



**Southern Gold Limited
Consolidated Entity
Annual Financial Report
30 June 2018**

Southern Gold Limited – Consolidated Entity

Directors' Report

The directors present their report of Southern Gold Limited (the Company) and its controlled entities (consolidated group or group) for the financial year ended 30 June 2018.

Principal Activities

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

Financial Results

The net result of operations for the group for the year was a loss after income tax of \$702,955 (2017: profit of \$2,506,188).

Dividends

In the prior financial year, a dividend of \$0.03 per share was declared on 6th June 2017. Shareholder were offered 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 through the dividend re-investment plan with Shares priced at \$0.25 per share.

No dividends were declared in relation to the current financial year ended 30 June 2018, and the directors do not recommend the payment of dividends in respect of the financial year.

Review of Operations

Southern Gold Limited ("Southern Gold" or the "Company") operates in two jurisdictions, in the Kalgoorlie district of Western Australia and in various regions of South Korea. In Australia the Cannon Gold Mine is entering an underground development phase with potential cash flow underpinning our exploration and development activities on other fronts. Those development activities include the Gubong and Kochang projects in South Korea, currently under farm-in with Bluebird Merchant Ventures Ltd, and the Weolyu gold-silver project where underground workings were accessed and the definition of a maiden JORC Resource remains a possibility. In parallel with this development work is a substantial portfolio of largely epithermal gold-silver targets in southern South Korea which we have been actively exploring in the past year.

Australia

Southern Gold has a substantial exploration footprint in and around Kalgoorlie in Western Australia. The company has 5 projects:

- The Cannon Gold Mine: which is in the process of transitioning to underground mining;
- The Bulong Gold Project: which is to the immediate east of the Cannon Gold Mine;
- The Glandore Gold Project: which is currently being farmed into by Southern Gold;
- The Transfind Gold Project: a small area but with high grade (visible) gold on surface;
- The Cowarna Gold Project: a significant area adjacent to the operations of Silverlake Resources Ltd and covering a regional-scale extension to the banded iron formation which host Silverlake ore deposits at Santa, Cockeyed Bob and Maxwells.

Cannon Gold Mine: Southern Gold announced a new gold resource estimate, defined in accordance with the 2012 JORC code, at the Company's Cannon gold mine, near Kalgoorlie, Western Australia (Table 1 and see ASX Release 9 October 2017).

The resource was estimated using the Inverse Distance Weighting (IDW) method based on the results of 126 drill holes (105 RC, 21 DDH through the mineralized zone) using a nominal 1g/t Au cutoff grade and a maximum internal dilution of 3m downhole. The drill hole spacing across the resource ranges from 5m to 10m along strike and is considered close spaced drilling providing a very high confidence in the data and resource estimate.

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Table 1: Cannon Underground Resource between 255m RL and 145m RL at 1g/t Au lower cut off and variable top-cut by domain.

JORC Category	Tonnes	Grade g/t Au	Au Troy Ounces
Total Indicated	121,570	5.68	22,180
Total Inferred	20,700	2.10	1,400
Total Resource	142,270	5.17	23,580

Note: totals may differ due to rounding.

Early in 2018 Southern Gold agreed the terms of a 5 year right-to-mine with Westgold Resources Ltd ('Westgold') in a defined area covering the Cannon deposit and immediate surrounds. The agreement essentially allowed Westgold to advance the Cannon mine to the underground stage with Southern Gold to receive \$1.5 million upfront (paid in January 2018) and then a production payment of between \$160/oz and \$210/oz depending on cumulative production levels and the prevailing gold price. See ASX Release 23 January 2018 for details.

Subsequently Northern Star Resources acquired Westgold's Kalgoorlie assets and is now the holder of the Cannon right-to-mine. Northern Star is yet to formally advise its intention regarding advancing the Cannon project and timeframes for the underground development. The legal agreement includes provisions that result in the right-to-mine expiring should the project not be advanced in a timely manner.

Bulong Gold Project: activity during the reporting period has been limited to soil and bio-geochemistry surveys to develop new methods of looking through cover to discover blind mineralisation, principally in the north-easterly and south-westerly extensions of the Cannon shear. Follow-up drilling at Monument South consisting of 16 RC drill holes for 1332m did not return any significant intersection.

Glandore Gold Project: Southern Gold is farming into the Glandore Project, 40km east of Kalgoorlie and currently held by Aruma Resources, and can earn up to 90% of the project after expenditure of \$1.2m over a 3 year period. Southern Gold has now completed expenditure of approximately \$1.1 million after 2 years and earned the right to 75% of the project. Our Joint Venture partner, Aruma Resource Ltd, is currently diluting to 10%.

Section 18 Ministerial consent to disturb the registered heritage Site DAA 30602 "Lake Yindarlgooda Mammu Tjukurrpa" was approved during the reporting period.

A program of 15 Reverse Circulation (RC) and 31 Air Core (AC) drill holes for 2467.5m was completed to evaluate shallow (<40m) gold mineralisation at Doughnut Jimmy prospect and, secondly, to target regional gold exploration targets at the project's Lavaeolus, Lankin and Lakes Consol prospects.

Doughnut Jimmy was targeted with 25 AC holes (GLAC001-025) drilled to ~40m in depth. These holes were designed as tightly spaced (10m) infill holes, to test for a previously modelled, flat lying gold supergene blanket, residing above fresh rock over a 90m x 50m area.

Exploration drilling at Lavaeolus consisted of 6 aircore holes (GLAC026-031) for 240m. These holes were designed to test for extensional gold mineralisation in the upper 30m. No significant gold assays were intersected.

Exploration drilling at Lankin consisted of 4 RC holes for 352m (GLRC012-015). Drilling intersected a east dipping quartz veined dolerite unit with silica-pyrite alteration. However only low-level gold (<1g/t Au) was intersected. One drill hole, GLRC015, intersected 3m @ 3.51g/t Au from 109m, in a more dominant shear zone with associated biotite alteration.

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Exploration drilling at Lakes Consol consisted of 11 x RC holes for 888.5m (GLRC001 – 011). The RC drilling successfully intersected the targeted shear zone (chlorite-sericite schist) however, the shear returned no significant intersection.

Transfind Extended Gold Project: Soil sampling has highlighted two parallel shear zones extending from the Transfind pit. These correspond with previous sampling and drilling results and reinforce the quality of the drill target at Transfind Extended.

Follow up drilling consisting of 984m of RC drilling returned some high-grade intercepts including 1m @ 133.7g/t Au and 2m @ 24.4g/t Au and warrants further drilling and assessment.

Cowarna Gold Project: Southern Gold received approval from the Department of Biodiversity, Conservation and Attractions for its Conservation Management Plan and enables the company to proceed with drilling and exploration works in the area.

A first pass drilling programme at Cowarna targeting the Pryde and Logan prospects was completed with 16 RC drill holes for 1694m. Best intersections include 8m @ 1.05g/t Au, including 1m @ 3.68g/t Au at Logan, and 2m @ 1.51g/t Au at Pryde. Follow up is required on both targets, particularly to assess the Banded Iron Formation at depth.

South Korea

In addition to its Australian portfolio, Southern Gold has a significant exploration position in South Korea. The company has 2 projects (Gubong and Kochang) currently being advanced under a farm-in and joint venture agreement with Bluebird Merchant Ventures Ltd, a London listed specialist narrow-vein underground gold mining group. In addition to these development projects Southern Gold is also actively exploring its portfolio of epithermal gold-silver targets.

Gubong Gold Project: Southern Gold wholly-owned subsidiary, Southern Gold Korea (SGK) has been working with development partner, London Stock Exchange-listed Bluebird Merchant Ventures Ltd ('Bluebird') on the reopening of the Gubong Gold Mine in central South Korea. Bluebird has confirmed physical access to the mine has been achieved and has now commenced preliminary assessment works.

