



Shares

ASX Code: SAUDA*

*Currently deferred settlement

*Reverts to 'SAU' 6 November

Issued: 35.17M

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Cannon 'Big Pit' Given the Green Light

- Southern Gold maintains 50% profit share on Cannon
- Metals X estimate open pit recovered gold +270% to ~50koz
- Significant cash flow (\$12-\$15m) in the next 12-18 months
- Metals X to provide additional \$2 million debt facility
- Metals X to provide a guaranteed gold price on first 30koz Au

Cannon's Second Salvo! Significant Expansion Imminent

Southern Gold Ltd ('Southern Gold', ASX Code "SAU") has come to an agreement with development partner Metals X Ltd ('Metals X', ASX Code "MLX") on the commercial and legal terms of an expanded Cannon open pit development 30km east of Kalgoorlie, Western Australia. The expansion has been made possible by the combination of the Cannon Mine with Georges Reward, a deposit to the north of Cannon recently acquired by Metals X. (**Figure 1**, next page)

The key terms agreed with Metals X in the newly executed Supplementary Deed to the Contracting and Finance Agreement ('SDCFA') for Cannon Resources are:

- The original 50% profit share arrangement is to apply to the Cannon larger open pit with Metals X providing 100% of the project funding and expertise to fully execute the larger development;
- Metals X will retain 100% of the Georges Reward deposit on mining lease M25/357 and exploit this as part of the combined open pit at their cost;
- Cost recovery at Cannon will remain the same, with the exception of certain costs that may apply to activities on both mining leases in which case these costs are allocated on a mined 'BCM' pro rata basis (i.e. relative mined volume);
- Because of the longer cost recovery period cash flow to Southern Gold will be delayed by approximately 6 months (4Q2016) and in recognition of this Metals X have agreed to provide further financial accommodation by extending an additional \$2 million in loan facilities to Southern Gold; and
- Metals X has also undertaken to provide Southern Gold with a quasi-put option exercisable at Southern Gold's election whereby a guaranteed price on the first 30koz of gold production is fixed at a A\$25/oz discount to the spot price.

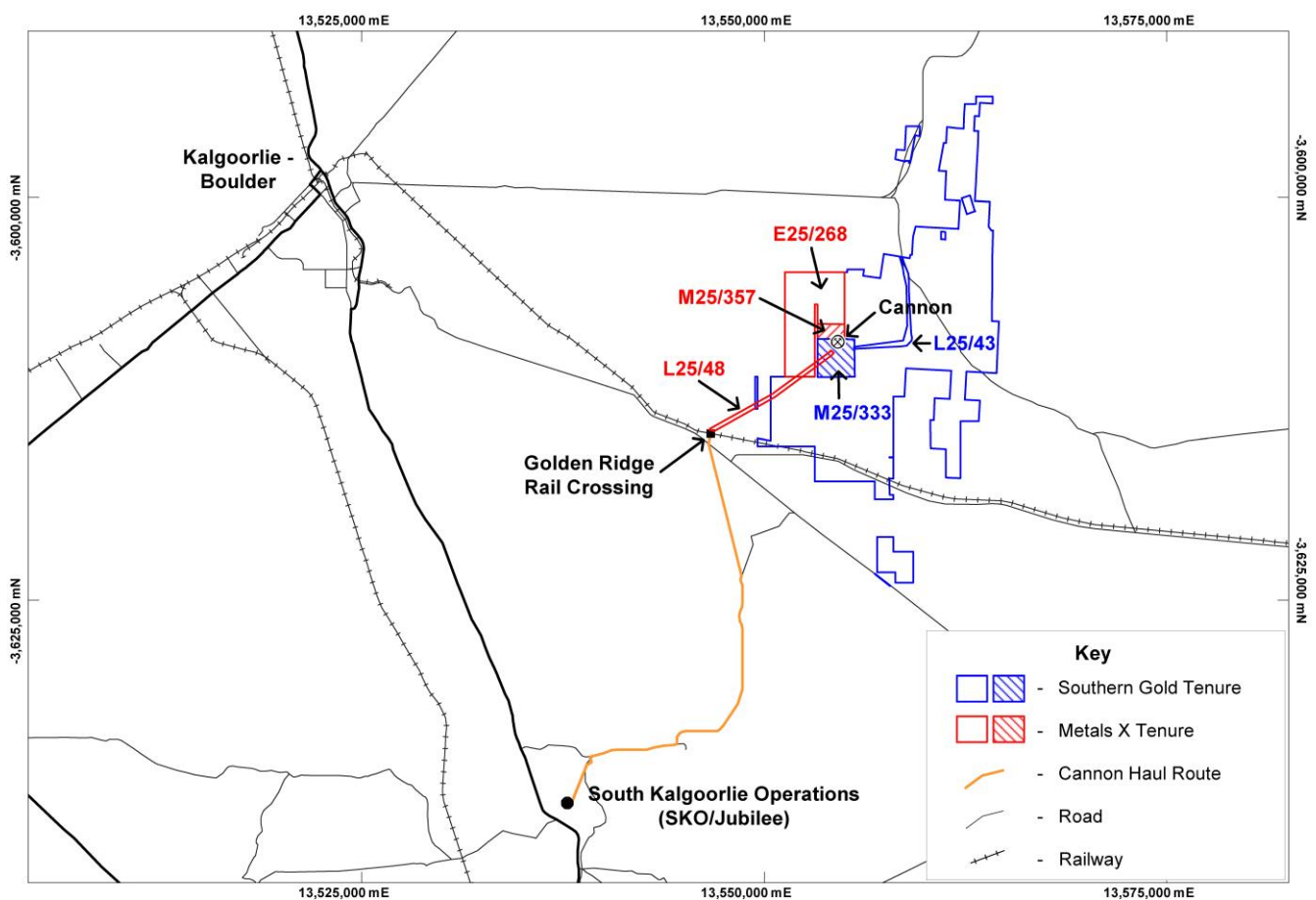
Commenting on the signing of the SDCFA, the Managing Director of Southern Gold Mr. Simon Mitchell, said:

