


**Shares**

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\*AUD:USD exchange rate of US\$0.722 assumed in this ASX release.

# Prior to any loan repayment and assumes A\$1500/oz Au

## Cannon Mine Improved Financial Outcomes

- 50koz Au recoverable at C1 Cash Cost of A\$981/oz (US\$708/oz\*)
- Open pit mine schedule compressed to 12 months
- Total A\$11.6 million<sup>#</sup> cash payments beginning CY2016Q4
- **Projected cash to Southern Gold is equivalent to 31.8c/share**

### Cannon Expanded Pit Budget and Financial Model Approved

Southern Gold Ltd ('Southern Gold', ASX Code "SAU") and development partner Metals X Ltd ('Metals X', ASX Code "MLX") have approved the detailed budget and financial model of an expanded Cannon open pit development. Cannon is Southern Gold's first gold mine located 30km east of Kalgoorlie, Western Australia. **(Figure 1)**

The revised economics are compelling and underpin cash projections of A\$11.6 million, or the equivalent of 31.8c per share, to Southern Gold under the conservative Metals X base case outlined in **Table 1** below.

**Table 1:** Metals X Estimates of Expanded Pit Scenario (M25/333 Only)

Pit Shell @ A\$1400/oz & Economics @ A\$1500/oz		Expanded Pit Total
Open Pit Mining	End Date	December 2016
Open Pit Ore Processing Complete	End Date	February 2017
Tonnes Mined	Tonnes	479,120
Head grade (fully diluted)	g/t Au	3.77
Mined Ounces	koz Au	58.04
Recovery (LOM average)	%	86.3
Recovered Ounces	koz Au	50.00
Infrastructure Cost (M25/333)	A\$m	\$1.13
<b>C1 Operating Cost</b>	<b>A\$/oz</b>	<b>\$981</b>
All In Sustaining Cost (AISC)	A\$/oz	\$1,014
Total Cash Cost/oz, including capital	A\$/oz	\$1,037
<b>Total Net Profit Share to SAU<sup>#</sup></b>	<b>A\$m</b>	<b>\$11.6</b>

Assuming this conservative MLX base case at A\$1500/oz gold price (note the first 10koz of gold has been fixed at A\$1500/oz, see ASX release 26 November 2015) and net margin of A\$463/oz, the **profit share to Southern Gold is projected to be A\$11.6 million<sup>#</sup> (31.8c per share)**. With a number of key performance factors providing potential upside, including a higher amount of gold ounces captured within the pit shell and a higher overall metallurgical recovery, the **profit share has the potential to increase A\$12-A\$15 million**. See page 3 for details.

