

1 August 2016

AUSTRALIA, SOUTH KOREA

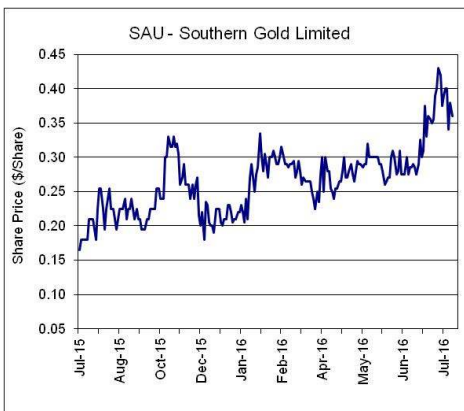
GOLD, SILVER

PRODUCTION

EXCHANGE: ASX:SAU

CAPITAL PROFILE

Share price (A\$)	0.360
52 week range (A\$/share)	0.16 to 0.44
Number of shares (M)^	43.0
Options and warrants (M)	4.9
Placement shares (M)^	3.4
Fully diluted (M)	51.3
Market capitalisation (undiluted) (A\$M)	15.5
Debt (A\$M) - Sep 16F*	3.0
Enterprise value (A\$M)	18.5
Major shareholders:	
Board and Management (5.3%)	
Avg monthly volume (M)	2
Cash (A\$M) - Sep 16F	3.3
Price/Cash (x)	4.6
*Placement of 3.4M shares (\$1.2M) subject to shareholder approval.	
* Convertible debt \$1M; Metals X facility \$2M drawn; \$0.5M undrawn.	



DIRECTORS

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David Turvey (Non Exec Dir)

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SOUTHERN GOLD LIMITED

Small gold producer in Kalgoorlie with development upside. World class discovery potential in South Korea.

Share Price: \$0.36

Speculative Buy

Gold acquisition (Jul '16) in S. Korea: multiple historic mines, fast track development potential; and high grade epithermal targets with world class discovery potential. Drilling 3Q16. Kalgoorlie (WA): Cannon Mine is on track to deliver +50koz gold through 1Q17. Expected return to SAU is ~\$14-15M (33cps). Potential for underground development and shallow near mine exploration upside (e.g. Glandore JV). RCR's SAU NAV is \$0.45/share with 12 month upside to >\$0.50/share.

INVESTMENT POINTS

- ◆ **South Korean gold portfolio acquisition:** (Jul '16) Multiple high grade projects acquired across South Korea from Asiatic Gold Ltd: Historic production; underground mine infrastructure in place.
- ◆ **Epithermal targets with world class discovery potential:** New exploration model for epithermal and IRG deposits. 4 high priority targets to be drilled over 12 months. **Drilling Jul '16 Kochang (800m); 4Q16 Weolyu (1500m).**
- ◆ **Low cost acquisition:** ~\$2M; \$116k cash, \$70k debt assumption, 6.29M SAU shares. **Conceptual Exploration Target of 0.5M to 1.5Moz Au** (1Mt-4.5Mt grading 6g/t-12g/t Au). SAU \$1.2M placement at 25% sp premium.
- ◆ **High operating margin:** Cannon Gold Mine (WA) open pit operated by Metals X (ASX:MLX, mkt cap \$775M) with 50/50 profit share. **A\$700/oz op. margin** based on LOM AISC of A\$1037/oz and A\$1750/oz gold price.
- ◆ **Gold price leverage:** Production +50koz Au at 3.8g/t expected through 1Q17. **SAU exposure to >15koz production** at spot price (currently ~A\$1778/oz); RCR 2017 forecast US\$1400/oz (A\$1867/oz). Project forward sales: 20koz avg. A\$1530/oz.
- ◆ **Glandore Project JV** (Apr '16, SAU 0/90%) adjacent to Cannon Gold Mine offers a new near term development opportunity. Potential JORC 2H17. **Conceptual Exploration Target 50koz to 200koz gold at 2.4 - 3g/t.** Historic drilling by Western Mining, AnglGold and others. Drilling 3Q16.
- ◆ **Excellent along strike and regional exploration potential. Monument:** Potential JORC 3Q16, **Tooting Bec:** Drilling 2H16; Cannon underground extension drilling 2H16, PFS update 1H17.
- ◆ **6 to 12 month share price catalysts:** Cannon mine leverage to a rising gold price; Glandore JV drilling 2H16 and potential JORC 2017; Cannon Trend drilling 2H16, U/G PFS; S. Korea drilling 2H16; and further acquisitions.

