

RNS Number : 4840Z
Scotgold Resources Ltd
14 March 2017



SCOTGOLD RESOURCES LIMITED
(The "Company" or "Scotgold")

Update to the Cononish Bankable Feasibility Study (BFS) and Short Term Funding Plan

HIGHLIGHTS

- An update to the Bankable Feasibility Study ("BFS") for the Cononish Gold and Silver Project dated August 2015 has been completed by Bara Consulting Limited, which principally evaluates the economic impact of a range of technical development options and the current economic environment. As a result the "Phased Project" development option has been selected as the most favourable overall, which incorporates the following key changes:
 - Improved economic returns due to both the change in TSF design and higher assumed gold price of £920/oz (\$1,150/oz) (previously \$1,100/oz).
 - The peak funding requirement reduced from £18.5m to £7.4 million;
 - Life of Mine EBITDA increased from £67m to £100m
 - Pre tax NPV (10%) of £23m increased to NPV (10%) £43m
 - The development schedule is now designed in two phases. The first phase at 3,000 tonnes per month (tpm), the second phase at 6,000 tpm;
 - The Tailings Storage Facility (TSF) is now designed using a "Dry Stack" system;
- A new planning application will be required for the revised development plan and the Company has commenced the "Pre Application Consultation" process with the Loch Lomond and the Trossachs National Park Planning Authority. It is anticipated that the full planning process should be completed by the end of 2017.
- The Company has been granted an extension to the Bulk Processing Trial (BPT), as previously reported, and it is anticipated that this will continue to contribute to the Company's working capital requirements through 2017.
- The Company has also agreed a £1 million loan facility with its Chairman, Nat le Roux (net approximately £0.7m after repayment of the existing £0.3m facility currently in place with Nat le Roux) which it is anticipated will provide sufficient working capital for the Company to complete the planning application process and, subject to a positive planning decision, implement a funding plan for the development of Cononish Gold and Silver project commencing in Q1 2018.

UPDATE TO THE BANKABLE FEASIBILITY STUDY

The Company is pleased to announce the results of a recently completed update to the Bankable Feasibility Study, completed in August 2015. We have completed a review of our development strategy and we have, after considering a number of alternative production schedules, selected the Phased Project scenario as the most favourable overall under current economic conditions. While undertaking this work we have also taken advantage of revising the TSF resulting in a more practical, lower capex (albeit a higher opex) and reduced environmental impact dry stack design. This has resulted in a much reduced peak funding requirement.

The necessary revisions to the permitting requirements are underway and we expect final permission for underground development work to be granted by Q1 2018. Subject to permitting and securing the necessary finance, we expect to commence work underground in Q2 2018 and to reach a sustainable First Phase 3,000 tpm by early 2019. The Second Phase increase to 6,000 tpm will be self-funded and is scheduled to be achieved by Q3 2021.

Options Considered in the Update to the BFS

Various scenarios were considered in the update. These included:

1. A revised BFS using an updated gold price.
2. A full scale case based on the BFS but using the modified TSF.
3. A full scale case but also assuming access to a cyanidation plant within Scotland. Note this is the only option which considered cyanidation as opposed to the currently envisaged sulphide concentrate sale.
4. A half scale case processing at 3,000 tpm for the life of the mine.
5. **A phased project where build-up to 6,000 tpm is funded from the first phase of 3,000 tpm. The future development of the mine is now based on this scenario.**

The table below shows the assumptions used for each scenario:

Description	Units	Original Base Case (BFS)	New Options Evaluated				
			Revised Base Case (BFS) (1)	Full Scale (2)	Full Scale with Offsite CN (3)	Half Scale (4)	Phased Project (5)
Physicals							
Production Rate	tpm	6 000	6 000	6 000	6 000	3 000	3 000 / 6 000
Overall Recovery	%	93	93	93	93	93	93
Dore Recovery	%	25	25	25	25	25	25
Total Au Sold	oz	177 666	177 666	176 074	176 074	175 567	175 762

Tailings Storage Facility Type	type	Valley Fill	Dry Stack	Dry Stack	Dry Stack	Dry Stack	Dry Stack
Stockpile Depleted	t	-	-	7 000	7 000	7 000	7 000
Construction Period	months	16	16	16	16	16	16
Life of Mine (Including Construction)	Years	9	9	9	9	17	10
Economics							
Gold Price	\$/oz	1 100	1 150	1 150	1 150	1 150	1 150
Silver Price	\$/oz	15	16	16	16	16	16
USD/GBP Exchange Rate	\$/£	1.60	1.25	1.25	1.25	1.25	1.25
Scottish Gold Sold	%	25	25	6.6	6.6	7.4	7.4
Scottish Gold Premium	%	0	0	10	10	10	0
Discount Rate	%	10	10	10	10	10	10

