



**Breakaway
Research**

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Company Information

| ASX Code | SOC |
|-------------------|-----------------|
| Share Price | A\$0.24 |
| Ord Shares | 139.1m |
| Options | 7.2m |
| Market Cap | A\$33.4m |
| Cash | A\$1.8m |
| Total Debt | A\$- |
| Enterprise Value | A\$31.6m |

Directors

| | |
|--------------------|--------------|
| Chairman | John Dawkins |
| CEO | Michael Leu |
| Non- Exec Director | Peter Meers |
| Non- Exec Director | Jacob Rebek |

Substantial Share Holders

| | |
|------------------|-------|
| Hudson Resources | 28.7% |
| Raffles Capital | 26.7% |
| Ren Li | 4.3% |
| Michael Leu | 6.33% |
| Russell Lay | 6.33% |

Company Details

| | |
|---------|--|
| Address | Level 2, 131 Macquarie Street Sydney NSW 2000 |
| Phone | +612 9251 7177 |
| Web | www.sovereigngold.com.au |

2 Year Price Chart



Source: Bloomberg

Sovereign Gold (SOC)

*JV funding re-affirms confidence in
quality gold exploration portfolio*

Recommendation: Speculative BUY

Key Points

- **JV partner to provide A\$21m of exploration funding to earn 30% interest in 10 exploration licences**
- **SUGEC's involvement re-affirms confidence in IRGS exploration potential**
- **Technical capabilities significantly enhanced**
- **Sovereign to retain 100% interest in EL 6483, the most advanced and prospective licence**
- **Drilling at Martins Shaft (EL 6483) confirms large mineralised system**
- **Detailed geophysical survey identifies additional targets at Uralla**

Sovereign Gold is an active gold exploration company with its principle assets located in northern NSW, near Armidale. The company recently entered into a JV agreement with a Chinese state owned company which will provide up to A\$21m of exploration funding and significant technical capabilities to earn 30% in 10 licences. EL 6483 (excluded from the JV) hosts the Martins Shaft prospect where significant intercepts of gold mineralisation have already been identified.

Company Overview

Sovereign Gold (ASX: SOC) is focused on exploration of the Rocky River-Uralla Goldfield, located in north eastern New South Wales near Armidale. Historical workings in the area produced ~167,000 ounces of gold from high grade deep workings between 1856-1967. Limited modern exploration has since been carried out to determine the source of the alluvial gold.

In 2003, the NSW Geological Survey conducted an airborne geophysical survey that revealed the gold workings in the Rocky River-Uralla Goldfield may potentially be derived from magmatic fluid and as such could represent a much larger Intrusion-Related Gold System (IRGS).

Martins Shaft, located within EL 6483, is the most advanced prospect but is just one of the numerous targets identified. An initial drilling campaign carried out in 2011 intercepted broad widths of shallow gold mineralisation including 22m @ 3.2g/t Au and 18m @ 3.5g/t Au, highlighting the potential of the region.

In November 2012, Sovereign entered into a JV agreement with a Chinese state owned company Jiangsu Geology and Engineering Co. Ltd (SUGEC). Under the terms agreed, SUGEC will contribute A\$ 21m of funding to earn a 30% interest in 10 exploration licences surrounding (but excluding) EL 6483 whilst also providing significant technical capabilities.



