

21 December 2022

Yushra Haniff
Compliance Advisor
Listings Compliance (Sydney)
ASX Limited

By Email: ListingsComplianceSydney@asx.com.au

Dear Ms Haniff

Re: Southern Gold Limited ('SAU', 'Southern Gold' or the 'Company'): Annual Report Query

We refer to your letter dated 15 December 2022 and respond to each of your queries as follows;

- 1. Is SAU able to confirm that in the Directors' Opinion in the Annual Report:**
(a) complies with the relevant Accounting Standards and Interpretations issued by the Australian Accounting Standard Board (AASB); and
(b) gives a true and fair view of SAU's financial performance and position?

Yes the Company can confirm that the Directors' Opinion complies with all applicable Accounting Standards and Interpretations issued by the Australian Accounting Standard Board (AASB), other than Accounting Standard AASB128 Investments in Associates and Joint Ventures (as disclosed in the Annual Report), and the Directors are of the opinion that the Annual Report gives a true and fair view of SAU's financial performance and position.

- 2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that no adjustments were necessary in respect of the Group's proportional share of BMV's income and expenses for the year.**

The Directors were satisfied that no adjustments were necessary in respect of the Group's proportional share of BMV's income and expenses for the year on the basis that:

- 1) The requirement to equity account under Accounting Standard AASB128 Investments in Associates and Joint Ventures is based on a consideration of the facts as at reporting date, as to whether the Company has the ability to exert significant influence on BMV. Based on SAU's 24% share ownership of BMV along with SAU's contractual ability to nominate a director to the BMV Board (although SAU does not plan to exercise this right) technically creates an *ability* to exert significant influence under Accounting Standard AASB128. This is at odds with the reality, being BMV were not forthcoming with SAU's request for its financial information, BMV has its own public reporting requirements as a company listed on the LSE and the combined share ownership of the BMV Board exceeds SAU's ownership interest.

- 2) The Annual Report appropriately disclosed the background to the Company's inability to equity account for SAU proportionate share of BMV's loss for the 6 month period ending 30 June 2022 (refer Note 12 to the Annual Financial Statements, commencing on page 41 of the Annual Report 2021/22), *"the remaining holding of 150,000,000 BMV Shares represents 24% of the issued capital of BMV. With this interest being in excess of the 20% threshold for the application of equity accounting under Accounting Standard AASB128 Investments in Associates and Joint Ventures, the interest in BMV is disclosed as an investment in an associate, subject to equity accounting from that date. However, the Group only has the same access to BMV's financial and operating information as all other shareholders of BMV. As such, the Group does not have access to the financial information of BMV through to 30 June 2022 which means the Group is unable to equity account for its interest in the financial result for the period through to 30 June 2022, and is unable to disclose the summarised financial information of BMV as at 30 June 2022, as required under Accounting Standard AASB128 Investments in Associates and Joint Ventures."* (underline added)
- 3) In the financial statements as at 30 June 2022, the Company recognised an impairment expense against the carrying value of the BMV investment, determined by the higher of fair value and value in use. A value in use amount could not be determined using a sufficiently reliable estimate. Therefore fair value set the impairment amount, as explained in Note 12 *"An impairment expense of \$1,967,712 was recognised against the \$7,522,288 carrying value of the remaining 150,000,000 BMV shares. The impairment expense was calculated by reference to the \$5,554,576 fair value of these shares based on the LSE closing price on 30 June 2022 of £0.0210 and the GBP:AUD exchange rate of 0.5671 on that same date."* It was clear that, based on BMV's historical financial results and operations, any equity accounted proportionate share of the BMV loss for the 6 months ended 30 June 2022 was highly unlikely to exceed the \$1,967,712 impairment expense otherwise recognised.
- 4) BMV have subsequently released their financial results for the 6 months ended 30 June 2022. SAU's proportionate share of their reported loss would have been \$362,085. This would not have altered SAU's total reported loss for the period ended 30 June 2022, nor the carrying value of the BMV investment at 30 June 2022, as the impairment expense of \$1,967,712 (as noted above) had already written down the carrying value of the BMV investment by a greater amount.

3. What steps has SAU taken since the release of the Annual Report to obtain an unmodified audit opinion with regards to its future financial statements?

As noted above, subsequent to the lodgement of the Company's Annual Report on 27 September 2022, BMV have publicly released their financial statements on the London Stock Exchange on 30 September 2022. As explained above, there is no material impact on the financial results of SAU as reported for the year ended 30 June 2022.

The requirement to equity account, under Accounting Standard AASB128 Investments in Associates and Joint Ventures, at 31 December 2022 will need to again be reassessed on the facts at that date, as to whether the Company has the ability to exert significant influence.

If after considering the facts, Southern Gold determines technically it continues to have the ability to exert significant influence under Accounting Standard AASB128, then Southern Gold will again

request that BMV provide its financial information to through to 31 December 2022. However, the Company believes it is likely that BMV would again reject this request, noting that in the prior year BMV lodged its 31 December 2021 financial report on 30 June 2022. This being well after Southern Gold's reporting deadline of 15 March. Under this scenario, Southern Gold would again be in a position of not having access to the financial information required to equity account for BMV's most recent 6 month period.

It should also be noted that in an BMV LSE announcement on 8 December 2021, the company stated that its combined BMV Board ownership interest in BMV is 25.5%. This is in excess of SAU's current holding of 23%. This, together with BMV's own public reporting obligations as an entity listed on the LSE, underlines the difficulty in SAU exerting influence over BMV to report their results earlier so that SAU may equity account.

