



**ANNUAL REPORT
2016/17**

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Non-Executive Chairman

Simon Mitchell
Managing Director

Michael Billing
Non-Executive Director

David Turvey
Non-Executive Director

Company Secretary
Daniel Hill

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CHAIRMAN'S LETTER

Dear fellow Southern Gold shareholder,

The financial results in this 2017 annual report confirm that 2016-2017 was a year of delivery on many fronts, and substantially ahead of our previous full year's performance. While FY16 saw Southern Gold commence maiden gold production at the Cannon open pit southeast of Kalgoorlie in Western Australia and the celebrations around our first gold pour, FY17 has been even more important for the fact that the Company generated significant maiden cash flow and paid a sector-setting dividend to our shareholders. Furthermore, your Company completed an important acquisition with the addition of a significant South Korean gold exploration and development asset – an acquisition the Board feels can potentially deliver in the medium term, a second "company making" revenue stream in addition to Cannon's ongoing further mining upside.

In looking at these developments in more detail, perhaps the most satisfying one from my perspective has been the cash flow generated from gold mining Cannon's open-pit. With project profit share of \$13 million being paid to Southern Gold so far, the Company has been able to retire all of its debt and build a war chest of funds to cover our near-term gold exploration requirements. It has been particularly pleasing for me as Chairman to see the results of several years of effort, bear this sort of fruit. The funds from Cannon have essentially supported the Company these past few years through the Westgold loan, effectively a prepayment on the Cannon open pit cash flow, and so will ultimately under-pin the Company for around a 4 year period, negating the need for shareholder dilution via capital raisings.

And importantly, the Cannon cash flow has enabled Southern Gold to do something quite unique in the micro-cap junior explorer space: pay a special dividend. The Company announced a 3c per share unfranked cash dividend, which could be taken in the equivalent of shares priced at 25c per share under our Dividend Reinvestment Plan. This gave shareholders an implied pre-tax return of around 12%, and saw the Company return slightly less than 10% of cash generated by the Cannon mine, to our shareholders. This focus means Southern Gold is true to its roots as a junior explorer, looking to re-invest back into the business more than 90% of the generated cash. This strategy underpins Southern Gold's equity market appeal as a growth stock with significant discovery potential.

While the Cannon mine open-pit mining phase has come to an end, the Company is currently assessing the economics of taking the mine underground. Recent drilling results from this project reinforce the likelihood of further cash flow to be generated from underground mining this asset in the near-term. While the specifics of the underground development are yet to be finalised, your Directors believe there is a very high likelihood of further significant net profit to be generated from the Cannon asset. I am confident that Cannon will continue to positively underpin the financial fortunes of your Company for several years to come.

As to Southern Gold's options for gold production in the medium term, the Company is working on this on two fronts: in South Korea, principally at the Gubong gold project where London's Bluebird Merchant Ventures is our development partner, and at the Glandore project just outside of Kalgoorlie and which Southern Gold is farming into.

We acquired the historic South Korean gold assets early in the 2016-2017 financial year and within nine months concluded a deal with Bluebird that should see a rapid advancement of one of the Korean projects into production, the most likely near-term option being Gubong. This is a large historical gold mine with many kilometres of existing underground development and huge potential to reactivate into production with some market leading technical work by Bluebird. News flow from this project should feature heavily over the next 12 months.

At Glandore, your Company sees several potential scenarios. The first is the development of small open-pits on high grade mineralisation in the Doughnut Jimmy area. While relatively small, the gold grades here are high and the mineralisation is shallow - therefore affording the possibility of rapid development. The second scenario is the rapid discovery and definition of mineralisation at the Lake Consols area where Southern Gold sees encouraging results along a kilometre long trend, again with high grades.

So the Company is working hard on our next source of cashflow.

On the exploration front, SAU again is very active. In addition to our work at Cannon, Glandore and Gubong, your Company is currently exploring another 5 project areas with the potential for discovery. A lift in news flow is anticipated on this front as drilling expenditure funded from the Cannon deposit, is increased. Results from the Cowarna and Transfind Extended projects in Australia and the Weolyu, Kochang and Hampyeong projects in South Korea are anticipated during the course of the current financial year.

I sincerely thank our staff and contractors, both technical and administrative, for the great support they have given the Company through this milestone period. Our team is now well engaged in field work, drilling and other technical studies designed to generate new value for the business.

And overseeing all of this activity is your Board. I thank my fellow Board members, Managing Director Simon Mitchell, and non-Executive Directors, Mick Billing and David Turvey, for the contributions they have made during the past year. Their diligent engagement at Board level makes my job of Chairman that much easier.

Yours sincerely,



Greg Boulton AM
Chairman

MANAGING DIRECTOR'S OPERATIONS REPORT

Dear fellow Southern Gold shareholder,

By any measure, 2016-2017 proved a milestone year for Southern Gold, with significant and pleasing progress made on several strategic fronts, and importantly, in a manner which has positioned the Company for an even more robust and expansive year in 2017-2018. Key deliverables of the year under review included:

- Generating significant cash, paying off all debt, and completing several asset acquisitions;
- Consolidating funding for major drilling programmes on multiple drill-ready gold targets;
- Successfully completing two equity placements at a premium to Southern Gold's share price;
- Retaining a tight capital structure while enhancing the asset base; and Ensuring Southern Gold's forward development pathway now includes significant blue sky exploration upside as well as prospects to commercially reinvigorate in the near-term former gold mining operations with ongoing production outlooks.

A stand-out point of difference during the year for Southern Gold against its peer group was our payment of an unfranked 3c per share special dividend, a rarity in the wider junior gold and resources space.

From your management team's perspective, a highlight for the year was the Company's ability to progress its corporate development aspirations and acquire new gold assets on very compelling terms. I sincerely believe that when looked at in retrospect, the acquisition of the South Korean and Glandore (WA) gold projects will be seen as timely, highly value-adding, and potentially in the 'company making' class. With drilling at Glandore already in progress, and with our London-based South Korean projects partner, Bluebird Merchant Ventures, re-opening Gubong, the upside of these acquisitions should emerge for the first time in the very near-term.

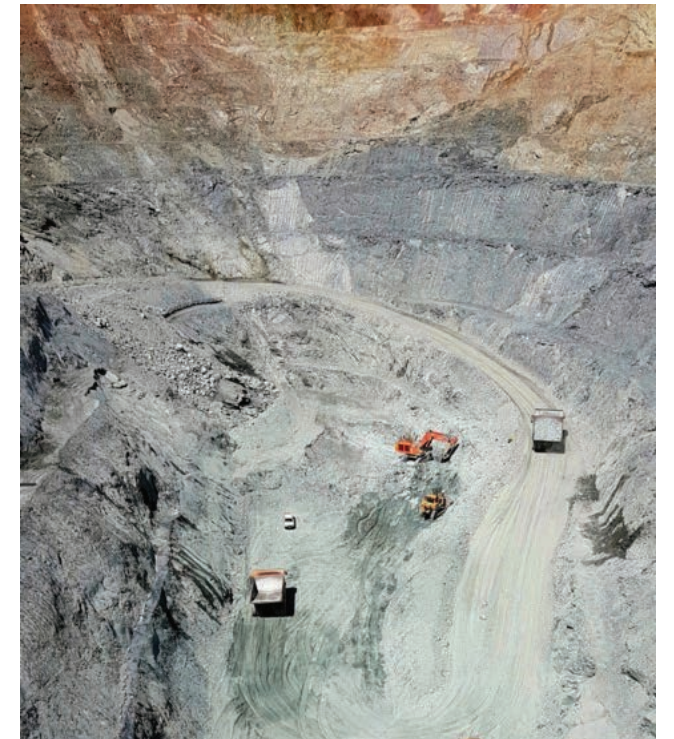
MANAGING DIRECTOR'S OPERATIONS REPORT

Cannon Gold Mine (WA)

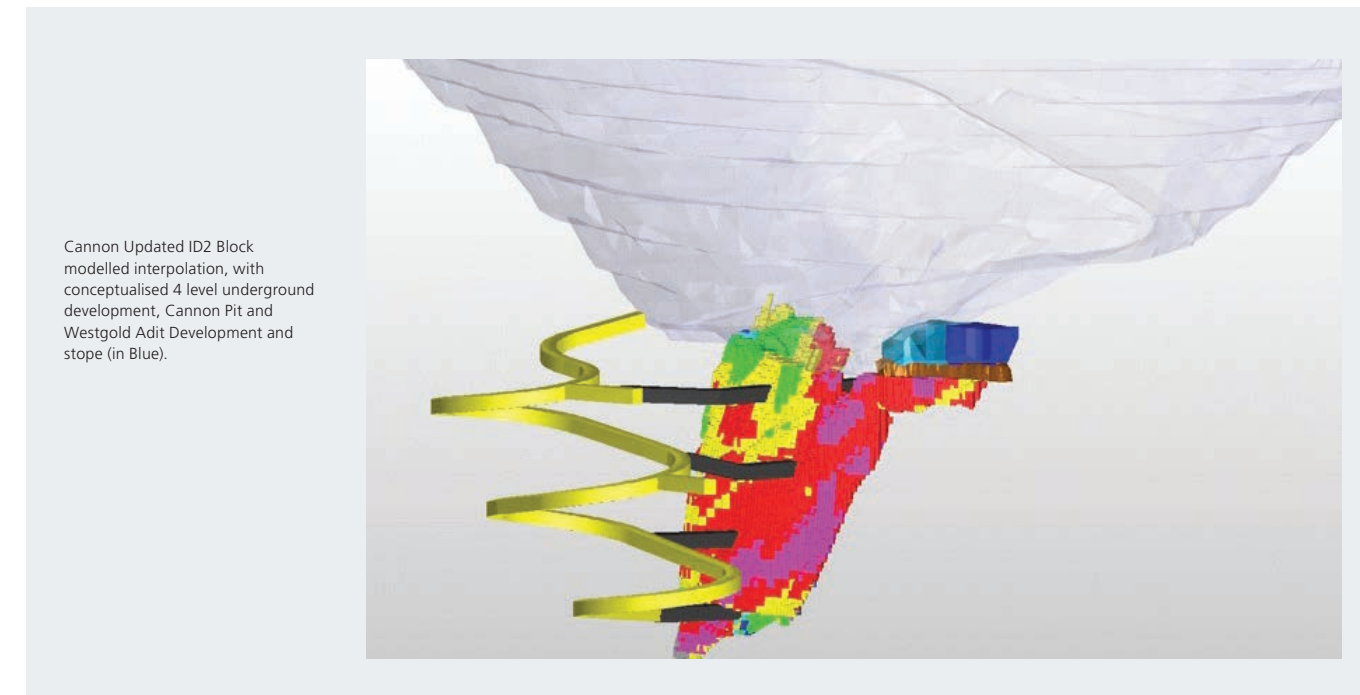
The open-pit phase of the Cannon gold mine, southeast of Kalgoorlie in WA, wrapped up in June 2017, producing in total around 52,000oz of gold with an average profit margin in excess of A\$500/oz. So far, Southern Gold has received A\$13m under its Cannon profit share arrangement with further payments still to come. This strong cash flow is an extremely robust result for Southern Gold, especially when compared to the original small open-pit contemplated several years ago and that was projected then to make a net profit of just \$2-3m.

Southern Gold puts on record its appreciation of our Cannon mining partner, Westgold Resources Ltd, its CEO, Peter Cook and his team, which were responsible for all aspects of mining, transport, processing and sales at Cannon and largely responsible for this overall successful outcome.

On the back of this success, Southern Gold is now assessing the potential for an underground operation at Cannon. The recent Reverse Circulation (RC) drilling has provided comprehensive detail around the mine's high grade gold mineralisation and contributed to the appeal of a likely underground mining scenario. While this annual report tabulates the residual resource, the resource remaining after open-pit mining based on the original model, Southern Gold is looking to update the project's remaining JORC resource estimate and to outline a conceptual underground mine plan. This should be reported in the near future with intent to move to production early in 2018, assuming an economic scenario is confirmed.



Overview of Cannon Open Pit Mine Operations Early 2017



Cannon Updated ID2 Block modelled interpolation, with conceptualised 4 level underground development, Cannon Pit and Westgold Adit Development and stope (in Blue).



Diamond drilling at the Glandore Gold Project adjacent to the lake margin.

Glandore Gold Project (WA)

Our farm-in and Joint Venture was agreed with Aruma Exploration in April 2016. The project is located 40kms east of Kalgoorlie and 12kms (direct) from SAU's Cannon Gold mine, on the western margin of Lake Yindarlgooda. While Southern Gold was hoping to 'hit the ground running' this financial year, an unrelated court case with findings handed down in May this year, and subsequent notification by the WA Department of Heritage, indicated there was a re-instated heritage site that covered much of the Glandore and Bulong East area. Southern Gold diligently activated the process of engaging Traditional Owners and negotiating an outcome that has allowed the company to continue work in the region. This approach proved successful. The Company has now commenced drilling and other exploration works at the project's Doughnut Jimmy and Lavaeolus prospects and defined a significant mineralised trend at Lake Consols. I expect substantial progress on this site during 2017-2018.

