



SOUTHERNGOLD

ABN 30 107 424 519

**SOUTHERN GOLD LIMITED
CONSOLIDATED FINANCIAL REPORT
For the Half Year Ended
31 December 2019**

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CORPORATE INFORMATION

ABN 30 107 424 519

DIRECTORS

Gregory Boulton AM	Non-Executive Chairman
Simon Mitchell	Managing Director
David Turvey	Non-Executive Director
Peter Bamford	Non-Executive Director
Bee Jay Kim	Executive Director
Douglas Kirwin	Non-Executive Director

COMPANY SECRETARY

Daniel Hill

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Stepney SA 5069
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SHARE REGISTRY

Automic Pty Ltd
Level 2, 267 St Georges Terrace
Perth WA 6000

AUDITORS

Grant Thornton Audit Pty Ltd
Level 3, 170 Frome Street
Adelaide SA 5000

EXCHANGE

Australian Securities Exchange Ltd
Exchange Plaza 2 The Esplanade
Perth WA 6000

ASX CODE

Ordinary Fully Paid Shares: SAU

DIRECTORS' REPORT

The directors present their report together with the interim financial report of Southern Gold Limited and its controlled entities for the six months ended 31 December 2019 and the independent auditor's review report thereon.

The names of the directors of the Company who held office during or since the end of the half year were:

Non-Executive Chairman	Gregory Boulton AM	BA (Accounting), FCA, FCPA, FAICD
Managing Director	Simon Mitchell	BSc (Hons) Geol, MAusIMM, GAICD, MSEG
Non-Executive Director	David Turvey	BSc (Hons) Geol, MAusIMM, FSEG, Dip.GAA
Non-Executive Director	Peter Bamford	BSc (Eng) Mining, ARSM, MAICD, FAusIMM
Executive Director <i>(appointed 2 September 2019)</i>	Bee Jay Kim	BA (Business Administration), MBA
Non-Executive Director <i>(appointed 11 February 2020)</i>	Douglas Kirwin	MSc, FSEG, FAIG, FAusIMM

The name of the company secretary who held office during or since the end of the half year was:

Company Secretary	Daniel Hill	BAcc, CA, MBA, MAppFin, FFin, AGIA
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Financial Results

The loss of the Group after providing for income tax for the half year was \$2,493,552 (2018 loss: \$4,702,672).

Review of Operations

Southern Gold Limited ("Southern Gold" or the "Company") operates an exploration and project development business focused on South Korea. Southern Gold's 100% owned projects include the more advanced exploration asset of Weolyu, where high grade gold and silver veins have been defined by drilling and in-situ channel sampling, and a portfolio of epithermal gold-silver projects that are at an earlier stage of definition. Several of these high-quality exploration projects, such as Deokon and Beopsongpo, have demonstrated high grade gold and silver mineralisation from surface sampling and in the case of Beopseongpo very encouraging gold mineralised epithermal vein systems have been intersected in drilling.

The Company also has a 50% equity interest in joint venture companies that are advancing two development projects, Gubong and Kochang. These two projects are operated by joint venture partner, Bluebird Merchant Ventures Ltd ('Bluebird'), a London stock exchange listed entity.

At the commencement of the half year period ended 31 December 2019, the Company still held assets in Australia (including the Cannon Gold Mine which was on care and maintenance) but these assets were at an advanced stage of a sale process. During the half year period, the sale of these assets to Aurenne Group Holdings Ltd was completed, with \$2.5 million in cash consideration received by Southern Gold.

South Korea: 100% owned exploration projects

Southern Gold continued a high level of activity on the ground during the half year period, the main activities being the drilling programs at Beopseongpo and Doekon, land access for drilling at the Neungji Project and additional sites at Beopseongpo. Reconnaissance rock sampling and mapping was undertaken utilising two experienced epithermal consultants, with a number of significant grade Au-Ag rock chip results received from this work. This project generation will continue in the second half of the financial year.

Highlights from exploration activities undertaken during the half year ended 31 December 2019 are as follows:

- **Doekon:** The Doekon project is an Au-Ag fertile epithermal mineralisation system, with multiple vein zone targets identified across several square kilometres of project area.

The maiden diamond drilling program was completed at 'Bonanza Zone', being the southern section of the Golden Surprise Trend, representing a low sulphidation epithermal target within the broader Doekon project. The drilling comprised six holes for 455.52m, targeting beneath an outcropping area which returned high grade gold and silver in surface samples.

While highly anomalous silver-gold mineralisation was intersected in the step-back drill-hole at depth compared to the other more shallow holes, the tenor of surface results was not replicated in the drilling. Potential exists for high-grade mineralisation in an underlying highly competent, brittle andesite unit, if the fertile structure continues to be dynamic, resulting in a dilated structure required for a significant focused vein. Also, the Golden Surprise trend remains open in both directions, requiring further investigation on Southern Gold's existing tenure applications.

The next stage at Doekon will involve gaining land access to drill beneath the historical Shin Hill underground workings where high grade silver was mined at small scale. Quartz veining within the Shin corridor can be traced in float and subcrop for over 400 metres.

