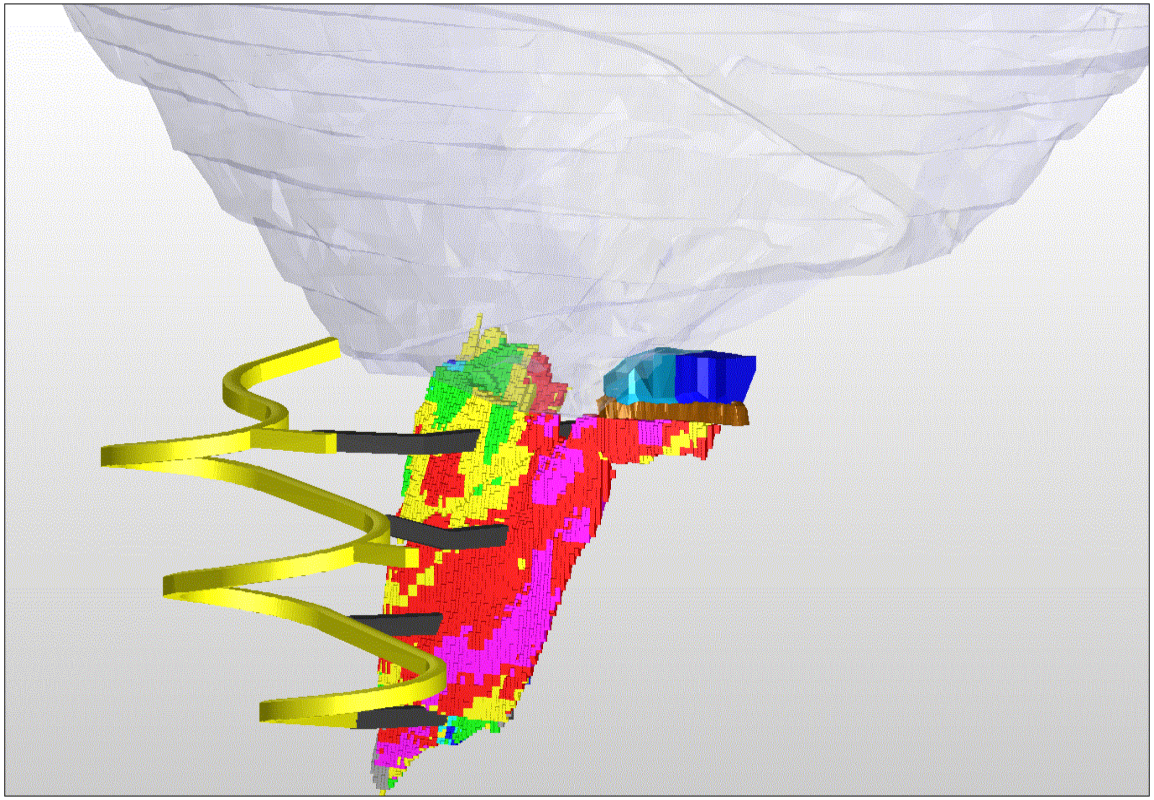
SOUTHERNGOLD



Equity Returns for Gold Explorers – can it be done?

Precious Metals Investment Symposium - November 2017

ASX Ticker: SAU

Disclaimer

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- Estimates of future metal production; and
- Estimates of the resource base and statements regarding future exploration results and increasing the company's resource base

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Competent Person's statements

The information in this report that relates to Exploration Results has been compiled under the supervision of Mr. Justin Gum (MAIG). Mr Gum who is an employee of Southern Gold Limited and a Member of the Australasian Institute of Geoscientist, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for the Reporting of Mineral Resources and Ore Reserves. Mr Gum consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Exploration Results has been compiled under the supervision of Dr Chris Bowden (FAusIMM(CP)). Dr Bowden, who is an employee of Southern Gold Limited and a Fellow and Chartered Professional of The Australasian Institute of Mining and Metallurgy, has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity he has undertaken to qualify as a Competent Person as defined in the 2012 Edition of the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves. Dr Bowden consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

Lets Start With An Equation

After tax weighted average cost of capital (WACC):

WACC = % Equity x **Cost of Equity** +
% Debt x **Cost of Debt** x (1 – tax rate)

In the mining and exploration industry we sometimes forget about this when making investment decisions.

This is a mistake.

How often do you see discount rates of 5%-8%?

Equity Returns

If you are typical junior raising funding in the normal way it is likely in the range of 15%-30%

WACC = % Equity x Cost of Equity + % Debt x Cost of Debt x (1 – tax rate)

Unless you are BHPB this is likely to be 8% to 12%++

So a typical junior gold explorer has a WACC of >15%, probably more likely >20% (especially if debt is hard).

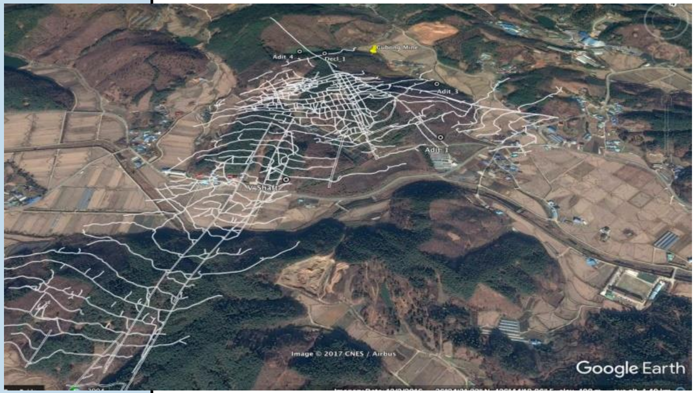
How Do We Get >20%? (SAU doesn't use 5%!)

