



SOUTHERN GOLD LIMITED
CONSOLIDATED FINANCIAL REPORT
For the Half Year Ended
31 December 2016

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CORPORATE INFORMATION

ABN 30 107 424 519

DIRECTORS

Gregory Boulton AM	Non-Executive Chairman
Simon Mitchell	Managing Director
Michael Billing	Non-Executive Director
David Turvey	Non-Executive Director

SHARE REGISTRY

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Applecross WA 6953

COMPANY SECRETARY

Daniel Hill

AUDITORS

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ASX CODE

Ordinary Fully Paid Shares: SAU

DIRECTORS' REPORT

The directors present their report together with the interim financial report of Southern Gold Limited and its controlled entities for the six months ended 31 December 2016 and the independent auditor's review report thereon.

The names of the directors of the Company who held office during or since the end of the half year were:

Non-Executive Chairman	Gregory Boulton AM	BA (Accounting), FCA, FCPA, FAICD
Managing Director	Simon Mitchell	BSc (Hons) Geol, MAusIMM, GAICD, MSEG
Non-Executive Director	Michael Billing	BBus, CPA, MAICD
Non-Executive Director	David Turvey	BSc (Hons) Geol, MAusIMM

The name of the company secretary who held office during or since the end of the half year was:

Company Secretary	Daniel Hill	BAcc, CA, MBA, MAppFin, FFin, AGIA
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Financial Results

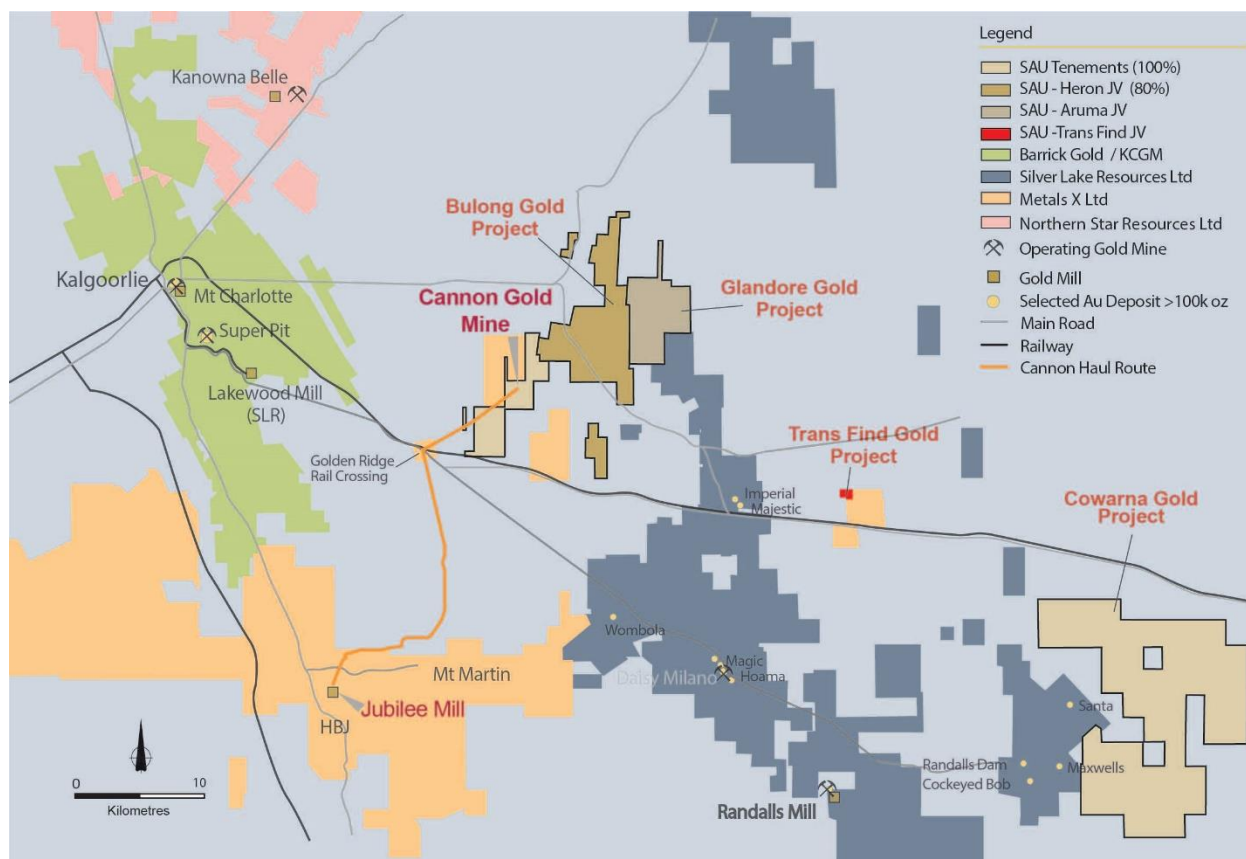
The loss of the Group after providing for income tax for the half year was \$367,610 (2015 loss: \$330,995).

Review of Operations

Cannon Gold Mine

Southern Gold Ltd (Southern Gold) continued to produce gold at the Company's flagship Cannon open pit mine, 35km east of Kalgoorlie, WA, during the half year. The Cannon Mine is being financed and operated by development partner Westgold Resources Ltd ('Westgold', ASX Code "WGX", previously Metals X Ltd) in a profit share arrangement, with both parties entitled to 50% of the profits after repayment of costs which are charged on an at-cost open book basis by Westgold. Ore from Cannon is being processed at Westgold's Jubilee Mill approximately 35km to the South West (Figure 1).

