



ABN : 42 127 042 773

**ANNUAL REPORT 2020**



*“Building Scotland’s first commercial gold mine”*

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## COMPANY INFORMATION



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Company / Group / Economic Entity	Scotgold Resources Limited and controlled entities	
ABN	Scotgold Resources Limited, and in Australia - 42 127 042 773	
Directors	Nathaniel le Roux Richard Gray Chris Sangster Phillip Jackson Richard Barker Peter Hetherington William (Bill) Styslinger Ian Proctor	Non-Executive Chairman Managing Director Non-Executive Director Non-Executive Director Company Secretary and Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director (appointed 14 August 2019)
Company Secretary	Richard Barker	
Registered Office	Suite 4, 189 Stirling Highway, Nedlands, Western Australia, 6009	
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Auditor	BDO Audit (WA) Pty Ltd 38 Station Street Subiaco, WA 6008	
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Bankers	Westpac Banking Corporation 1257 Hay Street West Perth WA 6005	Bank of Scotland The Mound, Edinburgh Scotland EH1 1YZ
Securities Exchange Listing	AIM board of the London Stock Exchange. AIM Code: "SGZ"	

## COMPANY INFORMATION



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and Broker

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## OPERATIONS and STRATEGIC REVIEW



### OPERATIONS REVIEW

#### *Developing Scotland's first commercial gold mine*

- Phase 1 production at Cononish Gold and Silver Mine on course to commence on 30 November 2020
  - Phase 1 targeting average annual gold equivalent production of 9,910oz
- Phase 2 expansion of production at Cononish, targeting 100% increase in annual production to 72,000 tonnes of ore and average annual gold equivalent production of 23,500oz, brought forward by 11 months to May 2022
  - Follows post period £3m fund raise, the proceeds of which will also fund systematic exploration work across the Company's Scottish licences which cover ~2,900km<sup>2</sup> of the Dalradian Belt
- Recalculated model using the accelerated Phase 2 development strategy and gold and silver prices of £1,400/oz and £19.23/oz respectively deliver highly attractive Life of Mine ('LOM') economics:
  - £178 million EBITDA;
  - £156 million pre-tax Cash Flow;
  - £127 million Net Cash Flow; and
  - £96 million Pre-tax NPV (discount rate of 8%)
- Encouraging results from ongoing exploration programme include the identification of gold and silver anomalies to the north east of the Cononish mine and from the Beinn Udlaidh and Inverchorachan prospects
  - Results in line with strategy to increase mineable ounces at the Cononish mine and also identify potential new mines of Cononish scale or larger

### BACKGROUND –

Scotgold Resources Limited ("the Company") was established in 2007 and is listed on the AIM market of the London Stock Exchange (AIM:SGZ). The Company delisted from the Australian Securities Exchange on 21 October 2016.

The Company's principal objectives have continued to be:

- a) the development of the Cononish Gold and Silver Mine ("Cononish" or the "Project") in Scotland's Grampian Highlands; and
- b) the ongoing exploration of the highly prospective tenements comprising the Grampian Gold Project with the view to identifying further project opportunities.

#### Corporate Social Responsibility ("CSR")

The Company recognises its responsibilities to the Community, the Environment, its Employees and the Workplace with respect to sustainable development, safety and community development. The CSR Committee, which held its inaugural meeting on 10th May 2019, continued throughout the year to pursue its purpose of reviewing and monitoring relevant policies, programmes and activities of the Scotgold Resources Group on behalf of the Board of Directors of the Company to ensure these responsibilities are met.

In doing so, it continued to focus on the three broad areas of:

## OPERATIONS and STRATEGIC REVIEW



- Health, Safety and Welfare of the Community, Employees, Consultants and Visitors;
- Stewardship of the Environment; and
- Corporate Citizenship and Societal Interaction

These areas are presented on the Scotgold website alongside details of how complaints will be handled.

During the latter part of the year, the CSR Committee had to deal with the unique threat to health and safety and employee well-being posed by the Covid-19 pandemic. The Committee oversaw the performance of a detailed risk assessment in respect of the effects of Covid-19 on the operations of the Company and the formulation and implementation of a comprehensive set of operating procedures to deal with the pandemic based on that risk assessment prior to resumption of mining operations at the beginning of July 2020. The CSR Committee continues to oversee the carrying out of regular assessments of the risks posed by Covid-19 and the adjustment of the aforementioned operating procedures in response thereto.

### Cononish Gold and Silver Mine

On 15 February 2012, the Board of the Loch Lomond and the Trossachs National Parks (“NPA”) issued the Decision Notice granting planning permission for the development of the Project. The Crown Estate Commissioners unconditional grant of the Crown Lease was confirmed in May 2012.

During 2014, the Company made an application to vary this planning permission (relating to hours of operation of the processing plant and work on site) and on 24 January 2015, the Board of the Loch Lomond and the Trossachs National Park again voted unanimously to approve the Company’s application. As a variation to a condition of the existing consent, this approval also had the effect of extending the date by which development should commence to January 2018.

In January 2015 the Company completed a Mineral Resource Estimate and subsequently, in August 2015 completed a Bankable Feasibility Study for the Cononish Project. On 24 February 2016 the Company announced its intention to conduct a Bulk Processing Trial (“BPT”) and on 27 August 2016 the first official gold pour from the BPT was announced.

Experience from the BPT led to a radical rethink of the tailings disposal methodology and a study was conducted to determine the suitability of dry stack tailings disposal for the Project. The benefits of the dry stack system include substantially reduced upfront capital costs, scalability and the potential for significant environmental benefits. The study determined that dry stacking was feasible and a number of options using this methodology were then modelled in the Update to the Bankable Feasibility Study, announced in March 2017. The ‘phased’ approach was determined as the Company’s preferred option to take the Project forward.

Subsequently, the Company submitted a revised application for planning permission to incorporate the new tailings disposal methodology. The application was unanimously approved in February 2018 by the National Parks Authority (“NPA”) Board and a Decision Notice was received in October 2018. Concurrently with the permitting process, the Company secured funding for the Project in May 2018 consisting of approximately £4m of equity and £5m of debt. With the permitting pre-commencement conditions satisfied and funding secured, Project development activities commenced in January 2019.

In August 2019 the Company raised a further £2.65m (£1.15M equity and an increase of £1.5m in secured debt facilities) to ensure the Project remained fully funded to completion.

Record high rainfall in February and more latterly Covid 19 restrictions in March 2020 led to delays in the development schedule being experienced, most notably in relation to the bulk earthworks element of the Project.

In October 2020 the Company announced that first gold production from the development of Phase 1 was expected by 30 November 2020. Given the more recent progress made on the development of Phase 1 and the improved gold price outlook, the Company also elected to raise a further £3m before costs to accelerate the development of Phase 2 and provide for an expansion of the Company’s exploration programmes.



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### Grampian Gold Project –

The Grampian Gold Project comprises 13 Crown Option agreements covering approximately 2,900 km<sup>2</sup> in the south west Grampians of Scotland and covers some of the most prospective areas of the Dalradian Series in the UK. This is a sequence of highly folded and metamorphosed sedimentary and volcanic rocks of late Precambrian to Early Cambrian age, which extends into regions that were contiguous at the time of its formation. This includes the western extension to the eastern seaboard of Canada and the Appalachian belt in the US, and the eastern extension into Norway and Sweden. The British Geological Survey has identified the Dalradian sequence as highly prospective for both significant gold and base metal deposits. On a more local scale, the Dalradian sequence extends to the south west from Scotland into Northern Ireland where it hosts other gold resources at Cavancau (c. 0.8Moz of gold) and Curraghinalt (c. 4Moz of gold).

Following on from the success of the previously completed orientation surveys, Scotgold has continued to use the ionic leach technique for regional stream sediment sampling across 6 of its 13 Crown Option areas, identifying several drainage catchments with encouraging values that require detailed follow up work. Subsequent to the reporting period, regional stream sediment sampling has been completed across 10 of Scotgold's 13 Crown Option areas.

### Portuguese and French projects

In May 2016, the Company announced the acquisition of the Pomar licence area in eastern central Portugal by its wholly owned Portuguese subsidiary, Scotgold Resources Portugal Ltda. In May 2017, the Company was granted the Vendrennes PER (Permit Exclusif de Recherche / exclusive exploration licence) in France.

On 18 July 2019, the Company announced its decision not to extend the Pomar licence and the intention to apply to the Director General of Energy and Geology to terminate the licence and the process of termination is in the final stages.

The process of voluntary liquidation of SGZ France SAS, initiated pursuant to the Company withdrawing its interest in the Vendrennes PER, was concluded on 1 October 2019.

### Corporate Activities-

The terms of the secured loan facility made available to SGZ Cononish Limited were amended during the year so that by the end of the year, the facility totalled £7.5 million at a nominal interest rate of 9% per annum, to be drawn down in tranches and/or sub-tranches which are repayable with accumulated interest 36 months after the date of drawdown. By the end of the reporting period, £4.0 million of that facility had been drawn down by SGZ Cononish Limited and a further £2.5 million was drawn down after 30 June 2020.

Subsequent to the reporting period, net equity funding of £2.8 million was raised in October 2020.

## **CONONISH GOLD AND SILVER PROJECT**

The Bankable Feasibility Study (BFS) for "The Cononish Gold and Silver Project" was conducted by Bara Consulting Ltd and published in August 2015. An update was published in March 2017 following input from the Bulk Processing Trial in 2017, particularly with regard to tailings storage options.

The report highlighted that the Phased Project approach using a Dry Stack tailings storage system produced improved economic returns and reduced the development peak funding requirements.

The phases were scheduled as follows:

→ Phase 1 (28 Months): After a 4 month ramp up and commissioning period, the mine is intended to operate at a production level of 3,000 tonnes per month (36,000 tonnes per annum).

→ Phase 2 (7 years): The mining is intended to reach a steady state level of production at 6,000 tonnes per month (72,000 tonnes of ore per annum).

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Phase 2 was intended to be purely organically funded by Phase 1, and the Company anticipated sufficient cashflow generated by Phase 1 to meet the development requirements of Phase 2 within 2.5 years of first production.

Subsequent to the reporting period, in October 2020 the Company reviewed this timing of Phase 2 and elected to accelerate the development of Phase 2, such that it is now expected to be completed in May 2022 and will be funded by a combination of £2.5M of the new equity raised in October 2020 and funds generated internally over the shortened Phase 1 operating period.

At the same time in October 2020 the Company provided a Project update indicating first production was expected by 30 November 2020, revised cost estimates and re-evaluating the Project economics using a £1,400/oz gold price. Based on these assumptions, the key Project parameters are given below:

### Cononish Key Parameters:

Estimated Reserves	550,000t
Head Grade Au Equiv	11.7g/t
Life of Mine	9 years
Total Capital	£34.0M
Ave. Annual Production	23,500oz
Ave. Operating Cost	£439/oz
Ave. Capital Cost	£184/oz
All In Sustaining Cost (AISC)	£461/oz

The above key parameters were derived by Scotgold management using revised cost and gold price estimates and using the BFS Update production schedule.

Details of the material assumptions considered in the derivation of the production target and forecast financial information above and the BFS Study Update Executive Summary are provided on Scotgold's website at [www.scotgoldresources.com](http://www.scotgoldresources.com).



## Cononish Mineral Resources

The Mineral Resource Estimate (“MRE”) is classified as Measured, Indicated and Inferred Mineral Resources, (adhering to guidelines set out in the JORC Code (2012 Edition)), and is reported at a cut-off grade of 3.5 g/t gold as is presented in the Table below. The Table also serves as the Company’s Annual Mineral Resource Statement.

### Table: 2020 Annual Mineral Resource Statement

**Cononish Main Vein Gold and Silver Mineral Resources**, estimated in accordance with the JORC code (2012 Edition) and reported at a 3.5 g/t Au cut-off as at 12/01/2015, which remain current subject to the depletion of approximately 6.5kt from the Indicated Resources – Mined Stockpile. Mine development during the reporting period has predominantly been in waste, with a non-material volume of Mineral Resource placed on surface stockpiles.

<b>Scotgold Resources Limited - Cononish Gold Project</b>						
<b>Mineral Resource Estimate as at 12 January, 2015</b>						
<i>Reported at a cut-off grade of 3.5 g/t gold</i>						
<b>Classification</b>	<b>K Tonnes</b>	<b>Grade Au g/t</b>	<b>Metal Au Koz</b>	<b>Grade Ag g/t</b>	<b>Metal Ag Koz</b>	<b>In-situ Dry BD</b>
Measured - In-situ	60	15.0	29	71.5	139	2.72
Indicated - In situ	474	14.3	217	58.7	895	2.72
Indicated - Mined Stockpile	7	7.9	2	39.0	9	2.72
<b>Sub-total M&amp;I</b>	<b>541</b>	<b>14.3</b>	<b>248</b>	<b>59.9</b>	<b>1,043</b>	<b>2.72</b>
Inferred - In-situ	75	7.4	18	21.9	53	2.72
<b>Total MRE</b>	<b>617</b>	<b>13.4</b>	<b>266</b>	<b>55.3</b>	<b>1,096</b>	<b>2.72</b>
<small>Reported from 3D block model with grades estimated by Ordinary Kriging with 15 m x 15 m SMU Local Uniform Conditioning adjustment. Minimum vein width is 1.2 m. Totals may not appear to add up due to appropriate rounding.</small>						

*Note: Mineral Resources presented above include Ore Reserves stated below.*

There has been no change in the Mineral Resources reported previously as at 30/06/2019.

An internal review of the Mineral Resource Estimate concluded that the estimation techniques and parameters employed remained appropriate.

The Cononish mineralisation remains open at depth down plunge and to the west along strike. There is therefore potential to add to the resource by further extensional drilling.

In addition to the currently defined Mineral Resources, Scotgold believes that there is additional resource development potential close to Cononish, subject to appropriate and successful further work. Extensive gold-in-soil anomalies, mineralisation associated with outcrops and trenches, and geophysical anomalies close to the current resource clearly warrant further follow up. In addition, there are indications that other reefs are present in the area. At this stage, such indications are highly conceptual and there is no guarantee that further exploration will define additional Mineral Resources.

## Cononish Ore Reserves

As part of initial work towards developing the 2015 BFS, Bara Consulting Ltd (“Bara Consulting”) completed a thorough review of the 2013 Cononish Development plan in order to identify opportunities to not only improve on the plan but to also improve the confidence in the plan. As a result of this review, further work was undertaken on the mining methodology, access design, geotechnical evaluation and overall mine design.

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The outcome of this work was that an Ore Reserve Estimate was completed on 25 May 2015, in accordance with the JORC code (2012 Edition) based on the Mineral Resource Estimate (MRE) issued in January 2015. The subsequent addendum to the Bankable Feasibility Study resulted in no change to the Ore Reserve. Hence there is no change to the Ore Reserves reported previously for the Project as at 30/06/2019. Mine development during the reporting period has predominantly been in waste, with a non-material volume of Ore Reserve placed on surface stockpiles

An internal review of the Ore Reserve Statement concluded that the modifying factors used in determining the Ore Reserve remained appropriate.

**Table: 2020 Annual Ore Reserve Statement**

<b>As at 25 May 2015 (JORC 2012 Code)</b>			
<b>Classification</b>	<b>Proven</b>	<b>Probable</b>	<b>Total</b>
<b>Tonnes ('000)</b>	65	490	555
<b>Au Grade (g/t)</b>	11.5	11.1	11.1
<b>Au Metal (k oz)</b>	24	174	198
<b>Ag Grade (g/t)</b>	51.5	47.2	47.7
<b>Ag Metal (k oz)</b>	108	743	851

*(Bara Consulting Limited Ore Reserve Statement dated May 2015)*

For greater detail on the parameters derived from this work and used for the Ore Reserve estimation process, please refer to the Company's announcement on 26/05/2015 – Cononish Gold Project Study Update and Reserve Estimate; and to the subsequent announcement on 16/03/2017 - Update to Cononish Bankable feasibility study on the Company's website.

The Ore Reserve statement above does not take account of the depletion of the surface stockpile through the BPT. At 30 June 2020, approximately 6.5kt had been removed from the stockpile and the reserves will be adjusted on full depletion of the stockpile.

Both the Mineral Resource Estimate and Ore Reserve statement were compiled by suitably qualified Independent Competent Persons as identified at the time of their release.

### GRAMPIAN GOLD PROJECT

The Company continues to actively pursue exploration activities on its substantial land position (approx. 2,900 km<sup>2</sup>) in the Dalradian Belt of the south west Grampians, a terrain highly prospective for both precious and base metal occurrences. The majority (85%) of the area currently under option to Scotgold is located outside the Loch Lomond and the Trossachs National Park.

Following on from the success of the previously completed orientation surveys, Scotgold has continued to use the ionic leach technique for regional stream sediment sampling across 6 of its 13 Crown Option areas, identifying several drainage catchments with encouraging values that require detailed follow up work. Subsequent to the reporting period, regional stream sediment sampling has been completed across 10 of Scotgold's 13 Crown Option areas.

More targeted soil sampling using the ionic leach technique has been completed over prospects in the Glen Orchy Central and Inverliever East option areas. The three main prospects covered during this reporting period are as follows:

1. Kilbride - This area had been identified as prospective by previous programmes; however, this latest work indicates an anomaly that is relatively limited in extent. This area is now considered a lower priority.
2. Beinn Udlaidh - This area has been the focus of several exploration programmes in the past, with conventional stream sediment and soil sampling as well as limited drilling completed over the prospect. The orientation

drainage survey confirmed the prospectivity of the area, and soil sampling using the ionic leach method was completed during this reporting period with the objective of improving the understanding of the target area and highlighting previously undetected anomalies. The sampling detected a linear anomaly in the centre of the sampled area, associated with a prominent quartz vein exposed at the summit of Beinn Udlaidh as well as a linear anomaly in the southwest of the area sampled, where there is limited rock outcrop visible at surface. Further sampling, subsequent to the reporting period, has identified a highly anomalous area on the southern slope of Beinn Udlaidh, further sampling is required to constrain these positive anomalies.

3. Inverchorachan - This area had previously been sampled and mapped by students as part of their Masters research projects. The limited study had returned highly anomalous gold and silver values across the Inverchorachan gorge associated with the Tyndrum fault and an altered intrusive body. This initial survey area was expanded, and results indicate that the highly anomalous area continues to the southwest along strike of the Tyndrum fault. Subsequent to the reporting period, sampling has been completed further to the southwest which has identified several discrete but coherent anomalies.

In addition to the above mentioned geochemistry the Company embarked on a geophysical programme to evaluate more modern equipment to that historically trialled; including ground magnetics, Very Low Frequency (“VLF”) / magnetics and Induced Polarisation (“IP”) Gradient Array. Subsequent to the reporting period, the ground geophysics data reprocessing is currently in progress with promising initial results, this data will be the subject of a future regulatory announcement.

No fieldwork was completed between 16/03/2020 and 05/06/2020 due to the coronavirus pandemic and nationwide lockdown restrictions. This time was principally used for data analysis, procedure review and database work.

The Company is pleased to report the identification of several new anomalies across its prospects as well as development of the understanding of areas previously identified as prospective and continues to employ a systematic and targeted approach to exploration.

### PORTUGUESE AND FRENCH PROJECTS

In May 2016, the Company announced the acquisition of the Pomar licence area in eastern central Portugal by its wholly owned Portuguese subsidiary, Scotgold Resources Portugal Ltda.

On 18 July 2019, the Company announced its decision not to extend the Pomar licence and the intention to apply to the Director General of Energy and Geology to terminate the licence. The termination process is currently in its final stages.

In May 2017, the Company was granted the ‘Vendrennes’ Permit Exclusif de Recherche (“PER”) / exclusive exploration licence in France, applied for in 2015.

The Company withdrew its interest in the Vendrennes licence and placed SGZ France SAS into voluntary liquidation during the prior year. The liquidation process was concluded on 1 October 2019.

### TENEMENT DETAILS

#### United Kingdom -

The Company holds a lease (100%) from the Crown Estate Scotland over Cononish Farm, county of Perth, Scotland UK.

The Company holds a lease (100%) from the landowner over Cononish Farm, county of Perth, Scotland UK.

## OPERATIONS and STRATEGIC REVIEW



The Company holds thirteen Mines Royal Option Agreements (100%) with the Crown Estate Scotland as detailed below:

No.	Name	Area	Location
1	Knapdale South	250 km <sup>2</sup>	county of Argyll, Scotland UK
2	Knapdale North	250 km <sup>2</sup>	county of Argyll, Scotland UK
3	Inverliever West	250 km <sup>2</sup>	counties of Dunbarton, Argyll and Perth, Scotland UK
4	Inverliever East	233 km <sup>2</sup>	counties of Dunbarton, Argyll and Perth, Scotland UK
5	Glen Orchy West	103 km <sup>2</sup>	counties of Perth and Argyll, Scotland UK
6	Glen Orchy Central	242 km <sup>2</sup>	counties of Perth and Argyll, Scotland UK
7	Glen Orchy East	241 km <sup>2</sup>	counties of Perth and Argyll, Scotland UK
8	Glen Lyon West	246 km <sup>2</sup>	counties of Perth and Argyll, Scotland UK
9	Glen Lyon North	244 km <sup>2</sup>	counties of Perth and Argyll, Scotland UK
10	Glen Lyon South	243 km <sup>2</sup>	counties of Perth and Argyll, Scotland UK
11	Glen Lyon East	247 km <sup>2</sup>	counties of Perth and Argyll, Scotland UK
12	Ochills West	189 km <sup>2</sup>	county of Clackmannan, Perth, Kinross and Stirling, Scotland UK
13	Ochills East	150 km <sup>2</sup>	county of Clackmannan, Perth, Kinross and Stirling, Scotland UK

### Portugal –

As at 30 June 2020, the Company was in the process of terminating its 100% interest in the Pomar Licence in eastern central Portugal, near Castelo Branco held through its subsidiary Scotgold Resources Portugal Ltda, pursuant to the Company announcing on 18 July 2019 its intention not to extend the Pomar Licence.

No other beneficial interests are held in any farm-in or farm-out agreements and no other beneficial interests in farm-in or farm out agreements were acquired or disposed of during the period.

