ASX

ASX Code: SAU

Issued Shares: 346M

ABN: 30 107 424 519

Directors

Greg Boulton AM

Nanette Anderson

Michael Billing

David Turvey

Top Shareholders

Silverlake Resources Ltd 11.22%

G B Branch 7.03%

JP Morgan Nominees 4.28%

National Nominees 3.03%

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COST REDUCTIONS & OPTIMISATIONS DELIVER IMPROVED FINANCIAL OUTCOMES FOR CANNON GOLD PROJECT, WA

Significant reductions in forecast operating costs compared with 2013 PFS

Highlights

- Optimisation of 2013 Pre-Feasibility Study on the Cannon Gold Project delivers a number of positive outcomes including:
    - *A reduction in forecast C1 cash operating costs to* ***A$964 per ounce****;*
    - *Improved economics with forecast* ***A$12.4M*** *free surplus cash flow at a gold price of A$1,400 per ounce (current spot price = A$1,429 per ounce).*
- Enhancements flow from discussions with contractors, industry-wide cost reductions and optimisation of haulage routes for the proposed toll-treatment operation at Cannon.
- Infrastructure costs remain low at $13.6M comprising mainly underground mine development ($11.7M).
- Significant mine permitting milestone achieved in January with the approval by the Western Australian Department of Mines and Petroleum (DMP) of the Cannon Project Management Plan.
- Cannon Project Mining Proposal on schedule to be lodged in line with the regulatory timeline. This progress represents another key step towards completing regulatory approvals and commencing project development, subject to finance.

Southern Gold Ltd (Southern Gold or the Company) is pleased to announce that it has taken another important step towards development of its 100%-owned Cannon Gold Resource, located 30km south-east of Kalgoorlie in WA, after completing an optimisation of the 2013 Pre-Feasibility Study (PFS).

The updated PFS, which incorporates industry-wide cost reductions, optimised haulage routes and discussions with contractors, has resulted in lower forecast operating costs and significantly improved forecast free cash flows.

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The encouraging results of the PFS optimisations, coupled with continued strong progress in securing key regulatory approvals and an improving gold price environment, puts the Company in a strong position to press ahead with development of the Cannon Project this year.

PFS OPTIMISATION UNLOCKS FURTHER VALUE

Southern completed a positive Pre-Feasibility Study (PFS) on the Cannon Gold resource (see Table 2 below) in September 2013, confirming the viability of an open pit and underground development strategy and toll-treatment scenario. Cannon is located 30km south-east of Kalgoorlie, within economic haulage distance of a number of third party mills (Figure 1).

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

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

Following recent detailed discussions with mining and transport contractors and processing operators, Southern has been 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.

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 before financing costs.

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$1,500/oz Au
Mine Life	Months	36	**36**	36
Mined Ounces[1]	oz Au	68,200	**68,200**	68,200
Recovery (ave)	%	92	**92**	92
Operating Cost (C1)	A$/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: Finance charges will apply once funding options have been finalised.

Project permitting remains on track with the Project Management Plan and Abstraction Licence recently approved and the Cannon Project's Mining Proposal in the final stages of preparation.

Additional Opportunities for Increasing Value

Significantly, reductions in operating costs have the potential to lower the economic cut-off grade of the mine development. If this proves to be the case, there is potential for additional ounces to be added to the mining inventory over and above the 68,200oz of gold established as mineable by the PFS.

Reductions in a number of key cost inputs also suggests that the changed conditions in the mining industry in general, including increased availability of contractors and specialist staff is also likely to result in additional savings as project optimization and development progresses.