Cowarna Gold Project (WA)

At Cowarna, southeast of Kalgoorlie, Southern Gold has been laying initial exploration groundwork in a similar way as at Glandore, although this site requires liaison with the WA Department of Biodiversity, Conservation and Attractions, which manages a timber reserve covering part of the Cowarna area. The process of securing access continues but Southern Gold is confident of navigating through the requirements and to commence first drilling by the end of calendar 2017.

SAU's geological team is excited by this project. Not only do several of the prospects lie within sight of Silverlake Resources' drill rigs to the northwest, but favourable gold soil anomalies that require follow-up drilling have already been generated. At the Pryde and Logan prospects, there are robust structural features, surface gold anomalism and very little adequate historical drilling work. Again, I expect substantial progress on this site during 2017-2018.

Transfind Extended Gold Project (WA)

This project, which has visible gold at surface, is located 70 kilometres east-southeast of Kalgoorlie. The acquisition transaction with respected local gold prospectors gives Southern Gold an option to purchase the Transfield Extended tenements after committing to defined levels of drilling. It is an innovative acquisition approach (and one we seek to employ in further acquisitions) that allows the skillsets of traditional prospecting and corporate-backed exploration initiatives and technologies to combine for potentially higher level discovery outcomes. Southern Gold anticipates first Transfind Extended drilling in the opening half of FY18.

South Korea

The acquisition by Southern Gold during the year of International Gold Private Ltd, a Singaporean holding company that wholly owned a suite of historical gold mine and exploration assets in South Korea, has seen Southern Gold step offshore into a jurisdiction with prodigious potential. The cost of the acquisition was very modest but brought with it, the potential to unlock significant value on a company-making scale, supported by additional cash flow generation opportunities.

Quickly following on from the South Korean acquisition, your Company completed an agreement with London Stock Exchange-listed Bluebird Merchant Ventures Ltd, headed up by Colin Paterson and Charles Barclay. Bluebird is an extremely well credentialed specialist mining company with expertise in the rejuvenation of historical gold mines, particularly experience with narrow vein underground gold mines such as presents at our new South Korean assets. Bluebird is now partnering Southern Gold to more rapidly move the advanced Korean gold projects such as Gubong and Taechang, towards production, an objective Southern Gold would not be able to achieve as quickly in its own right. The Stage 1 production asset we estimate can be achieved for a shareholder value-adding investment of less than US\$10 million (a US\$5 million commitment from each partner).



The Bluebird group works to rehabilitate one of the entrances to the historic Gubong Gold Mine.



Diamond drilling at the Weolyu Au-Ag Project, South Korea

South Korea cont.

Bluebird has commenced work at Gubong, quickly defining the potential for a substantial asset offering multiple development phases. The near-term focus is to establish initial cash flow in South Korea to make our operations there self-funding as soon as possible.

Separate to pursuing these production opportunities with Bluebird, Southern Gold has a first class exploration team looking for a world-class gold asset in South Korea, whose geological footprint sits between world-class deposits in China and Japan but with nothing equivalent identified yet in South Korea. Southern Gold's exploration focus is on the epithermal gold potential in the southern third of the country near or adjacent to the various Cretaceous basins identified in our grass roots targeting. The Company's Weolyu and Hampyeong projects fall into this category but our scope continues to cast wider than just these.

Early success at Weolyu and Kochang includes identifying 1-2 kilometre scale mineralised systems with very high grade gold and silver results from surface sampling. These outcomes are yet to be replicated in drilling but underground access at each project is being followed up to re-engage with historically mined in-situ quartz veins and sample mineralisation.

Outlook for FY18

A priority for 2017-2018 is to secure Southern Gold's next source of cash flow, most likely from the Cannon underground gold development. Defining a second source of cash flow for the medium term is also a priority, possibly from work at Glandore or Gubong, either of which has real potential to add to the Company's gold inventory. In particular, Gubong in South Korea has the potential to move much faster than I believe most resources analysts expect. Bluebird is very focused on moving the first asset it is working on into production as fast as possible, and, given the amount of mine infrastructure already in place there, the redevelopment scenario offers a faster development than a typical greenfields gold offering.

Further out, your management team believes projects such as Cowarna in Australia and Weolyu or Hampyeong in South Korea have the potential to add a new discovery to SAU's gold portfolio, enhancing enterprise values. That ultimately is the attraction of the gold exploration and development industry and we at Southern Gold are working hard towards those outcomes.

Simon Mitchell
Managing Director

JORC Resource Statement

Mineral Resource Estimate – Cannon

Cannon Mineral Resource Statement - 30/06/2017

Ore Body	Reporting Lower Cut-Off	Measured			Indicated			Inferred		
		Tonnes	Au Grade (g/t)	Ounces Au	Tonnes	Au Grade (g/t)	Ounces Au	Tonnes	Au Grade (g/t)	Ounces Au
Cannon	0.7	-	-	-	173,000	3.90	21,500	-	-	-
Cannon Stockpiles	-	-	-	-	-	-	-	-	-	-
Mill stocks	-	-	-	-	-	-	-	-	-	-
Total		-	-	-	173,000	3.90	21,500	-	-	-

Notes:

- Cannon mineral resource estimate is a straight depletion of the 2015 JORC Resource, accounting for all mining within the Cannon Pit and Cannon Adit to 30/06/17.
- The Resource as at 30/06/17 represents the remnant portion of the Resource that remains beneath the final pit and only within the Southern Gold Cannon ML25/333 tenement (i.e. exclusive of Georges Reward Resources).
- The Cannon Resource will be remodelled and an updated Resource presented in September/October 2017. An assessment on mining methods for the underground evaluations will also form part of the ongoing review.
- Rounding will affect numerical totals.

MANAGING DIRECTOR'S OPERATIONS REPORT

Competent Person's Statement

The information in this report that relates to Exploration Results in the Company's Australia tenements has been compiled under the supervision of Mr Justin Gum (MAIG). Mr Gum who is an employee of Southern Gold Limited and a Member of the Australasian Institute of Geoscientists, has sufficient experience which is relevant to the style of mineralisation and type of deposits 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. Mr 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 the Company's South Korean tenements 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 Mineralisation has been compiled under the supervision of Mr Paul Androvic (MAusIMM). Mr Androvic, who is an employee of Southern Gold Limited and a Member 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". Mr Androvic consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

Forward-looking statements

Some statements in this release regarding estimates or future events are forward looking statements. These may include, without limitation:

- Estimates of future cash flows, the sensitivity of cash flows to metal prices and foreign exchange rate movements;
- Estimates of future metal production; and
- Estimates of the resource base and statements regarding future exploration results.

Such forward looking statements are based on a number of estimates and assumptions made by the Company and its consultants in light of experience, current conditions and expectations of future developments which the Company believes are appropriate in the current circumstances. Such statements are expressed in good faith and believed to have a reasonable basis. However the estimates are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from estimated results.

All reasonable efforts have been made to provide accurate information, but the Company does not undertake any obligation to release publicly any revisions to any "forward-looking statement" to reflect events or circumstances after the date of this presentation, except as may be required under applicable laws. Recipients should make their own enquiries in relation to any investment decisions from a licensed investment advisor.

MANAGING DIRECTOR'S OPERATIONS REPORT

TENEMENT SCHEDULE – WESTERN AUSTRALIA

Bulong Project				
Bulong South	L25/43	148 ha	Southern Gold Limited	100%
Bulong South	L25/50	16 ha	Southern Gold Limited	100%
Bulong South	L25/51	13 ha	Southern Gold Limited	100%
Bulong South	E25/349	922 ha	Southern Gold Limited	100%
Bulong South	M25/182	429 ha	Inferus Resources Limited	100%
Bulong South	M25/333	400 ha	Southern Gold Limited	100%
Bulong South	P25/2143	54 ha	Southern Gold Limited	100%
Bulong South	P25/2365	49 ha	Southern Gold Limited	100%
Clinker Hill	P25/2131	93 ha	Southern Gold Limited	100%
Clinker Hill	P25/2134	122 ha	Southern Gold Limited	100%
Clinker Hill	P25/2135	121 ha	Southern Gold Limited	100%
Clinker Hill	P25/2137	121 ha	Southern Gold Limited	100%
Heron KNP JV	M25/59	84 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	M25/134	815 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	M25/145	172 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	M25/161	640 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	M25/171	101 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	M25/209	960 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	M25/210*	958 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	P25/2062*	120 ha	Heron Resources Ltd	80%
Heron KNP JV	P25/2252*	73 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	P25/2253*	169 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	P25/2254*	121 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	P25/2255*	121 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	P25/2256	116 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	P25/2257	88 ha	Hampton Nickel Pty Ltd	80%
Heron KNP JV	P25/2258	122 ha	Hampton Nickel Pty Ltd	80%

*Tenements relinquished post 30 June 2017. Deferred exploration costs associated with these tenements was written off for accounting purposes in the year ended 30 June 2017.

MANAGING DIRECTOR'S OPERATIONS REPORT

TENEMENT SCHEDULE – WESTERN AUSTRALIA cont.

PROJECT	TENEMENT NUMBER	AREA	REGISTERED HOLDER	SOUTHERN GOLD EQUITY
Cowarna Project				
Cowarna	E25/474	7065 ha	Southern Gold Limited	100%
Cowarna	E25/497	6580 ha	Southern Gold Limited	100%
Cowarna	E25/503	294 ha	Southern Gold Limited	100%
Cowarna	E25/551	2058 ha	Southern Gold Limited	100%
Glandore Project				
Glandore	M25/327	122 ha	Aruma Exploration Pty Ltd	50%
Glandore	M25/329	456 ha	Aruma Exploration Pty Ltd	50%
Glandore	M25/330	703 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2073	177 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2074	141 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2075	195 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2076	197 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2103	103 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2117	120 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2118	198 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2119	187 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2154	110 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2215	45 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2116	117 ha	Aruma Exploration Pty Ltd	50%
Glandore	P25/2390	84 ha	Southern Gold Limited	100%

MANAGING DIRECTOR'S OPERATIONS REPORT

TENEMENT SCHEDULE - SOUTH KOREA

The following tenements are held by a 100% owned South Korean subsidiary, Southern Gold Korea Ltd, as at 30 June 2017.

MINE NAME	TENEMENT INFO				REGISTER INFO	
	Korean	English	Block ID	No.	Type	Date of Granting MM/DD/YYYY
Hwangryong (Yangji)	대천	Daecheon	74	79249	Mining	10/02/2011
	대천	Daecheon	84	79250	Mining	10/02/2011
	대천	Daecheon	75	79174	Mining	24/01/2011
	대천	Daecheon	85	79251	Mining	10/02/2011
Weolyu	영동	Youngdong	66	79254	Mining	14/02/2011
	영동	Youngdong	67	79255	Mining	14/02/2011
Hampyeong Sonbul	망운	Mangun	23	79233	Mining	8/02/2011
Hwacheon	영덕	Youngduk	73	79234	Mining	8/02/2011
Ongam	대천	Daecheon	71	79231	Mining	8/02/2011
	대천	Daecheon	72	79232	Mining	8/02/2011
Daeil	설천	Seolcheon	33	79177	Mining	24/01/2011
	설천	Seolcheon	43	79224	Mining	8/02/2011
Heungdok	설천	Seolcheon	36	79223	Mining	8/02/2011
	설천	Seolcheon	46	79226	Mining	8/02/2011
Samhwang-hak	설천	Seolcheon	34	79178	Mining	24/01/2011
	설천	Seolcheon	44	79225	Mining	8/02/2011
	설천	Seolcheon	35	79179	Mining	24/01/2011
	설천	Seolcheon	45	79180	Mining	24/01/2011
Pungsan	설천	Seolcheon	55	79181	Mining	24/01/2011
	대흥	Daehung	33	79227	Mining	8/02/2011
	대흥	Daehung	43	79229	Mining	8/02/2011
	대흥	Daehung	44	79230	Mining	8/02/2011
Cheongwon	대흥	Daehung	34	79228	Mining	8/02/2011
	증평	Jeungpyeong	100	77037	Mining	19/06/2008
Jangam	미원	Miwon	91	77028	Mining	16/06/2008
	증평	Jeungpyeong	34	77066	Mining	24/06/2008
Suam	증평	Jeungpyeong	35	77067	Mining	24/06/2008
	증평	Jeungpyeong	33	77065	Mining	24/06/2008

MANAGING DIRECTOR'S OPERATIONS REPORT

TENEMENT SCHEDULE - SOUTH KOREA cont.

The following tenements are held by a 100% owned South Korean subsidiary, Southern Gold Korea Ltd, as at 30 June 2017.

MINE NAME	TENEMENT INFO				REGISTER INFO	
	Korean	English	Block ID	No.	Type	Date of Granting MM/DD/YYYY
Gubong	청양	Cheongyang	134	78089	Mining	1/09/2009
	청양	Cheongyang	135	78090	Mining	1/09/2009
	청양	Cheongyang	136	78091	Mining	1/09/2009
	청양	Cheongyang	137	78092	Mining	1/09/2009
	청양	Cheongyang	146	78093	Mining	1/09/2009
	청양	Cheongyang	147	78094	Mining	1/09/2009
	청양	Cheongyang	145	78095	Mining	1/09/2009
	대천	Daecheon	6	78096	Mining	1/09/2009
	대천	Daecheon	7	78097	Mining	1/09/2009
Taechang (Sobo)	목계	Mockgye	136	78645	Mining	1/06/2010
	목계	Mockgye	137	78646	Mining	1/06/2010
Kochang	안의	Aneui	11	78086	Mining	1/09/2009
	안의	Aneui	12	78087	Mining	1/09/2009
	안의	Aneui	22	78088	Mining	1/09/2009
Hampyeong Sonbul	망운	Mangun	11	200136	Exploration	27/08/2012
Imcheon	부여	Buyeo	58	200222	Exploration	14/01/2013

DIRECTOR'S 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 2017.

