

15 April 2016

AUSTRALIA

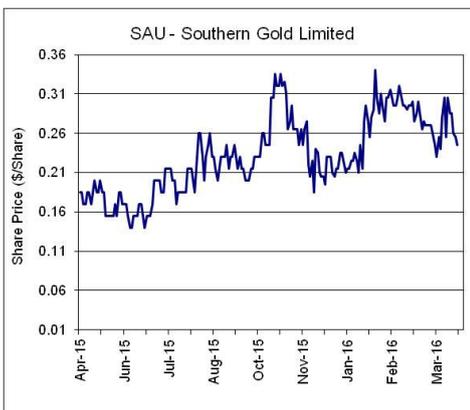
GOLD, NICKEL

PRODUCTION

EXCHANGE: ASX:SAU

CAPITAL PROFILE

Share price (A\$)	0.240
52 week range (A\$/share)	0.14 to 0.40
Number of shares (M)	36.5
Options and warrants (M)	0.9
Fully diluted (M)	37.4
Market capitalisation (undiluted) (A\$M)	8.8
Debt (A\$M) - Mar 16F	1.5
Enterprise value (A\$M)	10.3
Major shareholders: Silver Lake Resources (7.9%), Board and Management (4.76%)	
Avg monthly volume (M)	2
Cash (A\$M) - Mar 16F	0.4
Price/Cash (x)	23.7



DIRECTORS

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SOUTHERN GOLD LIMITED

Small, high margin gold producer with near mine, low cost exploration potential in Kalgoorlie region.

Share Price: \$0.24

Speculative Buy

Cannon (WA) is on track to deliver +50koz gold through 1Q17. Expected return to SAU is A\$12M to \$15M through 1Q17. Re-affirmed potential for Cannon underground post 2017 - drill results 1Q16 include 19m @ 15.1g/t Au. High potential to expand shallow near mine resources through exploration (e.g. Monument) and acquisition - Glandore JV offers new near term resource upside and development opportunity. RCR's SAU NAV is \$0.36/share with 12 month upside to \$0.41/share.

INVESTMENT POINTS

- ◆ **Bulong Gold Project (WA): Cannon Gold Mine** open pit fully funded and operated by Metals X (ASX:MLX, mkt cap \$457M) with 50/50 profit share. In-pit JORC resource **58koz Au** (ex. Georges Reward), grade 3.8g/t.
- ◆ **Solid operating margin forecast of ~A\$500/oz** on improved AISC of \$981/oz (previous \$1091/oz). **Project forward sales of 20koz at average \$1530.** SAU retains exposure of >15koz production at spot price.
- ◆ **Underground potential:** Excellent high grade in-pit drill intercepts (1Q16) near the pit base include **19m at 15.1g/t** from 83m (CARD001) and **23m at 4.8g/t** from 80m (CARD003). Results reaffirm likely potential for underground development. Updated PFS expected 2017.
- ◆ **Glandore Project JV** (Apr '16, SAU 0/90%) adjacent to Cannon Gold Mine offers a new near term development opportunity for SAU. Potential JORC 2H17. **Conceptual Exploration Target 50koz to 200koz gold grading 2.4 - 3g/t.** Historic drilling by Western Mining, AnglGold and others.
- ◆ **Excellent along strike and regional exploration potential.** Exploration drilling 1H16: **Monument** (1000m, 2Q16; **1Q16 drill results include 7m at 2.2g/t**), Tooting Bec (1Q16), Cannon underground extension (2Q16).
- ◆ **MLX has extended a secured loan facility to SAU of \$2.5M** for general and working capital needs; plus SAU has undrawn \$1M conv note facility.
- ◆ **RCR's SAU valuation is \$13M (\$0.36/share, assuming A\$1500/oz Au price, 5% r/i) rising to \$15M (\$0.41/share)** with operating outperformance at cannon potentially **adding a further 10koz** of gold.
- ◆ **6 to 12 month share price catalysts** include potential for confirmation of production outperformance at Cannon Gold Mine; exploration results from drilling at Cannon Trend/Bulong 1H16, anticipated JORC resource at Monument 3Q16 and Glandore JV 2017; U/G PFS and further acquisitions.

