



14 January 2022

**Scotgold Resources Limited ("Scotgold" or the "Company")**  
**Q4 2021 Production and Operations Update**  
**2022 Strategy & Additional Debt Funding**

Scotgold Resources Limited (AIM: SGZ), is pleased to provide a Q4 2021 production and operations update for its Cononish Gold and Silver Mine in Scotland ("Cononish") and 2022 strategy as the Company targets production of c.23,500oz p.a. run rate of gold by end of Q1 2023.

**Overview**

- Q4 2021 production to 31 December 2021 ('Q4 2021') totalled 1,508 ounces of gold
- Highest gold concentrate production recorded in December 2021 since first gold pour - 101 tonnes of concentrate produced equating to c.700 ounces of contained gold (c.60% increase to Company's previous best monthly concentrate production)
- November production negatively impacted by covid related supply of explosives for the mine – short-term supply issue resolved in November and ore extraction now continues in line with the Company's mine plan
- Q4 2021 gold concentrate gold and shipments totalled 231.5 tonnes with a sales value of over £2.6m
- Phase 1 Ramp-up nearly completed as of 31 December 2021 with the processing plant achieving 2,500 tonnes feed rate for the month of December
- Q1 2022 gold production guidance range is for 1,400 to 2,200 ounces of gold
- Low-capex optimisation initiatives, primarily the addition of a thickener into the tailings circuit, are underway to achieve Optimisation Phase Production run rate of c 16,000 – 17,500 ounces p.a. run rate of gold.
- Phase 2/Expansion Phase targeted for Q1 2023 hereto achieve 23,500 ounces p.a. run rate of gold
- 2022 strategy focused on continuing to optimise Cononish processing plant and mining efficiencies to increase production profile whilst building a multi-asset gold production company in Scotland through targeted exploration
- Renegotiated the tranches of the Bridge Barn Loan that were repayable in 2022
- Additional loan of £500,000 to provide buffer through Q1 2022 short term mine plan grade variability

**Scotgold Resources CEO, Phil Day said,** *“I’m delighted to report on our record-breaking gold concentrate production in December 2021, which saw a c.60% increase in production from our previous record month.*

*“Our 2021 initiatives to increase production efficiencies and ramp-up production are working. It has taken hard-work, dedication, extensive planning and committed teamwork to transform our mining operations during the past 9 months since I joined as CEO. Like many mines around the world, we have endured significant covid disruptions, with many people infected or isolating repeatedly, along with significant challenges with our extensive supply chains. I’m honoured to be leading such an exceptional team here in Scotland and the UK who have worked tirelessly during these difficult times, with conviction to deliver.*

*“We have almost completed Phase 1 ramp-up production and we continue to be cash generative as our production revenues exceed operational costs. We forecast that this cash generation will continue during 2022 as we increase the production profile firstly to 4,000 feed tonnes by Q2 2022 and then 4,500 feed tonnes by Q4 2022 (equating to 16,000 – 17,200 ounces run rate of gold p.a.) and up to c.23,500oz of gold p.a. run rate by end of Q1 2023. This will allow us to develop the mine, increase our resources, continue exploration, and should drive significant shareholder value.*

*“Scotgold has negotiated a newly restructured debt agreement with its original debt provider Bridge Barn which affords us continued operational flexibility for growth and expansion by removing the need to repay tranches 1 and 2 plus interest, in 2022.*

*“Ultimately our vision is to become a mid-tier multi asset gold producer in Scotland. Expanding the resource and achieving full mine optimisation and production at Cononish is the first step in our strategy. Our second step is the continued exploration of our additional licence areas which run across the prospective Grampian area of Scotland – the Caledonides Mobile Belt. We have identified three prospective areas, close to Cononish and it’s our intention to explore these in conjunction with our mine optimisation and development work at Cononish during 2022 and 2023.*

*“We will continue to update the market on Cononish’s progress through quarterly production and sales reports which is line with standard reporting for listed gold producers and corporate and exploration updates. With our Q1 2022 gold production target of 1,400 to 2,200 ounces of gold and run rate of 17,500 ounces of gold p.a. by Q2 2022, I look forward to 2022 as we continue to build credibility and deliver results as a unified team.”*