Principal Activities

The principal continuing activity of the group in the year was the mining of gold and 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 profit after income tax of \$2,506,188 (2016: loss of \$1,128,867).

Dividends

A dividend of \$0.03 per share was declared on 6th June 2017. A provision for a dividend payable of \$1,418,772 is included in the Company's financial statements as at 30 June 2017. Shareholders were provided with the option to receive the dividend, in part or in whole, through a dividend re-investment plan with Shares priced at \$0.25 per share. On 30 August 2017, the Company paid the dividend as \$945,648 in cash and issued 1,858,138 shares.

REVIEW OF OPERATIONS

Overview

Southern Gold now operates in 2 distinct jurisdictions: Australia and South Korea. The acquisition of Singaporean company International Gold Private Ltd from unlisted public company Asiatic Gold Ltd, saw Southern Gold step into a new and exciting exploration and mine development opportunity in South Korea. The Company's operations around Kalgoorlie in Western Australia continue to remain the bedrock of near term mining and cash flow potential. Out activities then are broadly focused on the following:

- **Project definition and monetisation of opportunities in the Kalgoorlie district.** This is due to the fact that Kalgoorlie boasts significant infrastructure, particularly processing options and this lends itself well to the development of smaller discoveries. Monetisation of these smaller deposits can generate significant cash flow compared to the company's market capitalisation, the open cut Cannon mine being a good recent example.
- **The advancement of the Gubong and Taechang Projects in South Korea in coordination with development partner Bluebird Merchant Ventures Ltd.** The Gubong Mine is a significant asset in its own right and has the potential to be a company making opportunity. Our intent here is to fast track to modest scale production and positive cash flow in our South Korean operations as soon as possible.
- **The drilling of significant epithermal gold-silver targets identified in South Korea with the potential for a world-class discovery.** South Korea has incredible potential for the discovery of significant deposits given its macro geological picture and the lack of systematic modern exploration.

Australia – Cannon Gold Project

Southern Gold's flagship project is the Cannon Gold Mine which is located approximately 35km to the east of Kalgoorlie in Western Australia. The open pit stage of the mine which has just been concluded was co-developed with Westgold Resources Ltd ("Westgold", previously Metals X Ltd) and included the development of Westgold's Georges Reward deposit immediately to the north of Cannon.

REVIEW OF OPERATIONS cont.

Australia – Cannon Gold Project cont.

Mining begun in July 2015 and concluded in June 2017 with ore treated at the nearby Westgold Jubilee Mill in a series of campaigns over the last 2 years summarised as follows:

Figure 1: Cannon Gold Production by Campaign (1 to 9) over FY16 and FY17 Period

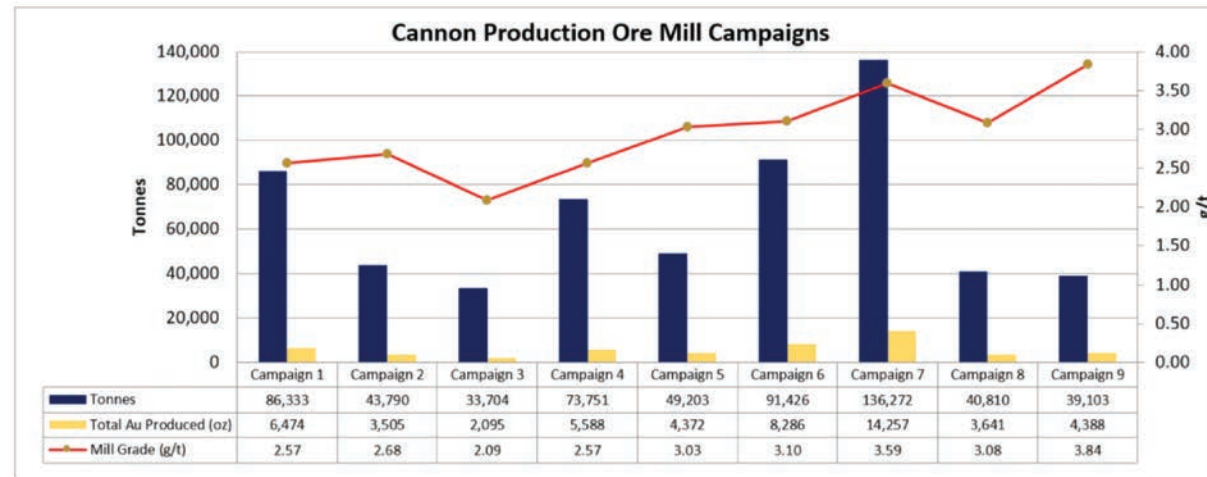


Table 1: Cannon Quarterly and FY17 Processing Statistics

		Sept 2016	Dec 2016	March 2017	June 2017	FY17
Ore	tonnes	73,751	140,629	177,082	39,103	430,565
Grade	g/t Au	~2.57	~3.08	~3.47	~3.84	~3.22
Gold Produced	Oz.	5,588	12,658	17,898	4,388	40,532
Recovery	%	91.71	91.00	90.55	90.96	90.93%

Net profit paid to Southern Gold off the back of this production was \$13 million up to the end of August 2017, with a final projected net profit of \$13.75m expected on final cost allocations. With 52,605 oz gold produced over the life of open pit mine this implies a net profit per ounce of A\$522/oz, or A\$261/oz to each of Southern Gold and Westgold.

Subsequent to the end of financial year, Southern Gold completed a comprehensive Reverse Circulation drilling programme below the Cannon open pit to fully define and potentially extend the gold resource. Results from this programme were excellent and included the following highlight intercepts:

BSRC276	10m @ 18.0g/t Au from 63m, including 5m @ 31.1 g/t Au from 66m
BSRC279	6m @ 25.9g/t Au from 44m, including 4m @ 34.9 g/t Au from 45m
BSRC283	12m @ 11.4 g/t Au from 53m, including 7m @ 17.7 g/t Au from 54m
BSRC290	22m @ 5.36 g/t Au from 44m, including 4m @ 9.9 g/t Au from 47m
BSRC296	12m @ 9.0 g/t Au from 57m, including 8m @ 11.1 g/t Au from 60m
BSRC301	17m @ 7.0 g/t Au from 46m, including 7m @ 7.9 g/t Au from 51m
BSRC303	13m @ 7.5 g/t Au from 56m, including 8m @ 10.8 g/t Au from 60m

These results provide further impetus to the development of an underground gold mine at Cannon and the new JORC Resource and mining inventory will be defined early in the coming financial year. Discussions with potential co-development partners and mining contractors have already commenced.

REVIEW OF OPERATIONS cont.

Australia – Exploration

Southern Gold's exploration efforts have also picked up across the Kalgoorlie district with work commencing on the Glandore Gold Project approximately 12 kilometres to the east of Cannon. Southern Gold has an agreement with Aruma Exploration Pty Ltd ("AEPL"), a wholly owned subsidiary of Aruma Resources Ltd, whereby Southern Gold could earn up to a 90% interest in the Glandore package of tenements. Expenditure to this point has earned Southern Gold a 50% interest in the Glandore Project and is currently well on the way to a 75% interest. The Company believes there is the potential for additional gold resources that may be exploitable by open pit methods as well as greenfield targets based on recent mapping and rock chip sampling. The Lake Consols target is a good example of this where surface results have returned high grade gold and the mineralisation trend can be mapped for over a kilometre in length. At the Dibber zone quartz vein samples ranged from 16.77 g/t Au to 168 g/t Au and sheared dolerites ranged from 0.46 g/t Au to 51.63 g/t Au.

An initial diamond drill programme at Doughnut Jimmy and Lavaeolus has broadly confirmed the historical results in the area with a best drill intersection of 18.2m from 3.7g/t Au from 4.9m including 3m @ 6.84g/t Au from 20.1m in GLDD002 at Doughnut Jimmy.

In addition to Glandore, an agreement was reached with 2 prospectors in regard to a project called Transfind Extended where visible gold is being returned in surface samples taken from old workings to the south of the Transfind open pit. Southern Gold believes there is good potential to define relatively high grade gold resources in this area and has an agreement to drill 2000m of reverse circulation drilling within a 2 year period.

Surface mapping and sampling work has been conducted at the Cowarna Gold Project and more detailed hand auger sampling has been completed at the Bamf and Nighcrawler prospects. Some preliminary geophysical modelling has been done on the Pryde and Logan prospects. All of this work has defined several first pass drill targets that will be tested in the coming financial year.

South Korea – Gubong and Taechang Projects

During the financial year Southern Gold announced an agreement with Bluebird Merchant Ventures Ltd ("BMV"), a London Stock Exchange listed entity led by Colin Patterson and Charles Barclay, whereby BMV could earn up to a 50% interest in the Gubong and Taechang projects by completing a US\$500,000 farm in on each of the projects (US\$1m total) and providing a feasibility scoping document outlining a small scale development scenario with a capital cost of less than US\$10 million (less than US\$5m each). In addition BMV or one of its associates would complete an A\$250,000 placement into Southern Gold for each project taken forward into the farm in stage (A\$500,000 total). The first \$250,000 placement was completed at \$0.386/share, a 35% premium at the time of the announcement, to advance the Gubong Project to the next stage.

BMV has now begun work on the ground at Gubong and is currently seeking underground access. Gubong was closed in the early 1970's and although there are multiple entry points based on historical data, the entranceways have been well sealed and the mine closed for a considerable period. Once underground access is achieved it is expected that this project will move forward rapidly into the detailed study phase and ultimately as a source of cash flow for the Joint Venture in the near to midterm.

South Korea – Exploration

Exploration in South Korea is comprised of two parts:

1. Surface sampling, mapping and drilling activity at the Kochang and Weolyu projects; and
2. Project generation activities where experienced geologists are following up leads on the ground in new poorly explored areas of the country.

In regards to work at Kochang and Weolyu, Southern Gold has had some good on the ground success although drilling productivity has been poor and hence per metre drilling costs relatively high. The company is currently working on alternative drilling solutions to improve our performance in both categories. Independent of this drilling both Kochang and Weolyu are now defined as a one to two kilometre scale mineralised systems with excellent potential. Ore grade rock chip results have been returned in both locations (peak results >27g/t Au at Kochang and >1000g/t Ag at Weolyu) although these are yet to be replicated in drilling.

The next step at Kochang is to achieve underground access and to inspect and sample the high grade shoots that were mined historically. At Weolyu further drilling will be conducted to test targets defined by surface mapping. Both are exciting projects that have the potential to generate relatively high grade mineral resources after completion of extensive exploration.

DIRECTOR'S REPORT

CORPORATE

Finance

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 total value of the acquisition consideration was \$2,476,603.

In parallel with the above acquisition transaction, a placement of \$1,200,000 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 Shareholder approval was granted on 21 September 2016.

During the year ended 30 June 2017, Southern Gold received \$11,353,000 in cash distributions from the Cannon mine, net of gold hedging. The cash received was first used to repay the WestGold loan of \$2,701,972, and the convertible loans of \$1,000,000.

On the 30 June 2017, 250,000 ordinary shares of Southern Gold Limited were issued on the exercise of options, for total proceeds of \$80,000, and 647,668 shares were issued to an entity controlled by Mr Colin Patterson, CEO of Bluebird Merchant Ventures Ltd ('Bluebird'), for proceeds of \$250,000. The placement of the 647,668 shares was made in lieu of the placement to Bluebird under the Share Subscription, Farm In and Joint Venture Agreement – Gubong Project, executed earlier in the year (refer ASX release 27 March 2017).

In addition to the above, Southern Gold received a Research and Development tax refund of \$299,479.

The Company's ending cash balance was \$5,376,908. Subsequent to year end, on 30 August 2017, the Company paid a cash dividend of \$945,648 and issued 1,858,138 shares for those shareholders participating in the Dividend Reinvestment Plan.

Competent Person's Statements

The information in this report that relates to Exploration Results in the Company's Australian tenements has been compiled under the supervision of Mr. Justin Gum (MAIG). Mr Gum who is an employee of Southern Gold Limited and a Member of the Australasian Institute of Geoscientist, 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. Mr 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 the Company's South Korean tenements 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.

Forward-looking statements

Some statements in this release regarding estimates or future events are forward looking statements. These may include, without limitation:

- Estimates of future cash flows, the sensitivity of cash flows to metal prices and foreign exchange rate movements;
- Estimates of future metal production; and
- Estimates of the resource base and statements regarding future exploration results.

Such forward looking statements are based on a number of estimates and assumptions made by the Company and its consultants in light of experience, current conditions and expectations of future developments which the Company believes are appropriate in the current circumstances. Such statements are expressed in good faith and believed to have a reasonable basis. However the estimates are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from estimated results.

