

RNS Number : 4121K  
Scotgold Resources Ltd  
28 August 2019



## **Scotgold Resources Limited**

**("Scotgold" or the "Company")**

### **Cononish Development Project Update, Fundraising and Grampian Project Exploration Update**

Scotgold Resources Limited (**AIM:SGZ**) provides an update to the development of the Cononish Gold and Silver Mine (the "Cononish Project") with an associated equity and debt fundraising of £2.65m, revised Life of Mine key financial metrics based on a gold price of £1,200/oz and an update to exploration activities on the Grampian Project.

#### Highlights:

- Mine development on schedule and access to ore expected by end 2019. Process plant equipment manufacture completed on schedule and currently being shipped to site.
- The process plant building and associated civil earthworks are behind schedule, principally due to civil engineering design delay. Consequently the Cononish Project schedule has been revised and first gold production is now expected end February 2020, compared to December 2019 as originally scheduled.
- The detailed Cononish design, capital and operational cost re-estimates completed indicate a revised funding requirement of an additional £2.5m. This is principally as a result of the delay identified above, Phase 2 process plant capital expenditure brought forward to Phase 1 and more costly civil earthworks requirements.
- This funding requirement has been addressed through the extension to the existing Bridge Barn Loan facility by £1.5m and the subscription of 3,285,783 depositary interests of no par value in the Company ("New Ordinary Shares") at an issue price of 35 pence per New Ordinary Share to raise approximately £1.15 million (the "Subscription"). Over £0.95m of the Subscription has come from 3 Company directors and a member of the Company's management team
- The Company has undertaken a re-estimation of the life of mine financial model for Cononish Project which demonstrate returns are significantly improved at a gold

price of £1,200/oz with EBITDA increased from £101m to £147m

- Exploration work on the Grampian Project has identified another previously unknown anomalous zone at Cononish and an exciting new, potentially significant anomalous target area at Inverchorachan. The highest gold values detected at Inverchorachan of 124ppb compare favourably with the highest gold values recorded at Cononish of 39.9ppb using the same "Ionic Leach" technique.

Richard Gray, CEO commented: "Overall progress on the development of Cononish is pleasing. There is a short delay in production of first gold from our previous expectations, but a stockpile of ore will be accumulated during this period which will provide an opportunity to exceed targets later in the year. The combination of the gold price being in excess of £1,200 per ounce, and the pipeline of projects that we anticipate will result from our Grampian exploration work, bode well for the Company's long term outlook."

**Cononish Project re-estimation of key financial metrics (at £1,200 per ounce)**

Life of Mine Project Return (000's)

	Gold Price £920/oz <sup>1</sup>	Gold Price £1,200/oz <sup>2</sup>
EBITDA	£ 101,115	<b>£ 146,730</b>
Pre Tax Cash Flow	£ 81,017	<b>£ 119,962</b>
Net Cashflow	£ 68,256	<b>£ 97,124</b>
NPV pre-Tax @ 10%	£43.3m	<b>£63.3m</b>
Operating Margin	59%	<b>66%</b>

Life of Mine Project Costs (000's)

	Gold Price £920/oz <sup>1</sup>	Gold Price £1,200/oz <sup>2</sup>
Capital Cost	£ 20,097	<b>£ 26,768</b>
Operating Cost	£ 69,066	<b>£ 72,794</b>
Average Operating Cost/oz Eq Au.	£373.09	<b>£ 397.92</b>
Average Capital Cost/oz Eq Au.	£ 108.56	<b>£ 146.32</b>
Total Average Cost/oz Eq Au.	£ 481.65	<b>£ 544.24</b>

**Source: Note1. Bara Consulting BFS Update as Published 18 May 2018**

**Source: Note 2. Scotgold management revised cost and gold price estimates using BFS Update production schedule**

No premium from the sale of "Scottish Gold" has been assumed in either scenario

The improved gold price assumption has increased EBITDA to £146.7m and increased the operating margin to 66%, based on the same production profile and current Proven and Probable Reserves only, and producing an average of 23,500oz Au Eq per annum once the Phase 2 production rate of 6,000 tpa is achieved. Capital estimates have also increased by approximately £6.7m for the Life of Mine.