Figure 1: Southern Gold Tenement Package at Kalgoorlie and Location of Cannon Gold Mine



The Cannon operation is progressing well and is broadly in line with budget forecasts although the overall picture is one of higher ore tonnes at lower gold grade and a slightly higher contained gold level, a pattern that is commonly seen at operations in the Kalgoorlie goldfields. The Cannon mine is now well advanced and is nearing the end of the open pit mining phase, expected to be complete in the first half of 2017 (**Photo 1**).

In terms of processing campaigns, metallurgical recoveries have been excellent and consistently exceeded budget forecast. A summary of the gold campaigns to this point are provided in Table 1 below and highlight the consistently excellent recovery achieved by the SKO Jubilee mill.

Photo 1: Cannon Open Pit subsequent to half year end



Table 1: Cannon Gold Production by Campaign (1 to 6) and Project to Date (PTD)

	1	2	3	4	5	6	PTD
Tonnes	86,333	43,790	33,704	73,751	49,203	91,426	378,207
Gold Produced (oz)	6,474	3,505	2,095	5,588	4,372	8,286	30,320
Mill Grade (g/t)	2.57	2.68	2.09	2.57	3.03	3.10	2.73
Recovery (%)	90.92	92.85	92.49	91.71	91.17	90.91	91.43

Late in the December half year, the project reached the point of being cumulative net cash flow positive, with revenues exceeding costs and the project holding a positive cash balance. This milestone enabled the Cannon Operations Committee to consider the payment of project net profit distributions which begun in December. The Cannon Operations Committee resolved to pay \$4 million in distributions or \$2 million to each of Westgold and Southern Gold.

Looking forward a further 200kt of ore at around 4g/t Au is expected to be processed during the first half of 2017. This should produce around 23,000 oz Au and generate a significant net profit share to Southern Gold currently projected to be in excess of \$10 million assuming A\$1600/oz gold price and a 90% recovery factor.

Furthermore, both Westgold and Southern Gold are investigating the possibility of an underground development phase at Cannon. This has started with the engagement of a consultant structural geologist and detailed in pit geological work. As the open pit phase of the operation comes to a close, diamond drilling below the pit will be targeting the extension of the mineralised Cannon shear with the potential to extend the remnant resource and potentially underpin the economics of an underground operation.

Exploration - Australia

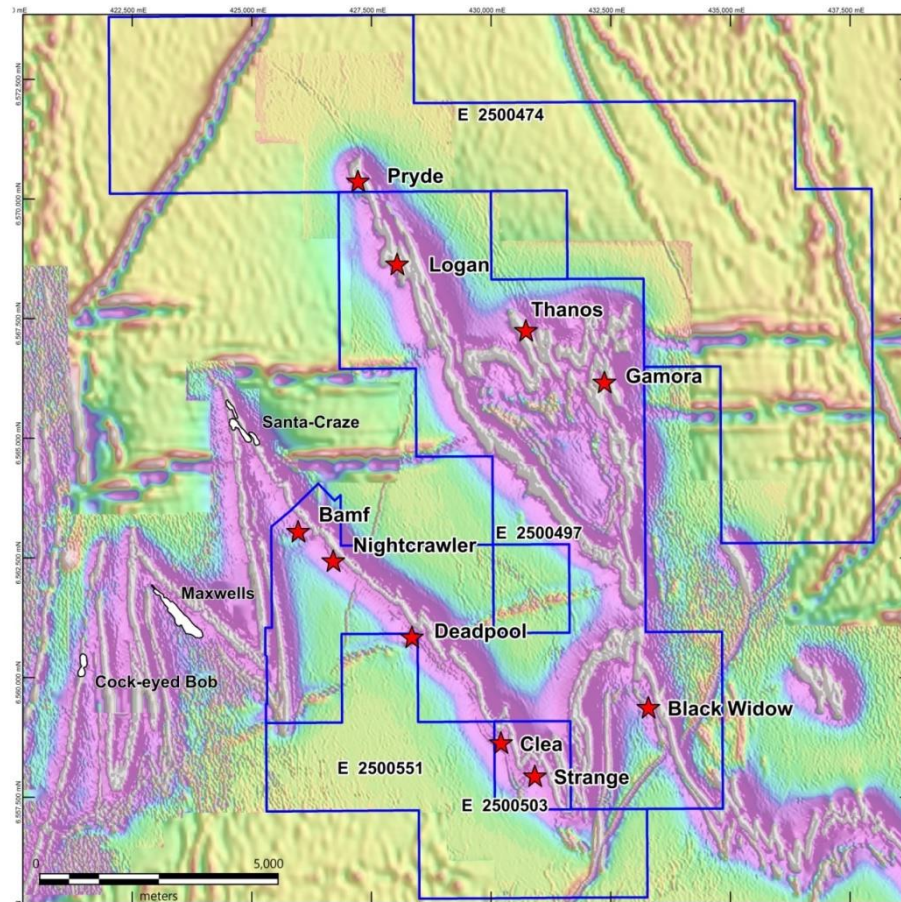
Southern Gold has been progressively building its field activities on the exploration front. Opportunities have also expanded due to acquisition activity with deals being completed at Glandore (just prior to the half year) and Transfind Extended (just after the half year). The Company has been rebuilding expertise and field work execution capability and expects a significant lift in drilling activity in the coming year.

Bulong Gold Project: As a good example of Southern Gold's innovative approach to exploration, a research project in collaboration with the CSIRO on the analysis of hyperspectral data commenced in October 2016. Drill core and RAB/RC chips from Cannon and environs have been scanned with hyperspectral tools. Researchers from CSIRO's Mineral Systems Science Group are in the process of creating a 3D mineral map of the Cannon mineralised system using this data. This will be complimented with a regional program of airborne hyperspectral data acquisition although this has been delayed due to equipment availability but is expected to commence early in 2017.

