

Corporate Governance Statement

In March 2003 the Australian Stock Exchange Corporate Governance Council ("ASXCGC") released its best practice recommendations based on ten core principles for corporate governance. These recommendations were not intended to be prescriptions to be followed by all ASX listed companies, but rather guidelines designed to produce an efficiency, quality or integrity outcome. The Corporate Governance Council has recognised that a "one size fits all" approach to Corporate Governance is not required. Instead, it states aspirations of best practice for optimising corporate performance and accountability in the interests of shareholders and the broader economy. A company may consider that a recommendation is not appropriate to its particular circumstances and has flexibility to not adopt it and explain why.

Southern Gold Limited to date has not adopted the ASXCGC best practice recommendations other than those specifically identified and disclosed below because the Board believes that it cannot justify the necessary cost given the size and early stage of its life as a listed exploration company. However the Board is committed to ensuring that appropriate Corporate Governance practices are in place for the proper direction and management of the Company.

This statement outlines the main Corporate Governance practices of the Company disclosed under the principles outlined in the ASXCGC including those that comply with best practice that, unless otherwise disclosed, were in place during the whole of the financial year ended 30 June 2005.

Principle 1: Lay solid foundations for management and oversight

Role of the Board

The Board is governed by the Corporations Act 2001, ASX listing rules and a formal constitution.

The Board's primary role is the protection and enhancement of shareholder value.

The Board takes responsibility for the overall Corporate Governance of the Company including its strategic direction, management goal setting and monitoring, internal risk control, risk management and financial reporting.

Board processes and management

The Board has an established framework for the management of the company including a system

of internal control, a business risk management process and appropriate ethical standards. To assist in the execution of its responsibilities, the Board has an Audit Committee to deal with internal control, ethical standards and financial reporting.

The Board appoints a Managing Director with responsibility for the day to day management of the Company including management of financial, physical, and human resources, development and implementation of risk management, internal control and regulatory compliance policies and procedures, recommending strategic direction and planning for the operations of the business and the provision of relevant information to the Board.

Principle 2: Structure the Board to add value

Composition of the Board

The names of the directors of the Company and terms in office at the date of this Statement together with their experience and expertise are set out in the Directors' Report section of this report. The directors' terms in office are considered appropriate in view of the fact that the company listed in April 2005.

The composition of the Board consists of five directors of whom four, including the Chairman, are non-executives. Mr Horn's role as Chairman of the Board is separate from that of the managing Director, Mr Biggins who is responsible for the day to day management of the Company and is in compliance with the ASXCGC best practice recommendation that these roles not be exercised by the same individual.

The Company's constitution stipulated that the number of directors must be at least three and no more than ten. The Board may at any time appoint a director to fill a casual vacancy. Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter directors (other than the Managing Director) are subject to re-election at least every three years. The tenure for executive directors is linked to their holding of executive office.

Formal deeds have been entered into by the Company with directors whereby all directors are entitled to take such legal advice as they require at any time, and from time to time, on any matter concerning or in relation to their rights, duties, and obligations as directors in relation to the affairs of the Company.

Principle 3: Promote ethical and responsible decision making

Ethical standards

The Company aims for a high standard of corporate governance and ethical standard by directors and employees.

All directors are required to provide the Company with details of all securities registered in the director's name or an entity in which the director has a relevant interest within the meaning of section 9 of the Corporations Act 2001 and details of all contracts, other than contracts to which the Company is a party to which the director is a party or under which the director is entitled to a benefit, and that confer a right to call for or deliver shares in the Company and the nature of the director's interest under the contract.

Directors are required to disclose to the Board any material contract in which they may have an interest. In accordance with section 195 of the Corporations Act 2001, a director having a material personal interest in any matter to be dealt with by the Board, will not be present when that matter is considered by the Board and will not vote on that matter.

Trading in the Company's Securities

Directors, officers and employees are not permitted to trade in securities of the Company at any time whilst in possession of price sensitive information not readily available to the market. Section 1043A of the Corporations Act 2001 also prohibits the acquisition and disposal of securities where a person possesses information that is not readily available and which may reasonably be expected to have a material effect on the price of the securities if the information was generally available.

Principle 4: Safeguard integrity in financial reporting

Audit Committee

Southern Gold Limited was not a Company required by ASX Listing Rule 12.7 to have an Audit Committee during the year, although it is a best practice recommendation of the ASXCGC. Notwithstanding the Listing Rule requirement, Southern Gold has an Audit Committee to oversee the Company's internal controls, ethical standards, financial reporting, and external accounting and compliance procedures. The committee currently consists

of three non-executive Board directors, Messrs Horn, Anderson, and McDonald, and is chaired by Mr Horn.