COMPANY STATISTICS

Year End June	Dec-15a	Mar-16F	2015A	2016F	2017F
Exploration and evaluation (A\$M)	0.23	0.25	1.02	1.21	1.25
Corporate (A\$M)	0.23	0.29	0.70	1.00	0.93
Exploration/(Expl. + Corporate) (%)	50	46	59	55	57
Funding duration at current burn (years)			0.5	0.3	5.1
Shares on issue (pr end) (M shares)	36.5	36.5	527.6	36.5	36.5
Drilling - RAB/Aircore (m)	0	0	0	1,000	5,000
Drilling - Other/Diamond (m)	1,000	750	2,000	5,500	5,000
Land holding ('000 ha)*	340	340	340	340	340
Capital raisings (A\$M)	0.27	0.00	1.38	0.27	0.00
Funding from JV partners (A\$M)	0.0	0.0	0.0	0.0	0.0
Cash (A\$M)	0.6	0.4	0.9	0.6	11.1
Cash backing (Ac/share)	1.7	1.0	0.2	1.6	30.3

* 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.

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. 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 with maiden gold pour Nov '15. Ore is batch processed through MLX's Jubilee gold plant: the first campaign produced 6,474oz Au 4Q15 and a second campaign Jan '16 produced 3,504oz for a total of 9,978oz Au to date at an average grade of 2.61g/t and mill recovery of 91.6%.

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. 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 for a conceptual global resource target of 200koz to 350koz Au.

MLX Profit Share Agreement: The expanded "Big Pit" entails the joint development of Georges Reward (100% MLX) and Cannon which will create a significantly expanded pit. Production of gold at the expanded Cannon Mine portion of the open pit 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. (The agreement as yet does not extend to any potential underground mine.) 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). Project capex is low at \$1.2M to be repaid from project revenues prior to **SAU receiving surplus project cashflows MLX - expected from 4Q16**. MLX has extended a secured debt facility of \$2.5M to SAU expected to cover the company's operating cash needs till then.

Cannon Mine - Expanded Pit: The Cannon Mine portion of the expanded pit: contained gold ounces is 58koz (M25/333 only). (Including 17koz in Georges Reward portion of the expanded project takes the combined Cannon/Georges Reward pit to 74koz Au); ROM grade 3.77g/t ; C1 opex ~A\$981/oz; pit depth to 125m; gold plant average recovery 86.4% across oxide, transitional and sulphide; LOM of 12 months; 479kt of ore, toll treated in 40kt to 50kt parcels through 1Q17. There are **several sources of potential in-pit valuation upside** including from additional ore, improved grade control and higher mill recoveries. Combined, these factors could see recovered gold increase to 60koz, up from 50koz currently forecast. The initial reserve/production reconciliation is expected late Apr '16.

Cannon Mine underground potential: High grade drill intercepts (1Q16) near the expanded pit base include **19m at 15.1g/t from 83m (CARD001) and 23m at 4.8g/t from 80m (CARD003)**. These results give increased confidence to previous high grade drill intercepts that include 6m at 16.17g/t (BSRCD201) and 15m at 9.55g/t (BSRC078).

Excellent results 1Q16 reaffirm potential for underground development, with high grades and good widths anticipated to extend at depth below the current pit shell. Two 500m holes 1H16 are planned to test for ore extensions at depth beneath the current pit design. The PFS completed Aug '13 (optimised Feb '14) confirmed viability of an underground mine based on parameters then used, though need to be revised to include the impact from a deeper pit. Updated underground PFS expected 2017. 5,000m drilling planned (20 holes of 250m): **Drilling 3,000m 2Q16**.

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. **Monument drilling 1Q16** (726m RC, 112m DD) 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 within a recently defined fault zone. Potential to extend LOM of Cannon. **Drilling 2Q16 (1,000m RC)**. Near surface JORC resource anticipated 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** drill results awaited.

