



**Breakaway  
Research**

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### Company Information

ASX Code	SAU
Share Price	A\$0.014
Ord Shares(30 Jun 2015)	527.624m
<b>Market Cap</b>	<b>A\$7.387m</b>
Cash (30 Jun 2015)	A\$0.868m
Total Debt (30 Jun 2015)	A\$0.500m
<b>Enterprise Value</b>	<b>A\$7.019m</b>

### Directors

Non-Executive Chairman	Greg Boulton
Managing Director	Simon Mitchell
Non-Executive Director	Michael Billing
Non-Executive Director	David Turvey

### Substantial Share Holders

Silver Lake Resources	8.20%
PS Super Nominees	5.93%
G B Branch	4.45%

### Company Details

Address	Level 1, 8 Beulah Rd Norwood SA 5067
Phone	+618 8368 8888
Web	<a href="http://www.southerngold.com.au">www.southerngold.com.au</a>

### 1 Year Price Chart



Source (CommSec)

# Southern Gold Ltd (SAU)

*Gold production only months away – cash flow by early 2016*

## Recommendation: Speculative Buy

### Key Points

- **JORC Mineral Resource of 97,045 ounces gold (846,260t at 3.57g/t) established at the Cannon Gold Resource, part of the Bulong Gold Project, Western Australia**
- **Pre-feasibility study in 2013 confirmed the economic viability of mining, hauling and toll treating ore from Cannon**
- **Agreement with Metals X to develop, operate and finance a Stage 1 Open Pit which is expected to produce ~13,500 ounces at an average operating cost of A\$1,053/oz with a modest \$0.9m upfront capital cost**
- **Acquisition of the adjacent Georges Reward deposit by Metals X provides potential opportunities to develop a larger, deeper open pit which could see gold production 4-5 times greater than the Stage 1 Open Pit**
- **Cash generated from Cannon is to be used to finance exploration to extend existing mineralisation (particularly at depth), drilling of identified projects in the immediate vicinity of Cannon and for a large number of exploration targets in the broader Bulong Project area**

*Southern Gold Ltd is an ASX listed junior gold exploration company whose main focus is the Bulong Gold Project 30km east of Kalgoorlie WA, where small scale open pit mining has recently commenced at its flagship Cannon Gold Mine.*

### Company Overview

Southern Gold Limited ("Southern Gold", ASX: SAU) was listed on the ASX in April 2005. The initial focus was on gold exploration around the Challenger Mine in South Australia, nickel at Bulong South, uranium/base metals in the Gawler Craton and gold and gold/copper in the Lachlan Fold Belt. The Company later added exploration tenements in Cambodia to its asset base. The bulk of these assets have now been disposed of, allowing the Company to concentrate on the Bulong gold assets.



## Investment Thesis

### Pre-feasibility study (PFS) demonstrates economic viability of Cannon

*PFS demonstrates ability to generate \$14m at \$1,500/oz gold price*

A PFS conducted in 2013 demonstrated the economic viability of an open pit and underground operation, toll-treating ore at a nearby mill. The estimated cash generation, based on a gold price of A\$1,500/oz, was approximately \$14m. At an estimated total cost of \$1,150/oz (including the capital on the small pit), the buffer is considerable. An update to the PFS in 2014 further enhanced the project economics, boosting anticipated cash generation to around \$18m.

### Highly credentialed operator lowers start-up risk

*Top 10 Australian gold company to operate Cannon*

The announcement that Metals X Limited would finance and operate (mine, haul and process) the early stage development of the Cannon Gold Resource was a major breakthrough for Southern Gold. Operational activities are to be charged on an open book, at-cost basis, providing a high level of transparency. Surplus cash will be shared on a 50/50 basis. Metals X, an Australian top ten gold producer and Australia's largest tin producer, is well funded and has extensive expertise and experience in operational management. This means that the normal risks associated with start-up of small operations are significantly reduced.

### Metals X acquisition of adjacent property puts valuation into perspective

*Metals X acquisition of adjacent property for \$4.5m highlights value of Cannon...*

Putting a value on a small resource such as Cannon can sometimes be difficult, but a recent transaction on a nearby property gives a good indication of the potential worth of the project. In July 2015, Metals X Limited (ASX: MLX) announced the acquisition of the Georges Reward deposit on exploration tenement E25/268 for \$4.5m. Georges Reward has a publically announced JORC Inferred Resource of 375,000t at 1.89g/t containing 22,800 ounces of gold. While direct comparisons cannot effectively capture exploration upside, the Cannon Project has a resource of 846,260t at 3.57g/t containing 97,045 ounces of gold, **more than four times the amount of gold at almost twice the grade.**

### Larger pit the key to short term share price performance

*... and paves the way for a potential expansion of the open pit*

The potential development of a much larger and deeper pit at Cannon following Metals X's purchase of the adjacent Georges Reward deposit has very positive implications for Southern Gold as it would result in much more gold being extracted on a higher margin open pit basis. The fact that Metals X is now not only a partner and operator but also a neighbour adjacent to the Company's flagship operation cannot be underestimated.

### Relatively high grade makes Cannon ore an attractive tolling proposition

*Relatively high grade ore for toll treatment in region*

The current estimated head grade, with 20% dilution assumed, is 3.1g/t. On the larger pit option, this could be as high as 4g/t. This is higher than a large number of operations in the district and makes Cannon ore an attractive proposition for gold plants with excess treatment capacity in the area.

