

Solomon Gold (SOLG LN)

Fairfax acts as Broker & Advisor to the Company

Buy

Target Price: 32 pence

Progress in Queensland as Potential of Solomon Islands Awaits

Price: 16.5 p MktCap £47m

1st September 2011

Name	Code	Share Price \$	Mrkt Cap (Million US\$)	Net Debt (m\$)	EV (US\$M)	Total Resources (moz)	EV/oz	Country of Operations
Patagonia Gold	PGD LN	0.94	690	-10	680	1.1	595	Argentina
Perseus Mining	PRU AU	3.62	1543	-157	1385	3.6	387	Ghana , Ivory Coast
Ampella Mining	AMX AU	2.10	430	-12	418	1.9	224	Burkina Faso
Solomon Gold	SOLG LN	0.28	81	0	80	0.5	148	Australia, Solomon Islands
Hummingbird Resources	HUM LN	2.33	124	-8	117	0.8	144	Liberia
Kula Gold	KGD AU	1.79	165	-49	115	1.8	63	Papua New Guinea
OreZone	ORE CN	3.14	262	-61	201	4.0	50	Burkina Faso
Greatland Gold	GGP LN	0.02	7	-3	4	0.1	48	Tasmania
GGG Resources	GGB AU	0.30	50	-17	34	1.1	31	Australia
Shanta Gold	SHG LN	0.42	76	-17	60	2.6	23	Tanzania
Ovoca Gold	OVG ID	0.46	40	-26	14	0.7	20	Russia

Update – Two Pronged Exploration Strategy

- Recent drill results at Rannes Project in Queensland demonstrate that the company can build up gold resources here and at other sites
- Solomon Islands is highly prospective for gold and any significant find would be transformational
- JV with Newmont Mining on Guadalcanal has potential for substantial discovery. Newmont are looking for a high grade copper prospect as indicated by high grade copper float samples discovered on the island

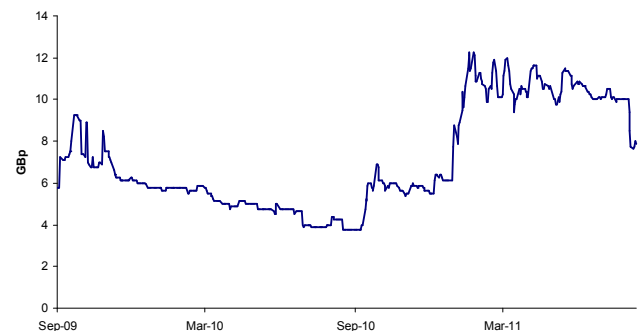
Valuation

Solomon Gold is at an exploration stage creating value by proving up resources at tenement areas in the Solomon Islands and in Queensland, Australia – with nearer term prospects in Queensland offering the most visibility to a valuation.

We use the Rannes project as a floor for our valuation:

- Applying a simple \$100/oz valuation on the gold prospect in Rannes of 543,858oz gold equivalent we get \$54m for the project or 12p/s. If Rannes grows to the 2moz target, then our valuation could grow substantially from here.
- Mt Perry should show similar value
- Fauro, drilling shows mineralisation with potential for discovery est. value \$22m
- Guadalcanal JV - Newmont est. value \$17m based on Newmont agreement to spend \$12m for 70% of the prospect.
- Total valuation = 32 pence per share

Share Price



Source: Bloomberg



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Exploration Strategy and Project Areas

The company has adopted a two pronged approach to their exploration – targeting the Solomon Islands in an area known for its copper/gold potential but can be expensive to explore and Queensland, Australia where they expect to find reliable, cheap and efficient resources.

Fauro (Solomon Islands, 100% owned)

Set in the Pacific Rim, 80 km South East of Bougainville Deposit, the former Rio Tinto gold mine, once the largest copper mine

Tenement area 70 km² – with key prospects at Meriguna, Ballyorlo, Kiovakase and Bataha