Technical Comparison of BFS and Phased Project

- The Resource and Reserve estimates remain as previously published.
- The mining methodology of Long Hole Open Stopping (LHOS) remains as is;
- Some minor revision to the development design on the 400 m adit level has been undertaken to reduce initial development requirements;
- The development scheduled is now designed in two phases. The first phase at 3,000 tonnes per month (tpm), the second phase at 6,000 tpm;
- The process route remains as is. A simplified basic design will be used for the first phase and the full scale design as per the BFS will be used for the second phase. Whilst elements of the first phase may be reused, this has not been assumed in the capital estimation.
- The timing of the second phase is assumed to occur after 2.5 years of phase 1 production, once sufficient cashflow reserves have been accumulated and the project can self-fund the required second phase capital.
- The conventional valley fill TSF in the BFS has been replaced by a "Dry Stack" TSF, comprising 11 individual stacks constructed sequentially over the life of mine. This requires an additional dewatering circuit within the processing plant but obviates the high capex requirement of a TSF impoundment dam and associated civil works. The financial impact of this is therefore an overall reduction of capital but increase in operating cost.
- The dry stack TSF calls for waste rock throughout the life of mine in the construction of each stack, so waste is no longer required to be stored underground. Whilst some waste may still be stored underground, this provides significantly improved operational flexibility.

- The dry stack TSF has been designed using landscape architectural consultants to specifically address the environmental impacts which are of concern to the Loch Lomond and the Trossachs National Parks Planning Authority ("LLTNPPA") and has several significant environmental advantages in comparison to the already permitted TSF.

Financial Comparison of BFS and Phased Project

- Although the TSF capital cost was reduced significantly to £404,206, operating cost was increased from £327/Au equivalent oz in the BFS to £379/Au equivalent oz in the phased approach, as most of the TSF cost is now an on-going operating cost. The total capital cost of the processing plant increased from £7.2 million to £10.3 million in the phased approach. This was due to the need to install an interim reduced capacity plant for Phase 1. However, we believe that there are further cost savings possible in the final plant which have yet to be identified fully.
- Total all in cash costs (capital, operating and royalty) per Au equivalent oz is £487/oz for the phased approach compared to £455/oz for the original BFS.
- The table below shows the results for the original BFS and the Phased Project:

FINANCIAL RESULTS COMPARISON		
Financial Metric	BFS Aug'15	Phased Project
EBITDA (£)	67 427 626	100,040,640
Gross Cashflow (£)	43 403 552	79,943,378
Net Cashflow (£)	35 725 551	67,375,514
Pre-Tax NPV @ 10% (£)	22 945 889	42,891,326
Pre-Tax IRR (%)	45	80
Post-Tax NPV @ 10% (£)	18 515 172	36,117,874
Post-Tax IRR (%)	41	75
Operating Margin (%)	53	59
Life of Mine (years)	8	9
Payback Period (months)	19	13
Peak Funding Req. (£)	18 452 183	7,419,340

Competent Persons Statement

The information in this report that relates to the 2015 Feasibility Study for Cononish Gold Project and the revised development plan (Phased Project) is based on information compiled by Pat Willis, a Competent Person who is registered as a Professional Engineer (Pr.Eng.) with the Engineering Council for South Africa (ECSA) and a Fellow in good standing and Past President of the Southern Africa Institute of Mining and Metallurgy (FSAIMM). Mr Willis is employed by Bara Consulting Limited, an

independent consulting company. Mr Willis has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2014 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Willis consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.

SHORT TERM LOAN FUNDING PLAN

The Company has entered into a short term loan agreement with Nat le Roux, the Company's major shareholder and non executive Chairman. The key terms of the agreement are as follows:

- Principal: £1,000,000.
- Term: 1 year from execution (14 March 2017).
- Interest rate: 10% per annum.
- Repayment: Principal and interest repayable on expiry of term.
- Security: A security agreement placing a charge over all the Company's assets is included.
- Use of Funds: Working capital requirements and the redemption of the existing £300,000 loan facility and accrued interest (6% pa) provided by Nat le Roux.
- Redemption: The Company may elect to redeem the loan at any point during its term without penalty.

The short-term loan agreement with Mr Nat Le Roux constitutes a related party transaction under Rule 13 of the AIM Rules. Accordingly, the board of Scotgold, excluding Nat Le Roux who is precluded from opining, consisting of Richard Gray, David Swan, Christopher Sangster, Philip Jackson and Gabriel Chiappini, having consulted with Stockdale Securities Limited, the Company's nominated adviser, consider that the terms of the Transaction are fair and reasonable insofar as its shareholders are concerned.