"This is a cracker of a deal for Southern Gold. Not only does the combined open pit unlock additional high margin, high grade gold ore it does so under an extension of our current agreement with Metals X, at zero cost to Southern Gold and with special accommodation by Metals X to assist with our working capital and risk management regime. This deal hits all the right notes for Southern Gold shareholders: much more cash, prudent risk management and plenty of upside to come. And from my perspective this is just the beginning."

The Context – Metals X as Operator

At the end of last year Southern Gold finalised terms with Metals X on the potential open pit and underground development of Southern Gold’s Cannon deposit, approximately 30km to the east of Kalgoorlie (See ASX announcement 11/11/14). This provided a framework for Metals X to manage all mining, haulage and processing of Cannon ore on a 50:50 profit share basis. Ore was to be 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 were to provide all the finance of the project, including all up front capital, mine development and working capital requirements.

Figure 1: Updated Mine Site Plan



This arrangement has been supplemented by the new Supplementary Deed to the Contracting and Finance Agreement covering expanded open pit operations only. However the essential principals of development on a ‘at cost open book’ basis and Metals X providing the mine finance remain, with all ore still being processed through the Jubilee mill at a fixed rate on a unblended batched basis.

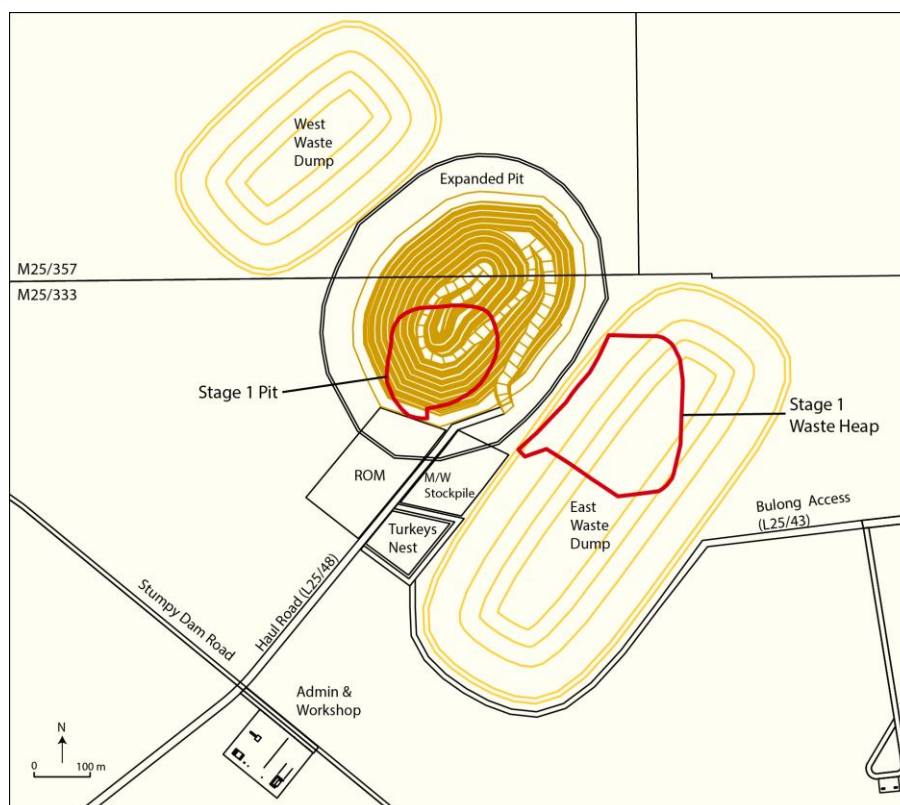
With Metals X as operator and financier, Southern Gold has significantly reduced execution, operating and finance risk of the project.