COMPANY STATISTICS

Year End June	Jun-16a	Sep-16F	2015A	2016F	2017F
Exploration and evaluation (A\$M)	0.45	0.50	1.02	1.22	2.35
Corporate (A\$M)	0.21	0.39	0.70	0.96	1.22
Exploration/(Expl.+ Corporate) (%)	69	56	59	56	66
Funding duration at current burn (years)			0.5	0.7	3.1
Shares on issue (pr end) (M shares)	36.6	46.4	527.6	36.6	46.4
Drilling - RAB/Aircore (m)	1,000	1,000	0	1,000	7,500
Drilling - RC/Diamond (m)	2,000	3,000	2,000	4,500	7,500
Land holding ('000 ha)*	340	340	340	340	340
Capital raisings (A\$M)	0.00	1.20	1.38	0.27	1.20
Funding from JV partners (A\$M)	0.0	0.0	0.0	0.0	0.0
Cash (A\$M)	1.4	3.3	0.9	1.4	10.9
Cash backing (Ac/share)	3.9	7.2	0.2	3.9	23.5

* Tenements held and under application. Quarters refer to calendar year. Drill metres are RCR estimates.

COMPANY COMMENT

Overview: Southern Gold is focused on its flagship Bulong Gold Project, 30km east of Kalgoorlie (WA) which contains the Cannon Gold Mine. SAU's recent focus has been directed to developing the Cannon mine, while also exploring for near term production opportunities near the mine or at surface regionally. RCR undertook a site visit to the Cannon Gold Mine Aug '15.

South Korean gold portfolio: (Jul '16, SAU 100%) Multiple high grade projects acquired across South Korea from Asiatic Gold Ltd covering 44 granted tenements over 17 project areas along with highly qualified and experienced in-country technical team including Doug Kirwin, formerly of Ivanhoe Mines Ltd, discoverer of Oyu Tolgoi, and various significant gold deposits in S. Korea, Kalimantan and elsewhere. Multiple projects have historic production with underground mine infrastructure in place, or remnant artisanal workings on high grade narrow deposits. KORES historic drilling and mined grade and tonnage records support mineralisation used in Foreign Estimates with vein width up to 1m and grading 6g/t to 25g/t Au, some with Ag. **Conceptual Exploration Target of 0.5M to 1.5Moz Au (1Mt-4.5Mt grading 6g/t-12g/t Au).**

6 key project areas: are identified with potential for either fast track development or drill ready high grade epithermal and IRG targets with world class discovery potential.

Orogenic gold projects: These are historically mined quartz vein projects (closed in 70s and 80s) which have **fast track development potential, including Gubong, Kochang, and Taechang.** Potential production 2-3 years; conceptual scale 20k-40kozpa, high grade, low capex plants. The **Gubong Project** has historic production of 400koz Au and was at one point the second largest gold mine in South Korea. There is potential for tailings reprocessing and early cash flow subject to permitting.

Priority drill targets with world class discovery potential include **Weolyu and Hampyeong** (both epithermal); and **Heungdeok** (IRG). **Exploration budget:** \$1.5M to \$2Mpa. **Drilling 3Q16 Kochang (800m) and Weolyu (1500m) 4Q16;** drill test 2 more projects 1H17. Potential for rapid value enhancement over next 2 years.

Low cost acquisition: ~\$2M; \$116k cash, \$70k debt assumption, 6.29M SAU shares. Placement of \$1.2M (at 35cps), a 25% sp premium to 3 Asiatic shareholders reinforces strong support for SAU management team.

Bulong Gold Project: (WA, 100% SAU) Located 30km from Kalgoorlie, SAU has held a strategic land position of 200km² since listing on the ASX in 2005. Originally held for Ni, and in more recent years explored for gold, the project area contains the greenfields Cannon Gold Mine which commenced mining Jul '15. The Kalgoorlie region remains highly prospective for gold discovery utilising new exploration techniques (like SAM) and new exploration models. SAU's ground has not been systematically explored for gold for 20 years since Acacia held it in search of deposits >1Moz. Gold discoveries within 10km of Bulong include Silver Lake's Majestic deposit (280koz) and Imperial deposit (43koz) (discovered 2012).