- **Beopseongpo:** The Beopseongpo Project is a series of highly prospective low-sulphidation epithermal gold-silver vein and vein breccia targets with large scale system potential. Five major zones have been mapped up to 500 metres in strike length (combined length of up to 2,750m), with vein zone widths of ~20m and individual vein widths over 1m.

An initial three target program for 652.53m of diamond drilling was completed at the Beopseongpo Project. This included testing 'Lotus North', 'Hand of Faith' and 'Golden Palm' targets.

While results from Lotus North were low tenor, at 'Hand of Faith' broad zones of low sulphidation epithermal multi-phase veining were intersected within intensely altered basement rocks. The intercepts at 'Hand of Faith' from first-pass drilling are highly encouraging from the very small strike section of veining (<100 m strike extent of one vein system) drilled to date. This equates to less than five percent of the total outcrop, subcrop and float train-inferred strike of vein systems mapped at Beopseongpo project area. Most importantly, the quartz vein textures intersected are typical of the upper-most levels of Low Sulphidation vein systems, less than 50 metres below the palaeo-water table. This means the main potential for high grade precious metal mineralisation is preserved and interpreted to be between one hundred and five hundred metres below the paleo-water table, which has yet to be drilled.

Drilling at 'Golden Palm' paused in January for the peak of winter and Lunar New Year holidays but recommenced mid-February, and a more detailed update will be provided after assays are received.

This will be followed by deeper drilling at 'Hand of Faith', and then the 'Spider Zone' target at Beopseongpo in the fourth quarter.

- **Neungju Project:** The Neungju Project is located to the south-east of Gwangju city in the southern Jeolla Province and consists of five corridors of sheeted and network vein development that have been tentatively mapped within the area (the Naesin, Oesin, Yeppeuda, Lee Spur and Jidong vein corridors). The zones exhibit widths of 2 to in excess of 100 metres, and have traceable exposed outcrop, subcrop and float train segments ranging between 25 and 650 metres in strike extent (combined strike of 1,065m) and open in both strike directions. The Company has one granted tenement (Yeppeuda) which is surrounded by four applications.

Neungju has potential for the discovery of a large, highly gold-silver mineralised low-sulfidation epithermal deposit. The 250m section of the well-developed Yeppeuda vein and breccia zone is the best defined mineralised zone in outcrop and subcrop to date. Assays returned from surface mapping and outcrop rock chip and float sampling, returned a peak result of 31.8g/t gold and 6.6g/t silver.

Land access has been secured to scout drill test the Yeppeuda Vein on the granted licence, planned during the upcoming half year.

- **Weolyu:** The Weolyu project drilling plan is in the process of being reformulated to drill at depth, to focus on the larger scale potential of the system. Due to the deeply incised drainage valleys and very steep outcropping terrain, it is not possible to create access tracks for tracked equipment in many optimal locations to target the Weolyu vein system. Options for man portable rigs are being investigated and would operate as a series of in-line generators powering a hollow spindle (not top drive like most surface rigs). This allows a smaller footprint required to run rods.

The planned drilling location will enable a series of vertical fanned holes to test the whole Summit, Surprise-Moonlight and Mystery vein system with a series of pierce points in each from surface down to around 200m vertical depth initially. Land access has been secured to drill test these targets and drilling is planned during the upcoming half year.

- **Project Generation:** A significant amount of Project Generation activity was conducted concurrently with the above drilling programs. In particular, extensive field work was completed during November 2019 in three separate districts involving intensive reconnaissance sampling with 653 new samples being taken and analysed. As a result, tenure applications were lodged in all areas. Key results included:
 - Assays returned a peak of 4.75g/t gold from Yeongdong District and 930g/t silver from Seongju District, both from historical mine working dumps.
 - A new discovery was made in South Jeolla District at Daeam Valley, with peak assay of 4.36g/t gold in Float, exhibiting classic high-level low-sulphidation epithermal textures similar to SAU's Neungju Project.

A strong commitment to reconnaissance sampling and project generation activities is planned for the South Jeolla and Yeongdong Districts, with activities having commenced in February, and will be active through to June until the vegetation becomes too restrictive for traversing. The aim is to continue to build a pipeline of projects for drill testing once prospective areas have been thoroughly sampled, assessed and mapped.

Further detail in relation to the above exploration activities is available in the Company's quarterly activities reports for the quarters ending September 2020 (ASX release 31 October 2019) and December 2020 (ASX release 31 January 2020).

South Korea: 50% owned joint venture projects

Gubong Gold Project: 'Permit to Develop' approval by the Ministry of Trade, Industry and Energy (MOTIE) was received on the 10 September 2019, which is the first foreign approved mine since Indochina Goldfield's Eunsan Gold deposit in the late 1990's. The approval took less than one year from the original submission date. South Korea uses a streamlined process of application for mine plan approvals. There is a single application made that encompasses all government approvals required to carry out mining activities. The submission is made at the provincial government level which in turn obtain approvals from all relevant government authorities.