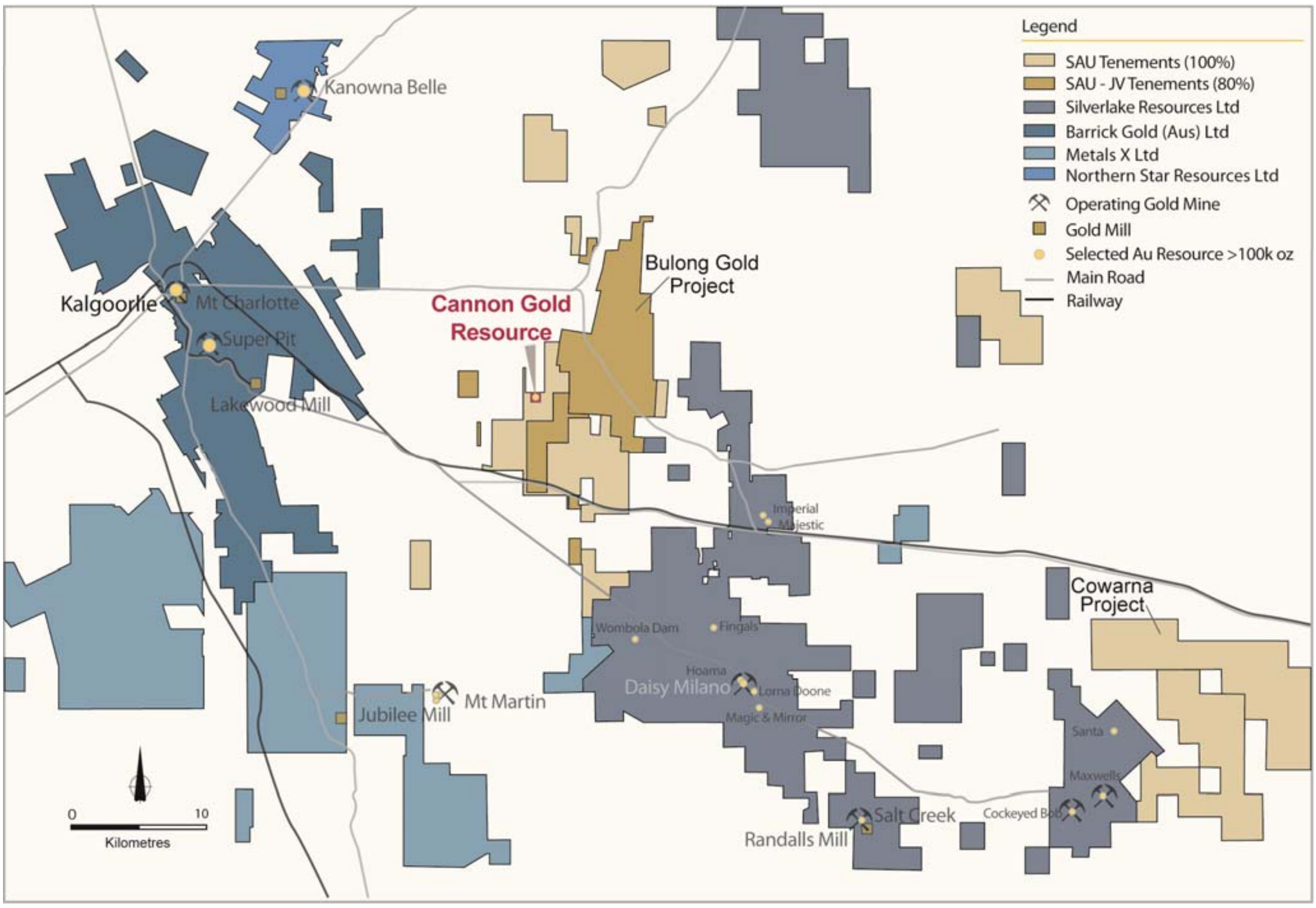

Figure 1. Southern Gold's tenement holding. The Bulong Project is located 30km east of Kalgoorlie, WA. The map shows the proximity of Southern Gold's tenements to neighbouring tenements held by companies with market capitalisations greater than $70m. It also shows the proximity to a number of nearby gold processing facilities (Gold Mills).

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Table 2. Bulong Gold Project: Cannon Mineral Resource Estimate (1.0g/t Au Cut-off)[(1), (2)]

Deposit & Weathering Type	Indicated			Inferred			Total		
	Tonnes t	Au g/t	Au Ounces	Tonnes t	Au g/t	Au Ounces	Tonnes t	Au g/t	Au Ounces
Cannon									
Oxide	8,000	3.0	800	1,500	2.4	100	9,500	2.9	900
Transitional	137,600	3.1	13,900	34,100	2.6	2,900	171,700	3.0	16,800
Fresh	573,500	4.3	78,500	57,500	2.3	4,200	631,000	4.1	82,800
Total:	**719,100**	**4.0**	**93,200**	**93,000**	**2.4**	**7,200**	**812,200**	**3.9**	**100,400**

Note (1): Rounding errors affect totals
Note (2): Source - Cannon Mineral Resource Statement, ASX 31/01/2014

Southern's Managing Director, Nanette Anderson, said the Company's key focus was to unlock the value of the Cannon deposit as soon as possible, with the development expected to be a catalyst for the next stage of growth of the Company's gold business in the Kalgoorlie region.

"With the planned development of the Cannon Deposit targeted to commence in the first half of this year, our key objective is to generate an early cash flow from a toll treatment operation," Ms Anderson said.

"This will then pave the way for the re-commencement of exploration programs on the many attractive exploration targets we have identified in the region which offer the opportunity for us to build on our resource base and establish a foundation for building longer term growth and value," she added.

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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.