Cowarna Gold Project: During 2016 two hand auger soil sampling programs were undertaken over the Nightcrawler and Bamf Prospects (Figure 2). The first 'orientation' program consisted of 86 samples taken from 43 field sites across the Nightcrawler Prospect area. The second 'follow-up' sampling program consisted of 329 samples taken on an east-west oriented 50m x 200m grid across both the Bamf and Nightcrawler Prospects.

Assay results outlined two main areas that require follow-up drill testing, a 700m by 150m anomaly at Bamf and an 800m by 100m anomaly at Nightcrawler. The Bamf Prospect target is defined by a gold in soils anomaly coincident with the interpreted location of the Maxwells Banded Iron Formation (BIF) Member and is up-stream of a number of erratic Au peaks within the local drainage system vectoring towards a zone of supergene gold enrichment outlined by historic drilling. These historic holes were drilled parallel to stratigraphy and west of the current target. The target at the Nightcrawler Prospect is outlined by coincident gold and arsenic anomalies in line with the interpreted location of the Maxwells BIF unit.

Figure 2: Location of Nightcrawler and Bamf Prospects at the Cowarna Gold Project



Glandore Gold Project: A Farm In and Joint Venture agreement was signed with Aruma Exploration Pty Ltd in April 2016. Shortly after this, a heritage site was re-registered across the area and recent activity at this project has been focused on resolving this issue to the satisfaction of all stakeholders.

A heritage survey was undertaken in November 2016 to assess the potential for exploration within the registered heritage Site DAA 30602 “Lake Yindarlgooda Mammu Tjukurrpa”. This survey, conducted by the Council of Tribal Elders for the Eastern Goldfields, concluded that exploration will be able to proceed in the area of interest once Section 18 Ministerial consent to disturb a heritage site has been approved and that there was no reason why such an approval should not be granted.

In addition to this heritage work, Southern Gold geologists have been compiling the substantial historical data, including non-digitised data from previous workers, and this has informed the design of drill programmes, expected to commence in early 2017.

Transfind Extended Gold Prospect: recently acquired, the only work completed here in the last half year was reconnaissance traverses and due diligence verification of historical high grades in surface sampling. Gold grades of up to 50g/t Au were returned from rock chip samples taken from the mineralised trend south-west of the historical Transfind open pit.

Future Exploration – Australia

At Bulong Southern Gold has planned a geochemical sample media trial which will be carried out in early 2017. Samples will be collected from 70 locations over mineralised and unmineralised areas to examine the background to anomaly contrast of the sample media. The trial includes biogeochemistry and hand auger soil sample geochemistry to identify the optimal sample media for infilling existing regional power auger sampling, and extending sampling into areas of deeper cover (5-20m) which have been poorly tested in previous soil geochemistry campaigns.

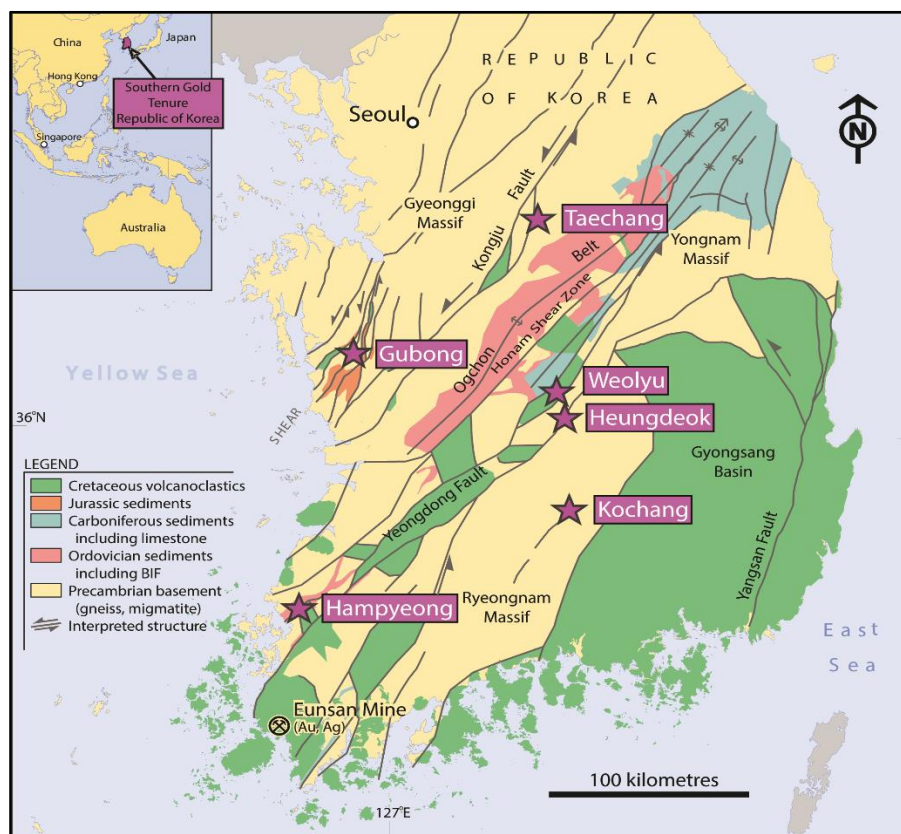
Drilling activity is also planned at the Glandore, Bulong, Transfind Extended and Cowarna Gold projects. This will consist of diamond drilling, aircore, RC and RAB drilling respectively and in the case of Glandore potentially see an addition to the company's JORC Resource base should Southern Gold drilling confirm historical drilling results.