Kochang Gold Project: 'Permit to Develop' approval by South Gyeongang Provincial Government was received on 18 December 2019. Mine development in South Korea is formally approved through a process run by the Provincial Government. The approval is subject to several conditions largely in relation to physical development requirements regarding safety and environmental management. From a practical point of view, the approval is now in hand and allows for the next stage of development works to begin, subject to presentation of these activities to local community members.

The next stage of work at Kochang will involve modest capital costs to commence production, due to substantial underground workings already in place. Further details on the development plan and capital requirements will be announced in the coming half year but the principal of the BMV concept proposal is to generate early cashflow from a small-scale gold mine development and minimise up front capital costs. The projects will then be expanded organically from cash flow.

Corporate

Finance

During the half year period, the sale of these the Company's West Australian assets to Aurene Group Holdings Ltd was completed, with \$2.5 million in cash consideration received by Southern Gold.

On the 25 July 2019, pursuant to the rights issue offer announced on 17 June 2019, the Company issued 20,856,127 shares and 10,428,184 options on the basis of 1 option for every 2 new shares issued under the rights issue, raising \$2.3 million before costs.

A further \$0.44million was raised through a placement to four major shareholders on identical terms as the rights issue, being 4 million shares at \$0.11 per share and 2 million free attaching options. This placement occurred on 21 October 2019, following shareholder approval on 10 October 2019.

During the period, 582,508 options from the rights issue were exercised at a price of \$0.18 per share, raising \$104,851.

Events Subsequent to Reporting Date

On 11 February 2020, the Company announced it has received binding commitment letters from sophisticated and institutional investors in respect of a placement of 71,428,571 shares at an issue price of \$0.14 per share to raise \$10 million subject to shareholder approval (The Placement). The objective of the Placement is to lift the exploration effort in South Korea to a more significant level including a doubling of the field teams and the diamond drilling rate. AIM listed investment company, Metal Tiger PLC ('Metal Tiger'), has subscribed for a cornerstone position in the Placement. The subscription agreement with Metal Tiger provides for the right to nominate a director to the Company, for as long as their interest in the Company remains at least 10%. Prominent geologist Terry Grammer has been nominated by Metal Tiger as their appointment.

Shareholder approval for the Placement is being sought at a meeting scheduled for 26 March 2020.

On 11 February 2019, the Company also announced that world renowned economic geologist Douglas Kirwin had been appointed as a non-executive director of the Company, effective immediately. Doug had previously been acting in a technical advisory capacity for Southern Gold but now steps up into a much more prominent role.

Competent Persons Statement

The information in this report that relates to Exploration Results has been compiled under the supervision of Mr. Paul Wittwer (AIG, AusIMM). Mr Wittwer who is an employee of Southern Gold Limited and a Member of the Australian Institute of Geoscientists and 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. Mr Wittwer consents to the inclusion in this report of the matters based on the information in the form and context in which it appears.

Forward-looking Statements

Some statements in this release regarding estimates or future events are forward looking statements. These may include, without limitation:

- Estimates of future cash flows, the sensitivity of cash flows to metal prices and foreign exchange rate movements;
- Estimates of future metal production; and
- Estimates of the resource base and statements regarding future exploration results.

Such forward looking statements are based on a number of estimates and assumptions made by the Company and its consultants in light of experience, current conditions and expectations of future developments which the Company believes are appropriate in the current circumstances. Such statements are expressed in good faith and believed to have a reasonable basis. However, the estimates are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from estimated results.

All reasonable efforts have been made to provide accurate information, but the Company does not undertake any obligation to release publicly any revisions to any "forward-looking statement" to reflect events or circumstances after the date of this presentation or ASX release, except as may be required under applicable laws. Recipients should make their own enquiries in relation to any investment decisions from a licensed investment advisor.

Auditors Independence Declaration

The auditor's independence declaration under section 307C of the Corporations Act 2001 is attached.

Dated at Adelaide this 12th day of March 2020 and signed in accordance with a resolution of the Directors.



S Mitchell
Managing Director



G C Boulton AM
Chairman

Auditor's Independence Declaration

To the Directors of Southern Gold Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Southern Gold Limited for the half-year ended 31 December 2019, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B K Wundersitz
Partner – Audit & Assurance

Adelaide, 12 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the Half Year ended 31 December 2019

	Note	Half Year Ended 31 Dec 2019 \$	Half Year Ended 31 Dec 2018 \$
Interest received		1,621	2,696
Share of profit / (loss) of joint ventures, accounted for using the equity method	7	(181,919)	(51,515)
Exploration expenditure written off		-	(3,116,656)
Exploration expenses		(164,628)	(296,422)
Salaries and wages		(278,721)	(605,316)
Directors fees		(92,137)	(108,750)
Interest expense		(58,141)	-
Shareholder relations		(151,579)	(157,175)
Other consulting expenses		(101,603)	(130,810)
Other administrative expenses		(549,683)	(369,218)
Depreciation		(79,560)	(33,116)
Share based payments		(791,044)	(10,500)
Transaction costs (Disposal of West Australian assets)	4	(46,158)	-
Profit/(loss) before income tax		(2,493,552)	(4,876,782)
Income tax benefit/(expense)	3	-	174,110
Net loss for the half year		(2,493,552)	(4,702,672)
 <u>Other Comprehensive Income</u>			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translation		(7,187)	183,203
Total comprehensive income for the period		(2,500,739)	(4,519,469)
 <u>Earnings Per Share</u>			
Basic (cents per share)		(3.02)	(9.02)
Diluted (cents per share)		(3.02)	(9.02)

The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying condensed notes.