### **Cononish Gold & Silver Mine Production and Optimisation**

During the quarter ended 31 December 2021 (‘Q4 2021’), the Company produced 1,508 ounces of gold and 7,200 ounces of silver from Cononish. In line with the newly appointed management and leadership team in April 2021, a redesign of the 2021 mine schedule/design was completed in May

2021. The redesign allowed faster access to higher grade zones within the ore body at Cononish by utilising a method of mining called “cut and fill stoping”. This method utilises the fact that the gold vein in some zones of Cononish has better continuity vertically than it does horizontally. In addition to a redesign of the mine schedule/design, the Company completed modifications and upgrades to the process plant including the relining the ball mill in October 2021; purchased critical and required spares for the processing plant and mining operations; and implemented maintenance planning practices to ensure the mine runs efficiently.

During Q4 2021 production continued to be ramped up in line with the mine plan re-design and Phase 1 Ramp-up production is near completion, with 6,168 tonnes of ore fed to the processing plant. Whilst strong operational progress has been made at Cononish during Q4 2021, November 2021’s underground development and production was negatively impacted by Covid-19 related supply issues for explosives, that are used to blast the mine face for ore extraction. This meant that 1,011 ounces of gold were produced in November and December 2021, 290 gold ounces lower than the Company targeted due to November’s production impact. This issue was resolved during November and ore extraction continues in line with the Company’s mine plan. However, the Company is delighted to report that in December 2021, Scotgold had a record month of production in terms of gold concentrate with 101 tonnes produced. The concentrate grade equates to around 700 ounces of contained gold and 3,000 ounces of contained silver and marks a c.60% increase to the Company’s previous record monthly concentrate production.

In terms of 2022 mine plan development, the focus of Q1 2022 will be to prepare for access to the second “cut and fill stope” which is planned to be accessed in Q2 2022. This focus on mine development is very normal in underground mines and is well understood to come with some risk of grade variability. That grade variability has been experienced over the past two weeks with low grade ore being produced. We have limited knowledge when this will improve and as a result the Company’s working capital remains challenging. As such, the Board has taken the prudent decision to accept an additional loan of £0.5M provided by Mrs Jane Styslinger a related party of Non-Executive Director Mr Bill Styslinger as defined by the AIM Rules for Companies (the “Additional Loan”) to mitigate this risk and ensure continued financial robustness during this period while this work is completed. Additional financing may be required if the grade remains poor until the Company is able to access the next ‘cut and stope’ area in Q2 2022. In Q3 2022, Scotgold plans to commence retreat long hole stoping, as per the original mine design, which will significantly transform the ability to access reserve mine gold grade more readily.

Additionally, the focus in Q1-Q2 2022, will be the implementation of several low-capex processing plant and mine optimisation initiatives by the end Q2 2022. The planned tailings thickener is expected to provide significant optimisation to the throughout of the processing plant. As such, Scotgold has a target of achieving Optimisation Phase Production monthly run rate of c. 4,000 feed tonnes to the process plant by end of Q2 2022 ramping up to 4,500 feed tonnes by Q4 2022 which equates to c 16,000 – 17,500 ounces p.a. run rate of gold by the end of Q2 2022.

It is the Company's plan to continue to increase the production rates of its processing plant and achieve Phase 2 production at Cononish – this entails achieving a run rate of 23,500 ounces of gold per annum. Scotgold is completing due diligence work to determine whether to install an Ore Sorter between the existing crushing unit and the Mill. The installed crushing unit is already designed for the Phase 2 production rate so will not require expansion. This option will realise an increase in ounces of gold processed per tonne at lower tonnages and potentially lower CAPEX and OPEX. A significant benefit includes the reduction of fine tailings generated from the processing plant, which is a constraint to the expansion of Cononish's Reserves. We expect the due diligence to be completed by the end of Q2 2022 and the sorter, if approved, to be operational by the end of Q1 2023. The alternative is to install a further Mill and downstream processing capacity as per the original Phase 2 mine plan upgrade.