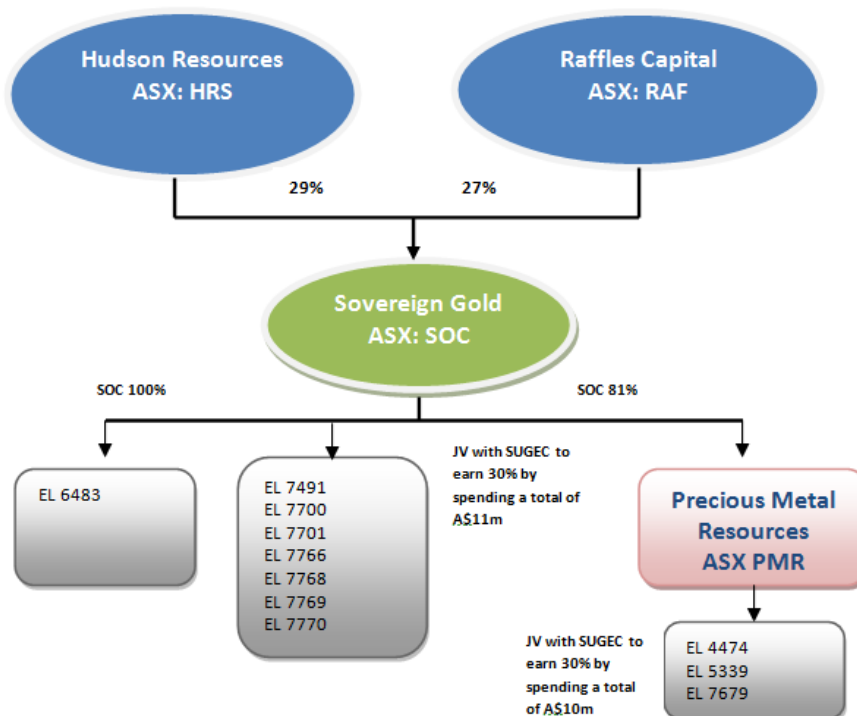
Investment Review

Ownership Structure

The current ownership structure of Sovereign Gold is outlined in the chart below and highlights the two major shareholders, the current JV agreements and the 81% interest in ASX listed Precious Metal Resources (ASX: PMR) as a result of a recent take-over bid for the company.

Ownership structure

PMR has a
MCAP ≈ A\$ 21M



Source: Breakaway Research

Joint Venture Agreements

SUGEC to earn 30% in
10 exploration
licences on
completion of funding
commitment

In March 2012, Sovereign Gold entered into joint venture agreement with Chinese state owned company 'Jiangsu Geology and Engineering Co. Ltd' (SUGEC). Under the terms agreed, SUGEC will contribute a total of A\$4 million (A\$2m in each licence, before 31 March 2014) to fund Intrusion-Related Gold System exploration costs to earn a 30% interest in EL7491 and EL7768.

In November 2012, SUGEC and Sovereign agreed to broaden the scope of the JV agreement to include a further 8 tenements (now totalling 10) and increase funding to a total of A\$21m to be spread across tenements owned by Sovereign Gold and Precious Metal Resources. At the completion of the agreed expenditure, SUGEC will be entitled to a 30% interest in each of the respective tenements. Detailed project expenditure is listed in the table on the following page.



SUGEC Capital Expenditure Commitments

| Tenement | Owner | SUGEC expenditure to earn 30% (A\$m) |
|--------------|-------|--|
| EL 7491 | SOC | 2 |
| EL 7700 | SOC | 1 |
| EL 7701 | SOC | 1 |
| EL 7766 | SOC | 1.5 |
| EL 7768 | SOC | 2 |
| EL 7769 | SOC | 1.5 |
| EL 7770 | SOC | 2 |
| EL 4474 | PMR | 4 |
| EL 5339 | PMR | 4 |
| EL 7679 | PMR | 2 |
| TOTAL | | 21 |

Source: Sovereign Gold and Breakaway Research

Breakaway's View

Securing funds for exploration is a major achievement

Securing funds earmarked for 'riskier' exploration projects in the current economic climate can be challenging. Breakaway is encouraged by the recently announced JV as it not only brings significant capital to fast track exploration; it also brings a technical team of up to 14 geologists, geochemists and geophysicists to work with the company.

Reduces the risk for Sovereign

The JV also removes the need for Sovereign to contribute any funds to exploration on the 10 designated EL's over the next two years, thus defraying risk while retaining a majority interest in all the tenements. Breakaway is further encouraged by SUGEC's involvement (a geology and engineering company) as it validates the IRGS model in the region.

Broad intercepts of ore grade mineralisation

The most advanced prospect is Martin's Shaft which is located in EL 6483 and is excluded from the current JV agreement. A 2011 drill program returned significant intercepts of mineralisation including **22m @ 3.2g/t Au** and **18m @ 3.5g/t Au**. Mineralisation starts from surface in many areas and has been encountered to a vertical depth of 112m. This was the first drilling campaign to be carried out over the prospect and demonstrates the potential of the area to host a significant ore body.