Cannon Production to Date: Mining commenced Jul '15 and first gold pour was Nov '15. Ore is batch processed through MLX's Jubilee gold plant. Three campaigns to date have produced a total of 12,074oz Au at an average grade of 2.60g/t and mill recovery of 91.75%. Adjusted forecast production: 6,664oz Sept Q; 13,440oz Dec Q; 16,577oz Mar '17 Q. The majority of gold is scheduled for production in the last 2 quarters (4Q16 and 1Q17), expected to coincide with further gold price upside to SAU's benefit.

The company indicates that the resource model is closely reconciling with mill recovery and the project is on track to meet LOM production forecasts. There is potential for LOM recovery to marginally exceed the 86% forecast, (viz ~88-90%); and for additional in-pit ore upside. **SAU guidance on LOM AISC production costs remains \$1037/oz.**

MLX Profit Share Agreement: SAU's Cannon Gold Mine open pit is subject to a 50/50 profit share with Metals X. (The agreement as yet does not extend to any potential underground mine.) MLX is project operator; all mining and haulage is charged at cost, toll treatment at Metals X's Jubilee gold plant (35km by road) is charged at \$29/t. MLX extended a secured debt facility of \$2.5M to SAU (\$2M drawn) to be repaid from project revenues prior to **receipt of surplus project cashflows - expected 4Q16 - 1Q17.**

Cannon Mine underground potential: High grade drill intercepts (2Q16) include **5.22m at 3.44g/t Au and 2.5m at 8.93g/t Au.** Recent drilling suggests mineralisation occurs in a newly interpreted structural location. Preliminary structural interpretation suggests the ore body may plunge to the south (onto SAU ground) though the structural setting is complex and further technical work is required to confirm this. High grades and good widths are anticipated to extend at depth with potential for a significantly larger mineralised system. A second phase of drilling is anticipated 2H16. The PFS completed Aug '13 (optimised Feb '14) indicated viability of an underground mine. **PFS update expected 2017.** With the benefit of future drilling, resource extensions are expected to be defined at depth for a conceptual global resource target of 200koz to 350koz.

Cannon Trend - Exploration Potential: SAU has multiple near mine exploration targets, now drill ready on well defined anomalies along a 10km corridor. **Monument** confirmed continuity of near surface mineralisation over a 550m strike 800m from Cannon Gold Mine. Intercepts included **7m at 2.2g/t Au** from 42m. Potential JORC resource 3Q16; conceptual size 10k-25koz grading 1.5-2.5g/t Au with potential for a small in-pit resource of 5k-10koz. **Tooting Bec** 7 RC holes (882m) 2Q16 confirm gold anomalism: best intercept 20m @ 0.35g/t Au from 63m. Wide intercepts but low grade. Further drilling 2H16.

Glandore Project JV: SAU announced Apr '16 a staged farm-in agreement with Aruma Resources (ASX:AAJ); SAU can earn up to 90% by spending \$1.2M over 3 years in staged payments with \$300k to be spent in the next 12 months to earn 50%. The agreement covers 14 mining tenements (28.7km²) adjacent to Cannon Gold Mine. There is a **Conceptual Exploration Target of 50koz to 200koz gold grading 2.4-3g/t** over several shallow deposits. Extensive historic exploration results include over 23,000m of drilling from WMC, AngloGold and others. Drilling 2H16; follow up drill program 1H17; SAU aims to define a JORC resource 2H17. SAU has 3 high priority targets with significant historic grade and wide drill intercepts, near surface, supergene style mineralisation expected to be free milling, viz: **Supergene Zone, Axial Planar and Central Fault.** Historic drill intercepts include 10.25m at 10.27g/t Au from 58m (GDJD336); 2m at 43.4g/t Au (HGRC107); 9m at 4.22g/t Au (GDJC10).

Valuation: We value SAU at **\$22M (\$0.45/share)**. Key components include cashflow to SAU from the Cannon Gold Mine of ~\$14-15M (33cps) - see valuation table; and the Korean acquisition at \$6M: comprising \$2M payment plus \$4M in exploration expenditure over 2-3 years.

Investment Comment: RCR's 12 month share price target is >50cps. SAU has upside leverage to the strengthening gold price which is expected to coincide with the majority of production at Cannon 4Q16-1Q17. Newsflow midterm includes exploration results at the Glandore Project JV, Cannon Trend and Cannon U/G PFS. In our view, the new South Korean gold portfolio offers significant potential for share price appreciation based on potential fast track development opportunities and world class high grade epithermal gold discovery: drilling Weolyu 4Q16. Confidence is buoyed with recent on market share purchases by MD Simon Mitchell of ~0.5% SAU. SAU dividend policy under review for cash return to shareholders.