The current Bluebird mine model capturing the extent of the historical data indicates that the mine has been developed along at least 1.5km of strike and to 500m below ground level and includes in the order of 120km of underground development. Subsequent to the end of the financial year, Bluebird submitted a Report on Feasibility to Southern Gold on the potential re-development of the Gubong Gold Mine. The high-level conclusion of the report was that it should be feasible to re-open the old workings and commission a low-cost vat leach processing system. The aim is to produce a modest amount of gold initially but then ramp up production with time and the benefit of cash flow. The next stage at Gubong will see Bluebird complete a more detailed feasibility study that will provide a more quantitative assessment of the re-development option. This is expected at the end of 2018 or early 2019.

Kochang Gold Project: Southern Gold completed a significant amount of 'boots on the ground' field mapping and sampling and demonstrated kilometre scale mineralisation is in place at Kochang during the field season in 2017. With an historic gold and silver mine on the tenement and with relatively easy underground access at the gold mine, and challenging topography on surface, the logical next step is to evaluate the project at the quartz vein system underground.

To that end the arrangement with Bluebird has been extended with an additional Farm In and Joint Venture Agreement over the Kochang Project. Bluebird has confirmed physical access underground and taken extensive underground samples confirming the overall tenor and potential for remnant gold mineralisation to be exploited with a re-development programme similar to what is contemplated at Gubong.

Bluebird is now working on the Report on Feasibility for Kochang which is expected early in the new financial year.

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Weolyu Gold-Silver Project: Southern Gold's 2017 program at Weolyu South comprised 5 diamond drill holes for 1,256m and the drilling program successfully intersected high-grade gold and silver bearing banded low-sulphidation epithermal quartz veins at the Surprise, Moonlight and Summit vein systems. The drilling was conducted in steep, difficult-to-access terrain with the topography limiting optimal drill targeting of veins.

The mapped and logged epithermal quartz vein textures and silver values up to 0.1% Ag are indicative of a high-level low-sulphidation epithermal quartz vein system with significant depth potential over hundreds of metres.

Safe underground access at Weolyu South was also achieved in November 2017 via newly installed ladders, and from this, an intense phase of underground works focused on testing the Surprise and the Moonlight Veins was completed. A total of 101 underground channel samples (wall/back/face) were collected, over a strike length of 150m, covering three levels. The sampling was conducted on in-situ veining of the mapped Surprise and Moonlight veins with assay results confirming numerous intercepts of high-grade epithermal gold and silver quartz veining and excellent mineralisation continuity.

A series of high grade shoots have been interpreted plunging below the level of the old workings and supported by the intersection from the diamond drilling in WUDD007.

In terms of future potential and extensions to mineralised zones, Weolyu South sits within the high-silver zone of the epithermal mineralisation vertical zonation model, with the expectation that the high-gold zone is situated below this level.

Hampyeong Gold Project: Southern Gold announced the discovery of multiple gold mineralised epithermal quartz veins outcropping in a zone over 200m wide and over 1 km in strike extent, with outcropping veins having true widths of 4-5m in some zones.

A maiden diamond drilling program at Hampyeong confirmed the presence of shallow gold mineralisation with best intersections of 0.95m @ 5.33g/t Au from the Nabi vein and 0.7m @ 2.47g/t Au from the A'Cha vein.

Project Generation: A major Project Generation exercise in South Korea has been launched involving the detailed study of historical databases and the work of very experienced technical advisors to generate a short list of highly prospective high to low sulphidation epithermal gold-silver projects in the south of the country. The most prospective of these targets were checked on the ground and several new tenement applications were put in place.

During 2018 several of these projects have now been granted 100% to Southern Gold, including, in chronological order of grant (Deokon was subsequent to financial year end):

- Aphae: a small historic gold mine (with reportedly bonanza grades) where mullock sampling by Southern Gold has returned 6.8g/t Au and where access is relatively straight forward.
- Beopseongpo: a 3.8km long Au-Ag epithermal system with surface samples up to 21.8g/t Au and 19g/t Ag but where the surface expression represents a very high level in the epithermal mineralisation model and the drill target is 150m below surface.
- Deokon: bonanza grade gold and silver returned from mullock and outcrop samples (peak result of 13.3g/t Au and 2,130g/t Ag) with the mineralised system including multiple vein or mineralised zones which is open in all directions.

These all constitute excellent drill targets for the coming financial year.

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Competent Person's Statements

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

The information in this report that relates to JORC Resources has been compiled under the supervision of Mr. Paul Androvic (AusIMM). 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 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.

Corporate

Finance

Early in the year ended 30 June 2018, Southern Gold received \$2,185,413 in final cash distributions from the open cut mining phase of the Cannon gold deposit, near Kalgoorlie.

Southern Gold has entered a new agreement with development partner, Westgold Resources Ltd (“Westgold”) (ASX: AGX) for the underground development phase at the Cannon gold deposit. The agreement grants Westgold a 5 year right-to-mine the Cannon gold deposit, for consideration of

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\$1,500,000 paid to Southern Gold in January 2018 together with future production payments based on a \$/troy oz of gold produced. Subsequently Northern Star Resources Limited acquired Westgold's Kalgoorlie assets and is now the holder of the Cannon right-to-mine.

Southern Gold also received a Research and Development tax refund of \$187,482.

On 30 August 2017, the Company paid a dividend declared in the prior year ended 30 June 2017, as a cash payment of \$945,648 and 1,858,138 shares for those shareholders participating in the Dividend Reinvestment Plan. This was the only issue of shares during the year ended 30 June 2018.

The Company's ending cash balance was \$2,080,242.

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 20 August 2018, a total of 647,668 shares were issued to Bluebird Merchant Ventures Ltd ('Bluebird'), for proceeds of \$250,000. The placement was made pursuant to the Share Subscription, Farm In and Joint Venture Agreement – Kochang Project, which had been executed earlier in the year (refer ASX release 13 February 2018).

New exploration rights, in South Korea, were granted 100% to Southern Gold as follows:

- Two tenements granted at the recently identified Beopseongpo gold-silver epithermal target in the south west of South Korea (refer ASX Announcement 19 July 2018);
- One tenement granted at the Deokon Project hosting two historical gold-silver mines in the in the central - south west of South Korea (refer ASX Announcement 6 August 2018).; and
- One tenement granted at the Neunju gold-silver epithermal target in the south west of South Korea (refer ASX Announcement 4 September 2018).

Following completion of the required US\$500,000 expenditure at the Gubong Gold Project in South Korea by Bluebird Merchant Ventures Ltd (Bluebird), Bluebird and Southern Gold executed a definitive Farm In and Joint Venture Agreement (refer ASX Announcement 29 March 2018). The Joint Venture was to formally commence after submission of the feasibility report on the Gubong Gold Project. The feasibility report was completed subsequent to the year ended 30 June 2018 (refer ASX Announcement 1 August 2018).

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 continue to advance the Australian asset base and seeks to monetise additional value, particularly from the advancement of the Cannon Gold Mine which is moving into an underground mining phase. Additional exploration assets around Kalgoorlie have the potential to add to a JORC resource base over time or provide opportunities for synergistic transactions with other explorers in the district.

In South Korea the Company will seek to advance on two fronts. Firstly, the Farm In and Joint Venture with Bluebird Merchant Ventures will advance to the development stage with near term production potential from at least one project. And secondly, Southern Gold intends to drill test multiple epithermal gold-silver targets in southern South Korea where it is believed the chances of new discovery are very high.

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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.