Numerous additional targets

Numerous other high priority targets exist within the exploration portfolio. To get a better understanding of the geophysical features at play, Sovereign Gold has already completed a 5,008km Geophysical Survey covering a large part of the tenure. This magnetic and radiometric data has provided a detailed structural image for identifying potential conduits for gold bearing fluids. In particular, the company will be looking for signatures similar to those associated with Martins Shaft.

Significant resource potential

Sovereign Gold represents an opportunity for investors to partake in a fully funded gold exploration company with exposure to quality exploration targets which have the potential to host significant deposits (million ounce potential) with shallow, 'ore grade', intercepts already identified. All of the tenements within the portfolio are well serviced by existing infrastructure, with sealed roads, rail, water, power, airport and labour all nearby.

The most advanced and attractive project is hosted within EL 6483 which is excluded from the JV, further enhancing the potential upside for Sovereign Gold shareholders.



Project Review

Background

The Rocky River-Uralla Goldfield Project is located near the town of Armidale in north-eastern NSW and encompasses nine exploration licences covering an area of ~2,640km² within the New England Fold Belt.

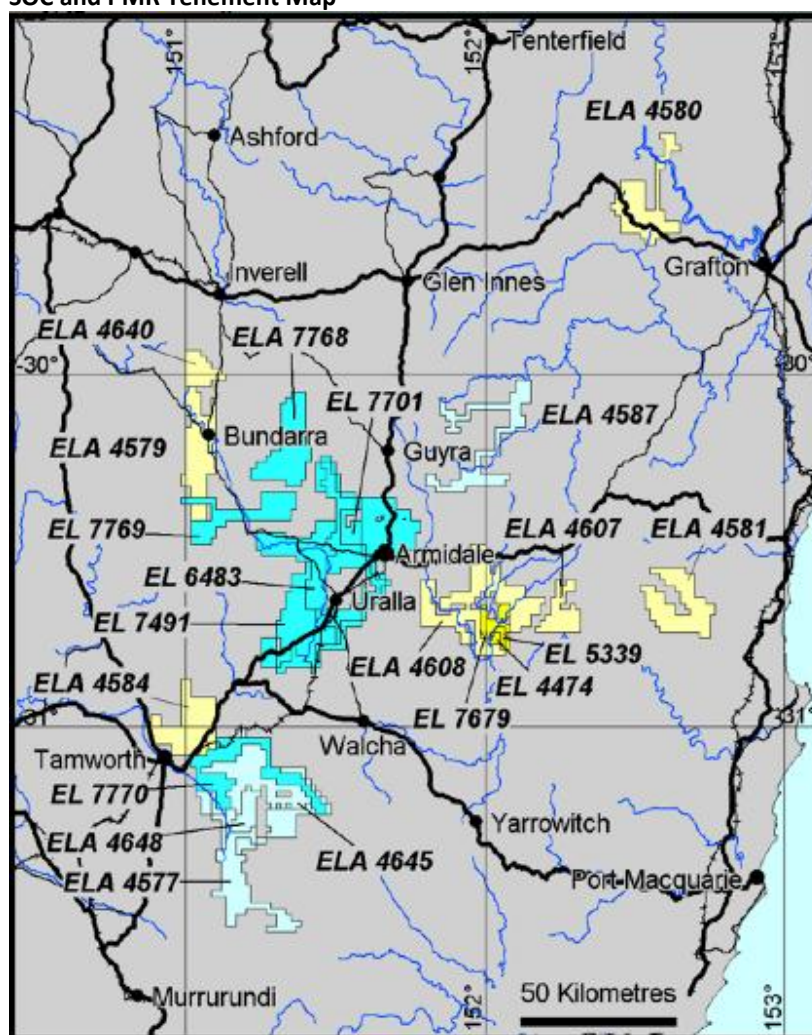
*Historical workings
produced ~167koz*

The project area hosts an Intrusion-Related Gold System (IRGS) where historical workings produced approximately 167,000oz of gold (1856 - 1967) from alluvial and shallow high grade ore. Since this time no systematic exploration has been undertaken.

In 2003, the NSW Geological Survey conducted an airborne geophysical survey which revealed the gold workings in the Rocky River-Uralla Goldfield may potentially be derived from magmatic fluid and as such could represent a much larger Intrusion-Related Gold System (IRGS).

