	72,657	-
	651,495	402,654

Trade and other receivables are not considered past due and/or impaired.

	2010 $	2009 $
7. OTHER ASSETS		
Current		
Prepayments	28,056	8,457
Exploration tenement performance bonds	60,000	100,000
Other assets	19,437	24,165
	107,493	132,622
Non-Current		
Exploration tenement performance bonds	156,326	215,117
	156,326	215,117
8. EXPLORATION AND EVALUATION EXPENDITURE		
Costs carried forward in respect of areas of interest:		
Exploration and evaluation phase	12,960,332	10,641,436

The ultimate recoupment of costs carried forward for exploration and evaluation phase is dependent on the successful development and commercial exploitation or sale of respective areas.

(i) Reconciliation

A reconciliation of the carrying amount of exploration and evaluation phase expenditure is set out below:

	2010 $	2009 $
Costs brought forward	10,641,436	9,757,432
Expenditure incurred during the year	5,301,760	2,467,265
Less: Expenditure recovered from co-venturer & via government grants	(1,496,793)	(907,602)
Expenditure written off	(1,486,071)	(675,659)
	12,960,332	10,641,436

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	2010 $	2009 $
9. PLANT AND EQUIPMENT		
Plant and equipment at cost	305,963	255,450
Less: Accumulated depreciation	(164,136)	(113,396)
	141,827	142,054
Opening written down value	142,054	170,351
Additions	56,337	13,160
Disposals and write offs	-	(1,215)
Net foreign currency exchange differences	(4,943)	21,647
Depreciation	(51,621)	(61,889)
Closing written down value	141,827	142,054
10. TRADE AND OTHER PAYABLES		
Trade creditors	177,506	300,969
Sundry payables and accruals	403,846	458,691
Amounts payable to Directors and Key Management Personnel related entities	79,318	39,566
	660,670	799,226

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11. PROVISION FOR EMPLOYEE BENEFITS

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

	2010 $	2009 $
Provision for employee benefits		
Current	22,546	16,854
Non-Current	20,805	21,836
	43,351	38,690
Movement schedule for employee benefits		
Opening balance	38,690	126,239
Additional provision	88,825	10,758
Benefits utilised or surrendered	(84,164)	(98,307)
Closing balance	43,351	38,690

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

	No.	No.
Number of employees at end of year	28	26

Provision for long service leave

A provision for long service leave has been recognised for employee benefits. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

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	2010 $	2009 $
12. ISSUED CAPITAL		
(a) Ordinary Shares		
Issued share capital:	25,020,633	20,258,866
180,690,173 fully paid ordinary shares (2009: 140,690,173)		

Movement in issued shares for the year:	2010		2009	
	No.	$	No.	$
Balance at beginning of financial year	140,690,173	20,258,866	92,517,051	17,049,441
Shares issued as consideration for additional equity in Cambodian tenements	-	-	1,000,000	170,000
Share rights issue at 5 cents	-	-	31,173,122	1,558,656
Share placement at 10 cents	-	-	16,000,000	1,600,000
Share placement at 12.5 cents	40,000,000	5,000,000	-	-
	-	-	-	-
Net costs associated with the issue of shares	-	(238,233)	-	(119,231)
Balance at end of financial year	180,690,173	25,020,633	140,690,173	20,258,866

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

(b) Options on Issue

For information relating to share options issued to Key Management Personnel during the financial year, refer to Note 4.