#### Competent Persons Statement:

*No new exploration results are presented in this report. All results have been previously notified under JORC 2004 and are contained in Scotgold Annual reports 2008 - 2019 and various corresponding market releases.*

*The information in this report that relates to the 2015 Mineral Resources for Cononish Gold Project (refer ASX release - Resource Estimate Update – 22/01/2015) is based on information compiled by Malcolm Titley, a Competent Person who is a Member of The Australasian Institute of Mining and Metallurgy. Mr Titley is employed by CSA Global (UK) Limited, an independent consulting company. Mr Titley 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 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Titley consents to the inclusion in the report of the matters based on his information in the form and context in which it appears.*

*The information in this report that relates to the 2015 Ore Reserves for Cononish Gold Project (refer ASX announcement dated 26/05/2015) 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 2012 Edition of the 'Australasian Code for Reporting*

## OPERATIONS and STRATEGIC REVIEW



*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. Further, the Company confirms it is not aware of any new information or data that materially affects the information contained in the original announcements and that all material assumptions and technical parameters underpinning the estimate of Resources and Reserves continue to apply and have not materially changed.*

### STRATEGIC REVIEW

The Company continues to review its corporate governance, structure, policies and practices with a view to maintaining and enhancing shareholder value.

The Company adopted the QCA code of corporate governance in 2018 and subsequently appointed an advisory service to assist with UK regulatory compliance issues as an AIM listed company.

The Company predominantly operates in remote areas of Scotland, much of which face socio-economic challenges and are designated as “deprived”. As such the Company works with Scottish Enterprise and other agencies to ascertain what governmental aid may be available and in October 2018 the Company was awarded a grant of up to £430,000, under the “Regional Selective Assistance” (RSA) scheme, This award is subject to certain conditions relating to capital expenditure and job creation at the Cononish Project. The first and second tranches of £50,000 and £150,000 payable under the scheme were received in August 2019 and June 2020 respectively.

With effect from 1 January 2018, the Company established a new 100% owned subsidiary, SGZ Cononish Ltd to develop its flagship asset, the Cononish Gold and Silver Project. Its existing 100% owned subsidiary, Scotgold Resources Ltd (Scotland) was renamed SGZ Grampian Limited and continues to hold and operate the Scottish exploration licence.

Operationally, the Company’s immediate focus remains the development of the Cononish Gold and Silver Project, which commenced in January 2019 and is expected to be complete at the end of November 2020. However, to provide longevity beyond Cononish, and potentially growth in overall production, the Company is developing a pipeline of additional projects that we anticipate will meet our criteria. During the period the Company chose to focus on our Grampian Project which now consists of 13 Option Agreements (“Exploration Licences”) covering some 2,900 km<sup>2</sup> in Scotland and includes the highly prospective ground in the vicinity of Cononish.

The fundamental technical work completed on Cononish in 2015, with the revised Mineral Resource Estimate and Ore Reserve Estimate, underpinned the Updated Bankable Feasibility Study (BFS) completed in March 2017. This study amply demonstrated the Project’s technical and financial viability and funding was raised in May 2018. The key remaining impediment to commencement of development remained planning consent and in October 2018 the Decision Notice was issued by the NPA relating to the planning application (approved by the NPA Board in February 2018). Once the pre-commencement conditions had been satisfied in late December 2018, the Company commenced development activities. In August 2019 the Company announced that an additional £2.65m of funding had been secured to address an increased capital cost estimate and a two month delay to first gold production, then scheduled for the end of February 2020.

The Company then encountered further schedule delays relating to the management of excavated materials (peat in particular) and endured record high rainfall in February. Progress continued to be made however until the end of March 2020 when all non-essential construction in Scotland was placed under lockdown due to the Covid 19 pandemic. A skeleton staff was then maintained on site to undertake environmental monitoring and other essential maintenance activities, until June 2020 when the restrictions were lifted in stages and development activities could recommence.

In October 2020 the Company announced that it expected to achieve first gold production at Cononish by 30 November 2020 and that it had raised a further £3m (before costs) principally to accelerate the development of Phase 2 in order that the Phase 2 production levels of 72,000tpa could be achieved as soon as practicable thereafter (expected by May 2022).

## OPERATIONS and STRATEGIC REVIEW



In August 2019 the Company also provided an updated estimate of the expected financial returns, based on the increased capital estimates, revised construction schedule and a gold price assumption of £1,200/oz and then again in October 2020 the Company provided revised expected financial returns based on a gold price assumption of £1,400/oz. These estimates demonstrate the increased value of Cononish given the steady improvement in the gold market, particularly in GB Pound terms, as the gold price has climbed from £1,100/oz to £1,437/oz over this reporting period and subsequently reached £1,569/oz in August 2020.

Notwithstanding the recent retreat of the spot gold price from record highs, the Company currently expects Project returns in line with these estimates.

As discussed above, the Covid 19 pandemic has already had a modest impact on the Project development schedule and associated capital costs, however these are not considered material to the overall expected Project returns. As mining operations fall within the classification of manufacturing and/or construction from the Scottish Government's restrictions perspective, it is expected that operations will continue even under the current Tier 4 level of restrictions currently prevailing in the area. There remains the risk of a more severe total lockdown, however it is anticipated that any such event would be relatively short and Government financial support similar to the earlier Job Retention Scheme would be available.

It is also expected that the Covid-19 pandemic will have a longer-term impact on global macro-economics but it is considered that this is unlikely to be negative for the long-term outlook for the gold price.

The work completed on advancing our future pipeline of projects has during the current reporting period been modest due to the need to focus cash and management resources on the advancement of Cononish. Notwithstanding this, the Company has identified the analysis of soil and stream samples using ionic leach as providing a cost effective and efficient method of identifying anomalous zones. Using this new methodology the Company has to date identified potential extensions to the Cononish orebody and a potentially new prospect at Inverchorachan. In September 2020 the Company announced key appointments to its geoscience team, and these will be key to expanding our exploration programmes in the coming period.





# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020



**Richard Gray**

**Managing Director**

**BSc (Hons)**

*Qualifications and experience*

Mr Richard Gray has extensive international experience, in both underground and open pit mine operations, and brings considerable operational knowledge and management experience and skills to the Company, particularly in the development and implementation of gold mining projects. He has previously held various roles at both majors and juniors within the gold mining sector and his successful career has included 15 years working in South Africa for Gencor Ltd and 14 years in West Africa for Golden Star Resources Ltd and Avocet Mining. He holds a BSc (Hons) Mining Engineering from the Royal School of Mines, Imperial College and an MBA from the Graduate School of Business, Cape Town University.

*Other Directorships in past three years:* **None**

*Interest in Shares and Options*

Fully Paid Shares	105,677
Options	1,400,000

These options include 1,000,000 options granted as share-based payment on 1 May 2018 and 400,000 options granted as share-based payment on 1 July 2020.

*Special Responsibilities*

Mr Gray is the CEO / Managing Director and is responsible for the day to day running of the company.

**Chris Sangster**

**Non-Executive Director**

**BSc (Hons), ARSM, GDE**

*Qualifications and experience*

Chris has a BSc Hons in Mining Engineering from the Royal School of Mines, Imperial College in London and a GDE in Mineral Economics from the University of Witwatersrand. Chris has extensive experience worldwide in gold, diamond and base metal production environments. Since 1999, he has held positions of Vice President Mining Services at KCM PLC and Principal Mining Engineer for Australian Mining Consultants. In 2007, Chris co-founded Scotgold Resources and was its CEO / Managing Director until October 2014. He is a Non-executive Director of Ariana Resources and is also an Associate Consultant for Bara Consulting Limited.

*Other Directorships in past three years:* **None**

*Interest in Shares and Options*

Fully Paid Shares	206,045
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*Special Responsibilities*

Advice on technical and planning matters. Mr Sangster provides consulting services at commercial rates to the Company under a management agreement with the Company. Mr Sangster is Chairman of the Corporate and Social Responsibility Committee.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020



**Phillip Jackson**

**Non-Executive Director**

**BJuris LLB MBA FAICD**

*Qualifications and experience*

Mr Jackson is a barrister and solicitor with over 25 years legal and international corporate experience, especially in the areas of commercial and contract law, mining law and corporate structuring. He has worked extensively in the Middle East, Asia and the United States of America. In Australia, he was formerly managing legal counsel for a major international mining company, and in private practice specialised in small to medium resource companies.

Mr Jackson was managing region legal counsel Asia-Pacific for a leading oil services company for 13 years. He is now General Counsel for a major international oil and gas company. He has been a Director of a number of Australian public companies, particularly mining companies. He has been Chairman of Aurora Minerals Limited since it listed in 2004 and Peninsula Mines Limited, since it listed in August 2007.

His experience includes management, finance, accounting and human resources. He is a director of ASX listed companies Aurora Minerals Limited, Peninsula Mines Limited, and Predictive Discovery Limited.

*Other Directorships in past three years:* **None**

*Interest in Shares and Options*

Fully Paid Shares	43,313
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*Special Responsibilities*

Mr Jackson is Chairman of the Audit Committee and is responsible for legal matters.

**Richard Barker**

**Company Secretary & Non-Executive Director**

**BJuris LLB**

*Qualifications and experience*

Mr Barker is an Australian lawyer with 15 years' experience working with top Australian Law firms in NSW and WA. For the past 6 years Mr Barker has provided corporate compliance and company secretarial services for both listed (ASX and AIM) and unlisted private companies. Mr Barker has extensive experience providing advice and services on equity raisings and corporate governance matters.

*Other Directorships in past three years:* **None**

*Special Responsibilities*

Mr Barker is a member of the Audit Committee and deals with company secretarial matters.

**Peter Hetherington**

**Non-Executive Director**

**B. Econ., Mstrs (Fin)**

*Qualifications and experience*

Mr Hetherington was previously Chief Executive Officer of Schroders Personal Wealth and IG Group Holdings Plc. He graduated from Nottingham University with a degree in Economics, and from the London Business School with a Masters in Finance. Mr Hetherington also served as an officer in the Royal Navy.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020



### *Other Directorships in past three years:*

Scottish Widows Schroder Wealth Holdings Limited  
Holywell Alpacas Ltd  
IG Group Holdings Plc

### *Interest in Shares and Options*

Fully Paid Shares	4,088,961
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### *Special Responsibilities*

Mr Hetherington is a member of the Corporate and Social Responsibility Committee.

<b>William Styslinger</b>	<b>Non-Executive Director</b>	<b>BSc Engineering</b>
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### *Qualifications and experience*

Mr Styslinger is a director of Nasdaq listed Casa Systems Inc, and served as Chairman, President and Chief Executive Officer of SeaChange International Inc, a Nasdaq listed provider of multiscreen video software and services, from its inception in July 1993 until his retirement in November 2011.

### *Other Directorships in past three years:*

Metrosoft Inc.

### *Interest in Shares and Options*

Fully Paid Shares	5,931,400
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### *Special Responsibilities*

Mr Styslinger is a member of the Audit Committee.

<b>Ian Proctor</b>	<b>Non-Executive Director</b>	<b>ACA</b>
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### *Qualifications and experience*

Ian Proctor is a Chartered Accountant and currently the Chief Executive Officer of Sky Betting and Gaming ("SBG"), having previously held the position of Chief Financial Officer of SBG for over 10 years.

### *Interest in Shares and Options*

Fully Paid Shares	1,155,884
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### *Other Directorships in past three years:*

The Pavilion Stirling Ltd  
Cyan Blue Topco Limited  
Stars Group Holdings (UK) Limited

## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020



### SHARES UNDER OPTION

At the date of this report unissued shares of the Company under option are:

Number of shares under option	Exercise price	Expiry date
Vested and exercisable		
30,000	\$8.00	31 March 2022
Granted but not vested		
1,000,000	£0.30	1 May 2028
1,150,000	£0.71	1 July 2025
200,000	£0.71	31 December 2023

### OPERATING AND FINANCIAL REVIEW

A review of the operations of the consolidated entity during the financial year is contained in the Operations and Strategic Review section of this Financial Report. The Company's strategy in Scotland continues to focus on advancing the 100% owned Cononish Gold and Silver Project to production whilst continuing to explore its large, highly prospective land position around Cononish and elsewhere in Scotland which extends to some 2,900km<sup>2</sup>.

### PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were the development of the Cononish gold and silver mine, pursuant to obtaining planning permission, and mineral exploration.

#### Operating Results

The consolidated loss after income tax for the financial year was \$2,504,134 (2019 - \$3,518,455).

#### Financial Position

At 30 June 2020 the Company had cash reserves of \$1,019,979 (2019 - \$3,917,920).

#### Dividends

No dividends were paid during the year and no recommendation is made as to dividends.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or in the consolidated financial statements.

### LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company intends to complete development of the Cononish silver and gold mine and to continue its exploration activities.

## GOVERNANCE

There is no prescribed corporate governance code for AIM companies and the London Stock Exchange prefers to give companies the flexibility to choose from a range of codes which suit their specific stage of development, sector and size.

The Board has adopted the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code") and the principles set out therein. The Company applies these principles wherever possible, and where appropriate to its size and available resources.

The Non-Executive Chairman, Mr Nat le Roux, has overall responsibility for the Corporate Governance of the Company.

The QCA Code sets out ten principles which should be applied. These principles are listed below with an explanation of how the Company applies each principle, and the reasons for any aspect of non-compliance.

### **Principle One: Establish a strategy and business model which promote long-term value for shareholders**

The Company has a clearly defined strategy and business model that has been adopted by the Board, as set out in the Operations and Strategic Review section of this Financial Report.

The Company is primarily focused on the development and bringing to production of the Cononish Gold and Silver Project ("the Cononish Project") in Scotland's Grampian Highlands, with the objective of delivering sustainable value for shareholders.

The progress achieved in bringing the Cononish Project to the stage of first production is set out in the Operations and Strategic Review section of this Financial Report.

A comprehensive life-of-mine model of the Cononish Project is used to measure the quantum of value created for shareholders. In August 2019 and again in October 2020, a comprehensive update of the life-of-mine model was undertaken to incorporate updated assumptions in respect of gold and silver market prices, any premium obtainable over spot market prices, mining rates, ore grades, plant processing recoveries and efficiencies, exchange rates, staffing levels and equipment operating efficiencies, among others.

The results produced by the updated life-of-mine modelling exercises have been communicated to all shareholders and the general public.

In addition, in order to create sustainable long-term value for shareholders beyond the current estimated life of the Cononish Project, the Company is carrying out on-going exploration of the highly prospective tenements comprising the Grampian Gold Project with the view to identifying further project opportunities, employing innovative leading edge technologies such as ionic leaching.

### **Principle Two: Seek to understand and meet shareholder needs and expectations**

All shareholders are encouraged to attend the Company's Annual General Meetings where they can meet and directly communicate with the Board. After the close of business at the Annual General Meeting, the Chairman and Managing Director deliver an up to date corporate presentation and open the floor to questions from shareholders.

Shareholders are also welcome to contact the Company via email at [sgz@scotgoldresources.com](mailto:sgz@scotgoldresources.com) with any specific and relevant queries. The Company also provides regulatory, financial and business news updates through the Regulatory News Service (RNS). Shareholders also have access to information through the Company's website, [www.scotgoldresources.com](http://www.scotgoldresources.com).



The Board is responsible for ensuring that effective dialogue with shareholders takes place, and the Managing Director ensures that any feedback or views communicated by shareholders are then disclosed to the Board for review and discussion.

The Company's web-site is designed to facilitate easy interaction between the Company and shareholders and other users. Management of the web-site is located in-house to ensure that content is maintained on an up-to-date and real-time basis and that the interaction between the user and the Company is direct and effective. The web-site is updated on a regular basis and includes the latest corporate presentation on the Group. Contact details are also provided on the website.

The Company makes regular investor body presentations at which feedback on the Company's performance and investor expectations are solicited at post-event functions and provides more frequent updates via media interviews. The Company's broker, SP Angel, also publishes research by a professional mining analyst which is available on the Company's website.

**Principle Three: Take into account wider stakeholder and social responsibilities and their implications for long-term success**

The Company takes seriously its role as a responsible corporate citizen in all of the areas in which it operates and takes regular account of the significance of social, environmental and ethical matters affecting the business of the Group and of the regional communities in which it operates.

The Corporate and Social Responsibility Committee of the Company serves as a key vehicle through which the Group performs its role as a responsible corporate citizen and has identified three broad areas of focus, being:

- Health, Safety and Welfare of the Community, Employees, Consultants and Visitors;
- Stewardship of the Environment; and
- Corporate Citizenship and Societal Interaction.

The activities undertaken by the Corporate and Social Responsibility Committee are set out in the Operations and Strategic Review section of this Financial Report.

As set out in Note 21 of this Financial Report, the Group has entered into a donations agreement with the Strathfillan Community Development Trust ("SCDT") in terms of which the Group will work with SCDT to provide additional facilities and opportunities for the community served by SCDT. The obligations in terms of the agreement are dependent upon the commencement of production at the Cononish Project and as the planned date of first production draws closer, the Group looks forward to meeting its obligations in terms of the agreement and making the agreed contributions to SCDT.

In addition, the Group has assumed obligations to make payments of up to £425,000 in aggregate to the Loch Lomond and the Trossachs Countryside Trust, payable in annual instalments. As reported in Note 21 of this Financial Report, the first payment of £25,000 was made on 23 January 2020.

In recognition of its responsibilities towards the environment as a good corporate citizen and in particular, the ecological sensitivity of the environment in which the Cononish Project is located, the Group has committed itself to obligations to

- restore the area in which the Cononish Project operates at the end of the life of the Cononish Project once mining activities cease and to undertake after-care and monitoring activities for an agreed period subsequent to such cessation (see Note 16 of this Financial Report); and
- implement a plan for the management and improvement of the greater Cononish glen in which the Cononish mine is situated, the scope of which extends beyond the area in which the activities of the mine will be conducted, to encompass the entire Cononish glen (see Note 20 of this Financial Report).

Funds have been lodged with relevant bodies as security for the performance by the Group of its obligations in respect of these commitments (see Note 7 of this Financial Report).

To ensure that its operations are carried out responsibly and safely and in full compliance with all relevant legislation and guidelines, the Group engages with legislative and regulatory bodies on an on-going basis.

**Principle Four: Embed effective risk management, considering both opportunities and threats, throughout the organisation**

The mining and exploration business sector bears inherent risks, across all areas of exploration, development, environment, and health and safety. These risks are in addition to the financial risks associated with the sector, which are set out in Note 29 of this Financial Report.

The risk management strategy of the Board is geared towards minimising the effect of these risks on the Group operations, through constant monitoring of risks, regular reporting of the risks and holding of meetings to ensure that risk management principles are disseminated to and put into practice at all levels of the organisation of the Group. All identified risk areas are monitored and mitigated on a cost-effective basis. Risk policies and procedures are adapted to the changes in the operating environment as the Group transitions and evolves from the development phase to on-going production operations.

To ensure that the evolution of the risk strategy and policies and procedures within that strategy match the evolution of the business activities and operations of the Group, the Board regularly reviews the risks to which the Group is exposed and ensures that the risk management strategy, policies and procedures of the Group are appropriate at all times. This strategy and the policies and procedures which flow from the strategy are applied equally to employees, consultants and contractors. The Company's Risk Management Strategy is available on the Company's website.

Of cardinal importance to the Group is the effective minimisation of risks related to Health and Safety, with the responsibility for the effectiveness of Health and Safety policies lying with the Corporate and Social Responsibility Committee. Contractors engaged in major development and construction activities as part of the Cononish Project are required to adhere to and observe comprehensive health and safety policies and provide proof of adequate, valid and up-to-date insurance policies providing cover in respect of injury to their own employees as well as employees of other contractors and employees of the Group.

In addition to financial and health and safety risks, the Company is exposed to the following operational and industry risks:

***Dependence on key personnel***

The future of the Group depends, in part, on its ability to attract and retain key personnel. It may not be able to hire and retain such personnel at compensation levels consistent with its existing compensation and salary structure. Similarly, the future of the Group depends on the continued contributions of its executive management team and other key management and technical personnel, the loss of whose services would be difficult to replace.

Furthermore, the inability to continue to attract qualified personnel, which may become more of a factor as available labour in the immediate catchment area is fully utilised necessitating recruitment beyond that catchment area, could have a material adverse effect on the business of the Group.

### ***Tenement application and licence renewal***

The Company cannot guarantee additional applications for tenements made by the Company will ultimately be granted, in whole or in part.

Furthermore, the Company cannot guarantee that renewals of valid tenements will be granted on a timely basis, or at all. The Company's right to convert its exploration licences into production concessions is contingent upon the relevant planning authority providing approval in principal for the proposed develop. There is a risk that these approvals may not be obtained. Several of the Company's mining properties are subject to applications for extension.

### ***Exploration***

There can be no assurance that the future exploration of the Group's tenements, or any other tenements that may be acquired in the future, will result in the discovery of an economically recoverable ore deposit. Even if an apparently viable deposit is identified, there is no guarantee that it can be economically exploited.

The future exploration activities of the Company may be affected by a range of factors including:

- geological conditions;
- limitations on activities due to seasonal weather patterns;
- unanticipated operational and technical difficulties;
- industrial and environmental accidents;
- planning permission process;
- changing government regulations; and
- many other factors beyond the control of the Company.

### ***Mine Development***

The development of the Cononish Project in accordance with planned schedule and budget is dependent on a number of factors including, but not limited to:

- seasonal weather patterns;
- unanticipated technical and operational difficulties encountered in extraction and production activities;
- mechanical failure of operating plant and equipment;
- shortages or increases in the price of consumables, spare parts and plant and equipment;
- cost overruns;
- access to the required level of funding; and
- contracting risk from third parties providing essential services.

In addition to the above risks traditionally associated with mine development activities, since late March 2020 the Group has had to manage the risks presented by the Covid-19 pandemic. Mining operations were suspended for the period from 27 March 2020 to 30 June 2020 as a result of the pandemic, with a number of employees being furloughed. The combination of the effects of the "traditional" risks with the less foreseeable risk of a global pandemic have led to the expected date of first production moving out from the end of February 2020 reported in the Annual Report of last year to the end of November 2020.

The unique risks posed by the Covid-19 pandemic are being addressed by adherence to a comprehensive set of operating procedures formulated and implemented pursuant to the performance of a detailed risk assessment prior to resumption of mining operations at the beginning of July 2020. Regular assessments of the risks posed by Covid-19 are carried out, with the aforementioned operating procedures being adjusted in response thereto.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020



Once production commences, the operations of the Group may be disrupted by a variety of risks and hazards which are beyond its control, including:

- environmental hazards;
- industrial accidents;
- technical failures;
- labour disputes;
- unusual or unexpected rock formations;
- flooding and extended interruptions due to inclement or hazardous weather conditions;
- fires, explosions or accidents; and
- the effects of the Covid-19 pandemic.