- **Be careful with equity (its expensive)**
- **Be careful with debt (its potentially fatal)**
- **Instead of raising funds, generate them organically if possible**
- **Look to return > WACC <u>even on exploration</u> (this is not always possible)**
- **Explore and find deposits: it generates something from nothing**

Southern Gold is a Business

❑ **Good Ground**	Kalgoorlie, WA and South Korea;
❑ **“A Team” Technical People**	Douglas Kirwin, Chris Bowden, Justin Gum;
❑ **Organic Funding Model**	Cash ~A$5m, + Cannon u/g;
❑ **Capital Structure**	“Tight as a drum” ~49.1m shares;
❑ **Equity returns targeted**	Recent 3c per share special dividend.

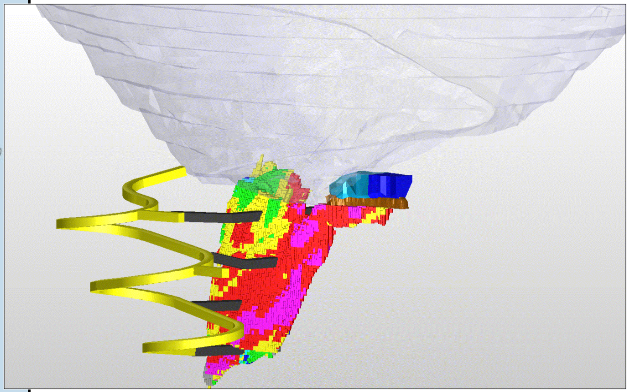
Corporate Overview



Gubong Gold Mine historic underground workings draped on Google Earth image, centre field of view approximately 1.5km wide

South Korea

- ❑ Gubong Au Mine – BMV
- ❑ Potential ‘elephant’ country: we are looking for the big deposits