Exploration – South Korea

In early July 2016, Southern Gold acquired International Gold Private Ltd, a Singaporean subsidiary of Asiatic Gold and holder of significant exploration assets in South Korea. See ASX release on 8 July 2016 for details. The assets comprise 44 granted tenements across 17 project areas although 6 of the project areas are more substantial exploration targets and constitute the bulk of targeting at this stage. These projects from North to South are Taechang, Gubong, Weolyu, Heungdeok, Kochang and Hampyeong (**Figure 3**).

These projects are geographically divided into three broad areas: Gubong, Taechang and Yeongdong project areas. All three areas have the potential to support high grade underground gold mining and it is the mid-term objective of the company to see production start-up in at least one of these areas to enable organically funded exploration on an ongoing basis.

Figure 3: Location of Highlight Projects in South Korea



Weolyu Gold Prospect: Significant progress has been made at the Weolyu prospect. Although no drilling was conducted in the half year, a very detailed and successful mapping exercise was completed on the Weolyu South area. An expert geological consultant experienced in mapping altered volcanic sequences was deployed to the site and a significant amount of mineralisation and 3 major vein systems was identified. These were named the Summit, Moonlight (**Photo 2**) and Mystery veins and will be the focus of follow up work and drilling in 2017.

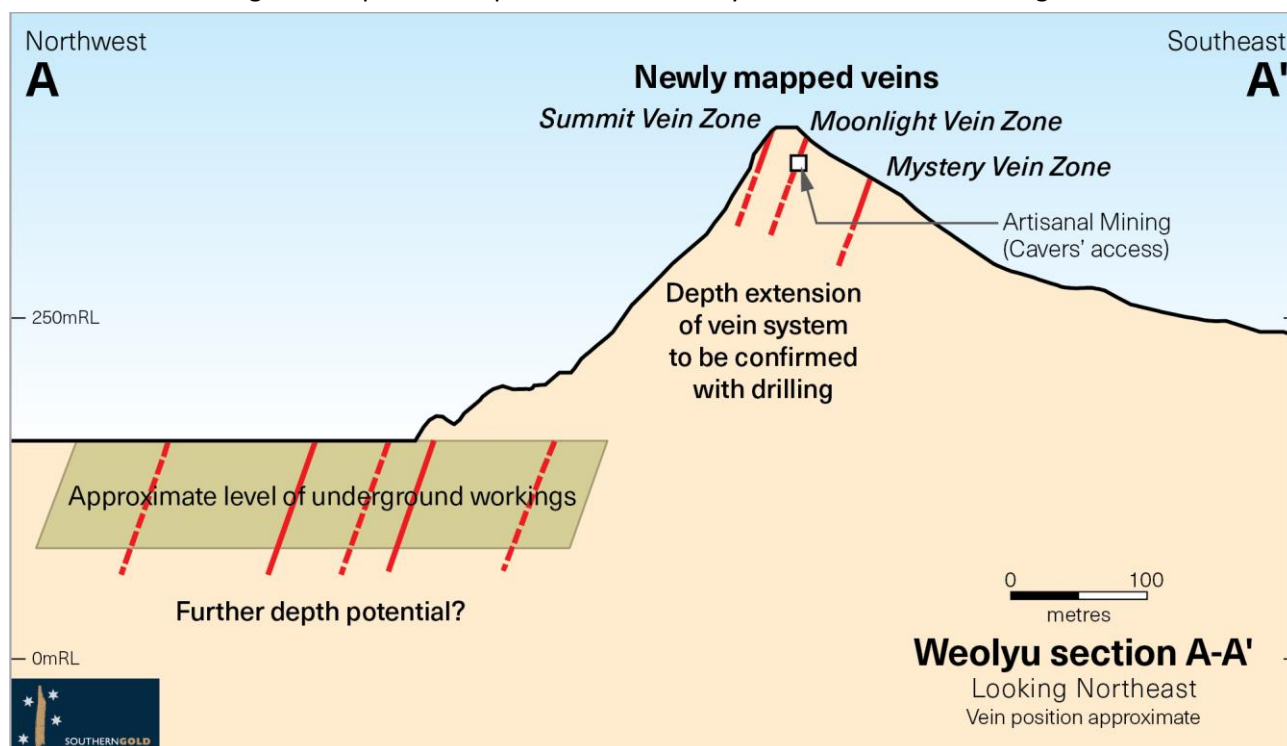
Veins widths identified are between 0.6m to 1.3m true width and developed in a broader zone of breccia and sheeted quartz veins. There is a broad wall rock alteration footprint and the veins have been mapped at or near the topographic peak and imply significant vertical relief in which veins could be targeted by drilling (**Figure 4**).

Significantly rock samples taken from this area return high grade gold (recent rocks up to 8.4g/t Au) and silver values (recent rocks up to 200g/t Ag) and more importantly display polyphasal quartz-sulfide textures including colloform banding, hydraulic brecciation and evidence of bladed calcite replaced by silica all of which point to boiling textures that are typical of the epithermal environment. This is very encouraging evidence that economic grades of gold and silver mineralisation may be close to surface at the critical boiling zones.

Photo 2: Moonlight Vein, Weolyu South.



Figure 4: Weolyu Project stylised long section highlighting degree of vertical and horizontal relief from mineralised high level epithermal quartz veins at Weolyu South to historic mining to the north.



Kochang Gold Prospect: Two rounds of drilling have been completed at Kochang. These programmes were co-funded by Korean Resources Corporation (KORES) and resulting in confirmation of extensions of the mineralised structures albeit at a low grade tenor. The peak result was 0.2m @ 5.97g/t Au and 16.4g/t Ag from 160m downhole in KCDD0002.

In addition to the drilling an expert geological consultant conducted preliminary mapping and surface sampling with peak rock assays returning 27.8g/t Au and 29.4g/t Ag in KRS200092.