A comprehensive risk assessment of processing plant commissioning operations has been undertaken and a comprehensive risk assessment in respect of processing plant and tailings management facility operations and formulation of standard operating procedures for the conducting of these operations is underway as at the date of this report, with assessment of the risks associated with the Covid-19 pandemic and development of procedures designed to mitigate that risk being an integral component.

No assurances can be given that the Company will achieve commercial viability through the development or mining of its projects and treatment of ore.

### **Operations**

The operations of the Company may be affected by various factors. These include:

- failure to locate or identify mineral deposits;
- failure to achieve predicted grades in exploration and mining;
- operational and technical difficulties encountered in mining;
- difficulties in commissioning and operating plant and equipment;
- mechanical failure or plant breakdown;
- unanticipated metallurgical problems which may affect extraction costs;
- adverse weather conditions;
- industrial and environmental accidents; industrial disputes and unexpected shortages or increases in the costs of consumables, spare parts, plant and equipment, exacerbated by the relative remoteness of the location of the Cononish mine; and
- the effects of the Covid-19 pandemic.

No assurances can be given that the Company will achieve commercial viability through the successful exploration and / or mining of its tenement interests. Until the Company is able to realise value from its projects, it is likely to incur ongoing operating losses, which are required to be funded by the shareholders.

### **Resource Estimates**

In the event a resource is delineated this would be an estimate only. An estimate is an expression of judgement based on knowledge, experience and industry practice. Estimates which were valid when originally calculated may alter significantly when new information or techniques become available. In addition, by their very nature, resource estimates are imprecise and depend to some extent on interpretations, which may prove to be inaccurate.

As further information becomes available through additional fieldwork and analysis, the estimates are likely to change, which may result in reassessment of the viability of mining the resource, re-estimation of life of planned mining operations and/or scale or nature of mining operations to be conducted, thereby potentially adversely affecting the operations of the Group and the value delivered to shareholders.

### ***Operating cost risks***

Operating costs are based on estimates by the Directors having reference to similar operations and the Company's financial modelling. Actual costs may be higher or lower than those estimates.

Higher costs will have an impact on the Company's results as may a variety of other factors outside of the Company's control, such as increased competition and slower than expected take-up by customers of the Company's products.

In addition, deviations in the profile of operating costs in terms of split between fixed and variable costs may change the extent of exposure to risk of changes in revenue as an increase in the ratio of fixed costs to variable costs will increase the degree of operating leverage of the Group and increase the potential effect on profitability of negative movements in the amount of revenue generated by operations.

### ***Environmental risk***

The operations and proposed activities of the Company are subject to regulation in Scotland concerning the environment. It is the Company's intention to conduct its activities to the highest standard of environmental obligation, including compliance with all environmental laws, in line with its commitment to being a responsible corporate citizen.

Failure to adhere to environmental management policies and procedures may result in an event entailing pollution of the environment, with possible consequent financial penalties possible damage to the reputation of the Group as a responsible corporate citizen, which may cause a loss to shareholders in the form of an adverse movement in share price.

### ***Commodity price volatility and exchange rate risks***

The amount of revenue generated by the Group is influenced directly by the spot gold price as well as movements in the Australian Dollar : US Dollar exchange rate.

Commodity prices fluctuate generally and are affected by many factors beyond the control of the Company. Such factors include supply and demand fluctuations for precious and base metals, technological advancements, forward selling activities and other macro-economic factors. In the case of gold, changes in spot price often reflect geo-political influences as well in line with the status of the mineral as a refuge in conditions of geo-political crisis or heightened geo-political tensions and uncertainty.

In summary, the Company's revenue stream, and certain of its capital expenditure commitments are and will be US Dollar denominated. However, the Company's operating expenditure will be denominated in GBP Pounds Sterling.

To date, a large proportion of the corporate overhead costs of the Group has been denominated in Australian Dollars. However, once production commences, the magnitude of the GBP Pounds Sterling denominated operating cost base of the Cononish mine relative to the level of those Australian Dollar denominated corporate overhead costs will increase the overall exposure of the Group to movements in the Australian Dollar : GBP Pound Sterling exchange rate.

### ***Economic***

General macro-economic conditions, introduction of tax reform, new legislation, movements in interest and inflation rates and currency exchange rates may have an adverse effect on the Company's exploration, development and production activities, as well as on its ability to fund those activities. An upward movement in market interest rates may reduce the market valuation of the Cononish Project in the eyes of shareholders and potential investors.

### ***Force Majeure***

The current and future projects of the Group now or in the future may be adversely affected by risks outside the control of the Company, including:

- labour unrest;
- civil disorder and/or war;
- subversive activities or sabotage;
- fires, floods, explosions or other catastrophes; and
- epidemics or quarantine restrictions.

The Group has put in place insurance policies which strike the appropriate balance between extent of cover of these risks and the cost of cover.

### ***Government policy changes***

Adverse changes in government policies or legislation may affect ownership of mineral interests, taxation, royalties, land access, labour relations, and mining and exploration activities of the Company. It is possible that the current system of exploration and mine permitting in Scotland may change, resulting in impairment of rights and possibly expropriation of the Company's properties without adequate compensation.

Uncertainty with regard to the Brexit process and the actual economic effects of Brexit, once implemented, still persist and remain unresolved as at the date of this report. Preparations are underway to mitigate the possible effects of a "hard" Brexit on the supply chains of the Group, as at the date of this report.

### ***Insurance risks***

The Company insures the operations of the Group in accordance with industry practice and based on an assessment of the risk being insured against, the extent to which that insurance covers the risk and the costs of putting that insurance cover in place. However, in certain circumstances, the Company's insurance cover may not be of a nature or level to provide adequate insurance cover against the manifestation of a risk in the form of a loss event and the occurrence of that loss event could have a material adverse effect on the business, financial position and results of the Company and thereby the value provided to shareholders.

The mining industry involves a number of industry-specific risks requiring tailored and / or specialised cover. The depth and range of such cover available in the United Kingdom insurance market is limited and the costs of putting in place the requisite cover to adequately address the specific identified risk may prove to be prohibitive.

### ***Market conditions***

Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance.

Share market conditions are affected by many factors such as:

- general macro-economic outlook;
- introduction of tax reform or other new legislation;
- interest rates and inflation rates;
- changes in investor sentiment toward particular market sectors;
- the demand for, and supply of, capital; and
- terrorism or other hostilities.

The market price of its quoted securities may affect the ability of the Company to raise equity.



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**Principle Five: Maintain the Board as a well-functioning, balanced team led by the Chairman**

The role of the Board is to agree the Group's long-term direction and strategy and monitor achievement of its business objectives. The Board meets formally at least four times a year for these purposes and holds additional meetings when necessary to transact other business. When appropriate, the Board receives reports for consideration on all significant strategic, operational and financial matters. The Board currently consists of eight Directors, seven of whom are Non-Executive and two of whom are regarded as independent. Phillip Jackson has been appointed senior Independent Director.

The composition of the Board and details of individual Directors are set out at the beginning of this report.

The Managing Director works full-time. The Non-Executive Directors are expected to dedicate such time as is necessary to properly carry out their function and are expected to dedicate at least 10 days per annum to Company business.

The QCA Code recommends a balance between Executive and Non-Executive Directors and recommends that there be two Independent Non-Executive Directors. The Board considers each of Mr Jackson and Mr Barker to be Independent Non-Executive Directors. Mr Stysliger, Mr Hetherington and Mr Proctor are all significant shareholders and bring extensive experience, specialised industry knowledge, a broad range of skills and strong personal qualities to their roles as members of the Board.

The Board will take Director independence into account when considering future appointments. All Directors are encouraged to use their judgement and to challenge matters, whether strategic or operational, enabling the Board to discharge its duties and responsibilities effectively. The composition of the Board will be frequently reviewed as the Company develops.

Details of the number of meetings of the Company's Directors held during the year ended 30 June 2020 and the number of meetings attended by each Director are set out below. These meetings include matters relating to the Remuneration and Nomination Committees of the Company.

Details of meetings of the Audit Committee and the Corporate and Social Responsibility Committee held during the year ended 30 June 2020 are set out below.

**Principle Six: Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities**

The Board considers the current balance of sector, financial and public market skills and experience which it embodies is appropriate for the current size and stage of development of the Company and that the Board has the skills and experience necessary to execute the Company's strategy and business plan and discharge its duties effectively. Details of the current Board of Directors' biographies are set out above. The Board annually reviews the appropriateness and opportunity for continuing professional development, whether formal or informal. All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures and applicable rules and regulations are observed.

The Company utilises the services of ONE Advisory Limited to provide Board support with UK Corporate Governance and MAR compliance. The Board is kept abreast of developments regarding AIM regulations and corporate governance.

**Principle Seven: Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement**

The ultimate measure of the effectiveness of the Board is the Company's progress against the long-term strategy and aims of the business. This progress is reviewed in full Board meetings held at least four times a year. Each Executive Director's performance is reviewed once a year by the Board as a whole.

The Nomination Committee, currently consisting of the full Board, meets as appropriate and is mindful of the formal process of rigorous and transparent procedures for Board appointments. The Board takes succession planning into account when making both Board and management appointments and will utilise outside agencies to assist with recruitment when required. Board appointments are made at appropriate stages of the Group's development.

Accordingly, the Board reviews:

- the structure, size and composition of the Board;
- succession planning;
- leadership;
- key strategic and commercial issues;
- conflicts of interest;
- time required from non-executive directors to execute their duties effectively;
- overall effectiveness of the Board; and
- its own terms of reference.

A "self-assessment" questionnaire and Board effectiveness process is being adopted in order to continually improve the efficacy of the Board.

**Principle Eight: Promote a corporate culture that is based on ethical values and behaviours**

The Board recognises and strives to promote a corporate culture based on strong ethical and moral values. All employees of the Group are encouraged to understand all aspects of the Group's business and the Group seeks to remunerate its employees fairly, being flexible where practicable and taking account of the size and stage of development of the Company.

The Group gives full and fair consideration to applications for employment received regardless of age, gender, colour, ethnicity, disability, nationality, religious beliefs, transgender status or sexual orientation. The Board takes account of employees' interests when making decisions, and suggestions from employees aimed at improving the Group's performance are welcomed.

The corporate culture of the Company is promoted to its employees through employment contracts, regular staff meetings, and to its suppliers and contractors through its procurement policy and vetting processes. These procedures enable the Board to determine that ethical values are recognised and respected.

In the case of the appointment of new suppliers, the approval of the appointment of each new supplier is counter-signed by at least one senior manager and the Financial Controller, who in turn counter-sign a formal declaration that they have no interests in or business relationships with that new supplier.

**Principle Nine: Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board**

The Board has overall responsibility for all aspects of the business. The Chairman is responsible for overseeing the running of the Board, ensuring that no individual or group dominates the Board's decision-making, and that the Non-Executive Directors are properly briefed on all operational and financial matters.

The Chairman has overall responsibility for corporate governance matters in the Group and chairs the Nomination Committee. The Chairman has the responsibility for overseeing the implementation of the strategy of the Board.

The Company Secretary is responsible for ensuring that Board procedures are followed, and applicable rules and regulations are complied with.

Key operational and financial decisions are reserved for the Board through quarterly project reviews, annual budgets, and quarterly budget and cash-flow forecasts and on an ad hoc basis where required. The current Board of eight Directors contains two Independent Non-Executive Directors and it is intended to maintain this ratio. The Independent Non-Executive Directors are responsible for bringing independent and objective judgment to Board decisions.

The Board has established Audit and Corporate and Social Responsibility Committees, chaired by Mr Phillip Jackson and Mr Chris Sangster respectively.

The Board of Directors recognise the potential influence of a major shareholder. Accordingly, the Board and the Company's major shareholder, in consultation with the Company's Nomad, are drafting a "Relationship Agreement" which will formalise certain decision-making procedures.

The Board will conduct a review at least annually to ensure that the Company's corporate governance framework evolves in line with the Group's development, strategy and business plan.

**Principle Ten: Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders**

The Company regularly communicates with, and encourages feedback from, its shareholders who are its key stakeholder group. The Company also provides regulatory, financial and business news updates through the Regulatory News Service (RNS).

The Company's web-site is designed to facilitate easy interaction between the Company and shareholders and other users. Management of the web-site is located in-house to ensure that content is maintained on an up-to-date and real-time basis and that the interaction between the user and the Company is direct and effective. Contact details are also provided on the website.

Web-site content is regularly updated and includes the latest corporate presentation on the Group as well as RNS announcements. Users, including all stakeholders, can register to be alerted via email when material announcements are made. The Company's contact details are on the website should stakeholders wish to make enquiries of management. The Group's financial reports are uploaded to the website as soon as practicable after announcement to the market.

Notices of General Meetings are mailed to shareholders each year and the results of voting on all resolutions at general meetings are announced to the market as soon as practicable after the close of the respective meetings. The Company's auditors engage with the Audit Committee at least once a year and offer their views and recommendations on the strength of the financial management of the Group.

## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020



### MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2020, and the number of meetings attended by each Director. These meetings included matters relating to the Remuneration and Nomination Committees of the Company.

	Number eligible to attend	Number attended
Nathaniel le Roux	6	6
Richard Gray	6	6
Chris Sangster	6	6
Phillip Jackson	6	6
Richard Barker	6	6
Peter Hetherington	6	5
William Styslinger	6	6
Ian Proctor	6	6

### AUDIT COMMITTEE

The Audit Committee is comprised of Mr Jackson (Chairman), Mr Barker and Mr Styslinger. Two meetings of the Audit Committee were held during the year ended 30 June 2020.

The Audit Committee Report for the year ended 30 June 2020 can be found in the QCA Corporate Governance Statement of the Company, which can be found on the Company web-site at <https://www.scotgoldresources.com/docs/QCA-2020.pdf>.

### CORPORATE AND SOCIAL RESPONSIBILITY COMMITTEE

The Corporate and Social Responsibility ("CSR") Committee is comprised of Mr Sangster (Chairman), Mr Hetherington and Mr Gray.

The three broad areas of focus of the CSR Committee are:

- Health, Safety and Welfare of the Community, Employees, Consultants and Visitors;
- Stewardship of the Environment; and
- Corporate Citizenship and Societal Interaction

The CSR Committee is also charged with the responsibility of operational and environmental risk assessment. One meeting of the CSR Committee was held during the year ended 30 June 2020.

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## **REMUNERATION REPORT (audited)**

### **Statement from the Chairman of the Remuneration and Nomination Committee**

Dear Shareholder

I am delighted to present the Directors' Remuneration Report as Chair of the Remuneration and Nomination Committee of Scotgold Resources Limited for the year ended 30 June 2020.

This report details the nature and amount of remuneration for each director and executive of Scotgold Resources Limited.

#### **Appointment of Director**

Ian Proctor was appointed as a Non-Executive Director of the Company on 14 August 2019.

#### **Remuneration policy**

The board policy is to remunerate Directors at market rates for time, commitment and responsibilities. The Board determines payments to the Directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. No advice has been sought in the current year. The maximum aggregate amount of Directors' fees that can be paid is set at \$300,000 (excluding salaries of executive directors) and may be increased from time to time, subject to approval by shareholders in general meeting. Fees for Non-Executive Directors are not linked to the performance of the consolidated entity. The Annual Report, containing this Remuneration Report, is presented and considered at the Annual General Meeting, however, no shareholder approval is required.

The Company's aim is to remunerate at a level that will attract and retain high-calibre Directors and employees. Company officers and Directors are remunerated to a level consistent with the size of the Company.

All remuneration paid to key management personnel is valued at cost to the company and expensed, unless it has been incurred in connection with activities which are capitalised as deferred exploration.

#### **Share schemes**

An Enterprise Management Incentive Scheme was established pursuant to Schedule 5 of the United Kingdom Income Tax (Earnings and Pensions) Act 2003 and adopted by the Board on 30 June 2020. In terms of the rules of the Enterprise Management Incentive Scheme, the Board may at its discretion grant Enterprise Management Incentive Scheme options to employees of the Company and its controlled entities to acquire ordinary shares in the Company at such exercise price and in such numbers as it considers appropriate and to attach such performance conditions to the vesting of such options as it considers appropriate, subject to compliance with the provisions of the abovementioned Schedule 5 and other applicable legislation.

Previously, the Group did not operate an Employee Share Scheme

There are no deferred shares.

#### **Performance-based remuneration**

The Company does not pay any performance-based component of remuneration, with the exception of certain share-based payments as disclosed below.

# DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020



## Details of remuneration for year ended 30 June 2020

### Directors' Remuneration

No salaries, commissions, bonuses or superannuation were paid or payable to Directors during the year except for Richard Gray, who was salaried. Remuneration was by way of fees paid monthly in respect of invoices issued to the Company by the Directors or companies associated with the Directors in accordance with agreements between the Company and those entities.

Details of the agreements are set out below.

### Agreements in respect of remuneration of Directors:

#### Executive Director

Richard Gray (Managing Director) is on a contract dated 22 September 2017 which provides for a fixed salary and benefits, with a termination period of three months. The remuneration is reviewed annually. At the date of this report the annual remuneration for Richard Gray is £135,000 (\$253,512) plus pension contribution and leave pay entitlement. In the event of a termination of contract giving less notice than provided for in this contract, the remaining notice period will be paid in full. For the year ended 30 June 2020, the amount paid to Mr Gray as salary amounted to \$259,760, comprising \$253,512 of annual remuneration in terms of his employment contract and an increase in leave pay balance of \$6,248.

In the year ended 30 June 2018, Mr Gray was granted 1,000,000 options to acquire shares in the Company at an exercise price of 30p per share. The options vest on the later of one year from date of grant or the commencement of gold production from the Cononish mine. The options will expire 10 years after the date of grant, being 1 May 2028. The options were granted subject to shareholder approval, which approval was given at the Annual General Meeting of the Company on 26 November 2019.

A charge of \$267,148 has been recognised as an expense for the period from the date of grant of the options to 30 June 2020.

#### Non-Executive Directors

i) Chris Sangster earns fees from the Company as a consultant on technical issues. In addition to his director's fees, Mr Sangster earned fees of \$69,087 in the year ended 30 June 2020 (2019 - \$87,826).

ii) Through his service company, Barston Corporation Pty Ltd, Richard Barker also acts as Company Secretary. In addition to his director's fees, Mr Barker earned fees related to Company Secretary services of \$37,328 in the year ended 30 June 2020 (2019 - \$39,996).

iii) Mr le Roux made available to SGZ Cononish Limited a secured loan facility in May 2018. During the year, amendments were made to the facility terms and an amount of £2.0 million of the facility was drawn down, bringing the cumulative amount drawn down under the facility to an amount of £4.0 million at 30 June 2020. Details of the secured loan facility are set out in Note 15.

#### Loans due from/to Directors

There are no loans due from Company Directors.

As set out in Note 15, Bridge Barn Limited, a company controlled by Mr Nat le Roux, has provided a secured loan facility to the consolidated entity on commercial terms throughout the year. As at 30 June 2020 the amount owing by



**DIRECTORS' REPORT**  
FOR THE YEAR ENDED 30 JUNE 2020



the consolidated entity in respect of drawdowns made on that secured loan was \$7,681,847 (2019 - \$3,655,221). Further drawdowns in a total amount of £2,500,000 were made on that facility after 30 June 2020, as set out in Note 30.

Shareholder approval of Directors' remuneration

The Company's constitution provides that the Directors may collectively be paid as remuneration for their services a fixed sum not exceeding the aggregate sum determined by a general meeting. The aggregate remuneration has been set at an amount of \$300,000 per annum, which amount excludes the salaries of executive directors. The Directors may approve a Managing Director whose fee or salary is agreed by the Directors and falls outside the limit of \$300,000 per annum. A Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the ordinary duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties. Executive Directors may be paid on commercial terms as the Directors see fit.

The total remuneration paid to key management personnel is summarised below:

Director/Executive	Associated Company	Short-term benefits Fees	Consulting / Salary	Retirement Benefits	Share - based payments	Total
		\$	\$	\$	\$	\$
<b>Year ended 30 June 2019</b>						
Nat le Roux	*	-	-	-	-	-
Richard Gray		-	269,455	8,491	148,084	426,030
Chris Sangster		17,968	87,826	-	-	105,794
Phillip Jackson	Holihox Pty Ltd	18,000	-	-	-	18,000
Richard Barker	Barston Corp. Pty Ltd	18,065	39,996	-	-	58,061
Peter Hetherington	*	-	-	-	-	-
William Stylinger	*	-	-	-	-	-
		<b>54,033</b>	<b>397,277</b>	<b>8,491</b>	<b>148,084</b>	<b>607,885</b>

Director/Executive	Associated Company	Short-term benefits Fees	Consulting / Salary	Retirement Benefits	Share- Based payments	Total
		\$	\$	\$	\$	\$
<b>Year ended 30 June 2020</b>						
Nat le Roux	*	-	-	-	-	-
Richard Gray		-	259,760	10,140	66,194	336,094
Chris Sangster		18,818	69,087	-	-	87,905
Phillip Jackson	Holihox Pty Ltd	18,000	-	-	-	18,000
Richard Barker	Barston Corp. Pty Ltd	17,568	37,328	-	-	54,896
Peter Hetherington	*	-	-	-	-	-
William Stylinger	*	-	-	-	-	-
Ian Proctor <sup>1</sup>	*	-	-	-	-	-
		<b>54,386</b>	<b>366,175</b>	<b>10,140</b>	<b>66,194</b>	<b>496,895</b>

\* Mr le Roux, Mr Hetherington, Mr Stylinger and Mr Proctor have waived their director fees for the time being

<sup>1</sup> Appointed on 14 August 2019

**DIRECTORS' REPORT**  
FOR THE YEAR ENDED 30 JUNE 2020



The proportion of remuneration linked to performance and the fixed proportion of remuneration are as follows:

Director/Executive	Associated Company	Fixed proportion		Linked to performance	
		2020 \$	2019 \$	2020 \$	2019 \$
<b>Year ended 30 June 2020</b>					
Nat le Roux	*	100%	100%	-	-
Richard Gray		80%	65%	20%	35%
Chris Sangster		100%	100%	-	-
Phillip Jackson	Holihox Pty Ltd	100%	100%	-	-
Richard Barker	Barston Corp. Pty Ltd	100%	100%	-	-
Peter Hetherington		100%	100%	-	-
William Styslinger		100%	100%	-	-
Ian Proctor		100%	100%	-	-

**Share-based payments**

The share-based payments made to key management personnel comprise options over ordinary shares of the Company as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value Per option at grant date
Richard Gray	1,000,000	1 May 2018	Later of 1 May 2019 and commencement of production at Cononish mine	1 May 2028	£0.30	£0.172

These options were granted subject to shareholder approval, which was given at the Annual General Meeting of the Company on 26 November 2019. Each option entitles the holder to one ordinary unissued share at a strike price of £0.30. The vesting of the options is dependent upon satisfaction of the non-market vesting condition of achieving commencement of production at the Cononish Mine. Options are exercisable by the holder with effect from the vesting date. There have been no alterations to the terms and conditions of the options since the date of grant thereof.