### Early cash flow to fund ongoing exploration

*Abundance of exploration targets could be funded from Cannon cash flow*

Early cash flow from the Stage 1 Open Pit at Cannon should provide funding to accelerate exploration within its broader tenement holdings. Exploration will target extensions to existing mineralisation, particularly at depth, previously identified satellite targets in close proximity to the Cannon deposits, as well as more than 30 exploration targets in the broader Bulong region. The wealth of information that will become available to Southern Gold during the mining of the Cannon deposit will be invaluable in discovering



and evaluating similar nearby deposits and within the broader region.

### Team with diversified technical and financial experience

*Wide range of Board experience*

Southern Gold has a Board of Directors with a diverse range of skills and experience. This includes exploration, geology, mine development, technical, business development, financial, consulting, capital raising, acquisitions, commercial negotiations, company secretarial and commercial expertise.

### Risks & Mitigants

*Start up risks partly mitigated by experienced operator*

**Technical.** While the scale of mining is small, the company faces the same start up risks as all new producers. Grade reconciliation will be the key factor. The fact that development and production will be controlled by a reputable Australian mining company with significant technical and operational expertise should reduce operational and technical risk.

**Funding.** This is an ongoing issue for all junior exploration companies. Metals X has provided a loan to finance a significant proportion of the upfront capital cost and as long as the initial development at Cannon is successful, the Company should be better placed than many of its peer group for future exploration funding.

## Background

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*Improved exploration funding if Cannon is successful*

Southern Gold Limited ("Southern Gold", ASX: SAU) was listed on the ASX in April 2005. The initial focus was on gold exploration around the Challenger Mine in South Australia, nickel at Bulong South, uranium/base metals in the Gawler Craton and gold and gold/copper in the Lachlan Fold Belt.

During 2006 and 2007, Southern Gold built a substantial project portfolio in Cambodia, acquiring seven Exploration Licences, covering 1,500km<sup>2</sup>. In 2009, the Company disposed of its 39% interest in Southern Uranium. By 2010, the focus had shifted to gold exploration at Bulong, and this has remained the Company's top exploration priority ever since.

## Southern Gold Projects

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*Company has disposed of most of its assets...*

In 2012, Southern Gold sold its interests in the Challenger Project to Trafford Resources Ltd for a combination of cash and Trafford shares. The Company recently announced that it had executed a Sale, Purchase and Joint Venture Agreement whereby the Cambodian assets would be sold to Mekong Minerals Ltd in exchange for a 15% free carried interest and a 2% gross sales royalty from any production. This leaves the Bulong Project as the Company's main focus of attention.

*...allowing it to focus on Bulong*

### Bulong Gold Project, Western Australia

The Bulong Gold Project is located 30km east of the Kalgoorlie Goldfield in Western Australia. The Bulong Complex is a sequence of ultramafic and mafic rocks which are proven hosts to large gold resources in the Kalgoorlie district.

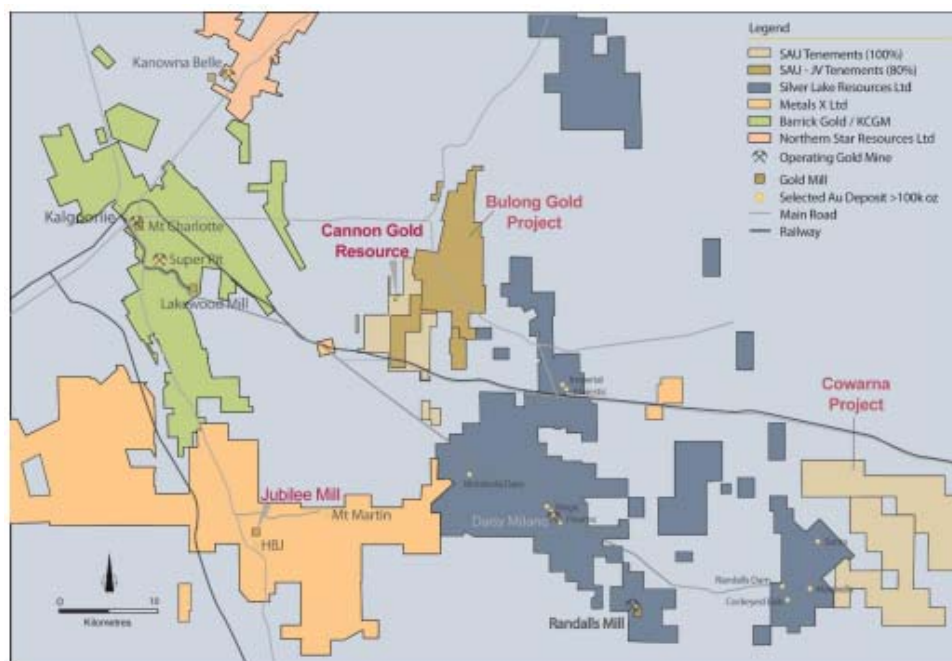


Figure 1: Location of Bulong Assets

Source: Southern Gold Ltd

*Initial focus on nickel...*

*... gold zones discovered in 2007/08*

Exploration initially focused on the sulphide nickel potential of the Bulong South Project, where grades of up to 2.44% nickel over 2m were recorded at the Euston Prospect. In 2007/08, new gold zones were discovered at the Monument and Cannon Prospects. Early results, from relatively shallow drilling at the Monument Prospect, included 6m at 3.33g/t, 9m at 3.14g/t and 6m at 3.58g/t and 5m at 6.38g/t at the Cannon Prospect. These results encouraged increased exploration spending on the project.

