



ASX Code: SAU
Issued Shares: 36.53M

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Quarterly Activities Report

31 December 2015

Key Points

- Cannon Mine first gold poured, operations ahead of schedule, open pit and plant performing extremely well;
- Quarterly Production statistics outperformed with tonnes of ore mined +35% and ounces of gold mined +50% compared to budget;
- Project economics transformed by large pit development with base case projected cash flow to Southern Gold of \$11.6m;
- Projected cash earnings per share of greater than \$0.31 per share from the open pit phase over the next 12-14 months.

Cannon Mine

- First gold pour was achieved in early November, a significant milestone for the company. The first processing campaign produced 6,474 oz. of gold on recovery of 90.92% and generating A\$9.7m of revenue.
- Agreement was reached with Metals X on the development of a larger open pit incorporating their Georges Reward deposit with improved financial outcomes (C1 operating costs dipping below A\$1,000/oz).
- Under the Metals X base case, profit share to Southern Gold is now \$11.6 million prior to loan repayment, with Southern Gold estimating potential upside could lift profit share to \$12m-\$15m.

Corporate

- With \$24 million of accumulated tax losses, tax is not expected to be paid on the net profit share.
- In the money options raised \$275,000 during the quarter and a Research and Development refund of \$206,000 was received.
- The first 10,000 oz. of gold production from the Cannon Mine was fixed at A\$1,500 per troy ounce.

Upcoming Quarterly Outlook

- Results of four diamond drill holes into the high grade zone at the base of the Stage 2 pit will be reported shortly.
- Second processing campaign of Cannon ore has recently started where an estimated 42kt @ 2.5g/t will be processed over coming weeks.
- Planning of drilling beneath the Stage 2 pit has commenced. Drilling at the Monument project is scheduled for mid-February.

Cannon Mine

Southern Gold Limited (“the Company”, ASX code “SAU”) achieved another significant milestone during the December quarter with the first gold pour from the Company’s flagship Cannon Mine in November.

Photos 1 & 2: Cannon First Gold Pour and Gold Dore Bars SAU001 to SAU003



The Cannon Open Pit Mine is being financed and operated by development partner Metals X Ltd (Metals X, ASX Code: MLX) in a profit share arrangement, with both parties entitled to 50% of the profits after repayment of costs which are charged on an at-cost open book basis by Metals X.

The results of the first processing campaign are summarised in **Table 1** below.

Table 1: Maiden Cannon Processing Campaign (M25/333 Only)

High Grade Ore Mined to End of November	tonnes	113,688
Mine Head Grade (fully diluted)	Au g/t	2.63
Tonnes Milled (dry)	tonnes	86,333
Mill Head Grade	Au g/t	2.57
Recovery	%	90.92%
Gold Produced	oz Au	6,474

Mining of the Cannon resource in the Stage 1a open pit during the December quarter resulted in:

- No significant injury’s or incidents;
- Above budget ore and waste movement (Table 2); and
- 78,951 tonnes of ore at a grade of 2.81g/t Au mined for an estimated 7,139 contained ounces of gold. (with mining post quarter end lifting the ore on the ROM pad to >40kt @ 3g/t Au)

Mining of the Stage 1 pit is continuing (with no reportable incidents) in parallel with the development of the Stage 2 cut-back. The cut-back will enable mining of the Cannon resource to extend to the boundary of M25/333 in conjunction with the development of Georges Reward by Metals X on M25/357.

Table 2: Cannon December Quarter Production Statistics

		Actual	Budget	Variance	Variance+%
Total Waste Moved	Bcm	924,583	662,625	+261,958	+39.5%
Ore Mined	Bcm	35,941	26,439	+9,502	+35.9%
Ore Mined	Tonnes	78,951	58,431	+20,520	+35.1%
Ore Mined	g/t	2.81	2.54	+0.28	+11.0%
Ore Mined	Oz	7,139	4,764	+2,375	+49.9%

Post the end of the quarter, processing of the second batch of Cannon ore commenced. It is anticipated that approximately 42kt (dry) at an estimated grade of 2.5 g/t Au will be treated during this campaign and, assuming a recovery of 90%, it is expected that approximately 3,000 oz. of gold will be produced. Combined with the 6,474 oz. of gold produced in the first campaign this will take the cumulative total to just under 10,000oz of gold.

