

Medal winning performances in South Korea

South Korea is shaping up to be a fertile source of gold for our company – and we're not talking about the medals draped around the winners at the recent Winter Olympics.

Rather, we have announced more good news in relation to our three main Korean projects, which are in the Pacific Rim's famed Ring of Fire volcanic geology that hosts many world-class mines.

First, our London-listed partner Bluebird Merchant Ventures (BMV) has decided to co-invest with us in a third project: the historic Kochang mine in the country's south.

As with Gubong and Taechang – our two other projects in which BMV is a partner – Kochang was a major producer (mainly of silver) up to the 1970s. Production ceased because the gold price fell to less than \$US140 an ounce but with bullion now above \$U1200/oz the economics are likely to be much more compelling.

The farm-in deal involves BMV investing \$US500,000 in Kochang, supplementing the \$US1 million already committed to Gubong and Taechang.

BMV 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.

The funds will go towards a high-level feasibility study, targeting capital expenditure of no more than \$US10 million (split evenly between both parties).

The work will help to decide whether Kochang is developed as a standalone operation or in parallel with other projects.

In either case, we are eyeing a rapid restart of production.

Kochang has been partly derisked, with BMV having already dewatered the mine and gained safe access.

Within 12 months, we hope to form a contributing joint venture with BMV as the operator.

While Kochang would be smaller than the Gubong project, BMV moved rapidly because Kochang has a number of attributes conducive to rapid development: its veins are near-vertical, which means lower mining and development costs while the project is close to power, water and other excellent infrastructure.

As well as being underexplored, South Korea is highly favourable jurisdiction because the government does not charge royalties and levies a friendly tax rate of 24.21%.

While Kochang was best known as a silver mine, Southern Gold's recent work points to exciting and overlooked gold veins.

"Bluebird is the right group to get underground at Kochang and move the project forward more aggressively," says our CEO Simon Mitchell.

"Drilling from the steep hills would be expensive but given there is substantial mine infrastructure in place, it isn't necessary.

"We can get to the vein face and work out the system from underground and, given the high grades seen here historically, there may be the potential for a low tonnage, very high grade development."

BMV's role can't be overstated: led by experienced mining executives Colin Patterson and Charles Barclay, the group looks globally for previously worked underground projects that can generate cash flow within 30 months.

BMV is also a valuable source of advice for our Cannon mine, our mainstay WA as it enters underground development phase.

In the second piece of good news, Korean authorities have granted Southern Gold tenure at our greenfields Hampyeong project, which we are exploring off our own bat.

The permit grant was granted after rock chip samples returned grades of up to 13.4 grams a tonne at the Nabi Vein Zone, 11.5 g/t at the East Main Vein Zone and 6.8 g/t at the Saseun Vein zone.

Put in context, grades of 2 g/t are widely viewed as a benchmark for economic production depending on the specifics of individual mines.

The Korean tidings follow December's deal in which Westgold, our 50:50 partner in the Cannon mine near Kalgoorlie, agreeing to fund production of the underground phase in return for production rights.

Under the terms, we received a \$1.5 million upfront payment and royalty rights that we expect to be worth \$3 million to \$4 million over 12 to 18 months of production.

This deal de-risks the venture for us because Westgold assumes the estimated \$8 million to \$10 million of required development costs and all other liabilities.

The transaction bolstered our cash balance to \$4.6 million (as at December 31), to be used for the South Korean growth projects and exploration on other WA ground.

BMV and we have not decided which asset to develop first but the odds are in favour of us becoming a true South Korean gold miner sooner rather than later.

A third piece of news that delights us is the appointment of a director with extensive underground experience. Peter Bamford has vast experience in the gold sector and his roles have included mining engineer, mine manager, corporate executive and director.

In Olympics parlance we are bobsledding in the fast lane.

Along the way we will not forget our charter of putting shareholder returns first, which means avoiding dilutive capital raisings and paying our way from production revenue as soon as possible.