All reasonable efforts have been made to provide accurate information, but the Company does not undertake any obligation to release publicly any revisions to any "forward-looking statement" to reflect events or circumstances after the date of this presentation, except as may be required under applicable laws. Recipients should make their own enquiries in relation to any investment decisions from a licensed investment advisor.

DIRECTOR'S REPORT

CORPORATE cont.

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 Reporting Date

On the 8 August 2017, Southern Gold received the seventh profit share distribution from the Company's Cannon gold mine. The distribution was \$3m, with \$1.5m of this paid to Southern Gold as its 50% profit share.

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

Southern Gold will focus on developing alternative cash flow sources from a second project or from the extension of the Cannon mine to an underground phase. There is also the possibility of early cash flow from the South Korean operations.

Emphasis will be on drilling targets with a view to defining resources exploitable by open pit methods around Kalgoorlie and underground high grade resources at the Korean projects. The overall objective is to make sufficient cash flow to pay a return to our shareholders as well as organically fund significant exploration efforts to find a world class deposit.

Environmental Regulation and Performance Statement

The Company's operations are subject to significant environmental regulations under Commonwealth and Western Australian legislation in relation to discharge of hazardous waste and materials arising from any mining activities and development conducted by the Company on any of its tenements.

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
15.04.2013	15.10.2017	0.150	0.900	128,670
27.11.2014	30.11.2019	0.105	0.375	400,002
01.02.2015	18.11.2020	0.109	0.375	333,334
12.07.2016	30.06.2021	0.282	0.375	1,155,000
15.05.2017	15.05.2022	0.152	0.375	250,000
				2,267,006

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

In addition to the above options, the Company has proposed to grant 3,500,000 options to the Directors, subject to shareholder approval at the next Annual General Meeting (announced to the ASX on 3 April 2017). The options will have an expiry date three years following the date they are granted (following shareholder approval). 1,750,000 of the proposed options will have an exercise price of \$0.40, and the other 1,750,000 will have an exercise price of \$0.50.

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

During the year ended 30 June 2017, 250,000 ordinary shares of Southern Gold Limited were issued on the exercise of options, for total proceeds of \$80,000.

DIRECTOR'S REPORT

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) (Member of Audit Committee)

Mr Boulton has extensive commercial experience spanning over 30 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.

Mr Boulton is currently on the board of ASX listed Kangaroo Island Plantation Timbers Ltd, the Statewide Superannuation Trust, and other South Australian private companies.

Mr Boulton currently has 1,566,883 shares and 133,334 options in Southern Gold Limited.

Simon Mitchell

BSc (Hons) Geol, MAusIMM, GAICD, MSEG (Managing Director)

Simon Mitchell was appointed Managing Director, effective from 1 February 2015.

Mr. Mitchell is a geologist and corporate executive with 27 years of resources industry experience in technical and finance roles including 10 years gold exploration and mine development experience with Normandy NFM, RGC, Goldfields and Aurora Gold in countries as diverse as Australia, Bolivia, Chile, Papua New Guinea and Indonesia. Mr Mitchell worked for 6 years at the Commonwealth Bank of Australia, predominantly in Project Finance, and more than 6 years with Toro Energy as General Manager of Business Development where he was responsible for the raising of more than US\$80 million in capital and engaging investors worldwide. More recently Mr. Mitchell has been Managing Director of Asiatic Gold Ltd, an unlisted public company with gold exploration projects in South Korea, a company subsequently acquired by Southern Gold in mid-2016.

Mr Mitchell currently has 468,981 shares and 333,334 options in Southern Gold Limited.

Michael Billing

B Bus, CPA, MAICD (Non-Executive Director) (Audit Committee Chairman)

Mr Billing is an accountant with in excess of 40 years of mining industry experience in senior management, company secretarial, senior commercial, and chief financial officer roles including lengthy periods with Bougainville Copper Ltd and WMC Resources Ltd. He has worked extensively with junior resource companies since the late 1990's. Mr Billing is also Executive Chairman of ASX and AIM listed Thor Mining PLC.

Mr Billing currently has 558,811 shares and 133,334 options in Southern Gold Limited.

David Turvey

B Sc(Hons) Geol, MAusIMM (Non-Executive Director)

Mr Turvey is a geologist with over 30 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.

Mr Turvey was formerly a Non-Executive Director of ASX listed Lawson Gold Limited until July 2013, and was previously Managing Director of FerrAus Limited from December 2005 to June 2009.

Mr Turvey currently has 501,208 shares and 133,334 options in Southern Gold Limited.

Company Secretary

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

Daniel Hill

B.A (Acc), CA, MBA, MAppFin, FFin, CSA (Company Secretary)

Mr Hill has over 15 years' experience in finance. With a background in accounting practice, he has also held finance roles at Paragon Private Equity, Diageo plc, Hess Oil & Gas Inc and Grosvenor Estates.

Mr Hill is also Company Secretary of LBT Innovations Ltd (ASX:LBT).

Mr Hill currently has nil shares and 100,000 options in Southern Gold Limited. Mr Hill is a Non-Executive Director of AEM Cores Pty Ltd and Cavitus Solutions Pty Ltd.

Mr Hill currently has nil shares and 100,000 options in Southern Gold Limited.

DIRECTOR'S REPORT

REMUNERATION REPORT (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 cash 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 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.

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 value, through the retention of high quality personnel.

The Company has a performance bonus scheme in place for the Managing Director which provides for the payment of a cash bonus on the achievement of agreed milestones during the year as determined 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 Hill is not employed by the Company. His services are provided in his capacity as a consultant to act as Company Secretary of Southern Gold.

During the financial year there were no remuneration consultants engaged by the Company.

DIRECTOR'S REPORT

REMUNERATION REPORT (AUDITED) cont.

Performance-based Remuneration

The Group currently has no performance based remuneration component built into Non-Executive Director packages. The Managing Director's remuneration package includes a maximum performance incentive of \$50,000 each year. The Managing Director's base salary package increased from \$245,000 to \$270,000 effective 1 July 2017, following an annual performance review. In deciding the bonus to be paid to the Managing Director each year, the Board take into account a number of performance criteria including share price performance against peers, the maintenance of expenses within budget and operational milestones. Outside of this, there is no formal relationship between the board policy for remuneration of Key Management Personnel and the company's performance for the last four years.

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 Non-Executive Directors do not currently participate in any incentive scheme.

Remuneration packages contain the following key elements:

- Primary Benefits – base salary/fees;
- Post Employment Benefits – superannuation.

Shares issued on exercise of remuneration options

No shares were issued to Directors or other Key Management Personnel as a result of the exercise of remuneration options during the financial year.

Directors' and other Key Management Personnel interests in shares and options

Directors' and other Key Management Personnel relevant interests in shares and options of the Company are disclosed in section (d) of the Remuneration Report and in Note 5 of the Financial Report.

Shares and Options granted as remuneration

For the prior 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 shares were issued on 1 July 2017, being in the period ending 30 June 2017. No other remuneration shares were issued in the year ended 30 June 2017.

On 12 July 2016, the Company issued 1,245,000 unlisted options to the employees, pursuant to the terms of the Employee Share Option Plan. The exercise price is \$0.375, with an expiry of 30 June 2021. The options granted to employees included options granted to Key Management Personnel being: Mr Hill 100,000 options and Mr Blucher 100,000 options.

A further 250,000 options were issued to two new employees on 15 May 2017, pursuant to the terms of the Employee Share Option Plan. The exercise price is \$0.375, with an expiry of 15 May 2022.

As announced to the ASX on 3 April 2017, the Company has proposed to grant 3,500,000 unlisted options to the Directors, subject to shareholder approval at the next Annual General Meeting. The options will have an expiry date three years following the date they are granted (following shareholder approval). 1,750,000 of the proposed options will have an exercise price of \$0.40, and the other 1,750,000 will have an exercise price of \$0.50.

Options granted to Directors & Key Management Personnel during the year are disclosed in section (c).

All options granted have vested and no options were exercised in the financial year. The 3,500,000 proposed options to Directors remains subject to shareholder approval.

DIRECTOR'S REPORT

REMUNERATION REPORT (AUDITED) cont.

Remuneration of Directors and Key Management Personnel

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

(a) Directors and Key Management Personnel

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

Directors	Position
G C Boulton AM	Chairman – Non-Executive
S Mitchell	Managing Director – Executive
M R Billing	Director – Non-Executive
D J Turvey	Director – Non-Executive
Key Management Personnel	Position
D L Hill	Company Secretary
I D Blucher*	Project Development Manager

*Mr Blucher ceased employment with the Company on 30 June 2017.

(b) Directors' remuneration

2017 Primary Benefits	Short Term Benefits			Share Based Payments \$	Post Employment		Total \$	Percentage of Remuneration as shares %
	Directors' Fees \$	Salary and Leave \$	Cash Bonus \$		Super Contribution \$			
G C Boulton AM	90,000	-	-	3,000	73,127	-	163,127	44.02%
S Mitchell	-	245,000	27,500	-	292,509	25,888	590,897	49.50%
M R Billing	41,096	-	-	3,000	73,127	3,904	121,127	60.37%
D J Turvey	41,096	-	-	6,000	73,127	3,904	124,127	58.91%
	172,192	245,000	27,500	12,000	511,890	33,696	1,002,278	51.07%

2016 Primary Benefits	Short Term Benefits			Share Based Payments \$	Post Employment		Total \$	Percentage of Remuneration as shares %
	Directors' Fees \$	Salary and Leave \$	Cash Bonus \$		Super Contribution \$			
G C Boulton AM	40,000	-	-	-	40,000	-	80,000	50.00%
S Mitchell	-	226,416	41,000	-	-	25,405	292,821	-
M R Billing	18,265	-	-	-	20,000	1,735	40,000	50.00%
D J Turvey	18,265	-	-	-	20,000	1,735	40,000	50.00%
	76,530	226,416	41,000	-	80,000	28,875	452,821	17.67%

DIRECTOR'S REPORT

REMUNERATION REPORT (AUDITED) cont.

(c) Other Key Management Personnel Remuneration

2017 Primary Benefits	Salary and Leave \$	Cash Bonus \$	Super Contribution \$	Share Based Payments \$	Total \$
D L Hill ¹	-	-	-	15,156	15,156
I D Blucher	150,865	-	14,332	15,156	180,353
	150,865	-	14,332	30,312	195,509

2016 Primary Benefits	Salary and Leave \$	Cash Bonus \$	Super Contribution \$	Share Based Payments \$	Total \$
D L Hill ¹	-	-	-	-	-
I D Blucher	111,186	-	10,563	-	121,749
	111,186	-	10,563	-	121,749

1. Mr Hill provides services as a consultant to act as Company Secretary of Southern Gold Limited. Mr Hill was paid \$14,318 during the 2017 year (2016: \$19,723).

DIRECTOR'S REPORT

REMUNERATION REPORT (AUDITED) cont.

(d) Ordinary Shares and Options Held by Directors and Key Management Personnel

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

30 June 2017	Balance at beginning of year	Acquired (disposed) on market	Issued on exercise of options during year	Other changes during the year ^{1,2}	Balance at end of year
G C Boulton AM	1,005,061	325,000	-	68,942	1,399,003
S Mitchell	250,000	75,312	-	93,421	418,733
M R Billing	494,340	-	-	34,471	528,811
D J Turvey	447,507	-	-	-	447,507
D L Hill	-	-	-	-	-
I D Blucher ³	77,461	-	-	-	77,461
	2,274,369	400,312	-	196,834	2,871,515

The above balances as at 30 June 2017, differ from the holdings disclosed in the Directors Report. The Directors Report provides each Directors' shareholdings as at the date of the Directors report, and therefore will include shares issued on 30 August 2017 as a result of participation in the Dividend Reinvestment Plan.

1 For the prior 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, relating to Messrs Boulton and Billing. These shares were issued on 1 July 2017, being in the period ending 30 June 2017.

2 On 8 July 2016 Southern Gold acquired of International Gold Private Ltd ("IGPL"). The acquisition consideration included 6,294,942 Southern Gold ordinary shares issued to the vendor, Asiatic Gold Ltd. Asiatic Gold Ltd made an in-specie distribution of the Southern Gold shares to its shareholders. Mr Mitchell acquired 93,421 Southern Gold shares through that in-specie distribution.

3 Mr Blucher ceased employment with the Company on 30 June 2017.

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

30 June 2017	Balance at beginning of year ³	Acquired off market	ESOP options granted ¹	Other changes during the year ²	Balance at end of year	Vested during the year	Vested and exercisable
G C Boulton AM	133,334	-	-	500,000	633,334	-	133,334
S Mitchell ¹	333,334	-	-	2,000,000	2,333,334	-	333,334
M R Billing	133,334	-	-	500,000	633,334	-	133,334
D J Turvey	133,334	-	-	500,000	633,334	-	133,334
D L Hill	-	-	100,000	-	100,000	100,000	100,000
I D Blucher	33,334	-	100,000	-	133,334	100,000	133,334
	766,670	-	200,000	3,500,000	4,466,670	200,000	966,670

1 On 12 July 2016, the Company issued 1,245,000 unlisted options to the employees, pursuant to the terms of the Employee Share Option Plan. The exercise price is \$0.375, with an expiry of 30 June 2021. The options granted to employees included options granted to Key Management Personnel being: Mr Hill 100,000 options and Mr Blucher 100,000 options.