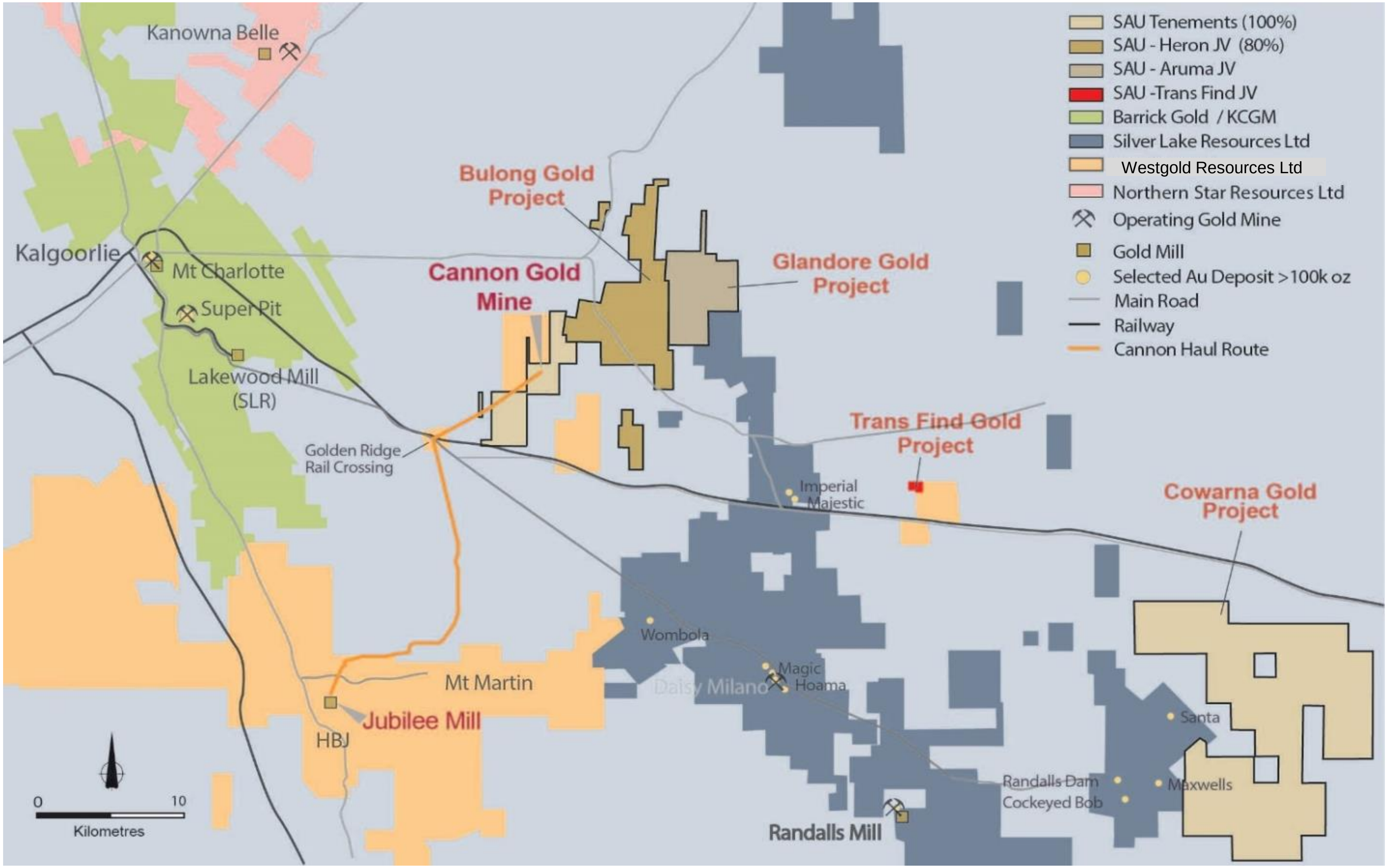


Conceptual Underground with block model, Cannon Gold Mine, Kalgoorlie, WA

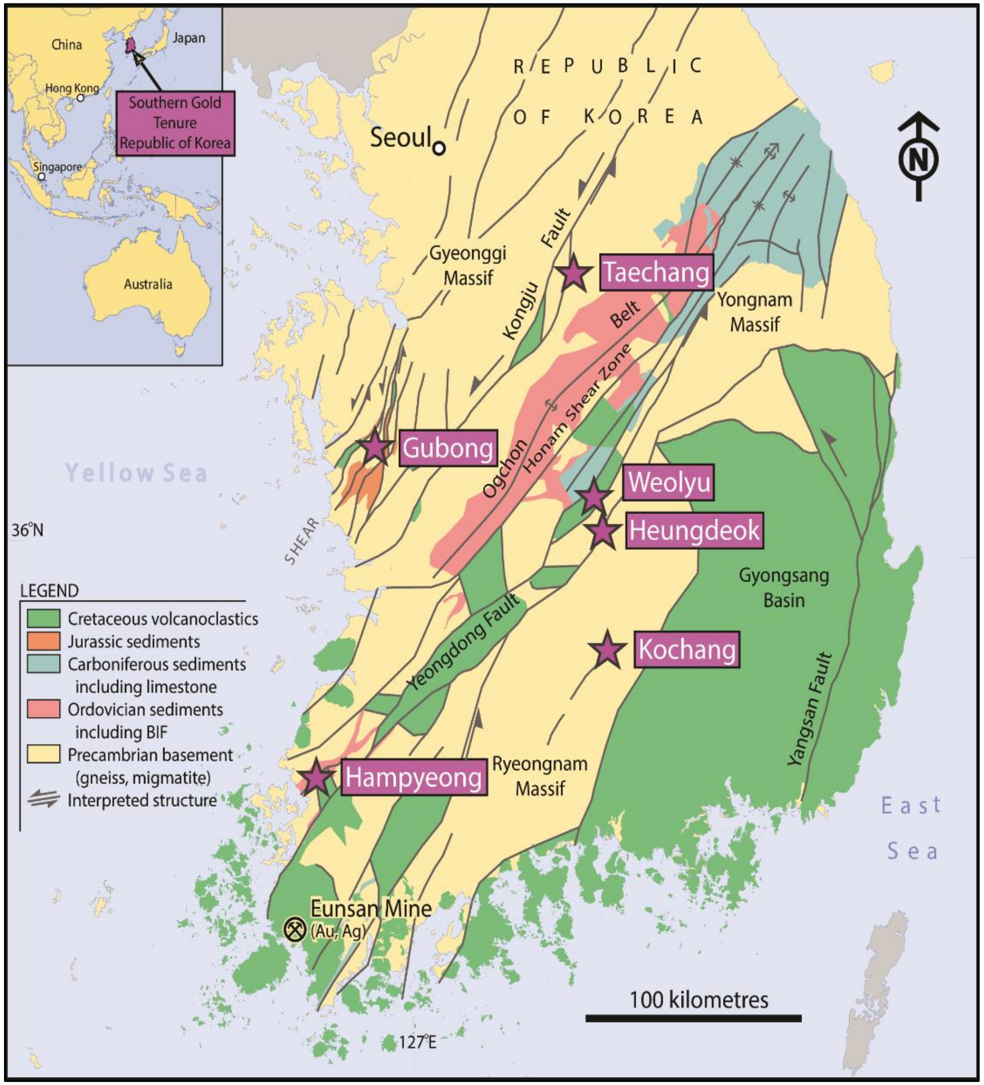
Kalgoorlie, WA

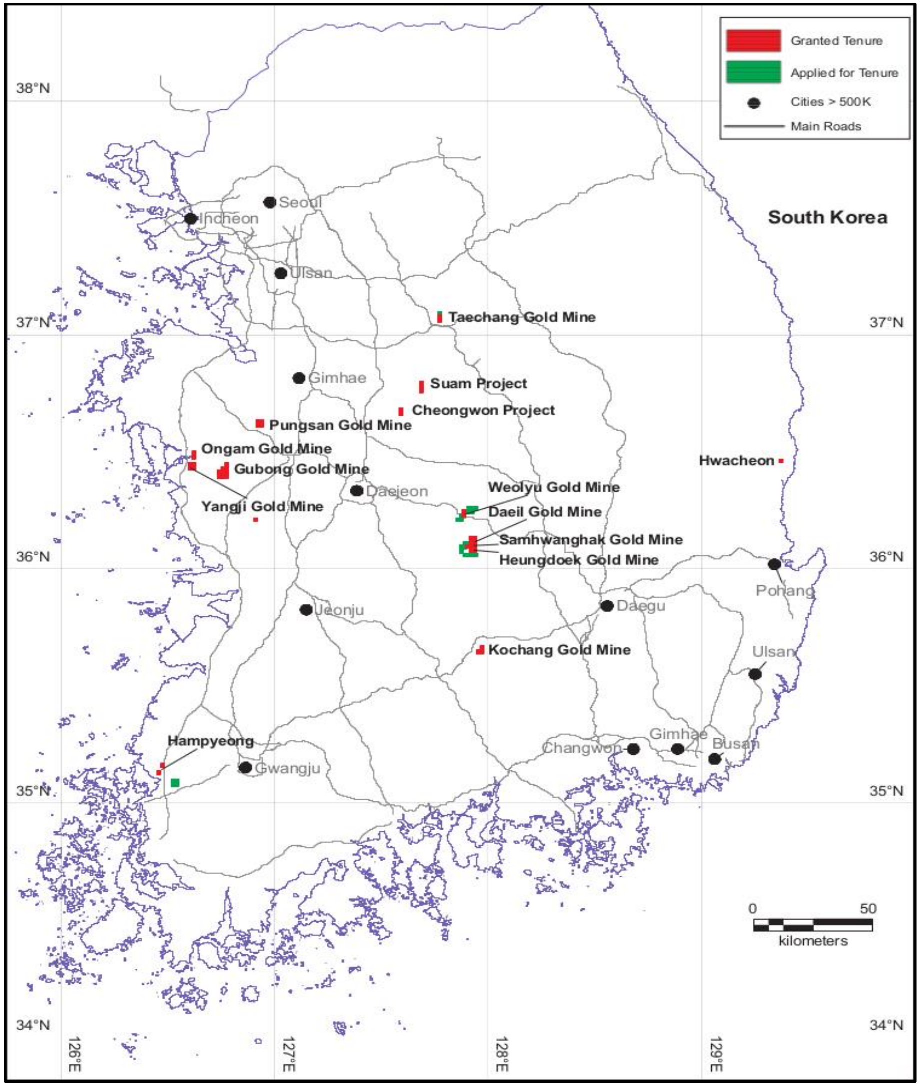
- ❑ Cannon Au Mine
- ❑ Cash generation underpinning the organic funding model