Consolidated Statement of Financial Position as at 31 December 2019

	Note	As at 31 Dec 2019 \$	As at 30 June 2019 \$
CURRENT ASSETS			
Cash and cash equivalents		2,501,371	392,040
Trade and other receivables		162,648	108,419
Other assets		12,631	11,993
Held for Sale Assets	4	-	2,365,000
TOTAL CURRENT ASSETS		2,676,650	2,877,452
NON-CURRENT ASSETS			
Right of use asset	5	81,986	-
Exploration and evaluation expenditure	6	5,025,716	3,811,179
Plant and equipment		149,577	203,146
Investments accounted for using the equity method	7	1,108,797	1,293,998
Financial assets	8	774,716	567,183
TOTAL NON-CURRENT ASSETS		7,140,792	5,875,506
TOTAL ASSETS		9,817,442	8,752,958
CURRENT LIABILITIES			
Trade and other payables		282,782	330,421
Provisions	9	118,089	82,517
Borrowings		747,353	-
Lease liability	10	75,441	-
TOTAL CURRENT LIABILITIES		1,223,665	412,938
NON-CURRENT LIABILITIES			
Provisions	9	32,232	23,130
Borrowings		-	736,950
Lease liability	10	6,588	-
TOTAL NON-CURRENT LIABILITIES		38,820	760,080
TOTAL LIABILITIES		1,262,485	1,173,018
NET ASSETS		8,554,957	7,579,940
EQUITY			
Issued capital	11	44,731,273	42,304,761
Reserves		1,285,669	922,964
Accumulated losses		(37,461,985)	(35,647,785)
TOTAL EQUITY		8,554,957	7,579,940

The above Statement of Financial Position should be read in conjunction with the accompanying condensed notes.

Consolidated Statement of Changes in Equity for the Half Year ended 31 December 2019

	Issued Capital \$	Accumulated losses \$	Share-based payment reserve \$	Foreign currency translation reserve \$	Total \$
Balance at 1 July 2018	40,072,064	(26,031,540)	955,848	156,988	15,153,360
Total comprehensive income in the period	-	(4,702,672)	-	183,203	(4,519,469)
Transactions with owners:					
Issue of share capital	1,251,351	-	-	-	1,251,351
Options lapsed or exercised	-	-	-	-	-
Balance at 31 December 2018	<u>41,323,415</u>	<u>(30,734,212)</u>	<u>955,848</u>	<u>340,191</u>	<u>11,885,242</u>
Balance at 1 July 2019	42,304,761	(35,647,785)	699,415	223,549	7,579,940
Total comprehensive income in the period	-	(2,493,552)	-	(7,187)	(2,500,739)
Transactions with owners:					
Issue of share capital (Note 11)	2,426,512	-	-	-	2,426,512
Options issued to Directors and employees	-	-	758,044	-	758,044
Options issued to the rights issue underwriters	-	-	291,200	-	291,200
Options lapsed or exercised	-	679,352	(679,352)	-	-
Balance at 31 December 2019	<u>44,731,273</u>	<u>(37,461,985)</u>	<u>1,069,307</u>	<u>216,362</u>	<u>8,554,957</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying condensed notes.

**Consolidated Statement of Cash Flows for the
Half Year ended 31 December 2019**

	Note	Half Year Ended 31 Dec 2019 Inflows (Outflows) \$	Half Year Ended 31 Dec 2018 Inflows (Outflows) \$
Cash flows related to operating activities			
Interest received		1,621	2,696
R&D tax offset received		-	174,110
Payments to suppliers and employees		(1,200,997)	(1,939,175)
Interest Expense		(45,555)	-
Short term lease payments	5	(7,396)	-
Net operating cash flows		(1,252,327)	(1,762,369)
Cash flows related to investing activities			
Payments for mining tenements, exploration and evaluation expenditure		(1,353,676)	(538,203)
Loans provided to Gubong JV Company		(207,533)	(183,831)
Payments for plant and equipment		(5,701)	(36,415)
Proceeds from sale of investments		2,322,671	-
Net investing cash flows		755,761	(758,449)
Cash flows related to financing activities			
Proceeds from share issues		2,839,027	1,276,351
Payment for share issue costs		(195,337)	(25,000)
Repayment of lease liability	5	(37,797)	-
Net financing cash flows		2,605,893	1,251,351
Net increase/(decrease) in cash		2,109,327	(1,269,467)
Cash at beginning of financial period		392,040	2,080,242
Exchange rate adjustments on opening cash		4	4,913
Cash at end of financial period		2,501,371	815,688

The above Statement of Cash Flows should be read in conjunction with the accompanying condensed notes.