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. Given the availability of extensive historic exploration results with over 23,000m of drilling including from WMC and AngloGold, and with further exploration work by SAU, the company hopes to define a JORC resource 2H17. SAU will likely undertake \$700k of work in FY17, including ~\$500k of drilling, mostly RC. SAU has defined 3 high priority areas for exploration follow up with significant historic grade and width drill intercepts, near surface, supergene style mineralisation expected to be free milling: viz, **Supergene Zone, Axial Planar and Central Fault**. Each zone is open at depth and along strike. SAU also intends to undertake detailed economic modelling for shallow open pit mining and toll treatment. Historic drill intercepts and anticipated follow up targets for SAU 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). (Refer SAU release 4 April).

Valuation: Our valuation for SAU is **\$13M (\$0.36/share)** based on the expanded Cannon Gold Mine (assuming A\$1500/oz Au price, 5% r/i) - see valuation table. If the improved Cannon mine operating factors are priced in, SAU's share of project NPV could increase by ~50% from \$7M to \$10M and increase SAU's valuation to **\$15M (\$0.41/share)**. Project related tax losses are assumed to reduce federal tax payable to zero. After tax project cashflow attributable to SAU over the next 18 months is expected to amount to \$12M to \$15M. SAU has drawn \$1.5M of the MLX facility and is expected to draw \$1M convertible note Apr '16 to fund exploration.

Investment Comment: Initial production of 10koz at the Cannon Gold Mine has confirmed operating parameters with lower opex and a robust operating margin ~A\$500/oz. Expected project cash payment to SAU is \$13M to \$15M which underpins our SAU NAV of \$36cps to 41cps. Near term (1H17) there is good potential for an underground mine to extend project life, plus upside from well defined nearby shallow exploration targets, including the new Glandore Project JV. SAU management is proving adept at defining near mine, shallow mineralisation both through exploration and acquisition with potential for add JORC resources 2H16 and 2017 and extend LOM.

KEY PROJECTS

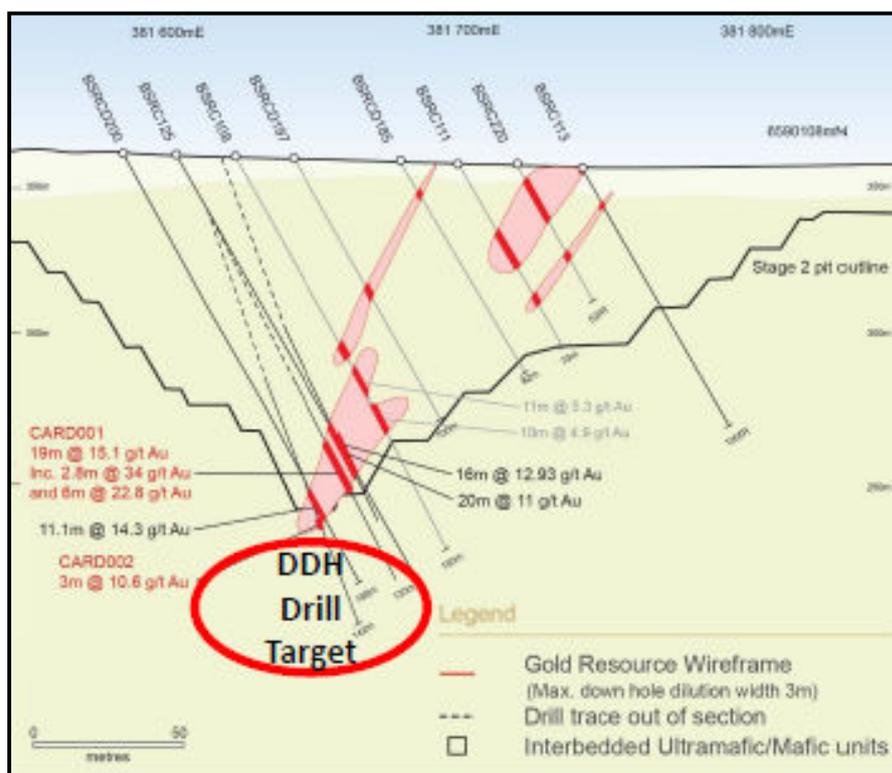
Project	Ownership/ Option	JV Partner	Target Type	Process Route	Project Status	Location
Bulong Gold Project	100%	na	Au	CIP	Production	Australia (WA)
Cowarna Project	100%	na	Au	na	Mid Expl.	Australia (WA)
Glandore JV	0/90%	Aruma	Au	na	Mid Expl.	Australia (WA)