4. What steps does SAU intend to take to obtain an unmodified audit opinion with regards to its future financial statements?

Refer answer to Question 3 above.

5. Commenting specifically on the qualified opinion, does the board consider that SAU has a sound system of risk management and internal control which is operating effectively?

Yes the Board considers that SAU has a sound system of internal controls. As noted above, and as disclosed in the Annual Report, the only reason Southern Gold was not able to equity account for its proportionate share of the financial results of BMV was due to lack of access to BMV's financial information prior to Southern Gold's reporting deadlines for the most recent 6 month period. However, Southern Gold believes it has no real influence over their position in this regard.

6. Please confirm that SAU is complying with the Listing Rules and, in particular, Listing Rule 3.1.

Southern Gold confirms it is complying with the Listing Rules, in particular Listing Rule 3.1. There is no material information that has not otherwise been disclosed to the markets.

7. Please confirm that SAU's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of SAU with delegated authority from the board to respond to ASX on disclosure matters.

The Chairman of the Board and the Company Secretary have authorised and approved this response, with delegated authority from the Board to respond to the ASX on disclosure matters.

Yours sincerely



Ray Ridge
Company Secretary



15 December 2022

Reference: 65634

Mr Ray Ridge
Company Secretary
Southern Gold Limited
10 George Street
Stepney SA 2069

By email: RRidge@southerngold.com.au

Dear Mr Ridge

Southern Gold Limited ('SAU' or 'Group'): Annual Report - Query

ASX refers to the following:

- A. SAU's annual report for the year ended 30 June 2022 lodged with ASX Market Announcements Platform and released on 27 September 2022 ('Annual Report').
- B. ASX notes that the Independent Auditor's Report attached to the Annual Report ('Auditor's Report') contains a qualified opinion together with the following Basis for qualified opinion:

"The Group's investment in its associate, Bluebird Merchant Ventures Limited (BMV), is carried at \$5,554,576 on the consolidated statement of financial position as at 30 June 2022. The Directors did not gain access to the books and records of Bluebird Merchant Ventures Limited and, as a result, we were unable to obtain sufficient appropriate audit evidence to determine whether any adjustments were necessary in respect of the Group's proportional share of Bluebird Merchant Venture Limited's income and expenses for the year..."

Request for information

In light of the information contained in the Annual Report and the Auditor's Report, and the application of the Listing Rules, please respond to each of the following questions:

1. Is SAU able to confirm that in the Directors' Opinion the Annual Report:
 - (a) complies with the relevant Accounting Standards and Interpretations issued by the Australian Accounting Standard Board (AASB); and
 - (b) gives a true and fair view of SAU's financial performance and position?
2. Please explain the basis for and the factors considered by the Directors to satisfy themselves that no adjustments were necessary in respect of the Group's proportional share of BVM's income and expenses for the year.
3. What steps has SAU taken since the release of the Annual Report to obtain an unmodified audit opinion with regards to its future financial statements?
4. What steps does SAU intend to take to obtain an unmodified audit opinion with regards to its future financial statements?
5. Commenting specifically on the qualified opinion, does the board consider that SAU has a sound system of risk management and internal control which is operating effectively?

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6. Please confirm that SAU is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 7. Please confirm that SAU's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of SAU with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

This request is made under Listing Rule 18.7. Your response is required as soon as reasonably possible and, in any event, by no later than **9:00 AM AEDT Thursday, 22 December 2022**. You should note that if the information requested by this letter is information required to be given to ASX under Listing Rule 3.1 and it does not fall within the exceptions mentioned in Listing Rule 3.1A, SAU's obligation is to disclose the information 'immediately'. This may require the information to be disclosed before the deadline set out in the previous paragraph and may require SAU to request a trading halt immediately.

Your response should be sent to me by e-mail at ListingsComplianceSydney@asx.com.au. It should not be sent directly to the ASX Market Announcements Office. This is to allow me to review your response to confirm that it is in a form appropriate for release to the market, before it is published on the ASX Market Announcements Platform.

Trading halt

If you are unable to respond to this letter by the time specified above, you should discuss with us whether it is appropriate to request a trading halt in SAU's securities under Listing Rule 17.1. If you wish a trading halt, you must tell us:

- the reasons for the trading halt;
- how long you want the trading halt to last;
- the event you expect to happen that will end the trading halt;
- that you are not aware of any reason why the trading halt should not be granted; and
- any other information necessary to inform the market about the trading halt, or that we ask for.

We require the request for a trading halt to be in writing. The trading halt cannot extend past the commencement of normal trading on the second day after the day on which it is granted. You can find further information about trading halts in Guidance Note 16 *Trading Halts & Voluntary Suspensions*.

Suspension

If you are unable to respond to this letter by the time specified above, ASX will likely suspend trading in SAU's securities under Listing Rule 17.3.

Listing Rules 3.1 and 3.1A

In responding to this letter, you should have regard to SAU's obligations under Listing Rules 3.1 and 3.1A and also to Guidance Note 8 *Continuous Disclosure*: Listing Rules 3.1 – 3.1B. It should be noted that SAU's obligation to disclose information under Listing Rule 3.1 is not confined to, nor is it necessarily satisfied by, answering the questions set out in this letter.

Release of correspondence between ASX and entity

We reserve the right to release a copy of this letter, your reply and any other related correspondence between us to the market under Listing Rule 18.7A.

Questions

If you have any questions in relation to the above, please do not hesitate to contact me.

Kind regards

Yushra Haniff
Compliance Adviser, Listings Compliance (Sydney)