A critical development in recent times was the acquisition by Metals X of the adjacent Georges Reward deposit now on mining lease M25/357, just to the north of Southern Gold’s M25/333. This has enabled the development of a much larger ‘big pit’.

The “Big Pit” Scenario – More Open Pit Ore, Higher Margin

The Cannon open pit is about to enter into an exciting new phase. With the agreement on the ‘Big Pit’ scenario, Metals X can expand operations, increase the size of the mine fleet and achieve some benefits of scale (**Figure 2**, note original stage 1 open pit in red outline).

Figure 2: Updated Mine Site Plan



While Stage 1 was approved some months ago and has provided the framework of current mining activities, the project now has a Stage 2 which adds significantly to the base ‘physicals’ of the Cannon pit (**Table 1**).

Table 1: Updated Physicals on Expanded ‘Big Pit’ Scenario on M25/333 Only, Metals X Estimates

		Stage 1	Stage 2	Big Pit Total
Mine Life	Months	9	19	19
Tonnes Mines	Tonnes	152,352	315,376	467,728
Head grade	g/t Au	3.1	4.11	3.78
Mined Ounces	oz Au	15,209	41,638	56,847
Recovery (average)	%	89	85.5	86.4
Recovered Ounces	oz Au	13,495	35,457	48,952
Infrastructure Cost (M25/333)	A\$m	\$0.89	\$0.34	\$1.23
C1 Operating Cost	A\$/oz	\$1,053	\$1,105	\$1,091
All In Sustaining Cost (AISC)	A\$/oz	\$1,084	\$1,147	\$1,130
Total Cash Cost/oz, including capital	A\$/oz	\$1,150	\$1,158	\$1,156

Stage 1 projected a recovery of 13.5koz gold at an AISC of \$1084/oz. Current modelling of the expansion has additional Stage 2 recovered gold of 35.5koz at an AISC of \$1142/oz with total gold recovered on M25/333 under the 'big pit' scenario of approximately 49koz gold at an AISC of \$1130/oz. Additional capital costs are minimal on the expanded pit, currently estimated at \$340,000 attributable to M25/333.

Total operating costs have not changed from that of the smaller Stage 1 pit principally due to the higher strip ratio on the Stage 2 expansion pit approaching a 20:1 ratio. Notwithstanding this higher strip ratio, the average grade of Stage 2 on M25/333 at 4.11g/t Au is significantly higher than the 3.1g/t for Stage 1.

This economic summary also specifies a very conservative recovery figure of 85.5% for the Stage 2 ore. While further test work is being completed to provide greater clarity on the recovery figure going forward, Southern Gold uses a range of 89%-92% recovery for fresh ore. If recovery averages closer to 90% Life of Mine, then total gold recovered is expected to lift from the currently projected ~49koz to ~51koz Au.

The net cash margin taking into account all costs, including capital, is currently around ~\$425-\$475/oz at the current gold price of ~\$1575-\$1625/oz. **On an unhedged current pricing basis this implies a 'base case' cash flow to Southern Gold of around \$11-\$12 million in the next 12-18 months with plenty of potential upside.**

The Potential Upside

There is inherent conservatism in the above economic estimates and Southern Gold believes the final performance of the operation could be significantly improved due to the following factors:

- Metals X resource estimation techniques result in a much more conservative view of contained gold in the open pit. For example, table 1 above indicates the Metals X estimate of gold within the pit is 467.7kt @ 3.78g/t containing 56.8koz Au (with 49koz recovered after metallurgical recovery of 86.4%). The Southern Gold estimate inside the same pit shell in the Measured and Indicated categories is 538.1kt @ 3.91g/t Au **containing 67.6koz Au** (or ~60koz after metallurgical recovery of 90%);
- As mentioned in the recent Quarterly Report, in pit grade control drilling and good mine geology practice is enabling the capture of mineralisation either classified as Inferred under the JORC system and/or is currently unclassified but nevertheless being sent to the ore pad. Southern Gold estimates **a minimum of 55kt** of this sort of material inside the new pit design and a proportion of this may be converted to ore;
- Mine dilution is currently being assumed at 20% but recent work and experience in the Stage 1 pit suggests this might be closer to 15%; and
- Variable costs, including costs of mining, drill and blast and haulage, have a 5% contingency added, ensuring very high confidence that the operating cost guidance should be improved upon execution.