Good Ground: Kalgoorlie, 46 tenements, 262km^2



Good Ground: South Korea, 44 graticules, 120km^2





South Korea (SK)

- Excellent “Ring of Fire” geology but almost no modern exploration
- Ex-Ivanhoe people with experience in country + database
- Valuable historical underground workings
- Fiscal regime: no royalties, no government free carry, tax rate 24.2%
- Ubiquitous road, rail, electricity, internet, 5G, 50m people
- Low cost base, large manufacturing base, geographical area = 50% Victoria

Good People

Board

Greg Boulton,
Chairman

Simon Mitchell,
Managing Director

David Turvey,
Non-Executive
Director

Mick Billing,
Non-Executive
Director

Company Secretary

Dan Hill,
Company Secretary

Technical

Doug Kirwin,
Technical Advisor

Chris Bowden,
Exploration
Manager, Korea

Justin Gum,
Principal Geologist,
Australia

Key Managerial

Ray Ridge,
CFO

Joseph Lee,
Country Manager,
Korea

Funding & Capital Structure

Number of ordinary shares on issue	**49.15m**
Staff and Director Options	~4.7m
Total Fully Diluted Shares	53.85m
Share price (8 November 2017)	A$0.28
Market capitalisation (undiluted)	**A$13.8m**
*Cash, receivables, gold (30 September 2017)	A$4.8m
Enterprise value	**A$9.0m**

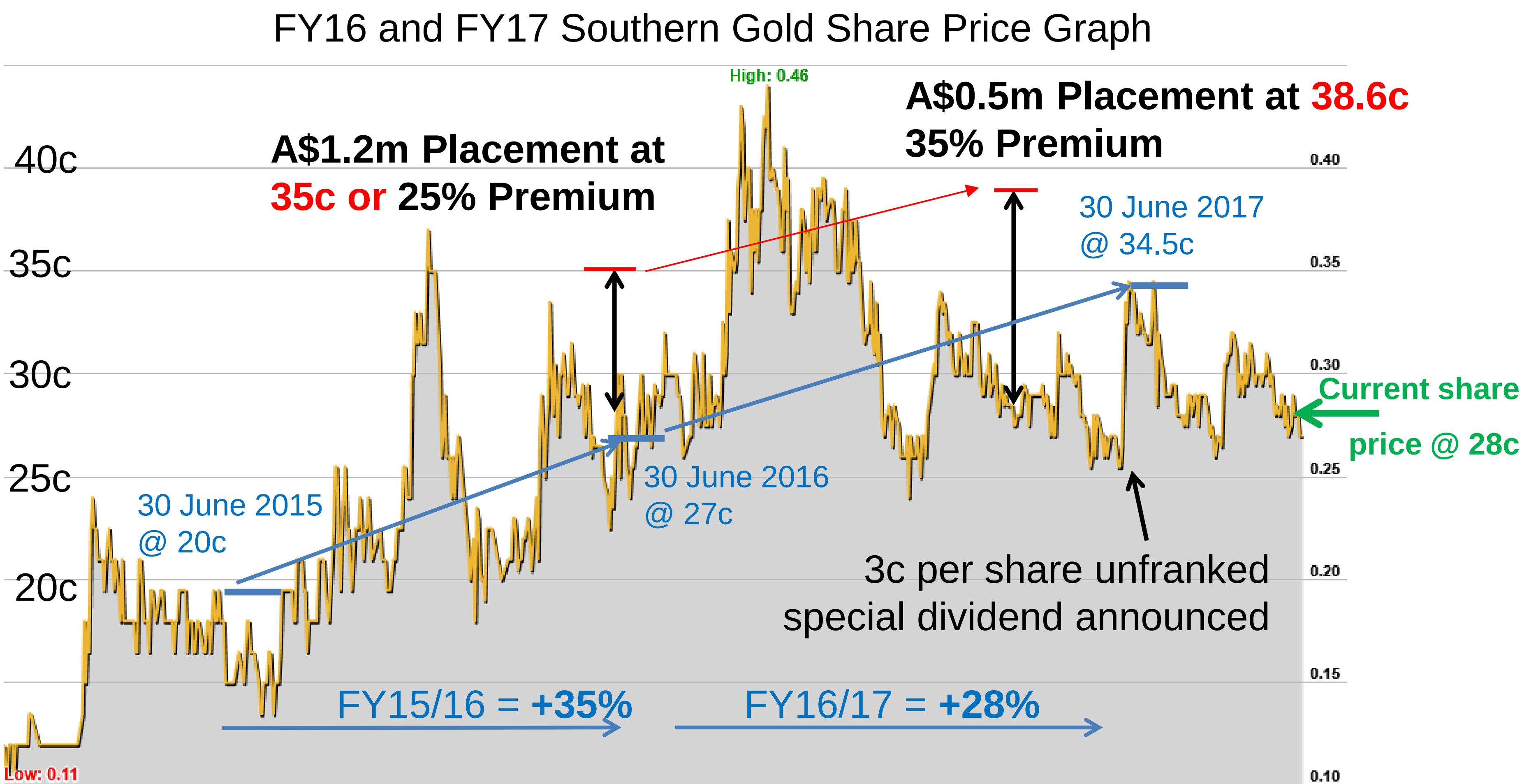
Corporate Strategy

- Focus on cash generation, keeping a tight capital structure
- Develop mine operations in JV with expertise (e.g. Bluebird MV)
- Culture of technical excellence and innovation in exploration
- **Search for ‘world class’ gold deposits, organically funded**