At 30 June 2010, there were 7,850,000 (30 June 2009: 8,520,000) unissued shares for which the following options were outstanding:

Grant Date	Date of Expiry	Fair Value at Grant Date	Exercise Price	Number under Option
8.12.2006	7.12.2011	0.254	0.315	250,000
19.2.2007	27.11.2011	0.239	0.50	1,000,000
19.2.2007	7.2.2012	0.231	0.50	500,000
7.5.2007	7.2.2012	0.467	0.50	500,000
22.10.2007	21.10.2012	0.310	0.35	50,000
26.2.2008	28.11.2012	0.132	0.75	1,000,000
25.6.2008	25.3.2013	0.131	0.19	200,000
26.8.2008	31.5.2013	0.109	0.20	100,000
30.9.2008	30.9.2013	0.096	0.15	425,000
30.9.2008	30.9.2013	0.093	0.15	425,000
29.6.2009	29.6.2012	0.08	0.15	1,500,000
30.6.2009	30.6.2014	0.098	0.30	150,000
23.10.2009	23.10.2014	0.096	0.15	250,000
30.10.2009	30.10.2013	0.082	0.15	1,500,000
				7,850,000

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2,500,000 options have since lapsed after 30 June 2010 due to the resignation of S Biggins.

(c) Capital Management

Management effectively manages the capital of the Group by assessing the financial risks and adjusting the capital structure in response to changes in these risks and in the market. The responses include the management of dividends to shareholders and share issues. There have been no changes in the strategy adopted by management to control the capital during the year.

13. REMUNERATION OF AUDITORS

The auditor of Southern Gold Limited is Grant Thornton.

	2010 $	2009 $
Amounts received or due and receivable by Grant Thornton for:		
An audit or review of the financial report of the entity and any other entity of the group	30,900	25,893
Taxation and other services	42,540	52,075
Amounts received or due and receivable by overseas related practices of Grant Thornton for:		
External audit	18,846	-
Taxation and other services	4,534	-
	96,820	77,968

14. RELATED PARTY AND KEY MANAGEMENT DISCLOSURES

The terms and conditions of the 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 21 to the financial statements

Equity Interests in joint ventures

Details of interests in joint ventures are disclosed in Note 15 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

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 and Key Management Personnel

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

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Director and Key Management Personnel	Related Party Transaction	2010 $	2009 $
G C Boulton	Payments to a Director related entity for consulting services provided	10,000	9,375
S R Biggins	Payments to a Director related entity for consulting services provided	27,000	-
M R Billing	Payments to a Director related entity for consulting services provided	4,050	-
N J Harding	Payments to a member of Key Management for financial and company secretarial services provided	152,437	123,608
M W McDonald	Payments to an entity of which the Director is a partner in respect of legal fees	-	47,820

d) Related party balances

Amounts receivable from and payable to Directors and Key Management Personnel and their related entities at balance date arising from these transactions were as follows:

	2010 $	2009 $
Current receivables		
Trade debtors	-	-
	-	-
Current payables		
Amounts payable to Directors and Key Management Personnel related entities	79,318	39,566
	79,318	39,566

15. JOINT VENTURES

The consolidated entity had interests in unincorporated joint ventures at 30 June 2010 as follows:

	Percentage Interest 2010	Percentage Interest 2009
(a) Challenger Area Joint Venture - Gold	51%	30%
(b) Challenger West Uranium Joint Venture	100%	100%
(c) Kratie North Joint Venture – JOGMEC, Cambodia – All minerals	64.7%	100%
(d) Kratie South Joint Venture – JOGMEC, Cambodia – All minerals	72.6%	100%
(e) Heron Resources Joint Venture	0%	0%

Notes

(a) Under the terms of the agreement with Dominion Mining Ltd, Southern Gold completed $2m expenditure by October 2009 to earn a 51% JV interest in 7 ELs held by Dominion Mining Ltd surrounding (but excluding) the Challenger gold mine in northern South Australia. The Joint Venture relates only to gold.

(b) Under the terms of an agreement between Challenger West Holdings Pty Ltd, Southern Uranium Limited and Mega Hindmarsh, Southern Uranium Ltd has exploration rights for uranium (except for IOCGU styles mineralisation) through its subsidiary Sunthe Uranium Pty Ltd.

Southern Gold Limited – Consolidated Entity

15. JOINT VENTURES (Continued)

(c) Under the terms of the agreement with Japan Oil Gas Minerals National Corporation (JOGMEC), JOGMEC can invest US$1.47 million over 3 years commencing April 2008 to earn a 51% interest in Phnum Khtong tenement (Kratie North Project) in north east Cambodia.