In South Korea exploration and mining activity is principally regulated at the national level by the Ministry of Trade, Industry and Energy (MOTIE) which in turn manages mining and exploration affairs through the Mine Registration Office and the Mine Safety Office.

Environmental issues are regulated through either the Framework Act on Environmental Policy or the Environmental Impact Assessment Act. Southern Gold is currently investigating the detailed regulatory framework in South Korea to ensure it manages the business prudently as we move projects forward into production.

Southern Gold's wholly owned subsidiary in South Korea, Southern Gold Korea, carries out exploration activities and there have been no known environmental breaches attributed to these exploration activities to date.

Options

At the date of this report, the unissued ordinary shares of Southern Gold Limited under option are as follows:

Issue Date	Date of Expiry	Fair Value at Grant Date	Exercise Price	Number under Option
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	955,000
15.05.2017	15.05.2022	0.152	0.375	250,000
26.10.2017	25.10.2020	0.153	0.400	1,750,000
26.10.2017	25.10.2020	0.139	0.500	1,750,000
30.11.2017	30.11.2022	0.112	0.375	475,000
30.11.2017	31.07.2022	0.108	0.375	30,000
				5,943,336

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

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

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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 Chartered Accountants Australia & New Zealand, 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 1,666,883 shares and 633,334 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 510,000 shares and 2,333,334 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 633,334 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 633,334 options in Southern Gold Limited.

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Peter Bamford (appointed 13 February 2018) (Member of Audit Committee)

BSc (Eng) Mining, ARSM, MAICD, FAusIMM

Mr Bamford has a career spanning more than 40 years in the construction and mining industries, principally in underground mining operations as a mining engineer and corporate executive. His experience includes senior appointments with Mount Isa Mines, Metana/Gold Mines of Australia, and Doray Minerals and he has served as a director on the Boards of Maiden Gold, Heron Resources and Dominion Mining. His responsibilities have included reviewing merger and acquisition opportunities as well as development and project oversight including accountability for establishing Challenger, Andy Well and Deflector gold mines in Australia. He also served for nine years until 2017 as a member of the Executive Council for the Chamber of Minerals and Energy of Western Australia.

Mr Bamford currently has nil shares and nil 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 20 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.

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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.

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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 \$270,000 to \$276,000 effective 1 July 2018, 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 four 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 4 of the Financial Report.

Shares and Options granted as remuneration

No remuneration shares were issued in the year ended 30 June 2018.

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 Mr Hill 100,000 options and Mr Blucher 100,000 options (since cancelled due to cessation of employment)

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 proposed to grant 3,500,000 unlisted options to the Directors, subject to shareholder approval. For accounting purposes, these options were valued using a Black-Scholes method and were expensed in the year ended 30 June 2017. These options were granted on 26 October 2017, following shareholder approval on 25 October 2017. The options expire 25 October 2020. 1,750,000 of the options have an exercise price of \$0.40, and the other 1,750,000 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.

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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
P Bamford	Director – Non-Executive (appointed 13 February 2018)

Key Management Personnel	Position
D L Hill	Company Secretary

(b) Directors' remuneration

2018	Short Term Benefits				Share Based Payments (options)	Post Employment		
Primary Benefits	Directors' Fees	Salary and Leave	Cash Bonus	Consulting fees		Super Contribution	Total	Remuneration as share based
	\$	\$	\$	\$	\$	\$	\$	%
G C Boulton	90,000	-	-	-	-	-	90,000	0%
S Mitchell	-	270,000	15,000	-	-	27,075	312,075	0%
M R Billing	41,096	-	-	1,000	-	3,904	46,000	0%
D J Turvey	41,096	-	-	6,148	-	3,904	51,148	0%
P Bamford*	15,656	-	-	-	-	1,487	17,143	
	187,848	270,000	15,000	7,148	-	36,370	516,366	0%

* Appointed 13 February 2018.

2017	Short Term Benefits				Share Based Payments (shares)	Post Employment		
Primary Benefits	Directors' Fees	Salary and Leave	Cash Bonus	Consulting fees		Super Contribution	Total	Remuneration as share based
	\$	\$	\$	\$	\$	\$	\$	%
G C Boulton	90,000	-	-	3,000	73,127	-	166,127	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%

Southern Gold Limited – Consolidated Entity

(c) Other Key Management Personnel Remuneration

2018	Salary and Leave	Cash Bonus	Super Contribution	Share Based Payments	Total
Primary Benefits	\$	\$	\$	\$	\$
D L Hill ¹	-	-	-	-	-
	-	-	-	-	-
2017	Salary and Leave	Cash Bonus	Super Contribution	Share Based Payments	Total
Primary Benefits	\$	\$	\$	\$	\$
D L Hill ¹	-	-	-	15,156	15,156
I D Blucher ²	150,865	-	14,332	15,156	180,353
	150,865	-	14,332	30,312	195,509

1 Mr Hill provides services as a consultant to act as Company Secretary of Southern Gold Limited. Mr Hill was paid \$13,972 during the 2018 year (2017: \$14,318).

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

(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 2018	Balance at beginning of year	Acquired/ (disposed) on market	Issued on exercise of options during year	Other changes during the year ¹	Balance at end of year
G C Boulton AM	1,399,003	100,000	-	167,880	1,666,883
S Mitchell	418,733	41,019	-	50,248	510,000
M R Billing	528,811	30,000	-	-	558,811
D J Turvey	447,507	-	-	53,701	501,208
D L Hill	-	-	-	-	-
	2,794,054	171,019	-	271,829	3,236,902

¹ Participation in the dividend reinvestment plan offered to all shareholders at \$0.25 per share.

The above balances as at 30 June 2018, may differ from the holdings disclosed in the Directors Report, as the Directors Report provides each Directors' shareholdings as at the date of the Directors report.

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 2018	Balance at beginning of year	Acquired off market	ESOP options granted	Other changes during the year	Balance at end of year	Vested during the year ¹	Vested and exercisable
G C Boulton AM	633,334	-	-	-	633,334	500,000	633,334
S Mitchell ¹	2,333,334	-	-	-	2,333,334	2,000,000	2,333,334
M R Billing	633,334	-	-	-	633,334	500,000	633,334
D J Turvey	633,334	-	-	-	633,334	500,000	633,334
D L Hill	100,000	-	-	-	100,000	-	100,000
	4,333,336	-	-	-	4,333,336	3,500,000	4,333,336

¹ As announced to the ASX on 3 April 2017, the Company proposed to grant 3,500,000 unlisted options to the Directors, subject to shareholder approval. These options were included in the opening balance as at 1 July 2017, although not considered vested until the options were approved by shareholders on 25 October 2017.

Southern Gold Limited – Consolidated Entity

(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.
- For the year ended 30 June 2018, the Managing Director's annual salary was set at \$270,000 base salary per annum, plus statutory superannuation.
- Following the annual performance and salary review, effective 1 July 2018 the Managing Director's annual salary was increased to \$276,000 base salary per annum, plus statutory superannuation
- The Managing Director's remuneration package includes a maximum performance incentive of \$50,000 per annum. The Managing Director was awarded \$15,000 in bonuses, plus superannuation at 9.5%, related to the year ended 30 June 2018.
- 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.

(g) Voting at 2017 AGM

Southern Gold Limited received more than 92.2% of 'yes' votes on its remuneration report for the 2017 financial year. The Company did not receive any specific feedback at the AGM on its remuneration report.