Total Shareholder Return Benchmark

Special Dividend paid post FY @ 3c/share cash or scrip equivalent @ A$0.25 per share under the Dividend Reinvestment Plan

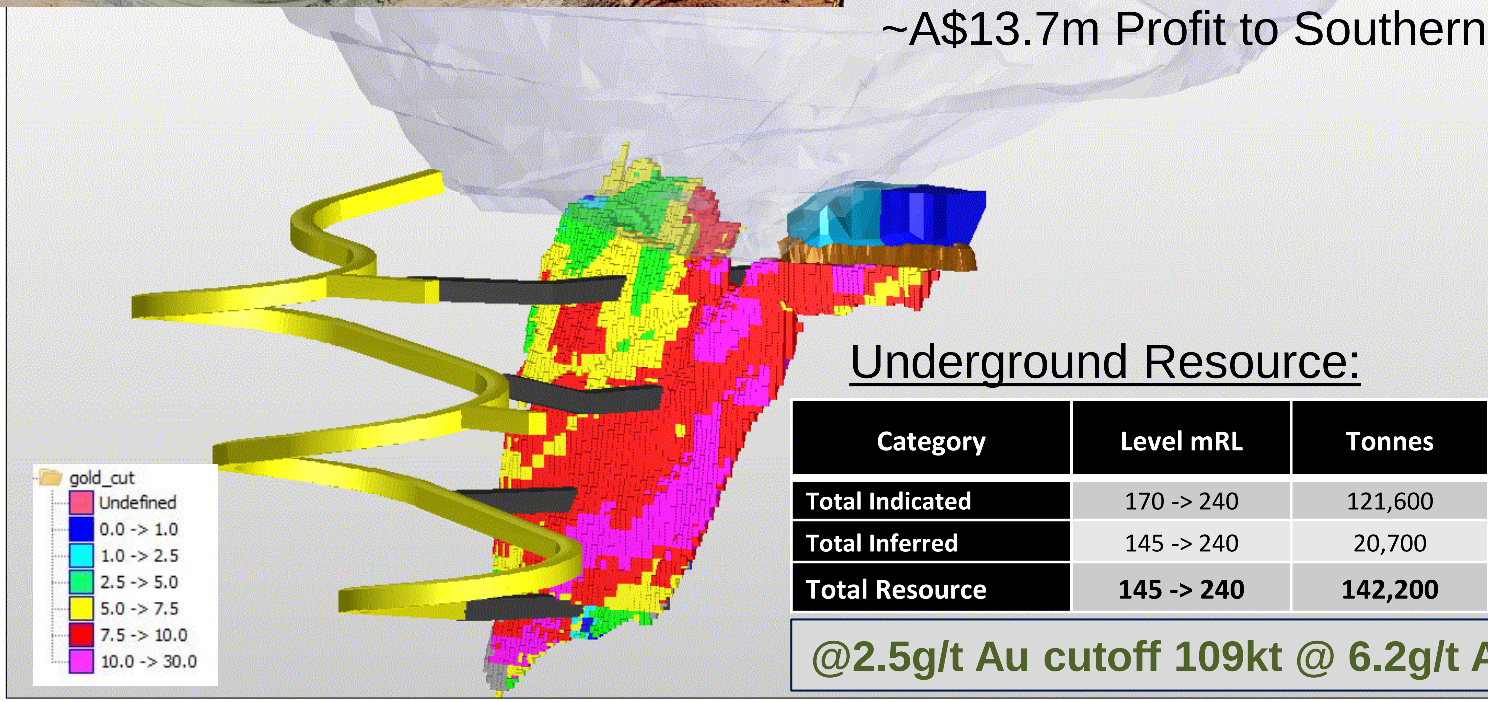
How are we tracking? 3 Year Price Graph



If 3c per share dividend is included in FY16/17 then Shareholder Return is = +39%.
Over 2 Years to 30 June 2017 = +87%.*