Condensed Notes to the financial statements for the Half Year ended 31 December 2019

1. BASIS OF PREPARATION OF ACCOUNTS

This half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 “Interim Financial Reporting”, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

It is recommended that this financial report be read in conjunction with the annual financial report for the year ended 30 June 2019 and any public announcements made by Southern Gold Limited and its controlled entities during the half year in accordance with continuous disclosure requirements arising under the ASX Listing Rules.

The half year financial report does not include full disclosures of the type normally included in an annual financial report.

Southern Gold Limited is a company domiciled in Australia. The Consolidated half year financial report of the Company as at and for the six months ended 31 December 2019 comprises the Company and its subsidiaries (together referred to as the “consolidated” entity).

Changes in accounting policies and accounting policies applied for the first time

The accounting policies adopted by the group are consistent with those of the previous financial year and corresponding period end.

New standards adopted as at 1 July 2019

AASB16 Leases

Effective 1 July 2019, the Company has adopted the new accounting standard AASB 16: Leases,

The impact of the adoption of this Standard and the respective accounting policies is disclosed further below.

This note describes the nature and effect of the adoption of AASB 16: Leases on the Company’s financial statements and discloses the new accounting policies that have been applied from 1 July 2019, where they are different to those applied in prior periods.

The Company has adopted the transition provisions available in AASB 16, Appendix C paragraph 5(b) and therefore the changes in the Company’s accounting policies have not impacted the prior year financial statements.

The Company as Lessee

At inception of a contract, the Company assesses if the contract contains or is a lease. If there is a lease present, a right-of-use asset and a corresponding lease liability are recognised by the Company where the Company is a lessee. However, all contracts that are classified as short-term leases (ie a lease with a term of 12 months or less) and leases of low-value assets are recognised as operating expenses on a straight-line basis over the term of the lease.

Initially the lease liability is measured at the present value of the lease payments still to be paid at the commencement date. The lease payments are discounted at the interest rate implicit in the lease. If this rate cannot be readily determined, the Company uses the incremental borrowing rate.

Lease payments included in the measurement of the lease liability are as follows:

- fixed lease payments less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options;
- lease payments under extension options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, any lease payments made at or before the commencement date and any initial direct costs. The subsequent measurement of the right-of-use assets is at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the lease term or useful life of the underlying asset, whichever is the shortest.

Where a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company anticipates to exercise a purchase option, the specific asset is depreciated over the useful life of the underlying asset.

The Company as Lessor

As the Company has no contracts as a lessor, the provisions of AASB 16 relating accounting for lease contracts as a lessor are not applicable.

Initial Application of AASB 16 Leases

The Company has adopted AASB 16: Leases retrospectively with the cumulative effect of initially applying AASB 16 recognised at 1 July 2019. In accordance with AASB 16 the comparatives for the 2018 reporting period have not been restated.

The Company has recognised a lease liability and right-of-use asset for all leases (with the exception of short-term and low-value leases) recognised as operating leases under AASB 117 Leases, where the Company is the lessee.

Lease liabilities are measured at the present value of the remaining lease payments. The Company's incremental borrowing rate as at 1 July 2019 was used to discount the lease payments.

The right-of-use assets for the leases have been measured and recognised in the statement of financial position as at 1 July 2019 at the same amount as the lease liability.

The following practical expedients have been used by the Company in applying AASB 16 for the first time:

- leases that have remaining lease term of less than 12 months as at 1 July 2019 have been accounted for in the same way as short-term leases
- the use of hindsight to determine lease terms on contracts that have options to extend or terminate.

Total operating lease commitments disclosed at 30 June 2019	155,340
Less Leases with remaining lease terms of less than 12 months (recognition exemption)	(31,411)
Operating lease liabilities before discounting	123,929
Discounted using incremental borrowing rate	(4,103)
Total lease liabilities recognised under AASB16 at 1 July 2019	119,826

Estimates and judgements

When preparing the half year financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

Estimates and judgements– Valuation of unlisted options

A key area of judgement, for the half year ended 31 December 2019, relates to the calculation of the market value of the unlisted options issued to Directors, employees and the rights issue underwriters. The market value of each option series is assessed using the Black-Scholes method, and a key assumption in this calculation is the Company's future share price volatility. Future volatility was based on the historic daily price movements of the Company's ASX listed shares for the 12 months immediately prior to the relevant valuation date for each of the option series. For further information in relation to the options issued, refer to Note 12.

Estimates and judgements– discontinued operations

A disposal group qualifies as a discontinued 'operation' if it is a component of an entity that either has been disposed of, or is classified as held for sale, and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

The disposal of the West Australian Gold Assets simply represents a disposal of the exploration assets, rather than a component of the Group's business or 'operations'. Therefore, the disposal has been classified as a disposal of an asset held for sale, rather than as a discontinued operation.

Other than as described above, the judgements, estimates and assumptions applied in the half year financial statements, including the key sources of estimation uncertainty, were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2019.

Investments in Joint Ventures

A joint venture is an arrangement that the Group controls jointly with one or more other investors, and over which the Group has rights to a share of the arrangement's net assets rather than direct rights to underlying assets and obligations for underlying liabilities. The joint venture is accounted for using the equity method.