'Big Pit' Agreement with Metals X

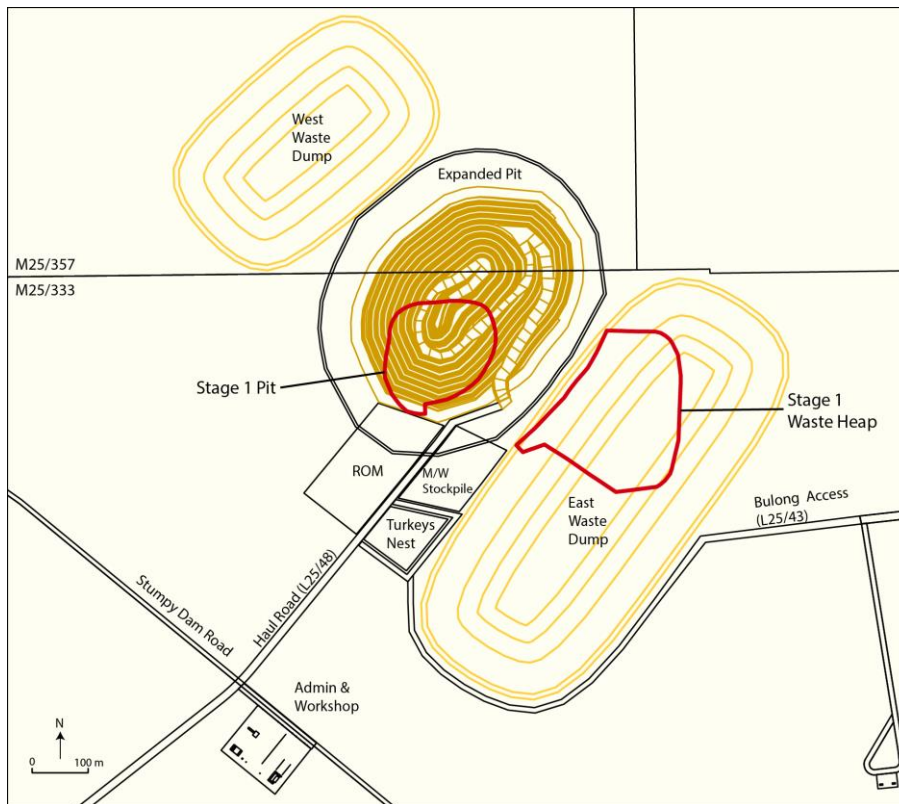
Southern Gold came to an agreement with development partner Metals X on the commercial and legal terms of an expanded Cannon open pit development that was made possible by the combination of the Cannon Mine with Georges Reward, a deposit to the north of Cannon that was acquired by Metals X earlier in the year.

Under the new Supplementary Deed to the Contracting and Finance Agreement, the Cannon Open Pit Mine will continue to be developed on a 50%:50% profit share arrangement (as per the original agreement) with the same essential principals of development. These include Metals X covering costs on a 'at cost open book' basis and providing the mine finance, with all ore being processed through the Jubilee mill at a fixed rate on a unblended, batched basis. Metals X will exploit the Georges Reward deposit at its own risk and cost although certain shared costs would be accounted for on a relative mined volume basis.

This new agreement is a very significant development for Southern Gold as it has increased the amount of recoverable gold by open pit methods by 270% (to around 50koz of Au recovered) and at a lower cost per ounce. The larger open pit, while increasing the amount of waste stripping required, has also delayed the cash flow to Southern Gold and this is now expected late 2016 and early 2017 with approximately \$11.6m profit share to Southern Gold under the Metals X base case and the potential for \$12m-\$15m under various potential upside cases (see below).

Also included in the deal with Metals X was additional financial accommodation of \$2 million, essentially a working capital debt facility secured against the mining lease and the ability to fix the price of the first 30koz of gold production at a A\$25/oz discount to the spot price.

Figure 1: Updated Mine Site Plan Under the 'Big Pit' Scenario



Note: M25/357 is 100% MLX owned and covers the 'Georges Reward' deposit while M25/333 is 100% SAU owned and covers the Cannon Mine

Subsequent to this signing of this agreement Southern Gold released the improved financial outcomes of the expanded pit, summarised in Table 3 below:

Table 3: 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
C1 Operating Cost	A\$/oz	\$981
All In Sustaining Cost (AISC)	A\$/oz	\$1,014
Total Cash Cost/oz, including capital	A\$/oz	\$1,037
Net Profit Share to SAU prior to debt repayment	A\$m	\$11.6

With 36.5m Southern Gold shares currently 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.