** Past performance not a guarantee of future performance.*

The Organic Funding Model: Cannon Au Mine



<u>Open Pit:</u>

~95koz Au Resource

~52koz Au recovered

~A$13.7m Profit to Southern

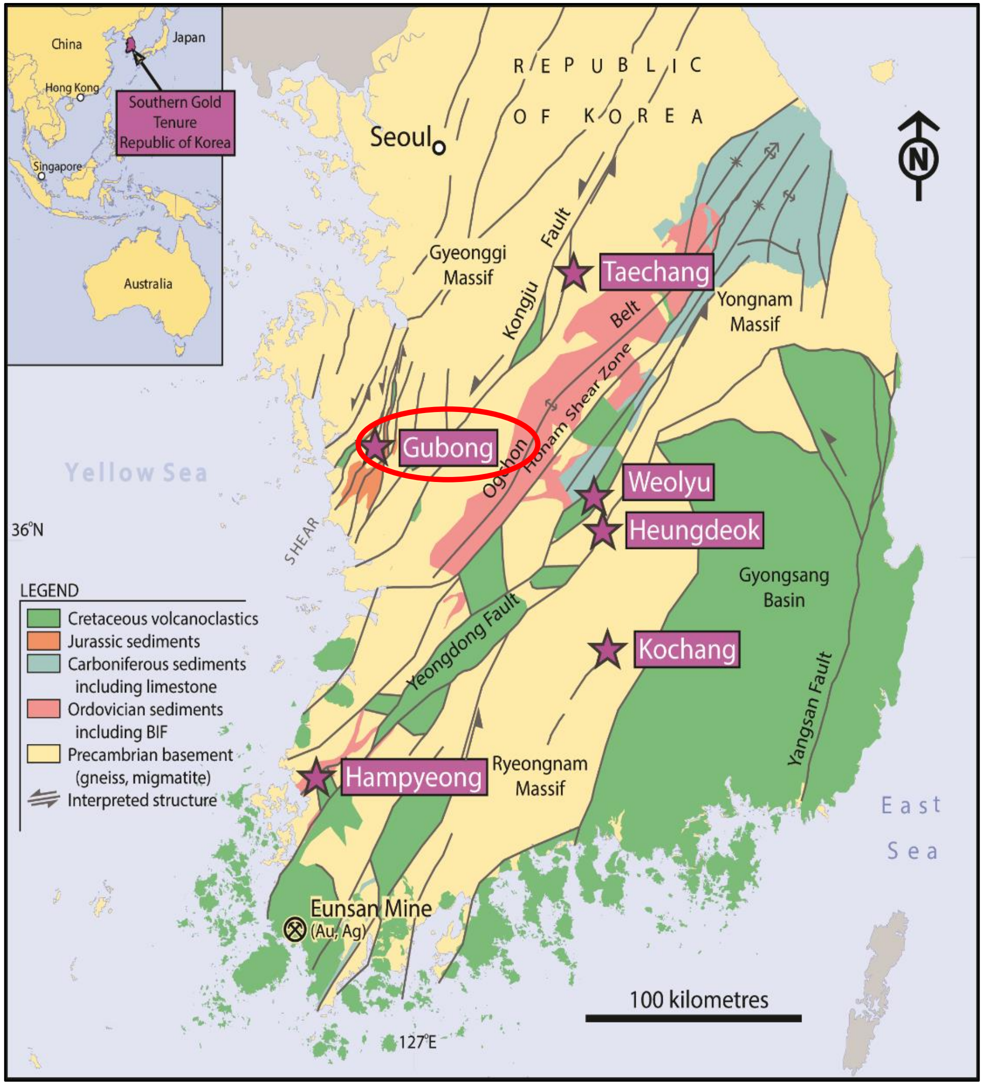
<u>Underground Resource:</u>

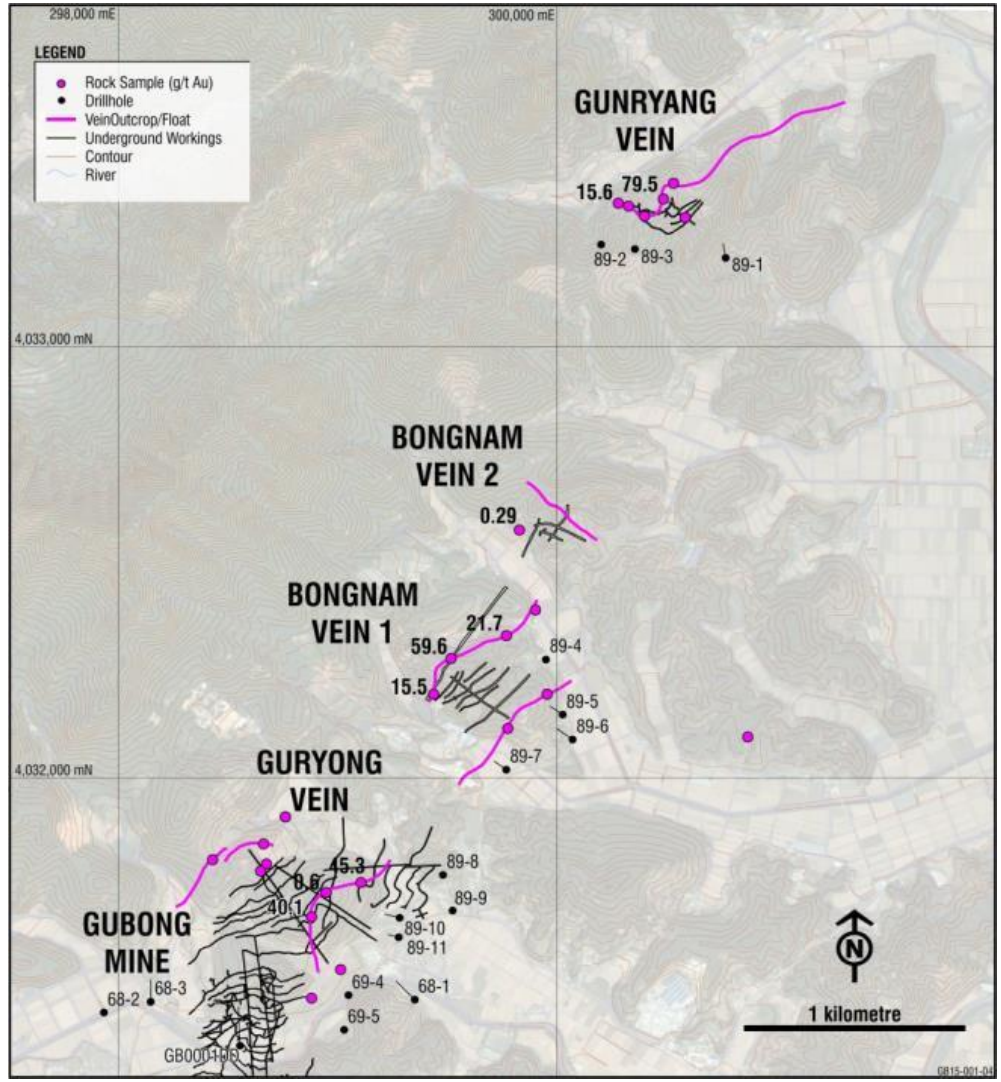
Category	Level mRL	Tonnes	Grade g/t	Ounces
Total Indicated	170 -> 240	121,600	5.68	22,170
Total Inferred	145 -> 240	20,700	2.21	1,470
Total Resource	**145 -> 240**	**142,200**	**5.18**	**23,640**

@2.5g/t Au cutoff 109kt @ 6.2g/t Au for 21.7koz

Cannon Updated ID2 Block modelled interpolation, with conceptualised 4 level underground development, Cannon Pit (semi-transparent light grey) and Westgold adit development and stope (in blue). See ASX release 9 October 2017 for details.

