

Southern Gold Limited

(ACN 107 424 519)

FINANCIAL REPORT

For the Half-Year Ended

31 December 2008

INDEX

	Page
Directors' Report	2
Auditors Independence Declaration	4
Consolidated income statement	5
Consolidated balance sheet	6
Consolidated statement of change in equity	7
Consolidated cash flow statement	8
Notes to the financial statements	9
Directors' Declaration	11
Independent Review Report	12

Directors Report

The names of the directors of the Company who held office during or since the end of the half-year were :

Gregory Colin Boulton Non Executive Chairman	-	BA(Accounting), FCA, FCPA , FAICD	
Stephen Richard Biggins Managing Director	-	BSc(Hons), MBA, M AusIMM, MASEG	
Michael Walsh McDonald Non Executive Director	-	LLB	(resigned 31 January 2009)
Michael Robert Billing Non Executive Director	-	BBus, ASA	
Mark Stephen Duffy Non Executive Director	-	B Eng(Hons), M Eng Sc	(appointed 2 March 2009)

Review of Operations

Exploration activities during the period included:

- Australia:
 - Results received from drilling programs on the Challenger Gold JV project. 3D modelling and interpretation of gold drill intersections have identified multiple plunging gold shoots analogous to the nearby Challenger mine
 - Gold drilling results from Bulong South project have identified two new prospect areas with substantial strike length
- Cambodia:
 - Detailed and regional soil sampling surveys are underway at the start of the 2008/2009 field season
 - A number of trenches have been excavated and sampled on the Kratie North and Kratie South Joint Venture projects fully funded by JOGMEC

The net result of operations for the half-year was a loss of \$1,734,251 (2007 \$1,245,984).

Subsequent Events

Since the end of the half-year the Company successfully completed the previously announced fully underwritten one for three rights issue which raised a total of \$1,558,618 before costs and expenses.

Other than the above no matters or circumstances have arisen since the end of the half year which significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or state of affairs of the consolidated entity in future financial years.

Auditors Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is attached.

Dated at Adelaide this 13th day of March 2009 and signed in accordance with a resolution of the directors.



S R Biggins
Managing Director



M R Billing
Director



Grant Thornton

**Grant Thornton South Australian
Partnership**
ABN 27 244 906 724

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

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 review of Southern Gold Limited for the half-year ended 31 December 2008, 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 review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at *Adelaide* on this *13* day of *March* 2009

Consolidated Income Statement for the half-year ended 31 December 2008

	Half-Year Ended 31/12/08 \$	Half-Year Ended 31/12/07 \$
Revenue from ordinary activities	179,732	136,438
Exploration expenditure written off	(242,967)	(189,860)
Salaries and wages	(574,055)	(180,984)
Directors fees	(95,216)	(86,667)
Audit fees	(8,593)	(2,000)
Legal expenses	(68,286)	(13,867)
Insurance expenses	(22,637)	(12,490)
Shareholder relations	(93,385)	(129,373)
Other consulting expenses	(144,506)	(133,799)
Other administrative expenses	(208,501)	(153,306)
Depreciation	(32,077)	(19,244)
Share based remuneration	(109,870)	(232,112)
Share of associate's loss	(313,890)	(195,990)
Loss from ordinary activities before income tax expense	(1,734,251)	(1,213,254)
Income tax expense relating to ordinary activities	-	(32,730)
Net Loss from ordinary activities	(1,734,251)	(1,245,984)
 Earnings Per Share		
Basic (cents per share) – (Loss)	(1.85)	(1.62)
Diluted (cents per share) – (Loss)	(1.85)	(1.62)

The above Income Statement should be read in conjunction with the accompanying condensed notes.

