

14 AUGUST 2015

AUSTRALIA, CAMBODIA

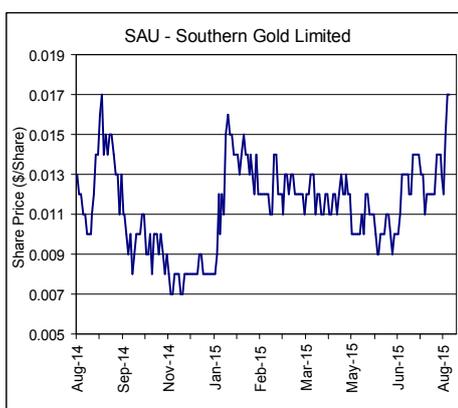
GOLD, NICKEL

PRODUCTION

EXCHANGE: ASX:SAU

CAPITAL PROFILE

Share price (A\$)	0.017
52 week range (A\$/share)	0.007 to 0.020
Number of shares (M)	527.6
Options and warrants (M)	27.3
Fully diluted (M)	554.9
Market capitalisation (undiluted) (A\$M)	9.0
Debt (A\$M) - Sep 15F	2.2
Enterprise value (A\$M)	11.1
Major shareholders: Silver Lake Resources (8.2%), P.S. Super Nominees (5.9%), Gary B Branch (4.45%), Board and Management (7.42%)	
Avg monthly volume (M)	18
Cash (A\$M) - Sep 15F	0.4
Price/Cash (x)	23.6
Listed company options:	SAUO



DIRECTORS

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SOUTHERN GOLD LIMITED

Small, high margin gold producer with near term expansion potential in Kalgoorlie region.

Share Price: \$0.017

Speculative Buy

The acquisition of adjacent Georges Reward by partner MLX (Jul '15) is expected to result in a large expansion to the recently commenced Cannon Gold Mine. Contained ounces could increase 5 fold to ~75koz, improved opex margin and LOM, and +\$10M NPV impact to SAU. Given the need for mill feed at MLX's Jubilee Mill where the ore is to be toll treated, it is anticipated MLX and SAU will reach agreement amicably. The large positive impact to SAU (current EV \$11M) is expected to drive a re-rating and possibly corporate activity. 12 month price target +\$0.020-0.025/share.

INVESTMENT POINTS

- ◆ **Bulong Gold Project** (Australia): Stage 1 open pit mining at **Cannon Gold Mine** commenced Jul '15 - ahead of schedule; fully funded and operated by Metals X (ASX:MLX, mkt cap \$441M). Resource 97koz Au grading 3.57g/t. The first gold pour is expected Oct/Nov '15.
- ◆ **Solid operating margin of A\$350/oz** is expected at a gold price of A\$1500/oz on opex (AISC) A\$1151/oz. 13.5koz Au production expected over 5 months. Net cashflow payment to SAU expected 2Q16 of A\$1.8M.
- ◆ **Expanded open pit:** Strategic acquisition of adjacent Georges Reward by MLX (Jul '15) creates significant synergies through expected joint development with Cannon Gold Mine. Conceptual mine parameters: a **five fold increase in contained resources to 75koz Au** at higher grade ~3.5g/t, lower opex (~A\$1000/oz), increased LOM with **positive NPV impact to SAU of ~\$10M** (\$0.018/share; A\$1500/oz Au price, 5% r/i).
- ◆ Longer term, the potential for resource upside at depth looks very promising. There is also **excellent along strike and regional exploration potential**.
- ◆ The **AUD gold price is expected to continue to trade ~\$1500/oz** as it has done since mid 2011. RCR long term gold price forecast US\$1200/oz.
- ◆ **RCR's SAU valuation is \$9M (\$0.017/share)** with production at Cannon underway, **increasing to \$13M (\$0.025/share)** assuming confirmation of the expanded pit.
- ◆ **Six month share price catalysts** include announcement of the commercial terms and technical parameters for the joint development of the expanded Cannon Mine and Georges Reward pit; Stage 1 first gold pour (due Oct/Nov '15); potential exploration results from drilling at Cannon Trend/Bulong 2H15.