(d) Under the terms of the agreement with Japan Oil Gas Minerals National Corporation (JOGMEC), JOGMEC can invest US$3.03 million over 3 years commencing April 2008 to earn a 51% interest in two adjoining tenements, Preak Khlong and O'Kthung (Kratie South Project) in north east Cambodia.

(e) Under the terms of the agreement with Heron Resources Limited, Southern Gold is earning a 51% interest in 3 tenements east of Kalgoorlie in Western Australia by spending a total of $120,000 over 2 years to September 2011.

16. COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES

(a) Exploration Expenditure Commitments

The Group 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 Group.

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

	2010 $	2009 $
Not later than one year:	929,980	1,402,400
Later than one year but not later than two years:	929,980	1,402,400
Later than two years but not later than five years:	2,789,940	4,207,200

(b) Service Agreements

Service agreements between the Group 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 Group 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 Group or its projects.

(d) Office Rental

The consolidated entity has entered into a rental agreement to occupy its principle office at a cost of $110,000 per annum plus GST, for a term of 5 years expiring on 2 December 2012.

	2010 $	2009 $
Not later than one year:	121,752	116,686
Later than one year but not later than two years:	126,622	121,349
Later than two years but not later than five years:	53,619	190,532

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17. FINANCIAL INSTRUMENTS

(a) Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and accounts payable.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	2010 $	2009 $
Financial Assets		
Cash and cash equivalents	3,131,787	1,961,189
Loans and receivables	651,495	402,654
	3,783,282	2,363,843
Financial Liabilities		
Trade and other payables	660,670	799,226
	660,670	799,226

(i) Treasury Risk Management

The Board of the Consolidated Group 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 Consolidated Group is exposed to through its financial instruments are liquidity risk, credit risk, and interest rate risk.

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Consolidated Group manages liquidity risk by monitoring forecast cash flows.

Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

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 statement of financial position and notes to the financial statements.

No receivables are considered past due and/or impaired at balance date.

Sensitivity Analysis

The Company has not performed a sensitivity analysis relating to its exposure to price risk at balance date as a change in share price by 10% is not considered to have a material impact on profit and equity.

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17. FINANCIAL INSTRUMENTS (Continued)

(iii) Interest Rate Risk

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

2010	Interest Bearing	Non-interest Bearing	Total	Floating interest rate
Financial assets				
Cash and deposits	3,131,589	198	3,131,787	5.29%
Receivables	-	651,495	651,495	-
Less: Payables	-	(660,670)	(660,670)	-
Net financial assets	3,131,589	(8,977)	3,122,612	

2009	Interest Bearing	Non-interest Bearing	Total	Floating interest rate
Financial assets				
Cash and deposits	1,960,692	497	1,961,189	2.80%
Receivables	-	402,654	402,654	-
Less: Payables	-	(799,226)	(799,226)	-
Net financial assets	1,960,692	(396,075)	1,564,617	

Interest rate risk is managed with a mixture of fixed and floating rate cash deposits. At 30 June 2010, 64% of group deposits are fixed.

Sensitivity Analysis

The company has not performed a sensitivity analysis relating to its exposure to interest rate risk at balance date as a change in interest rates by 2% is not considered to have a material impact on profit and equity.

(iv) 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.

Southern Gold Limited – Consolidated Entity

18. SHARE BASED PAYMENTS

Shares

No shares have been granted to Key Management Personnel as share-based payments during the financial year.