A key next step at Kochang will be targeting the higher grade shoots seen at the Kochang Gold Mine as well as gaining underground access to inspect the nature of the mineralisation in-situ.

Future Exploration – South Korea

Drilling activity is planned at the Weolyu, Kochang and Hamyeong Gold prospects during the course of 2017. In South Korea drilling is generally done as diamond drilling (more rarely as sonic drilling) but diamond drill rigs are readily available in the country (South Korean firm Hanjin D&B is one of the largest rig manufacturers in the world). Drilling is expected to commence at Weolyu in April.

Deployment of geological consultants to complete detailed mapping will continue in 2017, including at the Weolyu South, Weolyu Regional, Kochang and Hampyeong projects.

Southern Gold is also exploring possible scenarios to re-open the old gold mines at Taechang and Gubong with a view to fast tracking potential mid term gold production. The company is of the view that these projects would greatly benefit from the application of narrow vein underground gold mining expertise and options on this front are being investigated.

Competent Persons Statement:

The information in this report that relates to Exploration Results in Australia has been compiled under the supervision of Dr. Justin Gum (MAIG). Dr Gum, who is an employee of Southern Gold Limited and a Member of the Australian Institute of Geoscience, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for the Reporting of Mineral Resources and Ore Reserves. Dr Gum consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Exploration Results in South Korea has been compiled under the supervision of Dr Chris Bowden (FAusIMM(CP)). Dr Bowden, who is an employee of Southern Gold Limited and a Fellow and Chartered Professional of The Australasian 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 he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Bowden consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Cannon Mineral Resources is based on information compiled by Mr Ian Blucher (MAusIMM). Mr Blucher is an employee of Southern Gold Limited and has sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC, 2012). Mr Blucher consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

AUDITORS INDEPENDENCE DECLARATION

The auditor's independence declaration under section 307C of the Corporations Act 2001 is attached.

Dated at Adelaide this 1st day of March 2017 and signed in accordance with a resolution of the Directors.



S Mitchell
Managing Director



G C Boulton AM
Chairman

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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 review of Southern Gold Limited for the half-year ended 31 December 2016, 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 review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



I S Kemp
Partner – Audit & Assurance

Adelaide, 1 March 2017

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Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half Year ended 31 December 2016

	Note	Half Year Ended 31 Dec 2016 \$	Half Year Ended 31 Dec 2015 \$
Continuing Operations			
Revenue		4,074,689	-
Cost of Sales		(1,790,510)	-
		2,284,179	-
Other revenue		3,120	5,931
Exploration expenditure written off	3	(1,266,191)	(961,685)
Exploration expenses		(142,906)	(48,100)
Mine management costs		(135,350)	(62,787)
Salaries and wages		(336,568)	(115,940)
Directors fees (cash)		(90,000)	(40,000)
Directors fees (shares)		-	(40,000)
Interest expense		(172,173)	(23,149)
Shareholder relations expenses		(127,024)	(88,669)
Consulting expenses		(303,704)	(91,032)
Other expenses		(283,142)	(208,613)
Mine development amortisation expense		(915,517)	(741,143)
Depreciation expense		(19,725)	(13,889)
Share based payments		(351,170)	-
Profit/(loss) before income tax		(1,856,171)	(2,429,076)
Income tax benefit/(expense)	4	1,488,561	2,098,081
Net loss for the half year		(367,610)	(330,995)
<u>Other Comprehensive Income</u>			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign controlled entity		(24,954)	-
Total comprehensive income for the period		(392,564)	(330,995)
<u>Earnings Per Share</u>			
Basic (cents per share)		(0.83)	(0.94)
Diluted (cents per share)		(0.83)	(0.94)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying condensed notes.

Consolidated Statement of Financial Position as at 31 December 2016

	Note	As at 31 Dec 2016 \$	As at 30 June 2016 \$
CURRENT ASSETS			
Cash and cash equivalents		824,223	1,441,891
Trade and other receivables		386,026	53,896
Inventories (ore stockpiles)		1,712,742	-
Other assets		33,026	-
TOTAL CURRENT ASSETS		2,956,017	1,495,787
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	3	9,275,654	7,132,433
Mine development assets	6	515,799	1,655,478
Deferred tax asset	5	3,882,152	2,693,070
Plant and equipment		68,723	31,054
TOTAL NON-CURRENT ASSETS		13,742,328	11,152,035
TOTAL ASSETS		16,698,345	13,007,822
CURRENT LIABILITIES			
Trade and other payables		1,496,998	669,039
Provisions	7	165,544	10,910
Borrowings	8	2,217,319	3,045,146
TOTAL CURRENT LIABILITIES		3,879,861	3,725,095
TOTAL LIABILITIES		3,879,861	3,725,095
NET ASSETS		12,818,484	9,282,727
EQUITY			
Issued capital	9	39,277,530	35,700,379
Reserves		2,400,782	2,074,566
Accumulated losses		(28,859,828)	(28,492,218)
TOTAL EQUITY		12,818,484	9,282,727

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

Consolidated Statement of Changes in Equity for the Half Year ended 31 December 2016

	Issued Capital \$	Accumulated losses \$	Share-based payment reserve \$	Foreign currency translation reserve \$	Total \$
Balance at 1 July 2015	35,379,551	(27,363,351)	1,999,541	-	10,015,741
Total comprehensive income in the period	-	(330,995)	-	-	(330,995)
Transactions with owners:					
Issue of share capital	315,232	-	-	-	315,232
Costs associated with the issue of shares	(4,404)	-	-	-	(4,404)
Balance at 31 December 2015	35,690,379	(27,694,346)	1,999,541	-	9,995,574
Balance at 1 July 2016	35,700,379	(28,492,218)	2,074,566	-	9,282,727
Total comprehensive income in the period	-	(367,610)	-	(24,954)	(392,564)
Transactions with owners:					
Issue of share capital (Note 9)	3,590,603	-	-	-	3,590,603
Costs associated with the issue of shares	(13,452)	-	-	-	(13,452)
Fair value of options issued to employees (Note 10)	-	-	351,170	-	351,170
Balance at 31 December 2016	39,277,530	(28,859,828)	2,425,736	(24,954)	12,818,484