RESERVES AND RESOURCES; CONCEPTUAL EXPLORATION TARGET

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
Conceptual Exploration Target							
Glandore JV	Exploration Target	0/90%	500-2,500	2.4-3.0	na	50-200	

Cannon Gold Mine: Cross section showing expanded pit to ~125m depth. The ore body remains open at depth. High grade drill intercepts (1Q16) near pit base include 19m at 15.1g/t from 83m (CARD001) and 23m at 4.8g/t from 80m (CARD003); intercepts from previous drilling include 6m at 16.17g/t (BSRCD201) and 15m at 9.55g/t (BSRC078). Results 1Q16 reaffirm excellent potential for underground development. Updated underground PFS expected 2017.

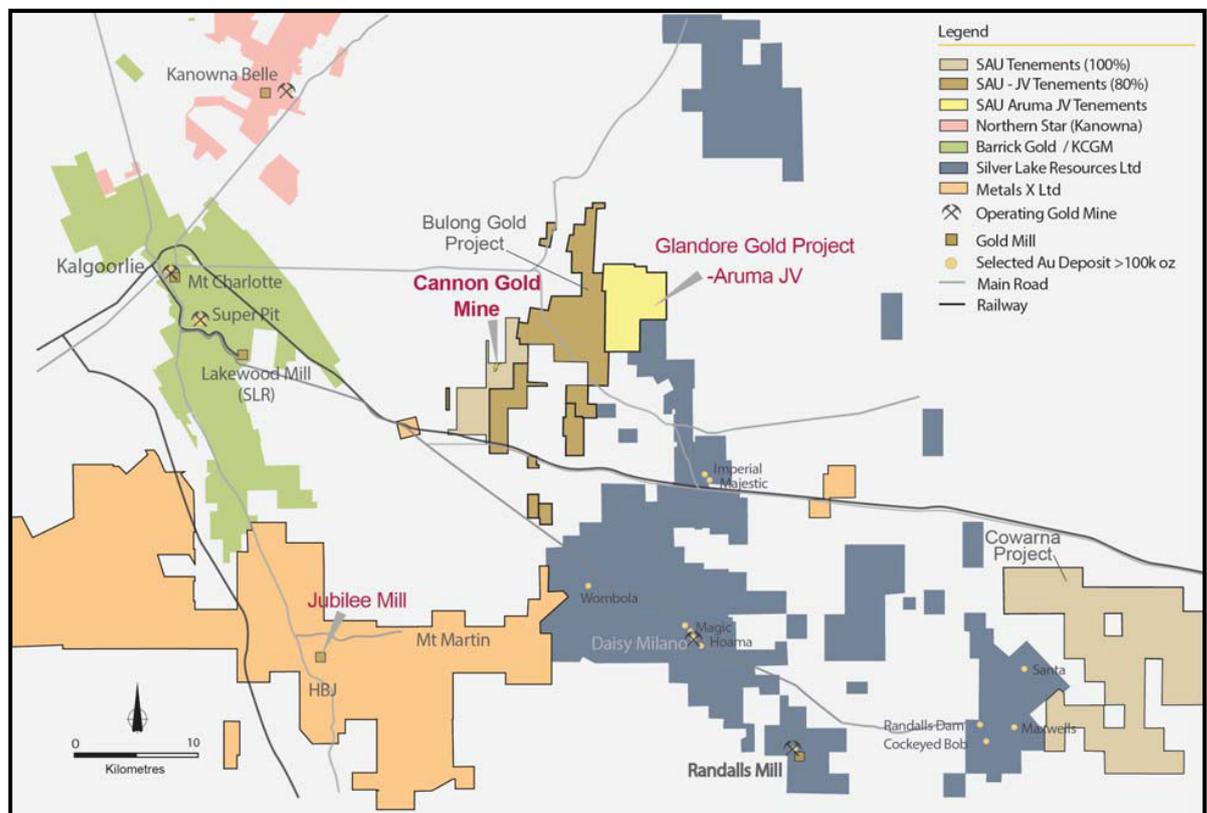
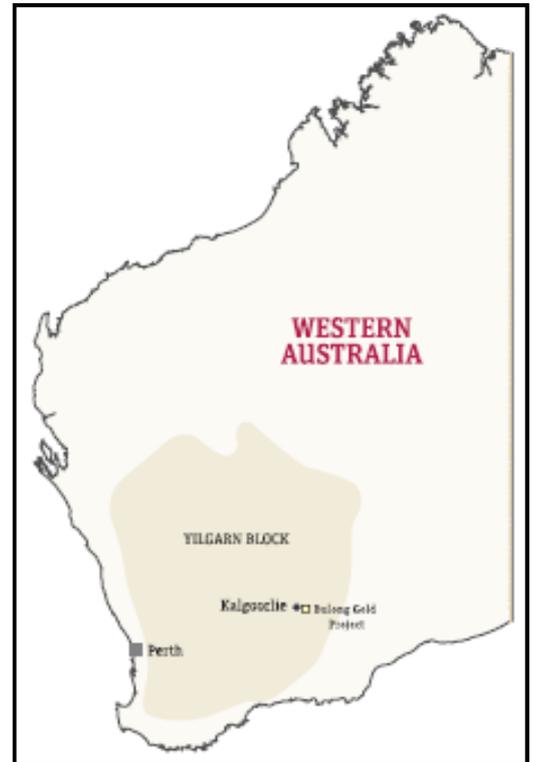