### Cannon Gold Project

The Cannon Project lies within the Company's 100% owned Mining Lease M25/333 and forms part of the Bulong Gold Project in Western Australia.

*Cannon discovered by drilling of soil geochem anomaly...*

*... maiden resource announced as early as 2010*

The Company is targeting the discovery of gold resources in an area where past exploration was principally for nickel. The Cannon gold resource was discovered after drill testing the first of five gold-in-soil anomalies generated from a soil sampling program. Following further drilling, the Company announced a maiden gold resource of 79,100 ounces (803,000t at 3.1g/t) at the Cannon deposit in September 2010. This resource was increased to 94,500 oz (896,000t at 3.3g/t) in June 2011. Resource evaluation work included the drilling of 38 holes (RC and diamond), designed largely to test the broad high grade zones to provide a greater level of detail of the nature of the geological host rock and controlling structures. The result was that a high proportion (83%) of defined resource was included in the Indicated category.

*Drill results also used to evaluate development studies*

Results from the drilling program were combined with those from previous drilling campaigns to evaluate geotechnical, metallurgical, environmental and mine planning components. Geotechnical conditions were seen to be typical of operations in the district and could be managed through prudent open pit mine design and mining practices. Metallurgical test work of the transitional ore indicated relatively soft material with recovery of 10-15% through gravity concentration and overall recovery of +93% through a CIP/CIL circuit. Fresh ore tested was only moderately hard, with the potential for 30-35% recovery through gravity concentration and overall recovery of +85%. Flora,



fauna and hydrological studies were also completed. Conceptual mine development scenarios were evaluated using prevailing mining and toll treatment costs, indicating that further detailed modelling was warranted.

## Mineral Resources

Following the completion of a grade control drilling program, the Cannon Mineral Resource was updated and reported as at 10 June 2015. The drilling confirmed the broad geological interpretation, although some local scale variations were evident. The new resource is based on a global cut-off grade of 0.7g/t Au. Details are shown in Table 1 below.

*Updated Cannon resource now mainly Measured + Indicated*

Deposit & Weathering Type	Measured			Indicated			Inferred		
	Tonnes t	Au g/t	Au Ounces	Tonnes t	Au g/t	Au Ounces	Tonnes t	Au g/t	Au Ounces
Oxide	16,220	3.42	1,783	423	1.92	26	-	-	-
Transitional	90,687	2.98	8,689	73,473	2.41	5,693	13,124	1.65	696
Fresh	2,331	4.31	323	570,073	4.06	74,413	79,929	2.11	5,422
<b>Total:</b>	<b>109,238</b>	<b>3.07</b>	<b>10,795</b>	<b>643,969</b>	<b>3.87</b>	<b>80,132</b>	<b>93,053</b>	<b>2.05</b>	<b>6,118</b>

Table 1: Cannon Mineral Resource Estimate by Ore Type and Category Source: Southern Gold Ltd

The resource now includes more than 10% of contained gold in the Measured category, with 94% of contained gold in the Measured + Indicated categories. It should also be noted that the grade of 3.75g/t Au for Measured and Indicated Resources considerably exceeds the 2.05g/t of the Inferred Resource.

*Cannon Mineral Resource of 846,260t @ 3.57g/t for 97,045 ozs gold*

Category	Total Resource			
	Tonnes t	Au g/t	Au Ounces	% Au Ounces
Measured	109,238	3.07	10,795	11%
Indicated	643,969	3.87	80,132	83%
<b>Total M&amp;I</b>	<b>753,207</b>	<b>3.75</b>	<b>90,927</b>	<b>94%</b>
Inferred	93,053	2.05	6,118	6%
<b>Total All Categories</b>	<b>846,260</b>	<b>3.57</b>	<b>97,045</b>	

Table 2: Cannon Mineral Resource Estimate, Total all Categories Source: Southern Gold Ltd

As expected, the new total resource figure did not vary a great deal from the resource announced at the end of January 2014. Tonnage was 34,060t (4.2%) higher and the grade of 3.57g/t was 8.5% lower, with overall contained gold down 3,355 ozs or 3.3%. While not extending the resource, the grade control drilling significantly improved the confidence in the resource estimation.

*Confidence in estimation improved by grade control drilling*

The Mineral Resource relative to the proposed Stage 1 Pit is illustrated in Figure 2 below.



*Mineral Resource in relation to proposed pit*



Figure 2: Long Section of Cannon Resource by Category on Section 381685mE with Pit Shell  
Source: Southern Gold Ltd

### Pre-Feasibility Study (PFS)

On 29 August 2013, Southern Gold announced the results of a recently completed PFS. The study was managed and compiled by Southern Gold with input from a number of key independent consultants.

*Combined OP & UG with toll treatment the preferred option*

The PFS demonstrated that the most effective way of extracting the maximum portion of defined resource was through the development of combined open pit and underground operations. The base case underground mine was scheduled to commence 12 months after the commencement of the open pit and continue for 19 months. Including start up and closure, the total mine life was expected to be three years.

*Independent cost estimates...*

Open pit mining costs were based on rates provided by WA mining contractors and consulting cost engineer while underground costs were provided by Ripago Underground Mining Services, supported by industry standard benchmark rates. Processing costs and throughput rates adopted were based on those available from mills in the district offering toll treatment facilities. A stand-alone mill was not considered. Initial site works and infrastructure costs were estimated at \$1.7m and underground decline and development costs at \$11.6m. Forecast cash costs, including mining, haulage, processing and Southern Gold direct costs were estimated at \$1,028/oz. Details are shown in Table 3 below.

