

Dear Shareholder,

I am very pleased to be able to report the progress your Company has made during the June 2008 quarter. This quarter has yielded some very robust results and we anticipate being able to report further positive developments going forward.

Your Company has made significant progress in both the Challenger and Bulong South projects in Australia and we are excited by the early indications coming from our leading exploration work in Cambodia.

### **Australia – Challenger**

The Challenger Area Gold Project continues to move ahead according to plan with the Company moving to 30% ownership of the joint venture with Dominion. We are looking forward to announcing more drill results in August having drilled a total of 121 drill holes for 6157 metres during May and June. At our lead prospect, Golf Bore, drilling is directed at defining a JORC compliant resource with economic potential.

The next step is to reconstruct 3D geological model to enable us to estimate grade and volume. In October we are planning to start further drilling to finalise the first resource definition stage.

We expect to start scoping studies on an open pit at Golf Bore once Resources are defined.

### **Australia – Bulong**

At the Euston Nickel Prospect at the Bulong South Project we reported a 2.44% nickel sulphide hit which confirms the potential to produce nickel sulphide from this project. We are planning further drilling and detailed geophysics with the aim of defining JORC compliant Nickel Sulphide Resources toward the end of 2009.

### **Cambodia – Joint Venture**

In Cambodia we entered into a \$US 4.5 million joint venture with the large Japanese Government organization JOGMEC to accelerate exploration on three of our Cambodian gold and base metal projects. JOGMEC can earn a 51% interest in the Kratie North and Kratie South (2 blocks) over three years.

Southern Gold has further consolidated our position as an early mover by going to a 100% interest in four newly granted Exploration Licenses. The Company has now doubled its granted tenement holding in Cambodia to over 1,500 square kilometres.

Our commitment to Cambodia is further strengthened by the appointment of Brendan Rasmussen as General Manager of Southern Gold (Cambodia) Ltd.

## Looking Forward

Gold drilling results from our Challenger Area Gold Project in South Australia are expected later in August as the first step toward delivering the Company's maiden JORC compliant Resources from Golf Bore Prospect in late 2008. Further RC and Diamond drilling programs are planned this year as part of the resource definition process.

Trenching operations will continue to aim to produce substantial results from Cambodia during the current wet season. Southern Gold is gearing up for a substantial RC drilling program on all its Cambodian projects as the dry season starts at the end of 2008 and into 2009.

RC and diamond drilling is planned soon, at Bulong South in Western Australia, to extend additional nickel sulphide mineralisation with the aim of defining a JORC compliant Resource in 2009. Drilling will also confirm the strike potential and volume of the 550m of gold mineralisation identified at Monument Prospect.

Yours sincerely,



Greg Boulton  
Chairman

7th August 2008