Options carry no dividend or voting rights.

No options over ordinary shares were granted to key management personnel, nor were cancelled or lapsed as part of remuneration during the year ended 30 June 2020. As set out in Note 30, 400,000 options were granted to Richard Gray on 1 July 2020. Each option entitles the holder to one ordinary unissued share at a strike price of £0.71. These options vest once cumulative gold production at the Cononish Mine (excluding any gold produced prior to 1 July 2020) has exceeded a level of 500 gold equivalent ounces, which is a non-market vesting condition. The options are exercisable by the holder with effect from the vesting date.

Of the 400,000 options granted to Richard Gray on 1 July 2020, 352,112 were issued under the Enterprise Management Incentive Scheme.

**DIRECTORS' REPORT**  
FOR THE YEAR ENDED 30 JUNE 2020



**Additional information**

The earnings of the consolidated entity for the five years to 30 June 2020 are as follows:

	2020	2019	2018	2017	2016
	\$	\$	\$	\$	\$
Sales revenue	-	-	-	-	-
EBITDA	(1,105,783)	(3,285,036)	(1,657,616)	(1,124,095)	(1,273,707)
EBIT	(1,834,222)	(3,416,512)	(1,727,523)	(1,227,227)	(1,289,083)
(Loss) after income tax	(2,504,134)	(3,518,455)	(1,899,667)	(1,348,167)	(1,505,592)
Basic (loss) per share (cents per share)	(5.04)	(7.84)	(7.92)	(8.60)	(11.80)

**Voting at the 2019 Annual General Meeting**

The Remuneration Report for the year ended 30 June 2019 was adopted unanimously at the 2019 Annual General Meeting on a show of hands.

**Key management personnel share holdings**

**Year ended 30 June 2020**

	Balance 30 June 2019	Exercise of options	Subscription	At date of resignation/ appointment	Disposal of shares	Balance 30 June 2020
Nat le Roux	22,618,223	-	-	-	-	22,618,223
Richard Gray	96,738	8,939	-	-	-	105,677
Chris Sangster	202,045	4,000	-	-	-	206,045
Phillip Jackson	43,313	-	-	-	-	43,313
Richard Barker	-	-	-	-	-	-
Peter Hetherington	3,231,818	-	857,143	-	-	4,088,961
William Styslinger	4,717,829	320,000	928,571	-	(35,000)	5,931,400
Ian Proctor	-	-	428,571	727,273	-	1,155,844
	<u>30,909,966</u>	<u>332,939</u>	<u>2,214,285</u>	<u>727,273</u>	<u>(35,000)</u>	<u>34,149,463</u>

**Key management personnel option holdings**

**Year ended 30 June 2020**

	Balance 30 June 2019	Exercise of options	Disposal of options	Balance 30 June 2020
Nat le Roux	1,744,657	-	(1,744,657)	-
Richard Gray	1,008,939	(8,939)	-	1,000,000
Chris Sangster	4,000	(4,000)	-	-
William Styslinger	320,000	(320,000)	-	-
	<u>3,077,596</u>	<u>(332,939)</u>	<u>(1,744,657)</u>	<u>1,000,000</u>

The 1,000,000 options granted to Mr Richard Gray in May 2018 and approved by the shareholders at the Annual General Meeting of the Company on 26 November 2019 are now included in the table above, not previously having been reflected therein.

**DIRECTORS' REPORT**  
FOR THE YEAR ENDED 30 JUNE 2020



**Aggregate amounts payable to Directors and their related entities:**

	Consolidated Entity <b>2020</b> \$	Consolidated Entity <b>2019</b> \$
Accounts payable	25,318	14,393
Non-current borrowings owing to Bridge Barn Limited		
Principal	7,160,759	3,613,369
Accumulated interest	521,088	41,852
Total	<u>7,707,165</u>	<u>3,669,614</u>

There were no performance related payments made during the year. The grant of 1,000,000 share options made to Mr Gray, the Managing Director, in May 2018 subject to shareholder approval was approved by the shareholders at the Annual General Meeting of the Company on 26 November 2019.

**Approval**

This report was approved by the Board on 27 November 2020 and signed on its behalf by:

.....  
Nat le Roux  
Chair of the Remuneration and Nomination Committee

**End of Audited remuneration report.**

**ENVIRONMENTAL ISSUES**

The consolidated entity has conducted exploration activities on mineral tenements. The right to conduct these activities is granted subject to environmental conditions and requirements. The consolidated entity aims to ensure a high standard of environmental care is achieved and, as a minimum, to comply with relevant environmental regulations. There have been no known breaches of any of the environmental conditions.

**EVENTS OCCURRING AFTER THE REPORTING PERIOD**

On 1 July 2020, 400,000 options were granted to Mr Richard Gray, the Managing Director of the Company. Each option entitles the holder to one ordinary unissued share at a strike price of £0.71. The vesting of these options is subject to the non-market vesting condition of cumulative gold production at the Cononish mine (excluding any gold produced prior to 1 July 2020) exceeding a level of 500 gold equivalent ounces. The options are exercisable by the holder with effect from the vesting date and carry no dividend or voting rights. Of these 400,000 options, 352,112 were granted under the Enterprise Management Incentive Scheme of the Company.

On 1 July 2020, 750,000 options were granted to senior managers of the Company under the Enterprise Management Incentive Scheme of the Company. Each option entitles the holder to one ordinary unissued share at a strike price of £0.71. Of the 750,000 options, 400,000 vest when cumulative gold production at the Cononish mine (excluding any gold produced prior to 1 July 2020) exceeds a level of 500 gold equivalent ounces and 350,000 vest when cumulative gold production at the Cononish Mine (excluding any gold produced prior to 1 July 2020) exceeds a level

## DIRECTORS' REPORT

FOR THE YEAR ENDED 30 JUNE 2020



of 10,000 gold equivalent ounces, these vesting conditions being non-market vesting conditions. The options are exercisable by the holder with effect from the vesting date and carry no dividend or voting rights. On the granting of these options, the 120,000 options with an exercise price of £0.34 per share granted to senior managers on 16 April 2019 and expected to vest in future were cancelled.

On 29 July 2020, 200,000 options were granted to Saint Consulting (UK) Limited, the company providing project management services in respect of the construction of the Cononish mine processing plant building and tailings management facility. Each option entitles the holder to one ordinary unissued share at a strike price of £0.71. The vesting of these options is subject to the non-market vesting condition of successful completion of hot commissioning of the Cononish mine processing plant on or before 31 December 2020, as determined by the Board. The options are exercisable by the holder with effect from the vesting date and carry no dividend or voting rights.

Subsequent to the grant of the above options, the average weighted exercise price of the 2,350,000 options granted as share-based payments outstanding and expected to vest in future is £0.536 (30 June 2020: £0.304).

A drawdown of £500,000 was made on the secured loan facility on 8 July 2020 and further drawdowns of £1,000,000 each were made on 12 August 2020 and 1 September 2020.

Net equity funding of £2,839,650 (\$5,190,125), being £3,000,000 (\$5,482,414) net of costs of £160,350 (\$292,289) was raised through the placement of 2,727,273 Ordinary shares at £1.10 per share on 12 October 2020 in order to fund the acceleration of the Phase 2 expansion of the Cononish mine to increase the rate of production from 3,000 tpm to 6,000 tpm as well as to increase the scale of exploration activities.

On 27 October 2020, Scottish Enterprise agreed to amend the terms of the Regional Selective Assistance grant to extend the cut-off date for submission by SGZ Cononish Limited of claims for the third and fourth tranches of that grant from 31 October 2020 to 31 May 2021.

There are no matters or circumstances that have arisen after the reporting date that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future periods.

### INDEMNIFICATION OF DIRECTORS

During the financial year, the Company has not given an indemnity or entered into an agreement to indemnify any of the Directors.

### AUDITOR

The Perth, Australia affiliate of BDO International, BDO Audit (WA) Pty Ltd are the auditors of the Company.

### NON-AUDIT SERVICES

The Directors have considered the position and are satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by BDO Corporate Tax (WA) Pty Ltd and the Edinburgh, Scotland office of BDO LLP, set out below, did not compromise the auditor independence requirements of the Corporations Act 2001, for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; and

**DIRECTORS' REPORT**  
FOR THE YEAR ENDED 30 JUNE 2020



- None of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

BDO Corporate Tax (WA) Pty Ltd provides income tax and corporate finance services to the Company – 2020: \$14,879 (2019 - \$8,488). In addition, income tax services were provided to the Company by the Edinburgh, Scotland office of BDO LLP – 2020: \$6,434 (2019 - \$Nil).

**AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration has been received for the year ended 30 June 2020 and forms part of the Directors' report.

**PROCEEDINGS ON BEHALF OF COMPANY**

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the Directors.

.....  
RICHARD GRAY – Managing Director

Dated at London, England, this 27th day of November 2020



**AUDITOR'S INDEPENDENCE DECLARATION**  
FOR THE YEAR ENDED 30 JUNE 2020



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**DECLARATION OF INDEPENDENCE BY PHILLIP MURDOCH TO THE DIRECTORS OF SCOTGOLD RESOURCES LIMITED**

As lead auditor of Scotgold Resources Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Scotgold Resources Limited and the entities it controlled during the period.

Phillip Murdoch  
Director

BDO Audit (WA) Pty Ltd  
Perth, 27 November 2020

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME**  
FOR THE YEAR ENDED 30 JUNE 2020



	Notes	2020 \$	2019 \$
Interest income	2	38,989	6,314
Other income	3	381,708	-
Gain on loan renegotiation	15	38,383	-
Administration costs		(462,151)	(527,619)
Interest expense	4	(669,912)	(101,943)
Depreciation and loss on disposal of non-current assets	5	(732,359)	(208,608)
Pre-development costs expensed as incurred		-	(1,253,211)
Exploration expensed as incurred		-	(28,194)
Deferred mineral exploration and evaluation costs written		-	(118,402)
Employee and consultant costs, excluding share-based payments		(736,371)	(615,809)
Share-based payments	19	(66,194)	(200,954)
Listing and share registry costs		(188,178)	(164,991)
Legal fees		(36,677)	(50,282)
Office and communication costs		(68,174)	(96,587)
Other expenses		(3,198)	(158,169)
<b>LOSS BEFORE INCOME TAX</b>		<b>(2,504,134)</b>	<b>(3,518,455)</b>
Income tax benefit	6	-	-
<b>LOSS FOR THE YEAR</b>		<b>(2,504,134)</b>	<b>(3,518,455)</b>
Other Comprehensive Income			
<i>Items that may be reclassified to Profit or Loss</i>			
Exchange difference on translation of foreign subsidiaries		(226,738)	(726,967)
<b>Total comprehensive result for the year</b>		<b>(2,730,872)</b>	<b>(4,245,422)</b>
Basic (loss) per share (cents per share)	28	(5.04)	(7.84)
Loss per share for the year attributable to the members of Scotgold Resources Ltd (cents per share)		(5.04)	(7.84)

These consolidated financial statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2020



	Notes	2020 \$	2019 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,019,979	3,917,920
Trade and other receivables	7	226,134	57,970
Inventory	8	62,291	29,724
Other current assets	9	129,253	93,273
Total Current Assets		<u>1,437,657</u>	<u>4,098,887</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	7	1,527,306	1,511,493
Plant and equipment	10	469,115	996,562
Right-of-use assets	11	1,738,238	-
Mineral exploration and evaluation	12	2,441,728	2,034,815
Mine development expenditure	13	28,805,352	20,293,754
Total Non-Current Assets		<u>34,981,739</u>	<u>24,836,624</u>
<b>TOTAL ASSETS</b>		<u>36,419,396</u>	<u>28,935,511</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	1,127,113	581,947
Other current liabilities	14	461,999	63,123
Borrowings	15	542,761	174,838
Total Current Liabilities		<u>2,131,873</u>	<u>819,908</u>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	15	8,740,965	4,212,914
Provisions	16	657,934	238,690
Total Non-Current Liabilities		<u>9,398,899</u>	<u>4,451,604</u>
<b>TOTAL LIABILITIES</b>		<u>11,530,772</u>	<u>5,271,512</u>
<b>NET ASSETS</b>		<u>24,888,624</u>	<u>23,663,999</u>
<b>EQUITY</b>			
Issued capital	17	44,978,659	41,098,558
Reserves	18	(596,589)	(448,311)
Accumulated losses	18	(19,493,446)	(16,986,248)
<b>TOTAL EQUITY</b>		<u>24,888,624</u>	<u>23,663,999</u>

These consolidated financial statements should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
FOR THE YEAR ENDED 30 JUNE 2020



	Issued Capital	Accumulated Losses	Options Reserve	Share- based payment reserve	Foreign Currency Translation Reserve	Total Equity
YEAR ENDED 30 JUNE 2019	\$	\$	\$	\$	\$	\$
<b>Balances at 1 July 2018</b>	<b>39,706,967</b>	<b>(13,467,793)</b>	<b>134,769</b>	-	<b>(61,295)</b>	<b>26,312,648</b>
Total comprehensive result for the year	-	(3,518,455)	-	-	(726,967)	(4,245,422)
<b>Transactions with owners in their capacity as owners:</b>						
Issue of shares	1,390,854	-	-	-	-	1,390,854
Options exercised	737	-	-	-	-	737
Share-based payments	-	-	-	205,182	-	205,182
<b>Balances at 30 June 2019</b>	<b>41,098,558</b>	<b>(16,986,248)</b>	<b>134,769</b>	<b>205,182</b>	<b>(788,262)</b>	<b>23,663,999</b>
<b>YEAR ENDED 30 JUNE 2020</b>						
<b>Balances at 1 July 2019</b>	<b>41,098,558</b>	<b>(16,986,248)</b>	<b>134,769</b>	<b>205,182</b>	<b>(788,262)</b>	<b>23,663,999</b>
Adjustment on initial application of AASB 16	-	(3,064)	-	-	-	(3,064)
Total comprehensive result for the year	-	(2,504,134)	-	-	(226,738)	(2,730,872)
<b>Transactions with owners in their capacity as owners:</b>						
Issue of shares	2,075,997	-	-	-	-	2,075,997
Options exercised	1,839,556	-	-	-	-	1,839,556
Share-based payments	-	-	-	78,460	-	78,460
Share issue expenses	(35,452)	-	-	-	-	(35,452)
<b>Balances at 30 June 2020</b>	<b>44,978,659</b>	<b>(19,493,446)</b>	<b>134,769</b>	<b>283,642</b>	<b>(1,015,000)</b>	<b>24,888,624</b>

These consolidated financial statements should be read in conjunction with the accompanying notes.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2020



	Notes	2020 \$	2019 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Payment to suppliers		(1,031,667)	(3,057,998)
Interest income received		38,989	6,314
<b>Net Cash Outflow from Operating Activities</b>	24	<u>(992,678)</u>	<u>(3,051,684)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for exploration expenditure		(507,795)	(487,024)
Payments for mine development activities		(7,957,393)	(5,263,745)
Purchase of plant and equipment		(428,733)	(1,072,636)
Expenditure on right-of-use assets		(47,710)	-
Lodging of deposits as security for obligations		-	(1,409,024)
<b>Net Cash Outflow from Investing Activities</b>		<u>(8,941,631)</u>	<u>(8,232,429)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares and options, net of costs		2,040,545	1,391,591
Proceeds from exercise of options		1,839,556	-
Repayment of current borrowings		-	(1,815,521)
Proceeds on draw-down of first tranche of secured loan		-	3,729,952
Proceeds on draw-down of second tranche of secured loan		3,762,227	-
Net proceeds from Hire Purchase borrowings		-	731,122
Repayment of right-of-use leases		(698,243)	-
<b>Net Cash Inflow from Financing Activities</b>		<u>6,944,085</u>	<u>4,037,144</u>
Net decrease in cash held		(2,990,224)	(7,246,969)
Effect of exchange rate fluctuations on cash and cash equivalents		92,283	(42,147)
Cash and cash equivalents at beginning of year		3,917,920	11,207,036
Cash and cash equivalents at end of year		<u><u>1,019,979</u></u>	<u><u>3,917,920</u></u>

These consolidated financial statements should be read in conjunction with the accompanying notes.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020



## NOTE 1 – STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Preparation

These financial statements are general purpose financial statements, which have been prepared in accordance with the requirements of the Corporations Act 2001, Accounting Standards and Interpretations and comply with other requirements of the law. Cost is based on the fair value of the consideration given in exchange for assets.

The financial statements have also been prepared on a historical cost basis. The financial statements are presented in Australian dollars.

The company is a listed public company, incorporated in Australia and operating in Australia, Scotland, France and Portugal. The entity's principal activity is mine development and mineral exploration.

The accounting policies detailed below have been consistently applied to all of the years presented unless otherwise stated. The financial statements are for the consolidated entity consisting of Scotgold Resources Limited and its subsidiaries.

### Reporting Basis and Conventions

The financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes the commercial realisation of the future potential of the consolidated entity's assets and the discharge of their liabilities in the normal course of business. At balance date, the consolidated entity had current assets of \$1,437,657 (2019 - \$4,098,887), including available cash and cash equivalents of \$1,019,979 (2019 - \$3,917,920), and current liabilities of \$2,131,873 (2019 - \$819,908).

The Board reviews cash flows covering a period of 12 to 18 months and while the Board considers that the consolidated entity is a going concern it also recognises that significant funds will be required in the development of the Cononish mine, regional exploration activities and general working capital. In addition to existing cash reserves at 30 June 2020, the consolidated entity had further available funds by way of a secured £3.5m (\$6.27m) loan facility not yet drawn down at that date.

### Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the normal course of business.

As at 30 June 2020, the consolidated entity had cash balances of \$1,019,979 (30 June 2019 - \$3,917,920) and for the financial year then ending, incurred net cash outflows from operating and investing activities of \$9,934,309 (2019 - \$11,284,113). The consolidated entity is nearing completion of the processing plant installation and tailings management facility at the Cononish Mine with the proceeds of the sale of the first gold produced expected to be received in December 2020. The ability of the consolidated entity to continue as a going concern is dependent on the successful commissioning of the Cononish mine, including the timing of the project generating positive cash flows and the construction costs being in line with budget, or in the case where there is a delay in commissioning, the ability of the consolidated entity to put in place additional financing to address any adverse effects of that delay.

These conditions indicate a material uncertainty that may cast significant doubt over the ability of the consolidated entity to continue as a going concern and therefore its ability to realise its assets and discharge its liabilities in the normal course of business.



**NOTES TO AND FORMING PART OF  
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The Directors believe that the consolidated entity has sufficient financing available to continue as a going concern for the following reasons:

- The consolidated entity is nearing completion of the processing plant installation and tailings management facility at the Cononish Mine with the proceeds of the sale of the first gold produced expected to be received in December 2020;
- Subsequent to 30 June 2020, drawdowns in a total amount of £2,500,000 were made on the Bridge Barn secured loan facility and an amount of £1,000,000 of that loan facility remains undrawn and is available to be drawn down until 31 December 2021;
- As set out in Note 30, equity funding, net of attributable costs, in the amount of £2,839,650 (\$5,190,125) was raised in October 2020 pursuant to a successful placement exercise, with these funds intended to be deployed in bringing forward the Phase 2 expansion of the Cononish Mine (thereby increasing monthly production levels from 3,000 tonnes of ore per month to 6,000 tonnes of ore per month) and conducting a comprehensive exploration campaign; and
- The extent and timing of the aforementioned exploration campaign lies solely within the discretion of management and can be varied to respond to the effects on group cash flows of uncertainties in the operating environment caused by the Covid-19 pandemic, which is still having a major global impact.

Should the consolidated entity not be able to continue as a going concern it may be required to realise its assets and discharge its liabilities other than in the ordinary course of business, and at amounts that differ from those in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the consolidated entity be unable to continue as a going concern.

### **Statement of Compliance**

The financial report was authorised for issue on 27 November 2020.

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### **Adoption of new and revised standards**

#### **Changes in accounting policies on initial application of Accounting Standards**

In the year ended 30 June 2020, the Directors have reviewed all of the new and revised Accounting Standards and Interpretations issued by the AASB that are relevant to the consolidated entity's operations and effective for the current annual reporting period.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to amounts recognised in the financial statements other than as noted below.

**NOTES TO AND FORMING PART OF  
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The following new or amended standards have been adopted during the year ended 30 June 2020:

**AASB 16 Leases**

The consolidated entity has adopted AASB 16 with effect from 1 July 2019. The Standard replaces AASB 117 'Leases' and for lessees it eliminates the classifications of finance leases and operating leases. Except for short-term leases and leases of low value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position.

Straight line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets and an interest expense on the recognised lease liabilities.

For lessors, the standard does not substantially change how a lessor accounts for leases.

**Impact of adoption**

AASB 16 has been adopted using the modified retrospective approach, in terms of which comparatives have not been restated.

The effect of adoption on opening accumulated losses is as follows:

Recognition of right-of-use assets previously recognised as operating leases under AASB 117:

	1 July 2019 \$
Operating lease commitments as at 1 July 2019 (AASB 117)	503,351
Reassessment of non-cancellable periods of leases	294,821
Variations in lease payments due to anticipated escalation	127,217
Adjusted operating lease commitments as at 1 July 2019 (AASB 117)	<u>925,389</u>
Operating lease commitments discount based on the weighted average incremental borrowing rate of 7.44% (AASB 16)	(165,938)
Low-value assets leases not recognised as a right-of-use asset	(9)
Operating lease payments between commencement date and date of initial application	195,310
Operating lease payments between commencement date and date of initial application discount based on the weighted average incremental borrowing rate of 7.44% (AASB 16 Paragraph C8(B)(i))	(18,794)
Accumulated depreciation as at 1 July 2019 (AASB 16 Paragraph C8(B)(i))	<u>(179,580)</u>
Right-of-use assets previously accounted for as operating leases	756,378
Net carrying value at 1 July 2019 of assets financed by hire purchase agreements reclassified as right-of-use assets at date of initial application	842,517
Right-of-use assets (AASB 16)	<u>1,598,895</u>
Lease liabilities – current (AASB 16)	(889,832)
Lease liabilities – non-current (AASB 16)	(602,141)
Reclassification of hire purchase agreements and assets financed thereby:	
Net carrying value of assets at 1 July 2019	(842,517)
Outstanding balance on hire purchase agreements as at 1 July 2019	732,531
	<u>732,531</u>
<b>Net increase in opening accumulated loss at 1 July 2019</b>	<b><u>(3,064)</u></b>

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2020



When adopting AASB 16, the consolidated entity has applied the following practical expedients:

- applying a single discount rate to the portfolio of leases with reasonably similar characteristics;
- accounting for leases with a remaining term of 12 months at 1 July 2019 as short-term leases; and
- Using hindsight in determining the lease term when the contract contains options to extend or terminate the lease.