KEY PROJECTS

Project	Ownership/ Option	JV Partner	Target Type	Process Route	Project Status	Location
Bulong Gold Project	100%	na	Au	CIP	Production	Australia (WA)
Cowarna Project	100%	na	Au	na	Mid Expl.	Australia (WA)
Glandore JV	0/90%	Aruma	Au	na	Mid Expl.	Australia (WA)
South Korean gold projects*	100%	na	Au	na	Mid Expl.	South Korea
Weolyu Project	100%	na	Au-Ag-Ge; epithermal	na	Historic mine	South Korea
Gubong Project	100%	na	Au	na	Historic mine	South Korea
Hampyeong Project	100%	na	Au; epithermal	na	Mid Expl.	South Korea
Kochang Project	100%	na	Au-Ag	na	Historic mine	South Korea
Heungdeok Project	100%	na	Au; quartz and IRG	na	Artisanal mining	South Korea
Taechang Project	100%	na	Au	na	Historic mine	South Korea

* 17 gold projects acquired from Asiatic Gold Ltd Jul '16: 6 key projects with near term exploration and development potential show n.

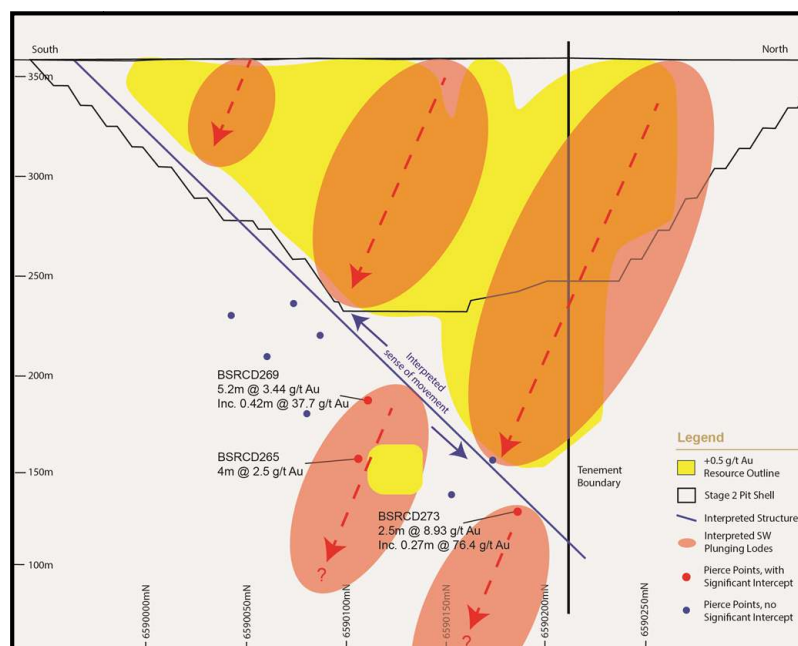
RESERVES AND RESOURCES; CONCEPTUAL EXPLORATION TARGET

Code for reporting mineral resources - Australian: (JORC)