*...forecast cash cost of \$1,028/oz*



Net margin (after capex)  
of >\$220/oz

		2013 PFS	Revised PFS
Tonnes Treated	t	484,000	484,000
Head Grade	g/t	4.4	4.4
Contained Gold	ozs	68,200	68,200
Recovery	%	92.0	92.0
Gold Produced	ozs	62,744	62,744
Period	months	36	36
Operating Cost	A\$/oz	1,028	964
Operating Cost	A\$m	64.5	60.5
Royalties	A\$m	2.4	2.4
All-In Sustaining Cost	A\$m	66.9	62.8
Upfront Capital Cost	A\$m	13.3	13.3
<b>Total Cost</b>	<b>A\$m</b>	<b>80.2</b>	<b>76.1</b>
Gold Price	A\$/oz	1,500	1,500
Total Revenue	A\$m	94.1	94.1
Total Cost	A\$m	80.2	76.1
<b>Gross Cash Flow</b>	<b>A\$m</b>	<b>14.0</b>	<b>18.0</b>
Gross Operating Margin	A\$/oz	472	536
Net (after Capex) Margin	A\$/oz	223	287

Table 3: PFS Financials

Source: Southern Gold Ltd, Breakaway

Cash generation of \$14m  
at \$1,500/oz gold price

The PFS demonstrates that the development of the Cannon Gold Resource as a toll treatment operation delivers positive economic returns with low capital cost structure. At a gold price of A\$1,500/oz, the project would generate cash of approximately \$14m after royalties. Sensitivity analysis shows that a 10% fall in the gold price to A\$1.350/oz would still generate surplus cash of approximately \$5m.

Revised C1 costs reduced  
to \$964/oz

On 13 February 2015, Southern Gold announced that it had updated and optimised the 2013 PFS, resulting in a reduction in C1 cash operating costs from A\$1,028/oz to A\$964/oz, boosting surplus cash flow generation to more than \$18m.

### Development of Stage 1 Open Pit

Stage 1 Open pit  
development announced  
late 2014...

On 11 November 2014, Southern Gold announced that it had signed an agreement with Metals X (ASX: MLX) to finance the Cannon Gold Resource. This agreement will see Metals X provide funding and manage all services required for the mining, haulage and treatment of ore through Metals X's nearby Jubilee plant. Mining and haulage will be charged on an at-cost basis and a flat rate for processing subject to CPI movements. The revenues from the project will be first allocated to reimbursement of costs incurred by Metals X. Surplus funds will be shared on a 50/50 basis. In addition to the agreement, Metals X has provided a secured loan of \$500,000 to Southern Gold to enable it to complete preparations for mining.

...mining commenced in  
July 2015

On 11 August 2015, the Company announced the start of mining operations at the Stage 1 Open Pit. Approximately 152,000 tonnes of ore, at an average estimated grade of 3.1g/t (fully diluted) will be mined over a 4-5 month period. Haulage to Metals X Jubilee plant is expected to begin in October, with batch processing of ore set to begin in



November. A total of approximately 13,500 ounces are expected to be produced at an average AISC of \$A1,084/oz.

*Attributable cash flow of  
~\$2.4m estimated for  
Stage 1 Pit at current  
gold price*

Tonnes Treated	t	152,352		
Head Grade	g/t	3.1		
Contained Gold	ozs	15,209		
Recovery	%	89.0%		
Gold Produced	ozs	13,495		
Period	months	8		
		<b>A\$/t</b>	<b>A\$/oz</b>	<b>A\$m</b>
Operating Cost		<b>93.27</b>	<b>1,053</b>	<b>14.2</b>
Royalties		2.85	32	0.435
All-In Sustaining Cost		<b>96.13</b>	<b>1,085</b>	<b>14.6</b>
Upfront Capital Cost		5.87	66	0.895
<b>Total Cost</b>		<b>102.00</b>	<b>1,152</b>	<b>15.5</b>
Gold Price	\$US/oz		1,139	
Exchange Rate	A\$/US\$		0.72	
Gold Price	A\$/oz		1,582	
Total Revenue		140.12	1,582	21.3
Total Cost		102.00	1,152	15.5
<b>Gross Cash Flow</b>		<b>38.12</b>	<b>430</b>	<b>5.8</b>
Attr Cash Flow		15.45	174	2.4

Table 4: Stage 1 Open Pit Financials

Source: Southern Gold Ltd, Breakaway

### Potentially Larger Pit

Following the acquisition by Metals X of the Georges Reward deposit, which is adjacent to the Cannon deposit, it is anticipated that this mining plan will be superseded by a larger pit development plan.