Gubong – large multi-kilometre system



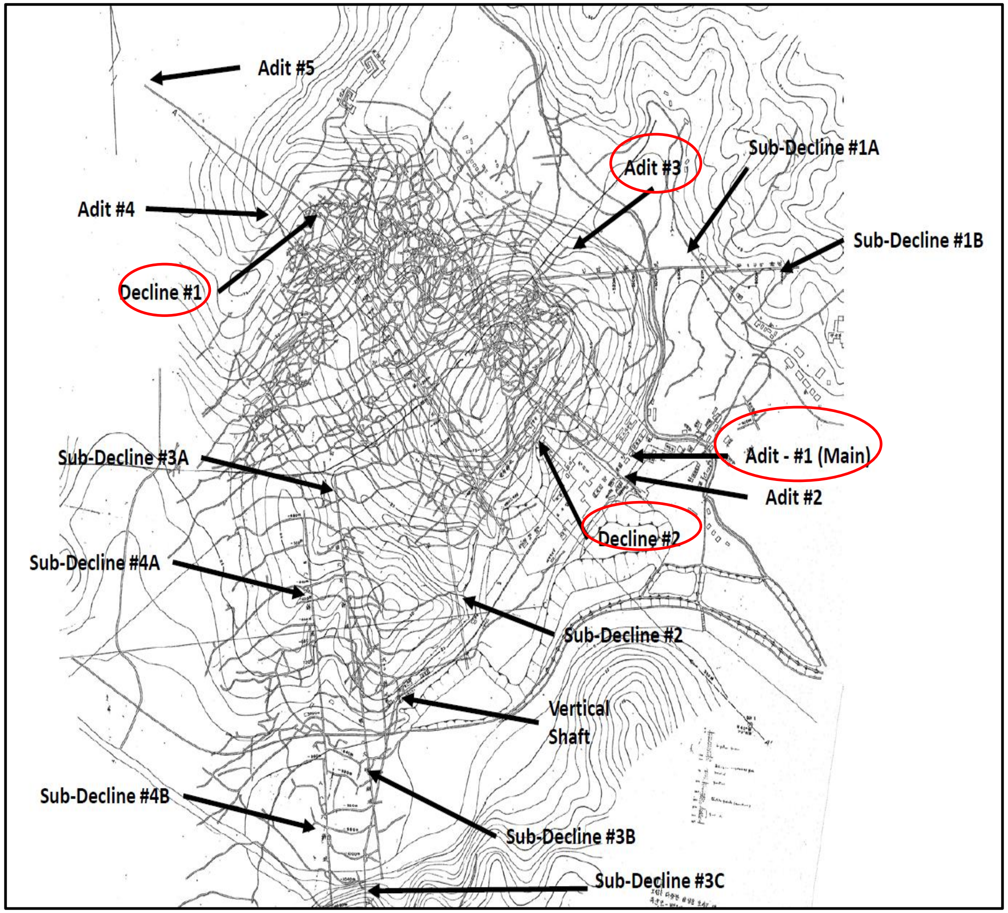


Gubong Au Project – Bluebird Merchant Ventures

Colin Patterson: 40+ years, ex Apex (Philippines), Olympus Pacific (Vietnam), Emperor Mines (Fiji)

Charles Barclay: 25+ years, ex Olympus Pacific (Vietnam), Highlands Pacific (PNG), Vatukoula (Fiji)

- Currently reopening mine
- Fast track mine restart (capex <US$10m)
- Development scenario report Q2 2018
- Full feasibility & construction Q4 2019
- Initial ‘pilot’ scale production & cash flow
- Subsequent production lift

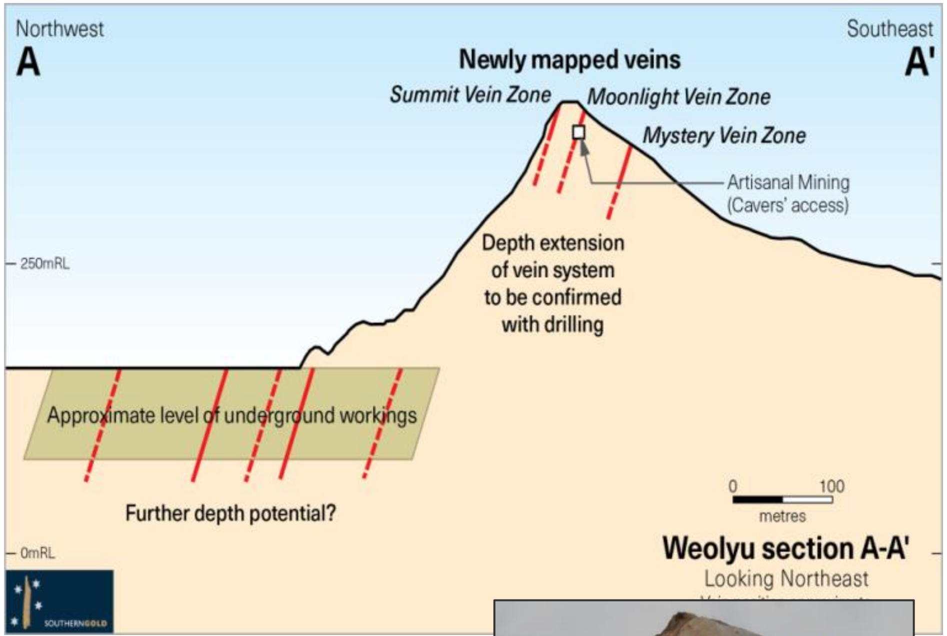


Gubong historic map of old working at Vein 1 and 6 with recently located access highlighted.