Southern Gold Limited – Consolidated Entity

(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	2018 \$	2017 \$
D L Hill	Payments to a member of Key Management for financial and company secretarial services provided	13,972	14,318
GC Boulton	Payments to a Director related entity for Director and consulting services provided*	90,000	93,000
D Turvey	Payments to a Director related entity for consulting services provided	6,148	6,000
M Billing	Payments to a Director related entity for consulting services provided	1,000	3,000

* During the year ended 30 June 2018, the value of payments comprised Directors fee of \$90,000, and consulting fees of nil. (For the year ended 30 June 2017, the value of payments comprised Directors fee of \$90,000, and consulting fees of \$3,000.)

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:

	2018 \$	2017 \$
Current payables		
Amounts payable to Directors and Key Management Personnel related entities (refer Note 11) ¹	21,157	41,934
	<u>21,157</u>	<u>41,934</u>

¹ Payable to Greg Boulton and Associates Pty Ltd (an entity associated with G C Boulton) of \$7,500 (2017: \$ 7,500).

Payable to Red Balloon Superannuation Fund (an entity associated with Mr David Turvey) of \$651 (2017: \$296).

Payable to Lapun Kamap Superannuation Fund (an entity associated with Mr Michael Billing) of \$651 (2017: \$296).

Payable to Bamford Superannuation Fund (an entity associated with Mr Peter Bamford) of \$651 (2017: nil).

Payable to Bayfront Nominees Pty Ltd (an entity associated with D L Hill) of \$1,995 (2017: \$2,760).

Payable to Mr Simon Mitchell, being a final bonus relating to the year ended 30 June 2018 \$5,475 and superannuation of \$4,275 (2017: \$31,081).

There were no amounts receivable from related parties.

End of Remuneration Report

Southern Gold Limited – Consolidated Entity

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 Meetings Eligible to Attend	Number of Meetings Attended	Number of Meetings Eligible to Attend	Number of 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	9	-	-
P Bamford	4	4	-	-

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 2018 were nil (2017: \$2,000 comprising taxation related services).

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.

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.

Southern Gold Limited – Consolidated Entity

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 2018 is set out immediately following the end of the Directors' report.

Dated at Adelaide, this 19th day of September 2018.

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

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 2018, 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 2018

Southern Gold Limited – Consolidated Entity

Statement of Profit or Loss and Other Comprehensive Income for the Year ended 30 June 2018

		Consolidated	
	Note	2018 \$	2017 \$
Revenue		1,997,548	18,889,851
Cost of Sales		(820,725)	(6,565,679)
		1,176,823	12,324,172
Other revenue	2(a)	1,554,536	10,473
Exploration expenditure written off	8	(102,530)	(1,669,307)
Exploration expenses		(461,905)	(260,822)
Exploration expenses (Cannon underground)		(437,846)	-
Mine management costs		-	(252,588)
Mine development amortisation		-	(1,618,061)
Salaries and wages		(818,057)	(786,744)
Directors fees		(197,143)	(180,000)
Interest expense		-	(213,461)
Shareholder relations		(275,003)	(289,854)
Other consulting expenses		(267,560)	(460,559)
Other administrative expenses	2(b)	(945,833)	(755,483)
Depreciation		(59,372)	(47,035)
Share based payments	19	(56,547)	(900,952)
Profit/(Loss) before income tax		(890,437)	4,899,779
Income tax (expense)/benefit attributable to profit/(loss) from ordinary activities	3	187,482	(2,393,591)
Net Profit/(Loss) for the year		(702,955)	2,506,188
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation		217,280	(60,292)
Total comprehensive income		(485,675)	2,445,896
Earnings Per Share			
Basic (cents per share) – Profit/(Loss)	21	(1.44)	5.51
Diluted (cents per share) – Profit/(Loss)	21	(1.44)	5.25

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

Southern Gold Limited – Consolidated Entity

Statement of Financial Position as at 30 June 2018

		Consolidated	
	Note	2018 \$	2017 \$
CURRENT ASSETS			
Cash and cash equivalents	5	2,080,242	5,376,908
Trade and other receivables	6	134,994	403,711
Inventories (gold)		-	820,725
Other assets	7	19,090	23,904
TOTAL CURRENT ASSETS		2,234,326	6,625,248
NON-CURRENT ASSETS			
Exploration and evaluation expenditure	8	13,248,642	10,270,630
Mine development assets	9	-	-
Deferred tax asset	3	-	-
Plant and equipment	10	176,242	168,308
TOTAL NON-CURRENT ASSETS		13,424,884	10,438,938
TOTAL ASSETS		15,659,210	17,064,186
CURRENT LIABILITIES			
Trade and other payables	11	340,635	355,330
Dividend payable	24	-	1,418,772
Provisions	12	134,121	172,130
TOTAL CURRENT LIABILITIES		474,756	1,946,232
NON-CURRENT LIABILITIES			
Provisions	12	31,094	-
TOTAL NON-CURRENT LIABILITIES		31,094	-
TOTAL LIABILITIES		505,850	1,946,232
NET ASSETS		15,153,360	15,117,954
EQUITY			
Issued capital	13	40,072,064	39,607,530
Reserves	27	1,112,836	2,814,815
Retained losses		(26,031,540)	(27,304,391)
TOTAL EQUITY		15,153,360	15,117,954

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

Southern Gold Limited – Consolidated Entity

Statement of Changes in Equity for the Year ended 30 June 2018

	Issued Capital	Retained Losses	Share-Based Payment Reserve	Foreign Currency Translation Reserve	Total
	\$	\$	\$	\$	\$
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)	15,117,954
Profit or loss	-	(702,955)	-	-	(702,955)
Other comprehensive income	-	-	-	217,280	217,280
Total comprehensive income	-	(702,955)	-	217,280	(485,675)
Issue of share capital	464,534	-	-	-	464,534
Options lapsed or exercised	-	1,975,806	(1,975,806)	-	-
Fair value of options issued	-	-	56,547	-	56,547
Costs associated with the issue of shares	-	-	-	-	-
Total transactions with owners	464,534	1,975,806	(1,919,259)	-	521,081
Balance at 30 June 2018	40,072,064	(26,031,540)	955,848	156,988	15,153,360

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

Southern Gold Limited – Consolidated Entity

Statement of Cash Flows for the Year ended 30 June 2018

	Note	Consolidated	
		2018 \$	2017 \$
Cash flows relating to operating activities			
Interest received		54,438	9,947
Other income		98	526
Receipts from operations		3,685,413	11,353,000
R&D tax offset received		187,482	299,479
Mining costs		-	(543,347)
Payments to suppliers and employees		(3,334,428)	(2,816,179)
Interest paid		-	(258,607)
Net operating cash inflows/(outflows) (Note (a))		593,003	8,044,819
Cash flows relating to investing activities			
Payments for mining tenements, exploration and evaluation expenditure		(2,881,523)	(2,346,688)
Payments for mine development assets		-	-
Payments for acquisition of a subsidiary		-	(115,695)
Disposal of subsidiary (cash held)		-	-
Payments for plant and equipment		(64,102)	(163,963)
Net investing cash (outflows)		(2,945,625)	(2,626,346)
Cash flows relating to financing activities			
Proceeds from share issues		-	1,530,000
Payments for share issue costs		-	(13,452)
Payment of dividends		(945,648)	-
Repayment of borrowings	9	-	(3,500,000)
Proceeds of borrowings	9	-	500,000
Net financing cash (outflows)		(945,648)	(1,483,452)
Net increase/(decrease) in cash		(3,298,270)	3,935,021
Net foreign exchange difference		1,604	(4)
Cash at beginning of financial year	5	5,376,908	1,441,891
Cash at end of financial year	5	2,080,242	5,376,908

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

Southern Gold Limited – Consolidated Entity

Statement of Cash Flows for the Year ended 30 June 2018

	Consolidated	
	2018 \$	2017 \$
Note (a): Reconciliation of net loss from ordinary activities to net cash flow from operating activities		
Profit/(Loss) from ordinary activities after income tax	(702,955)	2,506,188
<u>Adjustments to reconcile profit before tax to net cash flows</u>		
Share based payments	56,547	900,952
Depreciation	59,372	47,035
Mine development amortisation	-	1,618,061
Exploration written off and expensed – continuing operations	102,530	1,669,307
Loss on sale of plant & equipment	-	656
<u>Changes in assets and liabilities</u>		
(Increase)/decrease in trade and other receivables	273,946	(339,982)
(Increase)/decrease in other financial assets	4,869	2,941
(Increase)/decrease in inventories	820,724	(783,308)
(Increase)/decrease in deferred tax assets	-	2,693,070
Increase/(decrease) in trade and other payables	(14,328)	(431,321)
Increase/(decrease) in provisions	(7,702)	161,220
Net operating cash flows	593,003	8,044,819

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 2018**

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 2018 are as follows:

- AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107.