Flagship project - Bulong Gold Project (WA, SAU 100%) location plan: SAU has a large (200km²) strategic land position 30km south east of Kalgoorlie in a world class gold province.

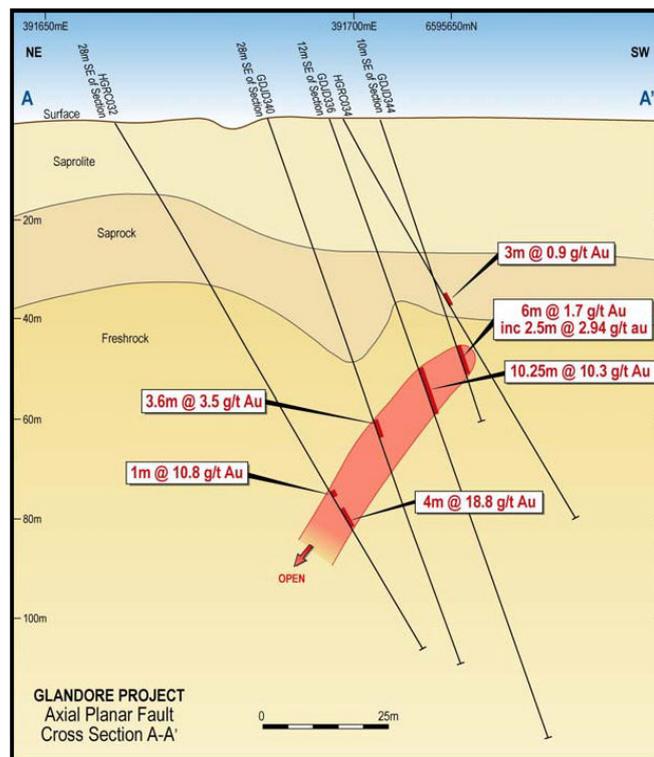
The region is highly prospective for gold discovery utilising new exploration techniques (like SAM) or new exploration models. Gold discoveries within 10km of Bulong include Silver Lake's Majestic deposit (280,000oz) and the Imperial deposit (43,000oz) (discovered 2012).