COMPANY STATISTICS

Year End June	Jun-15a	Sep-15F	2014A	2015F	2016F
Exploration and evaluation (A\$M)	0.17	0.25	1.20	1.00	1.00
Corporate (A\$M)	0.22	0.20	1.09	0.81	0.80
Exploration/(Expl.+ Corporate) (%)	43	56	53	55	56
Funding duration at current burn (years)			0.2	0.5	1.8
Shares on issue (pr end) (m shares)	527.6	527.6	386.0	466.0	652.6
Drilling - RAB/Aircore (m)	0	0	0	0	2,000
Drilling - Other/Diamond (m)	500	800	0	2,000	2,500
Land holding ('000 ha)*	0	340	0	0	340
Capital raisings (A\$M)	0	0	0	1	3
Funding from JV partners (A\$M)	0.0	0.0	0.0	0.0	0.0
Cash (A\$M)	0.9	0.4	0.5	0.9	3.3
Cash backing (Ac/share)	0.2	0.1	0.1	0.2	0.5

* 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 where open pit mining commenced Aug '15. 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.

Bulong Gold Project: (Gold, Western Australia, 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. Despite its proximity to Kalgoorlie, the region remains highly prospective for gold discovery utilising new exploration techniques (like SAM) or new exploration models. Gold discoveries within 10km of Bulong include Silver Lake's Majestic deposit (280,000oz) and the Imperial deposit (43,000oz) (discovered 2012). The SAU tenements were most recently held for their nickel prospectivity - targeted by Heron Resources. They have not been systematically explored for gold for around 20 years when Acacia held the ground in search of deposits >1Moz.

Cannon Deposit: The deposit contains a resource of 97koz Au grading 3.6g/t (94% M+I) from surface to 230m depth. Gold mineralisation is free milling, contained in westerly dipping lenses and northwest plunging. The deposit could potentially extend under the nearby boundary with Georges Reward (MLX). With the benefit of future drilling, resource extensions are expected to be defined at depth giving a conceptual global resource target potentially of 200koz to 350koz Au. SAU is planning to mine the deposit in at least two stages.

MLX Profit Share Agreement: Production of gold at Cannon is subject to a profit sharing agreement with Metals X under which the project will be managed and financed by MLX; net profits after all direct costs are recovered by MLX will be shared on a 50:50 basis. Mining and haulage will be charged at cost, toll treatment at Metals X's Jubilee gold plant (1.2Mtpa) 35km by road will be charged at a fixed rate per tonne (\$29/t). There are a number of other gold plants in the vicinity of Cannon and SAU selected MLX as operator and partner due to its competitive toll treatment rate as well as its preparedness to finance all development and operating costs associated with the Cannon Gold Mine. It is a win-win deal that gives SAU an early, low cost and reduced risk pathway to production with the technical and financial assistance of a mid tier producer.

Georges Reward acquisition by Metals X - strong synergies expected in joint development with Cannon: The recent acquisition of the adjacent Georges Reward deposit (Jul '15, 22.8koz at 1.89g/t Au) from a third party by MLX could see the open pit contained ounces increase 5 fold from 15koz currently to ~75koz. Given the spare mill capacity at MLX's Jubilee gold plant where the ore is to be toll treated, it is anticipated MLX and SAU will reach agreement on the commercial terms for development of the expanded pit amicably. It is a strategic move by MLX which paid \$4.5M for the deposit. Much of the value accrues to the opening up of ore sterilized by the tenement boundary between the two deposits which facilitates significantly enhanced pit scale and economics. Georges Reward has a Mining Lease Application (MLA) and an ML is expected to be granted in the coming quarter.

In the meantime, Cannon Stage 1 open pit will advance and is expected to be subsequently fully incorporated into an expanded pit envelope.

Cannon Mine - Stage 1: Mining commenced late July, ahead of schedule. Significantly, the project is a greenfields development which doesn't have legacy issues associated with estimating previously mined resources. The pit shell is to 75m depth, contained gold 15.2koz, grade 3.1g/t, opex A\$1150/oz (AISC). Gold recoveries are expected to average 89% across oxide, transitional and sulphide ores.

Ore will be batch treated in 40kt to 50kt parcels over a 5 month period with the first gold pour expected Oct/Nov '15.