The above amendment did not have a material impact on the Group.

Southern Gold Limited – Consolidated Entity

a. Principles of Consolidation

The Group financial statements consolidate those of the Parent Company and all of its subsidiaries as of 30 June 2018. 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.

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

Southern Gold Limited – Consolidated Entity

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.

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.

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.

Southern Gold Limited – Consolidated Entity

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 had a Mine Finance and Profit Sharing Agreement (Agreement), with Westgold Resources Limited (Westgold) (ASX: WGX). Under the Agreement, Westgold provided 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 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 9. The Company's interests in other joint operations are listed at Note 16.

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)'.

Mining of the open pit was concluded in the year ended 30 June 2017 with final cash distributions were received in the year ended 30 June 2018.

k. Inventories

Mining of the open pit was concluded in the year ended 30 June 2017. At 30 June 2017, Southern Gold recognised its 50% share of inventory held by the joint operation with Westgold. Inventory consisted of gold held at the Perth mint. There were no ore stockpiles held at 30 June 2017. The gold inventory at 30 June 2017 was sold in the current year ended 30 June 2018, and final cash distributions made to Southern Gold and Westgold.

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.

l. Mine restoration costs

The Group 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.

Southern Gold Limited – Consolidated Entity

There is no provision required at 30 June 2018.

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).

Southern Gold Limited – Consolidated Entity

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 year ended 30 June 2016. The deferred tax assets represented carry forward tax losses that were 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 were utilised in the year ended 30 June 2017.

Refer to Note 3.

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.

Southern Gold Limited – Consolidated Entity

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.

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 2018. 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 de-recognition 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 rules and also introduced a new impairment model.

These latest amendments now complete the new financial instruments standard. This standard does not apply mandatorily before the year ending 30 June 2019.

The Company is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Company'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 7 Financial Instruments Disclosures (December 2014)

AASB 2014-7 (issued December 2014) gives effect to the consequential amendments to Australian Accounting Standards (including Interpretations) arising from the issue of AASB 9: Financial Instruments (December 2014). More significantly, additional disclosure requirements have been added to AASB 7: Financial Instruments: Disclosures regarding credit risk exposures of the entity. This Standard also makes various editorial corrections to Australian Accounting Standards and an Interpretation. However, based on the Company'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 2018.

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 1 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.

Southern Gold Limited – Consolidated Entity

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 23, 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.

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.

Southern Gold Limited – Consolidated Entity

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 2018 by the Board of Directors.

Southern Gold Limited – Consolidated Entity

	2018 \$	2017 \$
2. PROFIT/(LOSS) FROM OPERATIONS		
Profit/(Loss) from ordinary activities included the following items of revenue and expense:		
a.) Other Revenue		
Right to mine income ¹	1,500,000	-
Interest received/receivable	54,438	9,947
Other income	98	526
	<u>1,554,536</u>	<u>10,473</u>
b.) Other Administrative Expenses		
Office rent	<u>169,274</u>	<u>109,629</u>

¹ On 23rd January 2018, the Southern Gold entered a new agreement with development partner, Westgold for the underground development phase at Southern Gold's Cannon gold mine, near Kalgoorlie. The features of the agreement comprise:

- Westgold to have a 5 year right-to-mine over a defined 1km radius on mining license M25/333 covering the Cannon Gold deposit, with Westgold assuming all financing and operating risk; and
- Westgold to have the right and flexibility to devise its own mine plan.

In exchange for this right to mine, Westgold paid Southern Gold \$1.5 million up front and will pay future production payments based on a \$/troy oz of gold produced as follows:

- \$160/oz for the first 15,000oz produced (or \$190/oz in any quarter where the average gold price exceeds \$1,800/oz), and
- \$180/oz for all production in excess of 15,000oz (or \$210/oz in any quarter where the average gold price exceeds \$1,800/oz).

Subsequently Northern Star Resources Limited acquired Westgold's Kalgoorlie assets and is now the holder of the Cannon right-to-mine.

Southern Gold Limited – Consolidated Entity

3. INCOME TAX EXPENSE

The components of tax benefit comprise:

	2018 \$	2017 \$
Research and development tax concession	187,482	299,479
Tax (expense)/benefit	-	(2,693,070)
Income tax (expense)/benefit attributable to loss from ordinary activities	187,482	(2,393,591)
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 27.5% (2017: 30%) of operating loss	244,870	(1,469,934)
Tax effect of capital raising costs	-	8,184
Tax effect of Share-based payments expensed	(15,550)	(164,935)
Research and development tax concession	(187,482)	(299,479)
Timing differences and tax losses not brought to account	(41,838)	(766,906)
Income tax benefit attributable to loss from ordinary activities	-	(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	17,329,153	17,294,437
Tax Losses at 27.5% (2017: 30%)	4,765,517	5,188,331

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.

Southern Gold Limited – Consolidated Entity

4. 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 2018. The totals of remuneration paid to key management personnel during the year are as follows:

	2018 \$	2017 \$
Short term employee benefits	479,996	456,692
Post-employment benefits	36,370	33,696
Share-based payments	-	511,890
	<u>516,366</u>	<u>1,002,278</u>

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 \$13,972 during the 2018 year (2017: \$14,318).

5. CASH AND CASH EQUIVALENTS

Cash at bank and in hand	2,080,242	5,376,908
	<u>2,080,242</u>	<u>5,376,908</u>

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables	51,730	37,502
Cannon undistributed cash	-	289,964
Office lease bond	83,264	76,245
	<u>134,994</u>	<u>403,711</u>

Trade and other receivables considered past due and/or impaired is nil (2017: nil).

7. OTHER ASSETS

Current

Prepayments	19,090	23,904
	<u>19,090</u>	<u>23,904</u>

8. EXPLORATION AND EVALUATION EXPENDITURE

Costs carried forward in respect of areas of interest:

Exploration and evaluation phase	13,248,642	10,270,630
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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	10,270,630	7,132,433
Subsidiary acquired ¹	-	2,489,661
Net foreign exchange differences	184,112	(18,631)
Expenditure incurred during the year	2,896,430	2,336,474
Expenditure written off / impairment for relinquished tenements	(102,530)	(1,669,307)
	<u>13,248,642</u>	<u>10,270,630</u>

Southern Gold Limited – Consolidated Entity

8. EXPLORATION AND EVALUATION EXPENDITURE (continued)

- 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 2018, Southern Gold has written off exploration and evaluation expenditure of \$102,530 relating to eight tenements in Western Australia that were relinquished in the period. In the prior period, ending 30 June 2017, the amounts written off was comprised of:

- \$377,899 for five tenements in Western Australia that were relinquished in that period, and
- \$1,291,408 being a number of tenements impacted by a heritage re-instatement.