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

Consolidated Statement of Cash Flows for the Half Year ended 31 December 2016

	Note	Half Year Ended 31 Dec 2016 Inflows (Outflows) \$	Half Year Ended 31 Dec 2015 Inflows (Outflows) \$
Cash flows related to operating activities			
Interest received		2,557	2,931
Other income		561	3,000
Receipts from Operations		2,000,000	-
Mine management costs (Joint Operations)		(428,302)	(62,787)
Payments to suppliers and employees		(1,303,902)	(461,190)
Net operating cash flows		270,914	(518,046)
Cash flows related to investing activities			
Payments for mining tenements, exploration and evaluation expenditure		(922,465)	(460,738)
Payments for mine development assets		-	(22,954)
Payments for acquisition of a subsidiary	1(d)	(115,695)	-
Payments for plant and equipment		(36,970)	(742)
Net investing cash flows		(1,075,130)	(484,434)
Cash flows related to financing activities			
Proceeds from share issues		1,200,000	275,232
Payment for share issue costs		(13,452)	(4,404)
Repayment of borrowings		(1,500,000)	-
Proceeds from borrowings		500,000	500,000
Net financing cash flows		186,548	770,828
Net increase/(decrease) in cash		(617,668)	(231,652)
Cash at beginning of financial period		1,441,891	857,178
Exchange rate adjustments on opening cash		-	-
Cash at end of financial period		824,223	625,526

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

Condensed Notes to the financial statements for the Half Year ended 31 December 2016

1. BASIS OF PREPARATION OF ACCOUNTS

This half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting", Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2016 and any public announcements made by Southern Gold Limited and its controlled entities during the half year in accordance with continuous disclosure requirements arising under the ASX Listing Rules.

The half year financial report does not include full disclosures of the type normally included in an annual financial report.

Southern Gold Limited is a company domiciled in Australia. The Consolidated half year financial report of the Company as at and for the six months ended 31 December 2016 comprises the Company and its subsidiaries (together referred to as the "consolidated" entity)

Changes in accounting policies and accounting policies applied for the first time

Other than those accounting policies detailed below, the accounting policies adopted by the Group are consistent with those of the previous financial year and corresponding interim reporting period.

Management has reviewed a number of new or amended standards that became applicable for the current reporting period and has considered the impact of standards issued but not yet applied by the entity in the period. As a result, the group did not have to change its accounting policies or make retrospective adjustments as a result of these standards and there was no material effect on the classification or presentation of balances.

The group has adopted the following new accounting policies relevant to the activities of the Group for the six months ended 31 December 2016.

(a) Joint Operations

The Group have a Mine Finance and Profit Sharing Agreement ("Agreement"), with Westgold Resources Limited ("Westgold") (ASX: WGX). Under the Agreement, Westgold provide the funding and manage all services required for the mining, haulage and the treatment of ore from the Cannon deposit, through their nearby Jubilee Mill.

The mine development costs and costs of mining, incurred by Westgold, are only recoverable from mining profits. During this period, Westgold owned the ore from the time it was mined.

Once the costs of development and mining have been recovered by Westgold, then Southern Gold and Westgold share all mining profits on a 50:50 basis. This point was achieved during the current half year ending 31 December 2016, and Southern Gold commenced to account for the first time its 50% share in the mining operations as joint operation.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group has recognised its share of jointly held assets, liabilities revenue and expenses of joint operations. These have been incorporated in the financial statements under the appropriate classifications.

In addition, any costs incurred directly by Southern Gold in overseeing the contract with Westgold are expensed as incurred. The costs are shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, as 'Mine management costs (Joint Operations)'.

(b) Inventories

At 31 December 2016, Southern Gold has recognised its 50% share of inventory held by the joint operation with Westgold. Inventory consists of the ore stockpiles held at the mine and at the processing plant.

Inventories are stated at the lower of cost and net realisable value on a first in first out basis. Cost comprises direct materials and the cost of mining and stockpiling the ore, haulage, and a proportion of Southern Gold's amortisation of development expenditure incurred prior to the commencement of the Westgold Agreement. Cost is determined on an average cost basis.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(c) Mine restoration costs

The Group has recognised its 50% share of the estimated mine restoration costs to be undertaken by the joint operations at the Cannon mine. Judgement is required in determining the provision for restoration as there are many transactions and other factors that will affect the ultimate payable to rehabilitate and restore the mine site. The estimate of the future costs therefore requires management to make an assessment of the future restoration date, future environmental legislation, changes in regulations, price increases, and the extent of restoration activities. When these factors change or become known in the future, such differences will impact will impact the restoration provision in the period in which they change or become known. At each reporting date, the restoration provision will be re-measured to reflect any of these changes.

(d) Acquisition of a subsidiary

On 8 July 2016 Southern Gold acquired 100% of a Singaporean registered company, International Gold Private Ltd (“IGPL”), itself a 100% owner of a South Korean company Hee Song Metals Co, Ltd (now Southern Gold Korea Ltd). The acquisition consideration included 6,294,942 Southern Gold ordinary shares and cash of \$115,695 (refer ASX Announcement 8 July 2016). The value of the acquisition consideration was \$2,476,603. The \$745,124 excess of the acquisition price over the book value of net assets acquired is recognised as part of value of exploration and evaluation assets acquired of \$2,489,661. There net liabilities acquired were (\$13,058).

