

## **Cannon deal delivers cash injection and ongoing upside**

Our deal to develop the underground phase of our mainstay Cannon gold mine near Kalgoorlie in Western Australia has turned a cash consuming asset into a cash-generating one.

With an upfront payment, ongoing per-ounce amounts and continued upside exposure, the deal leaves us free to focus on our South Korean projects, where high-grade gold and silver have been confirmed.

The Cannon deal involves our current partner, Westgold Resources. Its subsidiary HBJ Minerals operated the now completed open-pit phase of the mine, which delivered us a handy \$13.7m profit from 52,000 ounces of production.

As well as filling our coffers with cash in the short term, the new deal obviates the need for us to raise the estimated \$8 million to \$10 million to fund the Cannon expansion.

At the same time, our investors are still exposed to upside if the relevant ground extends at depth.

Our CEO Simon Mitchell told the ASX the deal is “in alignment with Southern Gold’s development philosophy of bringing in third parties who know how to mine and manage risk, particularly the elevated risks of underground mining.”

The deal involves Westgold paying us \$1.5m upfront as well as per-ounce payments for the right to produce from Cannon over five years. The deal relates to an area one kilometre in radius, in effect covering the main production zone.

The quasi royalty arrangement sees Southern Gold receive A\$160 an ounce on the first 15,000 oz of production, rising to A\$180/oz thereafter.

But if the gold price has averaged more than A\$1,800/oz in the previous operating quarter, these payments increase by A\$30/oz to A\$190/oz and A\$210/oz respectively.

The spot gold price is currently around A\$1,680/oz.

Along the way, Westgold assumes all financing and operating risks but has full discretion on mine development plans.

Last year an independent consultant deemed the underground phase of the mine to be viable at the current official JORC Indicated Resource of 22,000oz (averaging 5.68 grams a tonne).

But developing the project would have entailed up to \$10 million in capital costs - a meaty sum to raise for a company of our size. We would also have had to have a toll-treating arrangement with another player to the detriment of our cash flow.

While Kalgoorlie-based contractors were willing to fund development using their own balance sheets, the terms did not stack up relative to Westgold's offer on a risk-adjusted basis.

In addition to the upfront \$1.5 million, we expect Westgold's production to deliver us \$3 million to \$4 million in the first 12 to 18 months. Along with our cash in hand, these payments will bolster our cash balance to around \$4-\$5 million in the short term.

Without the need for an equity raising to fund Cannon, we can retain our tight capital structure with only 49.15m shares on issue (for a \$14 million market capitalisation).

Meanwhile, our South Korean projects are progressing well.

Late last year we accessed the Weolyu underground gold and silver mine, which had been undisturbed since mining ceased in 1970.

A five-hole drilling program unearthed new gold and silver bearing veins, with up to 17.7g/t gold and 469g/t silver.

Further field work is under way to assess the best way forward. At this stage we think Weolyu can be developed as a gold mine with useful silver credits.

Partner Bluebird Merchant Ventures also gained access to the Gubong gold mine, which had also been undisturbed for half a century.

The geologists found the shafts to be in “exceptionally good condition”, with unmined narrow gold veins detected.

London Stock Exchange-listed Bluebird Merchant Ventures is a seasoned operator that is farming into the Gubong and Taechang projects to earn a 50% share with a \$US1m spending commitment and a A\$500,000 investment in Southern Gold.

Restarting Gubong as a small but high-quality project is costed at less than \$US10 million. Indeed, our key priority is to support Bluebird to bring this mine to production.

South Korea, however, is where we are concentrating our efforts to deliver our next company-making project through exploration of world-class epithermal gold targets.