9. MINE DEVELOPMENT ASSETS

	2018 \$	2017 \$
Costs carried forward in respect of the development of Cannon	-	2,744,487
Accumulated amortisation	-	(2,744,487)
	-	-
(ii) Reconciliation		
A reconciliation of the carrying amount of mine development assets is set out below:		
Costs brought forward	-	1,655,478
Expenditure incurred during the year	-	-
Amortisation expense	-	(1,618,061)
Amortisation capitalised to ending inventories	-	(37,417)
	-	-

Southern Gold had entered into 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. Under the Agreement, Westgold provided all funding and management of services required for the mining, haulage and the treatment of ore from the Cannon deposit. Mining operations commenced in August 2015.

The Mine Development asset was 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.

Costs incurred directly by Southern Gold in overseeing the Mining contractor (WestGold) and exploration costs associated with the existing open pit resource, were expensed as incurred. These costs are shown in the Consolidated Statement of Profit or Loss and Other Comprehensive Income, as 'Mining Costs'. There were no further Mining Costs in the year ended 30 June 2018.

As part of the Agreement, Westgold also provided Southern Gold with a secured loan facility of \$2,500,000. The loan was interest bearing, fixed at 8% per annum. The final \$500,000 was drawn down in the year ended 30 June 2017.

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 the final cash distributions from the open pit in the year ending 30 June 2018 were \$2,185,413 (2017: \$11,353,000).

Southern Gold Limited – Consolidated Entity

9. MINE DEVELOPMENT ASSETS (continued)

Southern Gold's 50% share of cash distributions were first applied to repayment of the loan balance, with \$2,500,000 repaid in the year ended 30 June 2017. [Southern Gold also repaid a \$1,000,000 convertible debt facility in March 2017, taking the total repayment of borrowing, during the year ended 30 June 2017, to \$3,500,000 in the Statement of Cash Flows]

On 23rd January 2018, the Southern Gold entered a new agreement with development partner, Westgold for the underground development phase at Southern Gold's Cannon gold mine, near Kalgoorlie in return for an upfront payment of \$1,500,000 and future royalties (refer Note 2a).

	2018 \$	2017 \$
10. PLANT AND EQUIPMENT		
Plant and equipment at cost	561,823	488,852
Less: Accumulated depreciation	(385,581)	(320,544)
	176,242	168,308
Opening written down value	168,308	31,054
Additions	64,102	163,963
Acquisition of Subsidiary	-	20,724
Net foreign currency exchange differences	3,204	243
Disposals	-	(641)
Depreciation	(59,372)	(47,035)
Closing written down value	176,242	168,308
11. TRADE AND OTHER PAYABLES		
Trade payables	190,227	135,705
Sundry payables and accruals	129,251	177,691
Amount payable to Directors and Key Management related entities ¹	21,157	41,934
	340,635	355,330

¹ Payable to Greg Boulton and Associates Pty Ltd (an entity associated with G C Boulton) of \$7,500 (2017: \$7,500).
Payable to Red Balloon Superannuation Fund (an entity associated with Mr David Turvey) of \$651 (2017: \$296).
Payable to Lapun Kamap Superannuation Fund (an entity associated with Mr Michael Billing) of \$651 (2017: \$296).
Payable to Bamford Superannuation Fund (an entity associated with Mr Peter Bamford) of \$651 (2017: nil).
Payable to Bayfront Nominees Pty Ltd (an entity associated with D L Hill) of \$1,955 (2017: \$2,760).
Payable to Mr Simon Mitchell, being a final bonus relating to the year ended 30 June 2018 \$5,475 and superannuation of \$4,275 (2017: \$31,081).

12. PROVISIONS

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

Current Provisions

Employee entitlements provision	134,121	70,130
Mine restoration provision	-	102,000
	134,121	172,130

Non-Current Provisions

Employee entitlements provision	31,094	-
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Southern Gold Limited – Consolidated Entity

13. ISSUED CAPITAL

(a) Ordinary Shares

Issued share capital: 40,072,064 39,607,530

49,150,553 fully paid ordinary shares

(2017: 47,292,415)

Movement in issued shares for the year:

	2018		2017	
	No.	\$	No.	\$
Balance at beginning of 2017 financial year	47,292,415	39,607,530	36,567,820	35,700,379
Dividend reinvestment plan	1,858,138	464,534		
Shares issued to Directors	-	-	103,413	30,000
Options exercised	-	-	250,000	80,000
Acquisition shares	-	-	6,294,942	2,360,603
Placement of shares	-	-	4,076,240	1,450,000
Net costs associated with the issue of shares	-	-	-	(13,452)
Balance at end of financial year	49,150,553	40,072,064	47,292,415	39,607,530

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 2018, there were 5,943,336 unlisted options outstanding (30 June 2017: 2,267,006).

All of the above options are accounted for as share based remuneration. Refer to Note 19 for further detail.

(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:

	2018 \$	2017 \$
Debt	-	-
Cash	2,080,242	5,376,908
	2,080,242	5,376,908
Equity	15,153,360	15,117,954
Net debt to equity ratio	0%	0%

Southern Gold Limited – Consolidated Entity

14. 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	38,725	41,324
Taxation and other services	-	2,000
	38,725	43,324

15. 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 22 to the financial statements.

Equity Interests in joint ventures

Details of interests in joint ventures are disclosed in Note 16 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	2018 \$	2017 \$
D L Hill	Payments to a member of Key Management for company secretarial services provided	13,972	14,318
GC Boulton	Payments to a Director related entity for Director and consulting services provided*	90,000	93,000
D Turvey	Payments to a Director related entity for consulting services provided	6,148	6,000
M Billing	Payments to a Director related entity for consulting services provided	1,000	3,000

* During the year ended 30 June 2018, the value of payments comprised Directors fee of \$90,000, and consulting fees of nil. (For the year ended 30 June 2017, the value of payments comprised Directors fee of \$90,000, and consulting fees of \$3,000.)

Southern Gold Limited – Consolidated Entity

15. RELATED PARTY AND KEY MANAGEMENT DISCLOSURES (Continued)

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:

	2018 \$	2017 \$
Current payables		
Amounts payable to Directors and Key Management Personnel related entities	21,157	41,934
	<u>21,157</u>	<u>41,934</u>

There were no amounts receivable from related parties.

e) Remuneration of Key Management Personnel (see summary in Note 4)

16. JOINT OPERATIONS

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

	Interest 2018	Interest 2017
(a) Southern Gold (Asia) Joint Venture (SG Asia)	15%	15%
(b) Heron Resources KNP Joint Venture	80%	80%
(c) Glandore Joint Venture - Aruma	75%	50%

Notes

- 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.
- 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.
- 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 are located adjacent to Southern Gold's Bulong Project. During the 2018 financial year, Southern Gold achieved the second milestone expenditure of \$700,000, resulting in the Company earning an additional 25% interest, to take the Company's interest to 75% at 30 June 2018.

Gubong Joint Venture

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 projects in South Korea. During the farm-in, Bluebird is required to 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).

Southern Gold Limited – Consolidated Entity

16. JOINT OPERATIONS (continued)

Following the required US\$500,000 expenditure at Gubong, Bluebird and Southern Gold executed a definitive Farm In and Joint Venture Agreement for the Gubong Gold Project (refer ASX Announcement 29 March 2018). The document provides the final framework for the management of the Joint Venture. The Joint Venture commences after submission of a report on feasibility for the Gubong Gold Project. The feasibility study was completed subsequent to the year ended 30 June 2018 (refer ASX Announcement 1 August 2018). The joint venture will be conducted through an entity to be incorporated in South Korea (refer Note 22), with Bluebird as operators.

In respect of the Taechang Project, Bluebird has not completed the requirements to maintain their farm-in option in place and Southern Gold intends, in due course, to formally notify Bluebird to that effect.