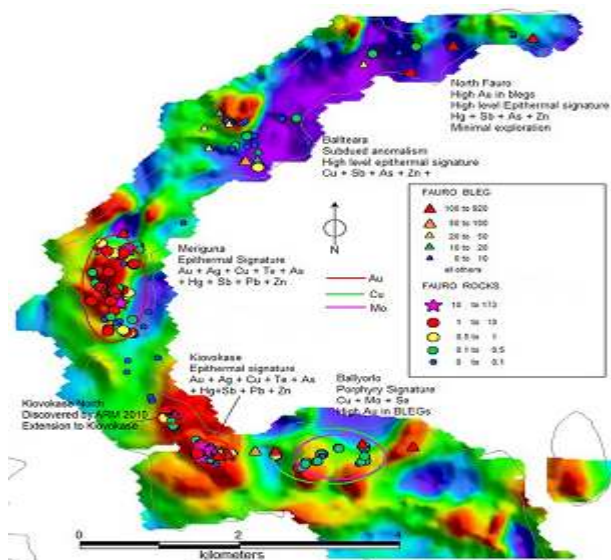
The company started drilling in Fauro Island in Dec 2010 of the Meriguna prospect– drilling was planned to look beneath known gold veins in surface trenching to identify and understand the system that feed the surface mineralisation. Assay results in February 2011 from first diamond drill hole taken from 83m returned 10m at 2.93g/t gold and 6m at 1.1g/t silver – mineralisation was found to be moderate to strong throughout the hole.

Results in May 2011 from deeper drilling (121m to 207m) of a second hole in Meriguna showed high gold grades of 44.45 g/t and 11.6g/t in short 1m intersections.

A third drill hole is now down to 348m and is being assayed for porphyry copper potential

The company is working on an Induced Polarisation (IP) survey to determine the direction of chargeable anomalies where mineralisation is likely. This combined with other geochemical, magnetic and geological interpretation will determine a drilling programme

Continuity of gold vein is possible at Meringuna but further drilling results are needed to be conclusive



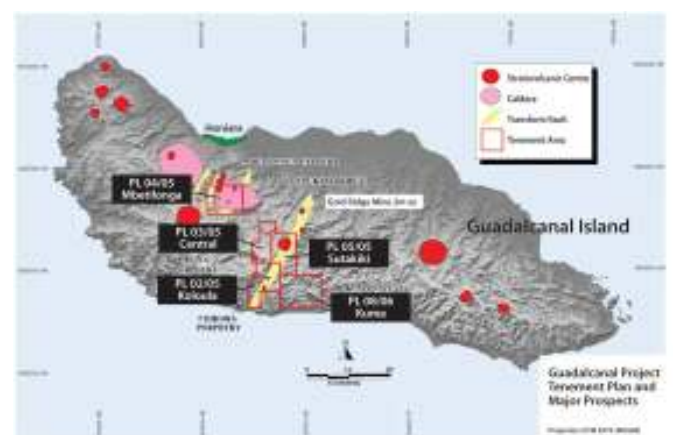
Guadalcanal (Solomon Islands, JV with Newmont)

The company signed a JV agreement over their main Solomon island tenement in 2009 with Newmont Mining – Newmont have the right to earn 51% by spending \$6m over three years and 70% by spending \$12m over six years

Newmont are trying to identify a substantial mineralised system containing a multimillion ounce gold potential. Newmont have used a systematic process of mapping, sampling and geophysics surveys to identify key drilling targets at Mbetilonga and Chiikora

Newmont budgeted \$6.04m to be spent in 2011 to drill 5.600m including 3.500m at Mbetilonga, a key target on the licence

The company published assay results from drilling at Mbetilonga – the results showed copper and gold grades in drilling over 46m from 298m depth at 0.25% copper and 0.34 g/t gold. These results were not enough in our view to warrant the declaration of a major discovery but indicated the presence of a large mineralised system.



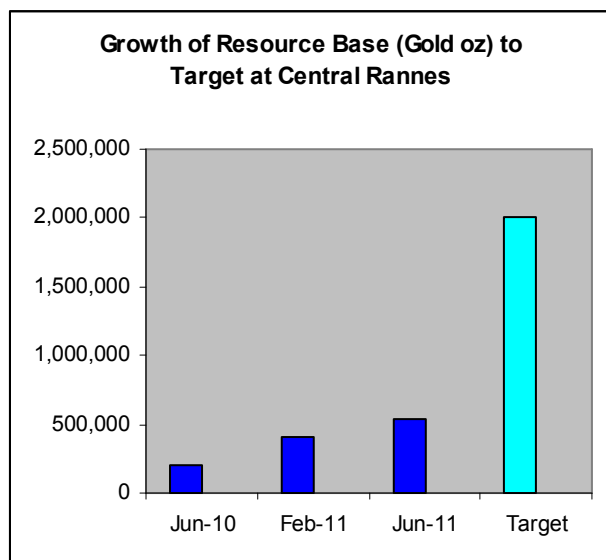
On-going rock chip float sampling in the Mbetilonga Project area has returned scattered, highly anomalous copper results, with a number of samples returning greater than 1% copper including a maximum result of 22.1% - while drilling has yet to find this high grade copper, there is still scope for a substantial discovery.