### **Cononish Project Development update**

Mine development (widening of main access adit) commenced ahead of schedule but at a reduced pace as teams were trained and safety procedures developed. Access to ore is expected by end 2019 as scheduled.

In parallel the process plant equipment manufacture has progressed on schedule and management visited the supplier and key subcontractors in South Africa prior to packing. The goods sourced from South Africa and China are now in transit to Scotland, with the balance sourced from Europe still outstanding.

The process building and associated civil works designs have been completed and applications for approval of relevant Construction Method Statements have been made. These submissions are behind schedule predominantly because the site elevation, environmental conditions and geotechnical factors necessitated a more complex earthworks and foundation design for the building than anticipated. Consequently earthworks are now anticipated to commence early September compared to May originally. Though some time has been saved through the concurrent scheduling of building construction and plant assembly, this will still result in some overall delay, with first gold production now being expected end of February 2020 compared to December 2019 originally.

The ore output from the mining schedule is closely matched to the plant throughput capacity in the first year of production of the original schedule. This would have constrained the plant's ability to exceed design tonnage in this period, however the stockpile that will now be created during the delayed commissioning period will provide an opportunity for the plant to "catch up" on cumulative production later in the year.

During the detailed plant design process, it became apparent that certain features and facilities originally deferred to Phase 2, should be brought forward to Phase 1. Some examples of these are the design and casting of the foundations for Phase 2 equipment during the current construction process, the establishment of a functional assay laboratory, as well as the more obvious scaling of the crushing circuit and the tailings dewatering circuits to accommodate Phase 2 capacity. The overall benefit of these changes is not only that there will be an offsetting capital reduction in Phase 2, but also that the plant operability will be improved during Phase 1 and a more seamless expansion to Phase 2 will be possible.

### **Grampian Project Exploration Update**

The Company's exploration team are continuing to roll out the "Ionic Leach" stream sediment and soil sampling programs. As previously reported (see RNS dated 01/04/2019), encouraging results from orientation surveys conducted over the Cononish orebody and within the wider Glen Orchy Central license block, have given the team the confidence to employ the method over additional areas of interest within the company's licenses. Further to the last update, results have been obtained for 3 main areas:

1. *North East Strike extension of Cononish*. This has indicated a strong previously unidentified anomaly around 1Km north east of the Cononish orebody. This anomaly appears to have a NW-SE orientation and further work will be conducted to verify its significance.
2. *Coire nan Sionnach*. This area had been identified as prospective by previous programs, however, this latest work indicates the anomaly is relatively limited in extent. This area is now considered a lower priority.
3. *Inverchorachan*. This area was known to contain isolated anomalous gold grades from historical work. As a result, it was selected as a project for two masters students to conduct a field work project to support their studies, which included the use of the "Ionic Leach" sampling techniques. The relatively small area covered by soil sampling has returned strongly anomalous values and the stream sediment sampling undertaken indicates the anomalous zone could be extensive. Of note, are the highest gold and silver values of 124.5 ppb and 420 ppb respectively which were detected as part of this most recent sampling. For comparison, the highest values for gold and silver detected within the Cononish area to date using Ionic Leach are 39.9 ppb Au and 240 ppb Ag. This area will now be considered a high priority for further soil sampling to the south west of the newly identified anomaly, in addition to infill stream sediment sampling.

