

## **Southern Gold puts shareholders first**

Few junior gold plays can offer investors a producing gold mine, a maiden dividend, a debt-free balance sheet and exploration and development upside in both Western Australia and South Korea.

But these are all attributes of the ASX-listed Southern Gold – and all at a lowly market valuation of only \$13m.

At Southern Gold, we eschew the usual approach of promising ever-distant blue-sky returns while constantly tapping investors for more dilutive equity. Think of us not such as a miner – we contract out that expertise – but an active producer/explorer backed by revenue from current production.

Rather than treating shareholders as cash cows, in June we announced a maiden 3c a share dividend while maintaining a robust exploration program.

Our tidy register – just over 47m shares are on issue – enabled us to distribute such a meaningful return.

Including this payout, we generated total shareholder returns of 35% in 2015-16 and 39% (including the dividend) in 2016-17.

How is this possible? The answer lies in our incremental approach to exploration and development as well as partnering with parties with deep pockets and even deeper expertise.

Our recently producing asset, the Cannon open-cut mine is held in a 50:50 profit share arrangement with Westgold, which operated the site on an effective contract-mining basis.

Cannon has proved, well, a gold mine, generating in excess of 50,000 ounces for a \$28m profit. Southern Gold has banked \$13m to date, with a final payment approaching \$1m due by the end of the month.

As well as the maiden dividend, we used the funds to pay off \$3.7m of borrowings and we are now debt free.

But with half of Cannon's open-pit resource expended, we are now eyeing an underground expansion based on small-scale production over three levels. As a company, we have never shied from small-scale projects if the grades are justified.

A reverse-circulation infill and extension drilling campaign is now completed, with results due later this month.

Overall, we have 46 tenements in the Kalgoorlie region covering 262 square kilometres. This includes the Glandore gold project, which has graded up to 168 grams a tonne at its Dibbler target.

Meanwhile, South Korea has a rich but unappreciated mining history based around the Pacific Rim's rich Ring of Fire volcanic geology.

There, we have partnered with Bluebird Merchant Ventures, run by experienced mining executives Colin Patterson and Charles Barclay. We also have the benefit of four former executives and geologists from Ivanhoe Mines, Robert Friedland's group responsible for finds including the massive Oyu Tolgoi copper-gold deposit in Mongolia's Gobi Desert.

In a \$US1m farm in deal, the London Stock Exchange-listed Bluebird is taking a 50% interest in two South Korean projects, Taechang and Gubong.

A feasibility study is under way in view of restarting these projects with a combined operating capex of less than \$US10m.

Gubong is especially interesting as it was worked between 1908 and 1967. Our exploration target (not a formal measure) is 4.5 million tonnes grading 6-12 grams a tonne.

As a jurisdiction South Korea is highly favourable because the government does not charge royalties or demand a free-carried stake in projects. The tax rate is a friendly 24.21%.

At the same time, South Korea is an underexplored and under-appreciated jurisdiction, without the regulatory issues often afflicting miners in southeast Asian countries such as Thailand and Indonesia.

Southern Gold boasts the biggest expanse of tenements of any foreign operator in South Korea - and high barriers to entry means that's likely to remain the case.

While the Kalgoorlie region is often seen as unsexy from an exploration point of view, the reality is there is still plenty of scope for developing high-grade but smaller projects overlooked by the majors.

Our near neighbours include Silver Lakes and Westgold's producing mines. Further down the 'road' – but in the same Kalgoorlie area – Barrick and Newmont own the famous Kalgoorlie Super Pit (Australia's biggest open-cut gold mine).

Overall, Southern Gold offers short-term upside with three projects likely to be in production in the foreseeable future and three 'sexy' exploration prospects.

It's always tempting for junior explorers with multiple promising projects to attempt to drill to glory, raising wads of dilutive equity along the way.

When Southern Gold did raise a small amount of capital in two placements totalling \$1.45m, they were done at premiums of 25% and 35% to the prevailing share price.

Despite our potential, Southern Gold will always put shareholders first with an incremental approach to development that generates returns along the way.