The weighted average incremental borrowing rate used to measure the right-of-use assets and lease liabilities at 1 July 2019 was 7.44% per annum in respect of leases previously classified as operating leases. In the case of hire purchase facility balances reclassified as leases on 1 July 2019, the respective interest rates implicit in those agreements were retained (see Note 15).

## Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the asset is depreciated over its estimated useful life. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low value assets. Lease payments on these assets are charged to mine development costs or expensed to profit or loss as incurred, as appropriate.

During the year, an aggregate amount of \$276,732 (2019 - \$Nil) paid in respect of short-term leases and leases of low value assets was charged to mine development expenditure, with the major component of this amount being payments in respect of mobile plant used in the construction of the Cononish Mine processing plant building and tailings management facility hired on a weekly basis for consecutive periods of more than one month, which are all expected to be off-hired by 31 December 2020.

## Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate of the consolidated entity.

Lease payments comprise:

- fixed payments less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- exercise price of a purchase option when the exercise of the option is reasonably certain to occur; and
- any anticipated termination penalties.

The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

**NOTES TO AND FORMING PART OF  
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Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following:

- future lease payments arising from a change in an index or a rate used;
- residual guarantee;
- lease term;
- certainty of a purchase option; and
- termination penalties.

When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right of use asset is fully written down.

The consolidated entity has applied the provisions of AASB 2020-4 – Covid-19 Related Rent Concessions during the year. AASB 2020-4 introduced a practical expedient that permits lessees not to assess whether a rent concession that occurs as a direct consequence of the COVID-19 pandemic is a lease modification. The lessor of the Boomer S1D drill rig and Scoop Tram used by the consolidated entity in its mining operations halved the monthly payments on these items of mobile plant during the months of April 2020 to June 2020 during which mining operations were suspended as a result of the Covid-19 pandemic. The resultant aggregate reduction in payments of \$26,835 (£14,000) has been recognised as a reduction of capitalised mine development expenditure.

**AASB 2017-4 Amendments to Australian Accounting Standards – Uncertainty over income tax treatments**

The adoption of this standard has had no effect on the consolidated entity.

**AASB 2017-6 Amendments to Australian Accounting Standards – Prepayment features with negative compensation**

The adoption of this standard has had no effect on the consolidated entity.

**AASB 2018-1 Amendments to Australian Accounting Standards – Annual improvements 2015-2017 Cycle (covering issues in AASB 3 Business Combinations, AASB 11 Joint Arrangements, AASB 112 Income Taxes and AASB 123 Borrowing Costs)**

The adoption of this standard has had no effect on the consolidated entity.

**Interpretation 23 Uncertainty over income tax treatments**

The adoption of this standard has had no effect on the consolidated entity.

**New Accounting Standards and Interpretations**

The following new/amended accounting standards and interpretations have been issued but are not mandatory for financial years ended 30 June 2020. They have not been adopted in preparing the financial statements for the year ended 30 June 2020.

**AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business**

This standard was issued in December 2018 and clarifies the definition of a business' in AASB 3 to assist in determining whether a transaction should be accounted for as a business combination or as an asset acquisition.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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The standard is effective for annual reporting periods beginning on or after 1 January 2020 and applies to acquisitions occurring on or after the beginning of the first annual period beginning on or after 1 January 2020. No impact on the financial statements is expected when these amendments are first adopted because they apply prospectively to acquisitions occurring on or after the beginning of the first annual reporting period beginning on or after 1 January 2020, i.e. on or after 1 July 2020.

## **AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material**

This standard was issued in December 2018 and clarifies the definition of what is 'material' to the financial statements, including adding guidance and explanations to accompany the definition. The standard primarily affects AASB 101 and AASB 108.

The standard is effective for annual reporting periods beginning on or after 1 January 2020 and is to be applied prospectively. Initial application is not expected to have an effect on the consolidated entity.

## **AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework**

This Standard was issued in May 2019 and sets out amendments to Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the Conceptual Framework for Financial Reporting (Conceptual Framework) by the AASB.

The standard is effective for annual reporting periods beginning on or after 1 January 2020. Initial application is not expected to have an effect on the consolidated entity.

## **AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform**

This Standard was issued in October 2019 and amends AASB 7, AASB 9 and AASB 139 to modify some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the interest rate benchmark reform. In addition, the amendments require entities to provide additional information about their hedging relationships that are directly affected by these uncertainties.

The standard is effective for annual reporting periods beginning on or after 1 January 2020. Initial application is not expected to have an effect on the consolidated entity as the consolidated entity does not engage in hedging activities.

## **AASB 2019-5 Amendments to Australian Accounting Standards - Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia**

This Standard was issued in November 2019 and clarifies that, in complying with paragraph 30 of AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, entities intending to assert compliance with IFRS must also disclose the potential effect of IFRS standards that are yet to be issued by the AASB.

The standard is effective for annual reporting periods beginning on or after 1 January 2020. The effect on the entity is expected to be limited to additional disclosure in respect of IFRS standards which are in effect before the equivalent AASB standard has been issued to show the effect of application of such IFRS standards.

## **AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current**

This standard was issued in March 2020 and contains four main changes to the requirements for classification of liabilities as current or non-current and specifically, the unconditional right to defer settlement, the effect of bank covenants, the right to defer settlement vs intention to do so and early settlement by conversion to equity.

# NOTES TO AND FORMING PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

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The standard is effective for annual reporting periods beginning on or after 1 January 2022. As these amendments only apply for the first time to the 30 June 2023 Statement of Financial Position (and 30 June 2022 comparative Statement of Financial Position), the entity is not yet able to make an assessment of the impacts regarding the right to defer settlement, compliance with bank covenants, and intention to settle set out therein.

## **AASB 2020-3 Amendments to Australian Accounting Standards – Annual improvements 2018-2020 and Other Amendments**

This standard was issued in June 2020 and effects amendments to AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 and AASB 141. The standard is effective for annual reporting periods beginning on or after 1 January 2022.

The amendments to AASB 1 apply only to entities that apply AASB 1 for the first time for the year ended 30 June 2023 and are not expected to have any impact on the consolidated entity.

There will be no impact on the financial statements of the consolidated entity when the amendments to AASB 3 are first adopted because they apply prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period to which this amendments applies, i.e. annual periods beginning on or after 1 July 2022.

The amendment to AASB 9 clarifies which fees an entity includes when it applies the '10 percent' test to assess whether there has been a modification or substantial modification to a financial liability. There will be no impact on the financial statements of the consolidated entity when these amendments are first adopted because they apply prospectively to financial liabilities that are modified or exchanged on or after the beginning of the first annual reporting period to which this amendment applies, i.e. annual periods beginning on or after 1 July 2022.

The amendments to AASB 116 provide that where samples are produced as a result of testing whether an asset is functioning properly, then the revenue resulting from the sale of those samples produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management must be recognised in profit or loss (as opposed to being credited to the cost of that asset).

The amendments to AASB 116 apply retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary to be capable of operating in the manner intended by management, on or after the beginning of the earliest period presented in the financial statements to which the amendment first applies (i.e. 1 July 2021). However, it is intended to apply these amendments to all revenues from the sale of gold and silver resulting produced as a result of the testing and commissioning of the Cononish Mine processing plant in the year ended 30 June 2021.

The amendments to AASB 137 provide that the costs of fulfilling a contract need to be considered when assessing whether a contract is onerous and sets out examples of such costs. These amendments only apply to contracts with unfulfilled obligations at the beginning of the first annual reporting period to which the amendments apply, i.e. annual periods beginning on or after 1 July 2022. The cumulative effect of initially applying the amendments will be recognised as an adjustment to opening balances of retained earnings on 1 July 2022.

The amendments to AASB 141 deal with biological assets in the agriculture industry and application thereof is not expected to have any effect on the consolidated entity.



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**Accounting Policies**

(a) Basis of Consolidation

A controlled entity is any entity controlled by Scotgold Resources Limited. Control exists where Scotgold Resources Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Scotgold Resources Limited to achieve the objectives of Scotgold Resources Limited. All controlled entities have a 30 June financial year-end.

All intercompany balances and transactions between entities in the consolidated entity, including any unrealised profit or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The charge for current income tax expenses is based on the profit for the year adjusted for any non-assessable or disallowable items. It is calculated using tax rates that have been enacted or are substantively enacted by the reporting date.

Deferred tax is accounted for using the liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the statement of comprehensive income except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(c) Plant and Equipment

Each class of plant and equipment is carried at cost less, where applicable, any accumulated depreciation. Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by the Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the employment and subsequent disposal of the assets. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the consolidated entity and the cost

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of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The present value of decommissioning liabilities attributable to items of plant and equipment, as well as any changes in the present value of such liabilities arising due to changes in the cash flows used to determine such liabilities or the discount rate applied to cash flows used to determine such liabilities, is included in the cost of that item of plant and equipment.

(d) Depreciation

The depreciable amount of all fixed assets, excluding computers, is depreciated on a reducing balance basis commencing from the time the asset is held ready for use. Computers are depreciated on a straight-line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

<b>Class of Fixed Asset:</b>	<b>Depreciation Rate:</b>
Plant and equipment	15 – 50%
Motor vehicles	25%
Office furniture and equipment	15 – 50%

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings / accumulated losses.

(e) Exploration and Evaluation Expenditure

The consolidated entity held thirteen exploration licences in Scotland at 30 June 2020. The commencement date of each of these licences is 5 November 2018, with a term of five years and an option to extend for a further period of four years, subject to the Crown Estate Scotland being satisfied with the progress made in conducting exploration activities in the area covered by that licence. No minimum capital expenditure figure is stipulated in any of the thirteen licences.

Exploration and evaluation expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Tenement acquisition costs are initially capitalised. Costs are only carried forward in the case of areas of interest in respect of which tenure is current and to the extent that they are expected to be recouped through the successful development of the areas, sale of the respective areas of interest or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves. Revenues earned from the sale of materials produced in connection with exploration activities are applied against the accumulated deferred expenditure with the result of reducing those expenditures.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the areas is made.

Mineral exploration and evaluation expenditure, of which the Bulk Processing Trial is an integral part, is reclassified to mine development expenditure once the technical feasibility and commercial viability of extracting the related mineral reserve is demonstrable.

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A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure. Likewise, fixed asset depreciation is charged directly to profit and loss in the period in which it is charged.

(f) Mine development expenditure

When an exploration area of interest meets certain criteria, including the determination of technical feasibility and commercial viability and the obtaining of all planning consents and approvals, the deferred exploration and evaluation costs attributable to that area of interest are reclassified as mine development expenditure.

All subsequent expenditure on mine development activities is capitalised. When production commences, mine development expenditure is amortised over the life of the mine to which the development expenditure relates according to the rate of depletion of the economically recoverable reserves of that mine.

The present value of restoration, decommissioning and environmental monitoring liabilities attributable to mine development activities, as well as any changes in the present value of such liabilities arising due to changes in the cash flows used to determine such liabilities or the discount rate applied to cash flows used to determine such liabilities, is included in mine development expenditure.

(g) Impairment of Assets

At each reporting date, the Directors review the carrying values of tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the assets, being the higher of the asset's fair value less costs to sell and value-in-use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Provisions

Provisions are recognised where there is a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

The consolidated entity has specific obligations in respect of restoration, decommissioning and environmental monitoring arising as a result of the undertaking of mine development activities. The extent of the liability arising in respect of these obligations is determined for each reporting period based on the extent of mine development activities undertaken by the end of that reporting period and the timing and amount of cash flows expected to be expended in future to meet such obligations. These expected cash flows are discounted to net present value at a current pre-tax rate and provided for, with a corresponding addition to mine development expenditure or specific items of property, plant and equipment required to be decommissioned in future.

The unwinding of the discount is expensed as incurred and recognised in profit or loss as a finance cost. The estimated future costs of restoration, decommissioning and environmental monitoring are reviewed annually and adjusted as appropriate. Changes in the estimated expected future costs, or in the discount rate applied to determine

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the net present value of those expected future costs are added to or deducted from mine development expenses, or items of property, plant and equipment required to be decommissioned in future.

(i) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(j) Inventory

Inventory is valued at the lower of cost and net realisable value

(k) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party to the contract and a financial liability or equity instrument of the counterparty to that contract.

(l) Financial assets

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI) or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the contractual cash flow characteristics of the financial asset and the business model adopted by the consolidated entity for managing them. With the exception of trade receivables that do not contain a significant financing component, the consolidated entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under AASB 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost;
- Financial assets at fair value through OCI with recycling of cumulative gains and losses;
- Financial assets at fair value through OCI with no recycling of cumulative gains and losses on derecognition; and
- Financial assets at fair value through profit or loss.

All of the financial assets of the consolidated entity have been classified within the category of financial assets at amortised cost.

Financial assets are measured at amortised cost if both of the following conditions are met:

- The financial asset is held in a business model with the objective to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding;

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As the consolidated entity is engaged in the principal activities of mine development and mineral exploration, the holding of financial assets is effected with the objective of collecting the contractual cash flows applicable to those financial assets for deployment in the mine development or mineral exploration and evaluation activities of the consolidated entity.

Financial assets at amortised cost are subsequently measured using the effective interest rate method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

When the consolidated entity has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the consolidated entity continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the consolidated entity also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the consolidated entity has retained.

The consolidated entity recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the consolidated entity expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the consolidated entity applies a simplified approach in calculating ECLs. Therefore, the consolidated entity does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

**(m) Financial liabilities**

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at the fair value of consideration received and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The financial liabilities of the consolidated entity include trade and other payables and borrowings.

Subsequent to initial recognition, the measurement of financial liabilities depends on their classification, with the classification categories being:

- Financial liabilities at fair value through profit or loss; or
- Loans and borrowings.

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

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As at 30 June 2020, no financial liabilities are held for trading or have been designated upon initial recognition as at fair value through profit or loss.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in the statement of comprehensive income.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

Loans and borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(n) Revenue

No revenue from the sale of goods or services is currently recognised by the consolidated entity. Revenues earned from the sale of materials produced in connection with BPT activities are viewed as an integral part of mineral exploration and evaluation activities and are applied against the accumulated deferred mineral exploration and expenditures with the result of reducing those expenditures.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(o) Government grants

Grants from the government are recognised only when there is both a reasonable assurance that the entity will comply with any conditions attached to the grant and the grant will be received.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants are receivable in the form of Regional Selective Assistance provided by Scottish Enterprise in respect of the Cononish Mine project. The Regional Selective Assistance grant is receivable in four instalments with conditions as to capital expenditure, project funding and creation of new jobs being attached to each claim instalment. Claims in respect of each instalment are submitted to Scottish Enterprise together with proof that the specific conditions attached to that claim instalment have been met. Claims received are recognised as other income.

(p) Goods and Services Tax (GST) and Value Added Tax (VAT)

Revenues, expenses and assets are recognised net of the amount of GST or VAT, except where the amount of GST or VAT incurred is not recoverable from the relevant authority. In these circumstances the GST or VAT is recognised as part of the cost of acquisition of the asset or as part of an item in expenses. Receivables and payables in the statement of financial position are shown inclusive of GST or VAT.



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(q) Issued Capital

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(s) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Scotgold Resources Limited.

(t) Share based payments – shares and options

The fair value of shares and share options granted is recognised as an expense or as an addition to mine development expenditure depending on the services rendered in respect of which the shares or share options are granted, with a corresponding increase in equity. Fair value is measured at grant date and recognised over the period during which the grantees become unconditionally entitled to the shares or share options.

The fair value of share grants at grant date is determined by reference to the share price at that time.

The fair value of share options at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, any vesting and performance criteria, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free rate for the term of the option.

Upon the exercise of the option, the balance of the share-based payments reserve relating to the option is transferred to share capital.

(u) Foreign currency translation

The presentation currency of the consolidated financial statements is Australian dollars. In addition, functional currency is determined for each entity in the Group and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.



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Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

The functional currency of the foreign operations SGZ Grampian Limited and SGZ Cononish Limited is Pounds Sterling (£). The functional currency of SGZ France SAS and Scotgold Resources Portugal is the Euro (€).

As at the reporting date the assets and liabilities of these subsidiaries are translated into the presentation currency of the consolidated financial statements at the rate of exchange ruling at the reporting date and income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

The exchange differences arising on the translation are taken directly to a separate component of equity, being recognised in the foreign currency translation reserve.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in profit or loss.

In addition, in relation to the partial disposal of a subsidiary that does not result in the consolidated entity losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and is not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the consolidated entity losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

(v) Critical accounting estimates and judgements

The application of accounting policies requires the use of judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

(v)(i) Critical accounting estimates and associated assumptions

*Estimation of useful lives of assets*

The determination by the consolidated entity of the estimated useful lives and related depreciation and amortisation charges for its plant and equipment and finite life intangible assets involves a significant amount of judgement, based on historical experience with similar assets, available industry information with regard to similar assets and anticipation of future events.

The useful lives determined could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

*Lease term*

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or

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purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates, incurrence of significant penalties, existence of significant leasehold improvements and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

*Incremental borrowing rate*

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

*Provision for restoration and decommissioning*

A provision has been made for the present value of anticipated costs of restoration and decommissioning at the Cononish mine at the end of mining operations there as well as to carry out after-care and monitoring for an agreed period subsequent to such cessation. As at each reporting date, the consolidated entity recognises the best estimate of the Directors in respect of the liability for restoration and decommissioning which has been incurred up to and including that reporting date, which best estimate is determined by reference to the extent of mine development activity (or when production is underway, mining activity) undertaken up to that date as well as the obligations set out in the applicable legislation and agreements to which the consolidated entity is a party. Key assumptions employed in determining the best estimate in respect of liability for restoration and decommissioning include discount rates, the life-of-mine and the extent of obligations undertaken, all or any of which may change in the future and accordingly affect the carrying amount of the provision for restoration and decommissioning.

Based on the extent of mine development activities carried out up to and including that date, the provision for restoration and decommissioning at 30 June 2020 was \$657,934 (2019 - \$238,690).

*Mineral reserves and resources*

There are numerous risks inherent in estimating ore reserves and resources and the associated life-of-mine plan. A number of assumptions must be made when estimating ore reserves and resources, including assumptions as to exchange rates, gold and silver prices and any premium over market spot prices which may be obtained, extraction costs and recovery and production rates. Any such assumptions and estimates may change as new information becomes available. Apart from possibly resulting in changes to judgements as to the economic viability of the orebody, these changes may further change the estimate of life-of-mine, thereby changing the timing and amount to be recognised as a provision in respect of restoration and decommissioning and changing the basis of amortisation of mine development expenditure once production commences.

*Share-based payments*

In determining the amount to be recognised in respect of share-based payments during each reporting period, it is necessary to perform a valuation of instruments such as share options or warrants granted as share-based payments for services received.

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The consolidated entity determines such valuation using the “Black Scholes” model. Inputs into that model include assumptions which require judgement on the part of the Directors. In addition, once such value has been determined, in accounting for these options the Directors must exercise judgement as to number of share-based payment instruments granted which are likely to vest and the likelihood that any non-market vesting conditions will be met.

(v)(ii) Critical judgements in applying the consolidated entity’s accounting policies

*Determination of date of reclassification to mine development expenditure*

During the prior year, exploration and evaluation expenditure attributable to the Cononish area of interest was reclassified to mine development expenditure pursuant to the making of a judgement by the Directors that the criteria to be met to make such reclassification had been met on 19 December 2018. In making that judgement, the Directors took into account the requirements set out in the provisions of various agreements entered into by SGZ Cononish Limited dealing with the rights of SGZ Cononish Limited to conduct mining activities at the Cononish mine, the conditions to be met by that company prior to being permitted to conduct mining activities and whether all of these conditions had been met.

The same judgement process will be applied in future in evaluating whether other areas of interest have met the criteria for reclassification to mine development expenditure.

*Impairment*

The Directors assess impairment at each reporting date by evaluating conditions specific to the consolidated entity that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

In particular, pursuant to the making of a judgement that exploration and evaluation expenditure attributable to the Cononish area of interest met the criteria for reclassification to mine development expenditure on 19 December 2018, the attributable balance of exploration and evaluation expenditure proposed to be so reclassified was tested for impairment at the date of reclassification by reference to value-in-use calculations performed using a life-of-mine model of the Cononish mine incorporating key assumptions such as gold and silver market prices, any premium obtainable over spot market prices, mining rates, ore grades, plant processing recoveries and efficiencies, exchange rates, staffing levels and equipment operating efficiencies, among others. The formulation of these key assumptions involved the use by the Directors of judgements as to current and expected general macro-economic conditions and expected conditions in the gold mining industry as well as factors specific to the Cononish mine such as mineral resources and reserves estimates and ore grades.

Where the Directors adjudge that it is necessary to make material changes to key assumptions employed in the life-of-mine model, then these new key assumptions are incorporated into the life-of-mine model and the resultant value-in-use valuation produced by the life-of-mine model is then used as the basis for determining the necessity for and amount of any impairment.

As at 30 June 2020, the gross asset base of the consolidated entity directly attributable to the Cononish mine amounted to \$33,502,849 (2019 - \$23,953,258). The Directors have not identified any impairment indicators necessitating impairment of the carrying value of that asset base at 30 June 2020.

In the case of impairment of mineral exploration and evaluation, AASB 6 Exploration for and Evaluation of Mineral Resources requires an assessment of recoverable amount to be completed whenever facts and circumstance suggest that the carrying amount of an exploration asset may exceed its recoverable amount. Recoverable amount is defined within AASB 136 Impairment of Assets as the higher of fair value less costs to sell and value-in-use. Value-

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in-use is determined on a pre-tax basis and is the present value of the future cash flows expected to be derived from the asset or cash-generating unit.

At 30 June 2020, the consolidated entity had capitalised mineral exploration and evaluation expenditure of \$2,441,728 (2019 - \$2,034,815). The Directors do not believe any indications of impairment are present.