Mining dilution: Ore blocks have been determined via a block model with kriging and allowed for 20% mining dilution at 0g/t Au. The deposit width is estimated to average 6m to 8m - so 1.2m to 1.5m total mining dilution is allowed for. Whether this is sufficient is a critical component of project derisking and the reconciliation of implied mine grades with the first gold pour will be watched with interest. MLX has made considerable effort to understand and manage in pit grade control with detailed analysis of trench samples and modeling evident during our site visit in early August. **SAU's 50% share of profit:** for the smaller Stage 1 pit is forecast to be \$1.8M (assuming an operating margin of ~\$350/oz), to be paid 2Q16. However, should the expanded pit proceed, as is expected (but not yet agreed by MLX and SAU), we estimate **SAU would receive \$12M in operating cashflow** possibly from 4Q16.

Cannon Mine - Expanded Pit: Joint development of Georges Reward and Cannon would create a significantly expanded pit. Conceptual parameters: contained gold ounces expected to increase 5 fold to ~75koz (60koz from Cannon, 15koz from Georges Reward) (up from 15koz total in the current Stage 1 pit); ROM grade expected to increase to ~3.5g/t (from 3.1g/t currently) - based on inclusion of higher grade ore extensions at depth; target C1 opex ~A\$1000/oz (currently A\$1050/oz); pit depth to 125m (currently 75m); and a marginally higher strip ratio of 18:1 (currently 15:1); plant recovery 89% (unchanged); 600kt to 700kt of ore, toll treated 40kt-50kt/month; accelerated LOM of 18-24 months. **Underground potential:** Drill intercepts near the conceptual expanded pit base include 16m at 13.25g/t Au (BSDD003) and 7.6m at 19.04g/t Au (BSRCD200) - high grades and good widths suggesting potential for a future underground mine. The PFS completed Aug '13 (optimised Feb '14) confirmed viability of an underground mine based on parameters then used, though would need to be revised to incorporate the expected impact from an expanded, deeper pit.

Cannon Trend - Exploration Potential: SAU has identified multiple near mine exploration targets, now drill ready on well defined anomalies along a 10km corridor. Drilling is expected over the next 12 months on select targets and will be ramped up as funds are returned to SAU from the Cannon Gold Mine. Longer term, the potential for resource upside at depth looks very promising, and there is also excellent regional exploration potential defined on the large regional Bulong Project where over 20 anomalies are defined (see exploration comment).

Gold Market Outlook: The gold spot price is A\$1521/oz (US\$1117/oz). The gold price has consistently traded in a range around A\$1500/oz since mid 2011 and we expect it will continue to trade around A\$1500/oz in the midterm.

Valuation: Our valuation of SAU is **\$9M (\$0.017/share)** incorporating Stage 1 NPV valuation of Cannon (A\$1500/oz Au price, 5% r/i - see valuation table), increasing to **\$13M (\$0.025/share)** assuming confirmation of the expanded pit with MLX. The impact to SAU of the expanded Cannon project, incorporating Stage 1, and tax benefits assumed to reduce federal tax payable to zero, is \$12M (\$0.023/share). Sensitivity to a 10% change in Cannon ROM head grade is ~\$2.5M (\$0.005/share). The company is trading on a low adjusted EV to resource ratio of A\$11.00/oz for the Cannon Gold Mine.

Corporate: Capital raising Mar '15 raised \$1.05M at \$0.010/share. A further capital raising 2H15 is anticipated.

Investment Comment: SAU's NAV is \$0.017/share potentially rising to \$0.025/share once agreement with MLX is reached on joint development of the expanded Cannon Gold Mine and adjacent Georges Reward - a combination from which both companies would accrue significant value. Given SAU's EV is currently \$11M (\$0.017/share), up 41% from \$0.012/share pre site visit, and a likely agreement on the expanded Cannon Gold Mine has an NPV of \$12M, we think SAU stands to be further rerated or potentially made a takeover offer by partner MLX.