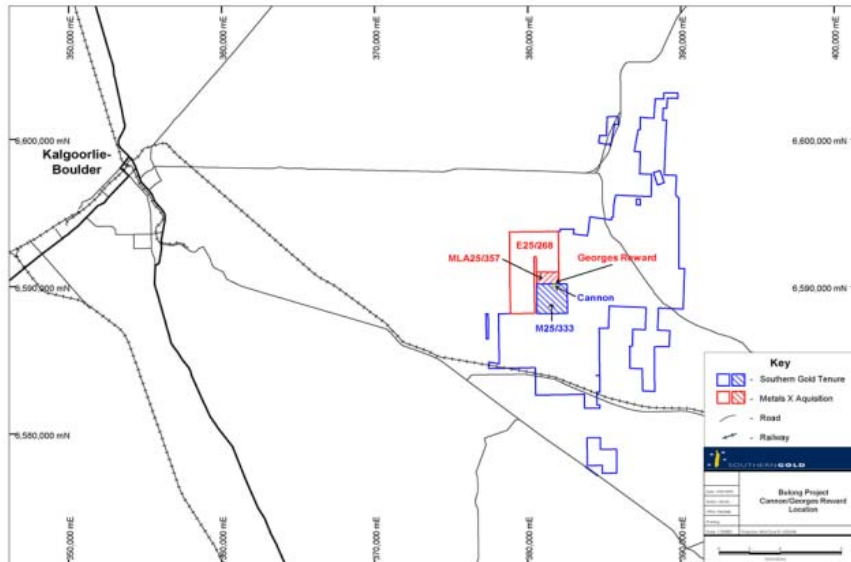


Figure 3: Location of Southern Gold's Cannon mine with respect to the Georges Reward deposit  
Source: Southern Gold Ltd

Acquisition by Metals X of adjacent Georges Reward could significantly increase production through expanded pit

Following the acquisition, there is now the potential to develop a much larger open pit scenario. This would see both the Cannon and Georges Reward deposits mined in a single pit using common infrastructure. It would enable optimisation models to capture much more ore previously constrained by the presence of the mutual tenement boundary. The Stage 1 Open Pit designs retained a 50m buffer to the tenement boundary which, in turn, constrained the depth of the pit to around 75m below surface. Preliminary analysis suggests that a new larger pit could be designed to a depth of 125m, incorporating additional higher grade ore. Deepening the pit could extend the current 9-month mining operation to several years.

Negotiations on larger pit in progress

Final design of a "Big Pit" Scenario is anticipated and may require additional drilling at Georges Reward to upgrade the resource to JORC Indicated and/or Measured status, as well as additional geotechnical and metallurgical information for planning purposes. Despite these very positive and potentially lucrative outcomes, Southern Gold and Metals X are moving forward with Stage 1 development in order to ensure continuity and development momentum on the project.

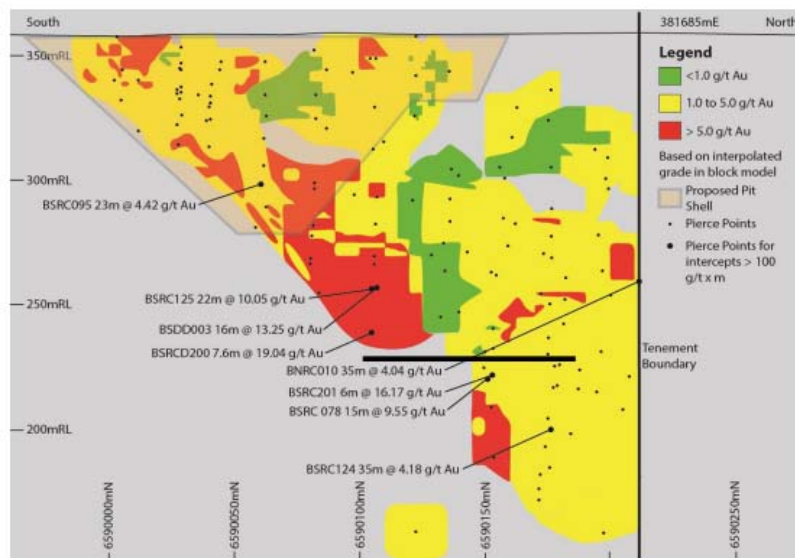


Figure 4: Long Section (looking west) of Cannon Gold Deposit

Source: Southern Gold Ltd



The longitudinal section in Figure 4 above illustrates the current Stage 1 Open Pit (275mRL) with the solid black line indicating potential unconstrained new open pit depth (225mRL).

*Underground potential remains*

The possibility of an underground development after open pit operations under a “Big Pit” scenario is subject to further extensions of the deposit being defined by drilling below the current limits of the JORC Resource. Several of the higher grade intersections are shown in the longitudinal section above.

**Exploration**

*Modern exploration techniques leading to discoveries in the area*

The prospectivity of the region has been highlighted not only by Southern Gold’s positive results but also discoveries within 10km of the Bulong Project. These include Silver Lake’s Majestic resource (280,000 ozs) and the Imperial resource (43,000 ozs). These greenfield discoveries show how modern exploration techniques, such as Sub-Audio Magnetics (SAM), have helped to identify economic gold mineralisation in areas that were previously considered to have limited prospectivity.

*Integrated approach to exploration*

Southern Gold’s exploration strategy is to build on the favourable outcomes of the Cannon Gold Project through an integrated approach to near surface and regional evaluation by:

- Extending known mineralisation, particularly at depth
- Drilling and evaluating Tier 1/satellite deposit in the immediate vicinity of the Cannon Project
- Conducting further exploration on regional/tier 2-3 targets

**Extending known mineralisation**

*Depth potential definitely exists*

Depth potential for the Cannon deposit, which could apply to other deposits, is well illustrated by the cross sections of the Cannon deposit in Figure 5 below.