The acquisition was considered as an asset acquisition and not a business combination under AASB3. The asset acquired was the exploration and evaluation asset. Other net liabilities of (\$13,058) were immaterial.

Estimates and judgements

When preparing the half year financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the half year financial statements, including the key sources of estimation uncertainty were the same as those applied in the Group’s last annual financial statements for the year ended 30 June 2016, other than the estimated mine restoration costs and the acquisition of a subsidiary, detailed above.

2. OPERATING SEGMENTS

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 as the exploration for gold and base metals, and the production of gold and base metals based on the different nature of those operations and the similarity of activities within those segments. 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 Production segment represents the Group’s 50% interest in the joint operations being undertaken at the Cannon gold mine. Refer Note 1 for further detail in relation to the accounting policies for the joint operations.

The Half Year Report for the period ending 31 December 2015 disclosed geographic segments of Australia and Cambodia. During May 2015, the existing shareholder agreement for the Cambodian operations was terminated in favour of a Sale, Purchase and Joint Venture Agreement (the ‘New Agreement’). At 30 June 2015, the New Agreement remained subject to completion conditions and the Directors took the view that all material assets and liabilities of the Mekong operations would be revalued to nil. Therefore, the Cambodian segment for the 6 months to 31 December 2015 comprised no revenues, expenses or change in net assets, and comprised only \$20,496 in net assets related to the discontinued operations. The New Agreement was completed on 9 February 2016.

Given that this is the first time that the Group’s operating segments have been presented as Exploration and Production and given the immaterial nature of the prior year geography based segment disclosure, there is no prior comparative period segment information.

Half Year ended 31/12/2016	Exploration	Production	Consolidated
	\$	\$	\$
<u>Revenue</u>			
Revenue from Joint Operations		4,074,689	4,074,689
Other Income	3,120	-	3,120
Total Segment Revenue	3,120	4,074,689	4,077,809
Exploration expenditure written off	(1,266,191)	-	(1,266,191)
Mine management costs (joint operations)		(135,350)	(135,350)
Share of joint operations expenses		(1,790,510)	(1,790,510)
Other expenditure	(2,741,929)	-	(2,741,929)
Total Segment Expenditure	(4,008,120)	(1,925,860)	(5,933,980)
Loss from continuing operations before Income Tax	(4,005,000)	2,148,829	(1,856,171)
Income Tax Benefit			1,488,561
Profit/(loss)			(367,610)
As at 31/12/2016	Exploration	Production	Consolidated
	\$	\$	\$
<u>Assets and Liabilities</u>			
Inventories	-	1,712,742	1,712,742
Mine development assets	-	515,799	515,799
Exploration and evaluation expenditure	9,275,654	-	9,275,654
Other Segment Assets	1,311,998	-	1,311,998
Total Assets (excluding deferred tax asset)	10,587,652	2,228,541	12,816,193
Share of joint operations liabilities	-	1,080,475	1,080,475
Other Segment Liabilities	2,675,460	123,926	2,799,386
Total Liabilities	2,675,460	1,204,401	3,879,861
Net Assets (excluding deferred tax asset)	7,912,192	1,024,140	8,897,861
Deferred Tax Asset			3,882,152
Net Assets			12,818,484

3. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2016	30 June 2016
	\$	\$
<i>A reconciliation of the carrying amount of exploration and evaluation expenditure is set out below::</i>		
Costs brought forward	7,132,433	6,937,031
Expenditure incurred during the year	919,751	1,157,087
Expenditure written off	(1,266,191)	(961,685)
Subsidiary acquired (Note 1(d))	2,489,661	-
	9,275,654	7,132,433

Exploration and evaluation 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.

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.

Accumulated costs in relation to an abandoned area are written off in full against profit in the period in which the decision to abandon the area is made.

During the period ending 31 December 2016, Southern Gold has written off exploration and evaluation expenditure of \$1,266,191 as follows:

- \$377,899 relating to four tenements that were relinquished in the period, and
- \$888,292 relating to a number of tenements impacted by a recent heritage re-instatement. Although these tenements have not been relinquished at this point, the Directors and management have made an assessment of each tenement impacted by a recent heritage re-instatement. Exploration and evaluation expenditure has been written off in full where the specific area of interest on a tenement is included in the area of the heritage site, and the likely increase in future development costs arising from the heritage site outweigh the likely economic value and potential for future development of that area of interest.

As disclosed in Note 1 (d), during the period ending 31 December 2016, Southern Gold acquired 100% of a Singaporean registered company, IGPL, itself a 100% owner of a South Korean company Southern Gold Korea Ltd. The value of the exploration and evaluation asset acquired was \$2,489,661.

4. INCOME TAX EXPENSE

	Half Year Ended 31 Dec 2016	Half Year Ended 31 Dec 2015
	\$	\$
<i>The components of the tax benefit comprise:</i>		
Research and development tax concession	299,479	206,716
Tax losses brought to account	1,189,082	1,891,365
	1,488,561	2,098,081

5. DEFERRED TAX ASSET

	31 December 2016 \$	30 June 2016 \$
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Deferred tax liability: Exploration	(1,947,754)	(1,991,396)
Deferred tax liability: Mine development	(154,740)	(496,643)
Deferred tax liability: Joint operations liabilities	(324,143)	-
Deferred tax asset: equity raising and legal costs	88,465	59,315
Tax losses ¹	6,017,776	5,098,193
Other	202,548	23,601
	<u>3,882,152</u>	<u>2,693,070</u>

¹As at 31 December 2016, the assessment of the amount of unused tax losses likely to be utilised by the Group, during the second half of the 2016-17 financial year, has increased, resulting in an increase in the deferred tax asset recognised by the Group. The amount of tax losses over and above the tax losses estimated to be used in the 2016-17 financial year, have not been brought to account and are detailed below.

