SOUTHERNGOLD

ASX Announcement
1 September 2014

ASX

ASX Code: SAU

Issued Shares: 386M

ABN: 30 107 424 519

Directors

Greg Boulton AM

Nanette Anderson

Michael Billing

David Turvey

Top Shareholders

Silver Lake Resources Ltd 11.21%

G B Branch 7.03%

JP Morgan Nominees 4.28%

National Nominees 3.03%

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Southern Gold proceeds along Development Pathway for Cannon with Metals X, as Silver Lake Resources waives Pre-Emptive right.

Southern Gold Ltd (ASX: **SAU** – "Southern" or "the Company) announced on the 4 August 2014, that it had secured a near-term development pathway for its **Cannon Gold Project**, located 30km from Kalgoorlie in WA, after signing a non-binding term sheet with Metals X Limited (ASX: **MLX** – "Metals X") to finance, mine and process ore from the deposit.

The signing of the Mine Finance and Profit Share term sheet ("Term Sheet") triggered the pre-emptive right held by Silver Lake Resources Limited (ASX: **SLR** – "Silver Lake"), which is a right to match or better any third party offer to purchase, treat or sell ore or dore derived from the Cannon Gold deposit or the purchase of the resource mining lease.

Silver Lake has provided confirmation that they waive their pre-emptive right, allowing Southern Gold to move forward with its development plans and as soon as practicable, work co-operatively to finalise a binding Mine Finance and Profit Sharing Agreement to fully document the proposed transaction, based on the agreed terms set out in the Term Sheet.

The Term Sheet proposes a mine finance and profit sharing agreement to develop and mine the Cannon gold deposit. The arrangement will see Metals X manage all services required for mining, haulage and treatment (Operating Activities) of ore from the Cannon deposit in accordance with approved budgets and programs. Operating Activities will be charged on an at-cost, open-book basis for the duration of open pit mining and/or underground mining.

Additionally under the Term Sheet, as the Silver Lake pre-emptive right has been waived, Metals X will provide Southern Gold with a loan facility for $500,000 to fund pre-development costs and regulatory approvals.

Southern Gold Managing Director Nanette Anderson said the Company was pleased to have the opportunity to work with an experienced, well-funded and technically capable mining company such as Metals X in order to unlock the value of the Cannon gold resource for its shareholders.

"Now that the pre-emptive right has been waived, this provides Southern with a clear pathway to make the transition from gold explorer to gold producer" she said. "Importantly, Metals X has agreed to provide us with pre-development funding, which in turn minimises dilution of existing shareholders in the current market environment.

"Coupled with our recent progress in securing a number of key regulatory approvals and in an improving gold price environment, the signing of this Term Sheet puts Southern Gold in a strong position to press ahead with development of the Cannon resource, paving the way for near-term production and cash flow and a platform for us to grow the Company through exploration success and development of the Stage 2 underground project."

As announced earlier in the year (ASX 13/02/2014) results from Southern Gold's pre-feasibility study on the Cannon Gold deposit demonstrated forecast free surplus cash flow estimates as set out in the following table. These have been calculated at a nominal gold price, after infrastructure and operating costs, but do not include any potential cost benefits that may be achieved under the terms of the Finance and Profit Share Term Sheet.

Table 1 – Cannon Pre-Feasibility Forecast Free Surplus Cash Flow

(see ASX 13/2/14 and 28/8/2013 for details)

Item	Units	Revised Costs Scenario 1 A$1,350/oz Au	Revised Costs Base Case A$1,400/oz Au	Revised Costs Scenario 2 A$1,500/oz Au
Mine Life (Phase 1 & 2)	Months	36	**36**	36
Mined Ounces[1]	oz Au	68,200	**68,200**	68,200
Recovery (ave)	%	92	**92**	92
Operating Cost (C1)	A$/oz	964	**964**	964
WA State Royalty[2]	%	2.5	**2.5**	2.5
Free surplus cash flow [3]	A$M	9.3	**12.4**	18.5

Note 1: Mined ounces and grade calculated, based on cut-off grade from $1400/oz base case scenario.

Note 2: WA State Royalty of 2.5% is applied to all ounces produced after the first 2,500 oz produced in each financial year.

Note 3: See ASX Announcement 13 February 2013 for details

CONTACT

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Managing Director

Pre-Feasibility Study Results

The Optimisation announcement dated 13 February 2014 had no material changes to the methodology and assumptions used to determine the production target as detailed in the PFS announcement of 28 August 2013, and all of the key parameters continue to apply. The Optimisation announcement provided an update to the market of the reduction in the forecast operating costs. There have been no material changes to the methodology used to determine the operating costs as outlined in the PFS announcement.