Consolidated Balance Sheet as at 31 December 2008

	Notes	Half-Year Ended 31/12/08 \$	Year Ended 30/6/08 \$
CURRENT ASSETS			
Cash and cash equivalents		366,708	1,734,659
Trade and other receivables		121,007	535,771
Other financial assets		401,686	335,657
TOTAL CURRENT ASSETS		889,401	2,606,087
NON-CURRENT ASSETS			
Exploration and evaluation expenditure		10,285,952	9,757,432
Plant and equipment		161,013	170,351
Investments accounted for using the equity method		351,256	665,146
TOTAL NON-CURRENT ASSETS		10,798,221	10,592,929
TOTAL ASSETS		11,687,622	13,199,016
CURRENT LIABILITIES			
Trade and other payables		322,964	511,847
Provision for employee entitlements		34,780	108,567
TOTAL CURRENT LIABILITIES		357,744	620,414
NON-CURRENT LIABILITIES			
Provision for employee entitlements		20,014	17,672
Deferred income		13,885	13,885
TOTAL NON-CURRENT LIABILITIES		33,899	31,557
TOTAL LIABILITIES		391,643	651,971
NET ASSETS		11,295,979	12,547,045
EQUITY			
Contributed equity		17,203,317	17,049,441
Reserves		1,715,993	1,386,684
Accumulated losses		(7,623,331)	(5,889,080)
TOTAL EQUITY		11,295,979	12,547,045

The above Balance Sheet should be read in conjunction with the accompanying condensed notes.

**Consolidated Statement of Changes in Equity for the half-year ended
31 December 2008**

	Share Capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2007	11,208,031	822,054	(2,784,615)	9,245,470
Profit / (Loss) attributable to members of parent entity	-	-	(1,245,984)	(1,245,984)
Movement in reserves	-	232,112	-	232,112
Issue of share capital	5,841,414	-	-	5,841,414
Balance at 31 December 2007	17,049,445	1,054,166	(4,030,599)	14,073,012
Balance at 1 July 2008	17,049,441	1,386,684	(5,889,080)	12,547,045
Profit / (Loss) attributable to members of parent entity	-	-	(1,734,251)	(1,734,251)
Movement in reserves	-	329,309	-	329,309
Issue of share capital	153,876	-	-	153,876
Balance at 31 December 2008	17,203,317	1,715,993	(7,623,331)	11,295,979

The above statement of changes in equity should be read in conjunction with the accompanying condensed notes.

**Consolidated cash flow statement for the half-year ended
31 December 2008**

Notes	Half-Year Ended 31/12/08 Inflows (Outflows) \$	Half-Year Ended 31/12/07 Inflows (Outflows) \$
Cash flows related to operating activities		
Interest received	33,224	67,989
Management fees received	30,728	70,396
Receipts from customers	85,121	-
Payments to suppliers and employees	(1,282,756)	(744,248)
Net operating cash flows	<u>(1,133,683)</u>	<u>(605,863)</u>
Cash flows related to investing activities		
Payments for mining tenements, exploration and evaluation expenditure	(863,526)	(4,095,748)
Reimbursement from co-venturers	652,987	1,128,295
Payments for plant and equipment	(7,605)	(40,692)
Net investing cash flows	<u>(218,144)</u>	<u>(3,008,145)</u>
Cash flows related to financing activities		
Proceeds from share issues	-	5,917,784
Payment for share issue costs	(16,124)	(109,100)
Net financing cash flows	<u>(16,124)</u>	<u>5,808,684</u>
Net increase/(decrease) in cash	(1,367,951)	2,194,686
Cash at beginning of financial period	1,734,659	3,540,889
Cash at end of financial period	<u>366,708</u>	<u>5,735,575</u>

For the purpose of the Cash Flow Statement, cash includes cash in hand and on deposit net of bank overdrafts.

The above Cash Flow Statement should be read in conjunction with the accompanying condensed notes.

Condensed Notes to the financial statements for the half-year ended 31 December 2008

1. BASIS OF PREPARATION OF ACCOUNTS

This half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 "Interim Financial Reporting", Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2008 and any public announcements made by Southern Gold Limited and its controlled entities during the half-year in accordance with continuous disclosure requirements arising under the *Corporations Act 2001*.

The half-year financial report does not include full disclosures of the type normally included in an annual financial report.

Southern Gold Limited (the "Company") is a company domiciled in Australia. The Consolidated half-year financial report of the Company as at and for the six months ended 31 December 2008 comprises the Company and its subsidiaries (together referred to as the "consolidated" entity)

Reporting Basis and Conventions

The half-year report has been prepared on an accruals basis and is based on historical costs.

2. SEGMENT INFORMATION

The economic entity operates in the mineral exploration industry in Australia and Cambodia.