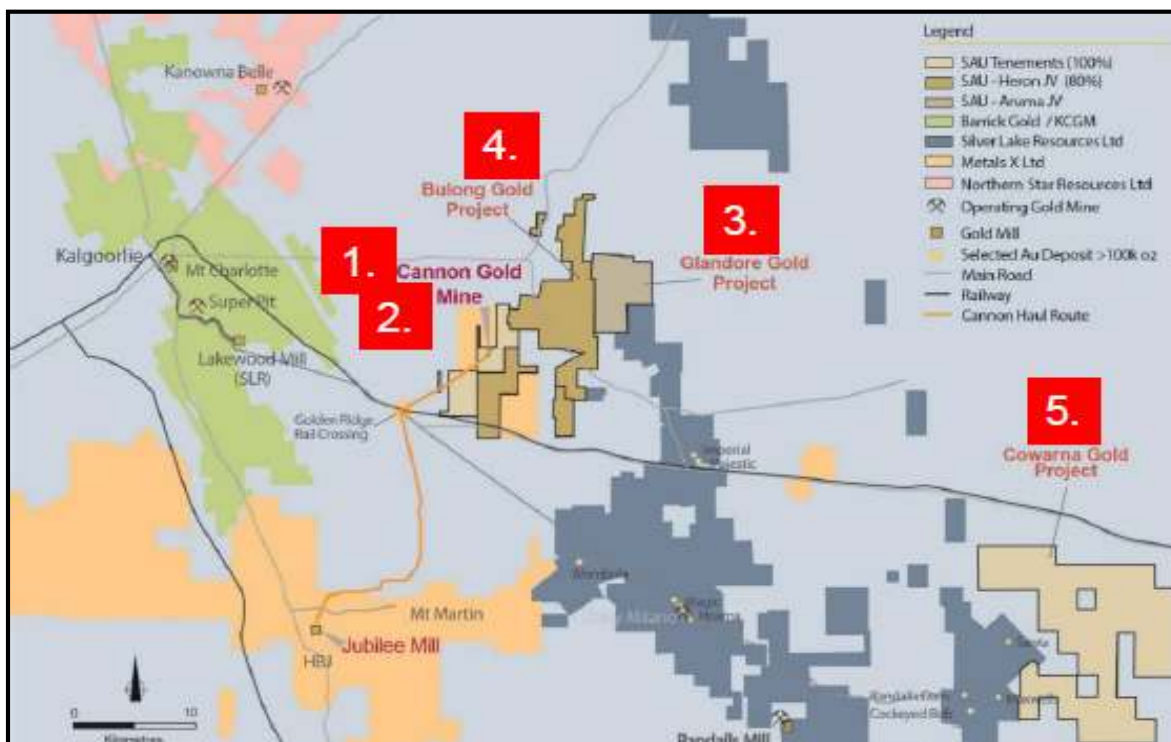
Gold Au	Classification	Project Equity	Ore Kt	Grade g/t	Cut Off g/t	Au Koz	Au Eq Koz
Reserves						0.0	0.0
Resources							
Cannon	Measured	100%	109	3.07	0.7	10.8	10.8
Cannon	Indicated	100%	<u>644</u>	<u>3.87</u>	0.7	<u>80.1</u>	<u>80.1</u>
Sub Total			753	3.75		90.9	90.9
Cannon	Inferred	100%	<u>93</u>	<u>2.05</u>	0.7	<u>6.1</u>	<u>6.1</u>
Total - Cannon			846	3.57		97.0	97.0
Pinner	Inferred	100%	172	2.10	0.7	11.5	11.5
Conceptual Exploration Target							
Glandore JV	Exploration Target	0/90%	500-2500	2.4-3.0	na	50-200	
South Korean gold projects	Exploration Target	100%	1000-4500*	6-12	na	500-1500	

* SAU derived from Foreign Resource Estimates

Cannon Gold Mine: High grade drill intercepts 1Q16 within and near pit base include 19m at 15.1g/t from 83m (CARD001) and 23m at 4.8g/t from 80m (CARD003); Drilling 2Q16 reaffirms potential for underground development. Structural analysis suggests the ore body may plunge to the south (into SAU tenements). Updated underground PFS expected 2017.



Kalgoorlie (WA): SAU has a large (200km²) strategic land position 30km south east of Kalgoorlie in a world class gold province. The company's regional strategic priorities are: (1) Manage near term cash flow from its flagship Bulong Gold Project (SAU 100%) through 1Q17; (2-4) Expand development pipeline near term - underground and shallow, near mine exploration; (5) Midterm regional exploration.



Bulong Gold Project location map above shows the Cannon Gold Mine in relation to the Jubilee Mill, the adjacent Glandore Project JV; and the Cowarna Project, which is 50kms further east from Bulong, prospective for BIF hosted gold deposits. The Kalgoorlie region is highly prospective for gold discovery utilising new exploration techniques (like SAM) or new exploration models. Gold discoveries within 10km of the company's Bulong Gold Project include Silver Lake's Majestic deposit (280,000oz) and the Imperial deposit (43,000oz) (discovered 2012).