KEY PROJECTS

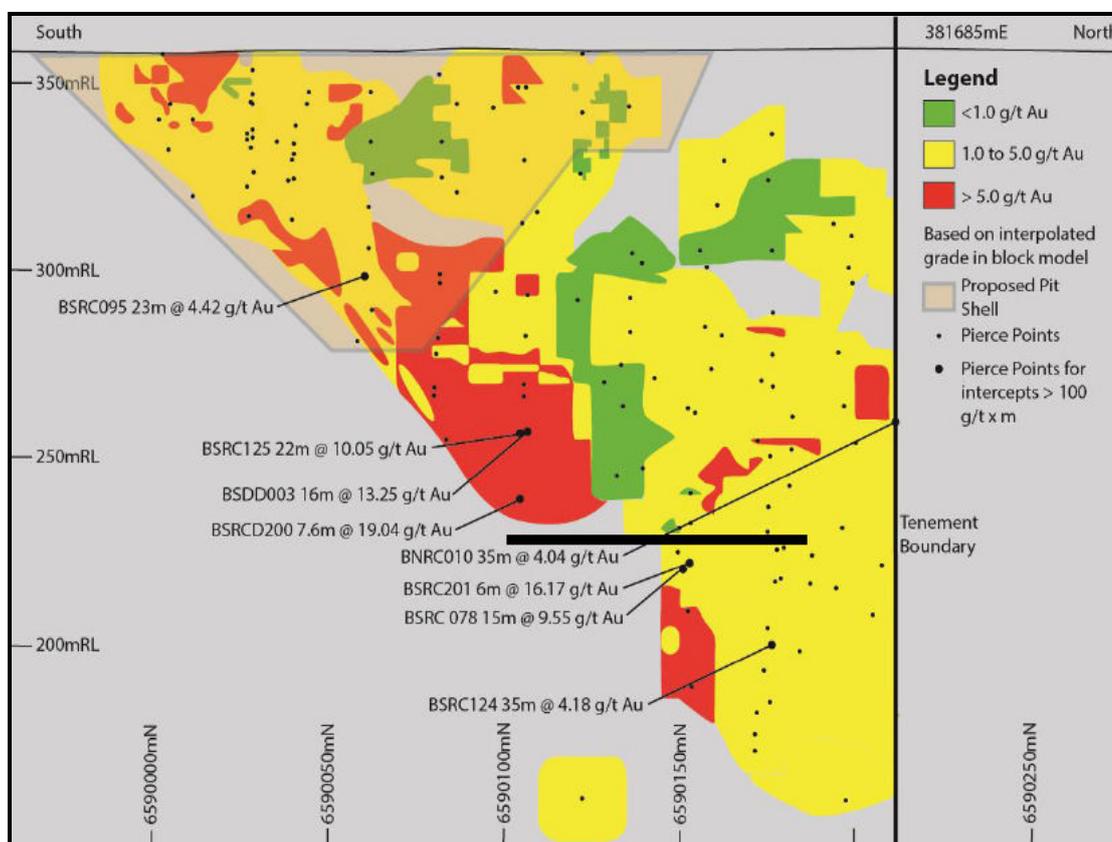
Project	Ownership/ Option	JV Partner	Target Type	Process Route	Project Status	Location
Bulong Gold Project	100%	na	Au	CIP	Production	Australia (WA)
Cowarna Project Cambodia	100%	na	Au	na	Mid Expl.	Australia (WA)
	100/85%	Mekong Minerals	Au, Base Metals	na	Early Expl.	Cambodia

RESERVES AND RESOURCES/MINERALISED MATERIAL

Code for reporting mineral resources - Australia (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%	644	3.87	0.7	80.1	80.1
Sub Total			753	3.75		90.9	90.9
Cannon	Inferred	100%	93	2.05	0.7	6.1	6.1
Total - Cannon			846	3.57		97.0	97.0
Pinner	Inferred	100%	172	2.10	0.7	11.5	11.5
Mineralised Material (est., non compliant with JORC)			0.0			0.0	0.0

Cannon Gold Mine: Long section showing stage 1 pit shell (~75m deep) and conceptual depth of the expanded pit to ~125m depth (solid line). The ore body envelope remains open at depth. High grade drill intercepts near the conceptual expanded pit base include 16m at 13.25g/t Au (BSDD003) and 7.6m at 19.04g/t Au (BSRCD200) - suggesting good potential for underground development.