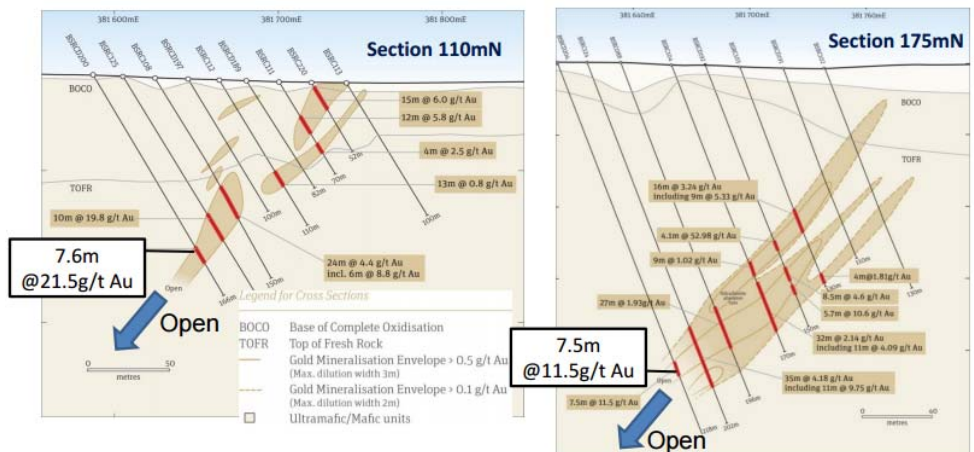


Figure 5: X-Sections through Cannon show mineralisation at depth Source: Southern Gold Ltd

*Satellite targets along ‘Cannon Trend’*

**Satellite/Tier 1 Projects**

The Cannon Gold deposit was discovered after drill testing the first of five high (>50ppb) gold in soil anomalies generated from a soil sampling program. The five peak anomalies – Cannon, Arsenal, Pinner, Homerton and Monument – lie within a broad 1km anomalous gold zone referred to as the Cannon Trend (see Figure 6 below). All of these



prospects have been ranked as Tier 1 i.e. potential to yield resources and/or significant drill intersections, focusing, in particular, on near surface mineralisation and/or near resource mineralisation.

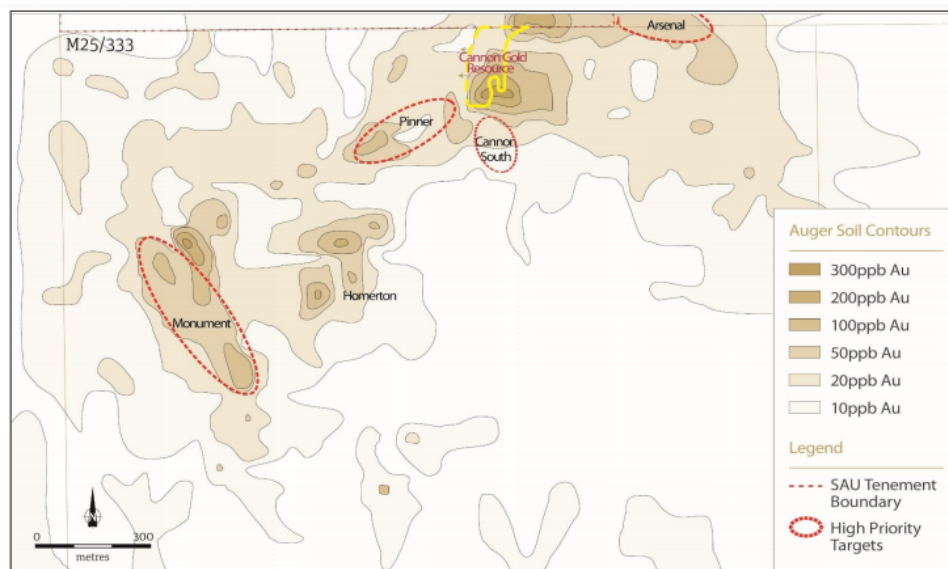


Figure 6: "Cannon Trend" Soil Anomalies

Source: Southern Gold Ltd

The Tier 1 Target at Railway South was successfully tested with a six hole program (582m) in mid-2015, resulting in a best intersection of 1m at 12.3g/t Au at a depth of 29m. This result validates the multi-element soil sampling method used to generate the anomaly being tested.

The Company has recently started an 800m RC drilling program at Arsenal, one of several satellite targets. A previous drill hole at Arsenal revealed alteration similar to Cannon and the current program is designed to follow up on the earlier positive indications.

**Regional Exploration**

*Regional exploration to target mineralisation below shallow RAB drilling*

Despite Bulong’s close proximity to the world class Kalgoorlie Goldfields, the area has been largely under-explored, providing significant potential. This lack of exploration can largely be explained by the fact that a great deal of drilling the area was confined to shallow RAB drilling to test the oxide zone only, generally to a depth of less than 50m. Extensive RAB drilling was conducted in the late 1990s by Acacia Mining. It is believed that the exploration model being utilised at the time relied on higher near-surface oxide values as an indicator of mineralisation at depth. Recent drilling below the oxide zone has shown that this was clearly not the case. This is well illustrated in Figure 7 below which shows how RC drilling below the shallow RAB drilling lead to the discovery of the Cannon deposit.