The main responsibilities of the audit committee are:

- Monitor the integrity of the financial statements of the Company and review significant financial reporting changes.
- Review the Company's internal financial control system and, unless expressly addressed by a separate risk committee or by the Board itself, risk management systems.
- Make recommendations to the Board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor.
- Monitor and review the external auditor's independence, objectivity and effectiveness, taking into consideration relevant professional and regulatory requirements.
- Develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

The Committee is to meet at least twice a year, with further meetings on an as required basis. The Committee has authority to investigate any activity within its terms of reference or any matter specifically requested by the Board. The Committee has unrestricted access to all records and staff of the Company including full access to the external auditors. The Committee is authorised by the Board to obtain outside legal or other independent professional advice as necessary to assist the Committee.

Principle 5: Make timely and balanced disclosure

Continuous Disclosure

The Company operates under the continuous disclosure requirements of the ASX Listing Rules and ensures that all information, apart from information which is confidential, and ASX has not formed the view that the information has ceased to be confidential, which may be expected to affect the value of the Company's securities or influence investment decisions is released to the market in order that all investors have equal and timely access to material information concerning the Company. This information is made publicly available on the Company's website following release to the ASX

Principle 6: Respect the rights of shareholders

Communication with shareholders

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. In accordance with the ASXCGC best practice recommendations,

information is communicated to shareholders as follows:

- The annual financial report which includes relevant information about the operations of the Company during the year, changes in the state of affairs of the entity and details of future developments, in addition to other disclosures required by the Corporations Act 2001;
- The half yearly financial report lodged with the Australian Stock Exchange and Australian Securities and Investments Commission and sent to all shareholders who request it;
- Notifications relating to any proposed major changes in the Company which may impact on share ownership rights that are submitted to a vote of shareholders;
- Notices of all meetings of shareholders;
- Publicly released documents including the full text of notices of meetings and explanatory material made available on the Company's internet web-site at www.southerngold.com.au ; and
- Disclosure of the Company's Corporate Governance practices and communications strategy on the internet web-site.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the shareholders as single resolutions. The external auditor of the Company is also invited to the Annual General Meeting of shareholders and is available to answer any questions concerning the conduct, preparation and content of the auditor's report. Pursuant to Section 249K of the Corporations Act 2001 the external auditor is provided with a copy of the notice of meeting and related communications received by shareholders.

Principle 7: Recognise and manage risk

Risk Assessment and Management

The Board recognises that there are inherent risks associated with the Company's operations including mineral exploration, environmental, title, native title, legal, and other operational risks. The Board endeavours to mitigate such risks by continually reviewing the activities of the Company in order to identify key business and operational risks and ensuring that they are appropriately assessed and managed.

Principle 8: Encourage enhanced performance

Performance Evaluation

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

Principle 9: Remunerate fairly and responsibly

Remuneration Policy

The Company's Constitution specifies that the total amount of remuneration of non-executive directors shall be fixed from time to time by a general meeting. The current maximum aggregate remuneration of non-executive directors is set at \$200,000 per annum. Directors may apportion any amount up to this maximum amount amongst the non-executive directors as they determine. Directors are also entitled to be paid reasonable travelling, accommodation and other expenses incurred in performing their duties as directors.

The remuneration of the Managing Director is determined by the Board as part of the terms and conditions of his employment which are subject to review from time to time. The remuneration of employees is determined by the Managing Director subject to the approval of the Board

Further details of directors' and executives/ officers' remuneration, superannuation and retirement payments are set out in the Directors' Report.

Principle 10: Recognise the legitimate interests of stakeholders

Code of Conduct

The Company requires all its directors and employees to abide by the highest standards of behaviour, business ethics, and in accordance with the law. In discharging their duties, Directors of the Company are required to:

- Act in good faith and in the best interests of the Company;
- Exercise care and diligence that a reasonable person in that role would exercise;
- Exercise their powers in good faith for a proper purpose and in the best interests of the Company;
- Not improperly use their position or information obtained through their position to gain a personal advantage or for the advantage of another person to the detriment of the Company;
- Disclose material personal interests and avoid actual or potential conflicts of interests;
- Keep themselves informed of relevant Company matters;
- Keep confidential the business of all directors meetings; and

Observe and support the Board's Corporate Governance practices and procedures.