Southern Gold has also highlighted a number of important potential upsides to this projection including:

- A higher amount of gold ounces captured within the pit shell (Southern Gold resource estimation has 67.6koz Au within the pit shell compared to 58.04koz in the MLX model);
- A higher overall metallurgical recovery (Southern Gold estimates long run recovery of 89%-90% rather than the 86% recovery expected by MLX); 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 falls 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 or the equivalent of 32.9c to 41.1c 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.

The 'Big Pit' development scenario covered under the agreement with Metals X does not include any commercial or legal terms on any underground development, other than certain mutual infrastructure access rights. The Cannon Mine lease remains 100% owned by Southern Gold and any subsequent underground development remains an important source of potential future value. However much work remains to quantify the gold mineralisation present and define an economic framework around it.

Stage 2 Open Pit Diamond Drill holes for Grade Control Purposes

The southern portion of Cannon Stage 2 pit is designed to capture the high grades intersected in three holes drilled previously by Southern Gold in the vicinity of the planned base of the open pit.

Four reverse circulation, diamond cored tailed holes (CARD001 – CARD004) have been drilled by MLX for grade control purposes to evaluate the extent and potential variability in widths and grade in the vicinity of the original holes. All holes have been logged and sampled according to geological features such as alteration, differing shear intensities and lithological boundaries and the samples submitted for assay.

The results of this programme will be provided following receipt of final assay data and assessment of the results which are expected shortly.

Planning for Resource Extension Drilling

As highlighted in previous releases there is the potential for mineralisation to continue beneath the base of the southern portion of the pit with grades and widths of the high grade intersections potentially being sufficient to support an underground operation. To define this potential further and to assess the extent and grade variability of the higher grade gold zone, a staged drilling programme to evaluate the nature and extent of this mineralisation is being assessed.

Southern Gold will look to complete this phase of drilling as soon as practical in coordination with Metals X and the Cannon operation.

Monument Drilling

It is anticipated that drilling beneath the gold-in soil anomaly in the vicinity of previously announced significant intersections at Monument (e.g. ASX announcement 11 July 2013) will commence in February. The programme will consist of approximately 500m of reverse circulation and core drilling and will look to advance the deposit to the next stage by infill drilling where encouraging results were previously received and to the north where the Monument project mineralised zone remains open.

Corporate

The Research and Development Refund for financial year 2015 was received just subsequent to the end of the December quarter with approximately \$206,000 was received net of costs.

An underwriter was engaged to help take-up of “in the money” call options that were to expire at the end of November. These options raised \$275,000 during the quarter for Southern Gold.

After drawdown of the MLX loan for an additional \$500,000, cash on 31 December 2015 was \$623,000 and with the receipt of the Research and Development Refund in early January was lifted to approximately \$800,000 early in the current quarter.

With the retracement of the gold price and global equity market instability in late November, a planned capital raising was deferred however discussions with an Asian based global investor continued into the New Year with further discussions planned for February after the Chinese New Year holiday.

A share consolidation was completed during the quarter on a 15:1 basis reducing the shares on issue to approximately 36.5m (after the option exercise noted above).

Managing Directors Comment

Southern Gold Managing Director, Mr Simon Mitchell, commented: “without getting too carried away Southern Gold is looking to initiate tightly designed drill programmes with should give us good ‘bang for buck’. There is no shortage of drill targets on our ground but at this stage we are looking at opportunities such as extensions to the Cannon Mine, the satellite projects on the Cannon mining lease as well as high quality projects within trucking distance of the Cannon haul road and where ore grade tenor intersections have been found in shallow drilling.”

“The Monument Project is a classic example. It is less than 1km away from the Cannon Mine and on the same mining lease and has the potential to become a satellite operation should drill results be positive and economic criteria and constraints support an open pit operation. Southern Gold has much work to do over the course of 2016 to advance Monument down this path but the proposed drilling is seen as an important first step.”

CONTACT

For further information contact:

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Managing Director

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Recent ASX releases relevant to this release

Quarterly Activities Report, 31 October 2015
Cannon Big Pit Development, 3 November 2015
Cannon First Gold Pour, 12 November 2015
Capital Raising, 1 December 2015
Cannon Big Pit Economics, 9 December 2015
Cannon First Processing Campaign, 18 December 2015

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.

