

Revealed: the 5 not-so-secret ingredients to Southern Gold's success

Kentucky Fried Chicken – as KFC used to be known – attributed its original success to the 11 secret herbs and spices later found scrawled in Colonel Sanders' notebook.

At Southern Gold we're more about gold nuggets than chicken nuggets, but we can also condense our success factors to 5 'herbs and spices'. Unlike the late colonel, we're happy to share what they are.

So what's the recipe for a successful resource developer? Having the right ground in the first place is crucial, while a pinch of luck always comes in handy.

Add to the mix the right technical people, a recurrent funding model, a tight capital structure and business model that respects shareholder returns.

Few junior resource plays will perfect this mix but Southern Gold's 2-mine play centred on its Kalgoorlie and South Korean assets has a recipe to be proud of.

As for people, our four-man board boasts 127 years of collective mining industry experience while 3 of our executives hail from Robert Friedland's storied Ivanhoe Mines.

Funding? With cash, receivables and gold inventories worth more than \$6m we are well positioned without the need for a dilutive raising. With only 49.1m shares on issue, our capital structure is tighter than a KFC gravy tub and we plan to keep it that way.

Rather than feeling like cash cows, our shareholders were recently rewarded with a 3c a share special dividend. Including this payout, investors have enjoyed a total return of 39% in 2016-17 and 87% over the past two years.

The fact we were able to do this speaks volumes about our 'organic' funding model based on the Cannon open pit mine near Kalgoorlie (50:50 profit share with our operator, Westgold).

Our approach involves generating revenue from early gold sales along the way rather than promising an elusive pay day some time in the never-never.

Since 2015, the venture has recovered 52,000 ounces of the circa 100,000oz resource at Cannon, generating a net \$13.75m of revenue to Southern Gold.

With the open-pit phase now completed, our attention has turned to a potential underground extension over 4 levels.

Drilling to date has uncovered excellent grades up to 34.9 grams a tonne, with a formal resource upgrade expected early this financial year.

In South Korea, Southern Gold has teamed with the experienced Bluebird Merchant Ventures at the highly promising Gubong gold project, which has been previously mined.

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

The partners are currently conducting a scoping study on the feasibility of restarting Gubong at an envisaged capital cost of less than \$US10m.

We also have a slate of 4 other exploration properties with significant multi-kilometre mineralised trends: Glandore and Cowarna near Kalgoorlie, and the Weolyu and Kochang gold and silver prospects in South Korea.

At Glandore, our surface mapping program to date has revealed gold grades of up to 168g/t. Weolyu, surface mapping and sampling has returned has grades up to 18g/t gold with accompanying silver values of up to 1,030g/t. Southern is drilling both projects right now.

Meanwhile, Southern Gold exits a transformative 2016-17 in which we produced undiluted earnings per share of 5.5c and increased our net assets by 62% to \$15.1m. After a \$1.128m net loss in 2015-16, we reported a \$2.5m profit.

We paid off all our debt - \$3.7m in all - and ended the period with cash of \$5.3m.

In the words of managing director Simon Mitchell: "How many junior gold explorers out there return a positive EPS, expand their assets by more than 60% and bolster their balance sheet while keeping the share count as tight as a drum?"

Mitchell coined the term "blue chip explorer" for us: a rare company that produces earnings in the normal course of business while looking for that elusive world-class deposit.

In fast food parlance: we're a Zinger burger among some lesser drumsticks.