Any goodwill or fair value adjustment attributable to the Group's share in the joint venture is not recognised separately and is included in the amount recognised as investment.

The carrying amount of the investment in joint venture is increased or decreased to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture, adjusted where necessary to ensure consistency with the accounting policies of the Group.

Unrealised gains and losses on transactions between the Group and its joint venture are eliminated to the extent of the Group's interest in those entities. Where unrealised losses are eliminated, the underlying asset is also tested for impairment.

The Group has two joint ventures as at period end date, the Gubong Joint Venture and the Kochang Joint Venture.

Name of the joint venture	Country of incorporation and principal place of business	Principal activity	Proportion of ownership interests held by the Group	
			31 December 2019	31 December 2018
Gubong Joint Venture	Korea	Development of Gubong Gold Project	50%	50%
Kochang Joint Venture	Korea	Development of Kochang Gold Project	50%	-%

The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held. Refer Note 7.

2. OPERATING SEGMENTS

The board has considered the requirements of AASB 8 Operating Segments, and the internal reports that are reviewed by the chief operating decision maker (the board) in allocating resources and has concluded that at this time, there are no separately identifiable operating segments. However, during the period the Group had exploration assets in the two geographies of Australia and the Republic of Korea (South Korea), and discloses the segments below on this basis. The Australian exploration assets were sold on the 5th August 2019 (refer note 4), and from this date the Group now has exploration assets in only one geographic segment, South Korea.

Half year ended 31/12/2019	South Korea	Australia	Consolidated
	\$	\$	\$
Revenue			
Other Income	-	-	-
Total Revenue	-	-	-
Expenses			
Exploration expenditure written off	-	-	-
Exploration expenses	(164,628)	-	(164,628)
Share of Joint Venture net loss	(181,919)	-	(181,919)
Transaction Costs (Disposal of Australian assets)	-	(46,158)	(46,158)
Other expenditure	(223,557)	-	(223,557)
Total Expenditure	(570,104)	(46,158)	(616,262)
Profit/(loss)	(570,104)	(46,158)	(616,262)
Corporate expenditure			(1,877,290)
Profit/(loss) before income tax			(2,493,552)
Income tax benefit/(expense)			-
Profit/(loss)			(2,493,552)
As at 31/12/2019	South Korea	Australia	Consolidated
	\$	\$	\$
Assets and Liabilities			
Exploration and evaluation expenditure	5,025,716	-	5,025,716
Investment in Joint Venture Company	1,108,797	-	1,108,797
Loan to Joint Venture Company	774,716	-	774,716
Other assets	269,183	-	269,183
Assets	7,178,412	-	7,178,412
Other Liabilities	232,660	-	232,660
Liabilities	232,660	-	232,660
Net Assets	6,945,752	-	6,945,752
<i>Corporate net assets</i>			
Cash and cash equivalents			2,501,371
Other corporate assets			137,659
Other corporate liabilities			1,029,825
Total Net Assets			8,554,957

Half year ended 31/12/2018	South Korea	Australia	Consolidated
	\$	\$	\$
<u>Revenue</u>			
Other Income	40	2,656	2,696
Total Revenue	40	2,656	2,696
<u>Expenses</u>			
Exploration expenditure written off	(196,102)	(2,920,554)	(3,116,656)
Exploration expenses	(73,876)	(222,546)	(296,422)
Share of Joint Operations expenses	(51,515)	-	(51,515)
Other expenditure	(633,168)	(505,292)	(1,138,460)
Total Expenditure	(954,661)	(3,648,392)	(4,603,053)
Profit/(loss)	(954,621)	(3,645,736)	(4,600,357)
Corporate expenditure			(276,425)
Profit/(loss) before income tax			(4,876,782)
Income tax benefit/(expense)			174,110
Profit/(loss)			(4,702,672)
As at 30/6/2019			
	\$	\$	\$
<u>Assets and Liabilities</u>			
Exploration and evaluation expenditure	3,811,179	-	3,811,179
Investment in JV Companies	1,293,998	-	1,293,998
Loan to JV Companies	567,183	-	567,183
Assets Held for Sale	-	2,365,000	2,365,000
Other assets	239,057	-	239,057
Assets	5,911,417	2,365,000	8,276,417
Liabilities	123,579	-	123,579
Liabilities	123,579	-	123,579
Net Assets	5,787,838	2,365,000	8,152,838
<i>Corporate net assets</i>			
Cash and cash equivalents			392,040
Other Assets			84,501
Liabilities			(1,049,439)
Total Net Assets			7,579,940

3. INCOME TAX EXPENSE

	Half Year Ended 31 Dec 2019 \$	Half Year Ended 31 Dec 2018 \$
<i>The components of the tax benefit comprise:</i>		
Research and development tax concession	-	174,110
Tax losses brought to account	-	-
	-	174,110

4. HELD FOR SALE ASSETS

	31 December 2019 \$	30 June 2019 \$
Opening Balance	2,365,000	-
Transfers from exploration and evaluation assets	-	2,365,000
Sale of assets	(2,365,000)	-
	-	2,365,000

The Company announced a formal process to dispose or restructure its gold assets in Australia (refer ASX Announcement 1 April 2019). The carrying value of the Company's Australian gold assets at 30 June 2019 was therefore reclassified in the Statement of Financial Position from 'Exploration and evaluation expenditure' (refer Note 6) to a 'Held for sale asset'. The carrying value of \$2,365,000 reflected the estimated sales value of \$2,500,000 for the Australian gold assets, based on the status of negotiations with preferred bidders at 30 June 2019, less estimated transaction costs of \$135,000.