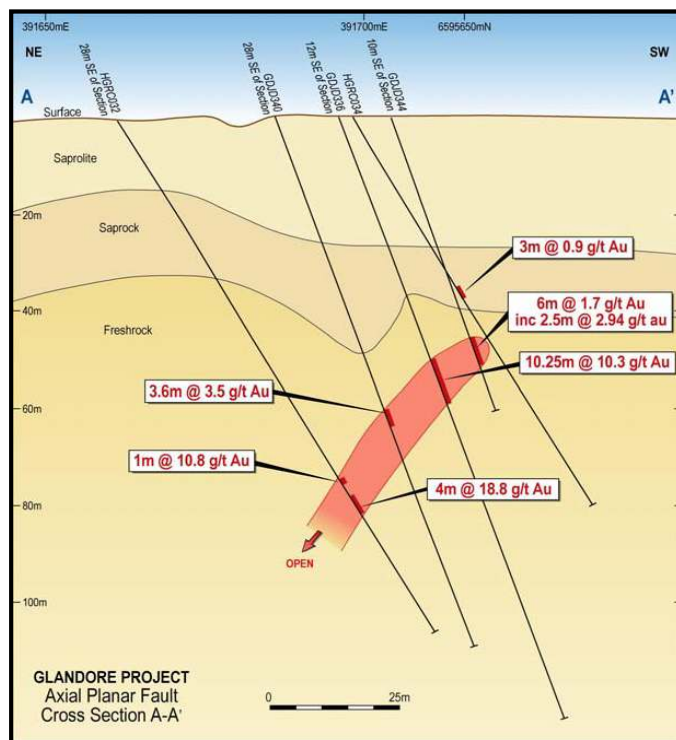
Regional Exploration:

Cannon Trend SAU has classified multiple prospects identified on the Cannon Trend as Tier 1 exploration targets due to their high prospectivity, proximity to surface, and potential for early development along a 10km corridor. A small, near surface resource has been defined at **Pinner** (11.5koz Au at 2.1g/t) which is located only about 100m from the Cannon pit and could be incorporated into a future agreement with MLX. **Monument potential JORC resource 3Q16. Tooting Bec drilling 2H16.** Further prospects expected to be drilled 2H16-2017 and exploration will be ramped up as funds are returned to SAU from the Cannon Gold Mine.

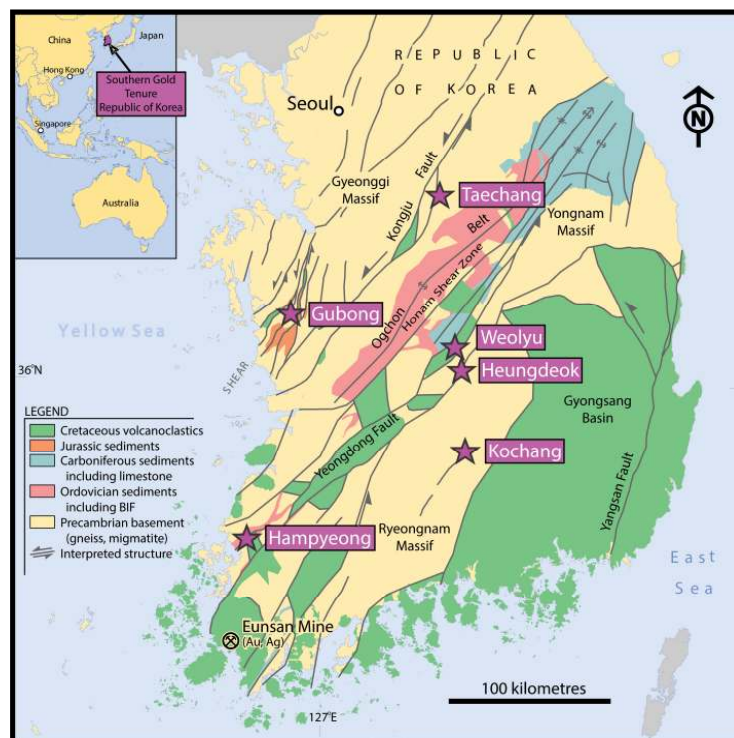
Bulong Gold Project: Regional Prospects: SAU has identified around 20 exploration targets regionally using a combination of soil geochemistry, geophysics, structural interpretation, and mapping. The company has made innovative use of new exploration techniques such as Sub Audio Magnetics (SAM) - high resolution ground magnetics - a tool used for locating deposits in covered terrain, for which it has received government R&D grants. The tenements are highly prospective for greenstone hosted gold deposits, typical of the Kalgoorlie region. Mineralisation is structurally controlled, low in arsenic and the area appears prospective to host multiple deposits ranging in size from 25koz to 250koz Au. **Railway South** intercepts include 1m at 12.3g/t Au (drilled June Q 2015).