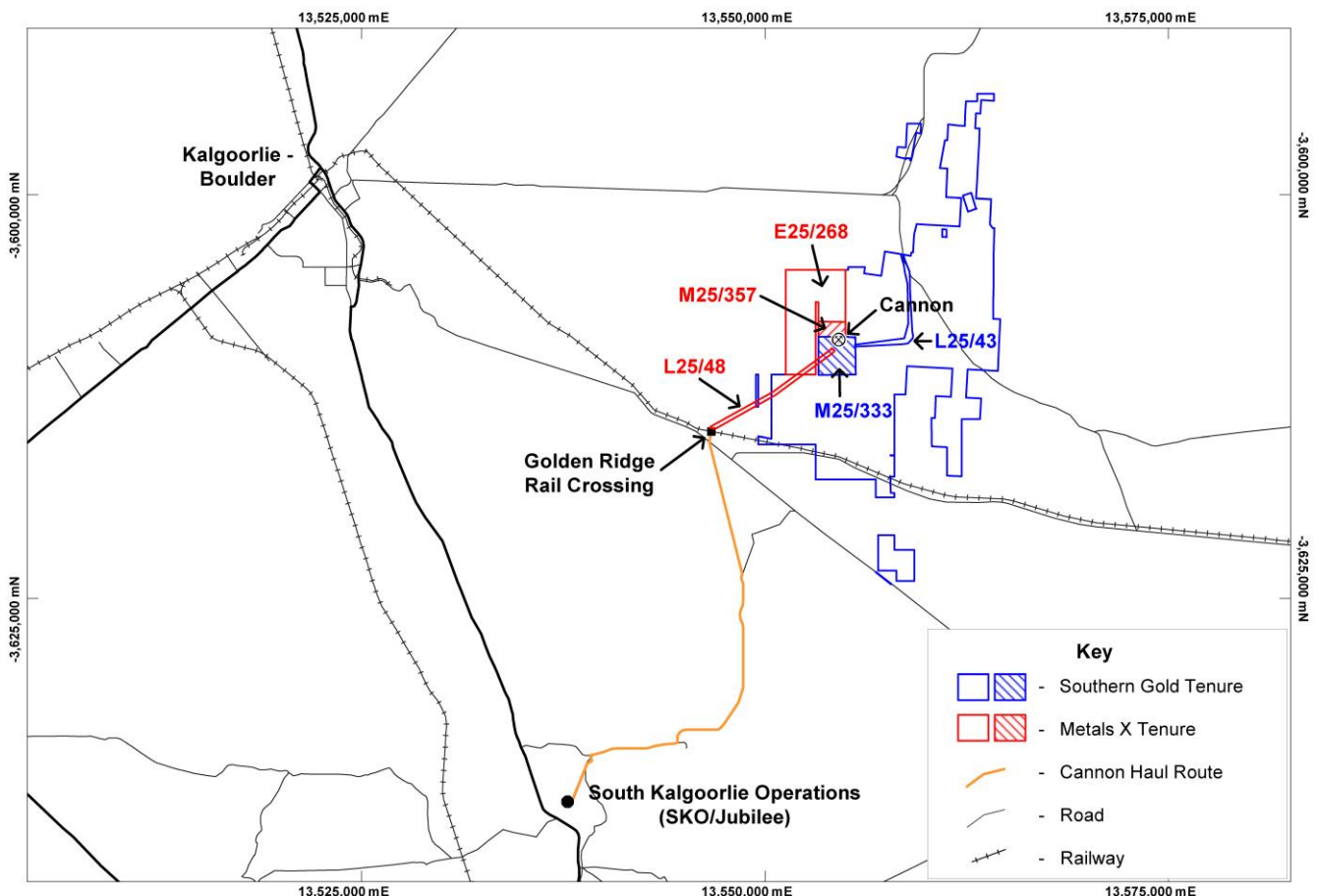
Southern Gold also has sufficient carried forward tax losses that can be applied against these profits reducing our tax liability to zero.

### Cannon Open Pit Mine

Southern Gold has finalised terms with Metals X on the larger open pit development of Southern Gold's Cannon deposit, approximately 30km to the east of Kalgoorlie (See ASX announcement 3/11/15). The Supplementary Deed to the Contracting and Finance Agreement provides a revised framework for Metals X to manage all mining, haulage and processing of Cannon open pit ore on a 50:50 profit share basis as an extension of the previous agreement made at the end of 2014.

Ore is mined at Cannon and hauled via the Golden Ridge Rail Crossing and then onto South Kalgoorlie Operations 'Jubilee' plant, some 35km away (**Figure 1**). In addition, Metals X is providing the project finance, including all up front capital, mine development and working capital requirements needed to manage the mine operations throughout 2016.

**Figure 1: Cannon Mine Location and Access**



With Metals X as operator and financier, Southern Gold has significantly reduced execution, operating and finance risk of the open pit project.

The current commercial arrangements do not cover any underground development but should the high grade zone at the base of the current pit shell continue at depth, Southern Gold believes there is a high probability of the operation moving into underground phase after completion of the open pit.

Financial analysis in this release excludes any consideration of the underground phase.

### The Expanded Open Pit Revised Economics

After execution of the Supplementary Deed, the detailed mine plan, budget and financial model has been developed by Metals X to capture the economic outcomes of the expanded pit scenario. This has now been agreed and the high level results presented in **Table 1** (Page 1).

The above analysis used A\$1400/oz gold price for the design of the open pit and A\$1500/oz gold price for the determination of economic outcomes. Southern Gold recently announced the sale of the first 10koz of production at A\$1500/oz (see ASX Release dated 26 November 2015) and this price is assumed going forward.

Significantly, operating costs of the expanded pit have reduced by approximately A\$100/oz and on a C1 basis are less than A\$1000/oz. Assuming a AUD:USD exchange rate of US\$0.722 the C1 operating cost of A\$981/oz is US\$708/oz and the AISC of \$1014/oz is US\$732/oz. With a total cost base, including capital, of A\$1037/oz this implies a current net profit margin in Australian dollar terms of A\$463/oz.