Taking these factors into account and assuming a metallurgical recovery of 90%, Southern Gold estimates recovery of ~61koz Au and a net profit share approaching \$15 million, potentially more, at the current gold price. This analysis does not take into account what an underground phase might generate after the Stage 2 pit.

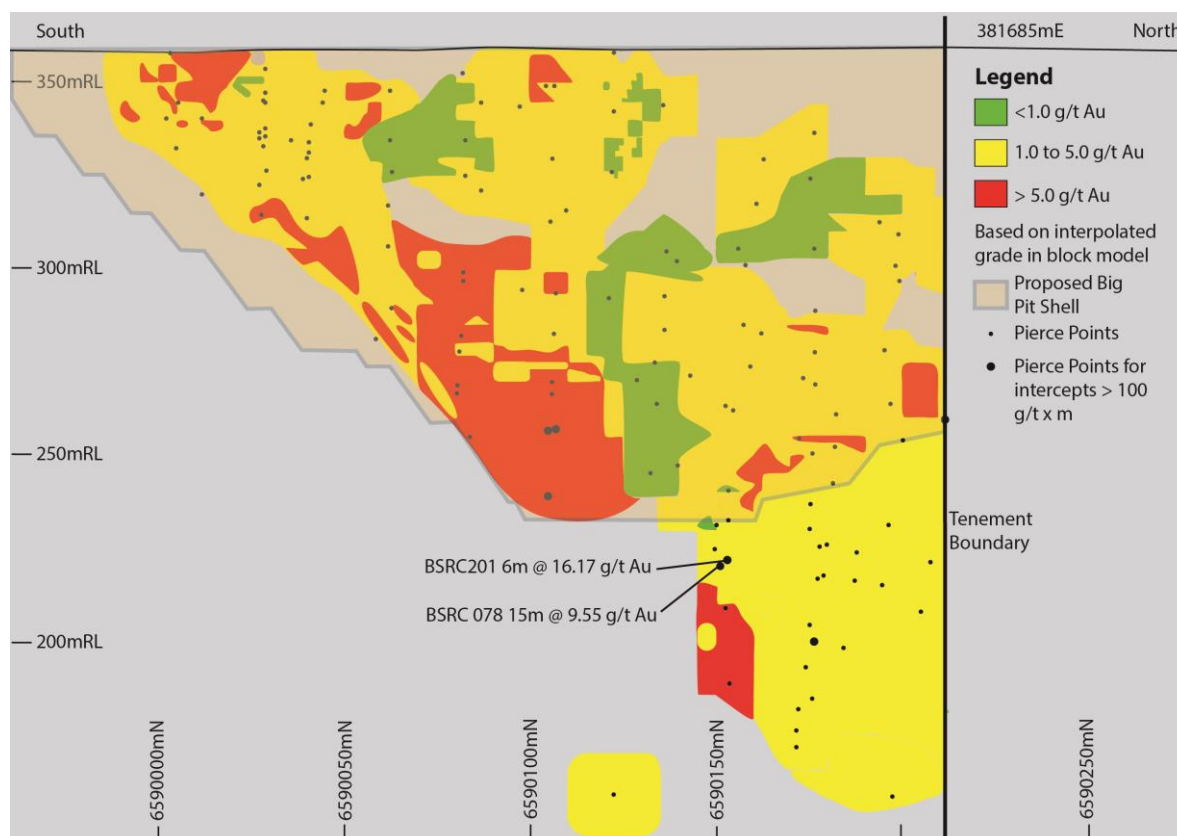
Underground development still an option

The newly executed SDCFA provides a framework for the development of the larger open pit only, with each party retaining 100% of their respective mining leases (for MLX this is M25/357 and for Southern Gold this is M25/333). Any combined underground development to be contemplated by the parties would require the negotiation of a new agreement but both Metals X and Southern Gold have left this option open.

The SDCFA also provides for the possibility of each party undertaking an underground development in their own

right and provides for mutual access rights for each party to facilitate separate independent activities on their own tenement.

Figure 2: Long Section of Cannon (excludes Georges Reward) and larger Open Pit Outline, Looking West



The portion of the Cannon JORC Resource that remains outside the current pit shell is **240kt @ 3.23 g/t Au** for a **total of 25koz** in all categories. In detail the residual resource outside the pit shell is shown in Table 2 below.

