

29 December 2008

Dear Shareholder

On 24 December 2008, Southern Gold Limited (**SAU**) announced a fully underwritten one for three non-renounceable pro rata rights issue at an issue price of \$0.05 per new SAU share to raise \$1,558,618 (**Rights Issue**).

SAU's substantial shareholder, Talbot Group Holdings Pty Ltd has agreed to fully underwrite the Rights Issue (inclusive of its entitlements under the Rights Issue) for a fee equal to 3% of the total amount raised by the Rights Issue. As a result, the Rights Issue will raise a total of \$1,558,618 (before costs and expenses of the Rights Issue).

The proceeds from the Rights Issue will allow SAU to continue to progress exploration across its gold and base metal projects:

- in Cambodia, where SAU intends to commence in 2009 its own exploration program complementary to its maiden reverse circulation drilling program fully funded by Japan Oil Gas and Metals National Corporation, which is spending a minimum of US\$1 million as part of a US\$4.5 million (~A\$7 million) investment to earn a 51% interest in three of SAU's seven Cambodian tenements;
- in South Australia, where SAU is in Joint Venture with Dominion Mining Limited on an area surrounding its 100,000oz pa Challenger Gold Mine, with 37 targets identified and high grade multiple gold shoots identified near the Challenger mine from recent drilling; and
- in Western Australia, where SAU controls a large tenement holding (100%) and has discovered a new 'Kambalda Style' nickel sulphide system in recent drilling.

Funds raised will also be applied to SAU's general working capital requirements.

Full details of the Rights Issue, including details of the underwriting, are set out in the Offer Memorandum and Appendix 3B lodged with ASX on 24 December 2008. The Offer Memorandum is available to download from both the ASX website (at www.asx.com.au) and SAU's website (at www.southerngold.com.au) and will be sent out to shareholders on 12 January 2009.

Under the Rights Issue, every person who is registered as the holder of SAU Shares at 5.00pm Adelaide time on 6 January 2009 (**Record Date**) will be entitled to participate in the Rights Issue in respect of the number of Shares that person is then registered as the holder of. Shareholders with registered addresses in countries outside of Australia and New Zealand will not be eligible to participate in the Rights Issue.

Please note that SAU shares will be quoted on an "ex" basis from 30 December 2008, and therefore any SAU shares bought or sold on market on and from this date will not carry entitlements under the Rights Issue.

The Rights Issue is open for acceptance by eligible shareholders from 12 January 2009 until 5.00pm Adelaide time on 27 January 2009 (subject to the Directors varying the closing date in accordance with the Listing Rules and the Underwriting Agreement with Talbot Group Holdings Pty Ltd).

The table below sets out the number of issued shares at the date of announcement of the Rights Issue and the maximum number of issued shares at completion of the Rights Issue:

Ordinary Shares	Number
Number on issue as at 23 December 2008	93,517,051
* Maximum number to be issued under Rights Issue	31,172,350
* Number on issue following Rights Issue	124,689,401

** This is based on SAU's undiluted share capital and assumes that all shareholders take up their full entitlements under the Rights Issue. These figures are approximate as individual entitlements under the Rights Issue will be rounded up to the nearest whole figure.*

There are currently 9,020,000 options to subscribe for SAU shares on issue. Notice of the Rights Issue was sent to optionholders on 23 December 2008 in order to enable them to exercise their options prior to the Record Date and participate in the Rights Issue in respect of the shares underlying their options. If all or some of these options are exercised prior to the Record Date this will impact the maximum number of shares to be issued under the Rights Issue.

Shareholder approval is not required for the Rights Issue. Shares issued under the Rights Issue will be issued as fully paid and will rank equally with existing shares in SAU's share capital.

The Rights Issue does not have a sponsoring broker. The Rights Issue will be conducted without a prospectus in accordance with the new streamlined offering provisions of the Corporations Act.

The anticipated timetable for the Rights Issue is as follows:

EVENT	DATE
Announcement of rights issue – Announcement of rights issue, Offer Memorandum and ASX Appendix 3B lodged with ASX	Wednesday 24 December 2008
Ex date – The date on which Shares commence trading without the entitlement to participate in the Rights Issue	Tuesday 30 December 2008
Record date – the date for determining entitlements of Shareholders to participate in the Rights Issue	Tuesday 6 January 2009
Offer Memorandum sent to Shareholders – dispatch of Offer Memorandum and Entitlement and Acceptance Forms, and lodgment of cleansing notice – Rights Issue opens for acceptances	Monday 12 January 2009
Closing Date – The last day for receipt of acceptance forms (5.00pm Adelaide time)	Tuesday 27 January 2009
Securities quoted on a deferred settlement basis	Wednesday 28 January 2009
Shortfall notification date	No later than 30 January 2009
Dispatch date – Allotment of New Shares. Deferred settlement trading ends.	No later than noon (AEST) on Wednesday 4 February 2009
Expected commencement of normal trading in New Shares on ASX	Thursday 5 February 2009
Dispatch of holding statements to shareholders who accept the Offer	Monday 9 February 2009

SAU reserves the right to amend this timetable subject to the Listing Rules and the terms of the underwriting agreement with Talbot Group Holdings Pty Ltd.

You are encouraged to read the Offer Memorandum lodged with ASX on 24 December 2008 fully before making a decision in respect of the Rights Issue. If you have any queries in relation to the Rights Issue, you should consult your stockbroker or other professional adviser.

Yours sincerely



Greg Boulton
Chairman