On this cost projection the Cannon open pit has a net profit margin of A\$463/oz, and assuming the MLX base case above, **net profit share to Southern Gold is \$11.6 million (prior to any MLX loan repayments) with a number of key performance factors proving some potential upside.** These factors include:

- A higher amount of gold ounces captured within the pit shell (Southern Gold resource estimation has 67.6koz Au within the pit shell);
- A higher overall metallurgical recovery (Southern Gold estimates long run recovery of 89%-90%); and
- The potential for JORC inferred and unclassified material to be captured within the open pit and be mined during the normal course of operations (Southern Gold estimates ~55kt of this material within the pit, although not all of it may be converted to ore during mining).

**Taking these factors into account Southern Gold estimates net profit share in the range of \$12 to \$15 million.**

Under the terms of the Metals X financing arrangement, all operations costs are recovered before net profit is paid to both parties on a 50:50 basis. The payment of the net profit is therefore projected to occur from the fourth quarter calendar year 2016 (CY2016Q4).

With 36.5m Southern Gold shares on issue the Metals X conservative projected net profit cash flow to Southern Gold of **\$11.6m is the equivalent of 31.8c per Southern Gold share.**

Furthermore, Southern Gold has accumulated gross tax losses of approximately \$24 million (see page 48 of the 2015 Annual Report for details) and as such does not expect to pay tax on this projected net profit share.

Southern Gold Ltd Managing Director, Simon Mitchell, commented: *“these newly announced financial outcomes on the expanded open pit are a fantastic outcome for Southern Gold. The integrated larger Cannon open pit operation with Metals X’s Georges Reward deposit results in compelling economics for both parties – in particular getting the C1 operating cost below A\$1000/oz. With projected cash flow to Southern Gold of more than 30 cents per share in the next 12 to 15 months, current share price levels represent a stark contrast to this underlying value.”*

### Southern Gold Limited: Company Profile

*Southern Gold Ltd is a successful gold explorer and producer listed on the Australian Securities Exchange (under ASX ticker "SAU"). The Company's main focus is its Bulong Gold Project located 30 km east of the world renowned gold district of Kalgoorlie (WA) with the flagship Cannon Gold Mine having 846kt @ 3.6g/t Au or 97koz gold defined in accordance with the JORC code, 94% of which is in the Measured and Indicated categories.*

*Mining at Cannon has commenced with Metals X Ltd financing and developing the deposit under a 50/50 profit share arrangement. Metals X is responsible for all mining, haulage and processing activities (ASX announcement 11/11/2014) with this mandate recently expanded to incorporate the commercial terms of a larger open pit development (ASX announcement 3/11/2015).*

*By monetising the Cannon Gold resource, the company will look to accelerate project development opportunities within its broader tenement holdings to ensure continuity of cash flow into the medium term.*

### Competent Person's Statements

*The information in this report that relates to Exploration Results has been compiled under the supervision of Mr. Ian Blucher (MAusIMM). Mr Blucher, who is an employee of Southern Gold Limited and a Member of the Australian Institute of Mining and Metallurgy, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for the Reporting of Mineral Resources and Ore Reserves. Mr Blucher consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.*

*The information in this report that relates to Cannon Mineral Resources is based on information compiled by Mr Ian Blucher (MAusIMM). Mr Blucher is an employee of Southern Gold Limited and has sufficient experience that is relevant to the style of mineralisation, type of deposit under consideration and to the activity being undertaken to qualify as a Competent Person as defined in the 2012 Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves" (JORC, 2012). Mr Blucher consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.*

### Forward-looking statements

*Some statements in this release regarding estimates or future events are forward looking statements. These may include, without limitation:*

- Estimates of future cash flows, the sensitivity of cash flows to metal prices and foreign exchange rate movements;*
- Estimates of future metal production; and*
- Estimates of the resource base and statements regarding future exploration results.*

*Such forward looking statements are based on a number of estimates and assumptions made by the Company and its consultants in light of experience, current conditions and expectations of future developments which the Company believes are appropriate in the current circumstances. Such statements are expressed in good faith and believed to have a reasonable basis. However the estimates are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from estimated results.*

*All reasonable efforts have been made to provide accurate information, but the Company does not undertake any obligation to release publicly any revisions to any "forward-looking statement" to reflect events or circumstances after the date of this presentation, except as may be required under applicable laws. Recipients should make their own enquiries in relation to any investment decisions from a licensed investment advisor.*