IRGS deposits rely on gold existing in the fluids associated with a magma and the discharge of these hydrothermal fluids into the wall rocks. This increases the likelihood that mineralisation identified in these historic workings may continue at depth, as well as providing large scale blind exploration targets.

SOC and PMR Tenement Map



*Significant tenement
position with
numerous ELA's still
pending*

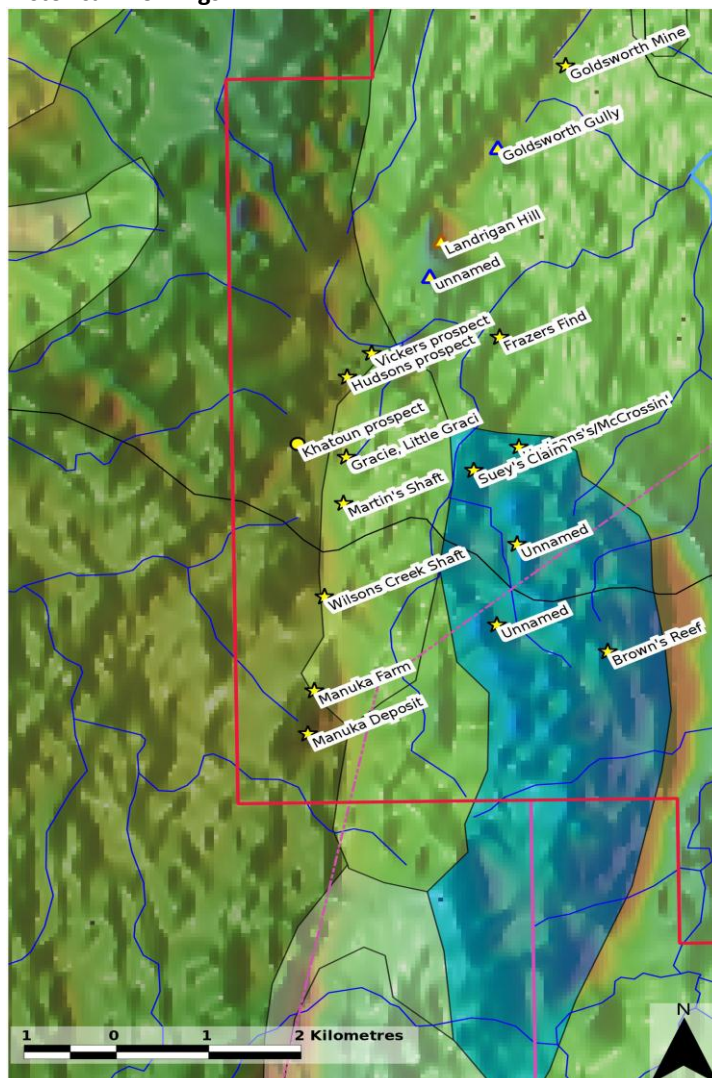
Source: Sovereign Gold



Rocky River-Uralla Goldfield Project - Regional Exploration

The map below outlines the trend of many of the key historical workings. These follow an interpreted granite edge in a north-south direction (Manuka, Wilsons Creek, Martins and Gracie), lie along a northeast structural feature (Khahtoun, Hudsons, Vickers, Landrigan and Goldsworth) or occur within rocks overlying granodiorite (blue).

Historical Workings



Source: Sovereign Gold

A number of targets identified on trend

Martins Shaft has similar characteristics to world class Donlin Creek deposit

High grade rock chips

Martins Shaft gold mineralisation occurs in a large dyke formation and has many of the diagnostic characteristics of the 32 million ounce Donlin Creek deposit.

An inaugural surface sampling program returned grades of up to 8.21 g/t Au from rock dump samples at Martins Shaft, Wilsons Creek Shaft and the Gracie Mine. Gold occurrences were also recorded along the same northerly trending structure which controls the main lines of load. No formal mining has ever taken place at either the Wilson Creek or Martin's Shafts.