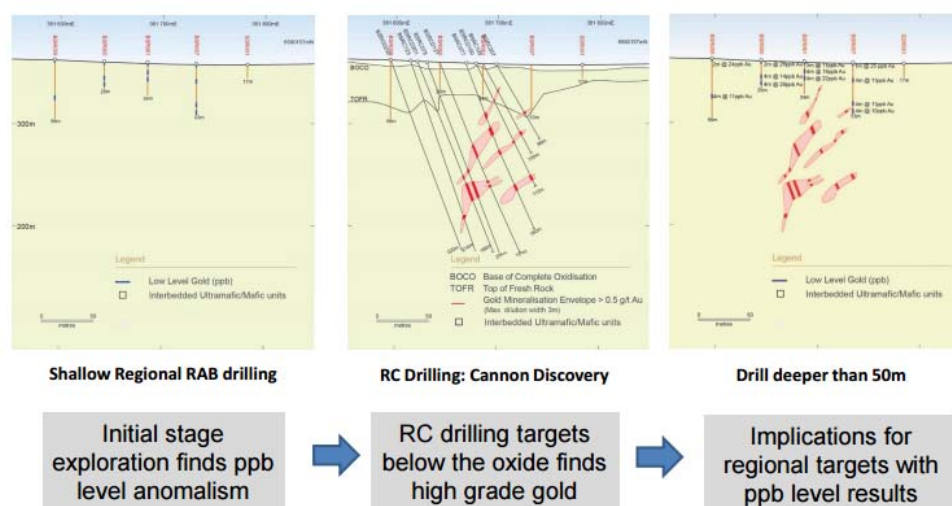


Figure 7: Cross Section of Cannon showing shallow RAB and RC Drilling Source: Southern Gold Ltd

This obviously has significant implications for regional exploration targets where shallow historical drilling did not extend beyond the oxide zone.

*Most regional targets classified as Tier 2 or 3*

Most of these prospects have been ranked as Tier 2 or Tier 3 by the Company, where Tier 2 is defined as prospects where structural and/or geological settings have the potential to yield significant intersections and Tier 3 where significant/anomalous geochemistry and/or geophysical targets are present but the potential has not yet been determined.

*Numerous targets already identified*

Numerous targets have been identified based on soil geochemistry, regional scale RAB and auger drilling, geophysics, on-ground prospecting activity and high level structural interpretation. These include Tooting Bec, Gunnersbury, Lighthouse, Cyprus, Barbican and Chigwell.

The 140km<sup>2</sup> Cowarna Project area lies to the east of the Randall’s Mining Centre. The Banded Iron Formations are proven hosts to gold deposits in the immediate vicinity, e.g. Maxwells and Cock-Eyed Bob deposits.

### Cambodian Operations

Southern Gold has been in a Joint Venture with unlisted public company Mekong Minerals Ltd (“Mekong”). Mekong was earning an interest in a Southern Gold subsidiary, Southern Gold (Asia) Pty Ltd (SG Asia), which in turn was the 100% holder of Cambodian subsidiary, Mekong Minerals (Cambodia) Ltd.

*Cambodian assets restructured to minimise ongoing costs...*

In June 2015, Southern Gold announced that it had executed a Sale, Purchase and Joint Venture Agreement which results in the transfer of its subsidiary, Southern Gold (Asia) Pty Ltd, to Mekong Minerals Limited in exchange for:

- a 15% free carried interest in an unincorporated Joint Venture with SG Asia until completion of a positive definitive feasibility study
- a 2% gross sales royalty (calculated after government royalties) on any income earned until such time as a cumulative US\$11m is paid to Southern Gold at which point the gross sales royalty reverts to 1%
- Mekong conducting exploration on the tenements to the minimum value of



\$500,000 for each project within two years

Mekong has made tenement re-applications with regard to the Kratie South, Kratie North and Memot Project areas (See Figure 8). Japan Oil, Gas and Metals National Corporation (JOGMEC) holds a 47.09% interest in the Kratie South Project under a separate joint venture agreement.

*...but still provide exposure*

The restructure, which will have virtually zero cash requirements in the near term yet retain significant exposure to exploration upside, will allow Southern Gold to focus on the development of the Cannon deposit and the broader Bulong Project.

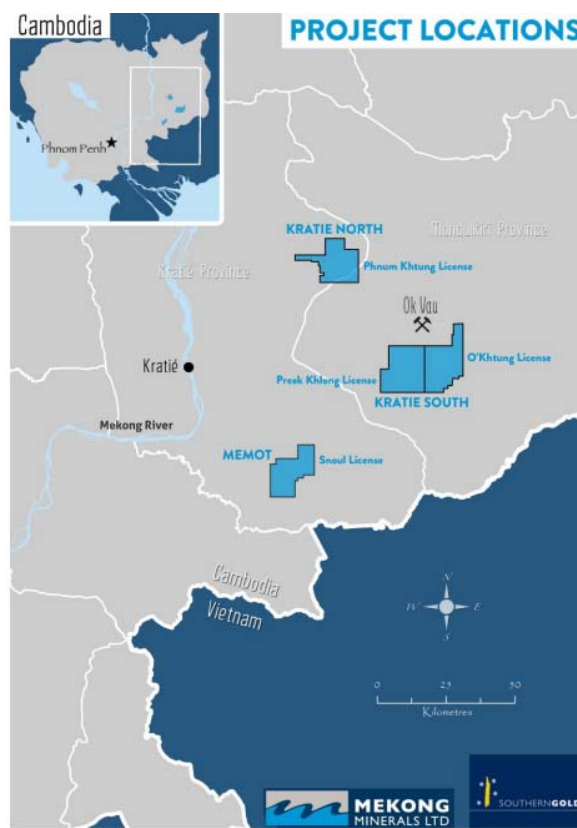


Figure 8: Map of Re-Applied Tenement Locations in Cambodia Source: Southern Gold Ltd

Southern Gold initially held seven granted Exploration Licences for gold and base metals covering 1,500km<sup>2</sup> in eastern Cambodia. Exploration on the Kratie North and Kratie South Projects was been fully funded by Japanese government-backed JOGMEC, earning it a 51% interest in Kratie South. Significant gold intersections were recorded at the Preak Khtong NW and Gossan prospects. Gold mineralisation was also intersected at two prospects at the Memot Project.