2008	Australia	Cambodia	Consolidated
Revenue			
Interest Income	24,022	-	24,022
Other Income	128,165	27,545	155,710
	152,187	27,545	179,732
Expenditure			
	(1,546,551)	(367,432)	(1,913,983)
Loss from Ordinary Activities before Income Tax			
	(1,394,364)	(339,887)	(1,734,251)
Income Tax Expense	-	-	-
Net Loss			
	(1,394,364)	(339,887)	(1,734,251)
2007			
Revenue			
Interest Income	67,989		67,989
Other Income	68,449		68,449
	136,438	-	136,438
Expenditure			
	(1,349,692)		(1,349,692)
Loss from Ordinary Activities before Income Tax			
	(1,213,254)	-	(1,213,254)
Income Tax Expense	(32,730)		(32,730)
Net Loss			
	(1,245,984)	-	(1,245,984)

3. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no changes in contingent liabilities or contingent assets from those disclosed in the annual report for the year ended 30 June 2008.

4. SUBSEQUENT EVENTS

Since the end of the half-year the Company successfully completed the previously announced fully underwritten one for three rights issue which raised a total of \$1,558,618 before costs and expenses.

Other than the above no matters or circumstances have arisen since the end of the half -year which significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or state of affairs of the consolidated entity in future financial years.

5. ISSUE OF SECURITIES

During the half-year ended 31 December 2008, 1,000,000 (2007: 18,231,977) shares were issued as consideration for additional equity in 4 Cambodian tenements.

During the half-year ended 31 December 2008, 1,450,000 options were issued (2007; 750,000) over ordinary shares.

6. SHARE BASED PAYMENTS

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. Options generally vest at grant date and may be exercised at any time from the date of their issue to the date of their expiry. An exception to this occurred with the issue of 1,100,000 options in September 2008 which had a vesting period for 50% of the options of 1 January 2009 and the remaining 50% of the options of 1 June 2009. Share options are not listed, carry no rights to dividends and no voting rights.

During the period 1,450,000 (2007: 750,000) options to acquire shares were granted pursuant to this program.

Options were valued using the Black-Scholes model using the following inputs:

Options issued	350,000	550,000	550,000
Grant date share price	\$0.14	\$0.12	\$0.12
Exercise price	\$0.20	\$0.15	\$0.15
Calculated volatility	112%	115%	115%
Option expiry	31 May 2013	30 September 2013	30 September 2013
Risk free interest rate	7.47%	7.21%	7.21%
Fair value per option	\$0.1091	\$0.0962	\$0.0934

7. RELATED PARTIES

Arrangements with related parties continue to be in place. For details of these arrangements refer to the 30 June 2008 Annual financial report.

8. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the consolidated entity in this consolidated half-year financial report are the same as those applied by the entity in its financial report as at and for the year ended 30 June 2008.

9. CONTROLLED ENTITIES

There have been no changes to the group structure since 30 June 2008. Refer to the annual report as at 30 June 2008 for details of the group structure.

Directors' Declaration

Director's Declaration for the six months ended 31 December 2008

The directors declare that:

- 1) The financial statements and notes, as set out on pages 3 to 9 thereto;
 - a) comply with Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations; and
 - b) give a true and fair view of the economic entity's financial position as at 31 December 2008, and of its and performance for the half-year ended on that date.
- 2) 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



S R Biggins
Managing Director

Adelaide, South Australia
13th day of March 2009



M R Billing
Director



Grant Thornton

**Grant Thornton South Australian
Partnership**
ABN 27 244 906 724

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001
DX 275 Adelaide

T 61 8 8372 6666
F 61 8 8372 6677
E info@gtsa.com.au
W www.grantthornton.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SOUTHERN GOLD LIMITED

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Southern Gold Limited, which comprises the consolidated interim condensed balance sheet as at 31 December 2008, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during that half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards including the Australian Accounting Interpretations and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagement ASRE 2410: Review of an Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001.



Grant Thornton

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF SOUTHERN GOLD LIMITED Cont

Auditor's responsibility Cont

As the auditor of Southern Gold Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Southern Gold Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the Southern Gold Limited's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at *Odelaide* on this *13* day of March 2009