Subsequent to 30 June 2019, a binding sale and purchase agreement was executed with Aurene Group Holdings Pty Ltd for cash consideration of \$2,500,000 (refer ASX Announcement 5 August 2019).

A further \$46,158 in transactions costs were incurred during the half year 31 December 2019, over and above the \$135,000 allowed for in the assessed net realisable value at 30 June 2019, to complete the transaction and transfer of tenements to the purchaser.

5. RIGHT OF USE ASSET

The Company's Right of use assets comprise the leased of office spaces in Australia and Korea, and a Korean shed.

Lease Details	Remaining term from 1 July 2019	Options to Extend
Australia Office Space	19 months	Yes
Korean Office Space	20 months	No
Korean Shed	17 months	No

Options to extend or terminate

One of the Company's leases contains an option to extend. The extension option is only exercisable by the Company. The extension option is included in the calculation of the lease liability and right to use asset only to the extent management are reasonably certain to exercise that option.

Variable lease payments

The company does not have any variable lease payments.

	Half Year Ended 31 Dec 2019
<i>(i) AASB 16 related amounts recognised in the Statement of Financial Position</i>	\$
Leased building	119,826
Less: accumulated depreciation	(37,840)
Right of Use Asset	<u>81,986</u>

Movements in Carrying Amount

Opening balance	-
Recognised on initial application of AASB16 (previously classified as an operating lease under AASB117)	119,826
Depreciation expense	(37,840)
	<u>81,986</u>

(ii) AASB 16 related amounts recognised in the Statement of Comprehensive Income/(Loss)

Depreciation charge related to right of use asset	(37,840)
Interest expense on lease liabilities	(1,923)
Short term lease expense (included in Other administration expenses)	(7,396)

(iii) Total Half Year cash out flows for leases (37,797)

6. EXPLORATION AND EVALUATION EXPENDITURE

	31 December 2019	30 June 2019
	\$	\$
A reconciliation of the carrying amount of exploration and evaluation phase expenditure is set out below:		
Costs brought forward	3,811,179	13,248,642
Net foreign exchange differences	556	76,353
Expenditure incurred during the year	1,213,981	997,424
Tenement transfer to Joint Ventures	-	(1,555,973)
Expenditure written off / impairment for relinquished tenements – Australia	-	(6,010,002)
Expenditure written off / impairment for relinquished tenements – Korea	-	(580,265)
Transfers to held for sale assets	-	(2,365,000)
	<u>5,025,716</u>	<u>3,811,179</u>

Exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Accumulated costs in relation to an abandoned area are written off in full against profit in the period in which the decision to abandon the area is made.

7. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	31 December 2019	30 June 2019
	\$	\$
Reconciliation of carrying amount of the investment in the Joint Ventures		
Gubong Joint Venture		
Initial cost of investment	857,571	857,571
Share of profit / (loss) of joint ventures	(244,421)	(147,856)
Share of foreign currency translation reserve	(1,076)	1,421
	<u>612,074</u>	<u>711,136</u>
Kochang Joint Venture		
Initial cost of investment	697,526	697,526
Share of profit / (loss) of joint ventures	(197,874)	(112,520)
Share of foreign currency translation reserve	(2,929)	(2,144)
	<u>496,723</u>	<u>582,862</u>
	<u>1,108,797</u>	<u>1,293,998</u>

8. FINANCIAL ASSETS

	31 December 2019	30 June 2019
	\$	\$
Loan to Gubong Project	340,421	262,424
Loan to Kochang Project	434,295	304,759
Non-Current Financial Assets	<u>774,716</u>	<u>567,183</u>

Southern Gold funds 50% of the operations of its 50% owned joint venture companies, Gubong Project JV Co Pte. Ltd and Kochang Project JV Co through an unsecured long term loan facility.