A paper prepared by the Company's exploration team more fully describing the above is available via the following link:

[http://www.rns-pdf.londonstockexchange.com/rns/4121K\\_1-2019-8-28.pdf](http://www.rns-pdf.londonstockexchange.com/rns/4121K_1-2019-8-28.pdf)

## **Corporate Funding**

### **Bridge Barn Secured Loan Facility**

The Company has secured an additional £1.5m facility from Bridge Barn Limited ("Bridge Barn") a company owned and controlled by Mr Nathaniel ("Nat") le Roux. This increase is in addition to the existing £6m facility previously announced on 26 February 2019 taking the total facility to £7.5m. Bridge Barn has also agreed to extend the term of the loan from 24 months to 36 months from each drawdown (the "Renegotiated Terms of the Loan"). The Company has entered into an Amendment and Restatement Agreement with Bridge Barn, further details of which are provided below.

### **Related Party transaction:**

Bridge Barn is a company owned and controlled by Mr Nat le Roux, who is the Chairman of the Company and a Substantial Shareholder, and therefore deemed to be a related party as defined by the AIM Rules for Companies.

The Renegotiated Terms of the Loan constitute a related party transaction under Rule 13 of the AIM Rules for Companies ("the Transaction"). Accordingly, the board of Scotgold, excluding Nat Le Roux who is precluded from opining, consisting of Richard Gray, Christopher Sangster, Philip Jackson, Richard Barker, Peter Hetherington, William Styslinger and Ian Proctor, having consulted with SP Angel, the Company's nominated adviser, consider that the terms of the Transaction are fair and reasonable insofar as the Company's shareholders are concerned.

In accordance with the AIM Rules (Schedule 4), the following information regarding the Secured Loan is provided below:

- Principal:  
  
£7,500,000, to be drawn down in four separate tranches of £2,000,000, £2,000,000, £2,000,000 and up to £1,500,000 respectively
- Lender:  
  
Bridge Barn Ltd, a company incorporated in England and Wales which is wholly owned and controlled by Mr Nat le Roux
- Borrower:  
  
SGZ Cononish Ltd, a 100% owned subsidiary of the Company
- Term:  
  
36 months from date of draw-down of each Tranche respectively. Early repayment is at the option of the Borrower for no penalty.
- Date and amount of first draw-down:  
  
Drawn-down on 13 May 2019 in an amount of £2 million.
- Date and amount of second draw-down:  
  
Within 6 months of first draw-down for an amount of £2 million.
- Date and amount of third draw-down:  
  
Within 6 months of second draw-down for an amount of £2 million.
- Date and amount of fourth draw-down:  
  
Within 6 months of third draw-down for an amount of up to £1.5 million, as required.
- Interest:  
  
Interest rate is 9.0% calculated annually (non-compounded) and payable at the end of the 36 months term for each Tranche respectively. If the Secured Loan is repaid early, interest will be calculated up to date of repayment.

- Security:

Existing Debenture over the assets and undertakings of all of the assets of the Company's 100% owned subsidiaries, Scotgold Resources Ltd (SC309525) and SGZ Cononish Ltd (SC569264), including the transfer of security of the issued capital of each of the subsidiaries will apply to the Renegotiated Terms of the Loan.

### Details of the Subscription

The Company has raised approximately £1.15m before expenses pursuant to the Subscription. The Subscription has conditionally raised approximately £1.15m through the issue of 3,285,783 New Ordinary Shares with new and existing investors at an issue price of 35 pence per share (the "Subscription Shares"). The issue price per New Ordinary Share represents a 4.11% discount to the Company's closing mid-market share price of 36.5 pence on 27 August 2019, being the closing mid-market share price on the last business day prior to publication of this announcement.

The New Ordinary Shares will represent approximately 6.7% of the enlarged issued share capital.

### Details of Directors' and PDMR's Subscription

Details of the subscriptions by directors and persons discharging managerial responsibilities and their resultant shareholding are as follows:

Name	Position	No. of Shares Purchased	Resultant Holding	% Resultant Shareholding
Peter Hetherington	Non-Executive Director	857,143	4,088,961	8.35%
William Styslinger	Non-Executive Director	928,571	5,646,400	11.54%
Ian Proctor	Non-Executive Director	428,571	1,155,844	2.36%
Jason Saint	PDMR	571,428	571,428	1.17%

Peter Hetherington, William Styslinger and Ian Proctor are related parties to Scotgold as defined in the AIM Rules for Companies and their subscriptions (the "Directors Subscriptions") are deemed to be related party transactions for the purposes of Rule 13 of the AIM Rules for Companies.