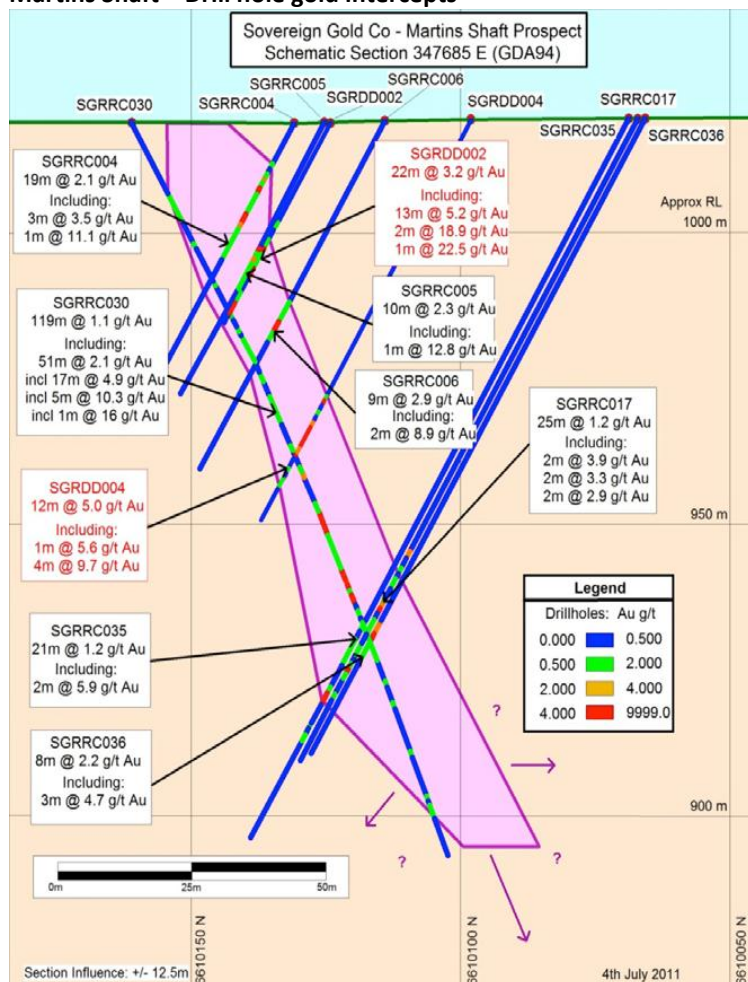


Martins Shaft – EL 6483

In 2011, a 4,400m drilling program was carried out primarily targeting the 'Martins Shaft' prospect. Mineralisation starts at surface with drilling indicating mineralisation present to a vertical depth of 112m. Drilling has also demonstrated the body of mineralisation is widening with depth to the southwest.

Martins Shaft – Drill hole gold intercepts

*Mineralisation
widening at depth*



Sovereign Gold subsequently commenced a diamond drill hole program at Martins Shaft, Gracie, Little Gracie and Wilsons's Creek prospects (all within EL 6483) aimed at infill drilling the prospects and to provide samples for metallurgical test work. A total of 20 diamond holes have been completed. Highlights from Martins Shaft include drill hole SGRDD002 which intersected **22m @ 3.2g/t Au including 13m @ 5.2g/t Au** and SGRDD004 which intersected **18m @ 3.5g/t including 7m @ 7.5g/t Au**.

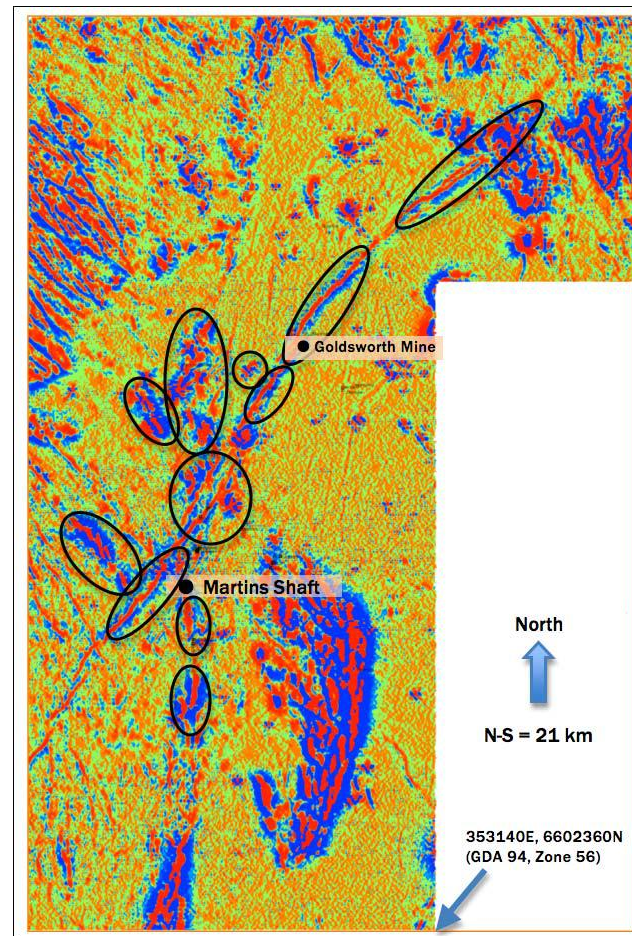
The potential for the discovery of a large gold deposit should not be underestimated.