**Figure 1. Cononish Phased production development plan**

<b>Phased Production Development</b>	<b>Expected to commence by end</b>	<b>Annual Rate of Ore Production</b>	<b>Target Average Annual Rate of Gold Production</b>
Phase 1	Q1 2022	36,000 tonnes	9,910oz
Optimisation Phase Production	Q2 2022	51,000 tonnes	17,500oz
Phase2/Expansion Phase	Q1 2023	72,000 tonnes	23,500oz

#### **Q4 2021 – Sales**

Q4 2021 gold and silver concentrate shipments totalled 231.5 tonnes with a sales value of over £2.6m. Gold concentrate is sold directly to Scotgold's off-take partner MRI Trading AG.

Some gravity gold production (to produce gold doré for the Scottish Jewellery industry) was produced and sent to the refiners in December 2021. The Company is continuing to actively look at increasing the production capabilities for doré gold in addition to its gold concentrate. Once the tailings thickener is in place, by the end of Q2 2022 the Company expect to have significant on-shift resources freed up to allow us to prioritise improvements to this circuit.

#### **Resource/Reserve Expansion**

It is the Company's intention to increase and optimise the current Cononish reserves which stand at 555,000 tonnes of ore broken down as follows:

- Proven reserves - 65,000 tonnes comprised of 11.5g/t Au and 51.5 g/t Ag
- Probable reserves - 490,000 tonnes comprised of 11.1g/t Au and 47.2 g/t Ag
- Total gold resource - 266,000 ounces (estimated value: £332.5m\*) \*Gold price / ounce (24/09/2020): £1,250
- Total silver resource - 1,096,000 ounces (estimated value: £20.8m\*\*) \*\*Silver price / ounce (24/09/2020): £18.99

With the implementation of phase 2 the current life of mine stands at 8.5 years. The Company believes there is significant potential to increase the resource at Cononish, with corresponding increase of life of mine. There are several areas within the Cononish resource that have not yet been adequately tested but are capable of hosting mineable high-grade pods. Scotgold plans to explore these areas with drilling to increase the resource in addition to investigating the extension of the resource along down dip and strike. As these areas are part of the current resource vein Scotgold believes they may more readily convert to Reserves. Operating in the national park, the Company is constrained by the quantity of tailings that it can deposit without a new planning application. The ore sorter, if implemented, would significantly reduce the quantity of tailings produced making this process simpler or alternatively Scotgold may apply for further extensions to its planning permission.

## **Debt Finance**

### **Bridge Barn Limited**

SGZ Cononish Ltd (SC569264), a 100% owned subsidiary of the Company (“Borrower”) has negotiated a debt restructure with Bridge Barn Limited (‘Bridge Barn’), a company owned and controlled by Mr Nathaniel le Roux (Scotgold Non-Executive Director) which provided the existing loan facility of £7.5m to the Borrower (the ‘Existing Loan Facility’). The principal points of the restructured facility include:

- Provide a new loan of £5 million in January 2022 which repays tranches 1 and 2 and interest to date on those loans, (the ‘Restructured Loan’) plus makes available a further £131,561.64 of loan monies (“Additional Monies”). Tranches 1 and 2 of the Existing Loan Facility were due for repayment in May 2022 and October 2022 respectively
- Restructured Loan will have a term of three years, with 9% annual interest rate to be paid quarterly.
- The Restructured Loan of £5m principal will be repayable by 01 January 2025.
- As per the Existing Loan Facility there are no additional penalties for early payment of the New Loan
- The terms of the Existing Loan Facility for the remaining original tranches £3.5m principal (plus interest) will remain. The other tranches of the Existing Loan Facility are repayable on various dates from 7<sup>th</sup> March 2023 to 17 March 2024
- Once the Additional Monies are drawn down, principal amounts of the Loans owing to Bridge Barn now stand at £8.5m

The benefits to the Borrower of this Restructured Loan agreement are:

- Move to quarterly payments of interest only over a longer period and remove the repayments of tranche 1 and 2 plus interest from the Existing Loan Facility from 2022 cashflow in May 2022 and October 2022 respectively
- Allows the Borrower to have access to its own self-generated funds for expansion initiatives
- 2022 plan with this Restructured Loan structure shows significant cash flow generation for FY 2022

**Related Party transaction:**

Bridge Barn is a company owned and controlled by Mr Nat le Roux, who is a Non-executive Director of the Company and a Substantial Shareholder as defined by the AIM Rules for Companies. The details of the Restructured Loan entered into by Bridge Barn and the Borrower and the further details as required to be disclosed under Schedule 4 of the AIM Rules for Companies are provided below.