2 As announced to the ASX on 3 April 2017, the Company has proposed to grant 3,500,000 unlisted options to the Directors, subject to shareholder approval at the next Annual General Meeting.

DIRECTOR'S REPORT

REMUNERATION REPORT (AUDITED) cont.

(e) Service agreements

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

- Mr Mitchell commenced employment on 1 February 2015.
- Agreed remuneration for the year ended 30 June 2016 was \$245,000 per annum plus superannuation guarantee contributions, subject to annual salary review increases for the term of the service agreement.
- Following the annual performance and salary review, effective 1 July 2017 the Managing Director's annual salary was increased to \$270,000 base salary per annum, plus statutory superannuation.
- The issuance of 333,334 unlisted options consistent with the unlisted options issued to Directors on 22 December 2014 (a five year term and an exercise price of 37.5 cents).
- The Managing Director's remuneration package includes a maximum performance incentive of \$50,000 for the period to 30 June 2017 and each year thereafter. The Managing Director was awarded \$27,500 in bonuses, plus superannuation at 9.5%, related to the year ended 30 June 2017.
- Termination without notice in the event that Mr Mitchell
 - is guilty of serious or wilful misconduct; or
 - 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 maximum three calendar months' notice or by agreement in writing by the parties. In the event of redundancy due to takeover, merger or other corporate arrangements, a six month notice period applies.

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.

The Company entered into a service agreement with an entity associated with Mr Turvey on 20 September 2011 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.

The Company entered into a service agreement with an entity associated with Mr Hill on 30 May 2013 to provide financial and company secretarial services. The contract is subject to a four week termination without cause.

(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.

DIRECTOR'S REPORT

REMUNERATION REPORT (AUDITED) cont.

(g) Voting at 2016 AGM

Southern Gold Limited received more than 99.6% of 'yes' votes on its remuneration report for the 2016 financial year. The Company did not receive any specific feedback at the AGM on its remuneration report.

(h) Related party 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.

The following comprises payments made to entities in which Directors or Key Management Personnel have an interest;

Director and Key Management Personnel	Related Party Transaction	2017 \$	2016 \$
D L Hill	Payments to a member of Key Management for financial and company secretarial services provided	14,318	19,723
GC Boulton	Payments to a Director related entity for Director and consulting services provided*	93,000	80,000
D Turvey	Payments to a Director related entity for consulting services provided	6,000	6,534
M Billing	Payments to a Director related entity for consulting services provided	3,000	-

*During the year ended 30 June 2017, the value of payments comprised Directors fee of \$90,000, and consulting fees of \$3,000. (For the year ended 30 June 2016, fees for Director services, were settled through \$40,000 in cash and \$40,000 in the issue of shares.)

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

	2017 \$	2016 \$
Current payables		
Amounts payable to Directors and Key Management Personnel related entities (refer Note 12) ¹	41,934	57,983
	41,934	57,983

- 1 Payable to Greg Boulton and Associates Pty Ltd (an entity associated with G C Boulton) of \$7,500 (2016: \$ 3,667).
Payable to Red Balloon Superannuation Fund (an entity associated with Mr David Turvey) of \$296 (2016: \$145).
Payable to Lapun Kamap Superannuation Fund (an entity associated with Mr Michael Billing) of \$296 (2016: \$145).
Payable to Bayfront Nominees Pty Ltd (an entity associated with D L Hill) of \$2,760 (2016: \$2,126).
Payable to Mr Simon Mitchell, being a final bonus relating to the year ended 30 June 2017 \$30,112 and superannuation of \$969 (2016: \$21,900).

There were no amounts receivable from related parties.

DIRECTOR'S REPORT

MEETINGS OF DIRECTORS

The Company held 10 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	10	10	2	2
S Mitchell	10	10	-	-
M R Billing	10	10	2	2
D J Turvey	10	10	-	-

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.

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.

Non-audit services paid and/or payable to the external auditors during the year ended 30 June 2017 were \$2,000 (2016: \$15,317 comprising taxation related services in relation to the acquisition of International Gold Private Ltd).

Indemnification and insurance of officers

Indemnification

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

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

Insurance Premiums

Since the end of the previous year the Group 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.

DIRECTOR'S REPORT

MEETINGS OF DIRECTORS cont.

Proceedings on behalf of the Company

No person has applied to the Court for leave to bring proceedings on behalf of the Group 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 Group was not a party to any such proceedings during the year.

Auditor of the Company

The auditor of the Group for the financial year was Grant Thornton Audit Pty Ltd.

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 2017 is set out immediately following the end of the Directors' report.

Dated at Adelaide, this 19th day of September 2017.

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



S Mitchell
Managing Director

G C Boulton AM
Chairman

AUDITOR'S INDEPENDENCE DECLARATION



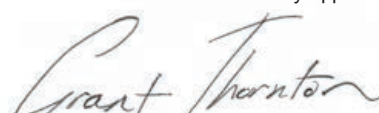
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Auditor's Independence Declaration To the Directors of Southern Gold Limited

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 2017, 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 AUDIT PTY LTD
Chartered Accountants


I S Kemp
Partner - Audit & Assurance

Adelaide, 19 September 2017

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Our Ref: Southern Gold Limited_independence Declaration_Jun 17.Docx

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2017

		Consolidated	
	Note	2017 \$	2016 \$
Continuing Operations			
Revenue		18,889,851	-
Cost of Sales		(6,565,679)	-
		12,324,172	-
Other revenue	2(a)	10,473	10,490
Exploration expenditure written off	9	(1,669,307)	(961,685)
Exploration expenses		(260,822)	(71,502)
Mine management costs		(252,588)	(460,726)
Mine development amortisation		(1,618,061)	(1,089,009)
Salaries and wages		(876,744)	(297,962)
Directors fees		(90,000)	(80,000)
Interest expense		(213,461)	(120,119)
Shareholder relations		(289,854)	(113,187)
Other consulting expenses		(460,559)	(240,129)
Other administrative expenses	2(b)	(755,483)	(393,662)
Depreciation		(47,035)	(26,594)
Share based payments		(900,952)	(80,000)
Profit/(Loss) before income tax		4,899,779	(3,924,085)
Income tax (expense)/benefit attributable to profit/(loss) from ordinary activities	4	(2,393,591)	2,817,998
Profit/(Loss) from continuing operations		2,506,188	(1,106,087)
Discontinued Operations			
Loss from discontinued operations	3	-	(22,780)
Net Profit/(Loss) for the year		2,506,188	(1,128,867)
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation		(60,292)	-
Total comprehensive income		2,445,896	(1,128,867)

Earnings Per Share

From continuing & discontinued operations			
Basic (cents per share) – Profit/(Loss)	23	5.51	(3.14)
Diluted (cents per share) – Profit/(Loss)	23	5.25	(3.14)
From continuing operations			
Basic (cents per share) – Profit/(Loss)	23	5.51	(3.08)
Diluted (cents per share) – Profit/(Loss)	23	5.25	(3.08)
From discontinued operations			
Basic (cents per share) – Profit/(Loss)	23	-	(0.06)
Diluted (cents per share) – Profit/(Loss)	23	-	(0.06)

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

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

		Consolidated	
	Note	2017 \$	2016 \$
CURRENT ASSETS			
Cash and cash equivalents	6	5,376,908	1,441,891
Trade and other receivables	7	403,711	53,896
Inventories (gold)		820,725	-
Other assets	8	23,904	-
TOTAL CURRENT ASSETS		6,625,248	1,495,787
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	9	10,270,630	7,132,433
Mine development assets	10	-	1,655,478
Deferred tax asset	4	-	2,693,070
Plant and equipment	11	168,308	31,054
TOTAL NON-CURRENT ASSETS		10,438,938	11,512,035
TOTAL ASSETS		17,064,186	13,007,822
CURRENT LIABILITIES			
Trade and other payables	12	355,330	669,039
Dividend payable	26	1,418,772	-
Provisions	13	172,130	10,910
Borrowings	14	-	3,045,146
TOTAL CURRENT LIABILITIES		1,946,232	3,725,095
TOTAL LIABILITIES		1,946,232	3,725,095
NET ASSETS		15,117,954	9,282,727
EQUITY			
Issued capital	15	39,607,530	35,700,379
Reserves	28	2,814,815	2,074,566
Retained losses		(27,304,391)	(28,492,218)
TOTAL EQUITY		15,117,954	9,282,727

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	Issued Capital \$	Retained Losses \$	Share- Based Payment Reserve \$	Foreign Currency Translation Reserve \$	Total \$
Balance at 30 June 2015	35,379,551	(27,363,351)	1,999,541	-	10,015,741
Profit or loss	-	(1,128,867)	-	-	(1,128,867)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	(1,128,867)	-	-	(1,128,867)
Issue of share capital	325,232	-	-	-	325,232
Fair value of options issued to lenders	-	-	75,025	-	75,025
Costs associated with the issue of shares	(4,404)	-	-	-	(4,404)
Total transactions with owners	320,828	-	75,025	-	395,853
Balance at 30 June 2016	35,700,379	(28,492,218)	2,074,566	-	9,282,727
Profit or loss	-	2,506,188	-	-	2,506,188
Other comprehensive income	-	-	-	(60,292)	(60,292)
Total comprehensive income	-	2,506,188	-	(60,292)	2,445,896
Dividend declared	-	(1,418,772)	-	-	(1,418,772)
Issue of share capital	3,920,603	-	-	-	3,920,603
Options lapsed or exercised	-	100,411	(100,411)	-	-
Fair value of options issued	-	-	900,952	-	900,952
Costs associated with the issue of shares	(13,452)	-	-	-	(13,452)
Total transactions with owners	3,907,151	(1,318,361)	800,541	-	3,389,331
Balance at 30 June 2017	39,607,530	(27,304,391)	2,875,107	(60,292)	15,117,964

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

		Consolidated	
	Note	2017 \$	2016 \$
Cash flows relating to operating activities			
Interest received		9,947	7,490
Other income		526	3,000
Receipts from operations		11,353,000	-
R&D tax offset received		299,479	206,715
Mining costs		(543,347)	(136,049)
Payments to suppliers and employees		(2,816,179)	(958,193)
Interest paid		(258,607)	(33,458)
Net operating cash inflows/(outflows) from continuing operations		8,044,819	(910,495)
Net operating cash outflows used in discontinued operations		-	-
Net operating cash inflows/(outflows) (Note (a))		8,044,819	(910,495)
Cash flows relating to investing activities			
Payments for mining tenements, exploration and evaluation expenditure		(2,346,688)	(1,222,561)
Payments for mine development assets		-	(22,954)
Payments for acquisition of a subsidiary		(115,695)	-
Disposal of subsidiary (cash held)		-	(2,779)
Payments for plant and equipment		(163,963)	(27,326)
Net investing cash outflows used in continuing operations		(2,626,346)	(1,275,620)
Net investing cash inflows from discontinued operations		-	-
Net investing cash outflows		(2,626,346)	(1,275,620)
Cash flows relating to financing activities			
Proceeds from share issues		1,530,000	275,232
Payments for share issue costs		(13,452)	(4,404)
Repayment of borrowings		(3,500,000)	-
Proceeds of borrowings		500,000	2,500,000
Net financing cash inflows		(1,483,452)	2,770,828
Net increase in cash		3,935,021	584,713
Net foreign exchange difference		(4)	-
Cash at beginning of financial year	6	1,441,891	857,178
Cash at end of financial year	6	5,376,908	1,441,891

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Consolidated	
	2017 \$	2016 \$
Note (a): Reconciliation of net loss from ordinary activities to net cash flow from operating activities		
Profit/(Loss) from ordinary activities after income tax	2,506,188	(1,128,867)
Adjustments to reconcile profit before tax to net cash flows		
Share based payments	900,952	80,000
Depreciation	47,035	26,594
Mine development amortisation	1,618,061	1,089,009
Exploration written off and expensed – continuing operations	1,669,307	1,033,188
Loss on disposal of subsidiary	-	22,780
Loss on sale of plant & equipment	656	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(339,982)	3,394
(Increase)/decrease in other financial assets	2,941	19,772
(Increase)/decrease in inventories	(783,308)	-
(Increase)/decrease in deferred tax assets	2,693,070	(2,611,283)
Increase/(decrease) in trade and other payables	(431,321)	548,521
Increase/(decrease) in provisions	161,220	6,397
Net operating cash flows	8,044,819	(910,495)

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

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. Southern Gold Ltd is a for-profit entity for the purpose of preparing the financial statements.

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.

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.

New and revised accounting standards

New and revised standards which were effective for annual periods beginning on or after 1 July 2016 are as follows:

- AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations;
- AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation;
- AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements

None of the above amendments have had a material impact on the Group.

a. Principles of Consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2017. The Parent controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All subsidiaries have a reporting date of 30 June.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

b. Income Tax cont.

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 Profit or Loss and Other 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 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.