Options

The Group 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 at the end of the financial year:

Options – Series	No.	Grant Date	Expiry Date	Exercise Price	Fair value at grant date
Employee Share Option Plan					
December 2006[1]	250,000	8.12.2006	7.12.2011	$0.315	$0.2540
October 2007[1]	250,000	22.10.2007	21.10.2012	$0.35	$0.3095
June 2008[1]	200,000	25.06.2008	25.03.2013	$0.19	$0.1309
August 2008[1]	100,000	26.08.2008	25.05.2013	$0.20	$0.1091
September 2008[1]	675,000	30.09.2008	30.09.2013	$0.15	$0.0962
September 2008[1]	675,000	30.09.2008	30.09.2013	$0.15	$0.0934
June 2009[1]	150,000	30.06.2009	30.06.2014	$0.30	$0.0975
October 2009[1]	250,000	23.10.2009	23.10.2014	$0.15	$0.0963
Director Options					
November 2006[2]	1,000,000	19.02.2007	27.11.2011	$0.50	$0.2390
February 2008[3]	1,000,000	26.02.2008	28.11.2012	$0.75	$0.1319
October 2009[4]	1,500,000	30.10.2009	30.10.2013	$0.15	$0.0819
Options to third parties					
February 2007[5]	500,000	19.02.2007	7.02.2012	$0.50	$0.2307
May 2007[6]	500,000	7.05.2007	7.02.2012	$0.50	$0.4670
June 2009[7]	1,500,000	29.06.2009	29.06.2012	$0.15	$0.0802

1. In accordance with the Employee Share Option Plan, share options have been granted to employees at various times at prices and terms as shown in the above table.
2. On 19 February 2007, 1,000,000 share options were granted to Mr S Biggins as approved by shareholders at an AGM to take up ordinary shares at an exercise price of $0.50 each. The options are exercisable on or before 27 November 2011.
3. On 26 February 2008, 2,500,000 share options were granted to directors as approved by shareholders at an AGM to take up ordinary shares at an exercise price of $0.75 each. 1,500,000 of these options have subsequently lapsed, none during the current financial year. The options are exercisable on or before 28 November 2012.
4. On 30 October 2009, 1,000,000 share options were granted to Mr S Biggins and 500,000 share options to Mr G Boulton AM as approved by shareholders at an AGM to take up ordinary shares at an exercise price of $0.15, The options are exercisable on or before 30 October 2013.

Southern Gold Limited – Consolidated Entity

18. SHARE BASED PAYMENTS (Continued)

5. On 19 February 2007, 500,000 share options were granted to Mr N Steel to take up ordinary shares at an exercise price of $0.50 for the acquisition of a number of Cambodian tenements and services rendered in acquiring the tenements. The options are exercisable on or before 7 February 2012.
6. On 7 May 2007, 500,000 share options were granted to Mr J Falting to take up ordinary shares at an exercise price of $0.50 for the acquisition of a number of Cambodian tenements and services rendered in acquiring the tenements. The options are exercisable on or before 7 February 2012.
7. On 29 June 2009, 1,500,000 were granted to an entity associated with Hartleys brokers to take up ordinary shares at an exercise price of $0.15 for services provided under a capital raising on behalf of the Company. The options are exercisable on or before 29 June 2012.

The weighted average fair value of options granted during the year was $0.084 (2009: $0.0899). These values were calculated using the Black-Scholes option pricing model applying the following inputs:

	Grant Date Share Price	Exercise Price	Calculated volatility	Option Expiry	Risk free interest rate
October 2009	$0.11	$0.15	140%	23/10/2014	3.59%
October 2009	$0.10	$0.15	141%	30/10/2013	3.59%

The options hold no voting or dividends rights and are unlisted.

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Options granted to Key Management Personnel are as follows:

Grant Date	Number
October 2009	250,000
October 2009	1,500,000

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

Share Option Plan	2010		2009	
	Number of options	Weighted average exercise price $	Number of options	Weighted average exercise price $
Balance at beginning of financial year	8,520,000	$0.358	7,820,000	$0.518
Granted during the financial year	1,750,000	$0.15	3,350,000	$0.162
Exercised during the financial year (i)	-	-	-	-
Cancelled during the financial year	(2,420,000)	($0.309)	(2,650,000)	($0.583)
Balance at end of the financial year (ii)	7,850,000	$0.403	8,520,000	$0.358

(i) Options exercised

No share options granted under the Plan were exercised during the financial year.