Cowarna Gold Project: Early stage targets for high grade banded iron formation (BIF) hosted gold mineralisation adjacent to Silverlake Resources (ASX:SLR) tenements hosting what appear to be similar structures and defined mineral occurrences. SLR resources included Santa Area (422koz Au), Cock-Eyed Bob (150koz Au), and Maxwells (93koz Au).

Glandore Project JV (SAU 0/90%): Axial Planar Fault cross section. Historic high grade drill intercepts at Axial Planar Fault include 4m at 18.8g/t Au from 101m (HGRC032) and 10.25m at 10.3g/t Au from 58m (GDJD336). SAU has defined 3 high priority areas for exploration follow up at the Glandore Project, each near surface with significant drill intercept grades and widths: viz, Supergene Zone, Axial Planar and Central Fault. JORC resource expected 2H17.



South Korean gold projects acquired July 2016: Location plan. Fast track development potential at multiple projects and world class discovery potential for high grade epithermal and IRG deposits. Conceptual Exploration Target 0.5Moz to 1.5Moz Au across multiple deposits. Drilling 3Q16 Kochang (800m) and Weolyu (1500m) 4Q16.



SOUTHERN GOLD LIMITED VALUATION

	Equity (%)	Base Resource Val'n (US\$/oz)	Base NAV (A\$M)	NAV Factor (%)	Adjusted Value (A\$M)	Adjusted Gold Price Sensitivity (A\$M)				
Assumptions										
LT Gold Price	: US\$/oz		1200		1200	1000	1100	1300	1400	
LT Exchange Rate: AUUS	:		0.76		0.76	0.75	0.75	0.75	0.75	
LT Gold Price	: A\$/oz		1579		1579	1333	1467	1733	1867	
Projects										
Cannon Gold Mine - "Big Pit" total*	: NPV @5%	100%	146	10	100%	10	5	7	12	14
Potential in-pit production upside	: NPV @5%	100%		2	80%	2	2	2	2	2
South Korean gold projects		100%		6	100%	6	6	6	6	6
Resources and Exploration										
Cannon (additional resource est.)	:	100%	26	3	100%	3	3	3	3	3
Other				1		1	1	1	1	1
Sub-total Exploration										
				4		4	4	4	4	4
Assets										
+ Cash				1.4		1.4	1.4	1.4	1.4	1.4
+ Tax losses [^]				2		2	1	2	2	2
Liabilities										
- Debt				3		3	3	3	3	3
- Corporate				3		3	3	3	3	3
- Reclamation				0		0	0	0	0	0
SAU Net Assets										
				20		19	13	16	21	23
Fully diluted shares (M)				51.3		51.3	51.3	51.3	51.3	51.3
Cash on Option Conversion				1.9		1.9	1.9	1.9	1.9	1.9
SAU Net Asset Value per share : A\$/share										
				0.456		0.445	0.296	0.377	0.494	0.540
SAU Net Asset Value Diluted : A\$/share dil										
				0.419		0.410	0.285	0.353	0.450	0.489
* Cannon Gold Mine NPV based on 50% attributable production from the open pit.										
[^] Deferred tax asset reported 31 Dec 2015 for the Cannon Project.										
Operating Margin - Big pit total										
Production (50% attributable)	: Koz				25		25	25	25	25
Forward sales (50% attributable; avg \$A1530/oz)	: Koz				10		10	10	10	10
Total Cash Costs (AISC)	: A\$/oz				1037		1037	1037	1037	1037
Cash Margin	: A\$/oz				542		n/a	430	696	830
Operating Cashflow (50% profit share to SAU before debt)	: A\$M				13		n/a	11.3	15.3	17.3

CANNON GOLD PROJECT KEY ASSUMPTIONS (derived from MLX estimates (as per SAU release 9 Dec. 2015))