Sovereign Gold already completed a detailed 5,008km Geophysical Survey covering a large part of EL 6483 and parts of EL7491 and EL7700. This magnetic and radiometric survey has provided a very detailed structural image for identifying potential conduits for gold bearing fluids. In particular, the company will be looking for signatures similar to that associated with Martins Shaft.



Magnetic data over surveyed area

Large SW-NE trending structure is principal conduit for mineralising solutions



Source: Sovereign Gold

Extensive alteration where two magnetic linear structures intersect.

High potential for gold mineralisation

The image above depicts the processed magnetic data from the airborne magnetic survey and highlights the many channels which could represent gold bearing conduits. Encouragingly, the geophysical survey has confirmed the connection of known gold mineralisation deposits such as Martins Shaft, Little Gracie, Gracie, Wilsons Creek and the Goldsworth Mine with major altered structures identified by the survey.

Of particular interest to Breakaway is the area where the main north-south and north-east linear intersect. This intersection has resulted in extensive alteration and occurrences of gold mineralisation over several square kilometres and hosts significant potential for further mineralisation. Interpretation of the data is ongoing and together with a broad geochemical survey will form the basis of the company's next drill campaign.



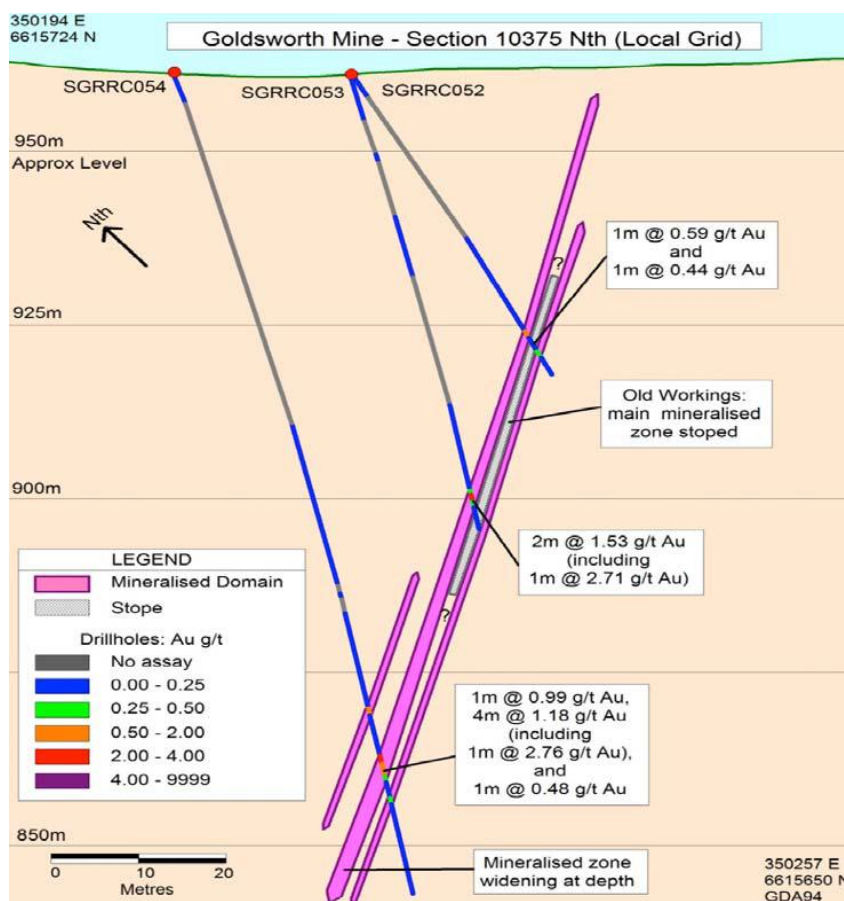
Goldsworth Mine – EL 6483 (Excluded from JV)