**NOTE 2 – INTEREST INCOME**

<b>Interest income</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Interest received on non-current receivables	36,219	-
Interest received on bank deposits	2,770	6,314
<b>Total interest income</b>	<b>38,989</b>	<b>6,314</b>

**NOTE 3 – OTHER INCOME**

<b>Other income</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Regional Selective Assistance grant payments from Scottish Enterprise	379,468	-
Sale of scrap metal	2,240	-
<b>Total other income</b>	<b>381,708</b>	<b>-</b>

**NOTE 4 – INTEREST EXPENSE**

<b>Interest expense</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Secured loan	546,747	41,626
Shareholder loan	-	43,384
Hire Purchase facilities	-	16,933
Right-of-use lease liability	98,956	-
Unwinding of discount on provision for restoration and decommissioning	24,209	-
<b>Total interest expense</b>	<b>669,912</b>	<b>101,943</b>

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**NOTE 5 - DEPRECIATION AND LOSS ON DISPOSAL OF NON-CURRENT ASSETS**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Depreciation of non-current assets</b>		
Plant and equipment	75,253	121,381
Motor vehicles	8,755	9,140
Office furniture and equipment	5,589	955
Right of Use assets	638,842	-
<b>Total depreciation of non-current assets</b>	<u>728,439</u>	<u>131,476</u>
<b>Loss on disposal of non-current assets</b>		
Plant and equipment	-	72,078
Motor vehicles	3,920	2,727
Office furniture and equipment	-	2,327
<b>Total loss on disposal of non-current assets</b>	<u>3,920</u>	<u>77,132</u>
<b>Total depreciation and loss on disposal of non-current assets</b>	<u><u>732,359</u></u>	<u><u>208,608</u></u>

**NOTE 6 - INCOME TAX**

The prima facie tax benefit at 27.5% (2019 - 27.5%) on loss from ordinary activities is reconciled to the income tax benefit in the financial statements as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Loss from ordinary activities	(2,504,134)	(3,518,455)
Prima facie income tax benefit at 27.5% (2019 - 27.5%)	688,637	967,575
Difference in tax rate between jurisdictions	(318,180)	(294,507)
Net taxable temporary timing differences	92,172	167,024
Net deductible temporary timing differences	(14)	(877)
Tax effect of permanent differences		
Share issue costs amortised	211	16,827
Other non-deductible expenses	(46,546)	(123,500)
Increase in assessable losses	<u>416,280</u>	<u>732,542</u>
Deferred tax asset not brought to account	(416,280)	(732,542)
Income tax benefit	<u><u>-</u></u>	<u><u>-</u></u>

The difference in tax rate between jurisdictions arises due to the difference in corporation tax rate between Australia (27.5%) and the United Kingdom (19.0%). It is considered that there are sufficient assessable losses as at 30 June 2020 to offset the effect of taxable temporary differences in future.

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INCOME TAX BENEFIT

The directors estimate the cumulative unrecognised deferred tax asset attributable to the Company and its controlled entities at the tax rates applicable in the respective applicable jurisdictions is as follows:

UNRECOGNISED DEFERRED TAX ASSETS

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Revenue losses after permanent differences	4,187,263	3,894,605
Capital raising costs yet to be claimed	634	845
	<u>4,187,897</u>	<u>3,895,450</u>

The potential deferred tax asset has not been brought to account in the financial report at 30 June 2020 as the Directors do not believe it is appropriate to regard the realisation of the asset as probable. This asset will only be obtained if:

- (a) The Company and its controlled entities derive future assessable income of an amount and type sufficient to enable the benefit from the deductions for the tax losses and the un-recouped exploration expenditure to be realised;
- (b) The Company and its controlled entities continue to comply with the conditions for deductibility imposed by tax legislation; and
- (c) No changes in tax legislation adversely affect the Company and its controlled entities in realising the benefit from the deductions for the tax losses and un-recouped exploration expenditure.

Franking Credits

No franking credits are available at the reporting date for the subsequent financial year.

**NOTE 7 – TRADE AND OTHER RECEIVABLES**

<b>Current</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
GST / VAT receivable	191,134	47,940
Other receivables	35,000	10,030
	<u>226,134</u>	<u>57,970</u>
<b>Non-current</b>		
Rehabilitation, restoration and land management Bond deposits	1,473,600	1,457,292
Performance Bond deposits	53,706	54,201
	<u>1,527,306</u>	<u>1,511,493</u>

During the prior year SGZ Cononish Limited entered into a Section 75 Agreement with the owner of the land on which the Cononish mine is situated, the Loch Lomond and the Trossachs National Park Authority and the Crown Estate Scotland in respect of the development of the Cononish gold and silver mine. That agreement sets out obligations on the part of SGZ Cononish Limited to undertake restoration, decommissioning and environmental aftercare and monitoring on cessation of operations at the end of the life of the Cononish mine as well as obligations to implement a plan for the management of the Greater Cononish Glen in which the Cononish mine is situated (the "Greater Cononish Glen Management Plan").

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The following amounts were lodged as security during the prior year for the performance by SGZ Cononish of its obligations in terms of the Section 75 Agreement

- £537,918 (\$962,975) in respect of obligations to undertake restoration, decommissioning and environmental aftercare and monitoring on cessation of operations at the Cononish mine; and
- £268,693 (\$481,011) in respect of obligations in terms of the Greater Cononish Glen Management Plan.

The cumulative amount of interest earned on the amounts lodged is \$30,818 (2019 - \$Nil).

As part of the agreement with Roads Scotland in respect of the upgrading of the Dalrigh junction on the A82 road between Tyndrum and Crianlarich to ensure safe access from that road to the Cononish Mine, during the prior year SGZ Cononish Limited lodged a deposit of £30,000 (\$53,706) as security for the performance by SGZ Cononish Limited of its obligations to maintain the Dalrigh junction for a period of five years from the completion of the upgrade.

**NOTE 8 – INVENTORY**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Inventory of mining consumables	62,291	29,724
	<u>62,291</u>	<u>29,724</u>

**NOTE 9 – OTHER CURRENT ASSETS**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Prepayments	129,253	93,273
	<u>129,253</u>	<u>93,273</u>

**NOTE 10 – PLANT AND EQUIPMENT**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Cost	791,625	1,304,305
Accumulated Depreciation	(322,510)	(307,743)
	<u>469,115</u>	<u>996,562</u>

On initial application of AASB 16, mobile plant and motor vehicles with a net carrying value of \$842,517 on 1 July 2019 were reclassified as right-of-use assets on that date. These assets are financed by hire purchase facilities which were classified as leases on initial application of AASB 16.



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**Movement for the year ended 30 June 2019**

	<b>Plant and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and office equipment</b>	<b>Total</b>
<b>Cost</b>				
Opening balance	560,212	90,027	11,163	661,402
Additions	1,018,612	46,827	7,197	1,072,636
Disposals	(289,640)	(54,442)	(6,746)	(350,828)
Foreign exchange movement	(67,593)	(11,064)	(248)	(78,905)
Closing balance	1,221,591	71,348	11,366	1,304,305
<b>Accumulated depreciation</b>				
Opening balance	364,953	65,926	4,481	435,360
Depreciation expensed	121,381	9,140	955	131,476
Disposals	(217,562)	(51,715)	(4,419)	(273,696)
Foreign exchange movement	13,504	1,088	11	14,603
Closing balance	282,276	24,439	1,028	307,743

**Movement for the year ended 30 June 2020**

	<b>Plant and equipment</b>	<b>Motor vehicles</b>	<b>Furniture and office equipment</b>	<b>Total</b>
<b>Cost</b>				
Opening balance	1,221,591	71,348	11,366	1,304,305
Reclassification as right-of-use assets	(865,168)	(42,620)	-	(907,788)
Additions	376,007	34,509	18,217	428,733
Disposals	-	(6,709)	-	(6,709)
Foreign exchange movement	(25,679)	(322)	(915)	(26,916)
Closing balance	706,751	56,206	28,668	791,625
<b>Accumulated depreciation</b>				
Opening balance	282,276	24,439	1,028	307,743
Reclassification as right-of-use assets	(59,257)	(6,014)	-	(65,271)
Depreciation expensed	75,253	8,755	5,589	89,597
Disposals	-	(2,789)	-	(2,789)
Foreign exchange movement	(6,068)	(396)	(306)	(6,770)
Closing balance	292,204	23,995	6,311	322,510
<b>Net carrying value</b>				
At 30 June 2020	414,547	32,211	22,357	469,115
At 30 June 2019	939,315	46,909	10,338	996,562

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**NOTE 11 – RIGHT-OF-USE ASSETS**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Cost	2,411,627	-
Accumulated Depreciation	(673,389)	-
	<u>1,738,238</u>	<u>-</u>

The movement in Right-of-use assets for the year is as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cost</b>		
Recognition at date of initial application	756,378	-
Reclassification from plant and equipment on initial application	907,788	-
Additions after date of initial application during year	552,323	-
Modifications of rights during year	257,641	-
Foreign exchange movement	(62,503)	-
Balance at end of year	<u>2,411,627</u>	<u>-</u>
<b>Accumulated Depreciation</b>		
Reclassification from plant and equipment on initial application	65,271	-
Depreciation expensed	638,842	-
Foreign exchange movement	(30,724)	-
Balance at end of year	<u>673,389</u>	<u>-</u>

Pursuant to the classification of hire purchase facilities as leases on the initial application of AASB 16, mobile plant and motor vehicles financed by such facilities, with a net carrying value of \$842,517 on 1 July 2019, were reclassified as right-of-use assets on that date.

Included in the additions after date of initial application during year figure of \$552,323 is an amount of \$47,710 (2019 - \$Nil) paid in respect of costs necessary to bring certain right-of-use assets to a condition in which they are ready for their intended use and a provision for decommissioning and restoration of \$27,476 (2019 - \$Nil), which costs did not form part of the cash flows of the related lease liability.

During the year, an amount of \$276,732 (2019 - \$Nil) paid in respect of short-term leases and leases of low value assets was charged to mine development expenditure, being primarily payments in respect of mobile plant used in the construction of the processing plant building and tailings management facility hired on a weekly basis for consecutive periods of more than one month, which are all expected to be off-hired by 31 December 2020.

**NOTE 12 – MINERAL EXPLORATION AND EVALUATION**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Opening balance	2,034,815	16,685,135
Net (gain)/loss from the BPT	-	(5,360)
Additional expenditure deferred during the year	440,126	641,623
Reclassification to mine development expenditure	-	(15,180,832)
Write-off of deferred expenditure attributable to Pomar licence	-	(118,402)
Foreign exchange movement	(33,213)	12,651
Closing balance	<u>2,441,728</u>	<u>2,034,815</u>

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The ultimate recoupment of exploration expenditure carried forward is dependent upon successful development and commercial exploitation, or sale of the respective areas.

**NOTE 13 – MINE DEVELOPMENT EXPENDITURE**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Opening balance	20,293,754	-
Reclassification from mineral exploration and evaluation expenditure	-	15,180,832
Expenditure incurred	8,680,503	5,606,392
Share-based payment costs capitalised (see Note 19)	12,266	4,228
Provision for restoration and decommissioning (see Note 16)	381,727	238,690
Foreign exchange movement	(562,898)	(736,388)
Closing balance	<u>28,805,352</u>	<u>20,293,754</u>

Share-based payment costs capitalised as mine development expenditure relate to options granted to senior management to incentivise the meeting of the corporate target of producing first gold at the Cononish mine.

Mine development expenditure includes \$276,732 (2019 - \$Nil) of amounts paid during the year in respect of short-term leases and leases of low value assets, with the major component of this amount being payments in respect of mobile plant used in the construction of the processing plant building and tailings management facility hired on a weekly basis for consecutive periods of more than one month.

Mine development expenditure includes the following amounts in respect of the Cononish Mine which will be transferred to plant and equipment when they have been completed and are in a condition suitable for their intended use or in the case of capitalised mining costs, once first ore is produced:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Processing plant	6,026,401	3,915,037
Processing plant building	2,841,013	166,049
Tailings management facility	429,080	17,007
Capitalised mining costs	3,650,350	1,303,785
Provision for restoration and decommissioning	610,013	238,690
	<u>13,556,857</u>	<u>5,640,568</u>

**NOTE 14 – TRADE AND OTHER PAYABLES**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Trade payables	1,127,113	581,947
Other accruals	461,999	63,123
	<u>1,589,112</u>	<u>645,070</u>
Trade payables and accruals relating to exploration expenditure	55,254	144,910
Trade payables and accruals relating to development expenditure	1,348,477	385,770
Trade payables and accruals relating to administration	185,381	114,390
	<u>1,589,112</u>	<u>645,070</u>

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Trade payables are non-interest bearing and are normally settled on 30 days terms (2019 - 30 days).

**NOTE 15 – BORROWINGS**

	<b>2020</b>	<b>2019</b>
<b>Non-current</b>	<b>\$</b>	<b>\$</b>
Secured loan facility	7,681,847	3,655,221
Right-of-use lease liabilities	1,059,118	-
Hire purchase agreement facilities	-	557,693
	<u>8,740,965</u>	<u>4,212,914</u>
<b>Current</b>	<b>\$</b>	<b>\$</b>
Right-of-use lease liabilities	542,761	-
Hire purchase agreement facilities	-	174,838
	<u>542,761</u>	<u>174,838</u>
<b>Total borrowings</b>	<u>9,283,726</u>	<u>4,387,752</u>

All of the borrowings are denominated in £ (Pounds sterling).

**Loan from company controlled by shareholder**

The terms of the secured loan facility agreement entered into on 18 May 2018 between SGZ Cononish Limited and Bridge Barn Limited, a wholly owned and controlled company of Nat le Roux, the Company's Non-Executive Chairman and major shareholder, were amended during the year as follows:

- (a) On 28 August 2019 the overall amount available under the facility was increased from £6,000,000 to £7,500,000 and the period of repayment of tranches already drawn and to be drawn on the facility was extended from a period of 24 months after date of drawdown of that specific tranche to a period of 36 months; and
- (b) On 28 April 2020 the period of availability of the third tranche of the secured loan facility was extended from a period of six months after the date of drawdown of the second tranche of that facility to a period of eighteen months, the period of availability of the fourth tranche was extended to end on the earlier of 31 December 2021 and the date falling twelve months after the date of drawdown of the third tranche and SGZ Cononish Limited was given the right to draw down each of the third and fourth tranches in sub-tranches of £500,000 each, with the sub-tranches of each tranche to be drawn down within the amended period of availability of that particular tranche.

The amendment effected on 28 August 2019 resulted in a gain on renegotiation of repayment terms of £22,223 (\$38,383) being recognised in respect of the first tranche of the facility, which had been drawn down on 13 May 2019. The amendment effected on 28 April 2020 did not give rise to a gain or loss.

The second tranche of the secured facility was received on 21 October 2019, with the reference drawdown date of the second tranche for the purpose of calculation of interest and determining the date of repayment thereof being 25 October 2019.

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The terms of the secured loan facility at 30 June 2020 are accordingly as follows:

- i) An overall facility amount of £7,500,000 to be drawn down in two tranches of £2,000,000 (both of which had been drawn down by 30 June 2020 in their respective periods of availability) followed by a third tranche of £2,000,000 and a fourth tranche of £1,500,000 with the option to draw down each of the third and fourth tranches in sub-tranches of £500,000 each;
- ii) The period of availability of the third tranche (including any sub-tranches of that third tranche) ends on 25 April 2021 and the period of availability of the fourth tranche (including any sub-tranches of that fourth tranche) ends on the earlier of 31 December 2021 and the date falling twelve months after the date of drawdown of the last sub-tranche of the third tranche (or the date of drawdown of the third tranche where it is drawn down in its entirety as a single tranche);
- iii) Nominal interest rate is 9.0% applied to all amounts drawn down;
- iv) Each tranche or sub-tranche, as appropriate, together with accumulated interest thereon, is repayable 36 months after the date of drawdown of that tranche or sub-tranche; and
- v) Security for repayment is provided by way of Debenture over all of the assets and undertakings of the Company's wholly owned subsidiaries, SGZ Grampian Limited and SGZ Cononish Limited, including the transfer of security of the issued capital of each of these subsidiaries.

**Movements on the secured facility loan agreement for the year ended 30 June 2020:**

	First tranche	Second Tranche	Total
	\$	\$	\$
Balance at beginning of year	3,655,221	-	3,655,221
Drawdown on 25 October 2019	-	3,762,227	3,762,227
Gain on amendment of repayment terms	(38,383)	-	(38,383)
Interest at effective rate	331,536	215,211	546,747
Foreign exchange movement	(50,282)	(193,683)	(243,965)
Balance at end of year	<u>3,898,092</u>	<u>3,783,755</u>	<u>7,681,847</u>

**Movements on the secured facility loan agreement for the year ended 30 June 2019:**

	First tranche
	\$
Balance at beginning of year	-
Drawdown on 13 May 2019	3,729,952
Interest at effective rate	41,626
Foreign exchange movement	(116,357)
Balance at end of year	<u>3,655,221</u>

The effective interest rate on the secured loan facility is 8.46% (2019 – 8.63%). As set out in Note 30, after 30 June 2020 the third tranche was fully drawn down and one sub-tranche of £500,000 of the fourth tranche was drawn down.

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**Right-of-use lease liabilities**

Pursuant to the implementation of AASB16 during the year, lease liabilities have been raised in respect of right-of-use assets. In addition, on initial application of AASB 16, hire purchase facilities with an aggregate outstanding balance of \$732,531 at 1 July 2019 were reclassified as lease liabilities on that date:

**Movements for the year ended 30 June 2020:**

	\$
Recognition at date of initial application	759,442
Reclassification of hire purchase facilities as leases on initial application	732,531
Additions after date of initial application	477,137
Modifications to rights	257,641
Interest at effective rate	98,956
Repayments	(698,243)
Foreign exchange movement	(25,585)
Balance at end of year	<u>1,601,879</u>

The effective interest rate on the right-to-use lease liabilities is 9.88%. Right-of-use assets with an aggregate net carrying value of \$1,738,238 (2019 - \$Nil) are financed by the right-of-use lease liabilities.

**Hire purchase facilities**

Subsidiaries of the Company are parties to hire purchase agreements with financial institutions to finance the purchase of motor vehicles and mobile plant. On the initial application of AASB 16 on 1 July 2019, hire purchase facilities were reclassified as leases.

On initial application of AASB 1 on 1 July 2019, the following hire purchase facilities, with an aggregate outstanding balance of \$732,531 on that date, were reclassified as lease liabilities:

Subsidiary company	SGZ Cononish Limited		SGZ Grampian Limited		Total
	Three items of mobile plant	Dacia Duster vehicle	One item of mobile plant	Dacia Duster vehicle	
Assets financed	\$	\$	\$	\$	\$
Non-current portion of liability	346,296	18,876	174,636	17,885	557,693
Current portion of liability	75,965	4,606	89,706	4,561	174,838
Total liability as at 1 July 2019	<u>422,261</u>	<u>23,482</u>	<u>264,342</u>	<u>22,446</u>	<u>732,531</u>
Date of agreement	13/03/2019	10/01/2019	29/04/2019	01/11/2018	
Period of agreement in months	60	60	36	60	
Effective interest rate	9.92%	6.86%	4.39%	7.84%	
Net carrying value of assets at 1 July 2019	455,383	18,814	350,528	17,792	842,517

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The movements on hire purchase facility borrowings for the year ended 30 June 2019 were as follows:

Subsidiary company	SGZ Cononish Limited		SGZ Grampian Limited		Total
	Three items of mobile plant	Dacia Duster vehicle	One item of mobile plant	Dacia Duster vehicle	
Assets financed	\$	\$	\$	\$	\$
Net amount financed	449,462	24,804	283,245	24,667	782,178
Interest at effective rate	12,833	764	2,155	1,181	16,933
Repayments	(28,257)	(2,459)	(16,884)	(3,456)	(51,056)
Foreign exchange movement	(11,777)	373	(4,174)	54	(15,524)
Closing balance	422,261	23,482	264,342	22,446	732,531

**NOTE 16 – PROVISIONS**

Provision for restoration and decommissioning	2020 \$	2019 \$
Balance at end of year	657,934	238,690

This provision represents the best estimate of the present value of expenditures required to effect restoration of the Cononish mine area at the end of mining operations at the mine as well as to carry out aftercare and monitoring activities in terms of the Decommissioning and Restoration Plan formulated in accordance with the requirements set out in the Section 75 Agreement entered into by SGZ Cononish Limited on 12 September 2018, based on the mine development activities carried out up to and including 30 June 2020.

In arriving at the amount of the provision, an inflation rate of 2.0% has been applied to estimated future costs stated at current levels and the resultant cashflows have been discounted back to 30 June 2020 using a discount rate of 0.87% (2019 - 1.32%).

Movements in the provision are as follows:

	2020 \$	2019 \$
Opening balance	238,690	-
Initial provision raised	-	238,690
Unwinding of discount	24,209	-
Adjustment for mine development progress and change in discount rate	381,727	-
Restoration provision attributable to right-of-use asset acquired	27,476	-
Foreign exchange movement	(14,168)	-
Closing balance	657,934	238,690



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**NOTE 17 – ISSUED CAPITAL**

	2020 No. of shares	2019 No. of shares	2020 \$	2019 \$
Ordinary shares – fully paid	51,351,741	45,639,546	44,978,659	41,098,558

**(a) Voting and dividend rights**

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of shares held. The ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Article 16 of the Constitution specifies that on a show of hands every member present in person, by attorney or by proxy shall have one vote for every fully paid share held or in the case of a share which is not fully paid, a fraction of the vote equal to the amount paid up on the share over the nominal value of the share.

**(b) Movements in ordinary share capital of the Company were as follows:**

**During the year ended 30 June 2019:**

Date	Details	Shares	Value (cents)	\$
	Balance at 30 June 2018	42,911,254		39,706,967
19/09/2018	Options conversion	331	0.7251	240
09/10/2018	Share subscription	2,727,274	0.5100	1,390,854
09/01/2019	Options conversion	687	0.7234	497
	Balance at 30 June 2019	<u>45,639,546</u>		<u>41,098,558</u>

**During the year ended 30 June 2020:**

Date	Details	Shares	Value (cents)	\$
	Balance at 30 June 2019	45,639,546		41,098,558
28/08/2019	Share subscription	3,285,783	0.6318	2,075,997
28/08/2019	Expenses related to share subscription			(35,452)
28/08/2019	Options conversion	23,704	0.7169	16,994
22/10/2019	Options conversion	826	0.7203	595
20/11/2019	Options conversion	153,000	0.7550	115,523
03/12/2019	Options conversion	43,968	0.7639	33,589
09/12/2019	Options conversion	398,137	0.7639	304,157
23/12/2019	Options conversion	1,744,657	0.7577	1,321,962
07/01/2020	Options conversion	59,256	0.7524	44,582
05/02/2020	Options conversion	2,856	0.7525	2,148
11/03/2020	Options conversion	8	0.7500	6
	Balance at 30 June 2020	<u>51,351,741</u>		<u>44,978,659</u>

Shares issued for non-cash consideration amounted to Nil during the year (2019 - Nil).