9. PROVISIONS

	31 December 2019	30 June 2019
	\$	\$
The aggregate provisions recognised in and included in the financial statements is as follows:		
Current Provisions		
Employee entitlements provision	<u>118,089</u>	<u>82,517</u>
Non-Current Provisions		
Employee entitlements provision	<u>32,232</u>	<u>23,130</u>

10. LEASE LIABILITIES

	31 December 2019	30 June 2019
	\$	\$
The aggregate lease liabilities recognised in and included in the financial statements is as follows:		
Current lease liability	75,441	-
Non-Current lease liability	6,588	-
	<u>82,029</u>	<u>-</u>

11. ISSUE OF SECURITIES

Fully paid ordinary shares issued

<i>Movements in ordinary shares on issue</i>	Number	\$
At 1 July 2019	62,568,372	42,304,761
Shares Issued placements (25 July 2019)	20,856,127	2,294,176
Options exercised (25 Sep 2019 and 2 & 16 Oct 2019)	442,705	79,686
Shares Issued placements (21 October 2019)	4,000,000	440,000
Options exercised (22 November 2019)	139,803	25,165
Shares issued for services	321,749	54,000
Share issue costs ¹		(466,515)
At 31 December 2019	<u>88,328,756</u>	<u>44,731,273</u>

¹ Share issue costs in the half year ended 31 December 2019 comprised cash-based payments of (\$175,315) and the estimated market value of 4,000,000 unlisted options issued to the underwriters of the rights issue (\$291,200). The options were issued on 25 July 2019 and are exercisable at \$0.15 at any time through to the expiry date of 31 December 2020. The valuation was undertaken using the Black-Scholes method.

12. SHARE BASED PAYMENTS RESERVE

During the half year ended 31 December 2019, the following unlisted options were issued to employees under the Company's Employee Share Option Plan:

- 960,000 issued on the 17 September 2019, with an exercise price of \$0.24 and an expiry of 15 September 2023; and
- 500,000 issued on the 19 December 2019, with an exercise price of \$0.24 and an expiry date of 19 December 2023.

3,600,000 unlisted options were issued to directors on the 16 October 2019, following shareholder approval, with an exercise price of \$0.24 and expiry date 9 October 2023.

The value of the above options issued to directors and employees were recognised as share-based payments expense.

4,000,000 unlisted options were issued on the 25 July 2019 to the rights issue underwriters, as part payment of their underwriting fee, with an exercise price of \$0.15 and expiry 31 December 2020. The estimated market value of these options were recognised as a capital raising cost (refer Note 11).

13. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There were no changes in contingent liabilities or contingent assets from those disclosed in the annual report for the year ended 30 June 2019.

14. SUBSEQUENT EVENTS

On 11 February 2020, the Company announced that commitments had been received for the subscription of 71,428,571 ordinary shares at an issue price of \$0.14 per share, to raise a total of \$10 million before capital raising costs (Placement). The Placement is subject to approval at a meeting of shareholders scheduled for 26 March 2020. The Placement includes strategic support by AIM-listed investment group Metal Tiger Plc, which is to participate in the Placement for a total of \$3.33 million. The participation by Metal Tiger Plc, will entitle Metal Tiger Plc to nominate a Director to the Board of Sothern Gold upon completion of the Placement. Mr Terry Grammar has been nominated to the Board pursuant to this agreement with Metal Tiger.

Also announced on 11 February 2020, Mr Douglas Kirwin was appointed to the Southern Gold Board, effective immediately.

Other than as noted above, no other matters or circumstances have arisen since the end of the half year which significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or state of affairs of the consolidated entity in future financial years.

15. GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the going concern basis of accounting.

The consolidated entity incurred a net loss after tax from continuing operations of \$2,493,552 for the half year ended 31 December 2019, and had a net cash outflow of \$2,819,237 from operating and investing activities, after excluding the one-off proceeds from the sale of the Company's West Australian assets. The consolidated entity is reliant upon completion of a capital raising for continued operations and the provision of working capital.

In this regard, the Company notes the firm commitments received for a Placement of \$10 million. The Placement remains subject to approval at a meeting of shareholders scheduled for 26 March 2020 (refer Note 14). Should the Placement not be approved by Shareholders on 26 March 2020, the Company would expect to complete a smaller capital raise utilising available placement capacity of 21,680,002 shares.

If additional capital is not obtained, the going concern basis may not be appropriate, with the result that the Group may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and at amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

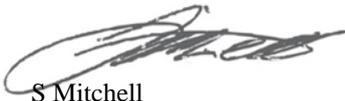
Directors' Declaration

Directors' Declaration for the six months ended 31 December 2019

The Directors of the Company declare that:

- 1) The financial statements and notes, as set out on pages 10 to 23 are in accordance with the Corporations Act 2001, including:
 - a) complying with Accounting Standards AASB 134 Interim Financial Reporting; and
 - b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019, and of its performance for the half-year ended on that date.
- 2) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



S Mitchell
Managing Director



G C Boulton AM
Chairman

Adelaide, South Australia
12th day of March 2020

Independent Auditor's Report

To the Members of Southern Gold Limited

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Southern Gold Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Southern Gold Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Material uncertainty related to going concern

We draw attention to Note 15 in the financial report, which indicates that the Group incurred a net loss from continuing operations of \$2,493,552 during the half year ended 31 December 2019 and, as of that date, and had a net cash outflow of \$2,819,237 from operating and investing activities, after excluding the one-off proceeds from the sale of the Company's West Australian assets. As stated in Note 15, these events or conditions, along with other matters as set forth in Note 15, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half year financial report

The Directors of the Company are responsible for the preparation of the half year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Southern Gold Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



B K Wundersitz
Partner – Audit & Assurance

Adelaide, 12 March 2020