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.

Bulong Gold Project location map below shows the Cannon Gold Mine in relation to the Jubilee Mill, the adjacent Glandore Gold Project JV; and the Cowarna Project, which is 50kms further east from Bulong, prospective for BIF hosted gold deposits.



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.



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. Drilling expected 2Q16 at **Monument** followed by anticipated JORC resource 3Q16. **Tooting Bec 1Q16** drill results awaited. Further prospects expected to be drilled 2H16 and exploration will be ramped up 2017 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).

Drilling Diary 2016

	Stage	When?*	Cost?*
Cannon Underground	Projects	2016H1	\$500k
Cannon 'Deeps'	Projects	2016H1	\$400k**
Monument	Projects	2016H1	\$300k
New Project(s)	Projects	2016H2	TBA
Tooting Bec / Bulong Tier 1	Exploration	2016H1	\$200k
Cowarna	Exploration	2016H2	\$400k**

* An approximate guide only, drill programs subject to funding

**Subject to Exploration Incentive Scheme (EIS) Application

Note**: EIS applications declined for Cannon Deeps and Cowarna. Cowarna EIS reapplied for.

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	1000	1100	1200	1300	
LT Exchange Rate: AUUS	:		0.72		0.72	0.75	0.75	0.75	0.75	
LT Gold Price	: A\$/oz		1528		1528	1333	1467	1600	1733	
Projects										
Cannon Gold Mine - "Big Pit" total*	: NPV @5%	100%	132	9	100%	9	5	7	10	12
Potential in-pit production upside	: NPV @5%	100%		4	50%	2	1	1	1	2
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				0.4		0.4	0.4	0.4	0.4	0.4
+ Tax losses^				2.0		2.0	1.0	2.0	2.0	2.0
Liabilities										
- Debt				2		2	2	2	2	2
- Corporate				2		2	2	2	2	2
- Reclamation				0		0	0	0	0	0
SAU Net Assets										
				15		13	8	11	14	16
Fully diluted shares (M)				37.4		37.4	37.4	37.4	37.4	37.4
Cash on Option Conversion				0.4		0.4	0.4	0.4	0.4	0.4
SAU Net Asset Value per share	: A\$/share			0.414		0.359	0.207	0.296	0.386	0.449
SAU Net Asset Value Diluted	: A\$/share dil			0.415		0.361	0.213	0.300	0.387	0.449
* Cannon Gold Mine NPV indicated is 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
Total Cash Costs (AISC)	: A\$/oz					1037	1037	1037	1037	1037
Cash Margin	: A\$/oz					491	n/a	430	563	696
Operating Cashflow (50% profit share to SAU)	: A\$M					12.3	n/a	10.8	14.1	17.5

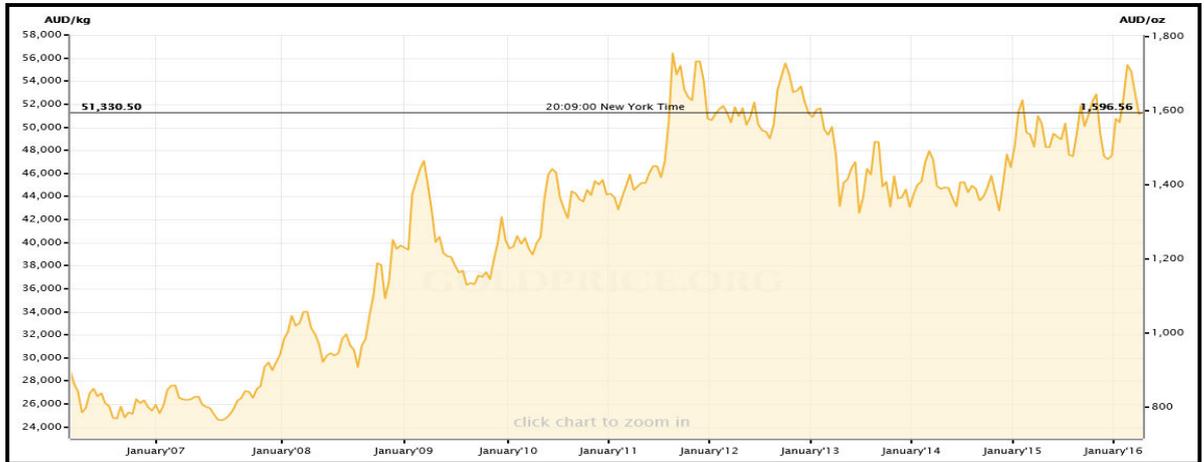
CANNON GOLD PROJECT KEY ASSUMPTIONS (derived from MLX estimates (as per SAU release 9 Dec. 2015))