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(c) **Movements in options were as follows:**

**During the year ended 30 June 2019**

Details	Number	\$
Balance at 30 June 2018	2,514,699	134,769
Conversion of options during first half of year	(331)	-
Conversion of options during second half of year	(687)	-
Balance at 30 June 2019	<u>2,513,681</u>	<u>134,769</u>

**During the year ended 30 June 2020**

Details	Number	\$
Balance at 30 June 2019	2,513,681	134,769
Options converted on 28 August 2019	(23,704)	-
Options converted on 22 October 2019	(826)	-
Options converted on 20 November 2019	(153,000)	-
Options converted on 3 December 2019	(43,968)	-
Options converted on 9 December 2019	(398,137)	-
Options converted on 23 December 2019	(1,744,657)	-
Options converted on 7 January 2020	(59,256)	-
Options converted on 5 February 2020	(2,856)	-
Options converted on 11 March 2020	(8)	-
Options lapsed	(57,269)	-
Balance at 30 June 2020	<u>30,000</u>	<u>134,769</u>

Option exercise dates and prices

Number	Exercise Price	Expiry Date	Reserve \$
30,000	\$8.00	31 March 2022	134,769

Details of options issued to key management and senior managers are set out in Note 19. The above tables of options do not reflect movements in options issued to key management and senior managers. Details of such movements are disclosed in Note 19.

**NOTE 18 – RESERVES AND ACCUMULATED LOSSES**

Accumulated Losses	2020 \$	2019 \$
Balance at beginning of the year	(16,986,248)	(13,467,793)
Increase in opening accumulated loss on initial application of AASB16	(3,064)	-
Net loss from ordinary activities	(2,504,134)	(3,518,455)
Balance at end of the year	<u>(19,493,446)</u>	<u>(16,986,248)</u>

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	2020	2019
	\$	\$
<b>Foreign Currency Translation Reserve</b>		
Balance at beginning of the year	(788,262)	(61,295)
Reserve arising on translation of foreign currency subsidiaries	(226,738)	(726,967)
Balance at end of the year	<u>(1,015,000)</u>	<u>(788,262)</u>
<b>Share Option Reserve</b>		
Balance at beginning of the year	134,769	134,769
Balance at end of the year	<u>134,769</u>	<u>134,769</u>
<b>Share-based payment Reserve</b>		
Balance at beginning of the year	205,182	-
Issue of options for services rendered (Note 19)	78,460	205,182
Balance at end of the year	<u>283,642</u>	<u>205,182</u>
Total reserves	<u>(596,859)</u>	<u>(448,311)</u>

Nature and purpose of reserves

**Foreign currency translation reserve**

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

**Share Option Reserve**

The share option reserve is used to record the assessed value of options issued other than options issued as share based payment for services received by the consolidated entity.

**Share-based Payment Reserve**

The share-based payment reserve arises on the granting of share options or similar instruments to employees and other parties providing similar services.

**NOTE 19 – SHARE-BASED PAYMENTS**

On 1 May 2018 an Incentive Option Agreement was announced by the Company, whereby 1,240,000 options to acquire shares were agreed to be granted to executive management upon the commencement of gold production. The options will be exercisable at £0.30. The options were subject to shareholder approval and will expire on 1 May 2028. These options vest on the later of one year after the date of award thereof and the date of commencement of gold production at Cononish mine. As at 30 June 2020, only 1,000,000 (2019 – 1,000,000) of these options are expected to vest in future due to an executive manager leaving before 30 June 2019 and not meeting the service conditions attached to the options. The granting of these 1,000,000 options was approved by the shareholders at the Annual General Meeting of the Company on 26 November 2019.

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In addition, on 16 April 2019, the Company granted 280,000 options to acquire shares to senior managers as part of a package to incentivise management to meet the targeted date of first gold production at the Cononish mine, at a strike price of £0.34 per share. These options expire on 16 April 2024 and vest on the later of 30 June 2020 and the date of achievement of agreed production targets. As at 30 June 2020, only 120,000 (2019 – 120,000) of these options are expected to vest in future due to a senior manager leaving before 30 June 2019 and not meeting the service conditions attached to the options.

As at 30 June 2020, the share options granted to management for services rendered and expected to vest in future have the following expiry dates and exercise prices:

Grant date	Number of options	Expiry date	Exercise price per option	Fair value per option
1 May 2018	1,000,000	1 May 2028	£0.30	£0.172
16 April 2019	120,000	16 April 2024	£0.34	£0.137

The options were valued using the “Black-Scholes” model, employing the following key inputs and assumptions:

	<u>Granted 1 May 2018</u>	<u>Granted 16 April 2019</u>
Expected volatility	55%	45%
Risk-free rate	1.39%	1.22%
Life of option	10 years	5 years
Valuation date	1 May 2018	16 April 2019

The average strike price at 30 June 2020 of the 1,120,000 options outstanding at that date and expected to vest in future is £0.304.

The movement in number of options issued as share-based payment is as follows:

	<b>2020</b> <b>Number</b>	<b>2019</b> <b>Number</b>
Balance at beginning of the year	1,120,000	1,000,000
Grant of options on 16 April 2019	-	120,000
Balance at end of the year	<u>1,120,000</u>	<u>1,120,000</u>

Charges in respect of share-based payment have been recognised as follows:

	<b>Options granted on</b>		<b>Increase in share-based payment reserve</b> <b>\$</b>
	<b>1 May 2018</b> <b>Charge to profit or loss</b>	<b>16 April 2019</b> <b>Charge to mine development</b>	
	<b>\$</b>	<b>\$</b>	<b>\$</b>
During year ended 30 June 2019	200,954	4,228	205,182
Cumulative to 30 June 2019	200,954	4,228	205,182
During year ended 30 June 2020	66,194	12,266	78,460
Cumulative to 30 June 2020	<u>267,148</u>	<u>16,494</u>	<u>283,642</u>

An Enterprise Management Incentive Scheme was established pursuant to Schedule 5 of the United Kingdom Income Tax (Earnings and Pensions) Act 2003 and adopted by the Board on 30 June 2020. In terms of the rules of the Enterprise Management Incentive Scheme, the Board may at its discretion grant Enterprise Management Incentive Scheme options to employees of the Company and its controlled entities to acquire ordinary shares in the

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Company at such exercise price and in such numbers as it considers appropriate and to attach such performance conditions to the vesting of such options as it considers appropriate, subject to compliance with the provisions of the abovementioned Schedule 5 and other applicable legislation.

As set out in the note on matters subsequent to the end of the financial year (Note 30), 1,150,000 options to acquire ordinary shares in the Company at an exercise price of £0.71 per share were granted to management as share-based payments on 1 July 2020, including 1,102,112 options granted under the Enterprise Management Incentive Scheme. Of the 1,150,000 options issued on 1 July 2020, 225,000 of those options replaced the 120,000 options issued on 16 April 2019, with those 120,000 options being cancelled.

On 29 July 2020, 200,000 options to acquire ordinary shares in the Company at an exercise price of £0.71 per share were granted to Saint Consulting (UK) Limited, the company providing project management services in respect of the construction of the Cononish Mine processing plant building and tailings management facility (see Note 30).

**NOTE 20 - COMMITMENTS FOR EXPENDITURE**

**Mineral Tenement Leases**

As at 30 June 2020, the consolidated entity held thirteen exploration licences in Scotland. The commencement date of each of these licences is 5 November 2018, with a term of five years and an option to extend for a further period of four years, subject to the Crown Estate Scotland being satisfied with the progress made in conducting exploration activities in the area covered by that licence. No minimum capital expenditure figure is stipulated in any of the thirteen licences.

The licence payments to be made in respect of the thirteen licences, under the respective assumptions that (a) all of the licences are only held for the five year term and (b) all of the licences are extended for the further period of four years are as follows:

	Initial five year term only	Extension for further four years
	\$	\$
Not later than one year	116,362	116,362
Later than 1 year but not later than 2 years	116,362	116,362
Later than 2 years but not later than 5 years	116,362	349,086
Later than 5 years	-	232,724
	349,086	814,534

The licence payments to be made at 30 June 2019 were as follows:

	Initial five year term only	Extension for further four years
	\$	\$
Not later than one year	117,435	117,435
Later than 1 year but not later than 2 years	117,435	117,435
Later than 2 years but not later than 5 years	234,870	352,305
Later than 5 years	-	352,305
	469,740	939,480

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**Contract for purchase of processing plant**

On 14 February 2019, SGZ Cononish Limited entered into a contract with Appropriate Process Technologies Pty Limited for the fabrication of the processing plant to be used for processing ore at the Cononish mine.

The total contract value is 3,862,667 US Dollars ("USD"), with regular milestone payments and a final retention payment being provided for in the terms of the contract. As at 30 June 2020, an amount of \$450,259 (USD309,013) in respect of contracted milestone payments and final retention payments was payable after 30 June 2020, with all payments expected to be made by the end of February 2021. As at 30 June 2019, an amount of \$1,487,122 (USD1,042,919) in respect of contracted milestone payments and final retention payments was payable after 30 June 2019, with all payments then expected to be made by the end of March 2020.

**Greater Cononish Glen Management Plan**

As part of the Section 75 Agreement entered into between SGZ Cononish Limited, the owner of the land on which the Cononish mine is situated, the Loch Lomond and the Trossachs National Park Authority and the Crown Estate Scotland in respect of the development of the Cononish mine, SGZ Cononish Limited has assumed obligations to implement a plan for the management of the greater Cononish glen in which the Cononish mine is situated.

The costs of meeting these obligations are expected to be incurred as follows:

	As at 30 June	
	2020	2019
	\$	\$
Not later than one year	122,418	269,864
Later than 1 year but not later than 2 years	8,684	123,546
Later than 2 years but not later than 5 years	17,379	23,375
Later than 5 years	81,671	85,351
	230,152	502,136

**Minimum certain rent payments**

In terms of the lease agreement between SGZ Cononish Limited and the owners of the land on which the Cononish mine is situated, an annual rental, indexed to the United Kingdom Retail Price Index ("RPI") is payable annually up to 23 July 2030.

Assuming a 2.0% per annum increase in the RPI in future, the amounts payable in respect of the annual rental shall be as follows:

	As at 30 June	
	2020	2019
	\$	\$
Not later than one year	34,793	34,694
Later than 1 year but not later than 2 years	35,489	35,388
Later than 2 years but not later than 5 years	110,784	110,467
Later than 5 years	242,325	241,632
	423,391	422,181

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**Certain Rent payments**

The lease agreement between SGZ Cononish Limited and the Crown Estate Commissioners in respect of the Cononish mine provides for the payment of a minimum amount of Certain Rent at a rate of £150,000 per annum, payable half-yearly on 1 January and 1 July of each year, with Certain Rent being adjusted to a level of 30% of the average annual anticipated Royalty Rent on the second anniversary of the signing of the Section 75 Agreement entered into with the owner of the land on which the Cononish Mine is situated, the Loch Lomond and the Trossachs National Park Authority and the Crown Estate Scotland and indexed in accordance with the United Kingdom RPI with effect from the third anniversary of such signing.

Using the expected levels of annual Royalty Rent levels set out in the latest life-of-mine model, and assuming an annual increase in the RPI of 2%, the following amounts are estimated to be payable as Certain Rent after 30 June 2020:

	As at 30 June	
	2020	2019
	\$	\$
Not later than one year	223,774	271,003
Later than 1 year but not later than 2 years	441,294	397,563
Later than 2 years but not later than 5 years	2,897,434	1,978,673
Later than 5 years	3,183,998	3,695,284
	6,746,500	6,342,523

**Assets not recognised as right-of-use assets**

The following amounts are payable in respect of the use of assets which have not been accounted for as right-of-use assets due to the expected period of use ending before 31 December 2020 or the underlying assets being low value assets:

	As at 30 June	
	2020	2019
	\$	\$
Not later than one year	72,292	219,189
Later than 1 year but not later than 2 years	646	101,392
Later than 2 years but not later than 5 years	1,455	182,770
Later than 5 years	6	-
	74,399	503,351

The main component of the commitment in respect of year 1 is the committed amount at 30 June 2020 in respect of items of mobile plant hired on a weekly basis over periods of more than one month used in the construction of the Cononish Mine processing plant building and tailings management facility.



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**Contract for construction of processing plant building and tailings management facility**

On 19 September 2019, SGZ Cononish Limited signed a contract with Robinsons Scotland Limited for the construction of a dedicated plant building to house the processing plant as well as the construction of the infrastructure for the tailings management facility at the Cononish mine. The initial contract sum was £2,307,147.

On 1 April 2020 a supplementary agreement was entered into in terms of which an amount of £195,236 was added to the contract sum and works with a contract sum amount of £751,004 were removed from the scope of the contract, resulting in a revised contract sum of £1,751,379.

By 30 June 2020, £934,492 of the revised contract sum had been invoiced by Robinsons Scotland Limited, with the future payments in respect of the contract at 30 June 2020, all being subject to satisfactory performance by Robinsons Scotland Limited and all expected to be made by 31 December 2020, amounting to £816,887 (\$1,462,383).

**Contract for installation of processing plant**

On 5 November 2019, SGZ Cononish Limited signed a contract with Dan Herrick Construction Limited for the installation of the processing plant purchased from Appropriate Process Technologies Pty Limited. The initial contract amount was £552,279 and was increased to a revised contract amount of £637,199 on 10 June 2020.

By 30 June 2020, £92,565 of the revised contract sum had been invoiced by Dan Herrick Construction Limited, with the future payments in respect of the contract at 30 June 2020, all being subject to satisfactory performance by Dan Herrick Construction Limited and all expected to be made by 31 December 2020, amounting to £ 544,634 (\$974,998).

**NOTE 21 - CONTINGENT LIABILITIES**

SGZ Cononish Limited has entered into certain agreements which provide for the making of future payments contingent upon commencement of production at the Cononish mine as follows:

- (a) A donations agreement with the Strathfillan Community Development Trust ("SCDT") was concluded on 7 September 2018 pursuant to which £240,000 is payable to SCDT in annual instalments of £15,000 per annum upon the Cononish mine reaching an ore processing rate of 3,000 tonnes per month ("tpm"), increasing to £30,000 per annum in any year upon reaching an ore processing rate of 6,000tpm, plus two lump sum payments of £125,000, the first being payable on the first anniversary of commencement of production at the Cononish mine, and the second lump sum being payable on the fifth anniversary of commencement of commercial production at the Cononish mine or on the commencement of an ore processing rate of 6,000tpm, whichever is the earlier.
- (b) Clause 18 of the Section 75 Agreement entered into with the owner of the land on which the Cononish mine is situated, the Loch Lomond and the Trossachs National Park Authority and the Crown Estate Scotland in respect of the development of the Cononish mine provides for the payment of up to £425,000 to Loch Lomond and the Trossachs Countryside Trust, with an amount of £25,000 payable on the first anniversary of the date of commencement of the development of the Cononish Mine and the remainder payable in annual instalments of £25,000 per annum upon the commencement of production at the Cononish mine, increasing proportionately up to £50,000 per annum as processing of ore increases from 3,000 to 6,000 tpm. The amount of £ 25,000 payable on the first anniversary of the date of commencement of the development of the Cononish Mine was paid on 23 January 2020.

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An amount of £25,000 becomes payable two years after date of commencement of development if production has not commenced by that time and, in the event of cessation of mining operations, the minimum amount payable shall be £250,000.

- (c) The agreement of lease between SGZ Cononish Limited and the owner of the land on which the Cononish mine is located provides that royalties at rates of between 3.5% and 10% shall be payable to the landowner on the net realisable value of any minerals produced at the Cononish Mine other than gold, silver or other precious metals, subject to the payment of a minimum royalty of £26,505 per annum, indexed to the United Kingdom Retail Price Index, with effect from the date of commencement of production at the Cononish mine.
- (d) In terms of the lease between SGZ Cononish Limited and the Crown Estate Commissioners, Royalty Rent at a rate of 4% of the net realisable value arising on the sale of gold and silver from the Cononish mine shall be payable half yearly in arrears, subject to the payment of a minimum amount in the form of Certain Rent (described more fully in Note 20).

In consideration of Scottish Enterprise being willing to offer SGZ Cononish Limited up to £430,000 in the form of Regional Selective Assistance grants under the terms and conditions of the offer letter issued by Scottish Enterprise dated 14 November 2018, the Company has provided a guarantee to Scottish Enterprise as security for any amounts of such grants received by SGZ Cononish Limited which may become repayable by that company to Scottish Enterprise under the terms and conditions of that offer letter. As at 30 June 2020, the total amount of grants which had been received by SGZ Cononish Limited from Scottish Enterprise amounted to £200,000 (\$379,468).

Scotgold Resources Limited and its controlled entities have no other known material contingent liabilities as at 30 June 2020.

**NOTE 22 - INVESTMENT IN CONTROLLED ENTITIES**

	Registered Number	Country of Incorporation	Interest Held
<b>Parent</b>			
Scotgold Resources Limited	42 127 042 773	Australia	100%
<b>Subsidiary</b>			
SGZ Grampian Limited	SC 309525	Scotland	100%
SGZ France SAS	804 686 582	France	100%
Scotgold Resources Portugal Ltda	513 303 057	Portugal	100%
SGZ Cononish Limited	SC 569264	Scotland	100%
Fynegold Exploration Limited	SC 084497	Scotland	100%

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**NOTE 23 - SEGMENT INFORMATION**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors of Scotgold Resources Limited.

<b>Year ended 30 June 2019</b>	Scotland Mining \$	Scotland Exploration \$	Australia \$	Other \$	Total \$
Segment other income	24	6,289	1	-	6,314
Segment loss	2,636,589	24,503	670,480	186,883	3,518,455
Segment assets	23,953,258	4,901,504	74,334	6,415	28,935,511
Segment non-current assets	22,738,799	2,089,861	7,964	-	24,836,624
Segment liabilities	5,072,767	165,446	23,127	10,172	5,271,512
Segment non-current liabilities	4,433,719	17,885	-	-	4,451,604

**Included in segment result  
and segment assets:**

Interest expense	57,378	1,181	43,384	-	101,943
Depreciation	120,156	10,909	411	-	131,476
Capitalised exploration	-	636,263	-	-	636,263
Mine development costs	5,606,392	-	-	-	5,606,392
Acquisition of fixed assets	1,013,260	59,376	-	-	1,072,636

<b>Year ended 30 June 2020</b>	Scotland Mining \$	Scotland Exploration \$	Australia \$	Other \$	Total \$
Segment other income	456,310	2,767	3	-	459,080
Segment loss	1,929,931	28,497	493,966	51,740	2,504,134
Segment assets	33,502,849	2,808,519	104,445	3,583	36,419,396
Segment non-current assets	32,482,513	2,478,996	20,230	-	34,981,739
Segment liabilities	11,384,404	73,087	62,003	11,278	11,530,772
Segment non-current liabilities	9,385,903	12,996	-	-	9,398,899

**Included in segment result  
and segment assets:**

Interest expense	668,345	1,567	-	-	669,912
Depreciation	714,163	14,276	-	-	728,439
Capitalised exploration	-	440,126	-	-	440,126
Mine development costs	8,680,503	-	-	-	8,680,503
Acquisition of fixed assets	428,733	-	-	-	428,733
Right-of-use assets acquired	552,323	-	-	-	552,323

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The allocation of figures between the Scotland Mining and Scotland Exploration segments for the year ended 30 June 2019 has been restated to reflect the usage of mobile plant owned by SGZ Grampian Limited in mining operations, in line with the basis of allocation employed in the year ended 30 June 2020.

The following material agreements were in place at 30 June 2020 in each segment:

**Scotland – Mining**

Location	Agreement	Agreement Date	Area
Cononish Glen Orchy	Landholder Lease	23 July 2009	20 sq km
Cononish Glen Orchy	Crown Lease	31 May 2012	
Cononish Glen Orchy	Section 75 Agreement	12 September 2018	

**Scotland – Exploration**

Location	Agreement	Grant date	Area
Glen Orchy Central	Crown option agreement	5 November 2018	242 sq km
Glen Orchy East	Crown option agreement	5 November 2018	241 sq km
Glen Orchy West	Crown option agreement	5 November 2018	103 sq km
Glen Lyon North	Crown option agreement	5 November 2018	244 sq km
Glen Lyon East	Crown option agreement	5 November 2018	247 sq km
Glen Lyon South	Crown option agreement	5 November 2018	243 sq km
Glen Lyon West	Crown option agreement	5 November 2018	246 sq km
Inverliever West	Crown option agreement	5 November 2018	250 sq km
Inverliever East	Crown option agreement	5 November 2018	233 sq km
Knapdale South	Crown option agreement	5 November 2018	250 sq km
Knapdale North	Crown option agreement	5 November 2018	250 sq km
Ochills East	Crown option agreement	5 November 2018	150 sq km
Ochills West	Crown option agreement	5 November 2018	189 sq km

**Mining Leases in Scotland – general information**

The mineral rights to gold and silver in most of Britain, including Scotland, are generally held by the Crown. In order to explore for gold and silver, an option agreement is required to be concluded with the Crown which entitles the holder to explore for gold and silver and on the grant of planning permission (and other conditions), to take out a lease for exploitation of these metals.

Additionally, surface rights (and other minerals rights) are generally held by the landowner with whom access and lease agreements must separately be obtained. The Company holds a 21 year lease, dated 2009 with the Cononish landowner. At the option of the Company, the lease may be extended for a further 21 years.

Mineral developments in Scotland are governed by the Town and Country Planning (Scotland) Act, with responsibility for planning control exercised by the local Authority. Statutory designations inform as to the appropriate levels of environmental assessment to be carried out.