The provision of the Restructured Loan by Bridge Barn constitutes a related party transaction pursuant to Rule 13 of the AIM Rules for Companies. Accordingly, the board of Scotgold, excluding Nat Le Roux and William Styslinger who are precluded from opining, consisting of Phil Day, Richard Gray, Philip Jackson, Richard Barker, Peter Hetherington and Ian Proctor, having consulted with SP Angel, the Company's nominated adviser, consider that the provision of the Restructured Loan is fair and reasonable insofar as its shareholders are concerned.

In accordance Schedule 4 of the AIM Rules for Companies, the following information regarding the amended Loan Facility and Updated Loan Facility is provided below:

Principal: £5 million
Borrower: SGZ Cononish Ltd, a 100% owned subsidiary of the Company.
Lender: Bridge Barn Ltd, a company incorporated in England and Wales which is wholly owned and controlled by Mr Nat le Roux.
Term: Repayable by 01 January 2025
Interest:

Interest rate is 9.0% calculated annually and payable quarterly. If the Restructured 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 Borrower and the Company's wholly owned subsidiary SGZ Grampian Limited (SC309525) together with share pledges over the issued share capital of the Borrower and SGZ Grampian Limited

**Additional Loan**

Jane Styslinger is a related party of William Styslinger (Non-Executive Director of Scotgold) as defined by the AIM Rules for Companies. The details of the Additional Loan entered into by Jane Styslinger and the Borrower and the further details as required to be disclosed under Schedule 4 of the AIM Rules for Companies are provided below.

The provision of the Additional Loan by Jane Styslinger, a related party of William Styslinger (Non-Executive of Scotgold) as defined by the AIM Rules for Companies, constitutes a related party transaction pursuant to Rule 13 of the AIM Rules for Companies. Accordingly, the board of Scotgold, excluding William Styslinger and Nat Le Roux who are precluded from opining, consisting of Phil Day, Richard Gray, Philip Jackson, Richard Barker, Peter Hetherington, Nat Le Roux and Ian Proctor, having consulted with SP Angel, the Company's nominated adviser, consider that the provision of the Additional Loan is fair and reasonable insofar as its shareholders are concerned.

In accordance Schedule 4 of the AIM Rules for Companies, the following information regarding the amended Additional Loan is provided below:

<b>Principal:</b> £500,000
<b>Borrower:</b> SGZ Cononish Ltd, a 100% owned subsidiary of the Company.
<b>Lender:</b> Jane Styslinger, a related party of William Styslinger (Non-executive director of Scotgold) as defined by the AIM Rules for Companies.
<b>Term:</b> 3 years from the date of drawdown
<b>Interest:</b> Interest rate is 9.0% calculated annually and payable quarterly.

**Security:**

Unsecured but the Additional Loan does contain a negative pledge clause which provides that the Borrower must seek the consent of Jane Styslinger before granting any further security. In the event of any subsequent shortfalls in repayment, Jane Styslinger and Bridge Barn have further agreed a pro rata sharing of received realisations based on monies then owing (notwithstanding that the Bridge Barn Loan is secured and Jane Styslinger's loan is unsecured).

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

**\*\*ENDS\*\***

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**Notes**

Scotgold Resources Ltd (AIM:SGZ), is Scotland's first commercial gold producer. The Company poured first gold in November 2020 at its Cononish Gold and Silver Mine ('Cononish) in Tyndrum, Scotland and is developing it into a +23,500-ounce gold mine per annum by end of Q1 2023. Cononish is a high-grade underground mining operation with a central processing plant producing gold concentrate for off-take and gold doré for the Scottish Jewellery industry. Once in full production, the mine has anticipated forecast operating costs of c.£544/oz AISC, which will place Cononish in the lowest quartile of gold mining operations globally.

It is Scotgold's vision to build a mid-tier gold mining company in Scotland with multiple operations in the country that enhance the local environment and economy in ways that have an enduring positive impact.