Kochang Joint Venture

Southern Gold extended its Farm In and Joint Venture arrangement with Bluebird to include the Kochang project in South Korea. The terms for the Kochang gold project are broadly in line with what was previously agreed for the Gubong and Taechang gold projects, being a farm-in stage where Bluebird are required to invest US\$0.5 million in compiling a high level report on project feasibility targeting capital expenditure of no more than US\$10 million and Bluebird (or one of its associates) is to complete a placement in Southern Gold shares to the value of A\$0.25 million and at the same price agreed for the other projects, or A\$0.386/share (refer ASX Announcement 13 February 2018). Subsequent to the year ended 30 June 2018, the \$250,000 placement was completed to an entity controlled by Bluebird (refer ASX Announcement 20 August 2018).

17. 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 16c).

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:

	2018 \$	2017 \$
Not later than one year:	617,664	689,674
Later than one year but not later than two years:	590,166	1,020,830
Later than two years but not later than five years:	1,573,022	1,816,052
Greater than five years	3,644,992	4,951,916
	6,425,844	8,478,472

(b) Service Agreements

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

Southern Gold Limited – Consolidated Entity

17. COMMITMENTS FOR EXPENDITURE AND CONTINGENT LIABILITIES (continued)

(c) Office Rental

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

	2018 \$	2017 \$
Not later than one year:	109,973	120,309
Later than one year but not later than two years:	-	84,431
Later than two years but not later than five years:	-	-
	109,973	204,740

18. FINANCIAL INSTRUMENTS

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:

	2018 \$	2017 \$
Financial Assets		
Cash and cash equivalents	2,080,242	5,376,908
Trade and other receivables	134,994	403,711
	2,215,236	5,780,619
Financial Liabilities		
Trade and other payables	340,635	355,330
Dividend payable	-	1,418,772
	340,635	1,774,102

(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.

Southern Gold Limited – Consolidated Entity

18. FINANCIAL INSTRUMENTS (continued)

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.

2018	Interest Bearing	Non-interest Bearing	Total	Floating interest rate	Fixed interest rate
Financial assets					
Cash and deposits	2,080,242	-	2,080,242	0.50%	-
Receivables	-	134,994	134,994	-	-
Less: Payables	-	(340,635)	(340,635)	-	-
Net financial assets	2,080,242	(205,641)	1,874,601		

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: Dividends payable	-	(1,418,772)	(1,418,772)	-	-
Net financial assets	5,376,908	(1,370,391)	4,006,517		

Interest rate risk is managed with a mixture of fixed and floating rate cash deposits. At 30 June 2018, none of group cash deposits are fixed (2017: nil).

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.

Southern Gold Limited – Consolidated Entity

19. 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 2018:

Options – Series	No.	Grant Date	Expiry Date	Exercise Price	Fair value at grant date
Employee Share Option Plan					
July 2016 ¹	955,000	12.07.2016	30.06.2021	\$0.375	\$0.282
May 2017 ²	250,000	15.05.2017	15.05.2022	\$0.375	\$0.152
November 2017 ⁶	475,000	30.11.2017	30.11.2022	\$0.375	\$0.112
November 2017 ⁷	30,000	30.11.2017	31.07.2022	\$0.375	\$0.108
Director Options					
November 2014 ³	400,002	27.11.2014	30.11.2019	\$0.375	\$0.105
March 2015 ⁴	333,334	01.02.2015	18.11.2020	\$0.375	\$0.109
April 2017 ⁵	1,750,000	03.04.2017	25.10.2020	\$0.400	\$0.153
April 2017 ⁵	1,750,000	03.04.2017	25.10.2020	\$0.500	\$0.139

- 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 vested immediately. 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). 290,000 options have lapsed.
- 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 vested immediately. 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 were agreed to be issued to Mr Simon Mitchell, as agreed in his contract of employment as Managing Director, commencing 1 February 2015. These options vested upon 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 were proposed to be granted to the Directors, subject to shareholder approval (announced to the ASX on 3 April 2017). These options vested in the current financial year, upon shareholder approval on 25 October 2017. 1,750,000 of the options will have an exercise price of \$0.40, and the other 1,750,000 have an exercise price of \$0.50. Although shareholders were yet to approve these options as at 30 June 2017, Accounting Standards required the options to be valued and recorded at the date the options were proposed, being in the 2017 financial year. 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).
- 475,000 unlisted options were issued to new employees on 30 November 2017, under the Company's shareholder approved Employee Share Option Plan. The options vested immediately. The \$53,320 fair value of the options was calculated, using the Black Scholes valuation, using a volatility of 58% and an interest rate of 2.09% (the five year Australian Government bond rate).
- 30,000 unlisted options were issued to a new employee on 30 November 2017, under the Company's shareholder approved Employee Share Option Plan. The options vested immediately. The \$3,226 fair value of the options was calculated, using the Black Scholes valuation, using a volatility of 58% and an interest rate of 2.09% (the five year Australian Government bond rate).

Southern Gold Limited – Consolidated Entity

19. SHARE BASED PAYMENTS (continued)

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.

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

Share Option Granted	2018		2017	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of financial year	5,767,006	\$0.453	862,006	\$0.453
Granted during the financial year (i)	505,000	\$0.375	4,995,000	-
Exercised during the financial year	-	-	-	-
Lapsed during the financial year	(328,670)	\$0.900	(90,000)	-
Balance at end of the financial year (ii)	5,943,336	\$0.419	5,767,006	\$0.453

(i) Options granted

505,000 options were granted under the Employee Share Option Plan in the year ended 30 June 2018 (2017: 4,995,000 options being 1,495,000 granted under the Employee Share Option Plan and 3,500,000 options granted to Directors, as approved by shareholders).

(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 \$0.419 (2017: \$0.453) and a weighted average remaining contractual life of 955 days (2017: 1,242 days).

20. 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 based upon the geographies of Australia and the Republic of Korea (South Korea). 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 Annual Financial Report for the comparative period ending 30 June 2017 disclosed its operating segments as the exploration for precious and base metals, and the production of precious and base metals. The Production segment represented the Group's 50% interest in the joint operations being undertaken at the open pit Cannon gold mine. Mining activity under the joint operations was completed in March 2017. The Production segment for current period ending 30 June 2018 comprised two final cash distributions totalling \$2,185,413, representing the Company's 50% share of revenues of \$1,997,548 and cost of goods sold of \$820,725. At 30 June 2018, there were nil net assets in the Production segment, and this method of segmenting the Company's financial information is no longer relevant. The segment information for the comparative year ended 30 June 2017 has been restated to be consistent with the geographic segmentation presented for the year ending 30 June 2018.