## *Breakaway's View*

*Southern Gold has a small deposit capable of being monetised...*

As recently as 4-5 years ago, small scale start-ups, similar to that envisaged at the Cannon Gold Project, were seen as high risk and therefore not favoured by the market. However, since commodity prices have fallen and it has become increasingly difficult for juniors to raise equity capital, it is becoming not only acceptable but an innovative way of surviving hard times while simultaneously providing a possible stepping stone to becoming a larger, longer term producer. There are very few junior explorers who are able to monetise small assets by toll treatment of ore; Southern Gold is fortunate enough to have at least one small, relatively high grade open pit deposit in a region with a number of gold plants with excess treatment capacity. Furthermore, the Company has been able to negotiate a deal with a top 10 Australian gold company to mine, haul and treat the ore, thereby significantly reducing operational risks.

*...operated and financed,*

The agreement looks even better when one takes into account that Metals X has also provided a small up-front loan (to be repaid from cash flow), reducing the immediate requirement for another equity capital raising.

*...with potential to significantly increase production,*

While the initial scale of production, around 13,000 ounces of gold, is small, events over the past few months, particularly Metal X's purchase of adjoining leases, could boost that production level by a factor of 4-5 times, should an agreement be reached on developing a deeper pit.

*...and potentially provide medium term funding*

There will be an argument from some quarters that the initial surplus cash flow accruing to Southern Gold is insubstantial and hardly worth the effort. In times when equity funding for junior explorers was not a problem, this may have been the case, but in current markets, two to three million dollars of cash inflow would avoid significant share issues at discounted prices with their ultimate dilutionary effects. Furthermore, potential cash flow from an underground operation in the medium term would see Southern Gold in a very secure position for several years to come.

*...for an exploration program with numerous targets already identified*

Successful exploitation of the Cannon deposit will provide funding for exploration of the broader Bulong area. The Company has already established several drill targets in the immediate vicinity of Cannon, any one of which could produce another similar deposit. The application of modern exploration techniques, together with drill targets below the abundant shallow RAB drilling, could provide further regional exploration upside. The discovery, not only of Cannon, but a number of other greenfield deposits over the past 4-5 years, is highly encouraging.

*=Speculative Buy*

With a moderate initial cash inflow from Cannon, there is potential for expanded production to boost this cash flow. This would provide generous funding for exploration of a highly prospective and relatively under-explored region. We recommend Southern Gold as a **Speculative Buy**.



## ***Southern Gold Ltd Directors***

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### **Non-Executive Chairman**

#### ***Greg Boulton***

**Greg Boulton** has extensive commercial experience spanning over 30 years as CEO and Non-Executive Director for many Private and Public companies. He has broad experience in capital raisings, acquisitions and commercial negotiations and is a Fellow of the Institute of Chartered Accountants, CPA Australia and the Australian Institute of Company Directors. Mr Boulton is currently Chairman of Paragon Equity Limited, an Adelaide based private equity firm and Deputy Chairman of ASX listed K&S Corporation Limited. He is also on the Board of the Statewide Superannuation Trust.

### **Managing Director**

#### ***Simon Mitchell***

**Simon Mitchell** is a geologist and corporate executive with 23 years of resources industry experience in technical and finance roles including 10 years gold exploration and mine development experience with Normandy NFM, RGC, Goldfields and Aurora Gold in countries as diverse as Australia, Bolivia, Chile, Papua New Guinea and Indonesia. More recently Mr. Mitchell has been Managing Director of Asiatic Gold Ltd, an unlisted public company with gold exploration projects in South Korea. Additionally, Mr Mitchell worked for 6 years at the Commonwealth Bank of Australia, predominantly in Project Finance, and more than 6 years with Toro Energy as General Manager of Business Development where he was responsible for the raising of more than US\$80 million in capital and engaging investors worldwide.

### **Non-Executive Director**

#### ***Michael Billing***

**Michael Billing** is an accountant with in excess of 35 years of mining industry experience in company secretarial, senior commercial, and chief financial officer roles including lengthy periods with Bougainville Copper Ltd and WMC Resources Ltd. He has worked extensively with junior resource companies since the late 1990's. Mr Billing is also Executive Chairman of ASX and AIM listed Thor Mining PLC, and Non-executive Chairman of ASX listed Black Fire Minerals Limited. He previously has acted as Chairman of ASX listed Western Desert Resources Limited and as a Non-Executive Director of Australasia Gold Limited.

### **Non-Executive Director**

#### ***David Turvey***

**David Turvey** is a geologist with over 27 years experience in the Australian and Asian mining industries where he has driven business development and corporate M&A activities in precious metals, bulk commodities and industrial minerals. His experiences include holding key management roles and consulting assignments in minerals exploration, technical marketing, project development and commercial evaluation of mineral asset investments. Mr Turvey was formerly a Non- Executive Director of ASX listed Lawson Gold Limited and was previously Managing Director of FerrAus Limited.

**Analyst Verification**

We, Grant Craighead and Basil Burmeister, as the Research Analysts, hereby certify that the views expressed in this research accurately reflect our personal views about the subject securities or issuers and no part of analyst compensation is directly or indirectly related to the inclusion of specific recommendations or views in this research.

**Disclosure**

Breakaway Investment Group (AFSL 290093) may receive corporate advisory fees, consultancy fees and commissions on sale and purchase of the shares of Southern Gold Limited and may hold direct and indirect shares in the company. It has also received a commission on the preparation of this research note.

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