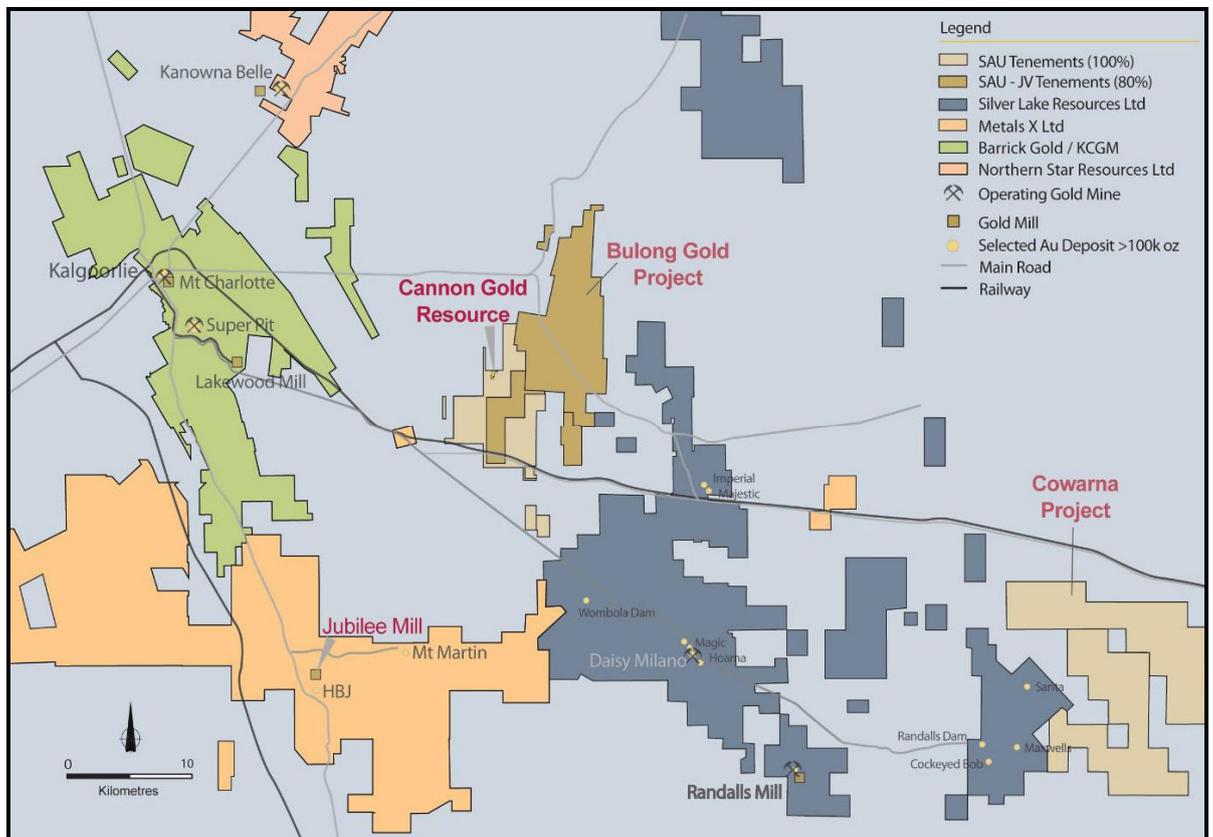
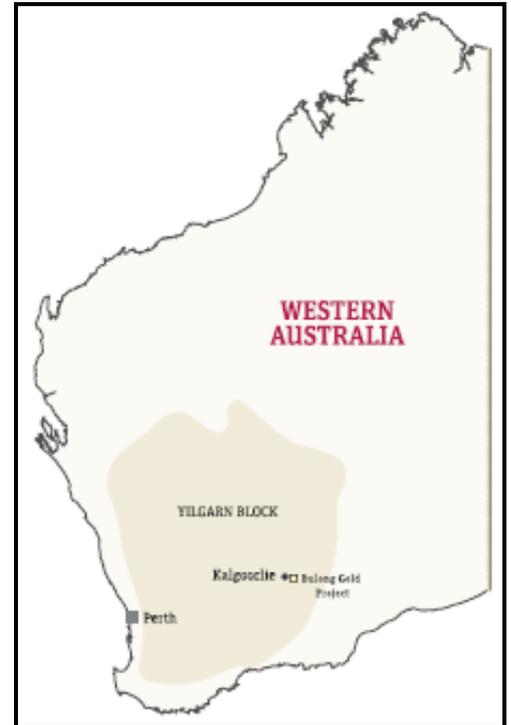


Flagship project - Bulong Gold Project (WA, SAU 100%) location plan: SAU has a large (200km²), strategic land position 30km south east of Kalgoorlie - a world class gold province.

