

Scotgold's glowing ambition



SCOTGOLD RESOURCES (SGZ:AIM)

WEBSITE:

www.scotgoldresources.com

EMAIL:

sgz@scotgoldresources.com

ADDRESS:

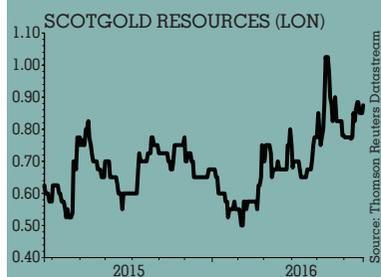
Upper Tyndrum Station,
Tyndrum,
Stirlingshire,
Scotland FK20 8RY

VITAL STATS

SECTOR: MINING (GOLD MINING)

SHARE PRICE: 0.84P

MARKET CAP: £11.7 MILLION



Formed in 2007, Scotgold listed on the ASX in 2008 and subsequently on AIM in 2010. The principal objective of the company was and remains the advancement of its 100% owned Cononish gold and silver project in Scotland's Grampian Highlands.

FORGING AHEAD

Cononish was identified in the 1980's but serious work only began when it became an asset of Scotgold in 2007. Cononish achieved planning permission in 2012, a significant step as it is situated in the Loch Lomond & Trossachs National Park.

Although its development plan was completed in 2013, a dramatic fall in the gold price disrupted the project's planned project finance strategy and Scotgold only advanced again when the company was recapitalised and reinvigorated by Nat Le Roux in 2014 and when the current CEO was appointed.

Reinvigorated, the company developed a new mineral resource estimate, new ore reserve estimate and a new BFS (bankable feasibility study) was completed in 2015.

- The project has a resource estimate in Measured, Indicated and Inferred categories of 541,000 tonnes at a gold grade of 14.3 g/t (grammes per tonne) and a silver grade of 59.7 g/t (grammes per tonne).

- After taking into account various modifying factors, the proven and probable ore reserves comprises 555,000 tonnes at a gold grade of 11.1 g/t and a silver grade of 47.7 g/t. The BFS demonstrates:

- Robust Project economics using a base case gold price of US\$1,100/ounce (£688/ ounce) with a EBITDA of £67.4 million, a pre-tax free cash flow of £43.4 million, pre-tax NPV (10%) of £22.5 million and a pre-tax IRR of 45%.

Low operating cost with life of mine ('LoM') average of £327/

SUMMARY OF BFS HIGHLIGHTS

PRODUCTION

Average Production	72,000 tonne per annum
Average LoM Grade (Au Eq)	11.8 gram/tonne
Average Metal Produced	23,370 ounce equivalent gold* per annum
Life of mine	8 years

FINANCIAL (at Gold US\$1,100/oz & Silver US\$15/oz)

Peak Funding Requirement	£18.5M
Unit Operating Costs	£327/ ounce equivalent gold (US\$523/ ounce equivalent gold)
Net pre-tax cashflow	£43M
NPV (10%) pre-tax	£23M
IRR pre-tax	45%
Payback Period	19 months

* Ounces equivalent gold = ounces gold + ounces silver*15/1100 – ratio calculated at base case prices of \$1,100/ ounce gold and \$15.00/ ounce silver



ounce equivalent gold (US\$523/ ounce equivalent gold) (including royalties) and project breakeven (0% IRR) at US\$689/ ounce equivalent gold.

- Peak Funding Requirement of £18.5 million and all in life of mine Capital including contingencies, replacements etc. of £24 million.
- Average annual gold production of 23,370 ounce equivalent gold with peak production in second year of 28,540 ounce equivalent gold.
- Average LoM grade of 11.8 grams equivalent gold /tonne and peak grade of 15.4 grams equivalent gold / tonne in second year.
- Rapid implementation schedule of 16 months post contract and finance completion and short payback period of 19 months from full production

FINANCING CHALLENGE

Despite these attractive project returns, Cononish has not yet attracted the commensurate, competitive financing expected, due in large part to Cononish's size, which is small by international gold mining standards, and scepticism over the reality of mining in a National Park in Scotland. In response, management pressed ahead with a Bulk Processing Trial (BPT) in Feb 2016, with the

objectives of:

- Demonstrating that gold production is feasible
- Demonstrating that a premium can be achieved for Scottish gold
- Gaining experience from processing actual ore that can be used to optimise the final plant design and reduces perceived technical risk
- Using the experience gained to examine whether a phased approach to the development of Cononish is feasible. In such a phased approach the initial capital hurdle would be greatly reduced and the mine could be developed largely using internally generated cash flow, with more competitive debt financing available once into first stage production.

The company constructively engaged with the Loch Lomond & Trossachs National Parks Authority and planning permission for the bulk processing trial (BPT) was granted in April 2016 and the plant itself arrived from South Africa in May 2016.

Following only one month of installation and commissioning, the company has now announced that it is ramping up production and is producing both gold rich sulphide concentrates and free gold.

It is intended that the free gold once refined will be hallmarked as to its Scottish provenance and sold to interested parties at a premium to the prevailing spot price. The Company has retained consultants The Dragonfly Initiative to manage this process, which will both demonstrate the potential premium levels achievable and provide input into the longer term marketing of Scottish gold.

With the BPT now well underway and some early observations have

been reported.

- Product assays suggest the feed grade is in line with the expected 7.9g/t Au and 39g/t Ag estimated average for the stockpile.
- It is estimated that approximately 75% of the contained gold (including free gold) reports to the sulphide concentrate, with the balance reporting to the quartz "tail" for future retreatment as part of the final plant design.
- The trial has also shown a separate galena (lead sulphide) rich concentrate is achievable, which positively impacts on future treatment routes for the balance of the sulphides and potentially could form a saleable by-product..

BEYOND CONONISH

Scotgold has extensive exploration acreage over the highly prospective Daradian sequence which also hosts significant gold ore bodies in Northern Ireland such as the Curraghinalt and Omagh projects. An initial structural study by Dr. Pablo Gumiel and Dr. Monica Arias, of Consulting de Geología y Minería, S.L. recently announced highlighted 11 significant prospects, including two comparable to Cononish, just in the immediate vicinity of Cononish.

In the longer term the company has the ambition of looking for other potentially lucrative gold mining developments with low political risk across Europe where it can apply its skills and expertise. To this end the company recently announced that it had been granted the Pomar licence in Portugal and it will provide further information on this to the market once the technical team have completed their site visit and review.