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98

Name of entity

SOUTHERN GOLD LIMITED

ACN or ARBN

ACN 107 424 519

Quarter ended ("current quarter")

31 DECEMBER 2015

Consolidated statement of cash flows

	Current quarter \$A'000	Year to Date \$A'000
Cash flows related to operating activities		
1.1 Receipts from product sales and related debtors	0	0
1.2 Payments for (a) exploration & evaluation*	(232)	(464)
(b) development	(17)	(23)
(c) production	(63)	(63)
(d) administration	(229)	(457)
1.3 Dividends received	0	0
1.4 Interest and other items of a similar nature received	1	3
1.5 Interest and other costs of finance paid	0	0
1.6 Income taxes paid (R&D Refund)	0	0
1.7 Other	3	3
* net of JV reimbursement of expenses		
Net Operating Cash Flows	(537)	(1,001)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects	0	0
(b) equity investments	0	0
(c) other fixed assets	0	(1)
1.9 Proceeds from sale of: (a) prospects	0	0
(b) equity investments	0	0
(c) other fixed assets	0	0
1.10 Loans to other entities	0	0
1.11 Loans repaid by other entities	0	0
1.12 Other – Mekong Minerals	0	(3)
Net investing cash flows	0	(4)
1.13 Total operating and investing cash flows (carried forward)	(537)	(1,005)

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	(537)	(1,005)
Cash flows related to financing activities			
1.14	Proceeds from issues of shares, options, etc.	271	271
1.15	Proceeds from sale of forfeited shares	0	0
1.16	Proceeds from borrowings	500	500
1.17	Repayment of borrowings	0	0
1.18	Dividends paid	0	0
1.19	Other - prospectus issue costs (placement)	0	0
Net financing cash flows		771	771
Net increase (decrease) in cash held		234	(234)
1.20	Cash at beginning of quarter/year to date	389	857
1.21	Exchange rate adjustments to item 1.20	0	0
1.22	Cash at end of quarter	623	623

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	80
1.24	Aggregate amount of loans to the parties included in item 1.10	0

1.25 Explanation necessary for an understanding of the transactions

The amount at 1.23 comprises director fees paid to directors or related corporations of directors of the Company during the Quarter.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

+ See chapter 19 for defined terms.

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	2,557	1,057
3.2 Credit standby arrangements	Nil	Nil

Under the new large open pit agreement with Metals X Ltd (ASX: MLX) for the development and mining of the Cannon Project, MLX have made an additional \$2m in funding available to Southern Gold (in addition to the previous facility of \$500,000 which had been fully drawn). For further information refer ASX announcement 3 November 2015. During the December quarter, \$500,000 of the additional facility was drawn down.

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	225
4.2 Development	0
4.3 Production	20
4.4 Administration	287
Total	532

In early January 2016, \$206,715 cash was received by the Company for the R&D tax offset.

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	14	47
5.2 Deposits at call	609	342
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	623	389

Appendix 5B
Mining exploration entity quarterly report

Changes in interests in mining tenements

		Tenement reference	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
			(note (2))		
6.1	Interests in mining tenements relinquished, reduced or lapsed				
		P25/2142	Relinquished	100%	Nil
		P25/1896	Relinquished	100%	Nil
6.2	Interests in mining tenements acquired or increased				

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

		Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	Preference +securities <i>(description)</i>	Nil			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3	+Ordinary securities	36,533,349	36,533,349	N/A	Fully Paid
7.4	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted	134,228 1,223,250	134,228 1,223,250	29.8 22.5	Fully Paid Fully Paid
7.5	+Convertible debt securities <i>(description)</i>	Nil			
7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	Options <i>(description and conversion factor)</i>	128,670 400,002 333,334	- - -	<u>Exercise Price</u> 90 37.5 37.5	<u>Expiry Date</u> 15 October 2017 30 November 2019 15 November 2020

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

7.8	Issued during quarter	333,334	-	37.5	15 November 2020
7.9	Exercised during quarter	1,223,250	1,223,250	22.5	30 November 2015
7.10	Expired during quarter Cancelled during quarter	66,667	-	157.5	1 December 2015
7.11	Debentures <i>(totals only)</i>	Nil			
7.12	Unsecured notes <i>(totals)</i>	Nil			

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Law or other standards acceptable to ASX (see note 4).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Print name: Dan Hill
Company Secretary

Date: 28 January 2016

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.