Rannes Project (Queensland, 100% owned)

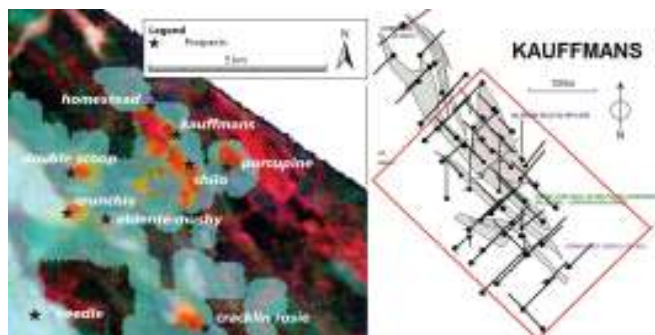
The company acquired licences over the Rannes project along the eastern edge of the Bowen Basin in Queensland close to Newcrest's Cracow mine. Significant drilling already existed on these projects when purchased.

The project is in a sedimentary basin edge which have hosted the world's biggest gold deposits. The project consists of five prospects: Crunchie, Homestead, Kauffmans, Cracklin Rose and Porcupine. The company have a stated resource target of 2m oz at Central Rannes.

The Rannes project had a maiden JORC resource of 201,648 oz (1.12 g/t gold using a 0.2 g/t cut off) declared in June 2010 following 5,000m of drilling. Since then, the resource has been upgraded twice and now stands at 543,858 oz of contained gold. The silver is 1:40 gold:silver with a 0.35 g/t cut-off grade (272,299 oz gold, 10.67m silver).



Drilling prospects at Rannes



Source: Solomon Gold

The company is targeting 300k oz in the 200m long and 100m deep system underneath the existing Kauffmans-Homestead Inferred Resource – gold grades at Kaufmanns-Homestead are significantly higher at depth, approximately 10g/t to 30g/t compared to the shallower grades as approximately 1g/t to 4g/t. In the short term the company is targeting 550k oz gold equivalent at the Kaufmanns-Homestead prospect which will be an important contribution to the company's overall target 2m oz target at Central Rannes.

The company have announced positive drill results in July and August from the Kauffman-Homestead prospect showing high grade intercepts and this should lead to a resource upgrade at this prospect in September and an overall resource upgrade at the Central Rannes project.

Mount Perry (Queensland 100% owned)

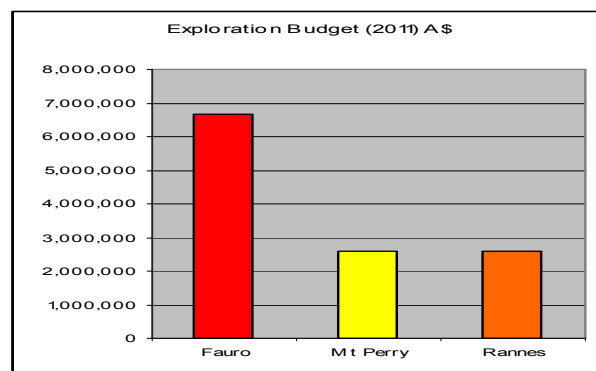
The company inherited the Mount Perry project through the acquisition of Acapulco Mining Pty Ltd. Mount Perry is located in South East Queensland and lies adjacent to a producing mine Mt Rawdon which is owned by Lihir Gold. Several high grade vein style and lower grade high tonnage porphyry style gold targets have been identified through mapping, sampling, geophysics and exploration drilling.

Mt Perry licences host potential for a number of 1m oz discoveries and could potentially give the company their first economic discoveries. Management are targeting discovery of the first gold mine of 100,000 oz per annum (this would be similar to the current operational Mt Rawdon mine).

Early drilling has shown success in Spring Pig, Flying Pig, Bania prospects and latterly the Harpus prospect. The company has been held back in providing a meaningful resource update at Mt Perry as drilling has been held back by the heavy rains in Queensland.

Moving on All Fronts

Management are driven and are creating optionality on the various projects while adding to the resource base.



Serial discoveries

The team is more than capable of finding, developing and selling their discoveries and investors are effectively buying into their energy and expertise in Solomon Gold shares

Nick Mather, Solomon's CEO is known for his tenacity and success in exploration. His work makes him one of a select band of explorers with serial discoveries to his name. He owns 13.45% of shares in the company.

Alex Thin (COO) joined the firm in March 2010 and brings experience in South West Pacific for DRD Gold. Mr Thin is an engineer with long experience in mining and mine development and is responsible for the day to day running of the company.

Jon Bovard was appointed as a non-executive director late last year. He has built many mines in the Southern Pacific and designed the Kalgoorlie super-pit.

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	Buy	Hold	Sell
2Q11	71.42%	14.29%	14.29%

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