

UK investors like our low-cost Korean gold projects

British investors have backed their belief in our key South Korean gold projects and their level of support is measurable.

Just to explain, Southern Gold has a farm-in deal with London-listed Bluebird Merchant Ventures to form a joint venture to restart three historic mines on Asia's gold-rich Ring of Fire geology: Gubong, Kochang and Taechang.

Initial work by Bluebird, which is a seasoned operator, indicates at least 2 of the mines are likely to be reopened at minimum cost.

The farm-in deal involves Bluebird investing \$US500,000 in Kochang to supplement the \$US1 million already committed to Gubong and Taechang. Bluebird or its associates will also subscribe for \$A250,000 of Southern Gold shares at 38.6c apiece, a hefty 57% premium to the market price.

Bluebird and Southern have similar market capitalisations around 7 million pounds or \$A12 million.

But Bluebird's valuation is largely supported by its likely interest in the three mines. So far, only one mine has enough expenditure done by Bluebird to form a joint venture. The company does fully own a Philippines project called Batangas but that is on care and maintenance due to the political and social environment of that country.

While Southern Gold has a similar market cap to Bluebird, we also have about \$4 million of cash and will receive future royalty flows from the underground phase of our mainstay Cannon mine near Kalgoorlie.

This means that our enterprise value, which excludes the cash and adds back debt, is significantly less than Bluebird's.

In effect, ASX investors are paying scant regard for our South Korean projects, the Cannon royalties, and our exploration efforts in Western Australia.

Some investors may argue that the London view of things is overly generous and ASX investors have it about right.

But that's not a view shared by London investment bank SP Angel, which in a recent research note valued Bluebird at \$71 million to \$98 million.

Tellingly, SP Angel's valuation is based solely on modelling Gubong, which is the biggest project in the Southern Gold-Bluebird stable, as a reopened mine.

Once Korea's third-biggest gold mine, Gubong produced at least 428,000 ounces between 1932 and 1971 but the closure resulted from a low gold price rather than an exhausted resource.

SP Angel cites a competent person's report that assesses Gubong as a potential 1 million ounce project, with 300,000oz of satellite prospects.

In early April, Bluebird has spent \$US500,000 on the project and is expected to finalise a report on Gubong's viability by July thereby earning its 50% interest, with promising work to date on both Gubong and Kochang.

While Bluebird has incurred all the costs to date, the expenses of developing a mine – estimated at an initial \$US5m to US\$10m -- will be shared equally by Bluebird and us.

Dewatering and water treatment has started at Gubong, with metallurgical test work and a report on feasibility is under way.

Kochang is a smaller project but it is likely to be a faster to develop and could serve as a launch asset to prove our capabilities in the country.

In a recent update, Bluebird said its engineers had dewatered the Kochang pit and accessed 3km of tunnels showing evidence of multiple mineralised quartz veins as well as remnant broken ore and pillars.

Underground mapping and sampling work is under way to determine the probable tonnages and grades.

Separately, we recently announced the South Korean government has granted us tenure over the Aphae gold and silver mine, another historic working that produced 115 kilograms of gold between 1940 and 1942.

The site consists of a narrow open-cut mine and an adjacent alluvial field, with mullock samples returning grades of up to 6.08 grams a tonne gold and 34 grams a tonne silver.

We plan to test some walk-up drill targets in coming months to expand on the findings of an old drill hole that suggests mineralisation continues at depth.

Hampyeong, a project separate to the Bluebird partnership, has also advanced through South Korea's tenement application process and is now granted tenure. Drilling will commence at Hampyeong in the coming weeks.