Southern Gold Limited – Consolidated Entity

20. OPERATING SEGMENTS (continued)

Year ended 30/6/2018	South Korea	Australia	Consolidated
	\$	\$	\$
<u>Segment Revenue</u>			
Revenue from Joint Operations	-	1,997,548	1,997,548
Other Income	477	1,554,059	1,554,536
Total Segment Revenue	477	3,551,607	3,552,084
<u>Segment Expenses</u>			
Exploration expenditure written off	-	(102,530)	(102,530)
Exploration expenses	(351,109)	(110,796)	(461,905)
Exploration expenses (Cannon underground)	-	(437,846)	(437,846)
Share of Joint Operations expenses	-	(820,725)	(820,725)
Other expenditure	(851,265)	(1,241,066)	(2,092,331)
Total Segment Expenditure	(1,202,374)	(2,712,963)	(3,915,337)
Segment Profit/(Loss) before Income Tax	(1,201,897)	838,644	(363,253)
Corporate expenses			(527,184)
Profit/(loss) before income tax			(890,437)
Income tax benefit/(expense)			187,482
Profit/(loss)			(702,955)
Year ended 30/6/2017	South Korea	Australia	Consolidated
	\$	\$	\$
<u>Segment Revenue</u>			
Revenue from Joint Operations	-	18,889,851	18,889,851
Other Income	60	10,413	10,473
Total Segment Revenue	60	18,900,264	18,900,324
<u>Segment Expenses</u>			
Exploration expenditure written off	-	(1,669,307)	(1,669,307)
Exploration expenses	(253,846)	(6,976)	(260,822)
Mine management costs (Joint Operations)	-	(252,588)	(252,588)
Share of Joint Operations expenses	-	(6,565,679)	(6,565,679)
Mine development amortisation		(1,618,061)	(1,618,061)
Other expenditure	(822,296)	(1,317,572)	(2,139,868)
Total Segment Expenditure	(1,076,142)	(11,430,183)	(12,506,325)
Segment Profit/(Loss) before Income Tax	(1,076,082)	7,470,081	6,393,999
Corporate expenses			(1,494,220)
Profit/(loss) before income tax			4,899,779
Income Tax Expense			(2,393,591)
Profit/(Loss)			2,506,188

Southern Gold Limited – Consolidated Entity

20. OPERATING SEGMENTS (continued)

As at 30/6/2018	Exploration	Production	Consolidated
	\$	\$	\$
<u>Assets and Liabilities</u>			
Exploration and evaluation expenditure	4,954,956	8,293,686	13,248,642
Other segment assets	188,315	142,011	330,326
Segment Assets	5,143,271	8,435,697	13,578,968
Segment Liabilities	43,588	462,262	505,850
Segment Liabilities	43,588	462,262	505,850
Segment Net Assets	5,099,683	7,973,435	13,073,118
<i>Corporate net assets</i>			
cash			2,080,242
Total Net Assets			15,153,360

As at 30/6/2017	South Korea	Australia	Consolidated
	\$	\$	\$
<u>Assets and Liabilities</u>			
Inventories	-	820,725	820,725
Exploration and evaluation expenditure	3,389,692	6,880,938	10,270,630
Other segment assets	138,563	457,360	595,923
Segment Assets	3,528,255	8,159,023	11,687,278
Other Segment Liabilities	68,724	458,736	527,460
Segment Liabilities	68,724	458,736	527,460
Segment Net Assets	3,459,531	7,700,287	11,159,818
<i>Corporate net assets</i>			
cash			5,376,908
Provision for dividend			(1,418,772)
Total Net Assets			15,117,954

Southern Gold Limited – Consolidated Entity

21. EARNINGS PER SHARE

	2018 Cents per share	2017 Cents per share
Basic (cents per share) – Profit/(Loss)	(1.44)	5.51
Diluted (cents per share) – Profit/(Loss)	(1.44)	5.25
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 operations	(702,955)	2,506,188
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	48,840,015	45,467,450
Weighted average number of shares & options	54,783,351	47,734,456

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 2018, as options are not considered dilutive, as a loss was incurred.

22. CONTROLLED ENTITIES CONSOLIDATED

Name of Entity	Country of Incorporation	Ownership Interest	
		2018 %	2017 %

Parent Entity

Southern Gold Limited	Australia
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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%	100%
Southern Gold Korea Ltd. ²	South Korea	100%	100%
Gubong Project JV Co Pte. Ltd. ³	Singapore	100%	-
Kochang Project JV Co Pte. Ltd. ³	Singapore	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.

³ Two new companies were incorporated in Singapore on 18 June 2018. All shares in these new companies, as at 30 June 2018, are held by International Gold Private Limited. These companies have been established with the intention of being the holding companies for the two planned 50:50 joint venture operations with Bluebird Merchant Ventures Limited for the development of mining operations at the Gubong and Kochang projects in South Korea. Refer Note 16.

Southern Gold Limited – Consolidated Entity

23. SOUTHERN GOLD LIMITED COMPANY INFORMATION

	2018	2017
	\$	\$
Parent Entity		
Assets		
Current assets	1,996,024	6,516,032
Non-current assets	13,619,598	10,548,155
Total assets	15,615,622	17,064,187
Liabilities		
Current liabilities	431,168	1,877,508
Non-current liabilities	31,094	-
Total liabilities	462,262	1,877,508
Equity		
Issued capital	40,072,064	39,607,530
Retained earnings	(25,874,552)	(27,295,958)
Share based payments reserve	955,848	2,875,107
	15,153,360	15,186,679
Financial Performance		
Profit/(loss) for the year	(554,400)	2,514,621
Other comprehensive income	-	-
Total comprehensive income	(554,400)	2,514,621
Guarantees in relation to the debts of subsidiaries	-	-
Contingent liabilities	-	-
Contractual commitments - exploration	6,425,844	8,478,472

24. 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 was 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.

25. GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of a going concern.

The consolidated entity incurred a net loss after tax from continuing operations of \$702,955 for the year ended 30 June 2018, and had a net cash outflow of \$2,352,622 from operating and investing activities. The consolidated entity is reliant upon completion of capital raising for continued operations and the provision of working capital.

If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

26. EVENTS SUBSEQUENT TO REPORTING DATE

Subsequent to 30 June 2018, the following exploration rights, in South Korea, were granted 100% to Southern Gold:

- Two tenements granted at the recently identified Beopseongpo gold-silver epithermal target in the south west of South Korea (refer ASX Announcement 19 July 2018);
- One tenement granted at the Deokon Project hosting two historical gold-silver mines in the in the central - south west of South Korea (refer ASX Announcement 6 August 2018).; and
- One tenement granted at the Neunju gold-silver epithermal target in the south west of South Korea (refer ASX Announcement 4 September 2018).

On 20 August 2018, a total of 647,668 shares were issued to Bluebird Merchant Ventures Ltd ('Bluebird'), for proceeds of \$250,000. The placement was made pursuant to the Share Subscription, Farm In and Joint Venture Agreement – Kochang Project, which had been executed earlier in the year (refer ASX release 13 February 2018). Refer Note 16.

Following completion of the required US\$500,000 expenditure at the Gubong Gold Project in South Korea by Bluebird Merchant Ventures Ltd (Bluebird), Bluebird and Southern Gold executed a definitive Farm In and Joint Venture Agreement (refer ASX Announcement 29 March 2018). The Joint Venture was to formally commence after submission of the feasibility report on the Gubong Gold Project. The feasibility report was completed subsequent to the year ended 30 June 2018 (refer ASX Announcement 1 August 2018). Refer Note 16.

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.

27. 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.

28. 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 2018 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 2018.



S Mitchell
Managing Director



G C Boulton AM
Chairman

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 2018, 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 2018 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 auditor 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.

Material uncertainty related to going concern

We draw attention to Note 25 in the financial statements, which indicates that the Group incurred a net loss of \$702,955 during the year ended 30 June 2018, and had a net cash outflow of \$2,352,622 from operating and investing activities. As stated in Note 25, these events or conditions, along with other matters as set forth in Note 25, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Exploration and evaluation assets – Notes 2(d), 2(u) and 8

At 30 June 2018 the carrying value of exploration and evaluation assets was \$13,248,642.

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.

The process undertaken by management to assess whether there are any impairment triggers in each area of interest involves an element of management judgement.

This area is a key audit matter due to the significant judgement involved in determining the existence of impairment triggers.

Our procedures included, amongst others:

- obtaining the management 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:
 - 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 management's experts 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 financial report for the year ended 30 June 2018, 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 2018. In our opinion, the Remuneration Report of Southern Gold Limited, for the year ended 30 June 2018 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 2018