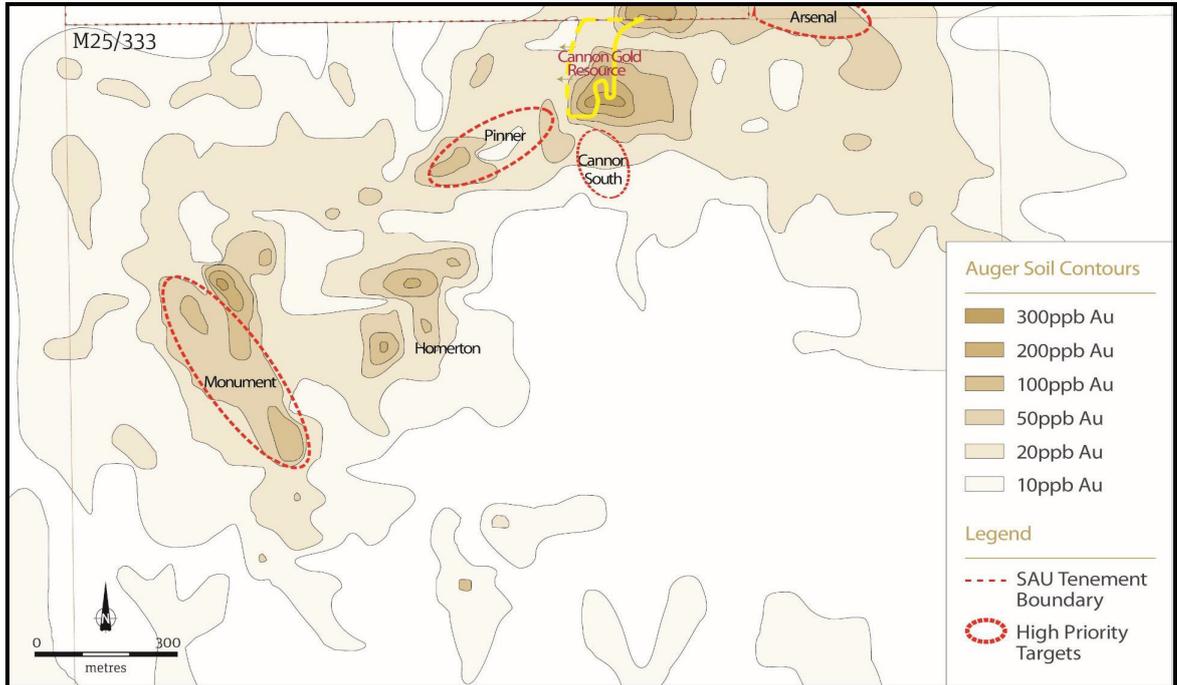
The region remains highly prospective for gold discovery utilising new exploration techniques (like SAM) or new exploration models. Gold discoveries within 10km of Bulong include Silver Lake's Majestic deposit (280,000oz) and the Imperial deposit (43,000oz) (discovered 2012).

The project area contains the Cannon Gold Mine which is subject to a 50/50 profit share agreement with project operator and financier Metals X. Metals X is also contracted to toll treat the ore at its nearby Jubilee Mill 35km by road. First gold pour expected Oct/Nov '15.

SAU also holds the Cowarna Project (140km²), 50kms further east from Bulong, prospective for BIF hosted gold deposits.



Cannon Trend (Bulong Gold Project) - near mine exploration potential: SAU has identified multiple near mine exploration targets, now drill ready on well defined anomalies along a 10km corridor. Drilling is expected to continue over the next 12 months on select targets and will be ramped up as funds are returned to SAU from the Cannon Gold Mine.



Notes:

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. 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. A drill program (800m, 6 holes) is currently underway at the large **Arsenal** anomaly where a large alteration system was identified by previous drilling. Other anomalies defined by soil samples and geophysics include **Monument**, **Cannon South** and **Tooting Bec**.

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).