Nat le Roux commented "Whilst the Company has a demonstrably viable project in the Cononish Gold Mine, we have struggled since the completion of the BFS in August 2015 to secure a funding package on terms acceptable to shareholders. The revised development plan now completed significantly lowers the financing hurdle and improves the economic returns, with significant further enhancement from the current Pound Sterling price of gold. It does however mean the Company requires further working capital to complete the permitting process and I have therefore agreed to offer a loan facility to the Company as a mechanism to bridge this gap."

Scotgold CEO, Richard Gray said *"It is extremely gratifying that we have managed to use the experience of the BPT to re-engineer aspects of Cononish and add significant value. With our improved economic returns and short term funding secured which avoids undue dilution for the existing shareholders, we now look forward to securing an attractive full financing package and subject to permitting, putting our mine into production at the earliest opportunity"*.

For further information please contact:

Scotgold Resources Limited	Stockdale Securities Limited	Capital Markets Consultants	Smaller Company Capital Ltd
Richard Gray - CEO	Robert Finlay/ Ed Thomas	Simon Rothschild	Rupert Williams
Tel: +44 (0)1838 400 306	Tel: +44 (0)20 7601 6100	Tel +44 (0)7703 167 065	Tel: +44 (0)20 3651 2911

Forward Looking Statement

Statements regarding plans with respect to the Company's mineral properties are forward-looking statements. There can be no assurance that the Company's plans for development of its mineral properties will proceed as currently expected. There can also be no assurance that the Company will be able to confirm the presence of additional mineral deposits, that any mineralisation will prove to be economic or that a mine will successfully be developed on any of the Company's mineral properties.

Appendix A: Glossary of technical terms

Term	Description
£ or GBP	Pound Sterling
\$ or USD	United States of America Dollar
%	Percent
Adit	Underground mining tunnel, for mining, drainage, access
Ag	Silver, atomic number: 47. Measured in parts per million (grams per tonnes)
Au	Gold, atomic number: 79. Measured in parts per million (grams per tonnes)
CAPEX	Capital Costs (short for Capital Expenditure).
CP	Competent Person
Dry Stack	A TSF using de-watered tailings.
g	Gram
g/t	Grams per tonne (equal to parts per million)
LHOS	Long Hole Open Stopping. Underground mining technique that involves vertical mining in a large, open stope between sub levels. Typically blast holes are drilled between sublevels using a mechanised long hole drill rig.
m	metre
M	Million
Measured Resource	that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes. The locations are appropriately spaced to confirm geological and/or grade continuity to a high confidence
Mineral Resource	A concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a Mineral

Term	Description
	Resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral Resources are sub-divided, in order of increasing geological confidence, into Inferred, Indicated and Measured categories
mm	millimetre
MRE	Mineral Resource Estimate
Mt	million tonnes
Mtpa	Million tonnes per annum
OPEX	Operating Costs
oz.	Troy ounce (31.1034768 grams)
Pre-feasibility study (PFS)	A comprehensive study of the viability of a mineral project that has advanced to a stage where the mining method, in the case of underground mining, or the pit configuration, in the case of an open pit, has been established, and which, if an effective method of mineral processing has been determined, includes a financial analysis based on reasonable assumptions of technical, engineering, operating and economic factors and the evaluation of other relevant factors which are sufficient for a qualified person, acting reasonably, to determine if all or part of the mineral resource may be classified as a mineral reserve
ppm	Parts per million
Probable Ore Reserve	A 'Probable Ore Reserve' is the economically mineable part of an Indicated, and in some circumstances, a Measured Mineral Resource. The confidence in the Modifying Factors applying to a Probable Ore Reserve is lower than that applying to a Proved Ore Reserve.
Proved Ore Reserve	A 'Proved Ore Reserve' is the economically mineable part of a Measured Mineral Resource. A Proved Ore Reserve implies a high degree of confidence in the Modifying Factors.
Pyrite	An iron sulphide with the chemical composition of FeS ₂
Reserves	Mineable geological resources
Resources	Geological resources (both mineable and un-mineable)
ROM	Run of Mine
Silver	Precious metal (Ag), atomic number: 47
Sub-level stoping	Underground mining technique that involves vertical mining in a large, open stope
Sulphides	A mineral group that contains sulphur as the major anion
TSF	Tailings Storage Facility
tpm	Tonnes per month
Valley Fill	A TSF requiring an impoundment dam to retain wet tailings typically in a valley.
Waste	Un-mineralised rock, or rock that is uneconomic to extract/process