Accordingly, the board of Scotgold, excluding Peter Hetherington, William Styslinger and Ian Proctor who are precluded from opining, consisting of Nat le Roux, Richard Gray, Christopher Sangster, Philip Jackson and Richard Barker, having consulted with SP Angel, the Company's nominated adviser, consider that the terms and conditions of the Director Subscriptions are fair and reasonable insofar as the Company's shareholders are concerned.

## Conversion of Options and Issue of Equity

Additionally, the Company announces that 23,704 fully paid New Ordinary Shares ("Option Shares") have been issued on conversion of options exercisable at £0.40 on or before 31 December 2019.

### Application for admission:

Application will be made for the 3,309,487 New Ordinary Shares to be admitted to trading on AIM ("Admission") and Admission is expected to take place on or around 03 September 2019.

Following Admission, the Company's enlarged issued share capital will comprise of 48,949,033 Ordinary Shares with voting rights. The Company does not hold any shares in treasury, therefore the total number of shares in the Company with voting rights will be 48,949,033. This figure may be used by shareholders in the Company as the denominator for the calculations by which they will determine if they are required to notify their interest in, or a change in their interest in, the share capital of the Company.

## NOTIFICATION AND PUBLIC DISCLOSURE OF TRANSACTIONS BY PERSONS DISCHARGING MANAGERIAL RESPONSIBILITIES AND PERSONS CLOSELY ASSOCIATED WITH THEM

1.	<b>Details of the person discharging managerial responsibilities/person closely associated</b>	
(a)	Full name of person Dealing	<ol style="list-style-type: none"> <li>1. Peter Hetherington</li> <li>2. William Styslinger</li> <li>3. Ian Proctor</li> <li>4. Jason Saint</li> </ol>
2.	<b>Reason for notification</b>	
(a)	Position/status	<ol style="list-style-type: none"> <li>1. Non-Executive Director</li> <li>2. Non-Executive Director</li> <li>3. Non-Executive Director</li> <li>4. PDMR</li> </ol>
(b)	Initial notification/ Amendment	Initial notification
3.	<b>Details of the issuer, emission allowance market participant, auction platform, auctioneer or auction monitor</b>	
(a)	Name of entity	Scotgold Resources Limited

(b)	LEI	213800HL5A2K7LW2G360											
4.	<b>Details of the transaction(s): section to be repeated for (i) each type of instrument; (ii) each type of transaction; (iii) each date; and (iv) each place where transactions have been conducted</b>												
(a)	Description of the financial instrument, type of instrument	Depository Interests of No Par Value											
(b)	Identification code	AU000XINEAK5											
(c)	Nature of the transaction	Participation in the Fundraising											
(d)	Price(s) and volume(s)	<table border="1"> <thead> <tr> <th>Prices(s)</th> <th>Volume(s)</th> </tr> </thead> <tbody> <tr> <td>1. 35 pence</td> <td>1. 857,143</td> </tr> <tr> <td>2. 35 pence</td> <td>2. 928,571</td> </tr> <tr> <td>3. 35 pence</td> <td>3. 428,571</td> </tr> <tr> <td>4. 35 pence</td> <td>4. 571,428</td> </tr> </tbody> </table>		Prices(s)	Volume(s)	1. 35 pence	1. 857,143	2. 35 pence	2. 928,571	3. 35 pence	3. 428,571	4. 35 pence	4. 571,428
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Single transaction as in 4(d) above													
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35 pence	2,214,285												
- Aggregated volume													
- Price													
(f)	Date of transaction	28 August 2019											
(g)	Place of transaction	Outside a trading venue											

**Certain information contained in this announcement would have been deemed inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 until the release of this announcement.**



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