Exploration: big multi-kilometre systems

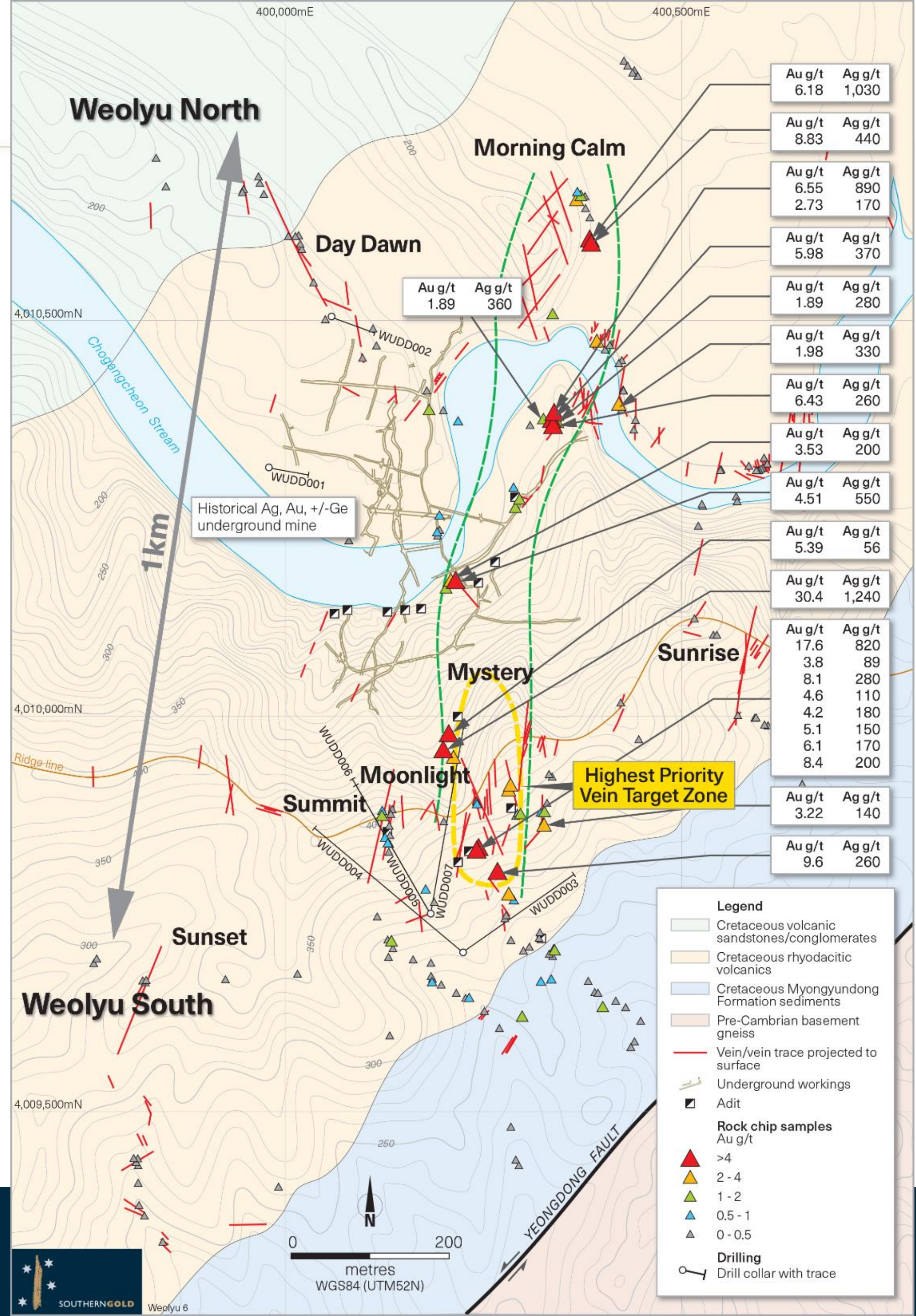
- Glandore, 35km east of Kalgoorlie, WA – Lake Consols Trend
- Cowarna, 70km east of Kalgoorlie, WA – BIF adjacent to Silverlake
- **Weolyu, 50km east of Daejeon, SK – epithermal Au-Ag trend**
- Kochang, 75km south-east of Daejeon, SK – mesothermal Au-Ag trend
- Project generation in SK – Kirwin database and ex-Ivanhoe experience

Weolyu (SK)



- Surface rock samples **30.4g/t Au + 1,240g/t Ag** (KRS200052)

- **6.18g/t Au +1030g/t Ag** (KRS202116)



Weolyu (SK): Drilling

- WUDD006 NQ drill core with assayed intervals of 2.47m @ 2.36g/t Au from 222.4m and 0.3m @ 21.1g/t Au and 49.1g/t Ag from 231.4m = **Summit Vein System (West) poorly mineralised on surface.**

- WUDD007 NQ drill core from current drilling with visual epithermal banded quartz veining mineralization between 152.9m to 156.5m (3.6m), supported by pXRF results **= Moonlight Vein System (Central) informally mined near surface.**

Weolyu (SK): Underground Sampling

- Combined Aussie and SK Crew
- Channel sampling to JORC standard
- Full safety protocols in place

Weolyu (SK): Underground Samples in Process

- Good looking rocks
- Classic epithermal quartz veining
- pXRF anomalous

- Sample processing facility
- >100 samples submitted
- Results pending
- **Aim: JORC Resource**

With an EV < $10m : Equity Returns likely!

- A fully funded technical ‘A’ team
- Two potential underground gold mines at Cannon (WA) and Gubong (SK)
  - Cannon – Capex <A$10m
  - Gubong – Capex <US$10m (50% share <US$5m) **with BMV JV**
- Three other potential underground mines in medium term
  - Taechang (SK) **with BMV JV**
  - Kochang (SK) and/or Weolyu (SK)
- Four **kilometre scale** mineralised systems being actively explored
- Project Generation: epithermal Au-Ag targets in SK (Kirwin database)

Research and Contacts

ERA, Keith Goode, April 2017 (price target >$0.40/share)

http://www.southerngold.com.au/announcements/era-research-report-released

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