Table 2: Cannon JORC Resource Outside the Open Pit Shell (Southern Gold Estimate)

JORC Category	Tonnes	Grade g/t	Au Ounces
Indicated	215,128	3.39	23,451
Inferred	24,893	1.86	1,491
Total Indicated and Inferred	240,020	3.23	24,942

The Cannon deposit is still open at depth and more drilling is required below the current open pit limit. Southern Gold intends to complete more drilling to define potential underground development targets. As highlighted in various recent corporate presentations the grade and width tenor below the pit is excellent. (e.g.: 6m @ 16.17g/t Au in BSRC201 and 15m @ 9.55g/t Au in BSRC078)

MLX Additional \$2m Loan Facility Gives Southern Gold Strategic Flexibility

The larger pit development with its higher strip ratio means that it takes longer to pay back the Metals X finance. However, on the positive side, the amount of net profit is much larger and the amount of cash payable to Southern Gold nearly quadruple what was originally contemplated under the smaller Stage 1 pit scenario.

In recognition of this delay in cash flow, Metals X has agreed to provide further financial accommodation by effectively extending their current \$0.5 million loan to Southern Gold by an additional \$2 million. These additional facilities are available in four (4) \$500,000 tranches with drawdown allowed on a calendar quarter basis, starting

in the quarter the pre-conditions are satisfied. These pre-conditions that trigger facility availability are:

- the Combined Open Pit has an approved program and budget; and
- registration of a new mortgage over the Cannon tenement as security for the additional facility.

While this loan facility will be put in place to provide Southern Gold with a source of finance should it be needed, drawdown in the short term is not currently anticipated.

Managing Gold Price Risk – MLX Provide an Option to Fix a Guaranteed Price

A new provision included in the SDCFA is the ability of Southern Gold to elect to fix the price of the first 30koz of gold production from Cannon. Similar to a put option, Southern Gold retains the right to elect to fix the gold price at an A\$25/oz discount to the prevailing spot price at the time of exercising the option. For example, if exercised on 30 October, the fixed price would have been \$1610/oz (\$1635 less \$25).

The option to fix the price becomes available to Southern Gold on or after a program and budget for the combined open pit is approved by the Operations Committee, expected in the next few weeks. The quantum of gold covered by the guaranteed price mechanism is approximately 60% of the production of the combined open pit on M25/333 (i.e. the Southern Gold side). Fixing the price at around current spot price levels would see most of the project costs covered and effectively remove gold price risk with respect to cost recovery.

Processing of Cannon Ore Begins

Processing of the first ore from the Stage 1 Cannon pit commenced on 2 November at Metals X SKO Jubilee plant. Approximately 39kt of ore was on the SKO ROM ('Run of Mine') pad with a further ~30kt awaiting transport on the Cannon ROM pad. First gold pour is anticipated to be held on Tuesday 10 November and marks an **important milestone for the company as it transitions from explorer to producer.**

Photo 1: Status of the Cannon Open Pit at 335mRL on 26th October (approx. 30m deep, looking south)



Is there life after Cannon?

In addition to looking at underground development options at Cannon from mid-2017, Southern Gold is also looking at a number of additional opportunities to add to the asset base of the company and give an alternative potential production source in the medium term. This may come organically from our significant project footprint in the Kalgoorlie region or via other external opportunities. Opportunities that are attractive and currently under consideration are those which can be moved into JORC Resource classification relatively quickly and ultimately monetised at modest capital cost.

Southern Gold anticipates updating the market on this initiative shortly.

Southern Gold Limited: Company Profile

Southern Gold Ltd is a successful gold explorer listed on the Australian Securities Exchange (under ASX ticker “SAU”, temporarily “SAUDA” while under deferred settlement during consolidation). 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 Measured & Indicated.

After a Pre-Feasibility Study demonstrated the Cannon Gold Resource could generate robust cash flows and a positive economic return (ASX Announcement 13/02/2014) the company entered into an agreement with Metals X Ltd to finance and develop 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) This arrangement has now been updated to include the possibility of a much larger open pit development incorporating Metals X Georges Reward deposit to the north. (ASX Announcement 2/11/2015)

Southern Gold is currently focused on ensuring cash flow from the Cannon Gold Mine as it moves into production in 2015 and this will act as the foundation to build a longer-term gold exploration and production business. By monetising the Cannon Gold resource, the company will be ideally placed to accelerate exploration within its broader tenement holdings. Southern Gold has identified over 30 exploration targets which will underpin the future growth of the Company.

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.