RESOURCE ESTIMATES						
	Gold Resource	Cutoff	Tonnes	Grade	Gold	Recovered Gold
		g/t	Kt	g/t	Koz	Koz
Resource (M,I)	Cannon	0.7	753	3.75	91	
Resource (Inf)	Cannon	0.7	93	2.05	6	
			846	3.57	97	
RCR modelling assumptions (based on SAU ASX releases)			479	3.77	58.1	50
MINING METHOD						
OPEN PIT						
Truck and excavator, drill and blast.						
PROCESS METHOD						
TOLL TREATMENT						
CIP toll treatment, batch processing, trucked to Metals X gold plant.						
MLX BASE CASE ASSUMPTIONS						
			Cannon total "Big Pit" scenario (M25/333) - 100% basis			SAU upside potential
AVERAGE HEAD GRADE - Au	:g/t	3.77				
CONTAINED GOLD	:Koz	58				67.6 + 16%
RECOVERY - GOLD	:%	86.4				90 + 4%
PRODUCTION	:Koz	50		12 month campaign to Feb '17. Potential for underground mining from 2H17.		
CAPITAL COSTS	:A\$Mpa	1.23				
OPERATING COSTS: - C1	:A\$/oz	981				
plus royalties/taxes/ongoing capex	:A\$/oz	1014				
plus capital costs/depreciation	:A\$/oz	1037				
CORPORATE TAX	:%	30				
ROYALTY	:%	2.5		WA - state gold royalty.		
MINE LIFE	:Years	2		Open pit campaign 3Q15 - 1Q17.		
COMMISSION PROJECT	:	3Q15		First gold pour Nov '15		

GOLD PRICE CHARTS

10 Year AUD Gold Price Chart - to 29 July 2016 (AUD/oz):

The spot price is currently A\$1778/oz.

The Australian dollar gold price has been trading in a range around A\$1500/oz since July 2011; and for the past 2 years has been on an upward trend helping maintain robust operating margins for Australian producers. With sluggish outlook for world economic growth, particularly ongoing weaker than anticipated US growth, gold's safe haven status, and net reserve bank purchases, the midterm outlook for the gold price is positive.

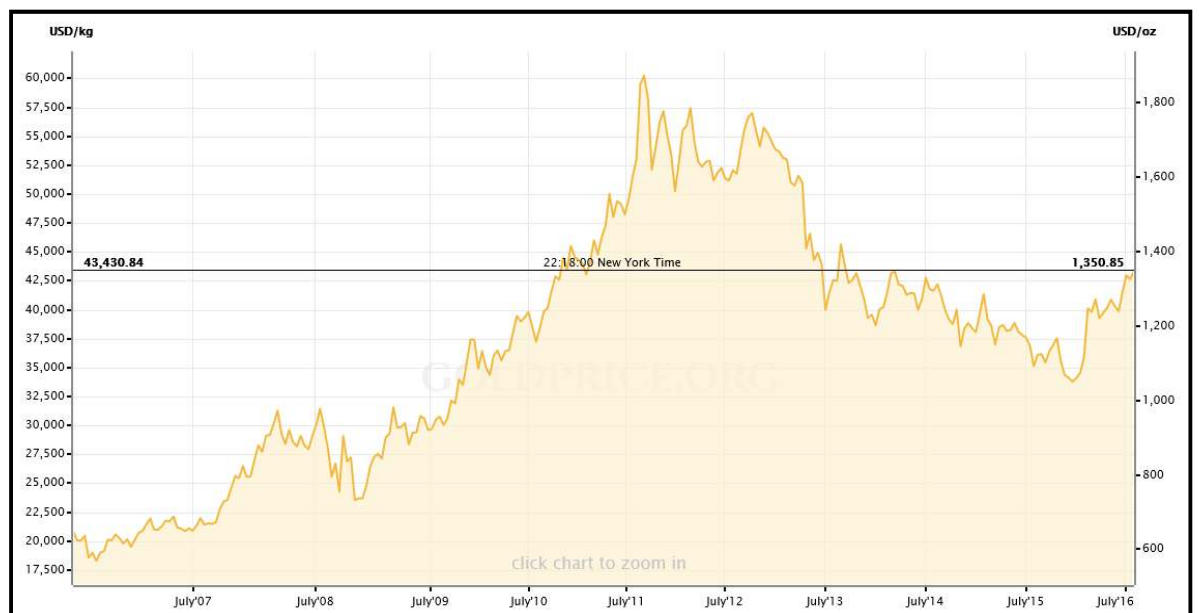


Source: goldprice.org

Note: RCR gold price forecasts are US\$1280/oz for calendar 2016, US\$1400/oz 2017, US\$1450/oz 2018, and long term price of US\$1200/oz. RCR's AUD/USD exchange rate assumptions are 0.75 for 2016, 0.75 for 2017, 0.75 for 2018 and long term 0.80. The gold spot price is A\$1778/oz (US\$1351/oz). The spot currency is AUD/USD 0.76.

10 Year USD Gold Price Chart - to 29 July 2016 (USD/oz):

The spot gold price is US\$1351/oz.



Source: goldprice.org

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