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 Gold Price Chart - March 2006 to 15 April 2016 (AUD/oz):

The Australian dollar gold price 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\$1596.56/oz.

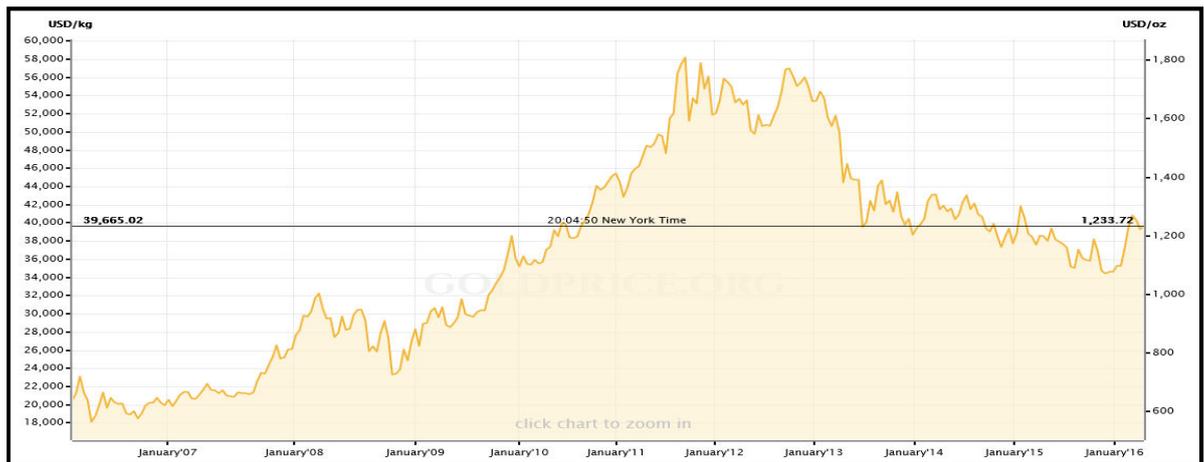


Source: goldprice.org

Note: The gold spot price is A\$1596/oz (US\$1233/oz). The spot currency is AUD/USD 0.77. RCR gold price forecasts are US\$1231/oz for calendar 2016, US\$1237.50/oz 2017, US\$1239/oz 2018, and long term price of US\$1200/oz. RCR's AUD/USD exchange rate assumptions are 0.71 for 2016, 0.70 for 2017, 0.70 for 2018 and long term 0.80.

10 Year Gold Price Chart - March 2006 to 15 April 2016 (USD/oz):

The spot gold price in US dollars is US\$1233.72/oz. The downward trend in the gold price over the past several years may have reversed with a recent bottom at US\$1050/oz mid December 2015 coinciding with the Fed's first rate increase in 10 years. Market uncertainty and further US economic weakness could see the Fed backtrack through 2016 which could provide an upward catalyst for the gold price going forward. We also 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. The Fed rate rise 16 December 2015 was the first in 10 years. Many believe the Fed moved too soon given the ongoing global economic weakness and expectations of future softening/reversal by the Fed are driving positive momentum in the gold price - a trend expected to continue through 2016.

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