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**NOTE 24 - NOTES TO THE STATEMENT OF CASH FLOWS**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
(a) Reconciliation of loss after income tax to net operating cash flows		
<b>Loss from ordinary activities</b>	(2,504,134)	(3,518,455)
Depreciation	728,439	131,476
Loss on disposal of non-current assets	3,920	77,132
Interest expense	669,912	101,943
Exchange loss on repayment of loan	-	31,270
Share-based payments	66,194	200,954
Deferred mineral exploration and evaluation costs written off	-	118,402
Gain on loan renegotiation	(38,383)	-
	<u>(1,074,052)</u>	<u>(2,857,278)</u>
<b>Movement in assets and liabilities</b>		
Receivables	25,555	1,355
Other current assets	(19,642)	(12,593)
Payables	75,461	(183,168)
Net cash used in operating activities	<u>(992,678)</u>	<u>(3,051,684)</u>
(b) Non-cash investing and financing activities		
<b>Acquisition of right-of-use assets</b>		
Modification of existing leases (see Note 15)	257,641	-
New leases (see Note 15)	477,137	-
Options granted to management for no cash consideration (see Note 19)	78,460	205,182
	<u>813,238</u>	<u>205,182</u>
(c) Net debt reconciliation		
<b>Cash and cash equivalents</b>	<b>1,019,979</b>	<b>3,917,920</b>
Borrowings	(7,681,847)	(3,655,221)
Lease liabilities	(1,601,879)	(1,491,973)
Net debt	<u>(8,263,747)</u>	<u>(1,229,274)</u>

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The movements in net debt are as follows:

	Liabilities from financing activities			Other assets	
	Borrowings	Leases	Sub-total	Cash and cash equivalents	Total
	\$	\$	\$	\$	\$
<b>Net debt as at 1 July 2018</b>	(1,740,867)	-	(1,740,867)	11,207,036	9,466,169
Cash flows	(2,645,553)	-	(2,645,553)	(7,246,969)	(9,892,522)
Accrual of interest	(101,943)	-	(101,943)	-	(101,943)
Foreign exchange movements	100,611	-	100,611	(42,147)	58,464
<b>Net debt as at 30 June 2019</b>	(4,387,752)	-	(4,387,752)	3,917,920	(469,832)
On adoption of AASB 16:					
Recognition	-	(759,442)	(759,442)	-	(759,442)
Reclassification	732,531	(732,531)	-	-	-
	(3,655,221)	(1,491,973)	(5,147,194)	3,917,920	(1,229,274)
Cash flows	(3,762,227)	698,243	(3,063,984)	(2,990,224)	(6,054,208)
Accrual of interest	(546,747)	(98,956)	(645,703)	-	(645,703)
Gain on loan renegotiation	38,383	-	38,383	-	38,383
Modification of existing leases	-	(257,641)	(257,641)	-	(257,641)
New leases	-	(477,137)	(477,137)	-	(477,137)
Foreign exchange movements	243,965	25,585	269,550	92,283	361,833
<b>Net debt as at 30 June 2020</b>	(7,681,847)	(1,601,879)	(9,283,726)	1,019,979	(8,263,747)

The figures in respect of borrowings for the year ended 30 June 2019 include movements on the shareholder loan which was repaid on 26 September 2018 and hire purchase facilities.

The reclassification on adoption of AASB 16 represents the reclassification of hire purchase facility balances on 1 July 2019 pursuant to the reclassification of those hire purchase facilities as leases on that date.

**NOTE 25 - KEY MANAGEMENT PERSONNEL**

(a) Directors

The names and positions of Directors in office at any time during the financial year are:

		In office from	In office to
Nathaniel le Roux	Non-Executive Chairman	18/03/2015	present
Richard Gray	Managing Director	10/10/2014	present
Chris Sangster	Non-Executive Director	10/10/2014	present
Phillip Jackson	Non-Executive Director	14/08/2007	present
Richard Barker	Company Secretary and Non- Executive Director	09/10/2017	present
Peter Hetherington	Non-Executive Director	18/06/2018	present
William Styslinger	Non-Executive Director	18/06/2018	present
Ian Proctor	Non-Executive Director	Appointed on 14/08/2019	present

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(b) Remuneration Policies

Remuneration policies are disclosed in the Remuneration Report which is contained in the Directors' Report.

(c) Key management personnel remuneration

Remuneration was by way of fees paid monthly in respect of invoices issued to the Company by the Directors or Companies associated with the Directors in accordance with agreements between the Company and those entities. The Directors are entitled to reimbursement of out-of-pocket expenses incurred whilst on company business.

The aggregate compensation made to key management personnel of the group is set out below.

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Short-term employee benefits	420,561	451,310
Post-employment benefits	10,140	8,491
Share-based payments	66,194	148,084
	<u>496,895</u>	<u>607,885</u>

(d) Aggregate amounts payable to Directors and their personally related entities for remuneration.

	<b>Consolidated Entity</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Accounts payable	<u>25,318</u>	<u>14,393</u>

**NOTE 26 - RELATED PARTY INFORMATION**

**Transactions with Directors**

Each of the Directors is a related party. The following directors have entered into transactions with group companies.

- i) Chris Sangster provides technical consulting services to the Company. Fees are charged at commercial, arm's length rates in accordance with time incurred. Details of fees earned are provided in the Remuneration Report. Refer also the Remuneration Report.
- ii) Richard Barker provides services of Company Secretary through his service company Barston Corporation Pty Ltd. Services are charged at commercial, arm's length rates. Details of fees earned are provided in the Remuneration Report. Refer also to the Remuneration Report.
- iii) A company controlled by Nat le Roux provided loan funds to the consolidated entity on commercial terms throughout the year. The details of the loan funds provided are shown in Note 15.



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Aggregate amounts payable to Directors and their personally related entities:

	<b>Consolidated Entity</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Accounts payable	25,318	14,393
Non-current borrowings owing to Bridge Barn Limited		
Principal	7,160,759	3,613,369
Accumulated interest	521,088	41,852
	7,707,165	3,669,614

**NOTE 27 - REMUNERATION OF AUDITORS**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
BDO Audit (WA) Pty Ltd and BDO Corporate Tax (WA) Pty Ltd: Auditing and reviewing of the financial statements of Scotgold Resources Limited and of its controlled entities.	48,964	35,560
Other services – provision of tax services	18,783	8,488
Other services – provision of corporate finance services	2,530	-
	70,277	44,048

The remuneration paid for the year ended 30 June 2020 includes \$6,434 (2019 - \$Nil) paid to the Edinburgh, Scotland office of BDO LLP in respect of tax advisory services.

**NOTE 28 – LOSS PER SHARE**

	<b>Consolidated</b>	
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Earnings used in calculation of loss per share	(2,504,134)	(3,518,455)
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic loss per share	49,702,739	44,891,914

There are 1,150,000 potential ordinary shares as at 30 June 2020 (30 June 2019 - 3,633,681). The issuing of these potential ordinary shares would be anti-dilutive.

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**NOTE 29 - FINANCIAL INSTRUMENTS**

(a) Financial Risk Management Policies

The consolidated entity's financial instruments consist mainly of deposits with banks, accounts receivable, accounts payable, lease liabilities and a secured loan facility provided by a major shareholder.

The Board's overall risk management strategy seeks to assist the consolidated entity in meeting its financial targets, whilst minimising potential adverse effects on financial performance. The consolidated entity has developed a framework for a risk management policy and internal compliance and control systems that covers the organisational, financial and operational aspects of the affairs of the consolidated entity. The Chairman is responsible for ensuring the maintenance of, and compliance with, appropriate systems.

(b) Financial Risk Exposures and Management

The main risks the consolidated entity is exposed to through its financial instruments are interest rate risk, foreign currency risk and liquidity risk.

**Interest Rate Risk**

Interest rate risk comprises cash flow interest rate risk and fair value interest rate risk.

Cash flow interest rate risk is the risk that movements in interest rates will result in increased cash outflows on floating rate financial liabilities of the consolidated entity. As all of the interest-bearing financial liabilities of the consolidated entity are fixed rate liabilities, the consolidated entity has no exposure to cash flow interest rate risk at 30 June 2020 in respect of its financial liabilities. Interest rates applicable to the commercial call account held by the consolidated entity vary with market rates, but the consolidated entity currently holds funds on that account pending deployment of these funds in mine development or exploration and evaluation activities and is not dependent upon interest received on the account as a source of income.

Fair value interest risk is the risk that movements in market interest rates will affect the fair value of fixed interest financial instruments of the consolidated entity.

The interest rate profile of the financial assets and liabilities of the consolidated entity is as follows:

	Weighted Average Effective Interest Rate		2020 \$	2019 \$
	2020	2019		
<b>Financial Assets</b>				
Cash at Bank	0.05%	0.05%	1,019,979	3,917,920
Trade and other receivables	-	-	226,134	57,970
Non-current Bond obligation deposits	1.25%	1.25%	1,527,306	1,511,493
Total Financial Assets			<u>2,773,419</u>	<u>5,487,383</u>
<b>Financial Liabilities</b>				
Trade and other payables	-	-	1,127,113	581,947
Right-of-use lease liabilities	9.88%	-	1,601,879	-
Hire purchase agreements	-	7.77%	-	732,531
Secured loan facility	8.46%	8.63%	7,681,847	3,655,221
Total Financial Liabilities			<u>10,410,839</u>	<u>4,969,699</u>

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The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to and forming part of the consolidated financial statements.

**Interest Rate Sensitivity Analysis**

The consolidated entity has performed a sensitivity analysis relating to its exposure to interest rate risk. This sensitivity analysis demonstrates the effect on the current year results and equity which could result in a change in these risks.

At 30 June 2020 the effect on the loss and equity as a result of a change in the interest rate of 1% with all other variables remaining constant is not material. Had there been an increase of 100 basis points in the nominal interest rate applicable to the secured loan facility at the beginning of the year, then the interest charge for the year would have increased by \$61,480 to \$731,392, the gain on loan renegotiation would have been \$46,612 and there would have been a net decrease in equity of \$54,687 after taking into account the effect on the foreign currency translation reserve and a corresponding increase in the secured loan facility balance of \$54,687.

**Foreign Currency Risk**

The consolidated entity undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. In order to partially mitigate the impact of fluctuations in foreign exchange rates related to this exposure, management have a policy of holding sufficient cash in various currencies to settle firm commitments and other anticipated cash outflows. Aside from this, the group does not engage in any hedging transactions.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities of the consolidated entity at the reporting date are as follows:

Currency	Liabilities 2020 \$	Assets 2020 \$	Liabilities 2019 \$	Assets 2019 \$
£ Sterling	11,449,509	2,371,394	5,163,200	4,527,250
€ Euro	72,969	3,584	75,153	6,415
USD US Dollars	-	350,497	-	921,142
SEK Swedish Krone	-	43,792	-	-
	<u>11,522,478</u>	<u>2,769,267</u>	<u>5,238,353</u>	<u>5,454,807</u>

**Foreign currency**

The consolidated entity is exposed to risk in the form of variability of future payments in terms of the contract for the purchase of the processing plant for the Cononish mine, which is denominated in US Dollars.

Movements in the Australian Dollar : US Dollar exchange rate could result in an increase in the amounts payable after 30 June 2020 in terms of this contract, details of which are set out in Note 20. A 10% depreciation of the Australian Dollar against the US Dollar would result in an increase in the aggregate amount to be paid after the reporting date in terms of that contract of \$45,026.

A 10% depreciation in the Australian Dollar : Pound Sterling exchange rate would result in an increase in net monetary liabilities of \$1,008,680.

Other than translational risk, the consolidated entity has no other significant exposure to foreign currency risk at the reporting date.

**NOTES TO AND FORMING PART OF  
THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Liquidity Risk**

The group manages liquidity risk by monitoring forecast cash flows.

As at 30 June 2020 the consolidated entity had an amount of £3,500,000 (30 June 2019 - £4,000,000) available to be drawn down on the secured loan facility from Bridge Barn Limited.

**Credit Risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the reporting date, is the carrying amount net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statement.

In the case of cash deposited, credit risk is minimised by depositing with recognised financial intermediaries such as banks, subject to Australian Prudential Regulation Authority or United Kingdom Financial Conduct Authority supervision.

The consolidated entity does not have any material risk exposure to any single debtor or group of debtors under financial instruments entered into by it.

**Capital Management Risk**

Management controls the capital of the consolidated entity in order to maximise the return to shareholders and ensure that the consolidated entity can fund its operations and continue as a going concern.

Management effectively manages the capital of the consolidated entity by assessing the financial risks of the consolidated entity and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure and debt levels and share and option issues.

There have been no changes in the strategy adopted by management to control capital of the consolidated entity since the prior year.

**Net Fair Values**

For financial assets and liabilities, the net fair value approximates their carrying value. The consolidated entity has no financial assets or liabilities that are readily traded on organised markets at the reporting date and has no financial assets where the carrying amount exceeds net fair values at the reporting date.

**NOTE 30 - MATTERS SUBSEQUENT TO THE END OF FINANCIAL YEAR**

On 1 July 2020, 400,000 options were granted to Mr Richard Gray, the Managing Director of the Company. Each option entitles the holder to one ordinary unissued share at a strike price of £0.71. The vesting of these options is subject to the non-market vesting condition of cumulative gold production at the Cononish mine (excluding any gold produced prior to 1 July 2020) exceeding a level of 500 gold equivalent ounces. The options are exercisable by the holder with effect from the vesting date and carry no dividend or voting rights. Of these 400,000 options, 352,112 were granted under the Enterprise Management Incentive Scheme of the Company.

On 1 July 2020, 750,000 options were granted to senior managers of the Company under the Enterprise Management Incentive Scheme of the Company. Each option entitles the holder to one ordinary unissued share at a strike price of £0.71. Of the 750,000 options, 400,000 vest when cumulative gold production at the Cononish mine (excluding any gold produced prior to 1 July 2020) exceeds a level of 500 gold equivalent ounces and 350,000 vest when

**NOTES TO AND FORMING PART OF  
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cumulative gold production at the Cononish mine (excluding any gold produced prior to 1 July 2020) exceeds a level of 10,000 gold equivalent ounces, these vesting conditions being non-market vesting conditions. The options are exercisable by the holder with effect from the vesting date and carry no dividend or voting rights. On the granting of these options, the 120,000 options with an exercise price of £0.34 per share granted to senior managers on 16 April 2019 and expected to vest in future were cancelled.

On 29 July 2020, 200,000 options were granted to Saint Consulting (UK) Limited, the company providing project management services in respect of the construction of the Cononish mine processing plant building and tailings management facility. Each option entitles the holder to one ordinary unissued share at a strike price of £0.71. The vesting of these options is subject to the non-market vesting condition of successful completion of hot commissioning of the Cononish mine processing plant on or before 31 December 2020, as determined by the Board. The options are exercisable by the holder with effect from the vesting date and carry no dividend or voting rights.

Subsequent to the grant of the above options, the average weighted exercise price of the 2,350,000 options granted as share-based payments outstanding and expected to vest in future is £0.536 (30 June 2020 - £0.304).

A drawdown of £500,000 was made on the secured loan facility on 8 July 2020 and further drawdowns of £1,000,000 each were made on 12 August 2020 and 1 September 2020.

Net equity funding of £2,839,650 (\$5,190,125), being £3,000,000 (\$5,482,414) net of costs of £160,350 (\$292,289) was raised through the placement of 2,727,273 Ordinary shares at £1.10 per share on 12 October 2020 in order to fund the acceleration of the Phase 2 expansion of the Cononish mine to increase the rate of production from 3,000 tpm to 6,000 tpm as well as to increase the scale of exploration activities.

On 27 October 2020, Scottish Enterprise agreed to amend the terms of the Regional Selective Assistance grant to extend the cut-off date for submission by SGZ Cononish Limited of claims for the third and fourth tranches of that grant from 31 October 2020 to 31 May 2021.

There are no matters or circumstances that have arisen after the reporting date that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future periods.

**NOTES TO AND FORMING PART OF  
THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**NOTE 31 - PARENT ENTITY DISCLOSURES**

<b>Financial Position</b>	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	37,086	34,988
Trade and other receivables	47,129	31,382
Total Current Assets	<u>84,215</u>	<u>66,370</u>
<b>NON-CURRENT ASSETS</b>		
Plant and equipment	20,230	7,964
Investment in subsidiaries	5,781,978	5,781,978
Loan to subsidiaries	19,049,817	17,830,815
Total Non-Current assets	<u>24,852,025</u>	<u>23,620,757</u>
<b>TOTAL ASSETS</b>	<u>24,936,240</u>	<u>23,687,127</u>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	47,616	23,128
Total Current Liabilities	<u>47,616</u>	<u>23,128</u>
<b>TOTAL LIABILITIES</b>	<u>47,616</u>	<u>23,128</u>
<b>NET ASSETS</b>	<u>24,888,624</u>	<u>23,663,999</u>
<b>EQUITY</b>		
Issued capital	49,056,150	45,176,049
Reserves	418,411	339,951
Accumulated losses	(24,585,937)	(21,852,001)
TOTAL EQUITY	<u>24,888,624</u>	<u>23,663,999</u>
<b>Financial Performance</b>		
Loss for the year attributable to the parent	<u>2,733,936</u>	<u>4,245,423</u>
Total comprehensive loss	<u>2,733,936</u>	<u>4,245,423</u>

The loss attributable to the parent entity includes write down of loans to subsidiaries caused by subsidiary losses of \$4,018,048 (2019: \$4,368,164). In the prior year, the parent entity issued a guarantee to Scottish Enterprise in respect of any amounts of grants received by SGZ Cononish Limited from that entity which may become repayable (see Note 21). Grants in a total amount of £200,000 (\$379,468) had been received by SGZ Cononish Limited as at 30 June 2020. The parent entity has no other contingent liabilities or commitments for acquisition of plant and equipment.

## DIRECTORS' DECLARATION



1. In the opinion of the Directors of Scotgold Resources Limited (the 'Company'):
  - a. the accompanying financial statements and notes are in accordance with the Corporations Act 2001 including:
    - i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year then ended; and
    - ii. complying with Australian Accounting Standards, the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements.
  - b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
  - c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration has been made after receiving the declarations required to be made to the Directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2020.

This declaration is made in accordance with a resolution of the Board of Directors.

.....  
RICHARD GRAY – Managing Director

Dated at London, England, this 27th day of November 2020



# INDEPENDENT AUDITOR'S REPORT



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## INDEPENDENT AUDITOR'S REPORT

To the members of Scotgold Resources Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Scotgold Resources Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and/or conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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# INDEPENDENT AUDITOR'S REPORT



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Carrying value of mine development

Key audit matter	How the matter was addressed in our audit
<p>As the carrying value of the mine development represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>In accordance with AASB 136 Impairment of Assets, management assessed whether there were any indicators of impairment present to suggest that the carrying amount of the mine development asset exceeded its recoverable amount.</p> <p>The assessment of impairment indicators in relation to the mine development asset requires management to make significant accounting judgements and estimates which include discount rates, commodity prices and ore reserve estimates.</p> <p>As a result of the significance of these judgements, we considered that the carrying amount of the mine development was a key audit matter.</p>	<p>Our audit procedures included, but were not limited to considering whether any facts or circumstances existed to suggest impairment testing was required, which included:</p> <ul style="list-style-type: none"> <li>Assessing changes to key economic inputs used in the mine model discounted cash flow against external market information and trends including gold price and foreign exchange rates;</li> <li>Performing sensitivity analysis in relation to the key inputs in management's assessment that either individually, or collectively would be required for the Cononish Project to be impaired, and considering the likelihood of such movements;</li> <li>Comparing the carrying amount of the mine development to the Project's calculated net present value, and cross-checking this with the market capitalisation of the company; and</li> <li>Assessing the adequacy of the related disclosures in Notes 1(f), 1(u) and 13 to the financial statements.</li> </ul>

# INDEPENDENT AUDITOR'S REPORT



## Carrying value of Exploration and Evaluation Expenditure

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>As the carrying value of the Exploration and Evaluation Asset represents a significant asset of the Group, we considered it necessary to assess whether any facts or circumstances exist to suggest that the carrying amount of this asset may exceed its recoverable amount.</p> <p>Judgement is applied in determining the treatment of exploration expenditure in accordance with Australian Accounting Standard AASB 6 Exploration for and Evaluation of Mineral Resources. In particular:</p> <ul style="list-style-type: none"><li>• Whether the conditions for capitalisation are satisfied;</li><li>• Which elements of exploration and evaluation expenditures qualify for recognition; and</li><li>• Whether facts and circumstances indicate that the exploration and expenditure assets should be tested for impairment.</li></ul>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"><li>• Assessing whether the rights to tenure of the area of interest remained current at balance date;</li><li>• Considering the status of the ongoing exploration programmes by holding discussions with management, and reviewing the Group's exploration budgets, RIS announcements and directors' minutes;</li><li>• Considering whether the area of interest had reached a stage where a reasonable assessment of economically recoverable reserves existed;</li><li>• Verifying, on a sample basis, evaluation expenditure capitalised during the year for compliance with the recognition and measurement criteria of AASB 6;</li><li>• Considering whether any facts or circumstances existed to suggest impairment testing was required; and</li><li>• Assessing the adequacy of the related disclosures in Note 1(e), Note 1(u) and Note 12 of the financial report.</li></ul>

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



# INDEPENDENT AUDITOR'S REPORT



## Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf)

This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 31 to 36 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Scotgold Resources Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit (WA) Pty Ltd

Phillip Murdoch

Director

Perth, 27 November 2020

## SHAREHOLDER DETAILS



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### ANALYSIS OF SHAREHOLDING

#### Voting Rights

Article 16 of the Constitution specifies that on a show of hands every member present in person, by attorney or by proxy shall have:

- a) for every fully paid share held by him one vote
- b) for every share which is not fully paid a fraction of the vote equal to the amount paid up on the share over the nominal value of the shares

#### Substantial Shareholders

The following substantial shareholders have notified the Company in accordance with Corporations Act 2001.

Mr Nat le Roux	22,618,223	41.82%
Mr William Styslinger	5,931,400	10.97%
Mr Peter Hetherington	4,088,961	7.56%
Mr Charles Outhwaite	1,883,115	3.48%
Rhodora Ltd	1,744,657	3.22%

#### Directors' Shareholding

The interest of each director in the share capital of the Company is detailed in the Directors' Report.

## CORPORATE GOVERNANCE STATEMENT



The Board of Directors of Scotgold Resources Limited is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of Scotgold Resources Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. This statement reports on Scotgold Resources Limited's key governance principles and practices.

Details of the governance arrangements of the consolidated entity can be found on the Company web-site at <https://www.scotgoldresources.com/investors/corporate-governance/>.

The consolidated entity has adopted the principles set out in the Quoted Companies Alliance Corporate Governance Code 2018 ("the QCA Code"). The QCA Corporate Governance Statement of the Company can be found on the Company web-site at <https://www.scotgoldresources.com/docs/QCA-2020.pdf>. In addition, details of the application by the Company of the principles of the QCA Code are set out in the Directors' Report.