(ii) Options outstanding at end of the financial year

The share options outstanding at the end of the financial year had an average exercise price of $0.403 (2009: $0.358) and a weighted average remaining contractual life of 732 days (2009: 1,018 days).

Southern Gold Limited – Consolidated Entity

19. OPERATING SEGMENTS

Segment Information

Identification of reportable segments

The consolidated entity has adopted AASB 8 Operating Segments with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the consolidated entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The consolidated entity has identified its operating segments to be Australia and Cambodia based on different geological regions and the similarity of assets within those regions. This is the basis on which internal reports are provided to the Board of Directors for assessing performance and determining the allocation of resources within the consolidated entity.

The consolidated entity operates primarily in one business, namely the exploration of minerals.

Basis of accounting for purposes of reporting by operating segment

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors, being the chief operating decision maker with respect to operating segments, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the group.

Details of the performance of each of these operating segments for the financial years ended 30 June 2010 and 30 June 2009 are set out below:

2010	Australia	Cambodia	Consolidated
Revenue			
Interest Income	144,585	-	144,585
Net gain on sale of investment in associate	2,141,698	-	2,141,698
Other Income	11,054	168,525	179,579
	2,297,337	168,525	2,465,862
Expenditure	(2,978,175)	(617,992)	(3,596,167)
Loss from Ordinary Activities before Income Tax	(680,838)	(449,467)	(1,130,305)
Income Tax Expense			(102,100)
Net Loss for Year			(1,232,405)

Southern Gold Limited – Consolidated Entity

19. OPERATING SEGMENTS (Continued)

2010	Australia	Cambodia	Total	Inter-Segment Elimination	Consolidated
Assets and Liabilities					
Segment Assets	13,264,507	3,884,753	17,149,260	-	17,149,260
Inter-Segment Assets	4,570,738	-	4,570,738	(4,570,738)	-
Total Assets	17,835,245	3,884,753	21,719,998	(4,570,738)	17,149,260
Segment Liabilities	493,346	210,675	704,021	-	704,021
Inter-Segment Liabilities	-	4,570,738	4,570,738	(4,570,738)	-
Total Liabilities	493,346	4,781,413	5,274,759	(4,570,738)	704,021
Net Assets	17,341,899	(896,660)	16,445,239	-	16,445,239
Segment asset increases for the period					
Plant & equipment	3,695	52,642	56,337	-	56,337
Exploration expenditure	2,316,753	2,985,008	5,301,761	-	5,301,761

Southern Gold Limited – Consolidated Entity

2009	Australia	Cambodia	Consolidated
Revenue			
Interest Income	36,236	-	36,236
Other Income	180,873	39,188	220,061
	217,109	39,188	256,297
Expenditure	(3,130,880)	(631,655)	(3,762,535)
Loss from Ordinary Activities before Income Tax	(2,913,771)	(592,467)	(3,506,238)
Income Tax Expense			(51,099)
Net Loss for Year			(3,557,337)

2009	Australia	Cambodia	Total	Inter-Segment Elimination	Consolidated
Assets and Liabilities					
Segment Assets	11,312,850	2,182,222	13,495,072	-	13,495,072
Inter-Segment Assets	2,387,578	-	2,387,578	(2,387,578)	-
Total Assets	13,700,428	2,182,222	15,882,650	(2,387,578)	13,495,072
Segment Liabilities	484,208	353,708	837,916	-	837,916
Inter-Segment Liabilities	-	2,387,578	2,387,578	(2,387,578)	-
Total Liabilities	484,208	2,741,286	3,225,494	(2,387,578)	837,916
Net Assets	13,216,220	(559,064)	12,657,156	-	12,657,156
Segment asset increases for the period					
Plant & equipment	3,092	10,068	13,160	-	13,160
Exploration expenditure	731,472	1,735,794	2,467,266	-	2,467,266

Southern Gold Limited – Consolidated Entity

20. EARNINGS PER SHARE

	2010 Cents per share	2009 Cents per share
Basic earnings per share – loss	(0.76)	(3.37)
Diluted earnings per share – loss	(0.76)	(3.37)

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	(1,232,405)	(3,557,337)

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	161,734,009	105,687,992

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.