Total deferred tax asset arising from carried forward tax losses not recognised:

Gross tax losses	12,687,696	17,929,442
Tax Losses at 30%	<u>3,806,309</u>	<u>5,378,833</u>

6. MINE DEVELOPMENT ASSET

	31 December 2016 \$	30 June 2016 \$
Costs carried forward in respect of the development of Cannon	2,744,487	2,744,487
Accumulated amortisation	(2,228,688)	(1,089,009)
	<u>515,799</u>	<u>1,655,478</u>

7. PROVISIONS

	31 December 2016 \$	30 June 2016 \$
Provision for employee benefits	41,618	10,910
Provision for mine restoration	123,926	-
	<u>165,544</u>	<u>10,910</u>

The provision for mine restoration is Southern Gold's 50% share of the joint operation's estimated provision to rehabilitate the Cannon gold mine. Refer Note 1 for the related accounting policy.

8. BORROWINGS

	31 December 2016 \$	30 June 2016 \$
Westgold Loan ¹	1,209,297	2,109,957
Convertible debt	1,008,022	935,189
	<u>2,217,319</u>	<u>3,045,146</u>

¹ A secured loan facility of \$2,500,000, plus accrued interest, was provided to Southern Gold as part of the Agreement to develop the Cannon gold deposit. The loan was assigned from Metals X Ltd (ASX: MLX) to Westgold, during the period ending 31 December 2016. During the period ending 31 December 2016, the loan balance reached \$2,709,297, including accrued interest. During December 2016, the first cash distribution of \$2 million was received from the Cannon operations. \$1,500,000 of that distribution was applied to reduce the loan balance to \$1,209,297, and the remaining \$500,000 was received in cash.

Subsequent to 31 December 2016, Southern Gold received its second distribution from the Cannon operations, of \$1.5 million. This was applied to reduce the Westgold loan balance to nil, with the remainder of the distribution received in cash.

9. ISSUE OF SECURITIES

Fully paid ordinary shares issued

<i>Movements in ordinary shares on issue</i>	Number	\$
At 1 July 2016	36,567,820	35,700,379
Shares issued to directors ¹	103,413	30,000
Shares issued for an acquisition ²	6,294,942	2,360,603
Placement ³	3,428,571	1,200,000
Share issue costs	-	(13,452)
At 31 December 2016	<u>46,394,746</u>	<u>39,277,530</u>

The comparative period Earnings Per Share shown on the Consolidated Statement of Profit or Loss and Other Comprehensive Income has been calculated to allow for the 1:15 share consolidation which occurred in November 2015.

¹ For the year ended 30 June 2016, the Remuneration to Non-Executive Directors included 272,112 Ordinary Shares. The value of the remuneration shares were expensed in full in the year ended 30 June 2016. However, as at 30 June 2016, 103,413 of these shares remained yet to be issued. These were issued during the period ending 31 December 2016.

² On 8 July 2016 Southern Gold acquired 100% of a Singaporean registered company, International Gold Private Ltd ("IGPL"), itself a 100% owner of a South Korean company Hee Song Metals Co, Ltd (now Southern Gold Korea Ltd). The acquisition consideration included 6,294,942 Southern Gold ordinary shares. Refer Note 1(d) for further detail.

³ In parallel with the acquisition transaction noted above, a placement of \$1.2 million was made to sophisticated investors at \$0.35 per share. This subscription price represented an 18% premium to the 20 day volume weighted average share price to 6 July 2016. The share issue was subject to shareholder approval. Shareholder approval was granted on 21 September 2016.

10. SHARE BASED PAYMENTS RESERVE

During the half year ended 31 December 2016, 1,245,000 unlisted options were issued to the employees on 12 July 2016, pursuant to the terms of the Employee Share Option Plan. The exercise price is \$0.375, with an expiry of 30 June 2020. The options were valued at \$351,170 using the Black Scholes method and were accounted for in the half year ended 31 December 2016, as the options were granted without any vesting conditions.

11. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no changes in contingent liabilities or contingent assets from those disclosed in the annual report for the year ended 30 June 2016.

12. SUBSEQUENT EVENTS

In January 2017, Southern Gold received its second distribution, from the Cannon operations, of \$1.5 million. This was applied to reduce the Westgold loan balance to nil (refer Note 8), with the remainder of the distribution received in cash.

And in February 2017, Southern Gold received its third distribution from the Cannon operations of \$2.0 million cash.

Other than as noted above, no other matters or circumstances have arisen since the end of the half year which significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or state of affairs of the consolidated entity in future financial years.

Directors' Declaration

Directors' Declaration for the six months ended 31 December 2016

The Directors of the Company declare that:

- 1) The financial statements and notes, as set out on pages 12 to 22 are in accordance with the Corporations Act 2001, including:
 - a) complying with Accounting Standards AASB 134 Interim Financial Reporting; and
 - b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016, and of its performance for the half-year ended on that date.
- 2) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



S Mitchell
Managing Director

Adelaide, South Australia
1st day of March 2017



G C Boulton AM
Chairman

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SOUTHERN GOLD LIMITED

We have reviewed the accompanying half-year financial report of Southern Gold Limited (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of Southern Gold Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Southern Gold Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

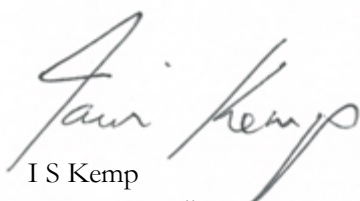
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Southern Gold Limited is not in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



I S Kemp
Partner – Audit & Assurance

Adelaide, 1 March 2017