Research and development tax incentive

To the extent that research and development costs are eligible activities under the "Research and development tax incentive" programme, a 43.5% refundable tax offset is available for companies with annual turnover less than \$20 million. The Group recognises refundable tax offsets received in the financial year as an income tax benefit, in profit or loss, resulting from the monetisation of available tax losses that otherwise would have been carried forward.

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 a 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 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 20–33%

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 Profit or Loss and Other Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

d. Exploration and Evaluation Expenditure

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.

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 from when exploration commences and are included in the costs of that stage.

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 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

iii. Available for sale (AFS) financial assets

AFS financial assets are non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. The Group's AFS financial assets include listed securities and are measured at fair value.

Impairment

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

f. Impairment of Non Financial 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 Profit or Loss.

g. Leases

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

h. Discontinued Operations

A discontinued operation is a component of an entity, being a cash generating unit (or a group of cash generating units), that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with the view to resale.

Refer to Note 3 for further information.

i. 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 recognises 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 profit or loss and other comprehensive income. 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.

j. 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 year ending 30 June 2017, and Southern Gold commenced to account for 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. The Cannon operations are further detailed at Note 18. The Company's interests in other joint operations are listed at Note 10.

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)'.

k. Inventories

At 30 June 2017, Southern Gold has recognised its 50% share of inventory held by the joint operation with Westgold. Inventory consists of gold held at the Perth mint. There were no ore stockpiles held at 30 June 2017.

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

l. 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.

m. Mine Development asset

Development assets represent expenditure in respect of exploration, evaluation, feasibility and development incurred by or on behalf of the group, including overburden removal and construction costs, previously accumulated and carried forward in relation to areas of interest in which mining has now commenced. Such expenditure comprises net direct costs and an appropriate allocation of directly related overhead expenditure.

All expenditure incurred prior to commencement of production from each development property is carried forward to the extent to which recoupment out of future revenue from the sale of production, or from the sale of the property, is reasonably assured.

When further development expenditure is incurred in respect of mine property after commencement of production, such expenditure is carried forward as part of the cost of the mine property only when future economic benefits are reasonably assured, otherwise the expenditure is classified as part of the cost of production and expensed as incurred. Such capitalised development expenditure is added to the total carrying value of development assets being amortised.

Amortisation and impairment

Development assets are amortised based on the unit of production method which results in an amortisation charge proportional to the depletion of the estimated recoverable reserves. Where this is a change in the reserve the amortisation rate is adjusted prospectively in the reporting period in which the change occurs. The net carrying values of development expenditure carried forward are reviewed half yearly by directors to determine whether there is any indication of impairment.

n. Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to report 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 high quality corporate 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.

o. 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.

p. 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.

q. 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).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

r. 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 statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

s. 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.

t. Comparative Figures

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

u. 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 –Deferred Tax Assets

A deferred tax asset was recognised in the prior year, ended 30 June 2016. The deferred tax assets represented carry forward tax losses that were expected to be utilised during the year ended 30 June 2017.

In determining the extent to which sufficient future taxable profits are probable, the Group considered the projected income from the Cannon operations. The recognition of a \$2,611,283 increase in the deferred tax asset, during the year ended 30 June 2016, reflected the revised Mine Finance and Profit Sharing Agreement with Metals X Limited (ASX: MLX – “Metals X”) (refer ASX announcement 3 November 2015). Under the revised agreement, the development of the Company's Cannon Gold Resource was expanded to a larger open pit. The larger open pit development increased expectation for future taxable income.

As expected, these tax losses have now been utilised in the year ended 30 June 2017.

Refer to Note 4.

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.

v. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

w. Accounting standards not yet effective and not adopted early

The Company notes the following Accounting Standards which have been issued but are not yet effective at 30 June 2017. These standards have not been adopted early by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 Financial Instruments (December 2014)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting. In December 2014, the AASB made further changes to the classification and measurement and also introduced a new impairment model.

These latest amendments now complete the new financial instruments standard. This standard does not apply mandatorily before 1 January 2018.

The Group is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Group's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118 Revenue and AASB 111 Construction Contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer so the notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application, i.e. without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application. This standard does not apply mandatorily before 1 July 2017.

Adoption of this amendment will not result in a material impact on the Group's financial statements.

AASB 16 Leases

AASB 16 replaces AASB 117 Leases and some lease related Interpretations. The new standard requires all leases to be accounted for as 'on balance sheet' by lessees, other than short term and low value asset leases.

The standard provides new guidance on the application of the definition of lease and on sale and lease back accounting. The standard also requires new and different disclosures about leases. This standard does not apply mandatorily before January 2019.

The Group is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a current inconsistency between AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures.

The amendments clarify that, on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, any gain or loss recognised will depend on whether the assets or subsidiary constitute a business, as defined in AASB 3 Business Combinations. Full gain or loss is recognised when the assets or subsidiary constitute a business, whereas gain or loss attributable to other investors' interests is recognised when the assets or subsidiary do not constitute a business.

This amendment effectively introduces an exception to the general requirement in AASB 10 to recognise full gain or loss on the loss of control over a subsidiary. The exception only applies to the loss of control over a subsidiary that does not contain a business, if the loss of control is the result of a transaction involving an associate or a joint venture that is accounted for using the equity method. Corresponding amendments have also been made to AASB 128.

When these amendments are first adopted for the year ending 30 June 2019, there will be no material impact on the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

x. Parent Entity

The financial information of the parent entity, Southern Gold Limited, disclosed at note 25, has been prepared on the same basis, using the same accounting policies as the consolidated financial statements, other than investments in controlled entities which are carried at cost, less any provision for impairment.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES cont.

y. Foreign Currency Transactions and Balances

i. Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

ii. Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

Group companies

The financial results and position of foreign operations, whose functional currency is different from the Group's presentation currency, are translated as follows:

- assets and liabilities are translated at exchange rates prevailing at the end of the reporting period;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. The cumulative amount of these differences is reclassified into profit or loss in the period in which the operation is disposed of.

The financial report was authorised for issue on 19th September 2017 by the Board of Directors.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017	2016
	\$	\$
2. PROFIT/(LOSS) FROM CONTINUING OPERATIONS		
Loss from ordinary activities included the following items of revenue and expense:		
a) Operating Revenue		
Interest received/receivable	9,947	7,490
Other income	526	3,000
	10,473	10,490
b) Other Administrative Expenses		
Office rent	109,629	43,691

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017	2016
	\$	\$
3. LOSS FROM DISCONTINUED OPERATIONS		
The financial performance of the discontinued operation, which is included in the loss from discontinued operations per the Statement of Profit or Loss and Other Comprehensive Income, is as follows:		
Write off remaining net assets at completion	-	(22,780)
Loss from discontinued operations	-	(22,780)

Since 2012, Southern Gold had been party to an earn-in and shareholders' agreement ("Agreement") with Mekong Minerals Limited ('Mekong'), whereby Mekong had an exclusive right to earn an interest in the Southern Gold subsidiary, Southern Gold (Asia) Pty Ltd ('SG Asia') and to manage the activities of SG Asia and its wholly owned subsidiary, Mekong Minerals (Cambodia) Ltd (collectively the 'Cambodian operations').

During May 2015, as part of Southern Gold's focus on the development of Cannon, the above Agreement was terminated in favour of a Sale, Purchase and Joint Venture Agreement (the 'New Agreement'). The New Agreement was to sell 100% of the wholly owned subsidiary SG Asia to Mekong, for the following consideration:

- 15% free carried interest in unincorporated Joint venture with SG Asia based on the tenements that are re-granted by the Cambodian authorities until the completion of a positive definitive feasibility study; and
- 2% gross sales royalty on all products sold from the tenements until US\$11 million is paid and then the gross sales royalty reverts to 1%.

While the New Agreement was executed in May 2015, it remained subject to the successful renewal of selected tenements. However, all material assets and liabilities of the Cambodian Operations had been revalued to nil, leaving just 22,780 of net assets included in the Group's Consolidated Statement of Financial Position at 30 June 2015.

Satisfactory renewal of selected tenements was achieved during the year ended 30 June 2016, enabling formal completion of the New Agreement (refer ASX announcement dated 9 February 2016). As a result, the remaining net assets of \$22,780 have been treated as having been disposed of during the year ended 30 June 2016.

Due to the uncertain nature of the consideration for valuation purposes, being the 15% free carry interest and the gross sales royalty, no amount has been recognised in the Group's Statement of Financial Position.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017 \$	2016 \$
4. INCOME TAX EXPENSE		
The components of tax benefit comprise:		
Research and development tax concession	299,479	206,715
Tax (expense)/benefit	(2,693,070)	2,611,283
Income tax (expense)/benefit attributable to loss from ordinary activities	(2,393,591)	2,817,998
a) The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax attributable to operating loss as follows:		
Income tax (expense)/benefit at 30% of operating loss	(1,469,934)	1,177,226
Tax effect of capital raising costs	8,184	1,321
Tax effect of Share-based payments expensed	(164,935)	(24,000)
Research and development tax concession	(299,479)	(206,715)
Prior period timing differences and tax losses brought to account	(766,907)	1,663,451
Income tax benefit attributable to loss from ordinary activities	(2,693,070)	2,611,283
Reflected in the Statement of Financial Position as follows:		
Deferred tax liability: Exploration	(1,915,948)	(1,991,396)
Deferred tax liability: Mine development	-	(496,643)
Deferred tax asset: Equity raising and Legal costs	135,575	59,315
Deferred tax asset: Tax losses	1,726,644	5,098,193
Other	53,729	23,601
Deferred tax asset	-	2,693,070
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	-	-
c) Income tax losses		
Total deferred tax asset arising from carried forward tax losses not recognised as meeting probable criteria		
Gross tax losses	17,294,437	17,929,442
Tax Losses at 30%	5,188,331	5,378,833

A deferred tax asset is only recognised for the carry forward of unused tax losses to the extent that it is considered probable that future taxable profit will be available against which the unused tax losses can be utilised.

The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:

- assessable income is derived of a nature and amount sufficient to enable the benefit from the deductions to be realised;
- conditions for deductibility imposed by the law are complied with; and
- no changes in tax legislation adversely affect the realisation of the benefit from the deductions.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017 \$	2016 \$
5. KEY MANAGEMENT PERSONNEL REMUNERATION		
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 2017. The totals of remuneration paid to key management personnel during the year are as follows:		
Short term employee benefits	607,557	455,132
Post employment benefits	48,028	39,438
Share-based payments	542,202	80,000
	1,197,787	574,570
Mr Hill is not employed by the Company. His services are provided in his capacity as a consultant to act as Company Secretary of Southern Gold Limited. Mr Hill was paid \$14,318 during the 2017 year (2016: \$19,723).		
6. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand	5,376,908	1,441,891
	5,376,908	1,441,891
7. TRADE AND OTHER RECEIVABLES		
Trade and other receivables	37,502	43,396
Cannon undistributed cash	289,964	-
Office lease bond	76,245	10,500
	403,711	53,896
Trade and other receivables considered past due and/or impaired is nil (2016: nil).		
8. OTHER ASSETS		
Current		
Prepayments	23,904	-
	23,904	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017 \$	2016 \$
9. EXPLORATION AND EVALUATION EXPENDITURE		
Costs carried forward in respect of areas of interest:		
Exploration and evaluation phase	10,270,630	7,132,433
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:		
Costs brought forward	7,132,433	6,937,031
Subsidiary acquired	2,489,661	-
Net foreign exchange differences	(18,631)	-
Expenditure incurred during the year	2,336,474	1,157,087
Expenditure written off / impairment for relinquished tenements	(1,669,307)	(961,685)
	10,270,630	7,132,433

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. The 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.

During the period ending 30 June 2017, Southern Gold has written off exploration and evaluation expenditure of \$1,669,307 relating to tenements held in Western Australia:

- \$377,899 being five tenements that were relinquished in the period, and
- \$1,291,408 being 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017 \$	2016 \$
10. MINE DEVELOPMENT ASSETS		
Costs carried forward in respect of the development of Cannon	2,744,487	2,744,487
Accumulated amortisation	(2,744,487)	(1,089,009)
	-	1,655,478
(ii) Reconciliation		
A reconciliation of the carrying amount of mine development assets is set out below:		
Costs brought forward	1,655,478	2,732,231
Expenditure incurred during the year	-	12,256
Amortisation expense	(1,618,061)	(1,089,009)
Amortisation capitalised to ending inventories	(37,417)	-
	-	1,655,478

Southern Gold have a Mine Finance and Profit Sharing Agreement with Metals X Ltd, now Westgold Resources Limited, (Westgold) for the financing and development of its Cannon Gold Resource, located 30km from Kalgoorlie in WA. Mining operations commenced in August 2015.

The agreement was subsequently revised to cover an expanded Cannon open pit development ("Revised Agreement"). Under the Revised Agreement, Westgold provided all funding and management of services required for the mining, haulage and the treatment of ore from the Cannon deposit.

The Mine Development asset has been amortised over the estimated economic life of the open pit operation on the basis of tonnes of ore mined. Mining of the expanded open pit was completed in June 2017.

Subsequent to August 2015, costs incurred directly by Southern Gold in overseeing the Mining contractor (WestGold) and exploration costs associated with the existing resource, were expensed as incurred. These costs are shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, as 'Mining Costs'.