21. CONTROLLED ENTITIES CONSOLIDATED

Name of Entity	Country of Incorporation	Ownership Interest 2010 %	Ownership Interest 2009 %
Parent Entity			
Southern Gold Limited	Australia		
Controlled Entities			
Challenger West Holdings Pty Ltd	Australia	100%	100%
CMH Resources Pty Ltd	Australia	100%	100%
Gawler Arc Holdings Pty Ltd	Australia	100%	100%
Southern Mining Pty Ltd	Australia	100%	100%
Inferus Resources Pty Ltd [1]	Australia	100%	100%
Southern Gold Asia Pty Ltd	Australia	100%	100%
New Southern Mining Pty Ltd	Australia	100%	100%
Southern Gold Cambodia Pty Ltd [2]	Cambodia	100%	100%

[1] All shares in Inferus Resources Pty Ltd are held by Southern Mining Pty Ltd

[2] All shares in Southern Gold Cambodia Pty Ltd are held by Southern Gold Asia Pty Ltd

22. FINANCIAL ASSETS

On 6 November 2009, the Group completed the sale of its 39.1% interest in Southern Uranium Limited through a non-renounceable pro rata offer to Southern Uranium shareholders at 5.5 cents per share, realising $2,475,000. Costs associated with the sale totalled $333,302 resulting in a net gain from the sale of the investment of $2,141,698.

Southern Gold Limited – Consolidated Entity

23. SOUTHERN GOLD LIMITED COMPANY INFORMATION

	2010 $	2009 $
Parent Entity		
Assets		
Current assets	3,378,782	2,135,674
Non-current assets	13,559,804	12,258,375
Total assets	16,938,586	14,394,049
Liabilities		
Current liabilities	472,541	462,371
Non-current liabilities	20,805	21,836
Total liabilities	493,346	484,207
Equity		
Issued capital	25,020,633	20,258,866
Retained earnings	(10,409,982)	(8,036,763)
	14,610,651	12,222,103
Reserves		
Share-based payments reserve	1,834,588	1,687,739
Total reserves	1,834,588	1,687,739
Financial Performance		
Profit/(loss) for the year	(2,373,218)	(2,735,288)
Other comprehensive income	-	-
Total comprehensive income	(2,373,218)	(2,735,288)
Guarantees in relation to the debts of subsidiaries	-	-
Contingent liabilities	-	-
Contractual commitments - exploration	329,580	165,000

24. EVENTS SUBSEQUENT TO BALANCE DATE

On 2 July 2010 the Managing Director Stephen Biggins resigned from the Company. Ms Nanette Anderson has been announced as the new Managing Director of Southern Gold and will commence in late September 2010. Mick Billing has assumed Executive Director duties for the interim period.

On 20 September 2010 the Company announced a maiden indicated and inferred resource of 79,100 ozs gold at 3.1 g/t for the Cannon deposit at the Bulong South project in Western Australia.

Other than the above, there has not arisen in the interval any matters or circumstances, since the end of the financial year which significantly affected or could affect the operations of the Company, the results of those operations, or the state of the Company in future years.

Southern Gold Limited – Consolidated Entity

25. RESERVES

Share options reserve – the share options reserve records items recognised as expenses on valuation of employee share options.