The old Goldsworth mine provides additional opportunity

Historical workings developed this mine on two levels, level 1 at 56m and level 2 at 89m depth. The ore body is a 1.3m to 1.9m wide quartz-sulphide vein with alteration zones into the adjacent granite. Grades are variable but ore crushing records indicate grades up to 1oz/t.

Sovereign Gold has completed 17 RC holes for 1,404m aiming to test along strike and below the historical mine workings. Highlights to date include 4m @ 1.18g/t Au and 1m @5.1g/t Au.

Goldsworth Mine – Section Plan



Source: Sovereign Gold

Potential exists at depth for wider zones of mineralisation

While mineralisation intercepts are narrow the deepest hole drilled only reached a total depth of ~105m. Indications are that the ore body appears to be widening at depth however this is yet to be adequately drill tested.

Gold has also been identified in drill holes over ~570m along strike while an aeromagnetic survey revealed several kilometres of potential gold bearing alteration.

Exploration is at a relatively early stage however the historical workings and recent drilling has confirmed the region remains highly prospective the discovery of a significant scale deposit.



Directors

Chairman

John Dawkins

John Dawkins AO was the Ex-Minister for Trade in the Hawke Government. During his time in Government he also served in a number of other portfolios including as Treasurer. Since leaving politics he has been an occasional adviser to the World Bank and OECD and has held a number of board positions including Elders Rural Bank (now Rural Bank); Sealcorp Holdings (now Asgard Wealth Solutions); and his current appointments with the listed companies Archer Exploration; MGM Wireless and Integrated Legal Holdings and the unlisted Government Relations Australia Advisory Ltd. He also chairs the Australian Qualifications Framework Council and the Board of Governors of the Institute for International Trade at the University of Adelaide.

Chief Executive Officer

Michael Leu

Michael Leu is a geologist with over 30 years professional experience in exploration and mining across a range of mineral commodities within Australia and some Pacific and Asian countries. He has worked in industry (Freeport, Getty Oil, Queensland Ores), as a private consultant and for seven years on the academic staff of Macquarie University. He has extensive expertise in mineral exploration for epithermal and porphyry gold and copper deposits; intrusion-related gold systems; metahydrothermal gold; greisen-hosted molybdenite, wolfram and tin; volcanic-hosted massive sulphides; chromite; uranium; alluvial gold and platinum and a range of industrial minerals.

Non-Executive Director

Peter Meers

Peter Meers has broad business experience across a range of industries including consumer, commercial and investment banking, securities trading and origination, mining and exploration and building materials.

Mr Meers is CEO of Tiaro Coal Limited and held senior executive positions and portfolio management roles in agribusiness, mining, property and trade finance during a career spanning 25 years with ANZ Bank in Australia and Asia. Past directorships include appointment on company boards in Malaysia, Indonesia and Singapore. Mr Meers is Executive Chairman of Hudson Resources and Chairman of Australian Bauxite Limited.

Non-Executive Director

Jacob Rebek

Jacob Rebek is an Australian geologist with 40 years' experience in exploration. From 1970 to 2003 he worked for CRA and Rio Tinto in various parts of Australia and overseas. His roles included exploration manager for Papua New Guinea in 1970's, South Australia and Northern Territory from 1981 to 1984, Eastern Australia from 1987 to 1993 and Exploration Director for South America from 1997 to 2000. He led teams which discovered new zinc, copper and gold deposits including Gold Ridge in Solomon Islands and Wafi in Papua New Guinea. Since 2003 he worked for emerging companies, generating new projects. In 2006 he started working for Hudson as Chief Geologist and led the small team, which discovered the bauxite deposits that are now the core assets of Australian Bauxite Limited.



Analyst Verification

We, Grant Craighead and Andrew McLeod, 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 consultancy fees and commissions on sale and purchase of the shares of Sovereign Gold 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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