Under the Revised Agreement, the mine development costs and costs of mining incurred by Westgold were recovered from the Mining Profits. Once all of Westgold's mining and development costs were repaid from the Mining Profits, all subsequent Mining Profits were shared on a 50:50 basis. Southern Gold's 50% share of cash distributions to 30 June 2017 have been \$11,500,000. Gold hedge settlement costs were offset against the distributions received to provide net cash inflows of \$11,353,000. The cash receipts were first applied to repayment of the Westgold loan (refer note 14).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017 \$	2016 \$
11. PLANT AND EQUIPMENT		
Plant and equipment at cost	488,852	249,417
Less: Accumulated depreciation	(320,544)	(218,363)
	168,308	31,054
Opening written down value	31,054	31,143
Additions	163,963	27,326
Acquisition of Subsidiary	20,724	-
Net foreign currency exchange differences	243	-
Disposals	(641)	-
Disposal of subsidiary	-	(821)
Depreciation	(47,035)	(26,594)
Closing written down value	168,308	31,054

12. TRADE AND OTHER PAYABLES

Trade payables	135,705	512,243
Sundry payables and accruals	177,691	98,813
Amount payable to Directors and Key Management related entities ¹	41,934	57,983
	355,330	669,039

1. Payable to Greg Boulton and Associates Pty Ltd (an entity associated with G C Boulton) of \$7,500 (2016: \$3,667).
 Payable to Red Balloon Superannuation Fund (an entity associated with Mr David Turvey) of \$296 (2016: \$145).
 Payable to Lapun Kamap Superannuation Fund (an entity associated with Mr Michael Billing) of \$296 (2016: \$145).
 Payable to Bayfront Nominees Pty Ltd (an entity associated with D L Hill) of \$2,760 (2016: \$2,126).
 Payable to Mr Simon Mitchell, being a final bonus relating to the year ended 30 June 2017 \$30,112 and superannuation of \$969 (2016: \$21,900).

13. PROVISIONS

The aggregate provisions recognised in and included in the financial statements is as follows:

Current Provisions		
Employee entitlements provision	70,130	10,910
Mine restoration provision	102,000	-
	172,130	10,910

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017 \$	2016 \$
14. BORROWINGS		
Westgold loan	-	2,109,957
Convertible debt	-	935,189
	-	3,045,146

Westgold loan

In addition to the terms of the Revised Agreement as detailed in Note 10, Westgold provided a secured loan facility to Southern Gold of \$2,500,000. The loan was interest bearing, fixed at 8% per annum. As at 30 June 2016, \$2,000,000 had been drawn down, or inclusive of accrued interest \$2,109,957.

Mining profits from the Cannon Mine were first applied to the reimbursement of Westgold's mining and development costs, with all subsequent Mining Profits shared on a 50:50 basis. Southern Gold's 50% share of cash distributions were first applied to repayment of the loan balance.

Convertible debt

During the 2016 financial year, Southern Gold raised \$1,000,000 through an unsecured 'convertible debt facility', and the following options were issued to the debt providers:

- 1,388,889 call options with an exercise price of \$0.32, expiry 30 June 2017; and
- 1,388,889 call options with an exercise price of \$0.40, expiry 30 June 2017.

The agreed interest rate on the face value of \$1,000,000 was 8%. The carrying value of the borrowing was discounted using an assessed market rate for unsecured short term borrowings of 15%, to provide an opening balance of \$924,975. Interest expense is recognised at that 15% using the 'effective interest rate method', rather than the stated rate of 8% payable, the difference incrementally increasing the balance of the borrowings to the \$1,000,000 face value repayable at 30 June 2017.

The value of the options were recognised in the 2016 financial year as \$75,025, being the difference between the \$1,000,000 proceeds of borrowings received and the initial book value of the borrowing recognised of \$924,975. The value of the options were recognised in the Share Based Payments Reserve.

In March 2017, the convertible loan was repaid early, in full. Subsequently, 250,000 of the call options were exercised at \$0.32, on 30 June 2017, to raise proceeds of \$80,000. The remaining options lapsed at the close of business on 30 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

	2017	2016
	\$	\$

15. ISSUED CAPITAL

(a) Ordinary Shares

Issued share capital:	39,607,530	35,700,378
47,292,415 fully paid ordinary shares (2016: 36,567,820)		
Movement in issued shares for the year:		
	2017	2016
	No.	No.
	\$	\$
Balance at beginning of 2016 financial year	527,624,224	35,379,551
Restated for share consolidation 1:15 ¹	35,175,871	35,379,551
Balance at beginning of 2017 financial year	36,567,820	35,700,379
Shares issued to Directors	103,413	168,699
Options exercised	250,000	1,223,250
Acquisition shares	6,294,942	-
Placement of shares	4,076,240	-
Net costs associated with the issue of shares	-	(4,404)
Balance at end of financial year	47,292,415	35,700,379

¹ The number of shares at 1 July 2015 was 527,624,224. This has been restated for the impact of the 1:15 share consolidation completed on 29 October 2015.

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

At 30 June 2017, there were 2,267,006 unlisted options outstanding (30 June 2016: 3,639,784).

In addition, the Company has proposed to grant 3,500,000 options to the Directors, subject to shareholder approval at the next Annual General Meeting (announced to the ASX on 3 April 2017).

All of the above options are accounted for as share based remuneration. Refer to Note 21 for further detail.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

15. ISSUED CAPITAL cont.

(c) Capital Management

The capital of the Group is managed 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.

The amounts managed as capital by the Group for the reporting periods under review are as follows:

	2017	2016
	\$	\$
Debt	-	3,045,146
Cash	(5,376,908)	(1,441,891)
	(5,376,908)	1,603,255
Equity	15,117,954	9,282,727
Net debt to equity ratio	0%	17.3%

16. REMUNERATION OF AUDITORS

The auditor of Southern Gold Limited is Grant Thornton Audit Pty Ltd.

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	41,324	34,316
Taxation and other services	2,000	15,317
	43,324	49,633

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

17. 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

Equity Interests in controlled entities

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

Equity Interests in joint ventures

Details of interests in joint ventures are disclosed in Note 18 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 or Key Management Personnel have an interest;

Director and Key Management Personnel	Related Party Transaction	2017 \$	2016 \$
D L Hill	Payments to a member of Key Management for financial and company secretarial services provided	14,318	19,723
GC Boulton	Payments to a Director related entity for Director and consulting services provided*	93,000	80,000
D Turvey	Payments to a Director related entity for consulting services provided	6,000	6,534
M Billing	Payments to a Director related entity for consulting services provided	3,000	-

* During the year ended 30 June 2017, the value of payments comprised Directors fee of \$90,000, and consulting fees of \$3,000. (For the year ended 30 June 2016, fees for Director services, were settled through \$40,000 in cash and \$40,000 in the issue of shares.)

d) Related party balances

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

	2017 \$	2016 \$
Current payables		
Amounts payable to Directors and Key Management Personnel related entities	41,934	57,983
	41,934	57,983

There were no amounts receivable from related parties.

e) Remuneration of Key Management Personnel (see summary in Note 5)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

18. JOINT OPERATIONS

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

	Interest 2017	Interest 2016
(a) Southern Gold (Asia) Joint Venture (SG Asia)	15%	15%
(b) Heron Resources Joint Venture	-	80%
(c) Heron Resources KNP Joint Venture	80%	80%
(d) Glandore Joint Venture - Aruma	50%	-

Notes

- (a) Under the terms of the sale of Southern Gold's former subsidiary, SG Asia, Southern Gold retains a 15% free carried interest in an unincorporated Joint venture with SG Asia based on selected tenements held by SG Asia that were re-granted by the Cambodian authorities until the completion of a positive definitive feasibility study, together with a 2% gross sales royalty on all products sold from the tenements until US\$11 million is received, then reverting to a 1% gross sales royalty (refer Note 3).
- (b) Under the terms of the agreement with Heron Resources Limited ("Heron"), Southern Gold has earned an 80% interest in 3 tenements east of Kalgoorlie, in Western Australia, by spending a total of \$240,000 over 3 years to September 2012. All tenements have since been relinquished (two in the 2017 financial year).
- (c) Under the terms of a Heads of Agreement with Heron, Southern Gold earned an 80% gold interest associated with Heron's Bulong Project (held by Hampton Nickel Pty Ltd), by meeting agreed exploration expenditures through to 30 June 2014. Heron continues to hold a free carry 20% interest, until Southern Gold meet \$8m in total expenditure or conduct a feasibility study.
- (d) On 4 April 2016, Southern Gold entered into the Glandore Project Farm In and Joint Venture Agreement ("Glandore Agreement") with Aruma Exploration Pty Ltd (refer ASX announcement 4 April 2016). Under the Glandore Agreement, Southern Gold may earn up to a 90% interest in the Glandore tenements, through staged exploration expenditure of up to \$1,200,000 within three years from the date of the agreement. The Glandore tenements comprise 28.7 km2 of contiguous tenements located adjacent to Southern Gold's Bulong Project. During the 2017 financial year, Southern Gold achieved the first milestone expenditure of \$300,000, resulting in the Company earning a 50% interest in the tenements.

On 27 March 2017, Southern Gold executed conditional agreements with London Stock Exchange listed Bluebird Merchant Ventures Ltd (Bluebird) for Bluebird to farm-in to two of Southern Gold's 17 gold projects in South Korea. During the farm-in, Bluebird will undertake initial feasibility studies over a 12 month period, investing US\$1 million in its investigation of the reopening of the Gubong and Taechang gold mines after which the two parties will form a 50:50 joint venture (US\$500,000 per project).

On 20 December 2016, Southern Gold entered into a binding term sheet for an option to purchase two tenements in Western Australia (the Transfind tenements). The option requires Southern Gold to first complete 2,000m of drilling prior to 31 January 2019. The option price is \$200,000. Post-acquisition, the vendors retain a right to receive royalty payments of \$1.80 per tonne during any mining activities.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

19. 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.

The Group also has exploration expenditure commitments pursuant to the Glandore Agreement (refer Note 18 (d)).

Total expenditure commitments at report date in respect of these minimum tenement expenditure requirements, not otherwise provided for in the financial statements, are as follows:

	2017 \$	2016 \$
Not later than one year:	689,674	868,450
Later than one year but not later than two years:	1,020,830	992,396
Later than two years but not later than five years:	1,816,052	1,779,784
Greater than five years	4,951,916	4,145,011
	8,478,472	7,785,641

(b) Service Agreements

Service agreements between the Group and Non-Executive Directors are disclosed in the Remuneration Report of the Directors Report.

(c) Office Rental

The consolidated entity has the following rental agreement commitments (excluding GST).

	2017	2016
Not later than one year:	120,309	29,909
Later than one year but not later than two years:	84,431	-
Later than two years but not later than five years:	-	-
	204,740	29,909

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

20. FINANCIAL INSTRUMENTS

(a) Financial Risk Management

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

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in Note 1, are as follows:

	2017 \$	2016 \$
Financial Assets		
Cash and cash equivalents	5,376,908	1,441,891
Trade and other receivables	403,711	53,896
	5,780,619	1,495,787
Financial Liabilities		
Trade and other payables	355,330	669,039
Dividend payable	1,418,772	-
Borrowings	-	3,045,146
	1,774,102	3,714,185

(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 report 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 report date.

Sensitivity Analysis

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

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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

20. FINANCIAL INSTRUMENTS cont.

(ii) Financial Risks cont.

2017	Interest Bearing	Non-interest Bearing	Total	Floating interest rate	Fixed interest rate
Financial assets					
Cash and deposits	5,376,908	-	5,376,908	0.60%	-
Receivables	-	403,711	403,711	-	-
Less: Payables	-	(355,330)	(355,330)	-	-
Less: Dividend payable	-	(1,418,772)	(1,418,772)	-	-
Net financial assets	5,676,908	(1,370,391)	4,006,517		
2016					
Financial assets					
Cash and deposits	1,441,891	-	1,441,891	1.50%	-
Receivables	-	53,896	53,896	-	-
Less: Payables	-	(669,039)	(669,039)	-	-
Less: Borrowings	(3,045,146)	-	(3,045,146)	-	(10.1%)
Net financial assets	(1,603,255)	(615,143)	(2,218,398)		

Interest rate risk is managed with a mixture of fixed and floating rate cash deposits. At 30 June 2017, none of group cash deposits are fixed (2016: nil).

The fixed interest rate that applicable to Borrowings as at 30 June 2016 is a weighted average between the interest rates applicable to the MLX loan and the Convertible debt. Refer Note 14 for further details of the terms of the borrowings.