Foreign currency translation reserve – the foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

26. REGISTERED OFFICE AND PRINCIPLE OFFICE

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

47 Tynte Street, NORTH ADELAIDE, SA, 5006

Southern Gold Limited – Consolidated Entity

Directors' Declaration

The Directors of Southern Gold Limited declare that:

a) the financial statements and notes, as set out on pages 32 to 64 are in accordance with the *Corporations Act 2001*, and:

   i.) give a true and fair view of the financial position as at 30 June 2010 and of the performance for the year ended on that date of the Consolidated Group; and

   ii.) comply with Accounting Standards; and

   iii.) Southern Gold Limited complies with International Financial Reporting Standards as described in Note 1; and

b) the Chief Executive Officer and Chief Financial Officer have declared that:

   i) The financial records of the Company for the financial year have been properly maintained in accordance with s286 of the Corporations Act 2001;

   ii) The financial statements and notes for the financial year comply with the Accounting Standards; and

   iii) The financial statements and notes for the financial year give a true and fair view;

c) 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

Dated at Adelaide this 24th day of September 2010.

G C Boulton AM
Chairman

M R Billing
Director

INDEPENDENT AUDIT REPORT TO THE MEMBERS

Grant Thornton

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INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF SOUTHERN GOLD LTD

Report on the financial report

We have audited the accompanying financial report of Southern Gold Ltd (the "Company"), which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial report 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.

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 are 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. The directors also state, in the notes to the financial report, 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 whether the financial report is free from material misstatement.

Grant Thornton

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHERN GOLD LTD Cont

Auditor's responsibility Cont

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 circumstances, 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.

Independence

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

Auditor's opinion

In our opinion,

a the financial report of Southern Gold Ltd is in accordance with the Corporations Act 2001, including:

  i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its 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 the notes to the financial statements.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

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

Auditor's opinion on the remuneration report

In our opinion, the Remuneration Report of Southern Gold Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants

J L Humphrey
Partner

Adelaide, 24 September 2010

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 24 September 2010.

1. Substantial Equity Holders

Name	Fully Paid Shares Number	Percentage
Nil	-	-

2 Number of Shareholders

Number of Shareholders	Class of Shares	Voting Rights
2,514	ORD	Full

3. Distribution of Equity Securities

Distribution of holdings:			Number of Holders	Ordinary Shares	% of Issued Capital
1	-	1,000	237	122,017	0.07
1,001	-	5,000	489	1,510,154	0.84
5,001	-	10,000	374	3,125,852	1.73
10,001	-	100,000	1,142	44,891,717	24.84
100,001	-	and over	272	131,040,433	72.52
			2,514	**180,690,173**	**100.00**

	Number of Holders	Ordinary Shares
Holding less than a marketable parcel	812	2,137,077

4. Twenty Largest Shareholders

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

	Name	Number Held	Percentage of Issued Shares
1	CITIC Australia Pty Ltd	6,473,000	3.58
2	CS Fourth Nominees Pty Ltd	5,959,598	3.30
3	Dr Leon Eugene Pretorius	5,000,000	2.77
4	National Nominees Ltd	4,603,000	2.55
5	Macquarie Bank Ltd	4,423,077	2.45
6	UBS Wealth Management Australia Nominees Pty Ltd	4,187,800	2.32
7	Dr Salim Cassim	3,000,000	1.66
8	Klip Pty Ltd	2,795,137	1.55
9	Noroneke Master Fund Ltd	2,500,000	1.38
10	ANZ Nominees Ltd	2,213,200	1.22
11	JP Morgan Nominees Australia Ltd	2,000,000	1.11
12	Genex Resources Pty Ltd	1,992,727	1.10
13	Australian Global Capital Pty Ltd	1,990,000	1.10
14	John Alexander Anderson	1,922,727	1.06
15	Michael Robert Billing	1,650,000	0.91
16	Michael Walsh McDonald	1,614,320	0.89
17	Stephen Richard Biggins	1,500,000	0.83
18	G Boulton Pty Ltd	1,300,000	0.72
19	HSBC Custody Nominees (Australia) Ltd	1,133,333	0.63
20	Thompson Drilling Company Pty Ltd	1,100,000	0.61
		57,357,919	31.74