



ASX Code: SAU

Issued Shares: 386M

ABN: 30 107 424 519

Directors

Greg Boulton AM

Nanette Anderson

Michael Billing

David Turvey

Top Shareholders

Silverlake Resources Ltd 11.21%

G B Branch 7.03%

JP Morgan Nominees 4.28%

National Nominees 3.03%

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Southern Gold Sets Development Pathway for Cannon Gold Project through agreed Term Sheet with Metals X

Teams up with experienced mining company to develop Kalgoorlie deposit

HIGHLIGHTS

Southern Gold (SAU) signs Mine Finance and Profit Term Sheet with Metals X (MLX), with key terms proposing that:

- Metals X finances the development of Southern Gold's Cannon gold resource;
- Provides a \$500,000 secured loan facility for the pre-development activities;
- Positive free cash flow to be distributed on a 50:50 basis between the parties;
- Operations managed by Metals X's experienced technical team;
- Ore to be processed at Metal X's Jubilee plant on an at-cost basis;
- Arrangement subject to completion of detailed agreement;
- Pre-emptive right held by Silver Lake Resources (SLR) triggered.

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

The two companies propose under the term sheet that they enter into a mine finance and profit sharing agreement to develop and mine the Cannon gold resource.

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.

Under the arrangement, the parties will aim to complete the Phase 1 development of the open pit within 12 months of commencement, with an option at that point for the parties to agree to proceed with the Phase 2 underground development.

The arrangement with Metals X provides Southern with the opportunity to reduce project risk by working with an experienced and well-funded mining company to develop the Cannon Gold Project. Metals X has a dedicated technical team with experience in both toll-treatment and mine development, which will considerably reduce operational risks.

Pursuing a staged development approach for the Cannon Project is expected to significantly reduce Southern's up-front capital investment, thereby reducing shareholder dilution. It is anticipated that positive cash flows from the Phase 1 open pit development will underpin the Company's growth and establish a foundation for the Phase 2 underground development. The current feasibility study estimates that approximately 20,000 ounces of gold will be produced in Phase 1 from the total mining inventory of 68,000 ounces (ASX, 29/08/2013).

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.

"This is a great outcome for Southern Gold, as it provides a pathway for us to make the transition from gold explorer to gold producer with much lower project risk in partnership with an experienced mining company," she said. "Importantly, Metals X have agreed to provide us with pre-development funding, which in turn minimises dilution of our 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."

PRE-EMPTIVE RIGHT HELD BY SILVER LAKE RESOURCES

The signing of the Mine Finance and Profit Share term sheet triggers the pre-emptive right held by Silver Lake Resources Ltd (ASX: SLR), 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 resource or the purchase of the resource mining lease. The pre-emptive right is to be exercised or waived by 22/8/2014.

If SLR elects to waive its pre-emptive right, then Metals X and Southern Gold will, 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.

Additionally under the term sheet, if the SLR pre-emptive right is waived, Metals X will provide Southern Gold with a loan facility for \$500,000 to fund pre-development costs.

BACKGROUND - PFS OPTIMISATION UNLOCKS FURTHER VALUE AT CANNON PROJECT

Southern Gold completed a positive Pre-Feasibility Study (PFS) on the Cannon Gold resource in September 2013, confirming the viability of an open pit and underground development strategy and toll-treatment scenario. The resource is located within the Company's Bulong Project area, situated 30km south-east of Kalgoorlie, and is within economic haulage distance of a number of third party gold processing facilities (Figure 1).

On the strength of the positive results of the PFS, the Company's Board made the decision to proceed with developing the Cannon resource (ASX, 29/08/2013), subject to financing and regulatory approvals, with the objective of commencing mining operations in 2014.

Since then it has made significant progress towards achieving this goal.

Following detailed discussions with mining and transport contractors and processing operators, Southern was able to further refine operating costs and optimise a number of parameters, including alternative haulage routes. The results of this work have significantly strengthened project economics (ASX, 13/02/2014).

The key outcome of these changes is a reduction of the operating costs to A\$964/oz. Based on the current mine plan and the reduction in the cost inputs, there is also a significant impact on the forecast free surplus cash flow from A\$8.02 million to an estimated A\$12.4 million, as set out in Table 1 below.

The forecast free surplus cash flow estimates in the following table are 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 Metals X Mine Finance and Profit Share Term Sheet.