Sensitivity Analysis

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

(iii) 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

21. SHARE BASED PAYMENTS

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 30 June 2017:

Options – Series	No.	Grant Date	Expiry Date	Exercise Price	Fair value at grant date
Employee Share Option Plan					
April 2013 ¹	128,670	15.04.2013	15.10.2017	\$0.900	\$0.150
July 2016 ²	1,155,000	12.07.2016	30.06.2021	\$0.375	\$0.282
May 2017 ³	250,000	15.05.2017	15.05.2022	\$0.375	\$0.152
Director Options					
November 2014 ⁴	400,002	27.11.2014	30.11.2019	\$0.375	\$0.105
March 2015 ⁵	333,334	01.02.2015	18.11.2020	\$0.375	\$0.109
March 2017 ⁶	1,750,000	03.04.2017	-	\$0.400	\$0.153
March 2017 ⁶	1,750,000	03.04.2017	-	\$0.500	\$0.139

- In accordance with the Employee Share Option Plan, share options have been granted to employees at various times and terms show in the above table. The number of options and the exercise price has been restated for the impact of the 1 for 15 share consolidation in November 2015.
- 1,245,000 unlisted options were granted to employees on 12 July 2016, under the Company's shareholder approved Employee Share Option Plan. The options vest immediately, have an exercise price of \$0.375 and expire 30 June 2021. The \$351,170 fair value of the options was calculated, using the Black Scholes valuation method, using a volatility of 113% and an interest rate of 1.66% (the five year Australian Government bond rate). 90,000 options have lapsed prior to 30 June 2017.
- 250,000 unlisted options were issued to new employees on 15 May 2017, under the Company's shareholder approved Employee Share Option Plan. The options vest immediately, have an exercise price of \$0.375 and expire 15 May 2022. The \$37,891 fair value of the options was calculated, using the Black Scholes valuation, using a volatility of 81% and an interest rate of 2.11% (the five year Australian Government bond rate).
- 6,000,000 unlisted options issued to Directors on 27 November 2014, pursuant to approval at the Annual General Meeting (2,000,000 each to Messrs. Greg Boulton, David Turvey and Michael Billing). The number of options and the exercise price has been restated for the impact of the 1 for 15 share consolidation in November 2015.
- 5,000,000 unlisted options to be issued to Mr Simon Mitchell, as agreed in his contract of employment as Managing Director, commencing 1 February 2015. These options vested during the current year, following shareholder approval on 22 October 2015. The number of options and the exercise price has been restated for the impact of the 1 for 15 share consolidation in November 2015.
- 3,500,000 options are proposed to be granted to the Directors, subject to shareholder approval at the next Annual General Meeting (announced to the ASX on 3 April 2017). The options will have an expiry date three years following the date they are granted (following shareholder approval). 1,750,000 of the proposed options will have an exercise price of \$0.40, and the other 1,750,000 will have an exercise price of \$0.50. Although shareholders are yet to approve these options, Accounting Standards require the options to be valued and recorded at the date the options are proposed. The \$511,891 fair value of the options was calculated, using the Black Scholes valuation method, using a volatility of 86% and an interest rate of 1.88% (the three year Australian Government bond rate).

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.

Other than the above, there were no other options granted to Key Management Personnel during the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

21. SHARE BASED PAYMENTS cont.

Options cont.

The following reconciles the outstanding share options granted as share based payments at the beginning and end of the financial year:

Share Option Granted	2017		2016	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of financial year	862,006	\$0.453	12,930,000	\$0.030
Restated for 1:15 consolidation			862,006	\$0.453
Granted during the financial year (i)	4,995,000	-	-	-
Exercised during the financial year	-	-	-	-
Lapsed during the financial year	(90,000)	-	-	-
Balance at end of the financial year (ii)	5,767,006	\$0.453	862,006	\$0.453

(i) Options granted

1,495,000 options were granted under the Employee Share Option Plan in the year ended 30 June 2017 (2016: Nil). 3,500,000 options are proposed to be granted to Directors, subject to shareholder approval at the next Annual General Meeting.

(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 \$0.4322 (2016: \$0.453, restated for the 1:15 share consolidation) and a weighted average remaining contractual life of 1,242 days (2016: 1,269 days).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

22. OPERATING SEGMENTS

Segment Information

Identification of reportable 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 Annual Financial Statements for the year ending 30 June 2016 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.

Year ended 30/6/2017	Exploration \$	Production \$	Consolidated \$
Segment Revenue			
Revenue from Joint Operations	-	18,889,851	18,889,851
Other Income	10,473	-	10,473
Total Segment Revenue	10,473	18,889,851	18,900,324
Segment Expenses			
Exploration expenditure written off	(1,669,307)	-	(1,669,307)
Mine management costs (Joint Operations)	-	(252,588)	(252,588)
Share of Joint Operations expenses	-	(6,565,679)	(6,565,679)
Other expenditure	(5,512,971)	-	(5,512,971)
Total Segment Expenditure	(7,182,278)	(6,818,267)	(14,000,545)
Profit/(Loss) before Income Tax	(7,171,805)	12,071,584	4,899,779
Income Tax Expense			(2,393,591)
Profit/(Loss)			2,506,188

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

22. OPERATING SEGMENTS cont.

As at 30/6/2017	Exploration \$	Production \$	Consolidated \$
Assets and Liabilities			
Inventories	-	820,725	820,725
Mine development assets	-	-	-
Exploration and evaluation expenditure	10,270,630	-	10,270,630
Other segment assets	305,959	289,964	595,923
Segment Assets	10,576,589	1,110,689	11,687,278
Share of Joint Operations Liabilities			
Other Segment Liabilities	425,460	102,000	527,460
Segment Liabilities	425,460	102,000	527,460
Segment Net Assets			
Corporate net assets			
Cash			5,376,908
Provision for dividend			(1,418,772)
Total Net Assets			15,117,954

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

23. EARNINGS PER SHARE

	2017 Cents per share	2016 Cents per share
From continuing & discontinued operations		
Basic (cents per share) – Profit/(Loss)	5.51	(3.14)
Diluted (cents per share) – Profit/(Loss)	5.25	(3.14)
From continuing operations		
Basic (cents per share) – Profit/(Loss)	5.51	(3.08)
Diluted (cents per share) – Profit/(Loss)	5.25	(3.08)
From discontinued operations		
Basic (cents per share) – Profit/(Loss)	-	(0.06)
Diluted (cents per share) – Profit/(Loss)	-	(0.06)
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 from continuing and discontinued operations	2,506,188	(1,128,867)
Earnings from continuing operations	2,506,188	(1,106,087)
Earnings from discontinued operations	-	(22,780)
Earnings used in the calculation of basic and diluted earnings per share agree directly to net profit/(loss) in the statement of financial performance.		
	No.	No.
Weighted average number of ordinary shares	45,467,450	35,968,081
Weighted average number of shares & options	47,734,456	35,968,081

The weighted average number of ordinary shares for the year ended 30 June 2016 have been restated for the impact of the 1:15 share consolidation completed on 29 October 2015. These restated weighted averages have been used for the calculations of earning per share in that year.

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 for the year ended 30 June 2016, as options are not considered dilutive in that year, as a loss was incurred. 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.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

24. CONTROLLED ENTITIES CONSOLIDATED

Name of Entity	Country of Incorporation	Ownership Interest	
		2017 %	2016 %
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%
New Southern Mining Pty Ltd	Australia	100%	100%
International Gold Private Limited	Singapore	100%	-
Southern Gold Korea Ltd ²	South Korea	100%	-

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

² All shares in Southern Gold Korea Ltd are held by International Gold Private Limited.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

25. SOUTHERN GOLD LIMITED COMPANY INFORMATION

	2017 \$	2016 \$
Parent Entity		
Assets		
Current assets	6,516,032	1,495,787
Non-current assets	10,548,155	11,512,035
Total assets	17,064,187	13,007,822
Liabilities		
Current liabilities	1,877,508	3,725,094
Non-current liabilities	-	-
Total liabilities	1,877,508	3,725,094
Equity		
Issued capital	39,607,530	35,700,379
Retained earnings	(27,295,958)	(28,492,218)
Share based payments reserve	2,875,107	2,074,566
	15,186,679	9,282,727
Financial Performance		
Profit/(loss) for the year	2,514,621	(1,106,086)
Other comprehensive income	-	-
Total comprehensive income	2,514,621	(1,106,086)
Guarantees in relation to the debts of subsidiaries	-	-
Contingent liabilities	-	-
Contractual commitments - exploration	8,478,472	7,785,641

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2017

26. DIVIDEND PAYABLE

A dividend of \$0.03 per share was declared on 6 June 2017. A provision for a dividend payable of \$1,418,772 is included in the Company's financial statements as at 30 June 2017. Shareholders were provided with the option to receive the dividend, in part or in whole, through a dividend re-investment plan with Shares priced at \$0.25 per share. On 30 August 2017, the Company paid the dividend as \$945,648 in cash and issued 1,858,138 shares.

27. EVENTS SUBSEQUENT TO REPORTING DATE

There has not arisen any other matters or circumstances, since the end of the financial year which significantly affected or could affect the operations of the Group, the results of those operations, or the state of the Group in future years.

28. RESERVES

Share based payments reserve – the share based payments reserve records items recognised as expenses on valuation of options issued to employees or other service providers.

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

29. REGISTERED OFFICE AND PRINCIPLE OFFICE

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

Level 1, 8 Beulah Road
Norwood, South Australia, 5067
ABN 30 107 424 519

DIRECTORS' DECLARATION

The Directors of Southern Gold Limited declare that:

- a) the financial statements and notes are in accordance with the Corporations Act 2001, and:
 - i) give a true and fair view of the financial position as at 30 June 2017 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 Finance Manager 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 19th day of September 2017.



S Mitchell
Managing Director



G C Boulton AM
Chairman



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Independent Auditor's Report
To the Members of Southern Gold Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Southern Gold Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of exploration and evaluation assets Notes 1(d), 9</p> <p>At 30 June 2017 the carrying value of Exploration and Evaluation Assets was \$10,270,630. The group recognised an impairment of \$1,669,307 during the year on its Exploration and Evaluation Assets.</p> <p>In accordance with AASB 6 Exploration for and Evaluation of Mineral Resources, the group is required to assess at each reporting date if there are any triggers for impairment which may suggest the carrying value is in excess of the recoverable value.</p> <p>The process undertaken by management to assess whether there are any impairment triggers in each area of interest involves an element of management judgement</p> <p>This area is a key audit matter due to the significant judgement involved in determining the existence of impairment triggers.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • obtaining management's reconciliation of capitalised exploration and evaluation expenditure and agreeing to the general ledger; • reviewing management's area of interest considerations against AASB 6; • conducting a detailed review of management's assessment of trigger events prepared in accordance with AASB 6 including: <ul style="list-style-type: none"> - tracing projects to statutory registers, exploration licenses and third party confirmations to determine whether a right of tenure existed; - enquiry of management regarding their intentions to carry out exploration and evaluation activity in the relevant exploration area, including review of management's budgeted expenditure; - understanding whether any data exists to suggest that the carrying value of these exploration and evaluation assets are unlikely to be recovered through development or sale; • assessing the accuracy of impairment recorded for the year as it pertained to exploration interests; • evaluating the competence, capabilities and objectivity of the Senior Geologist as a management expert in the evaluation of potential impairment triggers; and • assessing the appropriateness of the related financial statement disclosures.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

Responsibilities of the Directors' for the Financial Report

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

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

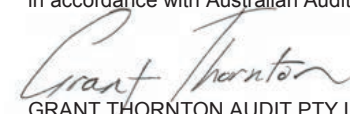
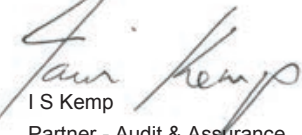
We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Southern Gold Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.



Responsibilities

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 AUDIT PTY LTD
 Chartered Accountants

 I S Kemp
 Partner - Audit & Assurance

Adelaide, 19 September 2017

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 21 September 2017.

1. SUBSTANTIAL EQUITY HOLDERS

There are no individual shareholders with a relevant interest of 5% or more in the total ordinary shares on issues as at 21 September 2017.

2. NUMBER OF SHAREHOLDERS

Number of Shareholders	Class of Shares	Voting Rights
1,345	ORD	Full

3. DISTRIBUTION OF EQUITY SECURITIES

Distribution of holdings:	Number of Holders
1 - 1,000	132
1,001 - 5,000	445
5,001 - 10,000	235
10,001 - 100,000	453
100,001 - and over	80
	1,345
Number of holders of less than a marketable parcel of \$500	145

SHAREHOLDER INFORMATION

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	HSBC Custody Nominees	2,203,333	4.5
2	Dr Gary Bennett Branch	1,570,000	3.2
3	G Boulton Pty Ltd	1,566,883	3.2
4	Weybridge Pty Ltd	1,361,867	2.8
5	Potezna Gromadka Ltd	1,142,857	2.3
6	Mr Eric Guerlain	1,142,857	2.3
7	Mr David Samuel Nour	1,099,800	2.2
8	BNP Paribas Nominees Pty Ltd	988,750	2.0
9	National Nominees Limited	963,359	2.0
10	Valbonne II	956,140	2.0
11	Hush Hush Pty Ltd	896,000	1.8
12	Potezna Gromadka Ltd	877,193	1.8
13	Mr Eric Guerlain	877,193	1.8
14	J P Morgan Nominees Australia	747,716	1.5
15	Mr Gary Philip Lambe &	715,000	1.5
16	Sino Portfolio International	581,140	1.2
17	Ilwella Pty Ltd	580,000	1.2
18	Dr Leon Eugene Pretorius	560,000	1.1
19	Mr Michael Robert Billing	558,811	1.1
20	Mr Simon Francis Mitchell	468,981	1.0
		19,857,880	40.5



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Southern Gold Limited
ACN 107 424 519