

Exciting year looms for Southern Gold

Company-making potential for experienced gold miner

AS INTERNATIONAL ATTENTION turns to South Korea ahead of next month's Winter Olympics, experienced junior miner Southern Gold (AU:SAU) is working on its own golden opportunities – aiming to have a project in production in both the host country and Western Australia this calendar year.

Southern Gold returned a maiden unfranked dividend to investors in 2017 thanks to cashflow from the openpit Cannon gold mine near Kalgoorlie, in Western Australia, and the company has just signed an agreement to proceed with underground mining at Cannon, which will see development partner Westgold Resources (AU:WGX) pay A\$1.5 million (US\$1.2 million) upfront plus a production payment per ounce for a five-year right to mine.

However, it is the former Gubong gold mine and other exploration projects in South Korea that are shaping up to define a step-change for the company in an exciting year ahead, as managing director Simon Mitchell explains.

"We will continue generating cash flow at Cannon, are not looking to raise any capital, have an exciting mine development opportunity at Gubong that has the potential to be a company maker and have incredible exploration prospects, particularly the epithermal gold-silver targets in South Korea where

we are seeing some incredible rock textures that have never been drill tested," he said.

"The coming year is going to be an extremely exciting one for our shareholders: more cash flow, more drilling exploration targets, all done while minimising dilution."

He said the new Cannon agreement removed the need for mine financing, exposed Southern Gold to increases in the gold price and shifted underground operating risk to Westgold.

The experienced gold producer had earlier mined Cannon's openpit under a joint-venture arrangement.

Cannon's underground indicated resource established in October contains 94% of the resource ounces, of 122,000 tonnes at 5.7g/t gold for 22,200oz, and Mitchell said the Westgold arrangement ensured Southern Gold remained significantly exposed to the upside should the high-grade deposit continue at depth.

Mitchell also expected the first stage of development and production to occur at the previously-mined Gubong gold project in South Korea this year, with a small commercial-scale pilot plant being contemplated to generate modest cash flow to underpin operations in the country.

"But the really exciting thing for 2018 is that we expect to start drilling the epithermal gold targets in South Korea – there are some really exciting prospects and the geology is first class," Mitchell said.

"We will begin work at Hampyeong and step out to other regional plays we have been working on.

"The Southern Gold technical team rates the potential for new discovery here to be very high.

"We will also move the Weolyu project forward, but more from underground, with sampling at the face and some underground drilling to really take this project forward."

He said the company was frustrated in 2017 by the steep terrain at Weolyu and the lack of adequate drilling equipment, but this would be rectified in 2018, with

an approach from underground with the right equipment.

"Weolyu is a tricky project to advance because of the steep topography, but the rewards are potentially huge, particularly if we can track down the gold bonanza zones that are often found in systems such as this," Mitchell said.

He said there were two reasons the previously-mined Weolyu project was developing into a potential gold rather than silver project.

"First, the geology – with an epithermal system such as Weolyu, we believe we are in the upper silver-rich area of the mine in terms of historical mining, and the top of the mountain where we have found the new mineralised zones," he said.

"The second reason is that the old miners left the gold alone. "Anecdotal discussions with locals who used to work at the mine indicated that the sole focus at the time was the silver and that gold was a useful bi-product.

"This means they have left a lot of the gold ore behind and we also expect it to get better with depth."

The company is also expanding its exploration focus in South Korea through a detailed study of historical databases, leaning heavily on the work of technical advisor Douglas Kirwin and historical reports from the Indochina Goldfields (subsequently Ivanhoe Mines) days.

"They did some excellent work over many years but it was ad-hoc in nature," Mitchell said.

"Southern Gold is currently taking a systematic appraisal approach and following up on the ground for what look like some truly amazing opportunities.

"It is not often you can walk up to outcropping epithermal vein systems on kilometre-scale chipping high-grade at surface and with zero historical drill testing.

"This is exactly the situation we find ourselves in and I expect the chances of us making a new discovery in South Korea to be very high."

Turning to exploration in



Australia, the company has secured two \$80,000 grants under the WA Government's Exploration Incentive Scheme, which will be used to test the Pryde target at Cowarna and Steve's at the Glandore project, which is just 12km from Cannon and held in a joint venture with Aruma Resources (AU:AAJ).

The company likes both targets and said there was a good technical basis to test with diamond core.

Mitchell expects to release a JORC resource for Glandore in February, then look at options to generate funds from it.

"Glandore's Doughnut Jimmy is an interesting resource – it appears to be relatively high grade but has a restricted footprint and sits next to a salt lake," he said.

"This means the economics are perhaps not 'cookie cutter' in nature, but perhaps I can get Cooky interested in due course," he said with a smile, referring to Westgold's managing director Peter Cook.

"We may look to combine Doughnut Jimmy with our lower grade Monument project but the feasibility of this is still being looked at. Glandore remains a good exploration project with a lot of smoke."

Mitchell anticipated having the two most advanced projects in production by the end of the year, Cannon underground and Gubong, thanks to the company's development philosophy of bringing in third parties who knew how to mine and manage risk.

"Cannon will definitely be in production as this is relatively straight forward," he said.

"It is high grade, compact, accessible from an openpit ramp and not far from Kalgoorlie. It doesn't get much easier than this.

"At Gubong, there are more challenges but the size of the potential prize is much larger.

"This project has the potential to be a company-making asset for both our development partner, Bluebird Merchant Ventures (LN:BMV), and Southern Gold.

"It is an orogenic gold system that was South Korea's second-largest mine and is mapped to go to around 500m depth when these sorts of systems would typically go for kilometres.

"This one will take a little longer, but we are trying to do something at pilot scale in 2018 (calendar year)."

As for whether shareholders can expect a dividend in 2018, Mitchell said it would depend on a number of factors.

"As a matter of principle, we like to return to shareholders perhaps 10% of the net cash from the assets we monetise, but this is judged on a case by case basis," he said.

"In the case of Cannon underground, we will not likely know the net outcome until sometime later in 2018 or possibly early 2019, so we will have to wait and see how we are tracking then.

"It will also depend on capital demands later in the year – we have quite a bit going on for a junior!"

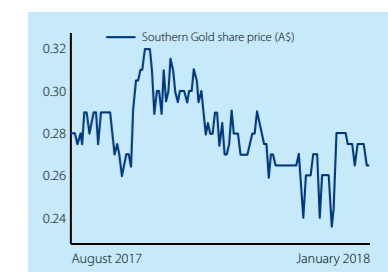
Above, top to bottom: the promising sign for Geumseongdong-gil, or Golden Road, in SAU's Hampyeong project; Southern Gold is excited by South Korea's exploration potential



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– SIMON MITCHELL
MD

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MARKET CAPITALISATION
A\$13 million (January 20)

QUOTED SHARES ON ISSUE
49.15 million

MAJOR SHAREHOLDERS
HSBC Custody Nominees 4.6%; Potezna Gromadka Ltd 4.1%; Eric Guerlain 4.1%; G Boulton 3.4%; Dr Gary Bennett Branch 3.2%

The preliminary mine design for Cannon underground