Table 1 – Forecast Free Surplus Cash Flow

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

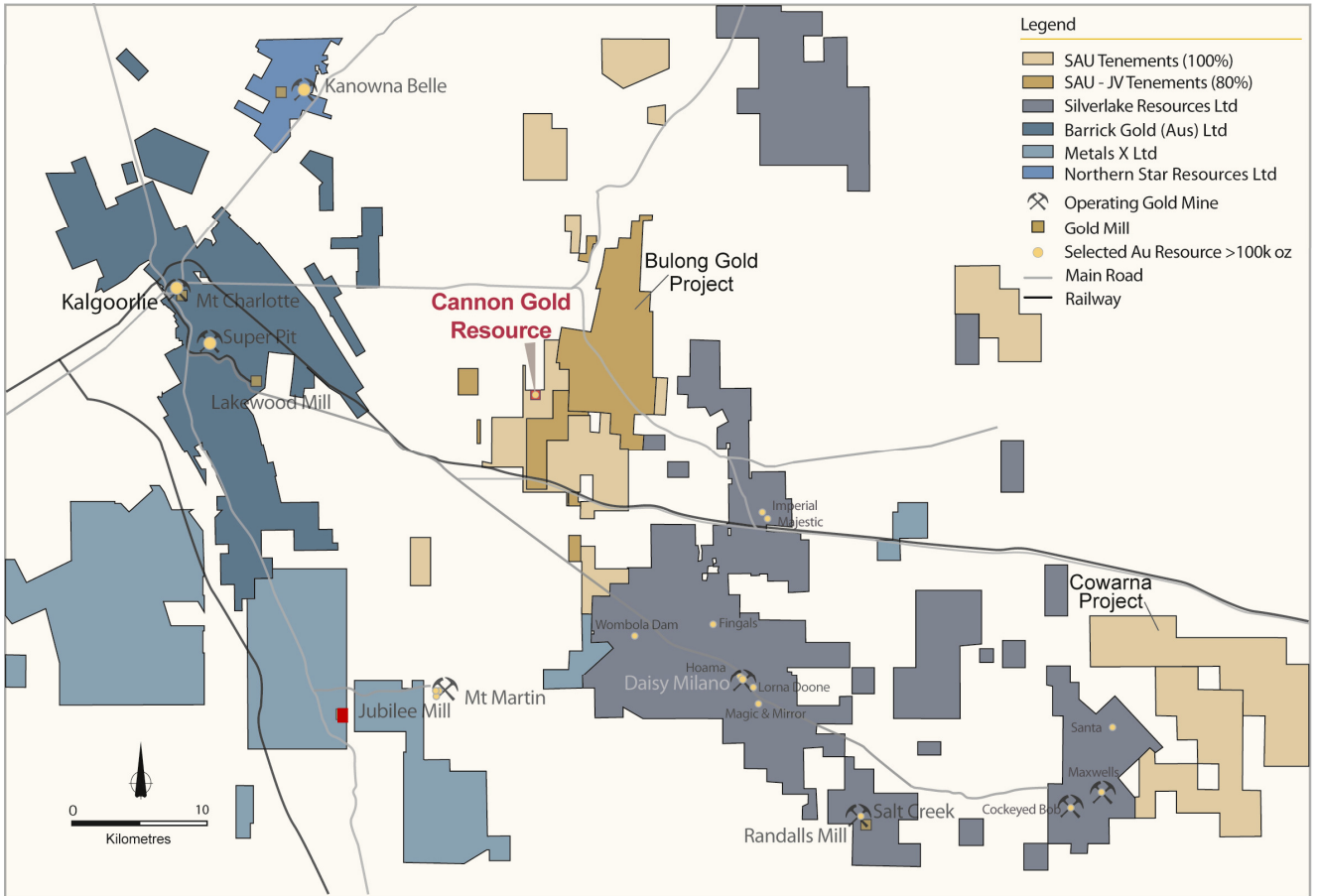


Figure 1. Southern Gold's tenement holding. The Bulong Project is located 30km east of Kalgoorlie, WA. The map shows the proximity of Southern Gold's tenements to neighbouring tenements held by companies with market capitalisations greater than \$70m. It also shows the proximity to Metals X's Jubilee Mill.

CONTACT

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Competent Person's Statements

The information in this report that relates to Mineral Resources is based on information compiled by Mr Ian Blucher (MAusIMM). Mr. Blucher is a full time 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.

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.