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		1100		1100	900	1100	1200	1400	
LT Exchange Rate: AUUS	:		0.73		0.73	0.85	0.85	0.85	0.85	
LT Gold Price	: A\$/oz		1507		1507	1059	1294	1412	1647	
Projects										
Cannon Gold Mine - Stage 1	: NPV @5%	100%	88	1.8	90%	1.6	1	1	2	3
Cannon Gold Mine - Expanded Pit	: NPV @5%	100%		8.4	65%	5.5	3	7	8	10
Resources and Exploration										
Cannon (additional resource est.)	:	100%	18	2	100%	2	2	2	2	
Other				1		1	1	1	1	
Sub-total Exploration				3		3	3	3	3	
Assets										
+ Cash				0.4		0.4	0.4	0.4	0.4	
+ Tax losses ^{^^}				3.6	75%	2.7	2.7	2.7	2.7	
Liabilities										
- Debt				2		2	2	2	2	
- Corporate				2		2	2	2	2	
- Reclamation				0		0	0	0	0	
SAU Net Assets				13		9	6	10	12	15
Fully diluted shares (M)				554.9		554.9	554.9	554.9	554.9	554.9
Cash on Option Conversion [^]				0.6		0.6	0.6	0.6	0.6	0.6
SAU Net Asset Value per share	: A\$/share			0.025		0.017	0.011	0.019	0.023	0.028
SAU Net Asset Value Diluted	: A\$/share dil			0.025		0.017	0.012	0.019	0.023	0.028
[^] 18.3M options are in the money; strike price of 1.5cps (\$0.275M); expiry Nov 2015.										
^{^^} Valuation impact of \$12M estimated tax losses for the Cannon Project.										
Operating Margin - Stage 1 pit										
Total Cash Costs (AISC)						1150	1150	1150	1150	
Cash Margin						357	n/a	144	262	497
Operating Cashflow (50% profit share to SAU)						2.4	n/a	1.0	1.8	3.4

CANNON GOLD PROJECT KEY ASSUMPTIONS (derived from PFS (optimised Feb '14) and mine schedule 16 June 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)			152	3.10	15.2	13.5
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.					
BASE CASE ASSUMPTIONS						
AVERAGE HEAD GRADE - Au	:g/t	3.10				
RECOVERY - GOLD	:%	89				
PRODUCTION	:Kozpa	13.5	Initial 9 month campaign. Potential for pit extensions and underground mining.			
CAPITAL COSTS	:A\$Mpa	0.9				
OPERATING COSTS: - C1	:A\$/oz	1053				
plus royalties/taxes/ongoing capex	:A\$/oz	1084				
plus capital costs/depreciation	:A\$/oz	1150				
CORPORATE TAX	:%	30				
ROYALTY	:%	2.5	WA - state gold royalty.			
MINE LIFE	:Years	<1				
COMMISSION PROJECT	:	3Q15				

These figures are preliminary in nature and are intended to provide only a general indication of project scale and economic robustness. Considerable refinement may result from subsequent studies and operating experience.

GOLD PRICE CHARTS

15 Year Gold Price Chart - August 2000 to August 2015 (AUD/oz):

The gold price in Australian dollar terms has been trading around A\$1500/oz since July 2011, helping maintain robust operating margins for Australian producers despite falls in the USD gold price over this period. The spot price is currently A\$1521/oz.



Source: goldprice.org

Note: The gold spot price is A\$1521/oz (US\$1117/oz). RCR gold price forecasts are US\$1100/oz for calendar 2015, US\$1075/oz 2016, US\$1125/oz 2017, and long term price of US\$1200/oz. RCR's long term AUD/USD exchange rate assumption is 0.85.

15 Year Gold Price Chart - August 2000 to August 2015 (USD/oz):

The gold price in US dollar terms has weakened considerably since August 2011 when it traded at over US\$1825/oz. The spot price is currently US\$1117/oz. There is a risk the gold price may trade under US\$1000/oz on tightening US fed monetary policy over the next 12 months. However, we expect the gold price will be buoyed by continued Chinese reserve buying and ongoing safe haven status in a global economy in which high levels of debt continue to pose unprecedented risks. RCR's longterm gold price forecast is US\$1200/oz.



Source: goldprice.org

Note: The steep run up in the gold price from 2009 was driven by a policy of quantitative easing, implemented in the U.S. after the GFC. QE had a noticeable positive impact on the gold price from 2009 when the program started - clearly evident in the chart above. Tapering of QE began December 2013 and the final \$15bn purchase occurred in October 2014 during which time the Fed added US\$3.5 trillion dollars to its balance sheet. As a result of the end of QE, the gold price bubble burst and the price has returned to on trend growth from 2009 levels. Ongoing modest tightening of US monetary policy is expected to keep downward pressure on the gold price near term as economic growth continues in the US.

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